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THE EVOLUTION OF
THE LATIN AMERICAN
ECONOMY IN 1987

**CUADERNOS
DE LA CEPAL**



UNITED NATIONS





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ECONOMIC COMMISSION FOR LATIN AMERICAN AND THE CARIBBEAN

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This study, which form part of the Economic Survey of Latin America and the Caribbean, 1987, was prepared by the ECLAC Economic Development Division.

Notes and explanation of symbols

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

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

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

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

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

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

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

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

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

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

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

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THE EVOLUTION OF THE LATIN AMERICAN ECONOMY IN 1987

I. INTRODUCTION AND SUMMARY

In 1987 the acute economic crisis in which Latin America and the Caribbean have been plunged since the beginning of the decade worsened. At the same time as the rate of economic growth fell, inflation sped up markedly, and the results achieved by the external sector, albeit more satisfactory, were limited to a very small number of countries (see table 1 and figure 1).

The region's gross domestic product rose by 2.6%, a lower figure than that recorded in the previous three years, and one which represented an increase of barely 0.4% in per capita product. The latter was consequently 5% lower than in 1980—the year preceding the crisis—and equivalent to the figure already attained in 1978.

Moreover, although more evenly distributed than in the previous year, the increase in economic activity was extremely weak in most countries, and per capita product fell in 10 of them. A satisfactory increase in per capita product was achieved only in Chile, Colombia, the Dominican Republic, Peru and Uruguay. Nonetheless, even in these countries with the exceptions of the Dominican Republic and Colombia, per capita product was lower than at the beginning of the decade. Among the countries of the English-speaking Caribbean, per capita output rose in Antigua and Barbuda, Belize, Dominica, Grenada, Jamaica and St. Kitts-Nevis.

The sluggishness which marked economic activity went hand in hand with a pronounced upturn in inflation. The average rate of consumer price increases in the region as a whole, weighted by the population, which had fallen from 275% in 1985 to 65% in 1986, had returned to almost 200% by the end of 1987.

Moreover, the rise in inflation was quite widespread. Consumer prices rose more rapidly than in the previous year in 16 of the 26 economies for which figures are available, and in most of them the increase was considerable. In particular, inflation reached extraordinary

levels in Nicaragua (1 339%) and revived sharply in Brazil (366%), Argentina (175%) and Peru (115%). In these last three countries, while the rate of price increases had fallen in 1986, powerful inflationary pressure had built up. Inflation intensified for the third year running in Mexico (159%) and also rose considerably, although from far lower levels, in Venezuela (40%) as a result of which price increases in both countries attained historical highs. Inflation remained high in Uruguay (57%), although a slight downward trend could be discerned; it increased slightly in Ecuador, Colombia, Chile, Barbados and Trinidad and Tobago, and rose rather more sharply in the Dominican Republic. In contrast, there was a clear fall in inflation for the second year running in Bolivia (which in 1985 had experienced the first case of hyperinflation in the history of Latin America), it remained generally stable in the Bahamas, Costa Rica and Paraguay, fell considerably in El Salvador, Guatemala and Jamaica, and remained extremely low in Honduras, Dominica and Panama, while in Grenada and Haiti prices actually fell.

The less vigorous economic growth and the acceleration of inflation coincided with an improvement in external accounts. On account of the recovery of the international price of petroleum, as well as of the upturn in the prices of minerals and other commodities, together with the rapid growth of exports of manufactured goods in a number of countries — and despite the sharp fall in the international price of coffee — the total value of Latin America's external sales of goods rose by 14%. The slight improvement in the terms of trade of the region was of benefit almost exclusively to the oil-exporting countries.

This rise in exports was higher than the 12% increase recorded in the value of imports, and thus resulted in an increase in the trade surplus, which rose from US\$18.3 billion in 1986 to US\$21.6 billion in 1987. This brought an end to the downward trend of the previous two years. Nevertheless, this increase was almost exclusively accounted for by the high increases in the trade surpluses of Mexico, Brazil and Venezuela.

The increase in the trade surplus, together with the slight shrinkage of payments of interest and profits, helped to bring down the balance-of-payments current account deficit to US\$9.8 billion. However, with the sole exception of the US\$15.4 billion deficit recorded in 1986, the 1987 deficit was far higher than those recorded between 1983 and 1985 and thus reflected the limited progress made by the countries' adjustment programmes.

The fall in the current account deficit coincided with an increase in the net capital inflow, which had fallen to an exceptionally low level in 1985. The nominal value of loans and net investment received was, however, equal to less than half that entering the region prior to the onset of the debt crisis, and in real terms represented an even lower proportion. Furthermore, in a number of countries the rise in capital

Table 1
LATIN AMERICA AND THE CARIBBEAN: MAIN ECONOMIC INDICATORS^a

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987 ^b
	Indexes (1980 = 100)									
Basic economic indicators										
Gross domestic product at market	88.3	94.3	100.0	100.7	99.5	97.0	100.6	104.2	108.2	111.0
Gross national income	87.3	93.7	100.0	98.8	94.0	91.5	95.3	98.4	101.7	104.9
Population (millions)	342	350	358	366	374	382	391	399	408	416
Per capita gross domestic product	92.5	96.5	100.0	98.5	95.0	90.6	91.9	93.1	94.5	94.9
Per capita gross national income	91.5	95.9	100.0	96.6	89.8	85.5	87.0	87.8	88.8	89.7
	Growth rates									
Short-term economic indicators										
Gross domestic product	4.5	6.8	6.2	0.7	-1.2	-2.5	3.7	3.6	3.8	2.6
Per capita gross domestic product	2.0	4.4	3.7	-1.6	-3.4	-4.7	1.4	1.4	1.6	0.4
Per capita gross national income	1.3	4.9	4.4	-3.4	-7.0	-4.8	1.8	0.9	1.1	1.0
Urban unemployment rate ^c	6.8	6.0	6.2	6.6	7.0	8.1	8.2	7.3	6.2	5.8
Consumer prices ^d	38.9	54.0	56.0	57.5	84.6	130.8	184.8	274.7	64.5	198.3
Terms of trade (goods and services)	-6.1	5.7	5.6	-5.1	-11.8	-2.9	5.9	-5.1	-7.4	0.9
Current value of exports of goods and services	9.8	33.8	32.2	7.9	-11.1	-0.8	11.3	-4.7	-12.7	13.0
Current value of imports of goods and services	16.7	26.5	33.3	9.5	-18.8	-28.0	3.9	-0.4	2.5	10.8
	Billions of dollars									
External sector										
Exports of goods and services	61.3	82.0	107.6	116.1	103.2	102.4	114.0	108.7	94.8	107.1
Imports of goods and services	69.8	88.2	117.6	128.7	104.7	75.3	78.2	77.8	79.8	88.4
Trade balance (goods and services)	-8.5	-6.2	-10.0	-12.8	-1.5	27.0	35.8	30.8	15.1	18.7
Net payments of profits and interest	10.2	13.6	17.9	27.1	38.7	34.3	36.3	35.1	31.5	30.1
Balance on current account	-18.4	-19.7	-28.0	-40.3	-41.0	-7.4	0.1	-3.6	-15.4	-9.8
Net capital inflow	26.1	29.1	29.5	37.5	20.1	3.0	9.5	3.2	9.0	10.2
Balance of payments position	7.8	9.4	1.4	-2.8	-21.0	-4.4	9.2	-0.4	-6.3	0.4
Total disbursed external debt	152.7	185.3	228.1	286.3	329.3	352.1	369.8	376.7	389.3	413.1

Source: ECLAC, on the basis of official figures.

^aThe figures for the gross domestic product and for consumer prices refer to all the countries listed in tables 2 and 11 (except Cuba), respectively. The data concerning the external sector correspond to the 19 countries included in the table on the balance of payments for Latin America. ^bPreliminary figures. ^cWeighted average annual rates for 18 of the 25 largest cities in Latin America. ^dDecember-to-December variation.

Figure 1
 LATIN AMERICA: MAIN ECONOMIC INDICATORS

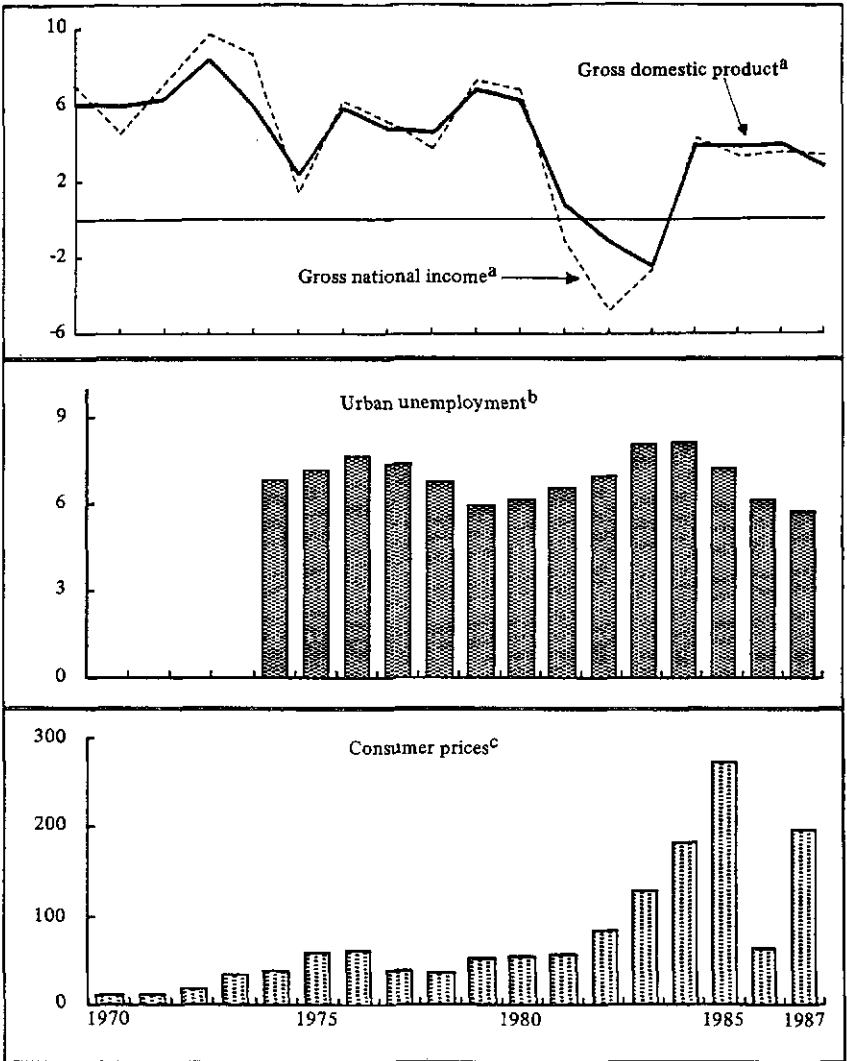
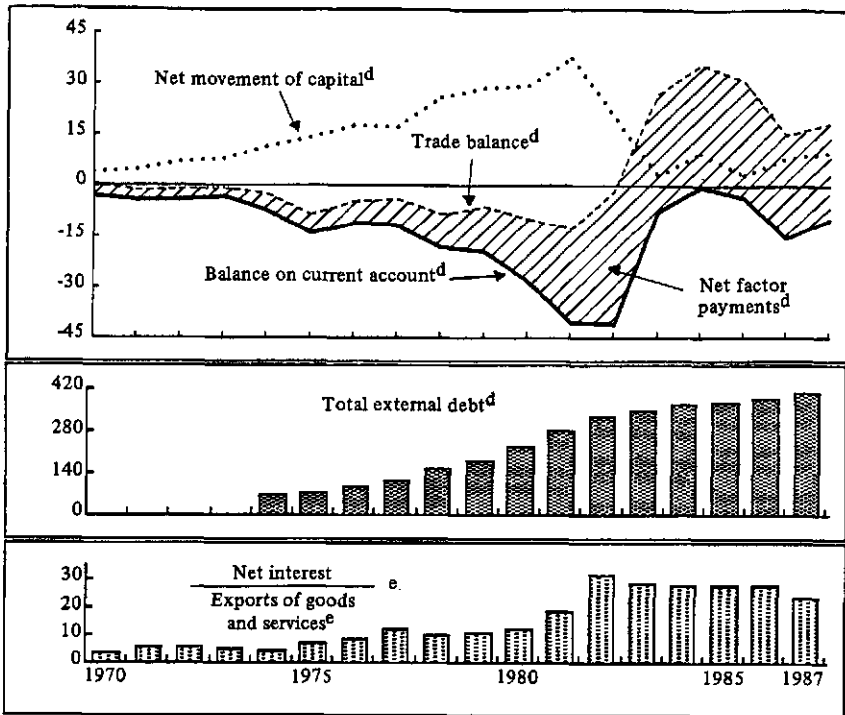


Figure 1 (concluded)



Source: ECLAC, on the basis of official data.

^aAnnual growth rate. ^bWeighted average annual rate for 18 of the 25 largest cities in Latin America. ^cPercentage variation from December to December. ^dBillions of dollars. ^ePercentages.

inflows was merely an accounting phenomenon, as this item included the interest that was not paid on account of the moratoriums declared in respect of external debt servicing.

Nevertheless, due to the expansion of net external financing and the simultaneous shrinkage in the current account deficit, a sharp turnaround occurred in the global balance-of-payments result. While this had registered a net deficit of US\$6.3 billion in 1986, in 1987 it showed a surplus of US\$400 million.

On account of the larger inflow of capital and the slight decline in payments of interest and profits, the transfer of resources abroad fell to US\$20 billion. In fact, the real level of transfers was US\$4 billion less than this figure, since a number of countries, such as Brazil and the Dominican Republic, recorded arrears of interest as effectively paid, and reduced their net reserves by a corresponding amount. If this method of

calculation is used, the effective transfer in 1987 was more in the region of US\$16 billion, that is to say, a little more than one-half the average level recorded for the period 1983-1985. Nevertheless, the transfer of resources abroad continued to absorb a very significant portion of the value of exports of goods and services and continued to represent a fundamental obstacle to the resumption of a dynamic and sustained process of economic growth.

In 1987, for the fourth year running, Latin America's external debt continued its slow growth, and was calculated to have reached over US\$410 billion at the end of the year. It thus rose by 6%, a higher rate than that recorded in 1986. However, as the rate of inflation in the industrialized countries was approximately 3%, the real expansion of the debt was probably 3%, as against 2% in the previous year. In practice, however, the actual growth of the debt was even less. This is because the value of the United States dollar—in which the external debt is traditionally calculated—fell sharply against the currencies of the other creditor countries, leading to a statistical increase in the dollar figure for commitments in yens and in the main European currencies.

Owing to the slow growth of the debt, the lower level of international interest rates between the middle of 1986 and the middle of 1987 and the recovery in the value of Latin America's exports, indicators of the external debt burden improved against 1986, although they still remained at critical levels. Thus, as the growth rate of the value of exports was more than twice that of the debt, the regional debt/export coefficient fell from 410% in 1986 to 385% in 1987. The shrinkage was considerably more pronounced in the case of the petroleum-exporting countries (from 421% to 367%) than in the other economies in the region (from 406% to 398%). Nevertheless, the coefficients for both groups remained significantly higher than the already high figures recorded in 1982-1985, and approximately 50% above those recorded in 1981 just before the onset of the debt crisis.

In 1987 a significant improvement was also seen in the interest/export ratio. In the region as a whole, this coefficient fell from 36% in 1986 to 30% in 1987. Once again, the fall was more pronounced in the case of the petroleum-exporting countries (from 35% to 28%) than in the other economies of the region (37% to 32%). However, although these coefficients were the lowest recorded since the onset of the debt crisis, they were nevertheless almost double those for 1978-1979. Furthermore, the reversal of the downward trend which characterized international interest rates up to early 1987 suggests that interest payments are likely to increase in 1988, which would entail a rise in the interest/export coefficient.

II. PRODUCTION AND EMPLOYMENT

In 1987 Latin America increased its gross domestic product by 2.6%, which was more than one point less than the rate recorded, on average, during the previous three years. As a result, per capita product rose by barely 0.4% and was 5% lower than in 1980 —the year prior to the crisis— and similar to that already attained in 1978.

The sluggishness which marked the region as a whole was mainly the result of the sharp fall in the rate of economic growth in Brazil —from more than 8% in 1986 to less than 3% in 1987— and in Argentina, where it fell from 6% to 2%. It was, however, also attributable to the slow growth of most of the region's economies, in 10 of which per capita product again decreased. The only countries in which economic growth surpassed population growth by an appreciable margin were Antigua and Barbuda, Belize, Chile, Colombia, Dominica, Grenada, Jamaica, Peru, St. Kitts-Nevis and Uruguay (see tables 2 and 3).

In 1987 this trend accounted for the continued decline in the standard of living which has been occurring in most of the relatively poorest economies in Latin America and the Caribbean since the beginning of the 1980s. Between 1980 and 1987, per capita product fell by 28% in Guyana, 26% in Bolivia, 21% in Guatemala, 17% in Nicaragua, 16% in Haiti, 14% in El Salvador and Honduras, 11% in Ecuador and 10% in Costa Rica. However, during the same period it also fell sharply in countries with considerably higher levels of income and development such as Trinidad and Tobago (-26%), Venezuela (-17%), Argentina (-15%) and Mexico (-9%) (see figure 2).

In contrast, the employment situation in the region improved slightly (see tables 4 and 5 and figures 3 and 4). Open unemployment fell substantially in Chile, Colombia, Guatemala and Venezuela, declined moderately in Uruguay, Costa Rica, Paraguay and Mexico, and increased slightly in Argentina, Ecuador, Honduras and Panama, while remaining unchanged in Brazil. The problem of informal employment continues to affect the majority of countries in the region and, although no reliable methodology is available to measure its magnitude, in some countries it is estimated to be nearly 30% of the labour force.

Table 2

**LATIN AMERICA AND THE CARIBBEAN: TOTAL
GROSS DOMESTIC PRODUCT**

	Annual growth rates						Cumulative variation
	1982	1983	1984	1985	1986	1987 ^a	1980-1987 ^a
Latin America and the Caribbean (excluding Cuba)	-1.2	-2.5	3.7	3.6	3.8	2.6	10.9
Oil-exporting countries	-0.6	-5.0	2.6	2.3	-0.9	1.6	5.9
Bolivia	-4.3	-6.5	-0.3	-0.1	-2.9	2.5	-10.6
Ecuador	1.2	-1.2	4.8	4.9	3.4	-7.0	9.4
Mexico	-0.6	-4.1	3.7	2.6	-3.9	1.4	7.2
Peru	0.4	-11.7	4.8	2.4	9.0	6.6	14.9
Trinidad and Tobago	0.3	-9.7	-6.6	-3.1	-1.1	-2.3	-20.9
Venezuela	-1.2	-5.4	-1.4	1.3	6.9	3.0	1.5
Non-oil-exporting countries (excluding Cuba)	-1.6	-0.9	4.4	4.5	6.8	3.1	14.0
Antigua and Barbuda	-1.4	6.4	6.6	6.6	8.0	8.7	45.5
Argentina	-5.8	2.6	2.3	-4.5	5.8	1.6	-5.8
Barbados	-5.2	0.4	3.6	0.9	5.6	2.2	5.3
Belize	-4.9	1.5	1.3	2.3	1.5	5.0	7.2
Brazil	0.9	-2.3	5.7	8.4	8.1	2.9	21.2
Colombia	1.1	1.9	3.8	3.8	5.9	5.5	26.6
Costa Rica	-7.2	2.7	7.9	0.8	5.3	3.8	10.3
Cuba ^b	3.9	4.9	7.2	4.6	1.2	-3.5	38.3
Chile	-13.0	-0.5	6.1	2.5	5.4	5.5	9.7
Dominica	2.4	2.5	5.8	1.2	3.6	5.1	42.5
El Salvador	-5.6	0.6	2.3	1.8	0.5	2.7	-6.7
Grenada	5.4	1.2	5.0	5.4	5.5	5.0	33.6
Guatemala	-3.3	-2.7	0.1	-0.5	0.2	2.5	-3.1
Guyana	-10.8	-10.3	2.1	1.0	0.2	0.7	-17.3
Haiti	-3.4	0.7	0.4	0.5	0.6	-0.5	-4.6
Honduras	-1.8	-	2.5	1.6	2.5	4.2	10.0
Jamaica	-0.2	1.2	-	-5.4	2.1	5.2	5.1
Nicaragua	-0.8	4.7	-1.5	-4.0	-0.6	1.8	4.4
Panama	5.0	-	-0.4	4.8	3.1	2.7	20.5
Paraguay	-0.7	-2.9	3.3	4.1	-0.3	4.6	17.3
St. Kitts and Nevis	6.1	-1.1	8.2	4.6	4.6	5.1	37.2
St. Lucia	3.0	4.0	5.1	6.0	5.8	2.1	30.2
St. Vincent and the Grenadines	5.8	5.0	5.8	4.1	2.4	2.0	37.4
Suriname	-4.0	-3.4	-1.9	0.9	0.1	-7.0	-8.3
Dominican Republic	1.3	5.1	1.8	-3.9	2.5	7.6	19.2
Uruguay	-10.0	-5.9	-1.2	0.2	7.1	5.4	-4.4

Source: ECLAC, on the basis of official data.

^aPreliminary estimates subject to revision.

^bRefers to total social product.

Table 3

**LATIN AMERICA AND THE CARIBBEAN: PER CAPITA
GROSS DOMESTIC PRODUCT**

	Annual growth rates						Cumulative variation
	1982	1983	1984	1985	1986	1987 ^a	1980-1987 ^a
Latin America and the Caribbean (excluding Cuba)	-3.4	-4.7	1.4	1.4	1.6	0.4	-5.0
Oil-exporting countries	-3.1	-7.4	0.1	-0.2	-3.2	-0.8	-11.0
Bolivia	-6.8	-8.9	-2.9	-2.8	-5.5	-0.3	-26.0
Ecuador	-1.7	-4.0	1.8	1.9	0.6	-9.6	-10.5
Mexico	-3.0	-6.4	1.2	0.3	-6.1	-0.8	-9.1
Peru	-2.2	-14.0	2.1	-0.2	6.2	3.9	-4.1
Trinidad and Tobago	-0.5	-10.6	-7.6	-4.2	-2.1	-3.5	-26.1
Venezuela	-4.0	-8.0	-4.1	-1.4	4.0	0.3	-16.5
Non-oil-exporting countries (excluding Cuba)	-3.7	-2.9	2.3	2.3	4.6	1.1	-1.4
Antigua and Barbuda	-2.7	5.0	5.3	6.6	6.7	7.4	33.1
Argentina	-7.1	1.1	0.8	-5.7	4.4	0.3	-14.6
Barbados	-5.9	-0.8	2.8	0.1	4.9	1.1	-0.9
Belize	-6.8	0.2	-0.7	1.6	-0.4	3.1	-5.2
Brazil	-1.3	-4.5	3.4	6.1	5.9	0.8	3.9
Colombia	-1.1	-0.2	1.6	1.6	3.7	3.3	9.1
Costa Rica	-9.9	-0.2	4.8	-2.0	2.5	1.0	-9.7
Cuba ^b	3.3	4.3	6.6	3.8	0.3	-4.4	31.7
Chile	-14.5	-2.2	4.3	0.8	3.6	3.7	-2.4
Dominica	1.1	1.2	4.5	-0.1	2.3	3.8	30.0
El Salvador	-6.5	-0.2	1.4	0.5	-1.1	0.9	-14.4
Grenada	4.4	0.3	3.2	4.4	3.7	4.1	23.2
Guatemala	-6.0	-5.4	-2.7	-3.3	-2.6	-0.4	-20.5
Guyana	-12.6	-12.0	0.2	-0.9	-1.6	-1.0	-27.6
Haiti	-5.1	-1.1	-1.3	-1.3	-1.2	-2.4	-16.0
Honduras	-5.3	-3.6	-1.1	-1.9	-0.8	0.9	-13.9
Jamaica	-1.5	-0.2	-1.4	-6.4	0.6	3.7	-4.6
Nicaragua	-4.0	1.2	-4.8	-7.2	-3.9	-1.6	-17.4
Panama	2.7	-2.2	-2.5	2.6	1.0	0.6	3.6
Paraguay	-3.9	-6.0	0.1	0.9	-3.2	1.5	-5.9
St. Kitts and Nevis	6.1	-1.1	5.8	4.6	4.6	5.1	34.2
St. Lucia	2.2	2.4	4.0	4.3	4.2	1.3	19.3
St. Vincent and the Grenadines	4.8	4.0	4.8	3.1	1.4	1.1	28.4
Suriname	-4.0	-3.4	-2.2	0.6	-0.5	-7.5	-9.6
Dominican Republic	-1.1	2.6	-0.6	-6.1	0.2	5.1	1.1
Uruguay	-10.6	-6.6	-2.0	-0.5	6.3	4.6	-9.0

Source: ECLAC, on the basis of official figures.

^aPreliminary figures subject to revision.

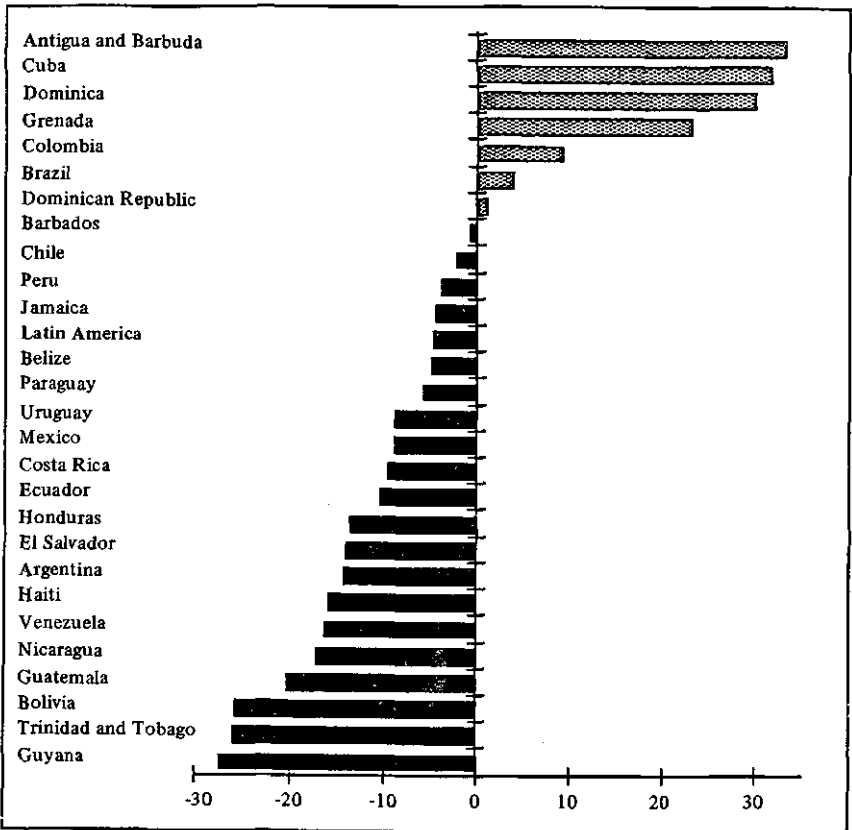
^bRefers to total social product.

For the second year running Peru achieved one of the highest rates of economic growth in the region. After having risen by 9% in 1986, its gross domestic product rose 6.6% in 1987 on account of the extremely vigorous expansion (as also occurred the year before) in construction (16%) and manufacturing (12%) (see table 6). As in 1986, the increase in economic activity was stimulated by the extremely rapid growth of private consumption—which rose by more than 10% as a result of the rise in real wages, the increase in employment and the revival of inflationary expectations—and by the expansion of private investment, particularly in housing. In contrast, the sharp fall occurred in capital formation in the public sector, as a result of which the global investment

Figure 2

LATIN AMERICA AND THE CARIBBEAN: PER CAPITA GROSS DOMESTIC PRODUCT

(Cumulative percentage variation 1980-1987)



Source: ECLAC, on the basis of official figures.

Table 4

LATIN AMERICA: URBAN UNEMPLOYMENT

(Average annual rates)

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987 ^a
Latin America ^b	6.8	6.0	6.2	6.6	7.0	8.1	8.2	7.3	6.2	5.8
Argentina ^c	3.3	2.5	2.6	4.7	5.3	4.6	4.6	6.1	5.2	5.9
Bolivia ^d	...	...	5.8	9.7	10.5	14.2	15.1	18.0	20.0	20.0
Brazil ^e	6.8	6.4	6.3	7.9	6.3	6.7	7.1	5.3	3.6	3.7
Colombia ^f	9.0	8.9	9.7	8.2	9.3	11.8	13.5	14.1	13.8	11.7
Costa Rica ^g	5.8	5.3	6.0	9.1	9.9	8.6	6.6	6.8	6.7	5.6
Chile ^h	14.0	13.6	11.8	11.1	22.1	22.2	19.3	16.3	13.5	12.3
Ecuador ⁱ	...	5.4	5.7	6.0	6.3	6.7	10.6	10.4	12.0	14.0
Guatemala ^j	...	...	2.2	2.7	4.7	7.6	9.7	12.9	14.2	12.6
Honduras ^k	...	...	8.8	9.0	9.2	9.5	10.7	11.7	12.0	13.3
Mexico ^l	6.9	5.7	4.5	4.2	4.2	6.6	5.7	4.4	4.3	3.9
Panama ^m	9.6	11.6	9.9	11.8	10.1	11.7	12.4	15.6	12.2	14.0
Paraguay ⁿ	4.1	5.9	4.1	2.2	5.6	8.4	7.4	5.2	6.1	5.6
Peru ^o	10.4	11.2	10.9	10.4	10.6	9.2	10.9	11.8	8.2	...
Uruguay ^p	10.1	8.3	7.4	6.7	11.9	15.5	14.0	13.1	10.7	9.3
Venezuela ^q	5.1	5.8	6.6	6.8	7.8	10.5	14.3	14.3	12.1	9.9

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

^a Preliminary figures^b Weighted average for the 25 largest Latin American cities except (for want of comparable data):

Havana, Santo Domingo, Fortaleza, Guayaquil, San Juan (Puerto Rico) and Guatemala City.

^c National urban rate, April-October average; 1986: October only.^d Nationwide; 1987: official estimates.^e Metropolitan areas of Rio de Janeiro, São Paulo, Belo Horizonte Porto Alegre, Salvador and Recife; twelve-month average; 1980: June-December

average.

^f Bogotá, Barranquilla, Cali and Medellín, average for March, June, September and December; 1985: average for

March, July, September and December; 1986: average for April, June, September and December.

^g National Urban rate, average for March, July and November; 1984: average for March and November; 1986 average for March and

July.

^h Greater Santiago, average for March, June, September and December.ⁱ Nationwide, official estimates.^j Up to 1982, metropolitan areas of Mexico city, Guadalajara and Monterrey; from 1983 on, average for 16

cities, four-quarter average.

^k Metropolitan Region, August of each year except 1977-1979, for which the national urban

rate is given; 1980: according to national census data collected in February.

^l Asunción, Fernando de la Mora, Lambaré

and the urban areas of Luque and San Lorenzo; 1981: first half of year; 1982: first quarter; 1983: average for September,

October and November; 1984: average for August, September and October; 1985: average for November-

December.

^m Unemployment nationwide.ⁿ Montevideo, two-semester average; from 1981 on, four-quarter

average.

^o National urban rate, two-semester average; 1986: second half of year.

Table 5

LATIN AMERICA: UNEMPLOYMENT RATE IN MAJOR CITIES

	1981	1982	1983	1984	1985	1986	1987 ^a	1986				1987 ^a			
								I	II	III	IV	I	II	III	IV
Latin America^b	6.6	7.0	8.1	8.2	7.3	6.2	5.8	6.6	6.6	6.3	5.5	6.1	6.1	5.9	5.1
Argentina^c															
Buenos Aires	4.5	4.7	4.2	3.8	5.3	4.6	5.3	...	4.8	...	4.4	...	5.4	...	5.2
Córdoba	3.8	4.4	5.0	4.8	5.0	5.8	5.2	...	6.4	...	5.1	...	4.9	...	5.5
Greater Mendoza	4.8	4.1	4.5	3.5	3.7	4.2	3.4	...	4.9	...	3.4	...	3.6	...	3.1
Greater Rosario	5.8	8.4	6.3	6.5	10.7	7.0	7.8	...	6.8	...	7.2	...	7.3	...	8.3
Brazil^d															
Rio de Janeiro	8.6	6.6	6.2	6.8	4.9	3.7	3.3	4.0	3.9	3.5	2.6	3.1	3.5	3.5	2.9
São Paulo	7.3	6.0	6.8	6.8	5.0	3.3	3.8	4.2	3.7	3.1	2.4	3.2	3.9	4.4	3.6
Recife	8.6	7.5	8.0	9.0	7.2	4.6	5.2	4.9	5.0	4.4	3.3	4.1	5.6	6.0	5.0
Porto Alegre	5.8	5.2	6.7	7.0	5.4	4.4	3.9	4.7	4.5	3.7	2.6	3.6	3.9	4.7	3.5
Colombia^e															
Bogotá	5.5	7.4	9.4	12.2	12.8	13.2	11.1	14.3	14.2	12.6	11.5	13.0	12.0	10.5	8.9
Barranquilla	11.1	10.4	13.8	13.0	15.7	16.4	13.0	16.0	18.1	15.8	15.6	16.1	11.9	13.6	10.2
Medellín	...	13.3	17.0	16.4	16.0	15.2	12.2	15.1	17.2	14.6	14.0	12.4	12.5	11.1	12.9
Cali	...	9.6	11.6	13.3	14.4	12.7	12.4	12.4	13.5	12.6	12.1	13.8	12.4	12.7	10.6
Mexico^f															
Mexico City	3.9	4.0	6.3	5.8	4.9	5.1	4.1	4.9	4.4	5.8	5.1	5.0	4.5	4.3	2.5
Guadalajara	5.8	5.0	7.4	6.1	3.4	3.2	3.1	2.6	2.6	4.2	3.4	3.6	2.9	3.2	2.7
Monterrey	4.2	4.9	9.8	7.5	5.4	5.4	5.5	5.0	4.8	6.0	5.6	6.0	5.7	5.8	4.5

Table 5 (concluded)

	1981	1982	1983	1984	1985	1986	1987 ^a	1986				1987 ^a					
								I	II	III	IV	I	II	III	IV		
Paraguay ^g																	
Asunción	2.2	5.6	8.4	7.4	5.2	6.1	5.6	...	...	6.1	...	...	...	5.6	...		
Venezuela ^h																	
Caracas	5.7	7.0	10.5	11.3	13.2	9.6	7.9	...	10.6	...	8.5	...	9.0	...	6.8		
Peru ⁱ																	
Lima	6.8	6.6	9.0	8.9	10.4	5.4	4.8	...	5.4	...	...	...	4.8	...	...
Uruguay ^j																	
Montevideo	6.6	11.9	15.5	14.0	13.1	10.7	9.3	12.0	10.7	10.9	9.2	9.8	9.1	8.9	9.4		
Costa Rica ^k																	
San José	9.3	10.5	8.5	6.6	6.5	...	...	...	...	...	...	...	...	...	...
Chile ^l																	
Santiago	11.1	22.1	22.2	19.3	16.3	13.5	12.3	14.5	15.4	13.5	10.6	13.1	13.5	11.8	10.6		

Source: ECLAC, on the basis of official figures.

^aPreliminary figures. ^bWeighted average for the 25 largest cities in Latin America except (for want of comparable data): Havana, Santo Domingo, Fortaleza, Curitiba, Guayaquil, San Juan (Puerto Rico) and Guatemala City. ^cFigures correspond to April and October. ^dTwelve-month average; 1980: June-December average.

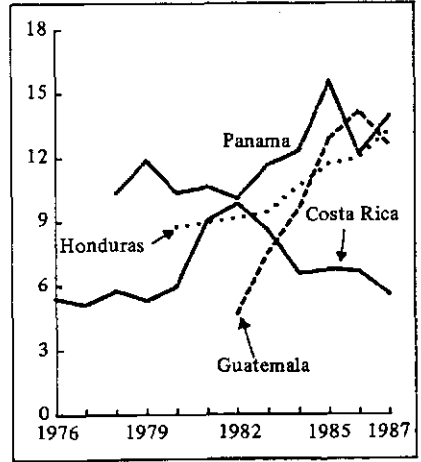
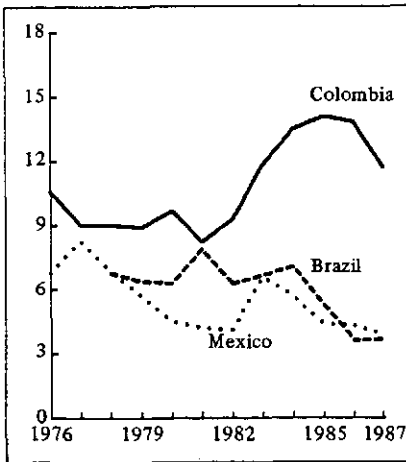
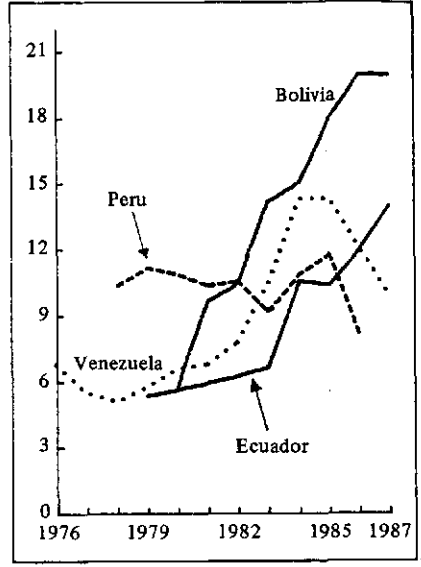
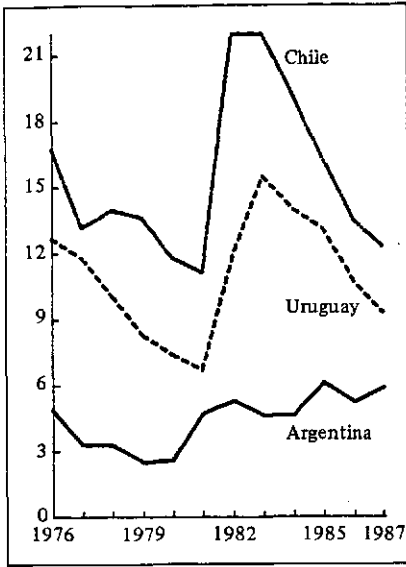
^eFigures for March, June, September and December; 1985: March, July, September and December; 1986: April, June, September and December. ^fQuarterly average. ^gIncludes Fernando de la Mora, Lambaré and the urban areas of Luque and San Lorenzo. ^hCaracas Metropolitan Areas, two-semester average; 1985 first half of year.

ⁱMetropolitan Lima; 1985: official estimates; 1987: June. ^j1980: two-semester average; 1981-1986: four-quarter average. ^kMetropolitan area; figures correspond to March, July and November. ^lGreater Santiago; figures correspond to March, June, September and December.

Figure 3

LATIN AMERICA: URBAN UNEMPLOYMENT IN SELECTED COUNTRIES

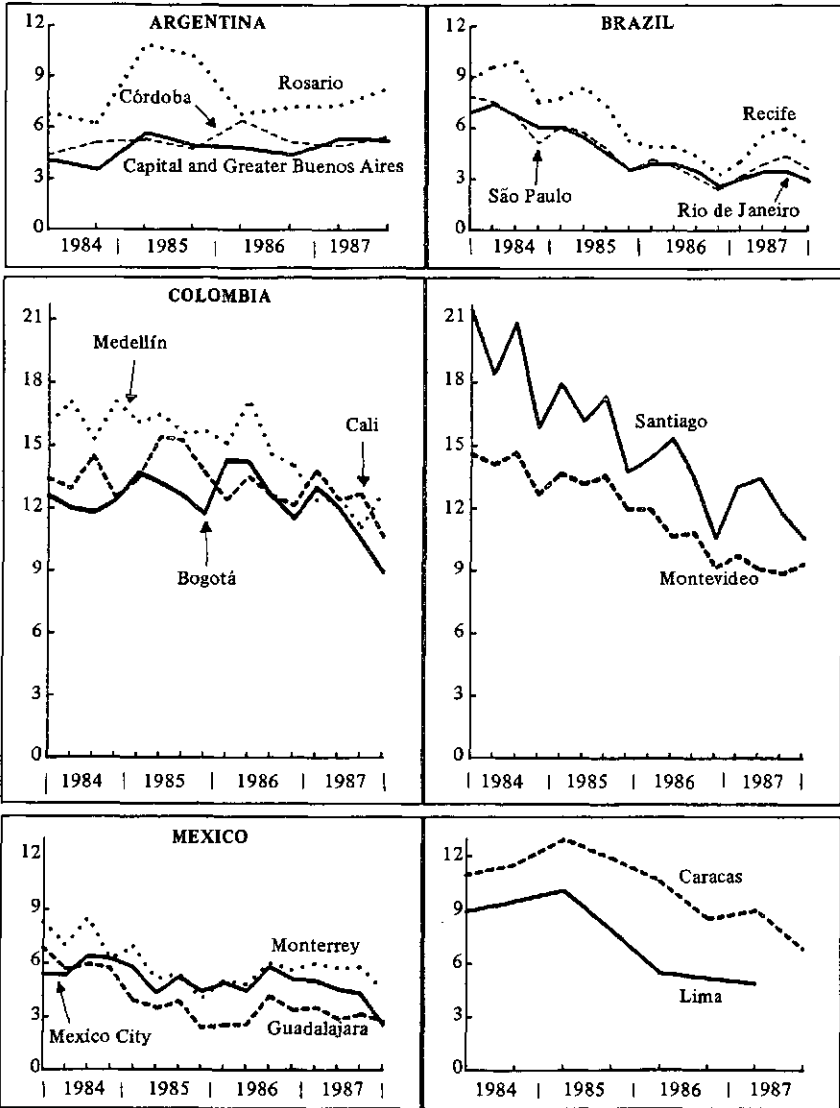
(Annual average rates)



Source: ECLAC, on the basis of official figures.

Figure 4

LATIN AMERICA: UNEMPLOYMENT RATE IN SOME MAJOR CITIES



Source: ECLAC, on the basis of official figures.

Table 6
**LATIN AMERICA: GROSS DOMESTIC PRODUCT, BY BRANCHES OF ECONOMIC ACTIVITY,
 AT 1980 MARKET PRICES**
(Growth rates)

	Agriculture		Mining and quarrying		Manufacturing		Construction		Subtotal, goods		Basic services		Other services	
	1986	1987 ^a	1986	1987 ^a	1986	1987 ^a	1986	1987 ^a	1986	1987 ^a	1986	1987 ^a	1986	1987 ^a
Latin America^b	-2.8	6.9	3.8	-2.0	-6.4	2.0	6.0	1.7	3.7	2.7	4.1	4.6	3.2	2.2
Argentina	-2.8	1.8	-0.5	-1.9	12.9	-0.6	9.0	14.8	7.4	1.3	4.6	3.1	-4.7	1.5
Bolivia	-4.7	-0.2	-15.6	3.5	2.1	5.0	-7.9	5.6	-6.4	2.1	3.1	5.2	-0.8	2.1
Brazil	-7.9	14.0	3.7	-0.7	11.2	1.0	17.7	-3.9	7.1	3.1	6.5	5.1	7.4 ^c	2.2 ^c
Colombia	3.3	5.8	50.1	11.7	6.6	5.9	0.2	2.1	8.2	6.1	3.0	4.9	3.9	4.6
Costa Rica	4.2	-2.5	...	...	7.2 ^d	5.5 ^d	2.7	4.4	5.4	1.8	5.4	6.3	-5.2	4.9
Cuba ^e	3.2	-2.2	12.7 ^f	-1.8 ^f	0.5	-4.1	0.9	-7.2	1.6	-3.8	1.4	-0.1	0.6 ^g	-4.4 ^g
Chile	8.8	3.2	1.4	-	8.0	5.5	1.3	10.6	5.8	4.4	7.5	8.0	-1.6	4.8
Ecuador	10.2	7.4	4.4 ^h	-41.1 ^h	-2.2	-0.1	-3.4	1.4	3.7	-18.5	11.3	6.0	1.6	3.5
El Salvador	-3.1	2.5	2.6	12.8	2.5	3.0	2.6	13.9	-0.9	3.5	0.3	3.1	1.7	1.8
Guatemala	-0.9	1.8	30.8	2.4	0.7	1.5	3.2	7.4	0.1	2.0	2.5	5.6	-	2.6
Haiti	2.4	-	-10.2	-	-2.9	-3.2	-6.0	0.6	-0.1	-0.8	3.3	3.5	0.2	-0.9
Honduras	1.7	7.2	-3.4	-12.8	0.5	3.9	-8.2	2.0	-	4.6	5.8	4.2	4.6	4.2
Mexico	-2.7	1.5	-4.3	4.2	-5.7	2.0	-10.2	1.7	-5.5	2.1	-2.4	2.6	-2.9	0.9
Nicaragua	-6.9	2.0	31.5	3.0	1.9	1.1	-	14.0	-2.0	2.3	3.6	2.3	0.5	0.9
Panama	-2.2	8.2	4.2	8.0	2.6	4.5	7.4	-6.6	1.6	3.6	1.4	3.5	4.1	2.0
Paraguay	-6.1	7.0	11.9	6.0	-1.4	3.5	1.0	2.0	-3.8	5.4	7.1	6.0	3.0	3.2
Peru	5.4	4.4	-4.6	-2.3	15.9	11.6	24.1	15.8	8.1	6.8	9.0	7.5	9.1	6.0
Dominican Republic	-0.8	2.9	-11.3	24.1	6.9	9.0	15.5	43.7	2.6	13.5	3.3	8.4	2.2	1.7
Uruguay	6.7	0.8	...	...	12.1	11.0	-1.7	10.4	9.7	8.6	8.4	5.4	4.7 ^d	2.6 ^d
Venezuela	8.3	4.1	7.7	2.4	7.0	2.5	9.8	4.3	7.6	2.8	8.7	7.7	4.5	4.2

Source: ECLAC, on the basis of official figures.

^aPreliminary figures. ^bExcluding Cuba. ^cExcludes real estate and community, social and personal services, except the government service.

^dIncludes mining and quarrying. ^eRefers to social product. ^fIncludes metallurgy. ^gRefers to commerce and other productivity activities in the non-material sphere. ^hIncludes petroleum refining, which official figures include under crude oil extraction.

coefficient remained at the low levels recorded in previous years. In addition, for the second year running, the rapid recovery of economic activity considerably sharpened the demand for imports, which was also stimulated by the low real rate of exchange. Due to the sharp rise in external purchases and the scant increase in the value of exports, the trade deficit climbed considerably and international reserves again fell. The rise in domestic demand, together with the exhaustion of the margins of underutilized capacity in a growing number of branches of industry, also contributed to the acceleration of inflation, which had attained an annual rate of 115% by the end of the year. In view of this, and in order to lessen the external disequilibrium, the government raised the exchange rates for exports and imports by between 20% and 80% in mid-December.

The increase in domestic demand — which in this case was headed by an extraordinary expansion of public investment— was also the main cause of the rapid economic growth of the Dominican Republic. Most of the 8% increase in gross domestic product was accounted for by the direct and indirect consequences of the approximately 45% expansion of the construction sector. In turn, this was mainly the result of the twofold increase in government investment, 80% of which was in public works and in hydroelectric projects. However, as in Peru, the rapid growth of economic activity sharpened the country's external disequilibrium and reinforced inflationary pressures, in response to which the government sharply devalued the peso towards the end of the year.

Gross domestic product increased at satisfactory rates for the second year in a row in Colombia, Chile and Uruguay, where economic expansion was also accompanied by the maintenance of a satisfactory external equilibrium and by relatively moderate rates of inflation in the first two countries and by a high but declining rate in Uruguay.

The economic growth achieved in Colombia was particularly significant, since although it was somewhat lower than that recorded the previous year, it was achieved in a year when the international price of coffee fell by more than 40%. The expansion of economic activity was fueled by the growth of industry, construction, agriculture and commerce as well as by the continued vigorous growth of mining, which expanded by 12% after having risen at an average rate of over 20% during the four previous years. The growth trend of the mining sector — mainly based on the considerable increase in the extraction of petroleum and gas as well as of gold, coal and nickel— offset most of the shrinkage in the value of coffee exports and thus decisively contributed to maintaining the external equilibrium. On account of the growth of economic activity, the rate of open unemployment in the main cities continued to fall, dropping steadily from the unprecedented level of almost 15% recorded in mid-1986 to 10% in December (see figures 3 and 4 and table 5).

Following its 5.4% increase in 1986, gross domestic product grew by 5.5% in Chile. This marked the culmination of the recovery of economic activity which had begun in late 1983, and for the first time the product surpassed the level it had reached in 1981, before the debt crisis broke out. Growth was particularly vigorous during the first quarter, when overall production rose by 8%, domestic demand increased even more rapidly and the value of imports was 40% higher than during the same period of the previous year. The sharp acceleration of domestic expenditure —largely stimulated by the excessive growth of means of payment during the closing months of 1986— and the risk which the huge increase in imports represented as regards the maintenance of the country's external equilibrium, led the authorities to adopt a stricter monetary policy and to raise interest rates in March. Largely on account of this, the growth of economic activity fell off in the second quarter. In spite of this, imports continued to expand rapidly. However, the intense expansion of industrial exports together with the unexpected and considerable recovery in the price of copper made it possible to offset the increase in external purchases and to surpass the trade surplus earned in 1986. As in the previous two years, the growth of overall economic activity went hand in hand with a considerable expansion (16%) of fixed capital investment and an increase in productive employment. However, this latter increase was only partly reflected in the fall in the average annual rate of unemployment, since at the same time the number of persons registered in the government's emergency employment programmes was cut by almost half.

The recovery which had begun to take place in the Uruguayan economy during the last quarter of 1985 also continued in 1987, albeit at a slower rate. After having risen by 7.1% the previous year, gross domestic product increased by 5.4%. As in 1986, the most rapid expansion occurred in manufacturing, which once again grew by approximately 11%. Simultaneously, a revival took place in construction —which had fallen by almost 60% over the five previous years— and the decline in the rate of unemployment in Montevideo continued; after reaching a 16% peak at the beginning of 1983, this rate subsequently fell steadily to an average of slightly more than 9% in the last quarter of 1987 (see figure 4).

A marked acceleration took place in economic growth in Jamaica. Gross domestic product —which in 1986 had already begun to recover from the drop of the preceding year— increased by 5.4% in 1987. The growth of manufacturing, mining and electricity consumption, which rose by 11%, 15% and 11.5% respectively during the first nine months of the year, was particularly pronounced. Simultaneously, a marked expansion took place in the production of bananas and non-traditional crops. This, together with the increase of approximately 12% in bauxite

production, led to a 15% expansion in the value of exports. The balance-of-payments and economic activity were also strengthened by the increase in the number of tourists, as the number of visitors for the first time exceeded the one-million mark.

A relatively satisfactory expansion of economic activity also took place in Paraguay, where gross domestic product rose by nearly 5%, after having fallen slightly in 1986. This reflected the recovery of crop-farming production—which had been affected by a severe drought the previous year and which in 1987 benefited from the rise in the international prices of soya and cotton—and the approximately 4% growth recorded by manufacturing.

In contrast, the rate of economic growth fell sharply in Brazil and Argentina, where in 1986 the rapid expansion of activity had coincided with a worsening of external trade and the accumulation of strong inflationary pressures. In Brazil, the overall rate of growth fell from slightly more than 8% in 1986 to approximately 3% in 1987, in spite of the sharp reversal of the trend in the agricultural sector, which rose by 14% after having shrunk by 8% the previous year. The loss of dynamism in the economy was thus due to the turnabout seen in urban activities: manufacturing grew by barely 1% after having expanded by more than 11% in 1986, and in construction the 18% rise recorded in 1986 was followed by a fall of almost 4% in 1987. The interruption of the expansionary trend of the economy was principally a consequence of both the spiraling inflation which began in 1986 and which became extremely marked during the first half of 1987 and the policies applied in order to control inflation and to reverse the sudden deterioration in the country's external accounts. The sharp fall in real wages which resulted from the acceleration of inflation, the postponement and reduction of public investment and the unfavourable change in the expectations of economic agents helped to depress domestic demand, a decline which was only partly offset by the considerable expansion of exports. The rate of open unemployment, for its part, remained at the same level as in the previous year.

Economic activity also exhibited less dynamism in Argentina in 1987. After having risen by 6% the previous year and thereby making up for the shrinkage which occurred in 1985, gross domestic product increased by just 2%. The drop in the rate of growth of manufacturing, which completely stagnated after having expanded by almost 13% in 1986, was particularly marked. Economic progress was also restricted by the slow increase in crop-farming production caused by adverse weather conditions and by the dampening effects on the demand for everyday consumer goods of the deterioration in real wages which resulted from the sharp acceleration of inflation.

In spite of the upturn in the international price of petroleum and for widely differing reasons, economic growth was lower than population growth in Mexico, Ecuador and Bolivia, countries which are heavily dependent on exports of hydrocarbons.

In Venezuela, economic growth fell from 6.9% in 1986 to 3%, and consequently per capita product recorded almost no increase. The main cause of the slowdown of the growth rate of the economy was the cutback in petroleum extraction and refining in accordance with the decisions taken by the Organization of Petroleum Exporting Countries (OPEC). For this reason, the product of the petroleum industry fell, completely cancelling out the rise of equal magnitude recorded the previous year. In contrast, in the case of the majority of sectors serving the domestic market—with the exception of construction, whose growth rate dropped from 10% to 4%—production increased at similar rates to those recorded in 1986. Thus, agricultural production rose satisfactorily for the third year running, under the impetus of the preferential credit policy and of the readjustments made in the prices paid to producers, while industry grew by 3%. On account of the increased level of activity in these sectors, the rate of unemployment again fell, dropping to less than 10% for the first time since 1982.

The growth of economic activity was extremely weak in Mexico, where gross domestic product rose by only 1.4%, after having fallen by 4% in 1986. This inadequate recovery of overall production was in spite of the spectacular turnaround in Mexico's external accounts. As a result of the rise in the international price of petroleum and, above all, of the extremely rapid growth of exports of manufactured goods, the value of external sales of goods rose by 29% and the trade surplus increased from US\$4.6 to US\$8.4 billion. Disbursement of the loans agreed upon with private international banks the previous year and the repatriation of Mexican capital also helped to increase international reserves, which in October attained the unprecedented level of approximately US\$15 billion. However, these changes failed to significantly increase economic activity, which did not begin to show perceptible signs of a revival until the middle of the year and whose progress was held back by the sluggishness of domestic demand. In turn, domestic demand was affected both by the further and considerable real drop in the minimum wage and by the cautious fiscal and monetary policy adopted by the government with a view to avoiding an even greater rise of inflation.

Economic growth was also slow in Bolivia. Nevertheless, the 2.5% increase in gross domestic product brought to an end its uninterrupted decline since 1982. This turnaround was influenced by the recovery of approximately 5% to 6% which took place in manufacturing and in construction, largely as a result of the greater certainty which was one consequence of the sharp reduction in inflation. However, on account of

the persistent crisis in mining —which was reflected in the closure of a considerable number of mines— and of the continued reduction in the size of the public sector (a process which the government had embarked upon the previous year in order to eliminate the fiscal deficit), the rate of unemployment remained at around 20%.

In Ecuador, the 7% decline in overall economic activity was mainly attributable to the consequences of the earthquakes which struck the northeastern region of the country at the beginning of March. Prior to that time, it had been estimated that domestic product would grow by approximately 3% and that the recovery of the international price of petroleum would help to ease the difficult balance-of-payments situation and to strengthen public finances. However, these expectations were radically altered by the earthquakes, and by the floods and frosts which affected other areas of the country. In addition to destroying housing, roads and other infrastructure works, the earthquakes caused a 33-kilometre breach in the oil pipeline through which crude oil flowed from the deposits in the eastern zone of the country to the refinery at Esmeraldas on the Pacific coast and destroyed a similar length of the gas pipeline linking the same zone with Quito. As a result, it was necessary to completely suspend production of hydrocarbons until May and to construct a link between the Ecuadorian fields and the Colombian trans-Andean oil pipeline running to Tumaco. Thanks to this linkup, during the three subsequent months it was possible to transport between 30 000 and 50 000 barrels of petroleum per day through Colombian territory, thereby partly satisfying domestic demand for petroleum products. Nevertheless, it has been estimated that in 1987 the production of hydrocarbons fell by approximately 40%, a loss which was not offset either by the considerable progress in the shrimp catch or by the increases of approximately 1% and 1.4% in manufacturing —excluding petroleum refining— and construction, respectively. According to official estimates, the rate of open unemployment rose from 12% to 14%.

Economic activity also declined in Cuba. The tightening of the external financial and trade constraints which the country has been facing for some time led the authorities to adopt strict measures for reducing imports, principally those paid for in freely convertible currencies. On account of this policy and of the severe drought which affected the country, social product fell by 3.5%. A sharp downturn also occurred for the second year running in net investment, and final consumption fell slightly.

The economic trends in other countries of the Caribbean varied widely. Most of them experienced solid growth, particularly Belize, Dominica, Grenada, Jamaica, St. Kitts-Nevis and, most notably, Antigua and Barbuda, whose product increased significantly for the fifth year in a row. In contrast, overall economic activity declined or stagnated in

Suriname, Trinidad and Tobago, Haiti and Guyana, with the result that per capita product again fell in these countries (see tables 2 and 3).

The increase in tourism, particularly from European countries, represented a stimulus for the Caribbean economies. However, in a number of them its impact was offset by unfavourable weather conditions such as drought and hurricanes—which particularly affected agricultural production—and by the reduction in the United States sugar quota.

Although in 1987 economic progress in Central America was greater than in the previous year, per capita product again fell in Guatemala and Nicaragua and remained virtually stagnant in Costa Rica, Panama and El Salvador. This disappointing performance was once again partly attributable to the uncertainty arising out of the serious social and political tension in most of the countries of the subregion. The harmful repercussions of this factor were compounded in 1987 by the marked deterioration in the terms of trade of all the countries of the isthmus, mainly on account of the fall in the international price of coffee and the rise in the price of petroleum.

III. TOTAL SUPPLY AND DEMAND AND THE DOMESTIC AVAILABILITY OF GOODS AND SERVICES

Following its 4% rise in 1986, the region's total supply grew by 2.9%. This slower growth was entirely due to the smaller increase in the product, since the volume of imports rose by 5.9%, thereby continuing the recovery begun in 1984 (see table 7).

At the same time, after the decline experienced in 1986 (attributable to Brazil), exports resumed their upward trend, rising by almost 7%. Since their growth rate was slower than that of imports and since the initial level of exports was also lower than the level of imports, the domestic availability of goods and services grew less than both the product and supply (2.2% as against 2.7% and 2.9%, respectively). The domestic availability of goods and services in 1987 was thus only 2% greater than it had been in 1980 and, consequently, in per capita terms, it was 15% less than the 1980 level.

Although the product, total supply and the domestic availability of goods and services have shown little increase during these years of adjustment, their structure has changed significantly. On the one hand—because of both substitution and contraction—the share of imports in the product of the region fell from 17% in 1981 to a little over 11% in 1987, while the share of exports increased from 16% to almost 18% (see table 8). This change was quite widespread. With very few exceptions (Haiti, Nicaragua, Paraguay and Peru), the average levels of imports of goods and services in relation to product during the period 1985-1987 were lower—in most cases substantially so—than the levels recorded for the period 1979-1981. At the same time, in a large number of countries the share of the product represented by exports during the period 1985-1987 was greater than in the period 1979-1981; the export coefficient declined only in a few Central American countries (Guatemala, El Salvador, Honduras and Nicaragua) and in Bolivia, Colombia, Peru and Venezuela (see figure 5).

On the other hand, the use made of domestically available goods also changed drastically, reflecting both the reversal in the direction of the transfer of resources and the countries' worsening terms of trade.

Table 7

**LATIN AMERICA: TOTAL SUPPLY, DOMESTIC DEMAND
AND GROSS NATIONAL INCOME AT 1980 PRICES^a**

	Indexes (1980 = 100)			Growth rates					Cumulative variation
	1985	1986	1987 ^b	1983	1984	1985	1986	1987 ^b	1980- 1987 ^b
1. Total supply (2 + 3)	99.2	103.2	106.2	-5.0	4.0	3.4	4.0	2.9	6.2
2. Gross domestic product at market prices	104.4	108.5	111.3	-2.5	3.9	3.8	3.9	2.7	11.3
3. Imports of goods and services	67.7	71.2	75.4	-23.2	5.7	0.2	5.2	5.9	-24.6
4. Exports of goods and services	126.6	123.2	131.5	7.8	8.4	1.2	-2.7	6.7	31.5
5. Domestic availability of goods and services (2 + 3 - 4) = domestic demand (6 + 7)	95.1	100.2	102.4	-7.2	3.1	3.8	5.3	2.2	2.4
6. Final consumer expenditure ^c	101.0	106.1	108.6	-4.0	3.7	3.4	5.1	2.4	18.6
7. Gross fixed capital formation	74.4	79.3	80.6	-19.9	0.7	5.6	6.6	1.6	-19.4
8. Terms-of-trade effect	...	...	...	...	...	...	...	...	...
9. Net factor payments to rest of world	194.7	179.3	161.7	-5.7	6.0	-2.5	-7.9	-9.2	61.7
10. Real gross national income	98.6	102.0	105.2	-2.6	4.3	3.3	3.5	3.3	5.2

Source: ECLAC, on the basis of official figures.

^aNineteen countries.^bPreliminary figures.^cIncludes variation in stocks.

Table 8

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

(GDP = 100)

	Total final consumer expend- iture ^b	Gross fixed capital formation	Domestic demand	Exports of goods and services	Imports of goods and services	Terms- of-trade effect	Net factor payments to rest of world	Real gross national income
1971- 1975	76.6	20.6	97.2	17.5	14.7	-4.0	1.9	94.1
1976- 1979	77.9	22.4	100.3	15.1	15.4	-1.2	2.2	96.6
1980	79.0	22.4	101.4	15.2	16.6	-	2.7	97.3
1981	78.9	22.1	101.0	16.0	17.0	-0.7	3.8	95.5
1982	77.9	19.7	97.6	16.3	13.9	-2.6	5.4	92.0
1983	76.7	16.2	92.9	18.1	11.0	-3.0	5.2	91.8
1984	76.6	15.7	92.3	18.9	11.2	-2.6	5.3	92.1
1985	76.4	16.0	92.4	18.4	10.8	-3.3	5.0	91.7
1986	77.3	16.4	93.7	17.2	10.9	-4.3	4.4	91.3
1987 ^c	77.1	16.2	93.3	17.9	11.3	-4.3	3.9	91.8

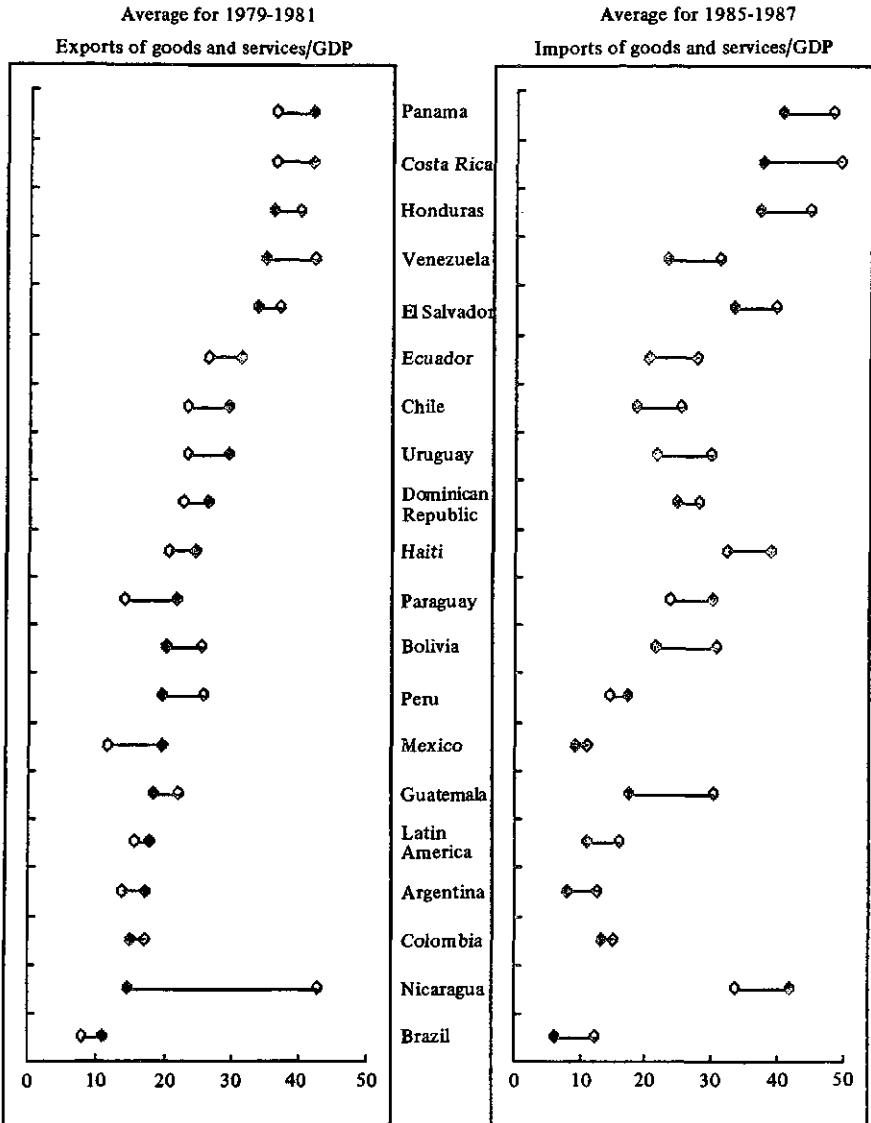
Source: ECLAC, on the basis of official figures.

^aNineteen countries.^bIncludes variation in stocks.^cPreliminary figures.

Figure 5

LATIN AMERICA: COEFFICIENTS OF EXPORTS AND IMPORTS IN
RELATION TO GROSS DOMESTIC PRODUCT^a

(Percentages)



Source: ECLAC, on the basis of official figures.

^aArranged according to export coefficients for the period 1985-1987.

Almost all of the burden of this adjustment was shouldered by gross fixed capital formation, which has declined by 6% since 1981 (from 22% to 16%) and has remained at around the latter level since 1983 (see table 8).

This trend continued in 1987. The average increase in consumption expenditure in the region thus exceeded that of investment (2.4% and 1.6%, respectively). There were, however, marked differences in the trends of investment from one country to another. Indeed, decreases were recorded in five countries, including Brazil and Mexico, while there were increases in the other 14 (see table 9). Despite this, average investment in the region in 1987 was almost 20% less than the 1980 level, which was surpassed in only five countries. The widespread difficulties affecting the countries' processes of capital accumulation were reflected in the fact that in almost all the countries of the region the average investment/product coefficients recorded during the 1979-1981 period were higher than those achieved in the 1985-1987 biennium. Indeed,

Table 9

LATIN AMERICA: GROSS FIXED CAPITAL FORMATION

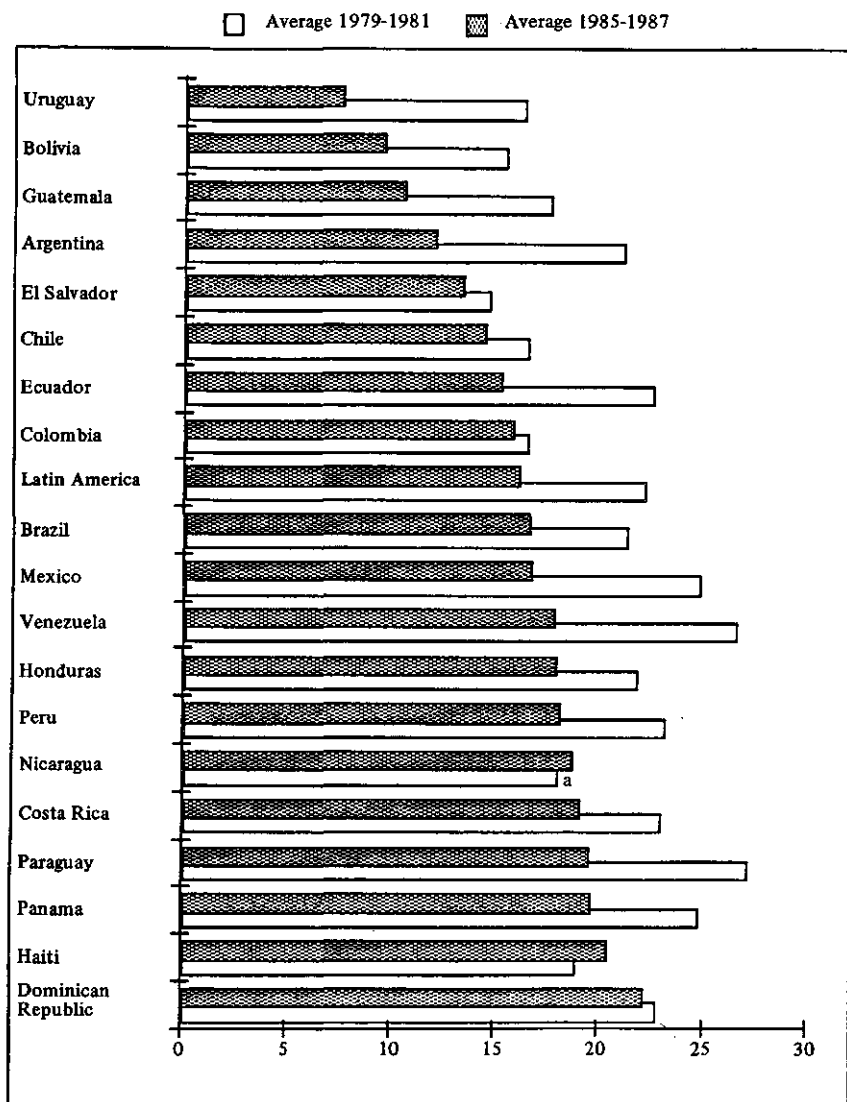
(Indexes: 1980 = 100)

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987 ^a
Latin America	88.3	92.8	100.0	99.3	87.2	69.9	70.4	74.4	79.3	80.6
Argentina	88.9	95.0	100.0	82.4	59.8	56.7	51.5	45.5	49.1	56.3
Belivia	141.6	131.7	100.0	97.6	69.4	69.8	65.9	59.8	58.0	60.8
Brazil	88.1	92.2	100.0	86.8	82.1	68.1	70.9	79.2	94.3	91.4
Colombia	85.2	88.4	100.0	106.3	109.5	110.8	112.1	106.3	114.9	121.2
Costa Rica	95.8	110.4	100.0	75.1	54.3	58.7	74.1	78.1	84.5	91.7
Chile	70.3	82.1	100.0	116.8	77.2	65.7	71.6	82.2	88.0	102.3
Ecuador	94.6	94.3	100.0	92.8	93.4	69.0	65.9	70.4	72.5	77.4
El Salvador	164.7	139.0	100.0	89.2	80.3	74.3	76.0	83.8	90.1	97.3
Guatemala	117.0	111.0	100.0	107.8	96.0	69.3	63.1	59.1	59.7	65.5
Haiti	89.8	107.2	100.0	117.5	100.9	102.3	105.6	116.8	114.9	116.1
Honduras	93.1	91.1	100.0	77.3	63.9	73.2	87.9	84.8	73.7	75.9
Mexico	72.4	87.1	100.0	116.3	96.8	69.4	73.9	79.9	70.3	69.8
Nicaragua	113.1	39.7	100.0	160.1	129.3	135.4	138.3	139.9	131.4	122.5
Panama	83.0	82.1	100.0	116.7	117.8	91.2	85.0	90.8	99.7	94.7
Paraguay	68.7	82.2	100.0	118.1	96.3	79.1	79.8	80.0	82.5	83.8
Peru	78.6	82.1	100.0	116.2	113.8	80.8	75.8	67.8	84.2	97.7
Dominican Republic	84.2	95.7	100.0	91.5	79.6	92.2	92.8	87.2	97.1	134.9
Uruguay	79.1	94.1	100.0	97.0	82.6	55.5	48.2	37.0	39.7	47.6
Venezuela	146.3	117.0	100.0	103.1	99.2	73.1	59.3	62.5	72.1	71.5

Source: ECLAC, on the basis of official figures.

^aPreliminary figures.

Figure 6
**LATIN AMERICA: COEFFICIENT OF GROSS FIXED CAPITAL INVESTMENT
 IN RELATION TO GROSS DOMESTIC PRODUCT**
 (Percentages)



Source: ECLAC, on the basis of official figures.

^aAverage for 1980-1981. The year 1979 was excluded owing to the sharp drop in investment during that year.

during this latter period six countries (Argentina, Bolivia, Chile, El Salvador, Guatemala and Uruguay) recorded average gross fixed capital investment coefficients of less than 15% of the product (see figure 6).

These low investment levels in no way reflected a decline in domestic savings. In fact, the share of the product represented by domestic savings was over 23% in 1987, surpassing both its 1986 level and its pre-crisis level (see table 10). Instead, the existence of low levels of investment despite high rates of domestic savings was due to the reversed direction of the transfer of resources and to the loss of income stemming from the deterioration of the terms of trade since 1980.

In 1987, the region's net transfer of resources abroad (net factor payments minus external savings) continued to represent 2.5% of the regional product; although the net payment of interest and profits declined for the third year running, it still represented almost 4% of the regional product, and external savings, which in 1986 had exceeded 2%

Table 10

LATIN AMERICA: FINANCING OF GROSS
CAPITAL FORMATION

	1971- 1975	1976- 1979	1980	1981	1982	1983	1984	1985	1986	1987 ^a
Coefficients in terms of gross domestic product										
1. Gross domestic savings	24.8	22.9	22.3	22.2	22.4	22.3	23.5	23.7	22.2	23.2
2. Net external factor payments	1.9	2.2	2.7	3.8	5.4	5.2	5.3	5.0	4.4	3.9
3. Unrequited private external transfers	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2
4. Terms-of-trade effect	-4.0	-1.2	-	-0.7	-2.6	-3.0	-2.6	-3.3	-4.3	-4.3
5. Gross national savings (1 - 2 + 3 + 4)	19.0	19.6	19.7	17.8	14.5	14.2	15.7	15.6	13.7	15.2
6. External savings	3.0	3.5	4.0	5.4	5.4	1.0	0.2	0.5	2.2	1.4
7. Gross capital formation (5 + 6)	22.0	23.1	23.7	23.2	19.9	15.2	15.9	16.1	15.9	16.6
Coefficients										
Domestic savings/gross capital formation	114.2	98.9	94.0	95.8	112.2	146.7	148.5	147.4	139.8	140.3
Deterioration in terms of trade/domestic savings	16.0	4.9	-	3.4	11.7	13.4	10.8	13.9	19.3	18.6
Net external factor payments/domestic savings	7.7	9.8	12.0	17.1	24.1	23.3	22.6	21.1	19.9	16.8

Source: ECLAC, on the basis of official figures.

^aPreliminary figures.

of the product for the first time in four years, declined in 1987 to 1.4% of the product. Furthermore, the effect of the deterioration in the terms of trade resulted in a decline —from the 1980 figure— of more than 4% of the product. In real terms, domestic savings continued to exceed investments by 40%, and this difference was channelled abroad through the net transfer of resources and through the unfavourable terms of trade.

IV. PRICES AND WAGES

A strong resurgence of inflation took place in Latin America in 1987: the average rate of consumer price increases weighted by the population, which had fallen from 275% in 1985 to 65% in 1986, rose to almost 200% in 1987.

The upturn in inflation was also fairly widespread. Consumer prices rose more rapidly than during the previous year in 16 out of the 26 economies for which data are available, and the rise was considerable in most of them (see table 11). In particular, inflation reached extraordinary levels in Nicaragua —which in 1986 had already experienced the fastest price rises in the region— and also in Brazil, Argentina and Peru where, on the contrary, inflation had fallen sharply the previous year. Inflation worsened for the third year running in Mexico and rose sharply, although from much lower levels, in Venezuela, as a result of which price rises in both countries reached all-time highs. Inflation remained very high in Uruguay (although a slight but regular downward trend could be observed), rose slightly in Ecuador, Colombia, Chile, Barbados and Trinidad and Tobago, and rather more sharply in the Dominican Republic. In contrast, inflation fell considerably for the second year in a row in Bolivia —which in 1985 had experienced the first case of hyperinflation in the history of Latin America—, remained basically stable in Paraguay, Costa Rica and the Bahamas, fell for the second year running in El Salvador and Guatemala and for the third consecutive year in Jamaica, and remained very low in Honduras, Dominica and Panama. In Grenada and Haiti prices actually fell.

As in the two previous years, inflation rose sharply in Nicaragua. After having climbed from 50% in 1984 to 343% in 1985 and to 747% in 1986, consumer prices rose by almost 1 340% in 1987. The exacerbation of inflation was partly attributable to the considerable rises in the exchange rate, which, together with the new import taxes, led to a sharp increase in the price of imported goods, as well as to the large and repeated readjustments of the price of petrol —which rose from 180 córdobas per gallon in June to 4 000 córdobas in November— and to the rapid expansion of issues required to finance the fiscal and quasi-fiscal

Table 11

LATIN AMERICA AND THE CARIBBEAN: CONSUMER PRICES

(December-December variations)

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987 ^a
Latin America and the Caribbean	40.8	38.9	54.0	56.0	57.5	84.6	130.8	184.8	274.7	64.5	198.3
Argentina	160.4	169.8	139.7	87.6	131.2	209.7	433.7	688.0	385.4	81.9	174.8
Bahamas	4.6	6.6	11.5	12.1	9.0	4.5	3.5	4.5	4.8	6.8	6.1 ^b
Barbados	9.9	11.3	16.8	16.1	12.3	6.9	5.5	5.1	2.4	-0.5	6.3
Bolivia	10.5	13.5	45.5	23.9	25.2	296.5	328.5	2 177.2	8 170.5	66.0	10.7
Brazil ^c	43.1	38.1	76.0	95.3	91.2	97.9	179.2	203.3	228.0	58.4	366.0
Colombia ^d	29.3	17.8	29.8	26.5	27.5	24.1	16.5	18.3	22.3	21.0	24.0
Costa Rica	5.3	8.1	13.2	17.8	65.1	81.7	10.7	17.3	11.1	15.4	16.4
Chile	63.5	30.3	38.9	31.2	9.5	20.7	23.6	23.0	26.4	17.4	21.5
Dominica	8.5	9.3	34.3	...	...	...	2.6	2.9	4.0	3.2	2.8 ^e
Ecuador ^f	9.8	11.8	9.0	14.5	17.9	24.3	52.5	25.1	24.4	27.3	32.5
El Salvador	14.9	14.6	14.8	18.6	11.6	13.8	15.5	9.8	30.8	30.3	20.1
Grenada	...	...	...	17.6	...	...	...	...	1.8	-0.8	-1.2 ^g
Guatemala	7.4	9.1	13.7	9.1	8.7	-2.0	15.4	5.2	31.5	25.7	8.6
Guyana	9.0	20.0	19.4	8.5	29.0	19.3	9.6	...	...	...	...
Haiti	5.5	5.5	15.4	15.6	16.4	4.9	11.2	5.4	17.4	-11.4	-4.1
Honduras	7.7	5.4	22.5	11.5	9.2	8.8	7.2	3.7	4.2	3.2	2.9
Jamaica	14.1	49.4	19.8	28.6	4.8	7.0	16.7	31.2	23.9	10.4	6.9
Mexico	20.7	16.2	20.0	29.8	28.7	98.8	80.8	59.2	63.7	105.7	159.2
Nicaragua	10.2	4.3	70.3	24.8	23.2	22.2	32.9	50.2	334.3	747.4	1 338.9
Panama	4.8	5.0	10.0	14.4	4.8	3.7	2.0	0.9	0.4	0.4	0.9
Paraguay	9.4	16.8	35.7	8.9	15.0	4.2	14.1	29.8	23.1	24.1	32.0
Peru	32.4	73.7	66.7	59.7	72.7	72.9	125.1	111.5	158.3	62.9	114.5
Dominican Republic^h	8.5	1.8	25.6	4.6	7.3	7.2	7.7	38.1	28.4	6.5	25.0
St. Lucia	8.8	8.6	15.4	21.1	9.5	0.6	1.3	1.2	1.0	4.5	9.4 ⁱ
Suriname	4.2	10.9	15.6	5.7	9.0	1.0	4.2	4.5	15.6	30.2	...
Trinidad and Tobago	11.4	8.8	19.5	16.6	11.6	10.8	15.4	14.1	6.6	9.9	11.5
Uruguay	57.3	46.0	83.1	42.8	29.4	20.5	51.5	66.1	83.0	76.4	57.3
Venezuela	8.1	7.1	20.5	19.6	11.0	7.3	7.0	18.3	5.7	12.3	40.3

Source: International Monetary Fund, *International Financial Statistics*, and information provided by the countries

^aPreliminary figures. ^bCorresponds to the variation between April 1986 and April 1987. ^cUp to 1979, corresponds to the variation in the consumer price index for the city of Rio de Janeiro; from 1980 on, refers to the variation in the nationwide index. ^dUp to 1980, corresponds to the variation in the consumer price index for manual workers; from 1981 on, refers to the variation in the nationwide index, which includes both manual and non-manual workers. ^eCorresponds to the variation between October 1986 and October 1987. ^fUp to 1982, corresponds to the variation in the consumer price index for the city of Quito; from 1983 on, refers to the variation in the nationwide index. ^gCorresponds to the variation between August 1986 and August 1987. ^hUp to 1982, corresponds to the variation in the consumer price index for the city of Santo Domingo; from 1983 on, refers to the variation in the nationwide index. ⁱCorresponds to the variation between May 1986 and May 1987.

public-sector deficit. The reduction of this deficit was hampered, among other things, by the inflexibility of fiscal expenditure owing to defence-related requirements.

A sharp upturn in inflation also occurred in Brazil, where the annual rate of consumer price increases rose sixfold, from 58% in 1986 to 366% in 1987, the highest level ever recorded in the country. The increase was particularly marked during the first half of the year, when monthly price variations climbed almost continually culminating in a 26% rise in June. This trend was interrupted during the third quarter—when consumer prices rose at an average monthly rate of approximately 5%—but was resumed in the closing months of the year (see figures 7 and 8).

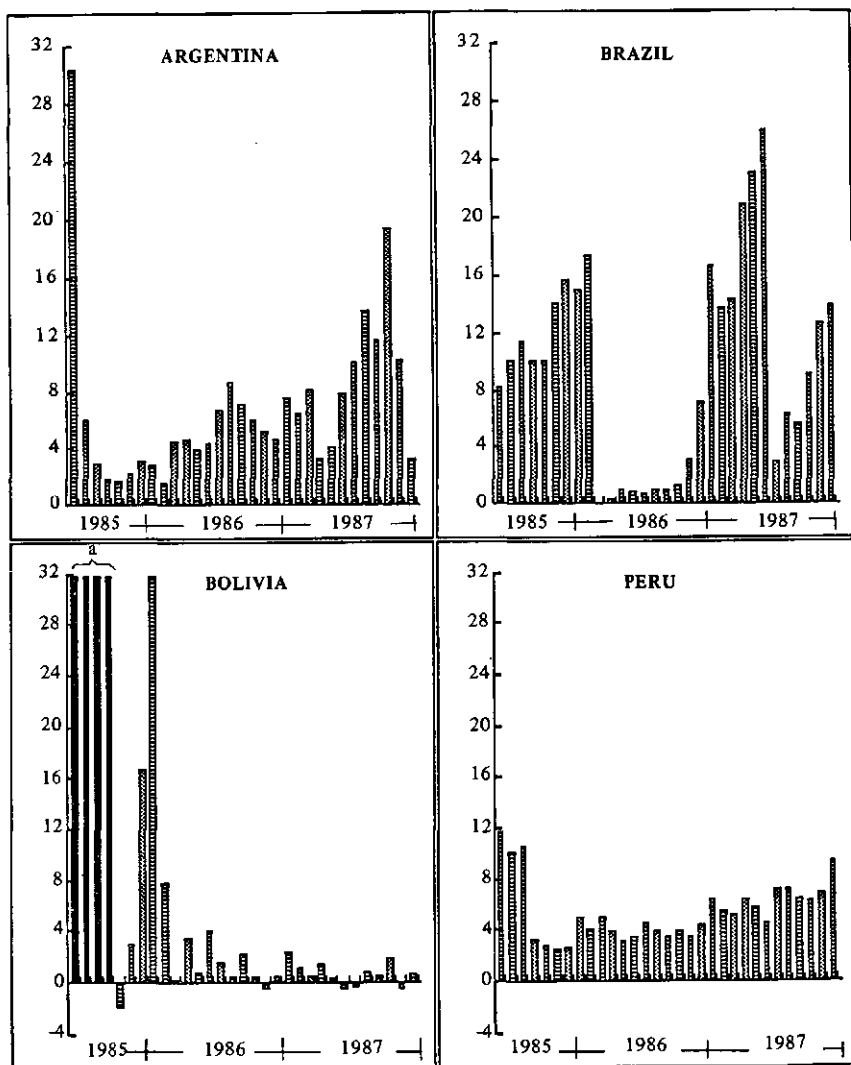
The acceleration of inflation during the first half of the year was due to the fact that it became impossible to continue to stave off the repercussions of the huge expansion in demand generated by the Plan Cruzado in 1986. The price controls introduced by the Plan were accompanied by a strong stimulus to domestic expenditure which helped to bring about relatively widespread supply shortages and gave producers strong incentives to bypass official price controls. As a result, the suppressed inflation present up to November 1986 suddenly surfaced as open inflation in December, and above all, in the opening months of 1987. The sharp rise in inflation obliged the authorities to readjust interest rates, the rate of exchange and rates for public services and to reintroduce the indexation mechanisms which the Plan Cruzado had eliminated. For the first time this also triggered the mechanism for automatic wage readjustments, which, in accordance with the Plan, had to be awarded whenever the cumulative inflation rate reached 20%.

In response to the loss of control over inflation as well as to the serious and simultaneous deterioration in the country's external accounts, the government abandoned the Plan Cruzado in February and freed almost all prices with a view to absorbing excess demand and correcting the serious distortions existing within the price system. However, the revival of inflationary expectations resulting from these measures and the effects of the proliferation of indexation mechanisms brought the monthly rate of consumer price increases to 23% in the second quarter, a far higher figure than that recorded before the application of the Plan Cruzado in March 1986.

Consequently, towards the middle of June the authorities announced a new emergency stabilization programme involving a combination of a price freeze and initial adjustments in the exchange rate, the charges for public-sector services and the prices of certain key products, together with a stricter management of aggregate demand. Simultaneously, with a view to bringing down the projected public-sector operating deficit for 1987 from over 6% of gross domestic product to 3.5%, public

Figure 7
**MONTHLY VARIATIONS IN THE CONSUMER PRICE INDEX
 OF ARGENTINA, BRAZIL, BOLIVIA AND PERU**

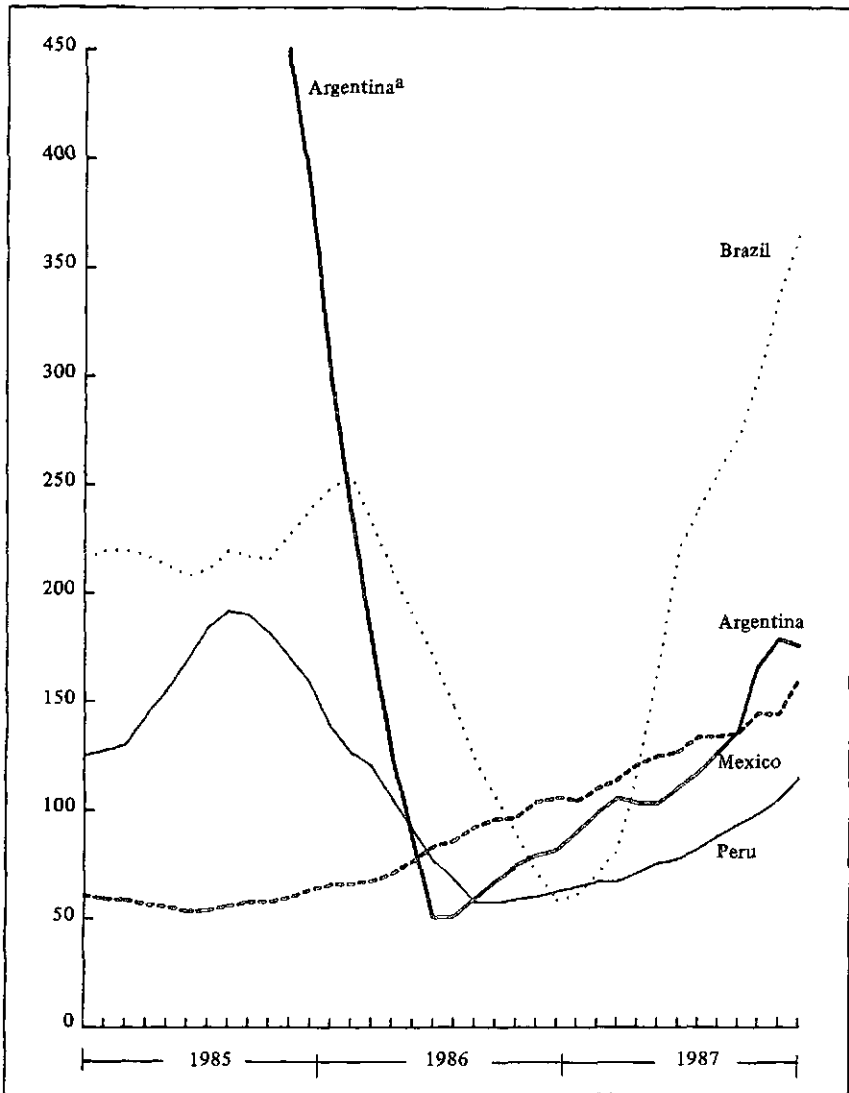
(Percentages)



Source: ECLAC, on the basis of official figures.

^aMonthly variations in 1985 were 78.5% in June, 66.3% in July, 66.5% in August and 56.5% in September.

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



Source: ECLAC, on the basis of official figures.

^aExcludes the period January–October 1985, during which inflation soared from 776.3% in January to an all-time high of 1 129% in June, after which it gradually declined.

investments were postponed or reduced, major subsidies were eliminated and institutional reforms designed to achieve greater control over government expenditure and credit were announced. Finally —and in contrast with the Plan Cruzado, which had initially increased real wages by 8%— the new programme froze remunerations at the low levels to which they had fallen in May.

These measures resulted in a significant downturn in inflation during the third quarter. Nevertheless, it revived vigorously when the freeze came to an end, and consumer prices rose by over 9% in October, by almost 13% in November and by 14% in December. This resurgence of inflation was attributable to: the rises in the prices of a large number of goods and services which occurred when the price policy became more flexible; the increase in the relative prices of energy and of certain foods as a result of the reduction in State subsidies; the fall in government revenue as a result of the tax exemptions granted in order to hold back or limit increases in certain prices; and finally, the readjustments in the wages of some groups of civil servants and the consequent expansion of the public-sector operating deficit by a greater amount than projected.

On account of the increase in inflation and, to a lesser extent, of the loss of dynamism of industrial activity, real average remunerations fell so sharply in the manufacturing sector that by the third quarter they had dropped to their pre-Plan Cruzado level. Simultaneously, the purchasing power of the minimum wage shrank by 18%, and thereby fell to its lowest level of the last 10 years (see tables 12 and 13).

Inflation also rose sharply in Argentina, marking a turnaround in the sharp fall which had occurred in inflation between the middle of 1985 and the beginning of 1986 as a result of the implementation of the Plan Austral. Indeed, the 175% increase in consumer prices registered in 1987 was almost double the 82% recorded the previous year. However, and in contrast with the case of Brazil, inflation in 1987 was considerably lower than in the 1982-1985 period (see table 11 and figures 7 and 8).

The upsurge in inflation was already clearly apparent in the third quarter of 1986, when consumer prices rose at a monthly rate of over 7%. In order to check this, the government reinforced its income policy and adopted a stricter monetary policy. These measures helped to reduce monthly variations in inflation towards the end of the year, but sparked off a sharp rise in the real rate of interest and a fall in the growth rate of the product.

In early 1987, inflationary expectations were reinforced by the considerable rises in the prices of a number of goods, such as meat, vegetables and fruit, which have a considerable impact on the general consumer price index as well as by the widening gap between the official price of the dollar and its price on the parallel market as a result of the

Table 12

LATIN AMERICA AND THE CARIBBEAN: REAL AVERAGE WAGES

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987 ^a
Annual average indexes (1980 = 100)										
Argentina ^b	77.9	89.5	100.0	89.4	80.1	100.5	127.1	107.8	109.5	103.0
Brazil										
Rio de Janeiro ^c	93.9	95.1	100.0	108.5	121.6	112.7	105.1	112.7	121.8	102.7
São Paulo ^d	85.7	92.3	100.0	104.7	107.2	94.0	97.9	120.4	150.7	142.2
Colombia ^e	93.2	99.3	100.0	101.4	105.2	110.4	118.7	114.9	120.2	119.4
Costa Rica ^f	94.7	99.2	100.0	88.3	70.8	78.5	84.7	92.2	97.8	...
Chile ^g	84.7	91.8	100.0	108.9	108.6	97.1	97.2	93.5	95.1	94.7
Guatemala ^h	...	99.9	100.0	117.6	124.7	126.2	114.8	99.2	81.0	86.5
Mexico ⁱ	104.4	102.9	100.0	103.6	104.4	80.7	75.4	76.6	72.3	72.8
Nicaragua ^j	...	...	100.0	101.1	96.0	97.6	90.9	85.7	59.9	39.3
Panama ^k	...	104.8	100.0	98.7	94.1	98.2	105.8	107.0	110.0	...
Paraguay ^l	...	99.4	100.0	105.3	102.4	95.2	91.8	89.9	107.9	122.1
Peru ^m	94.9	88.9	100.0	101.8	110.2	93.4	87.2	80.4	99.9	104.7
Uruguay ⁿ	109.1	100.4	100.0	107.5	107.1	84.9	77.1	88.1	94.0	98.5
Percentage variation ^o										
Argentina	-1.8	14.3	11.8	-10.6	-10.4	25.5	26.4	-15.2	1.6	5.9
Brazil										
Rio de Janeiro	5.4	1.3	5.2	8.5	12.1	-7.3	-6.7	7.1	8.1	-15.7
São Paulo	12.2	7.7	8.4	4.7	2.4	-12.3	4.1	23.0	25.1	-5.7
Colombia	11.5	6.5	0.8	1.4	3.7	5.0	7.3	-3.0	4.9	-0.7
Costa Rica	8.8	4.8	0.8	-11.7	-19.8	10.9	7.8	8.9	6.1	...
Chile	6.5	8.3	9.0	9.1	-0.2	-10.7	0.1	-3.8	1.7	-0.3
Guatemala	...	...	0.1	17.6	6.0	-1.2	-9.0	-13.6	-18.3	6.8
Mexico	-2.1	-1.4	-2.9	3.5	0.9	-22.7	-6.6	1.6	-5.6	0.7
Nicaragua	...	...	...	1.1	-5.0	1.7	-6.9	-5.7	-30.1	-34.1
Panama	...	-0.1	-4.6	-1.3	-4.7	4.4	7.7	1.1	2.8	...
Paraguay	...	-6.5	0.7	5.3	-2.7	-7.1	-3.5	-2.1	20.0	13.2
Peru	-12.7	-6.3	12.4	1.8	8.2	-15.3	-6.6	-7.8	24.3	4.8
Uruguay	-3.6	-8.1	-0.4	7.5	-0.3	-20.7	-9.1	14.1	6.7	4.8

Source: ECLAC, on the basis of official figures.

^a Preliminary figures. ^b Average total monthly wages in manufacturing. Average for twelve months. ^c Average wages in basic industry, deflated by the CPI for Rio de Janeiro. Average for twelve months. ^d Average wages in manufacturing in the State of São Paulo, deflated by the cost-of-living index for the city of São Paulo. Average for twelve months. ^e Wages of manual workers in manufacturing. Average for twelve months. ^f Average wages declared by workers covered by social security. ^g Average remuneration of wage-earners in non-agricultural sectors. Average for twelve months. ^h Average remunerations of workers covered by social security. ⁱ Average wages in manufacturing. Average for twelve months. ^j Average remunerations of workers covered by social security, deflated by the implicit price index of the gross domestic product. ^k Average industrial wage in the districts of Panama and Colón. Average for twelve months. ^l Wages of manual workers in Asunción. Average of June and December. ^m Wages of private-sector workers in Metropolitan Lima. Average for twelve months. ⁿ Index of average real wages. Average for twelve months. ^o Compared with the same period in the previous year.

Table 13

LATIN AMERICA: REAL URBAN MINIMUM WAGE

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987 ^e
Average annual indexes (1980 = 100)										
Argentina ^b	81.0	85.3	100.0	97.8	97.8	136.9	167.7	117.1	111.1	122.3
Brazil ^f	97.7	97.5	100.0	104.4	104.9	93.0	86.0	88.8	87.1	71.2
Colombia ^d	89.5	97.5	100.0	98.9	103.6	107.9	113.5	109.4	114.2	113.0
Costa Rica ^b	96.0	98.5	100.0	90.4	85.9	99.3	104.4	112.2	118.7	118.6
Chile ^e	100.7	99.8	100.0	115.7	117.2	94.2	80.7	76.4	73.6	69.1
Ecuador ^f	48.1	60.4	100.0	86.2	75.9	63.6	62.8	60.4	65.0	61.4
El Salvador ^g	90.3	87.7	100.0	96.8	86.6	76.5	76.8	66.2	57.5	46.3
Guatemala ^b	70.0	62.5	100.0	107.5	107.5	102.5	99.1	83.6	...	...
Haiti ^h	94.1	85.8	100.0	96.3	100.8	94.0	87.1	91.3	84.8	...
Honduras ⁱ	100.0	109.2	100.0	105.6	104.5	96.6	92.1	88.8	85.1	83.1
Mexico ^j	108.6	107.2	100.0	101.9	92.7	76.6	72.3	71.7	64.9	60.6
Nicaragua ^k	119.8	112.7	100.0	90.2	74.4	56.7	63.6	45.1	...	...
Panama ^l	115.7	113.6	100.0	93.3	89.4	102.1	100.8	99.7	99.9	...
Paraguay ^m	94.8	92.4	100.0	103.9	101.9	94.2	93.8	99.6	108.3	122.6
Peru ⁿ	72.3	80.8	100.0	84.2	77.8	89.2	69.0	60.3	62.5	64.0
Dominican Republic ^b	94.7	105.0	100.0	93.0	86.4	80.8	82.0	80.2	86.0	...
Uruguay ^o	113.6	104.8	100.0	103.4	104.6	89.6	89.9	94.1	88.3	91.1
Venezuela ^p	69.3	61.6	100.0	86.2	78.5	73.9	66.5	96.8	92.3	93.3
Percentage variation^q										
Argentina	-18.8	13.7	17.3	-4.8	1.8	41.1	26.0	-32.5	-5.1	10.1
Brazil	...	-0.2	2.6	6.1	0.7	-10.2	-8.8	1.7	-0.1	-18.3
Colombia	13.1	10.7	2.5	-1.1	4.3	4.1	5.6	-3.8	4.4	-1.1
Costa Rica	11.4	2.6	1.4	-9.6	-5.1	15.7	5.2	7.4	5.7	-
Chile	26.5	-0.8	0.2	15.9	1.3	-19.6	-14.4	-5.3	-3.6	-6.1
Ecuador	-10.6	25.7	65.5	-13.8	-11.9	-16.2	-1.3	-3.1	7.6	-5.6
El Salvador	-	-2.9	8.6	-3.2	-10.5	-11.7	0.4	-13.8	-13.2	-19.9
Guatemala	-9.7	-10.7	59.9	7.5	-	-4.7	-3.3	-15.6	...	...
Haiti	26.6	-8.8	16.5	-3.7	4.7	-6.7	-7.3	4.8	-7.1	...
Honduras	-4.4	11.5	-8.3	5.0	-0.5	-7.7	-4.5	-3.3	-4.2	-2.4
Mexico	-3.4	-1.3	-6.7	1.9	-9.0	-17.4	-5.6	-1.7	-8.8	-6.6
Nicaragua	...	-5.9	-11.3	-9.8	-17.5	-23.8	12.1	-29.1	...	...
Panama	-4.0	-1.8	-12.0	-6.7	-4.2	14.2	-1.3	-1.1	0.1	...
Paraguay	3.1	-2.5	8.0	3.9	-1.9	-7.5	-0.5	6.2	8.8	13.2
Peru	-23.2	11.7	27.5	-15.8	-7.6	2.4	-22.7	-12.6	3.6	1.5
Dominican Republic	...	9.7	-4.8	-7.0	-7.1	-6.5	1.5	-2.2	7.2	...
Uruguay	-0.5	-7.7	-4.6	3.4	1.2	-14.3	0.3	4.7	-6.1	3.2
Venezuela	-6.8	-11.1	62.3	-14.1	-8.9	-5.9	-10.0	45.5	-4.7	3.3

Source: ECLAC, on the basis of official figures.

^aPreliminary figures. ^bNational minimum wage. ^cMinimum wage for the city of Rio de Janeiro, deflated by the corresponding consumer price index. ^dMinimum wage for upper urban sectors. ^eMinimum income. ^fMinimum overall living wage, calculated on the basis of annual minimum living wages and legal supplementary benefits. ^gMinimum wage for non-agricultural activities in San Salvador. ^hMinimum daily wage paid in industrial firms. ⁱMinimum wage in the Central District and Pedro Sula for manufacturing. ^jMinimum wage in Mexico City, deflated by the corresponding consumer price index. ^kMinimum wage for industrial workers in the Department of Managua. ^lMinimum wage applying to all activities except construction and domestic service. ^mMinimum wage in Asunción and Puerto Stroessner. ⁿMinimum wage in Metropolitan Lima for non-agricultural activities. ^oNational minimum wage for workers over 18 years of age. ^pNational minimum wage for non-agricultural activities, deflated by the consumer price index corresponding to the lowest-income quartile. ^qIn comparison to the same period of the preceding year.

deterioration of external accounts. As a result, the monthly variations in consumer prices again rose, and remained in the vicinity of 7% during the first quarter.

In order to prevent these increases from sparking off a constant rise in the rate of inflation through indexation mechanisms and economic agents' expectations, at the end of February the authorities ordered a further three-month freeze of prices and wages. Simultaneously, the rate of exchange was increased and the regulated interest rate was lowered. While price rises slowed down in April and May as a result of these measures, inflation again gathered speed in June. The government was thus faced with a dilemma inasmuch as the country's fiscal and external disequilibria called for an adjustment of the exchange rate and of the charges for public services, at a time when the mechanisms propagating inflation appeared to be operating forcefully once again and the real price of meat was undergoing a seasonal increase. Thus, in July, the consumer price index rose by two digits for the first time in two years (see figure 7).

The resurgence of inflation became more pronounced in subsequent months. Although the price of meat ceased to increase, efforts to raise the rates of public services and the exchange rate led to intense cost pressure and further rises in prices. This gave the impression that inflation was running out of control, and, together with the expectations of a new freeze, this conviction led to anticipatory price markups. Simultaneously, the government sped up both the rate of devaluation of the austral and of increase in the rates for public services considerably. Thus, in October, the rise in consumer prices was almost 20% while the increase in wholesale prices exceeded 30%.

Given these circumstances, in October the government announced a package of measures designed to bring down inflation and reduce the external-sector disequilibrium. The measures included an initial 12% readjustment of wages and a 15% in the rates for public services and a subsequent freeze of both for a period of 90 days. In addition, the austral was heavily devalued and a dual exchange market established, with a free market for financial operations; a tax reform was carried out in an effort to increase fiscal revenue by 4% of gross domestic product through the introduction of additional taxes of 5% on imports and of 45% on cigarettes, together with an increase in taxes on real estate and income and a sharp increase in the prices of petrol, while controlled rates of interest were eliminated in order to reduce the subsidies granted by the Central Bank.

As a result of these measures, the rate of price increases fell in November and, above all, in December. The minimum wage therefore rose by 10%, while average real wages did not recover from the losses suffered during the year, and declined by 6%.

In 1987 a reversal also occurred in the previous year's downward trend of inflation in Peru. After having fallen from almost 160% in 1985 to slightly more than 60% in 1986, the annual variation in consumer prices was 115% in 1987.

The sustained rise of inflation mainly reflected the repercussions of the further considerable expansion in domestic demand caused by the growing fiscal deficit, the rapid rise in the money supply and wage increases. Under such conditions, official price controls gradually became ineffective, particularly in the ever-growing number of branches of industry which were having difficulties in increasing their output on account of the gradual exhaustion of their underutilized capacity. Price rises were also stimulated by wage readjustments; by the rise in the average exchange rate (resulting from the mini-devaluations carried out during the first half of the year, the 25% devaluation ordered in September and the gradual transfer of certain exports and imports to those segments of the exchange market which had higher parities); by increases in the selective excise tax and in the customs duties applied to certain imports; and by the revival of the inflationary expectations of economic agents.

In spite of the increase in inflation, thanks to the growth of economic activity as well as to the increased frequency and size of wage and salary readjustments, the purchasing power of private-sector wages in Lima rose by almost 5% after having grown by approximately 24% the previous year, thus surpassing the level attained at the beginning of the decade (see table 12).

In 1987 inflation reached an all-time high in Mexico. Despite the government's efforts to bring it down from the 106% figure recorded in 1986 to 80% in 1987, the annual rate of consumer price increases rose both continually and rapidly, reaching almost 160% by the end of the year (see figure 8).

This upsurge in inflation was influenced by the aggressive policy that was applied for budgetary reasons to public-sector prices and rates which led to a sharp rise in the prices of its goods and services, and in particular, in that of petrol. Another factor was the delayed impact of the exchange policy —which until March provided for a devaluation of the peso at an even faster rate than that of inflation, with the inevitable repercussions on the prices of internationally tradeable goods. The surge in inflation was also compounded by the rises in nominal wages —which were readjusted more frequently than in previous years— and by the strengthening of inflationary expectations, which intensified in particular following the October stock market collapse and the sharp devaluation of the peso on the parallel market in November. As a result of the surge in inflation and despite the more frequent readjustment of the minimum wage than in previous years, the purchasing power of the

latter underwent a further and considerable decline, with the cumulative decrease totalling 40% so far during the present decade.

In view of this situation, towards the middle of December the government initiated a new stabilization programme designed to control the spiralling inflation by means of an "Economic Solidarity Pact" involving workers, peasants and entrepreneurs. The plan included a rise in the exchange rate in the regulated market from 1 800 to 2 200 pesos to the dollar, a 15% wage readjustment, measures to liberalize foreign trade, a reduction of the maximum duty on imports from 40% to 20%, and considerable increases in the prices and charges for goods and services produced by State enterprises, with a view to reducing the public-sector deficit. Thus, the prices of petrol, fuels, liquified gas and electricity rose by 85%, those of sugar and fertilizers by approximately 80% and air and rail transport by some 20%. In conjunction with these increases, the government decreed that prices would remain frozen in January and February 1988 and announced that wages would be increased by a further 20% in January and that they would be readjusted each month from March onward, so long as monthly inflation remained above 2%.

Although inflation was far lower than in the countries just mentioned, it reached unusually high levels in Venezuela. In fact, the 40% increase in consumer prices recorded in 1987 was not only well over treble that recorded in 1986, but was also the highest ever recorded in the country.

The sudden rise in inflation was largely attributable to the maxi-devaluation of the bolívar in December 1986, which represented a 93% rise in the official rate of exchange. As a result of this and of the readjustments of the prices of essential goods such as food, transport and electricity, as well as of the inflationary impact of the elimination of the preferential exchange rate previously applied to imports of various basic goods and certain consumer goods, inflation rose progressively, to the point where consumer price increases reached a level of over 4% in May, June and July.

In order to check this trend, and following a fruitless attempt to freeze prices, in September a system of control covering three groups of products was introduced. The first of these was made up of 43 goods defined as "essential", whose prices were tightly controlled and could only be increased with the authorization of a tripartite commission made up of representatives of the government, entrepreneurs and labour unions. The second included most inputs and consumer goods, whose prices could only be increased with the permission of the Ministry of Finance, provided the increase was requested at least 60 days in advance. Finally, the prices of the remaining goods subject to control could be set "freely", but notice of any increase had to be given at least 30 days in advance.

As a result of these measures and of the implementation as from May of an extremely restrictive monetary policy, monthly price variations declined from August onwards. However, they remained higher than those recorded during the same months of the previous year, and consequently the annual rate of inflation continued to rise throughout the last four months of the year (see figure 9). Consequently, on 16 December the government implemented an indefinite freeze on the prices of all goods and services produced by the public sector.

In 1987 a moderate increase occurred in the rate of consumer price rises in Ecuador and Colombia, where inflation had followed a similar trend during the previous two years (see figure 9).

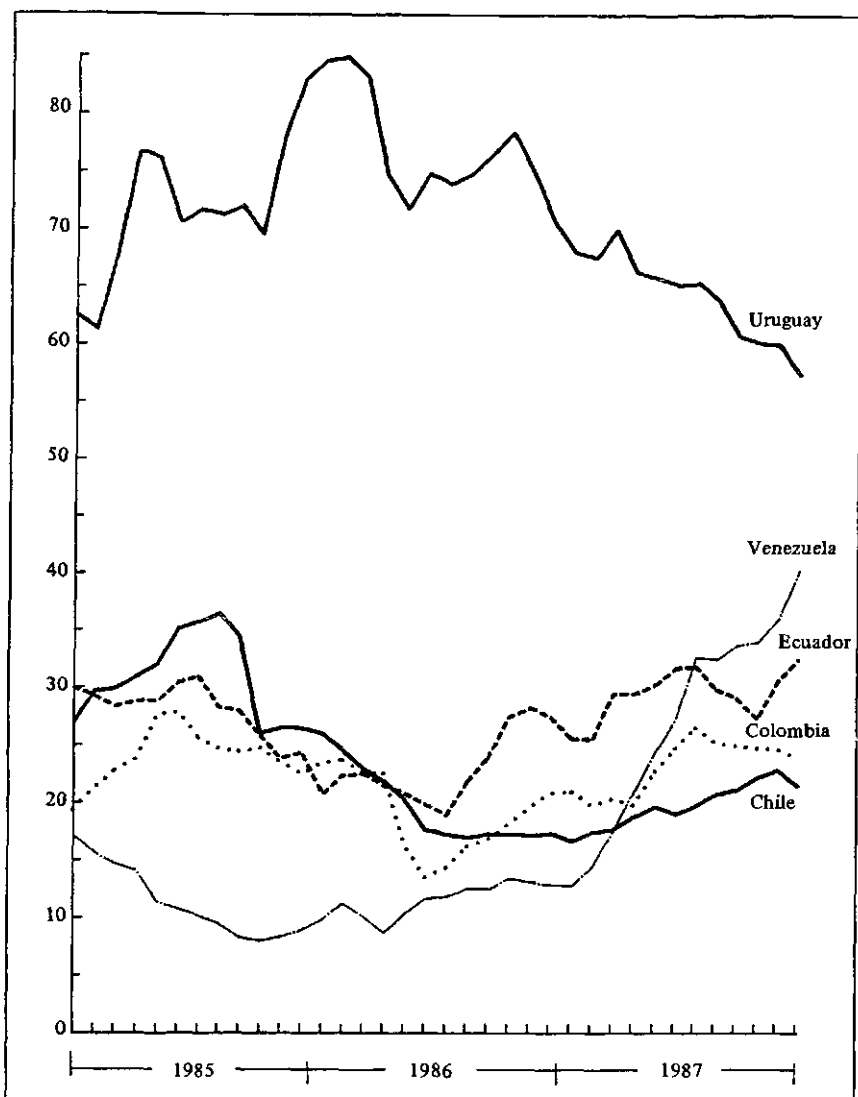
In Ecuador, the increase in inflation from 27% in 1986 to 33% in 1987 was mainly attributable to the impact of the earthquakes which struck the north-eastern zone of the country at the beginning of March. On account of the earthquakes, together with the floods and frosts which affected other areas of the country, the supply of certain foods shrank and their prices rose in consequence. Moreover, in order to offset the loss of revenue sustained by the public sector as a result of the interruption of petroleum exports, the government raised the price of petrol by 80% and readjusted public transport rates. The temporary suspension of external sales of hydrocarbons also contributed towards increasing the rate of exchange, thereby causing the domestic prices of internationally tradeable goods to climb. The inflationary impact of these changes was partly offset by a restrictive wage policy—which led to a real shrinkage of 6% in the minimum wage—and by the authorities' control of issues.

Inflation also rose slightly in Colombia (from 21% to 24%). A decisive factor in this respect was the far less satisfactory trend in the prices of agricultural products in 1987. While these had fallen in absolute terms towards the middle of the preceding year on account both of the increase in harvests and of the considerable contraband trade in agricultural products from Venezuela, they rose sharply during the first half of 1987 due to the drop in agricultural production caused by the shortage of rainfall during the first four months of the year. Mainly for this reason, the annual rate of inflation climbed rapidly until July. However, subsequently it gradually declined as the supply of agricultural products reached normal levels and also because the government slowed down the increase of the exchange rate. As a result of the surge in inflation and despite the rapid growth of production and employment, both the minimum wage—which is generally readjusted annually in accordance with the previous year's inflation rate—and average wages in manufacturing declined slightly (see tables 12 and 13).

In 1987 the regular downward trend of inflation in both Chile and the Dominican Republic observed since the middle of 1985 came to an end.

Figure 9
**LATIN AMERICA: TWELVE-MONTH VARIATIONS IN THE
 CONSUMER PRICE INDEX OF SELECTED COUNTRIES**

(Percentages)



Source: ECLAC, on the basis of official figures.

In Chile, after having fallen to less than 17% in January, the annual rate of consumer price increases rose persistently until November, reaching 22% by the end of the year. The resurgence of inflation was influenced, particularly towards the beginning of the year, by the marked increase in domestic expenditure resulting from the excessive growth of the means of payment during the closing months of 1986. Inflationary pressure originating from the sharp increase in demand was intensified by the effects of the recovery in the international price of petroleum and by the fall in the supply of agricultural products on account of the storms and floods which affected the country's central region in July and August. Due to these factors, as well as to the lag with which changes in monetary variables are generally felt, the rate of inflation continued to rise gradually until November, in spite of the restrictive monetary policy which the government began to apply as of April, the improvement in the fiscal situation, the virtually total stability of real average wages and the marked decline which occurred for the fifth consecutive year in the real value of minimum wages. However, the effects of these measures began to be felt in December, when consumer prices increased by only 0.3% and wholesale prices fell by 5.6%.

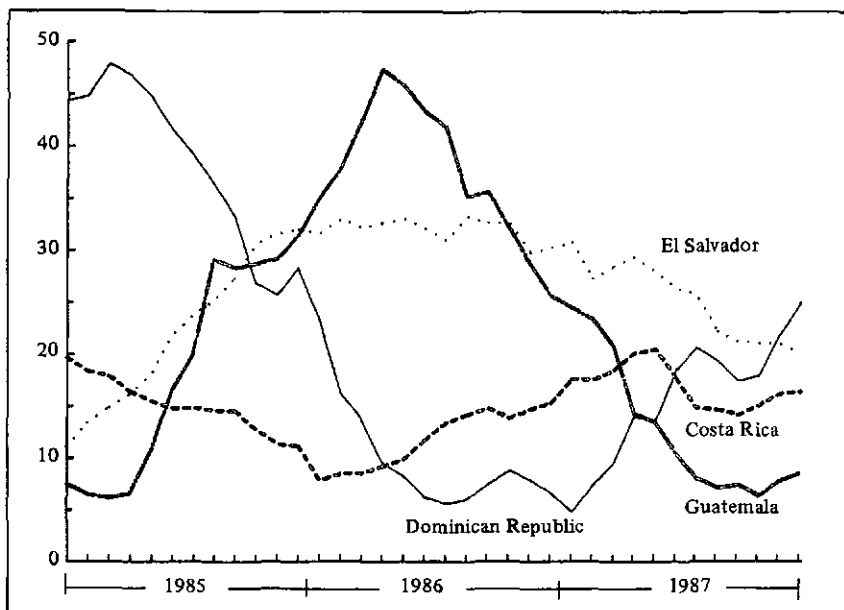
The downward trend in inflation came to an even more abrupt halt in the Dominican Republic, where the annual variation of consumer prices, which had fallen from 48% to less than 5% between March 1985 and January 1987, rose persistently during the following months, reaching 25% by the end of the year. One of the principal causes of the resurgence of inflation was the delayed impact of the sharp growth in the money supply observed at the end of the previous year. The inflationary repercussions of this increase were aggravated by those resulting from the huge expansion of construction, by the increase in the international price of petroleum, by the rise in the prices of imports resulting from the exchange controls introduced at the middle of the year and by the rise in exchange rates.

Of the 10 countries which saw a decline in inflation in 1987, the most remarkable case was that of Bolivia, where prices rose by less than 11%, in contrast to the annual rate of 66% registered at the end of 1986 and the astronomical rate of over 23 000% recorded in September 1985 (see figure 7). As in the preceding year, two factors that played a decisive role in this improvement were the austerity with which the fiscal policy was managed and the stability that was achieved on the exchange market. Indeed, during the first half of 1987, the government closed its accounts with a surplus. This result was due to, the strict control of public expenditure and to the increased tax receipts resulting from the implementation of the tax reform adopted the previous year (which included the introduction of a value added tax) as well as to the favourable effect of the downturn in inflation itself on the real value of the taxes collected.

Figure 10

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

(Percentages)



Source: ECLAC, on the basis of official figures.

The fiscal stability achieved freed the Central Bank from the need to finance the government deficit and restored autonomy to monetary policy. The authorities were thus able to cut the growth rates of issues and of the money supply so drastically that during the first half of the year they grew by barely 4% and 7% respectively. This in turn helped to maintain a stable exchange rate both on the official and parallel markets, and inflationary expectations lessened accordingly.

Inflation also fell for the second year running in Uruguay. However, on account of the gradual nature of the drop, inflation in 1987 was still 57% (see figure 9). As a result of this decline, wages increased for the third year running and approached their 1980 levels. In El Salvador, and above all, in Guatemala —countries where, in the past, price fluctuations had been among the lowest in the region, but which had experienced unusually high levels of inflation in 1985 and 1986— inflation declined sharply (see figure 10). In Jamaica, the rate of inflation decreased for the third year in a row, and the annual variation in consumer prices was

below 7% in 1987. Finally, inflation remained very low in the Bahamas, Barbados and particularly in Dominica, Honduras and Panama, where domestic price increases have traditionally fluctuated in line with changes in international inflation (see table 11).

V. THE EXTERNAL SECTOR

1. External trade and the terms of trade

Following the sharp declines which occurred during the previous two years, the value of exports of goods rose by 14% as the result of a 7% rise in their unit value and a 6.5% increase in the volume exported (see table 14).

The increase of exports was due in particular to the higher external sales achieved by Mexico —where they rose by 29% owing to the upturn in the international price of petroleum and the intense growth which occurred for the second year running in exports of manufactured goods (see table 15 and figure 11); by Chile —where they increased by 24% on account of the vigorous expansion of sales of industrial goods and the sharp rise in the price of copper; by Venezuela —where they rose by 22% thanks to the increase in the price of petroleum; by Brazil —where they rose by 17% in spite of the fall in the price of coffee and thereby recovered from the sharp drops of the previous two years; and by Paraguay —where they grew markedly as a result both of the increase in the volume of exports and of the increase in the average prices of cotton and soya.

In contrast, the value of exports fell for the second year running in Argentina and Ecuador and for the third consecutive year in Bolivia and Guatemala. It also declined in El Salvador and Honduras.

The increase in exports was accompanied by a 12% rise in the value of imports, whereby they continued to recover from the pronounced slump of over 40% which occurred in the 1982-1983 biennium.

The growth of imports was, moreover, quite widespread (see table 16). They fell in volume in Brazil, El Salvador, Haiti, Honduras, Panama and Nicaragua, but the latter country was the only one in which the shrinkage was noteworthy (-22%). In contrast, the volume of imports grew by 10% or more in 10 countries, and in four of these —Ecuador, Guatemala, Paraguay and Uruguay— the real increase in external purchases exceeded 20% (see table 16). However, only six

Table 14
LATIN AMERICA: VARIATIONS IN EXPORTS AND
IMPORTS OF GOODS

(Growth rates)

	Exports			Imports		
	Value	Volume	Unit value	Value	Volume	Unit value
	Latin America					
1973	44.3	8.1	33.3	32.8	13.8	16.6
1974	54.9	-6.5	65.7	72.1	19.3	44.2
1975	-8.0	-10.3	2.6	6.4	-3.4	10.2
1976	16.4	8.3	7.5	3.9	2.6	1.2
1977	19.4	1.9	17.2	15.1	6.8	7.7
1978	7.6	7.2	0.3	13.8	4.4	9.1
1979	34.5	9.7	22.7	25.8	7.6	16.9
1980	32.3	4.4	26.6	34.9	11.1	21.4
1981	7.6	8.3	-0.7	8.1	2.8	5.1
1982	-8.8	1.4	-10.0	-19.9	-18.9	-1.2
1983	-	8.8	-8.1	-28.5	-21.4	-9.1
1984	11.8	9.3	2.3	4.1	8.5	-3.9
1985	-6.1	0.3	-6.3	-0.3	1.7	-4.4
1986	-15.4	-4.2	-11.7	2.3	7.0	-4.4
1987 ^a	13.7	6.5	6.8	12.4	6.2	5.9
	Oil-exporting countries^b					
1973	51.4	10.5	37.0	21.0	3.9	16.5
1974	131.2	-12.2	163.3	57.8	20.5	31.0
1975	-19.9	-23.0	4.0	36.7	25.0	9.4
1976	9.3	6.6	2.3	7.4	6.5	0.8
1977	12.4	-1.3	13.8	18.8	11.2	7.0
1978	8.3	6.5	1.8	16.7	4.3	11.9
1979	53.7	11.8	37.5	16.1	4.4	11.3
1980	42.3	0.2	42.0	32.5	16.4	13.8
1981	9.6	4.8	4.6	21.0	16.0	4.2
1982	-5.5	6.6	-11.4	-20.2	-19.2	-1.2
1983	-2.3	7.7	-9.3	-43.1	-34.1	-13.6
1984	8.5	8.3	0.1	15.5	17.6	-1.8
1985	-9.2	-5.7	-3.7	8.2	10.9	-2.4
1986	-29.4	2.2	-30.9	-1.9	0.6	-2.4
1987 ^a	21.3	6.0	14.6	11.7	7.5	3.9
	Non-oil-exporting countries^c					
1973	42.2	6.2	33.9	35.2	16.6	16.0
1974	31.0	-1.6	33.1	74.3	19.1	46.3
1975	-1.2	-0.1	-1.1	1.7	-7.3	9.7
1976	22.0	10.1	10.8	1.5	0.4	1.1
1977	24.1	5.2	18.1	12.4	4.3	7.8
1978	7.0	7.8	-0.8	11.7	4.4	7.1
1979	22.4	7.8	13.5	33.2	9.5	21.5
1980	24.3	8.6	14.4	36.5	7.9	26.6
1981	5.7	11.6	-5.4	-0.3	-5.8	5.8
1982	-11.9	-3.0	-9.2	-19.5	-18.6	-1.1
1983	2.4	9.8	-6.7	-17.1	-11.2	-6.6
1984	15.2	10.2	4.6	-2.2	3.1	-4.7
1985	-3.3	5.8	-8.5	-5.8	-4.6	-1.3
1986	-3.5	-9.3	6.4	5.4	12.0	-5.9
1987 ^a	9.0	7.0	1.8	12.8	5.3	6.7

Source: ECLAC, on the basis of official figures.

^aPreliminary figures.

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

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

Table 15

LATIN AMERICA: EXPORTS OF GOODS FOB

(Indexes: 1980 = 100 and growth rates)

	Value				Unit value				Volume			
	Index	Growth rates			Index	Growth rates			Index	Growth rates		
	1987 ^a	1985	1986	1987 ^a	1987 ^a	1985	1986	1987 ^a	1987 ^a	1985	1986	1987 ^a
Latin America	99	-6.1	-15.4	13.7	74	-6.3	-11.7	6.8	134	0.3	-4.2	6.5
Oil-exporting countries	85	-9.2	-29.4	21.3	64	-3.7	-30.9	14.6	133	-5.7	2.2	6.0
Bolivia	50	-13.9	-12.5	-13.8	74	-0.3	-23.2	-4.0	68	-13.7	13.9	-10.2
Ecuador	80	10.8	-24.8	-7.7	57	-3.7	-29.1	2.1	140	15.0	6.2	-9.7
Mexico	117	-10.5	-26.0	28.9	62	-1.4	-27.4	10.9	206	-9.2	1.9	16.3
Peru	67	-5.4	-15.7	3.9	75	-1.7	-14.1	7.2	89	-3.8	-2.0	-3.1
Venezuela	55	-11.2	-39.0	22.2	67	-8.0	-40.4	29.1	83	-3.5	2.4	-5.4
Non-oil exporting countries	112	-3.2	-3.5	9.0	83	-8.5	6.4	1.8	135	5.8	-9.3	7.0
Argentina	77	3.9	-18.6	-9.5	71	-13.5	-6.6	4.7	108	20.2	-12.9	-13.6
Brazil	130	-5.4	-12.1	16.8	87	-6.8	6.8	4.4	150	1.5	-17.7	11.8
Colombia	134	-14.6	47.3	-0.9	84	-5.8	18.1	-19.4	159	-9.4	24.7	22.9
Costa Rica	111	-5.6	15.2	2.8	88	-1.0	14.1	-6.8	126	-4.7	1.0	10.3
Chile	111	4.2	10.4	24.4	72	-11.8	3.5	17.6	154	18.1	6.6	5.8
El Salvador	53	-6.5	11.2	-24.1	64	-4.2	21.9	-28.4	83	-2.4	-8.7	5.9
Guatemala	63	-5.8	-1.7	-8.0	78	-7.0	19.6	-18.0	81	1.3	-17.8	12.2
Haiti	92	3.9	-14.4	3.8	93	2.7	19.0	-6.4	98	1.2	-28.1	10.9
Honduras	102	8.0	11.9	-4.2	94	-8.9	15.5	-9.6	108	18.5	-3.1	6.0
Nicaragua	62	-21.8	-18.0	13.7	95	-6.0	3.4	3.8	66	-16.8	-20.7	9.5
Panama	111	17.6	21.2	5.1	105	-0.4	15.5	-3.5	106	18.1	4.9	8.9
Paraguay	200	15.2	-7.6	39.5	93	-20.6	-5.2	14.7	215	45.1	-2.5	21.6
Dominican Republic	74	-14.9	-2.2	-1.5	76	-15.5	-3.8	7.8	98	0.7	-9.3	2.4
Uruguay	112	-7.7	27.4	9.3	89	-7.1	1.5	12.0	127	-0.6	25.5	-2.4

Source: ECLAC, on the basis of official figures.

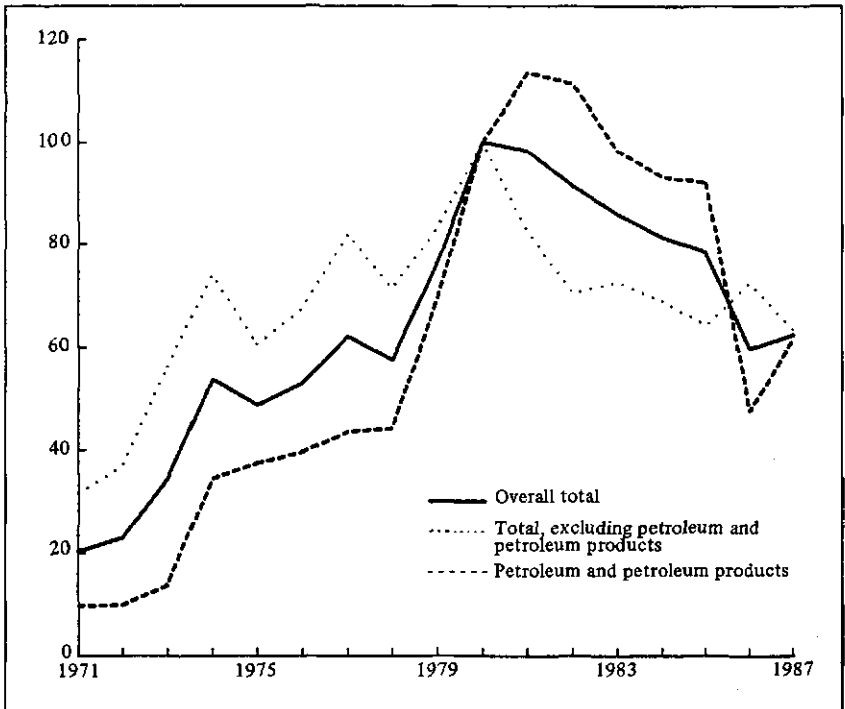
^aPreliminary figures.

countries in the region (Bolivia, Ecuador, Panama, Paraguay, Peru and the Dominican Republic) recorded a volume of imports higher than their pre-crisis level.

Since the rise in the unit value of exports was somewhat higher than that of imports, a slight improvement occurred in the terms of trade, following its decline over the previous two years (see table 17). Nevertheless, the cumulative deterioration since 1980 was still considerable

(-18%). Moreover, the improvement was almost entirely concentrated in the petroleum-exporting countries, which benefitted from the almost 30% increase in the international price of petroleum. In almost all the remaining economies of the region, and in particular in the coffee-exporting countries, the terms of trade, in contrast, worsened considerably (see table 18). The only countries that did not follow this trend were Chile —where the rises in the prices of copper, fish meal, wood pulp and other exports offset the impact of the increase in the prices of petroleum and of manufactured goods from Europe and Japan; Paraguay, thanks to the significant recovery of the international price of cotton; and Uruguay, on account of the improved international prices of meat and wool (see table 19).

Figure 11
**LATIN AMERICA AND THE CARIBBEAN: PRICE INDEX
 OF PRINCIPAL EXPORT PRODUCTS**
(1980 = 100)



Source: ECLAC, on the basis of figures supplied by UNCTAD.

Table 16

LATIN AMERICA: IMPORTS OF GOODS FOB

(Indexes: 1980 = 100 and growth rates)

	Value				Unit value				Quantum			
	Index	Growth rates			Index	Growth rates			Index	Growth rates		
		1987 ^a	1985	1986		1987 ^a	1985	1986		1987 ^a	1987 ^a	1985	1986	1987^{a}
Latin America	74	-0.3	2.3	12.4	90	-4.4	-4.4	5.9	82	1.7	7.0	6.2
Oil-exporting countries	75	8.2	-1.9	11.7	86	-2.4	-2.4	3.9	87	10.9	0.6	7.5
Bolivia	114	12.3	28.9	10.3	88	3.7	-4.3	-1.2	131	8.2	34.6	11.6
Ecuador	91	2.8	1.2	25.6	80	-4.8	-5.7	3.7	114	8.0	7.3	21.1
Mexico	65	17.4	-13.4	6.7	91	-3.0	-2.4	5.0	71	21.1	-11.2	1.7
Peru	99	-15.5	38.9	22.1	84	-6.4	-1.2	2.6	119	-9.7	40.7	19.0
Venezuela	81	1.7	6.0	12.7	83	-1.5	-0.9	3.9	98	3.2	7.1	8.5
Non-oil-exporting countries	73	-5.8	5.4	12.8	92	-1.3	-5.9	6.7	79	-4.6	12.0	5.3
Argentina	56	-14.4	24.6	19.1	100	5.0	4.0	7.0	56	-18.5	19.9	11.3
Brazil	66	-5.7	6.7	7.4	95	-4.1	-7.6	9.4	69	-1.6	15.5	-1.8
Colombia	91	-8.8	-5.1	12.1	92	3.0	-8.9	5.0	100	-11.4	4.2	6.7
Costa Rica	91	0.8	4.2	19.6	94	1.7	-5.3	5.0	97	-0.9	10.1	13.9
Chile	73	-12.0	4.9	28.9	87	-5.5	-4.8	12.5	84	-6.8	10.2	14.5
El Salvador	101	-2.1	-2.1	3.5	106	0.5	-5.0	5.0	96	-2.7	3.1	-1.4
Guatemala	84	-8.9	-18.9	40.9	92	-1.5	-7.9	4.5	91	-7.5	-11.9	34.9
Haiti	97	-3.5	-6.1	-4.7	104	-3.0	6.0	2.8	93	-0.5	-11.4	-7.3
Honduras	94	-	2.6	-0.9	105	6.3	-6.2	2.1	90	-6.0	9.4	-2.9
Nicaragua	86	0.1	-9.2	-4.9	95	1.1	-2.3	6.8	91	-1.0	-7.1	-10.9
Panama	101	9.1	9.4	1.6	89	-1.9	-6.9	2.6	113	11.2	17.6	-1.0
Paraguay	138	-1.7	1.2	27.0	69	-6.9	-6.9	5.3	202	5.6	8.7	20.6
Dominican Republic	102	2.3	-1.5	22.4	88	-0.8	-6.0	-5.2	117	3.1	4.8	16.4
Uruguay	65	-7.8	17.1	36.5	83	2.6	-12.7	8.3	78	-10.1	34.2	26.1

Source: ECLAC, on the basis of official figures.

^aPreliminary figures.

As a result of the rise in the terms of trade and of the increased volume of exports, the purchasing power of the latter rose by 7%, thereby partly recovering from the previous year's fall. However, the only countries in which the trend in the purchasing power of exports was clearly satisfactory were Paraguay, Mexico, Venezuela, Chile, Brazil and Nicaragua, while it worsened markedly in El Salvador, Bolivia, Guatemala, Ecuador, Argentina, Honduras and the Dominican Republic (see tables 20 and 21).

Table 17
LATIN AMERICA: TERMS OF TRADE FOB/FOB (GOODS)

(Indexes: 1980 = 100)

	Latin America		Oil-exporting countries ^a		Non-oil-exporting countries ^b	
	Index	Variation	Index	Variation	Index	Variation
1976	91.4	6.2	66.8	1.5	116.7	9.6
1977	99.4	8.8	71.2	6.6	127.8	9.5
1978	91.4	-8.0	64.7	-9.1	118.5	-7.3
1979	95.9	4.9	80.1	23.8	110.6	-6.7
1980	100.0	4.3	100.0	24.8	100.0	-9.6
1981	94.5	-5.5	100.4	0.4	89.5	-10.5
1982	86.0	-9.0	90.2	-10.2	82.2	-8.2
1983	87.0	1.6	94.7	5.0	82.1	-0.1
1984	92.6	6.4	96.6	2.0	90.2	9.9
1985	88.5	-4.4	95.3	-1.3	83.6	-7.3
1986	81.7	-7.7	67.5	-29.2	94.5	13.0
1987 ^c	82.4	0.9	74.5	10.4	90.1	-4.7

Source: ECLAC, on the basis of official figures.

^aIncludes Bolivia, Ecuador, Mexico, Peru and Venezuela.

^bIncludes Argentina, Brazil, Colombia, Costa Rica, Chile, El Salvador, Guatemala, Haiti, Honduras, Nicaragua, Panama, Paraguay, Dominican Republic and Uruguay.

^cPreliminary figures.

Table 18
LATIN AMERICA: TERMS OF TRADE FOB/CIF (GOODS)

(Indexes: 1980 = 100 and growth rates)

	Indexes						Growth rates			
	1982	1983	1984	1985	1986	1987 ^a	1984	1985	1986	1987 ^a
Latin America	86	84	91	87	81	81	7.3	-3.4	-7.8	0.9
Oil-exporting countries	91	89	94	93	63	72	4.7	-0.3	-32.5	14.4
Bolivia	93	94	105	101	81	78	11.9	-3.9	-20.1	-3.5
Ecuador	98	81	92	93	70	69	13.5	1.7	-25.1	-1.1
Mexico	87	91	85	86	64	68	-7.5	1.7	-25.7	5.7
Peru	80	95	91	96	83	87	-4.0	5.0	-13.0	4.3
Venezuela	94	101	112	104	63	78	11.2	-7.5	-39.8	24.2
Non-oil-exporting countries	81	81	89	83	93	89	9.2	-7.0	12.7	-3.9
Argentina	85	81	96	80	72	71	18.9	-16.7	-9.5	-2.2
Brazil	80	78	85	83	95	91	9.6	-3.1	15.1	-4.5
Colombia	87	93	99	90	116	90	5.9	-8.5	28.8	-23.0
Costa Rica	83	84	87	85	102	90	3.5	-2.8	20.1	-11.3
Chile	75	82	76	71	77	81	-7.0	-6.9	8.6	4.7
El Salvador	93	82	71	68	87	59	-12.7	-5.0	28.0	-31.8
Guatemala	82	84	86	81	104	82	2.0	-6.1	29.2	-21.0
Haiti	73	65	79	82	94	86	22.2	3.8	-15.1	-9.2
Honduras	91	92	94	80	99	87	2.2	-14.2	22.7	-11.7
Nicaragua	85	82	103	94	99	97	25.3	-8.6	5.7	-2.7
Panama	83	94	97	98	122	115	3.2	1.6	23.7	-5.4
Paraguay	92	88	138	117	117	124	56.1	-15.0	-0.1	6.1
Dominican Republic	81	85	93	80	91	83	9.8	-14.8	14.5	-8.6
Uruguay	91	90	96	87	100	104	6.6	-9.4	15.0	3.5

Source: ECLAC, on the basis of official figures.

^aPreliminary figures.

Table 19

**LATIN AMERICA AND THE CARIBBEAN: PRICES OF
MAIN EXPORT PRODUCTS**

(Dollars at current prices)

	Annual averages					Growth rates			Cumulative variation	
	1970-1980	1984	1985	1986	1987	1984	1985	1986	1987	1987/1970-1980
Unrefined sugar ^a	12.8	5.2	4.1	6.1	6.8	38.8	-21.2	48.8	11.5	-46.9
Coffee (mild) ^a	121.8	147.3	155.9	220.0	123.5	4.0	5.8	41.1	-43.9	1.4
Cocoa ^a	86.3	108.7	102.3	93.8	90.6	13.1	-5.9	-8.3	-3.4	5.0
Bananas ^a	11.8	19.0	18.4	22.1	26.5	-6.9	-3.2	20.1	19.9	124.6
Wheat ^b	125.1	153.0	138.0	115.0	115.0	-3.2	-9.8	-16.7	-	-8.1
Maize ^b	127.5	167.3	135.3	112.9	109.4	3.1	-19.1	-16.6	-3.1	-14.2
Beef ^c	82.2	102.6	97.7	95.0	108.2	-7.3	-4.8	-2.8	13.9	31.6
Fish meal ^b	354.7	373.0	280.0	321.0	383.0	-17.7	-24.9	14.6	19.3	8.0
Soya beans ^b	232.4	282.0	225.0	208.0	216.0	-	-20.2	-7.6	3.8	-7.1
Cotton ^a	61.2	80.3	61.7	52.9	76.1	-5.3	-23.2	-14.3	43.9	24.3
Wool ^a	131.5	141.6	140.7	147.7	185.1	-1.7	-0.6	5.0	25.3	40.8
Copper ^a	69.6	62.5	64.3	62.3	80.8	-13.4	2.9	-3.1	29.7	16.1
Tin ^c	3.9	5.6	5.4	2.6	3.1	-5.1	-3.6	-51.9	19.2	-20.5
Iron ore ^b	17.6	22.4	22.0	21.6	22.1	-5.5	-1.8	-1.8	2.3	25.6
Lead ^a	25.3	20.1	17.7	18.4	27.1	4.1	-11.9	4.0	47.3	7.1
Zinc ^a	29.7	40.6	34.3	32.3	36.2	17.0	-15.5	-5.8	12.1	21.9
Bauxite ^b	103.5	165.0	164.3	165.2	164.8	-8.1	-0.4	0.5	-0.2	59.2
Crude oil ^d										
Saudi Arabia	10.0	28.5	28.0	13.7	17.5	-2.7	-1.8	-51.1	27.7	75.0
Venezuela	10.1	27.0	26.4	13.2	17.3	-3.9	-2.2	-50.0	31.1	71.3

Source: UNCTAD, *Monthly Bulletin of Commodity Prices*, Supplements, 1960-1984 and February 1988; International Monetary Fund, *International Financial Statistics, Yearbook*, 1981 and March 1988; *Petroleum Intelligence Weekly*, 1986, 1987 (several issues); ECLAC, on the basis of official figures.

Note: Unrefined sugar, FOB Caribbean ports, for export to the free market. Coffee, colombian mild arabica, *ex-dock* New York. Cocoa beans, average of daily prices (futures), New York/London. Central American Bananas, CIF Hamburg. Cotton, Mexican M 1-3/32", CIF Northern Europe. Wool, clean, combed, 50's quality United Kingdom. Beef, frozen, bonelss, all sources, United States ports. Fish meal, all sources 61-65% protein, CIF Hamburg. Wheat, United States, No. 2, Hard Red Winter, FOB. Maize, Argentina, CIF, North Sea ports. Soya beans, United States, No. 2 yellow, in bulk, CIF Rotterdam. Copper, tin, lead and zinc, cash quotations on the London Metal Exchange. Iron ore, Liberia, C 61% Fe, CIF, North Sea ports. Bauxite, Guyana, (Baltimore). Oil, Venezuela (Tia Juana).

^a US cents per pound. ^b Dollars per metric ton. ^c Dollars per pound. ^d Dollars per barrel.

2. The balance of payments

As the value of exports grew more rapidly than that of imports, the downward trend of the merchandise trade surplus since 1984 was halted in 1987. After having reached an all-time high of US\$39.4 billion in 1984, a figure which was cut by half in the two following years, the surplus rose to US\$21.6 billion in 1987 (see table 22).

However, far from representing a generalized trend, this rise was almost exclusively accounted for by the extremely large increases which occurred in the trade surpluses of Mexico —where it almost doubled, from US\$4.6 billion in 1986 to US\$8.4 billion in 1987; of Venezuela —where it rose from US\$800 million to rather more than US\$1.7 billion; and of Brazil —where it increased from US\$8.4 billion to US\$11.2 billion.

In the remaining countries —with the exceptions of Chile (whose surplus increased by 12%) and Nicaragua, Panama, Paraguay and Haiti (which successfully reduced their deficits)— the merchandise trade balance was less satisfactory than during the previous year. The deterioration was particularly marked in Argentina —whose trade surplus fell by US\$1.5 billion and was thus equivalent to less than one-fifth that recorded two years previously; in Ecuador —where the US\$560 million surplus earned in 1986 was replaced by a US\$30 million deficit; in Guatemala and Costa Rica —which experienced a similar turnaround; and in Bolivia, Peru, El Salvador and the Dominican Republic —where the trade deficit increased significantly.

Since the region's net payments of profits and interest declined by almost 5% to a level of about US\$30 billion (see table 23), the merchandise trade surplus in 1987 covered a greater proportion (72%) of the net

Table 20

LATIN AMERICA: PURCHASING POWER OF EXPORTS OF GOODS

(Indexes: 1980 = 100)

	Latin America		Oil-exporting countries ^a		Non-oil-exporting countries ^b	
	Index	Variation	Index	Variation	Index	Variation
1976	71.9	16.0	56.4	-17.3	86.1	21.0
1977	80.2	11.5	59.0	4.6	99.5	15.5
1978	79.4	-1.0	57.5	2.5	99.3	-0.2
1979	90.7	14.2	79.6	38.4	100.8	1.5
1980	100.0	10.2	100.0	25.6	100.0	-0.8
1981	102.0	2.0	105.2	5.2	99.2	-0.8
1982	93.9	-7.9	99.8	-5.1	88.5	-10.8
1983	104.4	11.4	113.2	13.4	96.4	8.9
1984	119.0	14.0	122.7	8.4	115.6	19.9
1985	114.1	-4.1	114.2	-6.9	113.9	-1.5
1986	100.0	-12.4	82.1	-28.1	116.2	2.0
1987 ^c	107.2	7.2	95.5	16.3	117.8	1.4

Source: ECLAC, on the basis of official figures.

^aIncludes Bolivia, Ecuador, Mexico, Peru and Venezuela.

^bIncludes Argentina, Brazil, Colombia, Costa Rica, Chile, El Salvador, Guatemala, Haiti, Honduras, Nicaragua, Panama, Paraguay, Dominican Republic and Uruguay.

^cPreliminary figures.

Table 21

LATIN AMERICA: PURCHASING POWER OF EXPORTS OF GOODS

(Indexes: 1980 = 100 and growth rates)

	Indexes						Growth rates			
	1982	1983	1984	1985	1986	1987 ^a	1984	1985	1986	1987 ^a
Latin America	94	104	119	114	100	107	14.0	-4.1	-12.4	7.2
Oil-exporting countries	100	113	123	114	82	96	8.4	-6.9	-28.1	16.3
Bolivia	83	78	80	67	61	53	2.6	-17.0	-9.0	-13.3
Ecuador	99	89	117	136	108	97	31.3	17.0	-20.5	-10.6
Mexico	128	161	162	150	113	139	0.7	-7.7	-24.3	22.8
Peru	84	80	89	90	76	77	11.6	1.0	-14.5	1.0
Venezuela	80	85	99	88	55	64	17.2	-10.7	-38.4	17.6
Non-oil-exporting countries	89	96	116	114	116	118	19.9	-1.5	2.0	1.4
Argentina	98	106	115	115	91	77	8.8	0.2	-21.1	-15.5
Brazil	91	104	136	134	127	136	30.9	-1.6	-5.3	6.8
Colombia	73	77	113	94	150	142	47.3	-17.0	60.6	-5.3
Costa Rica	85	87	104	96	116	114	18.7	-7.3	21.3	-2.2
Chile	82	94	88	97	112	124	-6.2	9.8	15.9	10.7
El Salvador	61	68	63	58	68	49	-17.0	-7.2	16.8	-27.9
Guatemala	73	72	75	71	75	67	2.9	-5.0	6.2	-11.3
Haiti	77	82	96	101	84	84	17.6	5.0	-17.2	-0.7
Honduras	78	82	83	85	101	94	1.8	1.7	18.9	-6.4
Nicaragua	87	96	93	71	59	63	-3.5	-24.0	-16.1	6.6
Panama	101	76	76	92	119	122	-	19.9	29.6	3.1
Paraguay	98	84	172	212	206	266	103.7	23.3	-2.6	29.1
Dominican Republic	75	87	98	84	87	82	12.3	-14.2	3.8	-6.4
Uruguay	96	109	100	90	130	131	-7.8	-9.9	44.4	1.0

Source: ECLAC, on the basis of official figures.

^aPreliminary figures.

payments of profits and interest than in the previous year (58%), although a considerably lower one than the 96% recorded in 1985.

This, together with the slight decrease in net payments for services, led to a drop in the current account deficit, which fell from US\$15.4 billion in 1986 to US\$9.8 billion in 1987, thus representing 9% of the value of total exports of goods and services (see table 24). However, this reduction was almost exclusively attributable to the changes in three countries: Mexico, which earned a huge US\$3.6 billion surplus in 1987 after having recorded a US\$1.5 billion deficit in 1986; Brazil, which reduced its deficit from US\$4.4 billion to US\$800 million; and Venezuela, whose deficit fell from almost US\$2 billion to US\$1.1 billion. In contrast,

Table 22
LATIN AMERICA: TRADE BALANCE
(Millions of dollars)

	Exports of goods FOB			Imports of goods FOB			Merchandise trade balance			Net service payments ^a			Trade balance		
	1985	1986	1987	1985	1986	1987	1985	1986	1987	1985	1986	1987	1985	1986	1987
Latin America (19 countries)	91 971	77 804	88 495	58 190	59 545	66 900	33 786	18 258	21 595	3 616	3 782	3 453	30 168	14 475	18 143
Oil-exporting countries	42 350	29 917	36 315	24 488	24 025	26 829	17 865	5 891	9 486	1 220	711	107	16 643	5 180	9 379
Bolivia	623	546	470	463	597	658	161	-51	-188	149	127	135	11	-178	-323
Ecuador	2 905	2 186	2 017	1 611	1 631	2 048	1 294	555	-31	289	325	318	1 005	230	-349
Mexico	21 667	16 028	20 656	13 218	11 451	12 223	8 450	4 577	8 433	-777	-1 232	-2 077	9 226	5 808	10 510
Peru	2 977	2 508	2 605	1 808	2 512	3 068	1 169	-4	-463	173	304	395	996	-307	-858
Venezuela	14 178	8 649	10 567	7 388	7 834	8 832	6 791	814	1 735	1 386	1 187	1 336	5 405	-373	399
Non-oil-exporting countries	49 621	47 887	52 180	33 702	35 520	40 071	15 921	12 367	12 109	2 396	3 071	3 346	13 525	9 295	8 764
Argentina	8 419	6 851	6 200	3 524	4 391	5 230	4 895	2 460	970	534	896	820	4 361	1 564	1 50
Brazil	25 539	22 451	26 213	13 127	14 011	15 052	12 412	8 440	11 161	1 697	2 127	2 317	10 715	6 313	8 844
Colombia	3 650	5 375	5 325	3 674	3 485	3 907	-23	1 890	1 418	665	580	669	-688	1 310	749
Costa Rica	941	1 084	1 114	1 005	1 048	1 253	-64	36	-139	-	-8	2	-63	44	-141
Chile	3 804	4 199	5 224	2 954	3 099	3 994	850	1 100	1 230	338	388	457	512	712	773
El Salvador	679	755	573	895	876	907	-216	-121	-334	39	-19	-74	-255	-102	-260
Guatemala	1 065	1 048	964	1 078	874	1 232	-12	173	-268	85	52	106	-97	121	-374
Haiti	223	191	198	348	326	311	-125	-135	-113	98	69	101	-223	-204	-214
Honduras	805	901	863	879	902	894	-74	-1	-31	70	72	76	-144	-73	-107
Nicaragua	301	247	281	800	727	691	-499	-479	-410	88	83	70	-587	-563	-480
Panama	1 983	2 402	2 525	2 730	2 988	3 035	-747	-586	-510	-894	-837	-800	147	251	290
Paraguay	620	573	800	727	736	935	-107	-163	-135	41	119	127	-148	-282	-261
Dominican Republic	738	722	711	1 286	1 266	1 550	-547	-544	-839	-310	-404	-485	-238	-140	-354
Uruguay	854	1 088	1 189	675	791	1 080	178	297	109	-55	-47	-40	233	344	149

Source: ECLAC, on the basis of official figures.

^aExcluding net payments of profits and interest.

Table 23
LATIN AMERICA: BALANCE OF PAYMENTS
(Millions of dollars)

	Trade balance			Net payments of profits and interest ^a			Balance on current account ^b			Balance on capital account ^c			Total balance ^d		
	1985	1986	1987	1985	1986	1987	1985	1986	1987	1985	1986	1987	1985	1986	1987
Latin America (19 countries)	30 168	14 475	18 143	35 135	31 512	30 098	-3 619	-15 359	-9 787	3 245	9 081	10 191	-378	-6 279	404
Oil-exporting countries	16 643	5 180	9 379	13 541	11 136	10 655	3 330	-5 722	-962	-4 238	1 424	5 057	-912	-4 296	4 095
Bolivia	11	-178	-323	373	306	294	-342	-466	-597	301	597	530	-42	132	-67
Ecuador	1 005	230	-349	936	888	912	69	-658	-1 261	-44	486	1 181	24	-172	-80
Mexico	9 226	5 808	10 510	9 028	7 593	7 306	510	-1 495	3 626	-3 272	1 485	2 300	-2 763	-9	5 926
Peru	996	-307	-858	1 014	805	769	-19	-1 113	-1 627	179	825	821	159	-289	-806
Venezuela	5 405	-373	399	2 190	1 544	1 374	3 112	-1 990	-1 103	-1 402	-1 969	225	1 710	-3 958	-878
Non-oil-exporting countries	13 325	9 295	8 764	21 594	20 376	19 443	-6 949	-9 637	-8 825	7 483	7 657	5 134	534	-1 983	-3 691
Argentina	4 361	1 564	150	5 324	4 425	4 500	-963	-2 861	-4 350	1 940	1 987	2 750	978	-874	-1 600
Brazil	10 715	6 313	8 844	11 208	10 789	9 701	-353	-4 381	-787	-170	1 197	-1 025	-523	-3 184	-1 812 ^e
Colombia	-688	1 310	749	1 582	1 661	1 789	-1 815	413	-52	1 970	946	-70	154	1 359	-122
Costa Rica	-63	44	-141	282	274	243	-303	-193	-341	375	274	337	72	81	-4
Chile	512	712	773	1 901	1 887	1 699	-1 342	-1 135	-871	1 240	1 526	917	-102	391	46
El Salvador	-255	-102	-260	114	152	147	-243	-80	-209	270	155	260	27	75	51
Guatemala	-97	121	-374	163	207	183	-241	-36	-366	343	147	292	102	110	-74
Haiti	-223	-204	-214	20	15	20	-194	-168	-178	123	148	214	-71	-20	36
Honduras	-144	-73	-107	190	211	222	-322	-271	-313	333	300	355	11	28	42
Nicaragua	-587	-563	-480	257	245	240	-827	-799	-710	846	605	633	19	-194	-77
Panama	147	251	290	-46	-106	12	162	325	245	-276	-264	-336	-114	61	-91
Paraguay	-148	-282	-261	21	88	100	-167	-369	-361	39	241	370	-128	-128	9
Dominican Republic	-238	-140	-354	226	250	306	-222	-148	-400	267	208	182	45	59	-218 ^e
Uruguay	233	344	149	352	278	281	-119	66	-132	183	187	255	64	253	123

Source: ECLAC, on the basis of official figures.

^a Excluding labour and ownership; the net interest payments shown correspond to the interest accrued rather than to the payments actually made. This is the case throughout the *Economic Survey*.

^b Including net private unrequited transfers.

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

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

^e As these countries were delinquent in some of their payments, their governments decided to enter these arrears into their accounts as a decrease in their net reserves. In fact, however, their gross liquid reserves diminished much less than indicated (Dominican Republic) or even rose (Brazil).

in all the remaining countries — with the exceptions of Chile, Nicaragua and Paraguay— the current account deficit increased (see table 23).

In 1987 the net capital inflow rose for the second year running, after having fallen to an extremely low level in 1985. The nominal figure of slightly over US\$10 billion was, however, equivalent to a third of what had been received by the region before the onset of the debt crisis, and in real terms it represented an even lower proportion.

The increase in external financing was accounted for in part by the disbursement of the considerable loans agreed upon with private international banks by Mexico and Argentina in order to refinance their external

Table 24

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

(Percentages)

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987 ^b
Latin America	29.8	24.0	26.3	34.8	39.9	7.2	0.2	3.3	16.2	9.1
Oil-exporting countries	40.6	14.9	8.8	23.3	27.0	-16.7	-15.8	-6.6	15.0	-2.1
Bolivia	50.2	46.6	5.0	48.8	22.2	23.8	29.4	47.5	69.9	100.8
Ecuador	2.9	27.1	24.4	35.6	46.6	0.1	9.3	2.1	25.4	51.6
Mexico	30.3	36.7	35.4	48.7	24.5	-19.3	-13.5	-1.8	6.8	-13.2
Peru	10.2	-14.8	5.3	47.0	43.6	29.3	9.9	0.5	33.7	45.2
Venezuela	58.1	-2.5	-23.8	-19.2	24.0	-28.1	-32.4	-20.7	20.9	9.8
Non-oil-exporting countries	22.3	31.5	42.7	46.2	52.6	30.3	14.9	11.9	17.0	14.3
Argentina	-24.5	5.8	48.3	43.4	25.6	26.2	26.0	9.6	33.9	55.8
Brazil	51.5	62.7	58.8	46.1	74.3	29.0	-0.1	1.3	18.0	2.8
Colombia	-7.4	-9.6	3.9	45.7	69.1	79.9	27.3	40.5	-6.5	0.8
Costa Rica	36.1	50.5	54.9	34.7	24.6	29.2	20.8	24.8	13.8	22.4
Chile	37.6	26.1	33.9	96.0	51.1	25.1	47.2	30.0	22.6	13.8
El Salvador	31.6	-1.2	-	29.4	33.0	24.2	27.2	26.8	7.8	22.9
Guatemala	20.9	14.2	9.5	39.7	31.3	19.2	31.1	20.7	3.1	32.6
Haiti	39.8	45.5	45.8	100.4	69.6	71.2	63.6	57.6	57.5	56.7
Honduras	24.7	24.4	35.2	36.3	32.5	31.7	43.5	35.0	26.6	31.8
Nicaragua	4.8	-13.4	107.9	117.2	124.7	135.4	178.8	235.6	271.6	214.5
Panama	25.6	31.9	11.2	0.6	4.2	-10.5	1.5	-5.0	-8.8	-6.5
Paraguay	27.2	40.9	49.1	67.9	61.3	54.4	37.6	20.8	46.6	34.2
Dominican Republic	38.1	31.7	54.0	26.4	40.0	35.3	16.3	16.8	10.5	25.7
Uruguay	14.5	30.4	46.9	27.5	15.9	5.0	10.8	9.5	-4.4	8.5

Source: ECLAC, on the basis of official figures.

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

^bPreliminary figures.

Table 25

**LATIN AMERICA: NET INFLOW OF CAPITAL AND
TRANSFER OF RESOURCES**

(Billions of dollars and percentages)

	Effective net inflow of capital ^a	Unregistered transactions ^b	Net inflow of capital (1+2)	2/1	Net payments of profits and interest	Transfer of resources		Exports of goods and services	6/8	7/8
						(1-5)	(3-5)			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1976	18.9	-1.0	17.9	-5.3	6.8	12.1	11.1	47.3	25.6	23.5
1977	15.5	1.7	17.2	11.0	8.2	7.3	9.0	55.8	13.1	16.1
1978	24.3	1.8	26.1	7.4	10.2	14.1	15.9	61.3	23.0	25.9
1979	26.9	2.2	29.1	8.2	13.6	13.3	15.5	82.0	16.2	18.9
1980	34.8	-5.1	29.7	-14.7	18.2	16.6	11.5	107.6	15.4	10.7
1981	48.6	-11.0	37.6	-22.6	27.2	21.4	10.4	116.1	18.4	9.0
1982	30.5	-10.1	20.4	-33.1	38.8	-8.3	-18.4	103.2	-8.0	-17.8
1983	6.2	-3.2	3.0	-51.6	34.4	-28.2	-31.4	102.4	-27.5	-30.7
1984	9.6	0.1	9.7	1.0	36.4	-26.8	-26.7	114.0	-23.5	-23.4
1985	5.7	-2.5	3.2	-43.9	35.1	-29.4	-31.9	108.7	-27.0	-29.3
1986	9.6	-0.5	9.1	-5.2	31.5	-21.9	-22.4	94.8	-23.1	-23.6
1987 ^c	10.1	0.1 ^d	10.2	1.0	30.1	-20.0(16.0) ^e	-19.9(15.9) ^e	107.2	-18.7	-18.6

Source: 1976-1986: ECLAC, on the basis of figures from the International Monetary Fund (IMF); 1987: ECLAC, on the basis of official figures.

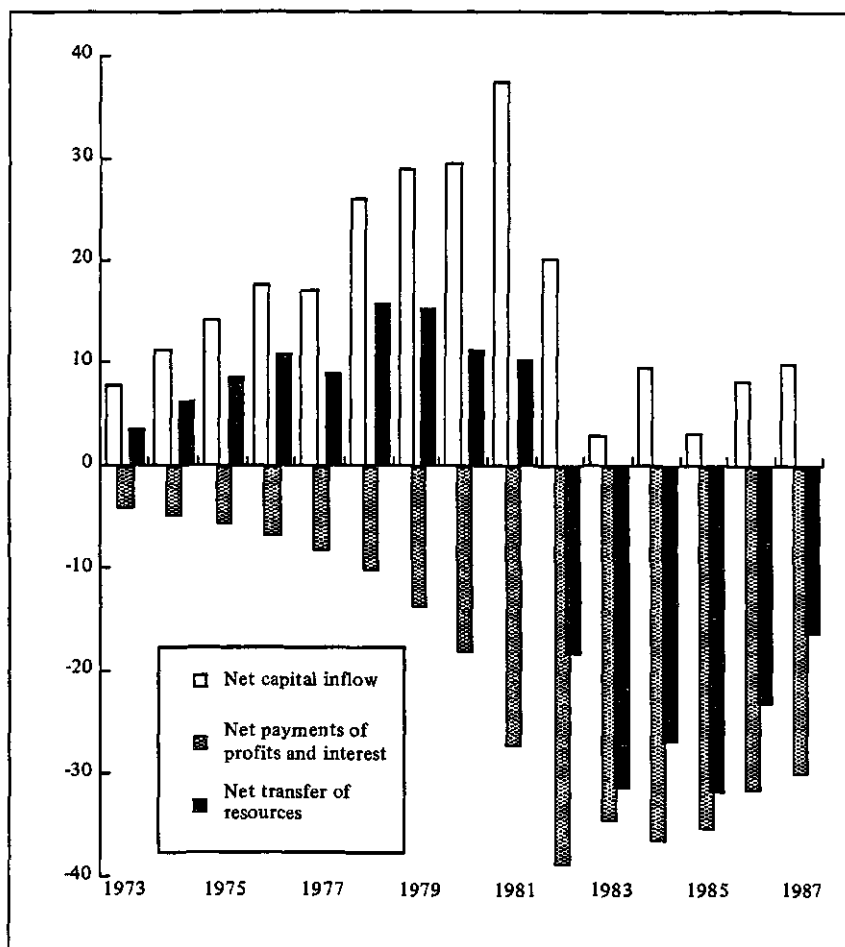
^aEquivalent to net inflow of capital minus unregistered transactions. ^bCorresponds to balance-of-payments item "errors and omissions". ^cPreliminary estimates. ^dDoes not include unregistered transactions of Argentina, Bolivia, Ecuador, Honduras or Peru. ^eDue to some countries' accounting treatment of the payments owing during their moratoriums, the sum actually transferred to the exterior was around US\$400 million less in 1987. Brazil's moratorium was particularly significant in this respect.

debt service and in part by the credit granted by public bilateral and multilateral lending agencies. The greater net capital inflows of some countries also reflected the repatriation of funds held by national residents abroad.

As a consequence of the expansion of net external financing and the simultaneous reduction in the current account deficit, a major turnaround occurred in the global balance of payments: after having closed with a deficit of US\$6.3 billion in 1986, it recorded a surplus of US\$400 million. Most of this change was attributable to the improvement in the balance-of-payments results of Mexico, which increased its international reserves by some US\$7 billion; and Venezuela, which reduced its balance-of-payments deficit from more than US\$4 billion to US\$1.9 billion. In contrast, in 1987 the balance of payments of Argentina and Peru worsened considerably for the second year running (see table 23).

Figure 12
**LATIN AMERICA AND THE CARIBBEAN: NET CAPITAL
 INFLOW AND TRANSFER OF RESOURCES^a**

(Billions of dollars)



Source: ECLAC, on the basis of data supplied by the International Monetary Fund (IMF).

^aOn account of the manner in which certain countries entered into their accounts the arrears accumulated during their moratoriums, only US\$16 billion, rather than US\$20 billion, were actually transferred abroad. See the section on the external debt in the text.

As a result of the increased capital inflow, together with the slight shrinkage in payments of interest and profits, the transfer of resources abroad fell to US\$20 billion, which was nearly 20% lower than in 1986 and equivalent to two thirds of the figure recorded, on average, in the 1983-1985 period (see table 25 and figure 12). However, the amount actually transferred in 1987 was US\$4 billion less than the above figure, since a number of countries, such as Brazil and the Dominican Republic, maintained partial moratoriums for much of the year but computed the interest in arrears as having been paid; they then recorded, as a counter-part entry, an equivalent reduction of their net reserves. This form of accounting shows a greater external transfer than the actual amount. Taking this into account, the amount actually transferred abroad was probably US\$16 billion. Even so, it means that an amount equivalent to between 2% and 3% of the region's product was indeed transferred abroad.

The cumulative net transfer of resources abroad between 1982 and 1987 was thus US\$150 billion (see table 26). Most of this transfer was made by the four largest economies in the region, which are also those with the greatest levels of indebtedness and foreign capital: Mexico (US\$58 billion), Brazil (US\$46 billion), Venezuela (US\$25 billion) and Argentina (US\$19 billion). During this period, a considerable transfer of funds abroad was also made by Chile (US\$4.3 billion), Ecuador (US\$2.4 billion) and Uruguay (US\$1.3 billion). In 1987 a marked increase occurred in the negative transfer made by Colombia (where it absorbed a very large proportion of exports). In the remaining countries of the region, the transfer of resources remained positive, although the figure was lower than had been customary prior to the crisis.

In the region as a whole, the transfer of resources abroad continued to absorb a considerable proportion (18%) of the value of exports of goods and services and thereby constituted a fundamental hurdle to the renewal of a process of sustained economic growth. Viewed from this angle, it is possible that the reduction in the transfer which occurred in 1987 —which in part reflected the effects of the moratoriums declared by some countries and the involuntary loans granted by banks, largely to keep other countries from taking the same step— may have marked a turning point in the debt crisis. The countries no longer seem willing to cut back their imports, and, hence to sacrifice their economic development, in order to service their debts; rather, they seem to be reversing these priorities, seeking to use their foreign exchange to attain a minimum of growth. The transfer of resources itself thus seems to have become a variable of adjustment for the countries and, if necessary, they may even have recourse to unilateral reductions of such transfers, as occurred more frequently in 1987. Many countries in the region seem to be reaching the conclusion that the price of strictly fulfilling debt-

Table 26

LATIN AMERICA: NET TRANSFER OF RESOURCES^a

	Net transfer of resources (millions of dollars)							Relation between the net transfer of resources and exports of goods and services (percentages)					
	1982	1983	1984	1985	1986	1987 ^b	1982-1987 ^b	1982	1983	1984	1985	1986	1987 ^b
Latin America^c	-18 739	-31 211	-26 703	-31 664	-22 917	-19 559 ^d	-150 793	-18.8	-30.6	-23.5	-29.4	-24.3	-18.3
Oil-exporting countries	-14 574	-19 519	-18 564	-17 781	-9 712	-5 598	-85 748	-28.4	-39.2	-34.1	-35.2	-25.4	-12.3
Bolivia	-181	-117	-59	-73	291	236	97	-19.9	-13.6	-7.2	-10.1	43.7	39.9
Ecuador	41	-600	-695	-980	-402	269	-2 367	1.5	-22.7	-24.0	-30.0	-15.5	11.0
Mexico	-9 594	-12 499	-12 062	-12 300	-6 108	-5 006	-57 569	-33.6	-46.0	-40.0	-44.5	-27.7	-18.2
Peru	634	-74	-538	-836	20	52	-742	15.6	-2.0	-14.1	-22.1	0.6	1.4
Venezuela	-5 474	-6 229	-5 210	-3 592	-3 513	-1 149	-25 167	-31.2	-39.4	-31.0	-24.0	-36.9	-10.2
Non-oil-exporting countries	-4 165	-11 692	-8 139	-13 883	-13 205	-13 961	-65 045	-8.6	-23.3	-13.7	-24.2	-23.6	-22.6
Argentina	-3 030	-5 421	-3 051	-3 384	-2 438	-1 750	-19 074	-33.0	-58.4	-31.8	-33.6	-28.9	22.4
Brazil	-2 376	-6 069	-6 129	-11 377	-9 593	10 726 ^d	-46 270	-10.9	-25.7	-21.2	-41.2	-39.4	-38.1
Colombia	1 231	5	-472	388	-715	-1 859	-1 422	27.8	0.1	-9.1	8.7	-11.3	-29.2
Costa Rica	26	44	-105	93	-	94	152	2.3	3.9	-8.2	7.6	-	6.4
Chile	-889	-1 105	191	-661	-1 004	-782	-4 250	-19.1	-23.9	4.3	-14.8	-20.0	-12.4
El Salvador	113	104	117	153	3	113	603	13.8	11.9	13.1	16.9	0.2	12.4
Guatemala	240	163	192	180	-60	109	824	18.8	13.9	15.6	16.6	-5.1	9.7
Haiti	212	213	164	103	133	194	1 019	78.6	73.9	51.4	30.6	45.5	61.7
Honduras	2-	55	204	143	89	133	626	0.3	6.9	23.8	15.6	8.7	13.6
Nicaragua	276	445	747	590	360	393	2 811	61.7	94.4	176.9	167.9	122.4	118.7
Paraguay	342	158	232	18	153	270	1 173	55.5	34.0	33.2	2.3	19.3	25.6
Dominican Republic	57	4	79	40	-42	-124 ^d	14	5.0	0.3	5.8	3.1	-3.0	-8.0
Uruguay	-369	-288	-308	-169	-91	-26	-1 251	-24.0	-20.4	-23.9	-13.5	-6.1	-1.7

Source: ECLAC, on the basis of figures from the International Monetary Fund (IMF).

^aThe net transfer of resources from abroad is equal to the net inflow of capital (official transfer payments, short- and long-term capital, and errors and omissions) minus net payments of interest and profits, which include both the interest actually paid and the interest due but not paid. ^bPreliminary figures. ^cDoes not include Panama.

^dDue to these countries' partial moratoriums and the way in which their governments entered the unmade payments into their accounts, the amount actually transferred abroad was US\$6.8 billion in the case of Brazil and virtually zero in that of the Dominican Republic. The total amount actually transferred by the region in 1987 was US\$15.5 billion.

servicing obligations and of seeking to achieve growth only after doing so with the remaining foreign exchange may be considerably higher than the cost of partially servicing the debt. Clearly, the consolidation of this approach could herald a change in the relative negotiating power of the region *vis-à-vis* the banks.

VI. THE EXTERNAL DEBT

1. Main trends

In 1987 the gradual growth of the region's external debt continued for the fourth year running. It has been estimated that the debt reached the figure of US\$413 billion by the end of the year. The 6.1% growth of the debt was consequently higher than in 1986 (see table 27). However, as the rate of inflation in the industrialized countries was approximately 3%, the debt actually grew by only slightly more than the 2% recorded the previous year. In practice, however, the debt grew by even less. This may be explained by the fact that the value of the dollar—in which the external debt is customarily measured—fell sharply against the currencies of other creditor countries. Of course, the relative size of the increase in the nominal figure for the debt produced by the devaluation of the United States dollar depended upon the currency composition of the external commitments of the countries of the region. One of the countries most affected by this change in 1987 was Brazil, whose debt rose by at least US\$3 billion on account of the increases in the values of the yen and of the main European currencies against the dollar.

As in the previous three years, the moderate expansion of the debt was a widespread phenomenon. The only countries in which it rose by an above-average rate were Bolivia, Ecuador, Paraguay and Uruguay, while in Chile, El Salvador, Panama and the Dominican Republic external indebtedness shrank slightly in absolute terms. However, with the exception of Chile, these reductions were partly if not entirely due to these three other countries falling into partial arrears and computing their arrears as a reduction in their medium- and long-term debt, while recording, as a counterpart entry, a drop in their net reserves. In Chile, the shrinkage was attributable to a programme of debt-equity conversions and to other operations involving debt notes, which retired US\$2.3 billion of debt with commercial banks between June 1985 and September 1987 and thus almost completely offset the effect of the fresh loans it obtained from multilateral agencies. Debt-equity conversions also considerably limited the growth of Mexico's debt, and it has been estimated that this mechanism allowed the country to reduce its external commitments by some US\$1 billion in 1987.

Table 27
LATIN AMERICA: TOTAL DISBURSED EXTERNAL DEBT^a

	End-of-year balances in millions of dollars						Annual growth rates				
	1982	1983	1984	1985	1986	1987 ^b	1979-1981	1982-1983	1984-1985	1986	1987 ^b
Latin America	329 341	352 183	369 848	376 667	389 336	413 053	23.3	11.0	3.4	3.4	6.1
Oil-exporting countries	143 201	152 626	156 589	156 406	158 873	167 185	25.5	9.5	1.2	1.6	5.2
Bolivia ^c	2 889	3 265	3 272	3 287	3 636	4 279	15.8	7.7	0.3	10.6	17.7
Ecuador	6 186	6 908	7 198	7 772	8 624	9 613	25.5	8.5	6.1	11.0	11.5
Mexico	87 600	93 800	96 700	97 800	100 500	105 600	30.8	12.0	2.1	2.8	5.1
Peru	11 465	12 445	13 358	13 721	14 477	15 441	1.0	14.0	5.0	5.5	6.7
Venezuela ^d	35 061	36 208	36 081	33 826	31 636	32 252	27.5	4.1	-3.3	-6.5	1.9
Non-oil-exporting countries	186 140	199 557	213 259	220 261	230 463	245 868	21.7	12.1	5.1	4.6	6.7
Argentina	43 634	45 069	46 903	48 312	51 400	54 700	42.1	12.8	3.5	6.4	6.4
Brazil	91 576 ^e	98 175 ^e	105 275 ^e	106 731 ^e	111 045	121 264	14.4	10.8	4.3	4.0	9.2
Colombia	10 269	11 458	12 350	14 063	14 987	15 651	28.0	16.1	10.8	6.6	4.4
Costa Rica	3 188	3 532	3 752	3 742	3 791	3 914	13.3	14.7	3.0	1.3	3.2
Chile	17 159	18 037	19 659	20 403	20 716	20 551	30.7	7.6	6.4	1.5	0.8
El Salvador	1 710	1 890	1 949	1 980	1 928	1 876 ^f	19.1	8.4	2.4	-2.6	-2.7 ^f
Guatemala	1 841	2 149	2 505	2 695	2 668	2 718	19.3	24.8	12.1	-1.0	1.9
Haiti ^c	410	551	607	600	697	741	21.1	22.3	4.5	16.2	6.3
Honduras	1 986	2 162	2 392	2 794	3 018	3 101	17.8	17.0	13.7	8.0	2.8
Nicaragua ^c	3 139	3 788	4 362	4 936	5 760	6 270	27.4	21.5	14.2	16.7	8.9
Panama ^c	2 820	3 392	3 644	3 642	3 835	3 731 ^f	7.5	20.6	3.7	5.3	-2.7 ^f
Paraguay	1 204	1 469	1 654	1 773	1 855	2 043	12.4	24.4	9.9	4.6	10.1
Dominican Republic	2 966	3 313	3 536	3 690	3 525	3 420 ^f	24.4	14.0	5.5	-4.5	-3.0 ^f
Uruguay	4 238	4 572	4 671	4 900	5 238	5 888	36.1	22.0	3.5	6.9	12.4

Source: ECLAC, on the basis of official figures.

^aIncludes the debt owed to the International Monetary Fund (IMF).

^bPreliminary figures.

^cPublic debt.

^dTotal debt according to official figures and

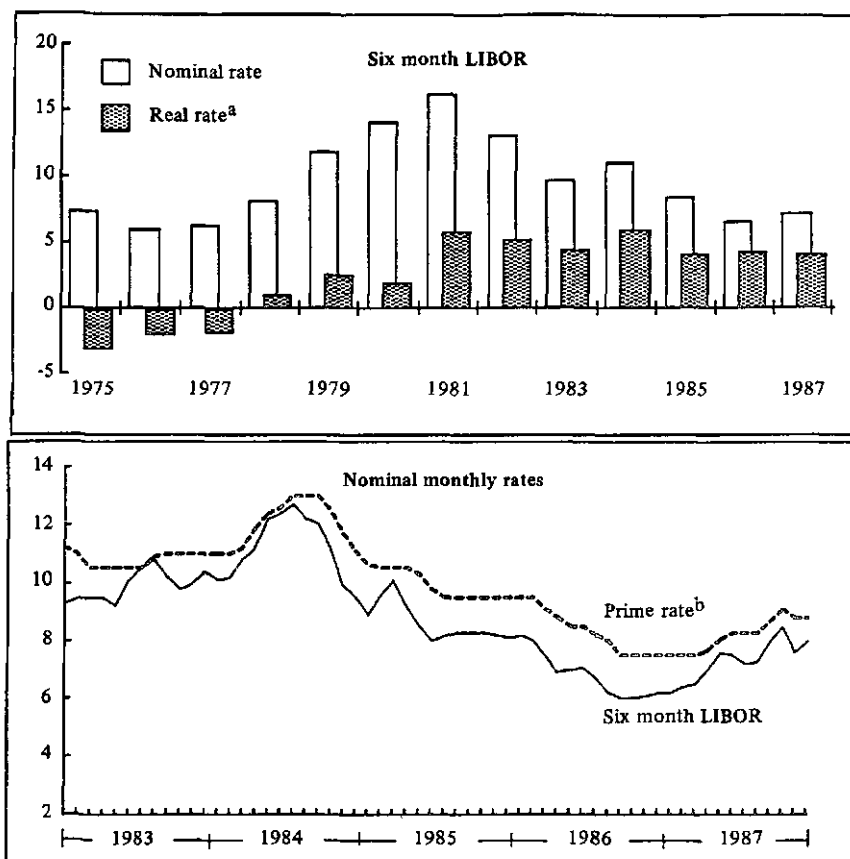
the data of international financial agencies.

^eTotal debt according to World Bank statistics.

^fPart, if not all, of the reduction in medium- and long-term

debt was due to the fact that the governments of countries which declared partial moratoriums chose to enter the corresponding arrears into their accounts as decrease in their medium- and long-term debt; as a counterbalancing entry, they registered a decrease in their net reserves.

Figure 13
INTERNATIONAL INTEREST RATES
 (Percentages)



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

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

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

Due to the slow growth of the debt, to the lower level of international interest rates between mid-1986 and mid-1987 and to the recovery in the value of the exports of Latin America, indicators of the external debt burden for the region as a whole improved over 1986 (see figure 13). They nevertheless remained at critical levels and in most of the countries of Latin America external debt servicing continued to constitute the main constraint as regards a resumption of economic growth.

As the growth rate of the value of exports was more than double that of the debt, the regional debt/exports coefficient fell from 410% in 1986 to 385% in 1987. The drop was considerably more pronounced in the case of the petroleum-exporting countries (from 421% to 367%) than in the remaining economies of the region (from 406% to 398%). However, the coefficients of both groups remained significantly higher than the already very high coefficients recorded in 1982-1985 and almost 50% higher than those recorded in 1981, prior to the onset of the debt crisis (see table 28).

Moreover, the fall in the debt/exports coefficient was not a generalized phenomenon. The fall in the overall coefficient for the petroleum-exporting countries was exclusively attributable to the sharp drop which occurred in Venezuela and, above all, in Mexico, while the coefficient

Table 28

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

(Percentages)

	1980	1981	1982	1983	1984	1985	1986	1987 ^a
Latin America	212	247	319	344	324	347	410	385
Oil-exporting countries	187	220	279	304	287	310	421	367
Bolivia ^b	227	281	317	381	400	457	545	723
Ecuador	162	202	231	261	249	236	333	394
Mexico	216	259	335	345	321	354	456	384
Peru	207	239	281	334	349	362	438	429
Venezuela	148	160	200	229	215	225	332	286
Non-oil-exporting countries	235	272	359	383	358	378	406	398
Argentina	275	329	475	485	488	480	609	701
Brazil	322	314	417	416	364	386	456	430
Colombia	128	199	232	303	239	314	236	246
Costa Rica	184	229	286	312	294	306	272	268
Chile	188	311	370	390	438	457	412	326
El Salvador	97	174	208	216	218	219	188	205
Guatemala	61	96	144	183	204	232	228	242
Haiti ^b	95	155	152	191	190	178	239	236
Honduras	147	180	259	270	279	304	296	315
Nicaragua ^b	369	464	702	804	1 034	1 466	1 959	1 894
Panama ^b	66	63	79	115	124	110	104	104
Paraguay	152	171	195	317	237	220	234	194
Dominican Republic	171	168	260	267	258	279	250	218
Uruguay	140	183	276	324	362	392	349	379

Source: ECLAC, on the basis of official figures and data from the International Monetary Fund (IMF).

^aPreliminary figures. ^bRelation between the external public debt and exports of goods and services.

continued to rise in Bolivia and, Ecuador mainly on account of the fall in exports. In turn, as far as the non-petroleum-exporting countries are concerned, the slight drop in the debt/exports coefficient mainly reflected the fall in Brazil, Costa Rica, Chile, Haiti, Paraguay and the Dominican Republic. In contrast, the coefficient rose in Uruguay as well as in the majority of the countries of Central America, and attained exceptionally high levels in Argentina (701%) and Nicaragua (1 894%).

In 1987 a significant improvement also occurred in the interest/exports ratio, which constitutes another principal indicator of the debt burden. For the region as a whole, the coefficient fell from 36% in 1986 to 30% in 1987 (see table 29). The decline was more pronounced in the petroleum-exporting countries (from 35% to 28%) than in the other economies in the region (34% to 32%). While these coefficients were the lowest recorded since the onset of the debt crisis, they were nonetheless almost double those recorded in 1978-1979. Moreover, the reversal in the downward trend of international interest rates which has been observed until the beginning of 1987 means that interest payments will probably increase in 1988, leading to a rise in the interest/exports coefficient (see figure 10).

Among the petroleum-exporting countries, the interest/exports coefficient declined sharply in Mexico (from 38% to 30%) and in Venezuela (from 33% to 25%). In the case of the non-petroleum-exporting countries, the most significant drops occurred in Chile (from 39% to 26%), Brazil (41% to 33%) and Nicaragua (84% to 73%). There were no major increases in this coefficient, although among those countries which actually paid the interest on their debt, the coefficient for Argentina (53%) remained well above the regional average.

2. Debt renegotiation

While Mexico's problems and negotiations with its creditors constituted the focal point of attention in respect of the external debt in 1986, Brazil has drawn the most attention so far in 1987. At the beginning of the year, Brazil's request to the Paris Club that it be allowed to renegotiate its debt without first entering into an agreement with the IMF over an adjustment programme was accepted. In January, the creditor governments agreed to ease the terms in respect of the reimbursement of US\$3.3 billion of payments in arrears, of which US\$2.5 billion corresponded to debt principal and US\$780 million to interest. These arrears had built up during 1985 and 1986 in respect of official bilateral debts amounting to US\$9 billion. The repayment periods of both this debt and the US\$840 million in payments due to be made during the first half of 1987 were extended. The new terms provided for a repayment period of eight years with five years grace.

However, the significance of the new agreement with the Paris Club lay more in the precedent it established than in any appreciable alleviation of debt servicing, since the official bilateral debt represents less than 10% of Brazil's US\$120 billion external commitments. The bulk of this debt —some US\$80 billion— is owed to private banks, and as of the second half of 1986, Brazil's capacity to service this debt began to weaken rapidly. The country's huge monthly trade surplus, which had been financing all interest payments, gradually shrank until it became a deficit in the last quarter of the year. In conjunction with the absence of fresh bank loans, this meant that interest payments were mainly made by drawing on international reserves. Thus, by February 1987 the Central Bank's cash reserves had probably fallen to US\$3.3 billion, an amount sufficient to meet just three months of import requirements.

Table 29

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

(Percentages)

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987 ^b
Latin America ^c	15.7	19.5	20.4	28.0	41.0	36.2	35.8	35.7	36.0	29.8
Oil-exporting countries	16.1	16.6	16.8	22.5	35.6	31.4	32.5	35.2	35.2	27.8
Bolivia	13.7	21.2	25.0	34.5	43.4	39.8	49.8	46.8	42.1	44.8
Ecuador	10.4	13.6	18.3	22.8	30.3	27.4	30.8	25.5	30.0	32.8
Mexico	24.0	24.5	23.3	29.0	47.3	37.5	39.0	37.0	38.1	29.5
Peru	21.2	15.5	18.4	24.1	25.1	30.0	33.2	28.3	25.9	21.9
Venezuela	7.2	6.9	8.1	12.7	21.0	21.6	20.1	26.1	32.6	25.3
Non-oil-exporting countries	15.5	22.3	23.9	33.8	46.8	41.0	39.1	38.7	36.5	31.5
Argentina	9.6	12.8	22.0	35.5	53.6	58.4	57.6	51.2	50.9	53.2
Brazil	24.5	31.4	34.1	40.4	57.1	43.5	39.6	40.3	41.3	33.1
Colombia	7.5	9.9	11.8	21.8	25.9	26.7	22.8	28.9	20.0	22.4
Costa Rica	9.9	12.8	18.0	28.0	36.1	33.0	26.7	24.9	21.5	15.6
Chile	16.9	16.5	19.3	38.8	49.5	38.9	48.0	43.5	38.6	26.3
El Salvador	5.3	5.7	5.9	7.9	11.9	12.3	12.3	11.1	12.4	13.4
Guatemala	3.7	3.2	5.3	7.5	7.8	8.7	12.4	14.7	17.3	15.4
Haiti	2.8	3.2	2.0	2.5	2.6	2.4	5.3	7.4	6.8	4.5
Honduras	8.2	8.6	10.6	14.4	22.4	16.4	15.8	15.8	15.2	16.5
Nicaragua	9.3	9.7	24.3	37.4	41.8	45.3	60.8	72.0	83.6	72.9
Paraguay	8.4	10.7	13.4	14.8	13.5	14.3	8.8	9.9	11.5	11.2
Dominican Republic	14.0	14.3	19.9	19.1	22.7	24.5	18.1	18.7	18.9	14.7
Uruguay	10.4	9.0	11.0	12.9	22.4	24.8	34.8	34.2	24.7	24.7

Source: ECLAC, on the basis of data from the International Monetary Fund (IMF); 1987: on the basis of the countries' figures.

^a"Interest" includes both the interest payments actually made and the interest due but not paid. "Services" do not include factor services. ^bPreliminary figures. ^cDoes not include Panama.

The outlook was further complicated by the increasing reluctance of private banks to grant new involuntary loans. Thus, Mexico had encountered enormous difficulty in persuading all its creditor banks to participate in a global loan of US\$7.7 billion which had been agreed upon in principle towards the middle of the previous year. In addition, the banks and the governments of their respective countries gave the impression that the innovative financial package arranged for Mexico in 1986—which for the first time had based financing on an economic growth target of 3%—had constituted a "special case", which other borrowers should not take as a precedent. These considerations, together with Brazil's position of dispensing with the IMF, indicated that it would be impossible to rapidly reach a rescheduling agreement with banks in order to stem the country's loss of international reserves. Consequently, at the end of February 1987 Brazil temporarily and unilaterally suspended the servicing of its medium- and long-term debt with private creditors.

The moratorium thus became the main bargaining tool used to overcome the growing inertia of the international banking system in the search for a means of easing the Third World's debt. Brazil attempted to use this means obtain a rescheduling agreement including sufficient fresh financing to support the country's growth targets and to avoid exhausting its international reserves. However, Brazil adopted a strategy which was more conciliatory than confrontational: the government categorically denied any desire to set up a debtors' cartel. Thus, rather than requesting a meeting of the Cartagena Consensus, Brazil expressed its desire to begin negotiations with private banks in order to reschedule its debts. Furthermore, save for a certain ambivalence in respect of the direct intervention of the IMF in its economy, the government's initial objectives fell within the conventional framework of the Baker Plan: a renegotiation covering several years, with a low spread together with fresh credit to refinance part of the burden of interest payments on the external debt. Towards the middle of 1987 the Brazilian government was considering the need to request fresh loans of approximately US\$6 billion, of which US\$4 billion would be provided by private banks.

Brazil's declaration of a moratorium, together with the previous unilateral suspension of payments by Ecuador in January on account of the slump in its income from petroleum, sparked off an interesting chain reaction. Its most immediate consequence was to put an end to the growing inertia observed in respect of debt negotiations. A number of Latin American countries had been endeavouring to obtain concessions from the banks similar to those envisaged in the package granted to Mexico in 1986. However, negotiations had been at a standstill as private banks steadfastly resisted any attempt to generalize the terms of that rescheduling. At least one of the main United States banks had publicly stated its opposition to granting any further concessions to debtors.

However, a turnaround occurred in this situation following the moratorium declared by Brazil. In an attempt to dampen the dissemination of any demonstration effect, banks gave up most of their objections to the requirements of Brazil's neighbours and signed new rescheduling agreements with a number of countries in Latin America and in other regions. This in turn contributed to a clearer definition of the fourth round of rescheduling, which had begun with the global financing granted to Mexico in 1986 (see table 30).

Table 30

LATIN AMERICA: RESCHEDULING OF EXTERNAL DEBT WITH PRIVATE BANKS^{a,b}

(Millions of dollars)

	Third round 1984/1985			Fourth round 1986/1987		
	Rescheduled maturities ^c		Fresh credit	Rescheduled maturities ^c		Fresh credit 1987
	Amount	Years	Amount	Amount	Years	Amount
Argentina	13 500	82-85	4 200	29 500	86-90	1 950
Brazil	15 500	85-86	-	...	87-...	...
Bolivia	-	-	-	...	82-...	...
Costa Rica	280	85-86	75	...	86-89	...
Cuba	82	85	-	...	86-87	...
Chile	5 700	85-87	714; 371 ^d	12 490	88-91	-
Ecuador	4 800	85-89	-	4 930 ^e	87-...	350
Honduras	220	85-86	-	...	85-...	...
Mexico	48 700	85-90	-	43 700 ^f	85-90	6 000 ^g ; 1 700 ^h
Panama	603	85-86	60	...	...	...
Dominican Republic	790	82-85	-	...	...	...
Uruguay	2 130	85-89	45 ⁱ	1 780	86-91	-
Venezuela	21 200	83-88	-	26 450	86-88	-

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

^a Although there have been four rounds of negotiations, some of the agreements reached during the second round—in which six countries took part—did not go into effect. For this reason, in some cases three, rather than four, rounds are mentioned.

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

^c In some cases includes maturities already rescheduled in earlier rounds.

^d The figures correspond to 1985 and 1986, respectively.

^e They include US\$150 million guaranteed by the World Bank as part of a cofinancing agreement.

^f The new funds were for liquidating arrears in interest payments stemming from a moratorium which began in January 1987. Following the announcement of a refinancing agreement, the government indicated that it would maintain the moratorium.

^g A preliminary agreement was also reached for the rescheduling of US\$11.2 billion in private-sector debt which had previously been refinanced using the FICORCA (exchange riskcoverage) mechanism.

^h The financial provisions in this case included US\$750 million guaranteed by the World Bank as part of a cofinancing agreement with international banks.

ⁱ Stand-by credit from private banks.

^j A voluntary loan, but one which formed part of a World Bank cofinancing plan.

Argentina's negotiations with banks had come to a standstill, due, among other things, to its government's insistence that it be granted a similar spread to that given to Mexico in addition to involuntary loans to sustain the projected rate of growth for 1987 (4%). Negotiations became tense in early 1987 when the government suggested that it might adopt Brazil's policy and suspend payments if the banks did not prove more flexible. The agreement finally reached in April was certainly similar in many respects to the Mexican package. The total balance of the medium- and long-term debt with international banks (US\$29.5 billion) was rescheduled and fresh funds of almost US\$2 billion (US\$500 million of which were linked to joint financing from the World Bank) were granted to support the government's projected rate of growth. The average spread of 0.81% over LIBOR was identical to that granted to Mexico, while the weighted amortization period for the package was 18 years. No fixed commission was charged either on the rescheduled payments or on the fresh funds. However, in order to avoid the delays which Mexico had experienced in obtaining the banks' acceptance of the global financing agreement, private creditors were offered a special commission of 3/8% in return for rapidly subscribing to the fresh involuntary loan. Overall, the terms of the agreement with Argentina were significantly softer than those agreed upon in the third round (see table 31).

There were a number of other interesting features in the Argentine agreement as well, most noteworthy of them being the creation of exit bonds for small banks, which had proved reluctant to grant fresh funds. These institutions were offered the alternative of purchasing Argentine government bonds, maturing after 25 years at an interest rate of 3%, i.e., below the market rate. This arrangement represented a major innovation in that it integrated a reality of the private credit market—the fact that the smaller banks desired to withdraw from rescheduling arrangements—and paved a smoother path for reaching a rescheduling agreement. Unfortunately, only a small number of financial institutions subscribed to this new financial instrument, thereby casting doubt upon the scope of such innovations.

Chile had also encountered difficulties in its negotiations concerning the retiming of interest payments. One of the main banks in the Committee resolutely opposed this means of financing Chile's economic programme, thereby paralyzing a definitive rescheduling agreement. However, a few days before Brazil declared its moratorium, the banks suddenly set aside this objection to the retiming clause in respect of interest payments, and in February an agreement in principle was reached.

The Chilean programme provided for the rescheduling of somewhat more than US\$12 billion of public and private sector payments due in 1989-1991. The average surcharge of 1% and the 15-year repayment

period represented an improvement over the 1.42% surcharge and 12-year period of the third round. As on that occasion, no fixed commission was charged on the rescheduled maturities. The Chilean agreement certainly constituted an innovation in that the financing was not to be provided by involuntary loans, but by a retiming of interest payments, which would be made on an annual rather than a half-yearly basis as from 1988. It was calculated at the time that this adjustment would make it possible to save some US\$450 million during that year. Partly as a result of the fact that the banks were not required to provide any fresh credit, the final agreement was signed extremely rapidly and all the creditor banks agreed to participate.

For its part, Venezuela had encountered strong opposition to its proposal to modify the agreement signed with banks in February 1986 (as part of the third round of negotiations). The aim of the proposal was to obtain treatment similar to that granted slightly earlier to Mexico. Opposition collapsed when Brazil declared its moratorium, and shortly afterwards it was announced that the agreement had been signed. Under

Table 31

LATIN AMERICA: TERMS OF RESCHEDULING OF EXTERNAL DEBTS WITH PRIVATE BANKS^{a,b}

	Third round 1984/1985			Fourth round 1986/1987		
	Spread over LIBOR (%)	Repayment period (years)	Commission ^c	Spread over LIBOR (%)	Repayment period (years)	Commission ^c
Argentina	1.44	11.5	0.15	0.81	17.6	-
Brazil	1.13	12.0	-	...	...	...
Costa Rica	1.66	9.4	1.00	...	...	...
Cuba	1.50	10.0	0.38	...	...	...
Chile	1.42	12.0	0.08	0.81 ^d	15.0	-
Ecuador ^e	1.38	12.0	-	0.95	18.0	-
Honduras	1.58	11.0	0.88	...	...	...
Mexico	1.13	14.0	-	0.81	19.0	-
Panama	1.40	11.7	0.05	...	...	...
Dominican Republic	1.38	13.0	-	...	...	...
Uruguay	1.38	12.0	-	0.88	17.0	-
Venezuela	1.13	12.5	-	0.88	14.0	-

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

^a Although there have been four rounds of negotiations, some of the agreements reached during the second round—in which six countries took part—did not go into effect. For this reason, in some cases three, rather than four, rounds are mentioned. ^b Each column represents the terms agreed upon with the banks for the rescheduled maturities and/or new credits. When the country negotiated both the rescheduling of maturities and the granting of fresh funds, the figure represents a weighted average of the two. ^c Calculated as a percentage of the total amount of the transaction and paid once only when the loan contracts were signed. ^d Represents a revision of the terms agreed upon in June 1986. ^e The agreement corresponding to the fourth round has not been concluded.

the terms of this agreement, the spread on the maturities rescheduled in 1986 was brought down from 1.13% to 0.88% over LIBOR. The amortization period was extended from 12 to 14 years, and payments of approximately US\$6 billion due in 1987-1989 were postponed; thus, in 1987, Venezuela's amortization payments amounted to only US\$250 million as against the US\$1 billion provided for in the 1986 agreement.

The banking community's strategy designed to cope with the situation raised by the Brazilian moratorium through the negotiation of a series of new rescheduling agreements with other debtor countries was foreseeable. It represented a form of "damage control" adopted to mitigate the demonstration effects of the Brazilian policy. It also helped to partially isolate the Brazilian economic authorities, who were facing major difficulties arising out of domestic problems associated with the management of the Plan Cruzado.

Less predictable, however, was the approach taken by the banks in dealing with the Brazilian moratorium itself. In the rounds leading up to and even including the 1986 Mexican financial agreement was less predictable. The more obdurate stance adopted by a major debtor had frequently shaken up the international banking system and given rise to new initiatives (often of a multilateral nature) to prevent debtors from failing to make their payments. On this occasion, however, the banks adopted a less passive approach. Rather than endeavouring to keep the conflictive debtor up to date in its interest payments through a refinancing agreement involving fresh loans, the main United States banks rapidly took steps to reclassify the Brazilian credit as non-performing, although 90 days were still left before such a step—which lessens their earnings— would go into legal effect. This represented a dramatic decision on the part of creditors, as Brazil—the region's largest debtor—accounts for no less than one-fifth of the annual earnings of a number of major United States banks. The banks' new attitude was reinforced in May, when the largest United States bank decided to increase its reserves by US\$3 billion, i.e., 150%, in order to cover possible losses on its loans. Other United States banks followed suit, and increased their reserves in order to cover possible losses on their Latin American loan portfolios as well.

By this means the banks endeavoured to increase their bargaining power, as this allowed them to wait until better conditions for a rescheduling emerged. This gave them a significant potential advantage, particularly when no domestic consensus existed within the debtor country as to the desirability of declaring a moratorium. Under such circumstances, the irregular payment of commitments to the international financial market could exert growing domestic pressure on the authorities of the debtor country to reach an agreement with their creditors. Thus, the trend within the international banking system to increase reserves posed

the threat that debtors might be confronted with a less flexible negotiating environment and encounter further difficulties in negotiating fresh involuntary bank loans. Furthermore, the downward trend of spreads over LIBOR might come to an end and banks might be better able to pressure debtor countries into complying with the conditions laid down by the IMF and the World Bank. The more rapid constitution of reserves to cover possible losses also increased the banks' capacity to withstand pressure from their own governments to meet the requirements set out in the Baker Plan.

For a time, the subsequent evolution of the negotiations bore out these hypotheses. Brazil thus continued to be in an irregular position in respect of its payments to the banks for a considerable period of time without any new initiatives being taken by private creditors, which insisted, as a precondition for a debt renegotiation agreement, that the country should sign an agreement with the IMF and make a nominal payment of US\$400 million in arrears of interest as a demonstration of good faith. In the meantime, the Brazilian position rapidly evolved towards more innovative proposals regarding the management of the debt problem. As early as July, the government submitted a new estimate of its financial requirements from the banks of approximately US\$7 billion over the next 18 months. In addition, it expressed interest in taking advantage both of the discount at which Brazilian notes were being traded in secondary market and of the setting of a 0% spread over the interest rate applicable to the debt owed to commercial banks. Then, in August, it was announced that Brazil, in order to dispel the uncertainty created by the multiple rescheduling, was interested in converting approximately half of its medium-term bank debt into bonds, which would permit the country to obtain part of the above-mentioned discount. This latter idea was put into effect in September, when the Brazilian authorities submitted a formal proposal to their creditors which included a proposition for the conversion of a part of the debt into long-term bonds.

However, the Brazilian proposal was not well received in financial circles. Even though it was willing to reformulate its proposal, Brazil faced the prospect of an extended moratorium, in part due to the insistence of the banks that any agreement should be preceded by an IMF agreement. The stalemate was finally broken in November by two factors. Firstly, the moratorium had been in force for more than six months, which led to expectations that the United States monetary authorities, in conformity with the prevailing banking regulations, would have to declare the Brazilian loans to be in a state of "reduced value"; this meant that the banks would have had to constitute specific reserves against risk of losses, equivalent to 10% of their Brazilian loan portfolio. Secondly, the meeting of the United States banking authorities to deter-

mine the value of the Brazilian debt had been scheduled for 20 October, that is to say, one day after "black Monday", when the collapse of the United States stock exchange occurred. The need to avoid further bad news and to stabilize markets led to the direct intervention by the United States government aimed at securing an agreement between Brazil and the banks. This official effort bore fruit, since in early November an interim agreement between the two parties was announced. In fact, the main creditor banks of Brazil agreed to grant a short-term credit of US\$3 billion as their contribution to a fund of US\$4.5 billion set up for the purpose of liquidating a part of the arrears in interest payments accumulated during 1987. The other US\$1.5 billion would come from Brazil's international reserves. The banks' credit—which was linked to a more definitive future rescheduling agreement that remained to be negotiated—carried a 0.875% spread over the LIBOR rate and a commission of 0.25%. This loan was not tied to a prior agreement with the IMF.

Also in November, Uruguay secured a new rescheduling of US\$1.8 billion. The agreement covered payments due between 1986 and 1991. The 0.88% spread was considerably lower than the 1.38% provided for in the third round, and the total amortization period of 17 years was five years longer than that agreed upon in the preceding round. No commissions were established, as had also been the case in the third round of debt renegotiations (see tables 30 and 31).

A few days before the announcement of the Uruguayan rescheduling, a new rescheduling agreement was announced in Ecuador. The plan provided for a rescheduling of payments due totalling US\$5 billion, together with a new involuntary loan of US\$350 million, to be used exclusively for liquidating the arrears in interest payments that had accumulated since the start of the Ecuadorian moratorium in January 1987. However, the application of the agreement was called into question when, in December, the authorities of the country declared their intention to extend the moratorium in respect of their obligations to the banks.

Costa Rica, too, succeeded in establishing a significant precedent as regards debt renegotiations. Since 1982 it had been customary to insist upon a direct link between IMF adjustment programmes and the reprogramming of bank debts. However, the country signed a stand-by credit arrangement with the Fund for the amount of US\$65 million which did not provide for the hitherto customary requirement that the debtor country should conclude a prior agreement with the private banks concerning outstanding interest payments. Thus, in practice, the adjustment programme agreed upon with the IMF was "de-linked" from the issue of the private banks' portfolio.

For its part, Peru—a country which since July 1985 had been operating outside of the conventional framework for the management of

debt servicing problems— managed to extend the application of the novel principle of repaying the debt in kind to include the international private banks. Thus, during the last quarter of 1987, the country signed an agreement with the Midland Bank and the First Interstate Bank to repay US\$14 million in debt with Peruvian exports. Under this plan, the banks were required to purchase, in foreign currency, additional Peruvian products for each dollar repaid in kind; the corresponding ratio for the Midland Bank was set at 2.5 and that for First Interstate at 3. During the last quarter Peru also announced its intention to present a new payment plan to the creditor banks under which it would offer to convert its debt into long-term bonds. These new financial instruments would not carry interest and would be amortized over a period of 25 years and in kind.

Another significant development in 1987 was the marked drop in the prices at which Latin American debt notes were traded in the secondary market. As early as in October, the notes of the majority of debtor countries were being traded at 50% or less of their nominal value. This drop was partly due to the greater supply resulting from the decision of the main United States banks to increase their loan risk reserves. This increase in reserves placed the banking institutions in a better position to adjust their portfolios through the sale of their loans or through their conversion into direct investments in the debtor country.

As regards this latter phenomenon, in 1987 a large number of countries set up programmes to facilitate the conversion of debt into investments. During the year, for example, Argentina, Brazil, Honduras, Jamaica and Venezuela introduced new plans. For its part, Mexico resumed a programme which it had suspended while awaiting signature by the banks of the new package of loans agreed upon in 1986. Chile, a pioneer in such schemes, also established a new mutual fund which would give the banks indirect access to the local stock market. This formula was to be incorporated into its existing legislation, which permitted banks to capitalize their promissory notes directly. Buy-back and capitalization programmes also existed in Costa Rica and Ecuador, although towards the end of the year the latter country suspended conversions owing to the doubts that had arisen regarding the benefits to be derived from certain transactions. Meanwhile, Bolivia set up a special fund to receive foreign donations to finance the repurchase of its external debt notes, which by the end of the year were being traded at only 8% of their nominal value.



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