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Part Two

ECONOMIC TRENDS BY COUNTRY

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ARGENTINA ^{1/}

1. Recent economic trends

Argentina's gross domestic product grew by 4.8 per cent in 1970. This brought the annual growth rate for the period 1966-1970 to about 4 per cent, which was higher than in the previous five-year period. This is the fourth consecutive year in which there have been increments in the product, with no recurrence of the periodic recessions that used to occur, mainly as a result of balance-of-payments disequilibria and of stabilization policies based on the curtailment of demand. Inflation gathered momentum, however, and the cost of living rose by 21.7 per cent between December 1969 and December 1970.

As regards the external sector, exports of goods amounted to 1,790 million dollars at current prices and imports of goods to 1,483 million, which represents increases of 11 per cent and 8.2 per cent over the previous year. Taking into account the unfavourable balance reflected by debt servicing and profit and interest payments, there was a deficit of 160 million dollars on current account; but the balance of payments showed a surplus of 114 million dollars as a result of the greater inflow of non-compensatory capital.

In the public sector, the deficit in the national budget amounted to 7 per cent of government expenditure, which, although higher than in 1969 (6.6 per cent), was still within reasonable limits.

The monetary restrictions imposed resulted in a drop in the liquidity coefficients. The average annual real wages of unskilled workers - unmarried workers, and workers with a standard-size family - rose by 4.4 and 2.4 per cent over the average for the previous year; but if the period from December 1969 to December 1970 is considered instead of the average, there were decreases of 5.7 and 6.6 per cent, respectively. Lastly, three different draft development plans were presented during the year by the National Development Council (CONADE) owing to changes in its leadership.

^{1/} The values in the text and the tables are expressed in pesos "moneda nacional" (\$m/n). They are converted to Act 18188 pesos (\$) at the rate of 100 \$m/n to the peso.

2. Total supply and demand

(a) Total supply

The growth rate of the gross domestic product in 1970 was 4.8 per cent, which is equal to a per capita increase of 3.3 per cent (see tables 1 and 2). The former is slightly higher than the average rates recorded in the period 1965-1968, but lower than that attained in 1969.

A sectoral analysis shows that manufacturing grew by 6 per cent. There were rapid increases mainly in the chemical, metal, and electrical machinery and equipment industries; but only the chemical and electrical machinery and equipment industries showed higher growth rates than in 1969 (see table 3). In the chemical industry, this was due to an acceleration of import substitution, and in the electrical machinery and equipment industry to the increase in demand resulting from the plans to expand public energy and telecommunications facilities. In contrast, smaller increases were observable in food, beverages and tobacco, textiles and made-up textile goods, and leather products. If individual products are considered, the production of pig iron rose by 40 per cent owing to more intensive import substitution; while the manufacture of motor vehicles, which had reached the figure of 218,500 units in 1969, increased by only 2 per cent.

Agriculture grew by 1.6 per cent, with crop and stock farming following sharply diverging trends, since the former rose by 6.9 per cent and the latter declined by 3.9 per cent. The forestry, hunting and fishing product increased by 3 per cent.

The results obtained in agriculture mainly reflect the bumper wheat and maize crops, which were 22.3 and 36.4 per cent larger than in the previous crop year (see table 4). In stock farming, on the other hand, cattle-breeding declined by 4.5 per cent, owing to a 7.2 per cent drop in slaughtering compared with the previous year, when it amounted to 12.8 million head. There was also a decrease in the value added in respect of sheep (down by 3.6 per cent), goats and horses (down by 2.6 per cent), and milk production declined by 11 per cent (see table 5). Increases were recorded in wool (2 per cent), pigs (3.1 per cent) and home-farm activities (3.4 per cent).

Table 1

ARGENTINA: TOTAL SUPPLY AND DEMAND, 1965 AND 1968-1970

	Thousands of millions of pesos				Percentage share			Annual growth rates			
	1965	1968	1969	1970	1965	1968	1969	1970	1965-68	1969	1970
Total supply	1 268.2	1 353.4	1 463.7	1 527.1	110.1	109.5	111.1	110.6	2.2	8.1	4.3
Gross domestic product	1 152.5	1 236.1	1 317.7	1 381.1	100.0	100.0	100.0	100.0	2.4	6.6	4.8
Imports a/	116.4	117.3	146.0	146.0	10.1	9.5	11.1	10.6	0.3	24.5	-
Total demand	1 269.0	1 353.4	1 463.6	1 527.1	110.1	109.5	111.1	110.6	2.2	8.1	4.3
Exports a/	134.2	136.6	159.6	171.7	11.6	11.0	12.1	12.4	0.6	16.8	7.6
Total investment	228.0	249.2	293.1	311.3	19.8	20.2	22.2	22.5	3.0	17.6	6.2
Gross fixed investment	201.6	248.8	293.0	308.7	17.5	20.2	22.2	22.4	7.3	17.8	5.4
Public	...	...	...	...	...	...	...	...	...	...	...
Private	...	...	...	...	...	...	...	...	...	...	...
Construction	85.4	114.1	132.1	147.3	7.4	9.2	10.0	10.7	10.1	15.8	11.5
Public	28.6	42.5	53.8	62.1	2.5	3.4	4.1	4.5	14.1	26.6	15.4
Private	56.8	71.6	78.3	85.2	4.9	5.8	5.9	6.2	8.0	9.4	8.8
Machinery and equipment	116.2	134.7	160.9	161.4	10.1	10.9	12.2	11.7	5.0	19.4	0.3
Total consumption	206.8	267.6	1 010.2	1 044.1	78.7	78.3	76.7	75.7	2.2	4.5	3.3
General government	87.4	94.7	95.3	95.8	7.6	7.7	7.2	7.0	2.7	0.6	0.5
Private	819.4	872.9	915.6	948.3	71.1	70.6	69.5	68.7	2.1	4.9	3.6

Source: For 1965-69, Banco Central de la República Argentina; for 1970, preliminary report of the Ministry of Economic Affairs and Labour.

a/ Goods and services, excluding factor payments.

Table 2
ARGENTINA: GROSS DOMESTIC PRODUCT, BY SECTOR OF ECONOMIC ACTIVITY

Sector	Thousands of millions of pesos (\$m/n) at 1960 prices				Percentage share			Annual growth rates	
	1965	1968	1969	1970	1965	1968	1969	1965-1968	1969
Agriculture	183.5	177.0	184.8	187.7	17.3	15.6	15.3	0.1	4.4
Mining	14.9	19.9	21.0	23.1	1.4	1.7	1.7	10.1	5.5
Manufacturing	368.7	398.1	426.8	452.2	34.9	35.1	35.3	2.6	7.2
Construction	35.4	50.4	57.6	65.6	3.4	4.4	4.8	12.5	14.3
Subtotal goods	602.5	645.4	690.2	728.6	57.0	56.2	57.1	2.3	6.2
Electricity, gas and water	19.4	24.2	26.4	29.1	1.8	2.1	2.2	7.6	9.1
Transport and communications	78.6	83.8	88.7	93.1	7.4	7.4	7.3	2.2	5.8
Subtotal basic services	98.0	108.0	115.1	122.2	9.2	9.5	9.5	3.3	6.2
Commerce and finance	197.1	209.2	228.7	236.9	18.6	18.4	18.9	2.0	9.3
Government	69.8	72.1	72.6	73.1	6.6	6.4	6.0	1.1	0.7
Ownership of dwellings	19.3	21.4	...	...	1.8	1.9	...	3.5	...
Miscellaneous services	71.3	78.2	81.1	84.1	6.7	6.9	6.7	3.1	3.7
Subtotal other services	357.5	380.2	404.4	416.7	33.7	33.6	33.4	2.1	6.2
Total product	1 058.1	1 134.5	1 209.6	1 267.5	100.0	100.0	100.0	2.3	6.6

Source: For 1965-1969, Banco Central de la República Argentina; for 1970, preliminary report of the Ministry of Economic Affairs and Labour.

Table 3
ARGENTINA: GROSS MANUFACTURING PRODUCT
(Percentage variations)

	1969	1970
<u>Manufacturing</u>	<u>7.2</u>	<u>6.0</u>
Food, beverages and tobacco	5.7	3.7
Textiles, made-up goods and leather products	2.3	0.2
Chemicals	10.9	13.3
Stones, clay, glass and pottery	5.6	5.1
Metal-transforming, excluding machinery	16.6	11.3
Manufacture of motor vehicles	9.6	2.2
Machinery, excluding electrical machinery	6.5	1.6
Electrical machinery and equipment	6.6	23.5
Other	5.0	4.3

Source: Provisional estimates of the Banco Central de la República Argentina.

/Table 4

Table 4

ARGENTINA: TRENDS IN PRINCIPAL AGRICULTURAL COMMODITIES,
1964/65 TO 1969/70
(Thousands of tons)

Commodity	1964/65	1967/68	1968/69	1969/70
Wheat	11 260.0	7 320.0	5 740.0	7 020.0
Maize	5 140.0	6 560.0	6 860.0	9 360.0
Linseed	815.0	385.0	570.0	640.0
Oats	804.5	690.0	490.0	425.0
Rice	267.6	282.9	345.0	407.0
Alfalfa	5 508.0	5 404.0	6 165.0	5 622.8
Sorghum	857.0	1 897.0	2 484.0	3 820.0
Sunflower seed	757.0	940.0	876.0	1 140.0
Sugar-cane	13 100.0	9 500.0	9 800.0	9 555.0
Cotton	457.0	230.0	304.0	444.0
Tobacco	52.5	62.0	52.0	71.0
Wine grapes	2 236.5	2 455.8	2 013.8	2 607.3

Source: Ministry of Agriculture and Livestock.

/Table 5

Table 5

ARGENTINA: CATTLE, SHEEP AND PIGS SLAUGHTERED, 1965 AND 1968-1970

(Tons carcass weight)

	1965	1968	1969	1970 ^{a/}
<hr/>				
Cattle				
For export	502 181	574 000	760 000	688 842
For consumption	1 492 915	1 971 800	2 075 000	2 027 800
<u>Total</u>	<u>1 995 096</u>	<u>2 545 800</u>	<u>2 835 000</u>	<u>2 716 642</u>
<hr/>				
Sheep and pigs				
For export	44 271	66 305	63 575	62 396
For consumption	331 231	66 305	319 881	325 200
<u>Total</u>	<u>375 502</u>	<u>400 610</u>	<u>383 456</u>	<u>387 596</u>

Source: National Meat Board.^{a/} Provisional estimates.

The mining and quarrying product increased by 10 per cent; in particular, liquid fuels rose by 9.2 per cent, and solid fuels, stone, clay and sand quarrying, and metalliferous ores also followed a favourable trend.

Construction grew by about 14 per cent, as a result of the increase in housing construction in the private sector, and of water, electric power and road projects in the public sector.

Basic services rose by 6.2 per cent and "other services" by 3 per cent; the fastest growth (10.3 per cent) was recorded by electricity, gas and water (see table 2).

Imports of goods amounted to 1,483 million dollars at current prices, an increase of 8.2 per cent over the previous year; in real terms, however, they remained at the same level as in 1969.

(b) Total demand

The rate of growth of total demand gradually declined in 1970. The deceleration mechanism which was originally linked to economic policy decisions, based on the prevailing social and institutional climate and the decline in exports, was decisively influenced, towards the end of the period, by the contraction in the supply of livestock. The key value of this variable, in terms of its impact on current business, is fully substantiated by the fact that it was responsible for eliminating consumption and exports as dynamic factors of development, just when it was most important for them to expand.^{2/}

Thus, the main spur to the growth of total demand came from investment in construction, which rose by 11.5 per cent (the increase had been 15.8 per cent in 1969). This rate is the outcome of an increase of 15.4 per cent in the public sector and 8.8 per cent in the private sector. Meanwhile, investment in equipment was only 0.3 per cent higher than in 1969; this low rate is mainly attributable to the 5.9 per cent drop in purchases of transport equipment, which was barely offset by the increase of 3.7 per cent in expenditure on machinery, repairs, etc.

^{2/} Ministerio de Economía y Trabajo, Anticipo del Informe Económico, 1970 and fourth quarter, p. 4.

Consumption grew by 3.3 per cent, which reflects a rise of 0.5 per cent in the public sector and 3.6 per cent in the private sector. Private consumption expanded in the first half of the year and contracted in the second half, mainly owing to the decline in the real value of wages in the last quarter; the biggest drop was in the durable goods sector.

Exports of goods amounted to 1,790 million dollars at current prices, i.e., 11 per cent more than in 1969; calculated in pesos (\$m/n) at 1960 prices, the increase was 7.6 per cent.

3. The public sector

The Treasury recorded a deficit of 59,300 million pesos (compared with 47,200 million in 1969), which amounted to 7 per cent of total government expenditure (see table 6). Current income increased by nearly 19 per cent, mainly as a result of the taxes which came into operation during the year. These taxes were levied on the motor-vehicle inventory and unwarranted increases in net worth, which brought in 23,400 and 57,000 million pesos, respectively. Current expenditure rose by a little over 16 per cent, and capital expenditure by 13.4 per cent.

When it came to covering the deficit, the situation with regard to Treasury bills was somewhat different from the year before, since 10,000 million pesos worth had to be sold, compared with 4,000 million in 1969. This made it necessary to draw much more heavily on credit from the Central Bank and the Consolidated Government Accounts Fund (Fondo Unificado de Cuentas Oficiales) (see table 6). On the other hand, it was possible to reduce the treasury transfers to public enterprises by 5.6 per cent, owing to their growing ability to finance their own activities.

Table 6

ARGENTINA: MOVEMENT OF TREASURY FUNDS, 1968-1970

(Thousands of millions of pesos (\$m/n))

Item	1968	1969	1970
<u>I. Income</u>	575.8	657.8	764.0
Current income	505.2	572.0	680.2
Taxes:	431.3	498.2	605.9
Profit tax	83.4	99.3	114.3
Sales tax	80.1	93.0	97.8
Consolidated income tax	52.8	59.5	64.3
Import-export taxes	118.1	138.2	142.4
Other taxes	97.0	108.0	186.9
Other current income	73.9	73.8	74.3
Capital income	70.6	85.8	83.8
<u>II. Expenditure</u>	634.2	705.8	814.8
Current expenditure	444.7	506.0	588.3
Wages, salaries and social security payments	222.4	270.0	315.3
Goods and services	58.5	60.3	57.1
Other current expenditure	163.8	175.7	215.9
Capital expenditure	189.5	199.8	226.5
Real investment	33.8	43.3	54.2
Financial investment	55.9	65.5	70.9
Amortization of public debt	42.1	42.7	46.4
Transfer payments	57.7	48.2	54.9
<u>III. Other income - other expenditure</u>	8.6	0.8	-8.5
<u>IV. Deficit</u>	49.8	47.2	59.3
<u>V. Financing</u>	49.8	47.2	59.3
Central Bank	34.7	33.8	50.2
Consolidated official account fund	-0.3	7.9	16.1
Other financing	15.4	5.5	-7.0

Source: Ministry of Economic Affairs and Labour, Informe Económico.

4. The monetary position

The monetary policy was more restrictive in 1970 than in 1969. Although the means of payment of private persons increased by 17 per cent, compared with 10.7 per cent in 1969, the rise in prices was considerably greater. Considering that there was a real increase of 5 per cent in the product and of more than 20 per cent in prices, there must have been a 26 per cent increase in demand for money. In other words, there was a 7 per cent drop in liquidity, in terms of the ratio of the means of payment in the hands of private persons to the gross domestic product (see table 7). Heavy restrictions were imposed on credit to the private sector, which increased by only 15 per cent; this was not only lower than in 1969 (26 per cent), but also less than the rise in prices. To improve the situation, it was decided that the banks' minimum cash holdings should be reduced by 1.5 per cent in the last few months, and an attempt was made to facilitate foreign exchange operations in order to increase the volume of external loans, which were channelled mainly to large-scale enterprises.

5. Income, employment and prices

The 7 per cent wage increase which had been approved the year before came into effect in March 1970, and a further increase of 7 per cent, with a minimum rise of 2,500 pesos, on 1 September 1970. With these adjustments, the real average wage for the whole year is estimated to have risen, compared with the average for 1969, by 4.4 per cent for unmarried workers and 2.4 per cent for workers with standard-size families; but the trend in the last three months brought the real wage down by 5.7 and 6.6 per cent, respectively, for the two categories considered, over the period from 31 December 1969 to 31 December 1970 (see table 8). To remedy this situation, it was decided that the minimum wage should be raised to 33,000 pesos as from 1 January 1971, that the differential according to area (quita zonal) should be reduced, and that there should be an over-all wage increase of 6 per cent. Meetings of joint committees of workers and employers were convened as from 1 February 1971 to draw up new collective work contracts; these committees had not met since the beginning of 1966.

Table 7
ARGENTINA: MONEY SUPPLY, 1965 AND 1968-1970

	End-year balances (thousands of millions of pesos (\$m/n))			Annual growth rates		
	1968	1969	1970	1968	1969	1970
Private money supply	1 105.0	1 223.1	1 430.0	26.8	10.7	17.0
Slow-moving deposits	575.4	680.1	830.0	35.1	18.2	22.0
Loans to the private sector	1 179.5	1 488.8	1 711.0	44.2	26.2	15.2

Source: Banco Central de la República Argentina.

/It was

It was stipulated by law that - as a general rule - the increases resulting from collective contracts should be in line with over-all policy, which provides for a 10 per cent increase in prices between December 1970 and December 1971.^{3/} Accordingly, firms were not permitted to pass on to the consumer, through higher prices, more than a 10 per cent increase in their wage costs, which would be offset by the productivity increase envisaged. As regards pensions, the minimum payable was increased, and smaller adjustments were made up the scale as the size of the pensions increased.

There was a general rise in unemployment between October 1969 and October 1970. According to provisional estimates, it increased from 4 to 5 per cent in Greater Buenos Aires, from 3.2 to 4.9 per cent in Córdoba, and from 2.8 to 3.3 per cent in Mendoza. On the other hand, it dropped from 5.5 to 5.1 per cent in Rosario and from 11.4 to 10.6 per cent in Tucumán; in both cases, however, the rate was relatively high, as it was also in Comodoro Rivadavia (7 per cent), Posadas (6.8 per cent) and La Plata (5.7 per cent) in October 1970.

The cost of living soared in 1970, and by the end of December it was 21.7 per cent higher than on 31 December 1969; wholesale prices went up by 26.5 per cent. The previous year, they had risen by 6.7 and 7.3 per cent, respectively (see table 8). Taking the annual average rates, the increases were between 13 and 14 per cent. An important factor in these increases was the rise in meat prices, which in the case of some cuts was over 100 per cent between December 1969 and December 1970. In contrast, clothing, general expenses and household expenditure went up by 9.4, 12.6 and 7.1 per cent, respectively, reflecting the moderate rise in the prices of industrial goods and some services. Annual average wholesale prices increased by 14.1 per cent. In particular, non-agricultural goods - except for food and beverages - went up by 5 per cent; and construction costs rose by 11.7 per cent. Thus, there was a sharp change in relative prices,

^{3/} This estimate may be adjusted since the cost-of-living increase in January 1971 was already 5.5 per cent.

Table 8
ARGENTINA: EVOLUTION OF PRICES AND COSTS, 1968-1970
(Percentage annual variation)

	Annual averages			December		
	1968	1969	1970	1968	1969	1970
Cost of living	16.2	7.6	13.6	9.6	6.7	21.7
Wholesale prices	9.6	6.1	14.1	3.9	7.3	26.5
Construction costs	7.6	9.5	11.7	4.3	11.1	12.6
Real wages						
Unmarried worker	-5.1	2.1	4.4	-2.6	13.0	-5.7
Worker with standard-size family	-3.1	8.5	2.4	0.2	16.8	-6.6

Source: Ministry of Economic Affairs and Labour.

/which favoured

which favoured agricultural products over industrial goods. Moreover, the profits accruing to the primary producing sector were unevenly distributed, since crop prices remained at the same level while livestock prices rose by about 70 per cent. Prices of imported goods rose by 18 per cent, which reflects the dual effect of the rise in domestic prices and the currency devaluation in June.

6. The external sector

The balance of payments showed a surplus of 114 million dollars in 1970, in spite of a deficit of 160 million dollars on current account, as a result of a substantial inflow of capital, which included 59 million dollars' worth of special drawing rights assigned to Argentina. This was reflected in an increase of about 75 million dollars in international assets (see table 9).

Exports of goods amounted to 1,790 million dollars, or 11 per cent more than in 1969. Only a small part of this increase is attributable to prices, since the index of unit value in 1970 was only 2.8 per cent higher than in 1969. In particular, cereal exports amounted to over 10 million tons, which was the peak figure for the decade. Meat exports were also high - 345 million dollars - exceeding the previous year's figure by 2.7 per cent; this was due to higher prices, since exports decreased 8.2 per cent in volume. In contrast, the value of wool exports fell 11.4 per cent, as a result of the depression on the world market. There was an upsurge in non-traditional exports, which rose to 382.4 million dollars; the 22 per cent increase over 1969 is accounted for by increases in electrical machinery and equipment and products of the curing and tanning industries. The total value of non-traditional exports in 1968 and 1969 was 271 and 313 million dollars, respectively.

Imports of goods amounted to 1,483 million dollars, or 8.2 per cent more than in 1969. The index of their unit value was 103 in 1969 and 108 in 1970, and they included a larger proportion of capital goods in 1970.

Table 9
ARGENTINA: BALANCE OF PAYMENTS, 1960 AND 1965-1970
(Millions of dollars)

	1960	1965	1968	1969	1970 ^{a/}
<u>Current account</u>					
Exports of goods and services	1 238	1 656	1 567	1 836	2 030
Goods fob	1 079	1 493	1 368	1 612	1 790
Services	159	163	199	224	240
Imports of goods and services	-1 379	-1 379	-1 441	-1 896	-2 037
Goods fob	-1 099	-1 043	-1 017	-1 371	-1 483
Services	-280	-336	-424	-525	-554
Net external investment income	-57	-53	-141	-159	-152
Net private transfer payments	-7	-4	-2	-1	-1
Balance on current account	-205	220	-17	-220	-160
<u>Capital account</u>					
Net external financing (a+b+c+d)	205	-220	17	220	160
(a) External non-compensatory capital	565	-244	120	318	
Direct investment	332	43	-8	-11	
Long- and medium-term loans	257	151	274	434	
Amortization payments	-42	-426	-202	-221	
Short-term liabilities	17	-14	58	119	274
Official transfer payments	1	2	-2	-3	
(b) Domestic non-compensatory capital or assets	-8	20	-72	-31	
(c) Errors and omissions	-177	94	119	-145	
(d) Compensatory movements (increase -)	-175	-90	-150	78	-114
Balance-of-payments loans, trade arrears or deferred payments, IMF position and other liabilities of the monetary authorities	202	107	26	1	...
Amortization payments	-71	-129	-132	-154	...
Movement of gold and foreign exchange reserves (increase -)	-306	-68	-144	231	...

Source: IMF, Balance of Payments Yearbook, vols. 17 and 22.

^{a/} Preliminary estimates based on data supplied by the Banco Central de la República Argentina.

7. Developments in economic policy

The salient economic policy developments in Argentina include an act designed to encourage the purchase of locally-produced goods, the establishment of a national development bank, and the provision of incentives to exports and investment.

By virtue of the "buy domestic products" act, the public administration, autonomous and decentralized bodies and public enterprises are required to purchase locally produced goods and materials and, with some exceptions, to contract the services of local construction firms or suppliers. Moreover, the Banco Nacional de Desarrollo was established mainly to finance large-scale electric power projects, basic industrial projects and industrial modernization programmes, which involve the conversion, reorganization and merging of enterprises; its resources are to come from a special fund that is to be set up with resources obtained from a percentage of wages and salaries, taxes on credit from financial institutions, and the proceeds of sales of securities on the domestic and external market. An export promotion scheme was introduced, which provides for a drawback of a proportion of the sales value, according to the degree of processing and competitiveness of the product concerned. Special drawbacks are provided for companies exporting over 40,000 dollars of goods a year, which may be as much as 40 per cent of the increases they achieve in the volume exported annually as from 1971. In order to encourage capital formation by enterprises, it was decided to reduce the tax on earnings for reinvested profits; and with the same end in view, the authorized deduction in the sales tax was raised from 15 to 30 per cent for capital goods.

As regards planning, three draft development plans were published by the National Development Council, under different leadership. Although the basic studies are practically the same, different approaches are adopted to national development, which are reflected above all in the different growth rates envisaged for investment and the product. Tables 10 and 11 show the differences in the growth of some of the variables.

Table 10

ARGENTINA: ANNUAL GROWTH RATES OF CERTAIN KEY ITEMS, ACCORDING TO
DRAFT PLANS PRESENTED IN 1970

	Real expe- riences 1960- 1969	Plan I 1970- 1974	Plan II 1971- 1975	Plan III 1971- 1975
Growth rates of the gross domestic product	3.6	5.6	7.8	7.0
Exports	5.2	6.7	12.0	9.2
Unemployment rate (target for final year)		3.3	1.3	1.4
Agriculture, forestry, hunting and fishing	2.2	3.8	5.5	4.6
Construction	5.0	4.4	7.8	7.1
Manufacturing	4.3	7.1	9.2	8.4
Energy and fuel	7.1	8.0	9.6	9.2
Trade	3.0	4.8	7.0	6.4
Transport and communications	4.7	6.3	12.5	10.6
Services	1.2	-	-	-
Other services	3.0	5.6	8.2	7.0

/Table 11

Table 11

ARGENTINA: ANNUAL GROWTH RATES OF GROSS DOMESTIC INVESTMENT, ACCORDING
TO DEVELOPMENT PLANS PRESENTED IN 1970

Year	Gross domestic investment	Construction	Domestic equipment	Imported equipment
1960-69	3.8	4.2	3.2	4.1
Plan I 1967-69-74	7.5	6.4	7.6	9.9
Plan II 1970-75	11.4	7.8	10.9	19.4
Plan III 1970-75	10.5	7.0	10.7	17.1

/BARBADOS

BARBADOS ^{1/}

1. Recent economic trends

First estimates for the gross domestic product at current factor cost indicate an increase of almost 12 per cent in 1970. In real terms this means about a 2 per cent growth rate, since domestic prices rose at an average rate of 0.8 per cent per month during the first half of the year. The growth of the product in 1970 does not compare favourably with the 3 per cent rate registered in 1969, when the price index rose at a slower pace (see table 1).

Although all sectors contributed to the over-all growth of product, the largest increases were in government services, personal services, transport, public utilities and sugar. The sugar sector showed an increase of 13.6 per cent, which marked a partial recovery from the sharp decline recorded in the previous two years (18.5 per cent and 12.6 per cent).

The increased value of sugar production was the result of both an expansion in the volume of production and higher prices, and one broad sector of the economy thrived financially. Apart from sugar, the agricultural sector is relatively small, but it has registered steady growth; in the last five years it has averaged a little over 6 per cent of the gross domestic product.

Preliminary results of the 1970 population census show that average annual growth since 1960 has only been 0.26 per cent. Therefore the per capita gross domestic product in 1970 is likely to be about 1,080 dollars (in 1960 it was 516). This, together with the significant increases in income from tourism - estimated at over 60 million dollars in 1970 -, explains the pressures on price levels and imports.

The export sector improved in 1970, as a result of increased production in agriculture and manufacturing. Imports also rose, especially of manufactures (largely machinery and equipment), but at a slower pace than exports. This fact coupled with the net inflow on the services and capital accounts, would seem to indicate a considerable improvement in the balance-of-payments situation.

^{1/} Unless otherwise stated, all values are expressed in East Caribbean dollars, which are equal to 0.50 United States dollars.

Table 1
BARBADOS: GROSS DOMESTIC PRODUCT BY SECTOR OF ECONOMIC ACTIVITY, 1966-1970

Sector	Millions of East Caribbean dollars at current prices					Percentage share					Annual growth rate				
	1966	1967	1968	1969	1970 a/	1966	1967	1968	1969	1970 a/	1966	1967	1968	1969	1970 a/
Agriculture	43.4	47.8	41.7	39.1	43.8	25.6	25.3	19.2	16.7	16.8	5.3	10.1	-12.8	-6.2	12.0
Sugar	32.0	35.1	28.6	25.0	28.4	18.9	18.6	13.2	10.7	10.9	1.6	9.7	-18.5	-12.6	13.6
Other agricultural commodities	11.4	12.7	13.1	14.1	15.4	6.7	6.7	6.0	6.0	5.9	15.2	11.4	3.1	7.6	9.2
Manufacturing and mining	17.3	18.6	21.0	22.8	24.8	10.2	9.8	9.7	9.8	9.5	6.8	7.5	12.9	8.6	8.8
Construction	15.3	16.4	20.0	21.4	23.5	9.0	8.7	9.2	9.2	9.0	2.7	7.2	22.0	7.0	9.8
Distribution	37.3	39.2	50.0	54.4	58.2	22.0	20.7	23.1	23.3	22.3	4.8	5.1	27.6	8.8	7.0
Transport and public utilities	10.3	14.6	18.2	21.3	24.1	6.1	7.7	8.4	9.1	9.2	11.4	41.7	24.7	17.0	13.1
Ownership of dwellings	6.8	7.3	8.0	8.4	8.9	4.0	3.9	3.4	3.6	3.4	4.6	7.4	9.6	5.0	6.0
Services	17.9	19.5	27.8	31.7	36.4	10.6	10.3	12.8	13.6	13.9	5.3	8.9	42.6	14.0	14.8
Government	21.3	25.8	30.0	34.5	41.4	12.6	13.6	13.8	14.8	15.9	21.0	21.1	16.3	15.0	20.0
Total	169.6	189.2	216.7	233.6	261.1	100.0	100.0	100.0	100.0	100.0	7.2	11.6	14.5	7.8	11.8

Sources: Official publications and data provided by the Economic Planning Unit.
a/ ECLA estimates.

2. Agriculture

This sector was the most important until 1967 and used to generate 25.3 per cent of the gross domestic product. The decline in sugar production has changed the situation; but even so, in 1970 the agricultural product rose to 43.8 million dollars, accounting for 16.8 per cent of the gross domestic product. This is an increase of 12 per cent over 1969, and it was achieved in spite of widespread fires in the cane-fields during the year.

The remainder of the sector grew steadily throughout the 1960s: in 1965 it accounted for only about 24 per cent of agricultural production, but according to 1970 estimates it contributed 35 per cent of the gross agricultural product. Recently a great deal of attention has been given to agricultural studies and diversification programmes, and this is helping to reduce dependence on sugar.

3. Other sectors

All the other sectors grew in 1970, but the most dynamic growth was registered in the government, and transport and public utilities. In line with the policy of encouraging the diversification of agriculture, expanding tourism and speeding up manufacturing, government services have provided the main impetus for infrastructural development. In order to implement this policy, the government increased its capital expenditure from 12 per cent in 1968 to 32 per cent in 1970. It is estimated that this sector will account for at least 16 per cent of the gross domestic product in 1970, compared with 14.8 per cent in 1969. Transport and public utilities are estimated to have increased by 13 per cent and services by 15 per cent in 1970, both undoubtedly stimulated by the rapid growth in tourist expenditure in the island. Manufacturing has ventured into new fields, but the impact of the new industries is still insignificant, and the share of this sector is less than 10 per cent.

4. The external sector

Data for 1969 show that the unfavourable trade balance exceeded 120 million dollars (in 1968 it had reached 94 million). Provisional estimates for 1970 indicate that the deficit is likely to remain the same as in 1969 and will not continue to rise, as a result of the improvement in sugar exports and other manufactures during the first half of 1970. Final figures on the first half of the year show that total exports increased at a considerably faster rate than imports.

The increase in exports was largely the result of improvements in food products and manufactures, and sugar and its by-products were important factors in determining the value of food exports. Up to June 1970, sugar exports were 6,000 tons lower than the total for 1969, but the value of exports was almost 2.5 million dollars higher. In 1970 exports of manufactured goods, especially transport machinery and equipment, continued the upward trend started in 1967 and increased their share in total export earnings (see tables 2 and 3).

The share of food in total imports continued to decline, while imports of manufactures rose as a result of increased requirements for machinery and capital goods for the growing tourist industry, for new development projects and for investment in agricultural and industrial import substitution projects (see table 4).

The projected large deficit on merchandise trade for 1970 (about 120 million dollars) will require substantial inflows on the services and capital accounts if the international reserves are not to come under heavy pressure. The data available show that the foreign exchange earnings generated by tourism on the travel and transport accounts continue to rise. Net foreign financial assets dropped in 1969, which indicates that international reserves had to be drawn upon, but according to the data for the first half of the year, the situation has improved.

Table 2
BARBADOS: VALUE AND COMPOSITION OF EXPORTS, INCLUDING RE-EXPORTS

SITC Groups	Value (Millions of East Caribbean dollars)					Percentages				
	1966	1967	1968	1969	1970 ^{a/}	1966	1967	1968	1969	1970 ^{a/}
0 Food	45.8	47.6	43.2	41.2	37.2	65.5	66.6	58.8	55.5	67.1
1 Beverages and tobacco	3.9	3.5	3.4	3.5	1.9	5.6	4.9	4.7	4.7	3.4
2 Crude materials, inedible, except fuels	0.2	0.4	0.4	0.3	0.1	0.3	0.6	0.5	0.4	0.2
3 Mineral fuels, lubricants and related materials	11.9	10.9	13.1	9.1	3.4	17.0	15.2	17.8	12.2	6.1
4 Animal and vegetable oils and fats	0.3	0.1	0.1	-	-	0.4	0.2	0.1	-	-
5 Chemicals	1.5	1.9	2.5	2.6	1.5	2.2	2.6	3.4	3.5	2.7
6 Manufactured goods classified chiefly by material	2.6	2.3	2.5	2.9	1.8	3.8	3.9	3.3	3.9	3.3
7 Machinery and transport equipment	1.5	2.0	4.6	9.0	6.2	2.2	2.8	6.2	12.1	11.2
8 Miscellaneous manufactured articles	1.5	2.1	2.9	4.8	2.8	2.2	2.8	4.0	6.5	5.1
9 Miscellaneous transactions and commodities	0.6	0.6	0.9	0.8	0.4	0.9	0.9	1.2	1.1	0.7
<u>Total</u>	<u>70.0</u>	<u>71.5</u>	<u>73.5</u>	<u>74.3</u>	<u>55.4</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Source: Barbados Overseas Trade Reports (annual and quarterly issues) and ECLA estimates.
^{a/} January to June 1970.

Table 3

BARBADOS: EXPORTS OF SELECTED COMMODITIES, 1967-1968
(Value in thousands of East Caribbean dollars)

Commodities	Units	1967		1968		1969		1960 a/	
		Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
Sugar	Thousands of tons	175	36 631	158	36 195	135	26 843	129	29 234
Fancy molasses	Thousands of gallons	1 821	1 639	2 408	2 393	2 191	2 412	1 112	1 223
Other molasses	Thousands of gallons	7 351	2 137	4 519	1 148	4 916	1 082	7 431	892
Rum	Thousands of gallons	819	2 947	834	2 912	663	2 938	226	1 354
Lard and margarine	Thousands of pounds	1 999	984	2 360	1 111	2 934	1 379	1 460	693
Laundry soap	Thousands of pounds	149	41	391	81	654	139	502	112
Edible oil	Thousands of gallons	48	118	7	16	-	-	-	-
Sugar confectionary	Thousands of pounds	541	211	666	274	843	364	396	170
Biscuits	Thousands of pounds	984	279	...	...	1 034	366	644	243
Clothing, except furs b/	-	-	887	...	1 508	...	...	...	...
Shellfish	Thousands of pounds	2 524	4 263	2 599	7 286	2 548	7 237	1 318	3 819

Source: Barbados Overseas Trade Reports and data supplied by the Barbados Statistics Office.

a/ January to June.

b/ Including re-exports.

Table 4
BARBADOS: VALUE AND COMPOSITION OF IMPORTS

SITC Groups	Value (Millions of East Caribbean dollars)					Percentages				
	1966	1967	1968	1969	1970a/	1966	1967	1968	1969	1970a/
0 Food	94.1	32.5	38.6	42.4	24.0	26.0	24.3	23.0	21.8	20.7
1 Beverages and tobacco	2.4	2.3	3.3	3.8	3.1	1.8	1.8	2.0	2.0	2.7
2 Crude materials, inedibles, except fuels	4.4	4.9	5.9	6.3	3.3	3.4	3.7	3.5	3.2	2.8
3 Mineral fuels, lubricants, and related materials	13.1	11.6	16.6	14.8	8.3	10.0	8.7	9.9	7.6	7.2
4 Animal and vegetable oils and fats	0.8	1.1	1.6	2.2	1.4	0.6	0.8	1.0	1.1	1.2
5 Chemicals	9.8	10.9	12.3	14.4	9.1	7.5	8.2	7.3	7.4	7.9
6 Manufactured goods, classified chiefly by material	27.2	27.2	31.5	40.1	24.0	20.7	20.3	18.8	20.6	20.7
7 Machinery and transport equipment	22.3	25.7	35.1	40.8	26.9	17.0	19.2	20.9	21.0	23.2
8 Miscellaneous manufactured articles	13.1	13.8	17.5	23.8	12.9	10.0	10.3	10.4	12.2	11.1
9 Miscellaneous transactions and commodities	4.0	3.8	5.1	6.1	2.9	3.0	2.9	3.3	3.1	2.5
Total	131.1	134.1	167.5	194.6	115.2	100.0	100.0	100.0	100.0	100.0

Source: Barbados Overseas Trade Reports (annual and quarterly) and ECLA estimates.
a/ January and June 1970.

/The growth

The growth in the tourist industry involves a vicious circle; while it produces a steady inflow of foreign exchange, it also puts great pressure on imports. The capital requirements for the construction of hotels and tourist infrastructure cannot be met internally. Thus the relative dependence on imports can be reduced only if production is diversified enough to satisfy the needs of tourism.

Barbados' trade with the other CARIFTA countries has always been considerable; in 1969, for example, trade with CARIFTA countries accounted for 11 per cent of total imports and 19 per cent of exports. Imports continued to be higher than exports in 1970, though there is some indication that the gap between the two may have narrowed slightly. It should be mentioned that re-exports constitute a large proportion of Barbados' exports to CARIFTA countries (37 per cent in 1969), because it has traditionally provided storage space for many of the smaller CARIFTA territories (see table 5).

Table 5
BARBADOS: TRADE WITH CARIFTA COUNTRIES
(Thousands of East Caribbean dollars)

Year	Imports	Exports
1967	13 051	10 294
1968	16 823	11 749
1969	21 103	14 200
1970 ^{a/}	13 263	7 364

Source: Official trade reports and preliminary data supplied by the Statistical Office.

^{a/} January to June 1970.

/BOLIVIA

BOLIVIA

1. Recent economic trends

In 1970 the Bolivian economy made a partial recovery from the sluggish growth of the previous year. The gross domestic product grew by 5.2 per cent, and although this was an improvement on the 4.5 per cent recorded in 1969, it was still some way below the rate of 6.8 per cent for the period from 1965 to 1968.

If circumstances had been normal, the growth of the product would have been appreciably higher because of the considerable recovery in important sectors such as agriculture, mining and manufacturing; however, the sharp drop in petroleum production, following suspension of sales to the United States (which were only resumed at the end of the year), had an adverse effect. This was made worse by the fall in government income from petroleum royalties consequent upon the drop in production, the hold-up in the projected construction of a gas pipe-line to the Argentine frontier, and a diminution in the inflow of foreign capital with a resulting drop in construction. (See table 1.)

If it had not been for the fall in petroleum sales, there would have been more than the 9.6 per cent increase in the value of exports, since metals especially antimony and wolfram, once again commanded high prices on the world market.

The value of imports increased by 5.5 per cent, that is at a slower rate than exports, and this, together with a smaller outflow in profit and interest payments on foreign capital, brought about a considerable reduction in the deficit on current account. At the same time there was a similar reduction in the inflow of capital, with the result that the balance of payments showed only a small surplus, comparable with those of the previous two years.

Table 1

BOLIVIA: GROSS DOMESTIC PRODUCT, BY SECTOR OF ECONOMIC ACTIVITY

Sector	Millions of pesos at 1960 prices				Percentage share			Annual growth rate		
	1965	1968	1969a/	1970a/	1965	1968	1969a/	1970a/	1965-1968	1969a/-1970a/
Agriculture	1 530.3	1 615.2	1 560.2	1 638.2	28.3	24.7	23.0	22.9	1.8	-3.4
Mining	552.4	841.0	941.0	1 012.5	10.2	12.9	13.9	14.1	15.0	11.8
Manufacturing	707.3	871.1	832.7	945.1	13.1	13.3	12.3	13.2	7.2	-4.4
Construction	303.3	519.5	339.9	326.3	5.6	4.9	5.0	4.6	1.7	6.4
Subtotal goods	3 093.3	3 646.8	3 673.8	3 922.1	57.3	55.8	54.1	54.8	5.5	0.7
Electricity, gas and water	71.9	106.9	111.7	119.0	1.3	1.6	1.6	1.7	14.1	4.5
Transport and communications	462.8	548.3	584.5	599.1	8.6	8.4	8.6	8.4	5.8	6.6
Subtotal basic services	534.7	655.2	696.2	718.1	9.9	10.0	10.2	10.0	7.0	6.3
Commerce and finance	556.8	753.2	783.3	780.2	10.3	11.5	11.6	10.9	10.6	4.0
Government	467.3	565.7	590.6	644.9	8.7	8.6	8.7	9.0	6.6	4.4
Ownership of dwellings	273.4	347.1	369.0	378.6	5.1	5.3	5.4	5.3	8.3	6.3
Miscellaneous services	472.8	575.0	677.9	718.6	8.7	8.8	10.0	10.0	6.7	17.9
Subtotal other services	1 770.3	2 241.0	2 420.8	2 522.3	32.8	34.2	35.7	35.2	8.2	8.0
Total	5 440.9	6 635.4	6 934.0	7 294.6	100.0	100.0	100.0	100.0	6.8	4.5

Source: For 1965 to 1968, ECLA estimates based on official Planning Office statistics; for 1969 and 1970, ECLA estimates based on preliminary Planning Office statistics.

N. B. Owing to the general practice of calculating the individual activities and the total independently, the sum of the former do not necessarily correspond exactly to the latter.

a/ Preliminary figures.

Up to September 1970 the international financial institutions had only authorized three loans for Bolivia, totalling 2.8 million dollars, which does not compare favourably with the 28 and 48 million loans granted in 1968 and 1969 respectively. However, credits were obtained from different sources, among others a 27.5 million dollar loans from the USSR, repayable over ten years, to finance manufacturing and petroleum projects.

There was a partial recovery of total fixed investment, which increased by 4.7 per cent in 1970, a very low rate compared with the 14.6 per cent for 1965-1968. While private consumption expenditure only rose by 4.1 per cent, that of the general government rose by 16 per cent, thereby accelerating the already rapid growth rate recorded in 1969 (see table 2).

In 1969 public saving increased substantially thanks to the larger profits earned by public enterprises. During the first half of 1970 there was a considerable increase in revenue from customs duties and consular taxes, as a result of the higher rate applied to exports of ores as from December 1969. However, there was a parallel reduction in income from taxes and royalties on petroleum, estimated at over 40 million pesos. Current expenditure increased during the first half of the year by about 27 per cent, and servicing payments on the public debt were three and a half times higher, so that the public debt must have expanded considerably during 1970.

During the year there were some changes in economic policy affecting the organization of the administration and relating to economic problems. Among the former there were administrative reforms which established a hierarchy of ministers; for this purpose, in addition to the usual specialized portfolios - a ministry of State and two new ministries - of planning and of finance with broad powers were established. This has been done with a view to ensuring that economic policy shall be consonant with social and political action. The financial system was also reorganized; the Bank Authority (Superintendencia de Bancos) is no longer a separate entity and has become the supervisory department of the Central Bank. In the fiscal field a start was made with the task of overhauling

Table 2

BOLIVIA: TOTAL SUPPLY AND DEMAND

	Millions of pesos at 1960 prices				Percentage structure			Annual growth rates		
	1965	1968	1969 a/	1970 a/	1965	1968	1969 a/	1970 a/	1965-1968	1969 a/ 1970 a/
<u>Total supply</u>	7 546.2	2 283.2	2 703.2	10 084.7	121.1	132.2	132.2	130.7	7.1	4.5
Gross domestic product	5 757.1	7 021.0	7 336.9	7 718.4	100.0	100.0	100.0	100.0	6.8	4.5
Imports b/	1 789.1	2 262.3	2 366.3	2 366.3	31.1	32.2	32.2	30.7	8.1	4.6
<u>Total demand</u>	7 546.2	2 283.2	2 703.2	10 084.7	121.1	132.2	132.2	130.7	7.1	4.5
Exports b/	884.3	1 340.2	1 405.5	1 341.5	15.4	19.1	19.2	17.4	14.9	4.9
<u>Total investment</u>	1 125.4	1 516.2	1 425.2	1 490.2	19.5	21.6	19.4	19.3	10.4	-6.0
Gross fixed investment	970.6	1 461.9	1 286.5	1 347.0	16.9	20.8	17.5	17.5	14.6	-12.0
Public	400.6	742.7	...	...	6.9	10.6	...	...	22.8	...
Private	570.0	719.2	...	...	9.9	10.2	...	...	8.0	...
Construction	600.5	622.0	...	...	10.4	8.9	...	...	1.2	...
Machinery and equipment	370.1	839.9	...	...	6.4	12.0	...	...	31.5	...
<u>Total consumption</u>	5 536.5	6 426.8	6 872.4	7 252.3	96.2	91.5	93.6	94.0	5.1	6.2
General government	649.8	754.0	824.1	956.0	11.3	10.7	11.2	12.4	5.1	9.3
Private	4 886.7	5 672.8	6 048.3	6 296.3	84.9	80.8	82.4	81.6	5.1	6.6

Sources: 1965-1968: ECLA, on the basis of data supplied by the Ministry of Planning and Co-ordination 1969 and 1970: ECLA estimates based on preliminary data from the above source.

a/ Preliminary.

b/ Goods and services, excluding factor payments.

the tax machinery, with a view to simplifying the taxation system and particularly reducing tax evasion, which amounts to an estimated 40 to 70 per cent of total taxable income; to this end a partial tax amnesty was declared. Another measure to rationalize the administration consisted in placing a ceiling on the salaries paid to civil servants so as to establish a more equitable relationship between those earned by the senior officials in the central administration and those earned by the senior staff of public enterprises.

Two of the most important events in the economic field were the nationalization of the two largest private sugar companies, and the adjustment of wages in the nationalized mining industry. The latter meant that miners' wages were restored to the levels obtaining before the cut in 1965, when they had to be reduced because of the enormous deficits of the Bolivian Mining Corporation (COMIBOL).

2. Trends in production

(a) Agriculture

Nineteen seventy was a good year for agriculture; potatoes recovered from the severe setback suffered in 1969 and the production of wheat, barley, sugar-cane, bananas, yucca, cotton and coffee continued to improve. Only maize and vegetables showed a slight drop. Agricultural production increased by 5 per cent, a relatively satisfactory rate compared with the fall of 3.4 per cent in 1969 and the slow growth rate recorded in previous years, which did not always keep pace with population growth.

Imports have made up for low domestic production of certain items. About 30 million dollars' worth of food, beverages and tobacco were imported per year. At present nearly 40,000 tons of wheat and 110,000 tons of flour are imported per year.

For some years, production has been stimulated by specific programmes which have enabled the country to become self-sufficient in rice, sugar and cotton and which boosted coffee production. Furthermore, credit to the agricultural sector has gradually been increased; between 1963 and 1969 it tripled, and now one fifth of all bank credit to the private sector goes to agriculture, but public investment in agriculture continues to be low.

/(b) Mining

(b) Mining

Mining output in 1970 rose by 7.6 per cent, considerably less than the rates of 11.8 per cent registered in 1969 and 15 per cent per year in the three-year period from 1965 to 1968. The slower growth rate was entirely due to the fall in petroleum production, estimated at about 29 per cent, since mining production grew by 18.7 per cent, under the stimulus of excellent prices abroad and the COMIBOL policy, aimed at developing ores other than tin. In 1969, 29 per cent of the value of COMIBOL's output was derived from these ores; in 1964 the figure was only 13 per cent.

The Banco Minero, which is responsible for backing about two thousand producers in small-scale mining, made an effective contribution to the growth of production; in 1969 it increased its volume of credits by about 30 per cent, to a total of about 33 million pesos. Meanwhile, public investment in mining increased from some 30 million pesos in 1967 to 111 million in 1969; by contrast, private investment dropped over 70 per cent during the latter year.

Towards the end of the year the National Smelting Company (Empresa Nacional de Fundición), managed to put the Vinto tin smelter into operation, after a great many financial difficulties, and it will shortly be producing 7,500 tons of electrolytic tin and about 800 tons of tin alloys. In addition, an antimony smelter is to be installed with a capacity for 6,000 tons of antimony and 1,000 tons of alloys, and the project for a bismuth plant continues.

In November a decree was signed making the State the sole owner of all the refineries and smelters that are planned, and the sole authority to decide upon their installation.

COMIBOL and the Banco Minero came to an agreement with the Soviet Union to sell refined tin and tin concentrates, and an initial agreement was signed for 800 tons of tin and 2,400 tons of concentrates. Negotiations with Argentina are under way for the sale of iron ore from Mutún to the Somisa iron and steel works.

/(c) Petroleum

(c) Petroleum

The nationalization of the Gulf Oil Company facilities caused an appreciable drop in production and exports of petroleum from October 1969 onwards. In 1970 petroleum production fell by about 29 per cent; however, refining for the domestic market continued to expand at a rate of 8 per cent and natural gas production rose to 390 million cubic metres in the first half of the year, whereas in 1969 the entire output was only 266 million.

In September 1970 the compensation payable to the Gulf Oil Company for the expropriation of its facilities, was fixed at 78.6 million dollars. Payments on this sum out of the product of petroleum export sales will begin in 1975, or earlier if Bolivia starts to export natural gas to Argentina. Payment is conditional upon Bolivia obtaining a 23 million dollar loan from IBRD for the construction of a gas pipeline to the Argentine frontier.

The Bolivian Petroleum Corporation (YPFB) has extended its prospecting for new oil fields - as far as its financial situation will allow - from the Santa Cruz area towards the Altiplano and the Beni River, in an effort to increase their limited reserves.

3. External trade

The sudden drop in petroleum exports - according to estimates they fell to about half their 1969 value - partially cancelled out the extraordinary growth recorded in sales of ore, except for tin ore, with the result that total exports of goods increased by an over-all figure of 10 per cent. Tin has been declining in importance compared with other mining products since 1965, initially as a result of the rapid increase in petroleum production, and subsequently in that of other ores. In 1970 the estimated value of exports rose by about 5 per cent, thanks to an increase in price since the volume remained unchanged.

Between 1965 and 1967 petroleum sales increased from 700,000 dollars to 23 million, and remained at that level for the next two years. At the end of 1969, as a result of the nationalization of the Gulf Oil Company's plant, exports to the United States were interrupted, and they were not resumed until September 1970, when the volume exported was much smaller.

/Exports of

Exports of ores, apart from tin, doubled in value between 1965 and 1969, owing to an increase of 54 per cent in volume and 33 per cent in prices. In 1970 the export value of these products seems to have increased by about 50 per cent, as a result of an extraordinary rise in prices, particularly of antimony and wolfram, estimated at about 40 per cent.

While there was a 9.6 per cent rise in exports of goods and services, imports rose 5.5 per cent. In addition the net outflow of profit and interest payments was reduced to half, with the result that the deficit on current account fell from 46 million dollars in 1969 to 27 million in 1970 (see table 3).

However, there was a parallel and equal decrease in the net inflow of non-compensatory capital so that the balance-of-payments surplus was only 0.4 million dollars, that is much the same as in 1969, although it includes the 4.9 million in special drawing rights allocated to Bolivia in 1970, of which it was able to use 2.2 million.

Table 3

BOLIVIA: BALANCE OF PAYMENTS, 1966-70

(Millions of dollars)

	1960	1965	1968	1969	1970 ^{a/}
a) <u>Current account</u>					
Exports of goods and services	57.8	125.8	170.2	192.3	210.7
Goods fob	54.4	115.5	157.1	180.1	198.0
Services	3.4	10.3	13.1	12.2	12.7
Imports of goods and services	-89.7	-161.7	-202.6	-215.9	-227.7
Goods fob	-68.2	-126.6	-161.5	-174.0	-184.0
Services	-21.5	-35.1	-41.1	-41.9	-43.7
Net external investment income	1.2	-3.6	-23.6	-23.6	-11.4
Net private transfer payments	0.2	1.1	0.1	1.2	1.0
Balance on current account	-30.5	-38.4	-55.9	-46.0	-27.4
b) <u>Capital account</u>					
Net external financing (a+b+c+d)	30.5	38.4	55.9	46.0	27.4
a) External non-compensatory capital	32.7	53.2	66.3	57.5	27.8
Direct investment	16.5	12.5	6.5	-92.0	
Long- and medium-term loans	12.8	25.6	65.7	136.6	
Amortization payments	-11.4	-9.7	-12.6	-15.1	
Short-term liabilities	2.0	9.9	0.1	-1.1	
Official transfer payments	12.8	14.9	6.6	29.1	-0.4
b) Domestic non-compensatory capital or assets	-1.8	-2.2	-3.6	-2.0	
c) Errors and omissions	-3.1	1.3	-6.6	-9.1	
d) Compensatory movements (increase -)	2.7	-13.9	-0.2	-0.4	
Balance-of-payments loans, trade arrears, deferred payments, IMF position and other liabilities of the monetary authorities	1.1	0.2	14.3	11.3	
Amortization payments	-3.7	-1.1	-3.8	-9.2	
Movements of gold and foreign exchange reserves (increase -)	5.3	-13.0	-10.7	-2.5	

Source: IMF, Balance of Payments Yearbook, vol. 17 and 22.

^{a/} ECLA estimates.

/BRAZIL

BRAZIL

1. Recent economic trends

Brazil's economic growth seems to have followed roughly the same pattern in 1970 as in 1969. Ministry of Finance estimates for both years point to a rise in the gross domestic product of around 9 per cent (see table 1 and 2).^{1/}

The country's industrial growth, reckoned to be about 10 per cent, is largely attributable to the motor-vehicle, construction and chemical industries, though not to the same extent as in the past. The demand generated by public investment programmes in energy, transport and communications continued to have a significant effect on the metal-transforming, electrical and communications industries.

Despite the sharp drop in coffee production (over 30 per cent) and the severe drought that spoilt the main crops in the Nordeste, the estimated growth rate in the agricultural sector was 6 per cent.

The external sector maintained an extremely high level of both real and financial transactions. The value of exports rose by more than 15 per cent to 2,700 million dollars, about 430 million of which was accounted for by manufactures. Imports of goods also increased in f.o.b. value to 2,280 million dollars, more than 10 per cent higher than in 1969. The capital inflow, estimated at over 1,400 million dollars, appears to have been very high again, resulting in a fairly substantial net balance on capital account and amply exceeding the 387 million dollar deficit on current transactions. Consequently, Brazil further increased its foreign exchange reserves, now estimated at some 1,200 million dollars.

^{1/} The estimates for 1969 have not yet been corrected by the Fundação Getulio Vargas, which is responsible for keeping the national accounts, but they may be over-estimated as regards certain sectors; for example, the data on agricultural production published by the Instituto Brasileiro de Geografia indicate a somewhat lower growth rate (see note to table 2).

Table 1

BRAZIL: TOTAL SUPPLY AND DEMAND

	Millions of new cruzeiros at 1960 prices			Percentage structure			Annual growth rates		
	1965	1968a/	1969a/	1970a/	1965	1968a/	1969a/	1970a/	1965-1968a/ 1969a/ 1970a/
<u>Total supply</u>	3 577.2	4 346.8	4 717.5	5 151.3	104.1	106.0	106.0	106.2	6.7 8.5 2.2
Gross domestic product	3 434.7	4 100.4	4 448.9	4 849.3	100.0	100.0	100.0	100.0	6.1 8.5 9.0
Imports b/	142.5	246.4	268.6	302.0	4.1	6.0	6.0	6.2	20.0 9.0 12.4
<u>Total demand</u>	3 577.2	4 346.8	4 717.5	5 151.3	104.1	106.0	106.0	106.2	6.7 8.5 2.2
Exports b/	196.0	245.3	294.1	300.9	5.7	6.0	6.6	6.2	7.8 19.9 2.3
<u>Total investment</u>	621.5	759.6	812.7	856.6	18.1	18.5	18.3	17.7	3.2 7.0 5.4
Gross fixed investment	488.4	726.7	782.7	876.6	14.2	17.7	17.8	18.1	14.2 7.7 12.0
Public	146.7	181.1	...	...	4.3	4.4	...	...	7.3 ...
Private	341.7	545.6	...	...	9.9	13.3	...	...	17.0 ...
Construction	...	...	...	...	...	...	...	...	...
Machinery and equipment	...	...	...	...	...	...	...	...	...
<u>Total consumption</u>	2 759.7	3 341.9	3 610.7	3 993.8	80.2	81.5	81.1	82.4	6.6 8.0 10.6
General government	394.3	471.7	499.1	552.5	11.5	11.5	11.2	11.4	6.2 5.8 10.7
Private	2 365.4	2 870.2	3 111.6	3 441.3	68.8	70.0	69.9	71.0	6.7 8.4 10.6

Sources: 1965-1968; ECLA, on the basis of data supplied by the Fundação Getúlio Vargas (Conjuntura Econômica No. 6, 1970); 1969 and 1970: ECLA estimates, based on sectoral production data and other preliminary information supplied by official organizations.

a/ Preliminary.

b/ Goods and services, excluding factor payments.

Table 2
BRAZIL: GROSS DOMESTIC PRODUCT, BY SECTOR OF ECONOMIC ACTIVITY

Sector	Millions of new cruzeiros at 1960 prices				Percentage share			Annual growth rate			
	1965	1968a/	1969a/	1970a/	1965	1968a/	1969a/	1970a/	1965-1968	1969a/	1970a/
Agriculture	695.8	722.4	758.5	811.6	23.5	20.4	19.9	19.4	1.3	5.0	7.0
Mining	15.3	23.1	25.8	25.8	0.5	0.7	0.6	0.6	14.7	11.7	-
Manufacturing	652.6	849.1	940.8	1 036.8	22.0	24.0	24.5	24.7	9.2	10.8	10.2
Construction	29.2	39.4	42.2	48.5	0.9	1.1	1.1	1.2	10.5	7.1	14.9
Subtotal goods	1 392.9	1 634.0	1 767.3	1 922.7	47.0	46.2	46.0	45.8	5.5	8.2	8.8
Electricity, gas and water	69.0	88.3	98.0	107.6	2.3	2.5	2.6	2.6	8.6	11.0	9.8
Transport and communications	209.7	262.3	292.9	336.8	7.1	7.4	7.6	8.6	7.7	11.7	15.0
Subtotal basic services	278.7	350.6	390.9	444.4	9.4	9.9	10.2	10.6	7.9	11.5	13.7
Commerce and finance	591.3	715.5	...	...	20.0	20.2	...	...	6.6	...	...
Government	228.9	273.2	...	...	7.7	7.7	...	...	6.1	...	...
Ownership of dwellings	94.5	112.9	...	...	3.2	3.2	...	...	6.1	...	...
Miscellaneous services	376.1	451.7	...	...	12.7	12.8	...	...	6.3	...	...
Subtotal other services	1 290.8	1 553.3	1 680.6	1 826.7	43.6	43.9	43.8	43.6	6.4	8.2	8.7
Total	2 969.6	3 545.2	3 846.5	4 192.7	100.0	100.0	100.0	100.0	6.1	8.5	9.0

Sources: 1965-1968: ECLA, on the basis of data supplied by the Fundação Getúlio Vargas (Conjuntura Econômica Nº6, 1970).
1969: ECLA, on the basis of preliminary data supplied by the Fundação Getúlio Vargas (Conjuntura Econômica Nº6, 1970).

The information on the growth of the agricultural sector was corrected in the light of fresh information published by the Instituto Brasileiro de Geografia e Estatística (Anuário Estatístico do Brasil 1970).

1970: Preliminary estimate based on the figures for agricultural and industrial growth put forward by the Minister of Finance in his speech of 7 January 1971. Growth of other sectors estimated on the basis of partial information supplied by official bodies.

N.B. The total product does not correspond to the sum of all the sectors, since the general method of calculation employed was to extrapolate each of the sectors and the total separately.

a/ Preliminary.

/The large

The large balance-of-payments surplus also helped to maintain a state of high liquidity and to finance the growing volume of loans to households, government and enterprises, which in turn continued to encourage the expansion of aggregate demand. Loans from the commercial banks and financial agencies to the private sector (enterprises and households) rose by over 35 per cent, compared with a 19.3 per cent increase in the general price index and a 24 per cent rise in the money supply.

For the first time since 1964, the upward adjustment of wages was larger than the rise in the cost of living and represented a real increase of between 2 and 5 per cent for the main categories of urban workers.

Private investment in both fixed and financial assets continued to rise under the effect of a series of tax and financial incentives designed to promote capital formation in virtually every sector.

2. Major sectors of production

(a) Agriculture

Data are available only on the main crops, for there is no accurate information on livestock production.

The main feature of 1970 was the serious drought that affected the Nordeste and brought down production of the principal crops, although taken all in all, the Nordeste's poor performance was more than offset by the excellent crops in the Centro-Sur where the production of rice, sugar cane, beans and maize was up by more than 20 per cent and that of pepper, soya beans and wheat by over 40 per cent. Thus, in spite of a big drop in the principal export crops, such as coffee (down by 30 per cent) and cocoa (down by 16 per cent), the Centro-Sur's total agricultural production rose by 10 per cent, which gave the sector as a whole an over-all growth rate of slightly over 6 per cent (see table 3).

Table 3

BRAZIL: ESTIMATED AGRICULTURAL PRODUCTION, 1970

	Production (tons)		Percentage variation	Value at 1969 prices (thousands of new cruzeiros)	
	1969	1970		1969	1970
Cotton	2 110 775	2 166 080	2.6	1 048 696	1 076 174
Rice	6 394 285	7 483 929	17.0	1 690 905	1 979 050
Bananas <u>a/</u>	463 324	487 884	5.3	565 246	595 209
Cocoa <u>b/</u>	190 000	160 000	-15.8	393 747	331 576
Coffee <u>c/</u>	2 567 014	1 792 173	-30.2	2 039 313	1 423 756
Sugar cane	75 247 090	91 123 472	21.1	1 241 577	1 503 537
Coconut <u>d/</u>	656 007	666 599	1.6	112 748	114 568
Beans	2 199 974	2 304 738	4.8	1 060 189	1 110 676
Maize	12 693 435	15 374 653	21.1	1 730 115	2 095 565
Cassava	30 073 943	31 205 742	3.8	1 136 194	1 178 953
Groundnuts	753 863	874 656	16.0	267 192	310 004
Oranges <u>d/</u>	14 484 057	16 662 863	15.0	344 721	396 576
Potatoes	1 506 500	1 574 081	4.5	317 932	332 194
Pepper	14 031	14 522	3.5	30 003	31 053
Sisal	311 110	325 199	4.5	78 017	81 550
Soya beans	1 056 607	1 461 756	38.3	265 208	366 901
Wheat	1 088 000	1 550 000	42.5	474 934	676 606
<u>Total</u>			<u>6.34</u>	<u>12 822 144</u>	<u>13 634 900</u>
<u>Total excluding coffee</u>			<u>13.34</u>	<u>10 782 831</u>	<u>12 211 144</u>

Source: Results of sampling supplied by the production statistics department (SEP).

a/ Thousands of stems.

b/ Data supplied by the executing committee of the plan for the rural economic recovery of cocoa production (CEPIAC).

c/ Data supplied by the Brazilian Coffee Institute.

d/ Thousands of coconuts.

Brazilian agriculture continued to follow its cyclical pattern of ups and downs, particularly as regards its staple export crops, which suffered from bad weather, and from the drought in the Nordeste, and the other cash crops reacted with extreme sensitivity to prevailing prices and credit facilities. The policy of minimum prices and greater credit facilities was again very helpful for cash crop growers in the Centro-Sur, but no way has yet been found of regulating the production of export crops satisfactorily, or of marketing and storing the staple crops for domestic consumption.

(b) Industry

Following the slight decline in the fourth quarter of 1969, which cut the sector's estimated growth rate for the year to just over 8 per cent the manufacturing industry recovered during 1970. Compared with the same period in the previous year, January to November indicated an estimated growth of around 10 per cent. As in the past three years, the most dynamic sectors were the transport equipment, and construction industries, which expanded by nearly 15 per cent, and the chemical industry, which grew by 17 per cent (see table 4).

Once again, the slowest-growing sector was textiles, clothing and footwear, which registered a 3 per cent growth rate. The food industry followed the same trend as the agricultural sector. Although the sale and production of electrical domestic appliances fell off during the first nine months of the year, the electrical industry was not greatly affected, as it is far more dependent upon sales of basic equipment and of the inputs needed for the expansion programme in the energy and communications sectors.

The large-scale public and private investment programmes continued to influence the metal-transforming industry, which is being subsidized in priority sectors and areas by a number of public agencies, including the Industrial Development Council. During the year these agencies approved over a thousand million dollars in fiscal and financial subsidies for industrial projects.

Table 4

BRAZIL: QUANTUM INDEXES OF INDUSTRIAL PRODUCTION,
JANUARY TO NOVEMBER 1970

(Base: January to November 1969)

Type of industry	Index a/
Processing of non-metallic minerals	117.41
Metallurgy, metal-transforming, electrical and communications equipment	108.28
Transport materials and equipment	115.47
Paper and paper products	111.62
Rubber	121.27
Chemicals, cosmetics, soap and candles, plastic products	117.40
Textiles and clothing	102.77
Food, beverages and tobacco	109.02
<u>Total processing industry</u>	<u>110.19</u>

Source: Brazilian Statistical Institute.

a/ Data subject to correction.

/The main

The main industrial subsidies included: exemption of the machinery and equipment industry from domestic taxes; lifting of import duties on equipment not produced domestically; tax exemptions and tax credit for exports of manufactures; and special credit terms for renewals of equipment in small and medium-sized enterprises.

In the motor-vehicle industry, the main production increases in 1970 were in new models of passenger cars and station wagons, while that of jeeps, lorries and buses declined. More than 60 per cent of the 400,000 vehicles produced in 1970 were various models of passenger cars and slightly under 10 per cent heavy lorries and buses.

As to the iron and steel sector, plans are currently being made for expanding capacity with State and foreign participation. Scheduled investment for 1971 is around 700 million cruzeiros (about 140 million dollars). If the 10 per cent growth rate over the same period in 1969 registered between January and October 1970 was kept up for the rest of the year, production of steel ingots should have exceeded 5 million tons for the year.

Output of cement rose to nearly 9 million tons, 15 per cent more than the year before, which means that it grew at roughly the same rate as construction. In addition to the public works programmes, which were stepped up in 1970, the private construction industry continued the expansion that began in 1967. The construction of urban dwellings depends on the financial system sponsored by the National Housing Bank (Banco Nacional de Habitação). Housing loans operate on the basis of tied saving and, in recent years (1968-1970), increasing use has been made of building societies' operations on the financial market.

3. The external sector

In 1970, the external sector witnessed the accentuation of the trends that have been developing since 1968. Exports were 16 per cent higher, there was a major inflow of non-compensatory capital, and the final large surplus swelled Brazil's foreign exchange reserves even further. Imports, on the other hand followed a somewhat different trend and increased more slowly, leaving a trade balance surplus on

/merchandise account

merchandise account over 400 million dollars for 1970 (see table 5). Expenditure on government transport services, travel and "other services" stayed at more or less the same level as in previous years (around 465 million dollars), while remittances of profits on external investment were still substantial, amounting to 350 million dollars. The net result of current transactions was therefore a deficit of 387 million dollars.

As for the capital account, which is not shown in detail in table 4, there are indications of a considerable drop in direct investment and a sharp increase in medium- and long-term loans and credits.^{2/}

The net balance on capital account is therefore estimated at over 800 million dollars which leaves a balance-of-payments surplus of approximately 635 million dollars, bringing Brazil's foreign exchange reserves up to around 1,200 million dollars at the beginning of 1971.

Manufactures continued to be one of the fastest growing export items and were up 70 per cent on 1969; they now represent 16 per cent of the total value of exports of goods (430 million dollars). Meat exports also increased considerably (70 per cent) to a value of 70 million dollars while iron, manganese and niobium ores exceeded 230 million dollars and maize, whose exports doubled in value, brought in more than 70 million dollars. As for traditional exports, coffee declined in volume but, as the price rose, the total value for the year was slightly above that of the previous year (just over 800 million dollars). Soluble coffee exports made steady progress and exceeded 40 million dollars in value. Cocoa exports were down in volume and prices fell even more, which meant that they earned nearly 30 per cent less than in 1969.

Of Brazil's imports, the biggest increases were in petroleum, as a result of the decline in domestic production during 1970, chemical and pharmaceutical products and capital goods. On the other hand, wheat imports fell by over 30 per cent following an increase in production in the south.

^{2/} According to information supplied by the Central Bank, loans amounted to around 1,400 million dollars, including both suppliers' credits and direct financing of enterprises.

Table 5

BRAZIL: BALANCE OF PAYMENTS, 1960-1970

(Millions of dollars)

	1960	1965	1968	1969	1970
a) Current account					
Exports of goods and services	1 459	1 747	2 076	2 579	2 987
Goods fob	1 270	1 596	1 881	2 311	2 700
Services	189	151	195	268	287
Imports of goods and services	-1 786	-1 280	-2 322	-2 602	-3 032
Goods fob	-1 293	-941	-1 855	-1 993	-2 280
Services	-493	-339	-467	-609	-752
Net external investment income	-194	-259	-305	-346	-351
Net private transfer payments	-13	39	5	14	9
Balance on current account	-534	247	-546	-355	-387
b) Capital account					
Net external financing (a+b+c+d)	534	-247	546	355	387
a) External non-compensatory capital	233	135	718	1 039	1 022
Direct investment	138	154	135	207	
Long- and medium-term loans	351	266	466	904	
Amortization payments	-370	-274	-381	-425	
Short-term liabilities	97	47	481	337	
Official transfer payments	17	36	17	16	
b) Domestic non-compensatory capital or assets	-38	-8	-132	-13	-635
c) Errors and omissions	10	-30	2	-24	
d) Compensatory movements (increase -)	329	-344	42	-647	
Balance-of-payments loans, trade arrears, deferred payments, IMF position and other liabilities of the monetary authorities	403	454	239	63	...
Amortization payments	-50	-576	-215	-188	...
Movements of gold and foreign exchange reserves (increase -)	-24	-222	-66	-522	...

Source: IMF, Balance of Payments Yearbook, vols. 17 and 22.

/The short-term

The short-term external debt rose steadily and, by the end of 1970, was already much larger than the country's foreign exchange reserves as of that date.

4. The domestic financial situation

A high level of liquidity was maintained in 1970 throughout the economy, with a notable expansion of credit in the private sector. The national debt was at the lowest level for the past ten years and was completely covered without increasing the money in circulation, and the rate of inflation, though still around 20 per cent, was slightly lower than the year before.

Although the Treasury showed a small surplus at the end of October 1970, as it did for the same period in 1969, its estimated deficit at the end of the financial year was 870 million cruzeiros, which accumulated during the closing months owing to the extension of the period fixed for paying taxes and to the settlement of outstanding government debts (see table 6). This is becoming standard practice for stimulating economic activity during the last quarter of the year. Estimated tax revenue points to an increase of about 30 per cent at current values and a little over 10 per cent in real terms, thanks largely to a more than proportional increase in taxation on electric power and other unclassified items of income (see table 7).

Credit operations with Treasury funds resulting from the sale of government securities and from compulsory deposits brought in more than 2,000 million cruzeiros, which not only covered the entire deficit but also enabled the Central Bank and the Banco do Brasil to withdraw a considerable amount of money from circulation.

As in the past, therefore, the public sector again helped to reduce the extra money put into circulation because of financial pressure from the external and private sectors. Consequently, though the monetary authorities increased their issues by only 22 per cent, their loans to the private sector rose by almost 40 per cent, so that there was no more than a 24 per cent increase in the money supply.

Table 6

BRAZIL: FINANCING OF THE CENTRAL GOVERNMENT DEFICIT OR SURPLUS, JANUARY TO OCTOBER 1970

(Millions of cruzeiros at January 1969 prices)

	Current value		Constant value		Percentage variation compared with 1969
	1969	1970	1969	1970	
Income	11 501.0	15 159.2	9 914.7	10 937.4	10.3
Expenditure	11 420.3	15 109.9	9 845.1	10 901.8	10.7
Deficit (-) Surplus (+)	80.7	49.3	69.6	35.6	-48.9
Financing of the deficit (+) or surplus (-)	-80.7	-49.3	-69.6	-35.6	48.9
1. Liabilities of the monetary authorities	-1 748.2	-1 719.8	-1 507.7	-1 241.9	-17.6
(a) Central Bank	-1 082.9	-1 436.7	-933.9	-1 037.5	11.1
(b) Banco do Brasil (deposits)	-665.3	-283.1	-573.8	-204.4	-64.4
2. Liabilities to the public	1 667.5	1 670.5	1 438.1	1 206.3	-16.1
(a) Credit operations on real estate	1 394.7	1 512.0	1 202.9	1 091.8	-9.2
(b) Deposits by tax-payers	272.8	158.5	235.1	114.5	-51.3

Source: Central Bank.

Table 7
BRAZIL: NATIONAL EXCHEQUER-REVENUE, JANUARY TO OCTOBER 1970
(Millions of cruzeiros at January 1969 prices)

	Current value		Constant value		Percentage increase	Percentage share	
	1969	1970	1969	1970	<u>1970</u> 1969	1969	1970
1. Taxes on:	10 961.1	13 906.3	9 448.7	10 029.6	6.1	95.3	91.7
1.1 Processed goods	5 087.0	6 518.1	4 382.3	4 703.1	7.3	44.2	43.0
1.2 Income	2 937.9	3 737.4	2 538.2	2 690.6	6.0	25.6	24.6
1.3 Imports	912.3	1 088.5	783.3	787.5	0.5	7.9	7.2
1.4 Electric energy	174.3	351.1	148.7	251.6	69.2	1.5	2.3
1.5 Ores and minerals	32.0	48.2	29.7	32.8	10.4	0.3	0.3
1.6 Flat rate on fuels and lubricants	1 817.6	2 163.0	1 566.5	1 564.0	-0.2	15.8	14.3
2. Other <u>a/</u>	539.9	1 252.9	466.0	907.8	94.8	4.7	8.3
<u>Total</u>	<u>11 501.0</u>	<u>15 159.2</u>	<u>9 914.7</u>	<u>10 937.4</u>	<u>10.3</u>	<u>100.0</u>	<u>100.0</u>

Source: Central Bank (data for December 1970).

a/ Including unclassified revenue and cash in orbit.

/Bank credit

Bank credit to the private sector was up by over 30 per cent and the credit granted by institutions outside the commercial banks by even more (40 per cent in the case of financial institutions and 78 per cent in the case of investment banks). The net result was that, in real terms, liquidity grew rather faster than aggregate demand.

The financial pressure deriving from the increasing tendency of both enterprises and households to borrow in order to finance private investment and purchases of consumer goods, thus steadily pushing up demand, still seems to be the main cause of inflation, which makes it impossible to curb the rising trend of the general price index to any appreciable extent. In 1970 the index rose by 19.3 per cent, following increases of 20.9 per cent in the cost-of-living index for Guanabara, 18.5 per cent in wholesale prices for domestically produced goods, and 18.7 per cent in the cost of construction. The 20.9 per cent rise in the cost of food in Guanabara was nonetheless lower than that of the previous year (24.2 per cent). Clothing and housing also registered slightly lower price increases, unlike public services, medical and health services and household goods which continued to rise at the same rate.

Incentives to private investment, intended to maintain an accelerated growth rate, were not limited to the extension of credit by the commercial banks but included countless tax exemptions and special official and external credit arrangements. Tax incentives ranged from rebates on taxes on goods in transit and on imports to exemptions of taxes on the income of enterprises so as to increase their investment capital deductions on personal income tax to encourage the purchase of securities, and special credits equal to the value of certain taxes.

Financial incentives included the creation of a large number of special funds attached to public development agencies, and special terms for obtaining external resources.

The expansion of financial activities outside the banking system, which have sprung up as a result of the systematic introduction of new incentives, has brought a steady increase in the volume of non-monetary financial assets in circulation and has encouraged speculation on the stock exchange. As in the past two years, the Rio de Janeiro and Sao Paulo exchanges recorded a very large volume of business, the over-all value of transactions in 1970 amounting to 4,600 million cruzeiros (about 1,000 million dollars).

COLOMBIA

1. Recent economic trends

In 1970 the gross domestic product grew by about 7 per cent, which was higher than the previous year's rate (6.2 per cent) and the average for the period 1965-1968 (5.2 per cent). This increase is presumably due in part to the rise in the value of exports as a result of the sharp upturn in coffee prices, combined with a substantial increase in the volume of imports, which in its turn was reflected in greater investment and a larger supply of raw materials for use in industry. From the sectoral standpoint, agriculture continued its moderate growth at a rate of 4.5 per cent. There were increases in the production of coffee, cocoa, bananas, barley, maize and sorghum, and decreases in cotton, wheat and rice. Manufacturing grew by 10.7 per cent thanks to the adequate supply of inputs and the relatively high level of demand, while construction rose by 4.2 per cent, i.e., more slowly than in the previous five-year period. The annual average price index rose by just over 7 per cent over 1969 (see tables 1 and 2).

In the fiscal sector, there was a significant increase in government investment (which exceeded the previous year's figure by almost one-third, at current prices) and more external credit was available to finance it.

The external sector shows an increase of 19 per cent in the value of exports of goods - in dollars at current prices - which reflects the higher prices of coffee exports, whose volume remained virtually unchanged. The value of imports of goods rose by 26.7 per cent, thanks to the lifting of certain restrictions. The deficit on current account amounted to 284 million dollars, but with the net inflow of capital and the use of special drawing rights the balance of payments showed a surplus of 35 million dollars.

2. Main production sectors

In the last few years the growth of agriculture has been slower than that of the total product. The rate of 4.5 per cent in 1970 was the result of both favourable and unfavourable variations in the principal crops. Coffee, the main crop, amounted to some 8.5 million sacks; cocoa

/Table 1

Table 1

COLOMBIA: GROSS DOMESTIC PRODUCT, BY SECTOR OF ECONOMIC ACTIVITY

Sector	Millions of pesos at 1960 prices				Percentage share			Annual growth rate		
	1965	1968	1969 a/	1970 a/	1965	1968	1969 a/	1970 a/	1965-1968	1969 a/ 1970 a/
Agriculture	9 810.2	11 401.9	11 801.0	12 332.0	31.1	31.0	30.2	29.5	5.1	3.5
Mining	1 200.3	1 129.8	1 221.9	1 279.6	3.8	3.1	3.4	3.1	-2.0	17.0
Manufacturing	5 685.9	6 660.4	7 159.9	7 926.0	18.0	18.1	18.3	18.9	5.4	7.5
Construction	1 029.1	1 613.1	1 782.5	1 857.4	3.3	4.4	4.6	4.4	16.2	10.5
Subtotal goods	17 725.5	20 805.2	22 065.2	23 395.0	56.2	56.6	56.5	55.2	5.5	6.1
Electricity, gas and water	344.9	443.2	474.2	531.1	1.1	1.2	1.2	1.3	8.7	7.0
Transport and communications	2 260.0	2 599.7	2 760.9	3 208.7	7.2	7.1	7.1	7.2	4.8	6.2
Subtotal basic services	2 604.2	3 042.9	3 235.1	3 739.8	8.3	8.3	8.3	8.5	5.3	6.3
Commerce and finance	5 261.6	6 150.6	...	...	16.7	16.7	...	...	5.3	...
Government	1 846.8	2 040.1	...	...	5.9	5.5	...	...	3.4	...
Ownership of dwellings	1 852.8	2 226.4	...	...	5.9	6.0	...	...	6.3	...
Miscellaneous services	2 214.9	2 529.7	...	...	7.0	6.9	...	...	4.5	...
Subtotal other services	11 176.1	12 946.8	13 782.7	14 882.1	35.5	35.1	35.3	35.6	5.0	6.5
Total	31 453.0	36 665.7	38 939.0	41 664.7	100.0	100.0	100.0	100.0	5.2	6.2

Source: For 1965 to 1969, ECLA estimates based on official statistical of the Banco de la República de Colombia; for 1970, ECLA estimates based on preliminary data quoted by the Planning Office in El esfuerzo interno y las necesidades de financiamiento externo para el desarrollo de Colombia (CIAP/462).

N.B. Owing to the general practice of calculating the individual activities and the total independently, the sum of the former do not necessarily correspond exactly to the latter.

a/ Preliminary figures.

Table 2

COLOMBIA: TOTAL SUPPLY AND DEMAND

	Millions of pesos at 1960 prices			Percentage structure			Annual growth rates		
	1965	1968	1969a/	1970a/	1965	1968	1969a/	1970a/	1970a/
<u>Total supply</u>	27 738.4	44 572.6	47 414.5	51 278.7	112.1	113.7	113.2	115.1	5.7
Gross domestic product	33 659.8	39 214.5	41 645.8	44 561.0	100.0	100.0	100.0	100.0	5.2
Imports b/	4 078.6	5 358.1	5 768.7	6 717.7	12.1	13.7	13.9	15.1	9.5
<u>Total demand</u>	27 738.4	44 572.6	47 414.5	51 278.7	112.1	113.7	113.2	115.1	5.7
Exports b/	4 802.2	5 796.7	6 451.9	6 485.8	14.3	14.8	15.5	14.6	3.9
<u>Total investment</u>	6 005.8	7 606.3	7 750.8	8 719.6	17.8	19.4	18.6	19.6	8.2
Gross fixed investment	5 158.3	6 831.2	7 548.5	8 341.1	15.3	17.4	18.1	18.7	9.8
Public c/	883.2	1 912.5	...	...	2.6	4.9	...	...	29.5
Private c/	5 122.6	5 693.8	...	...	15.2	14.5	...	...	3.6
Construction	3 034.0	4 387.5	...	...	9.0	11.2	...	...	13.1
Machinery and equipment	2 124.3	2 443.7	...	...	6.3	6.2	...	...	4.8
<u>Total consumption</u>	26 930.4	31 169.6	33 211.8	36 073.3	80.0	79.5	79.8	80.2	5.0
General government	2 161.2	2 457.6	2 560.8	2 683.7	6.4	6.3	6.1	6.0	4.4
Private	24 769.2	28 712.0	30 651.0	33 389.6	73.6	73.2	73.7	74.9	5.0

Source: 1965-1969: ECLA, on the basis of data supplied by the Banco de la República de Colombia; 1970: ECLA estimates based on preliminary data supplied by the National Planning Department, quoted in the ICAP document "El esfuerzo interno y las necesidades de financiamiento externo para el desarrollo de Colombia".

a/ Preliminary.

b/ Goods and services, excluding factor payments.

c/ Including increases in stocks.

output rose 17 per cent to about 18,000 tons. Only 130,000 tons of cotton were produced in 1970 compared with an estimated 140,000 tons in 1969; since more than half this quantity is consumed by Colombia's expanding textile industry, the exportable surpluses are likely to diminish. As regards grains, the production of wheat and rice declined - the wheat crop was the smallest in twenty years - and that of barley, maize and sorghum increased. Output of fats has been stimulated by development measures and in 1970 it amounted to 115,000 tons. Other important agricultural products were bananas, whose production rose 3 per cent, and potatoes, which recovered from the decline in 1969. Cattle slaughtering increased by about 15 per cent.

In mining, the larger petroleum output failed to compensate for the decline in all other mining products except iron ore, and there seems to have been a net drop in the total for the sector.

In manufacturing, preliminary estimates indicate a growth of about 10.7 per cent. Total production consists of non-durable consumer goods (55 per cent), intermediate goods (32 per cent), durable consumer goods (6 per cent), capital goods (4 per cent) and other products (3 per cent). Some important projects have been promoted recently: in basic chemicals, the caustic soda plant in Mamonal, and in petrochemicals, the plant operated by Monómeros Colombo-Venezolanos Ltda. for the production of caprolactam. In the metal-transforming sector, measures have been taken to promote the motor-vehicle industry, which produced nearly 18,000 units in 1970 compared with 9,000 in 1968. In particular, the installation of the Sociedad de Fabricación de Automóviles S.A. in Envigado (Antioquia) was completed; half of its capital is owned by the Industrial Development Institute, which plans to produce 15,000 motor vehicles annually. In addition, work proceeded on the project to set up a motor-vehicle engine plant in Duitama (Boyacá), a joint undertaking of the Industrial Development Institute and the Renault company. Moreover, the assembly of railway wagons, the production of parts and components, and the building of fishing vessels were stepped up. At a different level is the programme to establish five development centres for artisan-type industry, the first of which was opened in med-year at Chamba (Tolima). The quality and low cost of some industrial products have made it possible to export them in

/considerable quantities

considerable quantities, e.g., textiles and, on a lesser scale, some manufactures of the wood, metal-transforming and chemical industries.

3. The public sector

The national government accounts reveal a significant increase in investment (at current prices), which was nearly one-third up on the previous year's level. Since current expenditure grew slightly faster than current income (by 24 and 22 per cent, respectively), the final deficit was nearly 85 per cent higher than in 1969. It is expected that more external credit will be used to cover this deficit (see table 3). Government investment expenditure accounted for only one-quarter of total public investment, which also included investment by autonomous and State enterprises. An analysis of the nature of this investment shows that it is almost equally distributed between investment in physical assets and investment for development purposes. Two-thirds of the investment in physical assets is covered by resources from the national budget and external credit; on the other hand, half the investment for development purposes is covered by special funds, and only 37 per cent by budget resources and domestic credit (see table 4).

4. The external sector

The value of exports of goods increased by nearly 19 per cent, in terms of dollars at current prices. This increase is attributable to higher prices, since the volume grew by only 0.6 per cent. In particular, the price of coffee rose 35 per cent, while oil prices fell 1.6 per cent. As regards the value of Colombia's secondary exports - i.e., other than coffee and petroleum - there was a decline in cotton, sugar and bananas, but this did not cancel out the increases in the other export items, especially meat, textile and plastic products, footwear and electrical appliances. Imports of goods, in dollars at current prices, rose by 26.7 per cent, after the partial lifting of the restrictions imposed in the previous three-year period. Since there was also an increase in net profit and interest payments, the deficit on current account was 284 million dollars, as against 210 million the year before. Colombia's net capital inflows are estimated at 319 million dollars, so that the balance of payments reflected a surplus of 35 million, which includes the use of all the 21 million dollars' worth of special drawing rights assigned to it (see table 5).

Table 3

COLOMBIA: OPERATIONS OF THE CENTRAL GOVERNMENT

(Millions of pesos)

	1960	1965	1969	1970
1. Current income	2 139	3 948	9 581	11 691
2. Current expenditure	1 264	3 010	6 418	7 955
3. Current saving (1-2)	+875	+938	+3 163	3 736
4. Investment	811	1 330	3 987	5 261
5. Surplus (+) or deficit (-) (3-4)	+64	-392	-824	-1 521
6. Financing the deficit or absorption of the surplus	-64	+392	+824	-1 521
Net external credit	-20	-85	1 270	1 745
Net domestic credit (individuals)	-147	7	-336	-13
Net registered domestic credit of the Banco de la República	103	468	-166	-207
Capital Resources			2	
Variation in cash reserves			7	
Floating capital		2	47	

Source: Departamento Nacional de Planificación, Plan de Desarrollo Económico y Social 1970-1973, vol. I, chap. II, table 2.

Table 4

COLOMBIA: CENTRAL GOVERNMENT INVESTMENT IN PHYSICAL ASSETS AND
FOR DEVELOPMENT, BY SOURCE OF FINANCING, 1970

(Thousands of pesos)

	Investment in physical assets	Development investment	Total
National Budget	3 409 120	2 118 154	5 527 274
Reserves	467 824	108 403	576 227
External credit	3 724 880	875 037	4 599 917
Domestic credit	770 527	1 711 481	2 482 008
Transfer payments	384 201	102 481	486 682
Miscellaneous	2 077 203	5 359 939	7 437 142
<u>Total</u>	<u>10 833 755</u>	<u>10 275 495</u>	<u>21 109 250</u>

Source: Departamento Nacional de Planificación, Plan de Desarrollo Económico y Social 1970-1973, chap. XI, table 1A.

Table 5

COLOMBIA: BALANCE OF PAYMENTS, 1960-1970

(Millions of dollars)

	1960	1965	1968	1969	1970
a) Current account					
Exports of goods and services	589	709	788	877	1 014
Goods fob	495	591	609	672	799
Services	94	118	179	205	215
Imports of goods and services	-634	-653	-866	-950	-1 137
Goods fob	-496	-430	-615	-648	-821
Services	-138	-223	-251	-302	-316
Net external investment income	-40	-79	-113	-144	-170
Net private transfer payments	-	4	3	7	9
Balance on current account	-85	-19	-188	-210	-284
b) Capital account					
Net external financing (a+b+c+d)	85	19	188	210	284
a) External non-compensatory capital	31	12	263	319	319
Direct investment	3	10	48	54	
Long- and medium-term loans	35	116	221	288	
Amortization payments	-26	-41	-94	-100	
Short-term liabilities	14	-81	60	42	
Official transfer payments	5	8	28	35	-35
b) Domestic non-compensatory capital or assets	14	-17	-34	-14	
c) Errors and omissions	44	67	12	-45	
d) Compensatory movements (increase -)	-4	-43	-53	-50	...
Balance-of-payments loans, trade arrears, deferred payments, IMF position and other liabilities of the monetary authorities	-	47	62	45	
Amortization payments	-60	-92	-38	-55	
Movements of gold and foreign exchange reserves (increase -)	56	2	-77	-40	

Source: IMF, Balance of Payments Yearbook, vols. 17 and 22.

5. Progress in planning

In 1970, the National Planning Department presented the economic and social development plan and the public investment plan for the period 1970-1973.

The basic objective of Colombia's economic and social policy is to improve the well-being of the whole community, which in its turn is linked to the production and distribution of goods and services and the use of the factors of production, particularly labour. Therefore, the attainment of these objectives depends on the rate of growth of the national product and the general distribution of income and employment.

The focal point of the proposed policy is employment. In this respect, it is held that there would only be conflict between present employment and growth if institutional or sociological restrictions caused absolute saving to decline as employment increased or income distribution improved. This contradiction would be avoided, however, if a growth rate of about 7.5 per cent were achieved, thus enabling the new labour force to be absorbed. The repercussions of this growth target were calculated on the basis of a demand model, by means of which the main macroeconomic variables were projected. Thus, public expenditure should grow, in real terms, at an annual rate of 8 per cent, the increase in prices should be not more than 7 per cent annually and the flexibility of the exchange rate should be maintained. As regards domestic saving, a slight increase over the past rate would be necessary (from 18.4 per cent of the product in 1960-1968 to 19.4 per cent in 1970-1973); a cumulative balance-of-payments deficit of only 2.9 million dollars would be expected for the period 1970-1973, which presupposes an annual growth of 8.7 per cent for imports.

The public investment plan includes projects which require disbursements of 20,700 million pesos at current prices in 1970, rising to 28,350 million in 1973. To arrive at this figure, account was taken of the domestic saving capacity, the possible availability of external saving and the policy measures contained in the over-all plan for this period. In line with these over-all trends, the effects on employment and income redistribution were taken into account in each case. Of the total investment

/at the

at the beginning of the period (1970), 34.5 per cent would be used for physical infrastructure, 44.9 per cent for developing productive activities and 20.6 per cent as a direct contribution to social development. By the end of the period covered by the plan (1973), the proportions would be 30.5, 46.3 and 23.2 per cent, respectively. In a sectoral analysis, two-thirds of total investment in 1970 would be channelled into transport (15.7 per cent), agriculture (36 per cent) and energy (13.4 per cent). In the 1973 projections, the amounts allocated to transport and energy would drop, while investment in agriculture, manufacturing and environmental sanitation would rise. As to financing, an external contribution is envisaged of around 20 to 22 per cent of total investment in the four years covered by the plan. It will also be necessary to use internal credit, which would cover about 13 per cent of investment. In addition, an increase in the rates of several taxes and an adjustment in the petroleum companies' exchange rate are envisaged.

/COSTA RICA

COSTA RICA

1. Recent economic trends

Costa Rica enjoyed a fairly satisfactory economic growth in 1970, maintaining the trend it had followed in the past six years. The gross domestic product rose by about 7.5 per cent, which is slightly higher than the average annual rate for the period 1965-1969 (see table 1)

On the supply side, the main impetus was provided by agriculture -- based mainly on the production of bananas and coffee -- and by the dynamic growth of manufacturing, construction, transport and communications, and energy. Factors influencing demand, in addition to the highly favourable export prices, were the stepping up of investment and the high consumption levels. Total demand thus expanded by 10.3 per cent, easily outstripping the gross domestic product and causing some maladjustment which had to be corrected by a marked rise in imports of goods and services (see table 1 and 2).

Apart from the boom in exports, which increased by 19.1 per cent in terms of constant prices, there was an unusually sharp rise in prices (7.9 per cent). These developments seem to be associated with the rapid economic development achieved in recent years, which has begun to create disequilibria and strains between the production sector and the structure of demand.

In this respect, the favourable trend of external demand has probably stimulated the allocation of resources in the external sector. In fact, higher relative prices, attracted private investment to activities such as the production of bananas, livestock for export, coffee, and some manufactures, at the expense of certain basic consumer goods. In this respect, the accelerated growth of agriculture is attributable above all, to export crops, while the average growth in crop production for domestic consumption was slower than population growth. In other words, the concentrated flow of resources to certain sectors resulted in a supply which met the requirements of external demand rather than those of the home market.

/Table 1

Table 1

COSTA RICA: GROSS DOMESTIC PRODUCT, BY SECTOR OF ECONOMIC ACTIVITY

Sector	Millions of colones at 1960 prices				Percentage share			Annual growth rate		
	1965	1968	1969	1970	1965	1968	1969	1965-1968	1969	1970
Agriculture	842.3	992.1	1 037.7	1 121.2	24.9	23.9	23.5	5.6	4.6	8.0
Manufacturing a/	591.9	793.5	858.6	931.0	17.5a/	19.1a/	19.4a/	10.3a/	8.2a/	8.4a/
Construction	181.2	200.8	214.2	233.1	5.4	4.8	4.8	3.5	6.7	8.8
Subtotal goods	1 615.4	1 986.4	2 110.5	2 285.2	47.8	47.8	47.7	7.1	6.2	8.3
Electricity, gas and water	54.4	72.4	80.5	90.1	1.6	1.7	1.3	10.0	11.2	11.9
Transport and communications	150.3	184.6	199.3	216.6	4.5	4.4	4.5	7.1	8.0	8.7
Subtotal basic services	204.7	257.0	279.8	306.7	6.1	6.2	6.3	7.2	8.2	9.6
Commerce and finance	511.2	645.6	698.7	752.3	15.1	15.6	15.8	8.1	8.2	7.7
Government	371.6	471.5	507.0	541.5	11.0	11.4	11.5	8.3	7.5	6.8
Ownership of dwellings	314.4	342.8	356.1	367.1	9.3	8.3	8.1	2.9	3.9	3.1
Miscellaneous services	360.1	447.6	471.0	498.8	10.7	10.8	10.6	7.5	5.2	5.9
Subtotal other services	1 557.3	1 907.5	2 032.8	2 159.7	46.1	46.0	46.0	7.0	6.6	6.2
Total	3 383.8	4 168.5	4 446.0	4 779.1	100.0	100.0	100.0	7.2	6.7	7.5

Source: ECLA estimates based on official statistics.

N. B. Owing to the general practice of calculating the individual activities and the total independently, the sum of the former do not necessarily correspond exactly to the latter.

a/ Including mining.

/During 1970

During 1970, Costa Rica maintained the accelerated growth of domestic demand deriving mainly from larger export earnings, which rose by 22.2 per cent (in terms of current prices) and whose multiplier effect pushed up gross fixed investment by 11.8 per cent and consumption by 8.2 per cent. Public investment, because of its growth and composition, also brought greater pressure to bear on supply (see table 2).

Thus, a sizable imbalance is observable between domestic supply, which is growing at a comparatively sluggish pace, and the highly dynamic behaviour of demand. Therefore, the 7.9 per cent price rise in 1970 seems to be the outcome of these trends; it was especially marked in the case of agricultural products for domestic consumption, whose prices rose 27 per cent in the course of the year.^{1/} Other circumstances were also instrumental in bringing about a more accelerated rise in prices: the tariff surcharges established in the San José Protocol, the introduction three years ago of new taxes on consumption, and the increase in the minimum wage. Thus, in spite of the large amount spent on purchases from abroad, the above factors produced inflationary pressures which are fairly unusual in the Costa Rican economy.

As part of this system of operation, the Government has prepared an eight-year programme designed to improve agricultural productivity, particularly of small farmers and co-operatives, the aim being to increase the production of basic grains, tropical crops, dairy products and pigs. Easier access to credit and technical assistance are important factors in the promotion of these activities. However, the effects of these measures are unlikely to be felt before the medium term, or for quite a long time. It is, therefore, a matter of urgency to establish machinery which will prevent credit from expanding too much or being channelled into activities that are not directly productive, while at the same time an attempt should be made to eliminate part of the excess liquidity and, above

^{1/} Some government measures for the creation of greater incentives through price increases are partly aimed at encouraging domestic production of essential products, particularly milk and basic grains.

Table 2

COSTA RICA: TOTAL SUPPLY AND DEMAND

	Millions of colones at 1960 prices				Percentage structure			Annual growth rates		
	1965	1968	1969	1970a/	1965	1968	1969	1970a/ 1965-1968	1969	1970a/
<u>Total supply</u>	5 033.7	6 134.8	6 588.2	7 267.2	132.6	131.1	132.0	135.5	6.8	7.4
Gross domestic product	3 797.5	4 678.1	4 989.6	5 363.4	100.0	100.0	100.0	100.0	6.7	7.5
Imports b/	1 236.2	1 456.7	1 598.6	1 904.5	32.6	31.1	32.0	35.5	9.7	19.1
<u>Total demand</u>	5 033.7	6 134.8	6 588.2	7 267.2	132.6	131.1	132.0	135.5	6.7	10.3
Exports b/	759.2	1 222.9	1 299.1	1 385.2	20.0	26.1	26.0	25.8	5.1	6.6
<u>Total investment</u>	1 045.7	975.9	1 062.4	1 308.7	27.6	20.9	21.3	24.4	-6.7	23.2
Gross fixed investment	830.3	879.5	960.4	1 073.7	21.9	18.8	19.2	20.0	1.9	11.8
Public	220.0	158.3	175.2	...	5.8	3.4	3.5	...	-10.4	...
Private	610.3	721.2	785.2	...	16.1	15.4	15.7	...	5.7	...
Construction	385.4	431.0	460.0	503.2	10.2	9.2	9.2	9.4	3.8	9.4
Machinery and equipment	444.9	448.5	500.4	570.5	11.7	9.6	10.0	10.6	0.3	14.0
<u>Total consumption</u>	3 228.8	3 236.0	4 226.7	4 574.0	85.0	84.1	84.7	85.3	3.9	8.2
General government	499.2	608.0	665.5	725.4	13.1	13.0	13.3	13.5	6.8	9.0
Private	2 729.6	3 327.2	3 561.2	3 848.6	71.9	71.1	71.4	71.8	3.9	8.1

Source: ECLA estimates based on official data.

a/ Preliminary.

b/ Goods and services, excluding factor payments.

/all, to

all, to bolster public saving. Otherwise, the deterioration in the external sector position may make it necessary to adopt measures which will slow down Costa Rica's development and, in the long run, be counter-productive.

The exceptionally high level reached by imports in 1970 (335 million dollars) seems to be due to two kinds of factors: structural, deriving from production and foreign trade procedures, and circumstantial, forming part of the high liquidity conditions prevailing in the economy since 1967.

It is not unlikely that stocks have been accumulated or unusually large purchases made partly in view of the expectations aroused by the promulgation of the San José Protocol, the removal of barriers to external purchases through the adoption of a single exchange rate at the end of 1969, and more liberal credit terms.

2. The fiscal situation, credit expansion and economy policy

The pressures on the financial situation of the central government were not so heavy as they had been the three preceding years, owing to the rapid increase in the current income of the central government (23.4 per cent up to October 1970). Total expenditure, while pursuing and even intensifying (13.6 per cent) the upward trend followed in previous years, expanded much less than current income. As a result, the total deficit was reduced by 25 per cent in 1970, to approximately 93 million colones (see table 3).

Table 3

COSTA RICA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE AND FINANCING OF THE DEFICIT, 1966-1970

	1966	1967	1968	1969	September	
					1969	1970
<u>Current account</u>						
Current income	521.7	541.1	639.0	719.8	481.5	594.3
Current expenditure	530.4	583.9	609.6	710.8	...	...
Current saving	-8.7	-42.8	29.4	9.0	...	...
<u>Capital account</u>						
<u>Total</u>	<u>145.3</u>	<u>163.7</u>	<u>175.8</u>	<u>178.7</u>	<u>...</u>	<u>...</u>
Real investment	64.1	72.1	59.1	63.5	...	...
Financial investment	2.6	4.7	4.5	2.0	...	...
Amortization	73.9	68.8	80.9	75.4	...	...
Transfer payments	4.7	18.1	31.3	37.8	...	...
Difference	154.0	206.5	146.4	169.7	...	...
Extra-budgetary expenditure	5.5	7.4	8.8	24.1	22.3	9.6
<u>Total deficit</u>	<u>159.5</u>	<u>213.9</u>	<u>155.2</u>	<u>193.8</u>	<u>123.4</u>	<u>92.8</u>
Thirteenth month and other adjustments	11.1	4.4	7.4	-11.0	-43.4	-32.0
<u>Adjusted deficit</u>	<u>170.6</u>	<u>218.3</u>	<u>162.6</u>	<u>182.8</u>	<u>80.0</u>	<u>60.8</u>
<u>Financing of the adjusted deficit</u>						
External credit	<u>24.8</u>	<u>33.6</u>	<u>6.7</u>	<u>18.4</u>	<u>17.6</u>	<u>30.7</u>
Domestic credit	<u>141.8</u>	<u>162.6</u>	<u>164.3</u>	<u>128.7</u>	<u>55.6</u>	<u>56.4</u>
Direct credit	2.0	3.0	22.2	1.7	-	-
Floating debt	19.3	39.8	42.3	-32.6	-53.1a/	-76.6a/
Sales of bonds	73.0	66.9	103.6	185.6	127.8	123.9
Treasury bills	50.6	50.4	-	-27.5	-30.5	-13.1
Other (net)	-3.1	2.5	-3.8	1.5	11.4b/	22.2b/
<u>Other special income</u>	<u>-6.0</u>	<u>22.1</u>	<u>-8.4</u>	<u>35.7</u>	<u>6.8</u>	<u>-26.3</u>

Source: Ministry of Finance, Planning Office and Central Bank.

a/ Including drafts and obligations payable and authorized floating debt.

b/ Including deposits and other liabilities, overdrafts, accounts receivable, special fund and miscellaneous.

/The monetary

The monetary expansion, the improvement in world coffee prices, more efficient administrative control and the growth of imports were other factors which accounted for the marked increase in indirect tax revenue, which was basically responsible for the rapid growth of current income. In fact, while direct taxes declined from 122 to 111 million colones,^{2/} indirect taxes rose from 346 to 490 million colones (at a rate of 41.2 per cent). The revenue from consumer taxes (which rose by 47.3 per cent), sales taxes (18.1 per cent), import duties (49.8 per cent) and taxes on coffee increased from 1.8 million to about 38 million colones, owing to the appreciable rise in world prices and improved tax collection.

Although only incomplete data are available, it would seem that central government current expenditure continued to rise rapidly and that real investment expenditure increased by about 14 per cent, mainly as a result of the expansion of infrastructural works.

During 1970, the fiscal deficit was increasingly covered credit obtained from external sources. In contrast with the previous year, when recourse was had mainly to internal loans, the central government, by speeding up the negotiations under way and initiating new ones, succeeded in appreciably increasing the share of external capital (50 per cent) and in some degree alleviating the pressure on domestic resources. The larger inflow of funds was also due to fiscal adjustments and an improvement in the balance-of-payments position over the past three years.

As in 1969, the domestic resources were obtained mainly from private saving tapped by means of sales of bonds subject to repurchase agreements. At the end of October sales of bonds amounted to about 124 million colones. Moreover, progress continued in the programmes for the administrative organization and improvement of the public finances, which resulted in advances of a different kind, notably a decrease in the floating debt, more liberal regulations governing Treasury bills, and an increase of about 35 million colones in available cash holdings (see table 3).

^{2/} The decrease of 11 million colones in direct taxes was essentially attributable to administrative questions connected with land taxes, most of which were transferred to the municipalities.

Since 1965, balance-of-payments problems had prompted the adoption of a fairly restrictive credit policy. A different policy seems to have been followed in 1970, however, as is shown by the fact that credit grew by 11.3 per cent, reaching a level of about 1,548 million colones. The ceilings on a certain proportion of bank loans were raised somewhat and everything seems to indicate that the operations not subject to any control continued to increase. Agricultural and manufacturing credit therefore, rose much more rapidly than in 1969 (by 7.5 and 16.2 per cent, respectively), thus stimulating the development of these productive activities. Livestock credit, while expanding at a slower rate (13.9 per cent, compared with 16.5 per cent in 1969), remained fairly high. Lastly, there were considerable increases in credit extended to the trade (19.8 per cent), services (14.2 per cent) and housing (13.5 per cent) sectors, which was in contrast to the sluggish growth and even the contractions in earlier periods.

More credit for the private sector also meant that, in spite of the high liquidity coefficients prevailing since 1967, the banks had to resort to rediscount operations, which had greatly diminished in previous years. Operations for 70.7 million colones were affected up to October 1970 (compared with 15.6 million in 1969), another reason for this being the slow rate of growth of deposits.

The strengthening of credit partly explains why the expansion of the money supply should have come mainly from internal sources, while external transactions and losses of reserves had essentially constricting effects. The money supply grew by 11 per cent, a net result of the increase in domestic funds (19.1 per cent) and the contraction in external funds (down by 14 per cent). This once again confirms, from a different angle, that the more liberal bank credit policy favoured the emergence of pressures on existing real resources which the increase in domestic supply was unable to offset.

3. The external sector and the balance of payments

The deficit on current account was appreciably larger (32.1 per cent) than in 1969, conservative estimates showing that it came close to 75 million dollars. Net capital inflows were insufficient to cover it, since for the first time since 1967 there was a drop of some 15 million dollars in the net international reserves, which included the use of nearly all the 4.2 million units of special drawing rights assigned to Costa Rica.

Although exports increased at a rapid rate (22.2 per cent), the vigorous growth of imports (23.7 per cent) was responsible for accentuating the external disequilibrium. Even though purchases of goods and services had grown at consistently high rates in the last few years, the combination of other factors operating in 1970, as mentioned above, helps to explain the situation. Thus, approximate figure of 335 million dollars could not be fully offset by exports or net inflows of capital (see table 4).

Sales of bananas continued to soar, reaching a level of 63 million dollars and steadily gaining on sales of coffee, Costa Rica's main export item. The rise in banana sales is due to the larger volume exported: 42.3 million boxes, or an increase of 22 per cent over 1969. The provision of credit, combined with favourable world prices and propitious natural conditions for banana cultivation, has been the mainspring of the production boom in the last few years. Negotiations are now afoot with Japanese investors to provide independent producers with up to 5 million dollars in financing.

However, the floods which affected the banana plantations at the end of 1970 may well bring down exports by over 8 million boxes in 1971.

Coffee exports amounted to about 70 million dollars, even though advantage was not taken of the high world prices, since the volume of exports declined by 3.9 per cent vis-a-vis increases of 30.6 per cent in average quotations on the world market. There seems to be some interest in developing programmes for improving the yields of small and medium-size coffee producers through the adoption of more sophisticated techniques and methods, which will make it possible in future to take advantage of improvements in world prices without the risks involved in extending the cultivated area.

Table 4

COSTA RICA: BALANCE OF PAYMENTS, 1966-1970

(Millions of dollars)

	1966	1967	1968	1969 _{a/}	1970 _{a/}
a) Current account					
Exports of goods and services	163.4	173.5	207.1	227.4	277.8
Goods (f.o.b.)	135.7	143.3	170.0	189.6	237.1
Services	27.7	30.2	37.1	37.8	40.7
Imports of goods and services	-201.0	-215.5	-240.0	-271.0	-335.2
Goods (f.o.b.)	-162.1	-173.7	-193.7	-221.5	-281.3
Services	-38.9	-41.8	-46.3	-49.5	-53.9
Net external investment income	-14.9	-17.0	-18.6	-16.4	-21.5
On direct investment	-7.1	-9.1	-10.8	-9.1	...
Other	-7.8	-7.9	-7.8	-7.3	...
Net private transfer payments	5.0	4.5	3.8	3.8	4.5
<u>Balance on current account</u>	-47.5	-54.5	-47.7	-56.3	-74.4
B) Capital account					
<u>Net external financing</u>	47.5	54.5	47.7	56.3	74.4
a) Non-compensatory external financing	49.8	66.5	53.5	68.9	...
Direct investment	14.6	15.7	4.5	24.1	...
Long-and medium-term loans	25.4	19.6	20.9	14.1	...
Official	2.3	3.7	-4.3	0.3	...
Income	8.4	7.6	4.2	15.1	...
Amortization payments	-6.1	-3.9	-8.5	-14.8	...
Private	23.1	15.9	25.2	13.8	...
Income	37.7	36.3	50.2	23.1	...
Amortization payments	-14.6	-20.4	-25.0	-9.3	...
Short-term liabilities	6.3	26.9	23.3	26.1	...
Official transfer payments	3.5	4.3	4.8	4.6	4.9
b) Non-compensatory domestic capital and assets	-6.9	-10.5	-15.2	-8.5	...
Long term	-0.3	-0.6	-1.8	-5.1	...
Short term	-6.6	-9.9	-13.4	-3.4	...
c) Errors and omissions	0.1	15.5	17.4	12.5	...
d) Compensatory financing (increase -)	4.5	-17.0	-8.0	-16.6	...
Balance-of-payments loans, trade arrears, deferred payments, IMF position and other liabilities of the monetary authorities	32.2	8.9	3.5	5.3	...
Amortization payments	-29.7	-24.5	-10.0	-15.3	...
Gold and foreign exchange (increase -)	2.0	-1.4	-1.5	-6.6	...

Source: IMF and Central Bank.

a/ Preliminary figures.

b/ Estimates.

/Since the

Since the world supply of cocoa grew faster than demand there was a drop in international prices. Costa Rica's sales fell from 7.1 million dollars in 1969 to only 1.8 million in 1970, not only for the above reason but also because there was a decline in production owing to resources being switched to the production of other crops that were favoured by the trend of relative prices (i.e., bananas) (see table 5).

Although the volume of exports of livestock and fresh meat was the same as in 1969 (16.8 million kilogrammes), the rise in world prices brought the total value of sales up to 17.6 million dollars. Lastly, exports of manufactures, more of which went to the Central American Common Market, increased more rapidly as intra-regional trade relations gradually reverted to normal. Exports of manufactures from January to August 1970 amounted to 32.3 million dollars, which represents a 22.2 per cent increase over 1969. Especially noteworthy were the increments in sales of clothing; refrigerators; gasoline, diesel and other petroleum fuels; cellophane, and paper and paperboard articles; electric cells and batteries; footwear; and radio and television sets.

As regards the structure of imports, it is quite probable that the stepping up of industrial activities favoured an increasing volume of imports of capital goods and inputs or raw materials, and that the high level of government investment, especially in transport, contributed to the substantial increase in imports of capital goods for that sector. Moreover, the coming into force of the San José Protocol must have induced Costa Rica to increase its imports, particularly of consumer goods.

Although there are no complete or detailed data available on the capital account, some general developments may be outlined. First, as mentioned above, the net capital inflows were insufficient to cover the deficit on current account, and this seems to have been mainly due to the inadequate net inflow of private capital. In spite of the more intensive use of import financing of different kinds, including speculative financing, and the small increase in direct investment, this inflow of capital was not enough to compensate for the outflow of short-term capital and the cost of purchases abroad.

Table 5

COSTA RICA: TOTAL EXPORTS OF MAIN PRODUCTS, 1966-1970

Product	1966	1967	1968	1969	1970 ^{a/}	Annual percentage growth rate			
						1967	1968	1969	1970
<u>Millions of dollars</u>									
Bananas	29.2	30.9	42.8	51.5	63.0	5.8	38.5	20.3	22.9
Coffee	52.6	54.8	55.3	55.8	70.0	4.2	0.9	0.9	25.4
Cocoa	3.1	3.1	3.0	7.1	1.8	-	-3.2	136.7	-74.6
Fresh meat	5.5	8.6	12.0	15.1	17.6	56.4	39.5	25.8	16.6
<u>Total</u>	<u>135.7</u>	<u>143.3</u>	<u>170.0</u>	<u>189.6</u>	<u>237.1</u>	<u>5.6</u>	<u>18.6</u>	<u>11.5</u>	<u>25.1</u>
<u>Millions of dollars at 1960 prices</u>									
Bananas	26.7	27.6	41.1	50.6	61.7	3.4	48.9	23.1	21.9
Coffee	51.6	62.3	64.5	63.7	61.2	20.7	3.5	-1.2	-3.9
Cocoa	3.8	3.6	2.6	4.5	1.5	-5.3	-27.8	73.1	-66.7
Fresh meat	4.2	6.1	8.6	9.9	9.9	45.2	41.0	15.1	-
<u>Total</u>	<u>131.7</u>	<u>144.7</u>	<u>175.3</u>	<u>189.6</u>	<u>204.4</u>	<u>9.9</u>	<u>21.1</u>	<u>8.2</u>	<u>7.8</u>

Source: ECLA, on the basis of official statistics.

^{a/} Preliminary figures.

/There was

There was, moreover, a smaller increase in the inflow of capital in the public sector in general. In the first nine months of the year, it had increased by only about 20 million dollars, compared with 25.6 million in 1969, a decline which must be ascribed mainly to the policy of reducing the indebtedness of the national banking system, since on the whole the rest of the public sector increased its capital inflows, in particular the National Housing and Urbanization Institute, the Universidad de Costa Rica, the Costa Rican Electric Power Institute and the Cartago Municipal Electricity Authority (Junta Administrativa de Servicios Eléctricos Municipal de Cartago - JASEC).

The balance-of-payments prospects are somewhat uncertain. The expected drop in banana sales owing to the floods that affected banana plantations at the end of 1970 may have an adverse effect on exports in 1971.

Similarly, if the present declining trend in prices of the type of coffee sold by Costa Rica continues, the larger quota which has been assigned to it for the period 1970/71 (63,438 tons) may be appreciably reduced. Added to this are the difficulties besetting the Common Market, which may also hamper sales of manufactures to other countries in the area.

As regards imports, it is to be hoped that the circumstances or the speculative factors occurring in 1970 will disappear and that a slower economic development in 1971 will ease the existing pressure on external purchases. Nevertheless, if the high liquidity rates, the accelerated growth of government expenditure and the liberal credit policy were to continue, the growth of imports might gain momentum, which would result in bottlenecks and pressures on the external current account.

/CHILE

CHILE

1. Economic trends in 1970

In 1970 Chile's gross domestic product grew by 2.5 per cent, i.e., at a slightly higher rate than its population, an estimated 2 per cent or so a year. The Chilean economy is therefore still growing at the same growth rate as it has been since 1967 (the growth rates for the past years being 2.3 per cent in 1967; 2.9 per cent in 1968; and 3.1 per cent in 1969). Real income increased by only 1.4 per cent in 1970 since the terms-of-trade effect worsened as a result of the fall in copper prices on the world market.

Trends in the goods-producing sectors show a recovery in agricultural production - largely due to good weather - though not in livestock production, and the increase in manufacturing and especially in mining was very small. Construction grew at a higher rate than in 1969 thanks to the expansion of the public works programme. In the service sectors there was a marked rise in the production of electric power, while commerce slackened (see table 1).

Domestic demand expanded at a lower rate than during the previous year. Gross fixed investment was again its most dynamic component, showing a rise of 5 per cent, with increases of 4.5 per cent in machinery and equipment and 5.5 per cent in construction. Total consumption rose by 2.6 per cent.

In the external sector, the main features were, first, the fall in world prices for copper, which kept down the growth rate of exports, and, second, the increase in imports. However, there was a significant reduction in net remittances of profits and interest, so that the increase in the deficit on current account between 1969 and 1970 was within reasonable bounds. Thanks to this and to the smaller net inflow of non-compensatory capital, the balance-of-payments surplus was 123 million dollars in 1970, 60 million less than the final figure for 1969.

/Table 1

Table 1

CHILE: GROSS DOMESTIC PRODUCT, BY SECTOR OF ECONOMIC ACTIVITY

Sector	Millions of escudos at 1960 prices				Percentage share			Annual growth rate		
	1965	1968	1969	1970 ^a	1965	1968	1969	1965-1968	1969	1970 ^a
Agriculture	501.1	593.8	572.2	606.7	10.2	10.8	10.1	5.8	-3.6	6.0
Mining	480.0	536.7	550.0	552.2	9.8	9.7	9.7	3.8	2.5	0.4
Manufacturing	1 245.6	1 425.1	1 470.7	1 482.5	25.3	25.8	25.9	4.6	3.2	0.8
Construction	236.8	220.0	229.7	242.3	4.8	4.0	4.0	-2.4	4.4	5.5
Subtotal goods	2 463.5	2 775.6	2 822.6	2 883.7	50.1	50.2	49.7	4.1	1.7	2.2
Electricity, gas and water	69.2	79.0	84.0	90.6	1.4	1.4	1.5	4.5	6.3	7.8
Transport and communications	519.3	561.9	583.8	594.3	10.5	10.2	10.3	2.7	3.9	1.8
Subtotal basic services	588.5	640.9	667.8	684.9	12.0	11.6	11.8	2.9	4.2	2.6
Commerce and finance	799.7	945.2	1 020.1	1 062.1	16.3	17.1	18.0	5.7	7.9	4.1
Government	240.2	261.7	272.7	276.2	4.9	4.7	4.8	2.9	4.2	1.3
Ownership of dwellings	255.3	270.0	273.1	274.2	5.2	4.9	4.8	1.9	1.1	0.4
Miscellaneous services	565.3	623.9	619.9	638.5	11.5	11.3	10.9	3.3	-0.6	3.0
Subtotal other services	1 860.5	2 100.8	2 185.8	2 251.0	37.9	38.1	38.5	4.1	4.0	3.0
Total	4 813.9	5 426.4	5 595.3	5 735.2	100.0	100.0	100.0	4.1	3.1	2.5

Source: For 1965 to 1969, ECLA estimates based on official ODEPLAN statistics; for 1970, ECLA estimates based on preliminary data supplied by ODEPLAN.

N. B. Owing to the general practice of calculating the individual activities and the total independently, the sum of the former do not necessarily correspond exactly to the latter.

a/ Preliminary figures.

/The government

The government sector showed the growth, in real terms, of current expenditure which was greater than that of current income, and this meant that government saving remained at the same level government. As public investment rose slightly, the government deficit increased.

Lastly, it is interesting to note that in 1970 the inflationary trends were somewhat confusing. The consumer price index went up 34.9 per cent during the year, compared with 29.3 per cent in 1969; on the other hand the wholesale price index figures were 33.7 per cent in 1970 and 39.4 per cent in 1969.

2. Major production sectors

Production in the agricultural sector rose by 6 per cent as a result of the 13 per cent increase in crop farming, which reflects a recovery in crop production after the prolonged drought of the last few years. Cereals, pulses, potatoes and industrial crops showed increases of 15, 40, 13 and 35 per cent, respectively; whereas grape production remained at the same low level as the previous year.

Contrary to the increased production of nearly all crops, there was a 1 per cent decline in livestock production, which can be explained by an estimated drop of over 5 per cent in meat production (cattle and pigs), offset to some extent by small increases in the production of poultry and eggs and by a 9 per cent increase in milk production.

Mining more or less stagnated in 1970; there was a drop in production of all the important items, with the exception of small- and medium-scale copper mining, which increased by about 7 per cent. The output of large-scale copper mining fell by 1.5 per cent owing to technical difficulties and a few brief strikes in the Chuquicamata and El Teniente mines, while the effect of the new investment programme was felt only in the El Salvador mine and, in the last quarter, the El Teniente mine. Coal and nitrate production dropped substantially, by 12 and 14 per cent respectively, and the production of iron ore fell by 2 per cent. Crude petroleum production also declined by 7 per cent, as a result of the policy of maintaining reserves which means that output is regulated according to the results of new drilling and exploration.

/Manufacturing production

Manufacturing production rose by a mere 0.8 per cent, and the sluggish trend shown by the industrial sector in the last few years was, therefore, accentuated. In the traditional industries production fell by 0.3 per cent as a result of substantial reductions in the output of food and beverages, but these were offset to some extent by increased production of clothing and footwear. There was an estimated increase of 2 per cent for the intermediate industries as a whole, where quite large increases in the production of wood, chemicals and rubber, were counterbalanced by decreased output of petroleum products and coal, non-metallic mineral products, and paper and pulp. The industries producing durable consumer goods showed an estimated increase of 1.4 per cent, mainly as a result of an expansion of motor-vehicle production.^{1/}

The construction sector is estimated to have grown by 5.5 per cent; this can be explained to a large extent by the tremendous impetus given to public works during the year and, to a lesser degree, to the construction of buildings other than housing, which rose in nominal value by 56 and 49 per cent respectively.^{2/} These increases were offset by a drop in housing construction.

The volume of goods produced and the larger imports of goods would seem to indicate that there was an increase of 3.5 per cent in commerce. Electricity, gas and water production seems to have risen by 7.8 per cent, mainly owing to an 8 per cent increase in electricity generation.

^{1/} The estimated changes in the level of manufacturing production during 1970 were based on the information available for the period from January to August. The average for these months was about 1.5 per cent above that of the same period for 1969. On the basis of incomplete and qualitative information for the period from September to December - when the new trends resulting from the election of a new President at the beginning of September began to make themselves felt - increase for the whole year was estimated at 0.8 per cent.

^{2/} To give an idea of the real implications of these figures, it may be noted that the value of the instalment of the Housing Corporation (CORVI), which is an indirect indication of the cost of construction, rose by 32 per cent between 1969 and 1970.

3. Total supply and demand

Total goods and services available in 1970 exceeded the previous year's volume by about 3 per cent. As in previous years, the 6 per cent growth of total imports was a basic factor in the evolution of total supply (see table 2).

On the demand side, a relatively high growth rate (6 per cent) was maintained in exports - although lower than that of the previous year. Fixed gross investment rose by 5 per cent and its components - construction and machinery and equipment - by 5.5 per cent and 4.5 per cent, respectively. There was a drop in the growth rate of imports of capital goods compared with 1968 and 1969; the slower growth of such imports in 1970 is largely explained by the reduction in purchases of machinery and equipment under the expansion programme for the copper industry, which had already reached an advanced stage by the end of 1969.

Total consumption grew by 2.6 per cent, that is, at a rate similar to that of the previous year. According to the partial information available, the consumption of the public sector grew faster than total consumption, largely owing to the significant increase in real wages and salaries paid by the central government. Central government current expenditure rose by about 20 per cent in real terms, while current income rose by approximately 15 per cent, mainly as a result of higher taxation, a larger share in large-scale copper mining, and roughly equal increases in revenue from almost all the important direct and indirect taxes. Thus government saving remained at about the same level as the previous year, and as there was a moderate increase in government investment, the government sector ended with an increased deficit. Eighty per cent of the deficit was financed by internal loans and the remaining 20 per cent from external credit.

Table 2

CHILE: TOTAL SUPPLY AND DEMAND

	Millions of pesos at 1960 prices				Percentage structure			Annual growth rates		
	1965	1968	1969	1970a/	1965	1968	1969	1970a/	1965-1968	1969
<u>Total supply</u>	6 036.6	6 962.6	7 264.4	7 485.1	113.6	116.3	117.6	118.2	4.9	4.3
Gross domestic product	5 313.1	5 989.2	6 175.6	6 330.0	100.0	100.0	100.0	100.0	4.1	3.1
Imports b/	723.5	973.4	1 088.8	1 155.1	13.6	16.3	17.6	18.2	10.4	11.8
<u>Total demand</u>	6 036.6	6 962.6	7 264.4	7 485.1	113.6	116.3	117.6	118.2	4.9	4.3
Exports b/	746.6	799.1	854.8	906.4	14.0	13.3	13.8	14.3	2.3	7.0
<u>Total investment</u>	278.5	1 013.4	1 122.2	...	18.4	16.9	18.2	...	1.2	10.7
Gross fixed investment	855.6	947.4	983.3	1 032.5	16.1	15.8	16.0	16.3	3.4	3.8
Public	...	...	...	...	...	...	...	...	...	...
Private	...	...	...	...	...	...	...	...	...	...
Construction	510.7	484.6	515.8	544.2	9.6	8.1	8.4	8.6	-1.7	6.4
Machinery and equipment	344.9	462.8	467.5	488.3	6.5	7.7	7.6	7.7	10.3	1.0
<u>Total consumption</u>	4 311.5	5 150.1	5 287.4	5 426.2	81.1	86.0	85.6	85.7	6.1	2.7
General government	538.0	619.8	644.0	...	10.1	10.3	10.4	...	4.8	3.9
Private	3 773.5	4 530.3	4 643.4	...	71.0	75.6	75.2	...	6.3	2.5

Sources: 1965-1969: ECLA, on the basis of data supplied by ODEPLAN; 1970: ECLA estimates.

a/ Preliminary.

b/ Goods and services, excluding factor payments.

4. External sector and balance-of-payments

The expansion in external trade registered in previous years continued in 1970, although it levelled off somewhat. While exports of goods and services increased slightly, imports grew by 10 per cent, or 110 million dollars. However, it should be noted when considering the structure of the balance-of-payments current account, that the increase in earnings from exports of goods and services (27.5 million) was quite small, but there was a 59 million drop in remittances of profits. This drop was due to the State having a larger share of the capital of large-scale copper mining enterprises and the new tax on the overprice of copper, which was applied as from the second quarter of 1969. Under these conditions the deficit on current account was 74.5 million dollars - compared with 50 million in 1969 - and this coupled with a net inflow of non-compensatory capital of 197.7 million dollars produced a balance-of-payments surplus for the third year in succession. In 1970 the surplus totalled 123 million, including 22 million dollars of IMF Special Drawing Rights (see table 2).

The slow growth in the f.o.b. value of exports of goods in 1970 was largely due to a 0.8 per cent fall in the value of copper exports, itself a consequence of a 6.6 per cent drop in the average price of copper (the average price fell from 65.4 cents per pound in 1969 to 61.1 cents in 1970, and the quotation for the end of December 1970 was 47 cents).

The remaining important mining exports, such as iron ore, nitrate and molybdenum, showed a combined increase of a little over 10 million dollars.

Industrial exports, valued at about 107 million dollars, increased by 10 per cent as compared with the previous year. The largest increases were in chemical products, paper and pulp, basic metal products and electrical goods, although there was a reduction of 3.3 million in fish meal. Lastly, the value of agricultural exports rose by 2.3 million dollars in 1970, with increases in crops and fisheries products, and a crop in livestock.

Table 3
CHILE: BALANCE OF PAYMENTS, 1960-1970
(Millions of dollars)

	1960	1968	1969	1970 <u>a/</u>
a) Current account				
Exports of goods and services	550.5	1 030.0	1 261.0	1 288.5
Goods fob	480.0	914.0	1 129.0	1 145.5
Services	70.5	116.0	132.0	143.0
Imports of goods and services	-663.2	-954.0	-1 098.0	-1 209.0
Goods fob	-507.4	-730.0	-850.0	-928.0
Services	-155.8	-224.0	-248.0	-281.0
Net external investment income	-64.6	-215.0	-220.0	-161.0
Net private transfer payments	12.7	6.0	7.0	7.0
Balance on current account	-164.6	-133.0	-50.0	-74.5
b) Capital account				
Net external financing (a+b+c+d)	164.6	133.0	50.0	74.5
a) External non-compensatory capital	82.6	355.0	208.0	197.7
Direct investment	29.0	109.0	-6.0	
Long- and medium-term loans	50.5	291.0	344.0	
Amortization payments	-41.5	-109.0	-159.0	
Short-term liabilities	10.2	63.0	26.0	
Official transfer payments	34.4	1.0	3.0	-123.2
b) Domestic non-compensatory capital or assets	-8.7	-15.0	10.0	
c) Errors and omissions	45.6	-88.0	15.0	
d) Compensatory movements (increase -)	45.1	-119.0	-183.0	-123.2
Balance-of-payments loans, trade arrears, deferred payments, IMF position and other liabilities of the monetary authorities	59.9	62.0	43.0	
Amortization payments	-31.4	-98.0	-95.0	
Movements of gold and foreign exchange reserves (increase -)	16.6	-83.0	-131.0	

Source: IMF, Balance of Payments Yearbook, vols. 17 and 21; 1969: Central Bank.

/The growth

The growth in the f.o.b. value of imports of goods was mainly due to the marked increase (about 15 per cent) in imports of intermediate products, principally fuels, motor-vehicle parts and industrial products, which together rose by over 60 million dollars. Imports of both durable and non-durable consumer goods also rose significantly (by over 10 per cent compared with the previous year).

In imports of capital goods the increase was not so large (about 5 per cent) owing to a substantial drop (about 35 million) in imports of machinery and equipment for copper mining which offset the considerable increase in traditional imports of capital goods.

5. Price trends in 1970

The 1970 consumer price index shows that domestic prices soared once again; the rise was 34.9 per cent,^{3/} compared with 29.3 per cent in 1969. The rises in the prices of the main components of the index were 40.4 per cent for food; 28.7 per cent for housing; 28.7 per cent for clothing, and 35.1 per cent for "other items".

The wholesale price index did not follow suit. The rise over the past year December 1969 to December 1970 was 33.7 per cent, compared with 39.4 per cent in 1969. The rate of the general index in 1970 is explained by an increase of 33.9 per cent in locally produced products, and 33.5 per cent in imports. Among domestic products there were price increases of 35.4 per cent for agricultural products, 22.1 per cent for mining products and 34.2 per cent for manufactures.

It can be seen, therefore, that over the past year there were no significant changes in the relative price levels of the foods included in the wholesale price index, except for the real drop in mining products. This trend is confirmed if the average monthly figures in the wholesale price index for 1969 and 1970 are compared.

^{3/} Increase registered between December 1960 and December 1970 in the new index calculated by the National Statistical Institute with the base December 1969 = 100.

In its anti-inflationary policy, the Government was mainly concerned with trying to ensure that the rise in prices in 1970 should be no greater than in the previous year. With this aim in view, a series of measures similar to those described in the Economic Survey of 1969 were applied, in accordance with the basic "gradualist" approach to limiting inflation that Chile has been following since 1965.

It is interesting to note that the new departure in exchange policy which meant that the official exchange rate of the dollar remained the same throughout the last five months of the year, in contrast with the frequent changes over the past five and a half years, apparently had little stabilizing effect. Between December 1969 and August 1970, the bank rate for the dollar (selling) rose by 23 per cent, and there was a very similar rise (23.3 per cent) in wholesale import prices during the same period; but between August and December 1970 these prices rose by 8.2 per cent, in spite of the fact that the dollar rate did not change.

6. Salient features of the new Government's economic policy

According to one of its members, the main aim of the new Government's economic programme is to transform the traditional capitalist and dependent pattern of development, and in its stead to lay the foundations for a socialism whose characteristics and standards will be determined by the wishes of the Chilean people.^{4/}

To achieve this purpose, three priority fields of action have been singled out for economic policy.

The first is the restructuring of the economic system in three areas of ownership - State, semi-public and private - so that economic policy-making and development planning should be entirely in the hands of the State. These three areas have been further defined. The area of State ownership would comprise present and future public enterprises, the national and foreign monopolies that are to be expropriated, especially in

^{4/} See the statement made by Mr. Pedro Vuskovic, the Minister for Economic Affairs, Development and Reconstruction, to the CIAP Sub-Committee in Washington, D.C., on 22 February, 1971.

the sectors of basic resources, banking and finance, industry, distribution and foreign trade, and all activities that are of strategic importance for the country's development. The semi-public sector would comprise enterprises financed by a combination of national and foreign private capital and State capital, which would be managed and run jointly. The area of private ownership would cover most of the existing firms, and their treatment would be in accordance with the law on private industrial and commercial property.

The second priority field, it has been stated, is income redistribution; a vigorous programme of income redistribution is to be carried out for the benefit of the lowest income strata, which would mean that Chile would be able to sustain its economic development under new patterns of industrialization.

Thirdly, priority has been given to speeding up agrarian reform and making it more fundamental and far-reaching, because of the conditions in which most rural workers live and the obstacles to the development of agricultural production.

In addition, the basic lines of short-term economic policy have also been indicated in what has been called "the economic plan for 1971".^{5/} This plan included the basic elements of policies for the following: revival of the economy; employment; wage increases; containment of inflation; foreign trade; participation of private enterprise in national development; and the way in which the structural changes will be initiated.

It is appropriate to point out that the revival and employment policies play a central part in the "mobilization programmes" that have been drawn up. These should lead to a substantial expansion of domestic demand, since the Government intends to increase considerably public investment in housing, public works, and agrarian reform and, in general, all investment by public enterprises. Furthermore the redistribution of income, and the increase in exports to be expected from the incentives that are to be adopted, should increase demand.

5/ See Exposición sobre la política económica del gobierno y del estado de la hacienda pública, (Statement on the Government's economic policy and the state of the public finances) made by Mr. Américo Morrión, the Minister of Finance, to the Budget Committee on 27 November 1970. Dirección de Presupuestos, Ministerio de Hacienda, folleto N° 118.

The anti-inflation strategy is based on an incomes policy which consists in financing a substantial part of the wage increases while reducing the amount of earnings per unit produced, which means that the rises in prices of goods and services must be kept considerably below the wage and salary increases granted during the year. The proper handling of supply and co-ordination of the various financial policies followed are important factors in this strategy. In the latter connexion, it has been stated that the policy of periodic downward adjustments of the exchange rate will be discontinued in view of favourable balance-of-payments forecasts.

/ECUADOR

ECUADOR

1. Recent trends

The Ecuadorian economy appears to have expanded considerably during 1970, with a growth rate of gross domestic product of about 9.5 per cent (see tables 1 and 2). This boom is largely the result of an increase in the value of exports and new petroleum investment, involving the construction of infrastructure and facilities, at this stage. Several factors with a tremendous multiplier effect were therefore acting in combination. On the one hand, the economy of Ecuador has always been very sensitive to external stimuli, and during the last decade its growth has been closely linked to export agriculture: in 1970 the value of exports increased by 24 per cent, making up for the 10.7 per cent fall suffered in the previous year. In addition, there was an inflow of 70 million dollars in foreign investment, largely for the purpose of constructing the infrastructure needed for petroleum development. This work is being carried out under the agreement signed by the Government of Ecuador with Texaco-Gulf in June 1968; an oil pipeline is being laid and a road from the oil fields to Puerto Esmeraldas is under construction. The pipeline which will be 503 kilometres long, should be completed by the end of 1972 and will have a capacity of 250,000 barrels per day; it is therefore hoped that it will be possible to begin exporting petroleum in 1972. Meanwhile heavy investment is planned for the period from 1970 to 1972 and is expected to total 200 million dollars for the three-year period.

The major sectors of production recorded favourable trends. Export agriculture developed satisfactorily, especially the production of bananas, coffee and cocoa. Wheat, oilseeds and tobacco crops increased and agricultural production for domestic consumption rose, with the exception of rice. Industry was stimulated by the general revival of activity due to the petroleum infrastructure works. In addition, work has begun on the preparation of projects connected with the Andean Group market. The Andean Development Corporation has submitted a project for a joint Colombian and Ecuadorian cement plant, with a capacity of 300,000 tons per year, and the manufacture of telephones and electronic equipment is being considered, together with the installation of a petroleum chemical plant. Here also, the new drive in petroleum boosted construction.

/Table 1

Table 1
ECUADOR: GROSS DOMESTIC PRODUCT, BY SECTOR OF ECONOMIC ACTIVITY

Sector	Millions of sucres at 1960 prices				Percentage shares			Annual growth rates		
	1965	1968	1969a/	1970a/	1965	1968	1969a/	1970a/	1965-1968	1969a/1970a/
Agriculture	5 411	5 697	6 010	...	33.9	31.3	31.2	...	1.7	5.5
Mining	327	405	424	...	2.0	2.2	2.2	...	7.4	4.7
Manufacturing	2 754	3 086	3 205	3 577	17.3	16.9	16.6	16.9	3.9	3.6
Construction	658	836	871	956	4.1	4.6	4.5	4.5	8.3	4.2
Subtotal goods	2 150	10 023	10 510	...	57.2	55.0	54.5	...	3.1	4.2
Electricity, gas and water	225	288	319	...	1.4	1.6	1.7	...	8.6	10.8
Transport and communications	605	661	698	...	3.8	3.6	3.6	...	3.0	5.6
Subtotal basic services	830	949	1 017	...	5.2	5.2	5.3	...	4.6	7.2
Commerce and finance	2 189	2 477	2 650	...	13.7	13.6	13.7	...	4.2	7.0
Government	1 166	1 538	1 654	...	7.3	8.4	8.6	...	9.7	7.5
Ownership of dwellings	1 033	1 135	1 181	...	6.5	6.2	6.1	...	3.2	4.1
Other	1 593	2 102	2 261	...	10.0	11.5	11.7	...	9.7	7.6
Subtotal other services	5 981	7 252	7 746	...	37.5	39.8	40.2	...	6.6	6.8
Total product	15 962	18 225	19 273	21 104	100.0	100.0	100.0	100.0	4.5	5.7

Sources: 1965 to 1969, ECLA estimates based on official figures supplied by the Central Bank; 1970, estimates by the OAS Secretariat based on incomplete provisional data from the National Planning Board, published in El esfuerzo interno y las necesidades de financiamiento externo para el desarrollo del Ecuador, (CIAP/481).

Note: The annual growth rates of the gross domestic product do not correspond to those in the Total Supply and Demand table because the concepts are not the same (one set of figures is at factor cost and the other at market prices); also, the absolute figures at constant prices were calculated by applying a single deflator to the figures at current prices which was developed by the Central Bank for application to the principal macroeconomic aggregates.

a/ Provisional.

Table 2
ECUADOR: TOTAL SUPPLY AND DEMAND

	Millions of sucres at 1960 prices				Percentage composition			Annual growth rates		
	1965	1968	1969 a/	1970 a/	1965	1968	1969 a/	1970 a/	1965-1968	1969 a/ 1970 a/
Total supply	20 619	24 600	25 740	27 937	118.8	122.2	120.8	119.8	6.1	4.6
Gross domestic product	17 351	20 131	21 305	23 325	100.0	100.0	100.0	100.0	5.1	5.8
Imports b/	3 268	4 469	4 435	4 612	18.8	22.2	20.8	19.8	11.0	-0.8
Total demand	20 619	24 600	25 740	27 937	118.8	122.2	120.8	119.8	6.1	4.6
Exports b/	3 659	4 039	3 548	3 956	21.1	20.1	16.6	17.0	3.3	-12.2
Total investment	2 328	2 792	2 866	3 200	13.4	13.2	13.5	13.7	6.3	2.4
Gross fixed investment	2 008	2 399	2 457	...	11.6	11.9	11.5	...	6.1	2.4
Public	778	910	...	...	4.5	4.5	...	...	5.4	...
Private	1 230	1 489	...	...	7.1	7.4	...	...	6.6	...
Construction	1 431	...	...	...	8.2	...	...	...	...	...
Machinery and equipment	577	...	...	...	...	...	...	...	...	...
Total consumption	14 632	17 762	19 326	20 781	84.3	88.2	90.7	89.1	6.6	8.8
General government	2 369	2 973	...	...	13.6	14.8	...	...	7.9	...
Private	12 263	14 789	...	...	70.7	73.5	...	...	6.4	...

Source: 1965 to 1969, ECLA estimates based on official figures supplied by the Central Bank; 1970, for the product and investment, OAS estimates (see table 1); for the other items, ECLA estimates based on incomplete data in process of revision.

a/ Provisional.

b/ Goods and services, excluding factor payments.

Table 3 shows the cash reserve situation on the country's general budget. It should be noted that the deficit, which rose to 16 per cent of total expenditure in 1967, increased to one third of the total expenditure in 1968 and accounted for one quarter in 1970; over the period from 1967 to 1970 regular income grew at a rate of 15.4 per cent, while total expenditure rose by almost 20 per cent. The financing of the deficit in 1970 has been left to the Central Bank to a far greater degree than in previous years. The net indebtedness, including the domestic and external debt, has a minus sign because of the heavy amortization payments.

It is estimated that the annual price average for Quito in 1970 was 4.3 per cent higher than in 1969, when the increase recorded was 6.3 per cent. Taking the index for low- and medium-income families in Quito, prices rose 8.2 per cent between the end of October 1969 and the end of October 1970.

2. The external sector

The value of exports of goods - in dollars at current prices - increased by about 24 per cent; this is a recovery after the fall of 10.7 per cent in 1969. The notable increase was largely due to the rise in world prices for coffee and bananas; and even the significant drop in cocoa prices was partially offset by the increase in the volume of exports. The value of banana and coffee exports rose by 22 and 90 per cent respectively. As imports of goods and services grew by about 6 per cent, the balance-of-payments deficit on current account decreased from 102.7 million dollars in 1969 to 78.4 million dollars in 1970.

On capital account there was a significant increase in direct foreign investment, which showed a steady rise from 7.4 million in 1965 to 50 million in 1969 and 70 million in 1970. This increase was offset by an appreciable net outflow of short-term private capital; while net long-term loans remained at the same level as in 1969, there was a small balance-of-payments surplus of 2.7 million dollars, which includes nearly all the 4.2 million dollars allocation of special drawing rights (see table 4).

Table 3
ECUADOR: GENERAL STATE BUDGET, SITUATION OF CASH RESERVES
(Millions of sucres)

	1967	1968	1969	1970 <u>a/</u>
Regular income	2 340	2 556	2 926	3 600
Services budget	1 734	1 631	1 794	...
Development budget	606	925	1 132	...
Total expenditure <u>b/</u>	2 786	3 777	4 205	4 800
Services budget	1 793	2 141	2 531	...
Development budget	993	1 636	1 674	...
<u>Deficit</u>	<u>456</u>	<u>1 221</u>	<u>1 279</u>	<u>1 200</u>
Financing of the deficit	456	1 221	1 279	1 200
Net debt	112	378	162	-54
Net internal debt	278	556	426	} 480
Net external debt	166	176	131	
Minus: amortization payments	332	354	395	534
Consolidated Central Bank debt and/or overdrafts	10	429	447	1 162
Other loans <u>c/</u>	308	411	669	28
Use of cash reserves	16	3	1	64

Sources: El esfuerzo interno y las necesidades de financiamiento externo para el desarrollo de Ecuador, (CIAP/481), p. 29, based on data provided by the Budget Office and the National Planning and Co-ordination Board.

a/ Estimates.

b/ Excluding amortization payments on the public debt.

c/ Basically drawings on the accounts for the following financial year and contributions from special accounts.

Table 4

ECUADOR: BALANCE OF PAYMENTS

(Millions of dollars)

	1960	1965	1968	1969	1970 ^{a/}
<u>Current account</u>					
Exports of goods and services	154.9	196.6	225.1	203.1	248.8
Goods fob	146.3	180.7	210.7	188.1	233.0
Services	8.6	15.9	14.4	15.0	15.8
Imports of goods and services	-152.3	-201.0	-277.7	-283.7	-300.7
Goods fob	-109.8	-155.2	-212.7	-220.0	-235.0
Services	-42.5	-45.8	-65.0	-63.7	-65.7
Net external investment income	-22.8	-25.0	-27.1	-26.9	-31.0
Net private transfer payments	1.4	2.2	4.7	4.8	4.5
Balance on current account	-18.8	-27.2	-75.0	-102.7	-78.4
<u>Capital account</u>					
Net external financing	18.8	27.2	75.0	102.7	78.4
Non-compensatory external financing	28.0	30.4	72.0	78.7	...
Direct investment	8.0	7.4	29.2	50.0	70.0
Long-and medium-term loans	24.6	22.9	49.7	36.0	20
Amortization payments	-9.4	-9.7	-16.8	-16.7	
Short-term liabilities	-1.0	2.7	1.4	0.2	}
Official transfer payments	5.8	7.1	8.5	9.2	
Non-compensatory domestic capital or assets	-10.5	-1.5	-4.7	-1.7	-8.9
Errors and omissions	-2.3	-13.8	-3.6	29.4	
Compensatory movements (increase -)	3.6	12.3	11.3	-3.7	-2.7
Balance-of-payments loans, trade arrears, deferred payments, IMF position and other liabilities of the monetary authorities	0.8	11.8	9.7	18.0	...
Amortization payments	-	-2.2	-10.7	-13.5	...
Gold and foreign exchange reserves (increase -)	2.8	2.7	12.3	-8.2	...

Source: IMF, Balance of Payments Yearbook, vols. 17 and 21.

^{a/} ECLA estimates.

3. Economic policy measures

Among the economic policy measures adopted, one of the most important is the decision to allow only the Central Bank to purchase and sell foreign currency; also, in August the multiple exchange rate system was dropped and the sucre devalued from 18 to 25 to the dollar. At the same time the "monetary stabilization taxes" (gravámenes de estabilización monetaria) were abolished, the prior deposits for non-priority imports were gradually reduced, and an additional ad valorem tax of 20 per cent was imposed on these imports. With regard to taxation, some new taxes were introduced, such as the 4 per cent tax on commercial transactions, the 5 per cent tax on exports of handicrafts, 10 per cent taxes on bananas and shrimps, and 15 per cent on other products. However, at the same time a tax credit (abono tributario) was introduced to stimulate non-traditional exports.

Some institutional changes took place, affecting the organization of the economy, such as the creation of the Foreign Trade and Integration Institute (Instituto de Comercio Exterior e Integración), the Ministry of Production - which will co-ordinate agricultural and industrial production policies - and the Ministry of Natural Resources and Tourism; and in January 1971 the State Petroleum Corporation was established. It is responsible to the last-mentioned Ministry and will be able to operate singly, on its own account, or jointly with local or foreign private investors.

EL SALVADOR

1. Recent economic trends

The 4.3 per cent growth of the gross product in 1970 was better than the slow pace in 1969, but it still fell short of the 5.3 per cent attained for the three-year period 1965-1968. A sharp upturn in agricultural production and a notable increase in the purchasing power of exports were the main causes of the recovery of other variables, such as imports, investment and private consumption (see tables 1 and 2).

Despite the fall in the volume of exports for the second successive year, the exceptional conditions prevailing on the international coffee market enabled the economy to recover its external purchasing power after the significant drop of the previous year, owing, in part, to the renewed upswing in private consumption (6.4 per cent) and to the fact that imports were growing at a faster pace than the product.

Private investment grew by 5.7 per cent to around 214 million colones, but was still short of the levels achieved at the beginning of the five-year period, as a direct result of the current sluggishness of industry. The 1970 increase was reflected in a greater inflow of domestic capital and must be attributed, in part, to investment in the Acajutla refinery - which stopped production in the last few months of 1969 - and to financial incentives for the construction of housing.

Public investment remained practically stationary at the 1969 level. In addition to the slowness with which new projects were generated, and of the arrangements for obtaining foreign loans (which has been a matter of complaint for the last few years) the country was in financial difficulties for much of the year which were barely solved in the last quarter.

Stocks of goods doubled in 1970, mainly owing to the large volume of coffee from the 1969/70 crop that was not placed on the market because, among other things, the quota granted to El Salvador under the International Coffee Agreement was not large enough to encourage further production, (see table 1).

Table 1
EL SALVADOR: GROSS DOMESTIC PRODUCT, BY SECTOR OF ECONOMIC ACTIVITY

Sector	Millions of colones at 1960 prices				Percentage share			Annual growth rate		
	1965		1969a/		1965		1969a/		1965-1969	
	1965		1969a/		1965		1969a/		1965-1969	
Agriculture	513.2	563.3	578.6	619.1	28.6	26.9	26.7	27.4	3.1	2.7
Mining	2.8	2.8	2.8	3.0	0.2	0.1	0.1	0.1	-	-
Manufacturing	293.0	369.1	370.8	386.8	16.3	17.6	17.5	17.1	8.0	2.6
Construction	72.4	68.3	72.0	76.3	4.0	3.3	3.3	3.4	-1.0	5.4
Subtotal goods	881.4	1 003.5	1 032.2	1 085.2	49.1	48.0	47.7	48.0	4.4	2.9
Electricity, gas and water	28.9	41.9	44.3	47.8	1.6	2.0	2.0	2.1	13.2	5.7
Transport and communications	93.6	119.6	122.5	125.2	5.2	5.7	5.7	5.7	8.5	2.4
Subtotal basic services	122.5	161.5	166.8	173.0	6.8	7.7	7.7	7.7	2.6	3.2
Commerce and finance	425.5	491.1	502.3	518.1	23.7	23.5	23.2	22.9	4.9	2.3
Government	140.6	163.5	180.0	185.8	7.8	7.8	8.3	8.2	5.1	10.1
Ownership of dwellings	92.4	103.3	106.3	109.9	5.1	4.9	4.9	4.9	3.8	2.9
Miscellaneous services	133.5	168.4	178.0	187.8	7.4	8.1	8.2	8.3	8.0	5.7
Subtotal other services	792.0	926.2	966.6	1 001.6	44.1	44.3	44.6	44.3	5.4	4.4
Total	1 615.2	2 117.4	2 190.1	2 284.2	100.0	100.0	100.0	100.0	5.3	3.5

Source: 1965 to 1968: ECLA on the basis of data of Banco Central de Reserva de El Salvador, 1969-1970 ECLA estimates.

N.B. Owing to the general practice of calculating the individual activities and the total independently, the sum of the former do not necessarily correspond exactly to the latter.

a/ Preliminary figures.

Table 2

EL SALVADOR: TOTAL SUPPLY AND DEMAND

	Millions of colones at 1960 prices				Percentage structure			Annual growth rates		
	1965	1968	1969a/	1970a/	1965	1968	1969a/	1965-1968	1969a/	1970a/
<u>Total supply</u>	2 532.2	2 914.4	2 972.2	3 110.8	128.1	126.4	124.5	4.8	2.0	4.7
Gross domestic product	1 977.4	2 306.5	2 386.8	2 489.9	100.0	100.0	100.0	5.3	3.5	4.3
Imports b/	554.9	607.9	585.4	620.9	28.1	26.4	24.5	3.1	-3.7	6.1
<u>Total demand</u>	2 532.1	2 914.4	2 972.2	3 110.8	128.1	126.4	124.5	4.8	2.0	4.7
Exports b/	530.3	613.7	583.0	561.7	26.8	26.6	24.4	5.0	-5.0	-3.7
<u>Total investment</u>	307.0	271.2	283.7	311.6	15.5	11.8	11.9	-4.0	4.2	2.8
Gross fixed investment	296.3	265.0	269.4	280.8	15.0	11.5	11.3	-3.7	1.7	4.2
Public	83.6	63.8	67.4	67.2	4.2	2.8	2.8	-8.6	5.6	-0.3
Private	212.7	201.2	202.0	213.6	10.8	8.7	8.5	-1.8	0.4	5.7
Construction	116.5	117.2	123.6	131.0	5.9	5.1	5.2	0.2	5.5	6.0
Machinery and equipment	179.8	147.5	145.8	150.8	9.1	6.4	6.1	-6.4	-1.2	3.4
<u>Total consumption</u>	1 695.0	2 028.8	2 105.5	2 237.5	85.7	88.0	88.2	6.2	2.8	6.2
General government	166.3	206.5	224.7	231.9	8.4	9.0	9.4	7.5	8.8	3.2
Private	1 528.7	1 822.3	1 880.8	2 005.6	77.3	79.0	78.8	6.0	3.2	6.6

Source: 1965-1968: ECLA, on the basis of official statistics supplied by the Central Reserve Bank of El Salvador 1969-1970: ECLA estimates.

a/ Preliminary.

b/ Goods and services, excluding factor payments.

2. Production

Agricultural production was favoured by excellent weather conditions, which generated a big harvest for domestic consumption. In addition, the continuation of development programmes - technical assistance, improved seeds and fertilizers, and credit incentives to producers -, together with the financial backing of the supply authority (Instituto Regulador de Abastecimientos), led to considerable increases in the production of nearly all the important basic foods, including sugar cane.

The increased maize and bean harvests are of special importance. Apart from being larger than the 1969 harvests (by 32 and 18 per cent, respectively), they reflect a growing trend towards relieving the pressures on the country's capacity to import. The progress made in the cultivation of marginal land which, from 1965 onwards, was made free for other crops as the profitability of cotton cultivation fell, has enabled El Salvador to more than satisfy the current levels of domestic demand for maize,^{1/} and considerably to narrow the gap between domestic production and consumption of beans. In the case of beans, favourable prices on the world market acted as an additional stimulus to import substitution. The sorghum crop was up by 15 per cent compared with 1969, again reflecting the effects of the development programme and the good weather that prevailed during the crop year.

It should be mentioned, however, that the trend towards self-supply of maize, beans and sorghum - which has been strengthened by the problems connected with trade in basic products in the Common Market - makes the prospects for complementarity with the other Central American countries more remote for the time being, seeing that El Salvador is fundamentally an exporter of manufactures in the contest of intra-regional trade.

In contrast to the growth of the above activities, there was a decline in the volume of rice production for the second successive year compared with 1968, when there was a bumper crop which was difficult to market.

^{1/} The last crop probably provided a surplus of 60,000 tons, part of which was to be exported the following year.

Agricultural production for export grew less than production for domestic consumption as a whole. However, the increase in coffee output helped significantly to remedy the weakness of the agricultural sector during the past two years.

The two principal agricultural export products - coffee and cotton - showed signs of embarking on a new phase of development in 1970. The coffee harvest for 1969/70 was outstanding (144,000 tons), mainly because of favourable natural conditions and the continuous introduction of improved farming techniques.

Cotton production is beginning to recover from the crisis that hit it in the mid-1960s. Although recovery has been somewhat slow, it is the result of a whole series of measures which have included, more recently, direct financial support to cotton-growers. In 1970, the area sown for the next year's harvest was larger, but the area under cotton was still less than for the crop year 1964/65, which was the record year in El Salvador's cotton production.

Apart from agriculture, the other sectors that have the largest share in generating El Salvador's gross domestic product made no significant contribution to the expansion of the economy in 1970 (see table 2). It is estimated that the growth rate of manufacturing industry declined again, thus confirming the recessive trend in industry that is mainly due to the recent difficulties experienced in the Common Market.

Exports to the rest of Central America were less in 1970 than in 1969, accentuating the decline of the latter year. El Salvador increased its exports to Nicaragua and Costa Rica, and to Guatemala in particular, but these increases, which were partly due to the disposal of 1969 stocks, were not enough to offset the effects of the interruption of trade with Honduras (see table 4). Thus, the fact that most exports of manufactures go to the Common Market imposed such severe limitations on the growth of the sector that they even offset the incentives provided by the expansion of the domestic market, which in its turn was due to the improvement of agriculture and the favourable price ratio in the coffee industry.

/The slackening

The slackening of the rate of expansion of El Salvador's manufacturing sector stems primarily from the development of competitive activities in the region which have tended to saturate the Central American market with certain articles (especially ready-made clothing and footwear). Fiscal incentives, one of the principal instruments of regional industrial policy, have not yet been applied in accordance with the new line of action laid down in the Central American Integration Agreement of March 1969, a line aimed at preventing the countries from competing with each other to attract investment by granting excessive incentives. In El Salvador, this circumstance coincides with the termination of incentives to a large number of industries, that were initiated between 1960 and 1962 under the first law on industrial development; as a result, a climate of uncertainty, naturally discouraging to private investment, has been created.

In 1970, a new law on export promotion was passed, the trade promotion machinery set up the year before was strengthened, and the exchange restrictions on foreign capital were eased, in respect of the remittance of net profits, the repatriation of funds derived from the total or partial liquidation of enterprises (in accordance with the proportion of shares held by foreign investors), receipts from the sale of shares and other securities, and capital gains on such transactions. This last measure brought conditions in El Salvador into line with those prevailing in the other countries of the Central American Common Market in this respect. Attention was also paid to the legal form in which industrial and services enterprises were to be organized. A change in the commercial code was approved, making it easier to set up companies by limiting the liability of share-holders or partners to the amount of the assets they have invested in the company.

Lastly, it is estimated that the value added by commercial activities grew at a somewhat faster pace than in 1969 (3.3 per cent compared with 3.1 per cent), thanks to the favourable trends in agricultural output for domestic consumption and the increase in imports of goods, thus compensating for the slackening in the pace of industrial development (see table 2).

3. The external sector

According to provisional balance-of-payments estimates, in 1970 the deficit on current transactions with other countries fell from 23 to around 22 million dollars. The net inflow of non-compensatory capital more than made up for the deficit on current account, and hence the net external position of the monetary authorities was improved by 17.5 million dollars, which included a 13.3 million increase in foreign exchange reserves and 4.2 million in the form of special drawing rights, all of which were used.

The value of exports of goods and services increased by 9.5 per cent, but their volume again fell, being nearly 10 per cent less than in 1968 (see tables 3 and 4).

Coffee exports declined in volume for the third successive year. The large volumes of coffee produced for export in recent years have not been matched by similar increases in El Salvador's quota under the International Coffee Agreement. The quota was increased by 10,000 tons in 1970 in view of the upward trend in prices on the international market; however, prospects of higher prices seem to have led to the holding back of coffee sales and thus to a reduction of exports this year.^{2/} However, El Salvador managed to solve its problem of surplus stock to a certain extent, by selling 8,700 tons to new markets.

There was a significant increase in the volume of cotton exports, which benefited from a rise in prices. Sugar exports also recovered, mainly as a result of an increase of nearly 18 per cent in El Salvador's quota for the United States market. This helped to relieve the problem of the unsold surplus stocks which had arisen in previous years as a result of good cane harvests.

2/ The export quota for the 1969/70 crop year was originally 93,200 tons; with subsequent prorata and selective adjustments, the final quota came to 103,700 tons. The initial quota for 1970/71 is likely to be 109,600 tons, but the trends that are beginning to emerge in the prices of the type of coffee marketed by El Salvador may lead to a reduction of the quota to about 96,000 tons.

Table 3

EL SALVADOR: FOREIGN TRADE, 1966-1970

	1966	1967	1968	1969	1970	Annual growth rates				
						1967	1968	1969	1970	

Source: ECLA, on the basis of official statistics.

a/ Estimates.

Table 4
EL SALVADOR: BALANCE OF PAYMENTS, 1966-1970
(Millions of dollars)

	1966	1967	1968	1969 ^{a/}	1970 ^{b/}
a) Current account					
Exports of goods and services	209.4	228.6	234.7	223.9	245.2
Goods fob	189.5	207.9	211.7	202.2	222.7
Services	19.9	20.7	23.0	21.7	22.5
Imports of goods and services	-252.6	-255.3	-250.0	-248.4	-265.9
Goods fob	-201.5	-205.5	-198.2	-192.8	-205.4
Services	-51.1	-49.8	-51.8	-55.6	-60.5
Net external investment income	-7.6	-8.6	-8.2	-8.3	-9.0
On direct investment	-5.9	-6.5	-6.1	-6.1	...
Other	-1.7	-2.1	-2.1	-2.2	...
Net private transfer payments	6.5	7.7	6.0	9.8	8.0
Balance on current account	-44.3	-27.6	-17.5	-23.0	-21.7
b) Capital account					
Net external financing	44.3	27.6	17.5	23.0	21.7
a) External non-compensatory capital	29.9	31.6	17.7	30.1	29.0
Direct investment	8.5	9.8	8.2	7.0	9.0
Long- and medium-term loans	24.7	17.0	4.9	6.3	14.0
Official	4.6	2.4	3.0	4.3	2.4
Inflows	7.4	3.5	6.6	7.6	...
Amortization payments	-2.8	-1.1	-3.6	-3.3	...
Private	20.1	14.6	1.9	2.0	11.6
Inflows	21.9	16.7	4.6	5.7	...
Amortization payments	-1.8	-2.1	-2.7	-3.7	...
Short-term liabilities	-6.6	0.6	2.2	13.1	2.4
Official transfer payments	3.3	4.2	2.4	3.7	3.6
b) Domestic non-compensatory capital or assets	0.4	-1.2	-1.4	-1.1	...
Long-term	-0.6	-0.6	-1.6	-2.2	...
Short-term	1.0	-0.6	0.2	1.1	...
c) Errors and omissions	1.8	-4.0	2.0	-14.7	10.2 ^{c/}
d) Compensatory movements (increase -)	12.2	1.2	-0.8	8.7	-17.5 ^{c/}
Balance-of-payments loans, trade arrears, deferred payments, IMF position and other liabilities of the monetary authorities	20.3	1.0	8.1	13.3	...
Amortization payments	-2.5	-1.8	-1.7	-2.8	...
Movements of gold and foreign exchange reserves (increase -)	-5.6	2.0	-7.2	-1.8	...

Source: IMF, Banco Central de Reserva de El Salvador, and ECLA estimates.

^{a/} Preliminary figures.

^{b/} Estimates.

^{c/} Includes 4.2 million dollars under the head of special drawing rights with IMF.

/The fall

The fall in sales to the other Central American countries was estimated at 4.1 per cent at current prices. There was a considerable improvement in exports to Costa Rica and Nicaragua, countries with which El Salvador has had a favourable trade balance in recent years, and trade with Guatemala was in balance (see table 3).

At the same time, imports of goods and services increased by 7 per cent at current prices, reversing the downward trend of the last two years.

According to available information on capital movements, the over-all picture of external financing in 1970 showed no changes in respect of net inflows of non-compensatory funds. Long-term financing grew as a result of greater utilization of resources by the decentralized public sector; for instance, loan operations on the domestic market were speeded up by such institutions as the national housing association (Financiera Nacional de la Vivienda) and the rural workers' welfare association (Administración del Bienestar Campesino), but at the same time there was a reduction in the inflow of funds which in 1969 had provided a large measure of support to banking activities.

On the other hand, there was a large increase in the movement of capital under the heading "Errors and omissions".

4. Public finance, money and credit

Fiscal policy in recent years has tended to make direct taxation more stringent in order to compensate for the decline in revenue from taxes on foreign trade. Some attention has been focused on the improvement of tax collection, especially in the case of income tax. However, the measures that have had the greatest impact on the growth of central government income in recent years were those adopted in the field of indirect taxation. In this connexion, mention should be made of the surcharge of 30 per cent on customs duties provided for in the San José Protocol and imposed by El Salvador in 1969, and the change in the level of stamp duties. These two measures and the increase in revenue from the tax on coffee exports were mainly responsible for the increase of 7 per cent in current income in 1970 (see table 5).

Table 5

EL SALVADOR: CURRENT CENTRAL GOVERNMENT RECEIPTS AND EXPENDITURE, 1966-1970

(Millions of colones)

	1966	1967	1968	1969 ^{a/}	1970 ^{b/}
<u>Current income</u>	<u>219.5</u>	<u>221.2</u>	<u>224.8</u>	<u>243.7</u>	<u>261.0</u>
Tax revenue	<u>207.3</u>	<u>208.0</u>	<u>212.4</u>	<u>231.2</u>	<u>248.0</u>
Direct taxes	<u>39.1</u>	<u>44.1</u>	<u>59.6</u>	<u>65.1</u>	<u>57.0</u>
Income tax	33.8	37.9	44.4	38.1	...
Property tax	5.3	6.2	15.2	17.7	...
Emergency taxation	-	-	-	9.3	...
Indirect taxes	<u>168.2</u>	<u>163.9</u>	<u>152.8</u>	<u>165.1</u>	<u>191.0</u>
On imports	62.7	59.4	52.9	57.2	56.0
On exports	33.7	31.1	24.4	27.4	46.0
On consumption	55.3	56.4	57.6	60.7	63.0
Other	7.4	7.4	7.6	9.8	10.0
Stamp duties	9.1	9.6	10.3	11.0	16.0
Non tax revenue	<u>7.3</u>	<u>8.1</u>	<u>7.4</u>	<u>7.1</u>	...
Transfer payments and other receipts	4.9	5.1	5.0	5.4	...
<u>Current expenditure</u>	<u>185.4</u>	<u>189.6</u>	<u>210.0</u>	<u>227.4</u>	<u>250.0^{c/}</u>
Operating expenditure	<u>133.7</u>	<u>140.7</u>	<u>153.8</u>	<u>170.1</u>	...
Wages and salaries	112.3	119.1	125.2	131.1	...
Goods and services	21.4	21.6	28.6	39.0	...
Current transfer payments	<u>49.9</u>	<u>47.6</u>	<u>54.5</u>	<u>55.3</u>	...
To the private sector	16.5	16.6	17.7	18.3	...
To the public sector	30.8	30.5	35.4	35.9	...
To the external sector	2.6	0.5	1.4	1.1	...
Interest on public debt	1.8	1.3	1.7	2.0	...
<u>Current saving</u>	<u>34.0</u>	<u>31.6</u>	<u>14.8</u>	<u>16.2</u>	<u>11.0</u>

Source: Ministry of Finance.

^{a/} Preliminary.^{b/} Estimate.^{c/} Including expenditure under previous budgets.

/Central government

Central government current expenditure increased at an average rate of 7.3 per cent between 1965 and 1968, while there was practically no change in the levels of current income during the period. Consequently, there was a continuous decline in saving, from 50 million colones in 1965 to 15 million in 1968. Government spending grew rapidly in 1969 and 1970 (by 8 and 10 per cent, respectively), as a result of defence expenditure and the need to provide assistance for the refugees. Saving, which had recovered slightly in 1969, fell again in 1970, to a level estimated to be about one-fifth of the 1965 figure.

The tax system continues to depend on external sector trends, either through direct export and import taxes, or through indirect taxes on consumption and other domestic transactions. This situation has inevitably robbed investment programmes of continuity and delayed projects financed by external aid when there has been a slump in foreign trade, as in 1968 and 1969.

The main objectives of monetary policy in 1970 were to increase foreign exchange reserves and to ensure the continuance of the selective credit system which was put into operation between 1966 and 1968.

Thanks to the favourable conditions on the international coffee market, the weakening of demand for public sector credit - mainly owing to the slow growth of capital formation - and the repatriation of private capital, it was very easy to achieve the first objective. As regards the second, Central Bank credit policy and discount operations tended to favour agricultural and industrial exports.

As planned, less credit was granted to the private sector than in 1969 (it increased by 7.6 per cent compared with 9.8 per cent). The main support for growth was provided by the increase in savings and time deposits. Thus, semi-liquid domestic funds were used to meet long-term foreign obligations, which had grown fairly rapidly between 1967 and 1969.

The fall in the over-all growth rate of internal credit was reflected in a drop in the rate of increase of money in circulation. Given the growth of the real product and the rising trend of domestic prices, the over-all liquidity of the economy appears to have declined slightly compared with 1969.

WEST INDIES ASSOCIATED STATES 1/

1. Recent economic trends

The West Indies Associated States are all members of the Caribbean Free Trade Association (CARIFTA) within which they comprise the more closely-knit East Caribbean Common Market (ECCM). In terms of economic activity, these islands are primarily producers of agricultural commodities, concentrating on bananas and sugar, for metropolitan markets. There is little mining and quarrying and the manufacturing sector is also small. Their economy is very much dependent on foreign trade since imports and exports together account for more than 90 per cent of their gross domestic product. The islands have traditionally been producers and exporters of primary products. Their domestic markets are small and they have few natural resources.

The estimated gross domestic product at current factor cost rose from 147 million dollars in 1961 to 237 million in 1969, an average annual growth rate of over 6 per cent. The estimated increase for 1970 was 10 per cent (see table 1).

Economic expansion was irregular during the past decade but tended to increase gradually from an average annual rate of less than 6 per cent for the first five years to one of over 7 per cent for the remaining five. Using mid-1961 population data and the preliminary figures of the 1970 census, however, estimates of per capita gross domestic product showed an increase from 332 dollars to 520 dollars, owing to rising production and slow population growth (see table 2).

1/ Antigua, Dominica, Grenada, Montserrat, St. Kitts-Nevis-Anguilla, St. Lucia and St. Vincent, referred to in this study as either (ECCM) or Associated States. Unless otherwise stated, values are given in East Caribbean dollars, equal to 50 United States dollar cents.

Table 1

WEST INDIES ASSOCIATED STATES: GROSS DOMESTIC PRODUCT AT FACTOR COST

(Millions of East Caribbean dollars)

	1962	1967	1968	1969	1970	Percentage share		
						1962	1967	1968
Export agriculture	28.5	34.0	55.7	...	...	18.9	16.6	25.6
Other agriculture	23.0	20.7				15.2	10.1	
Mining and manufacturing	5.1	8.7	10.3	...	...	3.4	4.3	4.7
Construction	16.3	26.4	31.0	...	...	10.8	12.9	14.2
Distribution	21.9	28.5	31.0	...	...	14.5	13.9	14.2
Transport, storage and communications	3.9	7.6	7.2	...	...	2.6	3.7	3.0
Services	12.9	24.1	83.5	...	...	8.5	11.8	38.3
Ownership of dwellings	12.7	15.9				8.4	7.8	
Government	26.8	38.6				17.7	18.9	
<u>Total</u>	<u>151.1</u>	<u>204.5</u>	<u>218.7</u>	<u>(237)a/</u>	<u>(260)a/</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Source: United Nations, Yearbook of National Accounts Statistics 1969, vol. II, and information provided by ECLA.
a/ ECLA estimates.

/Table 2

Table 2

WEST INDIES ASSOCIATED STATES: SELECTED ECONOMIC INDICATORS, 1960 AND 1970

	1960	1970
Population (census)	430 900	475 100 <u>a/</u>
Annual growth rate (1960-1970)	-	0.98%
Land area (sq. miles)	1 187	1 187
Density of population (persons per sq. mile)	363	400.3
Per capita gross domestic product (East Carribbean dollars)	341.4 <u>b/</u>	521.9
Imports as a percentage of gross domestic product	59.1	71.2 <u>c/</u>
Exports as a percentage of gross domestic product	29.5	24.3 <u>c/</u>

a/ Including estimate for Antigua.

b/ Figure for 1961.

c/ Figure for 1968.

2. Agriculture

The relative share of the agricultural sector in the gross domestic product is estimated to have dropped from 34 per cent in 1962 to under 25 per cent in 1970. Traditional agricultural exports to metropolitan countries represent the sector's principal activity and have accounted on average for almost 18 per cent of the total gross domestic product. Their value rose by over 25 per cent between 1962 and 1970, and the production of bananas, now the main export product, had more than doubled by 1968. Sugar, which had previously been the most important product, has dropped off in recent years to the point where it now accounts for only 11 per cent of total exports.

Other staple crops are spices, sea island cotton, copra, cocoa and citrus fruit, but all of these except the last three have declined considerably in importance. The chief producers of bananas, cocoa, copra, nutmeg and mace are Dominica, Grenada, St. Lucia and St. Vincent. Most of the sugar now comes from St. Kitts, though Antigua and St. Lucia started growing it for export much earlier.

An attempt is being made to diversify agricultural production in all the islands, and considerable progress has been made with forestry in Dominica which now exports lumber.

3. Tourism

The small size and limited natural resources of the islands are compensated for by their natural beauty and by the proximity of the high-income countries of North America. Inevitably, considerable emphasis has to be placed on tourism as a vehicle for promoting economic development. Between 1963 and 1969, the number of tourists, excluding cruise-ship passengers, increased from 68,000 to 162,000, or 136 per cent, while expenditure on tourism rose annually at an average rate of 11 per cent to an estimated 39 million dollars in 1969. Although the average length of stay - and therefore the average expenditure - per tourist in each individual island has been reduced, this has been offset by the practice of including visits to several islands in a single trip to the area (see table 3).

/Table 3

Table 3

EAST CARIBBEAN COMMON MARKET COUNTRIES: SELECTED DATA ON TOURISM, 1963-1969

	Units	1963	1964	1965	1967	1968	1969
Number of tourists	Thousands	68.5	49.0	106.4	127.7	143.1	161.9
Estimated expenditure	Thousands of East Caribbean dollars	...	23.3	26.0	31.5	...	39.0
Per capita expenditure	Caribbean dollars	...	248.1	244.4	246.5	...	240.7
Tourist accommodation b/	Number of beds	2 290	2 594	2 648	...	3 991	4 107

Source: Abstract of Statistics of Leeward and Windward Islands and Barbados, N°2 Statistical Series: 1966; Report of the Caribbean Travel Association, 1968; United Nations, Tourism in the Eastern Caribbean Islands, final draft of a paper by the Department of Economic and Social Affairs, Centre for Development Planning, Projections and Policies.

a/ Excluding cruise-ship passengers.

b/ First-class hotels and guest-houses only.

/The expansion

The expansion in tourist earnings has brought greater requirements in terms of investment capital and agricultural and manufactured goods, most of which have to be imported, and this results in the loss of much of the income from tourism. The tourist industry nonetheless acts as a powerful stimulus for other sectors, particularly construction, agriculture and manufacturing.

4. Other sectors of economic activity

Under the impetus of the tourist trade, the Governments have launched accelerated construction programmes, with emphasis on hotels and infrastructural projects, including airports. The central government sector itself has expanded to more than 19 per cent of the gross domestic product and has taken the lead in promoting constructional and manufacturing activity. Construction has therefore come to account for over 14 per cent of the gross domestic product. Some growth is evident in the manufacturing sector, which is currently diversifying its production, but it still generates only a small part (about 5 per cent) of the product. It should be noted that under the system of classification adopted by these territories, agriculture includes sugar-milling and cotton-ginning, and manufacturing covers mostly tobacco products, beverages and some food processing.

Distribution, public utilities and rent of dwellings have not kept pace with the growth in the rest of the economy. The services sector, however, has expanded much more quickly, partly because of the increase in tourism and the rapid transformation of consumption patterns that seem so characteristic of developing countries undergoing an accelerated process of urbanization.

5. Foreign trade

Thanks to the existence of traditional links, the United Kingdom buys almost 70 per cent of the Associated States' exports and supplies them with some 30 per cent of their imports.

Next in order of importance is trade with the CARIFTA area, followed by the United States and Canada. Trade with continental Latin America is still negligible while imports from the United States and Canada have continued to increase, the area's exports to those countries have declined considerably during the decade.

/Intra-EECM trade

Intra-EECM trade is still very small, amounting to less than 2 per cent of the total. The main flows of trade are from St. Vincent to St. Lucia and Grenada, St. Kitts to Dominica, and Dominica to Antigua and St. Vincent. Most of this trade involves perishable foods, certain beverages, copra and edible oils. Re-exports of foreign merchandise between the territories are substantial and derive from trans-shipment of cargo borne by ocean-going vessels. Trade between the Associated States themselves is hampered by the similarity of their output, small size of their markets and the inadequate transport facilities.

The main trend is for imports to grow more rapidly than exports, with the result that there is a consistently large deficit on merchandise trade with all the major trading partners. Some of the visible trade deficit is being offset by the earnings of the fast-expanding tourist industry (see table 4).

The Associated States still depend largely upon income from food exports, which made up 87 per cent of the total in 1960, though this share has now dropped to 80 per cent. Bananas have replaced sugar as the major export commodity and currently account for about 50 per cent of total exports; exports of manufactured goods other than food have more than doubled and now represent more than 10 per cent of the total (see table 5).

On the import side, purchases of food have risen by about 70 per cent, of manufactures by 90 per cent and of fuels and lubricants by over 150 per cent in the past ten years.

/Table 4

Table 4

WEST INDIES ASSOCIATED STATES: VALUE OF TOTAL TRADE FOR SELECTED YEARS, 1960-1968

(Thousands of East Caribbean dollars)

Year	Imports	Exports	Balance
1960	78 649	39 257	39 392
1961	87 676	41 415	46 261
1963	94 432	45 701	48 731
1964	109 647	46 887	62 760
1965	125 029	53 400	71 629
1967	149 011	51 662	97 349
1968	155 759 <u>a/</u>	53 234 <u>a/</u>	102 525

Source: Official trade reports of member territories.

a/ The figures for Antigua and St. Vincent refer to 1967 as those for 1968 are not available.

Table 5

WEST INDIES ASSOCIATED STATES: MAJOR EXPORT CROPS

(Thousands of East Caribbean dollars)

Commodity	Unit	1960		1965		1968	
		Quantum	Value	Quantum	Value	Quantum	Value
Bananas	Tons	88 926	11 792	178 862	22 183	182 116	27 069
Cocoa	Tons	2 223	2 648	2 978	2 365	1 932	2 157
Arrowroot	Tons	3 129	1 437	2 627	1 280	1 262a/	386
Nutmeg and mace	Tons	717	3 165	1 681	5 763	1 492	3 017
Sweet potatoes	Thousands of pounds	5 399	163	5 079	153	...	...
Sugar	Tons	67 283	12 918	46 227	10 118	34 104	5 790
Copra	Tons	4 576	1 542	5 433	1 865	4 601	1 875
Citrus fruit	Tons	862	182	2 171	245	2 733	435
Lime juice	Gallons	400 000	671	428 755	707	252 866	656
Coconut oil	Thousands of pounds	2 087	554	2 580	681	...	...
Lime oil	Pounds	28 283	388	28 260	277	17 946	208
Cotton (Sea Island)	Pounds	827 127	378	349 441	456	87 315	76

Source: Official trade reports of member territories; The West Indies and Caribbean Yearbook, 1970 (Thomas Skinner and Co., Ltd., London).

a/ Crop year data.

/GUATEMALA

GUATEMALA

1. Recent economic trends

The growth rate of the gross domestic product in 1970 showed a satisfactory rise of 5.1 per cent, only very slightly lower than the previous year's increase of 5.6 per cent. In all sectors except agriculture and commerce the growth rate of production was lower than in the previous year; agricultural production rose by 3.8 per cent, an improvement on the last few years, and commercial activity which continued to show a growth rate of about 6 per cent. On the other hand the growth in total demand, mainly due to higher levels of investment and private consumption, led to a substantial increase in imports, since there was only a small expansion of domestic supply. (see tables 1 and 2.)

Manufacturing production continued to increase at the fairly rapid rate of 8 per cent, in response to the incentives provided by domestic and regional demand; however, it did not reach past years' high rates of 9 per cent or more.

The growth rate of construction, which increased considerably in 1969 (by about 10 per cent) was no more than 4 per cent during 1970, in spite of the greater impetus for public and private capital formation.

Electric power generating capacity expanded by 60 MW with the construction of the Jurún Marinalá hydroelectric power station, the first unit of which went into operation at the end of 1969 with 20 MW, and the remaining units at the beginning of 1970. This meant an increase in production of 9 per cent for the sector, slightly less than the previous year, owing to the fact that the hydroelectric plant replaced some of the energy previously generated at higher cost by thermoelectric plants. Public supply generation by thermoelectric plants fell from 409 GWh in 1969 to 280 GWh in 1970.

The increase in the generation of electric power during the last two years has made a big contribution towards overcoming one of the principal difficulties that has hampered economic development in general. It is obviously extremely important that the studies for the Atitlán project, which will generate approximately 400 MW, should be completed as soon as possible.

Table 1
GUATEMALA: GROSS DOMESTIC PRODUCT, BY SECTOR OF ECONOMIC ACTIVITY

Sector	Millions of quetzales at 1960 prices				Percentage share			Annual growth rate		
	1965	1968	1969a/	1970a/	1965	1968	1969a/	1965-1968	1969a/	1970a/
Agriculture	360.6	399.3	411.4	427.0	28.9	27.6	26.9	3.4	3.0	3.8
Mining	1.5	1.2	1.2	1.6	0.1	0.1	0.1	-7.2	-	33.3
Manufacturing	146.8	191.6	208.8	225.5	11.8	13.2	13.7	9.3	9.0	8.0
Construction	23.1	26.0	28.6	29.7	1.8	1.8	1.9	4.0	10.0	3.8
Subtotal goods	532.0	618.1	650.0	683.8	42.6	42.7	42.6	5.1	5.2	5.2
Electricity, gas and water	12.7	16.5	18.6	20.3	1.0	1.1	1.2	9.1	12.7	9.1
Transport and communications	58.4	63.2	67.9	69.9	4.6	4.3	4.4	2.7	7.4	2.9
Subtotal basic services	71.1	79.7	86.5	90.2	5.7	5.5	5.7	3.9	8.5	4.3
Commerce and finance	405.5	482.8	511.5	542.6	32.6	33.3	33.4	6.0	5.9	6.1
Government	66.5	74.8	81.2	84.2	5.3	5.2	5.3	4.0	8.6	3.7
Ownership of dwellings	99.4	109.3	112.5	115.7	7.9	7.5	7.3	3.2	2.9	2.8
Miscellaneous services	73.1	83.5	87.4	90.8	5.8	5.8	5.7	4.5	4.7	3.9
Subtotal other services	644.5	750.4	792.6	833.3	51.7	51.8	51.7	5.2	5.6	5.1
Total	1 254.5	1 457.2	1 539.1	1 617.3	100.0	100.0	100.0	5.1	5.6	5.1

Source: 1965 to 1970, ECLA estimates based on official Banco de Guatemala statistics.

N. B. Owing to the general practice of calculating the individual activities and the total independently, the sum of the former do not necessarily correspond exactly to the latter.

a/ Preliminary figures.

Table 2

GUATEMALA: TOTAL SUPPLY AND DEMAND

	Millions of quetzales at 1960 prices				Percentage structure			Annual growth rates		
	1965	1968	1969a/	1970a/	1965	1968	1969a/	1970a/	1965-1968	1969a/ 1970a/
<u>Total supply</u>	1 589.5	1 841.8	1 935.0	2 053.3	117.2	117.6	117.0	118.2	5.0	5.1
Gross domestic product	1 348.0	1 565.7	1 653.6	1 737.7	100.0	100.0	100.0	100.0	5.1	5.1
Imports b/	241.5	276.1	281.4	315.6	17.9	17.6	17.0	18.2	4.6	1.9
<u>Total demand</u>	1 589.5	1 841.8	1 935.0	2 053.3	117.2	117.6	117.0	118.2	5.0	5.1
Exports b/	225.4	282.6	315.9	310.8	18.5	18.0	19.1	17.9	7.8	11.8
<u>Total investment</u>	158.7	201.8	208.3	252.8	11.8	12.9	12.6	14.5	8.3	2.2
Gross fixed investment	150.5	198.1	211.9	234.1	11.2	12.7	12.8	13.5	9.6	7.0
Public	31.2	40.6	43.0	47.6	2.3	2.6	2.6	2.7	9.2	5.3
Private	118.7	157.5	168.9	186.5	8.8	10.1	10.2	10.7	9.9	7.2
Construction	61.8	70.9	...	...	4.6	4.5	...	...	4.7	...
Machinery and equipment	88.1	127.2	...	...	6.5	8.1	...	...	13.0	...
<u>Total consumption</u>	1 205.4	1 357.4	1 410.8	1 482.7	89.4	86.7	85.3	85.7	4.0	3.2
General government	91.3	97.6	106.7	110.5	6.8	6.2	6.4	6.4	2.2	9.3
Private	1 114.1	1 259.8	1 304.1	1 372.2	82.6	80.5	78.9	79.4	4.2	3.5

Source: 1965-1970: ECIA, on the basis of official statistics supplied by the Banco de Guatemala.

a/ Preliminary.

b/ Goods and services, excluding factor payments.

As a result of the government policy of allocating more funds for investment there was only a moderate increase in expenditure on services (public administration and defense), which rose by 3.7 per cent compared with almost 9 per cent in the previous year. "Other services" continued to expand at a rate that was only just above that of population growth. (see table 1.)

The increase in agricultural production (3.8 per cent) indicated a partial recovery after the decline registered in 1969 as a result of bad weather, but it failed to reach the 5.6 per cent, increase registered in 1968. Cotton production fell sharply mainly owing to the steady reduction of the area sown to cotton over the past few years; this can be attributed to the low returns on this crop, which requires continuing technical assistance and strong financial support to improve yields.

The expansion of crop production for domestic consumption continued to keep pace with population growth; the over-all increase is a reflection of the increase in the production of maize and bean, two of the most important products.

The commercial sector grew a little more than in 1969 (6.2 per cent) as a result of the relative recovery of agricultural production and the considerable increase in imports.

The growth of the domestic product described above and the substantial rise in purchases abroad resulted in a much larger total supply of goods and services than in 1969 (an increase of 6.1 per cent). The most dynamic factor in total demand was fixed capital formation, both public and private, which increased by over 10 per cent. Private consumption grew at a rate that was well above those of the last few years, but the same cannot be said of general government, whose policy of restricting current government expenditure, which was followed throughout the year, brought down the sector's rate of expansion considerably.

The smaller output of cotton in 1970 was reflected in a fall in cotton exports, which was not offset by the more favourable trends in production of other important export products; this led to a 1.6 per cent drop, at constant prices in total exports of goods and services.

The Guatemalan economy completed a relatively satisfactory three-year period of growth in 1970 (at about 5.5 per cent per year), which can be attributed to strong external demand and changes in the official policy, which had a favourable effect in channelling domestic and foreign resources towards development. However obstacles and disequilibria of different kinds made their appearance the most striking of which were difficulty in maintaining a satisfactory export rate and in collecting enough fiscal income to ensure continuity in the preparation and implementation of projects.

Further discouraging features were the sluggish and inadequate growth of agricultural production, and the meagre short-term prospects of expansion in manufacturing, which cannot be achieved without an expansion of the domestic market or better export performance.

These factors have led the authorities to adopt the development plan for the next five years (1971-1975) as government policy. This plan was drawn up by the Economic Planning Office and it attaches primary importance to development of the agricultural sector. Among the measures suggested are expansion of technical assistance and development services, introduction of modern farming methods, and improvement of marketing systems. The establishment of the Agricultural Development Bank (Banco de Desarrollo Agrícola) and the Agricultural Marketing Institute (Instituto de Comercialización Agropecuaria) and reorganization of the Ministry of Agriculture are the first institutional measures to be taken under the plan. It is hoped, through these measures, to raise the levels of living of a substantial section of the population and get the country's exports on their feet.

The mining programme, focused on nickel production, can also help to push up external earnings, as can the plan for encouraging tourism outlined in the development plan, and the projects aimed at increasing sales to the Common Market. Finally, the development plan includes procedures and measures to ensure satisfactory levels of expenditure and promote public saving, so that the public sector can provide the social and economic infrastructure that is considered essential if the country's growth rate is to be accelerated.

2. Trends in government income and expenditure

Fiscal policy continued to be aimed at improving tax collection and curtailing current expenditure, with the result that the central government saving on current account increased and the budget deficit was appreciably reduced.

Although public expenditure did not increase so much as in the previous year, a relatively large rise was recorded. Central government expenditure reached the figure of 173 million quetzales, with an annual increase of over 5 per cent (half of that registered in 1969). The highest rise was in investment expenditure (10.6 per cent), which totalled nearly 39 million quetzales, though this was still far below the level reached in the mid-1950s and also below the amount laid down in the development plans. The largest outlay was once again on roads, followed by agrarian and economic and social development (12 million quetzales). This, together with the continued decline in other public work expenditure exemplifies the changes in the structure of central government investment. Expenditure on electrification also fell as electrical projects were completed if the trends started in 1968 continue, substantial increases in investment are to be expected in the future, when current income rises and progress is made in the preparation and efficient implementation of projects.

As a result of the austerity programme, current expenditure rose by only 3.6 per cent. Operating costs actually rose somewhat higher (4.5 per cent), but the final result reflects the reduction in transfer payments other than service payment on the public debt, which was the only expenditure item to rise rapidly (9 per cent).

Encouraging features of the trends in current expenditure are that administrative costs were kept to their previous level while there was an increase in expenditure for social and cultural purposes.

Current income increased by 10 per cent to about 165 million quetzales as a result of the rise in tax revenue (10 per cent) and non-tax income (13 per cent). The rise in tax revenue was due to administrative and technical improvements in the system of tax collection, and to the substantial growth of imports. The charges collected under the San José Protocol probably amounted to nearly 7 million quetzales, as it came into full operation during the last few months of the year.

/Although tax

Although tax collection has risen in the last few years, the coefficient is still only 8 per cent, which is very low in relative terms.

Saving on current account showed a new increase during the year; however, a large part of the government deficit had to be met with external resources, totalling about 21 million quetzales.

3. Money and prices

Monetary and credit trends clearly reflect the slackening off in Guatemala's growth rate. The total credit extended by the banking system was appreciably lower than in 1969, despite the strengthening of its credit expansion capacity. Deposits in time and savings accounts, for which the legal cash ratio requirement is lower, rose by about 40 per cent up to September, compared with the same period in 1969; however, according to provisional information, credit to the private sector rose at a rate of only 5.5 per cent, half that recorded in 1969, and the government's net credit also grew at a slower rate.

The money supply increased by about 6 per cent, which was less than the gross product at current prices, so that the ratio between these two variables continued to fall.

With regard to prices the variations in some indices deserve special attention. The statistics available indicate that the retail price index for basic necessities rose by 3 per cent, much more than in any of the past few years, mainly because of the 5 per cent increase in food prices. Furthermore, the wholesale price index for local products (also in the capital) rose by nearly 4 per cent, the combined outcome of a similar increase in prices of foods and beverages and an 11 per cent increase in fuel prices. These price movements probably reflect the combined effect of slow growth in supply of agricultural products for the domestic market, and the direct and indirect results of higher prices for imports.

4. External trade and balance of payments

For the first time in the last five years, prices on the world market were particularly favourable for the over-all development of Guatemala's exports. While the volume of goods exports fell by 10.5 per cent, their value rose by 8.5 per cent. Although this increase in exports is quite large, it is not larger than in the last two years (see table 3).

/Table 3

Table 3
GUATEMALA: TOTAL EXPORTS OF MAIN PRODUCTS, 1966-1970

	1966	1967	1968	1969	1970 <u>a/</u>	Average annual growth rate			
						1967	1968	1969	1970
	<u>Millions of quetzals</u>								
Coffee	100.1	68.4	73.4	81.5	98.6	-31.7	7.3	11.0	21.0
Cotton	44.2	30.4	40.1	39.3	24.5	-31.2	31.9	-2.0	-37.7
Bananas	10.5	9.2	14.1	18.9	19.0	-12.4	53.3	34.0	0.5
Fresh meat	5.3	8.0	8.6	11.1	13.0	50.9	7.5	29.1	17.1
Sugar	6.0	8.9	8.0	6.7	8.9	48.3	-10.1	-16.2	32.8
Cardamom	2.4	2.3	1.9	2.5	3.1	-4.2	-17.4	31.6	24.0
Fish and shrimps	0.8	2.2	0.9	1.7	2.1	175.0	-59.1	88.9	23.5
Essential oils	1.7	2.1	1.7	1.8	1.9	23.5	-19.0	5.9	5.6
Chicle, raw and semi-processed	0.4	1.8	1.7	1.7	1.7	350.0	-5.6	-	-
Soluble coffee	0.9	1.2	1.2	1.4	1.2	33.3	-	16.7	-14.3
<u>Total</u>	<u>228.7</u>	<u>203.9</u>	<u>233.4</u>	<u>262.5</u>	<u>284.8</u>	<u>-10.8</u>	<u>14.5</u>	<u>12.5</u>	<u>8.5</u>
	<u>Millions of quetzals at 1960 prices</u>								
Coffee	102.0	75.8	88.0	93.0	88.4	25.7	16.1	5.7	-4.9
Cotton	44.0	28.4	32.2	36.4	22.8	35.5	13.4	13.0	-37.4
Bananas	7.6	6.3	10.3	13.0	13.0	-17.1	63.5	26.2	-
Fresh meat	2.2	3.3	3.5	4.6	4.8	50.0	6.1	31.4	4.3
Sugar	5.1	6.0	5.5	4.5	6.0	17.6	-8.3	18.2	33.3
Cardamom	...	...	...	...	...	...	...	...	...
Fish and shrimps	0.6	1.9	0.7	1.1	...	216.7	-63.2	57.1	...
Essential oils	1.9	2.2	1.4	1.2	...	15.8	-36.4	-14.3	...
Chicle, raw and semi-processed	0.4	1.6	1.5	2.2	...	300.0	-6.2	46.7	...
Soluble coffee	1.9	2.3	2.3	2.9	...	21.1	-	26.1	...
<u>Total</u>	<u>238.2</u>	<u>214.6</u>	<u>251.0</u>	<u>279.3</u>	<u>266.2</u>	<u>-9.9</u>	<u>17.0</u>	<u>11.3</u>	<u>-10.5</u>

Source: ECLA, on the basis of official statistics.

^{a/} Preliminary figures.

/Coffee exports

Coffee exports rose 21 per cent, which was the result of better world prices since the volume of exports fell nearly 5 per cent. The export quota for 1970/71 was fixed at 117 000 tons, 9 000 tons more than for 1969/70 and this, together with the price incentive, will almost certainly lead to a larger volume of exports in 1971.

There was a considerable drop in the volume of cotton exported (38 per cent), which was accompanied by a fall in terms of value. Since 1966, the best year for exports (44 million quetzales), there has been a downward trend, except for a temporary recovery in 1968 and 1969; prices have continued to be higher than in 1966, which means that the reasons for the decline are to be found not so much in a possible weakness of demand as in production problems, such as high overheads, pests, etc.

The strong upward trend in banana sales which started in 1968, was interrupted in 1970. The total value was almost exactly the same as for 1969, which is abnormal in view of the favourable conditions of demand and prices, prevailing throughout this year, and can only be explained by production difficulties.

The value of exports of fresh meat has been rising owing to increases in the volume of sales and in prices. Although the amount exported in 1970 was only 4.3 per cent higher than in 1969, the average export price rose by over 14 per cent, and foreign sales reached 13 million quetzales. There is an internal quota system for meat exports which is an indication of the more or less serious shortages in domestic supply. It has not yet been possible to implement a programme for the expansion of livestock production to meet domestic and foreign demand, although the first steps have been taken to give producers financial assistance.

As the unit value of sugar exports did not vary during 1970, the substantial increase of 33 per cent in sales was due to an expansion in the volume of exports, made possible by the larger quota (4 600 tons) for the United States market and increased sales on other markets.

Exports to Central America rose by 16 per cent, exceeding the growth rate registered in 1969. Guatemala stepped up trade mainly with El Salvador and Honduras, taking advantage of the vacuum caused by the interruption of trade relations between the two countries.

Income from exports of services rose considerably (22 per cent) largely as a result of increased earnings from tourism and transport.

Imports of goods and services rose about 12 per cent in 1970. The larger commodity purchases (14.5 per cent) were associated with the liquidation of stocks accumulated since 1968, and especially in 1969, which had slowed down the growth rate of imports. Then, by contrast to what happened in previous years, no restrictions were applied; in fact the lifting of measures imposed successfully since 1967 - which were intended to reduce the expenditure on travel ^{1/} - gave rise to an extraordinary increase in expenditure on services, from 58 to 72 million quetzales, in contrast to the previous year which showed a drop in such expenditure.

On the imports of goods side consumer goods increased by over 12 per cent, in line with the trends for private consumption, and raw materials rose by 16 per cent, which is connected with the return to normal stock levels and the expansion of the industrial sector (see table 4). There was also a considerable increase in external purchases of fuels and lubricants. The lowest growth rate was registered in imports of construction materials; however the satisfactory levels of investment achieved during the year led to a rise of nearly 14 per cent in imports of machinery, equipment and tools.

In spite of the higher level of exports, the increase of imports and growing external factor payments caused a deficit of 35 million quetzales on current account, 67 per cent higher than in the previous year (see table 5).

During the year the use of suppliers credits for renewing stocks reached very high levels. As to long- and medium-term non-compensatory loans, the official sector's net indebtedness decreased in 1970, totalling only 9.5 million quetzales, as a result of increased amortization payments while utilization remained unchanged. In the private sector however, net indebtedness rose appreciably, by comparison with 1969, from 14 to 19 million quetzales, as the increased investment during the year was financed to a substantial extent by credit. Direct investment remained at much the same level in the last two years.

^{1/} A ceiling of 50 dollars per day and 25 000 per year was established and travelling deposit was required in national currency in an amount equal to 100 per cent of the foreign exchange requested.

Table 4
GUATEMALA: IMPORTS OF GOODS, CIF, BY ECONOMIC GROUP, 1969 AND 1970

	Millions of quetzals		Percentage share		Percentage variation
	1969	1970	1969	1970	1969-1970
Total	269.1	311.5	100.0	100.0	15.8
Consumer goods	<u>80.1</u>	<u>90.1</u>	<u>29.8</u>	<u>28.9</u>	<u>12.5</u>
Non-durable	55.0	61.4	20.4	19.7	11.6
Durable	25.1	28.7	9.3	9.2	14.3
Raw materials	<u>95.7</u>	<u>111.1</u>	<u>35.6</u>	<u>35.7</u>	<u>16.1</u>
Metals	11.3	12.0	4.2	3.9	6.2
Non-metals	84.4	99.1	31.4	31.8	17.4
Fuels and lubricants	<u>13.4</u>	<u>19.9</u>	<u>5.0</u>	<u>6.4</u>	<u>48.5</u>
Construction materials	<u>18.1</u>	<u>19.6</u>	<u>6.7</u>	<u>6.3</u>	<u>8.3</u>
Capital goods					
Machinery, equipment and tools	<u>58.2</u>	<u>66.4</u>	<u>21.2</u>	<u>21.3</u>	<u>12.7</u>
For agriculture	5.7	6.9	2.1	2.2	21.1
For industry	37.5	44.2	13.9	14.2	17.9
For transport and communications	15.7	15.3	5.8	4.9	-2.5
Miscellaneous	2.9	4.4	1.1	1.4	51.7

Source: ECLA, on the basis of official statistics.

/Table 5

Table 5

GUATEMALA: BALANCE OF PAYMENTS, 1966-1970

(Millions of dollars)

	1966	1967	1968	1969 a/	1970 b/
a) Current account					
Exports of goods and services	257.9	232.7	266.8	303.2	334.4
Goods fob	228.7	203.9	233.4	262.5	284.8
Services	29.2	28.8	33.4	40.7	49.6
Imports of goods and services	-262.6	-281.3	-296.2	-298.5	-348.1
Goods fob	-201.8	-226.5	-237.6	-240.9	-275.8
Services	-60.8	-54.8	-58.6	-57.6	-72.3
Net external investment income	-18.6	-20.8	-27.7	-37.5	-40.2
On direct investment	-18.0	-18.2	...	...	...
Other	-0.6	-2.6	...	...	...
Net private transfer payments	6.2	7.4	8.8	12.2	18.7
Balance on current account	-17.1	-62.0	-48.3	-20.6	-35.2
b) Capital account					
Net external financing	17.1	62.0	48.3	20.6	35.2
a) External non-compensatory capital	10.4	48.7	52.8	34.1	48.2
Direct investment	14.5	18.2	22.8	23.0	22.4
Long- and medium-term loans	14.1	27.5	25.1	25.1	28.3
Official	0.3	16.5	12.1	11.4	9.5
Inflows	11.7	28.2	24.8	33.4	33.5
Amortization payments	-11.4	-11.7	-12.7	-22.0	-24.0
Private	13.8	11.0	13.0	13.7	18.8
Inflows	31.2	37.8	38.7	16.7	23.5
Amortization payments	-17.4	-26.8	-25.7	-3.0	-4.7
Short-term liabilities	-21.4	1.0	2.3	-15.5	-3.5
Official transfer payments	3.2	2.0	2.6	1.5	1.0
b) Domestic non-compensatory capital or assets	1.7	0.4	1.6	-	0.3
Long-term	1.3	0.3	2.0	0.1	0.2
Short-term	0.4	0.1	-0.4	-0.1	0.1
c) Errors and omissions	-1.7	10.3	-6.3	-1.0	3.0
d) Compensatory movements (increase -)	6.7	2.6	0.2	-12.5	-16.3
Balance-of-payments loans, trade arrears, deferred payments, IMF position and other liabilities of the monetary authorities	8.7	12.4	5.7	6.0	5.5
Amortization payments	-9.1	-2.7	-4.3	-8.2	-15.8
Movements of gold and foreign exchange reserves (increase -)	7.1	-7.1	-1.2	-10.3	-6.0

Source: IMF, Banco Central de Guatemala and ECLA estimates.

a/ Preliminary figures.

b/ Estimates.

/To sum

To sum up, the net inflow of non-compensatory capital rose by 41 per cent as compared with 1969, to about the same level as in 1967; this meant that the gold and foreign exchange reserves could be increased for the fourth year in succession by about 6 million dollars, in spite of the high level of amortization payments (15.8 million dollars) paid to the International Monetary Fund by the Central Bank. The 6 million dollar increase in the reserves, includes 4.2 million allocation of special drawing rights of which 2.2 million were used.

/GUYANA

GUYANA ^{1/}1. Recent economic trends

Guyana's gross domestic product, valued at current factor cost, is estimated to have increased by 6.4 per cent. This rate indicates a slackening in the economic growth recorded since 1965 (7.5 per cent), particularly in relation to the 1969 rate of 8.4 per cent (see table 1).

The drop in production of the sugar industry was mainly responsible for the slower growth of the product and, because of its inter-industry links, the growth rates of both agriculture and manufacturing also declined.

In mining, transport, construction and the government sector, the product also grew more slowly than in 1969. Construction and mining, which have been the two most dynamic sectors since 1965, expanded slightly less rapidly than in 1969. Mining now accounts for 19.8 per cent, and construction 8.7 per cent, of the gross domestic product.

Gross capital formation increased by only 4 per cent in 1969, but preliminary estimates indicate a 25 per cent increase in 1970, largely as a result of a 50 per cent rise in public investment. Consumption expenditure grew by 6 per cent over the same period, so that total domestic demand went up by just over 10 per cent (see table 2).

In the last few years domestic prices have been fairly stable. The increases in the price index for urban consumers have not exceeded 2.5 per cent annually in the last five years. Therefore, it is estimated that the economy has grown, in real terms, by more than 4 per cent annually since 1965, and that in 1970 the gross product at constant prices increased by nearly 4 per cent.

As regards foreign exchange, the marked rise in imports of goods, especially consumer goods, which exceeded the growth of exports, sharply reduced the trade surplus in relation to 1969, which resulted in an equally sharp rise in the deficit on current account.

^{1/} Unless otherwise stated, all the values are expressed in Guyana dollars, which are equal to 0.50 United States dollars.

Table 1
GUYANA: GROSS DOMESTIC PRODUCT, BY SECTOR OF ECONOMIC ACTIVITY, 1966-1970

Sector	At current factor cost (millions of Guyana dollars)					Percentage share					Percentage annual growth rate				
	1966	1967	1968	1969a/	1970b/	1966	1967	1968	1969	1970	1966	1967	1968	1969	1970
Agriculture	63.5	69.3	70.5	79.0	82.0	18.3	18.3	17.1	17.7	17.2	-7.3	9.1	1.7	12.1	3.8
Fishing and forestry	15.6	14.5	15.3	15.9	16.8	4.5	3.8	3.7	3.6	3.5	20.0	-7.1	5.5	3.9	5.7
Mining and quarrying	58.9	66.5	79.4	86.7	94.2	17.0	17.6	19.3	19.4	19.8	9.1	12.9	19.4	9.2	8.7
Manufacturing	42.4	46.7	49.7	53.0	55.2	12.2	12.3	12.1	11.9	11.6	-0.8	10.1	6.4	6.6	4.2
Transport and communications	23.7	24.6	25.9	27.6	28.7	6.8	6.5	6.3	6.2	6.0	11.2	3.7	5.3	6.6	4.0
Construction	21.8	25.3	30.0	35.4	41.6	6.3	6.7	7.3	7.9	8.7	27.4	16.0	18.6	18.0	17.5
Commerce	42.1	44.7	51.3	52.9	55.2	12.1	11.8	12.4	11.8	11.6	6.8	6.1	14.8	3.1	4.3
Ownership of dwellings	35.3	36.8	38.3	39.7	41.7	10.2	9.7	9.3	8.9	8.8	9.9	4.2	4.1	3.7	5.0
Financial and other services															
Government	43.7	50.1	51.9	56.8	60.3	12.6	13.2	12.6	12.7	12.7	8.7	14.6	3.6	9.4	6.2
Total	347.0	378.5	412.3	447.0	475.7	100.0	100.0	100.0	100.0	100.0	5.6	2.1	8.2	8.4	6.4

Sources: Economic Survey of Guyana, 1969, and information supplied by the Statistical Bureau.

Note: Totals may not agree because of rounding.

a/ Provisional figures.

b/ Preliminary estimates.

Table 2

GUYANA: CONSUMPTION AND INVESTMENT EXPENDITURE, 1967-1970

(Millions of Guyana dollars)

	1967	1968	1969 a/	1970 b/
Total consumption	336.6	360.7	395.2	418.9
Private	270.0	289.2	315.0	335.1
Public	66.6	71.5	80.2	83.8
Total investment	109.8	102.3	104.7	132.9
Changes in stocks	4.8	6.3	5.0	8.3
Gross fixed capital investment	105.0	96.0	99.7	124.6
Private	77.8	58.4	59.3	64.6
Public	27.2	37.6	40.4	60.0
Domestic demand	446.4	463.0	499.9	551.8

Sources: Economic Survey of Guyana, 1969, and data supplied by the Statistical Bureau.

a/ Provisional figures.

b/ Preliminary estimates.

2. Main production sectors

Mining and quarrying remained the dominant sector of the economy, a position it has held since 1968. Its production grew by 8.7 per cent in 1970, which is less than the rate recorded in the last five-year period.

Output of bauxite and alumina, the main products of this sector, increased significantly during the first half of 1970, particularly of dried bauxite, which showed an increase of 14.6 per cent over the same period in 1969. Everything seems to indicate that this trend continued throughout 1970. Exports of these two products soared in the first half of the year. Together they accounted for nearly 54 per cent of the total value of exports, compared with 47 per cent in the first half of 1969.

It is significant to note that between January and July 1970 exports of calcined bauxite and alumina increased by 36 and 34 per cent respectively over the same period in 1969, while exports of dried bauxite dropped sharply, which is an indication that more bauxite is being processed locally (see table 3).

A review of the preliminary data for 1970 shows that agriculture is still the most important economic sector, notwithstanding the rapid increase in the share of mining in the total gross domestic product. Agriculture, fishing and forestry together contributed 99 million dollars to the gross domestic product in 1970.

Substantial increases in fishing and timber production and a particularly good rice harvest, which was 28 per cent above the 1969 level, helped to offset the significant decline of nearly 18 per cent in sugar-cane production. In terms of value, the rice industry's output rose 37 per cent, owing to higher prices.

There were also increases in several minor crops in 1970, which will help to diversify agricultural production with a view to import substitution, mainly in respect of foodstuffs, and opens up possibilities of exporting to neighbouring countries.

/Table 3

Table 3

GUYANA: MINING AND QUARRYING PRODUCTION AND EXPORTS, 1966-1970

(Thousands of tons)

Product	Production					Exports				
	1966	1967	1968	1969	1970a/	1966	1967	1968	1969	1970b/
Dried and other bauxite	1 596	1 799	1 934	2 105	1 161	1 531	1 824	1 778	2 097	737
Calcinced bauxite	504	471	587	644	354	492	459	587	651	446
Alumina	287	273	265	298	158	297	269	244	295	196

Sources: Economic Survey of Guyana, 1969, and data supplied by the Statistical Bureau.

a/ January-June.

b/ January-July.

/Manufacturing output

Manufacturing output is estimated to have grown by about 4.2 per cent in 1970, which compares unfavourably with the 6.6 per cent rise in 1969 and the increases obtained in the two previous years. Consequently, the share of manufacturing in the total gross product declined. The slower growth of manufacturing output in 1970 was mainly the result of a drop in the production of sugar and sugar products, which normally account for nearly 30 per cent of the value added by manufacturing.

In contrast, part-year data show a general increase in the production of several traditional manufacturing industries in 1970; rice processing, for example, grew by 28 per cent, following upon a 19 per cent contraction in 1969. This is explained by the fact that, as the diversification and import substitution programmes have gained momentum, the growth of manufacturing activities other than sugar production has been large enough to more than offset the decline in the production of sugar and sugar products.

Construction shows an estimated increase of 17.5 per cent in value added; it continues to be the most dynamic sector and represented 8.7 per cent of the total gross product. The major stimulus in 1970 came from government activity rather than mining, which has reduced its investment since the completion of its major expansion projects. The sharp upturn in construction is closely linked to substantial investment in road building and other infrastructure projects.

3. Some recent trends in economic policy

In addition to the usual measures for promoting import substitution industries, such as the granting of fiscal incentives and favourable customs tariffs, the Government of Guyana has adopted two principal lines of action in its economic policy. First, recently it opened negotiations with a view to acquiring a majority share in the important bauxite industry and, secondly, it has launched a nation-wide programme to boost co-operative enterprises.

With respect to the bauxite industry, the rationale is that it is necessary for the State to secure more control over the use of domestic resources and to ensure that the earnings from this industry will play a bigger part in financing domestic investment. Steps have been taken to

/promote co-operative

promote co-operative enterprises, also with capital formation in view. Institutions have been set up to encourage and tap saving, in order to make more funds available to co-operative enterprises on more favourable terms and to induce wider entrepreneurial participation in economic activity.

4. The external sector

In 1968 and 1969, trade in goods produced a surplus of approximately 15 and 20 million Guyana dollars, respectively; but in 1970 this surplus is estimated to have shrunk to 800,000 dollars, as a result of a bigger increase in imports (14 per cent) in relation to the 5.5 per cent growth of exports (see table 4).

From 1967 to 1969 the share of consumer goods in the composition of total imports rose from 32.7 to 35.4 per cent, while purchases of capital goods declined. These changes reflect the sharp upswing in imports of non-durable consumer goods and the fact that current investment is mainly in infrastructure and private construction projects which have a smaller import content than other types of investment. This trend continued in 1970, since the structure of capital formation appears to have remained roughly the same.

Exports are estimated to have grown by 5.5 per cent to more than 269 million dollars, despite the decline in output of the sugar industry. The losses in sugar export earnings were more than offset by the increases in bauxite, alumina and rice exports. Data for the first half of 1970 show that the increases in bauxite and alumina exports were bigger than the drop in sales of sugar, rum and molasses, and most of the latter were effected in the earlier part of the year (see table 5).

Guyana is a member of the Caribbean Free Trade Association and carries on a considerable part of its merchandise trade (about 12 per cent) with other CARIFTA countries. In 1969, the first full year since the formation of CARIFTA, imports increased by 10 per cent and exports by 5 per cent. Part-year data for 1970 show that this trade grew more rapidly than in 1969, with imports about 30 per cent and exports 10 per cent above the figures for the same period in 1969 (see table 6).

Table 4
GUYANA: BALANCE OF PAYMENTS
(Thousands of Guyana dollars)

	1967	1968	1969	1970
<u>Current account</u>				
<u>Goods</u>				
Imports	-225 791	-219 911	-235 833	-268 700
Exports ^{a/}	217 733	234 709	255 387	269 500
<u>Net balance on merchandise account</u>	<u>-8 058</u>	<u>14 798</u>	<u>19 554</u>	<u>800</u>
<u>Services</u>				
Transport	-3 167	-1 839	-2 000	-4 000
Freight and insurance on international maritime transport	1 000	1 200	1 300	1 300
Foreign travel	-5 613	-5 482	-5 500	-6 500
Investment income	-31 782	-30 207	-38 479	-38 400
Government transactions	-840	-3 259	-3 000	+100
Other services	-944	-2 047	-2 000	-2 000
<u>Net balance on services account</u>	<u>-41 346</u>	<u>-41 634</u>	<u>-49 679</u>	<u>-49 500</u>
<u>Net balance on goods and services accounts</u>	<u>-49 404</u>	<u>-26 836</u>	<u>-30 125</u>	<u>-48 700</u>
<u>Unilateral transfer payments</u>	4 189	1 661	2 300	1 900
<u>Balance on current account</u>	<u>-45 215</u>	<u>-25 175</u>	<u>-27 825</u>	<u>-46 800</u>
<u>Capital account</u>				
<u>Net capital movements</u>	<u>55 706</u>	<u>11 277</u>	<u>19 064</u>	<u>...</u>
Private	34 492	4 427	12 176	...
Official	14 890	13 840	17 133	...
Unidentified	6 324	-6 990	-10 245	...
<u>Balance (increase -)</u>	<u>-10 491</u>	<u>13 898</u>	<u>8 761</u>	<u>...</u>

Sources: Economic Survey of Guyana, 1969 and data supplied by the Statistical Bureau.

^{a/} Adjusted for balance-of-payments purposes.

/Table 5

Table 5

GUYANA: EXPORTS OF SELECTED PRODUCTS

(Millions of Guyana dollars)

Product	1966	1967	1968	1969	1970a/
Bauxite and alumina	79.4	82.8	100.2	120.3	60.0
Sugar, rum and molasses	61.4	72.6	79.0	89.6	24.2
Rice	21.2	25.2	26.1	19.7	11.3
Timber	3.6	2.7	2.8	2.5	1.5
Shrimp	6.5	6.0	6.7	7.6	5.2
Diamonds	5.1	6.1	4.7	3.8	2.0

Sources: Economic Survey of Guyana, 1969 and data supplied by the Statistical Bureau.

a/ January-July.

/Table 6

Table 6

GUYANA: TRADE WITH CARIFTA COUNTRIES

(Millions of guyana dollars)

Year	Imports	Exports of domestic products
1967	25.6	22.1
1968	29.4	23.4
1969	32.4	24.5
1969 <u>a/</u>	17.2	15.3
1970 <u>a/</u>	22.5	17.0

Sources:

a/ Provisional figures for January-July.

/Guyana is

Guyana is a net importer of services, and the projected balance on the services account is expected to remain at roughly the 1969 level (49 million dollars), an increase of nearly 20 per cent over the 1968 figure. Taking the goods and services accounts together, the net deficit for 1970 is expected to be 60 per cent higher than in 1969, so that the balance-of-payments deficit would exceed the 8.8 million dollars recorded in 1969. Moreover, it is estimated that government borrowing to help finance the greatly expanded government capital budget in 1970 exceeded the 1969 level (see table 4).

/HATTI

HAITI

1. Recent economic trends

According to provisional estimates, the Haitian economy in 1970 grew at about the same pace as in the period 1968-1969, at an annual average rate of 3.6 per cent. This led to a slight recovery in the level of per capita income, which had been steadily declining since the beginning of the 1960s (see tables 1 and 2). The main factors responsible for the improvement in 1970 were favourable weather conditions which boosted agricultural output, a sizable increase in government investment, and a comparatively larger inflow of official transfers and non-compensatory capital which covered the balance-of-payments deficit on current account and improved the external payments position.

As regards the different sectors of activity, agriculture made a certain amount of progress as a result of bigger harvests of cotton, sorghum, manioc and beans, which amply offset the stagnation in output of maize, cocoa and rice. In export-oriented agriculture, coffee output continued to decline, and sisal output did not rise above the low level recorded in 1969. Sugar output expanded somewhat, probably owing to the expectations aroused by the forthcoming entry into operation of the Central Welsh sugar mill in the north, and Leogane mill in the west.

As regards mining, bauxite and alumina output seems to have remained at the high 1969 level, while copper output contracted somewhat.

Industry's performance was comparatively more dynamic growing by 6 per cent as opposed to the 5.6 per cent achieved in 1969. This reflects the sharp upturn in the output of flour, which, under the new administration of the flour plant, was almost treble the 1969 level, sugar (8.2 per cent), cement, textiles, cotton and beverages. Similarly, with the exception of essential oils, the export-oriented industries (assembly activities and local handicrafts) maintained the upward trend of recent years owing to the growth of external demand.

/Table 1

Table 1
HAITI: GROSS DOMESTIC PRODUCT, BY SECTOR OF ECONOMIC ACTIVITY

Sector	Millions of gourdes at 1960 prices				Percentage share			Annual growth rate		
	1965	1968	1969	1970 _a /	1965	1968	1969	1965-1968	1969	1970 _a /
Agriculture	746.0	771.6	793.0	824.7	50.3	51.4	51.2	1.1	2.8	4.0
Mining	10.1	9.6	14.7	...	0.7	0.6	0.9	-1.7	53.1	...
Manufacturing	173.9	171.6	181.3	192.2	11.7	11.4	11.7	-0.4	5.7	6.0
Construction	24.4	20.3	22.8	...	1.7	1.4	1.5	-5.9	12.3	...
Subtotal goods	954.4	973.1	1 011.8	...	64.4	64.8	65.3	0.7	4.0	...
Electricity, gas and water	19.9	18.3	22.4	...	1.3	1.2	1.4	-2.8	22.4	...
Transport and communications	41.6	53.4	51.7	...	2.8	3.6	3.3	8.7	-3.2	...
Subtotal basic services	61.5	71.7	74.1	...	4.1	4.8	4.7	5.2	2.3	...
Commerce and finance	175.7	168.4	168.9	...	11.9	11.2	10.9	-1.4	0.3	...
Government	96.4	83.8	90.5	...	6.5	5.6	5.8	-4.5	8.0	...
Ownership of dwellings	140.9	149.4	152.9	...	9.5	9.9	9.9	2.0	2.3	...
Miscellaneous services	54.2	55.4	52.1	...	3.6	3.7	3.7	0.7	-6.0	...
Subtotal other services	467.2	457.0	464.4	...	31.5	30.4	30.0	-0.7	1.7	...
Total	1 451.1	1 468.9	1 517.1	1 577.8	100.0	100.0	100.0	0.4	3.3	3.6

Source: For 1965 to 1969, ECLA estimates based on official Planning Office statistics; for 1970, ECLA estimates based on partial data supplied by the Planning Office.

N.B. Owing to the general practice of calculating the individual activities and the total independently, the sum of the former do not necessarily correspond exactly to the latter.

a/ Preliminary figures.

Table 2

HAITI: TOTAL SUPPLY AND DEMAND

	Millions of gourdes at 1960 prices				Percentage structure			Annual growth rates		
	1965	1968	1969	1970 _a /	1965	1968	1969	1970 _a / 1965-1968	1969	1970 _a /
<u>Total supply</u>	1 891.0	1 868.5	1 943.5	2 007.0	118.6	115.8	116.6	116.2	-1.2	4.0
Gross domestic product	1 594.5	1 614.1	1 667.0	1 727.0	100.0	100.0	100.0	100.0	0.4	3.3
Imports b/	296.5	254.4	276.5	280.0	18.6	15.8	15.4	16.2	-14.2	8.7
<u>Total demand</u>	1 891.0	1 868.5	1 943.5	2 007.0	118.6	115.8	116.6	116.2	-1.2	4.0
Exports b/	206.5	227.5	240.5	246.5	12.9	14.1	14.4	14.3	3.3	5.7
<u>Total investment</u>	27.2	80.5	27.1	...	6.1	5.0	5.8	...	-6.1	20.6
Gross fixed investment	...	...	...	...	...	...	...	...	...	...
Public	...	...	...	...	...	...	...	...	...	...
Private	...	...	...	...	...	...	...	...	...	...
Construction	50.6	42.1	47.3	...	3.2	2.6	2.8	...	-5.9	12.4
Machinery and equipment	46.6	38.4	49.8	...	2.9	2.4	3.0	...	-6.2	29.7
<u>Total consumption</u>	1 587.3	1 560.5	1 605.2	...	22.5	96.7	26.3	...	-1.7	2.2
General government	129.4	112.4	121.4	...	8.1	7.0	7.3	...	-4.6	8.0
Private	1 457.9	1 448.1	1 484.5	...	91.4	89.7	89.0	...	-0.7	2.5

Source: 1965-1969: ECLA, on the basis of data supplied by the National Planning and Development Council (CONADEP); 1970: ECLA estimates based on partial data from the same source.

a/ Preliminary.

b/ Goods and services, excluding factor payments.

/There was

There was similar progress in construction and in transport and communications. In both these sectors, Government initiative played an important role in the establishment of industrial estates, incentives for expanding the hotel network, improving the highway system (from north to south), increasing the capacity of the main port, the international airport and the telephone system.

With respect to energy, the hydroelectric power station at Peligre remains the most important development project and once the first generators are installed in the first half of 1971 it is anticipated that the installed capacity of the country will be more than doubled.

Lastly, the progress made in the goods-producing sectors, the expansion of government investment and the boom in tourism had a favourable impact on the growth of the tertiary sector.

2. The external sector

The value of exports increased by 4.4 per cent in 1970 compared with 1969. This increase was due to improved prices for coffee and sugar, and was achieved despite the fact that Haiti was unable to fill its international quotas for both these products. Another contributory factor was the 13 per cent rise in revenue from tourism, while income from transfer payments remained at a positive figure (see table 3).

Despite this upward trend, income from exports was not enough to balance the current account, owing to the growing burden of servicing payments, especially external factor payments. Moreover, the policy of curbing imports was continued, with merchandise imports increasing by only 3.1 per cent. The increase in the inflow of official transfers and non-compensatory capital - to help finance the implementation of the projects included in the 1970-1971 economic and social action plan - made it possible to cover the deficit and improve the net external payments position, and also to utilize all the 2.5 million dollars worth of special drawing rights that were made available during the year.

Table 3
HAITI: BALANCE OF PAYMENTS, 1960-1970
(Millions of dollars)

	1960	1965	1968	1969	1970
a) Current account					
Exports of goods and services	54.4	44.9	47.4	48.4	51.0
Goods fob	38.1	37.8	36.3	36.6	38.2
Services	16.3	7.1	11.1	11.8	12.8
Imports of goods and services	-58.1	-62.2	-54.8	-60.6	-62.1
Goods fob	-43.4	-42.6	-38.7	-42.0	-43.0
Services	-14.7	-19.6	-16.1	-18.6	-19.1
Net external investment income	-4.1	-5.2	-3.1	-3.3	-3.8
Net private transfer payments	2.6	4.7	8.9	10.9	11.0
Balance on current account	-5.2	-17.8	-1.6	-4.6	-3.9
b) Capital account					
Net external financing (a+b+c+d)	5.2	17.8	1.6	4.6	3.9
a) External non-compensatory capital	8.2	8.1	6.7	5.7	7.5
Direct investment	0.1	1.0	1.1	1.8	
Long- and medium-term loans	1.5	2.4	0.1	0.1	
Amortization payments	-0.3	-0.8	-0.3	-0.3	
Short-term liabilities	0.3	1.5	1.9	-0.8	
Official transfer payments	6.6	4.0	3.9	4.9	-3.6
b) Domestic non-compensatory capital or assets	-2.2	3.4	0.9	-0.8	
c) Errors and omissions	2.1	5.2	-5.1	0.8	
d) Compensatory movements (increase -)	-2.9	1.1	-0.9	-1.1	
Balance-of-payments loans, trade arrears, deferred payments, IMF position and other liabilities of the monetary authorities	-	2.6	3.1	1.5	...
Amortization payments	-2.0	-2.3	-0.9	-2.0	...
Movements of gold and foreign exchange reserves (increase -)	-0.9	0.8	-3.1	-0.6	...

Fuente: IMF, Balance of Payments Yearbook, vols. 17 and 21.

3. The 1970-1971 economic and social action plan

Efforts to strengthen the economic infrastructure have consisted in the formulation of annual operational plans containing a set of projects for each sector with their respective investment priorities.

According to the National Planning and Development Council (Conseil National de Développement et de Planification - CONADEP), which is responsible for drawing up these plans, the projects and investment planned for 1970 are designed to provide Haiti with a solid economic infrastructure, with the emphasis on energy, transport and communications, drinking-water supply and agriculture. Accordingly, the presentation of the budget has been modified. In addition to the annual operating budget, a development budget is drawn up which specifies the contribution to be made by each of the agencies of the public sector and by international agencies to the financing of the plans. The development budget increased much more than the operating budget in 1970, allocations rising by 69.6 per cent over the 1969 figure. Furthermore, the public agencies were restructured and some tax-legislation was brought up to date (on income and property taxes). In this connexion, revenue from domestic taxation in the fiscal year 1970 was 38 per cent higher than in fiscal 1969.

/HONDURAS

HONDURAS

1. Recent economic trends

The growth of goods and services by 4 per cent in 1970 marks the beginning of a return to more normal conditions after the sharp recession caused by natural disasters and the conflict with El Salvador in 1969.

The signs of recovery are to be seen chiefly in the increases in private investment and, to a smaller extent, in private consumption, following the sluggish growth of 1969. The value of exports also showed a satisfactory upturn, mainly owing to high coffee prices, but they grew in volume by less than 1 per cent.

As regards supply, the rise in the growth rate of the product (it was 3.2 per cent in 1969) was dictated by the recovery of agricultural production, which carries a great deal of weight in the country's economy since, with the exception of transport and trade, the growth rate of the other sectors - although generally high - was less than for the previous year (see tables 1 and 2).

Even under the impetus of the rise in prices of exports, the growth of the economy in 1970 was not nearly so good as the annual average for the period 1965-1968. Moreover, there was an increase in the current account deficit on foreign transactions, particularly with Central America. In this connexion, the effect of the unfortunate happenings of 1969 should not be underestimated, in so far as they restricted the development of the Central American system, especially from the point of view of supply. Among other things, special mention should be made of the long time it has inevitably taken for banana export capacity to recover and the still unsolved problems in respect of the production and marketing of goods, particularly agricultural commodities, which used previously to be sold on the Salvadorian market.

Table 1
HONDURAS: GROSS DOMESTIC PRODUCT, BY SECTOR OF ECONOMIC ACTIVITY

Sector	Millions of lempiras at 1960 prices				Percentage share			Annual growth rate			
	1965	1968	1969	1970a/	1965	1968	1969	1970a/	1965-1968	1969	1970a/1968
Agriculture	327.1	371.8	368.1	376.1	37.7	34.9	33.4	32.8	4.4	-1.0	2.2
Mining	13.0	16.5	17.4	18.3	1.5	1.6	1.6	1.6	8.3	5.4	5.2
Manufacturing	116.8	158.8	170.8	179.6	13.5	14.9	15.5	15.7	10.8	7.6	5.2
Construction	38.8	58.5	66.5	71.5	4.5	5.5	6.0	6.2	14.7	13.7	7.5
Subtotal goods	495.7	605.6	622.8	645.5	57.2	56.2	56.6	56.3	6.2	2.8	3.6
Electricity, gas and water	6.2	8.8	10.2	10.6	0.7	0.8	0.9	0.9	12.4	15.9	3.9
Transport and communications	57.7	71.7	73.0	77.0	6.7	6.7	6.6	6.7	7.5	1.8	5.5
Subtotal basic services	63.9	80.5	83.2	87.6	7.4	7.6	7.6	7.6	8.0	2.4	5.3
Commerce and finance	139.2	172.8	177.5	185.4	16.1	16.2	16.1	16.2	7.5	2.7	4.5
Government	24.2	25.7	27.7	29.2	2.8	2.4	2.5	2.5	2.0	7.8	5.4
Ownership of dwellings	82.6	98.2	104.1	108.1	9.5	9.2	9.5	9.4	5.9	6.0	3.8
Miscellaneous services	60.7	81.5	85.5	89.8	7.0	7.7	7.8	7.8	10.3	4.9	5.0
Subtotal other services	306.7	378.2	394.8	412.5	35.4	35.5	35.2	36.0	7.2	4.4	4.5
Total	870.0	1 066.6	1 100.6	1 144.6	100.0	100.0	100.0	100.0	7.0	2.2	4.0

Source: 1965 to 1969 ECLA estimates based on official Banco Central de Honduras statistics; 1970, ECLA estimates.

N. B. Owing to the general practice of calculating the individual activities and the total independently, the sum of the former do not necessarily correspond exactly to the latter.

a/ Preliminary figures.

Table 2

HONDURAS: TOTAL SUPPLY AND DEMAND

	Millions of lempiras at 1960 prices				Percentage structure				Annual growth rates			
	1965	1968	1969	1970a/	1965	1968	1969	1970a/	1965-1968	1969	1970a/	
<u>Total supply</u>	1 218.2	1 563.6	1 606.6	1 686.3	129.0	135.1	134.2	135.2	8.7	2.4	5.4	
Gross domestic product	944.4	1 157.1	1 193.1	1 241.2	100.0	100.0	100.0	100.0	7.0	3.2	4.0	
Imports b/	273.8	406.5	407.5	445.1	29.0	35.1	34.2	35.9	14.1	0.2	9.2	
<u>Total demand</u>	1 218.2	1 563.6	1 606.6	1 686.3	129.0	135.1	134.2	135.2	8.7	2.4	5.4	
Exports b/	216.0	302.7	295.7	297.8	22.9	26.1	24.8	24.0	11.9	-2.3	0.7	
<u>Total investment</u>	159.8	223.4	250.1	274.1	16.9	19.3	21.0	22.1	11.8	12.0	9.6	
Gross fixed investment	141.7	210.3	235.4	259.4	15.0	18.2	19.7	20.9	14.1	11.9	10.2	
Public	23.3	49.9	78.2	84.5	2.5	4.3	6.6	6.8	29.0	56.7	8.1	
Private	118.4	160.4	157.2	174.9	12.5	13.9	13.2	14.1	10.6	-2.0	11.3	
Construction	...	...	...	...	...	...	...	...	...	...	...
Machinery and equipment	...	...	...	...	...	...	...	...	...	...	...
<u>Total consumption</u>	842.4	1 037.5	1 054.8	1 114.4	89.2	89.7	88.4	89.8	7.2	1.7	5.7	
General government	84.2	94.7	100.6	108.3	8.9	8.2	8.4	8.7	4.0	6.2	7.7	
Private	758.2	942.8	954.2	1 006.1	80.3	81.5	80.0	81.1	7.5	1.2	5.4	

Source: 1965-1969: ECLA, on the basis of data supplied by the Central Bank of Honduras; 1970: ECLA estimates.

a/ Preliminary.

b/ Goods and services, excluding factor payments.

Leaving aside the effects of the conflict with El Salvador, the relative loss of impetus in economic growth and the weakening of the external sector appear to be consonant with the levelling off of the boom in traditional exports which began in 1968, and with the reluctance to make changes that would permit the allocation of more resources for the purposes of raising agricultural productivity, expanding the domestic market, making Honduras more competitive in the Common Market, and improving social and employment opportunities for broad strata of the population. There is no doubt that the obstacles to the development of the public sector, which used to be mainly administrative but are now rather financial in character, have delayed the application of the necessary measures.

Public investment, in the five-year period ending in 1970, was characterized by the growing emphasis placed on the development of the transport and energy infrastructure (50 per cent of total investment was absorbed by these sectors in 1966, 70 per cent in 1970). Apart from the high priority that obviously had to be given to this type of expenditure, the criteria for the sectoral allocation of public investment seem to have been dictated by the over-concentration of technical and executive capacity, until very recently, in the transport and energy sectors, compared with the other sectors of government capacity.

There was considerable effort to encourage capital formation in the public sector in 1967-1969, obviously but in 1970 investment expenditure grew by only 8 per cent, a much lower rate than that recorded under the abnormal conditions of 1969 (see table 2). As in 1969, the development of the public investment programme came up against obstacles in the channelling of domestic resources, and priority had often to be given to programmes that could rely on a large volume of external financing. However, capital requirements again exceeded available saving, and this led to an increase in internal indebtedness.

The rise in public investment in 1970 above the already fairly high levels of 1969 (such investment being channelled mainly into projects that did not immediately increase the supply of goods), the reinvestment needs of the private sector and the growth of consumption (by 5.7 per cent

/compared with

compared with 1.7 in 1969), were all factors that increased the pressures on the balance of payments; and they were reflected in the more than 12 per cent growth of imports at current values and in a drop of about 9.5 million dollars in the net international reserves of the banking system.

2. Production

In 1970, agricultural activity grew at less than the historical rate, not counting the abnormal drop in 1969 (see table 1). However, the principal components of supply developed very differently, and the two main export crops accounted for a larger share of the agricultural product.

The expansion of banana production by 4 per cent is an indication of the enormous effort that was made to restore production capacity in this sector, an effort which had not yet been completely successful in 1970. The development programmes of the national agrarian institute were directed principally towards increasing the area sown, on the basis of a co-operative effort by independent producers, with technical and financial backing from the Government.

Coffee made a substantial contribution to the growth of the agricultural product. There was a 9 per cent increase in the volume of output compared with 1969, owing to the favourable ecological conditions that prevailed during the crop year. The sustained rise in international prices helped to improve the real income of producers and led to an increase in private consumption.

Livestock production grew by 3 per cent, more slowly than in the previous three-year period. There appear to be no major obstacles to speeding up the growth rate in the next few years, especially if the development programmes undertaken by the rural development service are extended.

The upturn in output of the products mentioned above was offset to some extent by the insufficiency of agricultural production for domestic consumption and of cotton production. Agricultural production for the domestic market remained at the 1969 levels. Although there was an increase in output of nearly all agricultural products, this barely compensated for

/the drop

the drop of nearly 12 per cent in the output of beans. Grain production, and beans in particular, are still suffering from the decline in agricultural activity along the frontier with El Salvador, which also affects exports to the Common Market, since the marketing machinery has not yet been restored to normal. Moreover, there was a temporary shortage in the domestic supply of beans in 1970 owing to sales that had to be made to Central America in order to offset the imbalance in Honduras's trade with the region; an additional factor was probably the lack of storage facilities. All this caused prices to soar to three times their normal level. It should be mentioned that when the first stage of the project for silo construction was completed - under the Central American storage and price control programme - an additional capacity of 13,500 tons was made available, so that storage capacity is now practically doubled.

Cotton production dropped again in 1970. The area sown shrank by nearly 50 per cent. The trend towards reduction began in 1965 and was aggravated by the growing tendency of marginal producers to give up cotton growing, mainly owing to the drop in prices combined with the increased cost of inputs.

Manufacturing production grew by 5.2 per cent, less than in 1969. There was quite a large increase in the production of intermediate goods, such as chemicals and petroleum products, on which efforts towards import substitution have recently been concentrated.

In the other areas of domestic activity, there were increases in transport services (5.5 per cent) and trade (4.5 per cent), and a slackening of the growth rate of construction, which grew by only 7.5 per cent compared with increases of around 14 per cent in previous years; this appears to be a direct consequence of the falling off of public investment (see table 1).

3. The external sector

The increased current account deficit on foreign transactions was one of the important negative aspects of economic development in 1970. The deficit, which amounted to around 50 million dollars, was nearly 50 per cent greater than the previous year, amounting to about one-quarter of the country's earnings from exports of goods and services (see table 3).

Total exports, which had fallen off in 1969, expanded by 7.2 per cent, mainly as a result of improved international prices, while imports of goods and services - which had been stagnant the previous year - grew more than 12 per cent, and net investment income increased by 20 per cent. This last component of current transactions was very close to the 1968 level, following the sharp decline in 1969 as a result of the loss of income from banana production.

On the other hand, there was a considerable net inflow of capital in the form of direct investment and official long-term loans. The former were nearly three times greater than in 1969, and reflect in particular the effect of the reinvestment in banana plantations. Credit expanded by around 4 million dollars (see table 3).

Despite the increased contribution to financing the balance of payments made by movements of non-compensatory capital, the current account deficit called for the use of compensatory financing on a larger scale than the previous year. Thus, the deficit on payments abroad was closed with a negative movement of net international reserves of around 16 million dollars. Compensatory financing was greater than appears from the balance-of-payments figures given in table 3, since the 3.2 million allocation of IMF special drawing rights - of which 3 million were actually used - is counted as an increase in reserve stocks.

Table 3

HONDURAS: BALANCE OF PAYMENTS, 1966-1970

(Millions of dollars)

	1966	1967	1968	1969 a/	1970 b/
a) Current account					
Exports of goods and services	157.5	170.6	196.5	188.0	201.5
Goods fob	144.5	155.9	180.9	172.2	185.1
Services	13.0	14.7	15.6	15.8	16.4
Imports of goods and services	-165.4	-182.7	-204.3	-206.8	-232.5
Goods fob	-138.0	-152.0	-169.4	-170.2	-193.4
Services	-27.4	-30.7	-34.9	-36.6	-39.1
Net external investment income	-15.5	-21.2	-23.2	-18.6	-22.4
On direct investment	-15.0	-20.5	-22.4	-17.8	-20.0
Other	-0.5	-0.7	-0.8	-0.8	-2.4
Net private transfer payments	0.4	0.5	3.0	3.5	3.1
Balance on current account	-23.0	-32.8	-28.0	-33.9	-50.3
b) Capital account					
Net external financing	23.0	32.8	28.0	33.9	50.3
a) External non-compensatory capital	21.1	35.1	30.6	31.5	45.7
Direct investment	8.2	8.8	14.4	6.1	17.2
Long- and medium-term loans	3.4	8.6	14.4	20.9	24.3
Official	3.2	7.7	14.6	20.6	24.0
Inflows	5.8	10.6	17.5	24.2	28.2
Amortization payments	-2.6	-2.9	-2.9	-3.6	-4.2
Private	0.2	0.9	-0.2	0.3	0.3
Inflows	0.6	1.5	0.5	1.1	1.2
Amortization payments	-0.4	-0.6	-0.7	-0.8	-0.9
Short-term liabilities	5.7	13.5	-1.4	1.4	1.7
Official transfer payments	3.8	4.2	3.2	3.1	3.0
b) Domestic non-compensatory capital or assets	-0.8	-7.4	1.0	-0.9	0.2
Long-term	-0.7	-2.9	-0.9	-0.9	-0.1
Short-term	-0.1	-4.5	1.9	-	0.3
c) Errors and omissions	6.7	6.5	2.5	-1.5	-11.5
d) Compensatory movements (increase -)	-4.0	-1.4	-6.1	4.8	16.19/
Balance-of-payments loans, trade arrears, deferred payments, IMF position and other liabilities of the monetary authorities	1.0	-	0.5	1.7	...
Amortization payments	-1.0	-6.0	-0.1		
Movements of gold and foreign exchange reserves (increase -)	-4.0	4.6	-6.5	3.1	...

Source: 1966 to 1968, IMF. Banco Central de Honduras, and ECLA estimates.

a/ Preliminary figures.

b/ Estimates.

c/ Includes 3.2 million dollars under the head of special drawing rights with IMF.

/Of the

Of the main export products, there was a significant increase in the current values of coffee exports (see table 4). Prices rose continuously throughout the year, while the volume of export grew by 11.9 per cent, on account of the general increase in quotas under the International Coffee Agreement, which benefited the Central American countries, and also because of the improved prospects for selling to non-traditional markets compared with the previous year. Honduras managed to sell around 77,700 sacks outside the Agreement, which made it possible to reduce accumulated surpluses and, in the longer term, may secure a new coffee market of great interest from the point of view of future supply.

It is estimated that banana exports grew by 4 per cent (3 million dollars), thanks to the increase in the volume of sales. The increase was below the 1967 and 1968 levels but signifies a sharp recovery of supply capacity, and the prospects of development do not appear to be limited by demand and even less by internal conditions.

There were also upward movements in exports of timber, sugar, petroleum products, minerals and vegetable fats, and these products showed a combined increase of 7 million dollars. Meat exports increased by 2.2 per cent, as the quantitative restrictions on imports in the United States were eased (see table 4).

In contrast, there was a marked downturn in exports of cotton (from 3.4 million dollars in 1969 to 1.2 million), beans (from slightly more than 3 million dollars to 1.7 million), and other products which had shown considerable growth up to 1968: maize, toilet soap, footwear, cement and colouring materials, which mostly go to the Central American market.

Table 4
HONDURAS: TOTAL EXPORTS OF MAIN PRODUCTS, 1966-1970

	1966	1967	1968	1969	1970 <u>a/</u>	<u>Annual percentage growth rates</u>			
						1967	1968	1969	1970
	<u>Millions of dollars</u>								
Cotton	5.8	5.2	3.8	3.4	1.2	-10.3	-26.9	-10.5	-64.7
Bananas	68.1	78.5	79.7	74.1	77.1	15.3	1.5	-7.0	4.0
Coffee	19.9	14.0	20.8	18.5	28.7	-29.6	48.6	-11.1	55.1
Timber	10.5	12.2	14.4	15.2	17.2	16.2	18.0	5.6	13.2
Fresh meat	3.9	4.3	4.6	9.0	9.2	10.3	7.0	95.7	2.2
<u>Total</u>	<u>144.5</u>	<u>155.9</u>	<u>180.9</u>	<u>172.2</u>	<u>185.1</u>	<u>7.9</u>	<u>16.0</u>	<u>-4.8</u>	<u>7.5</u>
	<u>Millions of dollars at 1960 prices</u>								
Cotton	6.0	5.5	3.3	3.2	1.2	-8.3	-40.0	-3.0	-62.5
Bananas	59.2	64.4	68.5	63.7	66.2	8.8	6.4	-7.0	3.9
Coffee	17.0	12.6	19.2	18.5	20.7	-25.9	52.4	-3.7	11.9
Timber	9.6	10.6	12.6	12.2	12.5	10.4	18.9	-3.2	2.4
Fresh meat	4.2	4.5	4.7	7.8	8.1	7.1	4.4	66.0	3.8
<u>Total</u>	<u>121.4</u>	<u>131.0</u>	<u>147.1</u>	<u>143.5</u>	<u>144.6</u>	<u>7.9</u>	<u>12.3</u>	<u>-2.4</u>	<u>0.8</u>

Source: ECLA, on the basis of official statistics.

^{a/} Preliminary figures.

/With the

With the further reduction of exports to Central America, the area market has come to take less than 10 per cent of Honduras's total exports of goods, compared with one-sixth or more prior to 1969. However, more purchases were made in the region and the trade deficit with the region increased by around 12 million dollars compared with 1969 and by around 16 million dollars compared with the year before the Common Market crisis. Meanwhile, the deterioration in the payments situation, the fact that the external trade deficit continued to grow and the fact that no agreement was reached in the negotiations on the reorganization of the Common Market, caused the Honduran Government temporarily to abandon the policy of free trade with Central America and the common tariff in respect of various essential goods.

4. Public finances and credit

Estimated current central government income shows an increase of 9.7 per cent in 1970, which contrasts favourably with 1969. As regards tax revenue, which accounts for more than 90 per cent of current income, the 1970 increase was around 8 per cent, compared with slightly more than 3 per cent in 1969. On the other hand, the increase in current expenditure as a result of higher wages and salaries was roughly equal to the increase in income; nevertheless, savings rose from 35 to 38.5 million lempiras (see table 5).

The features of the economy in 1970, the system of tax administration and the effects of the San José Protocol meant that the rise in income was based fundamentally on increased tax collection. While import duties rose by 12 per cent and taxes on domestic consumption by 13 per cent, income tax revenue fell by 2 per cent because of the delayed effects of the decline in income from banana sales in 1969. There was an increase in revenue from export duties, following the decline in 1969, but such revenue does not appear to have reached the levels of previous years, despite the fact that export values have shown a steady upward trend, except in 1969. This is probably partly due to the lifting of taxes in order to promote sales of ~~coffee on non-traditional markets~~.

Table 5

HONDURAS: CENTRAL GOVERNMENT CURRENT INCOME AND EXPENDITURE, 1966-1970

(Millions of lempiras)

Item	1966	1967	1968	1969 <u>a/</u>	1970 <u>b/</u>
Current income	<u>118.5</u>	<u>126.8</u>	<u>145.3</u>	<u>152.2</u>	<u>166.9</u>
Tax revenue	<u>110.1</u>	<u>119.7</u>	<u>136.5</u>	<u>141.2</u>	<u>152.5</u>
Direct taxes	<u>28.3</u>	<u>35.5</u>	<u>40.9</u>	<u>44.3</u>	<u>44.2</u>
On income	26.9	34.0	39.1 <u>c/</u>	43.1 <u>c/</u>	42.2 <u>c/</u>
On property	1.4	1.5	1.8	1.2	2.0
Indirect taxes	81.8	84.2	95.5	96.8	108.3
On imports	40.5	41.1	43.5	39.4	44.0
On exports	5.1	4.4	6.5	5.6	5.9
Other	36.2	38.7	45.5	51.8	58.4
Non-tax revenue	5.5	4.8	4.5	5.8	8.1
Current transfer payments	2.9	2.3	4.3	5.3	6.3
Current expenditure	<u>91.4</u>	<u>99.7</u>	<u>111.5</u>	<u>117.3</u> <u>d/</u>	<u>128.4</u>
Consumption	<u>82.3</u>	<u>88.5</u>	<u>99.7</u>	<u>105.5</u>	<u>115.4</u>
Wages and salaries	60.7	66.0	72.7	72.5	77.6
Other	21.6	22.5	26.9	33.0	37.8
Transfer payments	5.1	6.9	7.0	6.0	6.5
Interest on the public debt	4.0	4.3	4.8	5.7	6.5
Current saving	<u>27.1</u>	<u>27.1</u>	<u>33.8</u>	<u>34.9</u>	<u>38.5</u>

Source: Office of the Controller General and Planning Office.

a/ Preliminary figures.

b/ Estimate.

c/ Including social security tax.

d/ Not including expenditure financed through the issue of National Defence bonds.

/Efforts to

Efforts to increase tax income in the last five years resulted in central government income and savings developing at a faster pace, on average, than the product. However, the increased tax burden has not kept pace with the increase in public expenditure, and this was particularly notable in 1969 and 1970, when real investment grew substantially, both because of the need to speed up the rate of expansion of the infrastructure and to compensate for recessive economic trends.

The increased needs for additional financing from the public sector were met in 1969 and 1970 mainly by the judicious use of external loans, but as from the last quarter of 1969 there was a significant upturn in the support granted by the banking system. The net credit granted to the public sector by the banking system rose from 7.5 to 39.8 million lempiras between January and September 1970, compared with the same period in 1969.

Bank loans to the private sector increased by 17.3 per cent, compared with an increase of 23.5 per cent in 1969. In addition, in the last months of the year, the monetary authorities gradually raised the bank cash ratios from 20 to 25 per cent in respect of national currency liabilities and from 25 to 30 per cent in respect of foreign exchange liabilities.

However, there was probably no lack of bank financing for productive activities in 1970 as a whole; in particular, manufacturing industry received much more support than in previous years (see table 6).

In 1971, the national authorities plan to implement a series of measures as part of a medium-term plan to raise the level of tax revenue. They include measures to improve fulfilment of income tax obligations and closer control of taxes on real property, in addition to some improvements in administrative procedures to make tax collection more efficient. Lastly, if and when Honduras applies the Central American common tariff to all imports, the level of its income from foreign trade is bound to rise.

/Table 6

Table 6
HONDURAS: DISTRIBUTION OF BANK CREDIT, 1966-1970
(Millions of lempiras)

	End-of-year balance				September balance	
	1966	1967	1968	1969	1969	1970
<u>Total</u>	<u>164.0</u>	<u>206.4</u>	<u>233.2</u>	<u>288.1</u>	<u>274.2</u>	<u>321.8</u>
Agriculture	34.2	39.6	41.9	50.6	46.4	45.5
Coffee	10.3	12.3	12.1	13.3	11.9	11.3
Cotton	10.4	10.1	10.1	14.4	13.6	7.7
Other	13.5	17.2	19.7	22.6	20.9	26.5
Cattle-breeding	15.6	20.0	27.4	34.3	33.5	41.6
Industry	31.2	38.8	45.1	58.9	54.8	76.0
Trade	36.2	48.9	38.8	47.6	44.4	48.9
Consumption	8.3	12.9	14.3	17.0	15.4	20.2
Other	38.5	46.2	65.7	79.7	79.7	89.6

Source: Central Bank, Revista trimestral and Boletín Estadístico.

/JAMAICA

JAMAICA ^{1/}1. Recent economic trends

Jamaica continued with the economic expansion that has been evident since 1968. Provisional estimates show that the gross domestic product at current factor cost increased by 10 per cent, that is at much the same rate as in the preceding two years (9.4 per cent in 1969 and 10.4 per cent in 1968). However, in 1970 there was a more rapid rise in consumer prices, which had an adverse effect upon the growth of the gross product in real terms.

Between 1960 and 1968 the gross domestic product grew at an annual rate of 7.3 per cent at current prices and 4.4 per cent at constant prices, which means a rise in the implicit price deflator of 2.8 per cent per year, a slightly higher rate than that recorded in the consumer price index. In 1969 the consumer price index rose by 6.3 per cent, which would indicate a decline in the total growth rate of the product as compared with the period from 1960 to 1968.

In the first nine months of 1970, consumer prices rose by 10.2 per cent compared with the same period in 1969, and it is expected that the gross product in terms of constant prices will be found to have remained practically stationary in 1970 or to have increased only very slightly.

Although there was growth in every sector of the economy, it was not evenly distributed. The expansion was mainly attributable to performance in mining and refining and the construction sector. Both sectors maintained the same rate of growth as in 1969, that is, 32 per cent and 12 per cent respectively. Public utilities, government and ownership of dwellings matched the over-all growth rate, while the remaining sectors registered lower rates, and in agriculture the increase was only 1 per cent (see table 1).

^{1/} Unless otherwise indicated, values are expressed in Jamaica dollars, which are equal to 1.20 United States dollars. In previous editions of the Economic Survey, the currency referred to in connexion with Jamaica was the Jamaica pound, which had the same value as the pound sterling. On 8 September 1969 the Jamaica dollar became the official currency, two Jamaica dollars being equal to one Jamaica pound, the previous parity with the pound sterling and the United States dollar was maintained.

Table 1
JAMAICA: GROSS DOMESTIC PRODUCT, BY SECTOR OF ECONOMIC ACTIVITY

Sectors	Values at current factor cost (millions of Jamaica dollars)				Percentage structure				Annual growth rates			
	1966	1968	1969a/	1970b/	1966	1968	1969	1970	1967	1968	1969	1970
Agriculture, forestry and fishing	75.1	77.5	74.7	75.1	11.6	10.3	9.0	8.2	3.6	-0.5	-3.6	0.5
Mining, quarrying and refining	62.0	72.4	95.9	126.1	9.6	9.6	11.6	13.8	4.8	11.4	32.5	31.5
Construction	69.2	94.9	107.0	119.9	10.7	12.5	12.9	13.1	4.1	11.6	5.0	6.3
Government	50.3	69.7	77.2	85.3	7.8	9.2	9.3	9.3	5.3	30.2	12.8	12.1
Transport and communications	48.5	57.8	61.1	64.1	7.5	7.6	7.4	7.0	1.1	11.0	11.0	10.8
Distribution	91.2	102.3	112.5	122.6	14.1	13.5	13.6	13.4	9.9	8.6	5.7	4.9
Manufacturing	99.2	115.3	121.1	128.7	15.4	15.3	14.6	14.1	3.2	8.7	10.0	9.0
Electricity, gas and water	9.0	10.0	11.1	12.3	1.4	1.3	1.3	1.3	10.5	7.0	10.6	7.8
Financial institutions	29.5	35.0	38.7	41.7	4.6	4.6	4.7	4.6	1.8	1.8	9.2	10.8
Ownership of dwellings	21.9	22.8	24.9	27.6	3.4	3.0	3.0	3.0	20.7	15.0	10.8	10.5
Others	90.1	99.1	103.9	109.1	13.9	13.1	12.6	12.0	4.9	5.0	4.8	5.0
Total	646.0	756.2	828.2	917.5	100.0	100.0	100.0	100.0	6.1	10.4	9.4	10.2

Sources: Department of Statistics, Jamaica, National Income and Product, 1969.

a/ Provisional figures.

b/ ECLA estimates.

As a result, the main trends recorded since 1968 with regard to the relative shares of the sectors in the gross domestic product have become more pronounced. Between 1968 and 1970 the agricultural sector's share fell from 10.3 per cent to a little over 8 per cent, while the share of mining, quarrying and refining rose from 9.6 to 13.8 per cent.

On the other hand, in 1970 there would seem to have been a 13 per cent rise in the growth rate of investment expenditure compared with 1969.

2. Mining and refining

Dynamic growth in the production of bauxite and alumina was responsible for the performance of the mining, quarrying and refining sector, and these two now account for over 91 per cent of its output. The installation of additional alumina production capacity has stimulated both sections of the industry, and by October 1970 alumina production had already surpassed the total output for 1969 by 22 per cent, and bauxite production was approaching the previous year's total. The next two largest industries in this sector, gypsum and petroleum, though less important economically, increased their output by over 20 per cent a year between 1967 and 1969, but this rate declined somewhat in 1970 (see table 2).

3. Agriculture

In contrast to the mining sector, growth in agriculture was very slow. Agricultural output has been adversely affected by the prolonged drought which only came to an end in 1969. The low growth registered in 1970 did not constitute a recovery from the decline suffered in the previous two years. Although the volume of the sugar crop increased by 6 per cent, the low sugar content of the cane meant that there was only a 2 per cent increase in production. The other important export crop, bananas, fell sharply by an estimated 10 per cent, to which must be added the deterioration in its export price and severe marketing difficulties. Previously the export output used to be the dynamic component in the agricultural sector, especially livestock production, which started to grow significantly in 1969. There was no significant improvement in the other major crops in 1970.

Table 2

JAMAICA: MINING AND REFINING PRODUCTION, 1966-1970

	Unit	1966	1967	1968	1969	1970
Bauxite	Thousands of tons	8 918	9 121	8 391	10 333	9 960 ^{a/}
Alumina	Thousands of tons	789	815	910	1 153	1 417 ^{a/}
Gypsum	Thousands of tons	190	184	206	251	146 ^{b/}
Petroleum products	Millions of gallons	349	258	308	384	275 ^{c/}

Source: Department of Statistics, Jamaica, National Income and Product, 1960.

^{a/} January to October.

^{b/} January to June.

^{c/} January to September.

4. Manufacturing

Since 1963 this sector has been the biggest contributor to the gross domestic product; in 1968 its relative share was 15.3 per cent. In 1969 manufacturing grew by 5 per cent and in 1970 by just over 6 per cent, which was substantially lower than the rate in some other sectors of the economy, so that its relative share declined to 14 per cent.

The decline in the relative share of manufacturing since 1968 is directly traceable to the performance of the sugar industry, including the important by-products, rum and molasses. However, this does not show the significant advances in chemicals, furniture and miscellaneous manufactures, nor the appreciable diversification and structural changes in production. In the last two years construction has been begun or operations have been started in several factories making paper products, furniture, plastics, synthetic textiles and chemical products or processing food products, and these operations have succeeded to some extent, in offsetting the slowing down of activity in the sugar industry.

5. Other sectors

Growth in the construction sector remained at about the same level as in 1969, that is, 12 per cent, under the impact of the continuing expansion of alumina production capacity and hotel building. In addition, housing construction, expansion in public utilities and new factory construction contributed strongly to the advance.

Taken as a whole, transport, communications and public utilities increased at a somewhat slower pace than the over-all growth rate during the last two years. However, communications and electricity have been expanding rapidly, as a result of investment in new facilities which came into operation in 1969 and 1970 and which made a considerable contribution to over-all growth.

6. The external sector

The rise in income from bauxite and alumina exports in 1969 was not enough to prevent the trade gap, which was already large in 1968, from widening somewhat more. However partial data for the first half of 1970 show that the gap is narrowing as a result of the continued expansion of export earnings from the products mentioned above (see table 3).

Table 3

JAMAICA: EXPORTS OF SELECTED PRODUCTS

(Millions of Jamaica dollars)

	1967		1968		1969		1970 ^{a/}	
	Value	Percent age of total	Value	Percent- age of total	Value	Percent age of total	Value	Percent age of total
Total exports of domestic goods	160.7	100.0	179.2	100.0	205.2	100.0	124.4	100.0
Bauxite and alumina	78.9	49.1	88.9	49.6	116.8	56.9	65.5	52.8
Sugar, rum and molasses	34.6	21.5	37.7	21.0	38.8	18.9	27.1	21.8
Bananas	13.3	8.3	13.8	7.7	12.5	6.1	5.7	5.0
Citrus fruit, cocoa, coffee, pimiento ginger and their products	9.5	5.9	10.2	5.7	9.9	4.8	6.7	5.4
Manufactured goods (SITC, groups 5-8)	13.6	8.5	16.6	9.3	17.2	8.4	8.1	6.2
Other	10.8	6.7	12.0	6.7	10.0	4.9	11.0	8.8

Source: Official foreign trade publications and data provided by the Department of Statistics, Jamaica.

^{a/} January to June.

/As far

As far as other main commodities are concerned, sales of sugar and its by-products seem to be recovering from the decline they suffered in 1968 and 1969. Earnings from banana exports continued to fall, while exports of citrus, cocoa, coffee and spices as a group appear to have increased. Among the non-food exports, part-year data show a marked increase in chemicals, but "other manufactures" do not appear to have increased to any substantial extent.

On the import side, 1969 data show a levelling off of consumer goods imports, especially foodstuffs, which was partly offset by larger imports of consumer durables. Capital goods imports increased, especially transport equipment and office machinery, while imports of raw materials declined.

Jamaica's trade with the other CARIFTA countries is still only a very small part of its total trade, but it has increased over 80 per cent since 1967, and the available data indicate that the rapid growth rate accelerated in 1970 (see table 4).

Although exports grew more than imports in 1969, there was a fresh increase in the deficit on current account, albeit small; in addition the net inflow of private capital was sharply reduced resulting in a balance-of-payments deficit of 11.2 million Jamaica dollars.

The information available for the first half of 1970 indicates that the deficit on current account remained at the same level as the previous year, despite the greater growth of exports compared with that of imports; however, an extraordinary inflow of capital, which in the first half of 1970 was already larger than the total for the previous year, would seem to indicate that there will be a large balance-of-payments surplus (see table 5).

Table 4

JAMAICA: TRADE WITH CARIFTA COUNTRIES

(Thousands of Jamaica dollars)

Year	Imports	Exports of domestic goods	Total exports
1967	3 195	3 402	3 601
1968	3 159	5 283	5 899
1969	4 864	7 294	7 518
1969 <u>a/</u>	2 483	2 964	3 072
1970 <u>a/</u>	3 394	4 195	4 430

Source: Official foreign trade publications and Department of Statistics, Jamaica.

a/ January to June.

Table 5

JAMAICA: BALANCE OF PAYMENTS

(Millions of Jamaica dollars)

	1967	1968	1969 ^{a/}	1970 ^{a/} Jan.- June
<u>Current account</u>				
Goods				
Exports fob ^{b/}	165.4	184.8	217.8	120.5
Imports fob ^{b/}	217.2	276.9	319.4	167.0
Net balance on goods account	-51.8	-92.1	-101.6	-46.5
Services				
Transport	-23.8	-31.3	-34.9	-18.4 ^{a/}
Merchandise insurance	-2.6	-3.2	-3.7	...
Foreign travel	49.2	63.0	65.4	39.0
Investment income	-36.0	-39.2	-44.6	-24.7
Government transactions	7.2	7.7	9.6	...
Non-merchandise insurance	-10.8	-11.5	-1.1	...
Other	5.4	7.8	10.1	...
Net balance on services account	-11.4	-6.7	0.8	-4.1
Net balance on goods and services	-63.2	-98.8	-100.8	-50.6
Transfer payments				
Private	12.8	13.3	14.7	-5.3
Government	-2.8	-3.1	-3.8	...
Net transfer payments	10.0	10.2	10.9	5.3
Balance on current account	53.2	-88.6	-89.9	-45.3
<u>Capital account</u>				
Net capital movements	67.5	112.5	78.7	85.6
Government	5.0	12.6	12.2	...
Private	80.2	107.6	} 66.5	...
Unidentified	-17.7	-7.7		
Surplus or deficit	-14.3	-23.9	11.2	-40.3

Source: Central Planning Unit and Bank of Jamaica.

^{a/} Provisional figures.

^{b/} Adjusted to balance-of-payments basis.

^{c/} All services except foreign travel and investment income.

/MEXICO

MEXICO

1. Recent economic trends

According to preliminary figures, in 1970 the Mexican economy continued to develop at a satisfactory pace (7.4 per cent), which was similar to that of the previous year and slightly higher than the average for the period 1960-1967. On the supply side, the main stimulus for growth came from the steady expansion of manufacturing (8.5 per cent), chiefly in the basic goods producing sectors, the expansion of construction (10 per cent) as a result of the high rate of capital formation, and the dynamism of the services sectors owing to the intensity of domestic activity and a sharp upsurge in imports and tourism. The relative recovery of agriculture - owing to the increase in output for domestic consumption - also helped to boost the growth rate (see tables 1 and 2).

On the demand side, the main impetus was provided by domestic components. External demand for goods and services rose by only 0.8 per cent, mainly because of the stagnation of traditional exports, but domestic demand rose by 8.3 per cent. Gross fixed investment increased by 7.6 per cent owing to the growth of private investment. The most influential factor, however, was the increase of 8.4 per cent in consumption expenditure. The rapid increase of general government expenditure, the increase in minimum wages approved at the end of 1969, the relative recovery of agriculture, the increase in economic activity in recent years, the rise in the inflow of external capital - all were factors that played a significant role in the rapid rise of consumption expenditure. The net result was that domestic demand grew more rapidly than the product, creating a shortfall that had to be made good through a sharp increase in imports of goods and services. Owing to shortages in agricultural supply from the preceding crop year, the stagnation of iron ore production, the rise in incomes, and dependence on external factors stemming from the structure of production and foreign trade, imports of goods and services expanded by 10.5 per cent (see table 2).

/Table 1

Table 1
MEXICO: GROSS DOMESTIC PRODUCT, BY SECTOR OF ECONOMIC ACTIVITY

Sector	Millions of pesos at 1960 prices				Percentage share			Annual growth rate		
	1965	1968	1969	1970a/	1965	1968	1969	1965-1968	1969	1970a/
Agriculture	30 121	32 450	32 856	...	14.8	13.0	12.2	2.5	1.3	...
Agriculture	19 889	20 456	20 030	20 431	9.7	8.2	7.5	8.7	-2.1	2.0
Livestock	9 001	10 663	11 468	...	4.4	4.3	4.3	5.8	7.5	...
Forestry	912	978	1 027	...	0.5	0.4	0.4	2.4	5.0	...
Fishing	319	353	331	364	0.2	0.1	0.1	3.4	-6.2	10.0
Mining	8 959	11 155	11 736	12 590	4.4	4.5	4.4	7.6	5.2	7.3
Manufacturing	43 846	56 826	61 475	66 700	21.5	22.7	22.9	9.0	8.2	8.5
Construction	8 534	11 844	12 943	14 237	4.2	4.7	4.8	11.6	9.3	10.0
Subtotal goods	91 460	112 275	119 010	127 629	44.8	44.9	44.3	7.1	6.0	7.2
Electricity, gas and water	2 384	3 640	4 239	4 985	1.2	1.4	1.6	15.2	16.5	17.6
Transport and communications	6 305	7 936	8 626	...	3.1	3.2	3.2	8.0	8.7	...
Subtotal basic services	8 689	11 576	12 865	14 249	4.2	4.6	4.8	10.0	11.1	10.8
Commerce and finance	63 907	77 984	85 157	...	31.3	31.2	31.7	6.9	9.2	...
Government	11 834	15 087	16 053	17 145	5.8	6.0	6.0	8.4	6.4	6.8
Ownership of dwellings	13 889	16 478	17 476	...	6.8	6.6	6.5	5.9	6.1	...
Miscellaneous services	14 229	16 752	17 645	...	7.0	6.7	6.6	5.6	5.3	...
Subtotal other services	103 859	126 201	136 231	145 498	50.9	50.5	50.8	6.7	7.2	6.7
Total	203 385	249 921	268 052	287 376	100.0	100.0	100.0	7.1	7.2	7.4

Source: 1965 to 1969 ECLA estimates based on official Banco de Mexico statistics; 1970: ECLA estimates based on preliminary statistics supplied by the same source.

N. B. Owing to the general practice of calculating the individual activities and the total independently, the sum of the former do not necessarily correspond exactly to the latter.

a/ Preliminary figures.

Table 2

MEXICO: TOTAL SUPPLY AND DEMAND

	Millions of pesos at 1960 prices				Percentage structure				Annual growth rates		
	1965	1968	1969	1970a/	1965	1968	1969	1970a/	1965-1968	1969	1970a/
<u>Total supply</u>	<u>233 509</u>	<u>288 397</u>	<u>309 072</u>	<u>322 857</u>	<u>110.0</u>	<u>110.5</u>	<u>110.4</u>	<u>110.8</u>	<u>7.3</u>	<u>7.2</u>	<u>7.7</u>
Gross domestic product	212 320	260 901	279 829	300 536	100.0	100.0	100.0	100.0	7.1	7.3	7.4
Imports b/	21 189	27 496	29 243	32 321	10.0	10.5	10.4	10.8	9.1	6.4	10.5
<u>Total demand</u>	<u>233 509</u>	<u>288 397</u>	<u>309 072</u>	<u>322 857</u>	<u>110.0</u>	<u>110.5</u>	<u>110.4</u>	<u>110.8</u>	<u>7.3</u>	<u>7.2</u>	<u>7.7</u>
Exports b/	20 702	23 908	26 250	26 456	9.7	9.2	9.4	8.8	4.9	9.8	0.8
<u>Total investment</u>	<u>40 196</u>	<u>53 686</u>	<u>58 249</u>	<u>60 202</u>	<u>18.9</u>	<u>20.6</u>	<u>20.7</u>	<u>20.2</u>	<u>10.1</u>	<u>8.5</u>	<u>8.0</u>
Gross fixed investment	35 633	48 686	51 315	55 215	16.8	18.7	18.9	18.4	11.0	5.4	7.6
Public	...	15 870	18 166	19 583	...	6.1	6.5	6.5	...	14.4	7.8
Private	...	32 816	33 149	35 632	...	12.6	11.8	11.9	...	1.0	7.5
Construction	...	...	...	...	...	...	...	...	...	...	...
Machinery and equipment	...	...	...	...	...	...	...	...	...	...	...
<u>Total consumption</u>	<u>172 611</u>	<u>210 803</u>	<u>224 573</u>	<u>243 492</u>	<u>81.3</u>	<u>80.8</u>	<u>80.3</u>	<u>81.0</u>	<u>6.2</u>	<u>6.5</u>	<u>8.4</u>
General government	15 329	19 617	20 879	22 299	7.2	7.5	7.5	7.4	8.6	6.4	6.8
Private	157 282	191 186	203 694	221 193	74.1	73.3	72.8	73.6	6.7	6.5	8.6

Source: ECLA on the basis of official data.

a/ Preliminary.

b/ Goods and services, excluding factor payments.

The extraordinarily rapid growth of imports and the rise in the over-all consumer price index (6.4 per cent) would seem to reflect a number of disequilibria that have become apparent in the Mexican economy in recent years. Although purely temporary factors played their part in 1970 - the contraction in the supply of basic goods for domestic consumption owing to unfavourable weather in the 1969/1970 crop year, and the anticipated effects of the new Labour Act, for example - the main responsibility lies with other factors. For example, the rise in world prices for Mexico's imports and the increased cost of import substitution, which is requiring more complex and difficult technology, added to the rise in the minimum wage, are beginning to have an appreciable impact on production costs. Furthermore, certain policy changes to bring prices (for example steel prices and interest rates on capital) more into line with the real situation of the economy have also had an impact (see table 3).

Demand appears to have exerted less of an influence on prices than production costs, judging by the fact that the ratio of the money supply to the gross domestic product has shown a downward trend, or at least has been stationary, over the past two years. In this connexion, there does not appear to have been excessive internal pressure on the money supply, and it is to be hoped that price increases in 1971 will continue to be fairly independent of the degree of liquidity of the economy.

Credit policy reflected a desire to prevent further pressure on monetary and exchange stability, as is demonstrated by the relatively less intense growth of the supply of credit. Financing made available by the banking system to enterprises, private individuals and the Federal Government, as indicated by the balances, increased by 16 per cent in 1970, compared with 20 per cent in 1969. Financing consisted mainly in transactions in federal government securities and in commercial credit (see table 4).

Table 3

MEXICO: PRICE INDEXES, 1963 - 1970

(1954 = 100)

Year	Wholesale prices			Cost of food	Workers' cost of living
	General index	Consumer goods	Production goods		
1963	142.1	145.2	137.8	156.6	159.6
1964	148.1	151.9	143.0	163.8	163.1
1965	150.9	155.4	144.6	166.5	169.1
1966	152.8	158.4	145.1	172.8	176.3
1967	157.2	164.4	147.2	177.2	181.6
1968	160.2	168.1	149.3	182.8	185.9
1969	163.7	172.0	152.2	184.9	190.6
1970 ^{a/}	174.1	185.3	158.6	192.1	...

Source: Banco de México, S.A.

^{a/} Preliminary figures.

/Table 4

Table 4

MEXICO: TOTAL BANK FINANCING, 1966-1970

(Thousands of millions of pesos)

	1966	1967	1968	1969	1970 ^{a/}
<u>End-year balance</u>	<u>104.6</u>	<u>121.1</u>	<u>138.8</u>	<u>167.2</u>	<u>194.5</u>
To enterprises and individuals	77.2	91.0	103.6	124.8	146.7
To the Federal Government	27.4	30.1	35.2	42.4	47.8
<u>Annual variations (net)</u>	<u>17.3</u>	<u>16.5</u>	<u>17.7</u>	<u>28.5</u>	<u>27.2</u>
To enterprises and individuals	10.3	14.0	12.5	21.2	21.9
Securities	0.3	1.1	0.9	0.9	0.8
Credit	<u>10.1</u>	<u>12.9</u>	<u>11.7</u>	<u>20.3</u>	<u>21.1</u>
To trade	3.1	3.3	3.9	7.2	5.3
To production	<u>7.0</u>	<u>9.5</u>	<u>7.8</u>	<u>13.1</u>	<u>15.8</u>
Industry	4.6	7.7	6.3	11.7	13.1
Agriculture (including livestock)	1.9	1.3	1.3	0.9	1.3
Mining	0.4	0.5	0.2	0.5	1.4
To the Federal Government	<u>6.9</u>	<u>2.7</u>	<u>5.1</u>	<u>7.3</u>	<u>5.3</u>
Securities	6.1	3.1	4.7	7.7	5.4
Credit	0.8	-0.4	0.4	-0.4	-0.1

Source: Banco de México, S.A.

^{a/} Preliminary figures.

/Current account

Current account saving by the public sector, according to incomplete data, increased somewhat (11 per cent) in 1970, mainly owing to the consolidation of the measures taken in 1969 to improve the State's capacity to collect revenue, and the stimuli offered by the rapid growth of the economy. The increase in the current account surplus is a measure of the efforts made, mainly by the Federal Government; it is estimated that federal government saving rose by 19 per cent in 1970, while saving by enterprises, the decentralized agencies and the Federal District remained at virtually the same level as before. Although government investment did not expand as much as in 1969 (8 per cent as opposed to 14 per cent) it is still possible that such growth as there was, together with the magnitude of repayments in respect of the public debt, will mean a significant rise in the fiscal deficit.^{1/} Hence, it is probable, given that there is a desire to stop pressure on domestic resources, that it will be necessary to make massive use of external resources, especially in view of the fact that imports by the public sector in 1970 were more than 35 per cent up on the 1969 level (see table 5).

2. Production

Agriculture's performance was an improvement over 1969, although it did not achieve the growth levels of the early 1960s. The recovery of output (2 per cent) exactly counterbalanced the contraction in 1969 caused by unfavourable weather, as a result of which it was necessary to import wheat and especially maize - some 800,000 tons - generating a trade deficit in respect of these cereals for the first time since 1963.

The growth of agriculture in 1970 was due in the main to a recovery in the production of basic grains and to the by now traditional expansion of important domestic consumption items such as feed grains, sesame and rice. A contributory factor was the measures taken to compensate for the serious losses of the previous harvest, and the use of storage water from irrigation systems.

^{1/} Preliminary estimates place the fiscal deficit at close to 13,000 million pesos, as against an annual average of 9,900 million over the four preceding years.

Table 5

MEXICO: IMPORTS OF GOODS, 1966-1970

(Millions of pesos)

	1966	1967	1968	1969	1969 January to November	1970
<u>Total</u>	<u>20 064.5</u>	<u>21 823.2</u>	<u>24 500.5</u>	<u>25 949.3</u>	<u>23 558.4</u>	<u>27 850.0</u>
Government	3 465.5	5 083.6	4 707.2	5 211.1	4 678.1	6 321.4
Private	16 599.0	16 739.6	19 793.3	20 738.2	18 880.3	21 528.6

Source: Ministry of Industry and Trade.

/Maize output

Maize output for the 1970/1971 crop year is expected to be above 9.3 million tons, which after domestic requirements have been satisfied should yield an exportable surplus of some 800,000 tons.

With respect to sugar, the continuation of distortions in the production structure, which are responsible for the cost problems referred to earlier, placed a ceiling on the output of sugar cane from the 1970/1971 harvest, roughly the same as happened in the preceding crop year.

The increase in exports of tobacco (28 per cent) was not enough to raise production above the stagnation level caused by the saturation of the domestic market.

The production index for the 1970/1971 crop year covering export products again declined owing to the sharp contraction in the output of cotton and coffee. Cyclones affected part of the cotton crop and as a result of uncertainty about world prices and rising production costs sowings were limited to 422,000 hectares, as compared with the 544,000 hectares in the preceding crop year. It is estimated that output of cotton fibre will be down about 16 per cent over 1969/1970 (when output was already 29 per cent lower than in 1968/1969).

Despite the uncertainties about the United States market, tomato output rose by 20 per cent. Tomatoes were exported to both the United States and Europe, which for a time at least, removed the threat that the United States market would be closed to Mexican tomatoes which had hung over producers in recent years.

The prolonged drought which has continued unbroken since 1969 in the northern part of the country affected livestock output, but nevertheless exports of cattle on the hoof and in carcase increased, mainly owing to the drought emergency, which forced stock breeders either to export their animals or to slaughter them.

Although the campaigns to eradicate pests and diseases - including the laboratory programme initiated three years ago - have yielded considerable benefits, losses are still on a substantial scale. Noteworthy, too, is the fact that per capita meat consumption has remained constant, with only consumption of chicken and fish showing slight increases in recent years.

/Under other

Under other livestock, 50,000 stud sheep and goats were purchased to improve breeds. With respect to poultry-farming, the daily output of eggs rose from 16 million in 1969 to 18 million in 1970, produced in some 30,000 farms by a stock of poultry that rose from 140 million units in 1969 to 147 million in 1970.

In contrast with the sluggishness of agriculture, the goods-producing sectors maintained the dynamic pace that has characterized them throughout the 1960s. One exception was the marked contraction in output and exports of sulphur; but the remainder of industrial activity (manufacturing, petroleum, electric power and construction), stimulated by the steady growth of domestic demand, was vigorous enough to speed up the rate of growth of the industrial product.

The upward trend of prices was aggravated by a number of factors, chiefly the rise in minimum wages (an average of 16 per cent) approved in December 1969 for the period 1970-1971.

The magnitude of the increase in costs is attributable not only to the direct effect of the rise in the wage bill but also to the delayed effect, because of the way increases filter through the whole interdependent structure of industry, of purchases of goods and services from the other sectors, apart from the impact of the change in the minimum wage on the entire salary scale. Similar effects were caused by the revision of labour contracts from mid-1969 onwards and the rise in prices of domestically produced inputs and capital goods, notably the rise in the price of steel (approximately 8 per cent) authorized in December 1969.

The pressure on costs was also aggravated by the rise in prices for manufactures imported by industry, as a result of the inflation affecting most of the exporting countries. Similar effects were caused by the 2 and 3 point increases in the prime interest rates charged by banks throughout the year, and the restrictions that were imposed on credit in order to reduce inflationary pressures.

Against this background of rising costs and the corresponding increases in the prices of goods - which could adversely affect Mexico's capacity to compete - it is noteworthy that manufacturing output expanded at roughly

/the same

the same pace as in 1969. Provisional estimates indicate that the 8.5 per cent increase in the manufacturing product was mainly due to the expansion of the basic industries, since the import substitution process has the stimulus of very favourable domestic prices. The main branches responsible for growth were those connected with capital formation (cement, machinery, transport equipment) and some producing intermediate goods (chemicals). There was also a rapid rise in the production of foodstuffs, beverages and tobacco. This is an indication of the high level of consumption expenditure which, despite increases in supply, including that of consumer durables (stoves, refrigerators and electrical appliances), led to substantial price increases (see table 6).

During 1970, the iron and steel industry's output of basic items expanded by 9 per cent. With the exception of pig iron, which contracted by 3 per cent, output increased considerably, ingots heading the list with an 11.7 per cent increase. There was substantial growth too in the output of rolled products (10.4 per cent as opposed to 7 per cent in 1969), stimulated by the intense activity of construction and the demand for consumer durables. In general terms, and as a result of the increase in domestic consumption, exports of steel products contracted. The rapid growth of the iron and steel industry during the 1960s - at present satisfying approximately 93 per cent of domestic demand compared with less than 83 per cent in 1960 - appears, however, to have begun to exert relatively serious pressures on the supply of nationally produced raw materials. The unusually large imports of scrap, pig iron and iron alloys in 1970 were partly responsible, although another contributory factor was the temporary suspension of mining at the iron ore deposits in the state of Durango.

Table 6

MEXICO: GROSS DOMESTIC PRODUCT OF THE MANUFACTURING INDUSTRY, 1966-1970
(Thousands of millions of pesos at 1960 prices)

	1966	1967	1968	1969	1970 ^a	Average annual growth rate			
						1967	1968	1969	1970
<u>Total</u>	49.6	53.1	58.6	63.4	68.8	7.1	10.4	8.2	8.5
Food, beverages and tobacco	15.3	16.2	17.4	18.5	19.9	5.9	7.4	6.3	7.6
Textiles, footwear and clothing	7.6	8.4	9.1	9.6	10.1	10.5	8.3	5.5	5.2
Paper and paper products	1.4	1.6	1.7	1.9	2.1	14.3	6.3	11.8	10.5
Printing and publishing	1.2	1.2	1.3	1.4	1.5	-	8.3	7.7	7.1
Chemicals and petrochemicals	5.7	6.4	7.4	8.4	9.3	12.3	15.6	13.5	10.7
Non-metallic ores	2.0	2.3	2.6	3.0	3.4	15.0	13.0	15.4	13.3
Basic metals and metal products	5.2	5.5	6.1	6.6	7.2	5.8	10.9	8.2	9.1
Construction of machinery	4.4	4.3	5.3	5.2	5.8	-2.3	23.3	-1.9	11.5
Construction of transport equipment	3.0	3.2	3.6	4.1	4.7	6.7	12.5	13.9	14.6
Other metal-transforming industries	3.8	4.0	4.2	4.6	4.8	5.3	5.0	9.5	4.3

Source: Banco de México, S.A.
a/ Estimates.

/In the

In the chemical industry, output of sulphuric acid and caustic soda expanded rapidly (14 and 6.7 per cent respectively), but output of ammonium sulphate and calcium superphosphate contracted, owing to the slackening of domestic demand for fertilizers because of poor harvests and the high cost of inputs. The over-all growth of the chemical industry (almost 11 per cent) is attributable to the dynamism of the petrochemical branch. Total output of basic petrochemical products expanded by 12.2 per cent, and installed capacity also expanded with the entry into operation of an ethylene purifying plant with an annual capacity of 14,000 tons and an ethylbenzene plant with an annual capacity of 39,500 tons.^{2/}

The transport sector expanded by close to 15 per cent in 1970. This was attributable to the strong recovery in the production of rolling stock - up by almost 100 per cent compared with the contraction of 30 per cent in 1969 - partly owing to increased exports. Another contributory factor was the expansion of the motor-vehicle industry, even though one of the eight enterprises suspended operations. It is estimated that the total number of vehicles assembled rose by 13.2 per cent. This was attributable to the output of passenger cars (118,200 units), which was well above the figure for 1969, because the output of lorries fell from 60,700 units assembled in 1969 to 53,200 in 1970. It should be noted that measures were brought into effect in 1970 to reduce the balance-of-payments pressures caused by the high import content of the motor-vehicle industry and to promote greater utilization of installed capacity. Essentially, the maintenance of the basic production quotas for each plant were made conditional upon its gradually increasing the ratio of exports to imported supplies, which was fixed for each of the enterprises in the industry. Under this system - which covers all vehicles except lorries and certain types of bus - it is expected that imports and exports will be in balance in the motor-vehicle industry by 1978 at the latest.

^{2/} An acrylonitrile plant (annual capacity 24,000 tons) and a polyethylene plant (annual capacity 51,000 tons) are due to begin operations in the relatively near future. Under construction are a number of plants to produce butane-butadiene, butadiene, ethylene oxide, paraxylene, ethane, ethylene, vinyl chloride monomer and perchloroethylene.

3. Foreign trade and the balance of payments

An important feature of the Mexican economy in 1970 was the sharp rise in the current account deficit in its balance of payments. The deficit amounted to 1,100 million dollars in 1970, as compared with 731 million in 1969, and represented 76 per cent of the current value of merchandise exports and slightly more than 3 per cent of the gross domestic product. This rise was attributable to the deficit on the commercial balance (415 million dollars) and the increase in outflows under the head of servicing payments (700 million). The stagnation of merchandise exports, together with the vigorous expansion (15 per cent) of merchandise imports, was not offset by the traditional surplus (540 million) on the services account. The impact of the increase in servicing payments (16 per cent) and their magnitude in absolute terms become apparent if it is realized that, when added to estimated outflows in respect of repayments of capital, they are very close to being equal to the total value of merchandise exports (see table 7).

The current value of merchandise exports remained virtually unchanged, owing to the decline in exports of traditional products, which was barely offset by the improved performance of certain goods, chiefly manufactures. Cotton exports contracted considerably (45 per cent) because of poor harvests (partly attributable to losses caused by pests and storms and also to price increases). The story was the same with sugar exports, which contracted by 1 per cent and were not large enough to fill the United States quota, despite the fact that there was a slight improvement in world prices.

For the second year in succession the value of sulphur exports fell (by 26 per cent in 1969 and 61 per cent in 1970). This was partly due to policies to give priority to domestic needs through the establishment of strict requirements governing the exploration of deposits, fulfilment of these requirements being a precondition for the granting of export quotas. As a result there were conflicts with the enterprises producing sulphur, culminating in the closure of Gulf Sulphur in early 1970.

Table 7

MEXICO: BALANCE OF PAYMENTS, 1966-1970

(Millions of dollars)

	1966	1967	1968	1969	1970 ^{a/}
a) Current account					
Exports of goods and services	2 136	2 165	2 448	2 719	2 875
Goods fob	1 199	1 152	1 258	1 435	1 445
Services	937	1 013	1 190	1 284	1 430
Imports of goods and services	-2 133	-2 324	-2 648	-2 862	-3 290
Goods fob	-1 619	-1 767	-1 968	-2 089	-2 400
Services	-514	-557	-680	-773	-890
Net external investment income	-394	-473	-551	-602	-700
On direct investment	-277	-322	-368	...	...
Other	-117	-151	-183	...	...
Net private transfer payments	-5	5	13	14	15
Balance on current account	-396	-627	-738	-731	-1 100
b) Capital account					
Net external financing	396	627	738	731	1 171
a) External non-compensatory capital	451	638	523	708	
Direct investment	183	130	227	302	
Long- and medium-term loans	160	367	318	451	
Official	57	110	120	...	
Inflows	196	264	268	...	
Amortization payments	139	154	148	...	
Private	103	257	198	...	
Inflows	449	575	622	...	
Amortization payments	346	318	424	...	
Short-term liabilities	104	139	-22	-45	
Official transfer payments	4	2	-	-	
b) Domestic non-compensatory capital or assets	75	-89	-219	101	
Long-term	-25	13	2	-1	
Short-term	100	-102	-221	102	
c) Errors and omissions	-148	162	528	-101	
d) Compensatory movements (increase -)	18	-84	-94	-23	-71
Balance-of-payments loans, trade arrears, deferred payments, IMF position and other liabilities of the monetary authorities	20	-	-	21	...
Amortizations payments	-32	-13	-38	...	...
Movements of gold and foreign exchanges reserves (increase -)	30	-71	-56	-44	...

Source: IMF, Banco de México, S.A. and ECLA estimates.

^{a/} Estimates.

/Tomato exports

Tomato exports grew by 28.7 per cent despite the drop in world prices and the restrictions imposed by the United States in the early part of the year, which were later dropped when tomato producers in Florida lost part of their crops owing to bad weather. Improved access also made it possible to export to the European market.

Among agricultural exports, the most thriving were strawberries (21 per cent), coffee (18 per cent) and meat (9 per cent), and among mining exports, lead (16 per cent) and zinc (14 per cent). Exports of cattle on the hoof rose (at lower prices, however, because they had to be disposed of in huge quantities owing to the drought), and exports of shrimp recovered to show a 35 per cent improvement over 1969.

On the manufacturing side, exports of certain manufactures expanded rapidly, notably electrical machinery and equipment (70 per cent), iron sheets (35 per cent), parts for machinery (34 per cent) and motor-vehicle parts (53 per cent). The most dynamic markets for manufactures were not the same as in 1969, for exports to ALALC countries over the first eleven months of the year were barely 4 per cent higher than in the same period in 1969 (see table 8).

The estimates available indicate that revenue from tourism and border transaction expanded by 13 per cent, compared with 8 per cent in 1969, which can be attributed in part to income accruing the World Cup football championship. In contrast, expenditure by national tourists abroad continued the rising trend of recent years.

Another important factor in the deterioration of the payments position, as noted earlier, was the considerable growth of imports. This growth was due to the high rate of public capital formation, the rapid tempo of economic activity, the need for non-substitutable intermediate goods, supply shortfalls in certain sectors and the pressure of consumer demand.

Table 8

MEXICO: TRADE WITH THE ALALC COUNTRIES, 1966-1970

(Millions of pesos)

	1966	1967	1968	1969	1969 January to November	1970
Imports	435.8	482.1	535.7	647.8	596.2	688.5
Exports	803.2	715.0	778.0	1 076.9	1 005.2	1 046.2
Balance	367.4	232.9	242.3	429.1	409.0	357.7

Source: Ministry of Industry and Trade.

/Imports by

Imports by the public sector are estimated to have risen by 35 per cent (10.7 per cent in 1969), consisting essentially of equipment and installations for the underground railway in the capital ^{3/} (see table 5). As to the shortfalls in domestic supply, notable among agricultural imports were the sizable purchases of basic grains and oil seeds owing to the contraction in the production of the former and the long standing production problems of the latter. With respect to mining, imports of scrap iron virtually doubled owing to the prolonged stoppage of iron ore production at the Durango mine.

The high level of imports is also attributable to the considerable expansion of the border industries, which doubled in number between July 1969 and the end of 1970. Since imports comprise unprocessed articles and the necessary capital equipment for processing them, the net balance on operations showed a deficit because imports were 50 per cent higher than exports. This situation should change in the near future as capital equipment needs decline and the exports of these industries, which already total close to 250 million pesos per year, gradually increase.

It should also be noted that the increase in income generated by the intense tempo of economic activity was channelled towards imports of consumer goods, which to some extent alleviated the strong pressures on domestic prices.

Some data on banking and financial developments indicate that the way in which the current account deficit was financed was different from earlier years. It is estimated that the total amount of recorded funds used, both public and private, was equal to or less than in 1969, but the data give the impression that movements of short-term capital and non-recorded funds under the head of errors and omissions were the main source of financing for the deficit and generated an over-all balance-of-payments surplus of 71 million dollars (see table 7).

^{3/} Although imports by the public sector accounted for only one-quarter of the total, they had a clear impact on the current account deficit.

NICARAGUA

1. Recent economic trends

The gross domestic product rose 4.6 per cent in 1970, which, though a little better than the year before, showed no change in the relatively slow economic growth that has characterized the past five years. (See table 1.)

Most of the economic activity of recent years has come from the booming manufacturing sector (11.6 per cent growth rate), which has offset the virtual stagnation of agricultural production (down by 0.5 per cent), caused mainly by the decline of cotton. The construction sector also did well, expanding by 15.1 per cent. As regards expenditure, the fairly low increase in private investment and government consumption was offset by the remarkable expansion of public investment, and by the fact that exports did better than in 1969 and private consumption rose by 6.4 per cent. (See table 2.)

The excellent performance of the manufacturing industry in 1970 was largely due to increased external demand and to the recovery of private consumption, which made it possible to maintain the rapid growth rate of about 12 per cent that industry has shown since 1968.

The manufacturing boom can largely be attributed to the economic policy of the last few years under which a number of ambitious projects were carried out. Similarly, the formulation and implementation of these projects is also largely responsible for improving the country's balance of trade with the rest of Central America. More recently, however, the financial and technological requirements and the lead times of these projects has made it necessary to encourage the establishment of small- and medium-capacity enterprises bringing more immediate advantages in terms of import substitution and the supply of products that are directly related to the vertical integration of large-scale projects. The new slant given to industrial development is particularly apparent in the financial programmes and arrangements that now tend to favour this kind of enterprise, such as the programme of loans to small-scale industry, artisan-type industry and small trade businesses which was initiated towards the end of 1968 with an initial outlay of 3.5 million dollars by the Banco Nacional. The latter's loans to small scale industry rose from 327,000 dollars in 1968 to 1,258,000 in 1970.

Table 1

NICARAGUA: GROSS DOMESTIC PRODUCT, BY SECTOR OF ECONOMIC ACTIVITY

Sector	Millions of córdobas at 1960 prices				Percentage share			Annual growth rate		
	1965	1968	1969a/	1970a/	1965	1968	1969a/	1965-1968	1969a/1970a/	1970 a/
Agriculture	1 302.0	1 288.3	1 327.3	1 320.3	34.9	30.7	30.3	-0.3	3.0	-0.5
Mining	58.3	57.8	52.4	52.4	1.6	1.4	1.2	-0.3	-9.3	-
Manufacturing	416.2	577.0	649.7	725.2	11.2	13.7	14.8	11.5	12.6	11.6
Construction	131.4	150.5	161.5	185.9	3.5	3.6	3.7	4.6	7.3	15.1
Subtotal goods	1 907.9	2 073.6	2 190.2	2 283.8	51.2	49.3	50.1	2.8	5.7	4.2
Electricity, gas and water	60.4	101.8	105.9	109.2	1.6	2.4	2.4	19.0	4.0	3.1
Transport and communications	202.9	225.4	232.4	246.0	5.4	5.4	5.3	3.6	3.1	5.9
Subtotal basic services	263.3	327.2	338.3	355.2	7.1	7.8	7.7	7.5	2.4	5.0
Commerce and finance	702.7	798.0	819.6	864.4	18.9	19.0	18.7	4.4	2.6	5.5
Government	295.2	386.4	393.7	402.3	7.9	9.2	9.0	9.4	1.9	2.2
Ownership of dwellings	285.3	315.4	323.8	332.4	7.7	7.5	7.4	3.4	2.7	2.7
Miscellaneous services	272.7	301.3	309.4	321.0	7.3	7.2	7.1	3.4	2.7	3.7
Subtotal other services	1 555.2	1 801.2	1 846.5	1 920.1	41.7	42.9	42.2	5.0	2.5	4.0
Total	2 733.0	4 242.6	4 427.5	4 629.1	100.0	100.0	100.0	4.4	4.4	4.6

Source: For 1965 to 1969, ECLA estimates based on official Central Bank statistics; for 1970, ECLA estimates.

N. B. Owing to the general practice of calculating the individual activities and the total independently, the sum of the former do not necessarily correspond exactly to the latter.

a/ Preliminary figures.

Table 2

NICARAGUA: TOTAL SUPPLY AND DEMAND

	Millions of córdobas at 1960 prices				Percentage structure			Annual growth rates		
	1965	1968	1969 a/	1970 a/	1965	1968	1969 a/	1970 a/	1965-1968	1969 a/ 1970a/
<u>Total supply</u>	5 392.0	6 142.3	6 267.5	6 610.5	132.6	132.9	129.9	125.1	4.4	2.0
Gross domestic product	4 066.6	4 621.7	4 823.1	5 042.7	100.0	100.0	100.0	100.0	4.4	4.4
Imports b/	1 326.4	1 520.6	1 444.4	1 567.8	32.6	32.9	29.9	25.1	4.7	-5.1
<u>Total demand</u>	5 392.0	6 142.3	6 267.5	6 610.5	132.6	132.9	129.9	125.1	4.4	2.0
Exports b/	1 158.3	1 181.4	1 190.2	1 239.0	28.5	25.6	24.7	24.6	0.7	3.9
<u>Total investment</u>	842.4	890.2	963.2	1 014.3	20.7	19.3	20.0	20.1	1.9	8.1
Gross fixed investment	753.0	789.1	859.0	914.3	18.5	17.1	17.8	18.1	1.6	8.9
Public	177.9	187.3	189.7	218.2	4.4	4.1	3.9	4.3	1.7	1.3
Private	575.1	601.8	669.3	696.1	14.1	13.0	13.9	13.8	1.6	11.2
Construction	271.0	307.0	...	...	6.7	6.6	...	...	4.2	...
Machinery and equipment	479.4	470.4	...	...	11.8	10.2	...	...	-0.6	...
<u>Total consumption</u>	3 392.3	4 070.0	4 114.1	4 357.2	83.4	88.1	85.3	86.4	6.3	1.1
General government	384.7	497.4	509.1	521.8	9.5	10.8	10.6	10.3	8.9	2.4
Private	3 007.6	3 572.6	3 605.0	3 835.4	73.9	77.3	74.7	76.1	5.9	0.9

Source: 1965-1969: ECLA, on the basis of data supplied by the Banco Central de Nicaragua; 1970: ECLA estimates.

a/ Preliminary.

b/ Goods and services, excluding factor payments.

/As regards

As regards the progress made in the large-scale projects, the caustic soda and chlorine plant further boosted its sales on the regional market in 1970, as a result of the decline in stocks previously accumulated in Central America. Another positive factor was the expansion of the polyvinyl chloride plant so as to obtain more complex products for flooring and similar uses.

An important new industry involving the use of the country's own raw materials was a plant producing plain fabrics made from a mixture of synthetic fibres and cotton, which required an investment of around 68 million córdobas; the plant, which uses cotton as a raw material, has an annual capacity of 10.2 million yards and is expected to sell about 60 per cent of its output abroad. Another industrial project based on locally produced raw material is the enlargement of a plant producing wood for industrial purposes so as to manufacture plywood as well, to which consideration is to be given.

Another industry connected with the basic sector is the salt factory, which is estimated to require an investment of over 8 million córdobas and which will produce 20,000 tons of crude industrial salt annually for use in the soda and chlorine plant.

Finally, thanks to the upward trend of private consumption, a number of manufacturers of traditional goods, such as food, textiles, clothing and footwear, also enlarged their plants and so contributed to the growth of the manufacturing sector.

The agricultural sector, by contrast, suffered a slight recession. The modest improvement in the production of livestock and of products for domestic consumption and the recovery of coffee could not counterbalance the steady decline of the cotton industry. (See table 1.)

In order to deal with the long-standing factors that have adversely affected the output of cotton, such as the rising cost of production (pest and disease control, insecticides, bad weather) and the growing popularity of synthetic fibres, the payment of export subsidies in industrialized countries and the advent of new techniques, the Government has endeavoured to boost cotton-growing by offering preferential financial and technical

assistance to the more efficient farmers who produce at least 32 quintals of raw cotton per manzana (1.7 acres) for the last few years. These cotton-growers can obtain up to 1,120 cordobas per manzana in credit, and they are given special terms for the settlement of their arrears.

In spite of this, cotton production continued to decline during 1970. The area under cultivation was almost 20 per cent (22,800 hectares) less than for the last crop year (1968/69) and the yield per unit 10 per cent less, mainly because of plant diseases and pests and an unfavourable pattern of rainfall. Although the area sown to cotton has steadily dwindled prospects look brighter for 1970. Good weather during the initial stage of cultivation, combined with the credit measures described above, give grounds by hoping that the yield will be the similar to that of the past two crop years. Despite the better yield, however, the total output is likely to be down again owing to the reduction of the area under cotton, and this will probably affect the growth of the economy as a whole.

The National Coffee Programme, initiated in 1966 for the renovation and replanting of coffee plantations and which has now been extended to some 8,500 manzanas out of a target of 60,000, together with better world prices, helped to improve yields in the 1969/70 crop year and to increase output by about 15 per cent, which is more than in any of the past five years. The crop year 1970/71 is expected to beat all past records, even that of 1964/65, with an estimated production of about 37,800 tons.

A number of new products, (tobacco, cocoa, groundnuts and kenaf) have been tried, with promising results. There was an increase of nearly 25 per cent in the area sown to American-type tobacco, and a similar increase is expected for 1970/71. The cocoa-groundnut pilot project was introduced in view of the probable decline in the supply of cotton seed for the manufacture of vegetable oil. Some 2,500 hectares have been sown so far and this is likely to be tripled during the next crop year. It is hoped to increase the area sown with kenaf to 3,000 hectares so as to satisfy the requirements of the sack industry.

The livestock industry's growth rate was 6.8 per cent in 1970. As a result of the increase in Nicaragua's export quota to the United States, together with the development policy sponsored by the Government for the past five years through the National Development Institute, production

/has been

has been stepped up and the yield and quality of the livestock have improved. With an eye to the demand for skimmed milk, a new milk improvement programme has also been introduced in the coastal area, particularly in the departments of Masaya, Managua and Granada.

Agricultural production for domestic consumption barely kept pace with population growth. Nevertheless, the supply of rice shot up rapidly (26.5 per cent) thanks to government-sponsored programmes and favourable weather conditions, and to the great success of new varieties of seed, such as IR 8 (Filipino). Production of sesame, sugar-cane, maize and sorghum was up, but that of cotton seed declined owing to the drop in cotton production and that of beans failed to keep pace with population growth.

The accelerated growth rate of the construction industry helped to offset dwindling agricultural activity. Its 15.1 per cent growth was due to a series of housing projects and to the increase in public investment in electrification and road building.

Mining remained at the same level as in 1969, thereby halting the downward trend that began in 1966. Mining production is so small and costs have risen so much owing to the low metal content of the deposits that the ore has had to be exported without processing. The situation would seem to have improved, however, since the discovery of a mineral deposit (Vesubio) containing copper, lead and zinc and offering good prospects for commercial exploitation.

Basic services expanded faster than the year before (5 per cent as opposed to 3.4 per cent in 1969) thanks to the booming manufacturing and the stepping up of public investment. "Other services" also did better in 1970.

On the expenditure side, the most significant factor was the recovery of the purchasing power of exports which improved by about 12 per cent. Thanks to higher world prices, mainly for coffee, and to the growth in the volume of exports of coffee, meat, sugar and manufactures, the value of exports rose sufficiently to offset the adverse trend of cotton sales.

The increase in external income helped to push up consumption, particularly private consumption (which went up by 6 per cent), more rapidly than in the past two years.

/The effect

The effect of the policy of curbing current expenditure was visible in public investment, which increased for the second year running. The 15 per cent growth in government investment was mainly attributable to the continuation of projects designed to improve the infrastructure. For instance, the programmes sponsored by the national electricity authority (Empresa Nacional de Luz y Fuerza - ENALUF) during 1970 included: the termination of the 40 MW Managua thermal plant at a cost of 7.6 million dollars; the continuation of the 50 MW Santa Barbara hydroelectric project, which was 76 per cent completed at the end of 1970 and which will involve a total investment of 16.3 million dollars; and the construction of an eastern substation with a capacity of 15 mVA and with 55 kilometres of 69 kV cable stretching from Casa Colorada to San Rafael del Sur. Work went ahead on the rural electrification programme for the Chinandega, Rivas and Chontales, Boaco and Río San Juan areas, and a number of projects relating to transport, education and health (Managua sewerage system) were also carried out. The boom in exports was not accompanied by a similar boom in private investment, which grew much more slowly than in 1969.

The increase in exports, public investment and over-all consumption brought about an 8.5 per cent growth of imports of goods and services (calculated at constant prices) in 1970, thereby reversing the downward trend of the two previous years (see table 2).

2. Public finances and credit

The government's credit policy aimed once again essentially at relieving the pressure on the balance of payments while its financial policy was to continue with the measures that were introduced to curb current expenditure and step up capital investment.

Central government saving on current account almost tripled in 1970, jumping from 28 million cordobas to close on 80 million (January to October figures) thus continuing the trend that began in 1969. The 16.3 per cent increment in current income was the main reason for this, as it exceeded by far the 4.1 per cent rise in current expenditure.

/The increase

The increase in imports and the generalization of the 5 per cent sales tax combined with the improvements in tax administration and collection to bring about this rise in current income. After two years of steady decline, revenue from direct taxes increased by nearly 15 per cent to somewhere around 100 million cordobas. Income from indirect taxes, especially on foreign trade and on consumption, continued to rise (15.7 per cent) and amounted to about 301 million cordobas. Finally, the current central government income was further boosted by means of the economic stabilization taxes and the income accruing from the application of the San José Protocol (see table 3).

Capital expenditure was almost 24 per cent higher, while current expenditure tended to maintain the fairly slow growth that it had shown for the past two years, despite the fact that transfer payments were up by 18.3 per cent and interest on the public debt by 8.4 per cent. There was virtually no change in wages and salaries and purchases of goods and services compared with the previous year. Real investment maintained its rapid upward trend (23 per cent), as did capital transfers to official bodies (49 per cent).

Despite the increase in total expenditure (9 per cent compared with the previous year's 7.7 per cent), the central government deficit was down by 13 per cent. In order to avoid an immediate strain on the balance of payments, this deficit was mainly financed with long-term external capital. External credit was used to cover about 87 per cent of the deficit.

The credit policy, which, as has already been pointed out, was designed to avoid any pressures that might diminish net foreign exchange reserves, involved, among other things, raising interest rates on both loans and deposits charged by the commercial banks. Total savings deposits had reached 245 million cordobas by October 1970 - an increase of 11.4 per cent, which was appreciably higher than for the same period in 1969. Commercial bank credit to the private sector, meanwhile, continued the slow growth trend (about 3 per cent), observable since 1968.

Table 3

NICARAGUA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE, 1966-1970

(Millions of cordobas)

	1966	1967	1968	1969	October	
					1969	1970
<u>Current income</u>	<u>479.8</u>	<u>483.3</u>	<u>467.2</u>	<u>488.1</u>	<u>404.6a/</u>	<u>470.6a/</u>
Tax revenue	418.3	434.6	418.1	421.5	346.6	400.4
Direct taxes	95.9	106.4	95.8	90.8	86.4	99.4
Income tax	61.3	69.5	52.3	50.1	45.3	48.4
Other	34.6	36.9	43.5	40.7	41.1	51.0
Indirect taxes	322.4	328.2	322.3	330.7	260.2	301.0
On exports	9.8	10.3	4.7	4.0	3.9	4.3
On imports	157.9	152.5	139.8	131.4	103.2	116.7
On consumption	137.0	144.0	152.4	165.9	143.0	168.9
Other	17.7	21.3	25.4	29.4	10.1	10.9
Non-tax revenue	62.8	47.1	38.9	47.5	29.0	35.6
Economic stabilization income	-	-	8.6	19.1	15.2	16.5
Non budgetary income and adjustments	5.1	2.2	1.6	-	-	5.0
<u>Total expenditure</u>	<u>551.9</u>	<u>610.9</u>	<u>556.7</u>	<u>599.4</u>	<u>477.8</u>	<u>520.7</u>
Current expenditure	368.7	417.2	429.0	442.4	362.9	377.7
Wages and salaries	223.6	248.2	260.1	259.9	218.1	220.0
Goods and salaries	67.4	63.9	66.7	68.4	69.5	69.8
Transfer payments	61.8	89.1	81.7	85.2	63.5	75.1
Interest on the public debt	6.9	8.2	11.1	13.6	11.9	12.9
Other	9.0	7.8	9.4	15.3	-	-
<u>Capital expenditure</u>	<u>183.2</u>	<u>193.7</u>	<u>127.7</u>	<u>157.0</u>	<u>114.9</u>	<u>143.0</u>
Real investment	112.6	136.9	80.8	89.2	62.2	76.5
Financial investment	13.2	10.0	6.2	0.6	0.9	0.5
Transfers to official bodies	25.5	19.0	10.0	37.2	24.8	37.0
Amortization	31.9	27.8	30.7	30.0	27.0	29.0
External	6.3	14.2	16.9	18.4	18.2	18.5
Domestic	25.6	13.6	13.8	11.6	8.8	10.5
<u>Deficit b/</u>	<u>-73.6</u>	<u>-126.0</u>	<u>-89.8</u>	<u>-111.5</u>	<u>-76.7</u>	<u>-66.4</u>
<u>Financing</u>						
External credit	39.3	68.8	54.3	47.1	33.6	57.6
Domestic credit	10.8	38.9	45.8	53.6	14.9	17.6
Variations in cash reserves and liabilities	23.5	18.3	-10.3	10.8	28.2	-8.8

Source: Central Bank.

a/ The total is greater than the sum of the individual figures owing to the inclusion of certain items relating to capital income.

b/ Including other expenditure and adjustment.

/Though the

Though the government credit policy no doubt succeeded in relieving the pressure on external payments, it also began to create problems that may well affect future production. One of the main reasons for this is the increase in the "frozen" portfolio, mainly because of loans that were made to cotton-growers which have not yet repaid and which, at best, will only be recovered very slowly. This being the case, it would seem wise to introduce selective financial assistance programmes for the production of export products.

The money supply increase substantially (13.1 per cent by October). In view of the restrictions on domestic credit, most of this increase is due to the inflow of foreign exchange as a result of the recovery of exports.

3. Foreign trade and balance of payments

The difict on current account fell for the third year in succession and stood at around 37 million dollars. The net inflow of capital - up by 25 per cent - far exceeded that of 1969 and made it possible to increase the gold and foreign exchange reserves (see table 4).

In 1969, the reduction in the deficit on current account was due to the bigger drop in imports than in exports. In 1970, on the other hand, the deficit was reduced even further since the boom in exports more than made up for the revival of imports. The 14.5 per cent increase in exports was largely due to the rise in prices (estimated at 11 per cent), though there was also a significant improvement in the volume of coffee, meat and sugar exports and of sales to the Central American Common Market. The 11 per cent rise in imports, for its part, stemmed from the increase in the volume of foreign credit made available to the public sector, the revival of exports, the satisfaction of deferred demand for consumer goods, and the greater flow of regional trade.

Cotton exports (33 million dollars) reached their lowest point in recent years owing to the negative factors already mentioned (high costs, diseases and pests, and bad weather) from which crops have been suffering for almost five years. Consequently, there was a further decline of 28 per cent in the volume and consequently in the value of cotton exports (see table 5).

Table 4

NICARAGUA: BALANCE OF PAYMENTS, 1966-1970

(Millions of dollars)

	1966	1967	1968	1969 ^{a/}	1970 ^{b/}
a) Current account					
Exports of goods and services	171.5	182.4	192.9	190.1	217.6
Goods	142.5	147.9	161.0	157.5	181.3
Services	29.0	34.5	31.9	32.6	36.3
Imports of goods and services	-212.6	-233.7	-214.3	-207.3	-230.2
Goods	-151.8	-172.2	-165.2	-158.4	-177.5
Services	-60.8	-61.5	-49.1	-48.9	-52.7
Net external investment income	-15.7	-18.7	-24.7	-25.0	-27.1
On direct investment	-14.9	-15.7	-18.9	...	...
Other	-0.8	-3.0	-5.8	...	...
Net private transfer payments	2.6	3.0	3.2	2.9	2.5
Balance on current account	-54.2	-67.0	-42.9	-39.3	-37.2
b) Capital account					
Net external financing	54.2	67.0	42.9	39.3	37.2
a) Non-compensatory external financing	58.1	38.9	54.9	36.0	44.6
Direct investment	12.2	14.5	16.4	12.0	15.0
Long- and medium-term loans	23.1	17.1	39.3	16.9	22.1
Official	11.1	4.4	12.6	5.6	...
Income	12.1	6.0	15.4	8.2	...
Amortization payments	-1.0	-1.6	-2.8	-2.6	...
Private ^{c/}	12.0	12.7	26.7	11.3	...
Income	16.3	16.0	29.4	18.0	...
Amortization payments	-4.3	-3.3	-2.7	-6.7	...
Short-term liabilities	18.3	4.5	-3.9	3.5	4.0
Official transfer payments	4.5	2.8	3.1	3.6	3.5
b) Non-compensatory domestic capital and assets	-6.0	5.3	-7.3	-1.3	-1.0
Long term	-1.6	-1.2	-1.8	-1.4	...
Short term	-4.4	6.5	-5.5	0.1	...
c) Errors and omissions	4.5	5.5	-3.0	-1.6	2.8
d) Compensatory financing (increase -)	-2.4	17.3	-1.7	6.2	-10.2
Balance-of-payments loans, trade arrears, deferred payments, IMF position and other liabilities of the monetary authorities	1.8	-	19.8	1.5	
Amortization payments	-3.5	-13.4	-0.5	-1.0	
Gold and foreign exchange (increase -)	-0.7	30.7	-21.0	5.7	

Source: For 1966 to 1969, IMF; for 1970, Central Bank and ECLA estimates.

a/ Preliminary figures.

b/ Estimates.

c/ Including autonomous government institutions.

Table 5

NICARAGUA: EXPORTS OF MAIN PRODUCTS, 1966-1970

Product	1966	1967	1968	1969	1970a/	Annual percentage growth rate			
						1967	1968	1969	1970
<u>Millions of dollars</u>									
Cotton	56.8	56.0	59.7	45.4	33.0	-1.4	6.6	-24.0	-27.3
Coffee	21.8	21.1	22.7	20.6	34.4	-3.2	7.6	-9.3	67.0
Fresh meat	10.2	12.5	15.9	20.8	27.2	22.5	27.2	30.8	30.8
Sugar	2.1	5.9	5.5	8.3	11.0	180.9	-6.8	50.9	32.5
<u>Total</u>	<u>142.5</u>	<u>147.9</u>	<u>161.0</u>	<u>157.5</u>	<u>181.3</u>	<u>2.8</u>	<u>8.9</u>	<u>-2.2</u>	<u>15.1</u>
<u>Millions of dollars at 1960 prices</u>									
Cotton	59.8	59.0	56.2	48.6	35.1	-1.3	-4.7	-13.5	-27.8
Coffee	20.5	22.8	25.2	23.4	28.2	11.2	10.5	-7.1	20.5
Fresh meat	8.5	9.8	11.5	13.5	16.6	15.3	17.3	17.4	23.0
Sugar	1.7	4.6	4.1	6.1	7.6	170.6	-10.9	48.8	24.6
<u>Total</u>	<u>142.5</u>	<u>146.4</u>	<u>147.7</u>	<u>148.6</u>	<u>153.6</u>	<u>2.7</u>	<u>0.9</u>	<u>0.6</u>	<u>3.4</u>

Source: ECLA, on the basis of official statistics.

a/ Preliminary figures.

/Coffee sales

Coffee sales, on the other hand, rose to close on 34 million dollars in value, which means that coffee has now replaced cotton as Nicaragua's most important export. The exceptional increase in world coffee prices in 1970 (39 per cent) coincided with a 20 per cent increase in the volume of Nicaragua's exports, so that the total value of coffee exports rose by nearly 67 per cent. Immediate prospects as regards coffee exports are favourable from the standpoint of supply, since the 1970/71 crop is expected to set a record for the country and it is thought that 1971 exports may be about 15 per cent higher than in 1970.

The other export products also helped to make up for the decline of cotton sales. Thanks to the larger United States quotas and the better world prices, fresh meat brought in 27 million dollars, 31 per cent more than in 1969. Sugar exports earned 11 million dollars, following the increase in the United States quota from 54,661 to 63,224 tons (see table 5).

There was also a considerable improvement in Nicaragua's trade balance with the rest of Central America in 1970, thanks to an exceptional increase of about 50 per cent in its exports to those countries, in line with the trend that has been apparent since 1968. This was far more than the increase in its imports from the region (23 per cent), thus practically wiping out the deficit that appeared in the mid-1950s. The biggest increases in exports to Central America up to September were in chemicals and chemical products (56.3 per cent), food products (76.8 per cent), textiles (166 per cent), and footwear, clothing and similar articles (54.3 per cent).

As to capital movements, the net inflow of capital rose from 36 million dollars in 1969 to around 45 million in 1970, enabling the monetary authorities add a further 10 million dollars to the net foreign exchange reserves, which include 3.2 million in special drawing rights - 2.2 million of which could be used. The revival of imports was reflected in more commercial credit, which rose from 2.7 to 4.9 million dollars, and in the country's stronger bargaining position in its negotiations for external resources to finance basic government projects. Lastly, a 25 per cent jump in direct investment helped to improve Nicaragua's final balance-of-payments position.

/PANAMA

PANAMA

1. Recent economic trends

The Panamanian economy pursued the satisfactory growth trend it had shown in the 1960s. Preliminary estimates show that the gross domestic product rose by 8.6 per cent, compared with 7.2 per cent the previous year and 7.7 per cent annually over the period 1965-1968 (see table 1).

The main incentive to demand, as in 1969, was the accelerated growth of its internal components, since the rate for exports of goods and services (at constant prices) declined steadily from 10.9 per cent in 1965-1968 to 5.5 per cent in 1969 and 4.9 per cent in 1970. In both years domestic demand was buttressed by a large volume of external resources (mainly medium- and short-term) and credit operations by commercial banks increased rapidly. In contrast with the previous year, however, when capital formation in the public sector was virtually the only factor responsible for the expansion of expenditure, the strengthening of domestic demand in 1970 was based on both private expenditure and general government consumption expenditure (see table 1).

It should be noted that private investment, particularly in construction, was greatly stepped up (14.3 per cent) - with the return to normal of the political situation, the stimulus resulting from the sharp rise in public expenditure and, of course, the greater availability of financial resources.

Public consumption and investment expenditure, after growing at an exceptionally rapid rate in 1969 (24.5 per cent), had to be curtailed, as was only to be expected, and brought within the limits imposed by the shortage of financial resources, projects and manpower. However, it continued to grow at an accelerated pace (15 per cent), acting as a spur to the rest of the economy. The expansion of expenditure was facilitated by a substantial increase in government income as a result of stricter control, changes in the customs tariff, and economic growth. Nevertheless, the financial position of the central government deteriorated, as shown by the size of the deficit and the accumulation of heavy medium- and short-term liabilities, which are quite a heavy burden.

/Table 1

Table 1

PANAMA: TOTAL SUPPLY AND DEMAND

	Millions of balboas at 1960 prices				Percentage structure			Annual growth rates			
	1965	1968	1969	1970a/	1965	1968	1969	1970a/	1965-1968	1969	1970a/
<u>Total supply</u>	851.0	1 070.1	1 162.4	1 264.8	137.2	138.8	140.6	140.2	7.2	8.6	8.8
Gross domestic product	617.3	771.2	826.6	897.7	100.0	100.0	100.0	100.0	7.7	7.2	8.6
Imports b/	233.7	298.9	335.8	367.1	37.9	38.8	40.6	40.9	8.9	12.3	9.3
<u>Total demand</u>	851.0	1 070.1	1 162.4	1 264.8	137.2	138.8	140.6	140.2	7.2	8.6	8.8
Exports b/	212.5	290.1	306.2	321.2	34.4	37.6	37.0	35.8	10.9	5.5	4.9
<u>Total investment</u>	112.8	165.5	194.4	223.0	18.3	21.5	23.5	24.8	13.7	17.5	14.7
Gross fixed investment	...	...	...	...	...	...	...	...	...	...	...
Public	21.7	30.0	50.4	58.0	3.5	3.9	6.1	6.5	11.4	68.0	15.1
Private	91.1	135.0	144.0	165.0	14.8	17.6	17.4	18.3	14.0	6.7	14.8
Construction	...	...	...	...	...	...	...	...	...	...	...
Machinery and equipment	...	...	...	...	...	...	...	...	...	...	...
<u>Total consumption</u>	525.7	614.5	661.8	720.6	85.2	79.7	80.1	80.2	5.3	7.7	8.2
General government	67.0	88.7	98.0	112.7	10.9	11.5	11.9	12.6	9.8	10.5	15.0
Private	458.7	525.8	563.8	607.9	74.3	68.2	68.2	67.7	4.7	7.2	7.8

Source: 1965-1969: Statistics and Census Office of the Controller; 1970: ECLA estimates based on preliminary data from the same source.

a/ Preliminary.

b/ Goods and services, excluding factor payments.

/The main

The main impetus to supply came from the construction and services sectors, compensating for the slower growth of agriculture, whose main export item - bananas - was affected by adverse weather conditions. Imports of goods and services also increased significantly in the last two years (12.3 and 9.3 per cent, respectively), stimulated by the growth of income, the steady expansion of domestic credit and the public sector's huge purchases of machinery, equipment and materials. The slackening off in the growth of purchases in 1970 may be ascribed to the slower growth of total investment - which has a high import content - and to the larger share of the construction sector in total investment. In view of the stagnation of exports of goods, however, the balance-of-payments deficit on current account increased from less than 55 million dollars to over 76 million, which represents more than 20 per cent of the total value of exports of goods and services. Most of the deficit was covered by loans accorded to the public sector, and by external resources from foreign private banks.

2. Production

The agricultural product grew by about 3.1 per cent, contrasting with the rates of 5.8 and 5.6 per cent recorded in 1968 and 1969, respectively. The smaller increase was due mainly to the drop in the production of bananas for export, and of milk, eggs and poultry. Bananas plantations were affected by floods and adverse weather conditions, which caused considerable damage. The drop of about 2 per cent in production does not really reflect the seriousness of the situation, since more crops had been lower for 1970 and higher harvests were expected.

In contrast, the rest of the agricultural sector - producing mainly for the home market - grew as steadily as it had the year before (by about 6 per cent), after showing only moderate increments for several years. Generally speaking, all agriculture for domestic consumption has benefited in the last two crop years, from comparatively favourable weather conditions and, in varying degrees, from the expansion of government programmes. The growth of production, which in the early 1960s had depended almost entirely on increasing the area under cultivation, may be ascribed since 1967 to improved yields in nearly all products, which in not a few cases have compensated for reductions in the cultivated area (see tables 2 and 3).

Table 2

PANAMA: GROSS DOMESTIC PRODUCT, BY SECTOR OF THE ECONOMIC ACTIVITY

Sector	Millions of balboas at 1960 prices				Percentage share			Annual growth rate		
	1965	1968	1969	1970a/	1965	1968	1969	1965-1968	1969	1970a/
Agriculture	131.3	152.8	161.4	166.4	23.7	21.5	21.2	5.2	5.6	3.1
Mining	1.7	2.1	2.1	2.3	0.3	0.3	0.3	7.3	-	9.5
Manufacturing	88.5	121.0	131.5	142.9	15.6	17.0	17.3	11.0	8.7	8.7
Construction	34.5	45.8	50.1	56.5	6.1	6.5	6.6	9.9	9.3	12.8
Subtotal goods	256.0	321.7	345.1	368.1	45.0	45.3	45.4	7.9	7.2	6.7
Electricity, gas and water	14.5	18.9	19.5	20.6	2.6	2.7	2.5	9.2	3.2	5.6
Transport and communications	32.2	42.9	46.3	50.8	5.7	6.0	6.1	10.0	8.0	9.7
Subtotal basic services	46.7	61.8	65.8	71.4	8.2	8.7	8.6	9.8	6.5	8.5
Commerce and finance	73.8	91.2	99.0	111.9	13.0	12.8	13.0	7.3	8.6	13.0
Government	15.7	21.3	23.2	25.0	2.8	3.0	3.0	10.7	8.9	7.8
Ownership of dwellings	38.3	46.2	49.2	53.2	6.7	6.5	6.5	6.5	6.5	8.2
Miscellaneous services	86.4	101.8	106.9	119.4	15.2	14.3	14.1	5.6	5.0	11.7
Provision of services for the Canal Zone	51.4	65.7	71.4	76.8	9.0	9.3	9.4	8.5	8.7	7.6
Subtotal other services	265.6	326.2	349.7	386.2	46.7	46.0	46.0	7.1	7.2	10.5
Total	568.3	709.6	760.7	826.1	100.0	100.0	100.0	7.7	7.2	8.6

Source: For 1965 to 1969, Statistics and Census Office, Office of the Controller General of the Republic; for 1970, ECLA estimates based on preliminary statistics supplied by the same source.

a/ Preliminary figures.

Table 3
PANAMA: VOLUME OF AGRICULTURAL PRODUCTION, BY MAIN PRODUCTS, 1967-1970

Product	Unit	1967	1968	1969	1970 <u>a/</u>
Rice	Thousands of quintals	3 310	3 576	3 624	3 834
Maize	Thousands of quintals	1 955	1 842	1 924	2 011
Yams	Thousands of quintals	1 029	1 085	1 144	1 206
Potatoes	Thousands of quintals	139	165	174	184
Yucca	Thousands of quintals	2 242	2 362	2 488	2 621
Bananas	Thousands of stems	10 260	10 484	10 713	10 947
Oranges	Millions	2 487	2 509	2 531	2 553
Bananas	Millions	1 858	1 868	1 879	1 890
Coconuts	Millions	718	745	773	802
Beans	Thousands of quintals	131	112	109	106
Guandus	Thousands of quintals	350	344	338	332
Tomatoes	Thousands of pounds	58 438	69 243	82 046	97 216
Coffee	Thousands of quintals	123	107	129	148
Sugar-cane	Thousands of short tons	974	936	960	985

Source: Statistics and Census Office, Office of the Controller General of the Republic.

a/ Estimates.

/Rice, the

Rice, the principal crop consumed in the country and one of the basic components of the population's diet, increased at a satisfactory rate (5.8 per cent) in 1970, following a very modest growth (1.3 per cent) in 1969. The government has encouraged production by means of credit, support prices, import quotas, storage facilities, technical assistance, etc., and a large part of it - which was formerly essentially for the producer's own consumption - has been modernized through mechanization, the use of selected seeds and, in general, the application of more efficient crop-farming techniques. For several years, Panama's rice output has satisfied its total domestic requirements, and there have even been small surpluses for export.

The cultivation of maize, which is fairly important as an input in livestock production and poultry farming, has increased at the fairly satisfactory average rate of 4.5 per cent over the past two years. Taking a long-term view, production seems to have remained at about the same level, as shown by the fact that in 1970 the harvest was only slightly bigger than in 1967, and it was repeatedly necessary to import. In this case, too, steps have been taken to encourage production and, in particular, to extend the use of selected seeds and fertilizers, which are already beginning to improve yields.

The bean crop continued to decline at an average rate of 2 per cent. In contrast with two decades ago, when output was considerable, the bulk of production comes now from subsistence farming or residual crops associated with other products. This is partly due to the fact that the population in urban areas - and even some rural areas - prefer imported varieties, which cost the country about half a million dollars annually in foreign exchange.

Coffee output rose by 20 and 15 per cent in 1969 and 1970, respectively, easily recovering from the contraction in 1968. In general, the excellent weather conditions and the additional incentive of higher prices enabled Panama, for the first time, to take up the whole quota assigned to it under the International Coffee Agreement. The reasons why coffee has not attained a more important place among Panama's export crops is that there is little suitable land available for extending this crop and domestic production costs are relatively high.

/In spite

In spite of the successive increases in its sugar quota on the United States market, Panama's limited refining capacity, among other factors, explains why sugar-cane production has grown only moderately in recent years. Provisional data indicate that the 1970 quota was **not** filled, since in the first nine months of the year total exports of raw and refined sugar - including small quantities for other markets - were barely over 31,000 tons. The construction of a sugar mill with a capacity of 60,000 tons in Varaguas province will do much to encourage the sowing of sugar-cane, thus improving production prospects.

As regards the rest of the locally consumed agricultural products, fruit (bananas, oranges, plantains and coconuts) showed a modest over-all growth rate (2.6 per cent), while tubers (potatoes, yucca and yams) and tomatoes increased more sharply (5.4 and 18.5 per cent, respectively). Tomatoes have been acquiring increasing importance; gross output in 1970, in terms of 1969 prices, amounted to over 10 million dollars, which was exceeded only by bananas and rice. Vegetable-growing has been stimulated by urban growth, the installation of processing plants and brighter sales prospects in the Canal Zone market.

Livestock production declined slightly as a result of decreases in milk, eggs and poultry; on the other hand, cattle slaughtering rose by 9.8 per cent, exceeding the rate attained in 1969 (6.9 per cent). Pig slaughtering grew more slowly: 4.3 per cent, compared with 19.5 per cent in 1969; even so, it seems that the recovery which began in the mid-1960s after a fairly long period of stagnation, has been consolidated.^{1/} As regards livestock production, Panama continued to promote development programmes which included disease eradication and control, the use of bulls of a better genetic strain, the use of better stock management techniques and the provision of more credit.

^{1/} The stock of pigs is still below the 1960 figure, however, in spite of successive increases in the last few years.

Policies to promote agriculture include the rapid expansion of credit lines. In fact, loans granted in 1968 totalled over 27 million dollars, compared with 16 million in 1966. The share of credit extended by commercial banks - including government banks - in these totals rose from 13 million dollars in 1966 to 23.7 million in 1968, and - according to the incomplete data available - is estimated to have been nearly 34 million dollars in 1970.

The credit programme for small producers sponsored by the Ministry of Agriculture and Livestock has been bolstered by a new AID loan of 3.5 million dollars, part of which is intended to supplement the financing of technological development, technical education and marketing organization programmes. Moreover, the Economic Development Institute (Instituto de Fomento Económico -- IFE) extended approximately 6 million dollars worth of agricultural credit with funds obtained from IDB, which is 50 per cent more than the resources used for the same purpose in 1969.

The manufacturing product is estimated to have risen at a rate of 8.7 per cent, which is similar to the 1969 rate and contrasts unfavourably with the average annual rate of 11 per cent for the period 1965-1968. A number of circumstances are largely responsible for the slower growth in the last two years. First, the unsettled political situation in 1968 probably affected entrepreneurs' decisions in the following year. Secondly, a combination of different circumstances has had an unfavourable impact on manufacturing production.^{2/} Nevertheless, despite recent progress in certain activities, a loss of impetus was observable in the import substitution process, which had been fairly intensive from 1957 to 1965. The subsequent expansion of manufacturing supply was probably due more to a passive response to the growth of local demand and better chances of selling on the Canal zone market than to deliberate action by the public and private sectors to replace imports. In spite of the excellent possibilities of stepping up import substitution, special difficulties prevent the introduction of an essentially inward-directed growth in Panama's strategy. These difficulties

^{2/} Panama's fish meal plant broke down and was out of commission for several months; its petroleum products plant has reached production levels that are very close to its full capacity; and an important footwear manufacturing firm closed down, which had repercussions on the leather industry.

stem not only from the small size of the market and the country's limited technological capacity, but also from certain operational characteristics of the economy which make industrial investment less profitable and the implementation of decidedly protectionist and development measures less feasible. A number of mechanisms and economic policies which were used to promote industrial growth in the past now seem to be inadequate. It would therefore be necessary to chart a new industrial development strategy, and establish a group of measures and instruments which, without disregarding the special economic conditions prevailing in Panama, would ease the balance-of-payment pressures and mitigate the serious unemployment problem. In this respect, the policy of direct promotion - including financing with its own resources - which the Government is putting into practice with the Veraguas sugar mill and other smaller projects may constitute a good precedent;^{3/} but these and other no less important measures would no doubt be more consistent and effective if it were possible to integrate them in programmes of more general scope (see table 2).

Lastly with the growth of construction (9.3 and 12.8 per cent in 1969 and 1970, respectively), the rapidly rising trend which predominated during most of the past decade was re-established.

Construction activities in the public sector grew less vigorously in 1970, but this loss of momentum was more than offset by the increase in private investment, which had remained practically at a standstill during the preceding years. In fact, in the first nine months of 1970 the value of private construction in the most important districts of Panama (according to the building permits granted) was more than 34 per cent higher than for the same period in 1969.

^{3/} The projects which the Government expects to develop shortly include the assembly of electrical household appliances, the processing of fruit, tropical vegetables and copra; and the production of glucose, dextrose and glues from yucca. Also under study are certain industrial measures aimed at decentralizing new investment, including the location of industrial estates in the David, Chitre and Santiago areas.

3. Public finances and credit

Fiscal policy continued to aim at improving the Government's capacity to collect fiscal revenue, which was reflected in 1970 in the rapid growth of ordinary income (20.4 per cent), although it was still insufficient to counteract the faster growth of total expenditure, so that the fiscal deficit rose by 15.4 per cent.

The continuity of the fiscal control procedures adopted in 1969, tariff changes - which affected income taxes, the distribution of dividends, patents, the production of cigarettes, and imports - the larger volume of imports and the sustained economic growth over the past few years are among the factors that have pushed up ordinary income. In particular, tax revenue reached an approximate value of 129 million balboas, thanks mainly to the increases in revenue obtained from taxes on income (33 per cent), imports (21 per cent), production and sales (20 per cent) and consumption (43 per cent). Non-tax receipts, on the other hand, contributed little towards the rise in ordinary income.

Total expenditure continued to soar in 1970 and changed appreciably in structure. First, with a view to eliminating unemployment and raising the purchasing power of public services, more funds were earmarked for public expenditure. Secondly, the high level of indebtedness recorded in 1969 - without which the exceptionally high investment levels that year could not have been attained - combined with the increase in the balance-of-payments deficit in 1970 and the decrease in the number of available projects, were responsible for the slower growth of expenditure under the head of fixed investment, including transfer of capital to the rest of the public sector. With the high value of loans, therefore, amortization payments on the public debt rose by 70 per cent, while capital expenditure grew at a much slower rate than in 1969.

As in 1969, the government deficit was covered basically with external resources. It should be noted that external short-term liabilities represent a high proportion of the public debt, which provides grounds for thinking that amortization payments (about 26 million balboas) are likely to be twice as high in 1971.

/Credit pursued

Credit pursued the rapidly expanding trend (18.7 per cent) which was partially halted in 1968. Of the funds channelled to residents, the lion's share went to trade (32 per cent). Although less important in volume, a steady flow of credit has been provided for agricultural and livestock development, as mentioned above.

Prices rose somewhat more sharply than the previous year. The low- and medium-income consumer price indexes rose by over 3 per cent during the first nine months of the year with respect to the same period in 1969, largely because external inflationary pressures made themselves felt through trade in imported goods.

4. Foreign trade

The deficit on current transactions with other countries increased substantially in 1970, as a result of the stagnation of exports of goods and the upswing of external purchases. Although the income from services to the Canal Zone and the rest of the world - the Panamanian economy's main sources of foreign exchange - grew more than the previous year (10.8 per cent compared with just over 6 per cent), and payments on foreign capital seems to have declined, the net result of the two movements failed to offset the growth of the deficit in its foreign trade in goods (see tables 4 and 5).

Among the major export items, there was a slight fall (2 per cent) in banana sales and a fairly significant drop in exports of petroleum products (11 per cent), while shrimp exports remained relatively stable. A decline was also observable in sales to the Canal Zone. Lastly, there were decided increases in some non-traditional items. Exports of cattle and beef rose by 138 per cent and coffee sales by 63.6 per cent. Fish meal exports recovered once the plant had resumed its operations.

The recession in banana sales is explained chiefly by the adverse weather conditions which caused damage to the plantations. Although shrimp exports increased by 12 per cent in volume, their total value rose barely 3 per cent, apparently owing to a less favourable distribution by size and quality. Under the head of services, the largest increases were recorded in tourism (42 per cent) and wages and salaries earned by persons employed in the Canal Zone (10.7 per cent).

Table 4
PANAMA: EXPORTS OF GOODS AND SERVICES, 1966-1970
(Millions of dollars)

	1966	1967	1968	1969 <u>a/</u>	1970 <u>b/</u>
<u>Total</u>	<u>257.0</u>	<u>297.2</u>	<u>321.8</u>	<u>348.4</u>	<u>372.5</u>
<u>Goods</u>	<u>103.3</u>	<u>109.2</u>	<u>117.4</u>	<u>131.4</u>	<u>132.0</u>
Bananas <u>c/</u>	34.7	42.0	53.0	61.2	60.1
Cocoa <u>c/</u>	0.2	0.2	0.2	0.4	0.4
Petroleum	25.9	22.9	18.9	24.1	21.4
Sugar	1.6	3.9	4.6	5.4	4.9
Shrimps	9.0	9.2	9.7	9.7	10.0
Fish-meal	1.4	1.1	1.0	0.3	0.9
Coffee	0.6	1.4	0.6	1.1	1.8
Livestock and meat	1.8	1.4	1.7	1.3	3.1
Other sales to the Canal Zone	12.0	13.4	21.3	22.3	21.4
Other goods and adjustments	16.1	13.7	6.5	5.7	8.0
<u>Services</u>	<u>153.7</u>	<u>188.0</u>	<u>204.4</u>	<u>217.0</u>	<u>240.5</u>
<u>Travel</u>	<u>45.3</u>	<u>56.7</u>	<u>52.4</u>	<u>65.3</u>	<u>80.3</u>
Canal Zone	20.5	30.7	33.9	35.8	38.3
Other countries	24.8	26.0	25.5	29.5	42.0
Transport (including sale of tickets)	16.0	19.6	26.3	26.6	27.0
Colon Free Zone (net)	10.0	16.6	18.2	18.5	20.0
Other services to the Canal Zone	<u>66.9</u>	<u>72.3</u>	<u>78.7</u>	<u>86.2</u>	<u>93.4</u>
Wages and salaries	58.1	63.8	70.0	75.0	83.0
Other	8.8	8.5	8.7	11.2	10.4
Other services and adjustments	15.5	22.8	21.8	20.3	19.8

Source: For 1966 to 1969, Statistics and Census Office, Office of the Controller General of the Republic; for 1970, ECLA, on the basis of official statistics.

a/ Preliminary figures.

b/ Estimates.

c/ Not including adjustments for revaluation.

/Table 5

Table 5

PANAMA: THE BALANCE OF PAYMENTS POSITION ON CURRENT ACCOUNT, 1966-1970

(Millions of dollars)

	1966	1967	1968	1969 <u>a/</u>	1970 <u>b/</u>
<u>Exports of goods and services</u>	<u>257.0</u>	<u>297.2</u>	<u>321.8</u>	<u>348.4</u>	<u>372.5</u>
Goods (fob)	103.3	109.2	117.4	131.4	132.0
Canal Zone	18.2	20.4	21.3	22.3	21.5
Rest of world	85.1	88.8	96.2	109.2	110.5
Services	153.7	188.0	204.4	217.0	240.5
Canal Zone	87.4	103.0	112.5	122.0	131.8
Rest of world	66.3	85.0	91.9	95.0	108.8
<u>Imports of goods and services</u>	<u>275.7</u>	<u>303.5</u>	<u>313.6</u>	<u>365.1</u>	<u>416.7</u>
Goods (fob)	217.7	232.2	245.9	283.8	326.0
Canal Zone	3.0	3.1	3.7	3.4	3.0
Rest of world	214.7	229.1	242.2	280.4	323.0
Services	58.0	71.3	67.7	81.3	90.8
Canal Zone	4.4	4.5	2.3	2.2	2.3
Rest of world	53.6	66.8	65.4	79.1	88.5
Net external investment income	-23.4	-22.8	-23.6	-32.7	-28.2
Net private transfer payments	-6.1	-7.0	-6.1	-5.3	-4.0
Balance on current account	-48.2	-36.1	-21.5	-54.7	-76.4

Source: Statistics and Census Office, Office of the Controller General of the Republic, and ECLA estimates based on official statistics.

a/ Preliminary figures.

b/ Estimates.

/The over-all

The over-all growth of purchases of goods was about 15 per cent. Although no detailed information is available, it can be affirmed that imports of capital goods increases rapidly as a result of the large-scale infrastructural programmes and the recovery of private investment. There were also significant increases in purchases of consumer goods, particularly foodstuffs, and of intermediate products, while imports of crude petroleum and other fuels decreased.

/PARAGUAY

PARAGUAY

1. Recent economic trends

Paraguay's gross domestic product grew by 5.3 per cent in 1970, representing a per capita increase of 2.1 per cent. The breakdown of this growth rate shows that the goods producing sector expanded by 5 per cent, basic services by 4.1 per cent and "other services" by 6.2 per cent. A notable feature was the recovery of the agricultural sector, which registered an average growth of 4.3 per cent, and even more for crops alone; this compares favourably with the 2.5 per cent growth rate for 1969 and that of 0.6 per cent between 1965 and 1968. Industry expanded by 5 per cent, a little more slowly than in past years, the greatest increases coming from the cement, wood and cold storage industries. There was a slight upswing in consumption and a drop in investment compared with 1969, when a number of large-scale projects had involved importing large quantities of capital goods (see tables 1 and 2).

In the external sector, exports of goods and services rose in value by 13.1 per cent, while corresponding imports declined by 11 per cent. The rise in the value of exports of goods from 55.2 to 66 million dollars came mainly from increased sales of wood, meat, vegetable oils and hearts of palm; the decline in imports was mostly due to the above-mentioned reduction in demand for capital goods. On current account, the balance of payments showed a deficit of 14.4 million dollars, a considerable improvement on the previous year.

As regards the fiscal situation, the central government budget left a deficit of 268 million guaranis, compared with 149 million the year before. Finally, consumer prices dropped 0.9 per cent and minimum wage continued at the 1964 level, although there were upward adjustments in some cases of not more than 5 per cent.

/Table 1

Table 1
PARAGUAY: GROSS DOMESTIC PRODUCT, BY SECTOR OF ECONOMIC ACTIVITY

Sector	Billions of guaraníes at 1960 prices				Percentage share			Annual growth rate		
	1965	1968	1969	1970a/	1965	1968	1969	1965-1968	1969	1970a/
Agriculture	16 171.9	16 465.6	16 874.7	17 617.4	38.2	34.9	34.4	0.6	2.5	4.3
Mining	85.0	47.5	51.7	55.8	0.2	0.1	0.1	-17.6	8.8	8.0
Manufacturing	7 492.6	8 690.2	9 147.3	9 604.7	17.7	18.4	18.6	5.1	5.3	5.0
Construction	1 112.3	1 361.5	1 503.5	1 676.4	2.6	2.9	3.1	7.0	10.4	11.5
Subtotal goods	24 861.8	26 564.8	27 577.2	28 954.3	58.8	56.4	56.2	2.2	3.8	5.0
Electricity, gas and water	304.4	309.3	420.8	573.6	0.7	0.8	1.0	8.6	23.5	19.3
Transport and communication	1 836.1	2 054.0	2 154.0	2 169.1	4.3	4.4	4.4	3.8	4.9	0.7
Subtotal basic services	2 140.5	2 443.3	2 634.8	2 742.7	5.0	5.2	5.4	4.5	7.8	4.1
Commerce and finance	7 482.0	8 534.0	8 951.8	9 390.4	17.7	18.1	18.2	4.5	4.9	4.9
Government	1 778.8	2 470.9	2 665.2	2 945.0	4.2	5.2	5.4	11.6	7.9	10.5
Ownership of dwellings	1 501.9	1 726.6	1 783.8	1 837.3	3.7	3.7	3.6	2.9	3.3	3.0
Miscellaneous services	4 459.3	5 370.7	5 453.5	5 857.1	10.5	11.4	11.1	6.4	1.5	7.4
Subtotal other services	15 302.0	18 102.2	18 854.3	20 029.8	36.2	38.4	38.7	5.8	4.2	6.2
Total	42 242.6	46 999.7	48 960.2	51 555.1	100.0	100.0	100.0	3.61/	4.2	5.3

Source: For 1965 to 1969, ECLA estimates based on official Central Bank statistics; for 1970, ECLA estimates based on preliminary Central Bank statistics.
N.B. Owing to the general practice of calculating the individual activities and the total independently, the sum of the former do not necessarily correspond exactly to the latter.

a/ Preliminary figures.

b/ The growth rate recorded here differs from that in the total supply and demand table because they are measuring different concepts of the product (one at factor cost and the other at market prices).

Table 2

PARAGUAY: TOTAL SUPPLY AND DEMAND

	Millions of guaraníes at 1960 prices				Percentage structure			Annual growth rates		
	1965	1968	1969	1970a/	1965	1968	1969	1970a/	1965-1968	1970a/
Total supply	53 866.4	61 789.1	64 840.2	65 977.0	119.1	120.6	121.5	117.4	4.7	1.2
Gross domestic product	45 231.8	51 225.1	53 359.2	56 187.2	100.0	100.0	100.0	100.0	4.2	5.3
Imports b/	8 634.6	10 564.0	11 481.0	9 789.8	19.1	20.6	21.5	17.4	7.0	-14.7
Total demand	53 866.4	61 789.1	64 840.2	65 977.0	119.1	120.6	121.5	117.4	4.7	1.2
Exports b/	6 785.6	7 362.0	8 358.9	9 319.7	15.0	14.4	15.7	16.6	2.8	11.5
Total investment	6 669.3	7 357.7	8 225.0	7 517.7	14.7	14.4	15.4	13.4	3.3	-8.6
Gross fixed investment	6 243.7	7 025.9	7 806.4	7 041.4	13.8	13.7	14.6	12.5	4.0	-9.8
Public	938.0	3 436.5	2 873.0	...	2.1	6.7	5.4	...	55.0	...
Private	5 731.3	3 921.2	5 352.0	...	12.7	7.6	10.0	...	-11.9	...
Construction	2 799.7	3 410.1	3 854.2	...	6.2	6.7	7.2	...	6.8	...
Machinery and equipment	3 444.0	3 615.8	3 952.2	...	7.6	7.1	7.4	...	1.6	...
Total consumption	40 411.5	47 069.4	48 256.3	49 139.6	89.3	91.9	90.4	87.5	5.2	1.8
General government	2 814.1	4 024.5	4 696.4	4 860.8	6.2	7.8	8.8	8.3	4.6	3.5
Private	37 597.4	43 044.9	43 559.9	44 278.8	83.1	84.0	81.6	78.8	4.7	1.7

Sources: 1965-1969: ECLA, on the basis of data supplied by the Central Bank of Paraguay; 1970: ECLA, on the basis of preliminary data from the same source.

a/ Preliminary.

b/ Goods and services, excluding factor payments.

2. The major sectors of production

The agricultural sector expanded by 4.3 per cent, thanks to an increase of 4.9 per cent in crop farming, 3.6 per cent in livestock, 3.1 per cent in forest industries and 9.9 per cent in hunting and fishing. The largest crop increase was in soya beans (114 per cent) which more than doubled the 1969 output; rice was up by 39 per cent and the extra supply brought the price paid to farmers down by 20 per cent. Tartago crops increased 56 per cent as a result of rising external demand, and the production of sugar cane, which rose by 19 per cent, was enough to meet the demand of the sugar refineries. The better yield in 1970 (870 kilogrammes per hectare) led to a 9.4 per cent increase in production despite a slight reduction in the area under wheat. Better prices also encouraged an extension of the area under maize, which led to an excellent crop (20 per cent more than the previous year) and a resumption of maize exports. Other products that did well were beans (24 per cent), onions (10 per cent), potatoes (15 per cent) and sorghum (52 per cent). Tobacco output, on the other hand, declined by 20 per cent, probably because the drop in prices in 1969 caused growers to reduce the cultivated area. Cotton was also down (7.5 per cent), owing to a sharp drop in the area sown which the better yield was unable to offset.

The growth rate of the livestock industry was 3.6 per cent and the number of cattle slaughtered came close to 700,000 head, of which 76 per cent was for domestic consumption, 16 per cent for canning and 8 per cent for the frozen food industry. These figures indicate that the production of frozen meat quadrupled whereas that of canned meat declined, reflecting the trend of external demand. Prices reveal the same pattern since, whereas the price of cattle for the canning industry stayed at the same level as in 1969, that of cattle for freezing and domestic consumption went up.

Forest industries expanded a little more than 3 per cent. Production of timber was affected by the policy of restricting exports of undressed logs so as to encourage local saw-milling.

/The industrial

The industrial growth rate was roughly the same as for the past five years (5 per cent). The meat industry did particularly well, and the notable increase in the volume of frozen beef more than made up for the decline in production of canned meat. The output of edible oils more than doubled, thanks to the modernization of the processing plants. There were further large increments in the production of processed rice, palm hearts and sugar; the increases in the output of beverages ranged from 25 per cent for beer down to 8 and 9 per cent for wine and spirits. The installation of a new cement factory in 1969 with an annual capacity of 100,000 tons pushed production for 1970 up by 68 per cent, which made it possible to satisfy domestic demand and export the surplus; a second furnace, 100,000 tons in capacity, is currently under construction. The sectors that suffered the highest declines in production in 1970 were cotton, quebracho extract and maté.

Construction was up 11.5 per cent and basic services 4.1 per cent. Among the latter, there was large increase in the generation of electric power (about 20 per cent), thanks to the increase output of the National Electricity Authority whose Acaray River plant accounts for 80 per cent of the country's total installed capacity. Electricity rates were cut by 6 per cent. Transport and communications stayed at the same level of activity as the year before.

3. Prices, wages and salaries

The consumer price index for Asunción fell by 0.9 per cent, responding to a drop of 2.1 per cent in foods and 0.3 per cent in household expenses, and to increases of 1.4 per cent in clothing and 0.3 per cent in miscellaneous expenses. The drop in the cost of food was due to a sharp increase in supply, and that of household expenses to cuts in electricity rates and in the price of charcoal. In 1969, the cost-of-living index rose by 2.3 per cent.

Although there was no change in the minimum legal wage established in 1964, workers in the following branches received wage increases as a result of the revision of collective contracts: services (4.9 per cent); manufacturing (4.1 per cent); transport, storage and communications

/(2.7 per cent)

(2.7 per cent); construction (0.4 per cent). By contrast, the wages of persons employed in commerce, electricity, gas and water supply, and health services were unchanged.

4. Public income and expenditure

At the close of the 1970 financial year, the budget showed a deficit of 268 million dollars, compared with 149 million in 1969. Current government income amounted to 8,818.2 million guaranis, 2.9 per cent above the 1969 figure, the main increases being under the headings "other income" and "domestic taxes". Expenditure was 4.2 per cent higher than the previous year and amounted to 9,086.1 million guaranis: the biggest spenders were the Ministries of National Defence (18.5 per cent), Education and Culture (13.5 per cent), and the Interior (8.5 per cent) (see table 3).

5. The external sector

Exports of goods and services rose by 13.1 per cent while corresponding imports dropped by 11 per cent (see table 4). As a result, it was possible to reduce the balance-of-payments deficit on current account considerably, from 35.2 million dollars in 1969 to 14.4 million in 1970. The net inflow of non-compensatory capital amounted to 22.8 million dollars, which was substantially less than in 1968 and 1969. However, thanks to the reduction of the deficit on current account, Paraguay's balance of payments showed a surplus for the first time in four consecutive years: 8.4 million dollars, including 2.4 million dollars of IMF special drawing rights.

Table 3

PARAGUAY: ADMINISTRATION OF THE CENTRAL GOVERNMENT BUDGET

(Millions of guaraníes)

	1969	1970
<u>Income</u>	<u>8 567.4</u>	<u>8 818.2</u>
Tax on consumption	2 501.2	2 676.5
Customs duties	1 708.1	1 570.6
Exchange surcharge	999.2	916.5
Income tax	809.5	794.0
Other	2 549.4	2 860.6
<u>Expenditure</u>	<u>8 716.2</u>	<u>9 086.1</u>
Ministry of National Defense	1 590.2	1 684.2
Ministry of Education and Culture	1 171.8	1 230.5
Ministry of the Interior	725.2	776.6
Other	5 229.0	5 394.8
<u>Deficit (-) or surplus</u>	<u>-148.8</u>	<u>-267.9</u>
Financing:		
Central Bank bonds and advances (net)	58.6	156.8
Use of agricultural surplus deposits	189.8	222.8
Changes in treasury deposits (increase -)	-42.8	-4.3
Changes in deposits under special legislation (increase -)	-56.8	-107.4
<u>Net monetary result</u>	<u>90.5</u>	<u>105.3</u>
Central Bank loans and deposits (net)	148.8	267.9
Adjustment to the government account at the Central Bank		
Changes in official deposits (increase -)	50.2	-69.0
Floating Treasury cheques (increase -)	60.2	-42.9
Floating cheques under special legislation (increase -)	-33.5	85.5
Changes in long-term debt	211.4	-74.4
Adjustment of short-term debt	-325.6	-96.4
Changes in other debts	-21.0	34.6

Source: Central Bank.

/Table 4

Table 4

PARAGUAY: BALANCE OF PAYMENTS, 1960-1970

(Millions of dollars)

	1960	1965	1968	1969	1970
a) Current account					
Exports of goods and services	43.6	66.4	67.5	78.0	88.2
Goods fob	37.3	60.8	50.0	55.2	66.0
Services	6.3	5.6	17.5	22.8	22.2
Imports of goods and services	-55.3	-76.9	-99.3	-109.0	-97.0
Goods fob	-44.7	-56.7	-74.0	-81.2	-72.0
Services	-10.6	-20.2	-25.3	-27.8	-25.0
Net external investment income	-1.5	-3.0	-5.1	-7.0	-7.5
Net private transfer payments	0.8	1.1	2.5	2.7	1.9
Balance on current account	-12.4	-12.4	-34.4	-35.3	-14.4
b) Capital account					
Net external financing (a+b+c+d)	12.4	12.4	34.4	35.3	14.4
a) External non-compensatory capital	10.4	17.7	31.7	46.7	22.8
Direct investment	2.4	3.3	1.2	4.6	
Long- and medium-term loans	5.7	11.0	28.7	32.7	
Amortization payments	-1.8	-3.4	-5.2	-5.7	
Short-term liabilities	1.4	3.7	4.9	12.3	
Official transfer payments	2.7	3.1	2.1	2.8	
b) Domestic non-compensatory capital or assets	-0.6	-3.3	-3.9	-5.5	
c) Errors and omissions	-0.2	5.8	5.7	-7.3	
d) Compensatory movements (increase -)	2.8	-7.8	0.9	1.4	-8.4
Balance-of-payments loans, trade arrears, deferred payments, IMF position and other liabilities of the monetary authorities	1.1	-	0.9	-	...
Amortization payments	-0.9	-3.5	-1.1	-1.3	...
Movements of gold and foreign exchange reserves (increase -)	2.6	-4.3	1.1	2.7	...

Source: IMF, Balance of Payments Yearbook, vols. 17 and 22.

/The favourable

The favourable trend of exports is mainly attributable to increased sales of manufactured and semi-manufactured agricultural products, such as sawnwood and other wood products, frozen meat, edible and industrial oils, palm hearts and other agricultural goods. Sales of frozen meat did particularly well, rising to over 4 million dollars in value, which more than made up for the 450,000 dollars decline in sales of canned meat and meat extract. Sawnwood and undressed logs, tung oil, palm hearts, cotton fibres and coconut oil, along with cattle hides, and seeds, also increased their export earnings appreciably, totalling an additional 7 million dollars. The greater value of exports derived from a substantial increase in the volume of sales, plus a rise of around 3 per cent in the prices of exported goods.

The decline in imports was due to the completion of a number of investment projects requiring imported goods and of others that had gone beyond the machinery and equipment assembly stage; in addition, 1970 saw the end of the country's purchases of river and air transport equipment and a certain amount of import substitution took place in respect of some consumer durables and non-durables. The biggest drop was in imports of transport equipment and accessories, which fell by 4.1 million dollars, following the purchase in 1969 of two aircraft for the Paraguayan national airline. There was also a drop of about 3 million dollars in the value of imports of machinery, appliances and motors. Imports of food, beverages, textiles, manufactures, iron and other metals and their products did not drop so sharply. Import items that increased in value included fuels and lubricants (about 2 million dollars more than in 1969), paper, cardboard and cardboard products, and chemical and pharmaceutical products.

/PERU

PERU

1. Recent economic trends

During the three-year period 1967-1969, the Peruvian economy grew at an over-all rate of barely 1.1 per cent a year. The situation appears to have changed radically in 1970, with the gross domestic product increasing by 7.3 per cent in real terms. First estimates gave a growth of 7 per cent, thanks to the rapid upswing in production in the fishing industry, increased public investment and more credit for manufacturing enterprises. However, many of the credits were not utilized, and an extensive area was devastated by an earthquake. For these reasons, at mid-year, a growth rate of around 6 per cent was expected for the product; but estimates were revised upwards in the second half of the year.

Although there is no doubt that both investment in manufacturing and foreign private investment showed little dynamism, the other economic indicators pointed to a substantial recovery. In particular, the fishing season began auspiciously, and there were prospects for another record catch. At the same time, public sector investment was extended to new regions and to projects that had been postponed. Moreover, foreign exchange control became total at mid-year: the purchase of foreign exchange assets was prohibited ^{1/} and the conversion of existing assets into national currency was made compulsory. In this way, a large volume of assets was made available to national financial intermediaries. In particular, it was possible to transfer funds for housing construction to the construction sector rapidly, causing a boom in that sector and in the industries that supply construction materials. Similarly, some of the national currency made available by the sale of foreign assets helped to swell consumer demand. All this tended to speed up the growth rate of imports of goods at the end of 1970, but as this did not occur until late in the year, bank deposits grew for most of the period, and, together with the transfer of personal foreign assets to the monetary sector, considerably increased net external reserves.

^{1/} There are some specific exceptions: the rule does not apply, for instance to foreign technicians employed in Peru.

In view of this situation, it is estimated that the gross domestic product grew by 7.3 per cent in 1970, which means a per capita growth rate of 4.1 per cent. These rates were close to, but not higher than, the rates for 1961 and 1962, but they were not determined by a large external debt or a large inflow of private capital as was the case in those years, but rather by certain dynamic centres of growth (see table 1).

As regards economic policy, it should be mentioned that agrarian reform continued; this was the subject of new legislation in June 1969, and was extended to new agricultural and cattle-breeding areas. Moreover, agricultural production increased for the second successive year.

On the other hand, foreign sales of fish meal were placed in the hands of a public agency which served as an intermediary between producers and foreign consumers, many of whom speculated in the venture. Moreover, with the increase in the prices paid by the mixers, an impetus was given to the production of substitutes, such as soya.

2. The major production sectors

The high growth rate of the product in 1970 was due primarily to the boom in the fishing industry, which grew by 30.5 per cent and thus contributed to the 10.5 per cent growth rate of the manufacturing sector. Construction expanded by 13.9 per cent, after three successive years of outright decline. The other sectors grew at a fairly moderate rate, except for trade and finance, which increased by 7 per cent, and agricultural output, which rose by 7.4 per cent (see table 2).

(a) Agriculture

It was a good crop year. The rice harvest provided surpluses for export, whereas for several years previously it had been necessary to have recourse to imports. Output of potatoes also grew, and their price on the domestic market consequently fell. Sugar and coffee also showed increases which enabled Peru to fill its international quotas.

/Table 1

Table 1

PERU: TOTAL SUPPLY AND DEMAND

	Millions of soles at 1960 prices			Percentage structure			Annual growth rates		
	1965	1968	1969	1970a/	1965	1968	1969	1970a/	1970a/
<u>Total supply</u>	<u>101 280</u>	<u>107 870</u>	<u>108 755</u>	<u>115 412</u>	<u>130.0</u>	<u>127.2</u>	<u>127.2</u>	<u>125.2</u>	<u>2.1</u>
Gross domestic product	77 914	84 309	85 426	91 662	100.0	100.0	100.0	100.0	2.7
Imports b/	23 366	23 561	23 329	23 750	30.0	27.9	27.3	25.9	0.3
<u>Total demand</u>	<u>101 280</u>	<u>107 870</u>	<u>108 755</u>	<u>115 412</u>	<u>130.0</u>	<u>127.2</u>	<u>127.2</u>	<u>125.2</u>	<u>2.1</u>
Exports b/	17 527	20 140	19 508	20 124	22.1	23.9	22.8	22.0	4.7
<u>Total investment</u>	<u>17 452</u>	<u>14 730</u>	<u>14 872</u>	<u>16 694</u>	<u>22.5</u>	<u>17.5</u>	<u>17.4</u>	<u>18.2</u>	<u>-5.5</u>
Gross fixed investment	15 636	13 855	13 994	...	20.0	16.4	16.4	...	-3.9
Public	5 381	2 931	3 252	...	6.9	3.5	3.8	...	-18.3
Private	10 255	11 482	9 897	...	13.2	13.6	11.6	...	3.8
Construction	6 151	5 053	5 036	...	7.9	6.0	5.9	...	-0.4
Machinery and equipment	9 485	8 802	8 958	...	12.2	10.4	10.5	...	-2.4
<u>Total consumption</u>	<u>66 301</u>	<u>73 100</u>	<u>74 368</u>	<u>78 594</u>	<u>85.1</u>	<u>86.7</u>	<u>87.1</u>	<u>85.7</u>	<u>3.2</u>
General government	7 569	8 323	8 302	8 634	9.7	9.9	9.7	9.4	3.2
Private	58 732	64 777	66 066	69 960	75.4	76.8	77.3	76.3	3.3

Source: 1965-1969: ECLA, on the basis of data supplied by the Ministry of Economy prepared from basis data supplied by the Banco Central de Reserva del Peru; 1970: ECLA estimates.

a/ Preliminary.

b/ Goods and services, excluding factor payments.

Table 2
PERU: GROSS DOMESTIC PRODUCT, BY SECTOR OF ECONOMIC ACTIVITY

Sector	Millions of soles at 1960 prices				Percentage share			Annual growth rate		
	1965	1968	1969	1970 ^{a/}	1965	1968	1969	1965-1968	1969	1970 ^{a/}
Agriculture	14 435	14 416	14 426	15 490	20.2	18.7	18.4	-0.1	0.1	7.4
Mining	4 998	5 350	5 265	5 465	7.0	6.9	6.7	2.3	-1.6	3.8
Manufacturing	14 536	17 160	17 369	19 193	20.3	22.2	22.2	5.7	1.2	10.5
Construction	3 041	2 474	2 466	2 809	4.2	3.2	3.2	-6.6	-0.3	13.9
Subtotal goods	<u>37 010</u>	<u>39 400</u>	<u>39 526</u>	<u>42 957</u>	<u>51.7</u>	<u>51.0</u>	<u>50.5</u>	<u>2.1</u>	<u>0.3</u>	<u>8.7</u>
Electricity, gas and water	719	886	918	946	1.0	1.1	1.2	7.2	3.6	3.0
Commerce and finance	14 169	15 093	15 123	16 181	19.8	19.5	19.3	2.1	0.2	7.0
Government	5 657	6 347	6 473	6 732	7.9	8.2	8.3	3.9	2.0	4.0
Ownership of dwellings	4 755	5 212	5 373	5 540	6.6	6.7	6.9	3.1	3.1	3.1
Miscellaneous services	9 289	10 358	10 812	11 612	13.0	13.4	13.8	3.7	4.4	7.4
Subtotal other services	<u>24 589</u>	<u>27 896</u>	<u>28 692</u>	<u>41 011</u>	<u>48.2</u>	<u>49.0</u>	<u>49.5</u>	<u>3.1</u>	<u>2.1</u>	<u>6.0</u>
Total product	<u>72 342</u>	<u>78 272</u>	<u>79 316</u>	<u>85 106</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>2.7</u>	<u>1.3</u>	<u>7.2</u>

Source: ECLA estimates on the basis of information supplied by the Ministry of Economy, which was prepared with basic data provided by the Banco Central de Reserva.

^{a/} Preliminary figures.

/Production of

Production of cereals decreased slightly, since the increase in some areas was not large enough to offset for the losses in the area devastated by the May earthquake. In the case of wheat, for instance, production is estimated to have fallen by 135 million tons (5 per cent compared with the previous year). On the other hand, livestock production appears to have increased in the mountainous areas.

The process of agrarian reform begun in June 1969 continued in 1970. At the end of the year, 921,000 hectares and 1 million head of cattle had been allocated to 51,560 individual farmers or co-operatives. The redistribution extended to cereal facilities, sugar mills and improvements in livestock. At the same time, public investment in technical assistance was continued, with very favourable initial results.

(b) Fishing

The boom in fishing was due both to ecological factors and to improved techniques. The closed-season system led to so great an increase in the shoals of anchoveta ^{2/} that it was possible to authorize the enterprises that had not made a normal catch to fish during the closed season.

Among the technical factors that help to explain the boom are the use of larger boats and more careful processing of anchoveta in the plants. This last factor accounted for the considerable increase in the production of fish oil, exports of which amounted to 35 million dollars. Lastly, the possibility is being considered of processing stick water, that is, the liquid squeezed out of the anchoveta, from which it might be possible to extract the equivalent of 20 per cent of Peruvian fish meal production.

The table fish industry has also grown. Some of this fish is frozen or canned for export. Six trawlers are in operation in the north and three bonito boats are being built. The Government has urged the formation of co-operatives among artisan fishermen and among larger companies; one such company re-opened a canning factory with capacity for 400,000 cases of canned fish.

2/ See ECLA, Economic Survey of Latin America, 1969 (United Nations publication, Sales N°: E71.II.G.1), Part Two (in the press).

Important events in the fishing sector were setting up of the National Fishmeal and Fishoil Marketing Company (Empresa Pública de Comercialización de Harina y Aceite de Pescado - EPCMAP) and the Public Services Fisheries Company (Empresa Pública de Servicios Pequeros - EPSEP). The first has been made responsible for foreign sales, thus cutting out the foreign intermediaries who pushed up the price of the product. It has already begun to regulate stocks, and sales will be made on a c.i.f., basis; by eliminating f.o.b., sales, speculation with shipping documents is obviated, thus preventing resale to ports designated by the international intermediaries. In the few months it has been operating, the company has paid the producers a price roughly equivalent to the f.o.b., price and borne the other foreign marketing expenses. EPSEP has only had time to investigate the improvement that should be introduced in the production of table fish; although its activities are primarily aimed at satisfying and expanding domestic demand, the improvements that it proposes to introduce will make it possible to increase exports.

(c) Mining

In 1970, mining production grew by 3.8 per cent as a result of the steady growth of iron and steel output (5.4 per cent) and the recovery of copper (5.6 per cent), silver (4.3 per cent) and some other less important metals. Production of gold fell by 2.3 per cent, while that of lead, zinc and crude petroleum grew by less than the average for the sector.

International prices had a marked effect on this situation; at the beginning of 1970 they were still high, but then began to fall, in some cases sharply, from November onwards. This does not apply to crude petroleum, which is intended for domestic consumption and which grew slowly, owing, in part, to the decline in extraction from the continental shelf.

The mining policy initiated the previous year was continued in 1970.^{3/} Under Government pressure, the enterprises with unworked concessions tried at the beginning of the year to keep to the work

^{3/} See ECLA, Economic Survey of Latin America, 1969, op.cit.

programmes laid down for them; but they could not meet their commitments, with the result that most of the concessions reverted to the State, as was the case with the copper mines at Michiquillay, Cerro Verde, Antamina and Quellaveco. The Government signed a contract with the Marcona Mining Company with a view to increasing iron and steel production from 8.8 to 10.5 million tons a year.

(d) Manufacturing

Manufacturing grew by 10.5 per cent, mainly as a result of increases in fishing, sugar refining (31.1 per cent) and, in the second half of the year, construction materials; shipbuilding and chemicals made a smaller contribution to this growth. The principal limiting factor was the stoppage of production and subsequent limited operation of the Chimbote steelworks, the electricity supply ~~which was~~ cut off by the May earthquake.

In the first half of the year, manufacturing suffered generally adverse effects owing to low consumer demand, as a result of the deflationary measures initiated in 1968. In the second half, recovery was hampered by the disincentives inherent in the law on industrial comunidades,* but ~~became~~ more broadly based as the year wore on. Apart from the activities mentioned above, the factors in the recovery were the increase in consumer demand and in tied credits for the purchase of durable goods, combined with a reduction of stocks. Thus, by the end of 1970, most branches of manufacturing were operating with a high coefficient of utilization of installed capacity; they include durable goods assembly, textiles, and clothing.

* Translator's note: The comunidad represents the workers in an enterprise and is entitled to acquire up to 50 per cent of its assets on their behalf.

3. The external sector

The development of the external sector was a decisive factor in the economic expansion of 1970. Exports increased much more than imports and, in addition, there was a favourable trend in current account services payments; all this resulted in a current account surplus of 126 million dollars (the corresponding figure for 1969 was -10 million dollars). Income from official transfer payments and net inflows of government capital were not enough to compensate for the large outflows of private capital, and consequently, the balance-of-payments surplus was only 72 million dollars (see table 3).

Peruvian exports followed a rising trend throughout the decade, which was interrupted only in 1969, when they levelled off at around 880 million dollars, or double the 1960 level; the trend continued in 1970, when exports amounted to 1,058 million dollars, an increase of 176 million.

This new rise was determined by several factors. In agriculture, there was a rapid growth of sugar production, a rise in the international prices and in the volume of coffee exports. Similarly, there was an increase in exports of agricultural products, green vegetables in particular, which are traditionally produced for internal consumption. The same is true of industrial exports, which, with the financial backing of the Banco Industrial, increased fifty-five production lines in 1969 and in another fifty-seven in 1970. The relatively high international prices of basic metals also helped to improve the position of mining exports, although prices fell during the year. Non-basic metals also showed a recovery, in particular, compounds of magnesium, molybdenum, wolfram and arsenic.

Table 3

PERU: BALANCE OF PAYMENTS, 1960-1970

(Millions of dollars)

	1960	1965	1968	1969	1970
a) Current account					
Exports of goods and services	494	772	963	1 019	1 192
Goods fob	444	685	846	881	1 058
Services	50	87	117	138	134
Imports of goods and services	-427	-845	-852	-885	-943
Goods fob	-327	-653	-659	-664	-717
Services	-100	-192	-193	-221	-226
Net external investment income	-55	-91	-142	-152	-148
Net private transfer payments	3	5	8	8	25
Balance on current account	15	-159	-23	-10	126
b) Capital account					
Net external financing (a+b+c+d)	-15	159	23	10	-126
a) External non-compensatory capital	12	200	71	29	-54
Direct investment	11	36	10	25	
Long- and medium-term loans	29	173	140	208	
Amortization payments	-36	-49	-120	-165	
Short-term liabilities	4	29	27	-62	
Official transfer payments	4	11	14	23	-72
b) Domestic non-compensatory capital or assets	1	-39	-30	16	
c) Errors and omissions	4	-40	-88	-68	
d) Compensatory movements (increase -)	-32	38	70	33	
Balance-of-payments loans, trade arrears, deferred payments, IMF position and other liabilities of the monetary authorities	-	60	110	100	...
Amortization payments	-15	-7	-51	-9	...
Movements of gold and foreign exchange reserves (increase -)	-17	-15	11	-58	...

Source: IMF, Balance of Payments Yearbook, vols. 17 and 21.

/But the

But the major impetus to the growth of exports was provided by fish meal, fish oil and fish preserves, which had been in very short supply after 1960. The value of exports of fish oil - nearly 35 million dollars - was as much as or more than the value of traditional Peruvian exports (sugar, lead, zinc, coffee and wool); the volume of fish oil exports rose by nearly 40 per cent and their international price by around 54 per cent. This upswing was due to the compulsory closed-season system and the rationalization of international trade through EPCHAP. From the time it began operating, EPCHAP managed to contain speculation, and prices returned to their normal level, though higher than the depressed levels of previous years. In 1970-1971, EPCHAP purchased fish meal and fish oil for the equivalent of 163 dollars a ton and sold them to the feed mixers at c.i.f., prices, adding its commission of 3 per cent.

The value of imports rose by 53 million dollars, thanks to the good export performance, but the trade balance showed a surplus of 341 million dollars, a record for Peru.

Information on current account service payments is still preliminary. It points, however, to an increase in net freight and insurance payments, government transactions and "other services". On the other hand, net investment income fell from 152 million in 1969 to 148 million in 1970. Expenditure on travel is estimated to have brought in 1.2 million compared with the outflow of 4 million in 1969; exchange control regulations caused a drop in the number of Peruvians travelling abroad.

Private transfer payments tripled compared with 1969, reaching an estimated 25 million dollars. Official transfer payment in the form of foreign aid were exceptionally high as a result of the May earthquake.

4. Economic policy

The three most important aspects of economic policy in 1970 were the continuation of agrarian reform, the authorization and implementation of the law on industry, and the bank nationalization policy.

The agrarian reform law of June 1969 continued to be applied in 1970. The big sugar latifundia of the north began to be handed over to the co-operatives set up by those who were working on them. The same happened to latifundia to the north of Lima and one in the south, in Arequipa. Large agricultural holdings continued to be nationalized on the coast and in the sierra. In accordance with the law, the State makes part payment in cash and the balance is paid in twenty and twenty-five-year bonds; the holdings are sold to the co-operatives over a period of twenty years, including a five-year grace period.

The approval of a general law on industry in 1970 and of the relevant regulations in January 1971, mark the beginning of a new phase of industrial policy aimed at bringing the manufacturing industry under close planning control, thus creating a direct link between incentives machinery and priority growth targets. An attempt is also being made to prevent a greater degree of foreign take-over of the manufacturing sector, to which end industries producing basic inputs for manufacturing, agriculture and construction are reserved for the public sector, the share capital that may be held by foreign investors is controlled, and in particular, a deadline is set for the replacement of foreign by national capital.

Another very important provision of the new law is that which gives workers a share in the capital and management of firms, through a new legal body, the industrial comunidad. The firm will hand over up to a maximum of 50 per cent of its net annual profits to this body, in the form of shares in the equity capital.

The policy of bank nationalization also continued in 1970, in accordance with legislation passed in 1969. The obligation on the banks to raise their capital to a minimum of 150 million soles led to reduced participation by foreign share-holders, which dropped in one case from 24.9 to 10.5 per cent. This measure is complemented by another, promulgated

/in November

in November 1970, which prohibits foreigners from increasing the number of shares they hold in a bank, but if their profits or reserves are used for investment, the foreign investors are to receive compensation in the form of dividends on these amounts. At the same time, the Banco de la Nación, which is State-owned, has bought share capital in the big commercial banks, thereby obtaining control of two very large banks in which foreign interests had held 58 and 40 per cent of the capital, since 1964 and 1968, respectively. Moreover, it acquired 85 per cent of the shares of one national bank.

/DOMINICAN REPUBLIC

DOMINICAN REPUBLIC

1. Recent economic trends

The gross domestic product grew in 1970 at a rate of 6.5 per cent. The product therefore rose for the fifth year in succession, after the fall following the events of 1965. The main factor in this upward trend was the notable sugar harvest, which topped 1,100,000 short tons, thereby bringing about important increases in agricultural production, refining and exports. There was also a 34 per cent rise in gross private investment, largely owing to the inflow of foreign capital for the Falconbridge ferro-nickel project. Industry grew 13 per cent, continuing the process of import substitution. In the mining sector prospection for bauxite and copper continued, and progress was made in the construction of the ferro-nickel plant mentioned above (see tables 1 and 2). The value of exports and imports of goods and services rose by 12.8 and 21.7 per cent, respectively, and the balance-of-payments position on current account showed a deficit of 114.5 million dollars. One of the main events in economic policy was the publication of a preliminary version of the National Development Plan for 1970 to 1974, which follows the same lines as the Programme for Economic and Social Development for 1968 to 1985. Two laws of great importance to agriculture were introduced at the end of 1969, one establishing the Price Stabilization Institute (Instituto de Estabilización de Precios) and the other on agricultural development.

In the public sector there was a larger increase in investment than in current expenditure; and there was a significant improvement in the financial operation of public enterprises. Unemployment and underemployment - although not quantified accurately enough - continued to be one of the most serious problems, while prices remained at the same level as in 1969.

/Table 1

Table 1

DOMINICAN REPUBLIC: TOTAL SUPPLY AND DEMAND

	Millions of pesos at 1960 prices				Percentage structure			Annual growth rates			
	1965	1968	1969a/	1970a/	1965	1968	1969a/	1970a/	1965-1968	1969a/	1970a/
<u>Total supply</u>	946.1	1 219.6	1 305.2	1 430.7	124.5	132.2	132.2	136.8	8.8	7.0	2.6
Gross domestic product	759.8	917.7	981.9	1 045.7	100.0	100.0	100.0	100.0	6.5	7.0	6.5
Imports b/	186.3	301.9	323.3	385.0	24.5	32.9	32.9	36.8	17.5	7.1	19.1
<u>Total demand</u>	946.1	1 219.6	1 305.2	1 430.7	124.5	132.2	132.2	136.8	8.8	7.0	2.6
Exports b/	121.7	141.4	152.4	169.5	16.0	15.4	15.5	16.2	5.1	7.8	11.2
<u>Total investment</u>	94.6	167.8	197.8	255.4	12.4	18.3	20.1	24.4	21.1	17.8	29.1
Gross fixed investment	94.2	171.9	182.6	227.7	12.1	18.7	18.6	21.8	22.2	6.2	24.7
Public	29.1	52.8	62.0	66.7	3.8	5.8	6.3	6.4	21.8	17.4	7.6
Private	65.1	119.1	120.6	161.0	8.6	13.0	12.3	15.4	22.4	1.3	33.5
Construction	61.7	101.5	...	...	8.1	11.1	...	...	18.2	...	...
Machinery and equipment	32.5	70.4	...	...	4.3	7.7	...	...	29.5	...	...
<u>Total consumption</u>	729.8	910.4	955.0	1 005.8	26.1	29.2	27.3	26.2	7.6	4.2	5.2
General government	106.5	92.0	94.3	98.4	14.0	10.0	9.6	9.4	4.8	2.5	4.3
Private	623.3	818.4	860.7	907.4	82.0	89.2	87.7	86.8	9.5	5.2	5.4

Sources: 1965-1968: ECLA, on the basis of data supplied by the Central Bank of the Dominican Republic; 1969 and 1970: ECLA, on the basis of preliminary data from the above sources.

a/ Preliminary.

b/ Goods and services, excluding factor payments.

Table 2

DOMINICAN REPUBLIC: GROSS DOMESTIC PRODUCT, BY SECTOR OF ECONOMIC ACTIVITY

Sector	Millions of pesos at 1960 prices				Percentage share			Annual growth rate		
	1965	1968	1969a/	1970a/	1965	1968	1969a/	1965-1968	1969a/	1970a/
Agriculture	185.4	200.7	220.0	233.9	27.8	25.1	25.6	2.7	9.6	6.3
Mining	10.7	12.7	14.0	14.4	1.6	1.6	1.6	5.9	10.2	2.8
Manufacturing	78.5	103.1	112.7	127.3	11.8	12.9	13.1	9.5	9.3	13.0
Construction	26.8	45.1	47.7	48.6	4.0	5.6	5.6	18.9	5.8	1.9
Subtotal goods	301.4	361.6	394.4	424.2	45.2	45.1	45.9	6.3	2.1	7.6
Electricity, gas and water	8.6	12.6	13.7	16.4	1.3	1.6	1.6	13.6	8.7	20.0
Transport and communications	43.3	56.4	57.9	61.6	6.5	7.0	6.7	9.2	2.7	6.4
Subtotal basic services	51.9	69.0	71.6	78.0	7.8	8.6	8.3	10.0	2.8	8.9
Commerce and finance	104.2	146.6	159.7	173.0	15.6	18.3	18.6	12.0	8.9	8.3
Government	83.2	81.0	84.0	84.2	12.5	10.1	9.8	-0.9	3.7	0.2
Ownership of dwellings	60.6	73.2	78.1	79.7	9.1	9.1	9.1	6.5	6.7	2.1
Miscellaneous services	66.1	69.7	71.6	72.9	9.9	8.7	8.3	1.8	2.7	1.8
Subtotal other services	314.1	370.5	393.4	409.8	47.1	46.2	45.8	5.7	6.2	4.2
Total	659.1	796.0	851.7	907.1	100.0	100.0	100.0	6.5	7.0	6.5

Source: For 1965 to 1968, ECLA estimates based on official Central Bank statistics; for 1969 and 1970, ECLA estimates based on preliminary Central Bank statistics.

N.B. Owing to the general practice of calculating the individual activities and the total independently, the sum of the former do not necessarily correspond exactly to the latter.

a/ Preliminary figures.

2. Major sectors of production

The agricultural situation in 1970 was excellent, largely as a result of favourable weather conditions, and an over-all growth rate of 6.3 per cent was registered in the sector (7.6 per cent for crops and 0.9 per cent for livestock). The most important export product, cane sugar, reached about 9.3 million metric tons, only bettered in 1960, an increase of 12 per cent over 1969. Rice, which is the most important agricultural product for domestic consumption, showed an increase of 8 per cent in 1970 after growing 13 per cent in 1969, with an output of 200,000 metric tons; it would appear that credit facilities, the government programme of guaranteed prices, and improvement in the quality of seed were instrumental in producing this improvement. Cocoa production reached 47,000 metric tons, that is a 47 per cent increase over 1969; it should be noted that there is a government programme for the improvement of cocoa plantations. Coffee production, however, remained about the same as in the previous year, while maize and sorghum production increased. With regard to livestock, meat output remained stationary, owing to a decrease in slaughtering for export because of the temporary suspension of shipments to the United States.

The most outstanding political measure affecting the sector was the establishment of the Price Stabilization Institute (December 1969). The institute obtained credit to the value of 10 million pesos during 1970 and purchased stocks of agricultural products in order to maintain a certain level in prices; the commodities purchased were mainly rice (upon which about 6 million was spent), maize, beans and sorghum. The Institute also has storage space for 45,000 tons. In December 1969 the law on agricultural development was passed, establishing fiscal incentives, especially import tax exemptions on agricultural inputs. At the same time the work of the National Agrarian Institute was carried forward, and during the period from 1965 to 1970, 7,200 farmers were settled on about 35,000 hectares of land; at the end of 1970 a law was passed authorizing the issue of 8 million pesos worth of ten year bonds at 3 per cent interest to finance agrarian reform operations.

Mining showed a growth only of 2.8 per cent, in contrast with 10.2 per cent in the previous year; it should be noted that prospections for bauxite and copper is continuing and that progress is being made in the construction of the nickel plant at Falconbridge.

/Manufacturing increased

Manufacturing increased its already high rate of growth to 13 per cent; in 1969 it was 9.3 per cent and for the period from 1965 to 1968 9.5 per cent. This reflects the expansion of the sugar industry, in which the output reached 1,114,000 short tons of centrifugal sugar, the first time such a level has been reached, since 1960. About 68 per cent of the total is reserved for export, while 2 per cent goes to domestic consumption and 20 per cent into stocks. Industrial production, excluding sugar, increased by 8 per cent with a rise in the production of foods, beverages and tobacco. The Investment Fund for Economic Development (Fondo de Inversión para el Desarrollo Económico - FIDE) which has made loans amounting to 17.2 million pesos for 159 projects since May 1966 continued to finance industry; under the law on industrial incentives, which has been in force since 1968, 37.7 million pesos were granted to 51 industries in 1970.

3. The public sector, money and credit

The government's policy advocated in the Development Plan, consists in increasing public investment, and an effort has therefore been made to raise government income and to give more relative importance to capital investment in government expenditure. Capital expenditure on infrastructural works for transport (14.5 million pesos) and energy (20.6 million pesos) is the largest item and in energy investment the largest amounts went into the Tavera dam (9.5 million pesos) and the Valdesia dam (4.8 million pesos). Table 3 shows the trends in government income and expenditure, the main sources of financing. Although the data for 1970 are provisional, they bear out the trends of the last five years, during which gross fixed investment rose from 36.7 million pesos in 1966 to over 75 million in 1970; during 1970 current income rose by over 9 per cent, while current expenditure rose 4.3 per cent. The improvement in the financial results of the operation of the public enterprises should also be noted; it is largely the result of the operation of the State Sugar Council (Consejo Estatal del Azúcar - CEA) enterprises, which made a profit in 1970, according to provisional estimates. Further, the Corporation of State Enterprises (Corporación de Empresas Estatales - CORDE), which holds all or most of the capital in thirty-two industrial and commercial enterprises reduced its deficit.

Table 3

DOMINICAN REPUBLIC: INCOME AND EXPENDITURE OF THE PUBLIC SECTOR, 1969 AND 1970

(Millions of pesos)

	1969	1970	1970 %
<u>Current income</u>	<u>243.6</u>	<u>266.3</u>	<u>2.3</u>
Tax revenue	209.2	233.5	11.6
Non-tax revenue	34.1	32.8	-3.8
Current transfer payments	0.3	-	-
<u>Capital income</u>	<u>97.2</u>	<u>84.9</u>	<u>-12.7</u>
Saving on current account	2.7	0.2	-92.6
Public sector income	28.5	29.6	3.9
Repayments on loans	25.2	25.3	0.4
Sale of assets	1.0	3.1	310.0
Other	2.3	1.2	-47.8
Debts	63.0	50.7	-19.5
Internal	24.8	28.9	16.5
External	38.2	21.8	-42.9
Capital transfer payments	1.4	-	-
<u>Other income</u>	<u>0.3</u>	<u>-</u>	<u>-</u>
<u>Current expenditure</u>	<u>194.7</u>	<u>203.1</u>	<u>4.3</u>
Operational expenditure	170.1	178.3	4.8
Current transfer payments	21.7	22.4	3.2
Interest on the debt	2.9	2.4	-17.2
<u>Capital expenditure</u>	<u>146.1</u>	<u>148.1</u>	<u>1.4</u>
Real investment	72.6	75.6	4.1
Construction	52.9	60.3	29.1
Machinery and equipment	17.9	5.5	-69.3
Other	1.8	1.8	-
Financial investment	39.9	38.9	2.5
Amortization payments of debts	30.9	30.7	-0.6
Internal	24.2	22.4	-7.4
External	6.7	8.3	23.9
Capital transfer payments	2.7	2.9	7.4
<u>Total</u>	<u>340.8</u>	<u>351.2</u>	<u>3.1</u>

Source: Planning Office.

/An examination

An examination of the monetary situation shows that, in the first three quarters of the year, there was a reduction in the money supply, which fell from 153.9 million pesos at the end of 1969 to 150.8 million at the end of September 1970 ^{1/} thus continuing the restrictive tendency of the previous year; over the same period quasi-money grew at a rate of over 21 per cent.

With regard to credit policy, it is interesting to see how, during the past five years, loans to industry and commerce have increased considerably; a more detailed examination shows that between 1966 and 1968 there was a notable increase in loans to industry and this was followed by a rise in the percentage of loans to commerce and other loans (see table 4).

4. The external sector

During 1970 the significant increase in the sugar cane and cocoa harvests, together with improved coffee prices, led to an increase of 16.8 per cent in the value of exports of goods, which amounted to 215 million dollars. (See table 5.) The most striking feature was the rise in sugar sales since the entire United States quota and the redistributed allocations of unused quotas were filled, and also the 174,000 ton world market quota under the International Sugar Agreement. At the same time, coffee exports grew slightly in volume, but showed a 40 per cent increase in value owing to the rise in prices; cocoa exports increased by nearly 50 per cent as compared with the previous year, but the fall in prices meant that its value remained the same as for 1969. A diversification of exports - which at the moment consist almost entirely of four agricultural products - is planned for the future with the introduction of ferro-nickel. An effort has also been made to expand export markets, through negotiations with the CARIFTA countries and with Puerto Rico.

Imports of goods rose by 27.1 per cent, largely owing to equipment imported for mining projects and for the Tavera and Valdesia dams. Import substitution has been encouraged, and it is hoped that a petroleum refinery will be set up in 1971 to continue this process.

^{1/} See IMF International Financial Statistics, February 1971, p.105.

Table 4
DOMINICAN REPUBLIC: COMMERCIAL BANK LOANS, 1966-1970
(Millions of pesos)

Outstanding at the end of	Public sector	Private sector: loans to						Total
		Industry	Livestock	Agric- ulture	Real estate	Commerce	Other	
1966	50.5	23.9	2.2	9.1	3.1	25.4	10.3	124.5
1967	24.4	36.8	3.1	10.2	4.6	26.3	7.8	113.2
1968	26.5	52.9	4.5	10.7	6.6	29.8	14.3	145.3
1969	30.1	66.8	2.9	9.8	9.0	38.4	20.6	177.6
June of 1970	27.9	56.4	3.7	9.3	9.4	41.8	23.3	171.8

Source: Banco Central de la República Dominicana, Boletín Mensual, June, 1970, p. 37.

/Table 5

Table 5

DOMINICAN REPUBLIC: BALANCE OF PAYMENTS, 1960-1970
(Millions of dollars)

	1960	1965	1968	1969	1970
a) Current account					
Exports of goods and services	172.1	143.1	199.5	228.0	257.1
Goods fob	157.4	125.5	163.5	184.0	215.0
Services	14.7	17.6	36.0	44.0	42.1
Imports of goods and services	116.9	163.9	265.7	291.0	354.2
Goods fob	90.3	120.7	196.8	210.0	267.0
Services	26.6	43.2	68.9	81.0	87.2
Net external investment income	-9.6	-12.0	-19.0	-23.0	-25.9
Net private transfer payments	-3.0	12.4	8.9	9.0	8.5
Balance on current account	42.6	-20.4	-76.3	-77.0	-114.5
b) Capital account					
Net external financing (a+b+c+d)	-42.6	20.4	76.3	77.0	114.5
a) External non-compensatory capital	-18.2	45.8	59.7	76.0	107.7
Direct investment	1.0	6.0	18.0	24.0	
Long and medium-term loans	-	19.2	34.1	55.6	
Amortization payments	-0.5	-5.7	-7.7	-9.6	
Short-term liabilities	-18.6	-38.9	14.2	5.0	
Official transfer payments	-0.1	65.2	1.1	1.0	6.8
b) Domestic non-compensatory capital or assets	3.3	-3.5	12.6	15.0	
c) Errors and omissions	-28.1	-24.3	8.3	-2.0	
d) Compensatory movements (increase -)	0.4	2.4	-4.3	-12.0	...
Balance-of-payments loans, trade arrears, deferred payments, IMF position and other liabilities of the monetary authorities	9.0	5.0	-13.8	13.8	
Amortization payments	-20.7	-4.4	-14.5	-21.0	
Movements of gold and foreign exchange reserves (increase -)	12.1	1.8	-3.6	-4.0	

Source: IMF, Balance of Payments Yearbook, vols. 17 and 21.

/The balance-of-payments

The balance-of-payments deficit on current account was 114.5 million dollars. Under capital movements, there was an increase in private foreign investment because of the ferro-nickel project; but as the net balance on the net inflow of non-compensatory capital was 107.7 million dollars, the balance-of-payments deficit was only 6.8 million dollars. This led to the use of all the 5.4 million units of special drawing rights allocated to the Dominican Republic, and to a drain on reserves.

/TRINIDAD AND

TRINIDAD AND TOBAGO

1. Recent economic trends

The year 1970 was characterized by social unrest and labour disputes in Trinidad and Tobago. A state of emergency was declared which lasted for six months, with resultant harmful effects on the economy. In these circumstances, the optimistic forecasts that were being made at the end of 1969 were not realized.

It is difficult to make an assessment of actual performance in the economy in 1970, since insufficient data are available on the principal indicators of economic activity. However, preliminary estimates show that the gross domestic product at current prices grew much more slowly than was anticipated, although the rate of 4.8 per cent was higher than the previous year (see table 1).

The growth of the main sectors of production was uneven. It is estimated that petroleum output declined once again, and agriculture improved only marginally. Even manufacturing, which had been the prime mover in the economy, grew less rapidly; but the construction sector appears to have shown a significant increase. The population continued to grow by less than 1 per cent. It may, therefore, be assumed that real per capita income increased slightly.

Exports of goods and services expanded slowly; imports, much more rapidly. As a result, Trinidad and Tobago had an estimated trade deficit of around 95 million Trinidad and Tobago dollars.^{1/}

2. Economic policy

The chief cause of the unrest during 1970 was the high level of unemployment, especially among the younger age-groups, and general dissatisfaction with the degree of foreign control of the main sectors of the economy. The Government made a complete change in its economic policy in 1970, in an effort to cope with these two interrelated problems.

^{1/} One Trinidad and Tobago dollar equals 0.50 United States dollar.

Table 1

TRINIDAD AND TOBAGO: GROSS DOMESTIC PRODUCT AT FACTOR COST, 1960 AND 1966-1970

	Millions of Trinidad and Tobago dollars at current prices				Percentage share				Annual growth rates			
	1960	1966	1968	1969	1970 ^a	1960	1969	1970 ^a /1960-1966	1967	1968	1969	1970
Agriculture, forestry, fishing and quarrying	108.4	107.3	127.0	126.9	128.5	12.5	8.0	7.7	4.1	13.7	-	1.3
Mining and refining of petroleum, asphalt and gas	263.4	313.6	366.0	373.0	350.6	30.4	23.5	21.1	11.7	8.2	-1.6	-6.0
Manufacturing	108.2	198.4	260.0	293.0	313.8	12.5	18.5	18.9	10.6	25.5	8.5	7.1
Construction	40.6	56.2	65.0	63.5	73.5	4.7	4.0	4.4	5.6	9.2	9.3	15.7
Transport and distribution	149.6	235.2	273.0	277.5	304.8	17.2	17.5	18.3	7.8	13.4	1.6	9.8
Public utilities	40.6	73.0	89.0	81.0	87.2	4.7	5.1	5.2	10.3	22.8	-9.0	7.7
Government	82.5	132.4	162.0	173.0	188.2	9.5	10.9	11.3	8.2	13.0	6.8	8.8
Ownership of dwellings	16.8	49.9	55.5	58.7	60.5	1.9	3.7	3.6	19.8	7.6	7.7	3.1
Banking and finance	20.0	46.2	47.0	50.8	56.2	2.3	3.2	3.4	15.0	-0.6	8.1	10.6
Other services	34.9	72.7	79.0	89.0	98.5	4.0	5.6	5.9	13.0	4.4	6.3	10.7
Total	865.0	1 284.2	1 523.5	1 586.0	1 661.8	100.0	100.0	100.0	6.8	7.2	2.7	4.8

Source: Annual Statistical Digest and draft Third Five-Year Plan, 1969-1973.

^a/ Estimates.

/As in

As in most developing countries, unemployment in Trinidad and Tobago is mainly of the structural type, although seasonal unemployment is also a serious problem since agriculture continues to be the main source of employment.

During the 1960s, economic policy was geared to diversifying and restructuring the economy, with import substitution as one of the principal means of reducing unemployment. Moreover, the Government assumed control of most public utilities, including telecommunications, and acquired some holdings in the productive sectors. To meet the immediate problem of unemployment, the usual special public works projects were undertaken in 1970 and the public sector launched a large-scale construction programme, which generated a boom in that sector. The longer term employment problem has naturally proved more intractable; an intensive programme of manpower training was adopted, so as to bring the supply of skills up to the level required in a developing economy.

The problem of structural unemployment is closely bound up with the control and ownership of national resources, since it is widely held that unemployment cannot be substantially reduced unless decision-making in the main sectors of production is in national hands. Prior to 1970, the public sector had already acquired a small stake in the sugar and petroleum industries. During 1970, it increased its sugar holdings and now controls about 60 per cent of the industry. In petroleum, control has been extended also, by establishing strict conditions for the exploitation of petroleum resources by private firms, which guarantee the public sector a 15 to 25 per cent share in production, without any share in the commercial risks.

In the course of the year, public sector made its first inroads into the commercial banking sector by taking over the local branch of the Bank of London and Montreal as a going concern. It also acquired a stake in the chemical industry by taking over a fertilizer blending plant, and continued to increase its holdings in the tourist industry by initiating the construction of several hotels.

/In accordance

In accordance with its policy of restructuring the economy, the public sector continued to extend its ownership and control of enterprises in 1970. The indications are that this policy will be continued, although it is expected to stop short of complete nationalization. The Government has followed a largely pragmatic line up to now, but as it has secured a foothold in the basic industries, it will probably turn its attention to other sectors in the future, particularly construction materials.

3. The main economic sectors

(a) Extractive industries

This sector continued to decline in 1970; the value added is estimated to have fallen by 6 per cent, to around 350 million Trinidad and Tobago dollars, the lowest level since 1967. The sector's contribution to the gross domestic product at factor cost has also fallen steadily in relative terms, from 30.4 per cent in 1960 to 24.6 in 1968 and an estimated 21.1 per cent in 1970. However, extraction continues to be the largest sector of the economy.

The decline is explained chiefly by the steady fall in output of crude petroleum, from 57.4 million barrels in 1969 to around 51 million barrels in 1970 (11 per cent). This drop was offset to a certain extent by the rise in prices of certain petroleum products and the increase in refining output, which is estimated to have been 435,700 barrels a day in 1970, total capacity being 440,000 barrels a day.

The increase in refining throughout meant that imports of crude petroleum increased by about 10 per cent. It is also significant that, while production of crude petroleum fell and refining throughout grew, exports of crude petroleum rose by 30 per cent, mainly because of the pattern of ownership of the industry.

The public sector's holdings in the industry have not increased significantly since it took over the local assets of British Petroleum. It should be noted, however, that with the discovery of oilfields off the east coast of Trinidad and the prospects held out by discoveries off the north coast, the prospects for both Government control and for the industry look considerably better.

/(b) Agriculture

(b) Agriculture

There was a modest increase in the value added by agriculture in 1970, but the share of the sector in the total gross product fell from 8 to 7.7 per cent. Neither agricultural production for domestic consumption nor export agriculture justified continued government backing. Weather conditions again adversely affected certain export crops, but benefited others. Information covering the period from January to September 1970 shows that the production of sugar-cane grew by 5 per cent compared with the same period in the previous year, but sugar production fell from 237,000 tons in 1969 to 216,000 tons in 1970, that is, by nearly 9 per cent, owing to the low sucrose content of the cane, while coffee production dropped by about 13 per cent. Cocoa output increased by around 40 per cent, and citrus fruit also showed an upward trend. Sugar prices remained firm, while those of cocoa and coffee improved significantly. Generally speaking, therefore, output of export agriculture fared better than in the previous year.

At the same time, there was an increase in output of all important agricultural products for domestic consumption, except for pork products, which plummeted from a surplus in 1969 to a shortage in 1970. Poultry production grew by around 6 per cent, milk production showed a significant increase, and the output of vegetables continued to grow. A notable new item is tobacco, production of which amounted to 92,000 pounds in 1970.

(c) Construction

Despite the disturbances of 1970, the boom in construction continued. The value added by the sector increased by nearly 16 per cent and its share in the gross domestic product rose to 4.4 per cent.

The main cause of the boom was the increase in public sector construction, particularly hotels, schools and public buildings, though there were some important private sector construction projects particularly the petroleum industry. These activities generated considerable demand for certain manufactures, such as cement, production of which increased appreciably.

The growing importance of this sector is reflected in the increasing local value added content. The ~~over-all~~ import component of local construction is estimated to have dropped by around 20 per cent; consequently construction activity has a major impact on the scale of production in ancillary and related industries. Moreover, it is one of the principal employers of craftsmen and unskilled labour.

(d) Manufacturing

The growth rate of manufacturing, at current prices, fell from 25.5 to 8.5 per cent between 1968 and 1969 and to slightly more than 7 per cent in 1970. This relatively slow growth rate is explained by the uneven performance of a number of traditional manufactures. Output of many products increased, while that of such goods as edible oils, soap, bricks and fertilizers fell, at least up to September 1970. Textile and clothing production also declined, as a result of the imposition of import quotas by the United States and Canada, which curtailed their markets.

On the other hand, durable goods assembly industries for such products as motor vehicles, radio and television sets, refrigerators, etc., registered a general upswing in production, which also reflects the diversification and broadening of the structure of manufacturing.

4. The external sector

Imports of goods and services continued to expand more rapidly than exports. During the period from January to October 1970, imports amounted to 833 million Trinidad and Tobago dollars and are estimated to have reached 1,065 million at the end of the year, an increase of 10.6 per cent over 1969 (see table 2).

On the basis of trends in the first ten months of the year, the value of exports is estimated to have reached 970 million Trinidad and Tobago dollars in 1970, an increase of barely 2 per cent compared with 1969 (see table 3).

Table 2
TRINIDAD AND TOBAGO: MAIN IMPORTS, EXCLUDING PETROLEUM
(Millions of Trinidad and Tobago dollars)

	Value						Percentage of total imports		
	1965	1966	1967	1968	1969	1970 (January- October)	1965	1969	1970 (January- October)
Manufactures	141.8	134.7	126.1	135.0	165.7	148.7	17.4	17.2	16.8
Food, beverages and tobacco	94.0	96.2	93.4	93.4	112.5	96.5	11.5	11.7	10.9
Chemicals	34.6	32.8	35.3	35.8	40.2	39.9	4.2	4.2	4.5
Crude raw materials other than fuels	9.8	12.5	10.8	12.1	12.7	11.2	1.2	1.3	1.3
Machinery and transport equipment	129.1	102.7	95.7	103.8	111.8	108.1	15.6	11.6	12.2
Motor vehicles and parts	25.2	28.1	21.6	20.9	24.6	25.0	3.1	2.6	2.8
Animal and vegetable oils and fats	4.1	3.8	3.5	3.7	5.4	6.5	0.5	0.6	0.7

Source: Overseas Trade Reports, (Annual and monthly issues).

a/ Provisional figures.

Table 3

TRINIDAD AND TOBAGO: MAIN EXPORTS, 1965-1970
(Millions of Trinidad and Tobago dollars)

Sector	Value						Percentage of total exports		
	1965	1966	1967	1968	1969	1970 (January-August)	1965	1969	1970 (January-August)
Fuels and lubricants ^{a/}	168.6	197.3	248.1	272.7	221.9	185.7	24.4	23.7	18.9
Manufactured goods	14.3	16.9	17.9	23.0	30.1	23.0	2.1	3.2	3.6
Chemicals	37.3	59.0	78.2	82.6	89.9	52.2	5.4	9.5	8.1
Machinery and transport equipment	4.9	7.6	4.8	13.3	6.0	5.5	0.7	0.6	0.9
Raw materials	4.8	5.4	4.0	5.0	4.9	4.6	0.7	0.5	0.7
Food	59.3	56.0	58.0	76.7	77.3	66.9	8.6	8.1	10.4

Sources: Overseas Trade Report (annual and monthly issues).

^{a/} Net of crude petroleum imports.

/From the

From the above, it can be seen that Trinidad and Tobago had a trade deficit of the order of 95 million Trinidad and Tobago dollars in 1970, while there was a surplus of around 40 million in 1969 (see table 4). This change in the country's trading position has been attributed to the increased imports of crude oil and the reduced export earnings from sugar. Moreover, it is estimated that the terms of trade deteriorated during the year. This trend is reflected in the import price index, which showed an increase of 8 per cent in the second half of 1970 compared with the same period for 1969, while the export price index remained stable.

Trinidad and Tobago's trade with the other CARIFTA countries has taken a substantial upward turn. Between January and August 1970, imports from the CARIFTA countries grew by 21 per cent compared with the same period for 1969, and exports to those countries by slightly more than 17 per cent.

Most of Trinidad and Tobago's trade with its CARIFTA partners is with the larger countries (Guyana, Jamaica and Barbados). Imports from and exports to these countries represented 86 and 66 per cent, respectively, of the country's total imports from and exports to CARIFTA in 1969 and 1970.

5. Population and unemployment

The factors that are responsible for the low population growth rate in recent years (less than 1 per cent) continued to prevail in 1970, namely: the decline in the crude birth rate and increased emigration to the United States and Canada.

An estimated 45,200 persons, or 12 per cent of the labour force, were out of work in June 1970. Although this figure is high, it is less than in mid-1969, when it was 14 per cent. Unemployment is highest in the lower age-groups; emigration tends to aggravate rather than improve the situation, since it deprives the country of its skilled manpower and reduces the prospects of employment for unskilled labour.

Wages apparently continued to rise in 1970, though at a lower rate than in 1969. The wages index rose by 3.4 per cent between May 1969 and May 1970. However, domestic prices rose by around 3.5 per cent during the same period.

/Table 4

Table 4

TRINIDAD AND TOBAGO: BALANCE OF PAYMENTS, 1965-1970

(Millions of Trinidad and Tobago dollars)

	1965	1966	1967 ^{a/}	1968 ^{b/}	1969 ^{c/}	1970 January August
Current account						
Goods and services						
Exports fob ^{d/}	710.5	752.7	756.2	947.1	1 001.9	642.5
Imports cif ^{e/}	816.9	772.6	721.5	853.3	962.8	681.4
Balance on visible trade	-106.4	-19.9	34.7	93.8	39.1	-38.9
Services						
Transport	57.8	57.8	53.6	60.9	56.5	...
Foreign travel	0.2	3.2	5.5	12.7	16.3	...
Investment income	-103.3	-107.6	121.6	-142.9	-167.8	...
Other	8.5	9.8	-8.6	26.6	-25.4	...
Balance on services	-36.8	-28.4	-71.1	-95.9	-120.4	...
Balance on goods and services	-143.2	-48.3	-36.4	-2.1	-81.3	...
Transfer payments						
Private	21.3	8.4	-1.2	-0.4	-2.1	...
Public	0.6	0.6	2.6	2.1	4.2	...
Public	20.7	7.8	-3.8	-2.5	-6.5	...
Capital account						
Net capital inflows	119.3	50.3	39.6	60.5	71.7	...
Private sector	102.0	37.6	42.9	45.0	76.0 ^{a/}	...
Public sector	17.3	12.7	-3.3	15.5	-4.3	...
Net errors and omissions	9.9	-1.7	2.1	-11.7	-	...
Surplus or deficit	7.3	-9.7	4.1	46.3	11.7	...
Financing of the deficit						
Net movements of foreign exchange reserves (increase)	7.3	9.7	-4.1	-46.3	11.7	...

Sources: Balance of payments, 1956-1966; balance of payments, latest estimates, 1967, 1968 and 1969 (unpublished).

^{a/} Residual estimate; includes net errors and omissions.

^{b/} Revised figures.

^{c/} Provisional figures.

^{d/} Adjustments in exports comprise addition of coverage adjustment and valuation, and subtraction of ships' stores and bunkers.

^{e/} Adjustments in imports comprise addition of coverage adjustment and subtraction of freight paid to national flag, carriers.

/URUGUAY

URUGUAY

1. Recent economic trends

In 1970, Uruguay's gross domestic product grew by approximately 5.5 per cent, owing to the dynamic growth of industry, in the goods-producing sectors, and commerce, in the services sectors. In the external sector, exports and imports grew much more rapidly than in the 1960s (see tables 1 and 2). The basic factor for growth was the expansion of beef production, which revived the cold storage industry and, together with rising world prices, was the main expansionary influence on exports.

Consumer prices rose by 20.9 per cent between December 1969 and December 1970, outstripping the 14.5 per cent rise in the preceding period. Over the same period, money wages rose by 17.8 per cent, 19.3 per cent in the private sector and 14.7 per cent in the public sector, but in real terms they fell by 1.3 and 5.2 per cent respectively.

As regards public finances, the central government deficit shrank because income grew more rapidly than expenditure.

In the external sector, imports and exports of goods, measured in dollars at current prices, were 18 and 14 per cent up respectively on 1969, and the value of beef exports was up 40 per cent. Moreover, at the end of 1970, the net international reserves of the monetary authorities amounted to 32.4 million dollars, some 26.3 million below the figure recorded for December 1969.

2. The major sectors of production

The agricultural sector grew by around 4 per cent in 1970, chiefly owing to good weather, for both temperatures and rainfall were favourable except in the third quarter of the year, when rains delayed sowings and frosts damaged pastures.

In the livestock sector there were increases in the production of beef (6 per cent), lamb (3 per cent) and particularly poultry (50 per cent), with output probably doubling in the southern part of the country.

Table 1

URUGUAY: TOTAL SUPPLY AND DEMAND

	Millions of pesos at 1960 prices				Percentage structure			Annual growth rates		
	1965	1968	1969	1970a/	1965	1968	1969	1970a/	1965-1968	1969 1970a/
<u>Total supply</u>	15 981	16 059	16 978	18 063	112.7	116.0	116.4	118.4	0.2	5.7
Gross domestic product	14 184	13 848	14 582	15 252	100.0	100.0	100.0	100.0	-0.8	5.3
Imports b/	1 797	2 211	2 396	2 811	12.7	16.0	16.4	18.4	7.2	8.4
<u>Total demand</u>	15 981	16 059	16 978	18 063	112.7	116.0	116.4	118.4	0.2	5.7
Exports b/	3 061	2 735	2 736	2 893	21.6	19.7	18.8	19.0	-10.7	0.0
<u>Total investment</u>	1 496	1 663	2 277	2 331	10.5	12.0	15.6	15.3	3.6	36.7
Gross fixed investment	1 567	1 686	2 299	2 321	11.0	12.2	15.8	15.2	2.5	36.2
Public	227	...	...	...	1.6	...	...	...	...	...
Private	1 340	...	...	...	9.4	...	...	...	...	...
Construction	928	975	975	...	6.5	7.0	...	...	1.7	...
Machinery and equipment	639	711	1 324	...	4.5	5.1	...	...	3.6	86.2
<u>Total consumption</u>	11 424	11 661	11 965	12 839	80.5	84.2	82.1	84.1	0.5	2.6
General government	1 446	1 484	1 518	1 609	10.2	10.7	10.4	10.5	0.9	2.3
Private	9 978	10 177	10 447	11 230	70.3	73.5	71.6	73.6	0.5	2.7

Source: 1965-1969: ECLA, on the basis of data supplied by the Banco Central, Uruguay; 1970: ECLA estimates.

a/ Preliminary.

b/ Goods and services, excluding factor payments.

Table 2
URUGUAY: GROSS DOMESTIC PRODUCT, BY SECTOR OF ECONOMIC ACTIVITY

Sector	Millions of pesos at 1960 prices				Percentage share			Annual growth rate		
	1965	1968	1969	1970a/	1965	1968	1969	1965-1968	1969	1970a/
Agriculture	2 822	2 474	2 845	2 930	21.3	19.3	20.9	-4.3	15.0	3.0
Manufacturing b/	2 803	2 871	3 009	3 165	21.2	22.4	22.1	0.8	4.8	5.2
Construction	432	459	459	477	3.3	3.6	3.4	2.1	-	4.0
Subtotal goods	6 057	5 804	6 313	6 572	45.8	45.2	46.4	-1.4	8.8	4.1
Electricity, gas and water	232	257	...	...	1.7	2.0	...	3.5	...	...
Transport and communications	974	887	...	...	7.4	6.9	...	-3.1	...	...
Commerce and finance	2 736	2 650	...	...	20.7	20.7	...	-1.1	...	...
Government	1 098	996	...	...	8.3	7.8	...	-3.2	...	...
Ownership of dwellings	828	853	862	871	6.3	6.6	6.3	1.0	1.2	1.0
Miscellaneous services	1 294	1 382	...	...	9.8	10.8	...	2.2	...	...
Subtotal services	7 162	7 025	7 283	7 624	45.1	45.2	53.6	-0.6	3.7	4.8
Total	13 127	12 817	13 496	14 117	100.0	100.0	100.0	-0.8	5.3	4.6

Source: For 1965 to 1969, ECLA estimates based on official Central Bank statistics; for 1970, ECLA estimates based on preliminary forecasts of the Central Bank.

N. B. Owing to the general practice of calculating the individual activities and the total independently, the sum of the former do not necessarily correspond exactly to the latter.

a/ Preliminary figures.

b/ Including mining.

/The increase

The increase in the output of beef was attributable to favourable weather which brought higher reproduction rates, lower mortality rates and an increase in average weights; moreover, exports expanded both in value and in volume, with world prices showing a rising trend. In July, owing to supply problems, a temporary ban was imposed on meat consumption to prevent excessive price rises and to secure supplies to satisfy external demand. The wool clip was roughly the same as in 1969 (close to 80,000 tons); 68,000 tons of wool were exported but under unfavourable conditions because difficulties on the world market lowered prices by 20 per cent and there were serious marketing problems. Milk production in the first half of the year was almost 10 per cent up on the same period in 1969, but bad weather between July and September brought the total back to the 1969 level; however, as a result of the recovery in the final quarter output for the year is estimated to have been 2 per cent higher than in 1969.

With respect to crop farming, the winter harvest of cereals and flax in the 1969/70 crop year was down 9 per cent, owing to a 24 per cent reduction in the area sown; there was a considerable drop in wheat output and a rise in flax output. In contrast, the summer harvest of the 1969/70 crop year, covering 5.7 per cent more area, was up 1.3 per cent, the largest increment coming in maize; although the area sown to rice and sunflower increased, yields deteriorated. As a whole, crop-farming output remained stationary during the year (see tables 3 and 4).

Preliminary estimates of manufacturing output based on data for the first three months of the year indicate a growth rate of around 7 per cent. In the traditional sector, the most dynamic activities were the cold storage milk products and tanning industries. The cold storage industry was stimulated by external demand and extremely favourable world prices, and the value of meat exports rose by 40 per cent, 20 per cent of which was attributable to price increases. The milk products industry satisfied domestic demand under normal conditions and increased its exports. In contrast, activity declined in industries processing maté, rice, sunflower seed and coffee. Production of beverages increased significantly, as did that of tobacco owing to a fall in the consumption of imported cigarettes. In the textile and clothing industry activity fell off during the first six months of the year, this was followed by a partial recovery but this was not enough to overcome the contraction of demand.

/Table 3

Table 3

URUGUAY: INCREASE OR DECREASE IN THE VOLUME OF
AGRICULTURAL PRODUCTION IN 1970 OVER 1969 ^{a/}

(Percentages)

Beef cattle	5.0
Sheep and lambs	2.5
Wool	-0.4
Milk	0.0
Poultry	30.0
Wheat	-14.2
Maize	8.1
Oats	-18.3
Common barley	-22.0
Brewer's barley	-13.0
Rice	5.8
Canary seed	157.0
Sunflower seed	3.8
Ground nuts	-3.0
Flax	44.0
Roots and tubers	-12.0
Saccharine	-31.0
Wine grapes	20.0

Source: Central Bank of Uruguay.

^{a/} Provisional estimates.

/Table 4

Table 4

URUGUAY: AREA SOWN, PRODUCTION AND YIELDS OF MAIN AGRICULTURAL CROPS

	1968/69	Percentage variations 1968/69 in relation to 1967/68	1969/70 a/	Percentage variations 1969/70 in relation to 1968/69	1970/71 b/	Percentage variations 1970/71 in relation to 1969/70
<u>Wheat</u>						
Area sown (hectares)	535 200	+141.0	336 250	-37.2	323 700	-3.7
Production (tons)	469 790	+226.8	403 185	-14.2	...	
Yield (kg/hectare)	878	+35.7	1 199	+36.6	...	
<u>Oats</u>						
Area sown (hectares)	89 200	+64.7	74 800	-16.2	75 450	+1.0
Production (tons)	73 155	+122.0	59 745	-18.3	...	
Yield (kg/hectare)	820	+34.6	799	-2.6	...	
<u>Linseed</u>						
Area sown (hectares)	81 680	+59.4	111 990	+37.1	101 300	-9.4
Production (tons)	56 458	+110.4	81 225	+43.9	...	
Yield (kg/hectare)	691	+31.9	725	+4.9	...	
<u>Maize</u>						
Area sown (hectares)	175 800	+8.7	182 800	+4.0	...	
Production (tons)	128 820	+36.3	139 205	+8.1	...	
Yield (kg/hectare)	733	+71.3	762	+4.0	...	
<u>Rice</u>						
Area sown (hectares)	34 340	+11.7	37 490	+9.2	...	
Production (tons)	134 438	+28.8	142 296	+5.8	...	
Yield (kg/hectare)	3 917	+15.3	3 796	-3.1	...	
<u>Sunflower seed</u>						
Area sown (hectares)	90 750	-16.3	97 070	+7.0	...	
Production (tons)	62 515	+28.7	64 905	+3.8	...	
Yield (kg/hectare)	689	+54.5	669	-2.9	...	

Source: Ministry of Agriculture and Livestock.

a/ Second estimate of area sown and first of production.

b/ First estimate of area sown.

The pulp and paper industry recorded a high rate of growth over the first quarter but activity slackened off during the rest of the year owing to difficulties in importing pulp; by mid-1972 a domestic pulp plant is expected to be in operation. The rubber industry expanded significantly owing to increased exports of tyres and the rise in domestic demand. In the chemical industry, output of paints and pharmaceutical products increased. Cement output rose and it is expected that by the end of 1971 the ANCAP plant at Paysandú will be in operation. The manufacture of metal containers grew slightly, chiefly containers for preserved fruit and vegetables. Owing to labour disputes, the electronics industry had a downturn in the first half of the year, and later made only a partial recovery; sales of refrigerators, electronic goods and lighting equipment expanded and those of kitchen stoves and water heaters declined. Table 5 gives a first estimate of the growth of the different branches of industry over the period January-September 1970, compared with the same period in 1970.

The construction sector is estimated to have grown by close to 5 per cent, with growth being greater in the public sector (9 per cent) than in the private sector (4 per cent).

Estimates place the growth of the commerce, transport and storage sector at 7.5 per cent, in line with the growth of the sectors of production and imports. The amount of electric power sold by the State power and telephone company was 5.2 per cent up on 1969, and work continued on projects to expand the national telephone system. It is estimated that the ownership of dwellings continued to grow in line with past trends, while under the head of "other services", banking activities stepped up their rate of growth since they were paralysed for three months in 1969 owing to labour disputes.

Table 5

URUGUAY: PERCENTAGE VARIATION IN THE VOLUME
OF INDUSTRIAL PRODUCTION
BETWEEN 1969 AND 1970

Industry	Percentage variation
	a/
Food	+4.7
Beverages	+11.6
Tobacco	+20.5
Textiles	-5.9
Footwear and clothing	-11.3
Wood	...
Furniture	...
Paper and paper products	+12.5
Printing, publishing and allied industries	+2.2
Leather	...
Rubber	+23.8
Chemical products	+9.0
Products of petroleum and coal	+0.1
Non-metallic minerals	+27.4
Basic metals	...
Metal products	+19.5
Machinery other than electrical	...
Electrical machinery	-6.1
Transport equipment	...
Miscellaneous	...
Total	+5.2

Source: Central Bank of Uruguay.

a/ Provisional estimates.

3. Public finances and money

Table 6 contains a statement of central government income and expenditure and the financing of the deficit in the central government accounts. The deficit amounted to 11,098 million pesos, which was less than in 1969 owing to the fact that income grew more rapidly than expenditure. The ratio of public income to the gross domestic product was 14 per cent, as opposed to between 12 and 12.7 per cent in the period 1967-1969. The ratio of expenditure to the product was 15.8 per cent (15.2 per cent in 1969). The contribution of the monetary authorities to the financing of the deficit was much smaller than in earlier years.

During 1970, the monetary liabilities of the consolidated banking system rose by 18,100 million pesos, i.e., by 18.5 per cent at current prices, but they fell by 2 per cent in real terms (see table 7). These figures are in some respects not in line with the projections made at the beginning of the year: for example, there was a loss of international reserves amounting to 8,100 million pesos, instead of the expected gain of 7,300 million; and domestic credit expanded by 26,300 million dollars instead of 13,600 million owing to increased allotments of credit to the private sector.

4. Prices and wages

The consumer price index rose by 20.9 per cent between December 1969 and December 1970; the increase during the preceding year was 14.5 per cent. Comparing annual averages, however, the rise was 16.4 per cent in 1970 and 20.9 per cent in 1969. The main factors responsible for the rise were wage increases in the private sector, higher world prices for meat, edible oils and coffee, and rate increases for public services.

The main countervailing factors were the stability of the exchange rate and the ample supply of foodstuffs. The over-all increase of 20.9 per cent comprised increases of 14.6 per cent for foodstuffs, 36.1 per cent for clothing, 26.7 per cent for housing and 23.5 per cent for miscellaneous items. Although the increase under the head of foodstuffs was less than for the other items it carries the most weight in the totals, and the rise reflects price increases for edible oils (43 per cent), sugar (42 per cent) beef (27 per cent) and milk (22 per cent). The over-all

Table 6

URUGUAY: INCOME, EXPENDITURE AND FINANCING OF THE CENTRAL GOVERNMENT DEFICIT IN CASH RESERVES, 1970

(Millions of pesos)

	Operational and subsidy funds	National investment fund	Total
<u>Income</u>			<u>83 927</u>
<u>Operational and Subsidy Funds</u>	<u>79 788</u>		<u>79 788</u>
Treasury	75 430		
Revenue earmarked for specific purposes	4 358		
<u>National Investment Fund</u>		<u>4 139</u>	<u>4 139</u>
Revenue earmarked for specific Ministry of Public Works projects		3 604	
Ministry of Public Works' own resources		535	
<u>Expenditure</u>			<u>95 025</u>
<u>Operational and Subsidy Funds</u>	<u>85 696</u>		<u>85 696</u>
Remuneration for personal services	57 546		
Remuneration for other than personal services	14 185		
Subsidies	4 760		
Revenue earmarked for specific purposes	4 511		
Service payments on the public debt	4 694		
<u>National Investment Fund</u>		<u>9 329</u>	<u>9 329</u>
Investment by Ministry of Public Works		5 299	
Investment by Ministry of Economic Affairs and Finance		615	
Other investment by the Fund		1 504	
Service payments on the public debt		746	
Investment with external resources		1 165	
<u>Financial deficit</u>	<u>-5 908</u>	<u>-5 190</u>	<u>-11 098</u>
<u>Financing of the deficit</u>	<u>5 908</u>	<u>5 190</u>	<u>11 098</u>
Net credit of the monetary authorities	2 527	930	3 457
Net sale of Treasury bonds	-	3 011	3 011
Net sale of Treasury bills	2 842	-	2 842
Variations in Treasury balance	602	89	691
Net external resources	-	1 165	1 165
Variations in balance of cheques in process of negotiation	-63	-7	-70
Sale public debt	-	2	2

Source: National Accounting Office.

Table 7

URUGUAY: FACTORS EXPLAINING THE MONETARY LIABILITIES OF THE CONSOLIDATED BANKING SYSTEM

(Thousands of millions of pesos)

	Balances at the end of:		Variations 1970
	December 1969	December 1970 ^{a/}	
<u>Net international reserves</u>	<u>-1.9</u>	<u>-10.1</u>	<u>-8.2</u>
<u>Net domestic credit</u>	<u>100.0</u>	<u>126.3</u>	<u>26.3</u>
Net credit to the public sector	22.4	23.9	1.5
Net rights with official banks	-1.2	-2.3	-1.1
Credit to the private sector	56.6	81.4	24.8
Contraction resulting from long-term external credit	-8.0	-9.5	-1.5
Other assets and liabilities accounts ^{b/}	30.2	32.8	2.6
<u>Monetary liabilities</u>	<u>98.1</u>	<u>116.2</u>	<u>18.1</u>

Source: Banco Central del Uruguay.

^{a/} Figures subject to revision.

^{b/} Including special drawing rights with contracting effect.

/wholesale price

wholesale price index rose by 17.8 per cent between December 1969 and December 1970 (in the preceding period it had risen by 7.3 per cent), with the price of manufactures rising by 17.5 per cent and that of agricultural commodities by 18.6 per cent. One of the main factors in this increase - in the view of the Economic Research Department of the Central Bank - was the reduction in profit margins. Margins in 1969 were larger and hence cost increases could be absorbed without affecting prices; but in 1970 they were too small to do so and consequently prices reflected increases in wages, the cost of raw materials and rates for public services. The products responsible for the largest increases were foodstuffs, petroleum products, electric power, paper products and printing and metallurgical products.

According to preliminary estimates prepared by the Statistics and Census Office, wages increased by 17.8 per cent. Private sector wages rose by 19.3 per cent and public sector wages by 14.7 per cent. In real terms, comparing the averages for 1969 and 1970, private sector wages increased by 0.1 per cent and public sector wages fell by 2.7 per cent; between December 1969 and December 1970, however, wages in both sectors fell by 1.3 and 5.2 per cent, respectively.

5. The external sector

The value of imports of goods and services, which reached the highest figure in ten years, totalled 283 million dollars, 18.4 per cent up on 1969 and 68 per cent higher than in 1965 (see table 8). As regards merchandise imports, the increase was chiefly due to the needs of domestic production activities and only in a lesser degree to increases in the prices of imported raw materials. The unit value index of imports, taking 1960 as the base year at 100, was 106 and 109 in 1970. Fuels and lubricants accounted for 33.7 million dollars of the total, raw materials and construction materials for 98.5 million, motor vehicles and machinery for 62.9 million and other products for 38 million.

/Table 8

Table 8

URUGUAY: BALANCE OF PAYMENTS, 1960-1970

(Millions of dollars)

	1960	1965	1968	1969	1970
a) Current account					
Exports of goods and services	171.2	252.5	238.7	262.0	286.0
Goods fob	129.4	196.3	179.2	201.0	228.0
Services	41.8	56.2	59.5	61.0	58.0
Imports of goods and services	-239.8	-168.3	-207.0	-239.0	-283.0
Goods fob	-187.9	-123.1	-142.6	-176.0	-209.0
Services	-51.9	-45.2	-64.4	-63.0	-74.0
Net external investment income	-6.6	-15.4	-24.7	-23.1	-22.5
Net private transfer payments	-0.3	-0.6	0.5	0.5	0.5
Balance on current account	-75.5	68.2	7.5	0.4	-19.0
b) Capital account					
Net external financing (a+b+c+d)	75.5	-68.2	-7.5	-0.4	19.0
a) External non-compensatory capital	25.7	-1.5	51.5	33.1	-6.3
Direct investment	5.8	...	...	...
Long- and medium-term loans	11.9	11.5	39.2	27.3	
Amortization payments	-5.5	-23.8	-12.9	-14.8	
Short-term liabilities	12.4	7.0	10.7	20.6	
Official transfer payments	1.1	3.8	14.5	...	-13.6
b) Domestic non-compensatory capital or assets	10.4	-0.5	-1.3	-3.9	
c) Errors and omissions	11.5	-80.4	-22.7	-13.6	
d) Compensatory movements (increase -)	27.9	14.2	-35.0	-16.0	25.3
Balance-of-payments loans, trade arrears, deferred payments, IMF position and other liabilities of the monetary authorities	32.1	58.0	29.5	1.8	...
Amortization payments	-0.5	-47.5	-45.5	-15.1	...
Movements of gold and foreign exchange reserves (increase -)	-3.7	3.7	-19.0	-2.7	...

Source: IMF, Balance of Payments Yearbook, vols. 17 and 22.

/The value

The value of exports of goods and services was 286 million dollars in 1970, 9.2 per cent up on 1969 and 13.3 per cent higher than the average for the period 1964-1968. As regards merchandise exports, the greatest increase came in meat, exports of which rose from 62.1 million dollars in 1969 to 86.7 million in 1970. Other important export items were wool, earning 77.6 million dollars, and hides and bristles, earning 24 million. Favourable prices for meat offset the decline in income from wool, and the unit value index of exports, taking 1960 as the base year at 100, was 100 in 1969 and 103 in 1970. In the balance of payments, the current account showed a deficit of 19 million dollars.

At the end of 1970, the net international reserves of the monetary authorities amounted to 32.4 million dollars, a decrease of 26.3 million compared with the position at the end of 1969. During the first five months of 1970, reserves were accumulated and by May amounted to 96 million dollars, thus enabling the Central Bank to meet its external liabilities out of its own resources. But by November reserves had shrunk to 30.2 million dollars. Accordingly, in the latter half of the year, external credit was called upon and arrangements were made to postpone some repayments.

/VENEZUELA

VENEZUELA

1. Recent economic trends

In 1970, Venezuela stepped up its economic growth rate. According to preliminary data, the gross domestic product rose by 6.7 per cent, a substantial improvement over 1969 (3.5 per cent) and the average for 1965-68 (3.9 per cent).

One of the most dynamic of the main productive sectors was the goods producing industries, which registered an over-all expansion of 5.9 per cent. Agriculture grew 5 per cent, mining (including petroleum) 4.1 per cent, and manufacturing 7.5 per cent. Construction made a remarkable recovery after the recession it suffered in 1969, with a growth rate of 14.4 per cent. Basic services were up by 6.9 per cent, thanks to the expansion of transport and communications and to the upward trend of electricity, gas and water production. (See table 1.)

The fastest growing components of internal demand, which expanded somewhat more rapidly than in 1969, were investment in construction and private consumption, which increased by 14.3 per cent and 7.3 per cent respectively. (See table 2.)

Calculated at current prices, the value of imports rose faster than that of exports and thus led to a bigger deficit on current account. In spite of this, however, the larger net inflow of non-compensatory capital compared with the previous year was responsible for boosting the balance-of-payments surplus to 88 million dollars. (See table 4.)

As regards prices, the cost-of-living index had risen 1.5 per cent by November 1970, less than for the same period in 1969. For the first ten months of the year, the wholesale price index showed an increase of 1.9 per cent, which was 0.4 per cent more than the year before.

Table 1

VENEZUELA: GROSS DOMESTIC PRODUCT, BY SECTOR OF ECONOMIC ACTIVITY

Sector	Millions of bolívers at 1960 prices				Percentage share			Annual growth rate		
	1965	1968	1969	1970a/	1965	1968	1969	1965-1968	1969	1970a/1970a/
Agriculture	2 180	2 515	2 594	2 724	6.5	6.6	6.6	4.9	3.1	5.0
Mining b/	7 867	8 114	8 148	8 483	23.3	21.4	20.7	1.0	0.4	4.1
Manufacturing	3 877	4 397	4 612	4 958	11.5	11.6	11.7	4.3	4.9	7.5
Construction	859	1 135	1 098	1 256	2.5	3.0	2.8	9.7	-3.4	14.4
Subtotal, goods	14 783	16 161	16 452	17 421	43.8	42.6	41.8	3.0	1.8	5.9
Electricity, gas and water	682	962	1 060	1 152	2.0	2.5	2.7	12.2	10.2	8.7
Transport and communications	1 188	1 369	1 375	1 452	3.5	3.6	3.5	4.8	0.4	5.6
Subtotal basic services	1 870	2 331	2 435	2 604	5.5	6.1	6.2	7.6	4.5	6.2
Commerce and finance	4 507	5 241	5 371	5 688	13.4	13.8	13.7	5.2	2.5	5.9
Government	2 869	3 453	3 522	...	8.5	9.1	9.0	6.4	2.0	...
Ownership of dwellings	2 380	2 830	2 962	...	7.1	7.5	7.5	6.0	4.7	...
Miscellaneous services	7 333	7 926	8 578	...	21.7	20.9	21.8	2.6	8.2	...
Subtotal other services	17 089	19 450	20 433	21 503	50.7	51.3	52.0	4.4	5.1	5.2
Total	34 014	38 122	39 460	41 867	100.0	100.0	100.0	3.9	3.5	6.1

Sources: For 1965 to 1969, ECLA estimates based on official Central Bank statistics; for 1970, ECLA estimates based on preliminary data supplied by Central Office for Planning and Coordination (CORDIPLAN).

N. B. Owing to the general practice of calculating the individual activities and the total independently, the sum of the former do not necessarily correspond exactly to the latter.

a/ Preliminary figures.

b/ Including the entire petroleum sector.

Table 2

VENEZUELA: TOTAL SUPPLY AND DEMAND

	Millions of bolivares at 1960 prices				Percentage structure			Annual growth rates		
	1965	1968	1969	1970a/	1965	1968	1969	1970a/	1969	1970a/
<u>Total supply</u>	41 523	46 952	48 337	51 178	113.6	114.6	114.0	113.8	4.2	2.2
Gross domestic product	36 548	40 962	42 400	44 987	100.0	100.0	100.0	100.0	3.9	3.5
Imports b/	4 975	5 993	5 937	6 191	13.6	14.6	14.0	13.8	6.4	-0.9
<u>Total demand</u>	41 523	46 952	48 337	51 178	113.6	114.6	114.0	113.8	4.2	2.2
Exports b/	10 039	10 693	10 630	11 042	27.5	26.1	25.1	24.5	2.1	-0.6
<u>Total investment</u>	6 386	7 758	7 363	7 781	17.4	18.2	17.4	17.3	6.7	-5.2
Gross fixed investment	5 433	6 590	6 540	7 181	14.9	16.1	15.4	16.0	6.6	-0.8
Public	1 617	2 606	2 402	...	4.4	6.4	5.7	...	17.2	-7.8
Private	3 816	3 984	4 138	...	10.4	9.7	9.8	...	1.4	3.9
Construction	3 657	4 711	4 642	5 306	10.0	11.5	10.9	11.8	8.8	-1.5
Machinery and equipment	1 776	1 879	1 898	1 875	4.8	4.6	4.5	4.2	1.9	1.0
<u>Total consumption</u>	25 098	28 504	30 344	32 354	68.7	69.6	71.6	71.9	4.3	6.5
General government	4 578	5 638	5 975	6 214	12.5	13.8	14.1	13.8	7.2	6.0
Private	20 520	22 866	24 369	26 140	56.1	55.8	57.5	58.1	3.7	6.6

Source: 1965-1969: ECLA, on the basis of data supplied by the Central Bank of Venezuela; 1970: ECLA estimates.

a/ Preliminary.

b/ Goods and services, excluding factor payments.

2. Major sectors of production

According to preliminary estimates, agricultural production rose by about 5 per cent in 1970, which was an improvement over the 3.1 per cent growth rate of 1969 and roughly equal to the average for 1965-68. The most significant increase was in the crop production (over 6 per cent); though great strides were made in the production of textile materials and oilseeds, which soared nearly 30 per cent (sesame, the most important product in this group, was up by 51 per cent); production of green vegetables was slightly over 16 per cent higher and tobacco about 25 per cent. There was also a big improvement in other crops, such as rice and sugar-cane. The livestock industry expanded by around 5 per cent, corresponding to a growth rate of 5.5 per cent in the production of beef cattle, 2 per cent in that of pigs, and approximately 8 per cent in that of poultry. Milk output was up by 4.5 per cent and fish production rose by about 4 per cent to around 140,000 tons.

The output of the mining and petroleum sector increased 4.1 per cent in 1970, after remaining stationary in 1969 and registering only a low average growth between 1965 and 1968. (See table 1.)

Some 1,352.5 million barrels of crude petroleum were extracted, 3.1 per cent more than in 1969. The improvement was due partly to the growing demand for Venezuelan crude petroleum, particularly from European countries which purchased less than usual from their traditional sources of supply as a result of technical problems and rising prices (the trans-Arabian pipeline was out of commission for six months while it was being repaired and the Libyan Government imposed restrictions on production so as to push up prices), and partly to the increase in United States import quotas of crude petroleum and petroleum products that came into effect in the second half of the year.

Extraction of iron ore continued to grow, though much more slowly than in 1969 (12.6 per cent as opposed to 25.6 per cent). The continued expansion is attributable partly to high world prices and partly to the widening of Venezuela's market for this product, which it now sells to Belgium, Luxembourg, France, Czechoslovakia and Japan.

In the manufacturing sector, production was up by 7.5 per cent, compared with 4.9 per cent in 1969 and an average of 4.3 for 1965-68. The intermediate goods industries were the fastest growing (10.7 per cent higher than in 1969), owing largely to increases of between 12 and 15 per cent in the basic metal industries and in petroleum products and chemicals production. The growth rate of the metal-transforming industries was 5.3 per cent and that of the traditional industries 5.2 per cent.

After a recession in 1969, construction made an excellent recovery, with an estimated growth rate of 14 per cent - better than the average for 1965-68. The private sector was largely responsible for this trend, since it expanded by an estimated 16 per cent.

The basic services sector grew by about 7 per cent. Production of electricity, gas and water was up 8.7 per cent, and transport and communication 5.6 per cent. The remaining sectors (commerce and finance, government, housing and "other services") also registered an estimated average growth rate of 5.2 per cent over 1969.

3. Total supply and demand

The total supply of goods and services in 1970 was about 6 per cent higher than in 1969, and which was better than the growth rate for that year (2.9 per cent) and than the average for 1965-68 (4.2 per cent). The expansion of domestic production and the somewhat slower growth of imports were mainly responsible for the over-all growth of supply.

As regards demand, exports rose by about 4 per cent, total investment by 5.7 per cent and consumption by 6.6 per cent. (See table 2.)

The improvement in the investment rate was due to the high level of constructional activity. Demand for machinery and equipment, on the other hand, is thought to have fallen off slightly.

Total consumption was up by 6.6 per cent, with central government consumption increasing somewhat more slowly (4 per cent) than that of the private sector (7.3 per cent).

/4. Fiscal

4. Fiscal situation

Between January and September 1970, total central government income amounted to 7,972 million bolivars, almost the same as for the corresponding period in 1969, 7,968 million bolivars. (See table 3.) As in the past, the main source of government income was ordinary revenue which increased by 8.8 per cent to constitute 87 per cent of the total. Among the various items of tax revenue, the most important factor in this upward trend was the increase in income tax and, among the non-tax items, the income from the petroleum sector. Extraordinary income soared to 1,064 million bolivars and was made up as follows: (a) external loans (475 million); (b) sale of short- and medium-term Treasury bills (438 million); and (c) sale of domestic bonds (151 million).

Total central government expenditure up to September 1970 amounted to 7,939 million bolivars, 1.3 per cent higher than for the same period the previous year. Whereas current expenditure rose 10 per cent as a result of additional purchases of goods and services (13 per cent) and, to a lesser degree, higher current transfer payments (5 per cent), capital expenditure dropped by around 11 per cent.

Since total income stayed at the same level, the slight rise in expenditure caused the fiscal surplus for January to September to drop, in real terms, from 130 million bolivars in 1969 to 33 million in 1970.

5. External sector and balance of payments

Exports of goods and services rose by 1.6 per cent to a value of 2,731 million dollars in 1970, while the corresponding imports rose about 7 per cent to 2,320 million dollars. Net remittances of profits and interest on foreign capital, along with private transfer payments, stayed at roughly the same level as the previous year, i.e., around 690 million and 80 million dollars respectively. Consequently, the deficit on current account for 1970 was 362 million dollars, 109 million more than in 1969. (See table 4.)

Table 3

VENEZUELA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE, JANUARY TO SEPTEMBER 1969 AND 1970

	1969	1970	Variation between 1969 and 1970 (percentages)
	Millions of bolívars		
<u>Total income</u>	7 968.35	7 972.37	0.1
Ordinary income	6 948.65	6 908.48	8.8
Extraordinary income ^{a/}	1 619.70	1 063.89	34.3
<u>Total expenditure</u>	7 837.86	7 939.05	1.3
Current expenditure	4 483.92	4 936.15	10.1
Purchases of goods and services	2 778.50	3 150.41	13.4
Current transfer payments	1 705.42	1 785.74	4.7
Capital expenditure	3 353.94	3 002.90	10.5
<u>Surplus</u>	130.49	33.32	74.5

Sources: Banco Central de Venezuela, Boletín Mensual.

^{a/} Including short-term Treasury bills.

/Table 4

Table 4

VENEZUELA: BALANCE OF PAYMENTS, 1960-1970

(Millions of dollars)

	1960	1965	1968	1969	1970
a) Current account					
Exports of goods and services	2 509	2 587	2 697	2 689	2 731
Goods fob	2 384	2 482	2 537	2 523	2 554
Services	125	105	160	166	177
Imports of goods and services	-1 505	-1 777	-2 141	-2 173	-2 320
Goods fob	-1 145	-1 354	-1 584	-1 629	-1 746
Services	-360	-423	-557	-544	-574
Net external investment income	-522	-705	-705	-689	-691
Net private transfer payments	-88	-69	-76	-80	-82
Balance on current account	394	36	-225	-253	-362
b) Capital account					
Net external financing (a+b+c+d)	-394	-36	225	253	362
a) External non-compensatory capital	-332	113	229	226	450
Direct investment	-126	-12	127	80	
Long- and medium-term loans	18	101	133	151	
Amortization payments	-213	-21	-39	-30	
Short-term liabilities	-12	46	11	31	
Official transfer payments	1	-1	-3	-6	
b) Domestic non-compensatory capital or assets	-18	-72	-9	137	-88
c) Errors and omissions	-354	-83	55	-99	
d) Compensatory movements (increase -)	310	6	-50	-11	
Balance-of-payments loans, trade arrears, deferred payments, IMF position and other liabilities of the monetary authorities	300	32	-	-	
Amortization payments	-105	-15	-	-2	...
Movements of gold and foreign exchange reserves (increase -)	115	-11	-50	-9	...

Source: IMF, Balance of Payments Yearbook, vols. 17 and 22.

The small increase in value of exported goods stemmed mainly from the further decline in their unit value, particularly in the case of petroleum and petroleum products where it fell by over 2 per cent. The actual volume of exported goods rose by 3.7 per cent, the largest increase being in exports of petroleum products (10.7 per cent), made up as follows: residual fuel, 7.9 per cent; gasoline, 21.9 per cent; diesel oil, 18.8 per cent; asphalt, 13 per cent. Exports of iron ore were up 10.6 per cent, from 18.9 million to 20.9 million tons.

The value of imports of goods rose from 1,629 million dollars in 1969 to 1,746 million dollars in 1970 (slightly over 7 per cent) while expenditure on services increased by 5.5 per cent, so that it more or less maintained its fairly high ratio to imports of goods (33 per cent).

Thanks to the substantially higher net inflow of non-compensatory capital, which rose from 264 million dollars in 1969 to 450 million in 1970, the balance of payments showed a surplus of 88 million dollars, including 42 million dollars in special drawing rights.

The Central Bank's foreign exchange reserves at the end of the year moved up from 930 million dollars in 1969 to 993 million in 1970.

