

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

**ECONOMIC SURVEY  
OF LATIN AMERICA  
AND THE CARIBBEAN  
1982**



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# CONTENT

## Part One

### THE EVOLUTION OF THE LATIN AMERICAN ECONOMY IN 1982

I. THE INTERNATIONAL SETTING .....	1
1. The world recession .....	1
2. Stabilization policies and recession in the centre .....	5
3. External disequilibrium and recession in the periphery .....	8
II. MAIN TRENDS .....	14
III. ECONOMIC GROWTH .....	17
1. The growth rate .....	17
2. Total supply and demand .....	23
IV. EMPLOYMENT AND UNEMPLOYMENT .....	23
V. INFLATION AND WAGES .....	31
1. Inflation .....	31
2. Wages .....	36
VI. THE EXTERNAL SECTOR .....	42
1. Foreign trade .....	42
2. The balance of payments .....	49
3. The external debt .....	55

## Part Two

### EXCHANGE POLICIES AND THE PROCESS OF RENEGOTIATION

I. EXCHANGE POLICIES .....	61
1. Devaluation .....	62
2. Modification of exchange systems .....	64
3. Causes of exchange instability .....	70
II. THE PROCESS OF RENEGOTIATION OF FOREIGN DEBT .....	74
1. The general mechanics of rescheduling .....	74

### Part Three

#### THE ECONOMIC EVOLUTION OF THE INDIVIDUAL COUNTRIES

Argentina .....	87
Bolivia .....	111
Brazil .....	151
Colombia .....	189
Costa Rica .....	219
Cuba .....	243
Chile .....	271
Ecuador .....	307
El Salvador .....	335
Guatemala .....	357
Haiti .....	379
Honduras .....	395
Mexico .....	419
Nicaragua .....	457
Panama .....	479
Paraguay .....	495
Peru .....	549
Dominican Republic .....	591
Uruguay .....	611
Venezuela .....	633

#### Notes and explanation of symbols

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

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

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

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

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

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

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

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

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

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

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

**PART ONE**

**THE EVOLUTION OF THE LATIN AMERICAN  
ECONOMY IN 1982**

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## Part One

### THE EVOLUTION OF THE LATIN AMERICAN ECONOMY IN 1982

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In 1982, Latin America suffered an economic crisis that was the most serious of the entire postwar period and probably the most serious since the Great Depression of the 1930s. As will be seen later on, in most of the countries of the region, this crisis was reflected in the deterioration of almost all the main macroeconomic variables. Thus, in 1982 the total product of Latin America fell by almost 1% and the per capita product also fell, for the second year in a row. There is no precedent for either situation in the preceding four decades.

The crisis in the region came at the climax of the most serious recession suffered by the industrialized economies in almost half a century; it would therefore appear that in 1981, and particularly in 1982, the economic evolution of Latin America was seriously limited by external circumstances. In some countries, the slowdown of economic activity was also due to internal factors such as the inadequate management of exchange and fiscal policies or serious social and political conflicts. Nonetheless, the external limitations caused by the international recession considerably held back economic progress throughout the region. Therefore, before a detailed analysis is made of the trends in the Latin American economy in 1982, it is advisable to take at least a brief look at the most important changes which occurred on the world economic scene during that year.

#### I. THE INTERNATIONAL SETTING

##### 1. The world recession

The year 1982 marked the culmination of the most severe and prolonged recession to have hit the world economy during the entire postwar period. In that year, the world product—the growth rate of which had been falling for the previous five years—came to an almost complete standstill. Moreover, economic activity fell slightly in both the market-economy, industrialized countries and the developing countries, something which had never occurred simultaneously in the two groups of countries since the end of the Second World War. In the centrally planned economies, although the material product rose by 2.5%, this increase was the lowest of the last thirty years, with the sole exception of 1981. Only in the countries of South-East Asia did economic activity grow at a relatively satisfactory rate, and even there the growth rate was lower than in previous years (see table 1).

The fact that the recession was so widespread was to a large extent a reflection of the close commercial and financial interdependency of the various components of the world economy, which tends to facilitate the transmittal of cyclical trends towards growth or contraction from one region to another. In 1982, the recessive wave which originated in the industrial economies spread to the periphery both through international trade and through net capital flows. The volume of the trade in goods, which had only increased by 2% in 1980 and completely stagnated in 1981, fell by around 2% in 1982 (see table 2). At the same time, prices of almost all commodities fell sharply, thus accentuating the considerable decline they had suffered in 1981 (see table 3).

The effect of these changes in hampering the development of the economies of the periphery was reinforced by the persistence of unusually high interest rates on the international financial markets—which contributed to the sharp rise in the service of the external debt—and by the abrupt contraction of total net capital inflows to the developing countries.

The decline of world trade and the unfavourable trends with regard to the amount and cost of international financing were the external factors that most contributed towards accentuating the

Table 1  
**WORLD: GROSS DOMESTIC PRODUCT**  
 (Growth rates)

	1971-1973	1974	1975	1976-1979	1980	1981	1982 <sup>a</sup>
<b>World</b>	5.5	2.0	0.6	4.3	2.1	1.4	0.2
Developed market economies <sup>b</sup>	5.0	0.2	-1.2	4.1	1.5	1.3	-0.3
Developing countries <sup>c</sup>	6.2	5.8	3.6	4.9	2.9	0.7	-0.7
By group							
Capital surplus countries <sup>d</sup>	...	...	...	2.2	-7.4	-8.3	-7.4
Other energy-exporting countries	...	...	...	6.4	6.7	4.1	0.1
Energy-importing countries	...	...	...	5.0	4.1	1.6	0.9
By region							
Africa	...	...	...	6.0	4.7	1.4	...
Southern and eastern Asia	...	...	...	5.9	4.8	6.3	4.0
Western Asia	...	...	...	1.4	-6.3	-7.9	...
Latin America	7.3	7.3	3.8	5.5	5.9	1.5	-0.9
Centrally planned economies <sup>e</sup>	6.6	6.3	5.4	5.0	3.5	2.2	2.5

Source: United Nations Department of International Economic and Social Affairs, on the basis of official information, and OECD, *Economic Outlook*, December 1982.

<sup>a</sup> Preliminary figures.

<sup>b</sup> North America, southern and western Europe (except Cyprus, Malta, Yugoslavia), Australia, Japan, New Zealand and South Africa.

<sup>c</sup> Latin America and the Caribbean, Africa (except South Africa), Asia (except Japan) and Cyprus, Malta and Yugoslavia.

<sup>d</sup> Saudi Arabia, Brunei, United Arab Emirates, Iran, Iraq, Libyan Arab Jamahiriya, Kuwait and Qatar.

<sup>e</sup> Data measured according to net material product concept. Countries comprise China, Eastern Europe and the Union of Soviet Socialist Republics.

Table 2  
**WORLD: EVOLUTION OF TRADE BY VOLUME**  
 (Growth rates)

	1963-1972	1973	1974	1975	1976-1979	1980	1981	1982
<b>World trade</b>								
Volume	8.5	12.5	4.5	-4.0	7.0	2.0	-	-2.0
<b>Volume of exports</b>								
Industrialized countries	9.0	13.2	7.1	-4.6	7.1	4.6	2.6	-1.5
Developing countries								
Oil-exporting countries	9.1	14.8	-0.9	-11.5	3.5	-12.9	-16.2	-10.0
Non-oil-exporting countries	6.7	8.9	-0.1	-0.5	8.8	5.6	3.9	1.0
<b>Volume of imports</b>								
Industrialized countries	9.0	12.1	0.7	-8.1	7.9	-1.3	-2.3	-1.0
Developing countries								
Oil-exporting countries	8.3	20.3	38.5	41.4	7.1	14.4	19.4	2.0
Non-oil-exporting countries	6.2	11.6	7.5	-4.4	7.4	3.9	2.2	-3.0

Source: IMF, *Annual Report*, 1982 and *International Financial Statistics*; OECD, *Economic Outlook*, December 1982; United Nations Department of International Economic and Social Affairs and Gatt, *Press Release* No. 1333, 4 March 1983.



Table 3  
WORLD: EVOLUTION OF TRADE BY PRICES

	(Growth rates)							
	1963-1972	1973	1974	1975	1976-1979	1980	1981	1982 <sup>a</sup>
<b>Unit value of exports</b>								
Developed countries	2.9	20.0	25.0	10.0	9.2	12.7	-3.7	-3.0
Developing countries								
Oil-exporting countries	3.4	38.1	227.6	5.3	13.8	67.3	11.7	-6.0
Non-oil-exporting countries	2.0	33.9	36.0	-2.0	10.3	15.1	-5.0	-8.0
<b>Prices of major groups of products</b>								
Manufactures	3.0	17.7	21.8	12.3	12.7	11.0	-5.0	-3.0
Petroleum	3.0	40.0	225.8	5.1	16.1	61.9	10.1	-3.0
Non-oil commodity index	2.5	53.2	28.0	-18.2	12.0	9.7	-14.8	-12.0
Foods	...	...	...	...	...	34.1	-13.8	-21.0
Beverages	...	...	...	...	...	-12.2	-22.2	3.0
Agricultural raw materials	...	...	...	...	...	4.1	-9.8	-14.0
Metals	...	...	...	...	...	10.7	-13.8	-9.0
<b>Terms of trade</b>								
Developed countries	0.3	-1.6	-11.9	2.7	-0.5	-8.7	-1.0	3.0
Developing countries								
Oil-exporting countries	0.5	11.8	138.4	-5.4	6.1	44.6	11.5	-3.0
Non-oil-exporting countries	-	6.1	-5.6	-9.0	1.9	-10.8	-5.4	-5.0

Source: IMF, *International Financial Statistics*, OECD, *Economic Outlook*, December 1982, and United Nations Department of International Economic and Social Affairs.

<sup>a</sup>Preliminary figures.

economic slowdown of the periphery in 1982; nevertheless, the origin of the current international crisis is to be found in the widely differing economic policies adopted by the industrialized countries and by the developing economies after the second series of oil price increases which began in 1979. While the industrialized countries adopted restrictive policies with a view to controlling inflation, most of the developing countries tried to maintain their economic growth rate.

Under normal circumstances, the two objectives would be incompatible since, with a recession in the central economies, it would be difficult for the periphery to maintain a high rate of economic growth for long without suffering from serious external disequilibria or growing inflationary pressures. Nevertheless, during the international crisis of 1974-1975, the peripheral economies were relatively successful in avoiding the impact of the recession in the industrialized countries; whereas in the latter, the absolute *level* of economic activity slowed down, in the developing countries only the *rate* of economic growth slowed down during the same period (see table 1).

Nevertheless, this relative autonomy of the economic evolution of the periphery with respect to that of the industrialized economies was only made possible by three special circumstances. The first was the extraordinary growth of international liquidity which followed upon the first series of oil price increases; the second was the relatively low —at that time— external indebtedness of most of the developing economies, and the third was the relatively moderate rate of inflation prevailing in a good number of these economies at that time.

Under such circumstances, many of the developing countries were able to offset the contractive effect of the recession in the central economies with growth-oriented domestic policies financed by considerably increasing the external debt. Subsequently, the volume of exports from the periphery increased as economic activity in the centres recovered and the economies of the oil-exporting countries improved; this, in turn, helped the non-oil-exporting developing economies keep their current-account deficits under control.

The sudden rise in the international prices of oil in 1979 initially led the countries of both the centre and the periphery to apply economic policies similar to those they had applied during the crisis of 1974-1975. Here again, however, there were differences both in the initial situations of the

different countries and in the intensity and persistence of their efforts to meet certain objectives; in the long run, these differences were decisive in leading to a wide variety of results.

Not only did the countries of the Organization for Economic Co-operation and Development (OECD) have a much higher inflation rate in 1979 than in 1973, but for the seventh year in a row they had a much higher rate of inflation than what had been considered normal for them up to 1972. Under such circumstances, most of the governments of the industrialized countries —fearing that the expectation of high inflation was becoming permanently ingrained in the operation of their economies— gave maximum priority to stabilization policies, despite the fact that they also had consistently and abnormally high unemployment rates.

The prospects for the countries of the periphery being able to offset the fall of external demand by applying growth-oriented policies were also much lower after 1979 than they had been in 1974-1975, inasmuch as inflation had accelerated considerably in all of them and both their external indebtedness and the interest rates prevailing on the financial markets had risen substantially. Consequently, when the second series of oil price increases began, the developing countries had much less manoeuvring room than they had had during the international recession of the mid-1970s.

Nevertheless, in 1980 the flow of capital to the periphery increased substantially; thus, the growth rate of the energy-importing developing countries only fell slightly during that year. Over the next two years, however, as the recession in the central economies worsened, and as the external indebtedness margins of many oil-importing countries reached their limits, many of these countries had to begin to apply restrictive policies aimed at reducing their growing external disequilibrium or alleviating their inflationary processes.

Table 4

BALANCE OF-PAYMENTS CURRENT ACCOUNT POSITIONS

(Billions of dollars)

	1973	1974	1976	1978	1979	1980	1981	1982 <sup>a</sup>
Industrialized countries	17.7	-13.9	-2.2	32.7	-5.6	-40.1	0.6	-1.2
Developing countries								
Oil-exporting countries	6.7	68.3	40.3	2.2	68.6	114.3	65.0	-2.2
Non-oil-exporting countries	-11.6	-37.0	-32.0	-41.3	-61.0	-89.0	-107.7	-86.8

Source: IMF, *Annual Report* 1982, OECD, *Economic Outlook*, December 1982, and ECLA estimates.

<sup>a</sup>Preliminary estimates.

Thus, the year 1982 was characterized by the widespread application of restrictive policies which, in the central countries, were mainly aimed at combating inflation and, in the peripheral economies, were mainly aimed at reducing the deficit on current account. On both fronts, significant results were obtained: the average rate of inflation in the OECD countries fell from almost 13% in 1980 to 8% in 1982 and the negative balance on current account of the non-oil-exporting developing countries was reduced by over US\$ 20 billion (see table 4). Nevertheless, these results went hand-in-hand with serious recessions in both groups of countries that were aggravated by the simultaneous application of restrictive measures in both groups. Economic activity in the developing economies suffered as the anti-inflationary policies and protectionist measures applied by the central countries made it increasingly difficult to expand the volume of exports. At the same time, according to OECD estimates, the decline of imports in the developing countries (brought about by the policies applied by them in order to reduce their external disequilibrium) contributed to the 0.5% drop in the overall product of the industrialized economies.

The simultaneous application of restrictive policies in the central economies and in the developing countries raised the cost (in terms of recession) of reducing inflation in the former and of reducing the external disequilibrium in the latter. In addition, it generated negative expectations with respect to economic growth and involved the risk of creating a crisis of liquidity in the international financial system.

## 2. Stabilization policies and recession in the centre

The most important economic characteristic of the central countries in 1982 was the length and seriousness of the recession, which nullified the forecasts of recovery that had been made in 1981.

This circumstance was closely related to the high priority which the central economies attached to controlling inflation and, especially, to the means they used to do so. As mentioned above, after the second oil price crisis, the industrialized countries attached great importance to their stabilization policies, inasmuch as the 1979 oil price increase came on top of inflation rates which, in some cases, had risen to over 10% per year.

They chose, however, to fight inflation almost entirely by means of monetary controls. Since the OECD economies had built-in expectations of a high and persistent inflation, and since the stabilization programmes neglected or did not fully use price and income policies, the initial effect of the abrupt halt in monetary expansion was felt mainly at the level of economic activity—in terms of recession and unemployment—and not in the rate of increase of prices. Because the emphasis was placed almost entirely on monetary policies, recession—although an awkward and costly tool—turned out to be the main recourse used to break down inflationary expectations. In fact, in the OECD countries as a whole, the growth rate of the product fell from around 4% in 1979 to a little over 1% in 1981, while during the same period the average rate of unemployment rose from 5% to almost 7%.

Nonetheless, as 1982 began, it was obvious that inflation had begun to give way and that there was a growing acceptance of the monetary policies applied by the United States Federal Reserve system. Under such circumstances, the expectations were—and most forecasts seemed to confirm—that 1982 would be the year when the industrialized economies would begin to recover.

Unfortunately, recovery was delayed time and again. In July 1981, for example, the OECD anticipated a recovery during the first half of 1982, whereas one year later it predicted that a recovery would occur during the second half of 1982.<sup>1</sup>

Both forecasts were wrong. As noted above, the overall product of the OECD countries in 1982 did not grow by 2%, as had been anticipated in July 1981, nor by 0.5%, as had been estimated as late as July 1982; in actual fact, economic activity in the industrialized countries fell slightly.

Interest rates, which in 1982 reached their highest levels, in real terms, since the 1930s, played a decisive role in this prolongation and aggravation of the recessive process (see table 5).

Thus, the need to reduce real interest rates became the central issue of economic policy in the industrialized countries, which recognized that recovery would be very difficult if interest rates remained so high. The consensus regarding the need to bring down interest rates was not reflected, however, in the efforts made to achieve this objective.

According to the most prevalent monetarist argument, interest rates remained high because of the expectations of high inflation in the United States to which that country's large fiscal deficit gave rise. Thus, according to this view, in order to reduce interest rates and facilitate recovery, it was essential to reduce the fiscal disequilibrium and follow a restrictive monetary policy.

Neo-Keynesian thought, on the other hand, saw the high interest rates as being caused not by the prevailing inflationary expectations—for the rate of increase of prices was falling sharply—but rather by the fact that expectations for recovery had been thwarted. According to this view, the main cause of the high interest rates was the prolonged and unexpected drop in sales: businesses were obliged to request loans in order to offset the diminishing cash flow caused by the recession. Consequently, the central problem was not so much to bring down inflationary expectations by reducing the fiscal deficit) but rather to fight the recession by applying a policy of fostering monetary expansion so as to help bring interest rates down.

As may be seen, the economic policy recommendations of the monetarists and those of the neo-Keynesians were clearly different, at least as far as the short term is considered. According to the monetarists, monetary expansion would raise interest rates because of its effect on inflationary expectations; what was needed was to reduce the deficit. On the other hand, the neo-Keynesians argued that interest rates would be brought down if the money supply was increased, since the heavy demand for credit was due to the low level of sales and not to inflationary expectations: the growth of liquidity would, basically, lead to an increase in production, given the high levels of idle capacity and

<sup>1</sup>See OECD, *Economic Outlook*, July 1981, and *Economic Outlook*, July 1982.

unemployment, and would not greatly affect prices. Once recovery had been achieved, and only then, the fiscal deficit would have to be reduced in order to avoid further inflation.

The monetarist view prevailed in the United States during the entire first half of 1982 and economic policy was directed not so much at fighting the recession as at warding off a possible rise in inflation. Consequently, towards the middle of the year, the annual rate of inflation in the United States had fallen below 3%, but real interest rates fluctuated around 12% and production was falling at an annual rate of almost 3.5%.

During the second half of 1982, however, the Federal Reserve system abruptly reversed its policy and increased the money supply at an annual rate of 13%. Contrary to the monetarists' predictions, and despite the growing fiscal deficit, inflation did not increase; instead, the nominal interest rate fell sharply, from 15% in June to 9.5% in December, and the real interest rate fell during that time from 12% to 6%. Although this rate was still very high in historic terms, the fact that it did fall encouraged construction activity and the sale of durable goods, and towards the end of 1982, the index of future indicators began to show signs of recovery.

Nevertheless, the duration and seriousness of the recessive process in the centre cannot be attributed only to the fact that the United States authorities had for a long time applied a monetary policy that was directed almost exclusively at fighting inflation; the application of restrictive policies in most of the other industrialized countries also had a great deal to do with it. In monetary matters, these other industrialized countries adopted a policy similar to that followed from October 1979 onwards by the United States Federal Reserve system: to set quantitative targets for monetary expansion and allow interest rates to be determined by the free market. As a result of this policy, between 1979 and the first or second quarter of 1982, interest rates reached abnormally high levels, and in almost all the OECD countries, the money supply rose at a lower rate than inflation (see table 6).

The contractive effect of this monetary policy was also reinforced (in every OECD country except the United States) by the fiscal policies followed, which were in fact restrictive. The figures in table 7 show that although the fiscal deficit rose between 1979 and 1982 in the main OECD economies, this increase was mainly due to the effect of so-called automatic stabilizers—which in a recession tend to generate a deficit on fiscal accounts because tax revenues fall and payments to the unemployed rise—and, to a lesser extent, to the increase in interest payments on the public debt. The discretionary decisions taken by the economic authorities tended, on the other hand, to *reduce* the fiscal deficit in all

Table 5

OECD: BASIC MACROECONOMIC INDICATORS

	1977-1979 (1971-1973)	1980-1981 (1974-1975)	1982 <sup>a</sup> (1976)
Gross domestic product <sup>b</sup>	4.2 (5.0)	1.3 (-0.5)	-0.5 (4.9)
Inflation <sup>c</sup>	8.3 (5.8)	11.3 (12.2)	8.0 (8.3)
Average unemployment rate	5.2 (3.4)	6.3 (4.4)	8.5 (5.3)
Interest rate <sup>d</sup>			
Nominal	8.2 (7.5)	14.7 (8.4)	13.5 (6.1)
Real <sup>e</sup>	-0.1 (1.6)	3.3 (-2.5)	5.1 (-2.0)

Source: United Nations Department of International Economic and Social Affairs; IMF, *International Financial Statistics*; OECD, *Economic Outlook*, December 1982.

<sup>a</sup> Preliminary estimates.

<sup>b</sup> Annual growth rate.

<sup>c</sup> Average variation of consumer price index.

<sup>d</sup> LIBOR at six months.

<sup>e</sup> LIBOR at six months deflated by inflation of OECD countries.

Table 6

**INDUSTRIALIZED COUNTRIES: EVOLUTION OF MONEY AND PRICES**  
(Growth rates)

	1979	1980	1981	1982 <sup>a</sup>
<b>Industrialized countries</b>				
Money (M <sub>1</sub> )	9.6	6.7	6.0	5.6
Prices (CPI)	9.1	11.9	10.0	7.9
<b>Germany, Federal Republic of</b>				
M <sub>1</sub>	7.2	2.4	0.9	-0.1 <sup>b</sup>
CPI	4.1	5.5	5.9	5.8
<b>Canada</b>				
M <sub>1</sub>	4.9	3.9	3.0	1.9
CPI	9.1	10.2	12.4	11.5
<b>United States</b>				
M <sub>1</sub>	8.2	8.7	5.2	3.4
CPI	11.3	13.5	10.4	6.8
<b>France</b>				
M <sub>1</sub>	12.3	8.0	12.3	15.7
CPI	10.8	13.3	13.3	13.8
<b>Italy</b>				
M <sub>1</sub>	23.9	15.9	11.1	8.2 <sup>b</sup>
CPI	14.7	21.2	17.8	17.0
<b>Japan</b>				
M <sub>1</sub>	9.9	0.8	3.7	5.7
CPI	3.6	8.0	4.9	2.4
<b>Netherlands</b>				
M <sub>1</sub>	2.7	4.2	2.6	1.8 <sup>b</sup>
CPI	4.2	6.5	6.8	6.9
<b>United Kingdom</b>				
M <sub>1</sub>	12.2	4.5	10.1	5.2
CPI	13.4	18.0	11.9	9.4

Source: IMF, *International Financial Statistics* (several issues).

<sup>a</sup>Second quarter. Percentage variation with respect to same period of preceding year.

<sup>b</sup>First quarter. In these countries, monetary policy was more growth-oriented during the second quarter.

the countries studied, especially in the United Kingdom, Japan, Canada and the Federal Republic of Germany. As mentioned before, the United States was the only exception, but even there only 5% of the increase in the fiscal deficit between 1979 and 1982 can be attributed to governmental decisions.

Thus, the simultaneous application of restrictive policies in most of the industrialized economies was a contributing factor in the deepening of the recession in the centre, as the demand for imports fell in every one and with it the volume of reciprocal trade, so that domestic demand also fell.

Finally, the recession in the centre was aggravated in 1982 by the drop in external demand from the countries of the periphery. In 1980 and 1981, the growth of OECD exports to the developing countries had been one of the few factors that had helped the central economies maintain a minimum rate of growth. Indeed, the volume of developing country imports rose at a rate of around 10% per year in 1980 and 1981; OECD imports, on the other hand, fell in both years (see table 2).

Nevertheless, it was obvious that the periphery could not act indefinitely as a sort of "motor of growth" of the central economies. Thus, in 1982, partly because of the deterioration in the terms of trade of the developing countries and above all because of the sharp reduction of their external financing, the developing countries were forced to drastically reduce the volume of their imports; this in turn had the effect of reducing the level of economic activity in the industrialized countries.

Thus, in the long run, the high interest rates generated by the excessively restrictive monetary policy applied in the central economies not only had a directly recessive effect (because of their negative influence on the growth of domestic demand), they also had an indirect effect, as they forced the developing countries to reduce their imports in an effort to neutralize the impact of these high international interest rates on their balance of payments.

### 3. External disequilibrium and recession in the periphery

External factors were of only secondary importance in the recession of the centres, which was mainly caused, as has been mentioned before, by the restrictive policies applied with a view to reducing inflation. In the periphery, on the other hand, external factors played a decisive role: In 1982, more than at any other time since the Second World War, the growth of the periphery was determined by external factors pertaining, in particular, to trends in the industrialized countries. In fact, in most of the developing countries, the economic policies followed during 1982 were mainly geared towards attenuating the external disequilibria.

The need to meet domestic objectives (such as controlling very intense inflationary processes), the mismanagement of fiscal and exchange policies and other problems, of an extra-economical nature (such as the war between Irak and Iran or the conflicts in some of the Central American countries), played a decisive role in the sharp decline of economic activity in some developing countries. Nevertheless, the most important cause of the decline of the overall product in these countries was the external disequilibrium which was mainly brought about by the prolonged recession in the central economies.

#### a) *The direct repercussions on the periphery of the recession in the centre*

In 1982, the non-oil-exporting developing countries were able to reduce the magnitude of the current-account deficit in their balance of payments; nevertheless, this was only achieved at the price of an absolute fall in their gross domestic product, the first of the entire postwar period. Indeed, 1982 saw a reduction in the volume of exports from the periphery, a worsening of the terms of trade of the non-oil-exporting developing countries, and a sharp increase in interest payments on the external debt. The deterioration of external accounts that was caused by these processes was further aggravated by the sharp drop in the net inflow of loans and investment, which made it impossible to finance the deficit on current account with the net capital inflow, as had been done in previous years. Under such circumstances, many developing economies were forced to try to reduce their external disequilibrium by adjusting their trade balance and, in particular, by reducing their imports. To do so, however, they had to apply restrictive policies, which, in addition to reducing the amount of imports, led to a contraction of the overall level of domestic economic activity.

Three of the factors which had a negative effect on the economic evolution of the periphery in 1982 were the direct result of the recession in the industrialized countries. The first was the

Table 7

#### FISCAL DEFICIT IN OECD COUNTRIES: CYCLICAL EFFECTS AND EFFECTS OF FISCAL POLICIES

(Percentages of GDP)

Country	Change noted (1)	Effect of automatic stabilizers (2)	Effect of increased interest payments <sup>b</sup> (3)	Cyclical effect (2) + (3) (4)	Net effect of fiscal policies (1) - (4) (5)
Germany, Federal Republic of	-1.4	-2.8	-0.7	-3.5	2.1
Canada	-4.4	-5.7	-1.3	-7.0	2.6
United States	-4.3	-3.5	-0.6	-4.1	-0.2
France	-2.2	-2.5	-0.9	-3.4	1.2
Italy	-2.9	-2.3	-1.8	-4.1	1.2
Japan	1.5	-0.7	-1.2	-1.9	3.4
United Kingdom	1.1	-4.4	-0.5	-4.9	6.0
Average of seven countries <sup>c</sup>	-2.3	-3.0	-0.8	-3.8	1.5

Source: OECD, *Economic Outlook*, December 1982.

<sup>a</sup> A minus sign indicates a change towards a greater deficit.

<sup>b</sup> Effect on the fiscal deficit assuming that an amount equivalent to one third of increased interest payments is recovered by the government through increased tax collections.

<sup>c</sup> Average weighted by the product at 1981 exchange rates.

deceleration of the rate of growth of the volume of exports of the developing economies; the second was the continuing deterioration of the terms of trade, and the third was the increase in interest payments on the external debt.

One of the main ways in which the non-oil-exporting developing economies adjusted to the international crisis of the mid-1970s was by increasing the volume of their exports. During the period 1976-1979, exports from these countries rose by almost 9% per year, a rate higher than the rate of growth of exports from the industrialized countries for the same period and also higher than that of the non-oil-exporting developing economies prior to the crisis. Although this growth rate fell considerably during the following biennium, it continued to surpass the increase in the volume of world trade and the increase in imports and exports of the industrialized countries (see table 2).

In 1982, however, the force of the international recession halted this growth, and the volume of exports from non-oil-exporting developing countries grew only marginally, despite the fact that many of them tried to improve their competitive position on the international market by devaluing their currencies or otherwise actively promoting their exports. The success that might have been expected of these policies was thwarted to a large degree, however, by the reduction—for the third year in a row—of the volume of imports of industrialized countries and by the sharp drop in the rate of increase of the volume of imports of the oil-exporting economies.

To the negative effect of the loss of dynamism of world trade was added the deterioration of the terms of trade of the non-oil-exporting developing countries. In 1982, after having fallen continuously over the preceding four years, the terms of trade of these countries fell by around 5%; this means that in 1982 they were 32% lower than in 1977 (see figure 1).

As in 1981, the main cause of the new decline in the terms of trade of the non-oil-exporting developing countries was the sharp drop in the international prices of commodities other than oil, which fell by approximately 12% in 1982, after having fallen by almost 15% in 1981 (see table 3).

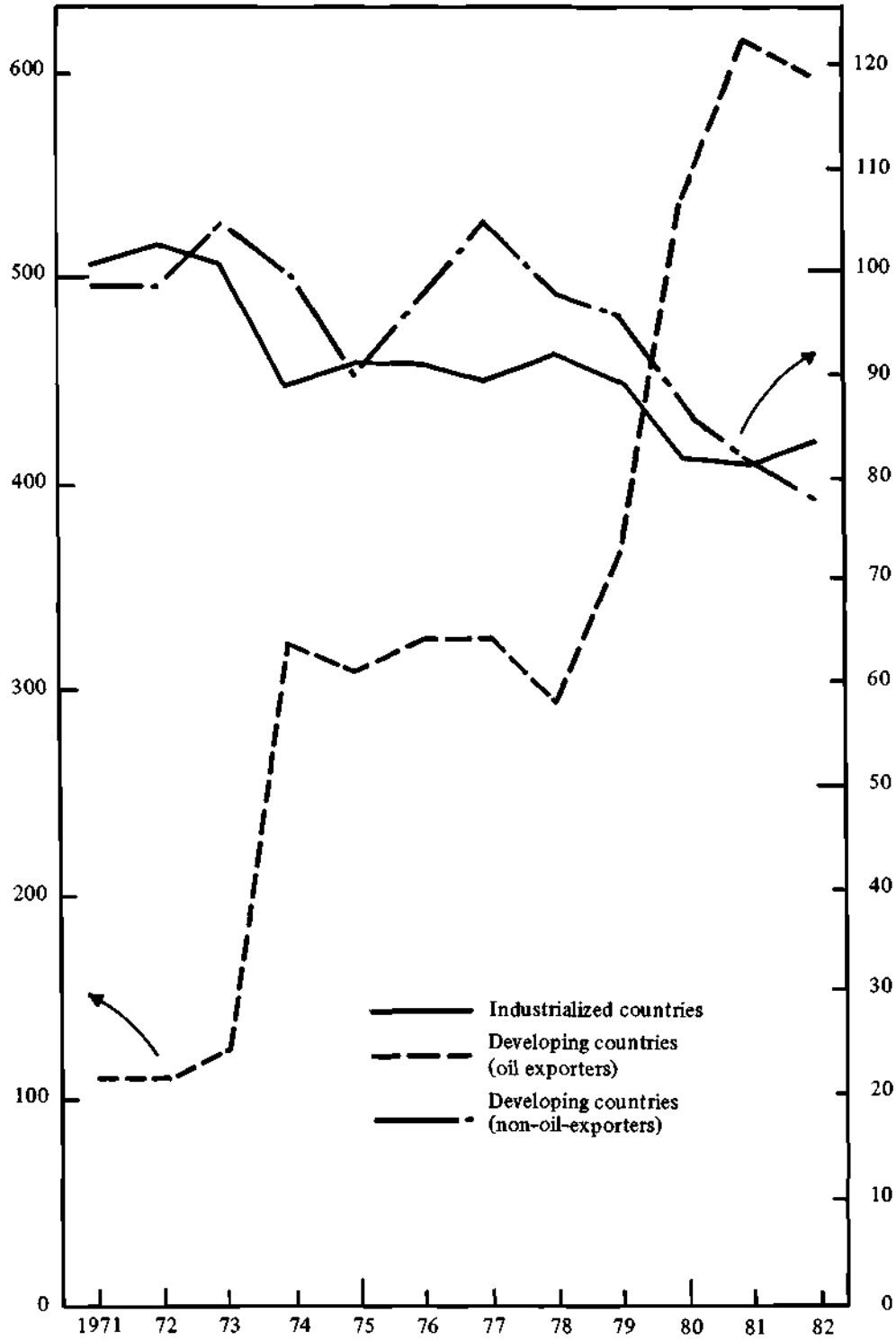
This fall in prices was partly due to the revaluation of the dollar (which was also largely responsible for the decline in the international prices of manufactures and oil); nevertheless, it was mainly due to the particular sensitivity of the prices of commodities other than oil. These commodities fall within the category of goods which, when consumer demand is low, are adjusted, basically, by means of a drop in prices. This happens either because they are traded on more competitive markets or because they are used as inputs for industries particularly affected by the recession in the centres (e.g., metals for the automobile industry or for construction) or because inventories tend to fall sharply when interest rates go up or when the inflation rate goes down. That is why, in addition to eventually reducing inflation, the strict stabilization policies applied in the industrialized countries after 1980 were also partly responsible for depressing the terms of trade of the periphery. This in turn was instrumental in attenuating the inflationary process in the central economies. In fact, since 1980, according to OECD estimates, half the decline of inflation in the industrialized countries was the direct or indirect result of a sharp drop in the prices of imported commodities.<sup>2</sup>

Thus, the cost of the stabilization policies applied by the central economies fell disproportionately on the periphery. On the other hand, the greater resistance to downward movement of prices of manufactured goods explains the significant improvement, in 1982, of the terms of trade of the central economies, particularly of the United States.

The deterioration of the terms of trade was not the only consequence of the restrictive policies applied by the central countries that had an adverse effect on the periphery; no less negative was the unprecedented rise in interest rates which was brought about by these same policies. Historically, and even during the late 1970s, international interest rates had fluctuated by around 2% in real terms. Since late 1979, however, when the main central economies began to apply restrictive monetary policies, interest rates began to rise and in 1981 nominal rates reached the unprecedented level of around 17%. Although nominal interest rates fell in 1982, the rates of inflation in the industrialized countries also fell and much more sharply. Thus, in real terms, interest rates remained at between 5% and 6% for the second year in a row, i.e., at a level that is without precedents since the Great Depression of the early 1930s. Since the real cost to the developing countries of paying the interest on their external debt is determined more by the evolution of the terms of trade—which, as already

<sup>2</sup>See OECD, *Economic Outlook*, December 1982.

Figure 1  
**TERMS OF TRADE IN VARIOUS GROUPS OF COUNTRIES**  
*(Average 1960-1970 = 100)*



Source: IMF, *International Financial Statistics* (several issues).



Table 8

**DEVELOPING COUNTRIES: EXTERNAL DEBT AND  
DEBT SERVICE PAYMENTS**

(Billions of dollars)

	1971	1975	1979	1980	1981	1982 <sup>a</sup>
<b>Developing countries</b>						
Debt <sup>b</sup>	90	180	406	465	530	590
Service	11	26	76	87	109	124
Interest	3	9	26	37	48	57
Amortization	8	17	50	50	61	67
Service as a percentage of exports of goods	16.1	11.7	16.7	14.3	18.3	24.0
<b>Non-oil-exporting developing countries</b>						
Debt	75	152	332	385	445	495
Service	10	21	57	65	82	94
Interest	3	8	20	30	40	48
Amortization	7	13	37	35	42	46
Service as a percentage of exports of goods	21.5	18.6	23.4	20.8	25.3	31.0

Source: OECD, *External debt of developing countries: 1982 Survey*, Paris, 1982, and ECLA estimates.

<sup>a</sup>Preliminary estimates based on the behaviour of the current account and the debt of the 21 major debtors.

<sup>b</sup>Gross disbursed medium and long-term debt.

noted, deteriorated sharply during this period in the non-oil-exporting developing economies— than by inflation in the industrialized countries, the real rise in interest rates was even greater.

Because of the higher interest rates, the increase in the external debt and the increasingly high share of the debt that had been contracted at variable interest rates, the interest payments that the developing countries had to make more than doubled between 1979 and 1982; at the same time, the service of the external debt, which in 1979 was equivalent to one-sixth of their exports of goods, took up almost one-fourth of these exports in 1982 (see table 8).

One may get a rough idea of the important part the international recession has had in generating the external disequilibrium of the non-oil-exporting developing countries if one supposes, firstly, that their terms of trade had remained at the 1979 level (which was almost 4% lower than during the period 1960-1970) and, secondly, that international interest rates had remained at the historical level of 2% in real terms. As may be seen in table 9, this exercise suggests that the international recession accounts for most of the external disequilibrium of the non-oil-exporting developing countries during the triennium 1980-1982. Had it not been for the recession, the current-account deficit of the non-oil-exporting developing countries would have been much lower; without the unusually high interest rates, the share of exports needed for the service of the external debt would also have been much lower.<sup>3</sup>

**b) *The procyclical role of external capital movements***

The negative impact of the three factors mentioned above was reinforced in 1982 by the sharp drop in the net inflow of capital from abroad to the non-oil-exporting developing countries.

As may be seen in tables 10 and 11, the net flow of capital to these countries fell by 23% in real terms and was only 20% higher than the interest payments they made that year. In practice, since in

<sup>3</sup>It should be noted that in this exercise, the reduction of the deficit on current account is somewhat overestimated because, had the terms of trade and interest rates been more favourable, the income of the developing countries would have been higher and consequently their imports would also have been higher. However, although this would have meant that the current-account deficit would have been higher than that shown in table 9, it would also have meant that the countries could have maintained a higher level of domestic economic activity. In other words, if the situation with respect to the terms of trade and interest rates had remained as usual, the deficit on current account would have been lower than it actually was (although higher than the estimate shown in the table) and the gross domestic product of the non-oil-exporting developing countries would have been higher.

1982, these payments rose while capital income fell, the amount of net external financing available after deducting interest payments suffered an unprecedented fall of over 60%.

Essentially, this fall reflected the high levels of external indebtedness of the developing countries, the slow growth of the capital base of the international banks and the reluctance of these banks to increase their loans to the periphery at a time when the value of the exports of these countries was diminishing.

The reduction of the external financing granted to the developing countries was perverse in nature, inasmuch as the decreased value of exports was not the result of a contraction in volume but rather of a sharp drop in average prices. By using, as an index of the periphery's payment capacity, the

Table 9

**EFFECT OF THE INTERNATIONAL RECESSION ON THE EXTERNAL DISEQUILIBRIUM OF NON-OIL-EXPORTING DEVELOPING COUNTRIES**

(Billions of dollars)

	1979	1980	1981	1982
Deficit on current account	59	86	99	85
Deficit attributable to international recession	-	48	66	79
Due to worsening of terms of trade <sup>a</sup>	-	38	60	71
Due to real international interest rate being higher than historical rate <sup>b</sup>	-	-	6	8
Deficit on current account, corrected (excluding recession)	59	48	33	6
Service of the debt as a percentage of exports	23	20	25	31
Service of the debt as a percentage of exports (excluding recession)	23	18	21	25

Source: ECLA, on the basis of data from IMF, *Annual report* 1982, and OECD *Economic Outlook*, December 1982.

<sup>a</sup>By comparison with 1979, when they were 3.7% lower than the average for the period 1960-1970.

<sup>b</sup>The international interest rate considered is LIBOR (at six months) and the historical real international interest rate considered is 2%.

Table 10

**NON-OIL-EXPORTING DEVELOPING COUNTRIES: NET CAPITAL FLOWS AND VOLUME OF EXPORTS**

	Index 1973 = 100							Growth rates	
	1974	1975	1976	1979	1980	1981	1982	1973-1975	1979-1982
Net flow of real capital <sup>a</sup> to NOEDC <sup>b</sup>	151	158	153	184	203	208	160	5	-13
Volume of exports of NOEDC <sup>b</sup>	100	99	111	139	140	141	142	-1	2
Ratio between net flow of real capital and volume of exports to NOEDC <sup>b</sup>	151	160	138	132	145	148	113	60	-14

Source: IMF, *International Financial Statistics* (several issues) and *Annual report* 1982; OECD, *Economic Outlook*, December 1982, and ECLA estimates.

<sup>a</sup>Net flow of capital in dollars deflated by the variation in United States wholesale price index.

<sup>b</sup>NOEDC = Non-oil-exporting developing countries.

Table 11

**NON-OIL-EXPORTING DEVELOPING COUNTRIES: NET EXTERNAL  
CAPITAL AVAILABLE AFTER PAYMENT OF INTEREST**

(Billions of dollars)

	Net capital flow <sup>a</sup>	Interest payments	Net capital available (1) - (2)	Index of net capital available in real terms <sup>b</sup>
	(1)	(2)	(3)	(4)
1976	27	9	18	100
1977	24	11	13	70
1978	40	15	25	119
1979	49	21	28	119
1980	62	30	32	118
1981	69	40	29	100
1982	59	48	11	37

Source: For column 1, OECD, *Economic Outlook*, December 1982. For column 2, OECD, *External debt of Developing Countries, 1982 Survey*, and ECLA estimates.

<sup>a</sup>These figures are not the same as IMF figures, among other reasons because of differences in the classification of non-oil-exporting developing countries.

<sup>b</sup>Obtained by deflating column 3 by the United States wholesale price index, using 1976 as the base year.

current value of its exports rather than their future value (which would reflect more normal terms of trade), the international banks reduced their loans to the developing countries, thus aggravating the balance-of-payments crisis with which they were faced.

This was in marked contrast with what happened during the biennium 1974-1975, when the net inflow of capital grew much more (60%) than the volume of exports, thus giving the peripheral economies time to deal with the impact of the increased price of oil and the international recession without suffering an absolute contraction of their global production levels. After 1979, however, as shown in table 10, the net flow of capital fell sharply with respect to exports, obliging the non-oil-exporting developing countries to reduce their external disequilibrium by cutting down on imports and reducing the level of domestic activity.

This completed the vicious circle of the liquidity crisis. Indeed, during 1982, the adjustment mechanisms which, given a recession in the centre, would not have lowered production in the periphery, did not operate: there was neither an increase in the volume of exports to rapidly growing non-central countries (as were the OPEC nations of the mid-1970s), nor a drop in international interest rates (which would have reduced debt service payments and increased the volume of commodity exports to replace and increase inventories) nor a greater net flow of capital to the periphery.

Under such circumstances, the countries were obliged to apply the least desirable type of adjustment, i.e., they had to reduce production. In view of this situation, which sometimes was further aggravated by neo-protectionist trends in the centre, it is not surprising that in 1982 several developing countries fell behind in their external payments and that a large number of them asked for a renegotiation of their external debt.<sup>4</sup> Since the value of exports fell because of the recession in the centre, and capital flows fell largely because of the decline in the value of exports, the adjustment had to be made either by reducing imports (largely as a result of the contraction of domestic economic activity) or by restructuring the countries' external debt payments, or by a combination of the two mechanisms.

<sup>4</sup>For a detailed analysis of the renegotiation of the Latin American external debt, see Part Two, section II of this *Survey*.

## II. MAIN TRENDS

In 1982, the profound and multifaceted crisis which had begun to affect the Latin American economy in 1981 worsened: The level of overall economic activity fell in absolute terms, unemployment rates rose in most of the main urban centres, the inflation rate speeded up and there was a widespread deterioration of the balance of payments which forced many governments of the region to initiate negotiations on the rescheduling of their external commitments and to adopt severe adjustment policies.

The gross domestic product —the growth rate of which had in 1981 already been the lowest of the entire postwar period— fell by almost 1% in 1982 (see table 12).<sup>5</sup> This problem, for which there was no precedent in the region's economic history of the last four decades, was compounded as in 1981, by a significant decline in the terms of trade, which brought a further reduction of domestic income. Thus, the biennium 1981-1982 saw another unprecedented development, i.e., the per capita income fell by 5.3%.

The contraction of overall economic activity —and particularly the sharp decline of the construction industry and the decline, for the second year in a row, of the manufacturing industry— raised the urban unemployment rate from 6.3% to 6.7%, thus accentuating the change of direction which had begun during the previous year<sup>6</sup> (see figure 2). Moreover, the negative effect of the increase in open unemployment was reinforced in quite a few countries by the increase in underemployment and the decline of real wages.

Despite the increases in unemployment and underemployment, the lower cost of labour and the reduced influence of external inflationary pressures,<sup>7</sup> the rate of increase of consumer prices rose sharply in 1982. In the region as a whole, this indicator reached a record high of 85%, which was much higher even than the high rates recorded during the biennium 1975-1976.

Nevertheless, the crisis was more evident in the external sector, the unfavourable evolution of which was, in turn, one of the main causes of the economic slowdown.

In 1982, as the recession in the industrialized economies continued, as the oil-exporting countries lost their dynamism and as the volume of world trade fell, the vigorous growth in the volume of Latin American exports which had been occurring since 1976 came to a complete standstill. In addition, the widespread drop in the international prices of the region's main export commodities led, in 1981, to a decrease in the unit value of exports of around 9%. Consequently, the value of external sales of goods and services, which had risen between 1976 and 1980 at an average annual rate of 21% and in 1981 by 8%, fell by 9% in 1982.

This decline was, however, much smaller than the drop in the value of imports. Indeed, because of the slowdown in domestic economic activity, as well as the sharp devaluations and other measures adopted by many countries of the region in order to reduce their current-account deficits, the volume of external sales of goods suffered a severe contraction of 18%, while their value fell by 20%.

Under such circumstances, the merchandise trade balance changed substantially. While in 1981 it had generated a deficit of almost US\$ 1.4 billion, in 1982 it closed with a surplus of over US\$ 9.6 billion. This was the first time the region had had a surplus since 1973.

Nevertheless, most of the effect this change might have had on the current account was neutralized by a new and significant increase in net payments for profits and interest. These payments, which had already doubled in 1979 and 1981, amounted to over US\$ 37 billion in 1982, almost 37% of the total value of exports of goods and services. Thus, despite the radical change in the

<sup>5</sup> Like most of the other figures analysed in this volume, this one refers to the group of 19 countries listed in table 14. The economic growth of the English, French and Dutch-speaking countries of the Caribbean is discussed in volume II of this *Survey*.

<sup>6</sup> These rates represent the weighted average of unemployment rates in the four main cities of Argentina, the six largest cities of Brazil, the three largest of Mexico and the capitals of Costa Rica, Chile, Peru and Uruguay. If one leaves out the Brazilian cities, for which unemployment statistics have only been available since 1980, both the level and the increase in unemployment rates proves to be higher in 1982. This latter method of estimation probably provides a better reflection of the actual trend of urban unemployment in 1982 since, as explained in Part One, section IV, of this *Survey*, there is reason to believe that the methodological changes introduced in Brazilian employment surveys during the first half of 1982 may have led to an underestimation of unemployment.

<sup>7</sup> The unit value of Latin American imports, which in 1980 had risen by over 17% and in 1981 had risen by somewhat under 6%, fell by 2.5% in 1982.

Table 12  
LATIN AMERICA: MAIN ECONOMIC INDICATORS<sup>a</sup>

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982 <sup>b</sup>
<b>Basic economic indicators</b>										
Gross domestic product at market prices (billions of dollars at 1970 prices)	238	254	264	278	291	306	326	346	351	348
Population (millions)	288	295	303	311	318	326	335	343	351	360
Per capita gross domestic product (dollars at 1970 prices)	826	861	871	896	915	938	975	1 008	998	966
<b>Growth rates</b>										
<b>Short-term economic indicators</b>										
Gross domestic product	8.3	7.0	3.7	5.5	4.7	5.1	6.5	5.9	1.5	-0.9
Per capita gross domestic product	5.6	4.3	1.1	2.9	2.2	2.5	3.9	3.4	-0.9	-3.2
Urban unemployment rate <sup>cd</sup>	...	6.9	7.2	7.7	7.4	6.8	6.0	6.0 <sup>e</sup>	6.3 <sup>e</sup>	6.7 <sup>e</sup>
Consumer prices <sup>f</sup>	36.2	40.1	57.5	61.4	40.3	37.9	54.2	56.5	58.1	84.9
Terms of trade (goods and services)	11.9	13.0	-11.9	3.1	2.9	-7.7	4.8	4.8	-5.5	-6.2
Current value of exports of goods and services	41.0	50.8	-5.8	15.1	18.1	11.0	33.7	28.7	8.0	-9.0
Current value of imports of goods and services	30.0	63.7	7.8	4.5	15.3	16.7	26.4	31.1	8.9	-18.2
<b>Billions of dollars</b>										
<b>External sector</b>										
Exports of goods and services	28.8	43.5	41.0	47.2	55.8	61.3	81.9	105.5	113.3	103.7
Imports of goods and services	28.2	46.1	49.7	51.9	59.8	69.8	88.2	116.0	125.9	103.6
Trade balance (goods and services)	0.6	-2.6	-8.7	-4.7	-4.0	-8.5	-6.3	-10.5	-12.6	-
Net payments for profits and interest	-4.0	-5.0	-5.5	-6.8	-8.1	-10.1	-13.5	-18.3	-27.3	-37.2
Balance on current account	-3.2	-7.4	-14.0	-11.0	-11.8	-18.3	-19.5	-28.1	-38.9	-36.3
Balance of payments position	4.6	4.0	0.1	4.5	4.3	6.9	6.2	-2.2	-	-13.4
Official international reserves <sup>g</sup>	14.0		21.2	23.9	29.4	38.2	51.2	53.4	46.5	34.3
Balance of disbursed external debt										
Gross global external debt <sup>h</sup>	41.0 <sup>b</sup>	...	67.5	88.3	105.2	133.6	166.6	204.3	242.5	270.4
Net global external debt <sup>i</sup>	27.0 <sup>b</sup>	...	46.3	64.4	75.8	95.4	115.4	150.9	196.0	236.1

Source: ECLA, on the basis of official figures.

<sup>a</sup>All figures refer to the 20 countries listed in table 13, except Cuba.

<sup>b</sup>Preliminary figures.

<sup>c</sup>Percentages.

<sup>d</sup>Weighted average rate for Buenos Aires, Córdoba, Mendoza, Rosario; Bogotá, Barranquilla, Medellín, Cali; México city, Guadalajara, Monterrey; San José (Costa Rica); Santiago (Chile); Lima (Perú); Montevideo (Uruguay).

<sup>e</sup>Weighted average rate for cities mentioned in footnote <sup>d</sup> plus Rio de Janeiro, Sao Paulo, Belo Horizonte, Porto Alegre, Salvador and Recife.

<sup>f</sup>December-to-December variation.

<sup>g</sup>Plus monetary gold valued at fine ounce prices in London less use of International Monetary Fund credit.

<sup>h</sup>Disbursed public external debt plus non-guaranteed debt with financial institutions reporting data to the Bank for International Settlements.

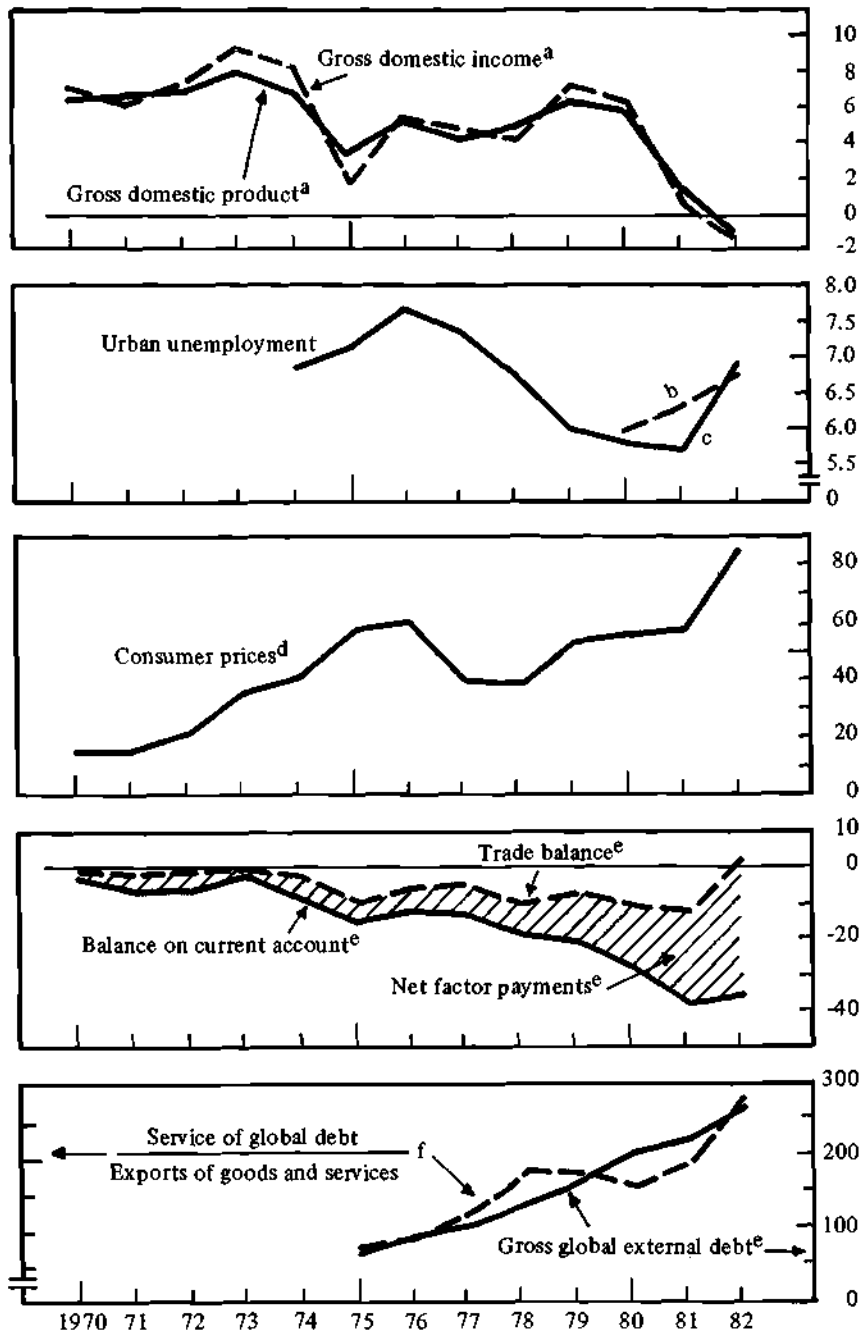
<sup>i</sup>Gross global external debt less official international reserves.

merchandise trade balance, the deficit on current account was only reduced by US\$ 2.6 billion and was still much higher than it had ever been up to 1980 (see table 12).

In addition, because the net inflow of external capital had fallen so drastically, it was much more difficult to finance the current-account deficit in 1982 than it had been in 1981; moreover, it had to be financed in a very different way. In 1981, net loans and investments received by Latin America had reached the exceptionally high figure of almost US\$ 39 billion, slightly higher than the deficit on current account; in 1982, however, the net external resources received amounted to only US\$ 22.9 billion. Consequently, more than one-third of the deficit on current transactions had to be financed by resorting to the use of international reserves and the balance of payments closed with a negative balance of over US\$ 13.4 billion. This is six times higher than the 1980 deficit, which was the only

Figure 2

LATIN AMERICA: MAIN ECONOMIC INDICATORS



Fuente: ECLA, on the basis of official information.

<sup>a</sup>Annual growth rate.

<sup>b</sup>Weighted average annual rate for cities mentioned in table 19.

<sup>c</sup>Weighted average annual rate for cities mentioned in <sup>b</sup>; except cities in Brazil

<sup>d</sup>Weighted percentage variation from December to December.

<sup>e</sup>Billions of dollars.

<sup>f</sup>Percentages.

other deficit recorded in the region in the last 20 years. The sharp drop in the net inflow of loans and investments and the sharp rise in payments for profits and interest also meant that in 1982, instead of receiving a net transfer of real resources *from* abroad, Latin America was forced to transfer *to* the exterior real resources amounting to over US\$ 14.3 billion.

This had a highly negative effect on the current account, firstly, because it was increasingly difficult to expand exports in an international context characterized by recession and a resurgence of protectionism; secondly, because the terms of trade continued to deteriorate and, finally, because interest payments rose. In addition, the flow of loans and investments fell dramatically. For all these reasons, in 1982 most of the countries of the region began or expanded adjustment programmes aimed at reducing the external disequilibrium; they also initiated negotiations aimed at rescheduling and refinancing payments for the service of the extremely high external debt.<sup>8</sup>

### III. ECONOMIC GROWTH

#### 1. The growth rate

As mentioned above, the slowdown of the Latin American economy which was already evident in 1981 became even more pronounced in 1982. After having increased in 1981, at a rate of only 1.5% —the lowest growth rate recorded since 1940— the gross domestic product of the region fell by almost 1% in 1982 (see table 13).

This decline of overall economic activity —which, as shown in figure 3, was the first to occur in Latin America in over 40 years— was also very widespread. The gross domestic product fell in 11 of the 20 countries of the region, it remained almost completely stagnant in another three and rose only slightly in four. Even in the latter, the economic growth rate was lower than the population growth rate; consequently, in 1981 an unheard-of situation arose: with the sole exceptions of Panama —where economic activity rose by 4%— and Cuba —where global social production rose by 2.7%—, the per capita product fell in every Latin American country (see table 14).

The slowdown of economic activity was very pronounced in Argentina, Bolivia, Costa Rica and Uruguay, in all of which it had already fallen in 1981. Nevertheless, the sharpest contraction took place in Chile, where the recession which had begun in mid-1981 worsened considerably in 1982, leading to a 14% decline in the gross domestic product. Economic activity also slowed down, although much more moderately, in all the Central American countries and in Paraguay, which between 1975 and 1981 had had the highest economic growth rate of the region. During 1982, the strong growth of the Mexican economy, which had begun in 1978, came to an abrupt halt, whereas in Venezuela —the other main oil exporter of Latin America— economic activity remained virtually at a standstill for the fourth year in a row. The same thing happened in Peru, after three years of moderate growth. On the other hand, in 1982, total production showed some recovery in Brazil —although the increase did not offset the decline of 1981— and the gross domestic product grew very slowly in Colombia, Ecuador and the Dominican Republic.

The magnitude of the economic slowdown, as well as the importance of the role played by social and political conflicts in some countries and by economic management in others become quite clear if one bears in mind that in 1982, the per capita product of El Salvador and Nicaragua was similar to that of 20 years ago; the per capita product of Chile was lower than in 1966; that of Argentina was lower than in 1969, in Bolivia, it was only slightly higher than in 1971, and in Costa Rica and Peru, the per capita product was equivalent to that of 1973.

In Brazil —the largest Latin American economy which alone generates around one-third of the total domestic product of the region—, economic activity grew by only 1%, after having fallen by almost 2% in 1981, for the first time in the past 40 years. Nevertheless, this modest recovery was due solely to the relatively rapid growth of service activities and to the considerable progress of mining; agriculture and construction, on the other hand, rose only slightly, while the product of the manufacturing industry remained at a standstill, after having fallen by over 6% in 1981 (see table 15).

<sup>8</sup> For a detailed analysis of the devaluations and changes in exchange systems and of the characteristics and limitations of the debt renegotiation process, see Part Two of this *Survey*.

The long duration of the recession was also reflected in the fact that both investment and imports fell for the second year in a row. The evolution of the economy was also affected by the sharp reversal of the trend with regard to the volume of exports of goods and services which, after having grown at the exceptionally high average rate of around 22% during the two preceding years, fell by almost 7% in 1982.

As indicated above, the economy of Mexico, which had grown with extraordinary vigor since 1978, suffered a serious deterioration in 1982. Indeed, as the external disequilibrium worsened and international reserves fell considerably, the authorities decided on a substantial devaluation of the Mexican peso and implemented strict controls on foreign exchange, as well as a system of multiple exchange rates. These measures contributed to an extraordinary acceleration of the inflationary process, a drastic decrease in the volume of imports and an atmosphere of great uncertainty among private economic agents. To these problems were added the sharp cuts that were made in public investment—which fell by almost 13% in real terms—and the even sharper drop in private capital formation (-20%); this explains why activities aimed at meeting domestic demand, which up to the first quarter had continued to grow rapidly, declined from the middle of the year onwards. As a result of this, and despite the fact that oil production continued to grow vigorously, the gross domestic product fell slightly.

In Argentina—the third largest economy of Latin America—the gross domestic product fell by 5.7%, after having fallen by almost 6% in 1981. This new decline went hand in hand with a much sharper fall in gross capital formation, which dropped by almost 20% for the second year in a row. In 1982 also, total consumption, which had already fallen by 3.5% in 1981, dropped sharply (by almost 10%). Under such circumstances, industrial production suffered its third successive setback—thus falling to the lowest level of the last 15 years—while construction suffered a contraction of 20%, after having fallen by over 8% in 1981 (see table 15).

Table 13  
LATIN AMERICA: EVOLUTION OF GLOBAL GROSS DOMESTIC PRODUCT  
(Annual growth rates)

	1970- 1974	1975	1976	1977	1978	1979	1980	1981	1982 <sup>a</sup>
Latin America <sup>b</sup>	7.2	3.7	5.5	4.7	5.1	6.5	5.9	1.5	-0.9
Argentina	4.1	-0.8	-0.5	6.4	-3.4	7.1	1.1	-5.9	-5.7
Bolivia	5.6	6.6	6.1	4.1	3.4	1.8	1.2	-1.1	-9.2
Brazil	11.5	5.7	9.0	4.7	6.0	6.4	8.0	-1.9	1.1
Colombia	6.6	2.3	4.7	4.2	8.5	5.4	4.1	2.1	1.2
Costa Rica	7.1	2.1	5.5	8.9	6.3	4.9	0.8	-4.6	-6.3
Cuba <sup>c</sup>	...	...	...	5.0	7.0	3.2	3.1	14.8	2.7
Chile	0.9	-12.9	3.5	9.9	8.2	8.3	7.8	5.7	-14.1
Ecuador	11.5	5.6	9.2	6.5	6.6	5.3	4.9	4.5	1.4
El Salvador	4.9	5.6	4.0	6.1	6.0	-1.5	-9.6	-9.5	-5.4
Guatemala	6.4	2.0	7.4	7.8	5.0	4.7	3.7	0.9	-3.5
Haiti	4.7	2.2	5.3	1.3	4.4	5.1	5.8	0.3	0.3
Honduras	3.9	-3.0	8.0	11.5	7.4	6.8	2.8	0.1	-1.0
Mexico	6.8	5.6	4.2	3.4	8.1	9.2	8.3	8.0	-0.2
Nicaragua	5.4	2.2	5.0	6.3	-7.2	-25.5	10.0	8.5	-2.0
Panama	5.8	1.7	1.7	1.1	9.8	4.5	13.1	3.8	4.0
Paraguay	6.4	6.3	7.0	12.8	10.9	10.7	11.4	8.5	-2.0
Peru	4.8	4.5	2.0	-0.1	-0.5	4.1	3.8	3.9	0.4
Dominican Republic	10.1	5.2	6.7	5.0	2.2	4.6	5.8	3.6	1.5
Uruguay	1.3	5.9	4.0	1.2	5.3	6.2	5.8	-1.3	-10.0
Venezuela	5.4	5.9	8.4	6.8	3.0	0.9	-1.8	0.4	0.6

Source: ECLA, on the basis of official figures.

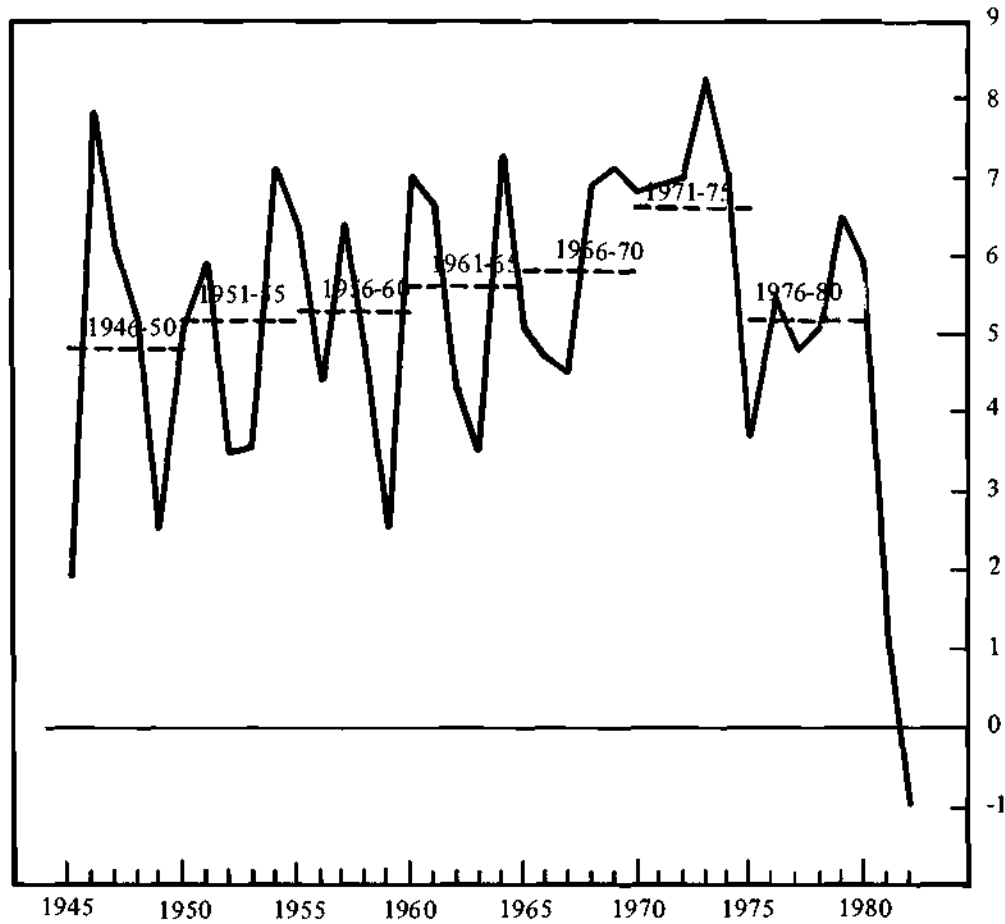
<sup>a</sup> Preliminary figures.

<sup>b</sup> Average, except Cuba.

<sup>c</sup> Growth refers to the global social product, which is equivalent to the gross value of agricultural production, fishing, electric power, mining, manufacturing, construction, transport, communications, commerce and other productive services.



Figure 3  
**LATIN AMERICA: ANNUAL GROWTH RATES OF  
 THE GROSS DOMESTIC PRODUCT**



Source: ECLA, on the basis of official information.

The gross domestic product fell even more sharply in Chile and Uruguay, the other two Southern Cone economies which, like Argentina, had applied monetarist economic policies in recent years. In addition, both suffered serious exchange crises in 1982. The decline of economic activity was particularly serious in Chile, where the gross domestic product fell by 14% as a result of a spectacular 54% drop in gross investment and a 20% drop in total consumption. Mostly as a result of this drastic reduction of domestic demand, industrial production dropped by 22%, while construction, which up to mid-1981 had grown rapidly, suffered a setback of almost 29%. Although this unprecedented slowdown in overall economic activity was partly caused by the highly unfavourable evolution of the terms of trade and by the sharp drop in the net inflow of capital, it was mainly a result of the strict application, up to the middle of the year, of a so-called automatic adjustment policy—one of the fundamental ingredients of which was the maintenance of a fixed exchange rate—and of the great uncertainty and the serious financial problems that were subsequently caused by the successive devaluations of the peso and the frequent changes that were made in the exchange policy.<sup>9</sup>

<sup>9</sup> Advocates of the fixed exchange rate argued that the deficit in the balance of payments would correct itself without need of a devaluation because the deficit would limit the supply of money. Hence, on the one hand, domestic interest rates would rise, thus attracting capital from abroad and, on the other, both domestic demand and the cost of nationally produced goods would fall, thus leading to a reduction of imports and a growth of exports.

A similar though somewhat less negative trend was observed in Uruguay, where the gross domestic product fell by 10%, after having fallen slightly in 1981. As in the case of Chile, this drop—the largest since 1940—was partly caused by the deterioration of the terms of trade and the abrupt reversal of the net inflow of capital from abroad; however, it was also caused by the sharp contraction of private consumption (-11%) resulting from the reduction of real wages and employment and the excessive indebtedness of families during the two preceding years, and by the even sharper decline (-25%) of gross domestic investment brought about by the unfavourable prospects of demand and the persistently high real interest rates.

Bolivia also suffered a serious slowdown of economic activity. The gross domestic product fell by over 9%, after six years during which the growth rate had been falling steadily; at the same time, gross fixed investment fell by 43%, after having fallen at a similar rate during the triennium 1979-1981. Although they were to a large extent related to the profound crisis of the external sector and the exorbitant rate of inflation—which was reflected in the fact that during the year consumer prices increased fourfold and wholesale prices increased fivefold—these unprecedented contractions were also caused by institutional factors which led to frequent changes being made in economic policy and aggravated the uncertainty prevailing among private agents.

Extraneous factors also played a decisive role in the general decline of the gross domestic product in all the Central American countries. This decline was also caused by the unfavourable evolution of external variables and the setbacks in the subregional integration process.

The most serious drops in total production occurred in Costa Rica (-6.3%) and El Salvador (-5.4%). In Costa Rica, whose economic activity had already slowed down considerably in 1981, the downward trend of production was aggravated, during the first half of 1982, by the rather erratic economic policies followed, by speculation as to what course the exchange rate might follow and by the uncertainty generated by the election process. The effect of extraneous causes was even more pronounced in El Salvador, where the gross domestic product fell for the fourth year in a row, mainly because of the persistence of particularly severe and painful social and political conflicts. Consequently, the level of economic activity was 24% lower in 1982 than it had been in 1978.

Table 14

LATIN AMERICA: EVOLUTION OF PER CAPITA GROSS DOMESTIC PRODUCT AT MARKET PRICES

	Dollars at 1970 prices			Growth rates					
	1970	1980	1982 <sup>a</sup>	1970-1974	1975-1978	1979	1980	1981	1982 <sup>a</sup>
Latin America	720	1 008	966	4.5	2.1	3.9	3.4	-0.9	-3.2
Argentina	1 245	1 474	1 253	2.4	-1.3	4.9	-1.0	-7.9	-7.7
Bolivia	317	384	327	3.0	2.4	0.8	-1.5	-3.7	-11.5
Brazil	525	964	914	8.8	3.9	4.0	5.6	-4.1	-1.2
Colombia	598	824	816	4.2	2.7	3.2	1.9	-0.1	-1.0
Costa Rica	740	974	825	4.4	2.7	1.9	-2.1	-7.2	-8.8
Chile	967	1 047	919	-0.8	-	6.4	6.0	3.9	-15.5
Ecuador	420	732	729	8.3	18.0	1.9	1.7	1.3	-1.7
El Salvador	422	428	346	1.8	2.4	-4.3	-12.2	-12.1	-8.1
Guatemala	439	561	515	3.1	2.3	1.6	0.7	-2.1	-6.3
Haiti	123	148	142	2.4	0.9	2.6	3.3	-2.2	-2.2
Honduras	313	357	330	0.8	1.8	3.1	-0.7	-3.3	-4.3
Mexico	978	1 365	1 395	3.4	2.2	6.2	5.4	5.1	-2.8
Nicaragua	431	345	344	2.1	-1.8	-27.9	6.4	5.0	-5.2
Panama	908	1 155	1 191	2.8	0.9	2.1	8.5	1.4	1.7
Paraguay	383	633	632	3.2	5.6	7.1	7.9	5.1	-4.9
Peru	646	677	668	2.0	-1.2	1.3	1.0	1.0	-2.3
Dominican Republic	398	600	602	7.1	2.2	2.3	3.3	1.2	-0.9
Uruguay	1 097	1 423	1 247	1.1	3.6	5.5	5.1	-1.9	-10.7
Venezuela	1 205	1 268	1 197	1.7	2.4	-2.5	-5.1	-3.0	-2.7

Source: ECLA, on the basis of official information.

<sup>a</sup>Preliminary figures.

Table 15  
**LATIN AMERICA: EVOLUTION OF MAIN ECONOMIC SECTORS**  
 (Growth rates)

	Agriculture			Mining and quarrying			Manufacturing			Construction			Subtotal goods <sup>b</sup>			Basic services <sup>c</sup>			Other services <sup>d</sup>		
	1980	1981	1982 <sup>e</sup>	1980	1981	1982 <sup>e</sup>	1980	1981	1982 <sup>e</sup>	1980	1981	1982 <sup>e</sup>	1980	1981	1982 <sup>e</sup>	1980	1981	1982 <sup>e</sup>	1980	1981	1982 <sup>e</sup>
Latin America	2.7	4.7	0.1	7.4	5.4	3.3	5.6	-2.1	-2.2	7.6	1.7	-5.4	5.3	0.6	-1.7	8.6	3.7	1.1	5.2	3.3	-0.2
Argentina	-6.5	2.5	5.5	3.8	0.2	-0.9	-3.8	-16.0	-4.5	6.4	-8.2	-20.1	-2.7	-9.0	-3.8	2.2	-3.5	-1.4	5.7	-3.0	-9.4
Bolivia	5.2	7.0	-2.2	-2.0	1.6	-9.3	-1.0	-3.8	-15.3	-5.0	-35.0	-40.0	1.0	-1.5	-10.0	2.1	0.7	-6.4	1.3	-1.7	-9.9
Brazil	6.3	6.8	-2.5	12.6	0.2	8.3	7.6	-6.4	0.1	8.4	-4.2	-0.4	7.6	-3.8	-0.3	10.8	0.8	4.8	...	...	...
Colombia	1.8	3.0	-0.2	18.9	5.4	4.5	12.7	3.2	-2.0	14.3	9.1	5.0	7.0	3.6	-0.3	3.0	5.3	3.4	4.9	3.8	2.6
Costa Rica	-0.5	1.2	2.5	...	...	...	0.8 <sup>e</sup>	-3.7 <sup>e</sup>	-7.5 <sup>e</sup>	-1.1	-11.6	-40.0	-0.1	-2.9	-7.9	6.7	2.5	0.5	0.8	-6.5	-5.3
Chile	3.8	5.3	-2.7	5.2	8.0	4.0	6.2	2.6	-21.9	23.9	21.1	-28.8	6.9	6.0	-13.1	9.5	1.4	-7.5	7.8	5.2	-8.8
Ecuador	5.3	5.7	2.0	-3.7	3.9	-0.9	1.8	6.1	4.0	0.8	1.4	-0.7	2.2	5.3	2.4	8.0	5.4	5.6	9.9	4.7	3.3
El Salvador	-5.9	-10.1	-7.4	2.7	-2.6	-	-15.5	-15.8	-5.9	-34.2	-1.3	-11.7	-11.9	-11.5	-7.2	-5.1	-9.1	-5.6	-6.9	-6.5	-3.5
Guatemala	1.6	1.4	-1.9	71.2	-36.4	12.8	5.6	-2.5	-5.0	3.8	16.2	-17.9	3.5	1.1	-4.5	6.8	-0.4	-3.2	3.7	1.7	-2.7
Haiti	2.8	-1.8	0.2	-4.5	-14.8	7.3	7.0	3.9	1.2	4.4	4.1	-4.1	3.5	-0.5	0.2	7.1	4.9	5.7	7.4	0.9	0.7
Honduras	3.1	1.0	2.0	-7.0	2.5	-2.4	6.6	-2.0	-3.3	6.8	-7.8	-4.2	4.1	-0.9	-0.4	4.1	-	-1.2	1.8	1.5	-1.4
Mexico	7.1	6.1	-0.4	22.0	15.3	9.5	7.2	7.0	-2.4	12.3	11.8	-4.2	8.8	8.1	-1.3	12.9	10.4	-1.0	7.3	7.5	1.2
Nicaragua	-10.0	10.1	2.2	49.2	2.6	-16.0	11.8	2.8	-5.5	117.2	44.7	-12.5	0.8	8.6	-1.7	16.2	10.1	1.4	18.7	7.8	1.5
Panama	-1.9	2.9	4.4	29.2	16.1	13.9	4.1	-2.7	5.6	23.5	11.6	17.3	6.5	3.3	8.7	94.0	6.5	1.1	-4.5	4.5	3.0
Paraguay	9.2	6.7	-3.0	26.0	15.0	2.0	12.6	8.0	-4.5	26.0	16.7	-6.0	12.6	8.7	-3.9	13.4	3.9	9.6	10.1	9.2	-1.2
Peru	-5.5	10.6	2.2	0.4	-4.0	6.6	5.7	-0.1	-2.3	18.8	11.1	2.3	2.4	3.0	0.9	7.3	5.6	1.8	4.4	4.0	0.8
Dominican Republic	4.7	13.0	3.9	-14.7	9.1	-29.4	5.0	3.0	5.0	7.1	0.8	-5.0	2.8	7.2	-0.5	3.9	5.9	2.0	10.1	2.2	3.2
Uruguay	16.2	1.0	-6.8	...	...	...	4.1 <sup>e</sup>	-4.6 <sup>e</sup>	-17.1 <sup>e</sup>	3.4	-3.7	-15.9	6.8	-3.1	-14.2	8.8	1.9	-11.1	4.5	-0.5	-7.2
Venezuela	1.9	-1.9	3.6	-6.2	-2.9	-9.2	1.2	-1.8	2.1	-16.5	-2.8	-4.8	-3.7	-2.2	-1.2	1.5	5.8	2.3	-2.0	1.6	1.3

Source: ECLA, on the basis of official statistics.

<sup>a</sup>Preliminary figures.

<sup>b</sup>Includes agriculture, mining and quarrying, industries and construction.

<sup>c</sup>Includes electricity, gas and water, and transport and communications.

<sup>d</sup>Includes commerce, restaurants and hotels; financial establishments, insurance and real estate; community, social and personal services.

<sup>e</sup>Mining and quarrying are included in manufacturing.

In 1982, the gross domestic product of Paraguay also dropped, although much more moderately (-2%); this put an end to the stage of extraordinary growth which the country had experienced between 1973 and 1981, when total production had grown at an average annual rate of 8%. This abrupt reversal of trends in economic activity was partly due to the deterioration of prices of exports, bad weather conditions, and, above all, the substantial reduction of expenditure of the binational bodies responsible for building the Itaipú and Yacyretá dams, as well as the restrictive policies followed by the monetary and fiscal authorities with a view to reducing the rate of inflation.

In 1982, the moderate growth which had characterized the Peruvian economy over the previous three years also came to a halt: after having shown an average annual growth rate of 4% during that period, the gross domestic product came to an almost complete standstill. As in many other Latin American countries, this recession was caused by the unfavourable evolution of certain external factors and the restrictive monetary policies applied in order to control the disequilibrium in external accounts and reduce inflation.

Economic activity increased (although at an unsatisfactory pace) in Colombia, Ecuador and the Dominican Republic. In Colombia, the systematic slowdown which had been evident in the economy since 1979 was accentuated. The gross domestic product only rose by 1.2%, the lowest rate of the entire time during which statistics on national accounts have been available. The situation was quite similar in Ecuador, where the 1.4% growth of the gross domestic product was a continuation of the downward trend which began in 1979 and represented the lowest economic growth rate since 1951. In the Dominican Republic as well, the 1.5% increase in total economic activity was the lowest of the last 14 years.

Finally, the Cuban economy also grew more slowly. After having shown an extraordinary increase of almost 15% in 1981, the global social product only grew by 2.7% in 1982.<sup>10</sup> Fundamentally, this figure was the final result of the very uneven growth rates of the different activities. Thus, whereas the fishing industry grew very rapidly (15%) and commerce, communications and electric power grew at rates of between 8% and 9%, manufacturing grew at a rate of less than 3%, construction remained almost completely stagnant and agricultural production declined by over 4%.

Table 16  
LATIN AMERICA: TOTAL SUPPLY AND DEMAND  
(Growth rates)<sup>a</sup>

	1970- 1974	1975	1976	1977	1978	1979	1980	1981	1982 <sup>b</sup>
<b>Total supply</b>	7.6	3.2	5.0	5.2	5.4	6.9	6.7	1.6	-2.7
Gross domestic product	7.2	3.7	5.5	4.7	5.1	6.5	5.9	1.5	-0.9
Imports of goods and services	11.4	-1.1	0.2	9.5	9.1	10.4	13.3	2.2	-17.9
<b>Total demand</b>	7.6	3.2	5.0	5.2	5.4	6.9	6.7	1.6	-2.7
Domestic demand	7.9	3.6	4.8	4.9	5.0	6.5	6.7	1.0	-2.7
Gross fixed investment	8.7	9.9	5.1	3.9	6.0	5.5	7.0	1.2	-11.8
Total consumption <sup>c</sup>	7.6	2.0	4.8	5.2	4.7	6.8	6.6	1.0	-0.1
Exports of goods and services	4.3	-1.8	7.2	8.9	11.4	11.5	6.1	7.5	-2.6

Source: ECLA, on the basis of official statistics.

<sup>a</sup> Estimated on the basis of constant values at 1970 prices.

<sup>b</sup> Preliminary figures.

<sup>c</sup> Includes changes in stocks.

<sup>10</sup> The global social product is equivalent to the sum of the gross production figures for agriculture, fisheries, electric power, mining, manufacturing, construction, transport, communications, commerce and other productive services.

## 2. Total supply and demand

The crisis which affected the Latin American economy was particularly evident in the evolution of total supply, which fell by 2.7% in 1982 after having risen at an average annual rate of around 7% in 1979-1980 and of 1.6% in 1981. This fall—the first in over 40 years—reflected both the almost -1% decline of the domestic product and the dramatic contraction—practically 18%—of the volume of imports of goods and services (see table 16).

At the same time, the dramatic drop in the volume of imports—which had risen at a particularly high rate between 1977 and 1980—was caused by the slowdown of domestic economic activity and, in most countries of the region, by the intensification of policies aimed at reducing the external disequilibrium, many of which had been applied since 1981. In 1982, as a result of the reduction in the volume of external purchases, there was a reversal of the upward trend of the import coefficient, which had risen steadily since 1977 and in 1981 had reached its highest level since 1960 (see table 17).

In 1982, the export coefficient, which had also been rising steadily since the mid-1970s as a result of the sustained and substantial growth in the volume of exports, also fell although at a much lower rate. In 1982 also, the volume of exports of goods and services fell by slightly over 2.5, as the international recession continued to worsen and the terms of trade for commodities deteriorated further.

The component of total demand which fell most sharply was gross fixed investment. This item, which had grown steadily between 1966 and 1980, but barely rose by 1% in 1981, fell by around 12% in 1982. This was partly due to the general atonicity of economic activity and the shortage of foreign exchange in most of the region's economies, as well as to the rise in domestic interest rates and the considerable reduction of public sector expenditure.

## IV. EMPLOYMENT AND UNEMPLOYMENT

The employment situation showed a further and pronounced deterioration in 1982 as a result of the serious and widespread slowdown of economic activity.<sup>11</sup> As may be seen in table 18 the average urban unemployment rate rose for the third year in a row in Argentina and Costa Rica and for the fourth year in a row in Venezuela; it also rose in the main cities of Colombia, and increased dramatically in Uruguay and even more so in Chile. During 1982, the downward trend of urban unemployment in Mexico which had begun in 1978 was interrupted and although unemployment fell slightly in Lima, this decline was more than offset by a marked increase in underemployment. The clear and steady decline of open unemployment rates in the major urban centres of Brazil was due, to a certain extent, to a change in the statistical definitions used and was accompanied by new and substantial drops in employment in manufacturing and construction. In certain countries, the worsening of the employment situation was evident in higher underemployment and lower participation rates.

The deterioration of the employment situation was particularly critical in Chile and Uruguay, the two countries of the region where, as indicated above, total economic activity fell most abruptly.

In Chile, the employment crisis reached an unprecedented magnitude in 1982; unemployment was higher than it had been during the serious economic contraction of the mid-1970s. Because the recession which had started in the second half of 1981 worsened and the manufacturing and construction fell sharply (by 22% and 29%), the average open unemployment rate in Greater Santiago reached a record 22%; not only was this twice as high as the figure for the preceding year, it was also much higher than the figures recorded during the crisis of 1975-1976<sup>12</sup> (see figure 4 and table 18).

<sup>11</sup> Unfortunately, statistics on employment and unemployment are still very limited in Latin America. Many countries of the region do not have up-to-date and reliable records of trends in unemployment and employment, even for the capital city. Most of these countries do not have figures on unemployment and underemployment in rural areas either, and usually there are no reliable series on short-term changes in the absolute level of employment. These deficiencies seriously hamper any analysis of the employment situation and make it necessary to rely too heavily on changes in open unemployment rates in a country's capital city or in a few of its major urban centres.

<sup>12</sup> More than one third of the total population of Chile, 38% of the active population and over half the urban labour force live in Greater Santiago.

As is dramatically illustrated in figure 5, this exceptional increase in the average unemployment rate was a consequence of the uninterrupted rise of unemployment between June 1981 and September 1982. Indeed, in September 1982, one out of every four workers in Greater Santiago had no job. The employment crisis was very serious in the manufacturing sector and even more so in construction. In construction, the average number of workers employed fell from around 125 000 persons in the first half of 1981 to barely over 57 000 in the second half of 1982; during that same time, the unemployment rate rose from slightly over 10% to 53%. The situation was similar, although less serious, in manufacturing. Between March 1981 and December 1982, approximately 100 000 workers lost their jobs in industry in Greater Santiago; as a result, the unemployment rate in the manufacturing industry more than tripled during that time, going from under 9% in early 1981 to almost 26% at the end of 1982.

Table 17

**LATIN AMERICA: RELATIVE SHARES OF COMPONENTS OF GROSS DOMESTIC PRODUCT**  
(Percentages)

	Total consumption <sup>a</sup>	Gross fixed investment	Exports	Imports
1970	80.5	19.8	8.8	9.1
1971	80.5	20.0	8.4	8.9
1972	80.4	20.1	8.4	8.9
1973	80.3	20.5	8.5	9.3
1974	81.5	21.2	8.0	10.7
1975	80.2	22.4	7.6	10.2
1976	79.7	22.3	7.7	9.7
1977	80.0	22.2	8.0	10.2
1978	79.7	22.4	8.5	10.6
1979	79.8	22.2	8.9	10.9
1980	80.4	22.4	8.9	11.7
1981	80.0	22.3	9.5	11.8
1982 <sup>b</sup>	80.6	19.9	9.3	9.8

Source: ECLA, on the basis of official statistics.

<sup>a</sup>Includes changes in stocks.

<sup>b</sup>Preliminary figures.

Table 18

**LATIN AMERICA: EVOLUTION OF URBAN UNEMPLOYMENT**  
(Average annual rates)

Country	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Argentina <sup>a</sup>	6.6	5.4	3.3	2.6	4.5	2.8	2.8	2.0	2.3	4.5	4.7
Brazil <sup>b</sup>	...	...	...	...	...	...	6.8	6.4	6.2	7.9	6.3
Colombia <sup>c</sup>	...	...	12.7	10.6	10.2	9.3	8.8	8.9	9.7	8.2	9.3
Costa Rica <sup>d</sup>	...	...	...	...	5.4	5.1	5.8	4.9	6.0	9.1	9.9
Chile <sup>e</sup>	3.8	4.6	9.7	16.2	16.8	13.2	14.0	13.6	11.8	11.1	22.1
Mexico <sup>f</sup>	...	7.5	7.2	7.2	6.8	8.0	6.9	5.7	4.5	4.2	4.1
Peru <sup>g</sup>	7.6	5.0	4.1	7.5	6.9	8.7	8.0	6.5	7.1	6.8	6.4
Uruguay <sup>h</sup>	7.7	8.9	8.1	...	12.8	11.8	10.1	8.3	7.4	6.6	11.9
Venezuela <sup>i</sup>	...	...	7.6	8.3	6.8	5.5	5.1	5.8	6.6	6.8	8.2

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

<sup>a</sup>Federal Capital and Greater Buenos Aires. Average for April and October.

<sup>b</sup>Metropolitan areas of Rio de Janeiro, Sao Paulo, Belo Horizonte, Porto Alegre, Salvador and Recife. Average for 12 months. 1980: average June to December.

<sup>c</sup>Bogotá, Barranquilla, Medellín and Cali. Average for March, June, September and December. 1974: June.

<sup>d</sup>Urban total. Average for March, July and November. 1976: average for July and November.

<sup>e</sup>Greater Santiago. Average for four quarters.

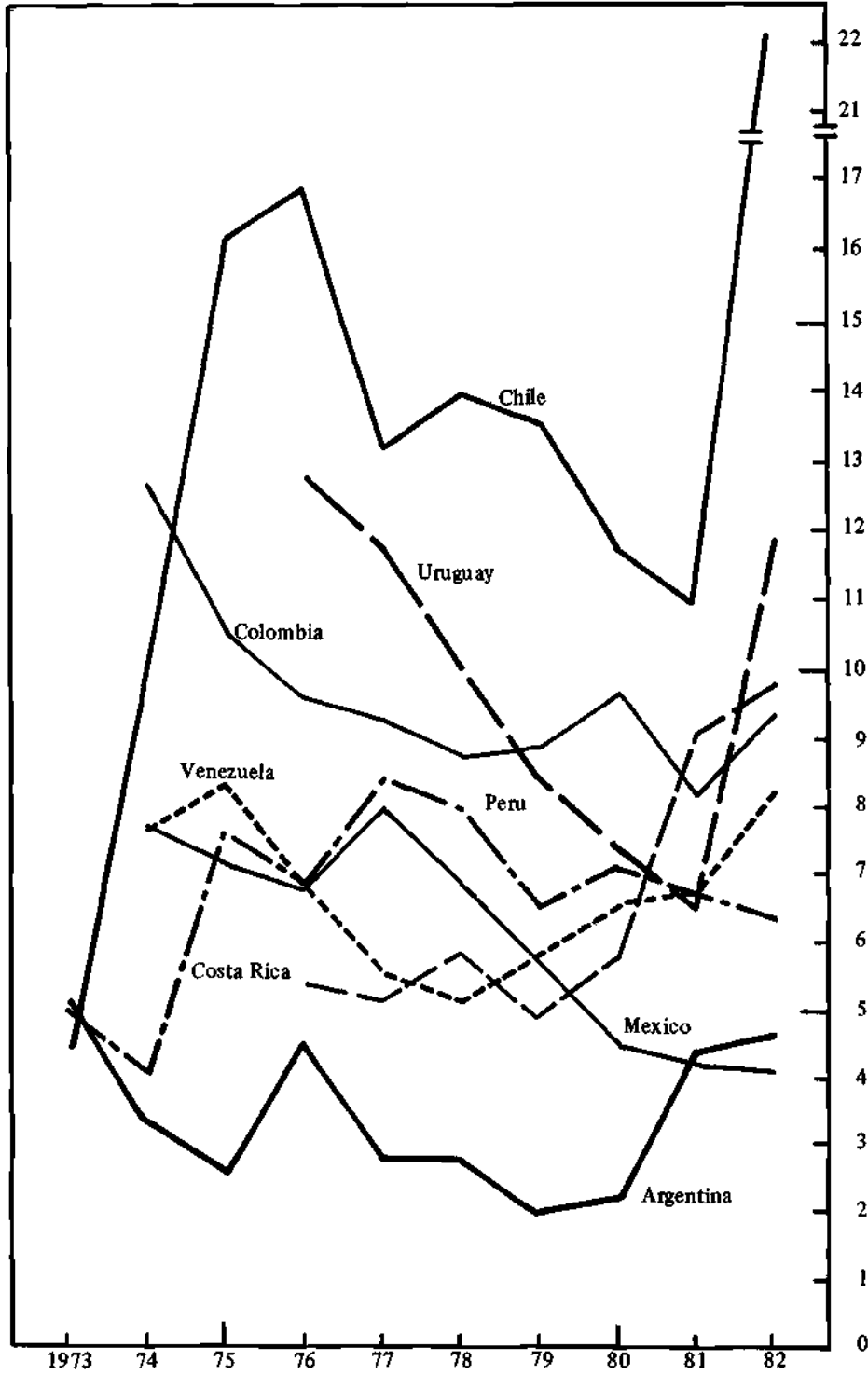
<sup>f</sup>Metropolitan areas of México city, Guadalajara and Monterrey. Average for four quarters.

<sup>g</sup>Metropolitan Lima. Averages estimated according to data available each year.

<sup>h</sup>Montevideo. Average for two semesters. 1973: first semester. 1974: second semester.

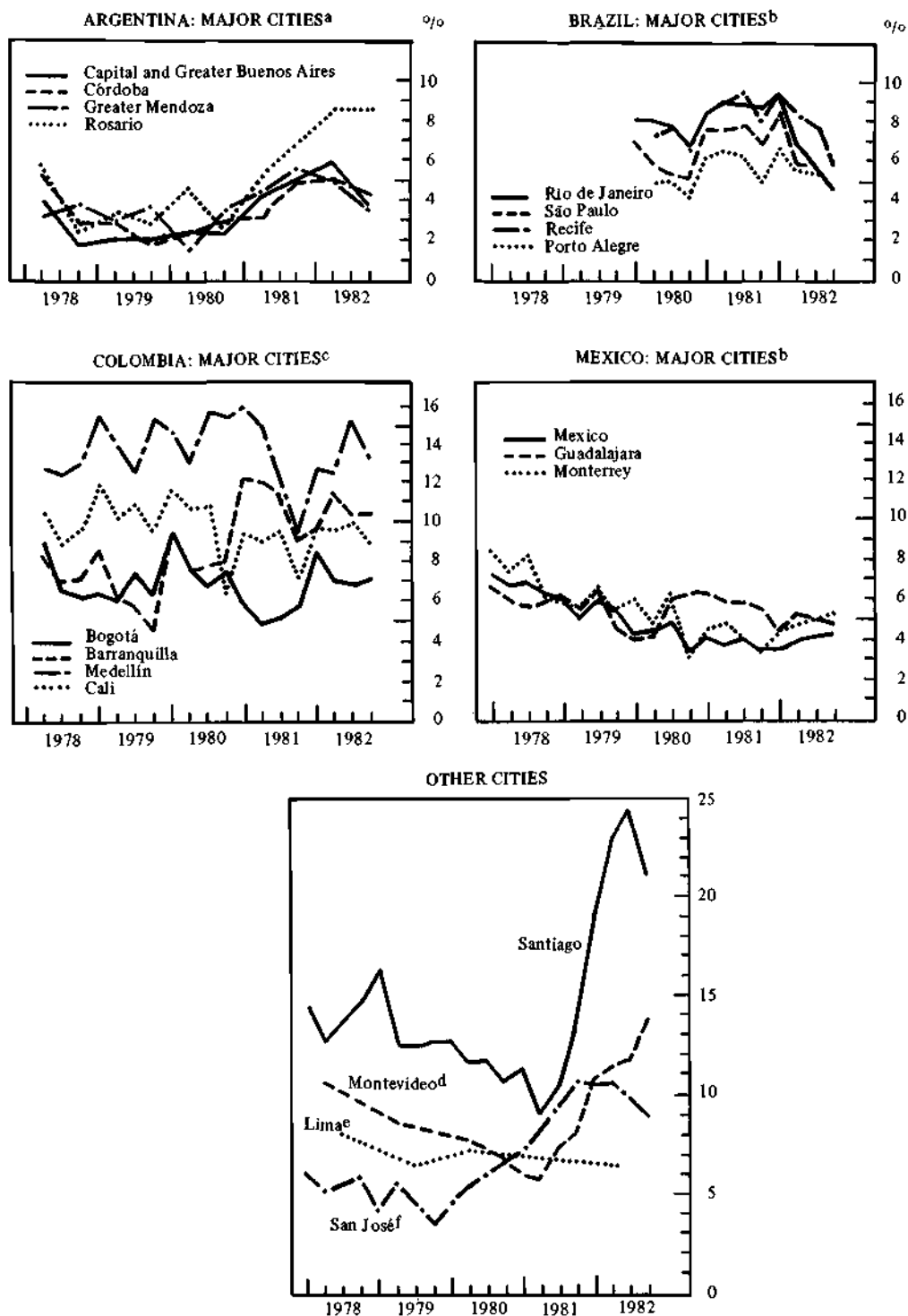
<sup>i</sup>Urban. Average for two semesters. 1982: first semester.

Figure 4  
**LATIN AMERICA: EVOLUTION OF URBAN UNEMPLOYMENT**  
*(Annual averages)*



Source: ECLA, on the basis of official figures.

Figure 5  
**LATIN AMERICA: QUARTERLY EVOLUTION OF UNEMPLOYMENT IN MAJOR CITIES, 1978-1982**  
*(Unemployment rates)*



<sup>a</sup>Figures for April and October. <sup>b</sup>Quarterly averages. <sup>c</sup>Figures for March, June, September and December. <sup>d</sup>Half-yearly averages. <sup>e</sup>1978: average for July and August; 1979: September; 1980: April; 1981 and 1982: June. <sup>f</sup>Figures for San José and other municipalities of the Central Valley, for March, July and November.



In 1982, partly because of the unusual severity of the drop in overall employment and partly because of the serious crisis experienced by the financial sector, unemployment also affected the higher and middle income groups. Thus, between September 1981 and the end of 1982, the number of office workers employed in Greater Santiago fell by 25% and the relative share of office workers in total unemployment rose from 27% to 32%.

The deterioration of the employment situation was also very pronounced in the rest of the country.<sup>13</sup> The proportion of the labour force that was unemployed in 1982 was higher in the urban centres as a whole than in the capital, whereas in the rural areas the average rate of unemployment rose from 8.2% in 1981 to 14.5% in 1982.

The employment crisis was also evident in other ways. The most important was the unusual increase in the number of persons registered for the Minimum Employment Plan (PEM), a programme created in 1975 partly to palliate the effect of the massive unemployment generated that year by the contraction of economic activity. The participants in this programme may be considered to be underemployed because of the nature of the work they perform and, in particular, because of the subsidy they receive is so meagre.<sup>14</sup> As a result of the drastic decline of employment in most production activities, the number of persons participating in the Minimum Employment Plan (PEM) rose constantly and rapidly throughout 1982, from less than 160 000 in February to more than 336 000 in December. By the end of the year, the PEM had absorbed over 9% of the total labour force of the country.

During the last quarter of 1982, the main factor which contributed towards reversing the sharp upward trend of the unemployment rate was the initiation of a new emergency plan —the so-called Occupational Programme for Heads of Household (POJH). One of the central objectives of this programme, which provided for considerably higher wages than the PEM, was to deal with the new situation created by the existence of a high rate of unemployment among professionals, technical workers and skilled workers.<sup>15</sup> Since its inception in October, it grew rapidly and by the end of December, it provided employment for around 103 000 persons.

The employment situation in Uruguay, although considerably less severe than in Chile, as is shown in figure 5, was also unfavourable. After having fallen steadily between 1977 and mid-1981 —when it fell below 6%— the unemployment rate in Montevideo rose considerably after the third quarter of that year and continued to rise rapidly throughout 1982.<sup>16</sup> At the end of the year, one out of every seven workers in the capital city was unemployed and the average unemployment rate during 1982 was 11.9%, almost double that of 1981. Moreover, this considerable increase in unemployment was accompanied by a slight decline in the participation rate, which fell from 52% to 50% after having risen steadily during the previous four years.<sup>17</sup>

In sectoral terms, unemployment was highest in the manufacturing industry, where total production fell by 17% in 1982 and unemployment rose from 8% at the end of 1981 to over 15% one year later. Unemployment was also very high in construction (13%) and commerce (9.5%), in both of which the product decreased markedly (-16% and -23%). Nevertheless, the highest relative increase in unemployment was in the financial services sector, where the unemployment rate more than tripled rising from 2% in late 1981 to approximately 7% at the end of 1982.

During 1982, the employment situation also continued to deteriorate in Costa Rica, mainly as a result of a new and considerable decline of total economic activity. However, contrary to what happened in Chile and Uruguay, where the enormous increase in unemployment in 1982 represented a reversal of a downward trend which had been generally evident in both countries since 1977, in

<sup>13</sup> As of 1980, periodical employment and unemployment surveys have been carried out in March and September in the 12 regions of the country.

<sup>14</sup> In 1982, the average value of this subsidy was 1 650 pesos per month, which represented a purchasing that was 58% lower than that of the subsidy paid in 1975; this amount was equivalent to approximately US\$ 33.

<sup>15</sup> The POJH generally carries out labour-intensive public work programmes supervised by professionals who act as project heads at a monthly wage of 30 000 pesos and are assisted by technical supervisors (who receive 15 000 pesos per month), foremen (who earn 10 000 pesos per month) and manual workers (who receive 4 000 pesos).

<sup>16</sup> Approximately 48% of the total active population of Uruguay lives in Montevideo.

<sup>17</sup> In Uruguayan statistics, the participation rate represents the ratio between the labour force and the population aged 14 or over.

Costa Rica the increase in the average unemployment rate in 1982 followed upon the increases which had already occurred in 1980 and 1981. As a result, the average annual unemployment rate (9.9%), although only slightly higher than the 1981 rate, was exactly double the rate of 4.9% recorded in 1979 (see table 18).

The deterioration of the employment situation was also evident in the greater proportion of the work force that was underemployed. Underemployment, which had already risen from 18% to 22% between 1980 and 1981, rose again in 1982, to approximately 25%. The increase was particularly pronounced in the urban centres, where underemployment doubled. The rise of underemployment was also reflected in the decline in the relative proportion of wage-earners that made up the labour force and in the gradual but steady increase in the relative share of own-account workers. Thus, in 1982 over one-third of the economically active population was affected by either open unemployment or visible underemployment.

This unfavourable situation was partly linked to changes in participation rates. The sharp drop of real wages caused by the fall of the net per capita income and by the acceleration of inflation forced many members of the passive population to enter the labour market in order to neutralize the decline in their family incomes. Hence, the participation rate rose from an average of 35% in 1980 to around 37% in 1982.<sup>18</sup> Because the resulting increase in the labour supply occurred at a time when economic activity was declining rapidly, the unemployment rate rose further.

In contrast with what happened in Uruguay, however, the trend towards a gradual worsening of the employment situation was reversed during the second half of the year. After having stabilized at around 10.5% between November 1981 and July 1982, open unemployment in San José fell below 9% in November. This phenomenon was even more evident in the rural areas, where open unemployment fell from an average 8.5% in March and July 1982 to only 4.4% in November. Although the latter figure may be partly attributed to seasonal factors, it was considerably lower than the almost 7% recorded in the rural sector for the same month of the preceding year.

In 1982, the unemployment situation also worsened in Colombia, whose product only rose by 1%, the lowest percentage of the last 40 years. In the four main cities of the country, open unemployment rose to an average of 9.2% after having fallen in 1981 to 8.2%, the lowest figure recorded since relatively reliable statistical series on unemployment have been available.

As in the two preceding years, Bogotá had the lowest average unemployment rate (7.4%), although the relative increase in the rate in that city was the highest of the country. On the other hand, in Medellín—again the urban centre that was most affected by unemployment—the average unemployment rate rose only slightly although its evolution throughout the year was clearly more unfavourable than it had been in 1981 (see table 19). Unemployment also rose only slightly in Cali, where the proportion of the labour force that was unemployed in 1982 was the lowest since 1977 (with the sole exception of 1981) and where, as in Bogotá, the rise in the unemployment rate went hand in hand with a rise in the participation rate. This trend with regard to employment was in contrast with the situation in Barranquilla. In that city, although unemployment dropped in 1982, it was much higher than it had been during the entire period between 1977 and 1980 and the decline of open unemployment coincided with a new and sharp drop in the participation rate.

Although lower in absolute terms than in Colombia, the 8.2% urban unemployment rate recorded in Venezuela during the first half of 1982 was more unfavourable, as it represented the continuation, for the fourth year in a row, of the upward trend in unemployment which had begun in 1979, the year when the Venezuelan economy entered into a stage of almost total stagnation. Thus, during the first half of 1982, the unemployment rate reached almost the same level it had in 1975—which was the highest rate recorded since a continuous statistical series has been available—and was much higher than the rate of slightly over 5% recorded in 1978, the year that marked the end of the phase of rapid economic growth and of the extraordinary boom in manufacturing and construction which had followed upon the first series of oil price increases.<sup>19</sup>

Open unemployment also rose for the fourth year in a row in the main cities of Argentina in 1982. Nevertheless, as in 1981, it remained the second lowest of the region (see table 18). As had

<sup>18</sup>In Costa Rica, the participation rate is defined as the ratio between the labour force and the total population.

<sup>19</sup>In view of the fact that in 1982 economic activity followed a downward trend and there was an atmosphere of growing uncertainty among economic agents, the average annual unemployment rate was probably higher than in 1975.

Table 19

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

	1978	1979	1980	1981	1982	1981				1982			
						I	II	III	IV	I	II	III	IV
<b>Argentina<sup>a</sup></b>													
Capital and Greater													
Buenos Aires	2.8	2.0	2.3	4.5	4.7	...	4.0	...	5.0	...	5.7	...	3.7
Córdoba	3.9	2.2	2.4	3.8	4.4	...	2.9	...	4.7	...	4.8	...	3.9
Greater Mendoza	3.2	3.1	2.3	4.8	4.1	...	4.2	...	5.3	...	4.8	...	3.3
Rosario	3.9	2.9	3.4	5.8	8.4	...	5.0	...	6.5	...	8.3	...	8.4
<b>Brazil<sup>b</sup></b>													
Rio de Janeiro	...	...	7.5	8.6	6.6	8.3	8.9	8.8	8.5	9.3	6.8	5.6	4.5
Sao Paulo	...	...	5.7	7.3	6.0	7.4	7.4	7.5	6.7	8.3	5.7	5.6	4.3
Recife	...	...	6.9	8.6	7.5	8.3	8.8	9.3	7.8	9.1	7.9	7.3	5.7
Porto Alegre	...	...	4.5	5.8	5.3	5.9	6.3	6.1	4.9	6.4	5.3	5.2	4.1
<b>Colombia<sup>c</sup></b>													
Bogotá	7.3	6.6	7.9	5.5	7.4	5.9	4.9	5.2	5.8	8.5	7.0	6.8	7.1
Barranquilla	7.4	6.3	8.1	11.1	10.4	12.1	11.9	11.4	8.9	9.6	11.3	10.3	10.3
Medellín	12.7	14.3	14.7	13.1	13.3	15.9	14.9	12.1	9.2	12.6	12.4	15.0	13.1
Cali	9.8	10.7	10.0	9.0	9.6	9.3	9.0	9.6	7.2	9.7	9.6	9.9	9.0
<b>Mexico<sup>b</sup></b>													
México city	6.9	5.7	4.3	3.9	3.9	4.2	3.8	4.1	3.6	3.5	3.9	...	4.3 <sup>d</sup>
Guadalajara	6.0	5.7	5.0	5.8	4.8	6.2	5.8	5.8	5.5	4.4	5.2	...	4.8 <sup>d</sup>
Monterrey	7.6	5.9	5.2	4.2	4.8	4.5	4.8	4.2	3.4	4.3	4.7	...	5.3 <sup>d</sup>
San José (Costa Rica) <sup>e</sup>	5.8	4.5	5.6	8.8	10.0	7.3	8.4	...	10.7	10.4	10.6	...	8.9
Santiago (Chile) <sup>e</sup>	14.0	13.6	11.8	11.1	22.1	11.3	9.0	10.5	13.5	19.1	23.2	24.8	21.3
Lima (Peru) <sup>f</sup>	8.0	6.5	7.1	6.8	6.4	...	6.8	...	...	...	6.4	...	...
Montevideo (Uruguay) <sup>g</sup>	10.1	8.4	7.4	6.6	11.9	5.9	5.7	7.0	7.9	10.7	11.3	11.7	13.8

Source: ECLA, on the basis of official information.

<sup>a</sup>Figures for April and October.

<sup>b</sup>Quarterly averages.

<sup>c</sup>Figures for March, June, September and December.

<sup>d</sup>Half-yearly averages.

<sup>e</sup>Figures for March, July and November.

<sup>f</sup>1978, average July-August; 1979, September; 1980, April; 1981 and 1982, June.

<sup>g</sup>Half-yearly averages for 1978, 1979 and 1980. Quarterly averages for 1981 and 1982.

happened in 1981, the rise in unemployment in 1982 was due to the sharp decline of overall economic activity, which fell once again by around 6%. Especially decisive was the decline, for the third year in a row, of manufacturing, the product of which fell to the lowest level of the last 15 years. Consequently, industrial employment fell by 7% between October 1981 and the same month in 1982; this brought the cumulative decline between 1975 and 1982 to 38.5%. During 1982, there was also a marked decline, for the second year in a row, in levels of activity in construction and commerce and other services, which up to 1980 had absorbed most of the workers displaced by industry. At the same time, in 1982 the transfer of persons from the category of wage-earners to that of own-account workers was almost complete; this process had to a large extent kept open unemployment very low despite the fact that economic growth had been weak between 1977 and 1980.

The deterioration of the employment situation was also reflected in a heavy increase in visible underemployment.<sup>20</sup> In the urban centres, visible underemployment rose from 5.9% in 1981 to 8.2% in 1982, particularly as a result of the shortening of the work day in many activities. The underemployment rate was over 7% in Buenos Aires, fluctuated at around 10% in the other main cities and reached even higher figures in the urban centres of the northern part of the country.

<sup>20</sup>In Argentina visible underemployment is defined as the proportion of the employed labour force which works less than 35 hours per week and which wishes to work more.

Nevertheless, the employment situation was slightly better during the final months of the year. The household survey carried out in October showed a significant drop in open unemployment in Buenos Aires, as well as in Córdoba and Mendoza. Consequently, despite the persistently high unemployment rate in Rosario, the weighted average urban unemployment rate for the country fell from around 6% in April to 4.6% in October. This improvement was concentrated only in the major cities and did not benefit the intermediate urban centres of the interior; when the five largest cities are excluded, the average open unemployment rate remains stable at a level of around 6%.

As mentioned above, in 1982 the improvement of the employment situation in Mexico which had been noted during the preceding four years was halted and reversed. During that period, when the economy had grown vigorously and steadily, employment had risen at an annual rate of 5.4% and open unemployment in the major cities had fallen from 8% in 1977 to slightly over 4% in 1981. In 1982, however, the contraction of the economy caused a decline of almost 1% in total employment and even sharper declines in the number of workers employed in manufacturing (-3%) and in construction (-4%). From the second quarter of the year onwards, the downward trend of the unemployment rate in the three main cities of the country was reversed and towards the end of the year unemployment was estimated to have doubled.<sup>21</sup> The deterioration of the employment situation during the second half of the year was also reflected in the strong increase in the average duration of unemployment and the considerable increase in the percentage of recently unemployed persons among the total unemployed population.<sup>22</sup>

The urban employment situation tended to deteriorate in Peru, where total economic activity came almost completely to a standstill in 1982, after three years of moderate growth. Despite the fact that unemployment in Lima fell from 6.8% to 6.4% between June 1981 and June 1982, the proportion of the labour force that had suitable employment fell during that time from 66.4% to somewhat under 62%.<sup>23</sup> This considerable decline was caused by a sharp increase in underemployment, which rose from around 27% in June 1981 to almost 32% one year later. There was an unfavourable change in the relative importance of the various forms of under-utilization of labour, inasmuch as underemployment usually tends to affect workers at the lower income levels, while open unemployment usually affects the middle income sectors. Moreover, in 1982, three quarters of the increase in underemployment was concentrated among the most seriously deprived strata of the population.<sup>24</sup>

In apparent contrast with the countries analysed above, official figures suggest that in 1982 there was a clear and steady fall in urban unemployment in Brazil; the average annual unemployment rate in the seven main cities of the country appears to have fallen from 7.9% in 1981 to 6.3% in 1982 (see table 18).

Nevertheless, the actual situation with regard to employment is probably much less favourable than what the official figures suggest and the fall in unemployment may be due, to a large extent, to changes that were made in the methodology used for the monthly employment survey. These changes were initiated in February 1982 and were fully implemented by May, i.e., precisely the period for which the statistics show the greatest drop in unemployment. Thus, between January —the last month in which the former methodology was used— and May —the first month in which the new methodology was fully implemented— the average rate of unemployment in the seven main cities fell from 9.1% to 6.2%. The decisive influence which the change in methodology had in "reducing"

<sup>21</sup> See Presidencia de la República, *Criterios generales de política económica para la iniciativa de la Ley de Ingresos y el Proyecto del Presupuesto de Egresos de la Federación para 1983*, Mexico, December 1982.

<sup>22</sup> In Mexico and Guadalajara, the proportion of recently unemployed persons among the total unemployed population during the quarter in question rose from approximately 10% in January-March 1982 to 35% in October-December. In Monterrey, the proportion rose from 21% to 50% during that same time.

<sup>23</sup> The detailed information available in Peru on employment, unemployment and underemployment only covers Lima and is taken from a survey which is conducted only once a year in that city.

<sup>24</sup> Peruvian statistics separate visible underemployment (the category of persons who work less than 35 hours a week but who wish to work longer) from underemployment due to income deficiency (the category of persons who, although working a normal workday, receive less than the legal minimum wage). Within this category, a distinction is made between slight, medium and serious income deficiency. The latter category includes persons whose income is equivalent to less than half the minimum wage.

unemployment appears even more evident from the fact that between January and May, unemployment among youth between the ages of 15 and 19 fell from 22.7% to 12.2% in Rio de Janeiro and from 29.3% to 20.1% in Sao Paulo.<sup>25</sup>

Such a pronounced reduction of urban unemployment as that shown by the official figures appears even less plausible if one looks at employment trends in the formal sector of the economy as recorded both in the statistical series of the Ministry of Labour and in those of the Instituto Brasileiro de Geografia y Estadística (IBGE).<sup>26</sup> According to the former, total urban employment in the ten main cities of the country fell by almost 2% in 1982, after having fallen by over 3% in 1981. The decline was much greater—almost 7%—in manufacturing; thus, there was a cumulative decline of 15% in the absolute level of employment in manufacturing during the biennium 1981-1982.<sup>27</sup>

In view of the above, it is reasonable to assume that the moderate decline of urban unemployment during the second half of the year—when the new methodology was applied consistently—were due to a large extent to the growth of employment in the informal sector of the economy.

## V. INFLATION AND WAGES

### 1. Inflation

Despite the widespread weakening of economic growth and the aggravation of unemployment, inflation reached unprecedented levels in 1982. As may be seen in table 20, the weighted average rate of increase of consumer prices in the region as a whole was 84%, which was much higher than the figures for any year before that. Inflation was particularly high in Argentina, Bolivia, Brazil, Costa Rica, Mexico and Peru. During the course of 1982, consumer price levels increased fourfold in Bolivia, more than tripled in Argentina, almost doubled in Brazil and Mexico, and rose by 80% in Costa Rica and by over 70% in Peru. On the other hand, the rate of inflation fell considerably in Paraguay and, particularly, in Guatemala and Haiti, where prices fell even in absolute terms.

The inflationary process accelerated at a particularly rapid rate in Bolivia. After having risen at a rate of around 25% during the two preceding years, consumer prices rose by almost 300% in 1982; wholesale prices, which had risen by 28% in 1981, rose by somewhat over 400%. This radical acceleration of the inflation rate—shown clearly in figure 6—was unleashed by the approximately 85% increase in the official exchange rate decreed in February. The impact of this large devaluation was reinforced in the following months by the accentuation of inflationary expectations, by a new exchange crisis and by an increase in the official prices of several basic products and services decreed in November along with a further adjustment of over 365% in the official exchange rate.<sup>28</sup> Because of the magnitude of the devaluation, the rise in inflation was also accompanied by a profound change in relative prices. Thus, between the end of 1981 and December 1982, the increase in the prices of imported products (543%) was almost double that of prices of agricultural products (275%) and was also much higher than the increase in prices of manufactured goods (395%).

The increase in the rate of inflation was also very pronounced in Argentina, where the consumer price index rose by 210% and wholesale prices rose by around 310%. As in Bolivia, the devaluations of the peso which were enacted at the end of 1981 and in July 1982 played a major role in accelerating inflation. The decisive impact of the exchange adjustments was also reflected in the fact that the prices of internationally tradeable goods (particularly imports) rose more than the prices of other goods and, in particular, of services.

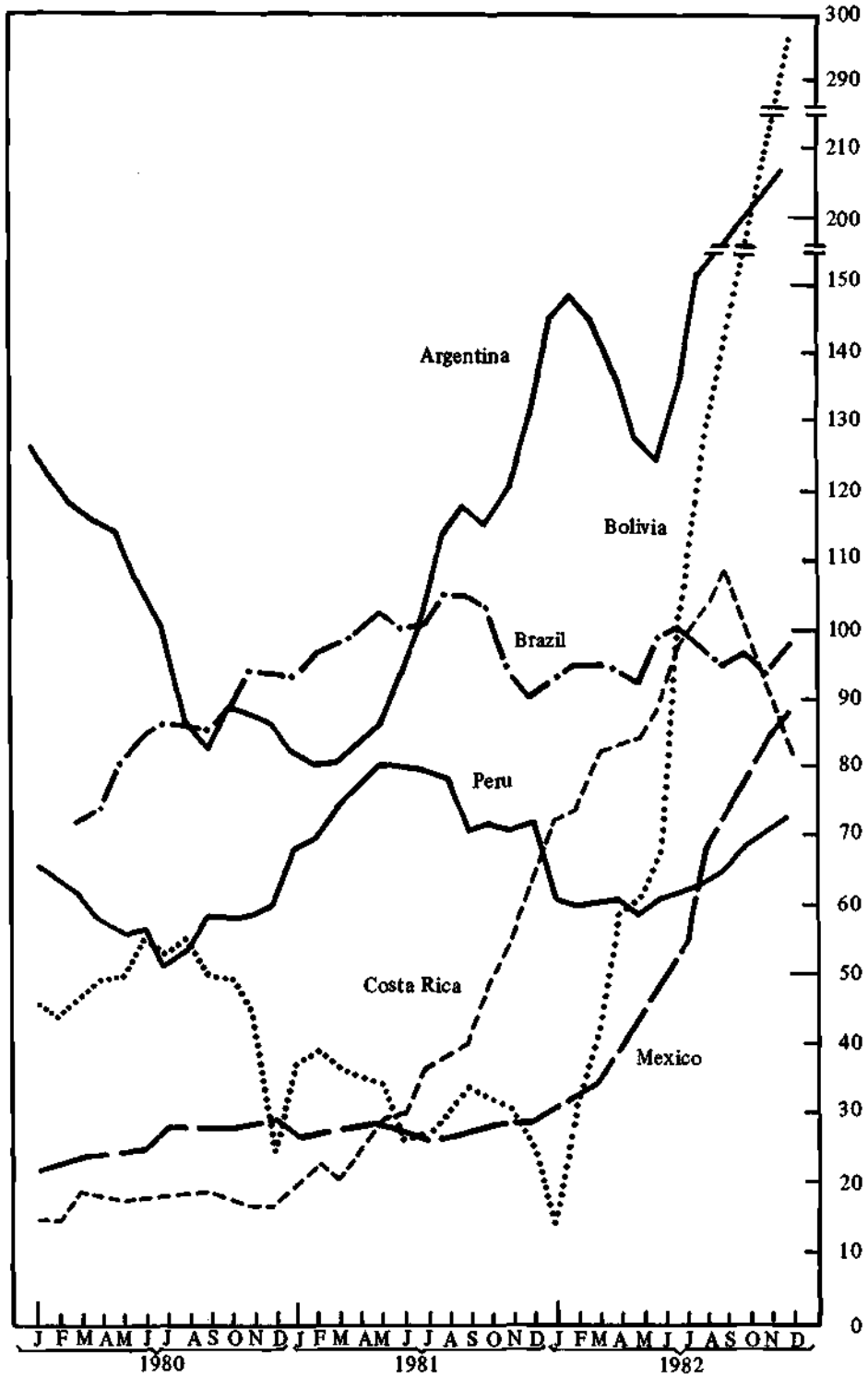
<sup>25</sup>For a detailed study of the problems presented by the methodologies introduced in 1982, see: Mauricio Galinkin, *Números, ah, esses números... (A propósito de Pesquisa Mensal de Emprego)*, mimeographed, Brasília, July 1982.

<sup>26</sup>Basically, these series measure the evolution of employment in medium-sized and large enterprises and therefore do not provide information on changes in employment in the so-called informal sector of the economy.

<sup>27</sup>These reductions coincide almost exactly with the 6.7% and 13.5% reductions recorded for those two periods in the IBGE's figures on employment in the manufacturing sector.

<sup>28</sup>Inflationary expectations were reflected in the exchange rate on the parallel market, which tripled between March and October, a period during which the official exchange rate did not vary.

Figure 6  
**LATIN AMERICA: TWELVE-MONTH VARIATION IN CONSUMER  
 PRICE INDEX IN SOME COUNTRIES**



Source: ECLA, on the basis of official information.

Inflation also rose sharply in Mexico. Consumer prices, which during the two preceding years had risen at a rate of around 30%, almost doubled in 1982. This serious aggravation of the inflationary process was partly a reflection of the considerable magnitude of the disequilibria that had accumulated in previous years, the effects of which had been disguised or neutralized up to the end of 1981 thanks to an exceptionally abundant supply of external financing, but which abruptly became evident as of February 1982, when the authorities enacted a sharp devaluation of the peso after almost five years of exchange stability.<sup>29</sup> However, the marked accentuation of the rate of increase of prices which followed upon the devaluation was also due to the direct effect on domestic costs of the devaluation and the readjustment of wages and salaries granted in March, and to the unfavourable effect which these measures and the rapid weakening of the balance-of-payments position had on the expectations of economic agents with respect to the future trend of prices. The substantial increases in the official prices of certain goods for mass consumption and in the rates of certain public utilities, as well as the constant inflationary pressure created by the high fiscal deficit also had something to do with this upward pressure on prices. Under such circumstances, the authorities decided in August to enact another sharp devaluation of the peso and in December they eliminated several subsidies for essential goods in order to reduce the disequilibrium of the public sector. As a result of these measures, consumer prices rose by over 11% in the month of August alone and again rose by almost 11% in December; thus, the rate of inflation again rose considerably during the second half of the year (see figure 6).

By contrast with the experiences of Bolivia and Mexico, the high inflation rates recorded in 1982 in Brazil and Peru basically represented a continuation of a trend that had been evident in the inflationary processes in the two countries for several years. Thus, the 98% increase in consumer prices in Brazil in 1982 was only slightly higher than the 91% and 96% increases of 1981 and 1980. At the same time, the 73% rate of inflation recorded in Peru in 1982 was almost identical to that of 1981 and was also similar to the average variation in prices during the period 1978-1980 (see table 20). Essentially, this relative stability of the inflation rate was due to the fact that both countries followed a complex and generalized indexing system by virtue of which the exchange rate, wages, financial assets and other key economic variables were readjusted at very short intervals based on the increases which occurred in the consumer price index during the preceding period. Naturally, in the absence of abrupt changes in the prices of certain basic goods (such as food and fuels) caused by exogenous factors (such as sharp variations in crops or marked increases or decreases in international prices) or economic policy decisions (such as a strong increase in the exchange parity), the indexing system tends not only to perpetuate the inflationary process but also to provide a certain stability in the rate of increase in the general level of prices.

In Costa Rica, the course of inflation was different and, in general, more favourable than in the above countries. In this country, although prices remained quite stable up to 1972, inflation rose sharply in 1981. Although in 1982 consumer prices rose by an unprecedented 82%, which was considerably higher than the 65% increase of 1981, during the last quarter of the year, the serious and steady upward trend that had been evidenced since the beginning of 1981 was reversed. Essentially, this drop in the rate of inflation was the result of the policies applied from May onwards by the new economic authorities. These authorities introduced severe economies in the expenditures of the central government and adopted measures aimed at increasing tax revenues; this led to a substantial reduction of the fiscal deficit. In July, in order to reduce the pressures on high-powered money originating in the public sector, the authorities radically increased the prices of fuels, public transport, electricity, water and telephone services.<sup>30</sup> At the same time, the parallel exchange market was eliminated and the exchange market was centralized in the banking system. Thanks to these measures and to the recovery of a certain degree of confidence among private economic agents, the free exchange rate, which had risen sharply up to July, fell by around 25% during the rest of the year and the interbank exchange rate remained stable. This helped reduce increases in costs, which also fell

<sup>29</sup> Between the first quarter of 1977 and the middle of 1981, the exchange rate remained practically constant, rising only from 22.7 to 24.1 pesos per dollar. During the second half of 1981, the authorities decided to raise the exchange parity gradually by means of mini-devaluations, these brought the rate to 26.2 pesos per dollar at the beginning of 1982.

<sup>30</sup> Fuel prices rose by 92%, whereas public transport prices doubled; at the same time, electricity, water and telephone rates were readjusted by between 60% and 100%.

as the result of a substantial decline in rural wages. Under such circumstances, after having reached a record high of almost 110% in September, the annual inflation rate fell rapidly during the next three months (see figure 6).

The trajectory of inflation in Costa Rica was clearly different from the trends noted in Chile and Uruguay in 1982. In the latter two countries, which have a longstanding inflationary tradition, the rate of increase in prices had fallen steadily during the previous three years because of the advances made in the fiscal sector, the extraordinary increase of imports and, above all, the use of the exchange rate as a basic instrument of stabilization policy.

Inflation continued to decline in Chile throughout the first half of 1982, when consumer prices were completely stabilized and wholesale prices fell slightly. Nevertheless, since production and employment levels were falling rapidly and steadily and the country was losing an increasing amount of international reserves, in mid-June the authorities decided to devalue the peso, which had remained stable for almost three years. Mainly as a result of this devaluation, and also because of the new increases in the exchange rate which were enacted in the months following, the downward trend of inflation was reversed in July and the inflation rate rose rapidly during the rest of the year. Thus, during the second half of the year, the consumer price index rose by 20%, while wholesale prices rose by over 40%.

As may be seen in figure 7, the evolution of inflation was very similar in Uruguay, although here it continued to fall throughout most of the year, reaching a minimum of around 10% in November. Nevertheless, for reasons very similar to those which in June had moved the Chilean economic

Table 20  
LATIN AMERICA: EVOLUTION OF CONSUMER PRICES  
(December-to-December variations)

Country	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Latin America <sup>a</sup>	12.0	13.5	20.8	36.2	40.1	57.5	61.4	40.3	37.9	54.2	56.5	58.1	84.9
<b>Countries with traditional of high inflation</b>													
Argentina	14.4	15.6	24.1	41.5	44.9	69.3	74.8	48.4	45.9	61.9	66.3	68.5	97.1
Brazil <sup>b</sup>	21.6	39.1	64.2	43.9	40.1	334.9	347.5	150.4	169.8	139.7	87.6	131.2	209.7
Colombia <sup>c</sup>	17.7	18.1	14.0	13.7	33.8	31.2	44.8	43.1	38.1	76.0	95.6	91.2	97.9
Chile	3.5	14.1	14.0	25.0	26.9	17.9	25.9	29.3	17.8	29.8	26.5	27.5	24.0
Mexico	34.9	22.1	163.4	508.1	375.9	340.7	174.3	63.5	30.3	38.9	31.2	9.5	20.7
Peru	7.8	-0.8	5.6	21.3	20.6	11.3	27.2	20.7	16.2	20.0	29.8	28.6	98.8
Uruguay	5.7	7.7	4.3	13.8	19.2	21.0	44.7	32.4	73.7	66.7	59.7	72.7	72.9
	19.3	35.6	94.7	77.5	107.2	66.8	39.9	57.3	46.0	83.1	42.8	29.5	20.5
<b>Countries with traditional of moderate inflation</b>													
Bolivia	2.0	4.6	6.7	14.6	20.2	9.7	7.3	7.7	8.7	22.5	15.5	15.2	35.2
Costa Rica	3.8	3.3	23.6	34.8	39.0	6.0	5.5	10.5	13.5	45.5	23.9	25.1	296.6
Ecuador	4.3	1.9	6.9	15.9	30.6	20.5	4.4	5.3	8.1	13.2	17.8	65.1	81.7
El Salvador	8.0	6.8	6.9	20.6	21.2	13.2	13.1	9.8	11.8	9.0	14.5	17.8	23.9
Guatemala	1.0	-0.6	5.2	7.9	21.0	15.1	5.2	14.9	14.6	14.8	18.6	11.6	13.4
Haiti	1.0	0.3	1.1	17.5	27.5	0.8	18.9	7.4	9.1	13.7	9.1	8.8	-2.0
Honduras	-0.7	13.3	7.3	20.8	19.5	19.9	-0.1	-1.4	5.5	15.4	15.3	16.4	-1.7 <sup>d</sup>
Nicaragua	1.4	1.5	6.8	5.1	13.0	7.8	5.6	7.7	5.3	22.5	11.5	9.2	9.4
Panama						1.9	6.2	10.2	4.3	70.3	24.8	23.2	22.2
Paraguay	2.5	1.0	6.7	9.7	16.7	1.4	4.8	4.8	5.0	10.0	14.4	4.8	3.9
Dominican Republic	2.3	6.3	9.5	14.1	22.0	8.7	3.4	9.4	16.8	35.7	8.9	14.9	4.2
Venezuela	-1.3	10.6	8.0	17.2	10.5	16.5	7.0	8.5	1.8	26.2	4.2	7.4	7.5
	3.4	3.0	3.5	5.1	11.6	8.0	6.9	8.1	7.1	20.5	19.6	10.8	7.9

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

<sup>a</sup>Totals for Latin America and partial figures for groups of countries refer to variations in prices in each country, weighted by its population for each year.

<sup>b</sup>Up to 1979, this figure refers to the variation in the consumer price index for Rio de Janeiro; from 1980 onwards, it refers to the variation in the national total.

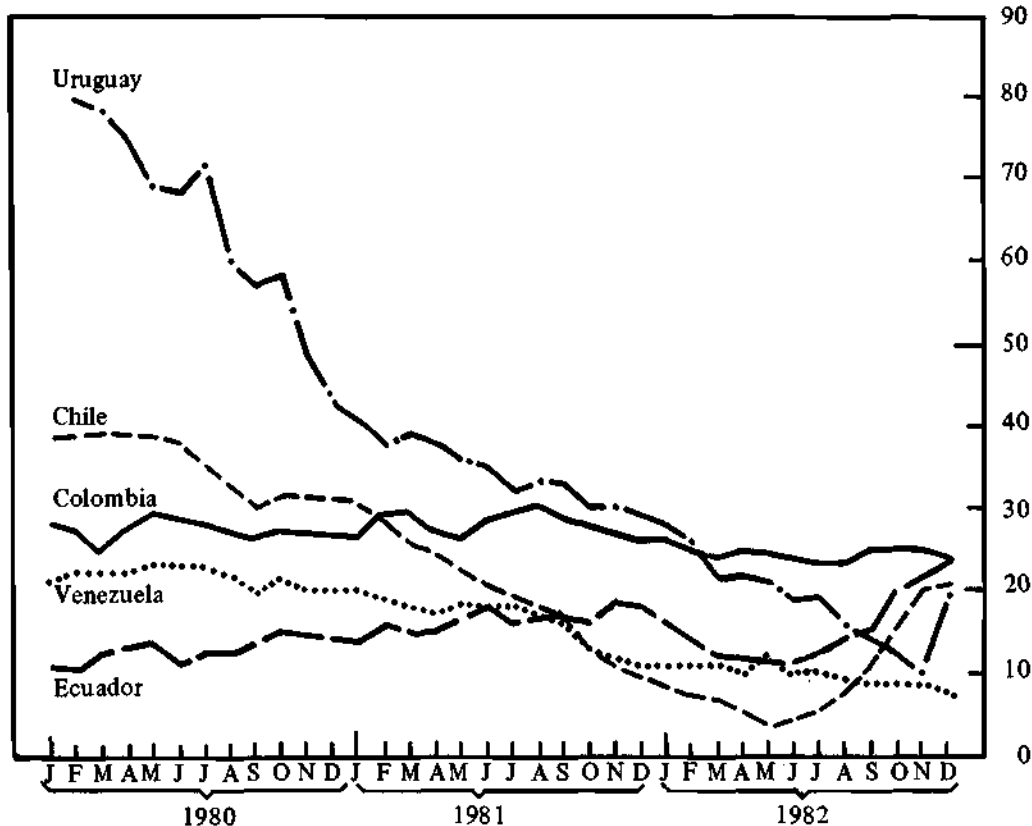
<sup>c</sup>Up to 1980, this figure refers to the variation in the consumer price index for manual workers; for 1981 and 1982, it refers to the variation in the total national CPI, including manual and office workers.

<sup>d</sup>Variation between September 1982 and September 1981.



Figure 7

LATIN AMERICA: TWELVE-MONTH VARIATION IN CONSUMER PRICE INDEX IN SOME COUNTRIES



Source: ECLA, on the basis of official information.

authorities to abandon the fixed exchange rate,<sup>31</sup> the Central Bank of Uruguay decided, at the end of November, to abandon its policy of pre-announced minidevaluations and allowed the peso to float freely. As a result of this decision, the price of the dollar rose abruptly and by the end of the year the exchange rate was more than 100% higher than it had been before the float. In such circumstances, inflation also rose dramatically in December. During that month, consumer prices rose by 8.6%, a figure similar to the cumulative variation of 11% which occurred between January and November.

During 1982, inflation increased for the third year in a row in Ecuador, where consumer prices rose by an unprecedented 24%. As in Bolivia, Mexico, Chile and Uruguay, this acceleration of the inflationary process followed upon the devaluation enacted in March and May, which put an end to almost 12 years of complete exchange stability. Also, as in some of these other cases, to the inflationary impact of the devaluation was added the impact of the drastic adjustment of the domestic price of fuels and the elimination of subsidies for certain basic consumer goods.<sup>32</sup>

In 1982, prices in Colombia and Nicaragua increased at rates quite similar to those of Ecuador; however, inflation in these two countries actually dropped slightly by comparison with previous years. In Colombia—which has the most stable inflation rate in Latin America—<sup>33</sup> the rate of

<sup>31</sup>Between the first half of 1981 and the second half of 1982, the unemployment rate in Montevideo rose from 5.8% to 12.7%, mainly as a result of the approximately 20% drop in industrial production and construction during that same period.

<sup>32</sup>In October 1982, the price of gasoline was increased by 100% and the subsidy for wheat was eliminated. The latter measure played a decisive part in the increase in the price of bread, which rose by 35% during the last quarter alone.

<sup>33</sup>As may be seen in table 20, the rate of increase of consumer prices has fluctuated regularly between 24% and 30% since 1973, with the sole exceptions of 1975 and 1978, when inflation fell to 18%.

increase in prices was still basically determined by the frequent minidevaluations of the peso and by the indexing of wages. In Nicaragua, on the other hand, the rate of inflation remained practically the same as in 1981; this was due to the interaction of forces that tend to accelerate the price increase rate—e.g., the sharp reduction of the volume of imports, the heavy increase in the fiscal deficit and the increase in the effective exchange rate—and measures that tend to hold it down—e.g., the freezing of nominal wages in the middle and high-income strata, subsidies granted for certain basic goods and services and the very limited expansion of the means of payment.

In most of the other economies of the region, which are usually more open to the exterior as regards trade and finance, and whose inflation tends to follow international inflation, the rate of increase in domestic prices fell, mainly because international inflation declined during 1982. In some cases, domestic policies added to the effect of the lower rate of external inflation. This was the case in Paraguay and Guatemala, where the rate of inflation fell abruptly, and in Venezuela, where inflation dropped for the third year in a row. In 1982, the economic authorities of these three countries applied restrictive fiscal, monetary and wage policies which considerably reduced government expenditure, contained the growth of private investment and consumption, and/or considerably limited any increase in real wages or else brought them down in absolute terms.

## 2. Wages

As in 1981, real wages followed very different trends in the countries of the region for which relatively reliable statistics are available. Thus, while the purchasing power of wages fell sharply in Costa Rica and Argentina for the second year in a row, it rose considerably in Brazil and more moderately in Colombia. At the same time, the average level of real wages fell slightly in Chile, Paraguay and Uruguay, after having risen considerably in 1981. Finally, the real wages of private-sector manual workers rose by almost 1.5% in Peru, thus partially recovering from the decline of 1981 (see table 21 and figure 8).

In general, this uneven evolution of real wages reflected the uneven evolution, in the various countries, of certain elements that play a fundamental role in determining changes in wages, e.g., variations in per capita income, the situation with respect to employment and inflation, and the wage policy.

The most spectacular drop in real wages occurred in Costa Rica, where they fell by almost 24% during the first half of 1982.<sup>34</sup> This decline represented an accentuation of the downward trend of the preceding two years. Because of this, the purchasing power of wages fell by 34% during the period 1980-1982 and was also considerably lower in 1982 than at the beginning of the 1970s. As had happened in 1981, this new and pronounced contraction of real wages was largely due to the drop in per capita income caused by the slowdown of domestic economic activity and the deterioration of the terms of trade. As in 1981, wages suffered from the acceleration of the inflationary process and the deterioration of the employment situation, both of which continued to worsen up to the third quarter of 1982. The decline in the purchasing power of wages was also partly due to the restrictive wage policy applied in order to reduce inflation. Nevertheless, the wage policy, by providing for differential readjustments, kept the decline in the purchasing power of the minimum wage much lower (-6.3%) than the decline in the purchasing power of average wages.

Real wages also fell sharply in Argentina, where, as in Costa Rica, the gross domestic product fell substantially for the second year in a row, while in 1982 inflation continued to rise rapidly and unemployment increased. As a result of these changes, the purchasing power of wages fell by around 10.5%, as it had in 1981. As a result of these drops, and also of the fall of real wages during the second half of the 1970s, real wages were 30% lower in 1982 than they had been in 1970-1975. The sharp decline in the real income of wage-earners and the increase in unemployment aggravated social tensions and this in turn led to significant changes being made in the wage policy. In July, the official policy of not intervening in the setting of private-sector wages was abandoned. Thus, after having kept both minimum wages and salaries of public officials frozen during the first half of the year, as

<sup>34</sup>Unfortunately, at this writing, the figures on the evolution of nominal wages during the second half of the year were not yet available. However, in view of the fact that consumer prices rose sharply, particularly during the third quarter it is quite likely that the change in real wages for the year as a whole will not be much different from that of the first half of the year.

Table 21

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

(1976 = 100)

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982 <sup>a</sup>
Argentina <sup>b</sup>	138.3	131.5	139.7	157.7	148.6	100.0	98.5	96.7	111.1	124.2	111.0	99.2
Brazil <sup>c</sup>	78.1	85.7	86.4	88.3	96.8	100.0	104.6	112.7	116.3	122.5	129.1	144.6
Colombia <sup>d</sup>	117.4	98.3	105.2	99.6	97.8	100.0	94.4	105.3	112.2	113.0	114.4	118.3
Costa Rica <sup>e</sup>	102.5	99.4	97.1	91.6	88.3	100.0	109.4	119.0	124.7	121.2	107.5	82.2
Chile <sup>f</sup>	189.4	171.7	113.3	102.9	98.6	100.0	112.9	120.2	130.2	141.9	154.8	154.1
Paraguay <sup>g</sup>	108.2	102.9	99.4	95.0	94.9	100.0	95.4	98.1	92.4	92.9	98.8	97.7
Peru <sup>h</sup>			110.1	108.4	92.2	100.0	84.4	76.0	73.6	80.8	79.2	80.3
Uruguay <sup>i</sup>	145.8	121.0	118.9	116.5	106.2	100.0	88.1	84.9	79.0	77.7	83.5	83.2
<b>Percentage variation</b>												
Argentina <sup>b</sup>	3.4	-4.9	6.2	12.9	-5.9	-32.7	-1.5	-1.8	14.9	11.8	-10.6	-10.4
Brazil <sup>c</sup>	4.2	8.9	0.8	2.2	9.6	3.3	4.6	7.7	3.2	5.3	5.4	8.8
Colombia <sup>d</sup>	-3.8	-16.5	7.0	-5.3	-1.8	2.2	-5.6	11.5	6.5	0.8	1.4	3.7
Costa Rica <sup>e</sup>	10.9	-3.0	-2.3	-5.6	-3.7	-13.2	9.4	8.8	4.8	-2.8	-11.2	-23.6
Chile <sup>f</sup>	19.3	-9.3	-34.0	-9.1	-4.2	1.4	12.9	6.5	8.3	9.0	9.1	-0.2
Paraguay <sup>g</sup>	-1.1	-4.9	-3.4	-4.4	-0.1	5.3	-4.6	3.5	-6.4	0.6	6.3	-1.1
Peru <sup>h</sup>				-1.5	-14.9	8.5	-15.6	-9.9	-3.2	9.9	-2.0	1.4
Uruguay <sup>i</sup>	5.2	-17.0	-1.7	-0.9	-8.6	-5.8	-11.9	-3.6	-8.1	-0.4	7.5	-0.3

Source: ECLA, on the basis of official information.

<sup>a</sup>Preliminary figures.

<sup>b</sup>Wages of labourers in the manufacturing industry in the metropolitan area.

<sup>c</sup>Average wages in industry in general.

<sup>d</sup>Wages of labourers in the manufacturing industry.

<sup>e</sup>Wages and salaries reported by persons enrolled in the social security system.

<sup>f</sup>Wages and salaries of labourers and employees in the non-agricultural sectors, except large-scale copper mining and the cellulose and paper industries.

<sup>g</sup>Wages of labourers in general for Asunción.

<sup>h</sup>Wages of labourers in private sector in the metropolitan area of Lima.

<sup>i</sup>Wages and salaries in the public and private sectors in Montevideo and the interior.

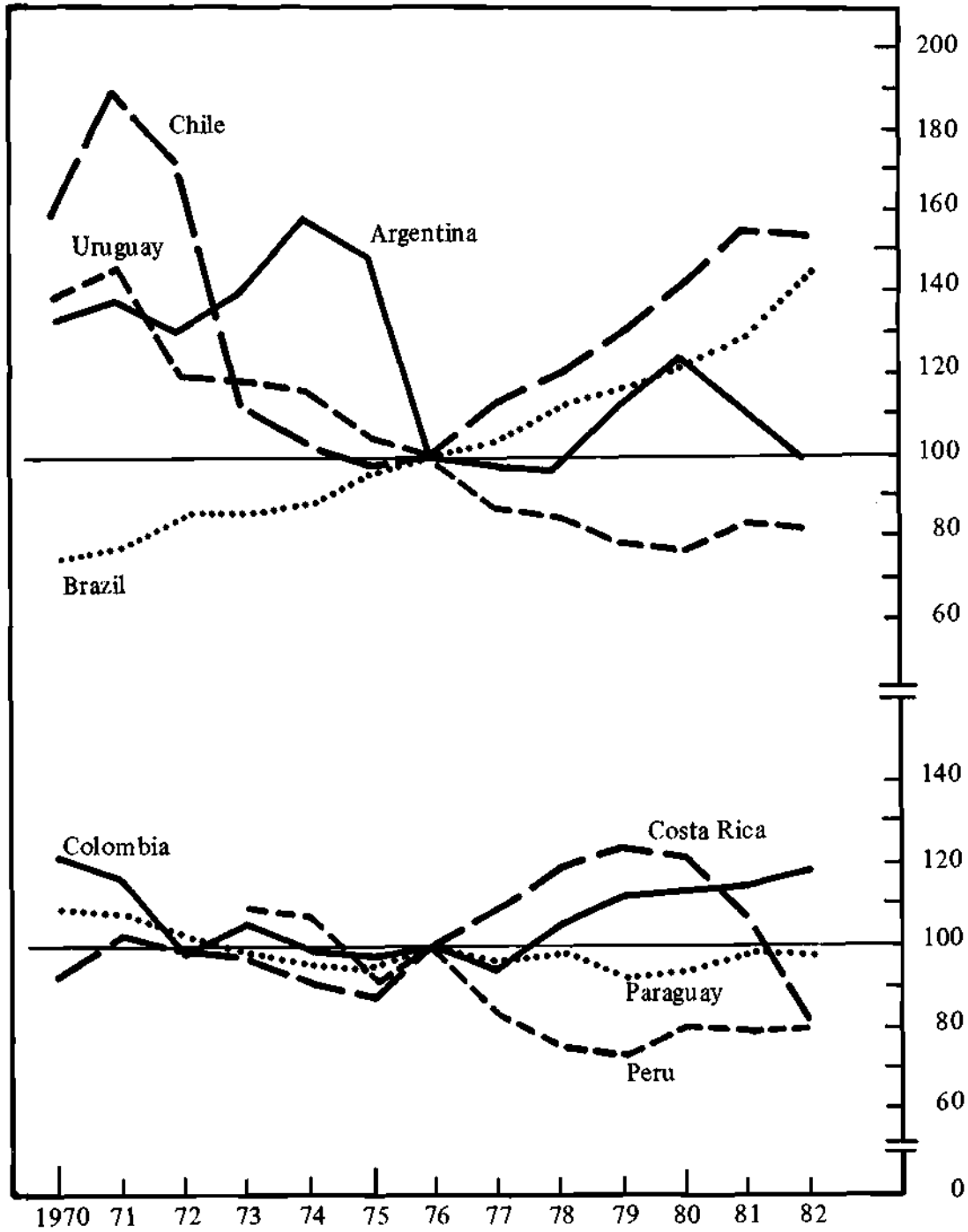
part of their anti-inflationary policy, the economic authorities decided to readjust basic wages and raise public-sector salaries. These changes in wage policy and the slight recovery of economic activity during the last months of the year allowed for a slight increase in the purchasing power of wages in the manufacturing industry, and mitigated the decline in the purchasing power of salaries of State officials.<sup>35</sup>

Real wages followed a very different trend in Chile and Uruguay. Despite the fact that these were the two countries of the region in which total economic activity fell most sharply (-14% and -10%), average annual real wages were practically the same in 1982 as in 1981 (see table 8). In both countries, however, this stability covered up the fact that real wages fell during 1982; this decline was accentuated considerably during the second half of the year.

In Chile, nominal wages remained practically constant throughout the year. During the first half of the year, the level of consumer prices did not change at all, so that real wages and salaries remained stable during that time. However, since they had been rising in 1981, their average level during the first half of 1982 was almost 10% higher than it had been during the same period of 1981.

<sup>35</sup>In December, the average real wage of manual workers in industry was 5% higher than one year before, whereas the average salary of public officials was almost 10% lower than in December 1981. Over the year as a whole, however, these wages and salaries fell by 10.4% and 19.7% respectively.

Figure 8  
**LATIN AMERICA: EVOLUTION OF REAL AVERAGE  
 WAGES AND SALARIES**  
*(Indexes 1976 = 100)*



Source: Table 21.

As may be seen in figure 9, the situation changed radically during the second half of 1982. After the devaluation of the peso in mid-June, consumer prices began to rise rapidly. Despite this, and as a result both of the changes made in the wage policy and of the serious deterioration of the employment situation, nominal wages remained constant up to October and rose only slightly in November and December.<sup>36</sup> Under such circumstances, the purchasing power of salaries and wages fell steadily during the second half of the year; thus, it was 10% lower than during the first half of the year and almost 8% lower than during the second half of 1981. This decline also marked the breakdown of the steady upward course of real salaries and wages between 1975 and 1981, when, as shown in figure 8, they recovered partially from the tremendous fall they had suffered between 1973 and 1975.

Salaries and wages followed a very similar pattern in Uruguay in 1982. In that country, after a general 10% readjustment that had been granted in January, nominal salaries and wages were frozen in order to support the stabilization programme. The general readjustment brought the real level of salaries and wages up sharply during the early months of the year. After that, however, the inflationary process gradually eroded the purchasing power of salaries and wages. This decline was even sharper in December, when consumer prices rose by more than 8% as a result of the devaluation of the peso in November. As in the case of Chile, the decline of real wages during the second half of 1982 completely neutralized any progress that had been made in the early months of the year; however, by contrast with the Chilean experience, the slight decline of real salaries and wages throughout the year as a whole represented a continuation of a steady downward trend which began in 1972 and had only been interrupted in 1981. Consequently, the real level of wages was almost 40% lower in 1982 than during the period 1970-1972 (see table 8).

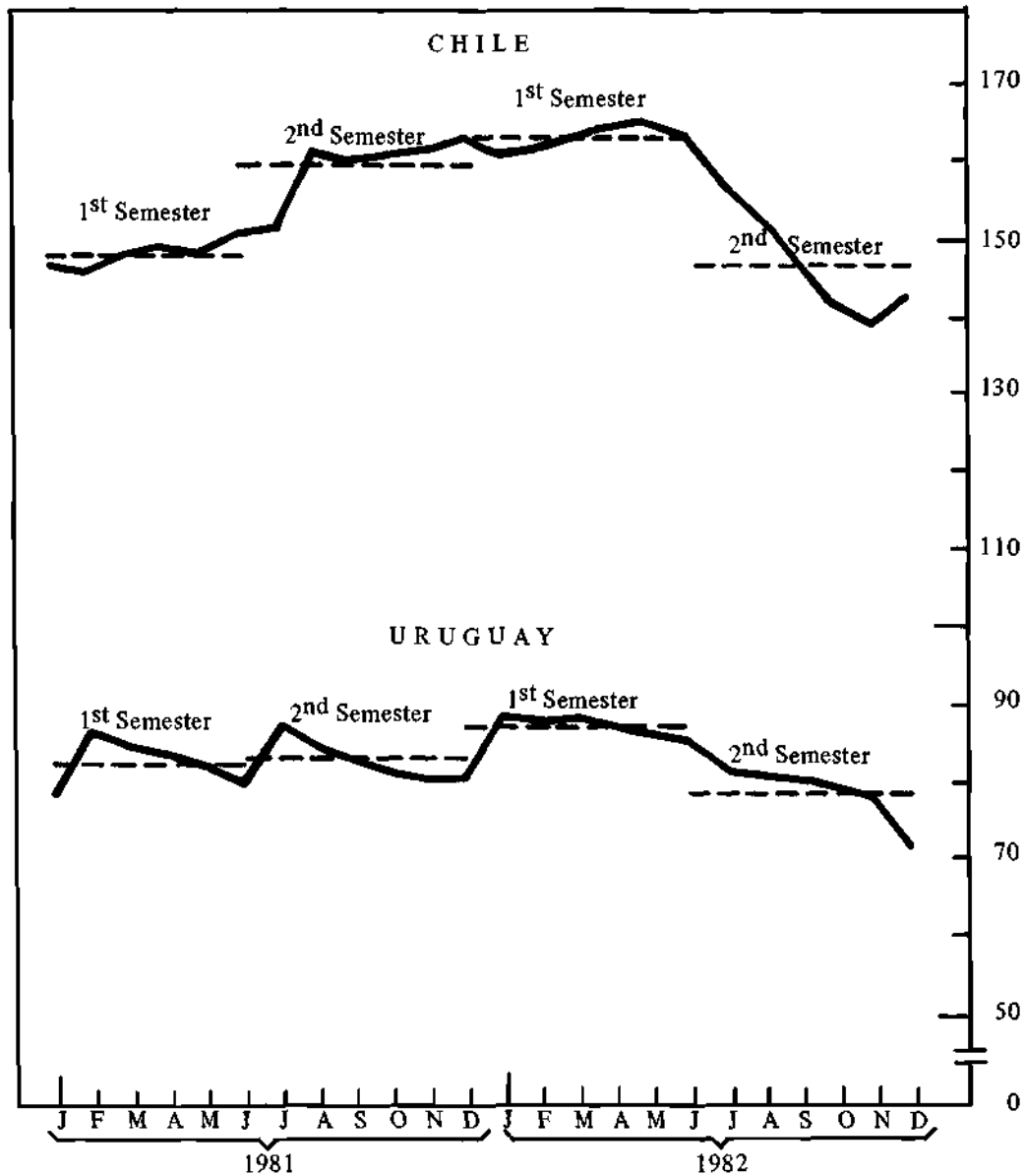
In Paraguay, real wages, which had risen by over 6% in 1981, fell slightly (-1.1%) during 1982. This decline was mainly due to the moderate decline of overall economic activity, the deterioration of the employment situation and the restrictive policy applied by government authorities in order to control inflation. As a result of this policy, nominal increases in wages of manual workers and in minimum legal salaries fluctuated around 4% in 1982 and were thus much lower than the 18% to 20% increases recorded in 1981. Nevertheless, since at the same time the average annual variation in consumer prices fell sharply (from 13% in 1981 to 5% in 1982), the loss of purchasing power was very small.

Real wages rose by almost 1.5% in Peru. Nevertheless, this increase did not compensate for the decline they suffered in 1981. This, plus the fact that they fell almost constantly between 1975 and 1979, meant that in 1982, the purchasing power of wages was around 30% lower than during the period 1973-1974 (see table 21). During 1982, real wages of private-sector employees, which had also risen during the two preceding years, also rose, although at a much higher rate (7.6%). However, because they had dropped sharply between 1974 and 1979, in 1982 they were still 40% lower than in 1973. The policy of readjusting minimum salaries and wages every quarter continued to be applied in 1982. However, since the rate of inflation accelerated gradually throughout the year, these adjustments did not entirely offset the effect of the increases in prices and consequently the purchasing power of minimum wages fell by around 7.5%. In March 1982, on the other hand, legislation on collective agreements was changed and the old system of *anticipos* (advance payments) was replaced by a system of readjustments which were usually granted six and nine months after the initiation of the agreements; the amount of these adjustments was linked to an estimate of the probable magnitude of inflation during the life of the agreement.<sup>37</sup>

<sup>36</sup>The main changes in wage policy were adopted immediately following the devaluation. These included: a) elimination of the provision for an automatic readjustment of wages of workers in the public sector and of private-sector workers not covered by agreements, when the cumulative rise in the consumer price index since the date of the previous readjustment exceeded 10%; b) modification of the rules establishing a so-called "floor" in individual labour contracts and in collective agreements, by virtue of which the employer had to honour the real wage agreed upon in the preceding contract or agreement; as of June, this lower limit was set as the real wage that existed in July 1979 (when the Labour Plan began to be applied or the real wage agreed upon at the time a worker's contract began, if this occurred after July 1979, and c) the establishment of a discount on gross wages or salaries paid in the public sector between July 1982 and June 1984; this amounted to 10% of that part of the salary which was in excess of 100 000 pesos per month and 20% of the portion that was in excess of 150 000 pesos.

<sup>37</sup>*Anticipos* were payments made by employers to workers during the life of a collective agreement; in theory, they were to be deducted from any wage increases agreed upon at the next collective negotiation. In practice, however, the *anticipos* were often included in the salaries taken as the basis for the next negotiation, so that their original purpose was lost. Despite this, two *anticipos* were granted during 1982, in January and March.

Figure 9  
**CHILE AND URUGUAY: MONTHLY EVOLUTION OF REAL AVERAGE  
 WAGES AND SALARIES**  
*(Indexes 1976 = 100)*



Source: For Chile, Index of nominal wages and salaries of the National Statistical Institute (INE), deflated for the period 1976-1978 by the consumer price index as corrected by R. Cortázar and J. Marshall; for the period 1979-1982, by the INE consumer price index  
 For Uruguay; Central Bank of Uruguay, *Indicadores de la Actividad Económica-Financiera*, several issues.

In 1982, the growth rate of real wages also accelerated in Colombia. After having risen at an average rate of slightly over 1% during the two preceding years, real wages of manual workers in the manufacturing sector rose by 3.7% in 1982. The purchasing power of salaries of office workers in industry rose at a slightly lower rate (2.6%); this was very similar to the rate of increase recorded in 1981. Average wages and salaries in commerce rose by almost 5% while the real value of minimum wages rose by around 4% in major cities and by 5.5% in minor urban centres and in the rural sector.

These latter increases reflected the effect of the legal readjustments granted at the beginning of the year and of the downward trend of inflation. As of the first of January, the nominal value of minimum wages was increased by 30% in the main urban centres and by 32% in other cities and in the agricultural sector. This percentage —slightly higher than the increase in consumer prices in 1981— was also much higher than the average variation in prices of somewhat under 25% recorded in 1982. Moreover, since the nominal readjustment of the minimum wage for the rural sector was once again higher than the nominal increase in the minimum wage for the larger cities, the gap between the two continued to close. In 1982, therefore, the rural minimum wage, which in 1977 had represented only 85% of the urban minimum wage, amounted to 95% of the urban minimum wage. The gradual increase in minimum wages also played an important role in raising the income of many wage-earners, especially in sectors such as commerce, services and construction, where most of the workers hired are paid less than the legal minimum wage.

The decisive role that wage policies can play, over the short term, in the evolution of real wages was even more evident in Brazil. Despite the fact that, for the second year in a row, overall economic activity showed very little dynamism, the manufacturing sector was at a complete standstill and inflation was rising rapidly, the average wages of industrial workers rose by almost 9% in real terms. As in 1981 —when these wages rose by over 5%, despite a 6.5% drop in industrial production— the 1982 increase was mainly brought about through a readjustment policy that was clearly aimed at redistribution.<sup>38</sup> This policy made it obligatory to readjust the income of wage-earners every six months by an amount equivalent to 110% of the increase in the consumer price index in the case of payments amounting to less than three times the minimum wage; by an amount equal to 100% of the increase in the consumer price index in the case of payments of between three and ten times the minimum wage and by amounts lower than the rate of inflation in the case of payments amounting to more than ten times the minimum wage.

Minimum wages were also readjusted in May and November of 1982. Since the increase was slightly higher than the increase in consumer prices, their real value, on average, showed a small increase. In addition, minimum legal wages for the different regions were increased on a sliding scale so as to gradually reduce the disparities between them and move towards the establishment of a single minimum wage for the entire country. Thus, from May onwards, there were only three different minimum wage zones in the country.<sup>39</sup>

Thus, thanks to the fact that despite the recession, real wages rose in both 1982 and 1981, and that they had been rising steadily during the preceding ten years, when economic activity had grown at an average annual rate of almost 8%, Brazil continued to be the only country of the region where real wages had followed an uninterrupted upward trend since the beginning of the 1970s (see figure 8).

<sup>38</sup>It is quite likely, however, that the increases shown in the statistics overestimate the true increase in wages during those two years. This is due, in the first place, to the fact that in calculating the wage index, the Brazilian Geographical and Statistical Institute takes into account all remuneration received by workers, including, for example, unemployment compensation. In 1981 and 1982, such payments were substantial in activities such as the automobile industry, where enterprises made special payments to workers who retired voluntarily. A second factor which tends to exaggerate the increase in wages is the procedure used to estimate their average value. This is obtained by dividing total payments made (including unemployment compensation) by the number of persons actually working on the last day of each month.

<sup>39</sup>The first of these includes the southern and southeastern regions, plus the Federal District, and has the highest minimum wage. The second includes the northern region, Pernambuco, Bahía and the rest of the central region. Finally, the third zone includes all the northeast, except Pernambuco and Bahía, and has the lowest minimum wage. In 1982, wage increases in each of these regions amounted to 94, 103 and 109%.

## VI. THE EXTERNAL SECTOR

### 1. Foreign trade

In 1982, under the dual effect of the international economic recession and the adjustment policies applied by many countries of the region to correct the disequilibria in their balance of payments, Latin American foreign trade suffered its most serious setback of the entire postwar period. The overall value of exports and imports of goods, which in 1981 had reached the unprecedented total of around US\$ 190 billion, fell to only slightly over US\$ 164 billion in 1982, as a result of an almost 9% drop in the value of exports and a 20% drop in the value of imports.

#### a) *Exports of goods*

In the case of exports, the drop which occurred in 1982 represented an interruption of the prolonged and intense process of growth which had begun in the early 1970s, during which the value of exports rose at an average annual rate of 19% (see table 22).

In addition to being sudden and abrupt, the decline was widespread. In 1982, the value of exports fell in every country of the region, with the sole exceptions of Mexico, Haiti and Colombia—which managed to increase the value of their exports by between 3% and 7%— and Panama, which increased its exports slightly. The decline in the value of external sales, however, was very pronounced in all the Central American countries; in Brazil, where exports dropped by over 13% after having risen sharply in 1980 and 1981; in Argentina, Uruguay and Venezuela, where the value of exports fell by 17% and, above all, in the Dominican Republic, where the value of exports fell by 35% (see table 23).

The main cause of this sharp drop in the value of exports was the decline in their unit value. In the region as a whole, the volume of external sales remained stable, while the unit value fell by around 9%.

This drop—which affected all the Latin American countries except Colombia, El Salvador and Haiti— reflected the impact of the drop in the international prices of the great majority of commodities exported by the region, which were adversely affected both by the contraction of demand caused by the recession in the industrialized economies and by the revaluation of the dollar on the international exchange markets.

Although during 1982 the international prices of virtually all of Latin America's main export commodities fell, the situation was particularly serious in the case of sugar (which fell by 50% after having already fallen by over 40% in 1981), fishmeal, lead and maize (the prices of which fell by almost 25%) and cotton, cocoa, copper and soya (which fell by around 15%). Thus, coffee and iron ore were the only commodities whose international prices rose in 1982; however, these increases were small and did not come near to compensating for the sharp drop of the preceding year (see table 24).

The unfavourable trend of external demand also had a negative effect on the volume of Latin American exports, which had grown at an unusually high and sustained annual rate of around 9% in 1976 and 1981, but came to a complete standstill in 1982. Nevertheless, contrary to what happened with the unit value of exports which, as has been mentioned above, was the result of the drop in the prices of exports of almost all the Latin American countries, the stability of the volume of the region's exports was the net result of the completely opposite trends which were evident in the different economies. Thus, while the volume of exports recovered in Paraguay and Peru and grew vigorously in Chile (16%) and Mexico (18%), it fell sharply in the Dominican Republic (-16.5%), also dropped sharply in the Central American countries and fell for the third year in a row in Colombia and Venezuela. The quantum of external sales also fell by around 7% in Brazil, after four years of very rapid growth, and dropped by slightly over 5.5% in Argentina.

#### b) *Imports of goods*

The change with respect to the trend in previous years was even more evident in the case of imports, whose value fell by 20% after having risen vigorously and uninterruptedly between 1970 and 1981. As may be seen in table 22, this violent drop in the value of imports affected both the oil-exporting countries and the other economies of the region. In practice, the decline in the value of



Table 22

## LATIN AMERICA: VARIATIONS IN EXPORTS AND IMPORTS OF GOODS

(Growth rates)

	Exports			Imports		
	Value	Volume	Unit value	Value	Volume	Unit value
<b>Latin America</b>						
1970	9.2	1.0	8.1	14.2	9.2	4.5
1971	3.0	1.1	1.9	11.1	6.1	4.7
1972	16.4	6.6	9.2	13.8	7.1	6.3
1973	44.3	8.5	33.0	32.8	13.2	17.3
1974	54.7	-1.8	57.5	71.8	26.4	36.0
1975	-7.8	-2.1	-5.8	6.5	-2.2	8.9
1976	16.4	7.6	8.2	3.8	0.3	3.5
1977	19.3	7.6	10.8	15.1	10.1	4.5
1978	7.6	11.7	-3.6	13.9	5.7	7.7
1979	34.6	11.2	21.0	25.7	7.6	16.8
1980	29.4	5.9	22.1	32.1	12.7	17.3
1981	7.1	9.4	-2.1	7.1	1.3	5.7
1982 <sup>a</sup>	-8.7	-0.1	-8.6	-20.1	-18.1	-2.5
<b>Oil-exporting countries<sup>b</sup></b>						
1970	8.9	5.4	3.3	7.8	2.7	4.9
1971	16.4	-1.2	17.8	11.9	7.8	3.8
1972	4.4	-0.2	4.6	13.3	5.7	7.2
1973	51.4	9.3	38.5	21.0	10.6	9.3
1974	131.2	-10.0	156.8	57.8	37.5	14.7
1975	-19.9	-21.5	2.1	36.7	21.7	12.4
1976	9.2	2.8	6.2	7.4	3.0	4.3
1977	12.2	6.0	5.9	18.8	11.9	6.2
1978	8.5	15.1	-5.7	16.7	8.1	8.0
1979	53.9	14.5	34.4	16.1	3.8	11.8
1980	42.7	6.4	34.1	31.1	14.2	14.9
1981	8.7	0.5	8.2	19.7	10.9	7.9
1982 <sup>a</sup>	-4.8	9.5	-13.1	-19.8	-18.3	-1.9
<b>Non-oil-exporting countries<sup>c</sup></b>						
1970	9.2	-0.2	9.5	15.5	10.6	4.6
1971	-0.8	1.7	-2.5	10.9	5.8	4.9
1972	20.4	8.5	11.1	13.9	7.3	6.1
1973	42.2	8.3	31.3	35.2	13.8	18.8
1974	31.0	0.3	30.6	74.3	24.2	40.3
1975	-1.2	2.4	-3.6	1.7	-7.3	9.6
1976	21.9	9.7	11.2	1.4	-2.0	3.5
1977	24.2	8.3	14.6	12.5	8.6	3.6
1978	7.1	10.4	-3.0	11.8	3.4	8.0
1979	22.4	9.8	11.5	33.1	11.3	19.5
1980	18.7	5.7	12.3	32.8	11.3	19.3
1981	5.5	13.3	-6.9	-1.3	-7.7	6.9
1982 <sup>a</sup>	-12.4	-3.8	-8.9	-20.4	-17.9	-3.0

Source: ECLA, on the basis of official information.

<sup>a</sup>Preliminary figures.<sup>b</sup>Up to 1975, includes Bolivia, Ecuador and Venezuela; from 1976 onwards, Mexico and Peru are also included.<sup>c</sup>From 1976 onwards, Mexico and Peru are excluded.





Table 25

**LATIN AMERICA: VARIATION IN IMPORTS OF GOODS, FOB**  
(Growth rates)

	Value			Volume			Unit value		
	1980	1981	1982 <sup>a</sup>	1980	1981	1982 <sup>a</sup>	1980	1981	1982 <sup>a</sup>
Latin America	32.1	7.1	-20.1	12.7	1.3	-18.1	17.3	5.7	-2.5
<b>Oil-exporting countries</b>									
Bolivia	-16.9	0.0	-37.5	-26.3	-1.9	-36.0	13.2	1.9	-2.3
Ecuador	6.9	5.3	-7.6	-4.8	-1.3	-7.4	12.3	6.7	-0.3
Mexico	52.9	24.9	-37.0	35.3	18.1	-37.8	13.0	5.7	1.3
Peru	56.6	24.2	-4.4	39.7	23.2	0.0	12.1	0.8	-4.4
Venezuela	8.7	13.8	6.4	-6.8	1.7	12.9	16.6	11.9	-5.8
<b>Non-oil-exporting countries</b>									
Argentina	55.9	-12.4	-43.3	54.5	-14.5	-40.4	0.9	2.5	-4.9
Brazil	27.8	-3.8	-12.2	-0.8	-13.2	-8.8	28.8	10.9	-3.7
Colombia	47.5	8.3	8.1	34.4	2.3	2.0	9.8	5.9	6.0
Costa Rica	9.4	-20.6	-25.0	-9.2	-24.7	-30.5	20.5	5.5	7.9
Chile	30.5	19.9	-45.4	4.7	11.9	-40.7	24.6	7.2	-8.0
El Salvador	-3.4	-0.7	-8.7	-18.7	-5.1	-13.8	18.8	4.6	6.0
Guatemala	5.1	4.6	-19.9	-11.9	0.0	-24.7	19.2	4.6	6.4
Haiti	45.0	11.7	-20.3	27.3	8.1	-16.2	13.9	3.2	-4.9
Honduras	21.8	-5.8	-24.2	3.1	-10.9	-25.0	18.1	5.8	1.0
Nicaragua	106.5	11.7	-28.0	71.9	7.5	-31.4	20.1	3.9	5.0
Panama	24.7	9.4	0.0	0.9	6.3	-5.2	23.6	2.9	6.2
Paraguay	17.0	14.4	4.8	-1.3	10.8	1.5	18.5	3.2	3.3
Dominican Republic	33.6	-5.3	-13.1	8.7	-8.8	-14.9	22.9	3.8	2.1
Uruguay	43.0	-4.1	-34.4	12.4	-13.5	-29.7	27.3	10.9	-6.6

Source: ECLA, on the basis of official information.

<sup>a</sup>Preliminary figures.

Table 26

**LATIN AMERICA: TERMS OF TRADE (GOODS)**

(1970 = 100)

Year	Latin America		Oil-exporting countries <sup>a</sup>		Non-oil-exporting countries <sup>b</sup>	
	Index	Variation	Index	Variation	Index	Variation
1970	100.0	3.4	100.0	-1.6	100.0	4.8
1971	97.3	-2.7	113.5	13.5	92.9	-7.1
1972	100.0	2.8	110.7	-2.5	97.3	4.7
1973	113.4	13.4	140.2	26.6	107.6	10.6
1974	131.3	15.8	313.8	123.8	100.1	-7.0
1975	113.6	-13.5	285.1	-9.1	88.1	-12.0
1976	118.8	4.6	290.4	1.9	94.6	7.4
1977	125.9	6.0	289.6	-0.3	104.7	10.7
1978	112.7	-10.5	252.9	-12.7	94.0	-10.2
1979	116.7	3.5	304.0	20.2	87.7	-6.7
1980	121.5	4.1	354.9	16.7	82.5	-5.9
1981	112.5	-7.4	355.8	0.3	71.8	-13.0
1982 <sup>c</sup>	105.5	-6.2	315.1	-11.4	67.5	-6.0

Source: ECLA, on the basis of official information.

<sup>a</sup>From 1970 to 1975, includes Bolivia, Ecuador and Venezuela; from 1976 on, also includes Mexico and Peru.

<sup>b</sup>From 1976 on, excludes Mexico and Peru.

<sup>c</sup>Preliminary figures.



The situation was radically different in the non-oil-exporting countries, among which only Colombia enjoyed more favourable terms of trade during 1982 than during the triennium 1970-1972. The deterioration was particularly sharp in Brazil and, above all, in Chile. In Brazil, where, since 1980, around 45% of the total value of imports of goods has consisted of crude oil and petroleum by-products, the terms-of-trade index was 43% lower in 1982 than in the early 1970s. The decline of the terms of trade was even more pronounced in the case of Chile, where the abrupt and prolonged decline in the international price of copper reinforced the effect of the increases in the international prices of oil and of manufactures. Hence, the terms-of-trade index, after having fluctuated during the period 1975-1980 at a level around 40% lower than during the triennium 1970-1972, again dropped substantially over the next two years, so that in 1982 it was almost 60% lower than the average recorded during the first three years of the 1970s (see table 27).

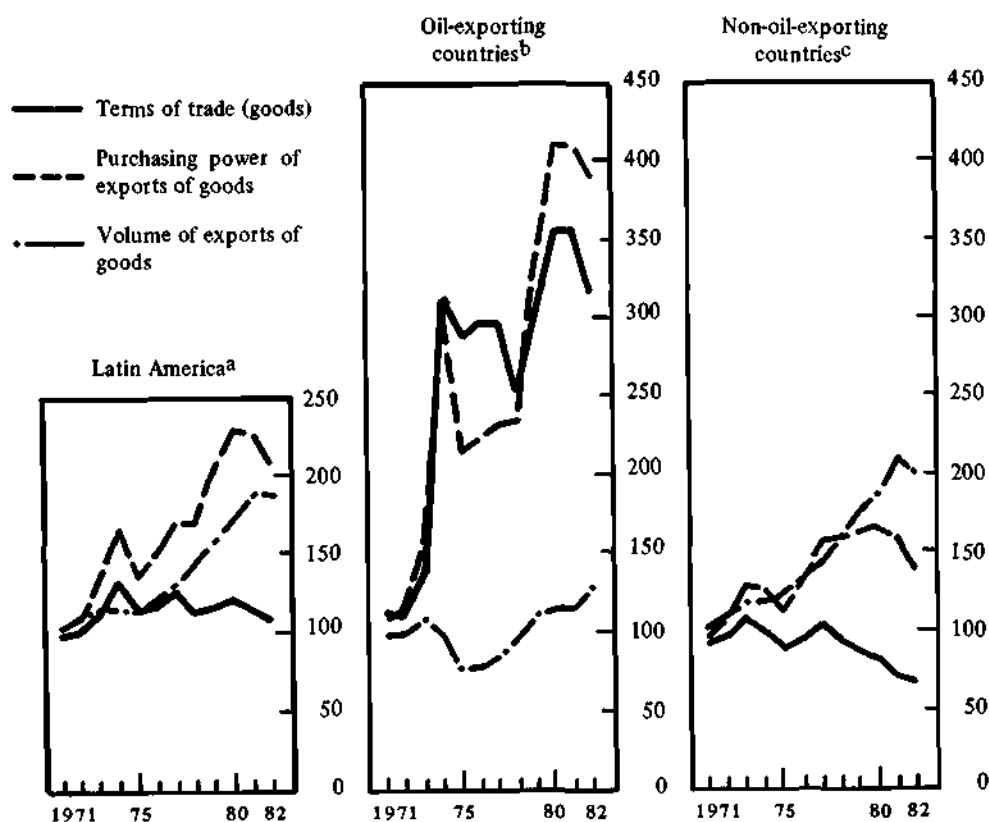
Mainly as a result of the deterioration in the terms of trade and the stagnation of the volume of exports, the purchasing power of external sales of goods fell by around 8% in 1982 (see table 28).

The drop was particularly pronounced in the non-oil-exporting countries, in which the adverse effect of the new drop in the terms of trade was reinforced in 1982 by the contraction of the volume of exports which, as may be seen in figure 10, had grown rapidly and steadily over the preceding ten

Figure 10

LATIN AMERICA: EVOLUTION OF SOME FOREIGN TRADE INDICATORS

(Indexes 1970 = 100)



Source: ECLA, on the basis of official information.

<sup>a</sup>19 countries.

<sup>b</sup>From 1970 to 1975, includes Bolivia, Ecuador and Venezuela; from 1976 onwards, Mexico and Peru are also included.

<sup>c</sup>From 1970 to 1975, includes 16 countries. From 1976 onwards, does not include Mexico and Peru.

years. Having dropped sharply in 1982 and slightly the year before, the purchasing power of the exports of this group of countries was lower than it had been in 1977.

In the oil-exporting countries, on the other hand, the fall in the purchasing power of external sales was due solely to the deterioration of the terms of trade, inasmuch as the quantum of exports had risen by over 9% in 1982. Nevertheless, since the purchasing power of the exports of this group of countries had risen substantially during the period 1979-1980, mainly as a result of the impressive improvement of their terms-of-trade position, their purchasing power was still very high in 1982, actually 170% higher than that of the other economies of the region (see table 28 and figure 10).

## 2. The balance of payments

### a) *The current account*

Because the value of imports fell much more sharply than the value of exports (-20% and -9%), Latin America's trade balance underwent a radical change in 1982. Indeed, the region as a whole, showed a surplus of US\$ 9.65 billion instead of the previous year's deficit of almost US\$ 1.4 billion.

This turnaround was due, in particular, to the considerable changes in the trade balances of Mexico (which after having had a deficit of US\$ 3.3 billion in 1981 showed a surplus of US\$ 6.7 billion in 1982), Chile (which had a surplus of US\$ 220 million after having had a deficit of US\$ 2.6 billion in 1981) and Argentina (which increased its 1981 surplus by US\$ 2 billion). On the other hand, in 1982 the trade surplus that Venezuela had achieved in 1981 was reduced by US\$ 4.1 billion and the Brazilian surplus fell by US\$ 400 million (see table 29).

The effect which this turnaround in merchandise trade and the US\$ 2.6 billion decrease in net payments for services in 1982 could have had on the current-account balance was largely neutralized, however, by a new and considerable increase in net payments for profits and interest. Despite the fact that the contraction of domestic economic activity had limited the transfer of profits abroad and that nominal interest rates on the international financial markets had fallen, payments for products and interest rose from around US\$ 27.3 billion in 1981 to over US\$ 37 billion in 1982. Since these remittances had already been rising extremely rapidly since 1977, by 1982 they were four times higher than they had been only five years before.

The net result of these changes was that Latin America's current-account deficit fell by US\$ 2.5 billion. This was the first time since 1976 that the deficit had decreased and the 1982 level of US\$ 36.3 billion was much higher than it had been at any time before 1980.

In view of the changes which took place in the trade in goods and services and in net payments for profits and interest, the large current-account deficits of Mexico, Chile and Argentina fell sharply during 1982, while Brazil's deficit rose considerably and Colombia's rose moderately. Also, Venezuela's current account underwent a radical change (see table 30).

The sharpest change occurred in Mexico, whose current-account deficit, after having increased sixfold between 1977 and 1981 —when it totalled almost US\$ 13 billion— dropped to US\$ 2.7 billion in 1982. The changes were less dramatic, but also very pronounced, in Chile —which cut in half its substantial 1981 deficit of almost US\$ 4.9 billion— and in Argentina, whose current-account deficit fell from US\$ 4 billion in 1981 to US\$ 2.4 billion in 1982.

In Brazil, on the other hand, current transactions in 1982 produced a deficit that was US\$ 4.5 billion higher than it had been in 1981. The deterioration was even more pronounced in Venezuela, which after having had a surplus of US\$ 4 billion in 1981, showed a negative balance of over US\$ 3.4 billion in 1982.

Although in absolute terms Latin America's deficit on current account declined in 1982, its ratio to the total value of exports of goods and services rose slightly. This coefficient, which between 1976 and 1980 had fluctuated between 20% and 30%, and which in 1981 had risen to 34%, rose to 35% in 1982, thus slightly surpassing the level it had reached in 1975, at the peak of the international economic crisis of the mid-1970s (see table 31).

As in previous years, the ratio between the deficit on current account and the value of external sales was much lower in the group made up of the five oil-exporting countries than in the other economies of the region. The coefficient also showed very different values in the different countries. Thus, whereas in Nicaragua it was higher than 80% and in Paraguay and Brazil it fluctuated around 75%, it was under 20% in Venezuela and Bolivia and did not reach 10% in Mexico. In most of the other economies, the coefficient fluctuated between 25% and 50%.





Table 30  
**LATIN AMERICA: BALANCE OF PAYMENTS**  
(Millions of dollars)

	Trade balance			Net payments for profits and interest <sup>b</sup>			Balance on current account <sup>c</sup>			Balance on capital account <sup>d</sup>			Overall balance <sup>e</sup>		
	1980	1981	1982 <sup>a</sup>	1980	1981	1982 <sup>a</sup>	1980	1981	1982 <sup>a</sup>	1980	1981	1982 <sup>a</sup>	1980	1981	1982 <sup>a</sup>
<b>Latin America</b>	-10 549	-12 617	-4	18 277	27 273	37 182	-28 098	-38 854	-36 345	25 878	38 890	22 906	-2 222	37	-13 440
<b>Oil-exporting countries</b>	3 460	-1 893	5 384	7 298	10 352	14 546	-3 848	-11 971	-9 075	5 482	14 377	3 237	1 634	2 406	-5 838
Bolivia	87	15	204	264	343	389	-166	-312	-166	19	319	209	-147	6	43
Ecuador	-147	-304	-297	525	722	773	-672	-1 027	-1 070	942	656	742	270	-370	-328
Mexico	-2 082	-4 422	7 118	6 002	9 219	10 500	-7 687	-12 997	-2 740	8 593	14 082	-180	906	1 085	-2 920
Peru	763	-793	-710	835	885	965	-72	-1 680	-1 675	725	871	1 762	653	-809	87
Venezuela	4 839	3 611	-931	-328	-817	1 919	4 749	4 045	-3 424	-4 797	-1 551	704	-48	2 494	-2 720
<b>Non-oil-exporting countries</b>	-14 009	-10 724	-5 388	10 979	16 921	22 636	-24 250	-26 883	-27 270	20 396	24 513	19 669	-3 856	-2 369	-7 602
Argentina	-3 267	-754	2 172	1 607	3 365	4 705	-4 774	-4 057	-2 422	2 176	864	1 660	-2 598	-3 193	-762
Brazil	-5 944	-1 678	-2 794	7 041	10 274	13 478	-12 848	-11 760	-16 279	9 379	12 381	12 763	-3 469	621	-3 516
Colombia	-482	-1 725	-1 933	260	334	581	-644	-1 969	-2 291	1 702	2 393	1 411	1 058	423	-880
Costa Rica	-462	-100	19	218	303	462	-658	-371	-412	749	322	547	92	-50	135
Chile	-1 154	-3 487	-432	1 028	1 547	2 157	-2 024	-4 869	-2 442	3 344	5 008	1 244	1 320	139	-1 198
El Salvador	-40	-211	-291	63	54	91	-117	-281	-240	44	233	170	-74	-48	-70
Guatemala	-214	-553	-295	45	86	105	-165	-567	-315	-86	262	283	-251	-304	-32
Haiti	-179	-275	-215	14	13	14	-141	-215	-179	112	181	170	-29	-34	-10
Honduras	-185	-177	-46	153	153	201	-331	-321	-238	253	264	183	-78	-57	-55
Nicaragua	-424	-479	-240	86	94	154	-512	-571	-393	395	677	270	-117	106	-123
Panama	-165	-262	-221	143	360	133	-363	-676	-539	375	595	514	11	-81	-25
Paraguay	-228	-352	-461	11	-31	30	-283	-378	-536	434	421	413	151	44	-123
Dominican Republic	-647	-272	-422	210	295	285	-674	-378	-517	708	416	373	33	38	-144
Uruguay	-618	-399	-229	100	74	240	-716	-470	-467	811	496	-332	95	27	-799

Source: ECLA, on the basis of official information.

<sup>a</sup>Preliminary figures.

<sup>b</sup>Includes work and property.

<sup>c</sup>Includes unrequited net private transfer payments.

<sup>d</sup>Includes long and short-term capital, unrequited official transfer payments and errors and omissions.

<sup>e</sup>Refers to variations in international reserves (with minus sign), including counterpart items.

b) *The capital account*

As a result of the unfavourable evolution of the economies of most of the countries of the region, the very high external indebtedness of many of them, and the aforementioned changes on the world economic scene, the net flow of capital to Latin America fell sharply in 1982. In fact, the net inflow of external resources, which had risen steadily during the 1970s and in 1981 alone had increased by 50% to a record level of almost US\$ 39 billion, fell to US\$ 22.9 billion in 1982 (see table 30).

Most of this considerable contraction, however, took place in a relatively small number of countries, the most dramatic case being that of Mexico, which after having received an unprecedented US\$ 14 billion in 1981, showed a net capital outflow of around US\$ 200 million in 1982. The net inflow of capital also fell dramatically in Chile, which in 1981 had also received loans and investments amounting to an unprecedented US\$ 5 billion, but whose net inflow of external resources in 1982 amounted to only US\$ 1.25 billion. Net external financing fell much more moderately in Colombia —from around US\$ 2.4 billion in 1981 to somewhat over US\$ 1.4 billion in 1982. The situation in Uruguay changed from positive to negative: after having received close to US\$ 500 million in 1981, this country showed a net outflow of US\$ 330 million in 1982. On the other hand, during 1982, the net inflow of capital rose slightly in Brazil and substantially in Costa Rica.

The net flow of loans and investment fell much more sharply than the current account deficit. Consequently, in 1982 Latin America's balance of payments suffered a violent change. After having generated a slight surplus in 1981, in 1982 it showed an unprecedented negative balance of over

Table 31

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

(Percentages)

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982 <sup>b</sup>
<b>Latin America</b>	19.7	11.1	17.0	34.2	23.3	21.1	29.8	23.7	26.6	34.1	35.0
<b>Oil-exporting countries</b>	13.6	7.1	-10.9	20.4	22.0	29.0	40.6	14.9	7.4	20.9	17.0
Bolivia	5.5	-0.7	-21.3	28.8	10.3	18.8	50.2	46.6	15.9	30.9	18.1
Ecuador	23.3	1.9	-1.7	21.5	2.1	23.7	42.9	27.1	23.4	35.2	40.2
Mexico	25.7	30.9	47.8	67.1	50.2	24.0	30.3	36.9	32.7	45.5	9.6
Peru	5.6	22.4	40.8	93.2	71.5	45.8	10.2	-16.2	1.6	41.9	41.6
Venezuela	2.8	-17.5	-50.1	-23.5	-3.3	30.8	58.1	-2.5	-23.8	-19.5	19.8
<b>Non-oil-exporting countries</b>	24.3	14.0	44.1	45.7	24.3	15.9	22.2	31.1	45.4	47.4	54.2
Argentina	9.6	-18.9	-2.6	36.8	-14.2	-17.1	-24.5	5.8	48.3	37.4	25.7
Brazil	39.3	32.5	87.5	74.3	60.4	39.3	51.5	62.7	58.8	46.1	73.9
Colombia	18.0	5.0	20.6	5.9	-6.9	-12.8	-7.4	-10.8	12.8	46.8	50.8
Costa Rica	29.9	26.9	49.9	36.5	28.9	23.6	36.1	50.5	54.9	30.4	38.0
Chile	48.1	19.7	12.9	27.1	-5.5	21.8	37.8	26.1	33.9	88.4	48.6
El Salvador	-2.7	11.5	26.3	16.0	-2.2	-2.0	25.3	-9.1	10.6	30.1	26.3
Guatemala	2.6	-1.6	14.5	8.3	8.1	2.8	20.9	14.2	9.5	39.0	24.7
Haiti	1.7	13.2	36.3	38.1	37.1	40.3	39.7	45.4	46.3	86.0	69.4
Honduras	6.8	12.9	37.0	36.3	25.3	23.9	24.7	24.4	35.1	36.4	31.1
Nicaragua	-6.1	30.3	61.7	44.2	7.7	26.7	4.8	-13.4	101.8	104.4	82.6
Panama	30.9	29.7	37.2	25.1	27.8	23.0	29.4	34.6	24.2	43.2	35.7
Paraguay	8.7	13.0	26.4	38.3	29.7	15.2	27.2	40.9	50.1	66.7	78.3
Dominican Republic	11.8	19.2	33.3	7.8	15.8	14.2	38.1	31.7	53.1	24.9	47.0
Uruguay	-13.5	-4.4	27.3	35.9	11.8	21.2	14.5	30.4	46.9	27.9	36.5

Source: ECLA, on the basis of official information.

<sup>a</sup>Negative figures indicate balance-of-payments surplus on current account.

<sup>b</sup>Preliminary figures.

US\$ 13.4 billion. Just how exceptionally high this deficit was becomes evident when it is borne in mind that it was six times higher than the 1980 deficit, the only other one recorded in the region since 1966.

Moreover, the deterioration of the balance-of-payments situation was widespread. Whereas in 1981, ten of the nineteen countries studied obtained surpluses from their external operations, in 1982 only Bolivia, Costa Rica and Peru were able to do so.

The deterioration was especially pronounced in Venezuela, which after having achieved a surplus of US\$ 2.5 billion in 1981, showed a deficit of over US\$ 2.7 billion in 1982; in Mexico, whose surplus of almost US\$ 1.1 billion in 1981 was replaced in 1982 by a negative balance of over US\$ 2.9 billion, and in Brazil, which had obtained a small surplus of US\$ 600 million in 1981, but showed a deficit of US\$ 3.5 billion in 1982.

The deficits were less dramatic, but also substantial, in Colombia, whose balance of payments showed a deficit for the first time since 1974; in Chile, whose external operations, after having generated surpluses for six years in a row, closed in 1982 with a considerable deficit of almost US\$ 1.2 billion, and in Uruguay, whose US\$ 800 million deficit was the highest of the region in relation with the value of exports.

On the other hand, in 1982, Argentina, Guatemala, Haiti and Panama sharply reduced the deficits they had incurred in 1981.

The high balance-of-payments deficits of most of the countries of the region were not the only negative consequences of the sharp contraction of the net inflow of capital. Another negative effect that was quite significant was the reversal of the net transfer of real resources. Up to 1981, this transfer systematically favoured Latin America, since the net amount of loans and investment received was much higher than total net payments for interest and profits. In 1982, on the other hand, this ratio was radically reversed, inasmuch as net payments for interest and profits rose by almost US\$ 10 billion, while the net inflow of capital fell by around US\$ 16 billion. As a result of this twofold phenomenon, Latin America, which in 1981 had received a net transfer of real resources from abroad of over US\$ 11.6 billion, had to make a net transfer abroad of almost US\$ 14.3 billion in 1982.

Although, in absolute terms, this reversal was mainly a result of the profound change in the ratio between the two financial flows in Mexico, Brazil, Chile and Uruguay, it was also partly due to the deterioration of this ratio in most of the region's economies. Thus, between, 1981 and 1982, the number of countries which transferred net real resources abroad rose from five to ten, while in five of the nine countries which continued to receive resources from abroad in 1982, the amount of such resources fell sharply (see table 30).

#### c) *International reserves*

Because Latin America's balance of payments closed with a substantial deficit, its international reserves fell by almost 27% in 1982. Consequently, and despite the fact that, at the same time, the value of imports of goods and services fell by around 20%, the ratio between the region's reserves and its total external purchases dropped to an average of 33%; this is equivalent to just over half the figure recorded only three years before (see tables 32 and 33).

Although the drop in reserves was widespread, it was unusually serious in Haiti (-79%), Mexico (-70%), Dominican Republic (-62%) and Brazil (-54%). Since these drops were proportionally much greater than the drop in the value of imports, the ratio between total reserves and total external purchases of goods and services fell sharply in the four countries. Thus, by the end of the year, the Dominican Republic and Mexico only had enough international reserves to finance one month's worth of imports, while Brazil had the equivalent of less than two months' worth of imports and Haiti's reserve balance was negative.

Reserves also fell substantially in Ecuador, where they dropped by 39% after having already dropped by 36% in 1981; in Chile, where they dropped by over 30%, and in Uruguay, where they dropped by 29%. Nevertheless, because different countries had had different reserve positions in previous years, and imports had fallen at different rates in 1982,<sup>40</sup> the reserve/import coefficients of these countries also differed considerably. Whereas Ecuador had reserves equivalent to less than two

<sup>40</sup>The value of imports of goods fell by only 8% in Ecuador, whereas it fell by 34% in Uruguay and by over 45% in Chile.

months' worth of imports, Chile had enough reserves to finance over five months' worth and Uruguay had reserves for over ten months' worth of imports.<sup>41</sup>

The foreign-exchange holdings of the aforementioned countries fell much less in Colombia and Venezuela (-10%) and in Argentina, where they fell by 12% in 1982, after having fallen by almost 55% during the preceding biennium. Despite this, and because of the sharp reduction (-43%) in the value of imports in 1982, Argentina's international reserves at the end of the year were equivalent to over seven months' worth of imports of goods and services from abroad. The ratio between reserves and imports was practically the same as Argentina's in Bolivia and Venezuela, and was much higher in Colombia; Colombia and Uruguay were the only countries in the region which had enough international reserves at the end of 1982 to finance over ten months' worth of imports.<sup>42</sup> Nevertheless, for Colombia as well as for Uruguay, this figure was the lowest of the last four years.

Table 32

LATIN AMERICA: EVOLUTION OF OFFICIAL INTERNATIONAL RESERVES<sup>a</sup>

(Millions of dollars)

	End-year balances				Growth rates		
	1979	1980	1981	1982	1980	1981	1982
<b>Latin America</b>	51 151	53 366	46 563	34 208	4.3	-12.7	-26.5
<b>Oil-exporting countries</b>	18 309	21 703	20 429	15 476	18.5	-5.9	-24.2
Bolivia	469	478	369	466	1.9	-22.8	26.3
Ecuador	910	1 259	802	488	38.4	-36.3	-39.2
Mexico	2 839	4 187	4 999	1 530	47.5	19.4	-69.5
Peru	1 556	2 357	1 395	1 319	51.5	-40.8	-5.4
Venezuela	12 535	13 422	12 864	11 673	7.1	-4.2	-9.3
<b>Non-oil-exporting countries</b>	32 842	31 663	26 134	18 732	-3.6	-17.5	-28.3
Argentina	11 378	9 320	5 061	4 449	-18.1	-45.7	-12.1
Brazil	9 740	6 887	7 506	3 445	-23.3	9.0	-54.1
Colombia	4 898	6 489	6 181	5 558	32.5	-4.7	-10.1
Costa Rica	101	141	40	156	39.6	-71.6	290.0
Chile	2 453	4 014	3 862	2 570	63.6	-3.8	-33.4
El Salvador	371	378	240	231	1.9	-36.5	-3.8
Guatemala	934	756	253	239	-19.1	-66.5	-5.5
Haiti	55	5	-6	-35	-91.0	-	-
Honduras	215	145	70	15	-32.6	-51.7	-78.6
Nicaragua	...	...	...	...	...	...	...
Panama	77	94	26	17	22.1	-72.3	-34.6
Paraguay	625	783	820	699	25.3	4.7	-14.8
Dominican Republic	166	231	260	98	39.2	12.6	-62.3
Uruguay	1 829	2 420	1 821	1 290	32.3	-24.8	-29.2

Source: International Monetary Fund, *International Financial Statistics*.

<sup>a</sup>Foreign exchange plus monetary gold valued at London prices per refined ounce minus the use of IMF credit.

<sup>41</sup>It should be noted, however, that because a high proportion of Uruguay's reserves consists of gold, this figure considerably overestimates the manoeuvring room of the economic authorities. In fact, when monetary gold is excluded, it appears that Uruguay's reserves fell by 73% in 1982 and that at the end of the year, they were equivalent to only one months' worth of imports.

<sup>42</sup>By contrast with the situation in Uruguay, gold reserves were not a significant component of Colombia's reserves. Because of this, it had enough foreign exchange available to finance seven months' worth of imports.

Table 33

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

(Percentages)

	1973	1975	1977	1979	1980	1981	1982 <sup>a</sup>
<b>Latin America</b>	51	40	46	58	46	37	33
<b>Oil-exporting countries</b>	49	65	50	49	45	35	33
Bolivia	27	31	39	43	50	37	66
Ecuador	49	24	38	34	42	25	16
Mexico	31	23	18	17	17	15	7
Peru	41	19	11	62	61	29	28
Venezuela	90	144	72	88	89	75	64
<b>Non-oil-exporting countries</b>	51	23	43	64	47	39	34
Argentina	51	15	70	130	71	44	62
Brazil	83	29	50	45	25	28	14
Colombia	39	32	73	125	119	103	86
Costa Rica	11	3	16	7	9	3	15
Chile	10	-6	9	47	57	44	47
El Salvador	20	24	26	30	32	21	21
Guatemala	46	42	52	52	39	13	15
Haiti	18	-1	5	17	1	-1	-7
Honduras	14	17	27	23	13	7	2
Nicaragua	26	18	18	...	...	...	...
Panama	7	1	2	6	6	1	1
Paraguay	36	41	62	85	93	84	59
Dominican Republic	16	13	14	11	12	14	6
Uruguay	108	78	78	122	113	88	85

Source: ECLA, on the basis of table 32 and of official information.

<sup>a</sup>Preliminary figures.

### 3. The external debt<sup>43</sup>

The growth rate of Latin America's external debt fell sharply in 1982. As a result of the sharp decline in the net inflow of capital, the region's gross external debt disbursed rose by 11.5% in 1982; this was equivalent to only half the 23% recorded, on average, between 1977 and 1981. The attenuation of the rate of increase of external indebtedness was particularly pronounced in the oil-exporting countries, whose overall debt rose less than that of the other countries of the region for the first time since 1978 (see table 34).

Despite this, and mainly as a result of the extraordinary increase in the external debt in preceding years and of the persistence of high interest rates on the international financial markets, the various indicators of external indebtedness again deteriorated. Thus, in 1982, the service of the debt, i.e., the value of amortization and interest payments, was equivalent to two-thirds of the total value of exports of goods and services, while only five years before it has been equivalent to somewhat over one-third of such exports (see table 35). The increase in the burden represented by the service of the debt was even greater in the non-oil-exporting countries, which, taken as a whole, had to allocate 85% of their export revenues to amortization and interest payments in 1982, while in 1977 these payments had amounted to less than 40% of export revenues.<sup>44</sup>

<sup>43</sup>Because many different information sources were used, the figures on external indebtedness considered in this section do not necessarily coincide with those which appear in the chapters on the economic evolution of individual countries, in Part Three of this *Survey*.

<sup>44</sup>These figures represent a tremendous sacrifice as regards the management of the balance of payments and external financing, particularly in view of the fact that they do not cover amortization payments on the short-term debt. If these payments were included, the debt-service coefficient for this group of countries would be over 100%.

The ratio between interest payments and export revenues, which in a way is the best indicator of how heavy the burden of servicing the debt is, also followed an unfavourable trend. Under normal circumstances, debt amortization payments are refinanced more or less automatically by creditor banks and when circumstances worsen notably, such payments are usually rescheduled. There is no such guarantee of renewal with respect to interest payments. Over the last five years, in Latin America as a whole, interest payments will have risen at a dizzying rate—from US\$ 7.4 billion in 1977 to over US\$ 40 billion in 1982. Because of this, and despite the fact that exports rose considerably during that time, the ratio between interest payments and the value of exports reached the unprecedented figure of around 37% in 1982, triple that of only five years before (see table 35).

These regional averages actually cover the significant differences which exist in this regard, as in many others, among the situations of individual Latin American countries. Thus, as may be seen in table 36, in 1982 interest payments represented very low percentages of the exports of Haiti (2%) and Guatemala (8%), but extremely high proportions in economies as different as those of Nicaragua (32%), Mexico (37%), Bolivia (40%), Costa Rica (43%), Argentina (45%), Chile (47%) and, above all, Brazil (57%).

Table 34

LATIN AMERICA: GROSS DISBURSED EXTERNAL DEBT<sup>a</sup>

	End-year balance, in millions of dollars						Growth rates		
	1977	1978	1979	1980	1981	1982 <sup>b</sup>	1980	1981	1982 <sup>b</sup>
<b>Latin America</b>	105 221	133 624	166 577	204 311	242 548	270 350	22.7	18.7	11.5
<b>Oil-exporting countries</b>	47 441	58 969	74 279	91 851	111 309	123 800	23.7	21.2	11.2
Bolivia	1 633	2 097	2 585	2 442	2 621	2 800	-5.5	7.3	6.8
Ecuador	2 153	3 268	3 754	4 798	5 755	6 200	27.8	19.9	7.7
Mexico	26 583	30 084	37 746	50 216	66 329	75 000	33.0	32.1	13.1
Peru	6 260	7 135	7 116	7 901	8 227	9 800	11.0	4.1	19.1
Venezuela	10 812	16 385	23 078	26 494	28 377	30 000	14.8	7.1	5.7
<b>Non-oil-exporting countries</b>	57 780	74 655	92 298	112 460	131 239	146 550	21.8	16.7	11.7
Argentina	8 210	11 193	18 299	24 543	29 417	31 900	34.1	19.9	8.4
Brazil	32 758	42 945	48 991	57 262	65 001	73 000	16.9	13.5	12.3
Colombia	3 892	4 454	5 985	7 310	8 380	9 100	22.1	14.6	8.6
Costa Rica	1 030	1 289	1 690	2 124	2 276	2 700	25.7	7.2	18.6
Chile	4 899	6 120	7 491	9 544	12 446	13 600	27.4	30.4	9.3
El Salvador	539	791	798	846	980	1 150	6.0	15.8	17.3
Guatemala	603	780	983	1 120	1 133	1 350	13.9	1.2	19.2
Haiti	158	191	226	269	326	500	19.0	21.2	53.4
Honduras	726	958	1 130	1 303	1 514	1 750	15.3	16.2	15.6
Nicaragua	1 300	1 426	1 453	1 660	2 035	2 250	14.2	22.6	10.6
Panama <sup>c</sup>	1 501	2 190	2 378	2 701	3 000	3 500	13.6	11.1	16.7
Paraguay	329	503	727	919	1 119	1 300	26.4	21.8	16.2
Dominican Republic	862	992	1 170	1 548	1 811	2 150	32.3	17.0	18.7
Uruguay	973	823	1 027	1 311	1 801	2 300	27.7	37.4	27.7

Source: ECLA, on the basis of World Bank, *World Debt Tables: External Debt of Developing Countries*, 1981-1983, edition, provisional figures; Inter-American Development Bank, *External Public Debt of the Latin American Countries*, July 1981; Bank for International Settlements, *The Maturity Distribution of International Bank Lending*, July 1978, July 1979, July 1980, July 1981 and July 1982; IMF, *International Financial Statistics*, Volume XXXIV, August 1981; OECD, *Development Co-operation*, 1977 Review, 1978 Review and OECD, *Geographical Distribution of Financial Flows to Developing Countries*, Paris, 1980.

<sup>a</sup>In addition to public and State-guaranteed private external debt, includes unguaranteed long and short-term debt with financial institutions supplying data to the Bank for International Settlements. Does not include guaranteed and unguaranteed debt with other commercial banks or suppliers' credit without official guarantee.

<sup>b</sup>Provisional estimates by ECLA, based on the estimated movement of items pertaining to the balance of payments. For this reason, these estimates may not be the same as those given for the total external debt of some countries.

<sup>c</sup>Because it is an international financial centre, these figures do not include the short-term or unguaranteed debt with financial institutions.

Table 35

## LATIN AMERICA: INDICATORS OF THE EXTERNAL DEBT

	1977	1978	1979	1980	1981	1982 <sup>a</sup>
	Billions of dollars					
Medium and long-term disbursements	27.7	38.2	43.8	41.4	50.1	...
Oil-exporting countries	11.1	13.1	17.1	13.9	18.2	...
Non-oil-exporting countries	16.6	25.1	26.7	27.6	31.9	...
Service of the debt	18.9	27.9	37.1	43.2	54.6	69.2
Oil-exporting countries	6.3	9.6	15.1	15.6	19.5	25.8
Non-oil-exporting countries	12.6	18.3	22.0	27.6	35.1	43.5
Total interest	7.4	10.3	15.7	23.2	33.5	40.4
Oil-exporting countries	2.9	4.1	5.9	8.6	12.7	16.3
Non-oil-exporting countries	4.5	6.3	9.9	14.7	20.8	24.2
Medium-term amortization	11.5	17.6	21.4	19.9	21.1	28.8
Oil-exporting countries	3.4	5.6	9.2	7.0	6.8	9.5
Non-oil-exporting countries	8.1	12.0	12.2	12.9	14.3	19.3
	Percentages					
Debt coefficients <sup>b</sup>						
DS/ML DIS	68	73	85	104	99 <sup>a</sup>	...
Oil-exporting countries	57	73	88	112	...	...
Non-oil-exporting countries	76	73	82	100	...	...
DS/DIS	...	61	68	75	92 <sup>a</sup>	141
Oil-exporting countries	...	56	61	63	...	...
Non-oil-exporting countries	...	63	74	83	...	...
DS/X	34	46	45	41	48	66
Oil-exporting countries	28	38	40	30	34	48
Non-oil-exporting countries	38	51	49	52	62	85
I/X	12	16	17	20	26	37
Oil-exporting countries	13	16	16	17	22	30
Non-oil-exporting countries	12	15	19	23	31	43
GGD/X	189	218	203	194	213	261
Oil-exporting countries	212	233	199	176	195	232
Non-oil-exporting countries	173	208	207	211	232	291
GGD/GDP	24	26	29	30	32	36
Oil-exporting countries	28	30	33	35	36	40
Non-oil-exporting countries	21	24	26	27	30	33

Source: ECLA, on the basis of World Bank, *World Debt Tables*, 1982-1983 edition; International Monetary Fund, *Balance of Payments Yearbook*, and official information from the countries.

<sup>a</sup>Provisional estimates by ECLA.

<sup>b</sup>The symbols used denote the following:

SD: Service of the debt.

ML DIS: Medium and long-term disbursements.

DIS: Short, medium and long-term loan disbursements.

X: Exports of goods and services.

I: Gross interest on short, medium and long-term debt.

GDP: Gross domestic product.

GGD: Gross global disbursed debt.

The excessively rapid growth of Latin America's external debt, as well as some of its special features in the international context, were also reflected in the levels and the systematic increases in the ratio between the debt and exports, on the one hand, and the ratio between the debt and the gross domestic product, on the other.

For the region as a whole, the latter coefficient rose steadily from under 24% in 1977 to around 36% in 1982, while during the same period, the ratio between the debt and exports rose, also steadily, from 189% to 261%. Although the debt/product coefficient was high, the debt/export coefficient was much higher by comparison with the comparable figures for the semi-industrialized countries of

other continents. For example, whereas the debt/product coefficient for South Korea was only slightly lower (32%) than the average for Latin America, the debt/export coefficient (72%) was equivalent to just over one-fourth of the average for Latin America. This tremendous difference suggests that the relative over-indebtedness of Latin America has been much greater with respect to its openness to the exterior than with respect to its productive capacity. In other words, the burden of the debt is much heavier with respect to the region's potential for transforming income into foreign exchange than it is with respect to its capacity for generating income.<sup>43</sup>

In this area also, however, there are considerable differences among the different economies of the region. Thus, in 1982 some countries, such as Bolivia, Costa Rica, Argentina and Chile, had a high degree of indebtedness, both with respect to the product and with respect to exports. In this group, the extreme example was that of Nicaragua, whose external debt was somewhat higher than its gross domestic product and more than five times greater than the value of its exports (see tables 37 and 38). The situation in Colombia and Guatemala was very different, as these countries' external debts were equivalent to less than one-fifth of their product and represented an even lower share of their exports than the regional average. Venezuela's position was also different; after Nicaragua, it had the highest debt/product ratio of the region, and, except for Guatemala and El Salvador, the lowest debt/export coefficient. Brazil was at the opposite extreme from Venezuela, as it had a very high debt/export ratio and a very low debt/product coefficient. Finally, the figures for countries such as Mexico and Peru were quite close to the regional average with respect to both coefficients.

Table 36

LATIN AMERICA: RELATION BETWEEN TOTAL INTEREST PAYMENTS  
AND EXPORTS OF GOODS AND SERVICES<sup>a</sup>

(Percentages)

	1977	1978	1979	1980	1981	1982 <sup>b</sup>
<b>Latin America</b>	12.4	15.5	17.4	19.9	26.4	36.6
<b>Oil-exporting countries</b>	13.0	16.0	15.7	16.5	22.3	30.3
Bolivia	9.9	13.7	18.1	24.5	35.5	40.1
Ecuador	4.8	10.3	13.6	18.2	24.3	29.3
Mexico	25.4	24.0	24.8	23.1	28.7	36.8
Peru	17.9	21.2	14.7	16.0	21.8	22.8
Venezuela	4.0	7.2	6.9	8.1	12.7	20.9
<b>Non-oil-exporting countries</b>	11.9	15.1	18.8	23.3	31.3	43.2
Argentina	7.6	9.6	12.8	22.0	31.7	44.9
Brazil	18.9	24.5	31.5	34.1	40.4	57.0
Colombia	7.4	7.7	10.1	13.3	21.6	22.7
Costa Rica	7.1	9.9	12.8	18.0	25.5	42.5
Chile	13.7	17.0	16.5	19.3	34.6	47.2
El Salvador	2.9	5.1	5.3	6.5	7.5	...
Guatemala	2.4	3.6	3.1	5.3	7.5	7.6
Haiti	2.3	2.8	3.3	2.0	3.2	2.3
Honduras	7.2	8.2	8.6	10.6	14.5	22.5
Nicaragua	7.0	9.3	9.7	15.7	15.5	31.7
Panama	...	...	...	...	...	...
Paraguay	6.7	8.5	10.7	14.3	15.9	18.9
Dominican Republic	8.8	14.0	14.4	14.7	10.5	17.2
Uruguay	9.8	10.4	9.0	11.0	13.1	29.1

Source: 1977-1981: International Monetary Fund, *Balance of Payments Yearbook*; 1982: ECLA, on the basis of official information.

<sup>a</sup>Interest payments include those corresponding to the short-term debt.

<sup>b</sup>Preliminary figures.

<sup>43</sup>This crucial difference is also evident on the international scene from the fact that Latin America's debt service coefficient is three times higher than that of the Asian countries that have large bank debts. See: Morgan Guaranty Trust Co., *World Financial Markets*, February 1983, p. 5.



Table 37  
**LATIN AMERICA: RELATION BETWEEN GROSS GLOBAL DISBURSED  
EXTERNAL DEBT AND EXPORTS OF GOODS AND SERVICES**  
(Percentages)

	1977	1978	1979	1980	1981	1982 <sup>a</sup>
<b>Latin America</b>	189	218	203	194	213	261
<b>Oil-exporting countries</b>	212	233	199	176	195	232
Bolivia	235	298	302	234	259	307
Ecuador	135	192	156	167	197	233
Mexico	341	280	250	213	232	263
Peru	294	297	174	170	205	243
Venezuela	106	167	154	133	137	174
<b>Non-oil-exporting countries</b>	173	208	207	211	232	291
Argentina	125	150	199	248	271	338
Brazil	252	314	293	262	255	331
Colombia	114	113	132	145	199	202
Costa Rica	107	128	154	177	187	249
Chile	188	208	162	160	226	271
El Salvador	50	82	59	76	105	126
Guatemala	45	60	68	65	78	106
Haiti	91	91	106	88	130	194
Honduras	125	139	135	138	171	228
Nicaragua	181	198	216	330	372	473
Panama	189	268	235	180	192	232
Paraguay	84	116	141	162	197	190
Dominican Republic	93	120	103	122	119	195
Uruguay	120	90	86	86	107	180

Source: ECLA, on the basis of table 34 and official information.

<sup>a</sup>Preliminary estimates by ECLA.

Table 38  
**LATIN AMERICA: RELATION BETWEEN THE GROSS GLOBAL DISBURSED  
EXTERNAL DEBT AND THE GROSS DOMESTIC PRODUCT**  
(Percentages)

	1977	1978	1979	1980	1981	1982 <sup>a</sup>
<b>Latin America</b>	23.6	26.5	28.5	30.2	32.3	35.6
<b>Oil-exporting countries</b>	27.8	30.2	32.8	34.9	36.4	39.6
Bolivia	53.0	61.3	68.4	58.7	57.9	66.7
Ecuador	28.2	37.4	37.6	42.0	44.1	45.6
Mexico	23.4	22.8	24.1	27.1	30.3	33.6
Peru	36.9	39.3	34.6	33.9	31.0	36.0
Venezuela	35.5	49.8	63.9	68.0	66.1	68.0
<b>Non-oil-exporting countries</b>	20.9	24.1	25.9	27.2	29.5	32.7
Argentina	14.7	19.4	27.5	32.9	38.4	43.2
Brazil	22.3	25.7	25.3	25.1	26.5	28.8
Colombia	14.1	13.8	16.3	17.5	17.8	18.8
Costa Rica	34.1	37.3	42.9	49.1	49.8	61.8
Chile	34.8	37.4	38.9	42.1	47.7	59.4
El Salvador	16.2	20.8	19.7	21.1	24.7	29.9
Guatemala	11.0	12.6	14.0	14.1	12.9	15.6
Haiti	13.9	15.0	15.6	16.2	18.5	27.6
Honduras	44.0	50.8	51.7	53.2	56.7	64.8
Nicaragua	68.4	75.3	94.8	90.0	92.6	102.3
Panama	53.7	68.5	64.0	63.4	62.0	68.0
Paraguay	14.7	18.8	22.6	23.5	24.1	27.9
Dominican Republic	19.1	20.0	20.7	23.8	24.6	28.1
Uruguay	18.2	13.4	14.0	15.8	19.9	27.7

Source: ECLA, on the basis of table 34 and official information.

<sup>a</sup>Preliminary figures.



**PART TWO**  
**EXCHANGE POLICIES AND THE PROCESS**  
**OF RENEGOTIATION**

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## Part Two

### EXCHANGE POLICIES AND THE PROCESS OF RENEGOTIATION OF FOREIGN DEBT

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As noted above, during 1982 the balance-of-payments current account of most Latin American countries was affected simultaneously by the deterioration of the terms of trade, the stagnation of the volume of exports and the considerable increase in net transfers abroad for interest and profits. At the same time, the net inflow of capital fell sharply, forcing the countries to finance a considerable part of their current-account deficit by dipping into their international reserves.

Under these circumstances, in 1982 the economic authorities of many countries of the region put underway adjustment programmes aimed at reducing the external disequilibrium or extended the application of policies they had initiated in 1981 for the same purpose. In most cases, a drastic rise in the exchange rate and the introduction of substantial changes in exchange regulations were central elements of the adjustment programmes. Also, in most cases, in addition to putting underway adjustment policies, the authorities began negotiations with the international commercial banks and with the International Monetary Fund concerning the rescheduling of payments for the service of the external debt in order to alleviate the balance-of-payments situation, which might otherwise have become untenable.

Because these policies were so important and were so widely applied, this part of the *Survey* presents a discussion, firstly, of the main modifications introduced in 1982 in exchange parities and systems, and, secondly, the basic features of the foreign debt renegotiation process.

#### I. EXCHANGE POLICIES

Two things characterized exchange policies in 1982. The first was the fact that a large number of countries in the region experienced sharp devaluations; the second was the fact that several of these countries made substantial changes in their exchange systems which usually tended to make them more complex.

Both phenomena were concentrated in the countries that followed two of the four exchange policies which could be observed in Latin America up to 1981. These policies, in turn, were closely related to the different experiences the countries had had with inflation (see table 39).

The first of these policies was that of maintaining a fixed exchange rate with respect to the dollar; the second consisted of generally maintaining a stable exchange rate with respect to the dollar but occasionally enacting devaluations; the third was that of constantly but gradually raising the exchange parity with a view to maintaining a stable real exchange rate; the last was that of announcing devaluations in advance so that the exchange rate rose periodically according to a pre-established pattern.

As may be seen in table 39, four Central American countries, two Caribbean countries and Venezuela followed the first of these policies. In most of them, the parity with the dollar had remained virtually unchanged during the entire postwar period; these countries had had the lowest inflation rates of the region, very similar to the international inflation rates.

The second policy was applied in six countries which had had several devaluations over the last 30 years but had then returned to a fixed-exchange-rate policy.<sup>46</sup> Inflation had been low in all these

<sup>46</sup>Thus, Bolivia, after having maintained a fixed exchange rate during the entire decade of the 1960s, enacted a devaluation in 1972 and again maintained a stable exchange rate up to 1979. Costa Rica and Ecuador applied the same policy and enacted devaluations in 1961 and 1974 and in 1961 and 1970, respectively. Mexico did likewise; after having devalued the peso in 1954, it maintained a perfectly stable exchange rate up to 1976. Finally, during the period between 1950 and 1980, Nicaragua only enacted devaluations in 1958 and 1979, while Paraguay only raised the exchange rate in 1959 and 1960.

countries during the 1960s but the inflationary process had accelerated, for different reasons, during the 1970s, forcing some of them to enact devaluations in order to regain their international competitiveness. Nevertheless, even during the latter period, the average rate of increase of domestic prices had been lower than the regional average.

Brazil, Colombia and Peru, on the other hand, followed a policy of gradual and periodical devaluations.<sup>47</sup> In these three countries, the rate of increase of the exchange rate was set by the economic authorities, mainly on the basis of the difference between the domestic and international inflation rates and the inflation rate had been quite high (between 22% and 37% per year) during the 1970s.

Finally, from the late 1970s onwards, Argentina, Chile and Uruguay applied a policy of pre-announced devaluations, the main purpose of which was to help lower their extremely high inflation rates, in order to bring them in line with the international rate of inflation and then establish a fixed exchange rate. In early 1982, in fact, Chile had achieved both goals.

### 1. Devaluations

In 1982 there were significant devaluations in 10 of the 19 countries considered in this *Survey* (see table 40). In four of them, the exchange rate rose by 190% or more between December 1981 and December 1982. The greatest devaluation took place in Bolivia, where the exchange parity had remained stable since 1979 but then rose dramatically, by 700%. In Argentina, the exchange rate rose by 385%, thus exceeding the large increase already recorded in 1981. The exchange parity also rose sharply in Mexico (205%), as a result of the heavy devaluations of February and December, and it also increased threefold in Uruguay, where in November the economic authorities abandoned their policy of pre-announced devaluations and allowed the peso to float freely.

Table 39

#### LATIN AMERICA: EXCHANGE POLICIES AND INFLATION

	Average annual inflation (percentage)	
	1960-1970	1970-1980
<b>I. Fixed exchange rate</b>		
El Salvador	0.5	11.0
Guatemala	0.3	10.0
Haiti	4.0	9.0
Honduras	3.0	9.0
Panama	2.0	7.0
Dominican Republic	2.0	9.0
Venezuela	1.0	12.0
<b>II. Fixed exchange rate with occasional devaluations</b>		
Bolivia	3.0	22.0
Costa Rica	2.0	15.0
Ecuador	6.0	14.0
Mexico	4.0	19.0
Nicaragua	2.0	13.0
Paraguay	3.0	12.0
<b>III. Period devaluations</b>		
Brazil	46.0	37.0
Colombia	12.0	22.0
Peru	11.0	31.0
<b>IV. Pre-announced devaluations</b>		
Argentina	22.0	130.0
Chile	33.0	200.0
Uruguay	51.0	62.0

Source: ECLA, on the basis of official information.

<sup>47</sup>Brazil and Colombia adopted this policy in the mid-1960s, as did Chile, which abandoned it in 1970. Peru began to follow it systematically from 1978 onwards.

Table 40  
LATIN AMERICA: MAJOR DEVALUATIONS IN 1980-1982

Exchange policy	Percentage variation in exchange rate					
	Nominal <sup>a</sup>			Real <sup>b</sup>		
	1980	1981	1982	1980	1981	1982
<b>Fixed exchange rate with occasional devaluations</b>						
Bolivia	-	-	700	-6	-26	74
Costa Rica	-	320	12	-8	60	-18
Ecuador	-	-	33	-	-6	7
Mexico	2	12	205	-8	-9	40
<b>Periodic devaluations</b>						
Brazil	54	95	96	14	-15	-4
Colombia	16	16	19	1	-6	-7
Peru	36	48	95	-7	-14	-1
<b>Pre-announced devaluations</b>						
Argentina	23	347	385	-10	26	30
Chile	-	-	86	-16	-10	17
Uruguay	18	16	190	-4	-4	16

Source: ECLA, on the basis of information supplied by the International Monetary Fund.

<sup>a</sup>Nominal December-to-December variation in exchange rate.

<sup>b</sup>Average variation in real effective exchange rate.

In three other countries —Brazil, Chile and Peru— the exchange rate almost doubled. Finally, in 1982 there were significant —though much lower than those just mentioned— devaluations in Ecuador, where the exchange rate rose by 33% after twelve years of complete stability; in Colombia, whose economic authorities devalued the peso at an annual rate of 19%, slightly more than during the two preceding years; and in Costa Rica, where the exchange rate rose by 12% after having increased fourfold during the previous year.

Both because of the great differences between the inflation rates which prevailed before and after the devaluations, and because of the different points during the year 1982 at which the increases in the exchange rates of the various countries were enacted, there was not much relationship between the magnitude of the nominal increase in the exchange rate and the average variation in the real effective exchange rate<sup>48</sup> (see table 40).

The greatest increases in the real effective exchange rate occurred in Bolivia (74%) and Mexico (40%) which, as mentioned above, enacted sharp devaluations in 1982. On the other hand, in Argentina —whose already high rate of inflation tended to accelerate in 1982— the nominal devaluation of 385% only raised the effective exchange rate by 30%, a rate that was much lower than that achieved by Mexico with a nominal devaluation of 205%. For the same reasons, even though the nominal exchange parity almost doubled in Brazil and Peru, these countries were not able even to maintain the real effective exchange rate. The real effective exchange rate rose by 17%, however, in Chile, despite the fact that in that country the nominal exchange rate rose less than in Brazil or Peru.

Although there was no systematic relationship between the magnitude of the nominal devaluation and the increase in the real exchange rate, it should be noted that over the short term (one year), considerable increases in the real exchange rate were achieved through the modification of nominal parities; this was the case in Costa Rica in 1981 and in Bolivia, Mexico and Argentina in

<sup>48</sup>The real effective exchange rate was calculated by adjusting the nominal exchange rates between the currency of the country considered and the currencies of its main trading partners by the relevant relative inflation indexes. In estimating the latter, account was taken of the domestic wholesale price index (which measures variations in prices of tradeable goods more adequately than the consumer price index) and the wholesale price indexes of the main trading partners (which measure the relevant international inflation). The variation in the real effective exchange rate was calculated by comparing the annual averages of same. This variation may be very different from the December-to-December variation, depending on when the devaluations were enacted.

1982. It is also evident, however, that as time goes on, the real effects of devaluation tend to be reduced, at least if no new devaluations are implemented. The recent experience of Costa Rica clearly illustrates this process. In that country, as may be seen in figure 11, the tremendous devaluation of 320% which took place during 1981 led, during that same year, to a very high increase (60%) in the real exchange rate. In 1982, however, when inflation increased and the rate of devaluation was considerably moderated, half of the increase in the real exchange rate that had been achieved in 1981 was lost.

Moreover, as shown clearly in figures 11 and 12, the most significant changes in real exchange rates occurred in 1981 and 1982 in the countries whose policy was to have a fixed exchange rate and occasional devaluations —e.g., Costa Rica in 1981 and Bolivia and Mexico in 1982— or who followed a policy of pre-announced devaluations —e.g., Argentina in 1981 and 1982, and Chile and Uruguay in 1982. In marked contrast with these, the three countries that followed a policy of frequent and gradual devaluations achieved a much greater degree of real exchange stability; this was particularly evident in Brazil and Peru, where the real effective exchange rate changed very little in 1982, despite the fact that in both countries the nominal exchange rate almost doubled.

## 2. Modification of exchange systems

The year 1982 brought with it not only sharp devaluations but also substantial modifications in the exchange systems themselves. Thus, as shown in figure 13, countries such as Argentina, Bolivia, Chile and Mexico, which began 1982 with a single exchange rate, introduced during the course of the year, multiple exchange systems which sometimes even provided for up to three different official rates and repeatedly changed the criteria for establishing the level and coverage of these rates.

### a) *Argentina*

At the end of 1981, and after five months during which there had been two official exchange rates, the economic authorities unified the exchange areas and allowed a controlled floating of the peso.

At the beginning of July, however, after the conflict in the South Atlantic and in the face of serious foreign debt problems, the authorities enacted a maxi-devaluation and re-established a system of multiple exchange rates. This included a rate for commercial transactions —set initially at a level that was 28% higher than the rate which had been in force up to then and subject to gradual adjustments based on the difference between domestic and external inflation— and a free rate for financial transactions, which initially ranged around a level that was 125% higher than the previous one (see table 41).

This system lasted two months, inasmuch as in September, in addition to enacting a further maxi-devaluation of the commercial exchange rate, the authorities abandoned the system of allowing the financial rate to float freely. They fixed the financial rate at a level 45% higher than the commercial rate and at the same time established that 15% of all import and export operations should be liquidated at the financial exchange rate.

Finally, at the end of October, the two exchange rates were merged to the level of the financial rate and the authorities decided that the new single exchange rate would be adjusted periodically, taking into account the difference between the rate of increase of domestic prices and that of external inflation.

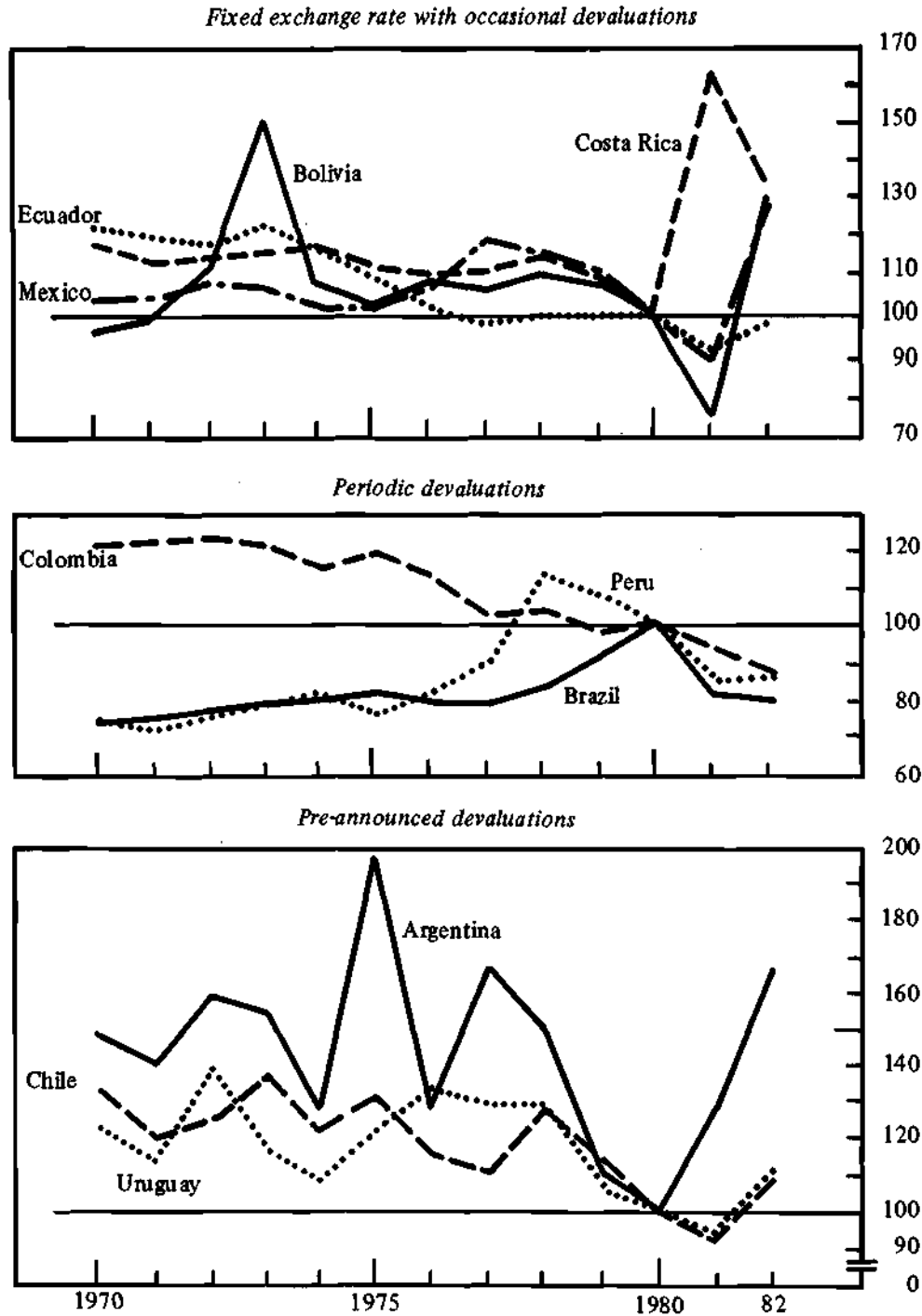
### b) *Bolivia*

The exchange rate had remained fixed at a level of 24.5 pesos per dollar since the end of 1979. This and the rapid acceleration of inflation over the next two years produced a lag (of around 30%) in the exchange rate, and the effective rate fell in 1981 to its lowest level of at least the last eleven years (see table 42).

Under these circumstances, in early February the authorities decided to raise the exchange rate to 43 pesos per dollar and at the end of March they established a system of multiple exchange rates. This included a fixed official rate at which exporters were required to liquidate 40% of their foreign exchange, and a free rate for most other transactions. The free rate rose almost immediately to a level that was almost 100% higher than the official rate.



Figure 11  
**ANNUAL EVOLUTION OF REAL EFFECTIVE EXCHANGE RATE INDEXES  
 ACCORDING TO EXCHANGE SYSTEM<sup>a</sup>**  
 (1980 = 100)

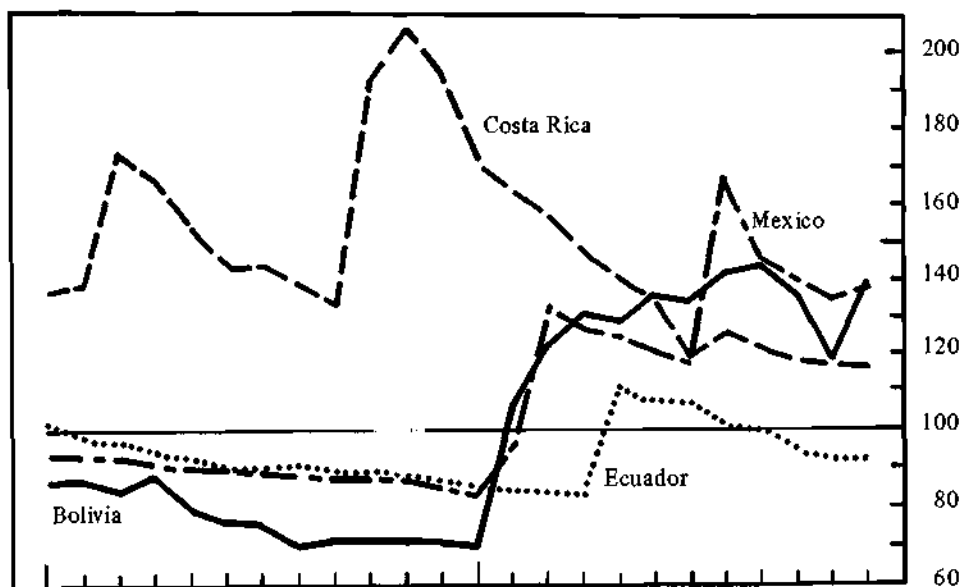


Source: ECLA, on the basis of information from the International Monetary Fund (IMF).

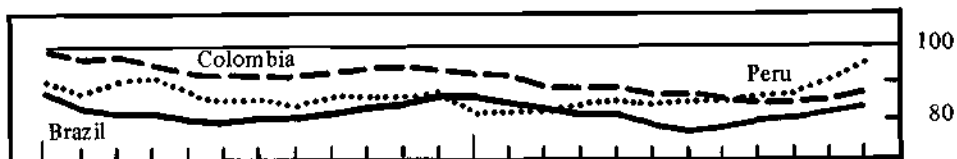
<sup>a</sup>The real effective exchange rate index for imports was used.

Figure 12  
**MONTHLY EVOLUTION OF REAL EFFECTIVE EXCHANGE RATE INDEXES ACCORDING TO EXCHANGE SYSTEM<sup>a</sup>**  
 (1980=100)

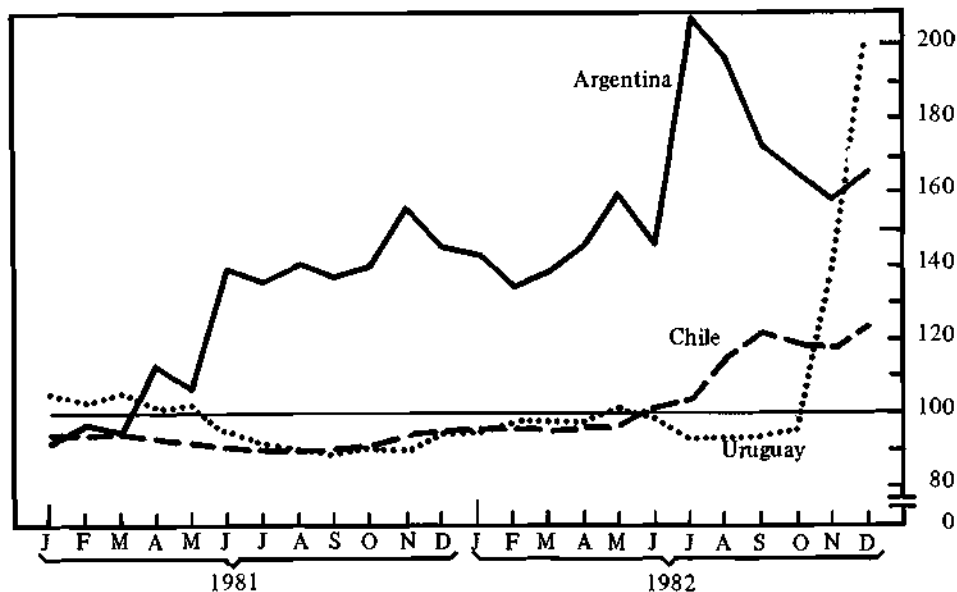
*Fixed exchange rate with occasional devaluations*



*Periodic devaluations*



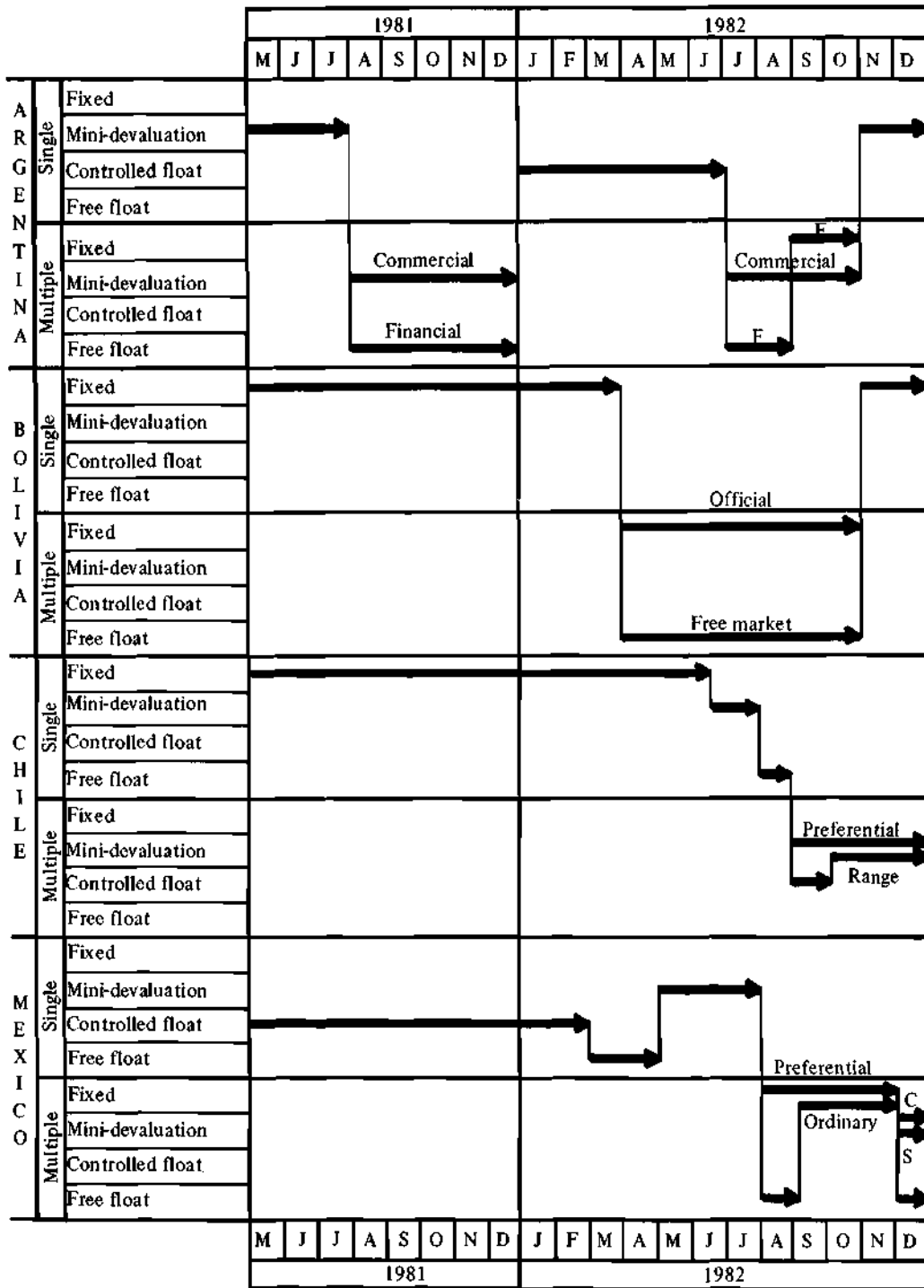
*Pre-announced devaluations*



Source: ECLA, on the basis of information from the International Monetary Fund (IMF).  
<sup>a</sup>The real effective exchange rate index for imports was used.

Figure 13

CHANGES IN EXCHANGE SYSTEMS OF FOUR LATIN AMERICAN COUNTRIES



Source: ECLA, on the basis of official information.

Symbols: C = Controlled rate.

S = Special rate applicable only to the payment of certain debts.

F = Financial rate.

Table 41  
LATIN AMERICA: TIMETABLE OF CHANGES IN EXCHANGE SYSTEMS, 1982

	Argentina	Bolivia	Chile	Mexico	Other countries
First quarter		<p>5 February. The official exchange rate rises from 25 to 43 pesos per dollar.</p> <p>24 March. Two exchange rates are established: an official rate of 43 pesos per dollar and a free floating rate, initially 80 pesos per dollar. In addition, exporters only need return 40% of foreign exchange at the official rate.</p>		<p>18 February. The Bank of Mexico temporarily abandons the market, allowing the peso to seek its market level. The exchange rate rises from 27 to 45 pesos per dollar.</p> <p>March Beginning of a period of daily mini-devaluations.</p>	<p>3 March. Ecuador: The exchange system is modified. The official rate is maintained at 24.8 sucres per dollar for oil exports and 40% of essential imports, and an exchange rate of 30 sucres per dollar is established for all other transactions.</p>
Second quarter	<p>5 May. A 17% devaluation is enacted, with the exchange rate rising from 11 900 to 14 000 pesos per dollar.</p>		<p>15 June. The peso is devalued from 39 to 46 pesos per dollar. Subsequently there will be a monthly devaluation according to a pre-announced schedule.</p>		<p>14 May. Ecuador: The two official exchange rates are unified into a single rate of 33 sucres per dollar.</p>
Third quarter	<p>6 July. A double exchange system is established with a commercial exchange rate of 20 000 pesos per dollar and a financial rate determined by the market, initially 35 000 pesos. The unified system had been functioning since December 1981.</p> <p>13 September. The commercial exchange rate is devalued from 23 270 to 26 850 pesos per dollar and the authorities announce that importers and exporters must liquidate 15% of their transactions at the financial exchange rate of 39 000 pesos per dollar.</p>		<p>6 August. The authorities announce that the peso will float. The Market price fluctuates between 55 and 62 pesos per dollar.</p> <p>20 August. It is established that the payment of private foreign-currency debts contracted before 6 August is to be made at a preferential rate of 50 pesos per dollar. This rate is to be adjusted daily on the basis of the rate of inflation.</p> <p>30 September. The Central Bank announces that it has set a reference exchange rate of 66 pesos per dollar which is to be adjusted taking into account the difference between domestic and external inflation.</p>	<p>5 August. The authorities introduce a double exchange rate, consisting of a preferential rate, initially set at 45.50 pesos per dollar for priority imports and for the service of the existing external debt, and a free rate fluctuating initially between 85 and 90 pesos per dollar, for other transactions.</p> <p>13 August. Foreign exchange transactions are temporarily suspended and deposits in such currencies are converted to pesos at a fixed rate of 69.50 pesos per dollar.</p> <p>2 September. Private banks are nationalized and exchange controls are intensified.</p> <p>6 September. Two exchange rates are established and the free market quotation is eliminated. The preferential exchange rate of 50 pesos per dollar is maintained for priority imports and the service of the external debt and an ordinary exchange rate of 70 pesos is established for other transactions.</p>	<p>19 July. Paraguay: An official exchange rate of 160 guaranis per dollar is established for non-essential imports. Essential imports continue to use the previous exchange rate of 126 guaranis per dollar.</p>
Fourth quarter	<p>29 October. The two exchange rates are merged into a single rate of 39 000 pesos per dollar as from 10 November. This rate is to be adjusted periodically to offset the effect of inflation.</p>	<p>8 November. The double exchange rate is eliminated. The official exchange rate is set at 200 pesos per dollar, which implies an effective increase of around 30%, with respect to the previous norms. Exporters must return 100% of their foreign exchange at this new exchange rate.</p>		<p>3 November. A floating exchange rate is established all along the United States border. Residents of the free zone may purchase a maximum of 1 500 dollars per month at the floating rate.</p> <p>20 December. A new exchange system is introduced under which there is a controlled exchange rate (new preferential rate) of 95 pesos per dollar for essential imports and the service of the external debt and a free rate for all other transactions. In addition, the Central Bank establishes a special exchange rate of 70 pesos per dollar for the payment of certain debts contracted in foreign currency by private enterprises within Mexico. In future, the controlled exchange rate and the special rate are to be adjusted to reflect inflation.</p>	<p>29 November. Uruguay: The authorities allow the exchange rate to be determined by the market, as a result of which it rises from 14 to around 30 pesos per dollar. In addition, they announce that tariffs on imports are to be reduced and subsidies on exports are to be eliminated as from 10 January 1983.</p>

Source: ECLA, on the basis of official information and information from different national and international sources.

Table 42

**LATIN AMERICA: INDEXES OF EFFECTIVE REAL EXCHANGE RATES  
IN SELECTED COUNTRIES<sup>a</sup>**

(1980 = 100)

	Argentina	Bolivia	Brazil	Colombia	Costa Rica	Chile	Ecuador	Mexico	Peru	Uruguay
1970	144.6	93.8	61.6	118.2	117.3	133.2	128.2	105.4	73.3	110.5
1971	137.2	97.2	62.9	120.0	113.9	122.4	128.2	105.4	71.6	101.7
1972	155.2	108.3	65.5	120.9	115.0	128.4	125.4	108.8	74.1	125.6
1973	148.5	146.4	69.0	119.9	115.8	142.8	127.0	107.9	79.1	107.5
1974	126.9	104.9	74.5	113.7	117.7	124.5	118.9	104.4	82.1	103.6
1975	194.1	99.7	76.0	118.9	113.7	133.4	110.3	103.2	76.4	119.3
1976	127.9	105.6	73.7	112.6	110.5	116.0	103.8	108.5	81.1	127.1
1977	164.9	102.8	73.8	102.0	111.9	112.4	98.5	120.0	90.4	126.1
1978	148.8	106.6	77.7	103.3	114.3	130.2	97.6	114.4	113.0	122.9
1979	111.7	106.2	87.6	99.0	109.1	116.4	99.7	109.1	107.1	103.9
1980	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981	125.8	73.7	84.8	93.5	160.4	89.8	93.4	90.8	85.7	95.8
1982	163.2	128.5	81.6	87.3	131.4	105.1	99.9	127.5	85.3	110.8

Source: ECLA, on the basis of information supplied by the International Monetary Fund.

<sup>a</sup> Average real effective exchange rate indexes for exports and imports. In deflating, the wholesale price was used, except in the case of Bolivia, for which the consumer price was used. For a detailed explanation of the methodology used, see *Economic Survey of Latin America*, 1981, Part III.

Between March and October, the free rate rose from 80 to 225 pesos per dollar, while the controlled rate remained at 43 pesos. The two rates were merged in early November by the new economic authorities, who established a single fixed exchange rate of 200 pesos per dollar.

c) *Chile*

At the beginning of 1982, there was a single exchange rate which had remained constant at 39 pesos per dollar since June 1979. As the inflationary process continued, however, the real effective exchange rate fell during the period 1979-1981 by around 30%. This substantial exchange lag contributed towards generation of a growing deficit on the current account and seriously reduced the international competitiveness of the Chilean economy. The authorities dealt with this problem by trying to keep the domestic inflation rate lower than the international inflation rate. Despite the fact that during the first half of 1982, domestic inflation was indeed slightly lower than international inflation, there was very little improvement in the competitive position of Chile because of the magnitude of the cumulative lag in the exchange rate. At the same time, economic activity began to decline sharply and unemployment rose to unprecedented levels.

Under such circumstances, the economic authorities decided in mid-June to raise the exchange rate by 18% and at the same time announced that during the following twelve months the exchange rate would rise daily at a monthly rate of 0.8%.

Nevertheless, because it was impossible to apply a policy of monetary expansion aimed at reactivating the economy —because of the uncertainty and the considerable financial openness which prevailed, such a policy could have brought about a drop in international reserves— the authorities decided, at the beginning of August, to allow the peso to float freely. The exchange rate then rose immediately to 60 pesos. Because this sudden increase in exchange rates led to an atmosphere of uncertainty and mistrust, the government intervened in the market a few days later and thus the float became a "dirty" one. In addition, at the end of August the authorities established a preferential exchange rate of 50 pesos per dollar for those who had debts in foreign currency, in order to reduce the sharp increase in the cost of servicing the external debt that the devaluation would have entailed for them. With the creation of this new rate, which in future was to be readjusted on the basis of domestic inflation, a system of multiple exchange rates was established.

Only one month later, the exchange policy was again changed. Because of the loss of reserves resulting from the Central Bank's intervention on the exchange market and the fact that, despite that

intervention, the exchange rate continued to rise, there was an atmosphere of uncertainty among economic agents; thus, the authorities decided, at the end of September, to abandon the policy of allowing the peso to float and established a reference exchange rate. This was fixed initially at 66 pesos per dollar and it was to be readjusted daily according to the difference between domestic and external inflation. At the same time, the Central Bank undertook to sell and purchase foreign currencies at prices that could fluctuate by up to 2% around the reference exchange rate.

d) *Mexico*

After the major devaluation of 1976, when the exchange rate rose by 60%, it stabilized at around 22 pesos per dollar and remained practically unchanged up to the end of 1980. From the last quarter of 1980 up to the beginning of 1982, the economic authorities began to raise the parity gradually, at a rate of approximately 1% per month.

Nevertheless, from the beginning of 1981 onwards, partly as a result of the extraordinary increase in the current-account deficit, the net inflow of loans and investment fell and an outflow of short-term capital began. International reserves fell again at the beginning of 1982 and in February the Bank of Mexico withdrew from the exchange market, allowing the peso to find its own level. As a result of this, the exchange rate rose immediately from 27 to 45 pesos per dollar.

Two months later, the authorities again fixed the exchange rate, this time 46 pesos per dollar, at the same time, however, announced that in future it would rise daily at a monthly rate of 2%.

Nevertheless, international reserves continued to fall, partly because the wage readjustments enacted during the first quarter of the year largely neutralized the effect of the devaluation and increased inflationary expectations and partly because there was a lack of confidence in the peso. Thus, at the beginning of August the authorities adopted a system of multiple exchange rates which consisted of a controlled rate, established initially at 49.50 pesos per dollar and applicable to priority imports and to the service of the external debt, and a free rate for other transactions. The free rate rose rapidly, fluctuating between 85 and 90 pesos per dollar.

These measures increased the fear that controls would soon be imposed on the outflow of capital, which therefore increased. Only one week later, therefore, the government temporarily suspended all exchange operations and decreed that all dollar deposits must be converted to pesos at a rate of 69.50 pesos per dollar. The free dollar rose to around 120 pesos.

Only three weeks later, the authorities introduced further modifications in the exchange system. At the beginning of September, the authorities, announced the nationalization of the banking system and established a new exchange system with two fixed rates. The first, called the preferential rate, was applicable to essential imports and the service of the debt and was set at 50 pesos per dollar; another rate, also a fixed one, of 70 pesos was established for all other transactions.

These measures encouraged the development of parallel markets, especially in the United States cities on the Mexican border. In November, therefore, the government authorized exchange transactions at a free rate in the border area.

After the change of government further modifications were made in the exchange system and another maxi-devaluation was enacted. Thus, from 20 December onwards, there were three different rates. The lowest, called the special rate, was set at 70 pesos per dollar and was applied to certain debts contracted in foreign currency by private enterprises within Mexico; the second, called the preferential rate, was initially set at 95 pesos per dollar and was applicable for exports, essential imports and the service of the debt. Both the preferential and the special rates were to rise gradually in future at an annual rate of around 50%. A free and floating rate was established for all other transactions; this rate initially ranged around 150 pesos.

### 3. Causes of exchange instability

a) *Instability of exchange rates and exchange policies*

It is not by chance that the major changes in exchange systems should have occurred mainly in countries such as Bolivia and Mexico, whose policies consisted of combining a fixed exchange rate with occasional devaluations, or in countries which followed a policy of pre-announced devaluations, such as Argentina. This is so because, essentially, only two policies tend to maintain a stable exchange

rate: those which provide for a fixed rate, in economies with low inflation, and those which provide for periodical devaluations, in economies with heavy inflation.

The other two policies, on the other hand, are intrinsically unstable because, in the final analysis, they are really transition mechanisms for arriving at a fixed exchange rate once domestic inflation is reduced to the level of international inflation.

Nevertheless, to the extent that the rate of domestic inflation is significantly greater than that of international inflation or to the extent that there is considerable uncertainty regarding the permanency of the exchange policy announced, capital flows, which are essential to any gradual correction of external disequilibria, become abrupt and procyclical.

A vicious circle then begins: there is uncertainty with respect to the durability of the announced policy —because domestic inflation is high by comparison with international inflation; because there is a sharp drop in the terms of trade, or because there is a sharp increase in the service of the debt— and this gives rise to capital flows which aggravate the external crisis instead of attenuating it and which make it impossible to continue following the policy in question, except at a very high cost in terms of recession.

Moreover —as illustrated by the experiences discussed above— once the exchange policy is abandoned, uncertainty with respect to the future trend of the exchange rate tends to give rise to a flight of capital which make it necessary to “over-devalue”, or to adopt multiple exchange systems entailing quantitative controls, or to establish floating exchange rates.

#### b) *Instability of exchange rates and changes on the international financial scene*

Actually, devaluations and modifications of exchange systems are not a recent phenomenon. Strictly speaking, it is not surprising that they should occur more frequently when international conditions are very unstable as they were during the 1970s and the early 1980s; during this period, the dollar went down and then up, and there were two oil crises and the two longest and most serious international recessions of the postwar period. It is interesting to note, however, that exchange rates were highly volatile in the region in 1981-1982, not only by comparison with the period preceding the first oil crisis, but also with respect to the second half of the 1970s (see figure 11).

To a considerable extent, this exchange instability was related to the profound changes that took place on the international financial scene. The revival, in the late 1960s, of the international capital market —with Eurodollars—, which had remained in lethargy for almost 40 years, and its subsequent growth after the 1973 oil crisis —with petrodollars— not only gave the periphery much greater access to capital markets, but also brought about two changes that had a decisive effect on exchange policies.

In the first place, the capital account became very important to the evolution and adjustment of the balance of payments. To illustrate this point, one might mention that the net inflow of long-term private financial capital was equivalent to 20% of the value of Latin America's exports of goods and services in 1980-1981, as compared with less than 4% during the 1960s.

As the countries of the periphery gained access to these capital flows, they were able to maintain relatively large current-account deficits for several years without losing reserves. Moreover, as shown by the experience of Latin America from 1976 to 1980, the inflow of capital could be large enough to enable a country to finance its growing current-account deficit and accumulate international reserves simultaneously. In the past, when these countries did not have such access to international capital, a deficit on current account entailed a loss of reserves; this process, of course, could be only a temporary one and consequently required a short-term adjustment of the trade balance.

In addition, if the only way to overcome a current-account deficit and a loss of reserves was to improve the trade balance —devaluation being the ideal instrument for this purpose— the central objective of the exchange policy would be to keep the external accounts balanced. However, as the capital account grew in importance and as it became possible, through the inflow of capital, to maintain an adequate level of reserves even in the presence of a current-account deficit, it became of fundamental importance to maintain a stable or “predictable” exchange rate. Hence, the second important change that took place with respect to exchange policies during the second half of the 1970s was a shift in their central objective. In many countries, in fact, the main objective was no longer to maintain external equilibrium; instead, exchange policies began to be used as a means for stabilizing the domestic level of prices, and the inflow of capital was used to achieve or preserve the external equilibrium.

Thus, in recent years, the movement of the exchange rate has been governed both by the behaviour of the current account and by that of the capital account.

As regards the influence of the current account, the trend towards a deficit would appear to generate pressures for devaluation, to the extent that, among others, some of the following conditions exist: that domestic inflation be higher than external inflation; that unit costs of labour rise more than abroad; that the terms of trade deteriorate; that customs tariffs or export incentives or both be reduced; and that the international interest rate rise, thus increasing interest payments on the external debt.

At the same time, the greater the increase in the capital inflow, the lesser will be the need to raise the exchange rate in order to deal with the deficit on current account.

All these variables have undergone substantial modifications in Latin America over the last ten years, though not necessarily in the same direction. It is not easy, therefore, to make generalizations with regard to the greater part of this period. During the biennium 1981-1982, however, and with very few exceptions, almost all these variables underwent significant changes in the same direction, creating pressure for strong adjustments to be made in the trade balance and hence creating a push towards major devaluations. This becomes particularly evident when an analysis is made of the effect of four of the main variables mentioned above —inflation, wages, terms of trade and capital flows— on the exchange rate.

### c) *Devaluation, exchange lag and trade balance*

The increasing use of exchange policies for anti-inflationary purposes —explicit in the Southern Cone countries with their policy of decreasing devaluation, and implicit in other countries, in their efforts to avoid exchange adjustments in order to postpone their inflationary impact— led to the so-called "exchange lag", i.e., a process in which, because devaluation is lower than the difference between domestic and external inflation, domestic activities pertaining to the production of tradeable goods gradually lose their international competitiveness.

As shown in figure 11, the real effective exchange rate of most of the countries of the region followed a downward trend from the beginning of the 1970s up to at least 1980. The case of Argentina is a good illustration of this. The policy of pre-announced devaluations at declining rates which was established in 1978 to reduce inflation raised the cost of Argentine tradeable goods by 65% with respect to international products between 1977 and 1980 (see table 42).

Similar, although less dramatic, exchange lags occurred in Chile and Uruguay —which in 1978 also adopted policies of pre-announced and declining devaluations— and in Bolivia and Mexico, since the virtual establishment of fixed exchange rates in 1979 and 1977, respectively.

Nevertheless, the difference between domestic and external inflation is only one of the factors which has to do with the loss of international competitiveness. Even more relevant is the behaviour of wages, inasmuch as domestic costs are better reflected in the evolution of wages than in that of prices. As may be seen in table 43, when this adjustment is taken into account, the loss of competitiveness becomes even greater in every case for which information is available, because of the fact that between 1977-1978 and 1980-1981, wages rose more than inflation (measured by wholesale prices). This was particularly the case in Argentina, where wages had reached rock bottom in 1977; consequently, the costs of Argentina's tradeable goods rose by 2.8 times in 1980 with respect to their value in 1977.

In fact, there would have been no problem if the exchange lag had been neutralized by an equivalent improvement in the terms of trade. Had that been the case, the higher domestic production costs would have been offset by an increase in the international price of exports and, consequently, the industries engaged in producing export products would have remained competitive. On the other hand, as the terms of trade deteriorated, the exchange lag would also worsen, because it would no longer be possible to achieve equilibrium in the trade balance by maintaining a constant real effective exchange rate.

In fact, the terms of trade did deteriorate during this period in Chile and Uruguay, thus aggravating the exchange problem. Hence, between 1978 and 1981, the exchange lag —adjusted by the terms of trade— rose from 70% to over 100% in Chile (see tables 43 and 44). At the same time, the improvement in the terms of trade in Argentina between 1978 and 1980 was not sufficient to offset the existing exchange lag.



Table 43

**LATIN AMERICA: INDEXES OF NOMINAL EXCHANGE RATES ADJUSTED  
BY WAGE INDEXES IN SELECTED COUNTRIES<sup>a</sup>**

	Argentina	Brazil	Colombia	Costa Rica	Chile	Mexico	Peru	Uruguay
1970	166.6	91.0	94.0	106.1	80.5	114.5	61.1	62.9
1971	157.6	89.0	98.7	101.9	54.9	109.4	56.0	53.4
1972	210.8	86.8	115.6	100.6	54.0	109.8	52.5	117.1
1973	177.4	86.5	120.4	104.5	99.5	112.0	54.9	81.5
1974	130.0	92.3	130.8	121.1	164.0	104.2	58.1	80.4
1975	217.6	84.7	141.7	125.9	224.6	93.6	55.5	95.9
1976	234.6	80.1	134.4	114.0	181.0	95.7	60.1	108.4
1977	277.6	76.0	121.3	109.7	166.3	114.1	81.5	116.2
1978	227.7	73.2	110.8	106.8	129.7	109.4	120.6	120.5
1979	143.0	81.7	102.2	102.4	124.1	105.6	119.2	120.5
1980	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981	144.3	81.4	89.8	217.6	76.1	80.7	87.4	82.4
1982	281.7	65.8	81.5	256.8	85.5	...	85.3	90.8

Source: ECLA, on the basis of table 42 and official information.

<sup>a</sup>The following nominal wage indexes were used:

Argentina : Average wage per industrial labourer.

Brazil : Average wage per worker in the manufacturing industry.

Chile : Index of wages and salaries of manual and office workers in non-agricultural sectors.

Costa Rica : Average wages and salaries reported by persons affiliated with the Costa Rican Social Security Fund.

Mexico : Average wages and salaries in the manufacturing industry.

Peru : Average wages in the private sector in metropolitan Lima.

Uruguay : Average wage index.

The growing current-account deficit which resulted from the drop in the real effective exchange rate was financed for a while by a heavy inflow of capital, particularly in Argentina (1979-1980), Chile (1979-1981) and Uruguay (1979-1981). It was obvious, however, that it would not be possible to maintain for very long an inflow of capital equivalent to around 60% of the value of exports of goods. Thus, as confidence in the maintenance of the exchange policy to attract outside capital was eroded, it became necessary to offer domestic interest rates in the order of between 3% and 4% per month, in real terms; this could not go on for long either. Finally, it became necessary both to enact substantial devaluations and to make major changes in the exchange system. And the devaluation had to be large enough not only to offset the cumulative exchange lag but also to counteract the drop in the net inflow of capital that had been brought about by the uncertainty with regard to the exchange situation.

d) *Devaluations and the capital account*

While it is a fact that the inflow of capital can attenuate balance-of-payments problems without its being necessary to resort to adjustments in the exchange system, it is also a fact that a sharp drop in capital flows can create or aggravate external disequilibrium problems, making it necessary eventually to make considerable adjustments in the trade balance. This is the case because capital movements are sensitive not only to the exchange lag but also to uncertainty with respect to a country's ability to meet the service of its external debt.

The clearest illustration of this type of situation is the case of Mexico. Offhand it might seem that there was also an exchange lag in Mexico, inasmuch as in 1981 the real effective exchange rate was lower than in 1977 by one-fourth or one-third, depending on whether the figure was deflated by domestic inflation or by the cost of wages (see tables 42 and 43). Nevertheless, although this obviously entailed a loss of competitiveness for most export industries and those producing import substitutes, this was not the case at the global level, since Mexico's terms of trade improved considerably during that period. Thus, the real effective exchange rate adjusted by the terms of trade was higher in 1981 than in 1977 or in any other year of the 1970s (see table 44).

In Mexico, therefore, it was not the exchange lag that made the devaluation necessary. Instead, the external disequilibrium was due to the extraordinary growth of the external debt, which rose by

over 80% between 1979 and 1981. When the price of oil began to fall and interest payments rose sharply, it became evident that Mexico could not meet the service of its debt without a massive inflow of capital, inasmuch as interest payments already represented 30% of the value of its exports of goods and services. And it was precisely the need for such an inflow of capital to balance the balance of payments that undermined confidence with respect to the country's ability to maintain a free movement of capital; this in turn led to a massive flight of short-term capital. Thus, the net inflow of capital fell from 50% of the value of exports of goods and services in 1981 to zero in 1982. The impact of this was equivalent to the impact of an equally massive fall in the terms of trade and made it necessary to float the peso in February 1982. As mentioned above, as a result of this devaluation and of another one enacted in December, by the end of the year the price of the dollar, in nominal terms, was triple that of the beginning of 1982. Thus, in Mexico, in the long run, the movement of capital turned out to be strongly procyclical, allowing for an excessive expansion of domestic expenditure during the boom period (1978-1981) and making necessary an abrupt and immediate adjustment in the trade balance in 1982.

## II. THE PROCESS OF RENEGOTIATION OF FOREIGN DEBT

### 1. The general mechanics of rescheduling

The year 1982 marked the beginning of a period in which developing countries began to fall into arrears on the payment of their foreign debt and to seek to renegotiate the terms of payment. By late 1982 and early 1983 more than 25 countries on the Periphery and in Eastern Europe had entered into negotiations with private banks to reschedule debt amounting to almost half of the banks' foreign currency loan portfolio in these areas.<sup>49</sup> Table 45 shows that 14 Latin American countries have sought new repayment terms with the banks; these countries account for about 80% of all the international debt to be rescheduled by these institutions.<sup>50</sup>

The wave of rescheduling in Latin America began in August 1982, when the Mexican government declared a 90-day moratorium on the amortization payments of the public sector, while keeping its interest payments current. Mexico had been experiencing repayment problems all year

Table 44

#### LATIN AMERICA: NOMINAL EXCHANGE RATE INDEXES ADJUSTED BY WAGE INDEXES AND BY TERMS-OF-TRADE INDEXES IN SELECTED COUNTRIES<sup>a</sup>

	Argentina	Brazil	Colombia	Costa Rica	Chile	Mexico	Peru	Uruguay
1970	176.9	135.0	71.7	107.3	164.3	69.7	44.9	78.2
1971	182.2	115.4	68.4	92.6	87.6	65.6	37.2	66.2
1972	275.9	125.9	84.5	85.7	79.3	66.2	30.2	169.7
1973	275.3	137.2	95.1	93.6	169.2	69.6	38.9	155.2
1974	176.2	124.5	96.4	87.1	294.9	70.8	57.6	105.1
1975	232.6	107.3	88.1	99.1	243.9	60.2	42.3	90.0
1976	221.6	110.3	123.2	107.4	210.9	66.9	47.7	100.5
1977	254.3	113.7	175.6	134.8	174.1	85.3	60.7	116.8
1978	192.9	95.2	120.9	120.9	131.8	79.0	76.7	126.9
1979	123.1	96.8	91.1	110.7	135.3	85.1	102.4	135.1
1980	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981	136.5	67.7	72.9	180.6	63.4	88.2	73.4	74.3
1982	245.9	52.7	74.6	212.6	64.1	...	66.4	80.3

Source: Tables 27 and 43.

<sup>a</sup>Refers to the product of the indexes shown in table 43 times the terms-of-trade indexes shown in table 27.

<sup>49</sup>Morgan Guaranty Trust Co., *World Financial Markets*, February 1983, pp. 1-2.

<sup>50</sup>Morgan Guaranty Trust Co., *op.cit.*, February 1983, pp. 1-2. Data on gross global debt in this table differ from those included in table 34, due to a wider statistical coverage.

Table 45

**LATIN AMERICA: PROVISIONAL DATA ON RENEGOTIATION  
OF EXTERNAL DEBT WITH PRIVATE BANKS  
IN SELECTED COUNTRIES**

(Billions of dollars)

Country	Gross global debt		Renegotiation of debt <sup>b</sup>			Loans approved <sup>c</sup>			
	1981 <sup>a</sup>	1982 <sup>a</sup>	Negotiations began	Amount	Maturities rescheduled	IMF	BIS <sup>d</sup>	United States	New <sup>e</sup>
Argentina	35.7	38.7	Sept. 1982	13.0 <sup>f</sup>	Sept. 1982-83	2.2	0.5 <sup>g</sup>	-	1.1 bridge, 1.5
Bolivia	2.5	2.8	Oct. 1982	...	...	0.3 <sup>h</sup>	-	-	-
Brazil	71.9	80.2	Dec. 1982	4.7 <sup>i</sup>	1983	6.0	1.2	1.5	4.40
Costa Rica	3.5	4.2	Sept. 1981	0.7 <sup>j</sup>	1982-1983	0.1	-	-	-
Cuba	3.2	...	Sept. 1982	0.34 <sup>k</sup>	Sept. 1982-83	-	-	-	-
Chile	15.9	17.3	Jan. 1983	3.3 <sup>l</sup>	1983-1984	0.88	0.3	-	1.30
Ecuador	5.9	6.3	Oct. 1982	2.48 <sup>m</sup>	Nov. 1982-83	0.17	-	-	-
Honduras	1.7	1.9	Jul. 1982	0.23	...	0.11	-	-	-
Mexico	72.0	81.4	Aug. 1982	20.0 <sup>n</sup>	Aug. 1982-84	3.97	1.85	2.0	5.00
Nicaragua	2.4	2.8	... 1982	0.56 <sup>o</sup>	...	-	-	-	-
Peru	9.7	11.6	Jan. 1983	2.40 <sup>p</sup>	1983	0.94	-	-	0.45
Dominican Republic	1.9	1.9	... 1982	0.15	...	0.46	-	-	-
Uruguay	3.1	4.0	Feb. 1983	0.71 <sup>q</sup>	1983-1984	0.46	-	-	0.24
Venezuela	28.0	30.0	Oct. 1982	16.3 <sup>r</sup>	1983-1984	2.8 <sup>s</sup>	-	-	-

Source: ECLA, on the basis of official information of countries and various national and international sources.

<sup>a</sup>End of year<sup>b</sup>At 30 June 1983, most of the countries were well into the renegotiation process, in some of them, although significant progress had been made, the process had not yet been completed.<sup>c</sup>During 1982 and up to June 1983.<sup>d</sup>Bank for International Settlements.<sup>e</sup>Refers to loans granted by international banks in the context of the renegotiation process.<sup>f</sup>Refers to: amortization payments on public debt pending in 1982 and those coming up until December 1983 (US\$ 6 billion); private external debt covered by Central Bank exchange insurance falling due from November 1982 onwards (US\$ 5.5 billion) and swaps falling due (US\$ 1.5 billion).<sup>g</sup>Loans requested.<sup>h</sup>At end of March 1983, the international banks agreed to postpone the collection of amortization and interest payments amounting to US\$ 460 million.<sup>i</sup>At end of 1982, the foreign banks were asked to grant: 1) US\$ 4.4 billion in new loans, 2) a refinancing of US\$ 4.7 billion, 3) the maintenance of short-term loans to finance foreign trade operations (rollover) amounting to US\$ 8 billion, and 4) the restoration of interbank lines of credit to the levels reached at 30 June 1983 (US\$ 10 billion). At end of July 1983, the international banks had accepted points 1 to 3.<sup>j</sup>At end of April 1983, it was reported that a preliminary agreement with the main creditor banks had been signed.<sup>k</sup>In August 1982, the authorities requested deferral of foreign debt service payments falling due between September 1982 and December 1983. In March 1983, an agreement was reached with the creditor banks to refinance US\$ 140 million.<sup>l</sup>Includes loan amortization payments falling due during 1983 and 1984 (US\$ 2.1 billion) and restructuring of short-term financial credit (US\$ 1.2 billion). At end of April 1983, the Government announced that it had reached a preliminary agreement on renegotiation of the debt with the twelve main creditor banks. In July 1983, new loan contracts were signed. Pending completion of the renegotiation process, the banks extended for three more months payment deferral granted on 1 February 1983.<sup>m</sup>Refers to the service of public debt between 1 November 1982 and 31 December 1983 (US\$ 1.22 billion) and around 80% of the private debt (US\$ 1.26 billion). In January 1983, an agreement on the renegotiation of the public debt was reached with the international banks.<sup>n</sup>Refers to the three-month deferral of amortization payments authorized by the international banks on 20 August 1982 which was first extended to March 1983 and subsequently to August 1983. In February 1983, a preliminary agreement was reached on the renegotiation of US\$ 20 billion in amortization payments falling due between August 1982 and December 1984.<sup>o</sup>During 1982 a renegotiation for this amount was concluded.<sup>p</sup>Refers to the financing of US\$ 2 billion in short-term amortization payments obtained in March 1983 and the request for refinancing of US\$ 430 million in amortization payments for the same year.<sup>q</sup>Refers to 90% of the amortization of short and medium-term loans which had to be paid during 1983 and 1984. At the beginning of March 1983, payments had been deferred for 90 days, in agreement with the creditor banks. In July 1983, an agreement was signed with 80 creditor banks.<sup>r</sup>Refers to US\$ 13.6 billion in amortization payments which had to be made during 1983 and US\$ 2.6 billion which fall due in 1984. At end of March 1983, the Government asked for deferral of amortization payments for the period April-June 1983. In June, it requested another three-months extension.

long, but they had not become fully evident to creditors due to the country's ability to contract short-term debt to service its medium-term obligations. With falling oil prices and rising debt service, however, the situation soon became unmanageable, forcing the government into the rescheduling that it had tried so hard to avoid.

Countries such as Bolivia and Costa Rica had been falling behind for some time in their payments to the private banks, but as rather small debtors *vis-à-vis* the world banking system, their difficulties had little or no repercussions in international capital markets. Mexico, however, is the second largest LDC client of the banks, with nearly US\$ 49 billion in net obligations: only slightly less than Brazil, which is the banks' largest Third World customer.<sup>51</sup>

The Mexican problems set off a panic in banking circles, as a default by this country could very well threaten collapse of the international financial system. The effects of Mexico's difficulties rippled through the market, as reflected in a sudden deterioration in the terms of borrowing and increasingly difficult access to new loans. In turn, the contraction in the loan market and deteriorated borrowing conditions made the normal servicing of debt more difficult for other borrowers, who were already under pressure due to declining terms of trade and record interest rates. Some countries, such as Chile and Peru, tried to avoid rescheduling their debts, but in time bulging debt payments,

Table 46

**LATIN AMERICA: MAIN FINANCIAL RESOURCES PROVIDED BY THE INTERNATIONAL MONETARY FUND, 1982 AND 1983, IN SELECTED COUNTRIES<sup>a</sup>**

(Millions of dollars)<sup>b</sup>

Country	Compensatory financing service <sup>c</sup>		Conditioned loans				Total
	Months	Amount	Stand-by agreement <sup>d</sup>		Agreement pursuant to the expanded service in force <sup>e</sup> in February 1983		
			Months	Duration in months	Amount	Approval	
Argentina	January 1983	572	January 1983	15	1 650	-	2 222
Bolivia	January 1983	20			-	-	20
Brazil	January 1983	1 063			-	February 1983 4 937	6 000
Costa Rica		-	December 1982	12	102	-	102
Chile	January 1983	325	January 1983	24	550	-	875
Ecuador		-	May 1983	12	170	-	170
El Salvador	July 1982	36	July 1982	12	47	-	83
Guatemala		-	November 1981	12	21	-	21
Haiti	December 1982	19	August 1982	14	38	-	57
Honduras	November 1982	26	November 1982	12	84	-	110
Mexico		-			-	December 1982 3 972	3 972
Panama		-	April 1982	12	33	-	33
Peru	June 1982	220			-	June 1982 715	935
Dominican Republic	January 1983	47			-	January 1983 408	455
Uruguay	August 1982	61	April 1983	24	400	-	461

Source: International Monetary Fund, IMF Bulletins, several issues.

<sup>a</sup>Only up to May 1983.

<sup>b</sup>The IMF grants financing in Special Drawing Rights (SDR). In this table, SDR are expressed in United States dollars, considering 1 SDR = 1.1 United States dollar.

<sup>c</sup>Compensatory financing service: Through this service, the IMF provides immediate financing to countries whose balance of payments has deteriorated as a result of drops in the prices of its main export commodities.

<sup>d</sup>Stand-by agreement: By means of such an agreement, the IMF supports economic adjustment programmes of governments for a period of 1 to 2 years.

<sup>e</sup>Agreement pursuant to extended service: This is an agreement whereby the IMF provides assistance to member countries that must make structural adjustments in their economies in order to achieve a viable balance-of-payments position over the medium-term. This agreement has a validity of three years.

<sup>51</sup>Bank for International Settlements, *International Banking Development: Third Quarter 1982*, Basel, 19 January 1983.

coupled with the erosion of the conditions for servicing them, forced their economic authorities to seek new arrangements with their private creditors. Indeed, as of early 1983 the only significant client of the banks that had avoided rescheduling was Colombia, a country with a borrowing strategy that has traditionally displayed caution with regard to indebtedness with private banks.

The process of rescheduling has been very disorderly and time-consuming for both the banks and the economic authorities of the borrowing countries. This partly resulted from the fact that, given the dynamic nature of capital markets during the 1970s, there were an extremely large number of private banks lending to Latin America. Very large borrowers such as Brazil or Mexico have more than 1 500 private creditors, while even a relatively small borrower such as Bolivia has loans outstanding from well over 100 lending institutions. Some of the banks involved are very large and have a long history in, and a serious long-term commitment to, international lending. The majority of lending institutions, however, are smaller and are relative newcomers to international lending. These latter institutions—which have limited international experience—entered Latin America when the region's prospects appeared brighter, but the negative turn of events in the last two years has encouraged many of them to retreat to their home markets and attempt to run down their international exposure. This situation has created a conflict of interests within the banking system itself and has tended to prolong the process of the renegotiation and generate considerable uncertainty.<sup>52</sup>

So far, as a system, the banks have made a considerable effort to avoid a formal declaration of default on the part of their debtors, and when a borrowing country has declared inability to pay its debts, the big international banks with the most exposure in the country have formed *ad hoc* committees to negotiate with the public authorities. The composition of these committees mirrors the geographical breakdown of bank exposure in Latin America: United States banks dominate the committees, while one or two banks from each of the other major lending areas—Japan, Europe and Canada—constitute the minority representation.

The big banks first negotiate a tentative accord with the country, —a process that has often taken several months even under favourable circumstances— and then must present the agreement to the smaller banks for their approval. These latter institutions have not always been very cooperative, and the larger banks have often had to put heavy pressure on them to participate in the accord and thereby avoid the necessity of declaring a default. In some instances the lead banks in the committee has been assisted by the central banking authorities of their home countries, who have placed additional pressure on the smaller institutions to join in the rescheduling agreement.

Coaxing the smaller institutions to participate has been made more difficult by one particular dimension of the rescheduling agreements: the need to extend new loans in addition to rescheduling amortization payments. It has already been seen that the interest rate burden in Latin America has reached such dramatic proportions that it is itself sufficient to cause debt service problems. Reschedulings, however, traditionally only affect amortization payments and do not reduce the former burden. Banks do not like to reschedule interest payments, partly because if they do so they risk having their loans classified as non-earning assets by their local regulatory authorities; consequently, the big lead banks have had to discover other ways to reduce the interest burden. The scheme that has arisen is the arrangement of new loans to refinance a portion of the upcoming interest commitments; in effect, the banks have introduced a disguised rescheduling of interest payments, as they are capitalizing a part of their earnings under this heading until Latin America's repayment capacity is restored.

This formula has been developed in close conjunction with the IMF. Except in two cases the banks have made an IMF Standby Agreement a prior condition for rescheduling the debt. The IMF in turn has argued that the banks' rescue package must be consistent with the overall objectives of its Standby Programme; in the cases of Argentina, Brazil, Chile, Mexico, Peru and Uruguay, this has required new credits to refinance part of the interest payments falling due (see table 45). All in all, there is informal agreement between the big banks and the IMF that commercial credits to refinance interest commitments must be organized to an extent which would expand their exposure by some

<sup>52</sup>For further detail on the nature of this conflict, see D. Tinnin, "The War Among Brazil's Bankers", *Fortune*, 11 July 1983, pp. 50-55.

7%, although some countries, such as Chile, managed to receive relatively more resources.<sup>53</sup> The capitalization of interest payments has been, however, a sore point in the negotiations with the smaller banks, which want to reduce, not increase, their exposure.

Another and not unrelated roadblock to a speedy renegotiation of the debt has been the status of short-term lines of credit. The IMF and the lead banks in the committee have sought to maintain short-term bank credits at pre-crisis levels. Many lenders, however, perceive non-renewal of short-term credit as the easiest and quickest way to reduce exposure in problem countries. Consequently, it has proved difficult to keep these lines of credit—vital to the fluid operation of trade—open and functioning at targeted levels.

Another obstacle to the smooth rescheduling of debt is the issue of State guarantees for rescheduled private debt. In some countries the private sector has been a major client of the banks. These credits often did not receive a guarantee from the public sector, and consequently the loans were contracted at a higher cost than would have been the case had the transactions received State support. In other words, the banks charged a premium for the perceived higher risk of lending to the private sector. However, when repayment difficulties arose the banks sought an *ex post* State guarantee for rescheduled private debts. The clearest case is Chile. In this country the bulk of the debt with the banks was contracted by the private sector without State guarantees. Creditors—in this case both the large and the small institutions—insisted that the State should give its guarantee on rescheduled private sector loans. When the government resisted these conditions it found that its short-term credit lines were disappearing, thereby paralysing trade. The pressure applied by the banks eventually succeeded, since the Chilean government finally agreed to guarantee the obligations of the financial sector, the area where most of the private debt was concentrated. The State later granted a guarantee which covered, in effect, nearly the whole of the private debt.

In any event, the above factors have made a speedy resolution of the debt crisis all but impossible. For instance, Mexico entered into negotiations with the banks in August 1982, while Brazil did the same at the end of that year, but as of mid-1983 there were still elements in the rescue packages for both countries that had not been finalized. Indeed, one or more components of rescheduling accords remained pending in virtually all the countries seeking to reprogramme their debt payments.

The delays and uncertainties have given rise to a series of emergency patchwork measures to fill in the financing gaps and avoid defaults. First, there has been the availability of disbursements from IMF Standby Accords and finance from compensatory facilities of the same institutions (see table 46). Second, the large international banks that constitute the creditor committees have often extended short-term bridging loans as an interim financing arrangement until agreement is reached with the smaller institutions. Third, the Bank for International Settlements has broken with tradition and at the urging of OECD governments has provided bridging finance to several countries. Finally, the United States Treasury has directly intervened and extended short-term loans to Brazil and Mexico, two countries where US banks are very heavily committed (see table 45).

Unfortunately, the delays in reaching final accords have been so long that bridging finance has often expired before all the formal relief has become available, requiring the countries to seek renewal of the credits.

The net effect of all this has been that the banks have found ways to avoid a catastrophic declaration of default on the part of borrowers, even though some countries—e.g., Bolivia, Costa Rica—have accumulated considerable arrears. The process, however, has been very time consuming for all parties concerned, involving an inordinate amount of travel, meetings, communications and, of course, expense. Much uncertainty has also been generated about the availability of finance, its terms, the nature of guarantees, etc., and this has made the economic management of the countries that much more difficult. Moreover, bankers have shown a preference for a short-term horizon on the rescheduling operations: that is to say, they cover only payments falling due in 1983 or, at best, 1983-1984. Unless there is a strong recovery of the world economy, the countries and their banks will undoubtedly have to repeat this awkward process only a short time after having finalized the initial round of rescheduling operations.

<sup>53</sup>In this latter case, the new loans represented approximately an 11% expansion of exposure.

Table 47

**LATIN AMERICA: PROVISIONAL DATA ON DEBT RESCHEDULING  
TERMS IN SELECTED COUNTRIES<sup>a</sup>**

Country	Margin over LIBOR (percentage)			Total term (years)			Grace period (years)			Commissions <sup>b</sup>		
	1980/ 1981	R	AC	1980/ 1981	R	AC	1980/ 1981	R	AC	1980/ 1981	R	AC
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Argentina	0.67	2.13	2.5	7.5	7.0	5.0	...	3.0	3.0	1.09	...	1.25
Brazil	1.62	2.50	2.13	8.5	8.0	8.0	...	2.5	2.5	2.01	1.50	1.50
Chile	0.91	2.13	2.25	7.6	8.0	7.0	...	4.0	4.0	0.81	1.25	1.25
Costa Rica	1.13	2.25	-	6.0	8.5	-	...	3.0	-	1.23	...	-
Cuba	1.00	2.25	-	5.0	8.0	-	...	3.2	-	0.88	1.25	-
Ecuador	0.74	2.25	-	8.0	9.0	-	...	2.0	-	0.97	1.25	-
Mexico	0.65	1.88	2.25	7.6	8.0	6.0	...	4.0	3.0	0.70	1.0	1.25
Peru	1.12	2.25	2.25	8.2	8.0	8.0	...	3.0	3.0	1.07	1.25	1.25
Uruguay	0.98	2.25	2.25	9.1	6.0	6.0	...	2.0	2.0	...	...	...

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

<sup>a</sup>This information is provisional and subject to revision. The column for 1980-1981 refers to average borrowing conditions for the year 1980 and the first half of 1981. Column R refers to rescheduled maturities. Column AC refers to conditions for additional credit.

<sup>b</sup>Calculated as a percentage of the total amount of the transaction and paid only once at the time of signing loan contract.

#### b) *The terms of the rescheduling*

Table 47 provides a breakdown of the conditions of external debt rescheduling for nine Latin American countries. In practice, the bankers and borrowers must negotiate the margin over LIBOR, the commissions and the amortization period for rescheduled debt and new loans; the LIBOR itself is determined by the forces of supply and demand of funds in the Eurocurrency market. For the banks, it is the negotiated part of the price that determines profits, as most institutions pay something near LIBOR for their deposits. For the countries, the LIBOR represents the major part of the cost of the borrowing, although as debt grows to considerable size the accumulated cost of margins and fees as well as the period to amortize the debt also become very significant.

The first aspect that is noteworthy about the rescheduling is that the terms are generally quite similar among borrowers (see table 47). Weighting the terms for the rescheduled amortization payments and the new loans by the amounts involved, one finds that the range for the margin over LIBOR is a low of 1.95% (Mexico) and a high of 2.32% (Brazil); the range for the amortization period is from 6 years (Uruguay) to 9 years (Ecuador), while the range for the commissions is from 1.05% (Mexico) to 1.50% (Brazil). Quantitatively speaking, the majority of the countries fall near the high end of the two extremes. What is striking, however, is that while bankers have argued that regional arrangements for the rescheduling of debt must be avoided in favour of a case-by-case approach, the results in fact have been sufficiently similar for it to be said that the terms of the rescheduling do not really discriminate between the countries' capacity to repay either now or in the future.

These circumstances are partly explained by the nature of the bargaining process with the banks. The renegotiation process advanced most rapidly in Mexico, because of the urgency of finding a solution to the problems of this extremely large borrower. Moreover, Mexico has traditionally been one of the most attractive clients of the banks; since bankers claim to establish the terms of rescheduling operations on the basis of risk, the agreement with this country effectively established a "floor" for the conditions applied to the other rescheduling projects. As it turned out, Mexico accepted terms which approached the worst borrowing conditions that prevailed in the 1970s,<sup>54</sup> so that whereas at that time these conditions were an exception which affected only a few countries, the

<sup>54</sup>During the 1970s it was unusual for countries to pay margins in excess of 2% over LIBOR, and rarely would a margin be in excess of 2.25. These high rates were usually reserved for new borrowers with little experience in international capital markets or experienced borrowers with external payments crises.

new onerous terms now have been transmitted to practically all of Latin America. The second notable characteristic of rescheduling agreements was therefore the deterioration of the terms of borrowing.

There are two ways of examining this phenomenon. One is to view the evolution of the conditions which are subjects of negotiation: i.e., the margin over LIBOR, the amortization period and commissions. Taken together, these can be viewed as the "negotiated cost" of credits. It can be seen from table 48 that there has generally been a severe escalation of borrowing terms. Mexico suffered the greatest *relative* deterioration of conditions, as the negotiated part of the cost of credit in the rescheduling package represents an increase of 180% with respect to the terms that were being contracted in 1980-1981. The relative deterioration for other countries is smaller, since their terms escalated from borrowing conditions that were considerably less favourable than those of Mexico. For instance, in 1980-1981 Brazil had been contracting loans with margins and fees that were relatively high, partly because it sought longer maturities; thus, while its rescheduling terms are the most onerous of table 48, the relative deterioration is a considerably more modest 44%. Cuba is another case of a country that had relatively unfavourable borrowing conditions—reflected in short maturities—prior to the need to reschedule, and this accounts for its more modest 28% deterioration in borrowing conditions. Nevertheless, for most of the countries the conditions of the rescheduling packages represent a very dramatic deterioration of the terms of indebtedness.

The second manner of examining the conditions of the rescheduling is with respect to financial cost, i.e., the base LIBOR rate plus the margins and fees. It should be noted that this measure is qualitatively distinct from the previous one since it incorporates the LIBOR but gives practically no

Table 48

LATIN AMERICA: DETERIORATION OF BORROWING CONDITIONS  
IN SELECTED COUNTRIES<sup>a</sup>

Country	Margin above LIBOR (percentage)		Total term (years)		Commissions		Deterioration of terms <sup>b</sup> (percentage)	Real cost of credit <sup>c</sup>		
	1980/1981	R*AC	1980/1981	R*AC	1980/1981	R*AC		1980/1981	R*AC	Increment
	(1)	(2)	(3)	(4)	(5)	(6)		(8)	(9)	(9):(8)
Argentina	0.67	2.16	7.5	6.8	1.09	...	...	5.82	...	...
Brazil	1.62	2.32	8.5	8.0	2.01	1.50	44	6.86	7.50	9.3
Chile	0.91	2.16	7.6	7.7	0.81	1.25	125	6.02	7.32	21.6
Costa Rica	1.13	2.25	6.0	8.5	1.23	...	...	6.34	...	...
Cuba	1.00	2.25	5.0	8.0	0.88	1.25	28	6.18	7.41	19.9
Ecuador	0.74	2.25	8.0	9.0	0.97	1.25	146	5.86	7.39	26.1
Mexico	0.65	1.95	7.6	7.6	0.70	1.05	181	5.74	7.09	23.5
Peru	1.12	2.25	8.2	8.0	1.07	1.25	97	6.25	7.41	18.6
Uruguay	0.98	2.25	9.1	6.0	...	...	...	...	...	...

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

<sup>a</sup>The Symbol R\*AC refers to a weighted average of rescheduled loans and additional loans.

<sup>b</sup>Based on an index of the components of the cost of credit which are subject to negotiation: commissions (C), amortization period (P), margin above LIBOR (M), all weighted by the amount of the loan, according to the following formula:

$$\frac{\frac{C_1}{P_1} + M_1}{\frac{C_0}{P_0} + M_0} - 1$$

in which  $C_1$ ,  $P_1$  and  $M_1$  refer to the value of these elements in the year 1983 and  $C_0$ ,  $P_0$  and  $M_0$  refer to the average values for the years 1980-1981. Note that the relative deterioration is not in itself and indicator of the quality of a country's negotiations, since much depends on the borrower's initial position.

<sup>c</sup>Assuming a real LIBOR of 5% and adding  $C/P + M$ .



weight to amortization periods. In any event, this indicator also suggests that the rescheduling agreements have been onerous for the borrowers. Assuming a base LIBOR rate of 5% in real terms (the creditor rate prevailing in 1981-1982), all the countries in table 48 except Brazil suffered an increase in the real cost of credit of roughly 20% or more. The sharpest increases were once again experienced by Ecuador and Mexico, 26% and 24%, respectively. On the other hand, since Brazil already had rather onerous terms for borrowing in 1980-1981, it experienced only a 9% rise in the cost of indebtedness in its rescheduling package.

No matter how the matter is viewed, the rescheduling operations have thus involved a substantial hardening of the terms of foreign debt. The high cost of the rescue package has had two negative effects.

First, it has given countries little incentive to press for longer-term rescheduling that would definitively remove excess debt from the medium-term horizon and eliminate some of the uncertainties surrounding the debt problem. Indeed, given the onerous terms of the bankers it could make sense to organize only a 1-year rescheduling of debt. In most countries it would be unrealistic for the banks to seek a significant further escalation of lending terms over their current record levels, since this would probably threaten the viability of the portfolio itself, and furthermore there is always the possibility that better credit terms may emerge in the near future, should the world economy recover.

Second, the average cost of the debt has risen at a time when the rate of return on investment in domestic economies is very low. In addition, to pay the greater cost of the debt, countries must promote trade surpluses. Generating surpluses in the midst of a world-wide recession is difficult for one country alone, and becomes increasingly problematical when many countries attempt to do this simultaneously; indeed, in the absence of a world economic recovery general efforts to raise trade surpluses are likely to result in the transmission of further negative growth rates for the region as adjustment falls largely on imports.

It also must be remembered that the higher cost of indebtedness has a differential impact on the countries. Borrowers with pure liquidity problems might be able to recover quickly from the crisis and over time easily finance the higher cost of the debt. But countries with structural debt problems that reflect a degree of insolvency may not be in a position even in the medium-term to bear without serious economic problems, the higher cost of foreign debt that has accompanied the rescheduling. Without a reduction in the cost of indebtedness these latter countries could possibly fall into a vicious circle of multiple reschedulings, with their accompanying escalation of costs, either financial, economic or social.

Finally, it is worth mentioning that the cost of the debt crisis in the 1980s is strikingly different from the experience of the 1930s. In the latter period the major debt instrument was bonds. Bond holders are many in number, they are highly dispersed and generally anonymous within financial markets. Thus, when borrowers encountered repayment problems in the 1930s, it was difficult for creditors to co-ordinate their approach. What in effect happened was that a large part of the adjustment associated with a weak international portfolio was borne by the creditors as the market imposed losses on them through declining bond prices. Borrowers, on the other hand, experienced a reduction in debt burden through the depreciation of the value of the creditors' assets, and this facilitated their recovery.

In the current debt crisis the situation is reversed. Commercial banks can more easily co-ordinate their activities and have been successful in avoiding defaults through their ability to arrange rescheduling operations. At the same time, they have been able to raise the return on the outstanding debt by successfully imposing, on a general level, onerous lending terms that were only applied very selectively during the 1970s. This explains the paradox of the banks reporting buoyant profits at a time when a considerable part of their loan portfolio is not functioning properly. It is clear that the major part of the adjustment in the debt crisis has so far been borne by the borrowers.

### c) *The role of the IMF*

It has already been seen that the IMF has played a key role in the debt crisis. On the one hand, the creditor committees arranging rescheduling have generally required a "green light" from the IMF before approving tentative rescue packages; in other words, a borrowing country has had to arrange an adjustment programme with conditional IMF credit tranches before receiving the support of the

large creditor banks. Given the prolonged nature of the renegotiation process, borrowers are under heavy pressure to meet the successive targets of the IMF stabilization programme, as failure to do so jeopardizes disbursement of the various loan tranches and the continued support of the creditor committee during the complex process of finalizing a proposed rescheduling accord.

On the other hand, the Fund has taken a direct role in the formulation of the rescheduling packages themselves. It has been noted that the granting of new credits to refinance a part of the interest payments in some countries is the result of the IMF's insistence that the banks design rescue packages which are consonant with the goals of the Standby programme. Indeed, the IMF has actually participated with country authorities in meetings designed to gain the participation of the smaller banks in the rescheduling exercise.

Notwithstanding the IMF's efforts to assuage the debt crisis, however, one still can observe some grave deficiencies in the role of this institution.

First, even given the decision taken in early 1983 to allow for a 47.5% rise in the quotas of the IMF, the foreign exchange available to the Fund is still short of meeting the requirements derived from the LDC current account deficit. Thus, nations undergoing adjustment must face an uncomfortable reality: successful achievement of difficult IMF targets rewards countries with a relatively meagre amount of moderately priced credit; practically all the resources for adjustment must still come from commercial banks on terms which have been seen to be very onerous and which in some instances could be perceived as detrimental to the adjustment process itself. In effect, because of its lack of resources the IMF—the institution best suited to aid developing countries in a counter-cyclical way during this difficult and uncertain period—is still very much at the margin of the financing of stabilization efforts.

A second and related problem with IMF involvement is that the resources it has squeezed out of the banking system to compensate for its own shortage of funds would also appear to be inadequate. As already noted, in a number of instances banks are not only rescheduling the amortization of debt falling due over 1 or 2 years but also, at the insistence of the IMF, are extending new loans to refinance a part of the up-coming interest payments. This refinance, which amounts to roughly 50% of the interest to be paid, provides some relief, but generally will be inadequate to allow for positive rates of growth in the borrowing countries. In other words, notwithstanding the rescheduling *cum* refinance packages, most countries involved are facing in 1983 a second or third consecutive year of negative growth rates and falling per capita income.

The third and final point also relates to the growth process. The IMF has a well-known and controversial paradigm that guides its adjustment policies.<sup>55</sup> The Fund's formula is applied rather uniformly across countries; this is strikingly evident in table 49 which sketches the nature of some of the basic elements of the Standby Programmes.

But more importantly, the programmes seem to be biased towards measures that are primarily designed to ensure repayment to foreign creditors at the expense of growth and reactivation of local economies.

For instance, Fund policies invariably encourage adjustment of economic parameters in a direction that would produce trade surpluses for the normal servicing of factor payments. This involves, among other things, containment of domestic demand via control of internal credit and adjustment of prices (together with changes in interest rates, exchange rates and trade barriers) to remove alleged distortions in the allocation of resources between tradeable and non-tradeable goods. However, as noted earlier, in a depressed world economy a uniform country-by-country policy of promotion of trade surpluses under IMF auspices mainly induces radical competitive devaluations that have their greatest impact on the compression of imports. This in turn often prejudices growth and passes the burden of adjustment onto the countries least able to assume it.

Another anti-growth bias in IMF policy is that its restrictions on economic aggregates fall disproportionately on the activity of the public sector. The Fund traditionally views government deficits as inflationary and as a factor that distorts the optimal allocation of resources. The typical

<sup>55</sup>Excellent critiques of the paradigm are to be found in United Nations, *Balance of Payments Adjustment Process in Developing Countries*, New York, UNDP/UNCTAD Project INT/75/015, January 1979, and Dragoslav Avramović, "The Role of the International Monetary Fund: The Disputes, the Qualifications and the Future", Paper presented to the North-South Roundtable, Tokyo, 1982.

Table 49

**LATIN AMERICA: MAIN TARGETS AND ELEMENTS STIPULATED IN AGREEMENTS WITH THE INTERNATIONAL MONETARY FUND DURING 1982 AND THE FIRST HALF OF 1983<sup>a</sup>**

Country	Quantitative targets								Main explicit elements of adjustment programmes					
	Annual				Quarterly <sup>b</sup>				Resumption of delinquent debt service payments	Unification of the exchange market	Realistic exchange rate	Restrictive wage policy	Increased tax collections	Gradual elimination of subsidies
	Reduction of the non-financial deficit of the public sector (percentage with respect to GDP) <sup>c</sup>				Ceilings on net domestic assets of the Central Bank	Targets of the net external assets of the Central Bank	Ceiling on the level of net domestic indebtedness of the non-financial public sector	Ceiling on the level of net external indebtedness of the financial public sector						
1981	1982	1983	1984											
Argentina		14.0	8.0	5.0	*	*	*	*	*	*	*	*	*	*
Brazil <sup>d</sup>		16.9	7.9 <sup>e</sup>		*	*	*	*	*	*	*	*	*	*
Costa Rica	15.0	9.5	4.5		*	*	*	*	*	*	*	*	*	*
Chile <sup>f</sup>		4.0	1.8 <sup>g</sup>		*	*	*	*	*	*	*	*	*	*
Ecuador		7.5	4.0		*	*	*	*	*	*	*	*	*	*
Haiti	9.0	4.8			*	*	*	*	*	*	*	*	*	*
Honduras	9.0	...			*	*	*	*	*	*	*	*	*	*
Guatemala		5.0	...	3.0	*	*	*	*	*	*	*	*	*	*
Mexico		16.5	8.5	5.5	*	*	*	*	*	*	*	*	*	*
Panama	5.5	...			*	*	*	*	*	*	*	*	*	*
Peru	8.0	4.0	...	2.0	*	*	*	*	*	*	*	*	*	*
Dominican Republic		4.0	...	3.0	*	*	*	*	*	*	*	*	*	*
Uruguay		8.0	3.0	1.0	*	*	*	*	*	*	*	*	*	*

Source: ECLA, on the basis of International Monetary Fund, *Weekly Bulletin*, several issues; of letters of intention of Argentina, Brazil, Costa Rica, Mexico and Uruguay and of other national and international sources.

<sup>a</sup>Provisional information.

<sup>b</sup>The quarterly drawings provided by the IMF are subject to strict compliance with these targets, which are quantified in detail in the memorandum of understanding which is attached to the letter of intention. In certain cases, the grants a waiver which allows a country to abandon the adjustment programme temporarily. Limits are also set on the expansion of government credit and in some countries a minimum devaluation and maximum inflation are set every three months.

<sup>c</sup>The non-financial public sector usually includes central government, internal government agencies, decentralized institutions and state enterprises.

<sup>d</sup>In February and September 1983, special revisions were made of the targets set forth in the letter of intention of January 1983.

<sup>e</sup>In February 1983, this was increased to 8.8% and in September 1983, to 15.2%.

<sup>f</sup>According to revision of September 1983.

<sup>g</sup>With a single official exchange rate at the time of signing of the agreement.

<sup>h</sup>In June 1983, a waiver was approved.

<sup>i</sup>In May 1983, this was increased to 2.3%.

policy prescription is to shift relative incentives to the private sector and await the automatic market response to these incentives for growth stimulation. The Fund's position in this respect may on occasion be appropriate, but as a general across-the-board policy stance it is certainly deficient. In a generally depressed world economic environment where there is excess productive capacity, severe internal financial disorder, and internal political uncertainties, there is no *a priori* reason to expect a rapid and automatic response of the private sector to "correct prices". Indeed, in many instances the public sector is the only entity capable of stimulating recovery, yet this is the very economic agent that is most repressed by Fund policy. In effect, the IMF limitations on the public would seem to be an important obstacle to reactivation of this economy.

The inherent anti-growth bias in the IMF prescription has its major manifestation in the repeated inability of governments to meet standby targets. The programmes often are not politically viable and require time-consuming renegotiations, with all the uncertainties that accompany them.

**PART THREE**

**THE ECONOMIC EVOLUTION OF THE  
INDIVIDUAL COUNTRIES**

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## ARGENTINA

### 1. Recent economic trends: Introduction and summary

During 1982, the economy suffered a contraction of almost 6% for the second year in a row (see table 1). The per capita gross domestic product thus dropped to its lowest level since the early 1970s. This profound recession was accompanied by a rapid rise in prices: the rate of inflation—over 200% in the case of consumer prices and over 300% in the case of wholesale prices—was even higher than the already high rate of the previous year and was comparable with the record figures of 1975 and 1976 (see figure 1). In addition, although it was possible, with the sharp decline of imports, to achieve an appreciable trade surplus, it was not possible to overcome the crisis of the external sector. The heavy burden of interest payments and the magnitude of the external debt made it necessary to seek assistance from the International Monetary Fund and to face the difficult task of finding ways of refinancing the payments.

These developments reflected the reaction of the economy to the already complex situation made worse, in 1982, by a sharp deterioration of the terms of trade and a difficult political situation. In 1981, Argentina had been forced to face up to the task of adjusting its external accounts, which had become unbalanced during the application of the policy of prior announcement of the exchange rate and liberalization of transactions with the exterior. The sharp devaluation of that year did not permit any significant recovery of the current account; moreover, the absence of a clear picture of probable future developments—particularly in the political area—made it impossible to normalize capital flows. The external debt thus continued to grow while the terms thereof deteriorated and the Central Bank's reserves went down. At the same time, inflation was accentuated and there was a generalized contraction in the level of activity, which was already depressed in the sectors concerned with foreign trade. This in turn increased the difficulties many enterprises were having in meeting payments, further weakening the fragile financial system.

The economic authorities who took office in December 1981 said that they intended to give priority to checking inflation and reducing State intervention in the economy. To this end, they announced a programme of fiscal austerity—including the freezing of civil service wages—and the application of monetary restrictions. In addition, they eliminated the dual exchange market, which had been in force since June 1981, replacing it by a unified market, and announced their intention of allowing the peso to float freely.

These measures made it possible, during the first months of the year, to limit the fiscal imbalance and contain the expansion of the means of payment. Nevertheless, and despite the fact that the rate of price increases slowed down, the programme did not succeed in changing expectations with regard to inflation. The volume of production went down even more, while the constant decline of real wages and of employment increased social tensions. The situation with regard to the international accounts did not improve either. The exchange rate fell behind with respect to domestic prices, and there was no change in the maturity profile of the debt. Finally, uncertainty with regard to the solvency of the financial establishments prevailed, and already during March a significant amount of deposits were withdrawn.

The conflict with the United Kingdom in the South Atlantic, which began in April, had important consequences for the economic evolution of the country. The trade embargo applied by the European Economic Community and other countries made it difficult to sell exports and jeopardized the supply of inputs. Argentina, for its part, responded in kind to the freezing of its funds in Great Britain and was forced to suspend its payments to the exterior. At the same time, exchange controls were imposed and imports were restricted in order to prevent an increased demand for foreign currency—resulting from precautionary and speculative measures—from exerting pressure on the official reserves. The public, in turn, reacted to the growing political uncertainty by increasing its

demand for cash, to the detriment of deposits. The Central Bank was then forced to institute rediscount facilities for the financial entities affected by the withdrawals and to reduce the reserve requirement. This made it possible to check the rise in interest rates, which had risen in April to levels significantly higher than those warranted by the rate of increase of prices.

After the cessation of hostilities in June, the political crisis that ensued led to a change of President. The new authorities defined the state of the economy as critical. According to their diagnosis, the very heavy indebtedness of enterprises jeopardized the survival of many of them and was depressing production, while at the same time affecting the solvency of the financial intermediaries (because of the large volume of uncollectable debts). Thus, the Central Bank, which had already had to provide support for entities that were in difficulty, ran the risk of losing control of the money supply. The existence of interest-bearing liquid assets reinforced inflationary trends by reducing the demand for means of payment. Urgent action was required to correct the external imbalance, and the solution, in the view of the authorities, was to encourage a change in relative prices to favour tradeable goods. Following the same line of thought, however, it was noted that the

Table 1  
ARGENTINA: MAIN ECONOMIC INDICATORS

	1977	1978	1979	1980	1981	1982 <sup>a</sup>
<b>A. Basic economic indicators</b>						
Gross domestic product at market prices (billions of 1970 dollar)	36.4	35.1	37.6	38.0	35.8	33.6
Population (millions of inhabitants)	24.2	24.7	25.3	25.6	26.4	26.9
Per capita gross domestic product (1970 dollars)	1 504	1 421	1 490	1 474	1 358	1 253
<b>Growth rates</b>						
<b>B. Short-run economic indicators</b>						
Gross domestic product	6.4	-3.4	7.1	1.1	-5.9	-5.7
Per capita gross domestic product	4.2	-5.5	4.9	-1.0	-7.9	-7.7
Gross domestic income <sup>b</sup>	5.9	-3.4	8.0	2.2	-6.4	-6.5
Terms of trade (goods and services)	-4.5	1.1	8.6	12.9	-8.8	-8.7
Current value of exports of goods and services	42.9	13.6	22.6	7.8	9.6	-13.0
Current value of imports of goods and services	35.8	5.3	76.8	49.1	-11.9	-37.7
Consumer prices						
December-December	160.4	169.8	139.7	87.6	131.3	209.7
Variation between annual averages	176.0	175.5	159.5	100.8	104.5	164.8
Money	124.9	170.3	145.5	97.8	68.5	222.3
Industrial worker wages <sup>c</sup>	171.9	170.6	198.0	124.6	82.6	136.9
Unemployment rate <sup>d,e</sup>	2.8	2.8	2.0	2.2	4.4	4.7
Current income of government	228.1	154.0	170.0	79.8	97.9	168.3
Total expenditure of government	...	138.9	163.2	110.6	139.3	124.5
Fiscal deficit/total expenditure of government <sup>e</sup>	26.4	21.7	19.7	31.4	43.3	32.2
<b>Millions of dollars</b>						
<b>C. External sector</b>						
Trade balance (goods and services)	1 877	2 520	403	-3 191	-688	2 251
Balance on current account	1 290	1 836	-535	-4 774	-4 057	-2 422
Variation in international reserves	1 827	2 236	4 424	-2 666	-3 452	-762
Total external debt	11 761	12 496	19 034	27 162	35 671	38 736

Source: ECLA, on the basis of official figures.

<sup>a</sup>Preliminary figures.

<sup>b</sup>Gross domestic product plus terms-of-trade effect.

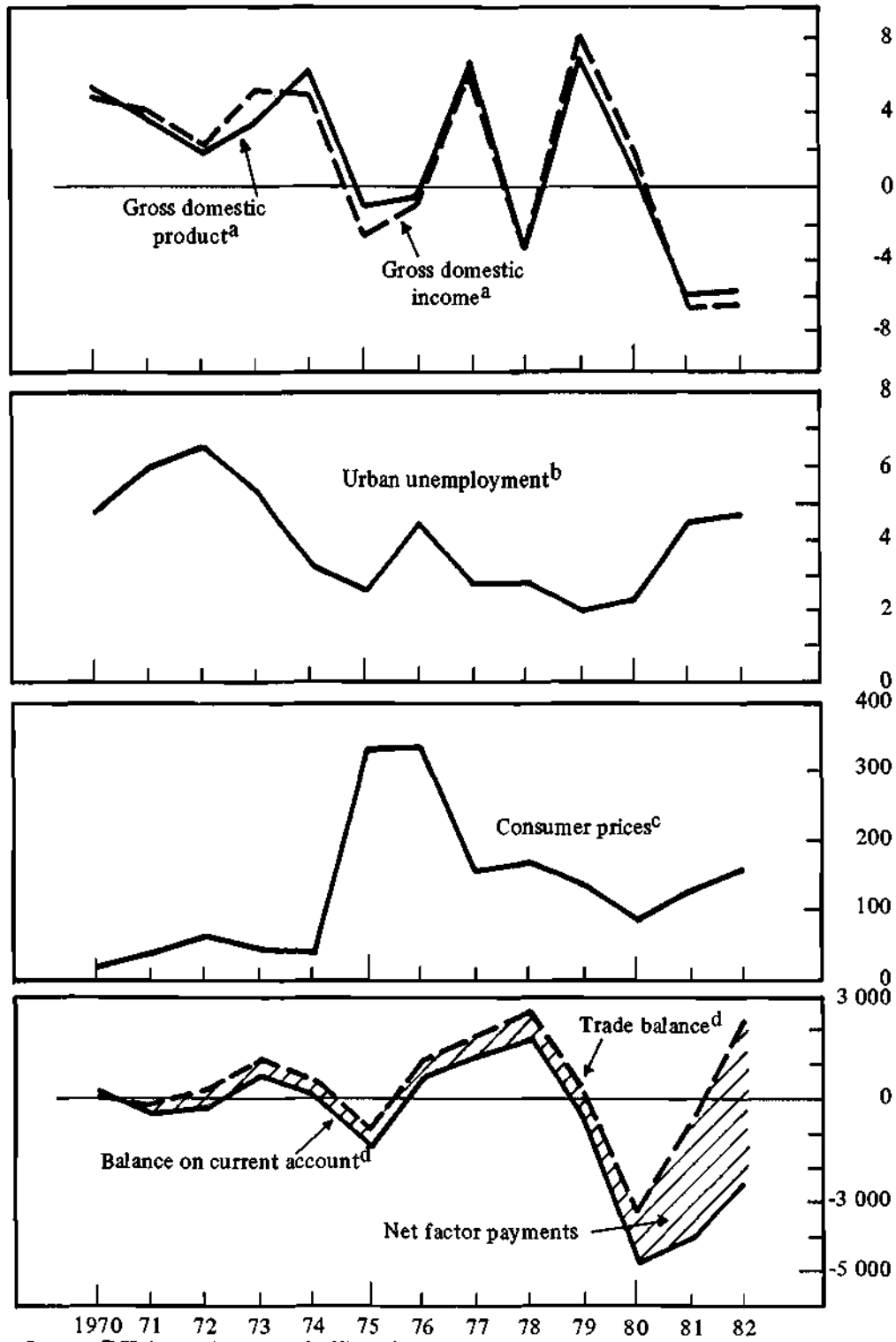
<sup>c</sup>Annual average variation.

<sup>d</sup>Simple average of results of surveys for each year in the Federal Capital and greater Buenos Aires.

<sup>e</sup>Percentage.



Figure 1  
**ARGENTINA: MAIN ECONOMIC INDICATORS**



Source: ECLA, on the basis of official figures.

<sup>a</sup>Annual growth rate.

<sup>b</sup>Average annual rate in the Federal Capital and Greater Buenos Aires.

<sup>c</sup>Percentage variation from December to December.

<sup>d</sup>Millions of dollars.

economy was already in a profound recession and it was therefore felt that devaluation, with a single exchange rate, would have undesirable consequences, such as further increasing the contraction, depressing real wages even more, and accelerating price increases.

The economic programme was designed to secure a recovery of activity on the one hand and an adjustment of the balance of payments on the other. The foreign exchange market was again split in two: the financial exchange rate was allowed to float, while commercial rate underwent a smaller devaluation, accompanied by the retention of traditional exports. The purpose was to avoid an excessively abrupt change in the distribution of income and to free commercial transactions—even if only partially—from the pressures that might arise in connection with interest and debt payments. Also, in order to obtain external financing to meet urgent payments, the inflow of short-term capital was encouraged.

The most significant measures were taken in the area of domestic finance, and the financial reform of July 1982 had several objectives. In the first place, it was aimed at extending the repayment periods for debts of enterprises and reducing the real value of such debts. The idea was not only to take action with regard to the accumulated total debt: the authorities felt that the existence of positive interest rates in real terms could put a brake on the reactivation of expenditure and that the nominal rates should therefore be lower than the rate of increase in prices. The reform was also aimed at preventing the financial institutions from becoming insolvent. Finally, the authorities wished to discourage the holding of near-substitutes for money, such as short-term deposits and public securities.

The financial reform (discussed in detail in section 5 below) involved splitting the credit market in two. On the one hand, deposits for less than three months were transferred to the Central Bank, which began to set the corresponding interest rate, and the liabilities of private enterprises were refinanced for a term of five years, also at regulated interest rates. On the other hand, a market was established for deposits for terms of more than 90 days, on which interest rates could be freely agreed. These deposits were not guaranteed by the Central Bank nor were they subject to the reserve requirement, although quantitative limits were set on them. In addition, a category of indexed deposits was established (with a 100% reserve requirement and a State guarantee) for a minimum term of one year, later shortened to six months. The Government also announced the redemption of public securities in circulation.

One of the purposes of the reform was to bring about a replacement of financial assets by goods. The public did indeed react to the decline in the expected return from bank deposits by increasing its demand for real assets and foreign currency. Thus, industrial activity recovered somewhat and stocks declined, which means that the increase in prices—resulting from the displacement of demand mentioned above—did not account for the entire increase in expenditure. Moreover, the resulting price increases led to a rapid depreciation of controlled-interest debts. Even in these circumstances, however, there was no certainty as to whether the rise in activity meant that the long period of contraction was over, and towards the end of the year the recovery seemed to have slowed down.

During this period, the Government tried to apply an incomes policy: it decided to set wage increases itself and announced the establishment of an agreement on prices. However, social pressures had increased with the rise of inflation and the tense political situation, labour conflicts were aggravated, and the prices agreement never came into effect. Partly as a result of these circumstances, the economic authorities were changed again in August.

By then, the external payments situation had reached a critical point: the payments due in the second half of the year (to which were added certain payments not made during the preceding months) were a good deal higher than total annual imports. The Government negotiated a stand-by agreement with the International Monetary Fund and entered into discussions with the international banks. These negotiations which also covered so-called "bridging loans" with commercial banks and the Bank for International Settlements, had not been concluded at the end of the year.<sup>1</sup>

Towards the end of the year, the economic policy was faced with several other problems. The difficulties involved in the handling of income distribution under the existing circumstances of extremely high inflation persisted, and were evident in the discussions sparked off by the decisions on

<sup>1</sup>It appears that the cost of refinancing will be high, as the interest rates to be applied seem to be several points above LIBOR or prime rates; in addition, commissions and certain other expenses must be paid.

wages and the proposed unemployment subsidy system, as well as in the debates on the policy on prices. Special attention was also given to the monetary policy. The exchange insurance contracts entered into in mid-1981 and the swaps of the previous year began to mature towards the end of 1982, and because the exchange rate agreed on was much lower than the one currently in force, the issuing of money to cover the exchange differences would have led to a substantial monetary expansion at the time of maturity. To avoid this, the Government sold bonds to the holders of such contracts, as a result of which the potential monetary effect was absorbed. With regard to interest rates on the regulated market, the authorities announced their intention of setting them at a level similar to the inflation rate.

As may be gathered from the above, 1982 was a year of unfavourable economic results and serious economic policy decisions. The problems will no doubt continue for some time to come. During the wait for a return to a constitutional form of government, priority attention will have to continue to be given to efforts to balance the desire for economic recovery and improved income distribution with the restrictions that are necessary in the light of the situation of the external sector and the high rate of inflation.

## 2. Trends in economic activity

### a) *Total supply and demand*

Total supply dropped by almost 9% in 1982, as a result of a 6% drop in the gross domestic product and a sharp 36% drop in imports. The lower volume of foreign purchases during the previous two years represented an almost complete reversal of the previous trend towards openness of the economy. Thus, the coefficient of imports of goods and services in 1982 was similar to the average for the period 1970-1978 (before the liberalization) and 40% lower than the peak attained in 1980 (see table 2).

All the components of total demand also fell. Final domestic expenditure went down by 9% and one of its components, gross fixed investment, dropped by 24%. The contraction in this

Table 2

### ARGENTINA: TOTAL SUPPLY AND DEMAND

	Millions of 1970 dollars			Percentage breakdown		Growth rates			
	1980	1981	1982 <sup>a</sup>	1970	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>a</sup>
<b>Total supply</b>	42 508	39 535	36 153	106.7	107.1	9.7	4.2	-7.0	-8.6
Gross domestic product at market prices	38 032	35 781	33 756	100.0	100.0	7.1	1.1	-5.9	-5.7
Imports of goods and services <sup>b</sup>	4 476	3 754	2 397	6.7	7.1	52.1	40.2	-16.1	-36.1
<b>Total demand</b>	42 508	39 535	36 153	106.7	107.1	9.7	4.2	-7.0	-8.6
Domestic demand	39 439	36 025	32 724	99.6	96.9	11.0	5.5	-8.7	-9.2
Gross domestic investment	9 063	7 325	5 870	21.1	17.4	9.9	9.6	-19.2	-19.9
Gross fixed investment	8 751	7 574	5 747	21.2	17.0	6.4	6.1	-13.5	-24.1
Construction	5 407	4 964	4 002	13.2	11.9	2.9	5.4	-8.2	-19.4
Machinery and equipment	3 344	2 610	1 745	8.0	5.2	12.7	7.3	-22.0	-33.1
Changes in stocks	311	-248	122	-0.1	0.4				
Total consumption	30 376	28 700	26 854	78.5	79.6	11.3	4.3	-5.5	-6.4
General government	4 673	...	...	10.3	...	4.3	5.6	...	...
Private	25 703	...	...	68.2	...	12.6	4.1	...	...
Exports of goods and services <sup>b</sup>	3 069	3 510	3 429	7.1	10.2	-2.8	-10.3	-14.4	-2.3

Source: ECLA, on the basis of figures supplied by the Central Bank of Argentina.

<sup>a</sup>Preliminary figures.

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

area was sharp both in construction (-19%) and in purchases of machinery and equipment (-33%) —especially those of imported origin (-51%). This behaviour of investment was also due to the high financial costs involved and the absence of any clear indications as to how the economy might evolve in the future.

Family consumption also dropped, reflecting the lower level of family incomes, particularly among non-wage earners and groups affected by unemployment. Total consumption, including general government consumption, declined by 6%.

The volume of exports of goods and services was slightly lower than that of the previous year (-2%) as a result of the difficulties encountered in marketing them, partly because of the embargo

Table 3

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

	Millions of 1970 dollars			Percentage breakdown		Growth rates			
	1980	1981	1982 <sup>a</sup>	1970	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>a</sup>
<b>Gross domestic product<sup>b</sup></b>	33 696	31 701	29 908	100.0	100.0	7.1	1.1	-5.9	-5.7
<b>Goods</b>	15 860	14 428	13 886	48.9	46.4	7.1	-2.7	-9.0	-3.8
Agriculture, hunting, forestry and fisheries	4 206	4 311	4 548	13.2	15.2	4.1	-6.5	2.5	5.5
Mining and quarrying	819	821	814	2.3	2.7	6.4	3.8	0.2	-0.9
Manufacturing	8 354	7 019	6 705	26.9	22.4	10.2	-3.8	-16.0	-4.5
Construction	2 481	2 277	1 819	6.4	6.1	2.7	6.4	-8.2	-20.1
<b>Basic services</b>	4 873	4 705	4 637	13.8	15.5	9.0	2.2	-3.5	-1.4
Electricity, gas and water	1 191	1 178	1 214	2.3	4.1	10.7	7.8	-1.1	3.1
Transport, storage and communications	3 682	3 527	3 423	11.5	11.4	8.4	0.6	-4.2	-3.0
<b>Other services</b>	12 963	12 569	11 386	37.3	38.1	6.4	5.7	-3.0	-9.4
Commerce (wholesale and retail), restaurants and hotels	4 974	4 655	3 780	15.2	12.6	10.3	5.6	-6.4	-18.8
Financial institutions, insurance, real estate and business services	3 034	2 872	2 553	7.6	8.5	8.0	12.3	-5.3	-11.1
Community, social and personal services	4 955	5 043	5 053	14.6	16.9	2.0	2.2	1.8	0.2

Source: ECLA, on the basis of figures supplied by the Central Bank of Argentina.

<sup>a</sup>Preliminary figures.

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

Table 4

ARGENTINA: INDICATORS OF AGRICULTURAL PRODUCTION

	Millions of 1970 pesos						Growth rates		
	1970	1975	1979	1980	1981	1982 <sup>a</sup>	1980	1981	1982 <sup>a</sup>
<b>Gross agricultural product at factor cost<sup>b</sup></b>	10 298	11 723	13 277	12 408	12 716	13 415	-6.5	2.5	5.5
Crop farming	5 345	5 986	7 364	6 987	7 509	8 132	-5.1	7.5	8.3
Stock-raising	4 554	5 285	5 375	4 996	4 836	4 870	-7.1	-3.2	0.7
Fisheries	45	50	120	78	76	99	-34.4	-3.5	30.7

Source: Central Bank of Argentina.

<sup>a</sup>Preliminary figures.

<sup>b</sup>Includes agricultural construction, hunting, forestry and lumbering.

Table 5

## ARGENTINA: AREA SOWN AND CROP PRODUCTION

	Area sown (millions of hectares)				Production					
					Millions of tons			Growth rates		
	Average 1977/78- 1981/82	1980/ 1981	1981/ 1982	1982/ 1983	Average 1977/78- 1981/82	1980/ 1981	1981/ 1982	1980	1981	1982
<b>Cereals</b>	15.8	16.8	16.7	17.6	25.0	29.6	26.9	-24.7	56.6	-9.1
Wheat	5.5	6.2	6.6	7.4	7.5	7.8	8.1	2.5	-6.0	3.8
Sorghum	2.4	2.4	2.7	2.6	6.4	7.6	8.0	-51.6	153.3	5.3
Maize	3.5	4.0	3.7	3.4	9.5	12.9	9.6	-26.4	101.6	-25.6
<b>Oilseeds</b>	4.8	4.4	4.8	5.2	6.0	5.8	6.8	-1.6	-4.9	17.2
Linseed	0.9	0.8	0.9	1.0	0.7	0.6	0.6	16.7	-14.3	-
Sunflower	1.8	1.4	1.7	2.0	1.5	1.3	2.0	21.4	-23.5	53.8
Soya	1.8	1.9	2.0	2.2	3.5	3.8	4.0	-5.4	8.6	5.3
<b>Subtotal annual crops</b>	26.0	26.7	26.8	28.0						
<b>Total area sown</b>	26.7	27.4	27.5	28.7						

Source: Ministry of Agriculture and stock-raising.

imposed during the second quarter by the European Economic Community on sales from Argentina. During the second half of the year, the difference between the parallel exchange rate and the rate on the commercial market seems to have encouraged the underdeclaration or postponement of exports.

b) *Growth of the main sectors*

i) *The agricultural sector.* The product generated by the agricultural sector grew by somewhat over 5% during 1982, as a result of increased crop production (which grew by 8%) and a slight increase in livestock production (see tables 3 and 4).

The growth of agricultural production during 1982 was due, in particular, to the increase in the production of oilseeds. After having dropped in 1980 and 1981, oilseed production increased by 17%, especially because of the 54% increase in the sunflower crop. As in previous years, sunflower growers continued to improve the yield per hectare, which rose by 27% in 1982, so that the 1982 yield was 50% higher than that of 1979. Soya production also expanded, but this was only because the area planted was increased. Linseed production decreased, however, because of a drop in yields (see table 5).

Cereal production as a whole declined by 9% in 1982, after having shown a notable recovery in 1981. This decline, however, was entirely due to the 26% decrease in the production of maize, which represented somewhat over one-third of the total tonnage of cereals produced during the year. This decline was mainly due to a sharp drop (-20%) in yields per hectare and, to a lesser extent, to a reduction in the area planted. Production of wheat and sorghum was somewhat higher than in 1981, although in both cases yields were lower.

As regards other crops, the production of cotton, tobacco, grapes and tea increased, thanks to favourable weather conditions, while sugar cane production remained unchanged. With regard to fruits, the production of citrus fruits increased while that of apples declined. Finally, the production of vegetables and pulses rose, with beans and tomatoes showing particularly high increases.

The larger area planted with grains was due to the better prices paid for these crops (with respect to the cost of inputs and the prices of livestock) during 1981 and the first part of 1982. This improvement, in turn, was due to the fact that up to the middle of the year, the rise in the real rate of exchange offset the fall in international prices. The better relative domestic prices of grains also contributed to some recovery in investment, reflected in the purchase of tractors and harvesting machines. At the end of the year, as the real rate of exchange again went down, prices dropped too, although this did not affect planting, since this had already been decided.

Stock-raising grew moderately during 1982, at a much lower rate than crop farming. This marked the continuation of an uninterrupted six-year downward trend in the importance of stock-raising within the agricultural gross product; thus, its share in the latter dropped from 44% in 1977 to 36% in 1982. This was partly reflected in the continuing reduction of cattle herds, which totalled approximately 53 million head in mid-1982, i.e., 6 million less than the peak attained in 1977 (see table 6).

Cattle slaughtering declined significantly in 1982, especially during the second half of the year. The reduction in the slaughtering of cows and heifers was more than proportional and the yield in weight of dressed meat per head rose. Towards the end of the year, the lower supply brought about an increase in the relative prices of cattle (see table 6). These indicators seem to point to a possible entry into a new phase in the stock-raising cycle. However, the recovery of stocks may not be so marked as in previous cycles, because of the fluctuations in prices and the restrictions on domestic and external demand.

Table 6

ARGENTINA: CATTLE SLAUGHTERED AND PRICES

Período	Millions of heads		Slaughtering rate (percentage) <sup>c</sup>	Yield in kilogrammes of dressed meat per head <sup>d</sup>	Proportion of cows and heifers in slaughtering analyzed <sup>e</sup>	Annual per capita consumption (kilogrammes) <sup>d</sup>	Steer prices in comparison with:	
	Stocks <sup>a</sup>	Slaughtering					Industrial prices <sup>f</sup>	Wheat prices <sup>g</sup>
1976-1977	58.2	14.1	24.2	202	34.8	87.3	0.62	4.39
1977-1978	59.3	15.8	26.6	194	35.9	91.0	0.83	5.22
1978-1979	59.0	15.9	27.2	194	36.2	86.2	0.70	3.90
1979-1980	56.9	14.9	26.2	198	34.8	83.0	0.96	6.65
1980-1981	55.8	13.5	24.2	205	30.5	82.0	0.81	5.50
1981-1982 <sup>h</sup>	54.2	14.4	26.6	202	32.9	87.0	0.67	3.93
1982-1983 <sup>h</sup>	52.7	12.2	23.1	205	33.8	70.0	0.85	3.17
1982-III <sup>h</sup>		2.9		207	32.9	64.0	0.93	3.34
1982-IV <sup>h</sup>		2.6		215	29.0	62.0	0.99	4.88

Source: National Meat Board, Ministry of Agriculture and stock-raising, and ECLA, on the basis of official figures.

<sup>a</sup> At 1 July of each year.

<sup>b</sup> Total slaughtering for the period.

<sup>c</sup> Slaughtering for the period as a percentage of stocks at 1 July.

<sup>d</sup> Average for the period.

<sup>e</sup> Slaughtering under control of the National Meat Board, which represents between 77 per cent and 80 per cent of total (registered) commercial slaughtering.

<sup>f</sup> In pesos at 1970 prices.

<sup>g</sup> Kilogrammes of wheat needed to purchase one kilogramme of live steer.

<sup>h</sup> Preliminary figures and projections.

Table 7

ARGENTINA: INDICATORS OF MINING PRODUCTION

	1970	1975	1979	1980	1981	1982 <sup>a</sup>	Growth rates		
							1980	1981	1982 <sup>a</sup>
Gross mining product at factor cost (millions of 1970 pesos)	1 777	1 932	2 328	2 417	2 422	2 400	3.8	0.2	-0.9
Production of some major minerals									
Petroleum (millions of m <sup>3</sup> )	22.8	23.0	27.4	28.6	28.9	28.4	4.2	1.0	-1.4
Marketable coal (thousands of tons)	616	502	727	389	498	515	-46.4	27.8	3.5
Injected natural gas <sup>b</sup> (millions of m <sup>3</sup> )	4 820	6 314	7 360	7 927	8 182	9 454	7.7	3.2	15.5

Source: Central Bank of Argentina and Department of Fuels.

<sup>a</sup> Preliminary figures.

<sup>b</sup> After deduction of imports.

Table 8

## ARGENTINA: INDICATORS OF MANUFACTURING PRODUCTION

	1970	1975	1979	1980	1981	1982 <sup>a</sup>	Growth rates		
							1980	1981	1982
<b>Gross manufacturing product at factor cost (millions of 1970 pesos)</b>	<b>20 986</b>	<b>24 853</b>	<b>25 616</b>	<b>24 644</b>	<b>20 706</b>	<b>19 781</b>	<b>-3.8</b>	<b>-16.0</b>	<b>-4.5</b>
Food	4 545	5 238	5 262	5 359	5 148	4 654	1.8	-3.9	-9.6
Textiles	2 769	3 105	2 896	2 460	1 965	1 919	-15.1	-20.1	-2.3
Wood	439	489	460	446	388	334	-3.0	-12.9	-14.1
Paper	1 186	1 425	1 312	1 224	1 002	1 050	-6.8	-18.2	4.9
Chemicals	2 846	3 388	3 615	3 649	3 380	3 379	0.9	-7.4	-
Non-metallic minerals	1 176	1 345	1 377	1 329	1 095	985	-3.5	-17.6	-10.0
Basic metal industries	1 049	1 294	1 486	1 368	1 191	1 361	-8.0	-13.0	14.3
Machinery and equipment	5 527	6 851	7 438	7 107	5 107	4 734	-4.4	-28.1	-7.3
Other industries	1 450	1 717	1 769	1 702	1 430	1 366	-3.8	-16.0	-4.5
<b>Production of some important manufactures</b>									
Pig iron <sup>b,c</sup>	802	1 043	1 938	1 793	1 736	1 940	-7.5	-3.2	11.8
Steel <sup>c</sup>	1 823	2 200	3 203	2 702	2 517	2 897	-15.6	-6.8	15.1
Rolled products <sup>c,d</sup>	2 242	2 927	2 986	2 643	2 193	2 545	-11.5	-17.0	16.1
Motor vehicles <sup>e</sup>	219	239	253	282	172	132	11.5	-39.0	-23.3
Tractors <sup>e</sup>	10 900	18 827	10 610	3 557	1 347	3 828	-66.5	-62.1	184.2

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

<sup>a</sup>Preliminary figures.

<sup>b</sup>Including sponge iron.

<sup>c</sup>Thousands of tons.

<sup>d</sup>Total finished rolled products in terms of hot-rolled products.

<sup>e</sup>Units.

ii) *Mining*. The production of the mining and quarrying sector was slightly lower in 1982 than in 1981 (see table 7).

Crude oil production declined by somewhat over 1% with respect to the previous year because of lower activity on the part of contractors working for Yacimientos Petrolíferos Fiscales. The volume of natural gas injected at the head of gas pipelines increased by 16% as a result of an increase in supplies and the extension and expansion of the pipeline networks. At the same time, progress was made in replacing petroleum by-products by natural gas, which has a lower relative price. Moreover, large reserves of gas have been discovered in recent years which appear to guarantee the supply for a long time to come.

The output of marketable coal was 4% higher than in 1981, as a result of increased demand from electric power companies and the reconstitution, as from June, of the stocks of Yacimientos Petrolíferos Fiscales. The output of metallic minerals, on the other hand, declined by 10%. Finally, the decreased demand from the construction industry led to a drop of around 18% in the mining of non-metallic minerals.

iii) *Manufacturing*. Industrial activity declined for the third year in a row. This new drop (-5%) followed those of -4% and -16% in 1980 and 1981, thus aggravating an already profound recession (see table 8). The volume of production was in fact the lowest in the last 15 years. The industrial recession was also reflected in the decline of employment, resulting partly from the large number of business closures.

The intensity and duration of this recessive phase—the most prolonged contraction since the early 1950s—was due to several factors. During 1980 and early 1981, industry was affected by competition from imports and by the level of the exchange rate and thus underwent a contraction despite the increase in total demand. The change in relative prices brought about by the substantial devaluations later discouraged competitive imports and led to some increase in exports, without, however, compensating for the decrease in domestic demand. The decline was accentuated in 1982

because of the contractive monetary policy applied in the first part of the year, the persistence of problems relating to the financing of production, and the balance-of-payments position, which limited opportunities for applying expansive policies and, furthermore, made it necessary to impose administrative restrictions on imports, including imports of intermediate and capital goods. During the third quarter, however, sales showed some recovery; this was associated with the trend towards a disaccumulation of financial assets, mentioned above. Stocks were absorbed and there was a recovery of production, which in some sectors showed an improvement with respect to the low levels of the previous year.

During 1982, sectoral evolution reflected the changes that had occurred during the year in the exchange and import policies. During the period 1979-1981, foreign-trade-related industrial activities suffered from the lag in the exchange rate, which affected exports and, along with tariff reductions, promoted the importation of competitive products. A reversal of this process began and continued throughout 1982. Thus, in the steel sector, the increase in production noted as from the beginning of the year was due to the behaviour of foreign trade in steel products, inasmuch as domestic consumption declined. Because imports became more expensive, there was an appreciable reduction in purchases from the exterior. Up to April, a special promotion system was applied to encourage exports (which, taken together, were equivalent to one-fourth of the year's production. During the second half of the year, the decline in sales on the external market was offset by the recovery of domestic demand, so that production still continued to increase.

The substitution of imports and the increase in domestic demand during the second half of the year also accounted for the 14% growth of other basic metal industries (aluminium and others) and of paper products (5%). In the latter case, two major projects (Alto Paraná, for the production of wood pulp, and Papel del Tucumán, for the production of newsprint) were put on stream and this significantly increased the supply capacity.

In contrast, the recovery, during the second half of the year, of sectors associated with final demand (producers of consumer goods and of machinery in general) did not compensate for the appreciable contraction they had suffered. The production of automobiles, in particular, went down by 23%, despite the fact that imports dropped sharply from over 50 000 units in 1981 to around 13 000 in 1982. The trend in this industry was partly accounted for by the expiration, at the end of 1981, of the agreement between the State and the enterprises, under which the latter were granted tax reductions in return for price reductions.

iv) *Construction.* Expenditure on new constructions declined by 19%, after having already dropped by 8% in 1981, as a result of the slowdown in public (-15%) and private (-23%) investment (see table 2).

This was reflected in sales of construction materials. Deliveries of cement on the domestic market were 18% lower than in 1981, and those of steel products dropped at a similar rate (see table 9).

The public sector postponed the initiation of new works and held up some of those which had already been begun. Investment was concentrated on projects in the fields of energy (hydroelectric and nuclear power plants), transport (electrification of the General Roca Railway) and telephone communications. The construction of roads under the system of concessions (urban expressways) was virtually paralysed; those works which had already been completed presented a serious problem, inasmuch as the State had guaranteed the concessionaires a much higher income from tolls than was actually collected. Publicly-financed housing, for its part, suffered from the sharp reduction in real terms of the allocations earmarked for the National Housing Fund.

The demand for housing and office space constructed by the private sector declined during the early months of 1982, leading to a heavy increase in the number of unsold units and discouraging the undertaking of new works. This situation was reflected in the substantial drop in the number of construction permits granted (30% in the Federal Capital, with even sharper drops in other cities). The trend in 1981 had been similar (see table 9). The lower profitability of financial investments during the second half of the year, however, stimulated the demand for real estate and this was reflected in signs of some recovery in the relative price of property, although towards the end of the year there was again a slowdown of demand.

The debts contracted by buyers of housing gave rise to concern during 1982 because of the fact that in previous years it had become the general practice to include in housing finance arrangements



Table 9

## ARGENTINA: INDICATORS OF CONSTRUCTION ACTIVITY

	1975	1979	1980	1981	1982 <sup>a</sup>
<b>Construction permits granted</b> (thousands of m <sup>2</sup> )					
Federal Capital	...	1 442	1 634	1 430	1 016
Parana	...	236	480	224	115 <sup>b</sup>
Rosario	...	640	630	424	243 <sup>c</sup>
Salta	...	185	231	166	150
Santa Fe	...	178	164	162	75 <sup>d</sup>
<b>Deliveries of certain construction materials<sup>e</sup></b>					
Sales of cement	5 482	6 609	7 050	6 535	5 394
Public works	1 463	1 635	1 891	1 794	1 225
Private works	4 019	4 974	5 159	4 741	4 169
Sales of steel products for use in reinforced concrete	504	551	539	396	324

Source: National Institute of Statistics and Censuses, Asociación de Fabricantes de Cemento Portland, Instituto Argentino de Siderurgia.

<sup>a</sup>Preliminary figures.

<sup>b</sup>First nine months.

<sup>c</sup>First eight months.

<sup>d</sup>First eleven months.

<sup>e</sup>To the domestic market, in thousands of tons.

an adjustment clause (using an index based on the interest rates on deposits) which caused payments to rise more rapidly than the real income of most families. Moreover, the reduction in the relative price of construction made it more difficult to pay off the loans by selling mortgaged units. Because of this, new regulations were issued towards the end of the year whereby debtors could choose to have the loans adjusted according to wage indexes.

The financial reforms implemented at mid-year, which made it possible to extend repayment periods and decreased the real interest rates on debts with banks, also helped improve the precarious financial position of enterprises in the construction sector.

v) *Electricity*. The production of electric power increased slightly in 1982 (less than 3%). This growth was made possible by the rise in demand during the second half of the year.

Hydroelectric power grew by 20%, to a total production of almost 17.5 million MWh, equivalent to 48% of total power production. This was partly accounted for by the completion of the El Chocón and Salto Grande plants. In addition, construction work on the Agua del Toro dam was completed and financial support was obtained from the Inter-American Development Bank for the construction of the Piedra del Aguila dam, which will allow for a 1.4-million-kilowatt increase in installed capacity. On the other hand, the initiation of the main works connected with the Yacyretá project was delayed.

Thermal stations, for their part, ceased to be the most important source of electricity, as their production declined by 6%. Nuclear power production dropped by 34% and its share in the total dropped from 8% to 5%.

Finally, electricity prices showed a recovery as they increased at a higher rate than the general level of prices.

### c) *Developments with regard to employment and unemployment*

The employment situation evolved in line with the aggregate production rate. During the first part of the year, when the recession grew worse, the unemployment rate continued to rise and industrial employment dropped. Thus, in Greater Buenos Aires the unemployment rate was 5.7% in April,<sup>2</sup> i.e., the highest since August 1975. On the other hand, the slight recovery noted during the

<sup>2</sup>If to this is added visible underemployment, i.e., part-time workers who wish to work more, the rate goes up to around 10%.

second half of the year was reflected in a modest improvement in the employment situation (see table 10).

Throughout the prolonged economic contraction, the labour market showed certain special characteristics. On the one hand, in contrast with what had occurred previously, there was no retention of labour in manufacturing, and employment declined at the same rate as production. To the cyclical causes for the decline in industrial employment was added a longer-term trend towards a reduction in the amount of labour used. In this regard, it should be noted that the number of workers employed in 1982 was more than 25% below the number employed in 1970.

The fact that this reduction was not reflected in even higher unemployment rates was due, among other things, to the absorption of a certain amount of labour by the tertiary sectors and a lower rate of participation in the job market.

### 3. The external sector

#### a) Overall trends and financing of the balance-of-payments deficit

Despite the big merchandise trade surplus of almost US\$ 3 billion, the current account and the variation in international reserves again showed negative results —a deficit of somewhat over US\$ 2.4 billion and a drop of US\$ 760 million, respectively, mainly because of the very high net payment for financial services (US\$ 4.7 billion) (see table 11). External indebtedness thus continued to rise, while the level of the international reserves fell once again, although in both cases at much lower rates than in 1981.

The total external debt increased by 9%, after having risen dramatically during the triennium 1979-1981, when it grew at an average annual rate of 42%. The increase in indebtedness during 1982 was due entirely to the 20% increase in the external debt of the public sector, since private sector indebtedness decreased by 7%. Thus, the share of the public debt within the total external debt continued its upward trend, rising from 52% of the total in 1979 to 62% in 1982 (see table 12).

The surplus on the capital account (almost US\$ 1.7 billion) was double that of the previous year, although it was still equivalent to only one-third of the 1979 amount. The increase during 1982 was due exclusively to the reduction of the negative balance on net short-term capital; the inflow of long-term capital dropped sharply, from over US\$ 9.5 billion to only US\$ 2.5 billion (see table 11).

Table 10

#### ARGENTINA: EVOLUTION OF EMPLOYMENT AND UNEMPLOYMENT

	1970		1975		1979		1980		1981		1982	
	April	October	April	October	April	October	April	October	April	October	April	October
<b>Unemployment rates</b>												
Capital and Greater												
Buenos Aires	4.8	5.0	2.4	2.8	2.0	2.0	2.3	2.2	4.0	5.0	5.7	3.7
Córdoba	4.2	4.7	6.1	7.2	2.6	1.8	2.1	2.7	2.9	4.7	4.8	3.9
Greater Mendoza	3.8	3.3	4.1	4.4	2.8	3.4	1.4	3.1	4.2	5.3	4.8	3.3
Greater Rosario	5.5	4.9	5.3	5.7	3.1	2.7	4.3	2.4	5.0	6.5	8.3	8.4
Greater Tucumán	10.9	10.4	8.4	6.9	5.9	4.9	6.3	8.3	...	9.2	9.2	8.0
	1975		1979		1980		1981		1982			
<b>Employment indexes (1970= 100)</b>												
Manufacturing	119.3		95.6		88.2		77.1		73.0			
Public sector (at 1 January)	116.2		114.2		112.3		111.7		...			

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

Table 11

## ARGENTINA: BALANCE OF PAYMENTS

(Millions of dollars)

	1977	1978	1979	1980	1981	1982 <sup>a</sup>
<b>Balance on current account</b>	1 127	1 836	-535	-4 774	-4 057	-2 422
Trade balance	1 877	2 520	403	-3 191	-688	2 251
Exports of goods and services	6 588	7 483	9 177	9 891	10 841	9 431
Goods FOB	5 650	6 401	7 810	8 022	9 145	7 600
Real services <sup>b</sup>	935	1 083	1 366	1 870	1 695	1 831
Transport and insurance	439	475	605	810	886	957
Travel	212	278	266	345	413	446
Imports of goods and services	4 711	4 962	8 774	13 081	11 529	7 180
Goods FOB	3 799	3 488	6 027	9 394	8 232	4 670
Real services <sup>b</sup>	912	1 474	2 745	3 688	3 300	2 510
Transport and insurance	459	510	905	1 271	1 160	883
Travel	188	588	1 266	1 792	1 472	1 120
Factor services	-782	-734	-973	-1 607	-3 365	-4 705
Profits	-368	-274	-428	-585	-741	-915
Interest received	128	315	681	1 229	876	525
Interest paid	-499	-720	-1 175	-2 175	-3 435	-4 236
Others	-41	-54	-52	-76	-62	-79
Unrequited private transfer payments	33	48	35	23	-5	32
<b>Balance on capital account</b>	719	302	4 760	2 176	864	1 660
Unrequited official transfer payments	-1	21	22	0	0	0
Long-term capital	476	1 520	3 156	4 492	9 538	2 501
Direct investment	144	273	265	788	917	295
Portfolio investment	0	102	223	153	1 123	1 443
Other long-term capital	332	1 145	2 667	3 550	7 498	763
Official sector <sup>c</sup>	-203	-954	0	478	949	-233
Loans disbursed	99	47	50	510	1 022	490
Amortization payments	-210	-914	-43	-36	-47	-723
Commercial banks <sup>c</sup>	63	101	198	-65	136	529
Loans disbursed	66	124	236	89	171	640
Amortizations payments	-3	-22	-37	-155	-36	-111
Other sectors <sup>c</sup>	472	1 997	2 470	3 138	6 413	467
Loans disbursed	1 047	3 745	3 157	4 231	7 993	2 316
Amortization payments	-575	-1 588	-857	-1 229	-886	-1 849
Short-term capital (net)	109	-1 246	1 341	-2 011	-8 434	-4 739
Official sector	-399	335	180	313	299	-211
Commercial banks	20	-27	-286	-365	25	98
Other sectors	488	-1 554	1 447	-1 958	-8 758	-4 626
Errors and omissions	135	9	243	-307	-245	3 898
<b>Global balance<sup>d</sup></b>	1 846	2 138	4 225	-2 598	-3 193	-762
Total variation in reserves (minus sign indicates an increase)	-1 827	-2 236	-4 424	2 666	3 452	762
Monetary gold	-7	-4	-3	-1	0	0
Special Drawing Rights	1	-121	-116	-1	-76	404
IMF reserve position	0	-169	-34	-133	57	178
Foreign exchange assets	-1 710	-1 522	-4 272	2 801	3 471	180
Others assets	0	0	0	0	0	0
Use made of IMF credit	-111	-419	0	0	0	0

Source: 1977-1981, International Monetary Fund, *Balance of Payments Yearbook*; 1982, ECLA, on the basis of official data.<sup>a</sup> Preliminary figures.<sup>b</sup> Real services also include other official and private transactions, but not factor services.<sup>c</sup> In addition to loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities.<sup>d</sup> The global balance is the sum of the current account balance plus the balance on capital account. The difference between total variation in reserves (of opposite sign) and the global balance represents counterpart items: monetization of gold, allocation of Special Drawing Rights, and variations due to revaluation.

This behaviour of the capital flows, however, was not enough to offset the persistent deficit on current account, and the international reserves consequently went down by over US\$ 760 million, which must be added to the abrupt drops of 1980 and 1981. At the end of 1982, the level of the reserves was less than 30% of that reached at the end of 1979.

Thus, despite the effort that was made to reduce imports, the country's international payments position remained critical. This was accounted for by both external and internal factors. In 1981 it was already clear that an adjustment in the balance of payments was called for, in view of the high level of indebtedness and the heavily negative trade balances. However, the devaluations put into effect during that year did not balance the current account nor did they bring about a recovery of reserves. To this difficult initial situation was added, in 1982, the unfavourable trends in the international markets: while high interest rates raised the negative balance on the services account, the sharp fall in export prices made it more difficult to generate surpluses with which to pay it.

Table 12

**ARGENTINA: EXTERNAL DEBT AS AT THE END OF THE YEAR**

(Millions of dollars)

	1978	1979	1980	1981	1982 <sup>a</sup>
<b>Total</b>	12 496	19 034	27 162	35 671	38 736
Public	8 357	9 960	14 459	20 024	24 109
Private	4 139	9 074	12 703	15 647	14 627
External debt/exports of goods and services	1.66	2.07	2.75	3.29	4.11
Percentage of the debt maturing in the next two years	53.1	56.4	60.4	58.2	59.1

Source: Central Bank of Argentina

<sup>a</sup>Includes registered external debt, plus arrears of all types.

Table 13

**ARGENTINA: EVOLUTION OF INDEXES OF REAL EFFECTIVE EXCHANGE RATE FOR EXPORTS AND IMPORTS<sup>a,b</sup>**

(1980 = 100)

Average <sup>c</sup>	Exports	Imports
1975	192.3	195.9
1976	126.4	129.3
1977	163.6	166.1
1978	148.3	149.3
1979	112.0	111.4
1980	100.0	100.0
1981	123.5	128.1
I	94.1	95.7
II	116.2	121.5
III	134.2	139.7
IV	147.4	150.9
1982	160.3	166.0
I	132.3	136.7
II	146.6	151.3
III	184.9	191.3
IV	156.4	163.2

Source: ECLA, on the basis of information supplied by the International Monetary Fund in *International Financial Statistics*.

<sup>a</sup>These indexes are obtained by adding the indexes of the real exchange rate relating to each country, weighted according to the geographical composition of exports or imports, considering the main commercial flows of Argentina. For a detailed explanation of the methodology used, see Part Three of the 1981 *Economic Survey*.

<sup>b</sup>The information on exchange rates is taken from line 1f of *International Financial Statistics*, except for that pertaining to the second half of 1981 and 1982, for which the figure used is the 50/50 average of the commercial rate and the financial rate.

<sup>c</sup>Annual averages.

Table 14

ARGENTINA: EVOLUTION OF EXCHANGE RATES AND PRICES<sup>a,b</sup>

	Exchange rate		Index of prices in dollars at the trade rate of exchange <sup>c</sup>		Index of prices in pesos at the trade rate of exchange <sup>c</sup>		Unit price index (non-agricultural wholesale) <sup>e</sup> (7)	Relative prices <sup>f</sup>	
	Pesos per commercial dollar <sup>d</sup>	Index	Ex-ports (3)	Im-ports (4)	Ex-ports (2)x(3) (5)	Im-ports (2)x(4) (6)		Of ex-ported goods (5)/(7) (8)	Of im-ported goods (6)/(7) (9)
1977	410	44	89	80	39	35	30	130	117
1978	799	85	92	99	78	84	75	104	112
1979	1 320	141	116	122	164	172	187	88	92
1980	1 841	196	137	127	269	249	337	80	74
1981	4 411	471	135	121	636	570	724	88	79
1982	21 897	2 337	116	116	2 711	2 711	2 498	109	109

Source: ECLA, on the basis of official data.

<sup>a</sup>The base for all indexes is the last quarter of 1978 = 100.

<sup>b</sup>Does not include adjustments for taxes, surchargers, reimbursements or other forms of subsidies.

<sup>c</sup>Seller price, average for the period.

<sup>d</sup>As of 13 September 1982, this rate represented a combination of the commercial exchange rate (weighted at 85 per cent) and the financial exchange rate (15 per cent). As of 1 October 1982, the weights used were 80 per cent and 20 per cent, respectively.

<sup>e</sup>Preliminary figures.

The foreign trade policy was changed on several occasions in the course of 1982, partly because of the changing political situation. During the first quarter, following the unification of the exchange rate in late 1981, free convertibility was maintained and the exchange rate remained stable. Then, during the conflict in the South Atlantic, the foreign payments system was changed substantially through the application of a devaluation that was partially offset by export taxes, in order to increase fiscal revenues, while quantitative restrictions on imports were established. Financial movements were also subjected to controls in order to halt a probable outflow of capital, and the payment of financial transactions was deferred.

The authorities which took over in July maintained the exchange controls. As they saw it, it was necessary to raise the exchange rate in order to encourage exports and to provide incentives for the inflow of capital, but the devaluation that would have been required to balance the external accounts would have put excessive pressure on real transactions. Therefore, the exchange market was again split, with the financial exchange rate undergoing a sharp devaluation (the price of the dollar rose by over 100%) and the exchange rate on the commercial market undergoing a smaller change. Also, the renewal of loans with exchange insurance and the inflow of swaps were encouraged.

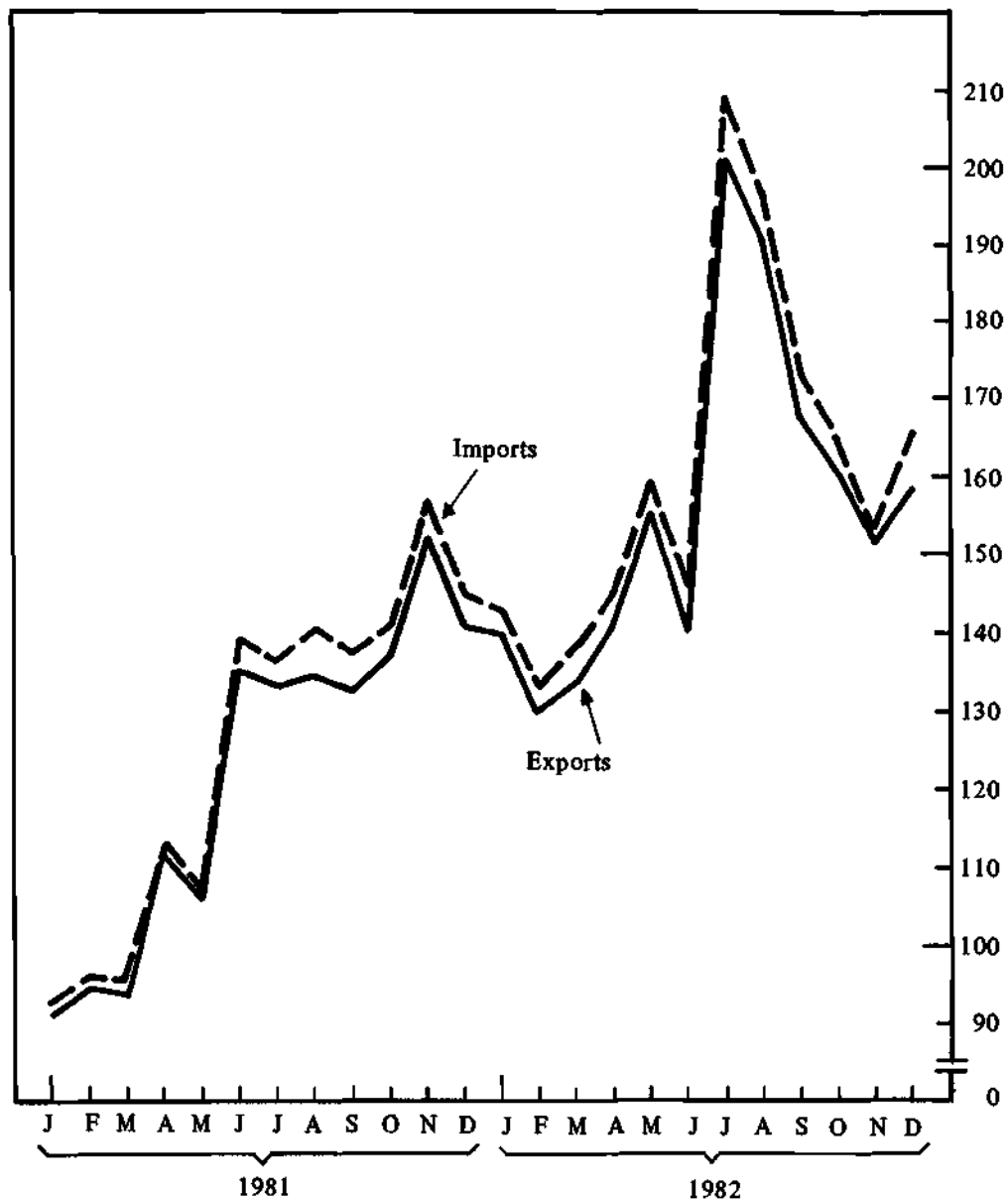
During the latter part of the year, the new economic authorities considered that the exchange parity on the commercial market was inadequate and that maintaining different exchange rates—with a large difference between the commercial and the financial markets and between the financial and the parallel markets—fostered irregularities in export and import exchange transactions. Therefore, increasing percentages of commercial transactions were transferred to the financial market, until November, when the exchange rate was again unified. The Government also expressed its intention of maintaining the real exchange parity of the peso through frequent adjustments in the exchange rates, linked to the domestic inflation rate.

These exchange policies led to an increase of approximately 30% in the effective real exchange rate for exports (see tables 13 and 14). This increase, however, fails to reflect the large variations which had occurred throughout the year. Between January and June, the real exchange rate remained relatively constant, but in July it rose abruptly and then fell steadily until November, rising slightly in December (see figure 2).

The concentration of maturities during the second half of 1982 made it necessary to negotiate a refinancing of the external debt. The negotiations proved difficult because of the urgency with which

Figure 2

**ARGENTINA: EVOLUTION OF INDEXES OF REAL EFFECTIVE EXCHANGE RATE FOR EXPORTS AND IMPORTS**



Source: ECLA, on the basis of information supplied by the International Monetary Fund.

Table 15

## ARGENTINA: MAIN FOREIGN TRADE INDICATORS

	1977	1978	1979	1980	1981	1982 <sup>a</sup>
<b>Growth rates</b>						
Exports of goods						
Value	44.2	13.3	22.0	2.7	14.0	-16.9
Volume	40.6	9.5	-1.2	-12.6	16.9	-5.6
Unit value	2.6	35	23.6	17.5	-2.4	-12.0
Imports of goods						
Value	37.4	-82	72.8	55.9	-12.4	-43.3
Volume	30.0	-18.0	40.8	54.5	-14.5	-40.4
Unit value	5.7	12.0	22.7	0.9	2.5	-4.9
<b>Indexes (1970 = 100)</b>						
Terms of trade	86.3	79.9	81.1	94.2	89.1	82.2
Purchasing power of exports of goods	142.8	152.7	160.3	154.8	167.9	143.1
Purchasing power of exports of goods and services	140.3	150.4	158.7	160.8	167.8	144.6

Source: ECLA, on the basis of official data.

<sup>a</sup>Preliminary figures.

they were undertaken and also because of the terms imposed by the creditors, particularly the British ones. The Government based its policy on a stand-by agreement with the International Monetary Fund. The financing negotiated amounted to US\$ 2.2 billion, including a loan to compensate for the fall in exports. Because these funds were to be received in early 1983, the authorities negotiated a short-term "bridging" loan with foreign banks for US\$ 1.1 billion and another US\$ 500 million dollar loan with the Bank for International Settlements. A further loan of US\$ 1.5 billion from commercial banks was also envisaged, as well as the consolidation and extension of public sector debts with the international financial system (for maturities pending in 1982 and maturities anticipated up to the end of 1983) in the amount of around US\$ 6 billion (at 7 years with a 3-year grace period).

The debts of the private sector presented special problems. On the one hand, some payments were in arrears and this made it difficult to obtain new loans and caused the relevant "risk premiums" to rise. On the other hand, a substantial amount of swaps and loans with exchange insurance began to fall due in the last months of 1982 and the debtors were not able to pay them in full. The Government then offered the holders to exchange insurance the option of renewing their loans through direct negotiations with their creditors or transferring the debt to the State; in the latter case, the Government would refinance their loans by issuing them with five-year foreign currency securities for a total of US\$ 5.5 billion. For the payment of swaps, a similar bond issue would be made in the amount of US\$ 1.5 billion, for a term of 36 months. These measures were aimed at preventing excessive pressure from being put on the demand for foreign currency, at beginning to regularize overdue payments, and at achieving an improved debt profile. However, the extension of repayment periods meant increasing the cost of refinancing, especially with respect to the value of exports, which had shown a clear drop since the middle of the year.

i) *Exports.* In 1982, the value of exports dropped by 17% to US\$ 7.6 billion. This was the first decline since 1975 and was in sharp contrast with the 21% average annual growth rate of the value of export sales in the period 1976-1981. The 1982 contraction was mainly due to a considerable drop in prices (-12%), as well as to a drop in the volume of exports (-6%) (see table 15).

Sales of pampas products went down across the board. The weakness of the international cereals market (reflected in an almost 20% drop in export prices) was accompanied by a substantial reduction in volume, the latter being due partly to a decline in production and partly to an increase in domestic consumption of fodder and the retention of stocks by exporters as they waited for exchange rates to improve. In the case of oilseeds, the volume exported rose significantly as a result of the increase in production of soya and sunflower seed, but even so the sharp drop in international prices neutralized the effect of these increased volumes, so that the export value was slightly lower than in

1981. Likewise, the larger volume of meat sales did not compensate for the fall of unit values (see table 16).

The value of exports of industrial goods, which in 1982 represented 30% of total sales, was similar to that of the previous year. Here, too, prices were lower, although not so much as in the case of commodities. Exports of industrial products improved with the recovery in real exchange rates, the contraction of domestic demand and, up to April, the existence of special measures to encourage new exports. Thus, machinery exports amounted to some US\$ 600 million; fuels, to US\$ 550 million; chemicals, to US\$ 400 million, and iron and steel products, to US\$ 350 million. Fuel exports, however, represented a decline with respect to the large amounts registered in 1981.

ii) *Imports.* The value of imports of goods dropped sharply (-43%) in 1982. This was mainly the result of an equally sharp drop in the volumes imported (-41%), together with a 5% drop in unit values, the first in at least 12 years (see table 15).

Imports of intermediate goods declined sharply (-30%) as a result of the slowdown of industrial activity, the increased competitiveness of domestic industries producing inputs (thanks to the successive devaluations), the running down of stocks and the increase in administrative restrictions. This decline came on top of the 8% reduction of such imports in 1981, which however had followed a dramatic 150% increase during the biennium 1979-1980. Imports of fuels and lubricants dropped sharply (-34%) for the second year in a row (see table 17).

Imports of final goods also declined for the second year running, and in fact much more sharply than in 1981: imports of capital goods dropped by 51%, compared to 14% in 1981, mainly owing to the fall in total demand for investment, while imports of consumer goods, which had declined by 12% in 1981, dropped sharply (by 77%) in 1982, after having grown at an average annual rate of 140% during the period 1978-1980.

As a result of the above, the share of consumer goods in total imports also dropped substantially in 1982 to only 7%, compared with 18% two years before. This proportion was very similar to that of the early 1970s (5%) (see table 17). The share of intermediate goods, on the other hand, rose from 49% to 62% between 1980 and 1982.

Table 16

ARGENTINA: VALUE AND COMPOSITION OF EXPORTS OF GOODS, FOB

	Millions of dollars				Percentage breakdown			Growth rates		
	1979	1980	1981	1982 <sup>a</sup>	1970	1980	1982 <sup>a</sup>	1980	1981	1982 <sup>a</sup>
<b>Total</b>	7 810	8 021	9 144	7 625	100.0	100.0	100.0	2.7	14.0	-16.6
<b>Agricultural products</b>	6 058	5 891	6 799	5 297	86.4	73.4	69.5	-2.8	15.4	-22.1
Livestock products	2 087	1 752	1 799	1 464	39.5	21.8	19.2	-16.1	2.7	-18.6
Meat	1 229	969	932	806	24.9	12.1	10.6	-21.2	-3.8	-13.5
Wool, animal hair and horsehair	239	286	338	234	4.9	3.5	3.1	19.7	18.2	-30.8
Hides and skins	462	363	388	298	5.5	4.5	3.9	-21.4	6.9	-23.2
Other livestock products	157	134	141	126	4.2	1.7	1.6	-14.6	5.2	-10.6
Crop-raising products	3 769	3 998	4 863	3 644	46.7	49.8	47.8	6.1	21.6	-25.1
Cereals	1 735	1 742	2 920	1 903	31.0	21.7	25.0	0.4	67.6	-34.8
Oilseeds	1 407	1 329	1 184	1 161	8.0	16.6	15.2	-5.5	-10.9	-1.9
Other crop-raising products	627	927	759	580	7.7	11.5	7.6	47.8	18.1	-23.6
Fisheries	202	141	137	189	0.2	1.8	2.5	-30.2	-2.8	38.0
<b>Industrial products</b>	1 752	2 130	2 345	2 328	13.6	26.6	30.5	21.6	10.1	-0.7
Fuels	50	280	618	551	0.4	3.5	7.2	460.0	120.7	-10.8
Other industrial products	1 702	1 850	1 727	1 777	13.2	23.1	23.3	8.7	-6.6	2.9

Source: ECLA, on the basis of official data.

<sup>a</sup>Preliminary figures.



Table 17

## ARGENTINA: VALUE AND COMPOSITION OF IMPORTS OF GOODS, CIF

	Millions of dollars				Percentage breakdown			Growth rates		
	1979	1980	1981	1982 <sup>a</sup>	1970	1980	1982 <sup>a</sup>	1980	1981	1982 <sup>a</sup>
Total	6 700	10 546	9 430	5 350	100.0	100.0	100.0	57.4	-10.6	-43.3
Capital goods	1 568	2 392	2 059	1 000	21.6	22.7	18.7	52.6	-13.9	-51.4
Fuels and lubricants	1 118	1 177	1 011	670	4.7	11.2	12.5	5.3	-14.1	-33.7
Intermediate goods	3 314	5 120	4 728	3 310	68.8	48.5	61.9	54.5	-7.7	-30.0
Chemical products	1 041	1 223	936	...	12.8	11.6	...	17.5	-23.5	...
Paper and pulp	197	305	288	...	5.9	2.9	...	54.8	-5.6	...
Metals and metal products, electrical equipment, and spare parts for machinery and transport equipment	1 231	2 308	2 102	...	31.3	21.9	...	87.5	-8.9	...
Other intermediate goods	845	1 284	1 402	...	18.8	12.1	...	52.0	9.2	...
Consumer goods	700	1 857	1 632	370	4.9	17.6	6.9	165.3	-12.1	-77.3

Source: Central Bank of Argentina, and ECLA, on the basis of official figures.

<sup>a</sup>Preliminary figures.

#### 4. Prices and wages

##### a) Prices

Price rises again accelerated to rates comparable to the peaks noted in the mid-1970s; thus, consumer prices rose by 210% between December 1981 and December 1982, while wholesale prices rose by 311% (see table 18).

After rising sharply in January 1982 — as a result of the devaluation implicit in the unification of the exchange rate at the end of 1981 — the price indexes rose more slowly in the following months; between February and May, the consumer price index increased at an average rate of 4.3% per month. These rates were not maintained, however, because of the persistence of financial difficulties and external sector problems, which finally led in July, to devaluation and the reform of the banking system. The sharp rise in prices of tradeable goods and the fall in the money supply resulting from these measures brought about a sharp increase in domestic prices. Hence, the consumer price index rose at a rate of 16% per month during the third quarter of the year and the wholesale price index rose at a rate of 21% per month. During the last part of the year the inflation rate went down somewhat, although it still remained extremely high, with the price indexes varying, on average, at a rate of over 11% per month.

Relative prices showed quite a definite trend, typical of periods of adjustment in the balance of payments. Thus, internationally tradeable goods (particularly imported goods) became more expensive with respect to goods oriented towards the domestic market, while prices of services increased to a lesser degree than prices of goods (see table 18). This latter phenomenon was also due to the policy with regard to public utility rates, which allowed the revenues of State enterprises to deteriorate during the first part of the year. During the last quarter, however, the authorities announced their intention of increasing the real value of utility rates, which meant raising them faster than the general level of prices.

The former system of allowing prices to be set freely was maintained during the first half of the year. After the political changes of July, however, the Government decided to establish a system of setting prices by agreement, whereby enterprises undertook to change prices only in line with their costs, in return for credit support and preferential treatment with regard to government purchases for enterprises which agreed to this arrangement. This objective was not fully achieved, however, inasmuch as no effective system of price intervention was established.

b) *Wages*

Real wages dropped sharply in 1982, for the second year in a row. Real wages of workers in the manufacturing sector went down by somewhat over 10% in 1982, after having declined at a similar rate in 1981. Because of this, and despite the increase in productivity of the manufacturing sector throughout the 1970s, the average real wage in industry in 1982 was 20% lower than that of 12 years before. After having risen considerably in 1980 and suffered a moderate decline in 1981, real wages in the public sector dropped by almost 20% in 1982 (see table 19).

Along with the rise in unemployment, this decline of real wages aggravated social tensions and led to changes in the policy on incomes. Beginning in July, the authorities abandoned the official policy of not intervening in the fixing of private-sector wages. Thus, the Government adjusted the "base" wages so as to bring them closer to the amounts actually paid and decreed overall increases in the latter. Likewise, improvements were made in public-sector wages, which had deteriorated seriously as a result of the freeze imposed at the beginning of the year. Consequently, towards the end

Table 18

**ARGENTINA: EVOLUTION OF DOMESTIC PRICES**

	1977	1978	1979	1980	1981	1982 <sup>a</sup>
<b>Variation from December to December</b>						
Consumer prices	160.4	169.8	139.7	87.6	131.3	209.7
Food and beverages	146.9	169.9	137.8	81.7	135.8	218.4
Clothing	129.3	154.3	121.0	54.8	104.8	389.4
Housing, fuel and electricity	339.6	165.1	133.0	109.0	111.8	181.2
Wholesale prices	147.1	143.3	128.9	57.5	180.2	311.3
Imported products	127.5	65.5	105.7	59.6	237.5	497.3
Domestic products	148.8	149.4	130.1	57.4	177.5	300.7
Agricultural	130.5	155.7	115.8	36.1	212.8	314.0
Manufactures	156.9	146.8	135.9	65.4	166.6	295.9
<b>Variation between annual averages</b>						
Consumer prices	176.0	175.5	159.5	100.8	104.5	164.8
Food and beverages	187.1	163.5	168.7	95.1	99.2	178.4
Clothing	109.5	147.8	150.0	69.1	81.4	188.3
Housing, fuel and electricity	447.1	186.5	151.0	104.6	111.1	133.8
Wholesale prices	149.4	146.0	149.3	75.4	109.6	256.2
Imported products	126.2	75.9	93.0	74.5	157.7	377.1
Domestic products	151.7	152.1	152.7	75.5	107.4	249.2
Agricultural	163.6	141.6	150.8	63.0	93.9	293.2
Manufactures	146.9	156.6	153.5	80.4	112.2	234.8

Source: National Institute of Statistics and Censuses.

<sup>a</sup>Preliminary figures.

Table 19

**ARGENTINA: EVOLUTION OF WAGES**

	1977	1978	1979	1980	1981	1982
<b>Average real wages of manufacturing workers</b>						
Variation between annual averages	-1.5	-1.8	14.8	12.0	-10.8	-10.4
Variation from December to December	7.4	3.5	22.5	7.0	-15.8	5.0
<b>Average real wages of public sector employees</b>						
Variation between annual averages	...	...	1.0	34.2	-4.8	-19.7
Variation from December to December	...	...	3.5	32.2	-6.0	-9.8

Source: ECLA, on the basis of official figures.

Table 20

## ARGENTINA: MONETARY POSITION

	End-year balance (million millions of pesos)				Growth rates		
	1979	1980	1981	1982 <sup>a</sup>	1980	1981	1982 <sup>a</sup>
<b>Money</b>	13.8	27.4	46.1	148.6	97.8	68.5	222.3
Notes and coins	7.9	16.4	30.2	87.3	108.6	84.0	189.0
Demand deposits	6.0	10.9	15.9	61.3	83.5	45.3	285.6
<b>Factors of expansion</b>	49.7	89.3	228.3	667.1	79.8	155.7	192.2
Foreign sector	2.6	-9.1	-77.0	-362.8			
Domestic sector	47.0	98.4	305.4	1 029.9	109.3	210.2	237.3
National government	4.1	13.8	78.7	292.4	237.3	470.6	271.8
Private sector	40.0	83.4	222.0	680.1	108.5	166.0	206.4
Monetary regulation	2.9	1.2	4.7	57.3	-59.2	297.4	1 113.4
<b>Factors of absorption</b>	35.8	61.9	182.2	518.5	72.8	194.2	184.6
Quasi-money (savings and time deposits)	29.1	52.8	113.7	232.0	81.2	115.2	104.1
Other items	6.7	9.1	68.5	286.5	36.2	652.1	318.1

Source: Central Bank of Argentina.

<sup>a</sup> Preliminary figures.

of 1982 real wages showed some recovery, although they were still quite low. This explains why there was a moderate rise in real wages in industry between December 1981 and December 1982, despite the fall mentioned above when analysing the evolution of the averages.

### 5. Monetary and fiscal policy

#### a) *Monetary policy*

The growth of the total private sector money supply (M2) came to 140% in 1982, as compared with 99% in 1981. This variation was much smaller than the variation in prices: measured in terms of the consumer price index, the real value of M2 dropped by around 25% in 1982. By contrast with what happened in previous years, the money supply in its narrower sense (M1) grew relatively more than interest-bearing deposits (see table 20), and its share in total monetary resources rose from 29% in December 1981 to 39% in December 1982.

During the first part of the year, monetary policy was contractive, in keeping with the authorities' intention of reducing inflation through the deceleration of expenditure. Thus, limitations were placed on the indebtedness of the public sector with the Central Bank, while the external sector continued to be a factor of monetary absorption. Despite this, during the first quarter the monetary base grew at a rate of around 6% per month (similar to that of 1981), owing to the rapid increase in rediscounting by the financial system.

During the conflict in the South Atlantic, the Government continued to restrict monetary financing of the public deficit and there was a deceleration in the primary creation of money. However, as mentioned in the introduction to this note, the monetary policy had to deal with the problems posed by an incipient increase in interest rates and the danger that funds might be withdrawn on a large scale from the banks. To this were added the serious difficulties encountered by many enterprises in meeting payments, which further increased the portfolio of overdue obligations of the financial intermediaries: a situation only partially alleviated by the establishment, towards the end of 1981, of Debt Consolidation Bonds. In response to this situation, the authorities continued to increase their advances to banks and reduced the reserve requirements in order to avoid a contraction of credit. Consequently, the M2 money supply rose at a rate of 7% per month during the second quarter: i.e., faster than the consumer price index.

The second part of the year was marked by adjustment to the financial reforms of July. The change in the financial system was aimed at achieving several objectives at the same time. In the first place, the authorities sought to establish a mechanism for refinancing bank debts, in order to prevent enterprises from becoming insolvent and to reduce the need for issuing more money to assist the

financial system. In the second place, they wished to discourage the holding of interest-bearing liquid assets, with the immediate purpose of increasing the demand for goods and encouraging the growth of a market for longer-term credit. The authorities also felt that if close substitutes for money (including public securities such as treasury bills) could be made less attractive, it would be possible eventually to slow down inflation.

The financial reforms involved a segmentation of the loan market. The banks transferred to the Central Bank their portfolio of deposits and these became part of the monetary base (hence the abrupt rise of this series during the second half of 1982). In return, the Central Bank extended the so-called "basic loan", which was to be used by the intermediaries to refinance their clients debts with a term of 7 years. The interest rates on these loans and on deposits of less than 90 days were subject to regulation by the monetary authority. Initially, a rate of 6% per month was set for loans to enterprises and 30-days deposits, while much lower rates were set for shorter-term deposits. The Central Bank also authorized a segment of credits at free interest rates. A minimum time limit of three months was set for deposits in this market, which were not officially guaranteed or subject to reserve requirements, although the total amount of such deposits that each bank could receive was limited to the equivalent of 12% of its portfolio of deposits in the regulated segment (this percentage was later increased to 20%). Finally, the authorities created a category of indexed deposits for terms of more than one year (a limit which was later reduced to six months) which were guaranteed by the Central Bank and for which there was a 100% reserve requirement and a system loans readjustable according to a list of seven price indexes from which the borrower could choose.

Because of these changes in the types and yields of financial assets, it is difficult to interpret the monetary variables for the period following the reform. It was clear, however, that the public reacted by reducing its demand for bank deposits: with a higher level of activity and a sharp acceleration of prices, the growth rate of M2 only rose to 8.4% per month.

After the financial reforms, the monetary policy was implemented mainly through the extension of rediscounts to banks. This became the main source of primary money creation, greatly exceeding Central Bank loans to the public sector. The Central Bank directed its financing mostly to the commercial banks.

The policy applied with respect to the money supply was aimed at striking a balance between providing enough liquidity to a certain dynamism in domestic activity and achieving certain external equilibrium objectives. The dilemma involved here was also evident in the management of the interest rates. During the first few months after the financial reforms, the large gap between the rates established for refinancing loans and the rise of prices allowed for a rapid reduction of the real value of the debts already contracted. Although this had been one of the objectives of the reform, towards the end of the period the authorities showed concern at the effect that negative interest rates might have on the demand for foreign currency. Hence, the returns on regulated deposits and loans were gradually increased and the authorities announced a policy aimed at keeping interest rates close to the variations in prices.

Although, as already noted, the reduction of the real value of bank debts alleviated the financial burden of enterprises, the cost of credit outside the regulated system remained high. On the free financial market, there were large differences between the rates received by depositors —which were lower than the inflation rate— and those applied to loans, which towards the end of the year had reached clearly positive real values.

#### b) *Fiscal policy*

The most notable aspect of fiscal behaviour in 1982 was the reduction of the deficit of the National Treasury with respect to expenditures to 32%, compared with 45% in 1981 (see table 1). There was also a reduction in the consolidated deficit of the public sector (including the national government, provincial governments, public enterprises, the Municipality of the City of Buenos Aires, and the National Social Security System), from over 7% of the gross domestic product in 1981 to only 3% in 1982.

This decline was mainly the result of a reduction in expenditures, and particularly in wages, as a result of the freeze on wages applied during the first half of the year. The readjustments made during the second half of the year did not compensate for the reduction, in real terms, during the first part of the year (see table 21).

Table 21

## ARGENTINA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Million millions of pesos				Growth rates		
	1979	1980	1981	1982	1980	1981	1982
1. Current income	9.5	17.1	33.9	90.9	79.8	97.9	168.3
Tax revenue	6.8	15.3	29.3	82.2	123.9	92.2	180.4
Non-tax revenue	2.7	1.9	4.5	8.6	-31.3	144.5	89.9
2. Current expenditure	10.3	22.1	48.6	114.6	114.2	120.4	135.7
Wages and salaries	3.9	9.2	17.7	38.8	135.8	92.6	119.5
Non-personal goods and services	1.1	2.4	5.5	12.6	125.2	130.5	126.8
Interest	0.4	0.1	0.4	1.8	-85.7	564.5	526.7
Transfers	4.8	10.2	24.3	56.0	110.9	138.2	130.8
Other current expenditure	0.1	0.2	0.7	5.5	191.0	222.5	649.3
3. Current savings (1-2)	-0.8	-4.9	-14.7	-23.7			
4. Capital expenditure	1.6	2.9	11.1	19.5	87.1	282.2	75.5
Real investment	1.0	1.6	4.8	7.9	66.3	197.8	64.7
Loans (net of repayments)	0.6	1.3	6.3	11.5	122.1	388.7	83.8
5. Total expenditure (2 + 4)	11.9	25.0	59.7	134.1	110.6	139.3	124.5
6. Deficit (1 - 5)	2.3	7.8	25.9	43.2			
7. Financing of deficit							
Central Bank	-	9.8	27.8	70.6			
Unified Official Account Fund	1.0	1.6	1.6	6.2			
Issue of securities	4.3	2.7	16.1	54.5			
Bond amortization payments	-2.8	-5.7	-17.2	-70.4			
Others	-0.1	-0.5	-2.3	-17.6			

Source: National Treasury of Argentina.

Payments by the Treasury in respect of public investments also declined considerably in real terms. Transfers by the Treasury (including those made to public enterprises and other government agencies and to provincial governments, and those made in respect of liabilities) increased by a similar degree to total expenditures, but less than taxation.

The total tax burden (including all levels of government and the National Social Security System) dropped for the second year in a row, reaching its lowest value since 1976. This was due to the lower yield, in real terms, from value added tax and other indirect taxes, which fell more than in proportion to the decline in the level of activity, as did revenues from social security contributions. This fall in tax collection was partly offset by taxes on fuels and on wealth, imposed under the emergency measures adopted during the conflict in the South Atlantic. In addition, export taxes were increased as a result of the application of higher levies (the amount collected in this regard increased ninefold). The tax revenues of the National Treasury grew slightly faster than the average annual variation of the consumer price index (see table 21): this is explained by the fact that the taxes which were raised the most represented a greater share of such revenues than in the public sector as a whole.

Rates of public utility companies were not adjusted during the first part of the year, in keeping with the stabilization programme attempted during that period. This aggravated the financial difficulties of State enterprises, and during the second half of the year the authorities tried to correct the situation through successive rate increases which caused charges to rise faster than the general level of prices.

As regards the financing of the deficit of the National Treasury, several policies were implemented in the course of the year. Specifically, during the first part of the year the authorities tended to restrict loans from the Central Bank to the public sector. After the political changes of July, however, as mentioned above, public securities were gradually redeemed, and this was reflected in the reduction of the total amount of securities held and in the increase of financing to the government channeled through the Central Bank.



## BOLIVIA

### 1. Recent economic trends: Introduction and summary

The evolution of the Bolivian economy during 1982 may be described as the worst in many years. In general, all the economic indicators clearly showed that the situation had deteriorated considerably since 1981—a year in which economic difficulties were already apparent. In addition, various sets of economic measures were adopted during the year, and in October there was a change of government. This latter event would have been enough in itself to affect economic activity; nevertheless, given the high degree of economic and political instability which existed throughout the entire year, it cannot be said that the impact of the institutional changes in the final quarter was so great as to have had a significant influence on the course taken by the economy. One of the most widely accepted views in the country is that the events of 1982 were a result of the various policies that governed the economy during the 1970s, in combination with the effects of the international economic crisis.

Firstly, the productive sectors proper were troubled by a series of problems that were becoming endemic. Agriculture, despite its steady growth, had to deal with such traditional limitations as setbacks in the yields of some crops, the application of inappropriate pricing policies and the shortages of technical, economic and financial resources which beset small-scale farmers. Similar constraints were felt by the mining and hydrocarbon sectors, in which the drop in ore yields, the depletion of deposits, the use of out-dated technology, high extraction costs, the companies' financial difficulties and lack of capital formation, in addition to other obstacles, caused production volumes to drop. Industrial activity—which, in comparative terms, was less significant than the foregoing—continued to suffer from the small size of the domestic market and from the overuse of imported inputs; the latter meant that supply difficulties had immediate repercussions on the manufacturing sector's opportunities for expansion.

The rates of variation in the product generated by each sector of economic activity show that, in general, the goods-producing industries expanded less than service industries during the 1970s. The period which most clearly illustrates this situation is the five-year period between 1975 and 1980, when the gross domestic product grew by an average of 3.8% per year, agriculture expanded by a similar percentage, and manufactures rose somewhat more, whereas there was a sharp drop in mining of more than 4% annually. On the other hand, transport rose almost 10%, financial and insurance institutions grew more than 5%, and community and governmental services expanded by about 4.5% (see table 3 below).

Other macroeconomic variables demonstrated that the small increases in total income were primarily devoted to consumption, and domestic savings were therefore insufficient to give continuity to the investment process. Thus, between 1975 and 1980 consumption rose at an annual rate of 5%, whereas domestic investment stagnated.

Because favourable prospects were opening up for the external sector, however, the above trends did not appear to endanger the economic growth process. In the early years of the 1970s, the increase in the price of oil and other raw materials caused great hopes to be placed in a future influx of foreign exchange from exports. Despite the fact that the value of external sales of goods grew at the quite rapid rate of 9% annually between 1975 and 1980, however, imports expanded even more rapidly (13% annually). Nevertheless, because there was an ample supply of funds in international markets during those years, the imbalances which were produced on the current account were offset by the capital inflows from borrowing,<sup>1</sup> since throughout the period direct and portfolio investments were slight.

<sup>1</sup>Between 1971 and 1980 long-term capital inflows increased 22% yearly, while short-term capital inflows rose 54% annually.

At the same time the behaviour of the public sector made the fiscal deficit very difficult to control. Between 1971 and 1980, the central government's total expenditures<sup>2</sup> increased 33% per year, but since current income increased at a rate of only 27% annually during the same period, the deficit expanded from 1.4% of the product in 1970 to 9% in 1980. This problem grew markedly worse as from the second half of the 1970s: the rates of variation in the total expenditures and current income of the central government indicate that, while total expenditures increased more than 25.4% yearly between 1975 and 1980, current income grew only 15.1%. Despite attempts to do so, these deficits could not be financed through the conventional means of raising taxes and attracting current savings, and there was thus no alternative but to turn to external borrowing and make use of the Central Bank.

The inordinate increases in the money supply,<sup>3</sup> which were not matched by equivalent increases in the production of goods and services, caused inflationary pressures to increase, thereby lowering the purchasing power of wages and affecting the real exchange rate.

Finally, once the sources for medium- and long-term external borrowing began to be exhausted, funds were borrowed on a short-term basis, which entailed harder lending terms with regard to loan periods and interest rates. Since the export sector was the only sector which could obtain the necessary resources from the exterior (and this was becoming more and more difficult to do each year), it was not even possible to maintain the minimum reserve holdings needed to service the external debt, and this made it necessary to renegotiate the payment of that debt (first of all in 1979).

Against this general background, the trends and changes in the economy during 1982 may be summed up by saying that there were unprecedented drops in production and investment as well as record increases in prices, which caused a substantial drop in real wages. In addition to the foregoing, the poor performance of the external sector, which —despite the record trade surplus and a lower current account deficit than in 1981— culminated in the country's declaration of default and the resulting suspension of its international payments. Moreover, there was a remarkable increase in the 1982 fiscal deficit, which rose 175% in nominal terms.

The gross domestic product decreased for the second consecutive year; however, the small decline of slightly over 1% in 1981 was followed this time by a major drop of more than 9%. A fall of this magnitude had not occurred since 1961. This was the culmination of a period, which had begun in 1976, of regular and consistent decreases in the growth rate of the production of goods and services (see table 1 and figure 1).

The decline in production also caused the per capita gross domestic product to shrink by more than 11%, which brought it down to a level similar to that of 1971. After having grown steadily by approximately 6% per year during the 1970-1976 period, between 1977 and 1980, it expanded less each year than the year before, and from the latter year onward, the rates of variation were negative.

The terms of trade went down for the second consecutive year, after an exceptional increase of 19% in 1980. It fell in 1982 by 11%, which was the next largest drop after the 20% decline recorded in 1975, and caused gross income to fall by over 10%.

One of the main causes of such a sharp drop in production was the decrease experienced by all sectors of economic activity. The production of goods and "other services" diminished 10%, while the output of basic services declined by over 6%. The economic activities which turned in the best results were electricity, gas and water —which rose 1% as a group— and the ownership of dwellings, which remained more or less unchanged; there were decreases in the remaining productive activities, the largest declines being in construction (-40%) and manufacturing (-15%).

Together with the widespread decrease in production, inflationary pressures intensified to the point where they were almost out of control; the variation between annual averages quadrupled from

<sup>2</sup> As indicated, these rates relate to the central government; in order to ascertain the rates for general government, the performance of the rest of the public sector would have to be taken into account. As the Constitutional President stated, "the agencies of the centralized (public) sector control less than 30% of the General National Budget, and the decentralized agencies absorb more than 70% which remains". See the President's speech, *Mensaje al País*, delivered on 6 November 1982.

<sup>3</sup> Between 1975 and 1980, the means of payment —in the case of currency outside banks and demand deposits— expanded at a pace of 22% annually. During the same period, the net credit received by the central government rose 35% annually, while credit granted to the rest of the public sector between 1976 and 1980 climbed 63% per year. On the other hand, between 1975 and 1980, credit received by the private sector expanded only 28% annually.



Table 1

## BOLIVIA: MAIN ECONOMIC INDICATORS

	1976	1977	1978	1979	1980	1981	1982
<b>A. Basic economic indicators</b>							
Gross domestic product at market prices (millions of 1970 dollars)	1 929	2 010	2 078	2 116	2 140	2 117	1 923
Population (millions of inhabitants)	5.02	5.15	5.29	5.43	5.57	5.72	5.88
Per capita gross domestic product (dollars at 1970 prices)	384	390	393	390	384	370	327
<b>Annual growth rates</b>							
<b>B. Short-run economic indicators</b>							
Gross domestic product	6.1	4.2	3.4	1.8	1.2	-1.1	-9.2
Per capita gross domestic product	3.4	1.6	0.7	0.8	-1.5	-3.7	-11.5
Gross domestic income <sup>a</sup>	6.5	5.0	3.1	1.9	3.7	-1.5	-10.5
Terms of trade (goods and services)	2.1	5.7	1.1	-0.5	19.1	-3.0	-11.4
Current value of exports of goods and services	28.0	11.5	1.2	21.3	22.1	-3.0	-9.8
Current value of imports of goods and services	6.3	15.4	24.6	14.1	-11.7	4.2	-28.9
Consumer prices							
December - December	5.5	10.5	13.5	45.4	23.9	25.1	296.5
Variation between annual averages	4.5	8.1	10.3	19.7	47.2	32.1	123.5
Money	37.3	20.9	11.7	16.8	41.1	20.4	156.0 <sup>b</sup>
Current income of government	20.2	11.6	11.7	-1.8	40.6	19.2	.
Total expenditure of government	28.8	32.9	5.3	30.2	43.1	12.8	64.5
Fiscal deficit/total expenditure of government <sup>c</sup>	16.9	30.2	26.0	44.2	45.2	43.0	64.8
<b>Millions of dollars</b>							
<b>C. External sector</b>							
Trade balance (goods and services)	-35	-64	-242	-226	90	17	208
Balance on current account	-64	-131	-353	-399	-166	-312	-166
Balance on capital account	116	198	269	417	19	319	209
Variation in net international reserves	54	44	-55	24	-136	23	43
External debt <sup>d</sup>	1 107	1 458	1 762	1 941	2 220	2 542	2 522 <sup>b</sup>

Source: ECLA, on the basis of official data.

<sup>a</sup>Gross domestic product at market prices plus terms-of-trade effect.

<sup>b</sup>Preliminary figures up to September.

<sup>c</sup>Percentages.

<sup>d</sup>Disbursed external public debt.

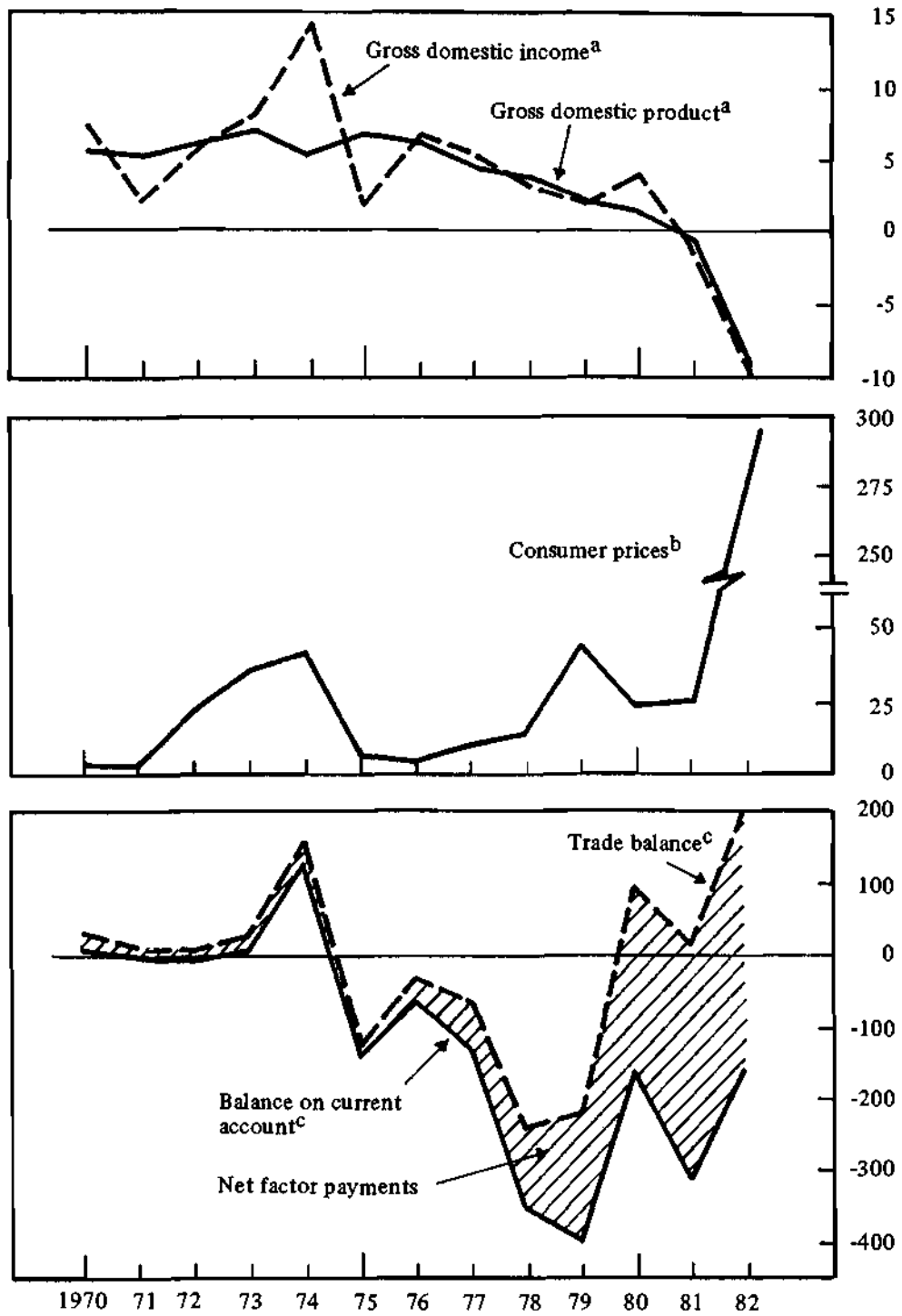
31% in 1981 to 124% in 1982, and between the end of one year the next there was a fourfold increase in the consumer price index, indicating an expansion of slightly over 300%.

The external sector also faced serious problems throughout the year. In 1981 strict controls had been placed on the sale of foreign exchange due to its great scarcity, and in the third quarter of 1982 the situation reached such an extreme that the country could no longer continue to pay its debt service and had to default.

In spite of the fact that exports dropped about 10%, the balance of trade still showed a surplus of US\$ 200 million because imports of goods and services fell nearly 30%. However, profits and interest payments remained very high. The moderate (11%) increase in them (from US\$ 354 million to US\$ 392 million) does not indicate an improvement in the country's credit position, since the figure would have been substantially higher if the country had been able to meet its obligations to the exterior. The growing amount of profits and interest payments had an increasing impact on the economy; thus, whereas they accounted for 16% of the exports of goods and services as late as 1978, in 1982 they represented no less than 43%.

Unlike what occurred between 1980 and 1981, when capital inflows rose from US\$ 300 million to nearly US\$ 320 million, they stood at only US\$ 200 million in 1982, which was a decrease of 34% (see table 1). The importance of external borrowing as a balancing mechanism *vis-à-vis* the exterior

Figure 1  
**BOLIVIA: MAIN ECONOMIC INDICATORS**



Source: ECLA, on the basis of official data.

<sup>a</sup>Annual growth rate.

<sup>b</sup>December-to-December percentage variation.

<sup>c</sup>Millions of dollars.

was clearly shown by the long- and short-term inflows into the capital account, which had climbed steadily —with some exceptions— since the early 1970s in the former case and since 1978 in the latter. There was a dramatic turnabout in this trend in 1982, however, and both long-term and short-term capital movements declined so drastically that the economy, which had been a net importer of capital, became a net exporter.

Finally, there was a striking change in the entry "errors and omissions", which had traditionally shown an outflow of capital from the country; now, for the first time since 1971, it indicated a capital inflow of US\$ 220 million.

The nominal exchange rate underwent unprecedented fluctuations throughout the year, and had to be devalued on two occasions. On the first, the value of the dollar rose from 24.5 pesos to 43.1 pesos (76%). Despite the devaluation, the shortage of foreign exchange and intense speculation which hurt the Bolivian peso led the authorities to decide shortly thereafter to create two foreign exchange areas in an attempt to ensure that there would be enough foreign exchange to service the debt. Nevertheless, the financial and exchange chaos caused by such a step, together with the cumulative level of inflation, led the new government, in November, to approve another devaluation of the peso (this time of 350%), to "de-dollarize" the economy (i.e., to dissociate it from the dollar), and to return to a fixed exchange rate.

As a result of the fixed exchange rate policy followed since 1979, as well as the inflationary process, the real effective exchange rate had dropped by 25% and 30% in 1981 for imports and exports, respectively. Thanks to the two devaluations, however, it recovered considerably in 1982 and reached its highest value since 1970. The recovery process began with the February devaluation and continued until the end of the year; thus, while the export index rose no less than 54 points with respect to 1981, the import index climbed 56 points.

In 1982 there was a disproportionate acceleration in the growth rate of the means of payment (156%); this expansion, which was the largest since 1964, broke with the pattern of preceding years, although the sharp increases in prices during the year caused the expansion of the money supply to be less in real terms. One of the main causes of this expansion was the central government's large fiscal deficit; while current income in nominal terms rose 37%, total expenditure climbed 98%, also in nominal terms. The most telling fact with regard to the crisis in the fiscal sector, however, was the ratio between tax revenue and the gross domestic product, which —after having fluctuated between 8% and 11% during the 1978-1980 period— fell to the low level of 5% in 1982.

With respect to economic policy, three different economic packages were approved during the year —by one government in February and March, and by another in November.

The measures adopted during the first quarter of 1982 were awaited in an atmosphere of great uncertainty. They were aimed at, *inter alia*, putting the economy in order, reducing total expenditures, rationalizing public sector spending, boosting production, avoiding the importation of luxury items, fighting waste and corruption, expediting the payment of debts, and providing incentives for development.

To these ends, decrees were approved which established: a wage increase for public sector workers; wage negotiations between employers and workers in the private sector; the devaluation of the Bolivian peso; exchange controls; guarantees for dollar deposits; a rent freeze; adjustments of fuel and electricity prices; price freezes for bread, sugar, milk, flour and rice; a modification of the sales tax whereby many essential goods were exempted; and the establishment of a tax on mineral, oil and natural gas exports, as well as on non-traditional exports.

In order to rationalize public sector spending, more stringent guidelines were applied to, *inter alia*, administrative procedures for purchasing supplies and the use of State property and of official vehicles.<sup>4</sup> One of the most important measures, which dealt with public sector bank accounts, stipulated that "all the banks of the country shall submit details of the bank balances in respect of checking accounts, savings accounts, fixed-term deposits and other deposits of public-sector agencies,

<sup>4</sup>The second article of this decree states that: "Payments to clinics and private doctors, dental treatment, gifts, prizes, advertising expenses for salutations, tributes, family announcements, the purchase of sports equipment, receptions, parties, contributions and donations of any sort shall be deemed personal expenses of the persons authorizing them, and therefore shall not be recognized as obligations of the State". See *Gaceta Oficial de Bolivia*, Executive Decree No. 18828, 5 February 1982.

together with the bank statements, on a monthly basis, to the General Office of the Budget of the Ministry of Finance and to the Price Control Bureau of the Controller-General of the Republic".<sup>5</sup>

Complementary regulations soon followed upon this package of measures. Thus, it was decided in late March to establish a dual exchange system by creating an official market and a free exchange market; the system for the surrender of foreign exchange was modified; and, contrary to what had been decided in February, the price controls on some essential products were eliminated.

Even before the change of government occurred, the foundations had been laid for the preparation of a new package of economic measures, which would have been the third such package that year. However, the exacerbation of the economic, social and political crisis hastened the installation of the Constitutional Government which, shortly after assuming office, promulgated an extensive set of provisions that were described as emergency measures designed to save the nation.

The main objectives of the new government's economic policy were the normalization of the financial situation, the revival of productive activity and the democratization of economic power. The following measures were approved with a view toward these goals: the "de-dollarization" of the economy, another devaluation of the currency and the establishment of a single fixed exchange rate; a minimum wage of 8 490 pesos, with periodic adjustments; wage increases of 30% for those earning less than 15 500 pesos per month, and an increase of 4 650 pesos for those earning over that amount. Minimum pensions were also approved for retired persons, and the income ceiling for social security contributions, based on total earnings, was raised to 25 000 pesos. In addition, commodity prices were set; fuel, electricity and transport prices were raised, rents were frozen, and imports of non-essential items and of goods produced in the country were banned.

With respect to tax policy, as a special measure income taxes on wages were cut by 20%. At the same time, an additional 8% tax on non-traditional exports was established, assumed mining costs were temporarily modified and a tax on bank credit was approved, while interest rates were set—at levels not less than the bank rates—for tax payments made after the legal deadline. Finally, steps were begun to nationalize the 'Bolivian Power' electricity company and to implement co-management by workers in public enterprises; it was also decided that land grants made after 17 July 1980 should be returned to the State, while grants made after 1971 should be reviewed.

## 2. Trends in economic activity

### a) *Total supply and demand*

In 1982 the total supply of goods and services decreased 12%. This decline, which followed upon a small increase in 1979 and relatively slight decreases in the two subsequent years (-2.4% and -1%), was the largest since 1961 (see table 2).

Both the decline in the product and the record drop in imports contributed to this reverse, although to different degrees. The drop of over 9% in the gross domestic product was the second such decrease after a slight average increase of 1.5% during the 1979-1980 biennium. The deterioration of the product between 1981 and 1982 therefore ran counter to the economic growth of the four preceding years.

The decrease in the volume of imports of goods and services was even more dramatic. After having fallen 20% in 1980 and having then stagnated in 1981, they dropped nearly 30%; this was the fourth year running in which imports declined, which meant that they had decreased at a rate of no less than 13% annually since 1978. As a result, they stood at the same level in 1982 as in 1973-1974.

For its part, domestic demand declined 13%, due to the decrease in investment as well as in consumption expenditure. After having experienced severe decreases in the three preceding years, fixed capital investment shrank over 27%, providing striking evidence of the acute disinvestment process taking place in the economy. Thus, in those four years, it fell at the very rapid rate of 19.5% per year.

As a result of this steep drop, the absolute value of fixed investment in 1982 was scarcely up to the 1967 level. The sluggishness of the economy's capital formation was also illustrated by the investment coefficient, which represented only 8% of the gross domestic product; this was the smallest proportion since 1961, even though it had been above 13% as recently as 1980 (see table 2).

<sup>5</sup>*Ibid.*

Table 2

## BOLIVIA: TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1970 prices			Percentage breakdown		Growth rates		
	1980	1981	1982 <sup>a</sup>	1970	1982 <sup>a</sup>	1980	1981	1982 <sup>a</sup>
<b>Total supply</b>	2 476	2 454	2 163	113.1	112.5	-2.4	-0.9	-11.9
Gross domestic product at market prices	2 140	2 117	1 923	100.0	100.0	1.2	-1.1	-9.2
Imports of goods and services <sup>b</sup>	336	337	240	13.1	12.5	-20.4	0.5	-28.9
<b>Total demand</b>	2 476	2 454	2 163	113.1	112.5	-2.4	-0.9	-11.9
Domestic demand	2 217	2 209	1 911	98.1	99.4	-1.8	-0.3	-13.5
Gross domestic investment	278	230	130	17.1	6.8	-20.9	-17.2	-43.5
Gross fixed investment	284	217	158	14.5	8.2	-15.0	-23.5	-27.4
Public	...	...	...	6.4	...	...	...	...
Private	...	...	...	8.1	...	...	...	...
Construction	...	...	...	7.3	...	...	...	...
Machinery and equipment	...	...	...	7.2	...	...	...	...
Changes in stocks	-6	13	-28	2.6	-1.4	...	...	...
Total consumption	1 939	1 979	1 781	81.0	92.6	1.8	2.1	-10.0
General government	285	285	237	10.7	12.3	2.0	-	-16.7
Private	1 654	1 694	1 544	70.3	80.3	1.7	2.4	-8.9
Exports of goods and services <sup>b</sup>	259	245	252	15.0	13.1	-7.7	-5.5	2.8

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

<sup>a</sup>Preliminary figures.

<sup>b</sup>Figures on imports and exports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1970 dollars using price indexes calculated by ECLA for that purpose.

Moreover, unlike the situation in 1981, total consumption also dropped (-10%) sinking to a level similar to that of 1977. This situation, which occurred for the first time since 1961, affected both private and public consumption. Thus, after having risen slightly in the 1979-1980 biennium and having remained at a standstill in 1981, government consumption dropped almost 17%. This remarkable decrease was related to the programmes which began to be applied in 1981 for containing the fiscal deficit and streamlining the administration.

In turn, the loss of consumer purchasing power was a factor in the nearly 9% drop of private consumption, since the very intense inflationary process affecting the economy reduced the real value of wages in spite of the wage increases which were approved in the course of the year. The decrease in imports had an equally important impact.

Finally, the only macroeconomic variable whose performance was relatively favourable was exports; it was this factor which prevented total demand from falling even more than it did. The volume of external sales rose 2%, but this increase was not enough to make good the deterioration of over 13% between 1980 and 1981.

#### b) *Evolution of the main sectors of production*

As mentioned above, one of the most important symptoms of the deep economic crisis in 1982 was the drop of over 9% in the product. All activities contributed to this decrease, with the exception of electricity, gas and water services—which rose scarcely 1%— and ownership of dwellings, which remained unchanged for the second year running.

The production of goods, after dropping 1.5% during the preceding year, fell 10% in 1982. Unlike what occurred in 1981, when agriculture and mining climbed 7% and 1.6%, respectively, in 1982 these sectors decreased 2.2% and 9.3% (see table 3). In both cases, this was of special significance. The first of these was important because, of all the various branches of economic activity, agriculture had always represented the largest share of the gross domestic product, reaching 22% in 1982. This was also the year when the tradition of regular increases in the crop-farming product was broken with for the first time (with the exception of 1977, when it was stagnant); one would have to go back to 1969 in order to find a decrease similar to that of 1982.

The decline in mining was also of particular significance since, as is well known, it is the most important (and indeed practically the only) sector in the country which generates foreign exchange; thus its evolution in large part determines that of the rest of the economic system.

The downturns in manufacturing and construction (-15% and -40%, respectively) were the largest in the entire system of production. As regards manufacturing, there was an intensification of the downward trend of the two previous years, during which time it had also decreased at increasingly high rates. Among other reasons, this sector's difficulties arose out of the contraction of demand, the scarcity and increasing cost of imported raw materials due to lack of foreign exchange for the purchase of inputs and, the lack of competitiveness against foreign products.

Finally, the most dramatic evidence of the deep economic crisis was in construction, which declined 40% in 1982 after having fallen 35% the year before. Thus, because this sector is extremely labour-intensive, unemployment climbed steeply and it was not possible to reduce the country's housing deficit.

Basic services also declined in 1982. After the three preceding years of positive, although decreasing, growth rates, services fell over 6%. This contraction may be explained by the sharp drop in transport, storage and communications, which went down by more than 7%. The only activity which turned in a positive performance was electricity, gas and water, which grew 1%. However, in this case as well, the growth rate slowed down considerably with respect to 1981, when it was 9.5%.

Finally, the output of other services — which represented almost 44% of the gross domestic product — was 10% lower. The largest decrease in this category was in commercial activity (over 16%). The size of the deterioration seen in this sector was followed by that in financial institutions, insurance, real estate and business services, which declined almost 9%.

Table 3

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

	Millions of dollars at 1970 prices			Percentage breakdown		Growth rates		
	1980	1981	1982 <sup>a</sup>	1970	1982 <sup>a</sup>	1980	1981	1982 <sup>a</sup>
<b>Total gross domestic product<sup>b</sup></b>	1 977	1 955	1 776	100.0	100.0	1.2	-1.1	-9.2
<b>Goods</b>	870	857	771	46.1	42.7	1.0	-1.5	-10.0
Agriculture	374	400	392	19.5	21.7	5.2	7.0	-2.2
Mining	103	105	95	7.9	5.2	-2.0	1.6	-9.3
Manufacturing	310	298	252	14.3	14.0	-1.0	-3.8	-15.3
Construction	83	54	32	4.4	1.8	-5.0	-35.0	-40.0
<b>Basic services</b>	281	284	265	9.4	14.6	2.1	0.7	-6.4
Electricity, gas and water	34	38	38	1.4	2.1	2.5	9.5	1.1
Transport, storage and communications	247	246	227	8.0	12.5	2.0	-0.5	-7.6
<b>Other services</b>	889	875	788	45.7	43.5	1.3	-1.7	-9.9
Comerce, restaurants and hotels	291	284	237	17.0	13.1	0.7	-2.4	-16.4
Financial institutions, insurance, real estate and business services	219	213	194	10.7	10.7	1.2	-2.7	-8.8
Ownership of dwellings	(162)	(162)	(162)	(9.2)	(9.0)	0.5	-	-
Community, social and personal services	379	378	357	18.0	19.7	1.8	-0.5	-5.5
Government services	(201)	(201)	(195)	(8.6)	(10.8)	1.3	-	-3.0
<b>Minus: Imputed bank service commission</b>	28	25	16	1.2	0.8	2.9	-10.3	-36.5

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

<sup>a</sup>Preliminary figures.

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

Table 4

## BOLIVIA: INDICATORS OF AGRICULTURAL PRODUCTION

	Thousands of tons				Growth rates			
	1979	1980	1981 <sup>a</sup>	1982 <sup>b</sup>	1979	1980	1981 <sup>a</sup>	1982 <sup>b</sup>
<b>Main crops</b>								
Cotton fibre	16	7	6	4	-11.1	-56.2	-14.2	-33.3
Rice	76	95	101	80	-14.6	25.0	6.3	-20.7
Bananas	154	158	164	160	1.3	2.5	3.7	-2.4
Sugar cane	3 120	3 080	3 103	2 600	-9.0	-1.2	0.7	-16.2
Coca	24	26	33	35	26.3	8.3	26.9	6.0
Maize	378	383	503	450	12.1	1.3	31.3	-10.5
Potatoes	730	787	867	900	-1.0	7.8	10.1	3.8
Wheat	68	60	67	66	19.2	-11.7	11.6	-1.4
Coffee beans	19	20	21	22	11.7	5.2	5.0	4.7
	Area under cultivation thousands of hectares				Growth rates			
Cotton fibre	34	24	14	25	3.0	-29.4	-41.6	78.5
Rice	51	66	63	69	-19.0	29.4	-4.5	9.5
Bananas	17	18	18	18	6.2	5.8	-	-
Sugar cane	67	65	70	68	-5.6	-2.9	7.6	-2.8
Potatoes	163	168	177	174	3.8	3.0	5.3	-1.6
Wheat	98	100	96	104	12.6	2.0	-4.0	8.3
Coffee beans	22	23	23	24	15.7	4.5	-	4.3

Source: Central Bank of Bolivia, *Indicadores económicos* No. 3, December 1982; Ministry of Peasant and Agricultural Affairs and the National Statistical Institute.

<sup>a</sup> Preliminary figures.

<sup>b</sup> Estimated figures.

i) *Agriculture*. The product of the agricultural sector —which employs over 53% of the economically active population and which accounted for nearly 22% of the gross domestic product in 1982— dropped 2.2%. It thus broke with the pattern of previous years, when it had risen, at first slowly and then more steadily. Growth had been close to 3% in 1979, and in the two following years it mounted to 5% and 7%, respectively. Thus, the 1982 crop-farming product declined like that of the other sectors of economic activity during one of the worst years in the country's economic history.

Grains in general —which in previous years had accounted for about 45% of the area under cultivation— exhibited a downward trend. Wheat is the second largest of the main crop-farming products in terms of the surface area under cultivation (19.4% of that area), but wheat output fell by nearly 1.5% despite the fact that the area sown increased over 8%, which means that the yield fell from 0.69 to 0.63 tons per hectare. The drop in production followed upon a decline in 1980 and a recovery in 1981, and thus the quantity produced in 1982 was only about the same as in 1979 (see table 4).

The performance of other extensive crops, such as rice and maize, was also poor. In the case of rice, which occupies 13% of the area sown with the major crops, yields dropped from 1.6 to 1.1 tons between 1981 and 1982 despite a 9.5% increase in the area planted. The volume of production thus dropped nearly 21%, bringing it close to 1979 levels, after it decreased an average of 2.6% annually between 1979 and 1982. Finally, after soaring 31% in 1981, the production of maize declined by more than 10% in 1982; however, since it had risen in 1979 and 1980 (1.3% and 12%, respectively), the decrease was less significant.

Industrial crops also declined. Despite the fact that a much greater (78%) surface area was used for cotton production the volume fell by more than 33%, making it the fourth consecutive year of an uninterrupted descent (31% yearly between 1979 and 1982). Yields dropped from 0.42 tons per hectare in 1981 to 0.16 tons in 1982 (see table 4).

Sugar cane output fell more than 16%; in conjunction with the decreases of preceding years, this resulted in a very negative trend for the four-year period from 1979 to 1982. On average,

production dropped at a rate of 6.6% per year. Since the area under cultivation fell by only 3%, this was one of the largest decreases in yields in the entire sector: 6.3 tons of sugar cane less per hectare than in 1981. Some of the main problems troubling this activity were the failure to renew sugar cane plantings, high operating costs and deficiencies in the irrigation systems.

The performance of the remaining crops was less uniform, with potato and coca production expanding 4% and 6%, respectively, but banana output dropping 2.4%.

In the case of potatoes —which occupied 32% of the surface area planted with major crops and which were therefore the first crop in order of size— the increase in 1982 is attributable to higher yields, since the area cultivated decreased by somewhat more than 1%; thus, between 1981 and 1982 potato output climbed from 4.9 to 5.1 tons per hectare.

The coca crop, after soaring 27% in 1981, slowed its rate of expansion, increasing by only 6%. Nonetheless, the growth rate for the four-year period from 1979 to 1982 was one of the highest ever recorded (16.5%).

Finally, banana production fell 2.4% although the area under cultivation remained unchanged for the second year running: the crop yield thus declined from 9.1 to 8.8 tons per hectare.

The ratio between prices for crop-farming products and industrial goods continued to be unfavourable for agriculture. Between 1975 and 1980 the prices received by farmers rose more rapidly than did the prices paid by them; in 1981, however, there was a change in this trend for the first time, and the parity index dropped. In 1982 this situation grew worse, and the parity index fell to its lowest level since 1975, with a loss for agriculture of no less than 25 points with respect to the previous year (see table 5.)

ii) *Mining.* Mining is of course one of the most important sectors of the Bolivian economy in terms of both the product which it generates (5% of the total product in 1982, and a higher percentage in preceding years) and its role as the main mechanism for obtaining foreign exchange. Nevertheless, it has been experiencing serious difficulties for quite some time. Some of the main problems are: first, the extreme backwardness of its technology, and the resulting high production costs and low productivity; second, a taxation system which is essentially based on fiscal criteria and which does not provide sufficient incentives for capital investment in the exploration of new deposits or in the exploitation of existing ones, thus revealing a lack of co-ordination between fiscal and mining policies;<sup>6</sup> third, price instability in international markets; fourth, lack of efficiency in public enterprises; fifth, the limited value added by the sector, given the scant extent to which the minerals obtained in the country are refined; sixth, the depletion of some deposits; seventh, insufficient public and private investment; and eighth, political and social instability.

Table 5

**BOLIVIA: TERMS OF TRADE FOR AGRICULTURAL AND INDUSTRIAL PRODUCTS**

	Wholesale price index for agricultural products	Wholesale price index for industrial products	Parity index
1975	100.0	100.0	100.0
1976	106.2	105.9	100.2
1977	121.0	111.6	108.6
1978	145.9	120.9	120.4
1979	186.4	151.8	122.7
1980	288.3	234.7	122.8
1981	359.7	322.9	111.3
1982	863.2	1 004.8	85.9

Source: ECLA, on the basis of official data.

<sup>6</sup>The fact that tax payments were determined on the basis of assumed costs which were not kept up to date as time passed, despite the changes in their structure (such as price increases for imported components, etc.), contributed to a progressive decline in company profits.



Table 6

## BOLIVIA: INDICATORS OF MINING PRODUCTION

	1979	1980	1981	1982 <sup>a</sup>	Growth rates			
					1979	1980	1981	1982 <sup>a</sup>
<b>Production of the most important minerals<sup>b</sup></b>								
Tin concentrate	27.7	27.2	27.5	26.7	-10.1	-1.7	1.1	-2.9
Lead	15.3	17.2	16.7	12.4	-14.6	12.4	-2.9	-25.7
Zinc	46.8	50.2	47.0	45.6	-21.4	7.3	-6.3	-2.9
Tungsten	3.1	3.3	3.4	3.2	3.3	6.4	3.0	-5.8
Silver (tons of metal)	182.0	190.0	205.0	170.0	-6.6	4.3	7.8	-17.0
Antimony	14.4	15.4	15.2	13.9	8.2	6.9	-1.2	-8.5
Copper	1.8	1.8	2.6	2.2	-35.7	-	44.4	-15.3
Gold (kilos fine)	948	162.0	2 064.0	1 249.0	-42.5	70.8	27.4	-39.4

Source: Central Bank of Bolivia and the National Statistical Institute.

<sup>a</sup>Preliminary figures.

<sup>b</sup>Thousands of tons.

In addition to the problems described above, which are ongoing problems, others of a more cyclical nature arose in 1982. One of the most important was the violent exchange disturbances which occurred throughout the year. In 1982 there was a substantial disinvestment in the sector. This occurred because the controls established for administering the sale of foreign exchange made it extremely difficult to obtain; this led entrepreneurs to acquire foreign exchange on the open market whereas during part of the year, the foreign exchange they received for their exports had to be converted at the official exchange rate. Naturally, a situation of this sort raised real costs considerably and lowered profits; thus, throughout the year there was mounting criticism of the fiscal system and of the assumed costs upon which the corresponding taxes were based. In addition to the above, inflation was severe throughout the year, taxes were increased, there was economic and political instability in the country, and production dropped.

Other problems of an external nature, such as the drop in mineral prices and the international crisis itself, were also added to the long list of difficulties faced by the country's mining sector.

The deterioration of the sector became much more acute in the course of the year. The mining product declined 9.5% —a rate very close to the 9% drop in 1978 and similar to the 8% decrease in 1979. Thus, in the four-year period between 1979 and 1982, the sector's product only increased once (2% in 1981), and since it had also declined slightly in 1980, the average drop over the last four years was close to 5% annually. Going further back in time, it may be seen that since 1971 (with the exception of 1973, which was an exceptionally good year in that there was an increase of over 24%) the greatest growth was the 9.5% rate in 1972; since that date, however, there has been no repetition of such high rates of growth. Indeed, between 1974 and 1982 mining increased its contribution to the gross domestic product on only two occasions (1976 and 1981); it decreased in all the remaining years.

Similarly, the share of the gross domestic product accounted for by mining activity also decreased; in 1970 it was 8%, ten years later it accounted for no more than 5%, and the position did not change in 1981 and 1982.

Unlike what occurred in 1981, when some branches of mining activity showed increases, in 1982 the output of all the most important mining products decreased —substantially in several cases (see table 6).

Production of tin —by far the most important mineral— fell 3%; the 27 000 tons produced was the lowest volume in the last sixteen years and, with the exception of 1981, output has fallen steadily since 1978. The main factor in the downturn of 1982 was the drop in prices on international markets; the average price for tin dropped by 8% in 1982 to US\$ 5.80 per pound fine, which was the lowest level since 1978.

There were decreases in other minerals which were also significant for the economy, whether because of the magnitude of the downturn or because of their importance as a part of mining production. The output of gold declined 39%, that of lead by 26%, silver production by 17% and

copper by 15%. Gold production was at its lowest level since 1979, it declined by over 42%; the steep increases in 1980 and 1981 did not prevent production during the four-year period between 1979 and 1982 from shrinking at an average rate of 7% per year (see table 6).

Lead output fell by almost 26% in 1982, which, in conjunction with the decreases of 3% in 1981 and 15% in 1979, meant that there was an average slowdown for the last four years of 9% annually, despite the upturn in 1980. The sharp drop in 1982 is partly accounted for by the 24% decline in the international price.

Silver production, after having fallen over 6% in 1979 and having increased in 1980 and 1981, dropped 17% in 1982, so that out of all the metals produced, silver experienced the third largest decrease for the year (see table 6). The price of this precious metal also went down in 1982: after having doubled in 1979 with respect to 1978 and then quadrupled in 1980, it dropped 50% in 1981 and fell again, by 28% in 1982.

In line with the widespread decrease of all the minerals, copper production — which had shown the largest rise of all in 1981 (44%) — dropped over 15%, thus declining at an annual rate of 6% during the last four-year period.

The output of the remaining minerals was also lower, with decreases of 3% for zinc, 6% for tungsten, and over 8% for antimony. As regards this last mineral (of which Bolivia is the largest producer in the world), there was only an increase of slightly over 1% annually between 1979 and 1982, while its price rose nearly 4%.

Finally three of the major measures adopted during the year were of special significance. Firstly, the government requested the Ministry of Mining and Metallurgy to prepare a draft law on the promotion, exploitation and marketing of gold in view of the importance of the gold deposits to the country. Secondly, an additional tax on exports of mineral products, oil, natural gas and their derivatives was established in February because it was thought that the sector would obtain additional profits from the modification of the exchange rate. Lastly, the assumed costs for the major mineral products were temporarily modified in November in order to prevent the new exchange parity and mining's tax contributions to the State from adversely affecting this productive sector.

The performance of hydrocarbons was somewhat different. After the increasingly adverse trends of previous years, in 1982 there was a sharp increase in oil production (15%); an upswing of this magnitude had not occurred since 1974. Since that year (except for a small rise in 1976) the rates of variation had always been negative, and thus the volume produced between 1973 and 1981 fell by 8% per year. Even so, the 1982 increase was not large enough to offset the decline of the three preceding years, so that oil production decreased 13% annually on average during the four-year period 1979-1982 (see table 7).

Table 7

**BOLIVIA: HYDROCARBON INDUSTRY INDICATORS**

	Amounts				Growth rates			
	1979	1980	1981	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>b</sup>
<b>Petroleum<sup>c</sup></b>								
Production of crude petroleum	1 618	1 384	1 277	1 065	-14.1	-14.4	-7.0	15.5
Exports of crude petroleum	29	-	-	-	-93.6	-	-	-
Refining of petroleum products	1 741	1 554	1 410	1 111	11.6	-10.7	-9.3	7.8
Domestic sales of some fuels								
Gasoline	452	461	461	353	3.1	1.9	-	5.3
Kerosene	139	129	105	72	-15.7	-7.1	-18.6	-10.1
Diesel oil	293	299	299	198	0.3	2.0	-	-11.2
Fuel oil	149	152	155	101	-7.4	2.0	1.9	-11.1
<b>Natural gas<sup>d</sup></b>								
Production	4 529	4 781	4 967	3 963	1.6	5.5	3.9	9.3
Exports	1 726	2 040	2 196	1 752	9.1	18.1	7.6	9.6

Source: Central Bank of Bolivia, *Indicadores económicos* No. 3.

<sup>a</sup> Up to September.

<sup>b</sup> Calculated in relation to the same period of the preceding year.

<sup>c</sup> Thousands of cubic metres.

<sup>d</sup> Millions of cubic metres.

Table 8  
BOLIVIA: PRICES OF SOME FUELS, 1982<sup>a</sup>

(Bolivian pesos per litre)

	February	November	Growth rate
Regular gasoline	8	25	212
Premium gasoline	10	35	250
Diesel oil	8	23	187
Fuel oil	7.5	22	193
Kerosene	5	8	60
Natural gas (per thousand cubic feet)	45	200	344

Source: *Gaceta oficial de Bolivia*.

<sup>a</sup>These prices correspond to most of the country's departments; however, at other locations there were even greater increases in fuel prices.

Despite the rise in oil production, there were no exports for the third consecutive year.

Domestic gasoline sales, which increased over 5% after they were stagnant in 1981, rose somewhat more than in 1979 and 1980. In contrast, sales of diesel oil, fuel oil and kerosene were off sharply, with drops of from 10% to 11% —for the fifth year running, in the case of kerosene.

The fact that domestic fuel sales decreased to such an extent, despite the increases in crude oil production, was primarily due to the severe deterioration of the economic situation throughout the year (which necessarily resulted in less fuel demand for household and industrial uses), and to the spectacular rise in the prices of almost all fuels (see table 8). Fuel prices were raised twice during the year, at the same time as the two most important packages of economic measures were approved. High-octane gasoline (premium) rose from 10 to 35 pesos per litre between February and November, and regular gasoline increased from 8 to 25 pesos. The price of kerosene went up from 5 to 8 pesos per litre during the same period.

Finally, there was a notable acceleration (9%) in the growth rate of natural gas production, which consolidated the steady upward trend in natural gas extraction that had begun three years earlier. Concurrently, the growth of natural gas exports —almost 10% in 1982— also followed the pattern of preceding years, during which the volume of external sales had steadily expanded. Thus, between 1978 and 1982 the growth rate of natural gas exports came to 7.6% per year.

### 3. The external sector

#### a) Overall trends

One of the main constraints on the economy in recent years, particularly during 1982, stemmed from the behaviour of the external sector. Naturally, the evolution of this sector cannot be dissociated from the manner in which the entire economy has functioned during the immediately preceding years or, to be more precise, since 1974. The energy crisis that began in 1973 opened up very promising prospects for the economy; in 1974 oil exports were still low but, in view of the reserves which existed, the outlook was definitely encouraging. Moreover, as the finishing touch to this extremely optimistic picture, mineral prices rose. Foreign exchange income from exports thus mounted to record levels in 1974, which led to a rapid increase in expenditures on both investments and imports.

However, the actual situation which eventually took shape was quite different, since the Bolivian economy continues to exhibit a high degree of dependence on imports of all sorts. Because domestic savings were very low, external purchases had to be financed through exports and external savings which could be obtained through loans, direct investments and grants. As events unfolded, however, it became clear that not all these factors were going to generate the amount of foreign exchange which had been expected.

Initially, the volume of exports (mostly from the mining sector) continued to move upward between 1970 and 1974; from the latter year, however, they progressively declined each year, with the exception of 1976 and of a slight upturn in 1979. Some of the reasons accounting for this kind of

evolution are that there is very little export diversification; the international economic crisis played a role, through the industrialized countries' lower demand for raw materials; and, finally, there has been a drop in the prices for this type of product during recent years. Non-traditional exports did not increase appreciably between 1974 and 1982 either, because their competitiveness was limited by the decrease in productivity and the high costs of the various productive sectors.

This is basically what occurred with regard to the main mechanism for generating foreign exchange, since grants played a very secondary role. Lastly, direct investment did not play a major role either, even though the legal instruments necessary to maximize it had been created (the investment law and the general law on hydrocarbons). Some of the main items among the many causes for foreign capital's lack of response to the new legal framework included the country's institutional problems, the smallness of the domestic market, transport and marketing difficulties, and the lack of progress with respect to regional integration programmes.

In view of the foregoing, the only other source of the foreign exchange needed to carry on the economic growth process was external financing. Thus, foreign loans (first medium- and long-term and, later, short-term loans) were resorted to as the only feasible option.

All of the above (in addition to a fixed exchange rate that greatly overvalued the peso in relation to the dollar and domestic inflation that was far above international rates) made the United States dollar an extremely inexpensive commodity which promoted imports and discouraged exports.

Beginning in 1981, the amount of external loans started to diminish notably and the amortization of the debt that had been contracted accelerated; this situation became more acute in 1982, when there was virtually no foreign exchange, and it even became necessary to resort to barter in order to conduct some international transactions.

Clearly, this process seriously affected the entire economic system of Bolivia and even partially paralysed it. The heavy dependence on imports and the nearly complete lack of foreign exchange reserves pushed the dollar up to extraordinarily high levels, since entrepreneurs had to purchase dollars on the parallel market in order to buy the inputs they needed. In addition, at least for a part of the year it was mandatory for exporters to surrender the proceeds from their exports to the Central Bank at the official exchange rate, which was considerably lower than the parallel rate; the losses which they suffered made financing untenable, not only for the export sector, but for any productive activity whatsoever. The external sector was thus becoming one of the major bottlenecks in the economy, and the situation reached an extreme in 1982.

#### b) *External trade*

i) *Exports of goods.* In 1982 the value of exports of goods fell more than 11%, after having dropped over 3% the preceding year. The decrease in 1982 was the second largest since 1975, when the value declined somewhat more than 20%, and was due to the sharp 13% drop in the unit value of exports (the largest decrease since 1971, when the value fell 16%). There was a very slight expansion (1.4%) in the volume exported (see table 9).

The volume of exports had been declining in the eight years since 1975 (except for 1976 and 1979) at an average pace of 2.1% annually, which bears witness to the export sector's difficulties in expanding its foreign sales. The generally favourable trend as regards the value of exports, on the other hand, is accounted for by the very positive evolution of unit values. As noted above, they decreased nearly 13% in 1982, but one would have to go back to 1971 or 1975 in order to find decreases of a similar magnitude. The downturn in 1982 followed upon the near stagnation of prices in 1981, and was thus the second consecutive year in which their performance was poor.

Given all of the above, the value of the main exports shrank considerably, except in the case of natural gas and, to a lesser degree, sugar. Tin, which is one of the major components of foreign sales, declined over 17% —making it the third year running in which there was a downturn (see table 10).

The trends in both prices and volume of exports contributed to this decline. The unit value, with a decrease of 5.5%, was the lowest since 1978 (see figure 2). The decrease in volume was even greater, however: dropping over 9%, the volume index was at its lowest level since at least 1970 (see figure 3). Concurrently, the decrease in the nominal price for tin which had begun in 1980 continued in 1982, when the price dropped to 1978 levels; furthermore as a result of external inflation the decline was even greater in real terms. Thus, the real price of tin, as deflated by the United States wholesale price index, fell more than 12% in 1982; if it is deflated by the unit value index for Bolivian

Table 9  
BOLIVIA: MAIN FOREIGN TRADE INDICATORS

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982 <sup>a</sup>
<b>Growth rates</b>										
Exports of goods FOB										
Value	29.6	113.3	-20.1	26.6	12.7	-1.1	21.4	23.6	-3.5	-11.5
Volume	2.1	7.5	-11.0	19.1	-4.0	-11.1	2.2	-7.3	-3.4	1.4
Unit value	26.9	98.4	-10.2	6.3	17.4	11.3	18.8	33.3	-0.1	-12.8
Imports of goods FOB										
Value	26.1	67.7	45.0	9.0	13.0	25.0	12.6	-16.5	-	-37.5
Volume	6.9	36.6	27.4	4.8	1.3	12.8	-6.9	-26.3	-1.9	-36.0
Unit value	18.0	22.8	13.8	4.0	11.5	10.8	21.0	13.2	1.9	-2.3
Terms of trade for goods, FOB/CIF	9.2	59.6	-20.6	2.1	5.7	1.1	-0.5	19.1	-3.0	-11.4
<b>Indexes (1970 = 100)</b>										
Terms of trade for goods, FOB/CIF	87.6	139.7	111.0	113.4	119.8	121.2	120.6	143.6	139.2	123.3
Purchasing power of exports of goods	110.2	191.4	135.8	164.0	167.6	150.8	156.0	174.1	162.0	143.8
Purchasing power of exports of goods and services	112.8	190.0	138.0	169.0	170.8	157.4	162.9	179.5	167.7	151.9

Source: ECLA, on the basis of official data.

<sup>a</sup>Preliminary figures.

Table 10  
BOLIVIA: EXPORTS OF GOODS, FOB

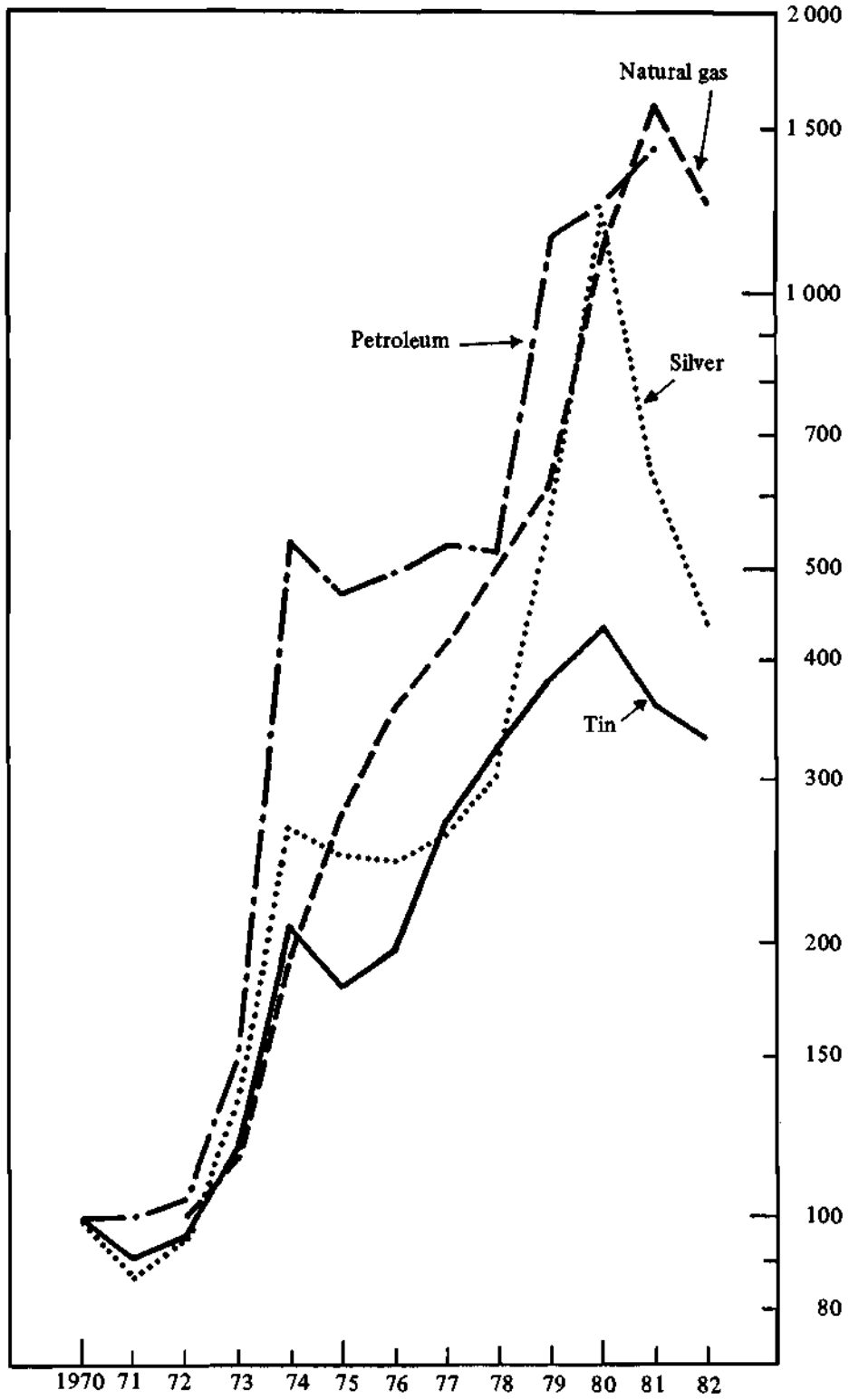
	Millions of dollars				Percentage breakdown		Growth rates		
	1979	1980	1981	1982 <sup>a</sup>	1975	1982	1980	1981	1982 <sup>a</sup>
<b>Total</b>	761	942	909	804	100.0	100.0	24.0	-3.5	-11.5
<b>Main traditional exports</b>	629	744	783	717	87.8	89.1	18.2	5.3	-8.5
Tin concentrate and metallic tin	362	352	322	266	32.7	33.0	-3.0	-8.3	-17.4
Silver	47	107	58	25	5.3	3.1	127.7	-45.7	-56.9
Zinc	14	10	13	9	7.7	1.1	-28.5	30.0	-30.7
Tungsten	31	41	37	28	4.2	3.4	32.2	-9.7	-24.3
Antimony	26	24	30	14	3.2	1.7	-7.6	25.0	-53.3
Petroleum	4	-	-	-	21.3	-	-	-	-
Natural gas	105	221	337	384	8.2	47.7	110.4	52.4	13.9
<b>Main non-traditional exports</b>	62	86	31	25	12.0	3.1	38.7	-63.9	-19.3
Sugar	27	46	5	7	3.2	-	70.3	-89.1	40.0
Wood	17	21	12	5	2.1	-	23.5	-42.8	-58.3
Coffee	18	19	14	13	1.3	1.6	5.5	-26.3	-7.1
Other	70	112	95	62	0.2	7.7	60.0	-15.1	-34.7

Source: Central Bank of Bolivia.

<sup>a</sup>Preliminary figures.

Figure 2

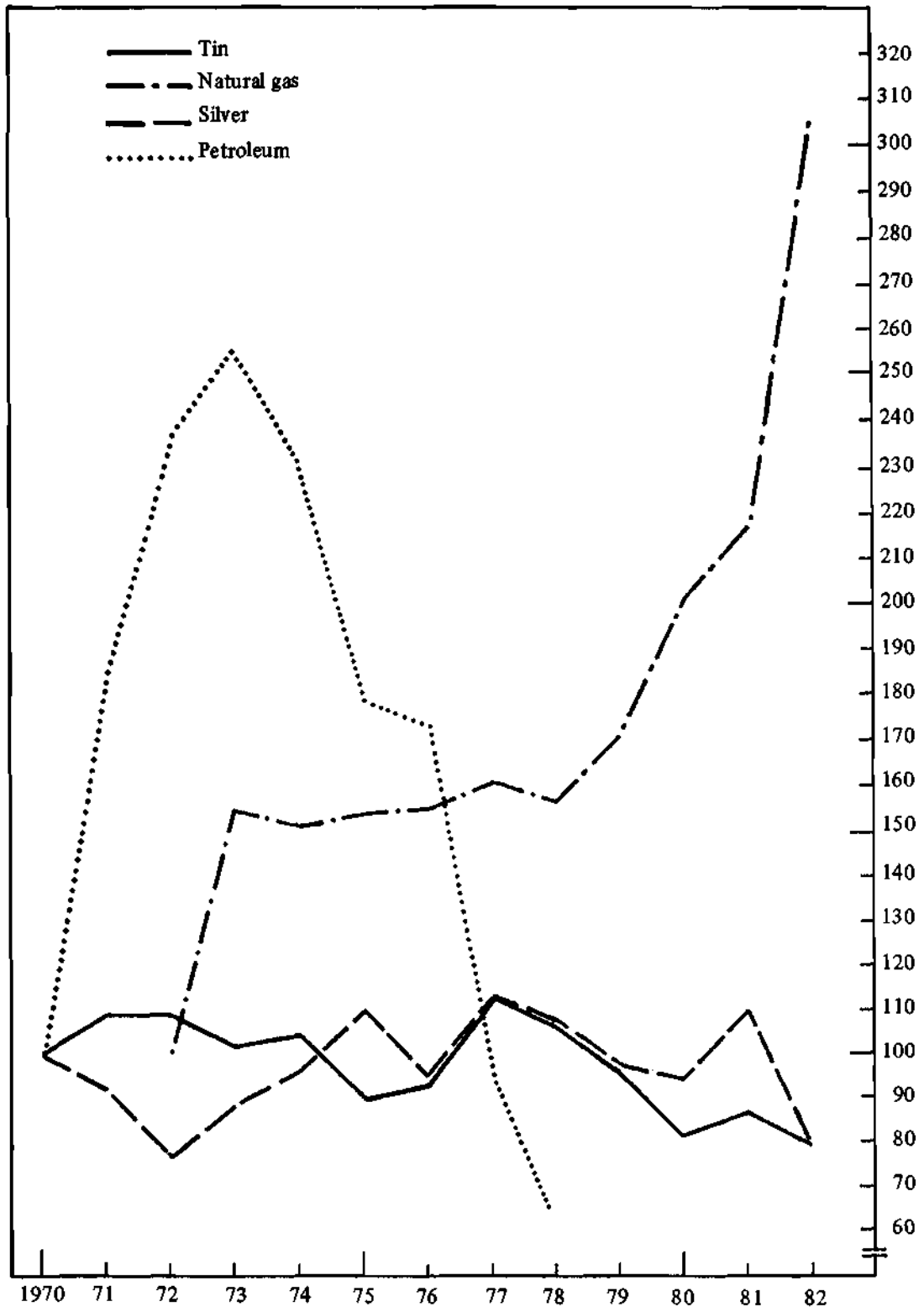
**BOLIVIA: INDEXES OF UNIT VALUES IN DOLLARS OF MAIN EXPORTS**



Source: Central Bank of Bolivia and the International Monetary Fund (IMF).

Figure 3

**BOLIVIA: INDEXES OF EXPORT VOLUMES OF SOME PRODUCTS**



Source: Central Bank of Bolivia and the International Monetary Fund (IMF).

imports of goods and services, then the decline appears to be over 9%. The most serious aspect, however, was that the price in constant values declined at a rate of 8.5% per year between 1979 and 1982 if it is calculated on the basis of wholesale prices, and by over 7% if the unit value of imports is used (see table 11 and figure 4).

The behaviour of silver was similar. In 1982 the value of silver exports, which had more than doubled in 1980 but which had fallen over 45% one year later, decreased 57% and reached its lowest point since 1978 (see table 10). This lower value of foreign sales of silver was due to the sharp reduction (28%) in the volume sold, which caused the export volume index to fall to its lowest level since 1972 (see figure 3). The 31% decline in the units value was also a significant factor in the decrease in exports (see figure 2).

Unlike the other mining sector products and non-traditional exports, which dropped off steeply, natural gas exports continued to climb, although more slowly. After doubling in 1980 and growing somewhat more than 50% the year after, they expanded 14% in 1982 (see table 10). This increase was made possible by the expansion of the volume exported, since the unit value decreased. The amount sold (mostly to Argentina) rose 40%, and even though the price went down nearly 20%; it was still the second highest since 1972 (see figures 2 and 3).

ii) *Imports of goods.* The value of imports of goods dropped dramatically for the reasons noted earlier. After decreasing over 16% in 1980 and stagnating in 1981, in 1982 imports again declined, this time by more than 37%. Such a rate of decline had not occurred in the trade in goods and services since at least 1971. The marked reduction in external purchases of goods contrasts particularly with their performance between 1973 and 1979, when they grew at an annual rate of 11% (see table 9).

The drop in the value of imports was primarily due to the abrupt decrease of 36% in the volume imported, although the 2.3% reduction in the unit value was also a factor. There was a large decline in the volume of external purchases for the fourth consecutive year, resulting in an average annual rate of decline of 19% between 1979 and 1982 (see table 9). These pronounced decreases had such a substantial effect on capital formation that the ratio of imports of capital goods to investments in machinery and equipment, which had been no less than 58% since 1973, reached 90% in 1978. However, this figure was lower in 1982.

Table 11

**BOLIVIA: AVERAGE PRICE OF TIN ON THE LONDON METAL EXCHANGE**

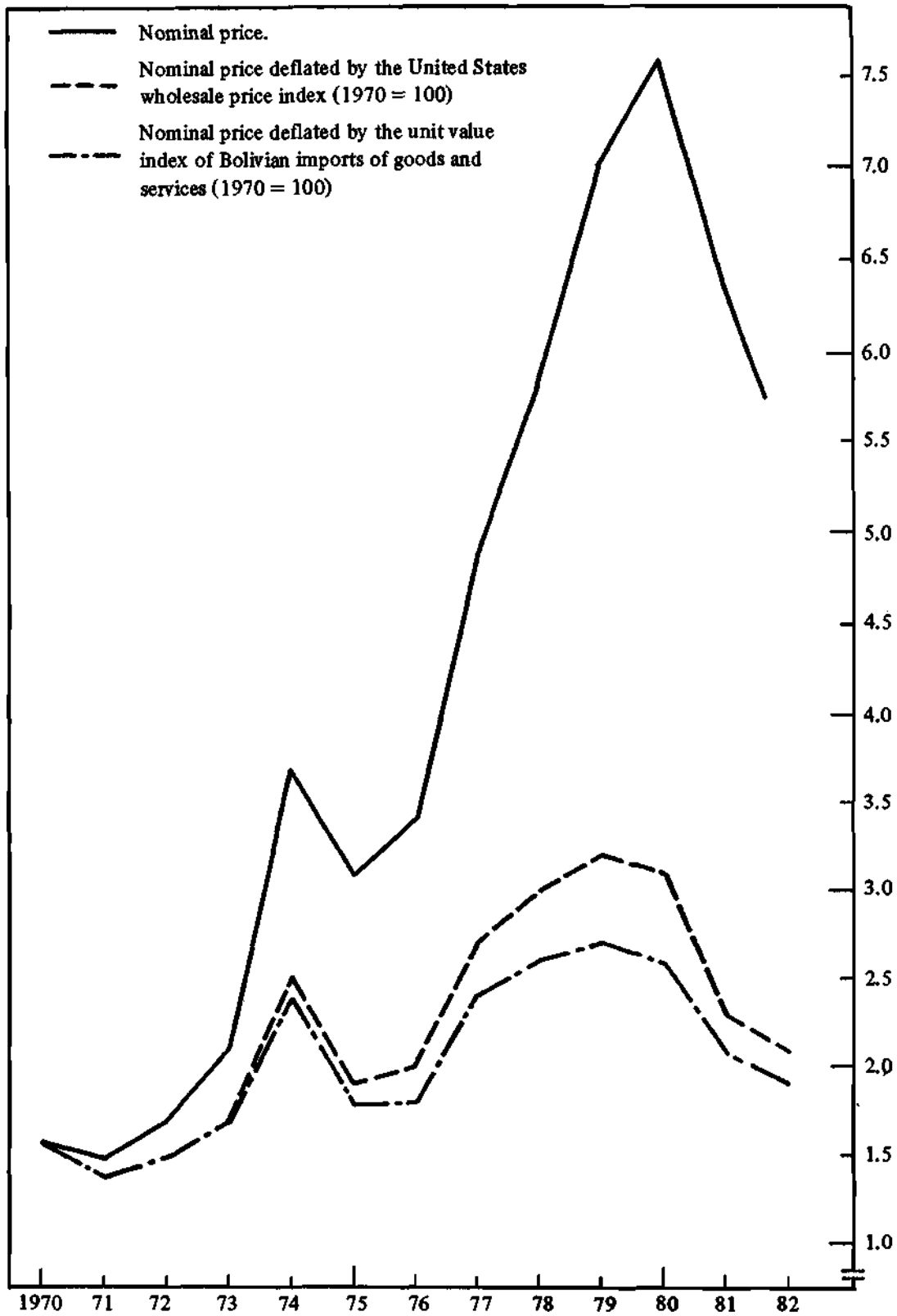
(Dollars per pound)

	Price index (1970 = 100)			Real price (1970 dollars)	
	Nominal price	United States wholesale price	Unit value of Bolivian imports of goods and services		
				(1/2)	(1/3)
	(1)	(2)	(3)		
1970	1.6	100.0	100.0	1.6	1.6
1971	1.5	103.3	102.4	1.4	1.4
1972	1.7	107.9	108.2	1.5	1.5
1973	2.1	122.0	124.2	1.7	1.7
1974	3.7	145.0	152.4	2.5	2.4
1975	3.1	158.4	171.6	1.9	1.8
1976	3.4	165.7	180.0	2.0	1.8
1977	4.9	175.9	198.5	2.7	2.4
1978	5.8	189.6	218.1	3.0	2.6
1979	7.0	213.4	256.0	3.2	2.7
1980	7.6	243.4	283.6	3.1	2.6
1981	6.4	265.4	294.3	2.4	2.1
1982	5.8	271.1	293.1	2.1	1.9

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



Figure 4  
**BOLIVIA: TIN PRICES**



As noted above, imports had exhibited high growth rates in recent years, but in 1980 they began to fall dramatically. This was not the case in 1981, but the trend was resumed in 1982.

There was an enormous decrease in all external purchases in this year. The largest drop was in imports of consumer goods, whose 65% decrease was one of the severest in a long time. In parallel with this, the contraction affected durable goods more intensely than non-durables. Whereas the former decreased 72%, the latter dropped nearly 59% (see table 12).

Imports of capital goods also plummeted; after increasing 40% in 1981, they fell 45% in the next year. As their evolution had not been very favourable in 1979 and 1980, the average rate of the decline for the four-year period was 15% annually which is a very considerable rate. The largest downturns were in imports of capital goods for agriculture and transport equipment; in the former case, purchases of machinery and equipment decreased by somewhat more than 32% per year between 1979 and 1982, which is surprising in view of the predominantly agricultural nature of the country's economy. Similarly, despite the difficulties of transporting products to market, purchases of transport equipment did not expand during the last four years either, although problems relating to road infrastructure were a significant contributing factor in that respect.

Imports of raw materials and intermediate goods were also down sharply; with a decrease of 33% with respect to 1981, in absolute terms their value was the lowest since 1978. In this case, too, the largest drop was in inputs for agriculture, which fell by nearly 60% in relation to 1981. The decreases of the other raw materials were somewhat less; 36% for fuels and 32% for industrial inputs. However, because the trends had been more favourable in both cases during preceding years, they offset the extremely poor performance of 1982. Finally, although purchases of construction materials dropped the least (26%), that decrease was of special significance in view of the housing deficit in the country and the high level of unemployment.

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

The combined effect of the changes in the unit values of exports and of imports was a decrease of over 11% in the terms of trade in 1982; this was the second consecutive year in which the terms of trade had deteriorated, in large part cancelling out their vigorous growth (19%) in 1980 (see table 9).

Finally, due to the steep decline in the terms of trade and the small rise in the volume exported, the purchasing power of exports of goods slumped by more than 11%, which was the second-largest drop since 1975, when it decreased 29%.

Table 12  
BOLIVIA: IMPORTS OF GOODS, FOB

	Millions of dollars				Percentage breakdown		Growth rates			
	1979	1980	1981	1982 <sup>a</sup>	1972	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>a</sup>
<b>Total</b>	674	563	779	430	100.0	100.0	2.2	-16.4	38.3	-44.8
<b>Consumer goods</b>	128	145	196	68	21.5	15.8	-4.4	13.2	35.1	-65.3
Durable	49	56	97	27	5.4	6.3	-3.9	14.2	73.2	-72.1
Non-durable	79	89	99	41	16.1	9.5	-4.8	12.6	11.2	-58.5
<b>Raw materials and intermediate goods</b>	229	209	288	194	40.4	45.9	6.5	-8.7	37.7	-32.6
Fuels	5	1	11	7	-	1.6	-16.6	-80.0	1000.0	-36.3
For agriculture	7	9	12	5	-	1.1	-12.5	28.5	33.3	-58.3
For industry	185	172	223	151	-	35.1	10.7	-7.0	29.6	-32.3
Construction materials	32	27	42	31	5.9	7.1	-8.5	-15.6	55.5	-26.2
<b>Capital goods</b>	314	207	289	159	34.5	37.0	2.2	-34.0	39.6	-44.9
For agriculture	15	11	18	4	1.8	1.0	-21.0	-26.6	63.6	-77.7
For industry	173	127	170	111	17.2	25.8	-9.8	-26.5	33.8	-34.7
Transport equipment	126	69	101	44	15.6	10.2	32.6	-45.2	46.3	-56.4
<b>Other</b>	3	2	6	9	3.6	2.0	-	-33.3	200.0	50.0

Source: National Statistical Institute, *Boletín de comercio exterior* No. 1.

<sup>a</sup> Preliminary figures.

d) *The balance on current account and capital movements*

During 1982 the current account deficit came to about US\$ 170 million, which was 50% below the 1981 level and similar to that of 1980 (see table 13). This was the twelfth year running of deficits in current transactions.

The performance of the services balance, was a very large part of the reason for this deficit, although the trade balance also contributed to it.

The merchandise trade balance yielded a record surplus of nearly US\$ 380 million, which was US\$ 150 million more than in 1981. As noted above, this favourable balance was essentially produced by the sudden drop of over 37% in imports. However, if it had not been for the slump of over 11% in exports, the surplus would have been even larger (see table 13).

It is helpful to separate factor services from the other components of the services balance in order to identify the origins of current account difficulties more easily. Thus, the country had a negative balance of US\$ 170 million in non-factor services, which lowered the deficit by US\$ 40 million compared with the year before,

As a consequence of the trade in goods and non-factor services, the trade balance showed a surplus of US\$ 208 million, which was significantly greater than the 1981 figure of US\$ 17 million.

In view of the above, it can be concluded that many of the problems in the external sector of the Bolivian economy stem from factor services.

As unrequited private transfer payments were of the same order of magnitude as in previous years, the deficit and its origin —once again— in factor services (payments of profits and interest). Payments of profits only came to US\$ 26 million, but in spite of their small amount they carried on the tradition begun in 1971 —and only broken in 1975 and 1976— by which the credit/debit balance of the country *vis-à-vis* the rest of the world works against Bolivia.

The basic problem in connection with the current account, however, as in previous years, stemmed from interest payments. In 1982, US\$ 366 million had to be paid out under this heading (US\$ 41 million more than in 1981), which was equivalent to 40% of the exports of goods and services. This represented an acceleration of the line of evolution which had begun in the preceding decade and which became much more intense between 1979 and 1982; in this four-year period, US\$ 1.1 billion had to be paid out, whereas the value of total exports stood at slightly over US\$ 3.8 billion (see table 13). In other words, the interest payments made during those four years equalled almost 30% of the value of all exports of goods and services. As was also true of payments of profits, 1982 was the twelfth year running in which Bolivia had a debit balance *vis-à-vis* the exterior.

In the years preceding 1982, the deficit on current account was usually offset by the foreign exchange inflows on the capital account. This tradition was broken in that year, however, and there were substantial changes in the trends of both long- and short-term capital movements.

For the first time since 1971, in 1982 long-term capital exports were greater than imports, which produced an outflow of US\$ 11 million in foreign exchange. Previously, in 1981, there had been a surplus of no less than US\$ 473 million, which was almost double the figure for 1980. A fact which underlines the radical nature of the change in the trend of capital movements in 1982 is that, out of all the economy's long-term capital imports since 1971, 43% —US\$ 971 million— took place between 1979 and 1981.

To go into more detail for a moment with regard to long-term capital movements, the first element which should be brought out is the low level in 1982 of direct investment, which dropped almost 60% with respect to 1981 to only US\$ 25 million. At all events, the impact of this type of investment on the balance of payments has customarily been very limited.

The same cannot be said, however, of "other long-term capital" movements —an entry which has traditionally denoted the origin of the economy's foreign exchange income. Between 1979 and 1981 alone, US\$ 870 million entered the country under this heading (i.e., almost as much as was exported in 1979 or 1982), and capital imports in 1981 were nearly twice the 1980 level. During 1982, however, there was a complete turnabout in this trend: outflows exceeded inflows by US\$ 36 million, thereby breaking with the pattern which had been traditional in this entry on the capital balance since 1971.

With respect to the economic agents whose operations are reflected in this account, the two most important events in the course of 1982 were the following: the long-term capital inflows to the "official sector" and "other sectors" decreased substantially and, in the first case, yielded a minus

Table 13

**BOLIVIA: BALANCE OF PAYMENTS**

(Millions of dollars)

	1977	1978	1979	1980	1981	1982 <sup>a</sup>
<b>Balance on current account</b>	<b>-131</b>	<b>-353</b>	<b>-399</b>	<b>-166</b>	<b>-312</b>	<b>-166</b>
Trade balance	-64	-242	-226	90	17	208
Exports of goods and services	695	703	855	1 043	1 012	913
Goods FOB	634	627	762	942	909	804
Real services <sup>b</sup>	61	76	93	101	103	108
Transport and insurance	12	15	29	32	34	26
Travel	29	35	37	40	36	40
Imports of goods and services	759	946	1 081	953	994	704
Goods FOB	579	724	815	680	680	425
Real services <sup>b</sup>	180	222	266	273	314	279
Transport and insurance	103	140	177	168	196	82
Travel	38	41	45	52	50	40
Factor services	-69	-116	-183	-264	-343	-389
Profits	-1	-18	-28	-19	-29	-26
Interest received	4	1	2	14	15	6
Interest paid	-69	-96	-155	-256	-325	-366
Others	-2	-3	-3	-3	-3	-4
Unrequited private transfer payments	2	5	11	8	13	15
<b>Balance on capital account</b>	<b>198</b>	<b>269</b>	<b>417</b>	<b>19</b>	<b>319</b>	<b>209</b>
Unrequited official transfer payments	13	22	41	48	26	34
Long-term capital	325	293	257	252	473	-11
Direct investment	-1	12	18	41	60	25
Portfolio investment	-	-	-	-3	-	-
Other long-term capital	326	281	240	213	413	-36
Official sector <sup>c</sup>	169	114	89	264	310	-28
Loans disbursed	221	326	149	334	328	187
Amortization payments	-42	-203	-57	-56	-53	-215
Commercial banks <sup>c</sup>	-	-	77	-24	26	-11
Loans disbursed	-	-	87	13	10	24
Amortization payments	-	-	-10	-21	-6	-35
Other sectors <sup>c</sup>	157	167	74	-26	77	3
Loans disbursed	238	275	151	94	96	94
Amortization payments	-81	-108	-77	-90	-55	-91
Short-term capital (net)	-61	40	147	-20	148	-36
Official sector	42	-53	192	-29	200	69
Commercial banks	38	51	-11	-19	6	16
Other sectors	-141	42	-34	28	-58	-121
Errors and omissions	-79	-35	-28	-260	-329	221
<b>Global balance<sup>d</sup></b>	<b>67</b>	<b>-84</b>	<b>19</b>	<b>-147</b>	<b>6</b>	<b>43</b>
Total variation in reserves (minus sign indicates an increase)	-44	55	-24	136	-23	-43
Monetary gold	-8	-2	-2	-2	-3	-2
Special Drawing Rights	1	-11	18	-	-	-
IMF reserve position	-2	-3	12	-	-	-
Foreign exchange assets	-60	56	-39	72	6	-56
Other assets	24	-4	-14	6	-17	-
Use made of IMF credit	-	20	-	61	-9	15

Source: 1977-1981: International Monetary Fund, *Balance of Payments Yearbook*; 1982: ECLA, on the basis of official data.<sup>a</sup>Preliminary figures.<sup>b</sup>Real services also include other official and private transactions, but not factor services.<sup>c</sup>In addition to loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities.<sup>d</sup>The global balance is the sum of the current account balance plus the balance on capital account. The difference between total variation in reserves of opposite sign and the global balance represents counterpart items: monetization or demonetization of gold, allocation or settlement of Special Drawing Rights, and variations due to revaluation.

value. The "official sector" —made up of the central government and the Central Bank— went from receiving an income of US\$ 310 million in 1981 to paying out a sum of US\$ 28 million in 1982 to other countries because the amount of the loans received plunged 43% and amortization payments rose by US\$ 162 million, representing an increase of no less than 305%.

The "other sectors" entry —which covers State and private enterprises— turned in quite a similar performance, although it also had its distinctive characteristics. Capital inflows virtually disappeared, in that they amounted to only US\$ 3 million —US\$ 74 million less than in 1981. This sudden drop was the second largest since 1971; the largest decrease had been recorded in 1980, when there was a debit balance of US\$ 26 million. With regard to the evolution in 1982 of loans and amortization payments, the loans received were almost entirely used, as in 1980, to pay off loans from previous years, and thus the net inflow was virtually nil. Finally, in 1982 the commercial banks also paid out more in amortization payments than they received, which was the reason why there was a net exportation of capital in that year.

The behaviour of short-term capital during 1982 also attested to the economy's tendency to act as a net capital exporter through its repayment of credits received. Overall, the short-term account registered an outflow of capital of US\$ 36 million. In this case, the "other sectors" reduced their debit balance, since they made payments of US\$ 121 million, which was somewhat more than double the amount of amortization payments made in 1981. In contrast, the "official sector" and "commercial banks" continued to increase their external indebtedness, although the amount of the loans received was —especially in the case of the central government and the Central Bank— substantially lower than in 1981.

As a result of all the above, the global balance showed a capital inflow of US\$ 43 million. It should be emphasized that the spectacular turnabout in the "errors and omissions" entry played a part in this result. This entry, which had traditionally shown increasingly large capital outflows, registered a capital inflow of US\$ 220 million in 1982. Because this account serves to adjust the difference between total income and payments and the year-end variations in reserves, it may be concluded that this foreign exchange income was derived from transactions which were not reflected in the records of the Central Bank.

#### e) *The external debt*

The external debt was another serious difficulty which had to be confronted by the economy during 1982. Although problems related to its management had been accumulating in recent years, their origins go back to the 1970s, especially the 1974-1978 period. Breaking point was reached, however, in 1982, when the country declared itself in default, thereby acknowledging its inability to continue paying the debt service. Thus, "capital and interest payments in the amount of approximately US\$ 700 million were not made".<sup>7</sup>

In keeping with the above, the main indicators of external indebtedness showed negative variation rates in 1982, which was an accurate reflection of the economy's inability to meet its external obligations as a result of the shortage of foreign exchange and of the slower inflow of external financing. Disbursements in 1982 dropped 60% and thus fell to their lowest level since 1973. This consolidated the trend which began in 1979 and which has persisted ever since, with the exception of 1980. This behaviour is particularly in contrast to what occurred between 1974 and 1977; whereas the growth rate of the disbursed debt had been no less than 67% annually during those years, it declined at an annual rate of 31% between 1979 and 1982 (see table 14).

On the other hand, the amount of the debt during the first nine months of 1982 was slightly down from its level at the end of 1981.

There was naturally a very close correspondence between the disbursements of funds and the year-end balances for each year. The highest growth rates in the outstanding debt thus occurred between 1974 and 1977, when the pace of growth accelerated markedly to 20% annually, on average. In contrast, between 1979 and 1982 the growth rate of the outstanding balance slowed to only 9% per year (see table 14).

In line with the above, in the first nine months of 1982 the debt service also expanded at the more moderate rate of only 10%. The trend in the economy toward a progressive increase in the debt

<sup>7</sup>See the statements of the Minister of Planning and Co-ordination in *Presencia*, 4 February 1983.

service changed as from 1979. This turnaround —with a sharp drop (26%) in the payments for that year and comparatively slow increases thereafter— should not be interpreted as the result of an actual reduction in external obligations. On the contrary, if it were not for the fact that the first renegotiation of the debt was undertaken in 1979, the upward trend in debt service payments would have lasted until 1982, when the second renegotiation process was begun.

Both the short- and long-term evolution of amortization and interest payments were in keeping with the trends described above. During 1982 there was a 5% drop in the repayment of loaned capital, thus following the pattern begun in 1979. Between 1974 and 1978, although there were still some fluctuations, amortization payments grew at very considerable rates, the most striking rate being the increase of almost 170% in 1978. Starting in 1979, however, repayments of principal began to fall spectacularly (as a consequence of the external sector's continuing difficulties rather than of a reduction in its obligations to the exterior), finally reaching a point in 1982, as already noted, at which payments were suspended and the renegotiation process was begun.

The pattern followed by interest payments was slightly different, however. Although it is true that during the entire period under consideration interest payments increased at considerably high rates, in 1981 and 1982 the pace of acceleration was much slower. Thus, after rising by more than 36% annually between 1974 and 1980, they increased by only 11% in 1981 and 18% in 1982. As is also true of amortization payments, it is clear that these rates would have been higher, especially in 1982, if it had not been for the sheer impossibility of paying the outstanding interest.

A noteworthy element which emerges from an analysis of the behaviour of the debt during the period between 1973 and 1982 is the trend in the annual debt service *vis-à-vis* the disbursements made each year. Until 1977, between 36% and 60% of the yearly disbursements went on the amortization of loans and the payment of accrued interest (except in 1973, when the figure was nearly 100%), but this percentage began to rise sharply in 1978. Since that year, the lowest proportion between the debt service and disbursements has been 65%, and an unprecedented situation was reached in 1982, when amortization and interest payments were almost twice as high as the amount of new disbursements (see table 14).

Table 14  
BOLIVIA: EXTERNAL PUBLIC DEBT

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982 <sup>a</sup>
	<b>Millions of dollars</b>									
Contracted, at year-end	...	...	...	1 979	2 442	3 102	3 498	3 642	3 840	...
Disbursed during the year	56	129	171	295	439	541	323	430	354	119
Year-end balances	707	786	883	1 107	1 458	1 762	1 941	2 220	2 542	2 522
Debt service	53	76	92	111	161	355	262	280	278	221
Amortization payments	35	54	65	71	101	271	144	122	102	73
Interest	18	22	27	40	60	84	118	158	176	148
	<b>Growth rates</b>									
Contracted, at year-end	...	...	...	...	23.3	27.0	12.7	4.1	5.4	-
Disbursed during the year	...	130.3	32.5	360.9	48.8	23.2	-40.2	33.1	-17.6	-61.3
Year-end balances	...	11.1	12.3	25.3	31.7	20.8	10.1	14.3	14.5	0.5
External public debt service	...	43.3	21.0	20.6	45.0	120.4	-26.1	6.8	-0.7	9.9
Amortization payments	...	54.2	20.3	9.2	42.2	168.3	-46.8	-15.2	-16.4	-5.1
Interest	...	22.2	22.7	48.1	50.0	40.0	40.5	33.9	11.4	18.4
	<b>Percentage ratios</b>									
External public debt service/disbursements	94.6	58.9	53.8	37.6	36.6	65.6	81.1	65.1	78.5	185.7
External public debt service/exports of goods and services	18.4	12.8	18.9	17.8	23.1	50.4	30.6	26.8	27.4	-

Source: Central Bank of Bolivia.

<sup>a</sup>The data refer to the period January-September. Rates have been calculated with respect to the same period of the preceding year.

Table 15

## BOLIVIA: EXTERNAL PUBLIC DEBT, BY TYPE OF DEBTOR

(Millions of dollars)

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982 <sup>ab</sup>	Annual growth rates 1975-1980
<b>Public debt, year-end balances</b>											
Central government, local government and other public sector institutions	410	475	516	664	846	963	1 034	1 282	1 476	1 348	17.9
Public enterprises	241	244	301	373	535	679	775	781	811	1 079	21.3
Specialized banking sector	44	53	52	56	65	108	130	156	254	95	19.7
<b>Servicing of the public debt</b>											
Central government, local government and other public sector institutions	15	23	26	52	70	247	116	131	123 <sup>b</sup>		33.6
Public enterprises	32	46	47	50	79	96	134	131	122 <sup>b</sup>		19.0
Specialized banking sector	3	5	17	8	10	11	18	20	116 <sup>b</sup>		25.9

Source: Central Bank of Bolivia.

<sup>a</sup>End of September.<sup>b</sup>Includes adjustments.

At this point, it is important to identify the sectors of economic activity that have played a predominant role in the borrowing which has been undertaken during recent years.

Firstly, the rates of indebtedness of the various economic agents between 1975 and 1980 were relatively similar. Secondly, their magnitude is striking, in that it fluctuated around 20% per year. Lastly, in absolute terms the highest level of indebtedness consistently corresponded to the central government, local government and other entities of the public sector. This group of economic agents was followed by the public enterprises, with the specialized banking sector in last place (see table 15).

These sectors display both similarities and differences, however, with regard to the servicing of the debt. The first element which should be brought out is the high annual growth rate of the debt service. In addition, the specialized banking sector's amortization and interest payments rose much more rapidly than those of public enterprises although, in absolute terms, the latter resorted to external financing more than the banking sector did (see table 15). This was due to the fact that the interest payments made by the banking system rose very rapidly (51% annually between 1975 and 1980), whereas the interest payments of public enterprises rose at the somewhat slower rate of 37% per year. On the other hand, amortization payments increased at relatively similar rates in both cases during this period.

Finally, the most important aspects with regard to creditors are the following. Firstly, for most of the period under consideration, private international banks were the financial intermediary which made the greatest amount of funds available to the country's economy; between 1974 and 1978, the credits from private banks which were actually disbursed by Bolivia fluctuated between 47% and 57% of the total. This trend began to weaken slightly in 1979, and dropped off abruptly in 1981 and 1982. During those two years, private international banks provided only 12% of the external resources (see table 16).

Secondly, in absolute terms —with the exception of the period from 1973 to 1975 when the amount of suppliers' credit was relatively great— the two main sources of external financing were bilateral credits and, particularly, credits from multilateral organizations, which accounted for 60% of the total in 1981.

To some degree, suppliers' credit followed a pattern similar to that of the credits granted by the international banking system. After representing a significant percentage of external financing during the three-year period 1973-1975, its rate of growth began to drop off considerably in 1975 and

reached a minimal value in 1980 and 1981 —although it showed a sharp upturn in 1982. The exacerbation of the overall situation in the Bolivian economy and the difficulties confronted by its external sector, especially during the last two years, caused both types of financial intermediaries to reduce markedly the amount of resources they made available to the country (see table 16).

As already mentioned, a new renegotiation of the debt had to be undertaken in 1982. After several months of negotiation, new agreements for the deferral of payments were signed with the governments of some countries, such as Argentina, Brazil and Peru. In addition, talks were initiated with the private international banking system, with which the country had a debt of US\$ 750 million —US\$ 450 million of which had already been renegotiated. Talks were held concurrently with the IMF with a view toward obtaining an expanded credit agreement; however, by the end of the year, no agreement had been reached.

Finally —apart from some minor credits already received by the country in the course of the year— after the installation of the new government the bilateral assistance funds which the United States Government had held back since July 1980 were unfrozen.

#### f) *The exchange rate*

One of the economy's major problems throughout 1982 was the extreme instability of the exchange rate.

The ratio of Bolivian pesos to the dollar had remained fixed since 1979, when the peso had been devalued for the last time. Since domestic inflation had been higher than the international rate during that and following years, maintaining that exchange rate had been tantamount to subsidizing foreign products to the detriment of domestic products, and this had led to a sharp increase in imports. Moreover, as mentioned above, several external loan repayments were to fall due in 1982, and by the end of 1981 the authorities had already stated that "the flow of foreign exchange that was generated was not sufficient to meet the debt service and import needs".<sup>8</sup> In the same group of statements,<sup>9</sup> it was noted that the fiscal year had closed with foreign exchange reserves of slightly over US\$ 1 million, and the question of establishing a floating exchange rate was raised.

As of that moment, one of the main topics of discussion in economic and entrepreneurial circles was the advisability or inadvisability of establishing a floating exchange rate. From the very beginning, the lack of agreement among various sectors in the country's economy with regard to this possibility was apparent; in addition, this spurred speculation regarding the dollar and forced entrepreneurs to purchase this currency on the parallel market because of the scarcity of foreign exchange. Moreover, since taxes were based on the official exchange rate, the difference between the latter and the open market rate was seen as a windfall profit.

Table 16

### BOLIVIA: DISBURSED EXTERNAL DEBT, BY TYPE OF CREDITOR

(Millions of dollars)

	1973 <sup>a</sup>	1974 <sup>a</sup>	1975 <sup>a</sup>	1976	1977 <sup>b</sup>	1978 <sup>b</sup>	1979 <sup>b</sup>	1980	1981	1982 <sup>c</sup>
Multilateral agencies	18	25	33	40	61	72	83	160	99	40
Bilateral credits	12	26	8	81	66	64	54	77	208	45
Private foreign banks	12	62	82	154	234	305	97	182	41	15
Suppliers	13	17	50	18	44	41	56	7	4	15
Other	-	-	-	-	31	56	31	1	1	1

Source: Central Bank of Bolivia.

<sup>a</sup>Some of the credits received during these years were granted by a number of creditors, but it was not possible to determine the amount of credit provided by each one. Here, the total amount of the credit is attributed to the largest institutional lender.

<sup>b</sup>The breakdown of creditors for these years does not specify the creditors of the specialized banking system; they are included under the heading "others".

<sup>c</sup>Preliminary figures, up to September.

<sup>8</sup>See the statements of the President of the Central Bank of Bolivia in *Presencia*, 31 December 1981.

<sup>9</sup>*Ibid.*



Nevertheless, the authorities decided to devalue the peso and to continue with a fixed exchange rate.

On 5 February 1982, as part of an extensive economic package the following steps were taken:

- i) The new rate of exchange between the Bolivian peso and the dollar was set at 43.13 pesos to the dollar, which was an increase in the exchange rate of 76%;
- ii) The 1.6% tax on the sale of foreign exchange and the 2% tax on revenue stamps were eliminated;
- iii) The surrender to the Central Bank of 100% of the foreign exchange obtained from exports by the public and private sectors continued to be obligatory, the only exemptions being operating expenses and royalties paid in foreign currency;
- iv) Both the banking system and the exchange houses were prohibited from depositing foreign exchange provided by the Central Bank in accounts outside the country;
- v) Entities of the central government, as well as decentralized, quasi-autonomous and local bodies, were prohibited from opening or holding deposits or other financial assets in foreign currency, either inside or outside the country, and were required to conduct foreign currency transactions through the Central Bank;
- vi) Finally, the obligation of the banking system and exchange houses to remit the daily receipts from the purchase and sale of foreign exchange to the Central Bank was reaffirmed.

Nevertheless, the 76% drop in the value of the peso did not put an end to speculation regarding the dollar; on the contrary, it spurred substantial price increases, hoarding and the concealment of goods.

Under these circumstances, the exchange policy was completely overhauled scarcely six weeks later. The new provisions introduced the following innovations in this regard:

- i) Two foreign exchange markets —an official market and an open market— were established, thereby acknowledging the transactions which had already been taking place on the parallel market for quite some time;
- ii) Transactions on the official market were to be in accordance with the following principles:
  - the official market would be administered by the Central Bank and would be employed only for the external trade and external debt service obligations of the central government and of the Central Bank;
  - the foreign currency financial resources for the official market would be provided from the external loans obtained by the central government and the Central Bank;
  - the foreign currency surpluses of public-sector export companies, as well as all the capital inflows from the exterior obtained by these companies and other entities of the public sector, would be channelled to the open market via the Central Bank, which would act as the financial agent for those companies;
- iii) The operation of the open exchange market was established according to the following terms:
  - the open exchange market would be formed by the private banking system, State banks and the exchange houses;
  - it would meet the foreign exchange needs of the private sector and of that part of the public sector not supplied by the official market;
  - the transactions of commercial banks, the Banco del Estado and the exchange houses would be conducted with their own foreign exchange and with the foreign currency obtained by them from internal and external sources;
  - surpluses held in foreign currency by the private export sector would be channelled directly to the open market;
  - finally, a 1.8% tax on foreign exchange sales, which would go to the Central Treasury of the nation, was established for both the official and the open markets;

- iv) However, the most important of all the measures adopted on that occasion was the change in the rule whereby it was mandatory to surrender 100% of the foreign exchange derived from exports by the public and private sectors to the Central Bank. As of that date, all institutions, companies, associations and other natural and artificial persons of the private and public sectors were required to surrender only 40% of the net value of their exports to the Central Bank. It was also made compulsory for them to pay taxes, royalties and other levies on exports in dollars. Some of the tax incentives for exports established in late 1981 were also eliminated at that time.

During the final quarter of the year, after the change of government had taken place, two important provisions were adopted due to the fact that the situation in the exchange market was completely out of control and because of the extremely negative effects which the currency float (see table 17) had had on the entire economic system. Firstly, what was known as the "de-dollarization" of the economy was carried out. Secondly, after another devaluation, a single fixed exchange rate was reinstated, thereby eliminating the dual exchange market system.

This "de-dollarization of the economy" was decreed in early November. In reference to the need for these emergency measures, the corresponding decree states: "as a consequence of the establishment of a floating exchange rate against the dollar, debts owed to private banks which are denominated in foreign currency or in national currency with an escalator clause have increased to such a great extent that it is virtually impossible for borrowers to meet their obligations...this inability to meet payments primarily affects strategic sectors of the economy such as mining, energy, industry, commerce, crop-farming, stock-raising and transport, whose financial difficulties, in turn, affect the national economy as a whole", all of this being caused by "the dollarization of the loans from the banking system and the institution of a floating exchange rate against the dollar."<sup>10</sup> In view of all the above, it was decided that:

i) All overdue obligations arising out of operations, contracts or the servicing of bank credits or private loans contracted in foreign currency, or in national currency with a dollar clause, were converted into Bolivian pesos at the weighted exchange rate as of that date of B\$ 145.40 per dollar, with the exception of contracts related to the low-cost housing programme and the Central Savings and Loan Fund for Housing, which would be subject to separate regulations.

ii) All overdue obligations incurred by natural and/or legal persons residing in the country as a result of acts, contracts or operations involving private, commercial or bank loans were to be paid solely in national currency at the above-mentioned exchange rate.<sup>11</sup>

Finally, as noted earlier, two days after the "de-dollarization" a fixed exchange rate was reinstated for all transactions —after another devaluation which, in this case, amounted to a 354% increase in the exchange rate. The package of measures adopted by the Government included the following:

- A single exchange rate of 196 Bolivian pesos to the dollar was adopted;
- The surrender to the State of 100% of the net value of public- and private-sector exports was once again made compulsory;

<sup>10</sup>See *Gaceta Oficial de Bolivia*, Executive Decree No. 19249, 3 November 1982.

<sup>11</sup>*Ibid.* The development of these guidelines took the following forms: a) term deposits in foreign currency made by natural and/or legal persons residing in the country, as well as overdue commitments arising out of loans granted from these deposits to those same persons by the banks of the national financial system, were converted into Bolivian pesos at the weighted exchange rate as of that date of B\$ 145.40 to the dollar, for repayment at that exchange rate; b) debts denominated in national currency which included a dollar clause must be repaid only in the amount of the national currency received, the dollar clause thereby being rendered null and void; c) existing overdue commitments incurred in the course of transactions, contracts and banking services denominated in foreign currency payable to the banks involving resources from foreign financial institutions at that time were converted into Bolivian pesos at the weighted exchange rate of that date and were to be paid by the debtors at the exchange rate of B\$ 145.40 to the dollar; d) as of that date all transactions, legal acts and contracts denominated in foreign currency or in national currency with a dollar clause between natural and/or legal persons residing in the country were prohibited, with the exception of transactions, contracts and services of the banking system with the exterior; e) all commitments cited in articles 1 and 2 of this decree which had not matured as of that date would be paid exclusively in national currency at the single exchange rate prevailing at the time of payment; f) as of that date, financial institutions were prohibited from accepting deposits in foreign currency.

Table 17

## BOLIVIA: EVOLUTION OF EXCHANGE RATES

	Nominal exchange rates <sup>a</sup> (pesos per dollar)		Indexes of effective real exchange rate <sup>b</sup>	
	Official exchange rate <sup>c</sup>	Benchmark exchange rate	Exports	Imports
1975	20.02	-	96.6	102.7
1976	20.02	-	102.8	108.4
1977	20.02	-	99.1	106.4
1978	20.02	-	102.8	110.3
1979	24.53	-	104.8	107.5
1980	24.53	-	100.0	100.0
1981	24.53	-	72.2	75.2
1982			126.1	130.9
January	24.53	-	67.7	70.6
February	23.13	43.13	101.1	105.0
March	43.18	81.00	117.9	122.3
April	43.18	78.00	125.0	129.4
May	43.18	87.50	122.6	128.3
June	43.18	101.68	131.5	133.5
July	43.18	150.81	127.4	134.1
August	43.18	179.54	135.2	141.6
September	43.18	229.17	137.3	142.2
October	43.18	225.09	132.6	136.4
November	196.00	-	114.5	118.7
December	196.00	-	133.6	139.0

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

<sup>a</sup> Exchange rates used by the banking system to convert foreign currency into national currency.

<sup>b</sup> These are the indexes of the real official exchange rate for the peso [except during March-October 1982, when a real rate obtained from the average of the official rate (weighted 40%) and the open-market exchange rate (weighted 60%) was in use] *vis-à-vis* the currencies of trading partners, the latter, in turn, being weighted according to the relative size of exports or imports, as the case may be, to or from those countries. With respect to the methodology and sources used to calculate the effective real exchange rate, see the statistical appendix of ECLA, *Economic Survey of Latin America, 1981*, United Nations publication, Sales No. E.83.II.G.2.

<sup>c</sup> Selling rate for spot foreign exchange transactions set by the Central Bank for exports of goods only.

- The system of foreign exchange control was also introduced;
- All operations involving foreign exchange were to be conducted exclusively by the Central Bank;
- Natural and legal persons would be allowed to sell foreign exchange only to the Central Bank, to the Banco del Estado or to legally authorized agents;
- The banking system, the exchange houses, hotels and travel agencies would only be allowed to buy foreign exchange derived from sources other than exports of goods and services at the official exchange rate. In this case, an 8% premium for the vendors was established;
- The sale of foreign exchange to any component of the financial system other than the Central Bank was strictly prohibited;
- The Exchange Policy Commission was formed to monitor foreign exchange holdings and to allocate them for imports according to guidelines established by the Government;
- Finally, provisions were established to regularize the situation of exporters who were required to surrender the foreign exchange from their external sales and who had not done so at the proper time.

All of the above points up the abrupt changes to which the exchange market was subject, and their repercussions on the entire economic system. Despite the fact that, for obvious reasons, the available information is incomplete, it can be seen that there were truly violent fluctuations in the

exchange rate, in that the difference between the two exchange rates, according to the information available, exceeded 430% in September (see table 17).

Given the above situation and the disproportionate increase in inflation during 1982, the effective real exchange rate might have been expected to plummet, as it did in 1981 when the export and import indices fell 28 and 25 points, respectively. Nevertheless, as a result of the two devaluations, the indices of the effective real exchange rate recovered notably in 1982, reaching their highest levels since 1970. The turnaround in the trend was astounding. Until January, the indices had continued the decline which began in 1981; however, from the time of the February devaluation until December, they rose to such an extent that the export index climbed no less than 54 points, and the import index rose 56 points (see table 17).

#### 4. Prices and wages

##### a) *Price trends*

One of the most outstanding aspects of the economy's behaviour in 1982 was the evolution of prices. It would be difficult to find any previous fiscal year during which inflation was so severe or in which so many different measures were implemented in this sphere, at least during the first part of the period being analysed.

The first and most significant event was the move from double-digit to triple-digit inflation. The December-December variation in the consumer price index rose from 25% in 1981 to nearly 300% in 1982, which was a twelvefold increase over the 1981 and 1980 rates, and more than six times higher than the 1979 rate. All the components of the index rose by similar amounts, although the largest variation was in the category of food, which increased more than 313%. The variation between annual averages of consumer prices rose less; they increased 123%, which was a fourfold increase over the 1981 rate of 32%. The behaviour of food prices as measured by the annual average was very similar; the item which rose the most was "miscellaneous products", whose rate of expansion increased sixfold between 1981 and 1982 (see table 18).

Wholesale prices exhibited even higher increases than consumer prices. The December-December variation was over 400%, which meant that the inflation rate was 15 times higher than in 1981. If the increase is measured on the basis of the annual averages, it was nearly 230% (see table 18). All of the components of the index exhibited considerable increases, the most remarkable rise being in imported products; from December to December, these prices rose by the extraordinary figure of 540%, which was a sixfold increase. This exceptional rise was due, firstly, to the progressive deterioration of the exchange rate. the two devaluations of 1982 —the first one, in February, revalued the United States dollar by 76% and the second one, in November 1982, raised the dollar/peso ratio by 354%— had a very close connection to the acceleration of the inflation rate. Some other events which have already been mentioned were also factors in this: the currency was allowed to float against the United States dollar as from March, which caused severe disturbances in the economic system; the shortage of foreign exchange for imports also played a decisive role in the size of these increases, and finally, hoarding the speculation —regardless of whether they involved essential or non-essential goods— were also not unrelated to the rise in prices.

The foregoing factors account for the sharp increases in import prices. Other factors related to the internal workings of the economy also played a decisive role in the overall rise in prices: the runaway expansion of the means of payment —an increase of over 150% with respect to 1981— as a result of the ongoing deficits of the central government, and the sharp drop in total supply which, as noted above, fell nearly 12% during 1982. Both of these factors are a manifestation of the major structural malfunctions of the economy, which rendered the short-term measures to reduce or slow down price increases insufficient and ineffective.

Chronologically, during the first three months of the year the rate of inflation as measured by the consumer price index was 28%, which was higher than the rate for the entire preceding year (25%). Two months later, in May, the rate had doubled, and by July/August the increase was fourfold. In seven out of the twelve months of the year, prices increased at a monthly rate of over 10%. In a different vein, it is interesting to note that although the Bolivian peso was devalued in February and November, these were not the months in which the greatest increases occurred (see figure 5). Wholesale prices followed a very similar pattern.

Table 18

## BOLIVIA: EVOLUTION OF DOMESTIC PRICES

	1976	1977	1978	1979	1980	1981	1982
<b>Variation December - December</b>							
Consumer price index	5.5	10.5	13.5	45.4	23.9	25.1	296.5
Food	5.3	10.3	14.2	45.4	22.6	26.6	313.2
Wholesale price index	11.4	9.5	18.6	43.5	35.2	27.9	406.1
Imported products	14.5	14.1	24.5	27.9	36.4	37.2	543.0
Domestic products							
Agricultural products	13.4	12.0	29.0	44.4	36.2	14.4	274.6
Manufactures	8.8	5.6	9.1	53.5	33.8	31.1	395.8
<b>Variation between annual averages</b>							
Consumer price index	4.5	8.1	10.3	19.7	47.2	32.1	123.5
Food	2.4	8.1	10.0	18.6	47.5	35.2	123.9
Housing	9.5	12.0	11.3	21.3	47.8	32.7	100.4
Clothing	10.9	4.0	8.8	15.9	42.6	24.0	129.0
Miscellaneous	4.2	8.4	13.0	28.8	49.5	23.0	142.0
Wholesale price index	6.6	10.2	15.6	23.9	49.3	35.5	227.9
Imported products	8.4	15.2	23.7	17.9	35.6	43.7	342.5
Domestic products							
Agricultural products	6.3	13.9	20.5	27.7	54.6	24.7	140.0
Manufactures	6.0	5.3	8.4	25.5	54.5	37.5	211.2

Source: National Statistical Institute and the Central Bank of Bolivia.

With regard to the price control policy implemented during the year, a distinction must be made between the period from January to September and the months from October to December. During the first nine months, the measures taken were contradictory and provided very little information to the various economic agents. The year started out with a reduction in the prices of essential products, together with the establishment of favourable terms for the importation and marketing of foreign products which were part of the shopping basket. This decision, which was taken in January, was followed by a package of measures approved in February. These measures set nation-wide price ceilings for such products as chicken, eggs, maize, soya, domestically-produced wheat, sugar cane, imported and domestic pharmaceuticals and cement. At the same time, rents were frozen and the drawing up of leases denominated in foreign currency among nationals was banned; the conversion of all lease contracts between nationals to the national unit of account at the official exchange rate (25 pesos to the dollar) was made mandatory. In addition, the prices of wheat flour, bread, rice, sugar and domestically-produced milk were frozen at the levels at which they stood on the day the corresponding provision was promulgated. Finally, price increases for electricity and fuels were authorized.

Only 47 days after the above provisions were laid down, other provisions were approved which nullified some of them; the most surprising one of all was the measure which lifted the freeze on sugar, rice and domestic milk prices.

Finally, after the change of government in October, the new government approved —on the same day the peso was devalued in November— new prices for essential products (oil, rice, sugar, coffee, chicken and beef, eggs, milk, lard, bread, flour noodles) and for the agricultural and industrial inputs needed for their processing, as well as for imported and domestically-produced pharmaceuticals. As a complementary measure fuel, electricity and transport prices were raised again (see table 19).

#### b) *Wages and salaries*

According to official data, in 1982 real wages and salaries rose appreciably in all branches of economic activity except construction and banking, where they declined 16% and 3% respectively. Among the largest increases, those in mining (84%), electricity and gas (48%) and services (39%) were particularly significant.

Figure 5

**BOLIVIA: EVOLUTION OF CONSUMER PRICE INDEX**

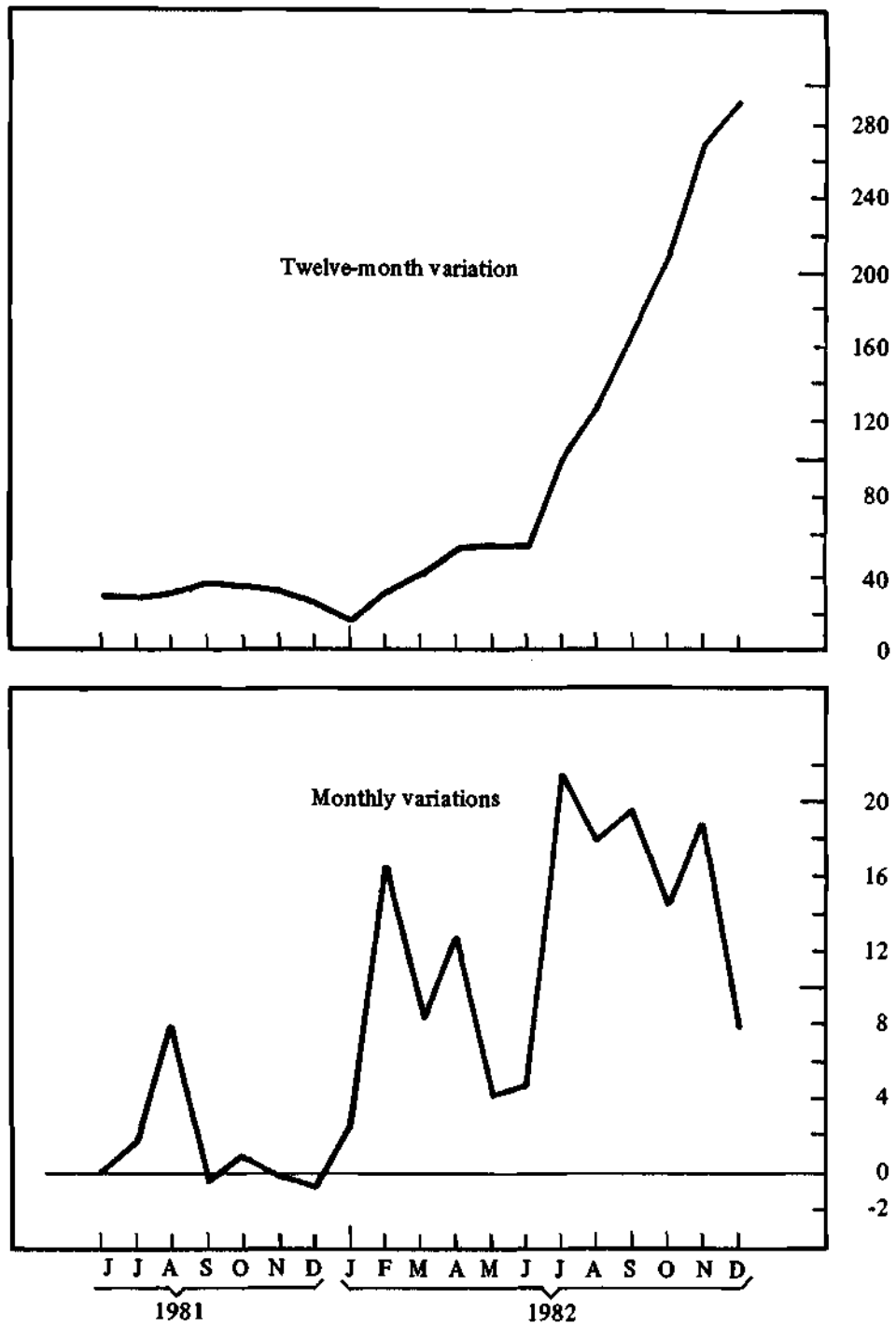


Table 19

## BOLIVIA: PRICES OF SOME BASIC GOODS DURING 1982

		Pesos per unit		Percentage increase
		January	October	
Bread	Unit	1.50	2.22	48.0
Wheat flour	Kilogramme	18.72	88.18	347.1
Rice	Kilogramme	27.90	86.32	209.3
Edible oil	Litre	35.20	207.45	489.3
Lard	Kilogramme	41.20	293.24	611.7
Fresh milk	Litre	8.00	32.00	300.0
Eggs	Unit	3.75	8.56	128.2
Sugar	Kilogramme	25.20	54.56	116.5
Regular gasoline <sup>a</sup>	Litre	8.00	25.00	212.0
Kerosene <sup>a</sup>	Litre	5.00	8.00	60.00

Source: National Statistical Institute.

<sup>a</sup>The prices indicated are the prices set for almost all of the country in February and November, respectively. In some departments the increases were even greater.

These rises reflect the two wage increases (although their characteristics differed) which were carried out during the year. At the time of the first, which was granted in February in order to mitigate the price increases caused by the higher exchange rate, the Government agreed to award a bonus on a sliding scale from 130% to 17% public-sector workers earning less than 12 000 pesos. This wage supplement was extended to include the employees of public and semi-public enterprises, but the employees of those companies, as well as all private-sector workers, would have to enter into negotiations with their employers in order to establish new wage levels.

At the same time, wage increases for the public sector and future hiring of administrative personnel were prohibited. Finally, the Government directed that the studies concerning the establishment of the minimum wage were to be concluded within six months. This measure, which was important in its own right, nevertheless gave rise to complaints by the authorities of the Bolivian Social Security Institute. This body pointed up contradictions between this provision and the wage increase decree in connection with the future financing of social security agencies.

In accordance with the provisions established in February, new wage levels were established some time later for nationalized mining, as well as medium-scale mining activities. The increases for the former ranged between 21% and 27% depending upon the type of work, while the increases for the latter were higher.

The largest wage adjustments were implemented after the new government assumed office in October, however. The following measures were adopted in early November: a wage increase was granted to all workers in the country, both of the public and private sectors. For wage earners receiving 15 500 pesos or less per month, the increase was 30%; persons earning more than that amount received an across-the-board raise of 4 650 pesos monthly. In other words, whereas there was a proportional raise for the former group, the increase was progressively less for the higher salary levels in the second group.

In addition, a minimum monthly wage of 8 490 pesos was established which would be adjusted —on a one-time basis— after 100 days; future adjustments would be made periodically. Wages were defined as the difference between the total amount earned annually and all the wage supplements other than the basic salary, the duty bonus, the social allowance and the cost of living adjustment.

It was also provided that ways of implementing joint management by the workers in public revenue-earning enterprises should be studied, and that employer, labour and State social security contributions should, as of that date, be based on the total wages earned by the workers, whatever their type, amount, denomination or form of payment. In addition, the ceiling on contributions per insured person was raised to 25 000 pesos.

## 5. Monetary and fiscal policy

### a) *Evolution of the means of payment*

One of the most outstanding aspects of the behaviour of the economic system in recent years has been the subordination of monetary, exchange and credit policies to fiscal policy in an effort to meet the ever greater financial needs of the public sector.

This is the reason for the lack of any regular trend over time in the evolution of the main monetary variables and for the lack of even a minimum of control over the expansion of the means of payment.

During the first nine months of 1982, the growth rate of the money supply was over 150% (see table 20). Thus the process of money generation was far above that of preceding years, when it had also increased considerably (especially in 1980 and 1981, when it rose 42% and 20%, respectively). A surprising feature, however, was the very different growth rates for currency outside banks and current account deposits; the former was 200%, while the latter was 80%. These rates of expansion also bore no similarity to those of the immediately preceding years, during which there were also notable changes in the speed of growth.

Domestic credit was the element which was most responsible for speeding up the expansion of money, since international reserves declined sharply. In 1980 and again in 1981, reserves had dropped by twice the amount of the year before, and during the period up until September 1982, they fell by two and one-half times that amount. Thus external assets, rather than being a factor in the expansion of money, continued to be a mechanism for its contraction, as had been the case since 1979.

On the other hand, domestic credit rose over 240%; this rate, which was by far the highest in recent years, was treble the 1981 value in absolute terms. The increase of 77 billion pesos was distributed as follows: the Government received 110% more resources than in the preceding year, nearly doubling the absolute value of the financial resources which it had at its disposal, but the largest share of domestic credit went to the private sector. Thus, after increasing between 1979 and 1981 at rates that fluctuated between 17% and 30%, in 1982 the rate was over 380%, thus bearing no resemblance to its behaviour in preceding years. Despite the above, the rapid rate of price variation between January and September (170%) meant that in real terms the resources provided to the public sector declined, whereas those furnished to the private sector still rose considerably (53%).

Table 20

### BOLIVIA: MONETARY BALANCE

	Balance at end of year (millions of pesos)				Growth rates			
	1979	1980	1981	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>b</sup>
<b>Money</b>	10 304	14 694	17 587	38 142	16.6	42.6	19.6	155.6
Currency outside banks	7 211	9 461	10 852	27 691	24.1	31.2	14.7	201.5
Demand deposits <sup>c</sup>	3 093	5 233	6 735	10 451	2.3	69.1	28.7	82.1
<b>Factors of expansion</b>	18 714	23 675	25 846	87 392	20.0	26.5	9.1	271.7
International reserves (net)	-2 560	-5 196	-10 950	-26 772	-	102.9	110.7	174.2
Domestic credit	21 274	28 871	36 796	114 164	40.5	35.7	27.4	243.1
Credit to government (net)	7 882	13 159	16 711	31 247	100.7	66.9	26.9	110.5
Credit to other institutions	1 151	1 363	1 540	2 503	-21.2	18.4	12.9	44.4
Credit to private sector	12 241	14 350	18 546	80 414	25.6	17.2	29.2	381.5
<b>Factors of absorption</b>	8 412	8 981	8 260	49 250	24.4	6.7	-8.0	473.3
Quasi-money	6 328	8 430	11 831	36 308	12.0	33.2	40.3	258.7
Long-term foreign loans	2 422	1 974	2 484	19 871	201.9	-18.4	25.8	744.8
Counterpart funds	37	27	14	21	-39.3	-27.0	-48.1	23.5
Other items (net)	-375	-1 450	-6 069	-6 950	-	286.6	318.5	78.2

Source: International Monetary Fund (IMF), *International Financial Statistics*.

<sup>a</sup>Up to September.

<sup>b</sup>Figures were calculated with respect to the same month of the preceding year.

<sup>c</sup>Includes deposits by the private sector in the Central Bank.



There was a significant increase in the factors of absorption of the money supply, which registered a sixfold increase over their 1981 value during the first nine months of 1982. The factors which rose the most were quasi-money (260%) and long-term foreign loans (over 700%).

As already mentioned, the money supply—defined as  $M_1$ —rose by 155% in nominal terms;  $M_2$  (defined as  $M_1$  plus term deposits) rose 204% at current values. However, when the very rapid inflationary process is taken into account, the real evolution of currency outside banks plus demand deposits registered a sharp drop (-25%).

The behaviour of interest rates was particularly complex. The only credits whose interest rates, in nominal terms, was unchanged were credits from the official banking system (see table 21). The acute inflation rate caused real interest rates to decrease, which was extremely advantageous for the recipients of this type of credit.

The other groups representing a demand for credit encountered a variety of situations during 1982. In the first two and the final two months of the year, the nominal interest rate was set at 32% and 45%, respectively. However, as a consequence of the changes made during March in the system for the compulsory surrender of foreign exchange by export sectors to the Central Bank, the nominal interest rate was allowed to be freely determined by market forces, and it may be assumed that the rates thus determined were higher than the increases in prices.

Deposit transactions yielded a minimum annual rate of return for depositors of national currency of 23% in January and February and of 30% from March until the end of the year. From March onward, foreign-currency deposits, also as a minimum, attracted interest at the LIBOR rate, but this ceased in November when, as part of the "de-dollarization" of the economy, deposits in units of account other than the national unit were prohibited (see table 21). With interest and inflation rates such as these, the real rate of return on deposits was of course negative.

In 1982, as a result of the changes in the nominal interest rates and the variations in credit and deposits, the legal reserve requirements for deposits in national currency were altered on two occasions. The first change was made after the establishment of a dual exchange market; the second was introduced when the measures approved in November entered into effect. In both cases the levels were raised both for national and foreign banks; the increases varied between 4 and 10 percentage points depending on whether they referred to demand deposits, deposits in savings banks or fixed-term deposits. Thus, for example, the legal reserve requirement in respect of fixed-term deposits in national banks, which had been 5% in 1981, was 15% in 1982.

The trend in deposits of national currency was clearly different in the January-October period from the November-December period. Whereas these deposits increased at a rate of 6% per month during the former period, they rose at a monthly rate of 18% after the "de-dollarization" of the economy was decreed. Quasi-money, however, after growing 12% per month from January to October, declined at an average rate of over 13% in November and December.

Credit behaved otherwise. Total credit rose 14% per month between January and October, but dropped at a rate of 14% monthly between the time when the "de-dollarization" was decreed and the end of the year. Credits granted to the private sector decreased even more after the "de-dollarization" of the economy; after having risen by an average of 17% monthly from January to October, they fell by 26% per month from that time until the close of the year.

Due to the above, the overall liquidity of the economy underwent abrupt changes during the course of the year, and the liquidity coefficient, which was very similar to that of 1981, dropped to one of its lowest levels since 1971 (see table 22). Late in the year, after the "de-dollarization", the level of bank reserves rose above the legal reserve requirements, exceeding them by 7% in November and by 62% in late December. This phenomenon might be accounted for by the banking system's reluctance to take on too great a risk; hence its preference for maintaining idle resources rather than investing them in activities which did not offer a great deal of security.

#### b) *Central government income and expenditures*

In recent years, one of the main problems of the economy has been posed by the public sector. Firstly, the large portion of the economy controlled by the State through public enterprises has not always operated efficiently. Secondly, administrative decentralization has given rise to a large number of public agencies which have not proved to be easy to control or run.

Table 21

## BOLIVIA: EVOLUTION OF NOMINAL INTEREST RATES

(Percentages)

	1974	1975	1976	1977	1978	1979	1980	1981	1982
<b>Loans</b>									
<b>Business and private sectors</b>									
Effective nominal rate <sup>a</sup>	25.0	25.0	25.0	25.0	25.0	26.0	27.8	32.0	Unrestricted <sup>c</sup> 32 <sup>b</sup> 45 <sup>d</sup>
<b>Productive sectors</b>									
Effective nominal rate <sup>a</sup>	19.0	19.0	19.0	19.0	19.0	23.0	24.8	32.0	Unrestricted <sup>c</sup> 32 <sup>b</sup> 43 <sup>d</sup>
<b>Official banks<sup>e</sup></b>									
Nominal rate on own funds	13.0	13.0	15.0	15.0	15.0	15.0	19.0	20.8	20.8
Nominal rate on external funds <sup>f</sup>	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0
<b>Deposits</b>									
Deposits in savings banks <sup>g</sup>	10.0	10.0	10.0	10.0	10.0	15.0	17.0	22.0	22.0 <sup>b</sup> 30.0 <sup>h</sup>
Fixed-term deposits in national currency <sup>a</sup>	...	10.7	10.7	10.7	10.7	11.7	18.0	23.0	23.0 <sup>b</sup> 30.0 <sup>c</sup>
Fixed-term deposits in foreign currency <sup>g</sup>	...	...	...	...	...	...	11.0	20.0	20.0 <sup>b</sup> LIBOR <sup>c</sup> ...
Consumer price index (December to December)	...	...	5.5	10.5	13.5	45.4	23.9	25.1	296.5

Source: Central Bank of Bolivia.

<sup>a</sup>These are nominal interest rates including taxes and commissions.<sup>b</sup>January and February.<sup>c</sup>March to October.<sup>d</sup>November and December.<sup>e</sup>Includes the Banco del Estado, Banco Minero, Banco Agrícola and the Banco Industrial. Excludes BANVI and other development banks.<sup>f</sup>Funds from international organizations.<sup>g</sup>Minimum interest rates.<sup>h</sup>March to December.

Both factors contributed to the increase in the State's need for financing, at the same time that the rigidity of the taxation system made it necessary to resort to other sources of financing—foreign borrowing and the Central Bank.

In nominal terms, current income stagnated, after having risen 40% and 20% in 1980 and 1981, respectively. In contrast, total expenditure, at the prevailing rate of the peso for each year, rose 64%—a figure which had not been matched since expenditure nearly doubled in 1974 (see table 23).

Due to the above, the fiscal deficit—which had been doubling every year since the mid-1970s—increased by no less than 153%; this was the highest rate in the last ten years, the only comparable increase being the rate of 151% for 1972.

Nevertheless, because of the phenomenal inflationary process which began in 1982, the behaviour of the main fiscal variables in real terms was quite different. Thus, the 55% decline in current income represented somewhat more than a twofold decrease in absolute terms with respect to the 1981 level. Conditions were similar, although somewhat more moderate, with respect to total expenditures, which actually decreased by over 26%. As a result of the fact that income dropped more than expenditure, however, the deficit in real terms—which had been greatly reduced in 1980 and 1981—grew 13%.

A deficit of this size, despite the inflationary pressure described above, shows up the degree to which the public finance situation had deteriorated. This fact stands out even more clearly when it is

Table 22

## BOLIVIA: EVOLUTION OF LIQUIDITY COEFFICIENT

(Millions of current pesos)

	Means of payment <sup>a</sup>	Gross domestic product <sup>b</sup>	Liquidity coefficient
1970			
1971	1 690.7	13 543	0.124
1972	2 136.0	17 249	0.123
1973	2 918.3	21 056	0.112
1974	4 195.5	43 325	0.097
1975	4 653.6	49 201	0.094
1976	6 391.9	56 447	0.113
1977	7 731.3	65 220	0.118
1978	8 632.5	76 474	0.113
1979	10 087.1	92 056	0.110
1980	14 238.0	134 987	0.105
1981	17 152.5	181 078	0.094
1982	52 410.6	549 867	0.095

Source: Central Bank of Bolivia.

<sup>a</sup>Refers to currency in circulation and demand deposits.<sup>b</sup>At current consumer prices.

borne in mind that the deficit represented no less than 65% of total expenditure and that it had already amounted to 42% one year earlier (and had not dropped below that level since at least 1979).

Another indicator which clearly illustrates the acute crisis of the public finances is the ratio between current income and the gross domestic product. This proportion, which had varied between 10% and 14% during the period of 1978-1980, dropped to 5% in 1982; this level is scarcely tolerable for any economy, and was clear evidence of the tax system's inability to keep pace with the evolution of the product (see table 23).

An important factor in this very critical process was the above-mentioned stagnation of nominal income in 1982. Despite the effort made to boost revenue, export and customs duties dropped, and mining royalties stagnated, because of lower international prices; thus, the instrument which was the most significant source of revenue—without raising the question of its progressiveness—was domestic taxes.

On the expenditure side, the drop of over 6% in real terms was basically due to the restrictive governmental policy initiated in 1981.

The smallest decreases were in payments for personal services and transfers, which declined approximately 40%. Payments to civil servants were lower: despite the two wage increases approved for them during the year, their wages fell steeply in real terms, and State expenditure on this item dropped over 9% annually in the period from 1979 to 1982. The progressive deterioration of the economic situation during 1982 contributed to the average decrease of no less than 32% per year in transfers and contributions over the last four years (see table 23).

Other central government expenditures fell off even more sharply. Payments for non-personal services, the purchase of materials and supplies, and fixed and financial assets, as well as payments for the servicing of the domestic and external public debt dropped drastically (about 70%). Decreases of this size, as noted above, cannot be attributed solely to the effects of inflation, because there were also decreases in nominal terms with respect to 1981. One of the most striking declines corresponded to the servicing of the public debt, which dropped 72% in real terms. As a result of this decrease and of the fact that payments were restructured in 1981 and 1982, holders of financial assets issued by the State saw their return on the loans granted drop, on average, by 31% annually. The reduction of payments for servicing the public debt was clearly evidenced in the changing ratio between that debt and total expenditure; this was 12% in 1979, 17% one year later and then dropped abruptly to 5% in 1982.

According to Central Bank data, however, the entry which did most to cause the deficit to be two and one-half times greater than in 1981 was "other expenditures", which soared nearly 1 000%.

The measures adopted during the year in response to the seriousness to the public sector's financial crisis were almost all aimed at increasing fiscal income, on the one hand, and reducing public spending, on the other.

At the very start of the year, a tax reform was decreed which established a new income tax schedule for natural persons and a new scale for the inheritance tax on undivided estates. The reform sought to ease the tax burden on persons earning fixed wages and salaries; however, the people who actually gained were the very low-paid employees who had a number of dependents. The guiding

Table 23

**BOLIVIA: MOVEMENT OF NATIONAL TREASURY FUNDS**

	Millions of pesos				Growth rates			
	1979	1980	1981	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>a</sup>
<b>Current income</b>	8 384	11 793	14 069	14 054	-1.8	40.6	19.2	-
Inland revenue	3 621	4 459	5 081	...	14.4	23.1	13.9	...
Customs revenue	2 064	2 564	3 150	...	5.3	24.2	22.8	...
Additional export tax	807	127	9	...	72.0	-84.2	-92.9	...
Mining royalties	1 333	1 771	889	...	-13.7	32.8	-49.8	...
Petroleum and other royalties	80	1 852	2 406	...	-91.2	...	29.9	...
Other income	479	1 020	2 534	...	-	112.9	148.4	...
<b>Total expenditure</b>	15 035	21 521	24 286	39 959	30.2	43.1	12.8	64.5
Personal services	5 948	9 706	11 931	16 590	26.4	63.1	22.9	39.0
Non-personal services	587	946	1 147	850	14.4	61.1	21.2	-25.8
Materials and supplies	692	1 512	2 532	1 870	1.1	118.4	67.4	-26.1
Fixed and financial assets	317	1 345	1 598	940	23.8	324.2	18.8	-41.1
Public debt	1 831	3 817	3 093	1 946	9.9	108.4	-18.9	-37.1
Transfers and contributions	3 424	2 552	2 674	3 560	6.6	-25.4	4.7	33.1
Other expenditure	2 236	1 643	1 311	14 176	339.2	-26.5	-20.2	981.3
<b>Deficit</b>	6 651	9 728	10 461	25 904	121.5	46.2	5.0	153.5
	<b>Millions of 1966 pesos</b>							
<b>Current income</b>	1 766	1 687	1 521	681	-17.9	-4.4	-9.8	-55.2
Inland revenue	763	638	550	...	-4.5	-16.3	-13.7	...
Customs revenue	435	367	341	...	-11.9	-15.6	-7.0	-46.6
Additional export tax	170	18	-	...	44.0	-89.4	-	...
Mining royalties	281	253	96	...	-27.9	-9.9	-62.0	...
Petroleum and other royalties	16	265	260	...	-93.1	1 556.2	-1.8	...
Other income	101	146	274	...	-16.5	44.5	87.6	...
<b>Total expenditure</b>	3 169	3 078	2 629	1 933	8.9	-2.8	-14.5	-26.4
Personal services	1 253	1 389	1 292	804	5.5	10.8	-6.9	-37.7
Non-personal services	124	135	124	41	-3.8	8.8	-8.1	-66.9
Materials and supplies	146	216	274	90	-15.1	47.9	26.8	-67.1
Fixed and financial assets	67	192	173	45	4.6	186.5	-9.8	-73.9
Public debt	386	546	335	94	-8.0	41.4	-38.6	-71.9
Transfers and contributions	722	365	289	172	-10.8	-49.4	-20.8	-40.4
Other expenditure	471	235	142	687	267.9	-50.1	-39.5	383.8
<b>Deficit</b>	1 403	1 391	1 108	1 255	85.0	-0.9	-20.3	13.2
Deficit (as a percentage of total expenditure)	44.2	45.2	42.1	65.0				
Deficit (as a percentage of GDP)	9.1	8.9	7.2	9.0				
Current income (as a percentage of GDP)	11.5	10.8	9.9	4.8				
Total expenditure (as a percentage of GDP)	20.6	19.8	17.1	13.8				

Source: Central Bank of Bolivia.

<sup>a</sup>Provisional figures.

principle in the drafting of the new law was to lower tax rates; but since the sums that served as a basis for calculating the new tax included subsidies and supplements which had previously not been figured in, and since the exemption on 25% of gross income up to a maximum of 70 000 pesos was eliminated, the end result was higher taxes for the rest of the taxpayers.

With respect to fiscal policy, as well as other areas of economic policy, most of the provisions which entered into force in 1982 formed part of the packages of measures approved near the beginning and the end of the year.

Thus, various decrees were approved in February which exempted almost all essential products and all exports from sales taxes; a tax was temporarily levied on exports of mining products, oil and natural gas and their derivatives, and on non-traditional exports in order to absorb part of the profits made by exporters as a result of the increase in the exchange rate;<sup>12</sup> and it was provided that all imports by the Government and the rest of the public sector would be subject to the corresponding duties and taxes.

Complementary measures were adopted when the new government assumed office. Firstly, the 12.5% tax on the retail price to the consumer of gasoline for motor vehicles, white gasoline and diesel oil was reinstated. Concurrently, as a result of the second devaluation in November and in order to offset the additional income of public and private mining exporters, changes were made in the assumed costs on the basis of which their tax payments to the State were calculated.<sup>13</sup> In addition, the duties on non-traditional exports were also temporarily raised.<sup>14</sup> The income tax was also changed; as an exceptional measure which would be in effect only during 1982, a 20% annual income tax cut was granted to wage-earners, up to a limit of 12 000 pesos. Finally, taxes on bank loans were established,<sup>15</sup> interest penalties at a rate not less than the commercial interest rate were reintroduced for overdue tax payments; and it was stipulated that social security contributions should be calculated on the basis of total wages earned; the salary ceiling for compulsory and supplementary social security insurance was raised to 25 000 pesos, and pensions and retirement benefits were increased for non-working groups and retirees.

<sup>12</sup>This was a 7% tax on the value appearing on the export permit and the amount paid in respect of domestic sales of tin, tungsten and silver and exports of oil, natural gas and their basic derivatives, unprocessed coffee, coca leaves, sugar, cocoa and raw cotton. There was a 5% tax on antimony, zinc and lead sales.

<sup>13</sup>This measure, which was approved for the 100 days following its promulgation, affected the producers of tin, tungsten, antimony, copper lead and zinc. The rates for silver were also changed.

<sup>14</sup>This increase (8%) in the taxes on the net value of exports once again affected unprocessed or green hulled coffee beans, coca leaves, cane sugar in solid form, cocoa beans, some types of wood and other products.

<sup>15</sup>The rate was 6% for commercial or personal credits and 4% for productive activities, while credits from funds provided by external financing and the Central Bank's refinanced lines of credit were exempted.



## BRAZIL

### 1. Recent economic trends: Introduction and summary

In 1982, for the second year in a row, the Brazilian economy showed a recessive trend which was reflected in the decline of per capita income, high inflation rates similar to those of the immediately preceding years, and a decline of employment in the formal sector similar to that of 1981. In addition, the problems of the external sector as regards both current and capital transactions were accentuated. The prolonged economic recession in the industrialized countries and the high interest rates on the international financial markets began to have an impact on the Brazilian economy, not only directly, but also indirectly through their growing impact on other developing countries that had become major trading partners of Brazil. This meant that income from exports declined sharply, as did the procurement of external financial resources, which dropped significantly because of the contraction of the private international financial system, especially during the last months of the year.

The economic policy remained basically the same as during the last quarter of 1981, when the authorities began to apply less severely than in the preceding twelve months the monetary instruments used to deal with the balance-of-payments problems and to try to reduce inflation. By the fourth quarter of 1981, the contraction of economic activity throughout the year had obliged the authorities to attenuate the strict monetary measures implemented since mid-1980, which had brought about a significant rise in interest rates and a fall in domestic demand. In addition, the electoral campaign, which lasted up to 15 November 1982, affected the management of economic policy during most of the year.

The gross domestic product grew by 1%, thus showing a slight recovery with respect to the almost 2% fall of the previous year, but the per capita product showed a decline of over 1%, which came on top of the sharp contraction of the previous year (-4%). As a result of the deterioration, for the fifth year in a row, of the terms of trade (-4%), total real income rose by only 1% and per capita real income dropped by over 1% (see table 1 and figure 1).

Employment in the urban formal sector dropped by 2%, reflecting the sharp decline of manufacturing and construction, while the service sectors grew by over 2%. The average unemployment rate for the main metropolitan areas, however, fell from 7.9% in 1981 to 6.3% in 1982. This seeming paradox might be explained in part by the fact that the economically active population decreased because many of the unemployed were classified as inactive, since they had been discouraged by the prolonged recession and had stopped looking for work. The decline in the unemployment index was also due, however, to the fact that important changes were made in the methodology used to calculate unemployment.<sup>1</sup>

The high inflation rates of the preceding years were maintained in 1982; thus, the general price index rose by 100%. Nevertheless, there were important variations in the evolution of the level of prices throughout the year. During the first half of the year, the inflationary process accelerated, reaching an annualized rate of 115%, while during the second semester, it was around 85%. However, this phenomenon cannot be said to reflect a downward trend in inflation, inasmuch as it resulted mainly from the administrative price control measures that were applied during the second half of the year and also, in part, from the good harvests of food crops for mass consumption.

External trade in goods showed a positive balance of around US\$ 800 million, which was lower than both the US\$ 1 200 million surplus of 1981 and the goals which had been set at the beginning of 1982. This positive trade balance was achieved despite a sharp drop in the value of exports (-13%), the first in 15 years. It was aided, however, by a substantial drop in the value of imports (-12%), which was added to the contraction of the previous year (-4%).

<sup>1</sup>The changes in the methodology used for the Monthly Employment Survey were introduced gradually between February and May 1982. In particular, the questionnaire used for the survey and the definition of unemployment were changed.

Table 1  
BRAZIL: MAIN ECONOMIC INDICATORS

	1977	1978	1979	1980	1981	1982 <sup>a</sup>
<b>A. Basic economic indicators</b>						
Gross domestic product at market prices (billions of 1970 dollars)	96.0	101.8	108.3	117.0	114.7	116.0
Population (millions of inhabitants)	113.2	115.9	118.6	121.3	124.1	126.9
Per capita gross domestic product (1970 dollars)	848	879	914	964	925	914
<b>Growth rates</b>						
<b>B. Short-run economic indicators</b>						
Gross domestic product	4.7	6.0	6.4	8.0	-1.9	1.1
Per capita gross domestic product	2.3	3.6	4.0	5.6	-4.1	-1.2
Real gross domestic income <sup>b</sup>	5.1	5.3	5.9	7.0	-3.3	1.2
Terms of trade (goods and services)	7.8	-11.9	-7.3	-13.5	-13.9	-3.9
Current value of exports of goods and services	19.9	5.1	22.3	30.8	16.8	-13.8
Current value of imports of goods and services	-0.9	12.6	31.7	27.9	-2.1	-8.8
Consumer prices <sup>c</sup>						
December - December	43.1	38.1	76.0	86.3	100.6	101.8
Variation between annual averages	43.7	38.6	52.7	82.8	105.6	98.0
General price index, domestic availability <sup>d</sup>						
December - December	38.8	40.8	77.2	110.2	95.2	99.7
Variation between annual averages	42.7	38.7	53.9	100.2	109.9	95.4
Money	37.5	42.2	73.6	70.2	74.7	69.3
Wages and salaries <sup>e</sup>	50.3	50.4	57.7	92.5	117.1	114.9 <sup>f</sup>
Rate of urban unemployment <sup>g</sup>	...	...	...	6.3	7.9	6.3
Current income of government	46.1	43.8	46.0	139.2	85.5	104.1
Total expenditure of government	...	...	...	167.9	84.0	115.3
Fiscal deficit/total expenditure of government	...	...	24.1	32.2	31.7	36.7
<b>Millions of dollars</b>						
<b>C. External sector</b>						
Trade balance (goods and services)	-1 641	-2 830	-5 019	-5 935	-1 677	-2 794
Balance of current account	-5 115	-7 039	-10 482	-12 848	-11 760	-16 279
Variation in international reserves	710	4 640	-2 860	-3 322	747	...
Total medium- and long-term external debt	32 037	43 511	49 904	53 848	61 411	69 654

Source: ECLA, on the basis of official data.

<sup>a</sup>Preliminary figures.

<sup>b</sup>Gross domestic product plus terms-of-trade effect (goods and services).

<sup>c</sup>Consumer price index for Rio de Janeiro.

<sup>d</sup>The price index is a weighted average of the indexes of wholesale prices (60%) the cost of living in Rio de Janeiro (30%) and the cost of construction in Rio de Janeiro (10%).

<sup>e</sup>Average nominal wages in industry.

<sup>f</sup>Average for eleven months (January-November).

<sup>g</sup>Weighted average of rates of unemployment, in percentages, of the main metropolitan regions.



Exports of goods declined, mainly because of the drop in sales to OPEC, ALADI and Eastern European countries, which were seriously affected by the international economic crisis.

The chronic deficit on the balance-of-payments current account reached a record level in 1982, i.e., US\$ 16 300 million, so that it represented an extremely high share of exports of goods and services (74%): a figure only surpassed by that reached in 1974, during the first oil crisis. Greater difficulties were encountered with regard to the capital account, especially as from September, when the amount of medium and long-term foreign loans received fell sharply. This brought about a significant drop of approximately US\$ 3 500 million in the international reserves and an appreciable increase in short-term obligations.

As in 1981, maximum growth targets were established for the monetary base and money. To this end, limits were maintained on the expansion of domestic credit, except in the case of preferential loans for agriculture, for exports and for the fuel alcohol programme (PROALCOOL) and in the case of loans based on the procurement of external resources. Likewise, interest rates, except those pertaining to preferential credits, continued to be set by the market.

The effectiveness of the monetary policy was severely restricted by the way in which the fiscal policy was applied. The deficit of the public sector and its high level of domestic indebtedness made it difficult to sell new public debt securities, which tended to push interest rates up. In this regard, the economic authorities took expansionary action by redeeming Treasury notes. Thus, over 220 billion cruzeiros, i.e., almost 20% of the monetary base at the beginning of the year, were injected into the money market. The size of the public debt increased by 150% during 1982 because of the obligations arising from the increasingly high interest rates and the monetary readjustments that were made.

In addition, the mechanisms used in previous years to attract external financial resources, which had helped attenuate the problems of domestic liquidity and finance the balance-of-payments deficit, lost their effectiveness, especially as of September, when the international banks cut back sharply the amount of medium and long-term loans granted to Brazil and other developing countries.

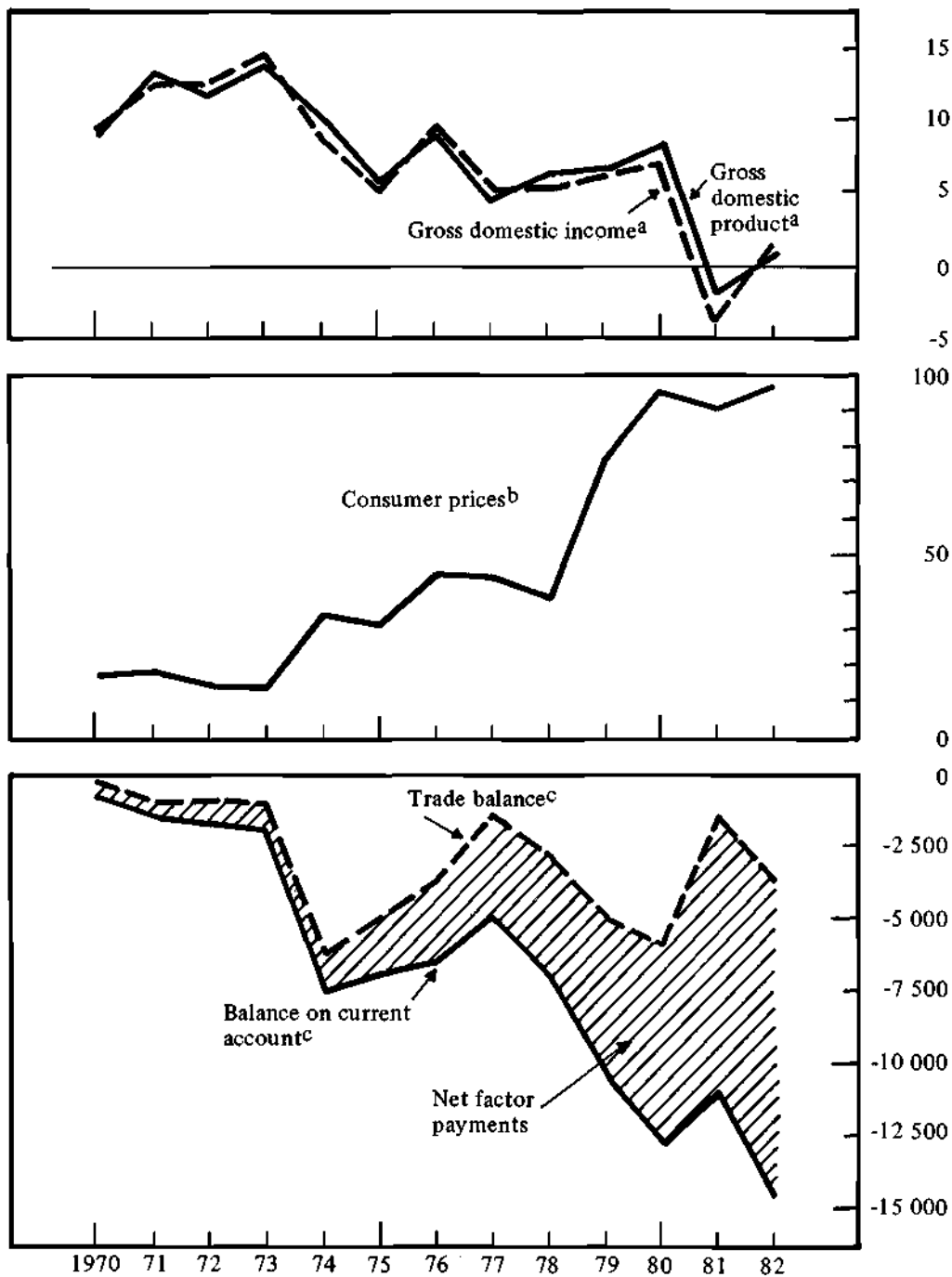
Although the loss of international reserves acted as a factor of absorption, it proved difficult, during most of the year, to control the monetary base. The economic authorities increased the reserve requirements for commercial banks in order to reduce the money multiplier, but even so money increased more than expected.

As in previous years, the Government continued to apply measures to contain public expenditure, without, however, achieving any tangible result. On the contrary, total expenditure continued to increase in real terms, as a result of which the fiscal deficit again rose, to the point that it represented almost 14% of the gross domestic product. The authorities made a special effort to reduce expenditure in the agricultural sector arising from subsidized lines of credit called "open accounts" in the monetary budget, which include subsidies for agricultural credit. Nevertheless, not much was achieved, as the monetary authority was obliged to provide additional resources to cover the increased subsidies for the marketing of wheat and the production of sugar, provided under a cost equalization programme. It was possible, however, to reduce significantly the expenditure relating to public enterprise investment programmes, because of the control exercised by the Secretariat for State Enterprises (SEST) and because of the difficulty of attracting resources. This decline of public investment had a negative impact on the capital-goods-producing private sector, which was one of the most seriously depressed sectors in 1982.

The policy regarding the external sector remained within the lines of 1981 policy, which was aimed at containing imports, encouraging exports and attracting external resources. In order to deal with the unfavourable evolution of the trade balance, these measures were expanded and intensified as of September, as the international reserves dropped sharply. The measures in question consisted mainly of increased controls on foreign purchases; thus, the restriction of import licenses was extended to new articles, additional limitations were placed on imports by the public sector and by major importers (within the framework of annual import programmes), and the requirements with respect to external financing for imports were increased. In addition, the Government negotiated with the United States and with GATT a two-year extension of fiscal credit for exports.

In 1982, the economic authorities tried gradually to raise the real rate of exchange, but this policy was frustrated by the revaluation of the United States dollar with respect to most convertible currencies and by the heavy devaluation of the currencies of several Latin American countries. Thus, as the year went on, the cruzeiro was overvalued with respect to the currencies of Brazil's major

Figure 1  
 BRAZIL: MAIN ECONOMIC INDICATORS



Source: ECLA, on the basis of official data.

<sup>a</sup>Annual growth rate.

<sup>b</sup>Up to 1979, the December-December percentage variation was based on the consumer price index for Rio de Janeiro; since 1980, the index for the whole country has been used.

<sup>c</sup>Millions of dollars.

trading partners. Towards the end of 1982, however, the rate of minidevaluations was accelerated and this, together with the drop in the rate of increase of domestic prices, made it possible to raise the real rate of exchange during the fourth quarter. Nevertheless, the authorities decided not to change the existing system of minidevaluations during the year, in order not to accelerate domestic inflation or discourage the inflow of external credit.

The difficulties of the external sector increased as the year went on. This phenomenon was particularly influenced by the shrinking of the supply of credit from the private international banking system, as a result of which the country found it extremely difficult to meet its financial obligations. Consequently, the economic authorities decided towards the end of the year to initiate negotiations with the IMF aimed at obtaining credit for the purpose of dealing with the external disequilibrium and securing a guarantee for the purpose of renegotiating outstanding debts with the private international banks and obtaining new lines of credit.

The aforementioned restrictions on the management of fiscal and monetary instruments made it impossible to apply an effective anti-inflationary policy. Moreover, these difficulties were accentuated by the inertia of the evolution of domestic prices within the generalized system of indexing which had been set up several years before in order to correct distortions caused by inflation. As a result of all these limitations, the anti-inflationary policy was reduced in practice to a series of administrative price-control measures which did not vary substantially from those applied the year before. Price controls were maintained only for basic consumer goods; during the second half of the year, however, there was a lag between the readjustments made and the overall growth both of the prices of goods produced by the private sector and of the prices and rates of public utilities. This lag began to decrease in December, but the effect on the evolution of domestic prices did not begin to show until the first months of 1983. With respect to the policy on wages, the authorities retained the system of readjusting wages every six months, with increases higher than the variation of the national consumer price index for the lowest wage categories and gradually declining percentages of readjustment for the higher-paid groups.

## 2. Trends in economic activity

### a) *Total supply and demand*

Total supply grew by somewhat under 1% during 1982, thus improving with respect to the previous year, when it had declined by 2.4%. This performance reflected the slow growth of the gross domestic product (1%) and the sharp drop, for the second year in a row, of imports (-6%). This led to a new decline of the import coefficient, which reached its lowest level of the last 15 years (see table 2).

By contrast with previous years, the physical volume of exports of goods and services took an unfavourable turn, dropping by 7% in 1982, after having grown by over 20% in 1980 and 1981 and by 10% annually, on average, over the last ten years. Consequently, exports ceased to be the most dynamic element of total demand; this represented a departure from the pattern of several years during which the dynamism of exports had been one of the main features of the economic development style.

The behaviour of the main components of domestic demand was not very encouraging either. Thus, private consumption grew by only 3%, although it did recover from its fall of 1981, while gross fixed investment dropped (-6%) for the second year in a row. Thus, the coefficient of gross capital formation was much lower than that of the 1970s. The most dynamic element of domestic demand was consumption by general government, which rose by 6% (see table 2).

### b) *Growth of the main sectors*

In 1982, total production of goods virtually stagnated, after having declined by -4% in 1981. Production of services (especially basic services), however, was 5% higher than in 1981, thus allowing for a modest growth of the gross domestic product (see table 3).

By contrast with what had happened in 1981, the production of goods suffered considerably from the -2.5% decline of the agricultural product. Likewise, the product of manufacturing and of construction (see table 3) stagnated following the significant declines shown by both in 1981. Among the goods-producing industries, mining was the only sector whose product rose (8%), although it only accounted for 1% of the total product.

Table 2

## BRAZIL: TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1970 prices			Percentage breakdown		Growth rates			
	1980	1981	1982 <sup>a</sup>	1970	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>a</sup>
Total supply	124 550	121 524	122 380	106.6	105.5	6.8	7.7	-2.4	0.7
Gross domestic product at market prices	116 963	114 741	116 003	100.0	100.0	6.4	8.0	-1.9	1.1
Imports of goods and services <sup>b</sup>	7 587	6 783	6 377	6.6	5.5	12.3	3.3	-10.6	-6.0
Total demand	124 550	121 524	122 380	106.6	105.5	6.8	7.7	-2.4	0.7
Domestic demand	116 432	111 466	113 021	100.5	97.4	6.4	6.8	-4.3	1.4
Gross domestic investment	...	...	...	23.5	...	...	...	...	...
Gross fixed investment	27 581 <sub>c</sub>	25 513 <sub>c</sub>	23 957 <sub>c</sub>	22.3	20.7 <sub>c</sub>	4.2	7.0	-7.5	-6.1
Changes in stocks	...	...	...	1.2	...	...	...	...	...
Total consumption	88 851 <sup>d</sup>	85 953 <sup>d</sup>	89 064 <sup>d</sup>	77.0	76.7 <sup>d</sup>	7.1 <sup>d</sup>	6.8 <sup>d</sup>	-2.4 <sup>d</sup>	3.6 <sup>d</sup>
General government	10 559	10 348	10 969	10.2	9.5	9.0	1.8	-2.0	6.0
Private	78 292 <sup>d</sup>	75 605 <sup>d</sup>	78 095 <sup>d</sup>	66.8	67.2 <sup>d</sup>	6.9 <sup>d</sup>	7.5 <sup>d</sup>	-3.4	3.3
Exports of goods and services <sup>b</sup>	8 118	10 058	9 359	6.1	8.1	12.5	22.0	23.9	-6.9

Source: ECLA, on the basis of figures supplied by the National Accounts Centre of the Getúlio Vargas Foundation and by the Central Bank of Brazil.

<sup>a</sup> Preliminary figures.

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

<sup>c</sup> Changes in stocks are included under private consumption.

<sup>d</sup> Includes changes in stocks.

Table 3

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

	Millions of dollars at 1970 prices			Percentage breakdown		Growth rates			
	1980	1981	1982 <sup>a</sup>	1970	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>a</sup>
Gross domestic product <sup>b</sup>	99 694	97 800	98 875	100.0	100.0	6.4	8.0	-1.9	1.1
Goods	44 328	42 652	42 536	45.0	44.0	6.0	7.6	-3.8	-0.3
Agriculture	7 232	7 724	7 531	10.0	7.8	5.0	6.3	6.8	-2.5
Mining and quarrying	899	901	975	0.8	1.0	10.0	12.6	0.2	8.3
Manufacturing	29 511	27 623	27 650	28.4	28.6	6.7	7.6	-6.4	0.1
Construction	6 686	6 404	6 380	5.8	6.6	3.5	8.4	-4.2	-0.4
Basic services	9 539	9 615	10 078	8.1	10.4	10.6	10.8	0.8	4.8
Electricity, gas and water	3 180	3 288	3 498	2.4	3.6	12.1	10.8	3.4	6.4
Transport, storage and communications	6 359	6 327	6 580	5.7	6.8	10.6	10.8	-0.5	4.0
Other services	...	...	...	46.9	...	...	...	...	...
Commerce <sup>c</sup>	19 296	19 874	19 874	20.7	20.6	6.3	3.0	3.0	-
Ownership of dwellings	...	...	...	8.4	...	...	...	...	...
Community, social and personal services <sup>d</sup>	...	...	...	17.7	...	...	...	...	...
Government services	...	...	...	8.6	...	...	...	...	...

Source: ECLA, on the basis of official figures supply by the National Accounts Centre of the Getúlio Vargas Foundation.

<sup>a</sup> Preliminary figures.

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

<sup>c</sup> Including financial institutions, insurance and real estate, except ownership of dwellings.

<sup>d</sup> Including restaurants, hotels and business services.

Table 4

## BRAZIL: INDICATORS OF AGRICULTURE PRODUCTION

	1970	1975	1980	1981	1982 <sup>a</sup>	Growth rates			
						1979	1980	1981	1982 <sup>a</sup>
Index of the agriculture product (1970 = 100)	100.0	136.7	170.9	182.5	177.9	5.0	6.3	6.8	-2.5
<b>Production of main crops (Thousands of tons)</b>									
<b>Export crops</b>									
Coffee beans	1 510	2 545	2 122	4 075	2 007	5.2	-20.4	92.0	-50.7
Soya	1 509	9 893	15 156	14 978	12 835	7.3	48.0	-1.2	-14.3
Oranges <sup>b</sup>	15 497	31 566	54 459	57 127	57 917	7.9	29.0	4.9	1.4
Sugar cane	79 753	91 525	148 651	155 571	184 219	7.6	7.0	4.7	18.4
Cocoa	197	282	319	304	318	18.3	-32.1	-4.7	4.6
Tobacco	244	286	405	362	422	4.2	-4.0	-10.6	16.6
Cotton	1 955	1 748	1 673	1 730	1 935	4.2	2.3	3.4	11.8
Peanuts	928	442	483	355	317	42.2	4.5	-26.5	-10.7
Castor beans	349	354	281	278	200	2.5	-13.5	-1.1	-28.1
<b>Crops for domestic consumption</b>									
Rice	7 553	7 782	9 776	8 261	9 718	4.1	20.7	-15.5	17.6
Beans	2 211	2 282	1 968	2 339	2 907	-0.4	-10.0	18.9	24.3
Maize	14 216	16 839	20 372	21 098	21 865	20.2	24.9	3.6	3.6
Cassava	29 464	26 118	23 466	24 803	24 039	-2.0	-6.0	5.7	-3.1
Potatoes	1 583	1 655	1 940	1 911	2 148	7.0	-9.9	-1.5	12.4
Tomatoes	764	1 050	1 535	1 442	1 740	2.5	2.3	-6.1	20.7
Wheat	1 844	1 788	2 702	2 209	1 820	8.8	-7.7	-18.2	-17.6
<b>Livestock production (thousands of tons)</b>									
Beef	1 845	1 790	2 084	2 110	2 382	-8.9	-1.4	1.2	12.9
Pork	767	496	699	707	622	7.8	14.5	1.1	-12.0
Mutton and goat meat	57	20	16	15	16	3.6	7.8	-6.3	6.7
Poultry meat	85	373	914	1 041	1 170	21.4	28.2	13.9	12.4
Milk	6 113	7 708	9 945	10 775	10 366	4.1	0.6	8.3	-3.8

Source: Brazilian Geographical and Statistical Institute (IBGE).

<sup>a</sup>Preliminary figures.

<sup>b</sup>Millions of units.

Once again, the most dynamic sector in the production of services was electricity, gas and water, which rose by 6% in 1982. This increase, however, represented only half of the extraordinary annual growth (12%) shown by this sector between 1970 and 1980.

i) *The agricultural sector.* The agricultural product dropped by 2.5% in 1982, after having risen by almost 7% in 1981 (see table 4). The poor coffee crop had a decisive influence in this regard, as it fell to half the figure for the previous year because of the heavy frosts which occurred in July. The rest of crop farming production grew by 4% altogether, despite the fact that the production of several other crops also declined. This was so, for example, in the case of soya, an export crop which was affected by the excessive rain in the south of the country, by the reduction of subsidized credit and by the low prices on the international market. Peanuts and castor beans of minor importance as regards the total volume of exports, also declined.

The production of oranges grew slightly, but exports of concentrated orange juice fell by 21% in volume and by 16% in value, owing to a good harvest in the United States and the economic recession in the importing countries. It should be recalled, however, that 1981 had been a year of exceptional growth as regards external sales of this product.

Sugar cane production showed an outstanding 18% increase, half of which was due to the expansion of the area sown and the other half to the improvement of yields. Since the mid-1970s, when the production of alcohol for energy uses began, the area planted with sugar cane has increased by 50% (from 2 to 3 million hectares) and production has doubled.

With the exception of cassava and wheat, production of the main crops for domestic consumption rose in 1982. Particularly noteworthy were the increases in the crops of rice beans (staple foods in Brazil), thanks to the incentive provided by the new system of guaranteed minimum prices, with monthly adjustments on the basis of changes in the consumer price index.

Encouraged by the excellent yield per hectare of the 1981 crop and a guaranteed price set in dollars by the Government, farmers increased their wheat area from 1.9 to 2.8 million hectares. Unfortunately, despite this effort, the production of wheat dropped by 18% owing to adverse weather conditions in the southern region. This was not reflected in purchases from the exterior because of the partial elimination of subsidies for consumers and the resulting increase in real prices. Imports of wheat dropped from 4.4 million tons in 1981 to 4.2 million in 1982 and apparent consumption of the cereal dropped from 6.6 to 6.0 million tons between those two years.

Livestock production grew by 2.6% in 1982, as the increased slaughtering of cattle and poultry more than compensated for the decline in the slaughtering of pigs and in the production of milk.

The increase in the slaughtering of cattle, including some animals suitable for reproduction, coincided with low meat prices. In real terms, producer prices dropped by 20%, to levels similar to those of 1977. Because of limited domestic demand, particularly among middle-class wage earners who represent the main market for beef, a large share of the increased production was placed on foreign markets. Exports of frozen beef were more than double with respect to the volume of the previous year and exports of processed meat rose by 5%; taken together, these categories accounted for approximately 16% of total slaughtering of cattle.

Like stock-farmers poultry farmers increased their production by 12%, but they received a lower real income because of the sharp drop in the real price of poultry meat. Contrary to the case of beef, almost all production of poultry was sold on the domestic market. Exports of frozen chicken remained stagnant at 295 000 tons, after having risen by 108% in 1980 and by 74% in 1981.

The production of pork decreased by 12% in 1982, causing a rise in the real price. This is explained by the sharp drop in prices in 1980-1981 and the resulting reduction of stocks.

Finally, milk production fell by almost 4%, after ten years of constant growth, as a result of the almost 20% drop, in real terms, of producer prices. If prices remain at this level and beef prices improve, there will be a strong incentive for replacing dairy cattle by beef cattle.

ii) *Mining*. After having stagnated in 1981, the mining product rose by 8% in 1982; this was due to the fact that the increased production of mineral fuels more than offset the decline in the production of certain metal ores (see table 5).

Table 5

**BRAZIL: INDICATORS OF MINING PRODUCTION**

	1970	1975	1980	1981	1982 <sup>a</sup>	Growth rates			
						1979	1980	1981	1982 <sup>a</sup>
Index of mining production (1970 = 100)	100.0	147.6	187.3	187.7	203.3	10.0	12.6	0.2	8.3
Production of important minerals (thousands of tons)									
Oil <sup>b</sup>	9 681	10 286	10 564	12 378	15 080	0.2	9.3	17.2	21.8
Natural gas <sup>c</sup>	1 264	1 625	2 207	2 497	3 028	-0.5	15.5	13.1	21.3
Coal	5 172	6 309	16 006	17 434	19 173	18.0	14.8	8.9	10.0
Iron ore	36 381	89 893	114 692	98 700	92 300	13.1	19.3	-14.0	-6.5
Bauxite	510	969	4 696	4 663	...	54.2	117.4	-0.7	...
Zinc <sup>d</sup>	7	49	105	97	...	66.7	7.3	-8.0	...
Cassiterite <sup>d</sup>	4	5	7	8	...	8.3	-1.0	19.7	...
Nickel	202	266	483	476	...	-14.1	97.3	-1.5	...
Manganese	2 732	2 828	2 705	2 986	2 720	2.4	-3.0	10.4	-8.9

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

<sup>a</sup> Preliminary figures.

<sup>b</sup> Thousands of cubic metres.

<sup>c</sup> Millions of cubic metres.

<sup>d</sup> Metal content.

Investments in the exploration and development of oil and natural gas brought excellent returns in 1982. Probable reserves of crude oil and natural gas increased by 14% and 13% to 271 million cubic metres (1 700 million barrels) and 68 billion cubic metres, respectively. For the first time, offshore production of crude oil was higher than land production, while offshore production of natural gas accounted for almost half the total production of this period.

Coal output continued the rapid growth shown since 1975. Production of fuel coal rose (14%) more than production of coal for metallurgical uses (4%).

On the other hand, the few data available suggest that in 1982 there was no increase in the production of metal ores. Production of iron and manganese ores dropped because of the domestic recession and the fall in external demand, and exports of iron ore went down by almost 6% in 1982, after four years of constant growth. The infrastructure works for the Grande Carajás mining project were delayed because of a lack of financial resources, so that iron ore exports from this region cannot begin until 1986. The Carajás copper refinery in Bahía began production in November; it has capacity to produce 150 000 tons of refined copper per year but must import more than half the concentrates required.

iii) *Manufacturing.* After having dropped by almost 10% in 1981,<sup>2</sup> the Brazilian manufacturing sector stagnated during 1982 (see table 6). This was due both to the continued domestic recession and to the contraction of external demand. The latter caused a 13% decline in the dollar value of exports of manufactured goods (to slightly over US\$ 10 300 million) after an increase of over 30% during each of the five preceding years.

The capital goods industries were undoubtedly the most seriously affected by the crisis. Production in this category of goods dropped by almost 11% in 1982, after having fallen by almost 19% in 1981. The 1982 index is thus below that of 1975, reflecting the heavy downturn in the level of gross fixed investment in the economy that began the year before. Production of intermediate goods remained virtually unchanged after the sharp (-11%) drop of the previous year, but the production of durable consumer goods showed a recovery of 8% after the remarkable decline of 27% in 1981. Non-durable consumer goods were the least affected by the crisis, as production in this category only dropped by 2% in 1981 and rose in 1982.

Only four out of seventeen branches of industry showed increases in production in 1982 with respect to 1980: food, tobacco, clothing and pharmaceuticals. These industries, all of which involve the production of non-durable consumer goods, have suffered less than others from the difficult situation the country is going through.

After plastic goods, transport equipment was the industry which showed the greatest rate of recovery in 1982, mainly as the result of a 19% rise in domestic sales of automobiles (automobile exports dropped by 18% compared with 1981). Despite this recovery, in 1982 this industry did not achieve the level it had reached in 1975.

The greatest increase in motor vehicle production was in the manufacture of passenger cars (17%), which was followed by light trucks and utility vehicles (16%) (see table 7). Production of trucks and buses dropped, by 39% and 26% respectively, from the already low levels of 1981, owing to the simultaneous contraction of more than 70% of the domestic and external markets. Except for truck producers, whose inventories rose by 65%, assembly plants managed to reduce the inventories they had accumulated in 1981.

The production of alcohol-fuelled vehicles, which had dropped by almost 50% in 1981, largely because of a lack of confidence in the forecasts regarding the supply of fuel alcohol, showed a remarkable recovery. The reactivation of sales in 1982 was due, firstly, to the growth of domestic demand; secondly, to the assurance that fuel alcohol would be available throughout the country and, thirdly, to the granting of an exemption in respect of indirect taxes which was equivalent to a 40% price reduction, as well as subsidized credit for vehicles to be used as taxis. Other incentives for the use of alcohol remained in force, particularly the prohibition against the sale of gasoline on Saturdays and Sundays —alcohol sales only being prohibited on Sundays— and the fact that the price per litre of alcohol was 40% lower than that of gasoline and 30% lower in terms of the fuel cost per kilometre.

<sup>2</sup>This figure of 9.9% for the decline in manufacturing production is a revision of the figure of -6.4% mentioned in the note on Brazil in ECLA, *Economic Survey of Latin America*, 1981. The figure of -6.4% for the industrial product has not been revised.

The metallurgy subsector remained depressed after a sharp contraction of over 15% in 1981, but several branches of non-ferrous metallurgy showed signs of recovery (see table 8). Copper production rose by 48% and the production of aluminium—the most important non-ferrous metal—grew by almost one-fifth as one new plant was put on stream and another was expanded. In addition, nickel production doubled, although the volume remains low.

iv) *Construction.* The construction product remained practically unchanged after a 4% decline in 1981, which put an end to a decade when the average annual growth was almost 10% (see table 9).

Employment indexes in civil construction continued on the downward trend noted since the Ministry of Labour began conducting its survey in 1977, and indeed the rate of contraction accelerated in 1982. This reflected the depression of the real estate market and public works construction. Nevertheless, it should be noted that the available employment indexes refer only to urban employment and do not take into account road construction or large-scale projects such as Itaipú or Grande Carajás. Moreover, the indexes only include large construction companies, which usually work through subcontracts with smaller companies during recessions.

Table 6

BRAZIL: INDICATORS OF MANUFACTURING PRODUCTION

	Indexes (1975 = 100)					Growth rates			
	1970	1975	1980	1981	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>a</sup>
<b>Industrial product<sup>b</sup></b>	12.4	20.6	29.5	27.6	27.7	6.7	7.6	-6.4	0.1
<b>Manufacturing production</b>	60.4	100.0	142.8	128.6	128.8	6.7	7.6	-9.9	0.1
<b>Categories of goods</b>									
Capital goods	44.5	100.0	134.9	109.7	97.8	5.6	6.5	-18.7	-10.8
Intermediate goods <sup>c</sup>	60.5	100.0	151.7	135.8	136.4	8.6	8.3	-10.5	0.5
Consumer durables	42.5	100.0	157.2	114.4	123.6	7.7	10.7	-27.2	8.0
Consumer non-durables	74.3	100.0	130.1	127.2	129.5	4.4	5.2	-2.2	1.9
<b>Industry</b>									
Foodstuffs	74.2	100.0	134.1	133.7	135.0	2.6	7.1	-0.3	1.0
Beverages	63.7	100.0	144.8	135.6	127.5	4.3	2.7	-6.3	-6.0
Tobacco	69.5	100.0	126.0	127.6	126.1	4.1	-9.0	1.2	-1.2
Textiles	78.4	100.0	125.9	116.6	121.8	6.3	6.8	-7.3	4.4
Clothing	80.8	100.0	124.7	124.4	128.3	4.1	6.2	-0.2	3.1
Paper and paperboard	86.7	100.0	168.5	153.9	161.2	11.7	9.6	-8.6	4.7
Petroleum products	...	100.0	120.2	116.2	119.9	5.1	-4.6	-3.3	3.2
Other chemicals	58.9 <sup>d</sup>	100.0	177.0	155.2	159.2	11.2	8.9	-12.3	2.6
Pharmaceuticals	...	100.0	137.9	144.7	147.1	6.1	13.1	5.0	1.7
Perfumery, soaps and candles	62.1	100.0	174.9	177.1	172.0	12.6	9.4	1.2	-2.8
Rubber	51.8	100.0	134.3	119.5	117.7	6.6	9.0	-11.0	-1.6
Plastic articles	46.3	100.0	152.0	117.6	130.5	4.6	12.4	-22.6	10.9
Non-metallic minerals	57.9	100.0	144.4	135.9	131.5	5.4	6.5	-5.9	-3.2
Metallurgy	63.2	100.0	162.6	137.3	136.2	10.5	12.1	-15.6	-0.7
Machinery	41.0	100.0	142.4	119.4	101.2	7.2	15.3	-16.1	-15.2
Electrical equipment	49.6	100.0	149.9	125.2	121.1	7.8	5.2	-16.5	-3.3
Transport equipment	43.1	100.0	127.4	92.3	98.5	5.3	2.0	-27.6	6.7
<b>Other indicators of manufacturing production</b>									
Industrial consumption of electricity <sup>e</sup>	17.4	34.7 <sup>a</sup>	54.3 <sup>a</sup>	51.6 <sup>a</sup>	...	10.5	7.9	-5.0	2.4 <sup>f</sup>
Employment	...	...	...	...	...	2.6	3.5	-7.4	-6.7

Source: Brazilian Geographical and Statistical Institute (IBGE).

<sup>a</sup> Preliminary figures.

<sup>b</sup> Billions of dollars at 1970 prices.

<sup>c</sup> Including mining.

<sup>d</sup> Including petroleum products.

<sup>e</sup> Billions of kWh consumed by the manufacturing sector.

<sup>f</sup> January to November 1982, compared with January to November 1981.



Table 7

## BRAZIL: MOTOR VEHICLE PRODUCTION

	Thousands of units					Growth rates			
	1970	1975	1980	1981	1982	1979	1980	1981	1982
<b>Motor vehicles in general</b>	416	979	1 165	779	861	1.1	3.3	-33.1	10.4
Automobiles	250	547	601	406	475	-3.7	9.6	-32.4	16.9
Light trucks and utility vehicles <sup>a</sup>	124	339	448	284	329	6.9	-5.5	-36.6	15.9
Trucks	38	83	102	76	47	4.8	9.5	-25.2	-38.8
Buses	4	10	14	13	10	-10.4	10.2	-7.4	-26.2
<b>Gasoline and alcohol-fuelled vehicles<sup>b</sup></b>									
Gasoline-fuelled vehicles	374	886	795	558	568	0.4	-21.8	-29.7	1.8
Alcohol-fuelled vehicles	-	-	254	132	236	-	...	-48.2	79.3
Conversion of vehicles from gasoline to alcohol	-	-	29	16	1	-	...	-43.9	-92.1

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

<sup>a</sup>Including multi-purpose light commercial vehicles.

<sup>b</sup>Only automobiles, light trucks and utility vehicles.

Table 8

## BRAZIL: PRODUCTION OF METALS

	Thousands of tons					Growth rates			
	1970	1975	1980	1981	1982	1979	1980	1981	1982
<b>Steel</b>									
Pig iron	4 074	7 265	12 960	11 022	11 054	16.5	7.7	-15.0	0.3
Steel ingots	5 390	8 308	15 339	13 231	12 996	14.7	10.4	-13.7	-1.8
Rollled products	4 963	6 795	13 307	11 258	11 343	14.5	11.7	-15.4	0.8
Flats	1 869	3 151	7 313	5 921	6 236	18.6	9.8	-19.0	5.3
Non-flats	2 195	3 644	5 995	5 337	5 107	9.8	14.0	-11.0	-4.3
Steel alloy	92	257	553	572	572	18.2	13.9	3.4	-
<b>Non-ferrous metals<sup>a</sup></b>									
Aluminium	64	145	314	293	346	29.2	11.3	-6.6	18.1
Copper	33	33	63	45	67	18.0	18.6	-28.6	48.0
Tin	4	7	9	8	9	8.9	-12.9	-11.4	19.2
Nickel	3	2	3	2	5	7.6	1.7	-8.0	108.7
Lead	36	63	85	66	48	21.9	-13.4	-22.6	-26.7
Zinc	12	39	96	111	110	15.4	21.8	15.5	-0.9

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

<sup>a</sup>Primary and secondary metals.

v) *Energy*. Despite the economic recession, the consumption of commercial energy rose by more than 3%, after having declined by almost 5% in 1981. Specially notable was the increase in consumption of fuel alcohol (46%), liquified gas (10%), coal and natural gas (9%), and electricity (6%). Total consumption of petroleum products dropped for the third year in a row owing to the substitution of other sources of energy for petroleum (see table 10).

According to preliminary data supplied by ELETROBRAS, total consumption of electric power amounted to over 131 000 GWh, 93% of which was hydroelectric power. This represents a 6% increase over 1981. Residential and commercial consumption, which account together for one-third of total consumption of electric power, rose by 8% and 7%. Industrial consumption rose by 4% after having dropped by 7% in 1981.

The installed electric capacity of the country increased in 1982 from 37.0 million to 38.7 million kW. Energy projects under construction and expansions of existing ones add up to a total capacity of

Table 9  
BRAZIL: INDICATORS OF THE CONSTRUCTION INDUSTRY

	1970	1975	1980	1981	1982	Growth rates			
						1979	1980	1981	1982
<b>Index of the real product</b> (1970 = 100)	100.0	178.5	251.9	241.3	240.3	3.5	7.8	-4.4	-0.4
<b>Apparent consumption of some construction materials</b> (thousands of tons)									
Iron rods	...	1 067	1 669	1 490	1 456	3.4	20.4	-10.7	-2.3
Cement	8 994	16 694	27 089	26 114	25 249	7.8	10.1	-3.6	-3.3
<b>Employment indexes</b> (February-December 1977=100)									
Rio de Janeiro	...	...	91.3	86.3	75.2	-12.3	-3.8	-5.5	-12.8
São Paulo	...	...	71.8	68.3	61.8	-14.1	-6.6	-4.9	-9.5
Other urban centres <sup>a</sup>	...	...	91.6	92.1	85.9	-4.9	-3.1	0.5	-6.7

Source: Getúlio Vargas Foundation, Non-Ferrous Metals and Steel Council (CONSIDER), National Cement Industry Association (SNIC) and Ministry of Labour.

<sup>a</sup>Simple average of the indexes for Belém, Fortaleza, Recife, Salvador, Belo Horizonte, Curitiba, Porto Alegre and Brasília.

Table 10  
BRAZIL: FINAL CONSUMPTION OF COMMERCIAL ENERGY<sup>a</sup>

	Millions of PET <sup>b</sup>				Percentage breakdown		Growth rates				
	1976	1980	1981	1982 <sup>c</sup>	1976	1982 <sup>c</sup>	1978	1979	1980	1981	1982 <sup>c</sup>
Electricity <sup>d</sup>	22.5	35.2	36.1	38.3	32.1	41.7	11.7	12.1	11.5	2.4	6.1
Coal and gas	2.9	5.3	5.0	5.4	4.2	5.9	6.8	14.1	14.6	-6.9	9.0
Charcoal	2.6	3.5	3.2	3.0	3.7	3.3	1.4	14.5	18.1	-8.8	-5.4
Fuel oil	14.3	16.1	12.6	11.4	20.5	12.4	8.8	4.8	-2.8	-21.5	-9.7
Diesel oil	11.4	15.5	15.1	15.5	16.2	16.8	9.0	8.3	7.4	-2.3	2.0
Gasoline	10.9	8.7	8.3	8.1	15.5	8.8	2.1	-2.2	-13.5	-4.8	-2.0
Liquefied gas	2.2	3.0	3.2	3.5	3.1	3.8	10.7	10.1	8.7	5.2	10.1
Other petroleum products <sup>e</sup>	3.2	3.9	3.8	4.1	4.5	4.5	12.2	11.1	-6.5	-1.3	8.4
Fuel alcohol	0.1	2.0	1.7	2.5	0.2	2.7	135.9	48.1	18.3	-13.4	46.2
<b>Total</b>	<b>70.0</b>	<b>93.1</b>	<b>88.9</b>	<b>91.7</b>	<b>100.0</b>	<b>100.0</b>	<b>9.6</b>	<b>8.8</b>	<b>4.9</b>	<b>-4.5</b>	<b>3.3</b>
Petroleum products	41.9	47.1	43.0	42.5	59.8	46.4	7.6	5.0	-1.6	-8.8	-1.0
Other energy	28.1	46.0	45.9	49.2	40.2	53.6	12.1	13.6	12.6	-0.2	7.1
Energy-product ratio <sup>f</sup> (1976 = 100)	100.0	104.6	101.8	103.9	-	-	4.6	2.0	-2.8	-2.7	2.0

Source: 1976-1981: Ministry of Mines and Energy, *Balanço Energético Nacional 1982*; 1982: ECLA estimates, on the basis of figures supplied by ELETROBRAS, the Ministry of Industry and Commerce and the National Petroleum Council.

<sup>a</sup>Excluding firewood and sugar-cane bagasse.

<sup>b</sup>PET, petroleum equivalent tons.

<sup>c</sup>Preliminary figures.

<sup>d</sup>Approximately 92% of electricity is produced by hydroelectric power and 8% by thermal power. Consumption of electricity in MWH has been converted to PET using the coefficient 0.29 PET/MWH, which reflects consumption of petroleum at thermal electric plants operating with petroleum in the country.

<sup>e</sup>Including kerosene, naphthas and other energy products.

<sup>f</sup>Commercial energy consumption divided by the real gross domestic product.

Table 11

## BRAZIL: CRUDE OIL PROCESSED BY NATIONAL REFINERIES

	Millions of cubic metres					Growth rates			
	1970	1975	1980	1981	1982	1979	1980	1981	1982
National	9.5	9.0	10.2	11.0	13.3	-5.3	12.0	7.4	21.3
Imported	20.1	42.8	53.0	49.9	46.9	5.2	-4.6	-5.7	-6.1
Total	29.6	51.8	63.2	60.9	60.2	3.5	-2.3	-3.6	-1.2

Source: National Petroleum Council (CNP).

47 million kW, 86% of which is hydroelectric power. With respect to nuclear energy, NUCLEBRAS inaugurated a mining-industrial complex with the capacity to produce 500 tons of uranium concentrate per year, which produced 286 tons in 1982. NUCLEBRAS also discovered deposits of 35 000 tons of uranium in Bahia and Ceará, which raised total reserves to 301 000 tons.

Brazil's policy of reducing its dependency on oil (it imports 80% of the oil it uses, at a cost in foreign exchange of almost US\$ 10 billion in 1982) has been remarkably successful. The share of petroleum products in total commercial energy consumption dropped from 60% in 1976 to 46% in 1982. This reduction was due to a sharp drop (-25%) in the consumption of gasoline, which was partly replaced by alcohol, and to the drop (-20%) in the consumption of fuel oil, which was replaced to a large extent by coal (see tables 10 and 11). Total consumption of automobile fuel (fuel alcohol and gasoline) rose by 6% after having dropped in 1980 and 1981; however, the level of less than 11 million petroleum equivalent tons (PET) was lower than consumption in 1976, thus reflecting success in energy conservation. Moreover, alcohol was substituted for gasoline: while alcohol consumption rose at an average annual rate of 71% during the six-year period ending in 1982, gasoline consumption dropped at an annual rate of 5%.

Consumption of fuel oil dropped for the third year in a row, reaching a level that was 20% lower than that of 1976. This reduction was due to an almost 200% rise in the real price of fuel oil between 1978 and 1981 and to the fact that technical and financial assistance was given to the main consumers of this fuel, i.e., the paper and pulp, steel and cement industries. Between 1978 and 1981, consumption of fuel oil in these three industries dropped by 19%, 39% and 40% respectively, owing mainly to it being replaced by coal.

### c) *Employment and unemployment*<sup>3</sup>

Employment in the formal market in urban areas declined by 2% with respect to the average level of 1981.<sup>4</sup> Manufacturing and construction showed the most unfavourable behaviour, while employment in commerce and other services rose slightly (0.4% and 2.5%, respectively) (see table 12).

<sup>3</sup>The most important employment statistics in Brazil are prepared by the Brazilian Institute of Geography and Statistics (IBGE), the Ministry of Labour, and the Federation of Industries of the State of São Paulo (FIESP). The IBGE constructs employment statistics on the industrial sector for the whole country on the basis of data provided by the monthly industrial survey. It also prepares employment and unemployment statistics, using a sample of households selected on the basis of information obtained from the *Pesquisa Nacional de Amostras Domiciliares* (PNAD), which is the only source of information covering both the formal and the informal labour markets. The monthly employment index is prepared by the Ministry of Labour with data which enterprises are required to provide regarding hiring and firing of employees under the Consolidated Labour Laws (CLIT) system. The sample is made up of approximately 7 000 enterprises representing around 3 500 000 jobs. Although the sample is very wide, however, it is biased because it only includes very large enterprises. The industrial employment data of FIESP are obtained from the *Levantamiento de Coyuntura-Índice FIESP*, which consists of a monthly survey carried out among the Federation's members, and which covers a wide variety of information including, *inter alia*, data on hours worked.

<sup>4</sup>According to data supplied by the Ministry of Labour which, as already mentioned, are based on a survey of practically all the 7 000 largest companies of the country.

The level of employment in the industrial sector,<sup>5</sup> which had dropped sharply during 1981, remained virtually unchanged during the first three quarters; in the fourth quarter, however, it dropped again, falling by almost 3% as compared with the same period of 1981. Consequently, the average level of employment in the industrial sector was almost 7% lower in 1982 than in 1981 (see table 13).

Statistics on employment and hours worked in the industrial sector seem to indicate that the slight growth of production in 1982 was achieved mainly through an increase in hours worked.

The decline of employment in the industrial sector was generalized, inasmuch as only two branches showed increases. The activities in which the number of persons employed dropped the most were metal products and machinery (-11%), metallurgy (-11%), electrical equipment (-9%)

Table 12  
BRAZIL: URBAN EMPLOYMENT INDEXES

(Base 1970 = 100)

	1978	1979	1980	1981	1982
Belém	105.1	113.8	113.0	112.2	113.1
Fortaleza	106.1	110.2	113.7	110.9	115.2
Salvador	102.5	104.0	110.1	110.3	112.2
Recife	106.2	110.8	114.8	114.5	112.0
Belo Horizonte	103.7	108.3	113.1	111.8	110.7
Rio de Janeiro	104.8	104.5	104.1	100.2	97.0
São Paulo	100.9	103.2	103.8	97.2	93.6
Curitiba	101.9	100.2	98.8	96.7	96.8
Porto Alegre	103.2	105.1	109.1	107.4	106.6
Brasília	104.1	107.6	107.3	106.5	106.7
<b>Average for metropolitan regions<sup>a</sup></b>	<b>102.0</b>	<b>105.6</b>	<b>107.5</b>	<b>104.0</b>	<b>102.0</b>
Industry		102.6	102.8	93.2	87.7
Construction		89.9	87.8	85.8	77.6
Commerce		109.0	113.9	113.3	113.8
Services		112.5	115.8	117.2	120.1

Source: Ministry of Labour, National Employment System (SINE).

<sup>a</sup>Weighted according to data from the *Pesquisa Nacional de Amostras Domiciliares* (National Household Survey).

Table 13  
BRAZIL: EMPLOYMENT IN THE MANUFACTURING SECTOR

(Base 1976 = 100)

Month	1979	1980	1981	1982
January	105.6	107.2	109.0	94.3
February	106.6	108.3	109.1	94.8
March	107.4	109.6	108.0	95.8
April	107.1	110.3	106.1	96.0
May	107.3	110.7	104.3	96.5
June	107.0	111.2	102.7	95.9
July	106.6	111.2	100.5	95.4
August	106.1	111.1	98.4	95.2
September	105.6	110.9	97.3	94.6
October	106.2	110.5	96.4	94.1
November	106.5	109.8	95.8	93.2
December	106.1	108.9	95.4	94.9
<b>Average</b>	<b>106.5</b>	<b>110.0</b>	<b>101.9</b>	<b>95.1</b>

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

<sup>5</sup>According to figures supplied by the Brazilian Geographical and Statistical Institute (IBGE).

Table 14

## BRAZIL: UNEMPLOYMENT RATES IN MAJOR URBAN CENTRES

Major cities	1980					1981					1982				
	Quarter				Annual average	Quarter				Annual average	Quarter				Annual average
	I	II	III	IV		I	II	III	IV		I	II	III	IV	
Rio de Janeiro	7.9	7.9	7.6	6.6	7.5	8.3	8.9	8.8	8.7	8.6	9.3	6.8	5.6	4.5	6.6
São Paulo	6.7	5.7	5.3	4.9	5.6	7.4	7.4	7.5	6.7	7.7	8.3	5.7	5.6	4.3	6.0
Belo Horizonte	...	8.0	7.4	7.4	7.6	9.9	9.4	8.7	7.9	9.0	8.9	6.8	6.2	5.9	7.0
Porto Alegre	...	4.7	4.8	4.1	4.6	5.9	6.3	6.1	4.9	5.8	6.3	5.3	5.2	4.1	5.2
Salvador	...	7.8	7.6	6.3	7.3	8.7	9.8	9.2	8.5	9.0	8.4	6.0	5.8	4.9	6.3
Recife	...	7.0	7.3	6.3	6.8	8.3	8.8	9.3	7.8	8.6	9.1	7.9	7.2	5.7	7.5
Average for urban centres <sup>a</sup>	...	6.7	6.4	5.8	6.3	7.9	8.2	8.1	7.4	7.9	8.5	6.2	5.7	4.6	6.3

Source: Brazilian Geographical and Statistical Institute (IBGE), monthly employment survey.

<sup>a</sup>Weighted by the population of each city.

and chemicals (-7%). The only branches which showed positive changes were clothing and footwear and perfumery and soaps, in both of which the number of persons employed rose by 2%.

Unemployment in the urban areas dropped from an average of 7.9% in 1981 to 6.3% in 1982. This reduction was observed throughout the year. Indeed, urban unemployment dropped from 8.5% in the first quarter to 4.6% in the fourth quarter. Likewise, unemployment rates in the various metropolitan regions followed a trend similar to that of the main urban centres as a whole (see table 14).

This decline in the unemployment rate, which seems contradictory in the light of the decline in levels of employment in formal activities in the urban sector, appears to be due to the fact that many persons who lost their jobs in the formal market entered the informal job sector, while there was also a fall in participation rates of the economically active population, particularly among women and youth. The latter phenomenon was due, in turn, to the magnitude and duration of the economic depression, which appears to be discouraging many persons from continuing to seek employment owing to the scarcity of jobs available. Moreover, as mentioned earlier, significant changes were made in the methodology used for estimating unemployment figures and this too has a lot to do with the drop in the unemployment rate.

Both the aforementioned situations —the entry of workers into the informal sector and the drop in the participation rates of the economically active population— are quite understandable in Brazil, which has no unemployment insurance system.<sup>6</sup>

### 3. The external sector

The difficulties in the external sector of the Brazilian economy increased throughout 1982, reaching a critical level as from September, when there was a drastic reduction in the amount of foreign loans received, as well as a sharp drop in international reserves.

Towards the end of the year, the serious balance-of-payments problems led the economic authorities to negotiate with the IMF for a group of credits and to propose to the private international banks the rescheduling of part of the external debt for 1983, as well as to request new loans. The critical balance-of-payments situation also led them to adopt specific measures regarding trade policy and, as part of the 1983 programme for the external sector, to try to achieve a strong trade surplus.<sup>7</sup> In general they advocated an economic policy of austerity which would necessarily be reflected in the monetary and fiscal budgets for 1983.

<sup>6</sup>The existing system, called the Length of Service Guarantee Fund (FGTS), cannot be considered as unemployment insurance, as the funds deposited by workers can be withdrawn by the workers themselves not only when they are unemployed but also when they buy a house; thus, if a person does lose his job, there may not be sufficient funds credited to him to compensate for his loss of income.

<sup>7</sup>The 1983 goal for the external trade in goods is to achieve a surplus of US\$ 6 billion.

In 1982, the value of exports dropped by 13%, interrupting a long period of rapid growth. The value of exports had not dropped since 1967,<sup>8</sup> and the cumulative annual growth rate for the 1970s had been 22% (see table 15). In 1982, exports only reached a value of around US\$ 20 200 million, an amount which is much lower than the original forecast of US\$ 26 billion.

The value of imports also dropped sharply (-12%), thus allowing for a positive balance of around US\$ 800 million on the trade in goods, but this was lower than the positive balance of US\$ 1 200 million achieved in 1981 and a great deal lower than the original forecast of US\$ 3 billion.

The balance-of-payments current account deteriorated sharply, and the negative balance of almost US\$ 16 300 million was US\$ 4 500 million higher than the 1981 deficit.

Because of this heavy increase in the deficit on current account and the difficulties encountered in attracting external resources through the traditional mechanisms, the difference between the requirements for external resources and the availability of same amounted to almost US\$ 9 billion (see table 23 below).

The unfavourable developments with regard to the balance on the trade in goods led to a series of trade policy measures being taken around the middle of the year which were expanded and intensified from September onwards as a result of a sharp drop in international reserves.

Thus, in June several steps were taken to contain imports. Firstly, the ceiling for public sector imports (excluding oil and wheat) was dropped from US\$ 3 680 to US\$ 3 030 million. Controls on external purchases of the major importing companies were also tightened in the context of import programmes. In September the quarterly values of imports which had originally been authorized under the programmes were again reduced. The suspension of import licenses—a measure adopted in 1976—was also extended to a large number of new articles. In October, the requirements with regard to external financing for foreign purchases were also increased.

In November, the Government undertook negotiations with the United States and with GATT with a view to continuing fiscal credit for exports—the elimination of which had been scheduled for 31 March 1983—for two years more (until 30 April 1985).<sup>9</sup> During the course of the year, there was a significant increase in the number of Brazilian products that were covered by the legislation and the

Table 15

**BRAZIL: MAIN FOREIGN TRADE INDICATORS**

	1975	1976	1977	1978	1979	1980	1981	1982 <sup>a</sup>
	<b>Growth rates</b>							
Exports of goods, FOB								
Value	8.7	17.3	19.7	4.6	22.2	32.1	15.6	-13.3
Volume	8.4	1.6	7.3	12.5	12.0	22.3	25.0	-6.6
Unit value	0.3	15.4	11.6	-7.0	9.1	8.0	-7.5	-7.2
Imports of goods, FOB								
Value	-4.1	2.5	-2.6	13.4	31.8	27.8	-3.8	-12.2
Volume	-10.0	-3.3	-5.1	5.9	9.9	-0.8	-13.2	-8.8
Unit value	6.5	6.0	2.6	7.0	19.9	28.8	10.9	-3.7
Terms of trade (goods)	-6.1	8.7	8.5	-13.1	-8.8	-15.7	-16.7	-3.8
	<b>Indexes (1970 = 100)</b>							
Terms of trade, goods (FOB/CIF)	85.4	92.8	100.8	87.6	79.9	67.4	56.1	54.0
Purchasing power of exports of goods	144.1	159.1	185.0	180.7	188.2	200.6	211.9	188.4
Purchasing power of exports of goods and services	143.1	155.2	180.7	177.3	184.7	195.1	208.1	184.1

Source: ECLA, on the basis of official data.

<sup>a</sup>Preliminary figures.

<sup>8</sup>In 1974 the physical volume of exports fell but was more than offset by a strong rise in unit values.

<sup>9</sup>During 1982, this subsidy, expressed as a percentage of the adjusted FOB value of exports, was 15% for the first quarter, 14% for the second quarter, 12.5% for the third quarter and 11% for the fourth quarter (in accordance with the programme under which this subsidy, which had been eliminated in December 1979, was reintroduced on 1 April 1981).

procedures pertaining to the application of countervailing duties in the importing countries, particularly the United States.<sup>10</sup> Brazil has usually tried to avoid such situations by entering into suspension agreements, which include the application of export taxes to certain articles when these are sent to specific markets. The main goods affected in 1982 were footwear, certain steel products and orange juice.

In 1982 the monetary authorities continued to schedule the rate of devaluations of the cruzeiro with respect to the United States dollar solely on the basis of domestic inflation, without applying adjustments to account for the rise in external prices. This policy was put underway in 1981 in order gradually to raise the real rate of exchange. In practice, in 1982 the rate of exchange with respect to the dollar closely followed the monthly evolution of the Readjustable Obligations of the National Treasury (ORTN). As these variations —which were determined two months in advance— did not adequately reflect the unexpected aggravation of inflation at the beginning of the year, the real rate of exchange fell during the first two quarters. However, the real rate of exchange with respect to the dollar recovered during the last two quarters, as a result of the combined effect of greater exchange adjustments and a lower rate of inflation (see figure 2). In terms of annual averages, the real rate of exchange rose slightly by comparison with that of 1981 (see table 16).

The exchange policy was frustrated, however, by the rise in the value of the United States dollar with respect to most other convertible currencies, particularly the Japanese yen and the weaker European currencies, as well as by the devaluations applied in several Latin American countries and the sharp reduction of external inflation. Consequently, the effective real rate of exchange for Brazil's international trade dropped significantly (see table 17).

a) *Merchandise trade*

i) *Exports.* One of the most adverse developments in the Brazilian economy in 1982 was undoubtedly the 13% drop in the value of exports, particularly in light of the great dynamism this variable had shown from the mid-1960s up to 1981 (see table 18). This fall was partly due to the persistence of unfavourable external conditions which had already been evident in previous years, such as the stagnation of world trade, the recrudescence of protectionism, the constant reductions in the international prices of commodities, the revaluation of the United States dollar with respect to other convertible currencies, and the effect of interest rates on the formation of stocks.

These factors were accentuated in 1982 by the balance-of-payments problems which affected most developing and socialist countries, especially those with a high level of external indebtedness. To these were added the balance-of-payments problems of some oil-exporting countries, particularly the African ones. Thus, Brazilian exports to the OPEC, ALADI and Eastern European countries, which had been so dynamic in recent years, dropped sharply (beginning in early 1982) to almost one-third, in annual terms, with respect to each of the aforementioned groups of countries (see table 19).

The value of exports to the industrialized countries also dropped. Particularly notable was the drop in the value of sales to the European Economic Community, which is explained to a large extent by the fall in the value of commodity exports, particularly soya. Since the value of the exports to the industrialized market-economy countries dropped much less than the value of exports to socialist and developing countries, there was a reversal of the market diversification process which had taken place in recent years.

As regards groups of products, the decline of exports was evident, right from the beginning of the year, in the deterioration of the prices of commodities, —particularly sugar, cocoa and soya— and the situation got worse as the year went on as the volume of exports of commodities and manufactures also fell. The value of commodity exports fell by 9% over the year despite a 22% increase in coffee exports. Exports of the latter product were favourable because the 1981 crop had been exceptionally good, international prices showed a recovery during the second half of 1982 (a

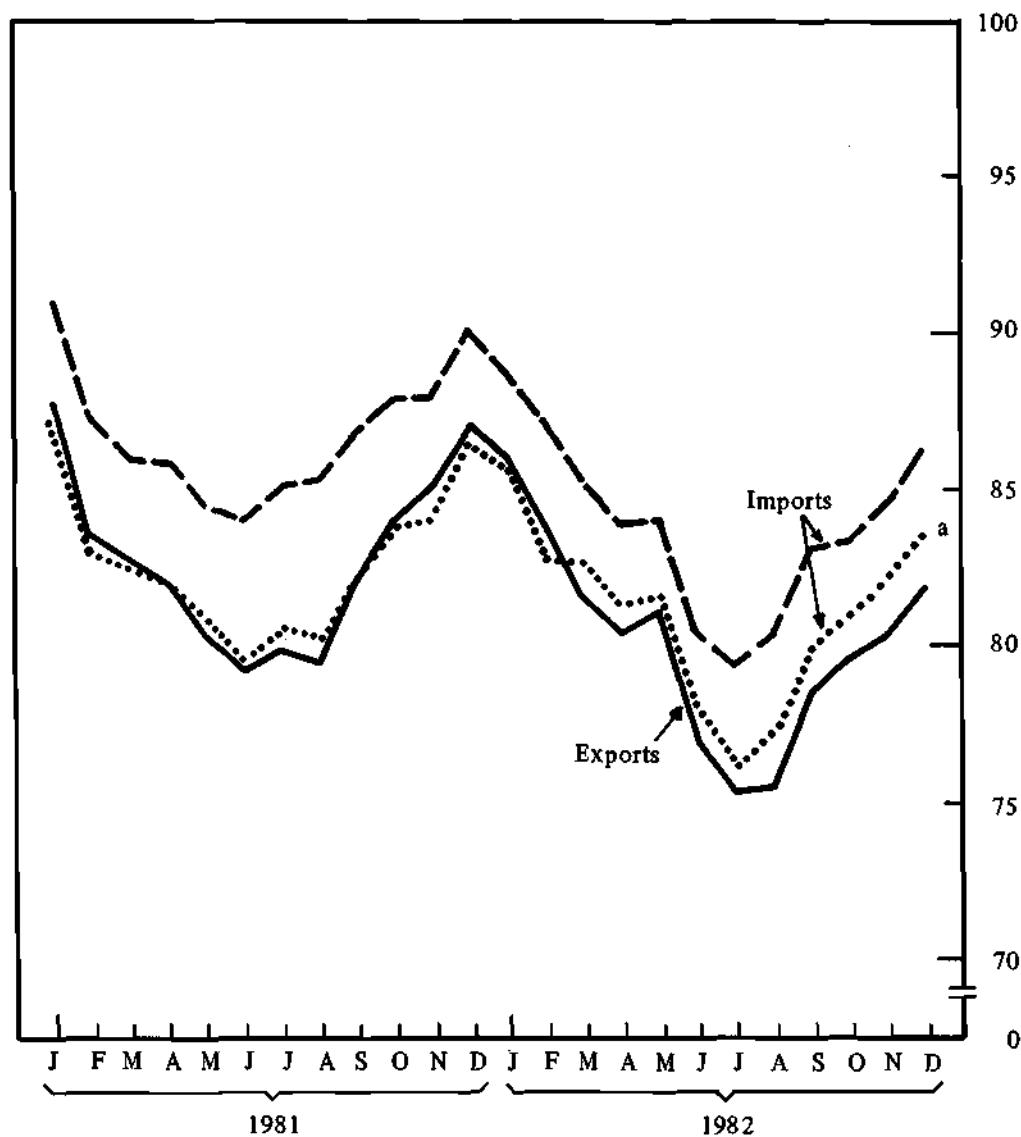
<sup>10</sup>The negotiations with the United States and GATT were necessary because in signing the GATT code on Subsidies and Countervailing Measures, Brazil has undertaken to eliminate gradually its export subsidy (by 30 June 1983). Consequently, under United States domestic legislation, in order for the United States to be able to impose countervailing duties, it must prove that the subsidized importation of articles taxed in Brazil causes substantial damage to a specific United States' industry. If it broke the agreement, Brazil could lose the right to have the damage investigated, so that merely proving the existence of the subsidy would again be the only legal requirement for imposing countervailing duties.

frost which hit Brazil during the winter of 1981 had jeopardized the 1982 harvest) and the agreements implemented through the International Coffee Organization were working relatively well. The sharpest drops occurred in the value of exports of sugar, soya and cocoa. In the case of sugar, the world price fell so much that it only covered about half the guarantee price paid to domestic producers by the Sugar and Alcohol Institute (IAA). Soya exports fell in volume because there was a surplus on the world market and because Brazilian production had fallen.

The decline in exports of manufactures got worse as the year went on, in close correlation with the decline of external sales to the developing countries,<sup>11</sup> for the reasons already mentioned and, in some cases, also because of the increasing difficulties experienced with respect to the financing of

Figure 2

**BRAZIL: EVOLUTION OF THE EFFECTIVE REAL EXCHANGE RATE INDEXES FOR EXPORTS AND IMPORTS**



Source: ECLA, on the basis of information supplied by the International Monetary Fund.  
<sup>a</sup>Except the oil-exporting countries (Saudi Arabia, Iran, Iraq, Kuwait).

<sup>11</sup>For example, more than 85% of Brazilian exports to ALADI countries consist of manufactured goods.



Table 16

## BRAZIL: EVOLUTION OF THE EXCHANGE RATE AND OF PRICES

(Base 1980 = 100)

Annual and quarterly averages	Official exchange rate		General wholesale price index, domestic availability	United States wholesale price index	Real rate of exchange (2) / (3)	Adjusted real rate of exchange (5) × (4)
	Cruzeiros per dollar (1)	Index (2)				
1975	8.13	15.4	11.2	65.1	137.3	89.4
1976	10.67	20.2	15.7	68.1	128.6	87.6
1977	14.14	26.8	22.1	72.3	121.2	87.6
1978	18.07	34.3	30.8	77.9	111.4	86.8
1979	26.95	51.1	47.8	87.7	107.0	93.8
1980	52.71	100.0	100.0	100.0	100.0	100.0
1981	93.13	176.7	213.0	109.0	82.9	90.4
1982	179.51	340.6	413.3	111.4	82.4	91.8
1981						
I	70.80	134.3	163.1	106.7	82.4	87.9
II	83.89	159.2	196.6	109.3	80.9	88.5
III	99.72	189.2	227.9	110.2	83.0	91.4
IV	118.08	224.0	264.6	110.1	84.7	93.2
1982						
I	137.87	261.6	312.9	111.0	83.6	92.8
II	160.18	303.9	377.0	111.1	80.6	89.6
III	189.65	359.8	447.5	111.7	80.4	89.8
IV	230.36	437.0	515.9	111.8	84.7	94.7

Source: International Monetary Fund (IMF), *International Financial Statistics*, April 1983.

exports. The value of exports of manufactures as a whole dropped by 13%, and this drop affected most of the items included in this group. The main exceptions were processed coffee, the value of which rose by 13%, and manufactured steel products, whose value dropped only slightly.

ii) *Imports.* The total value of imports in 1982 amounted to US\$ 19 400 million, representing a decline of 12% with respect to the 1981 value (see table 20). Thus, the decline noted since mid-1980 continued uninterrupted.

If crude oil is excluded, the value of imports dropped by more than 14%, with capital goods and raw materials showing the sharpest decline (-19% in each case). The value of imports of consumer goods rose slightly (1.5%), but they only represented 5% of total imports.

The value of imports of crude oil dropped by 10% with respect to 1981, since the physical volume of such imports went down by 6% and their unit value by somewhat over 4%. In physical terms, imports of crude oil amounted to the equivalent of 798 000 barrels per day, by comparison with 847 000 in 1981. The average price paid dropped from US\$ 34.36 per barrel in 1981 to US\$ 32.85 in 1982.

An analysis of imports by countries of origin shows that the decline was due mainly to the drop in purchases from OPEC countries and developed countries, which fell by 16% altogether. Imports from Eastern European countries, on the other hand, rose by over 90%, although they still represented only a small share of the total. Imports from ALADI countries also increased, although to very different degrees in different countries (see table 21).

Merchandise trade showed a positive balance of US\$ 775 million in 1982. Because oil imports fell, the trade deficit with OPEC countries was reduced by almost US\$ 500 million. The trade surplus with the rest of the world dropped from US\$ 7 800 million in 1981 to US\$ 6 900 million in 1982, mainly because of the above-mentioned developments with respect to trade with socialist and ALADI countries. Trade with ALADI countries, which during the period 1976-1981 had produced balances that were increasingly favourable to Brazil, showed a negative balance of over US\$ 400 million in 1982. The trade balance with developed countries, on the other hand, rose from US\$ 3 300 million in 1981 to US\$ 4 500 million in 1982.

iii) *The terms of trade and the purchasing power of exports.* In 1982, the terms of trade deteriorated (-4%) for the fifth year in a row, although to a lesser degree than in previous years (see table 15). This decline was the result of several different trends. In the first place, the fall of international commodity prices in general was reflected in a significant drop in the unit values of Brazilian exports of such products, although at the same time, as mentioned before, the average price per barrel paid by Brazil for imported crude oil also fell. Likewise, the stagnation of world trade and the decline of the real rate of exchange, weighted by Brazil's international trade flows, pushed the import and export prices of manufactures down in dollar terms (in other words, the revaluation of the United States dollar with respect to the currencies of most of Brazil's trading partners helped to reduce the dollar prices of imports from countries outside the dollar area). At the same time, in order to maintain their competitiveness on traditional markets, Brazilian exporters, especially of manufactures, absorbed part of the increase in the value of the dollar by lowering the dollar prices of their exports.

As a result of the above-mentioned deterioration of the terms of trade, the purchasing power of exports dropped (-12%) more than the physical volume (-7%) of same. Thus, Brazil suffered a further loss of real income as a side effect.

b) *Trade in services and factor payments*

i) *Tourism and transport.* The traditional deficit in the trade in non-financial services rose from US\$ 2 900 million in 1981 to US\$ 3 600 million in 1982. About two-thirds of income and outlay for non-financial services was for transport and insurance and for travel. As a result of the reduction of

Table 17

**BRAZIL: EVOLUTION OF EFFECTIVE REAL EXCHANGE RATE INDEXES FOR EXPORTS AND IMPORTS<sup>ab</sup>**

(1980 = 100)

Average	Exports		Imports	
	(1)	(2)	(3) <sup>c</sup>	
1975	80.8	71.2	81.7	
1976	77.7	69.6	79.6	
1977	78.2	69.4	78.9	
1978	83.2	72.2	82.6	
1979	92.7	82.4	91.2	
1980	100.0	100.0	100.0	
1981	82.7	86.9	82.5	
I	84.5	87.7	84.0	
II	80.5	84.6	80.5	
III	80.6	85.6	80.9	
IV	85.2	88.5	84.8	
1982	79.6	83.6	80.7	
I	83.7	87.0	84.0	
II	79.1	82.5	80.0	
III	76.5	80.8	77.6	
IV	80.3	84.7	82.1	

Source: ECLA, on the basis of data supplied by the International Monetary Fund, *International Financial Statistics*, several issues.

<sup>a</sup> These indexes are obtained by adding together the indexes of the real rate of exchange with respect to each country, weighted according to the geographical composition of exports or imports, considering Brazil's main trade flows. The index of the real rate of exchange with respect to a given country was obtained by dividing the index of the rate of exchange between Brazilian currency and the currency of the country in question by the wholesale price index for Brazil and the price indexes for the other country, preferably the wholesale price index. In the case of imports, the indexes for Saudi Arabia, Iraq, Iran and Kuwait are oil price indexes. Thirteen countries are included in the estimates for exports and fifteen in the estimates for imports; these represent 65.2% and 82.4% of Brazil's foreign trade during the period 1975-1979. For further details on the methodology used, see Part Three of the *Economic Survey of Latin America, 1981*, (United Nations publication, Sales No. E.83.II.G.2).

<sup>b</sup> Official rates of exchange.

<sup>c</sup> Excluding the four oil-exporting countries mentioned in note <sup>a</sup>.

Table 18

## BRAZIL: EXPORTS OF GOODS, FOB

	Millions of dollars				Percentage breakdown			Growth rates		
	1979	1980	1981	1982 <sup>a</sup>	1970	1980	1982 <sup>a</sup>	1980	1981	1982 <sup>a</sup>
<b>Total</b>	15 244	20 132	23 293	20 175	100.0	100.0	100.0	32.1	15.7	-13.4
<b>Commodities</b>	6 553	8 488	8 920	8 139	74.8	42.2	40.3	29.5	5.1	-8.8
Coffee beans	1 918	2 486	1 517	1 854	34.3	12.3	9.2	29.6	-39.0	22.2
Iron ore	1 288	1 564	1 748	1 769	7.7	7.8	8.8	21.4	11.8	1.2
Soya meal and cake	1 137	1 449	2 136	1 600	1.6	7.2	7.9	27.4	47.4	-25.1
Soya beans	179	394	404	123	1.0	2.0	0.6	120.1	2.5	-69.4
Unrefined sugar	247	625	579	250	4.6	3.1	1.2	153.0	-7.4	-56.8
Others	1 784	1 970	2 536	2 543	25.6	9.8	12.6	10.4	28.7	0.3
<b>Industrial products</b>	8 532	11 376	14 000	11 773	24.3	56.5	58.4	33.3	23.1	-15.9
Semimanufactures	1 887	2 340	2 116	1 421	9.1	11.6	7.0	24.0	-9.6	-32.8
Manufactures	6 645	9 028	11 884	10 352	15.2	44.8	51.3	35.9	31.6	-12.9
Transport equipment	1 094	1 512	2 076	1 760	0.5	7.5	8.7	38.2	37.3	-15.2
Machinery, boilers and mechanical apparatus	971	1 382	1 546	1 210	1.8	6.9	6.0	42.3	11.9	-21.7
Processed coffee	409	287	244	276	1.6	1.4	1.4	-29.8	-15.0	13.1
Electrical machinery and equipment	344	459	560	444	0.6	2.3	2.2	33.4	22.0	-20.7
Footwear	368	408	586	524	0.3	2.0	2.6	10.9	43.6	-10.6
Orange juice	281	339	659	552	0.5	1.7	2.7	20.6	94.4	-16.2
Manufactured steel products	446	625	801	791	1.9	3.1	3.9	40.1	28.2	-1.2
Others	2 732	4 016	5 412	4 795	8.0	19.9	23.8	47.0	34.8	-11.4
<b>Other products<sup>b</sup></b>	159	268	374	263	0.9	1.3	1.3	68.6	39.6	-29.7

Source: Banco do Brasil, Carteira de Comércio Exterior (CACEX).

<sup>a</sup>Preliminary figures.

<sup>b</sup>Includes consumption on aircraft and ships, re-exports and special transactions.

external trade in goods, both income and outlays in respect of transport and insurance were lower in 1982 than in 1981, and since outlay went down more than income, the deficit was reduced by 16%. As regards travel, there was a sharp deterioration of income (73%), partly because of the restrictions imposed by many countries of the region on outgoing tourism, and because of the revaluation of the cruzeiro with respect to the currencies of many South American and European countries (see table 22). Outlay for travel almost doubled by comparison with 1981. Consequently, in September travel to the exterior was discouraged by applying a 25% financial transactions tax to the purchase of foreign currency for purposes of tourism.<sup>12</sup>

ii) *Remittances of profits and interest payments.* In 1982, the negative balance on these two items continued the sharp upward trend of recent years, reaching US\$ 13 500 million, including reinvested profits and dividends. This was one-third higher than the figure for the preceding year, double that of 1980 and three times that of 1978.

At the root of this extremely rapid growth was the rise in the figure for net interest payments, which amounted to US\$ 11 400 million in 1982: 24% more than in 1981, 80% more than in 1980, and four times higher than the figure for 1978. The net payment in 1982 was about US\$ 1 900 million higher than the figure envisaged by the economic authorities, despite the fact that interest rates had gone down on the international financial markets. This phenomenon may be explained by the lag between the changes in interest rates on those markets and the interest paid on the external debt contracted at variable interest rates, which are normally adjusted every six months. Indeed, interest rates for the period July 1981-June 1982 (the most relevant interest-payment period for 1982) were higher than those for the previous 12-month period.

Despite the depressed domestic economic situation, net transfers of profits to the exterior rose by 91% in 1982, after having risen by 54% in 1981.

<sup>12</sup>Central Bank Resolution 760 of 14 September 1982.

Table 19

**BRAZIL: EXPORTS OF GOODS, BY GROUPS OF COUNTRIES OF DESTINATION**

	Millions of dollars FOB					Percentage breakdown		Growth rates			
	1970	1977	1979	1981	1982	1970	1982	1979	1980	1981	1982
<b>Total</b>	2 739	12 120	15 244	23 293	20 175	100.0	100.0	20.4	32.1	15.7	-13.4
<b>Developed countries</b>	2 155	8 254	9 767	12 942	12 404	78.7	61.5	14.3	23.8	7.0	-4.2
United States, Canada, EEC <sup>a</sup> and Japan	1 829	6 898	8 621	11 554	11 098	66.8	55.0	15.4	21.2	10.6	-3.9
United States <sup>b</sup>	676	2 149	2 941	4 111	4 131	24.7	20.5	2.5	19.3	17.1	0.5
Canada	41	143	199	290	231	1.5	1.1	30.8	21.7	19.4	-20.2
EEC <sup>c</sup>	967	3 922	4 594	5 933	5 423	35.3	26.9	20.9	19.0	8.5	-8.6
Japan	145	685	887	1 220	1 313	5.3	6.5	36.4	38.9	-1.0	7.6
Others <sup>d</sup>	326	1 356	1 145	1 388	1 306	11.9	6.5	6.4	43.3	-15.4	-5.9
<b>Eastern Europe</b>	123	859	976	1 699	1 163	4.5	5.8	33.9	33.9	30.0	-31.5
<b>Developing countries<sup>d</sup></b>	457	2 910	4 359	8 296	6 347	16.7	31.5	34.5	48.5	28.1	-23.5
OPEC <sup>e</sup>	27	588	602	1 962	1 327	1.0	6.6	-12.5	104.7	59.2	-32.3
Others	430	2 321	3 757	6 334	5 020	15.7	24.9	47.2	39.5	20.9	-20.8
ALADI <sup>f</sup>	303	1 480	2 475	4 209	2 835	11.1	14.0	52.8	39.7	21.7	-32.7
Argentina	186	373	718	880	650	6.8	3.2	105.9	51.9	-19.4	-26.2
Chile	24	130	363	641	289	0.9	1.4	89.8	24.2	42.1	-54.9
Mexico	20	107	292	643	324	0.7	1.6	64.0	61.0	36.9	-49.6
Paraguay	11	185	324	450	324	0.4	1.6	44.6	26.2	9.9	-27.8
Uruguay	31	205	208	373	138	1.1	0.7	56.2	49.3	20.1	-63.1
Andean Group	31	480	569	1 222	1 109	1.1	5.5	4.7	27.6	68.3	-9.2
<b>Rest of the developing countries</b>	127	841	1 282	2 126	2 185	4.6	10.8	37.5	39.1	19.2	2.8
<b>Provisions to ships and aircraft; undeclared goods</b>	4	97	143	356	261	0.1	1.3	-	82.0	36.8	-26.7

Source: ECLA, on the basis of data supplied by Banco do Brasil, Carteira de Comércio Exterior (CACEX).

<sup>a</sup>European Economic Community (ten countries).

<sup>b</sup>Including Puerto Rico.

<sup>c</sup>Australia, Austria, Finland, Iceland, Israel, Malta, New Zealand, Norway, Portugal, South Africa, Spain, Sweden, Switzerland, Turkey and Yugoslavia.

<sup>d</sup>Including socialist countries of Asia.

<sup>e</sup>Organization of Petroleum-Exporting Countries, except Venezuela and Ecuador.

<sup>f</sup>Latin American Integration Association.

Table 20

**BRAZIL: IMPORTS OF GOODS, FOB**

	Millions of dollars				Percentage breakdown			Growth rates		
	1979	1980	1981	1982	1970	1980	1982	1980	1981	1982
<b>Total</b>	18 084	22 955	22 091	19 397	100.0	100.0	100.0	26.9	-3.8	-12.2
<b>Consumer goods</b>	1 582	1 316	987	1 002	13.6	5.7	5.2	-16.8	-25.0	1.5
<b>Intermediate goods</b>	12 727	17 259	17 081	15 123	48.1	75.2	78.0	35.6	-1.0	-11.5
Fuels and lubricants	6 773	10 200	11 340	10 459	7.0	44.4	53.9	50.6	11.2	-7.8
Others	5 954	7 059	5 741	4 664	41.1	30.8	24.1	18.6	-18.7	-18.7
<b>Capital goods</b>	3 775	4 381	4 023	3 272	38.3	19.1	16.8	16.1	-8.2	-18.7

Source: Central Bank of Brazil.

Table 21

**BRAZIL: IMPORTS OF GOODS, BY GROUPS  
OF COUNTRIES OF ORIGIN**

	Millions of dollars FOB					Percentage breakdown		Growth rates			
	1970	1977	1979	1981	1982	1970	1982	1979	1980	1981	1982
<b>Total</b>	2 507	12 023	18 084	22 091	19 397	100.0	100.0	32.2	26.9	-3.8	-12.2
<b>Developed countries</b>	1 976	6 589	8 934	9 158	7 506	78.8	38.7	14.6	18.9	-13.8	-18.0
United States, Canada, EEC <sup>a</sup> and Japan	1 784	5 816	7 923	8 232	6 640	71.1	34.2	13.0	19.6	-13.1	-19.3
United States <sup>b</sup>	824	2 378	3 216	3 480	2 850	32.9	14.7	12.5	26.8	-14.6	-18.1
Canada	61	267	345	534	471	2.4	2.4	-3.4	136.0	-34.4	-11.8
EEC <sup>a</sup>	739	2 326	3 276	2 978	2 442	29.5	12.6	28.4	7.3	-15.3	-18.0
Japan	159	845	1 085	1 240	877	6.4	4.5	-12.6	-1.8	16.3	-29.3
Others <sup>c</sup>	193	773	1 012	926	867	7.7	4.5	28.4	13.9	-19.7	-6.4
Eastern Europe	52	226	239	242	463	2.1	2.4	25.0	3.9	-2.8	91.6
<b>Developing countries<sup>d</sup></b>	479	5 208	8 910	12 691	11 427	19.1	58.9	56.5	35.6	5.0	-10.0
OPEC <sup>e</sup>	147	3 623	5 984	8 598	7 470	5.9	38.5	51.5	40.9	1.9	-13.1
Others	332	1 585	2 926	4 093	3 957	13.2	20.4	67.9	24.7	12.2	-3.3
ALADI <sup>f</sup>	264	1 343	2 209	3 126	3 288	10.5	16.9	55.3	21.9	16.1	5.2
Argentina	148	435	896	587	550	5.9	2.8	64.6	-15.6	-22.5	-6.2
Mexico	16	208	246	784	789	0.6	4.1	25.5	75.2	81.7	0.6
Venezuela	43	146	228	968	970	1.7	5.0	80.4	150.4	69.8	0.2
Rest of the developing countries	68	242	717	967	669	2.7	3.5	123.9	33.2	1.2	-30.8

Source: ECLA, on the basis of data supplied by the Banco do Brasil, *Careira de Comércio Exterior (CACEX)*.

<sup>a</sup>European Economic Community (ten countries).

<sup>b</sup>Including Puerto Rico.

<sup>c</sup>Australia, Austria, Finland, Iceland, Israel, Malta, New Zealand, Norway, Portugal, South Africa, Spain, Sweden, Switzerland, Turkey and Yugoslavia.

<sup>d</sup>Including socialist countries of Asia.

<sup>e</sup>Organization of Petroleum-Exporting Countries, except Venezuela and Ecuador.

<sup>f</sup>Latin American Integration Association.

### c) *The current account position and its financing*

The negative balance on current account in 1982 (including reinvested profits and dividends)<sup>13</sup> was US\$ 4 500 million (almost 40%) higher than the balance in 1981, thus amounting to US\$ 16 300 million. As mentioned before, the relation between this deficit and the value of exports of goods and services rose to the highest level since 1974, when the first oil crisis occurred.

In 1982, contrary to what had happened in previous years, the deficit on current account could not be financed entirely with medium and long-term capital income, as a result of which Brazil was obliged to resort to special short-term operations and the utilization of its international reserves. The 1982 external resource requirements were higher than the US\$ 5 600 million originally planned, largely because the above-mentioned deficit was 47% higher than planned (see table 23).

This unfavourable situation reached critical proportions from September onwards, when the procurement of external loans dropped sharply. The average monthly amount received during the last four months of the year dropped to less than one-third the value received for the period January-August (see table 24). This reduction, to which was added the decline in the inflow of capital through

<sup>13</sup>In the balance-of-payments position shown in table 22, this item (which amounted to US\$ 741 million in 1981 and US\$ 1 556 million in 1982) is shown with a minus sign under current account and with a plus sign under capital account. Since the changes do not affect the needs for external resources and their financing, they were not included in table 23. It should be noted that this item is not included in the annual programming of the external sector carried out by the National Monetary Council.

Table 22

**BRAZIL: BALANCE OF PAYMENTS**

(Millions of dollars)

	1977	1978	1979	1980	1981	1982 <sup>a</sup>
Balance on current account	-5 115	-7 039	-10 482	-12 848	-11 760	-16 279
Trade balance	-1 641	-2 830	-5 019	-5 935	-1 677	-2 794
Exports of goods and services	13 004	13 666	16 707	21 857	25 523	22 013
Goods FOB	11 922	12 473	15 244	20 132	23 275	20 175
Real services <sup>b</sup>	1 082	1 191	1 465	1 726	2 248	1 838
Transport and insurance	546	570	705	843	1 102	1 017
Travel	55	69	74	125	242	65
Imports of goods and services	14 645	16 495	21 725	27 792	27 200	24 807
Goods FOB	12 022	13 632	17 961	22 955	22 091	19 397
Real services <sup>b</sup>	2 621	2 864	3 764	4 838	5 109	5 410
Transport and insurance	1 522	1 580	2 104	2 758	2 786	2 432
Travel	229	254	310	367	407	910
Factor services	-3 472	-4 278	-5 478	-7 041	-10 274	-13 478
Profits	-1 332	-1 535	-1 356	-720	-1 112	-2 121
Interest received	361	644	1 157	1 146	1 144	1 198
Interest paid	-2 464	-3 343	-5 261	-7 456	-10 306	-12 555
Others	-36	-45	-17	-9	-1	0
Unrequited private transfer payments	-5	70	12	128	189	-7
Balance on capital account	5 636	11 666	7 582	9 379	12 381	12 763
Unrequited official transfer payments	4	3	5	42	10	0
Long-term capital	6 041	10 088	6 466	7 104	11 819	8 143
Direct investment	1 688	1 882	2 223	1 544	2 313	2 542
Portfolio investment	0	0	659	354	-2	0
Other long-term capital	4 354	8 205	3 584	5 206	9 508	5 601
Official sector <sup>c</sup>	2 406	3 965	3 370	-14	220	...
Disbursements	4 098	6 240	4 665	1 841	2 008	...
Amortization payments	-1 691	-2 062	-1 278	-1 366	-1 520	...
Commercial banks <sup>c</sup>	450	1 853	486	2 105	4 054	...
Disbursements	1 271	2 898	1 981	4 005	6 409	...
Amortization payments	-819	-1 043	-1 494	-1 917	-2 361	...
Other sectors <sup>c</sup>	1 497	2 387	-272	3 115	5 234	...
Disbursements	3 395	4 979	4 248	6 085	9 633	...
Amortization payments	-1 623	-2 169	-3 781	-3 394	-3 761	...
Net short-term capital	220	1 273	-122	2 572	1 132	3 439
Official sector	-318	499	274	-31	-6	876
Commercial banks	237	897	-422	608	1 039	2 339
Other sectors	300	-123	26	1 996	99	224
Errors and omissions	-628	300	1 233	-343	-578	1 181
Global balance <sup>d</sup>	521	4 627	-2 900	-3 469	621	-3 516
Total variation in reserves (- sign indicates an increase)	-710	-4 640	2 860	3 322	-747	...
Monetary gold	-7	-4	0	-103	-130	...
Special Drawing Rights	-11	-30	-144	-1	-68	...
IMF reserve position	-6	13	-60	-103	80	...
Foreign exchange assets	-686	-4 619	3 063	3 301	-844	...
Other assets	0	0	0	228	215	...
Use made of IMF credit	0	0	0	0	0	544

Source: 1977-1981: International Monetary Fund, *Balance of Payments Yearbook*; 1982: ECLA, on the basis of official data.<sup>a</sup>Preliminary figures.<sup>b</sup>Real services also include other official and private transactions, but do not include factor services.<sup>c</sup>In addition to loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities.<sup>d</sup>The global balance is the sum of the balance on current account plus the balance on capital account. The difference between the total variation in reserves (of opposite sign) and the global balance represents the value of counterpart items: monetization of gold, allocation of Special Drawing Rights, and variations due to revaluation.

direct investment —excluding reinvested profits and dividends— meant that external financing through the mechanisms used in recent years was US\$ 3 300 million lower than forecast; this gave rise to a deficit of US\$ 9 billion as regards the need for external resources (see table 23).

Because of the reduced availability of loans, the authorities had to make substantial use of the international reserves, which in September alone fell by almost US\$ 2 billion.

This extremely difficult situation with regard to Brazil's external accounts led the country's economic authorities to request a series of loans from the International Monetary Fund (IMF). The official request was formally made in November 1982<sup>14</sup> (such as Brazil's) may currently amount to up to 450% of the member country's quota.

The total amount of loans granted under these special facilities may not exceed 600% of a given country's quota. Brazil's quota in the IMF is equal to 997.5 million Special Drawing Rights (SDRs). The economic policy measures and goals to which the Government of Brazil committed itself in its agreement with the IMF were described in detail in the letter of intent of 6 December 1982 and the attached technical memorandum. (Some of these were changed in February 1983, mainly as a result of the maxidevaluation of the cruzeiro.) On 26 February 1983, the IMF approved a loan, within the framework of the Expanded Facility, of 4 239 million SDRs (425% of the quota) and additional compensatory financing of 466.3 million SDRs. The IMF also freed 249.4 million SDRs of Brazil's first credit tranche and only part of the loans requested were actually received in that year (compensatory financing in the amount of US\$ 544 million). The external resources envisaged in the agreement with the IMF and in the financing scheme presented to the international banks were covered in advance in 1982 by means of a series of special short-term operations totalling US\$ 3 700 million; US\$ 2 300 million in loans from commercial banks, US\$ 900 million from the Treasury of the United States<sup>15</sup> and US\$ 500 million from the Bank for International Settlements (see table 25).

On 20 December, after having requested the aforementioned loans from the IMF, the authorities submitted to the international banks four proposals for rescheduling the 1983 maturities of the external debt with commercial banks and for new loans.

The four projects were the following:<sup>16</sup>

*Project 1:* New loans for a total of US\$ 4 400 million;

*Project 2:* Automatic renewal of amortizations on the medium and long-term debt for 1983, in the amount of US\$ 4 600 million;

*Project 3:* Renewal of short-term debts pertaining to international trade operations, in the amount of US\$ 8 800 million;

*Project 4:* Maintenance of interbank lines of credit at the levels reached at 30 June 1982, in the amount of US\$ 10 billion.

<sup>14</sup>Brazil requested the following special facilities:

- a) Compensatory financing (which may amount up to 100% of the quota to cover temporary losses of export income);
- b) Loans (for a value of up to 50% of the quota) to alleviate the balance-of-payments difficulties of member countries in connection with their participation in the formation of commodity buffer stocks under international agreements approved by the IMF, and
- c) An Expanded Facility loan which, in the case of a three-year agreement (such as Brazil's) may currently amount to up to 450% of the member country's quota.

The total amount of loans granted under these special facilities may not exceed 600% of a given country's quota. Brazil's quota in the IMF is equal to 997.5 million Special Drawing Rights (SDRs). The economic policy measures and goals to which the Government of Brazil committed itself in its agreement with the IMF were described in detail in the letter of intent of 6 December 1982 and the attached technical memorandum. (Some of these were changed in February 1983, mainly as a result of the maxidevaluation of the cruzeiro.) On 26 February 1983, the IMF approved a loan, within the framework of the Expanded Facility, of 4 239 million SDRs (425% of the quota) and additional compensatory financing of 466.3 million SDRs. The IMF also freed 249.4 million SDRs of Brazil's first credit tranche.

<sup>15</sup>Net figure. The total amount obtained was US\$ 1 400 million, US\$ 500 million of which were amortized during the year.

<sup>16</sup>The agreements pertaining to projects 1 and 2 were signed on 28 February 1983.

d) *The external debt*

As a reflection of the aforementioned problems pertaining to the financing of the deficit on the balance-of-payments current account with new loans, in 1982 the medium and long-term external debt grew at a slower rate (13%) than originally forecast. Thus, at the end of 1982 it amounted to US\$ 69 700 million (see table 25). However, as a result of the reduction of international reserves (including gold), the net external debt increased by 22%, from US\$ 53 900 million at the end of 1981 to US\$ 65 700 million one year later.

The service of the debt continued to rise in 1982, increasing by somewhat over 17% with respect to 1981 and reaching a value of US\$ 19 600 million (see table 26). This increase was mainly the result of the increase in net interest payments, which rose by 24% with respect to 1981, reaching a value of US\$ 11 400 million in 1982. This increase was related to the increase in the external debt in 1981 (14% as compared with 1980) and the fact that as mentioned above, the effect of the drop in interest rates on the international financial markets was not immediately felt.

In analysing the evolution of Brazil's external indebtedness, special attention should be paid to the short-term debt, which traditionally consists mainly of lines of credit pertaining to international trade operations, these are used by PETROBRAS (for oil imports), by other State enterprises, and by commercial banks authorized to carry out exchange operations. At the end of 1982, this debt totalled

Table 23

**BRAZIL: REQUIREMENTS OF EXTERNAL RESOURCES AND FINANCING IN 1982**

(Millions of dollars)

	Original forecast (1)	Actual figures (2)	Deficit of resources (2) - (1)
<b>Resource requirements</b>	17 300	22 919	5 619
Deficit on current account <sup>a</sup>	10 100	14 723	4 623
Trade balance (goods) <sup>b</sup>	-3 000	-778	2 222
Exports FOB <sup>b</sup>	-28 000	-20 175	7 825
Imports FOB	25 000	19 397	-5 603
Balance on services <sup>b</sup>	13 300	15 494	2 194
Net interest payments	9 500	11 357	1 857
Other outlays	3 800	4 137	337
Unilateral transactions <sup>b</sup>	-200	7	207
Amortizations payments	7 200	8 196	996
<b>Financing</b>	17 300	13 963	-3 337
Direct investment <sup>a</sup>	1 900	986	-914
Financing from international organizations an government agencies and supplier loans <sup>c</sup>	1 800	2 293	493
Financial loans	13 600	11 504	-2 096
Reduction of short-term lines, errors and omissions	-	-820	-820
<b>Deficit with respect to the original forecast and its financing</b>	-	-	8 956
Special short-term operations	-	-	3 715
Commercial banks	-	-	2 339
United States Treasury	-	-	876
Bank for International Settlements	-	-	500
Compensatory financing by IMF	-	-	544
Utilization of international reserves	-	-	3 516
Utilization of other assets	-	-	1 181

Source: Original forecast: ECLA, on the basis of data supplied by the National Monetary council on the programming of the external sector in 1982.

Actual figures: ECLA, on the basis of data supplied by the Central Bank, *Relatório* 1982.

<sup>a</sup>Excluding re-invested profits and dividends (US\$ 1 556 million). This item explains the differences between the balance on current account and the amounts given under direct investment in this table and in the balance of payments (table 22).

<sup>b</sup>Of opposite sign.

<sup>c</sup>Minus export loans, after deduction of amortization payments received.



Table 24

**BRAZIL: PROCUREMENT OF MEDIUM AND LONG-TERM  
EXTERNAL RESOURCES**

(Millions of dollars)

	Total amount procured					Average per month	
	January- December	January- December	Percentage variation	January- August	September- December	January- August	September- December
	1981	1982	1982/1981	1982	1982	1982	1982
<b>Overall total</b>	17 344	14 356	-17.2	12 419	1 937	1 552	484
Finex and bilateral agreements	638	394	-38.2	394	-	49	-
Resolution No. 63 <sup>a</sup>	6 195	3 640	-41.2	3 237	403	405	101
Law No. 4131 <sup>b</sup>	10 511	10 322	-1.8	8 787	1 534	1 098	384
Syndicated loans	1 406	920	-34.6	920	-	115	-
Medium-term loans and lines of credit (over 24 months)	700	100	-85.7	-	100	-	25
Bonds	14	115	702.8	96	19	12	5
International organizations (disbursements in cash)	822	1 652	101.0	1 340	312	168	78
Direct loans	7 569	7 535	-0.5	6 432	1 103	804	276

Source: Central Bank of Brazil, *Informativo mensal*, February 1983.

<sup>a</sup>Resolution No. 63 allows commercial banks to receive resources from outside the country.

<sup>b</sup>Law No. 4131 allows non-financial enterprises to obtain loans from abroad.

US\$ 9 400 million, showing a reduction with respect to 1981 which reflected the decline in Brazil's international trade flows. As mentioned before, however, in 1982 the country also carried out special short-term operations pertaining to its international reserves to a net value of over US\$ 4 200 million. Thus, at the end of 1982, the short-term debt amounted to US\$ 13 600 million and the total external debt (registered and unregistered) amounted to US\$ 83 300 million (see table 25).

#### 4. Prices and wages

##### a) *Prices and the anti-inflationary policy*

In 1982, the Government encountered serious difficulties in its efforts to apply an effective anti-inflationary policy. The contraction of the economy during 1981 and the first quarter of 1982 made it difficult to make strict use of monetary instruments; in particular, the very high level of domestic interest rates in real terms made it impossible for the Government to continue restricting the growth of the monetary base as it had in 1981.

The fiscal deficit, in turn, was higher than in previous years. Consequently, the authorities again had to resort to significant amounts of credit from the monetary authority, which made it difficult to control the monetary base. Likewise, the high indebtedness of the public sector made it impossible to resort to the sale of public securities on the domestic market to reduce the growth of money: a measure which had played a very important role in 1981.

The anti-inflationary policy was seriously hampered by the inertia of the evolution of prices that was inherent in the generalized indexing system imposed to correct the distortions caused by inflation. In 1982, the authorities continued to apply this system to the assets and liabilities of the financial system, to property rentals, to judicial obligations, to the exchange rate and to wages in both the public and the private sectors.

Thus, the high rates of inflation which had fluctuated at about 100% per year since 1980 persisted during 1982 (see table 27). The rate of inflation accelerated considerably during the first half of the year, thus reversing the trend towards a slowdown which had been noted throughout 1981 (especially during the last quarter of that year). The annualized rate of increase in the general price

Table 25

**BRAZIL: EXTERNAL DEBT**

(Millions of dollars at end of each year)

	1970	1976	1977	1978	1979	1980	1981	1982 <sup>a</sup>
<b>Total external debt, registered and non-registered</b>	...	...	...	...	...	...	...	83 289
<b>I. Medium- and long-term debt (registered debt)</b>								
<b>Total</b>	<b>5 295</b>	<b>25 985</b>	<b>32 037</b>	<b>43 511</b>	<b>49 904</b>	<b>53 848</b>	<b>61 411</b>	<b>69 654</b>
Compensatory loans	382	106	75	44	19	-	-	-
United States Government	314	106	75	44	19	-	-	-
International Monetary Fund (IMF)	-	-	-	-	-	-	-	-
Others	68	-	-	-	-	-	-	-
Bonds	-	289	1 222	2 380	2 966	3 236	2 896	2 610
International agencies	456	1 993	2 355	2 885	3 211	3 485	3 583	3 847
World Bank	258	1 287	1 540	1 974	2 181	2 246	2 264	2 341
Inter-American Development Bank	181	546	624	731	873	1 047	1 071	1 203
International Finance Corporation	16	160	191	180	157	192	248	301
Official bilateral agencies	1 247	2 756	2 864	3 153	3 219	3 485	3 894	4 160
United States								
Agency for International Development (AID)	870	1 121	1 117	1 099	1 077	1 050	1 019	989
Programme loans	604	586	570	551	531	512	490	470
Project loans	266	535	547	548	546	538	529	519
United States wheat credits (PL. 490)	103	87	81	76	70	64	57	50
United States								
Export-Import Bank	190	817	886	929	929	931	955	934
Others	84	731	780	1 049	1 143	1 440	1 863	2 187
Supplier credits	611	2 414	3 773	5 343	5 673	5 651	5 894	5 983
Financial credits	2 285	18 194	21 528	29 500	34 625	37 820	44 984	52 915
Resolution No. 63	653	4 715	5 240	7 272	7 724	9 924	13 456	16 145
Law No. 4131	1 250	13 437	16 261	22 200	26 883	27 887	31 520	36 763
Other credits	314	233	220	206	191	171	160	139
<b>II. Short-term debt (non-registered debt)</b>								
<b>Total</b>	...	...	...	...	...	...	...	<b>13 635</b>
Traditional operations	...	...	...	...	...	...	...	<b>9 376</b>
Lines of credit for oil imports	...	...	...	...	...	...	...	<b>4 059</b>
Other lines of credit	...	...	...	...	...	...	...	<b>985</b>
Brazilian commercial banks	...	...	...	...	...	...	...	<b>4 333</b>
Assets	...	...	...	...	...	...	...	<b>2 064</b>
Liabilities	...	...	...	...	...	...	...	<b>6 397</b>
Special operations	...	...	...	...	...	...	...	<b>4 260</b>
Private banks	...	...	...	...	...	...	...	<b>2 339</b>
United States Treasury	...	...	...	...	...	...	...	<b>876</b>
Bank for International Settlements	...	...	...	...	...	...	...	<b>500</b>
IMF (compensatory financing)	...	...	...	...	...	...	...	<b>544</b>

Source: Central Bank of Brazil, *Relatório*, several issues, and *Boletim Mensal*, January 1983.

Table 26

## BRAZIL: COEFFICIENTS OF THE EXTERNAL DEBT

	1970	1974	1975	1976	1977	1978	1979	1980	1981 <sup>a</sup>	1982 <sup>a</sup>
Millions of dollars										
Loans and financing <sup>b</sup>	1 494	7 052	7 244	10 093	8 840	14 222	12 063	13 144	16 826	13 797
Debt service	1 476	2 595	3 666	4 814	6 226	8 122	10 613	13 013	16 675	19 553
Amortizations payments	1 242	1 943	2 168	3 004	4 123	5 326	6 527	6 702	7 514	8 196
Interest (net)	234	652	1 498	1 810	2 102	2 696	4 186	6 311	9 161	11 357
Debt coefficients (percentages)										
DS / X	48.1	30.0	38.3	43.7	47.3	58.8	64.0	59.4	65.3	88.8
DS / LF	98.8	36.8	50.6	47.7	70.4	57.1	88.8	99.0	99.1	141.7
D / GDP	11.5	17.5	18.7	20.8	21.9	23.0	24.4	22.7	24.2	26.6

Source: Central Bank of Brazil, *Relatório*, several issues.

Note: DS = Debt service.

X = Exports of goods and services.

D = Total debt outstanding, public and private.

LF = Loans and financing.

GDP = Gross domestic product.

<sup>a</sup>Preliminary figures.

<sup>b</sup>Medium and long-term credits minus export credits, after deduction of amortization payments received.

index,<sup>17</sup> which was 69% during the last quarter of 1981, rose to 120% and 112% during the first and second quarters of 1982. This acceleration of inflation during the first months of the year was due, to a large extent, to the increase in the cost of food caused by the poor 1981 harvests of the main agricultural crops for domestic consumption, and possibly also to the readjustment of guaranteed prices to farmers. Another factor which contributed to the acceleration was the heavy growth of money during the second half of 1981 and the beginning of 1982. Also, the creation of the Social Investment Fund (FINSOCIAL) had some effect on the higher rates of inflation, especially in June.<sup>18</sup>

During the second half of the year, however, the rates of variation were lower (see table 28) because administrative measures were taken to control prices of mass-consumption goods and to readjust the rates and prices of public utilities less than the general price increases; in addition, the harvests of crops for domestic consumption were good. Beginning in August, the Government tried to avoid simultaneous increases in the prices of public services or of products subject to the control of the Interministerial Price Board (CIP); also, in some cases, such as that of electric power, the adjustment of utility rates was postponed. High subsidies for diesel oil, liquified gas, fuel alcohol, milk and wheat were also maintained in an effort to contain the high rate of inflation.

As a result of the above, the annualized rate of increase of the general price index was reduced to 84% and 86% during the third and fourth quarters of the year.

The national consumer price index (INPC) for its part, rose by 98% in 1982; after having accelerated sharply during the first quarter, it showed a downward trend throughout the rest of the year. This index has come to play an increasingly important role in the generalized system of indexing of the Brazilian economy. Traditionally, it has been the basis for estimating the six-month readjustments of wages and, since 1981, it has also been used as the basis for monthly adjustments of guaranteed prices for agricultural products. Moreover, under the new Rental Law of December 1982, the INPC is also used as the basis for determining annual rental adjustments for physical persons, which were previously adjusted according to the variation in the Readjustable Obligations of the National Treasury (ORTN).

<sup>17</sup>The general price index is calculated by the Getulio Vargas Foundation and consists of a weighted average of wholesale prices (60%), consumer prices in Rio de Janeiro (30%) and the index of the cost of construction in Rio de Janeiro (10%).

<sup>18</sup>FINSOCIAL was created to finance social investments in the areas of food, low-cost housing, health and education and to aid small farmers. It is financed by contribution consisting of a 0.5% tax on sales of goods and 5% of the income tax paid by enterprises selling services; collection of these quotas began in June.

b) *Wages*

During 1982, the criteria for determining minimum wage adjustments established by the 1979 Wage Law were the same as those published in December 1980. In other words, employers were required to adjust wages twice a year on the basis of the following criteria, which were applied to the various tranches of each individual wage: the tranche of up to three minimum wages was increased by 110% of the increase in the national consumer price index (INPC); the tranche of from three to ten minimum wages, by 100%; the tranche of from ten to 15 minimum wages, by 80%; the tranche of from 15 to 20 minimum wages, by 50%; and finally, there was no legally established increase for the tranche of over 20 minimum wages.

The additional wage increases for higher productivity were also maintained. In practice this latter factor—which is difficult to measure—was usually determined largely through direct negotiations between employees and employers or in the last instance, through the labour courts when no agreement was reached.

The adjustments to minimum wages made in May and November were based on different indexes in different regions in order to establish gradually a single minimum wage level throughout the country. As from May, there were only three different minimum wage regions. Thus, in the southern and southeastern region and in the Federal District, the minimum wage was adjusted by 39% in May and by 40% in November, so that by the end of the year it amounted to 23 568 cruzeiros.

Table 27

**BRAZIL: EVOLUTION OF DOMESTIC PRICES**

	1977	1978	1979	1980	1981	1982
	<b>December to December</b>					
General price index <sup>a</sup>						
Total supply	38.6	40.5	76.8	108.5	92.8	99.2
Domestic availability	38.8	40.8	77.2	110.2	95.2	99.7
Wholesale price index						
Total supply	35.3	42.3	79.5	118.7	90.5	96.8
Agricultural products	34.2	47.6	80.5	138.2	70.7	89.0
Industrial products	35.5	39.9	78.8	110.3	99.7	99.8
Domestic availability	35.5	43.0	80.1	121.3	94.3	97.7
Raw materials	28.4	35.2	76.3	110.7	86.1	81.5
Foodstuffs	37.5	51.9	84.8	130.8	85.9	98.9
Consumer price index						
Rio de Janeiro	43.1	38.1	76.0	86.3	100.6	101.8
Food	43.9	44.4	86.4	90.9	96.0	99.9
Construction costs						
Rio de Janeiro	44.7	37.0	63.1	113.0	86.1	108.0
National consumer price index	...	...	...	95.3	91.2	97.9
	<b>Variation between annual averages</b>					
General price index						
Total supply	43.7	37.9	54.3	98.4	106.8	94.2
Domestic availability	42.7	38.7	53.9	100.2	109.9	95.4
Wholesale price index						
Total supply	39.3	37.5	55.9	106.5	108.2	92.0
Domestic availability	40.6	38.9	55.4	109.2	113.1	94.0
Consumer price index						
Rio de Janeiro	43.7	38.6	52.7	82.8	105.6	98.0
Construction costs						
Rio de Janeiro	51.0	37.9	49.3	96.9	101.0	98.2
National consumer price index	...	...	...	...	99.8	96.8

Source: Getúlio Vargas Foundation, *Conjuntura Econômica*, and Central Bank of Brazil, *Informativo Mensal*, several issues.  
<sup>a</sup>The price index is a weighted average of the indexes of wholesale prices (60%), the cost of living in Rio de Janeiro (30%) and construction costs in Rio de Janeiro (10%).

Table 28

## BRAZIL: QUARTERLY VARIATION OF DOMESTIC PRICES

(Percentages)

Period	General price index <sup>a</sup>	Wholesale price index <sup>a</sup>	Construction costs, Rio de Janeiro	National consumer price index
1979				
I	13.7	13.6	13.5	...
II	9.9	9.6	11.8	8.2
III	18.9	19.9	16.3	17.0
IV	19.2	20.5	10.3	18.5
1980				
I	18.0	18.4	29.3	16.2
II	19.0	21.6	14.4	15.7
III	22.1	23.3	26.7	17.4
IV	22.6	24.8	13.7	23.7
1981				
I	24.1	23.9	29.7	18.2
II	17.0	17.1	9.5	17.5
III	17.8	15.8	21.0	19.9
IV	14.1	15.1	8.3	14.8
1982				
I	21.8	21.2	29.5	21.2
II	20.7	21.7	13.8	19.8
III	16.3	14.2	28.3	18.3
IV	16.8	17.4	10.0	15.2

Source: Getúlio Vargas Foundation and Brazilian Geographical and Statistical Institute (IBGE).

<sup>a</sup>Refers to the concept of domestic availability.

Table 29

## BRAZIL: COST OF LIVING AND MINIMUM WAGES

Main cities	Indexes (1978 = 100)				Growth rates			
	1979	1980	1981	1982	1979	1980	1981	1982
<b>Nominal wage</b>								
São Paulo	152.4	285.9	580.0	1 153.4	52.4	87.6	102.9	98.9
Rio de Janeiro	152.4	285.9	580.0	1 153.4	52.4	87.6	102.9	98.9
Belo Horizonte	152.4	285.9	580.0	1 153.4	52.4	87.6	102.9	98.9
Porto Alegre	155.2	307.7	624.3	1 241.5	55.2	98.3	102.9	98.9
Distrito Federal	152.4	285.9	580.0	1 153.4	52.4	87.6	102.9	98.9
Recife	162.7	316.3	656.8	1 345.1	62.7	94.4	107.7	104.8
<b>Consumer price index</b>								
São Paulo	150.2	267.4	523.1	991.7	50.2	78.0	95.6	89.6
Rio de Janeiro	152.7	279.2	573.8	1 136.0	52.7	82.8	105.5	98.0
Belo Horizonte	164.1	336.0	687.5	1 345.3	64.1	104.8	104.6	95.7
Porto Alegre	153.0	293.6	622.5	1 225.7	53.0	91.9	112.0	96.9
Distrito Federal	155.7	308.4	656.3	1 352.5	55.7	98.1	112.8	106.1
Recife	163.0	324.6	708.3	1 463.8	63.0	99.1	118.2	106.7
<b>Real minimum wage</b>								
São Paulo	101.5	106.9	110.9	116.3	1.5	5.3	3.7	4.9
Rio de Janeiro	99.8	102.4	101.1	101.5	-0.2	2.6	-1.3	0.4
Belo Horizonte	92.9	85.1	84.4	85.7	-7.1	-8.4	-0.8	1.5
Porto Alegre	101.4	104.8	100.3	101.3	1.4	3.4	-4.3	1.0
Distrito Federal	97.9	92.7	88.4	85.3	-2.1	-5.3	-4.6	-3.5
Recife	99.8	97.4	92.7	91.9	-0.2	-2.4	-4.8	-0.9

Source: ECLA, on the basis of data supplied by the Central Bank of Brazil and the Getúlio Vargas Foundation.

In the northern region, Pernambuco, Bahia and the rest of the central region, the minimum wage was raised to 20 736 cruzeiros by making a 41% adjustment in May and a 44% adjustment in November. The lowest minimum wages, which were in force in the northeastern region except for Pernambuco and Bahia, were adjusted by 43% in May and by 46% in November, so that they finally reached 20 328 cruzeiros. Thus, in global terms, the adjustments to minimum wages were slightly higher than the rate of inflation and in real terms the average annual amount increased slightly, although with some difference between States because of the differences in price increases (see table 29).

For the second year in a row, the conjunctural indicators of the industrial sector<sup>19</sup> showed an increase in the annual average real wages of employees working in production, which are estimated to have risen by 10% in 1982 (see table 30). A real increase of this magnitude might be considered surprising in light of the recessive state of the Brazilian economy in general and of the industrial sector in particular, but it may be explained by the decline of the annual average inflation rate and by certain effects of the Wage Law, such as the increment of 10% above the variation in the INPC for the tranche of up to three minimum wages and the additional increments for increases in productivity. Also, it should be noted that certain methodological problems may be distorting this wage indication.<sup>20</sup>

With respect to the wages of civil servants—who are not covered by the Wage Law—the Federal Government decided to grant increases of 30% in January and 40% in June; this amounted to a nominal increment of 82%, which was lower than the rate of inflation. The States and municipalities normally followed the Federal Government's wage policy.

## 5. Monetary and fiscal policy

### a) *Monetary policy*

The 1982 monetary policy followed the same orientation it had had during the last quarter of 1981, when the sharp contraction of economic activity had made it necessary to attenuate the application of restrictive monetary measures and instruments in order to allow the economy to adjust to the balance-of-payments difficulties. As a result, it was not possible to control liquidity effectively, as it had been during the first three quarters of 1981.

Table 30

### BRAZIL: AVERAGE WAGES IN INDUSTRY

(Base: 1976 = 100)

	Average nominal wage		Consumer price index		Average real wage	
	Index	Variation	Index	Variation <sup>a</sup>	Index	Variation
1977	150.3	50.3	146.9	46.9	102.3	2.3
1978	226.0	50.4	210.6	43.4	107.3	4.9
1979	356.3	57.7	327.3	55.4	108.9	1.5
1980	685.8	92.5	620.6	89.6	110.5	1.5
1981	1 488.9	117.1	1 271.7	104.9	117.1	6.0
1982 <sup>b</sup>	3 195.7	114.9	2 480.8	95.1	128.8	10.0

Source: Getúlio Vargas Foundation and Brazilian Geographical and Statistical Institute (IBGE).

<sup>a</sup> Calculated on the basis of the simple average of the consumer price indexes for Rio de Janeiro, São Paulo, Belo Horizonte and Porto Alegre.

<sup>b</sup> Average for eleven months (January - November).

<sup>19</sup> Brazilian Geographical and Statistical Institute (IBGE), *Indicadores Conjunturais da Indústria*.

<sup>20</sup> In calculating the wage index, the IBGE takes into account all types of remuneration received by workers each month, i.e., not only regular wages but also other types of payments, such as severance compensation. In 1981 and 1982, severance payments were quite substantial in some activities such as the automobile industry, where enterprises made special payments to persons who left their jobs voluntarily, in addition to the compensation required by law.

Another methodological feature that should be noted is the procedure followed by IBGE in estimating the average wage, which it obtains by dividing the total amount paid, including the aforementioned severance compensation, by the number of persons who were actually working on the last day of each month.

Table 31

## BRAZIL: PRIVATE SECTOR LIQUIDITY

(Percentage variations between end-of-December balances)

	M <sup>1</sup>	M <sup>2</sup>	M <sup>3</sup>	(M <sup>3</sup> - M <sup>2</sup> )
1974	33.5	30.2	32.8	39.4
1975	42.8	44.6	47.4	54.1
1976	37.2	51.4	50.5	48.3
1977	37.5	45.8	48.8	55.6
1978	42.2	43.1	49.5	63.1
1979	73.6	58.2	60.3	64.9
1980	70.2	61.9	61.5	60.9
1981	74.7	69.9	92.9	111.0
1982	69.3	86.8	93.6	145.2

Source: 1974-1981: Getúlio Vargas Foundation, *Conjuntura Econômica*, February 1982. 1982: ECLA.Note: M<sup>1</sup> = Means of payment (currency outside banks + demand deposits in the monetary systems).M<sup>2</sup> = M<sup>1</sup> + Demand deposits in the public savings banks + National Treasury Bonds outside the monetary system.M<sup>3</sup> = M<sup>2</sup> + 50% of time deposits, savings deposits, bills of exchange and real estate bonds.(M<sup>3</sup> - M<sup>2</sup>) = Quasimoney.

Table 32

## BRAZIL: MONETARY BASE AND MEANS OF PAYMENT

(Percentage variations)

	Monetary base		Means of payment	
	During the year	Over last 12 months	During the year	Over last 12 months
1981				
March	-0.2	63.6	-8.1	58.8
June	13.4	55.9	13.4	56.9
September	30.4	63.3	23.4	60.4
December	69.9	69.9	74.7	74.7
1982				
March	8.0	84.0	-7.2	76.3
June	22.3	83.1	13.3	74.5
September	39.4	81.5	24.4	76.1
December	86.8	86.8	69.3	69.3

Source: Central Bank of Brazil, *Informativo mensal*, January 1983.

While in 1982 money grew at a slower rate than in 1981 (69% and 75%, respectively), the monetary base grew more than in 1981 (87% compared with 70%) (see tables 31 and 32). The discrepancy between the growth rates of these monetary aggregates was due to the 9% drop in the banking multiplier between December 1981 and December 1982, brought about by the raising of reserve requirements on demand and time deposits as from August. In the south-central region, the reserve requirement on demand deposits rose from 35% to 45% for large banks, from 31% to 40% for medium-sized banks, and from 28% to 36% for small banks. In the less developed northern and north-eastern regions, the percentages were 18%, 14% and 11% for the aforementioned categories of banks. A 5% reserve requirement on time deposits was also introduced.

The increased reserve requirement was not accompanied, however, by a lower rate of increase of money issue, which at the end of the year came to 91%. This was due especially to the fact that the monetary authorities found it difficult to control the factors of expansion of the monetary base—particularly those pertaining to lines of credit at subsidized rates ("open accounts")—despite the increase in transfers of resources from the National Treasury and the reduction of international reserves (see table 33).

These resources granted by the monetary authorities at subsidized rates are available to the three priority sectors of the economy, i.e., agriculture, exports and energy (PROALCOOL). They

accounted for 59% of the monetary expansion in 1982, especially through the subsidies granted for the marketing of wheat and equalization of the cost of sugar. These subsidies increased, in real terms, by 20% and 71%, respectively, as a result of the continuation of incentives for the domestic production of both commodities.

In order to cover the monetary authority's expenditure on subsidies and preferential lines of credit, the National Treasury made transfers amounting to 640 billion cruzeiros, a nominal increment of 150% over the value transferred in 1981. These transfers represented 14% of the total current income of the Government in 1982.

With respect to operations concerning the federal public debt, the monetary authorities followed an expansionary policy, injecting into the system resources totalling 220 billion cruzeiros. In 1981 the net sales had amounted to 550 billion cruzeiros, but during the year under analysis the monetary authorities modified their policy, as during the first half of the year they made net sales of federal securities in the amount of 220 billion cruzeiros, while during the second half of the year they made net purchases amounting to 440 billion cruzeiros. This turnaround in the second half of the year was due both to their aim of maintaining the level of liquidity of the economy and to the impact of the high cost of the domestic debt.

Table 33

**BRAZIL: MAIN FACTORS OF EXPANSION AND  
CONTRACTION OF THE MONETARY BASE<sup>a</sup>**

(Variation in billions of cruzeiros)

	1981	1982
<b>1. Factor of expansion</b>	<b>1 615.4</b>	<b>3 388.6</b>
Credit to the agricultural sector	573.9	1 445.5
Crops	384.1	794.1
Marketing of wheat	65.4	284.0
Minimum prices	95.1	195.0
Sugar: exports and cost equalization	32.3	172.4
Export credits	275.8	493.6
Credit to the public sector	202.9	403.4
Public debt <sup>b</sup>	...	217.6
Special operations	202.9	185.8
Credit from the Central Bank of Brazil	357.6	377.8
Special funds and programmes	227.0	174.7
Transfers to financial institutions	24.7	95.2
Others	105.9	108.0
Other credits from the Banco do Brasil	157.0	380.6
Credit to PROALCOOL <sup>c</sup>	106.5	68.3
Other accounts (net variation)	-58.0	219.4
<b>2. Factors of contraction</b>	<b>1 126.8</b>	<b>2 619.0</b>
National Treasury	252.8	643.3
Cash balance	3.0	6.6
Transfers	249.8	636.7
Exchange operations	231.4	527.8
Resources of the Banco do Brasil	...	642.0
Fund and programme resources	...	357.4
Time deposits in the Banco do Brasil	91.0	110.4
Amortization of the social security system debt	...	76.5
Public debt	551.6	...
<b>3. Monetary base (1 - 2)</b>	<b>488.6</b>	<b>769.6</b>

Source: Central Bank of Brazil, *Informativo Mensal*, January 1983, and Getúlio Vargas Foundation, *Conjuntura Econômica*, February 1983.

<sup>a</sup>Preliminary figures.

<sup>b</sup>Net purchases of Federal Government public debt securities.

<sup>c</sup>Fuel alcohol production programme.



Table 34

## BRAZIL: DOMESTIC PUBLIC DEBT

(Billions of cruzeiros)

	Balance at end of year				Growth rates		
	1979	1980	1981	1982	1980	1981	1982
<b>Federal securities</b>	521	849	3 088	7 863	62.7	264.0	154.7
Readjustable Obligations of National Treasury (ORTN)	251	589	1 986	6 399	134.6	237.0	222.3
National Treasury Bonds (LTN)	270	259	1 102	1 463	-4.1	325.8	32.7
Obligations of the National Treasury (OTN)	-	-	-	1	33.3	-	250.0
<b>State and municipal securities</b>	84	151	413	1 034	78.5	174.5	150.3
<b>Total</b>	606	999	3 501	8 897	64.9	250.5	154.1

Source: Central Bank of Brazil, *Informativo mensal*, January 1983.

During the last two years, the federal government, as well as the State governments<sup>21</sup> and the municipality of the city of São Paulo, had extensive recourse to the sale of securities in order to obtain resources. The end-year balance of the federal debt rose by over 260% in 1981 and 150% in 1982, while that of the State governments rose by 170% and 150% in the same years (see table 34). The total domestic public debt in December 1982 represented around 15% of the gross domestic product of Brazil.

After interest rates were freed and the practice of scheduling the monetary correction in advance was eliminated in November 1980, the federal government increased the profitability of public securities by accepting higher discount rates, raising the monetary correction to levels equal to the rate of inflation and deciding on exchange rate correction for five-year securities.<sup>22</sup> This policy significantly increased the cost of the debt service, so that at the end of 1982 this cost, including monetary correction and interest, represented 51% of the total balance of the federal debt, or 104% of the subscribed value of the debt.

The high level of interest rates, both nominal and real, continued to hamper the growth of the economy, while at the same time it acted as an important factor of inflation. This high level was due in particular to the public sector's need for resources, to the segmentation of lines of credit and the selective limits on their expansion, and to the high cost and shortage of external resources.

A feature of the Brazilian financial system is that it provides for different lines of credit, each subject to certain conditions and sometimes at subsidized rates, such as those already mentioned in connection with agriculture, exports and PROALCOOL, which in 1982 represented 63% of all loans to the private sector. Free operations, for their part, amounted to 37% of all loans: 10% financed with external resources and 10% by investment banks. The monetary authorities have established limits on the growth of the investments of financial institutions, except for those which utilize external or government resources. In 1982, the commercial banks expanded their non-preferential lines of credit by 53%, investment banks did so by 62% and leasing companies, by 58%. The availability of domestic resources was further limited by the increase in the reserve requirement and by the role that part of those resources must be channelled to the agricultural sector.

Even with the drop in interest rates on the international market, the cost in cruzeiros of external resources did not fall. As the exchange correction was kept at levels equal to those of inflation, the cost of these resources in December 1982 was 19% in real terms. The difficulty of attracting external resources during the last quarter of 1982, when the quarterly average inflow dropped from US\$ 1 490 million to barely US\$ 390 million, reduced the availability of credit through these lines.

<sup>21</sup>The States authorized to issue securities are: Rio de Janeiro, São Paulo, Rio Grande do Sul, Piqui, Rio Grande do Norte, Minas Gerais, Bahia, Ceará, Santa Catarina and Paraíba.

<sup>22</sup>During 1982, federal public securities became increasingly profitable, with the rates rising by the end of the year to around 115% per year, i.e., almost 8% per year, in real terms.

A number of efforts were made during 1982 to reduce the level of interest rates. The monetary authorities eliminated the ceiling on the expansion of credit by finance companies for financing the sale of consumer durables to consumers and changed the method used to calculate the tax on financial transactions so that it only applied to the initial amount of debts. This permitted a 240% increase in the investments of financial institutions in 1982. In August 1982, in an effort to tone down expectations regarding the level of interest rates, the monetary authorities established a system involving the ex-post establishment of the monetary correction on deposit and lending operations of commercial and investment banks on transactions of over 90 days. Finally, they limited investments by commercial banks in the purchase of debentures, which had grown by 800% between January and August 1982, in order to free resources for other uses.

Because the monetary correction was maintained at levels equal to the increase in the level of prices, however, these measures did not have much effect, as interest rates remained equivalent to the monetary correction, plus 8% to 35% per year. Interest rates on credit discount and other operations having terms of less than 90 days were left free. The cost of these loans was very high because the interest rates were high. Moreover, the high interest rates gave rise, for the second year in a row, to a real growth of deposits by the public in the financial system (see table 35).

Table 35

**BRAZIL: DEPOSITS AND OTHER DOMESTIC OBLIGATIONS  
OF THE FINANCIAL SYSTEM WITH THE PRIVATE SECTOR**  
(Billions of cruzeiros)

	Balance at end of year				Growth rates		
	1979	1980	1981	1982	1980	1981	1982
Demand deposits	671	1 137	1 981	3 275	69.4	74.2	65.3
Fixed-term deposits	410	639	1 561	3 544	55.9	144.3	127.0
Saving deposits	523	985	2 485	5 768	88.3	152.3	132.1
Bills of exchange	187	275	494	1 785	47.1	79.6	261.3
Mortgage bonds	13	16	27	43	23.1	68.8	59.3
<b>Total</b>	<b>1 804</b>	<b>3 052</b>	<b>6 548</b>	<b>14 415</b>	<b>69.2</b>	<b>114.5</b>	<b>120.1</b>

Source: Central Bank of Brazil, *Boletim mensal*, January 1983.

Loans to the private sector by the financial system showed a real growth of 7%. This was due to the activities of the banking sector, whose operations rose by 18% in real terms, thanks especially to the transactions of financial institutions and of the Housing Finance System, made up of the National Housing Bank, real estate credit companies, savings and loan associations, the Federal Economic Fund and State funds. Loans to the private sector by the official sector continued to represent over 50% of all loans, although they have declined slightly over the last four years (see table 36).

b) *Fiscal policy*

In 1982, the Brazilian public sector continued to find it difficult to control its expenditure, even with the austerity measures adopted over the last three years. In this regard, the authorities concentrated most of their efforts on consolidating federal public expenditure (in the fiscal, monetary and State enterprise budgets).

Preliminary estimates of the federal sector fiscal deficit (including public enterprises) indicate that in 1982 it was equivalent to 14% of the gross domestic product, while in 1981 the figure was 12%.<sup>23</sup> This increase was mainly caused by expenditures pertaining to the public debt and expenditures of State enterprises (see table 37).

As the administrator of the federal public debt, the Central Bank covered expenditures amounting to 1.2 billion cruzeiros arising from the increasing impact of the monetary correction and interest on federal securities.<sup>24</sup> Because of the slowing-down of the economy, the State enterprises

<sup>23</sup>See the Ministry of Finance publication, *A crise mundial e a estratégia brasileira de ajustamento do balanço de pagamentos*, 1983.

<sup>24</sup>See Central bank of Brazil, *Boletim Mensal*, Vol. 19, No. 1, January 1983, table 3.2.

Table 36

## BRAZIL: FINANCIAL SYSTEM LOANS TO THE PRIVATE SECTOR

(Billions of cruzeiros)

	Balance at end of year				Growth rate		
	1979	1980	1981	1982	1980	1981	1982
<b>Banking sector</b>	1 730	2 948	5 598	10 565	70.4	89.9	88.7
Banco do Brasil	721	1 211	2 025	3 452	68.0	67.2	70.5
Commercial banks	1 009	1 737	3 573	7 113	72.2	105.7	99.1
Official	371	644	1 298	2 696	73.6	101.6	107.7
Private	638	1 093	2 275	4 417	71.3	108.1	94.2
<b>Non-banking sector</b>	1 669	2 945	6 609	15 550	76.5	124.4	135.3
Financial institutions	243	348	663	2 289	43.2	90.5	245.2
Official	20	28	53	154	40.0	89.3	190.6
Private	223	320	610	2 135	43.5	90.6	250.0
Investment banks	367	657	1 343	2 316	79.0	104.4	72.4
Official	11	19	37	62	72.7	94.7	67.6
Private	356	638	1 306	2 254	79.2	104.7	72.6
National Housing Bank (BNH)	25	35	80	210	40.0	128.6	162.5
Mortgage companies	238	463	1 166	3 106	94.5	151.8	166.4
Official	15	27	66	171	80.0	144.4	159.1
Private	223	436	1 100	2 935	95.5	152.3	166.8
Savings and loan associations	83	158	361	559	90.4	128.5	54.8
Federal Economic Fund (CEF)	240	475	1 093	2 763	97.9	130.1	152.8
State economic funds	113	194	509	1 116	71.7	162.4	119.3
National Bank for Economic and Social Development (BNDES)	234	390	855	2 080	66.7	119.2	143.3
State development banks	109	192	446	934	76.1	132.3	109.4
National Co-operative Credit Bank	8	20	73	138	150.0	265.0	89.0
Social Integration Programme	9	13	20	39	44.4	53.8	95.0
<b>Official sector</b>	1 876	3 248	6 555	13 815	73.1	101.8	110.8
<b>Private sector</b>	1 523	2 645	5 652	12 300	73.7	113.7	117.6
<b>Total</b>	3 399	5 893	12 207	26 115	73.4	107.1	113.9

Source: Central Bank of Brazil, *Informativo mensal*, January 1983.

were affected by the increases in domestic and external financial costs and also by the slackening in the real growth rate of their own income from 23% in 1980 to 2% in 1981 and less than 1% in 1982.

In 1982, the revenues of the federal government showed a real growth of 3% with respect to 1981. This was due mainly to the evolution of non-tax income, whose share rose from 20% to 23% of total revenues. As mentioned before, a significant part of this increase was accounted for by the creation in June, with contributions from public and private enterprises, of FINSOCIAL. Tax revenues, however, showed a real decline of 1% in 1982. This was due to increases in real terms, with respect to the previous year, of refunds on income tax (21%) and on the tax on industrial goods (50%), basically exports of manufactures. The tax on financial transactions became the third most important source of federal revenues.

The main changes in tax legislation were aimed at increasing collections and improving the distribution of the tax burden. Thus, in the case of the tax on industrial products, the changes were concentrated on increasing levies on luxury goods, such as cigarettes and beverages; the tobacco industry accounted for 40% of the gross revenues from this tax. In order to encourage the purchase of alcohol-fueled automobiles, the rates of tax on such vehicles were lowered or, in the case of the purchase of such vehicles for use as taxis, completely eliminated. Refunds of export taxes on manufactures, which were to have been eliminated in 1983, were extended until April 1985 at a rate of 11%. With regard to the tax on financial transactions, the basis for calculating it was changed in the case of consumer loans, and it was eliminated in the case of certain commodity imports and agricultural loans.

Table 37

**BRAZIL: CONSOLIDATED INCOME AND EXPENDITURE  
OF THE PUBLIC SECTOR**

	Billions of cruzeiros				Growth rates		
	1979	1980	1981	1982 <sup>a</sup>	1980	1981	1982 <sup>a</sup>
<b>Fiscal budget</b>							
Current income	509.8	1 219.4	2 262.0	4 617.8	139.2	85.5	104.1
Tax revenue	429.9	933.7	1 802.0	3 564.7	117.2	93.0	97.8
Income tax	150.3	307.0	640.4	1 354.5	104.3	108.6	111.5
Industrial products	127.6	263.2	500.9	989.8	106.3	90.3	97.6
Financial operations	23.8	103.1	266.0	517.0	333.2	158.0	94.4
Imports	34.1	87.7	138.3	229.8	157.2	57.7	66.2
Electric power	13.6	27.1	60.4	128.1	99.3	122.9	112.1
Lubricants and fuels	49.5	51.2	59.4	110.3	3.4	16.0	85.7
Exports	0.2	19.3	12.4	6.9	9 550.0	-35.8	-44.4
Others	30.8	75.1	124.2	228.3	143.8	65.4	83.8
Other income	79.9	285.7	459.0	1 053.1	257.6	60.7	129.4
Transfers	192.8	684.7	1 208.4	2 547.0	255.1	76.5	110.8
To monetary budget	57.6	318.4	252.8	643.3	452.8	-20.6	154.5
To public enterprises	135.2	366.3	955.6	1 903.7	170.9	160.9	99.2
Net expenditures	317.0	534.7	1 053.6	2 070.8	68.7	97.0	96.5
<b>Monetary budget</b>							
Income	-24.5	287.0	582.0	-548.1	...	102.8	...
National Treasury	50.5	281.2	212.3	541.8	456.8	-24.5	155.2
Net change in debt	-75.0	5.8	369.7	-1 089.9	...	6 274.1	...
Subsidies paid	287.8	858.5	1 300.4	2 060.2	198.3	51.5	58.4
Deficit	-312.3	-571.5	-718.4	-2 608.3	83.0	25.7	263.1
<b>Public enterprise budget</b>							
Income	1 191.5	3 089.1	6 366.9	12 759.5	159.3	106.1	100.4
Own income	1 056.3	2 720.5	5 410.6	10 855.8	157.5	98.9	100.6
Treasury contributions	135.2	368.6	956.3	1 903.7	172.6	159.4	99.1
Expenditures	1 397.9	3 392.5	7 143.6	14 817.0	142.7	110.6	107.4
Deficit	-206.4	-303.4	-776.7	-2 057.5	47.0	156.0	114.9
<b>Total deficit</b>	<b>-518.7</b>	<b>-874.9</b>	<b>-1 495.1</b>	<b>-4 665.8</b>	<b>68.7</b>	<b>70.9</b>	<b>212.1</b>

Source: ECLA, on the basis of data supplied by the Central Bank of Brazil (*Relatório Anual*, 1982, March 1983); and Carlos von Doellinger, "Implicações da ação do estado", in *Conjuntura Econômica*, October 1982, and "Estatização e finanças governamentais", in *Conjuntura Econômica*, July 1981.

<sup>a</sup>Preliminary figures.

## COLOMBIA

### 1. Recent economic trends: Introduction and summary

In 1982 the gross domestic product increased at a rate of slightly over 1%, after having grown very little (2%) the previous year as well. In contrast, between 1974 and 1980 the gross domestic product had increased at an average rate of 5%. During the entire time that statistical records have been kept in the country, the increase in the national value added had never been so small as in 1982. This was reflected in an increase in the unemployment rate and was also one of the factors which contributed to the moderate reduction in the inflation rate. Unemployment rose from 8.2% to 9.3% and inflation dropped from 27% to 24% (see table 1).

Some of the more notable sectoral trends in production during 1982 were the contraction of the manufacturing sector (-2%) and the stagnation of the agricultural sector. In the latter, the lack of growth in coffee production had a decisive impact, while the manufacturing sector was particularly affected by the decline in domestic and export demand; the factors which caused this decrease will be analysed below. Construction activity increased at an acceptable rate of 5%, although much more slowly than in 1980 and 1981. The drop can be attributed to the combination of a slight decline in private construction (due to problems of demand and financing) and the fact that public construction activity increased less than in 1981. Thus the total production of goods, including that of the small mining sector, diminished marginally (-0.3%) in 1982.

The production of services was 3% higher than in the previous year, while the 5% increase in the product of governmental services was particularly noteworthy. This, in addition to public participation in construction, made government activity one of the most important factors in preventing a decrease in the gross domestic product during 1982.

A series of factors had a negative influence on the rate of economic growth in 1982, many of which had been making themselves felt for some time. These included problems on the external front, irregularities in the national financial system, the public deficit and inflation.

As a result of the trends in both external borrowing and the current account, external accounts had a negative influence on the dynamism of economic activity in 1982 and the preceding years.

As indicated in figure 1, the trade of goods and services showed a deficit in 1980, following upon several surplus years. This deficit deepened considerably in 1981 and again in 1982, when it exceeded US\$ 1.9 billion as a result of external purchases worth over US\$ 6.4 billion versus sales of slightly over US\$ 4.5 billion. In part, this situation was brought about by the downward trend in the volume of exports of goods, which was 20% lower in 1982 than in 1979. This trend, which had already been in evidence for several years, was accompanied by rapid growth in the volume of imports (46% between 1979 and 1982). In addition, although the terms of trade index for goods and services rose almost 4% in 1982, it was nonetheless 41% lower than in 1977. These developments can be ascribed both to the world recession in general and to some more specific factors (such as problems in the coffee market and the revaluation of the dollar in international markets) as well as to the fact that there was some delay in applying measures to control the growth of imports.<sup>1</sup> Until 1981, that delay was to some extent a reflection of the economic authorities' desire to slow down the accumulation of international reserves in order to prevent pressure from being exerted on the money market.

The exchange policy applied during recent years has also been a contributing factor to the worsening of external trade balance in goods, since the nominal devaluation of the peso (19%) in 1982 was not enough to offset the effects of domestic inflation. Thus, the real effective exchange rate<sup>2</sup> dropped by approximately 7% for the second year running.

<sup>1</sup>The list of products subject to prior import licensing was not expanded until September 1982, and customs duties were raised by 20% in November.

<sup>2</sup>This refers to exports; see section 3.

In addition to the deterioration in the external trade of goods, there was a significant increase (over 80%) in net interest payments, which had already risen almost 50% in 1981. An important factor in this respect was the decline (-21%) in the amount of interest received; this, in turn, was caused by a decrease in reserve deposits in the exterior and the drop in international interest rates. Interest payments, for their part, rose only 13% in 1982.

Until 1981 the imbalance on current account was financed through increased external borrowing, both by the public sector and private economic agents. Because of the diminished net inflow of foreign capital, however, in 1982 it was necessary to draw down international reserves.

As a result, external indebtedness expanded by 18%. This was slower than the rate of approximately 23%, on average, recorded in 1980 and 1981 and, particularly, the rate of 30% corresponding to 1979. Thus, the pattern of external indebtedness in 1979-1982 was markedly different than in the three years prior to that period, when the rate at which international liabilities were incurred rose less than 5% annually.

Table 1  
COLOMBIA: MAIN ECONOMIC INDICATORS

	1976	1977	1978	1979	1980	1981	1982 <sup>a</sup>
<b>A. Basic economic indicators</b>							
Gross domestic product at market prices (millions of 1970 dollars)	17 152	17 865	19 379	20 421	21 256	21 701	21 962
Population (millions of inhabitants)	23.7	24.2	24.7	25.3	25.8	26.4	26.9
Per capita gross domestic product (1970 dollars)	724	739	784	809	824	823	816
<b>Growth rates</b>							
<b>B. Short-run economic indicators</b>							
Gross domestic product	4.7	4.2	8.5	5.4	4.1	2.1	1.2
Per capita gross domestic product	2.5	2.0	6.2	3.2	1.9	-0.1	-1.0
Gross domestic income <sup>b</sup>	7.4	6.9	7.0	4.1	4.8	0.6	1.5
Terms of trade (goods and services)	34.3	41.2	-17.4	-14.1	9.8	-15.2	3.9
Current value of exports of goods and services	30.0	22.8	16.1	14.7	9.9	-16.6	7.3
Current value of imports of goods and services	14.5	18.9	23.7	14.2	40.2	7.4	8.7
Consumer prices <sup>c</sup>							
December - December	25.9	29.3	17.8	29.8	26.5	26.7	23.9
Variation between annual averages	19.9	34.8	17.1	24.7	27.2	28.1	24.6
Money	34.7	30.4	30.3	24.2	27.9	21.2	25.4
Wages and salaries <sup>d</sup>	2.4	-5.6	11.5	6.5	0.8	1.4	3.7
Rates of unemployment <sup>e</sup>	...	9.3	8.8	8.8	9.6	8.2	9.3
Current income of government	27.0	29.9	32.6	36.3	32.5	35.0	25.7
Total expenditure of government	12.6	29.9	35.8	38.9	50.3	31.6	35.5
Fiscal deficit/total expenditure of government <sup>f</sup>	10.2 <sup>g</sup>	10.1 <sup>g</sup>	7.5 <sup>g</sup>	5.5 <sup>g</sup>	7.0	4.7	11.5
<b>Millions of dollars</b>							
<b>C. External sector</b>							
Trade balance (goods and services)	462	643	532	606	-482	-1 725	-1 933
Balance on current account	193	435	294	490	-644	-1 969	-2 291
Variation in international reserves	639	661	676	1 552	1 311	199	-711
External debt <sup>h</sup>	3 951	4 106	4 247	5 486	6 718	8 285	9 798

Source: ECLA, on the basis of official data.

<sup>a</sup>Preliminary figures.

<sup>b</sup>Gross domestic product plus terms-of-trade effect.

<sup>c</sup>National index for manual workers.

<sup>d</sup>Real wages of manual workers in manufacturing.

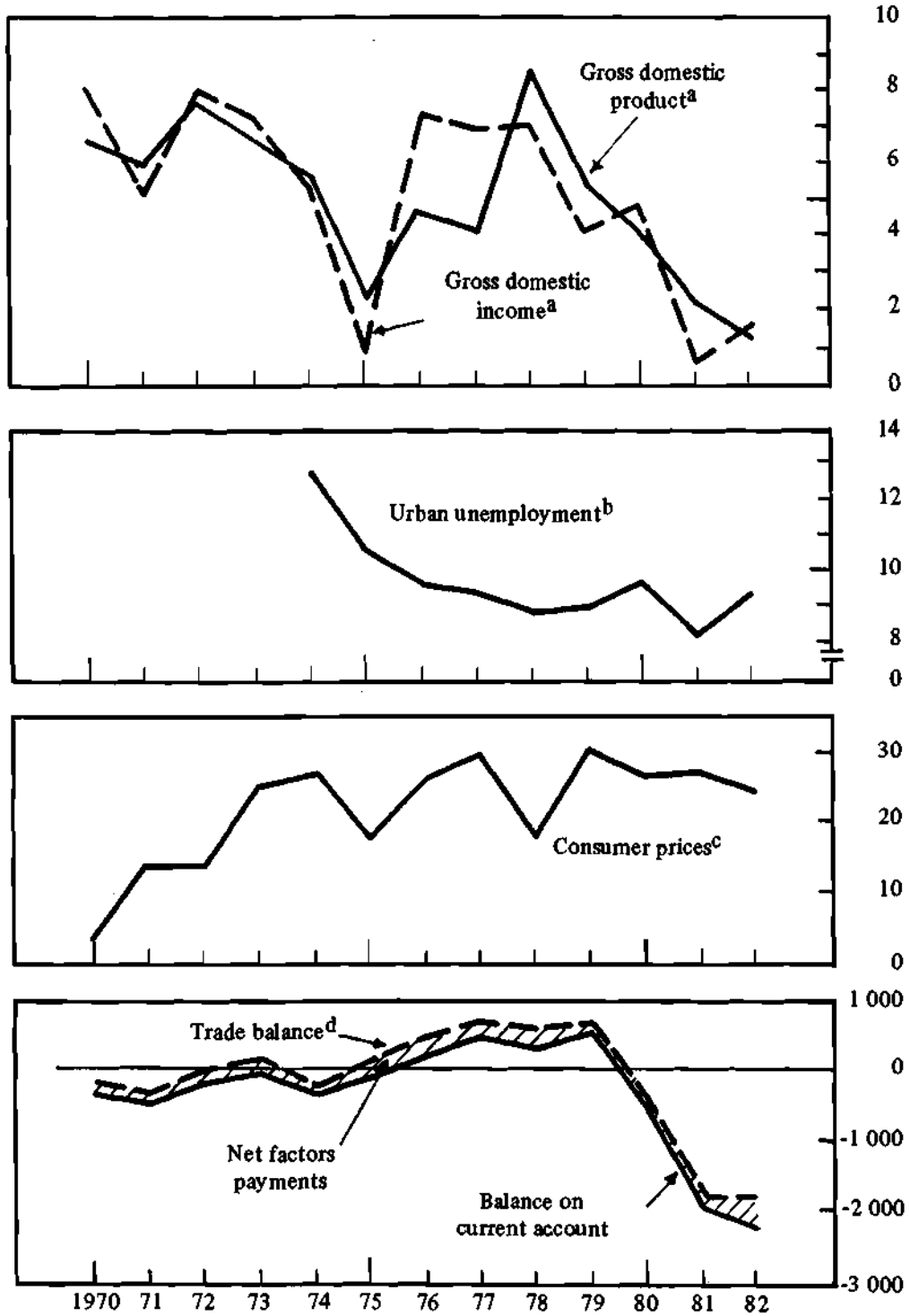
<sup>e</sup>Annual average rate for Bogotá.

<sup>f</sup>Percentage.

<sup>g</sup>Surplus.

<sup>h</sup>Total disbursed debt.

Figure 1  
**COLOMBIA: MAIN ECONOMIC INDICATORS**



Source: ECLA, based on official data.

<sup>a</sup>Annual growth rate.

<sup>b</sup>Mean annual rate in Bogotá, Barranquilla, Medellín and Cali.

<sup>c</sup>December-to-December percentage variation.

<sup>d</sup>Millions of US dollars.

This difference was a reflection of the change made in the policy on external borrowing when a new government took office in mid-1978. As will be seen below, after a number of years of stagnation, renewed importance was attached to the process of public investment, which was financed in large part by external funds. Given the abundant resources of the world financial market, the low initial level of indebtedness and the relatively satisfactory internal and external economic position of the country, it was not difficult to obtain the necessary capital.

As the international banking situation and the country's external and internal position deteriorated during 1982, the rate of expansion in its external borrowing slowed, as noted above. Since there was a simultaneous deterioration in the current account, the recourse of drawing down international reserves was used for the first time since 1974. Reserves, which had grown steadily from a level of US\$ 450 million in 1974 to over US\$ 5.6 billion in 1981, fell by 13% in 1982. Even so, by the end of the year they stood at US\$ 4.9 billion, an amount equal to nine months of imports of goods and services.

This trend in international reserves proved to be important in the light of events in 1982 relating to economic growth. The rapid expansion of the country's external assets until 1981 became the most significant component of the monetary base. Thus, it had a decisive influence on the pattern of prices. In view of the fact that the harmful effects of the inflationary process have carried great weight in the official global diagnostic studies of the economy, one of the economic authorities' foremost objectives was to stop the expansion of reserves; this primarily took the form of a severe restriction of domestic credit up until 1981.

In 1982, the vigour of economic growth, as such, was affected by the limitations which had existed until the year before on the expansion of liquidity and credit. This was compounded by the decline in external demand which occurred during the year in question. The problem became even more acute, however, as a result of the sharp increase in the domestic interest rate. In real terms, this rate rose from an average of -4% in 1971-1973 and 1% in 1974-1979 to 7% in 1980, 9% in 1981 and nearly 10% in 1982.<sup>3</sup> Other factors contributing to this steep climb during recent years have been the above-mentioned process of holding down the growth of the economy's money supply and a policy of loosening restrictions on interest rates. On the one hand, because high-yield government bonds were offered, the government's open-market operations exerted strong pressure on the financial market. On the other hand, in response to the restrictions faced by traditional banking, private economic agents created new financial institutions; in order to obtain resources, these institutions also offered high rates of return to their depositors, thereby putting further pressure on the interest rate.

In 1982, when international reserves ceased to exert expansionary pressure on the monetary base, the constraints on domestic credit also eased in both the public and private sectors. This permitted the financing of a larger fiscal deficit, an increase in the amount of resources for lending available to the private sector, and the initiation of action to lower interest rates. By these means, prior deposits on imports were reduced and a part of the legal reserve was freed for use at the same time that the return on government bonds was lowered in order to exert downward pressure on the interest rate.<sup>4</sup> However, the private sector was already in a delicate economic position, and the greater supply of funds for lending was not used to the extent which had been expected. Officially, this situation was largely attributed to the inadequate functioning of the financial system. The system had shown a growing tendency during recent years to divert a significant amount of funds towards speculative financial activities, while neglecting its main function of channeling funds towards the financing of productive activities.

Under these circumstances, and given the fact that the first set of measures did not restore the public's confidence in the financial system (resulting in a transfer of deposits from small to large institutions and from private to public ones), in early October the government declared the first state of economic emergency of the year.<sup>5</sup> The objective was to put the financial system on a sound footing by creating the necessary conditions for a greater formation and better management of domestic

<sup>3</sup>Nominal interest rates for time deposits in the banking system, deflated by the consumer price index.

<sup>4</sup>Despite these steps, the amount of funds obtained by the Banco de la República from operations on the open market increased sharply in 1982 as a result of the crisis in public confidence in the financial system.

<sup>5</sup>The state of economic emergency is provided for in the constitution and can be decreed by the government for a period of up to 90 days per year (not necessarily consecutive); this provision grants it special powers to resolve situations resulting from events which seriously disturb the economic and social order of the country.



savings. Solutions were also sought for such problems as the mounting process of economic concentration taking effect through the financial system, the existence of irregular situations in some financial institutions and the weakness of the support provided by the financial system for other sectors of the economy.

Three of the measures enacted to resolve such problems were particularly noteworthy. Firstly, the government nationalised one bank, intervened in two financial corporations and five commercial finance companies, and placed at least four other commercial companies under strict supervision. The purpose of this measure was to prevent them from becoming insolvent due to a lack of liquidity by giving them access to an abundant supply of funds through regular and special entitlements from the Banco de la República and the Savings and Housing Fund. Secondly, the government ordered that any funds in excess of the balances as of 31 May held in deposits made by decentralized government institutions and the National Coffee Fund in private financial institutions should be transferred to the Banco de la República, so that it would have the resources to make fixed-term deposits in the financial entities most in need of liquid assets. Thirdly, a set of provisions was promulgated which was aimed at deconcentrating both the property of financial institutions and the granting of credits.

The lack of public confidence in the financial system, combined with a drop in the interest rate, put an end to the savings boom in certificates of deposit which had taken place in 1980 and 1981 as a result of the decontrol of interest rates; the amount deposited in certificates increased by 114% in 1980 and 53% in 1981 in real terms. This caused the extended money supply (money plus quasi-money) to grow by 15% and 10% in real terms during those years. In 1982, on the other hand, the real value of certificates fell by 8%, causing the growth of quasi-money to come to a standstill. Due to the fact that the nominal rate of monetary expansion was maintained, it ceased to be negative in real terms, and the extended money supply did increase by somewhat less than 1%.

In conjunction with the monetary and financial situation described above, the central government ran up a considerable operating deficit in 1982, and the measures taken to finance it were thus added to the long list of factors having a negative effect on economic growth.

The central government's 1982 deficit was the culmination of a process that had begun four years earlier; the fiscal surplus which had existed since 1976 began to decrease in 1978, and by 1980 had turned into a deficit equal to almost 8% of current income. The deficit persisted in 1981, although it fell to 5% of current income, and then increased sharply to 13% in 1982 (see table 1).

The public deficit may essentially be attributed to the change which was made in the guidelines for public investment when a new government took office in 1978, and whose effect began to be clearly felt in 1980. Until that time, a very tight rein had been kept on government investment expenditures as an important part of the stabilization programme designed to offset the rapid accumulation of international reserves. Thus, in 1973-1979, real public investment decreased at an average annual rate of nearly 4%, although it was quite erratic. In 1980 and 1981, however, the real rate of growth in fiscal investment spending was 29% and 13%, respectively, and in 1982 it rose once again (5%). Nonetheless, this type of expenditure continued to represent a smaller proportion of total government outlays in 1982 than in 1973. On the other hand, the real value of current expenditures, which had decreased marginally in 1981, climbed sharply (10%) in 1982.

The larger deficit in 1982 was also due to the relative lack of growth in the real value of fiscal revenue (it increased only 1%). That situation can largely be attributed to the nearly continual decrease in real terms of direct tax receipts ever since 1976; especially during the last two years, this was a result of the economy's loss of dynamism.

In contrast, even though real revenue expanded only slightly in 1982, indirect taxes had been growing at high average rates (13%) during the four previous years. Nevertheless, this includes the lucrative Special Exchange Account (CEC), which has sparked a great deal of controversy since —because its sources of income involve the primary issue of money—<sup>6</sup> its use creates inflationary pressures. Although the CEC represented only 13% of current government income in 1978, this share increased considerably in 1981 and 1982, to 27% and 29% of current income, respectively.

<sup>6</sup>The funds in the Special Exchange Account are supplied by the profits derived from foreign exchange transactions (purchase or sale), from interest earned (in pesos), from deposits of international reserves in the exterior, from the *ad valorem* tax on coffee exports and from the tax on foreign exchange remittances.

The deficit was financed differently in 1980 and 1981 than in 1982; during the first two years the government over-financed it through external borrowing (on average, such borrowing was more than two-thirds higher than the deficit), with the result that the net credit extended by the Banco de la República was negative. In 1982, however, given the greater difficulty of obtaining new loans from the exterior and the disappearance of the conditions which had prompted the strict control of domestic credit-expansion during the past several years, the government made use of the latter recourse extensively, with the result that the net domestic credit extended was positive. Internal financing thus covered over half of the 1982 fiscal deficit, while the expansion of credit granted to the government accounted for three-fourths of the increase in total net credit in the country in 1982. If the rest of the public sector is taken into consideration, the proportion rises to 89%.

In the final week of December, the government declared a second economic emergency for a period of 50 days in order to enact fiscal legislation. The aim was to boost public revenue by streamlining the systems for its collection and administration as well as to strengthen public and private savings (although not to the point of instituting an overall tax reform). There was also a desire to prevent public activity from exerting inflationary pressure which would then have a harmful effect on the amount of revenue collected.

## 2. Trends in economic activity

### a) *Total supply and demand*

The fact that the increase in the gross domestic product in 1982 was scarcely over 1% resulted in a very small increase (1.6%) in the supply of goods and services, despite the rise of nearly 6% in the volume of imported goods and services (in contrast to the stagnation of the preceding year). Its growth had already been low in 1981 (2%), and appears even more so in contrast to its rapid expansion during the 1970s, with the exception of 1975. The poor rates of growth in both 1981 and 1982, which were especially marked in 1982 as regards most of the macroeconomic variables of total supply and demand, are a very clear reflection of the economic recession.

On the demand side, there was a small increase in the volume of goods and services exported —which, in any event, was a better showing than the decrease in the two previous years. As a result, the domestic supply of goods and services rose less than 2%, which was a smaller increase than in 1981.

With respect to the components of domestic demand, while gross domestic investment increased somewhat less than 3%, total consumption rose slightly more than 1% for the second consecutive year. If general government expenditure on consumption is subtracted, it may then be seen that private-sector consumption scarcely increased at all. According to these preliminary figures, private per capita consumption deteriorated in real terms for the second year running, as the effects of the worsening overall economic situation made themselves felt (see table 2).

The approximate 3% growth in investment was far below the increases of the two previous years. It should be remembered that in 1981 industrial, commercial and agricultural activities closed out the year with large accumulated inventories —including coffee. This partially explains the increase in gross investment for that year. During 1982, stocks were drawn down and, particularly in the case of coffee, did not exhibit great variation.

Based on some indirect indicators, it appears that fixed-capital formation increased very little during the year. This is suggested by the fact that direct foreign investment requests approved by the National Bureau of Planning dropped from US\$ 166 million in 1981 to US\$ 132 million in 1982. The decrease of investments in the industrial manufacturing sector was particularly marked (from US\$ 104 million to US\$ 74 million). In contrast, there was an increase in this type of investment in the mining and financial sectors. There was also a drop in the machinery and equipment import licenses granted for the installation of new production capacity or the expansion of existing capacity. Whereas in 1981 US\$ 290 million worth of import permits were approved for 134 industrial projects, in 1982 these figures dropped to US\$ 90 million and 83 projects. Overall, the only increase was in the licenses granted for imports of equipment to be used in the generation of electricity.

Table 2

## COLOMBIA: TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1970 prices			Percentage breakdown			Growth rates			
	1980	1981	1982 <sup>a</sup>	1970	1980	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>a</sup>
<b>Total supply</b>	23 406	23 864	24 248	109.2	110.1	110.4	5.3	5.8	2.0	1.6
Gross domestic product at market prices	21 256	21 701	21 962	100.0	100.0	100.0	5.4	4.1	2.1	1.2
Imports of goods and services <sup>b</sup>	2 150	2 163	2 286	9.2	10.1	10.4	3.8	26.9	0.6	5.7
<b>Total demand</b>	23 406	23 864	24 248	109.2	110.1	110.4	5.3	5.8	2.0	1.6
Domestic demand	21 846	22 426	22 803	101.2	102.8	103.8	4.1	7.0	2.7	1.7
Gross domestic investment	4 117	4 499	4 620	20.2	19.4	21.0	-0.3	10.9	9.3	2.7
Gross fixed investment	3 705	3 920	...	18.0	17.4	...	3.8	13.2	5.8	...
Construction	1 824	1 976	...	10.2	8.6	...	-2.4	14.6	8.4	...
Machinery and equipment	1 882	1 943	...	7.8	8.8	...	10.5	11.8	3.3	...
* Changes in stocks	412	579	...	2.2	2.0	...	...	...	...	...
Total consumption	17 729	17 927	18 183	81.0	83.4	82.8	5.2	6.2	1.1	1.4
General government	2 290	2 327	2 455	9.3	10.8	11.2	12.4	12.7	1.6	5.5
Private	15 439	15 600	15 728	71.7	72.6	71.6	4.3	5.3	1.0	0.8
Exports of goods and services <sup>b</sup>	1 560	1 438	1 445	8.0	7.3	6.6	20.8	-8.6	-7.8	0.5

Source: 1970-1981: ECLA, on the basis of figures supplied by the National Bureau of Statistics (DANE); 1982: ECLA estimates on the basis of official figures.

<sup>a</sup> Preliminary figures.

<sup>b</sup> The figures for exports and imports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1970 values using price indexes calculated by ECLA for that purpose.

### b) *Growth of the main sectors*

The lack of vitality observed in the gross domestic product during 1982 was especially evident in the goods-producing sectors, which were brought to a virtual standstill by a 2% reduction in the manufacturing product, a slight decrease in agricultural output and a definite slowdown in construction.

The growth rate of basic services, and particularly of transport, storage and communications services, was markedly lower in 1982; the same was true of the remaining services, and particularly commercial and financial activities. Only government-provided services sustained a satisfactory rate of activity, which was even higher than in 1981 (see table 3).

i) *Agriculture.* Agricultural output remained virtually unchanged, due to a 2.5% drop in crop-farming production which was offset to a great extent by increases of slightly over 2% in stock-raising production and of over 5% in forestry and fishery activities. Since 1978, when there was an increase of nearly 9%, the growth rate of agricultural production has been declining sharply, to the point where growth was slightly negative last year (see table 4).

During 1982 agriculture suffered from adverse weather conditions which affected irrigation in a number of crop-farming areas. Furthermore, a severe contraction in the demand for some products was occasioned by low international prices which reduced export opportunities and by the decrease in exports of other goods in which agricultural inputs are used or which incorporate such products. In addition, the scant yields of many crops and the heavy financial burdens borne by agriculture made it impossible to lower product prices, which otherwise might have bolstered domestic demand. On the contrary, the increase in wholesale agricultural prices accelerated during the year, and ended up being the largest increase since 1976. Moreover, the devaluation of the currencies of some bordering countries encouraged smuggling, to the detriment of domestic production. In addition to all of the above, the climate of social unrest prevailing in a number of regions in the country helped to discourage crop expansion.

During the years when international coffee prices were booming, agricultural activity was spurred by the higher income it brought in; thus, despite the large number of major crops whose harvests were significantly reduced, the crop-farming product retained a degree of dynamism until 1981. In 1982, however, in addition to the poor yields of major crops, there was a slight decrease in the coffee harvest.

Measured in 1981 prices, the value of the harvests of 20 of the most important products other than coffee declined by 3.5% in 1982. This drop was partly offset by the harvests of some permanent crops, such as fruit trees, and of some seasonal ones, such as vegetables. The crops which decreased the most were cotton (58%), sesame (42%), yams (20%), bananas and yucca (11%) and tobacco (3%).

Faced with soaring coffee prices, Colombia—as is also true of all the other producer countries—could not resist the temptation to increase its production. The rise in domestic producer prices from an average of 1 940 pesos per 125-kg load of regular parchment coffee in 1973 to 9 490 pesos in 1981 was a powerful incentive to raise production; this was achieved less by expanding the area under cultivation than by introducing high-yield varieties and using improved techniques in pre-existing coffee plantings. Coffee output thus climbed from 468 000 tons in 1973 to 782 000 tons in 1981. The greater volume of production made increased exports possible. When the coffee boom ended, enormous inventories accumulated, and it became necessary to resort to the mechanism of export quotas regulated by the International Coffee Agreement. As a result of the downward in international prices, the domestic price remained at 10 330 pesos per load of parchment coffee from November

Table 3

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

	Millions of dollars at 1970 prices			Percentage breakdown			Growth rates			
	1980	1981	1982 <sup>d</sup>	1970	1980	1982 <sup>d</sup>	1979	1980	1981	1982 <sup>d</sup>
<b>Gross domestic product<sup>b</sup></b>	19 354	20 026	20 266	100.0	100.0	100.0	4.3 <sup>c</sup>	5.5 <sup>c</sup>	3.5 <sup>c</sup>	1.2
<b>Goods</b>	9 172	9 504	9 476	51.0	46.9	46.2	2.9	7.0	3.6	-0.3
Agriculture	4 770	4 912	4 902	27.3	24.4	23.9	4.9	1.8	3.0	-0.2
Mining	196	206	215	2.4	1.0	1.0	1.6	18.9	5.4	4.5
Manufacturing	3 424	3 533	3 463	17.3	17.5	16.9	0.4	12.7	3.2	-2.0
Construction	782	853	896	4.0	4.0	4.4	0.6	14.3	9.1	5.0
<b>Basic services</b>	2 562	2 697	2 787	10.7	13.1	13.6	7.1	3.0	5.3	3.4
Electricity, gas and water	305	316	335	1.2	1.6	1.6	11.7	7.0	3.6	6.0
Transport, storage and communications	2 257	2 381	2 452	9.5	11.5	12.0	6.5	2.4	5.5	3.0
<b>Other services</b>	8 337	8 651	8 875	41.1	42.7	43.3	4.8	4.9	3.8	2.6
Commerce, restaurants and hotels	2 616	2 670	2 710	13.1	13.4	13.2	3.8	1.9	2.1	1.5
Financial, insurance, real estate institutions and business services	2 788	2 952	3 017	14.5	14.3	14.7	4.8	6.3	5.9	2.2
Ownership of dwellings	1 371	1 419	1 462	8.1	7.0	7.1	3.9	2.1	3.5	3.0
Community, social and personal services	2 933	3 029	3 148	13.5	15.0	15.4	5.8	6.3	3.3	3.9
Government services	1 723	1 779	1 867	7.8	8.8	9.1	6.5	9.9	3.2	5.0
Minus: Commission for bank services	530	625	634	2.8	2.7	3.1	-0.3	12.2	17.9	1.5

Source: 1970-1981: ECLA calculations on the basis of figures supplied by the National Bureau of Statistics (DANE); 1982: ECLA estimates on the basis of official figures.

<sup>d</sup> Preliminary figures.

<sup>b</sup> As the individual activities and the total were extrapolated independently, the sum of the former does not correspond with the latter.

<sup>c</sup> The discrepancies between these growth rates and those shown in tables 1 and 2 are due to the fact that they involve different measurements of the product: in this instance, the factor costs and in the other cases, market prices.

Table 4

## COLOMBIA: INDICATORS OF AGRICULTURAL PRODUCTION

	1979	1980	1981	1982 <sup>a</sup>	Growth rates			
					1979	1980	1981	1982 <sup>a</sup>
Index of agricultural production (1970 = 100)	153.0	156.0	162.0	161.7	4.0	2.6	3.2	-0.2
Crop farming	158.0	161.5	164.0	159.9	3.9	2.0	3.1	-2.5
Stock-raising	150.6	155.7	161.7	165.4	4.5	3.4	3.9	2.3
Production of the main crops <sup>b</sup> (thousands of tons)								
Rice	1 932	1 798	1 788	2 018	12.7	-6.9	-0.5	12.9
Maize	870	854	880	898	0.9	-1.8	3.0	2.0
Sorghum	501	431	532	576	-3.1	-14.0	23.4	8.3
Wheat	42	46	62	71	10.5	9.5	34.8	14.5
Raw cotton	282	353	366	154	-14.5	25.2	3.7	-57.9
Sesame	16	13	12	7	14.3	-18.7	-7.7	-41.7
Soya	146	155	89	99	11.5	6.1	-42.6	11.2
African palm <sup>cd</sup>	62	70	80	85	26.5	12.9	14.3	6.5
Common beans	75	84	74	73	2.7	12.0	-11.9	-1.4
Potatoes	1 966	1 727	2 105	2 149	-1.5	-12.2	21.8	2.1
Yuca <sup>e</sup>	2 081	2 150	2 150	2 000	1.8	3.3	-	-7.0
Refined cane sugar <sup>f</sup>	10 545	11 653	11 778	11 891	10.1	10.5	1.1	1.0
Unrefined cane sugar (panela) <sup>f</sup>	984	988	935	884	7.8	0.4	-5.4	-5.5
Coffee <sup>e</sup>	694	753	782	774	10.3	8.5	3.9	-1.1
Bananas <sup>e</sup>	802	944	1 078	1 147	11.5	17.7	14.2	6.4
Tobacco <sup>e</sup>	60	47	49	47	13.0	-21.7	4.2	-3.4

Source: ECLA, on the basis of data supplied by the Ministry of Agriculture, the Banco de la República, and the National Coffee-Growers Federation.

<sup>a</sup> Preliminary figures.

<sup>b</sup> Agricultural year.

<sup>c</sup> Calendar year.

<sup>d</sup> Production of oil pulp.

<sup>e</sup> Coffee-growing year, 1 October to 30 September.

1981 to September 1982; this forced many growers to reduce their costs in any way possible, even if it meant deferring the maintenance of their plantations. As a result, coffee output fell by 144 000 sacks during the 1981-1982 coffee year, to 12.9 million sacks.

Coffee production increased during the last five-year period from 10.5 million sacks in 1977-1978 to 12.9 million in 1981-1982, while its value rose from 46 billion pesos to 81.6 billion pesos during those years. The rise in domestic costs and prices posed serious financing problems in view of the decline of international prices and the drop in export volumes. The financial problem was exacerbated by the accumulation of stocks (domestic coffee consumption is approximately 1.6 million sacks), which had climbed to 9 million sacks by the end of the 1981-1982 harvest; this was equivalent to 70% of production, or the total export volume in 1982. It is estimated that by the end of the 1982-1983 harvest, inventories will have risen to 11 million sacks.

During recent years, in order to prevent the sale of the coffee crops from becoming a major factor in monetary expansion, a flexible National Coffee Fund financing policy was adopted. It consisted in retaining large volumes of coffee in stock and granting FEDECAFE a monopoly on coffee bean exports. The resources taken in by the Fund through the Coffee Exchange Certificates soared (it loaned out almost 10 billion pesos, which allowed it to issue 15 billion pesos worth of certificates in 1981), thereby providing a great deal of relief for the financing of the new crop.

Grain production rose 9% (3 000 tons) during 1982, for a total of 3.6 million tons, and the production of all grains except barley increased. Rice output, which rose by 230 000 tons or 13%, exceeded 2 million tons for the first time (see table 4).

Whereas 60 000 tons (US\$ 32 million) of rice was exported in 1981, there were no rice exports in 1982 due to the sharp drop in international rice prices (they plunged by more than 30% in the Bangkok market), which made exportation impossible. Furthermore, the Agricultural Marketing

Institute (IDEMA) did not have sufficient funds for purchasing rice. For these reasons, rice growers planted 17 000 hectares less than in the second half of 1982. In order to alleviate the farmers' difficult financial situation, the monetary authorities extended the period for payment of the liabilities incurred during the first semester by the rice growers of the Meta and Casanare regions with the Agricultural Finance Fund. They also lengthened the amortization period for the bonds discounted by IDEMA for which rice had been put up as collateral and lowered the interest rate during that period to 24%. In addition, the Banco de la República extended a line of credit for 300 million pesos to fund IDEMA's rediscounting of rice-backed collateral bonds and another for 600 million pesos to finance the rediscounting of the security bonds held by rice millers. As a consequence of higher output and the lack of exports, by the end of the year IDEMA had accumulated 140 000 tons of rice stocks.

In contrast to the performance of grain production, oilseed output decreased 37% in 1982. The increases in the production of African palm oil (6.5%) and soya (11%) were insufficient to offset the lower production of cotton seed (raw cotton output fell 58%) and of sesame. In 1979 cotton production had fallen off by 14% due to adverse weather conditions and disease; nevertheless, stocks had accumulated because of difficulties with sales on the external and domestic markets. In 1982 there was a repetition of this difficult situation, but in a more serious form. High finance and production costs raised the prices of the domestic product, making it impossible for it to compete on the international market or even on the domestic market. Cotton exports decreased last year from US\$ 109 million to a mere US\$ 14 million.

The land area planted with cotton decreased from 220 000 hectares in the 1981 crop year to only 92 000 hectares in 1982. The credits granted by the Agricultural Finance Fund to cotton growers were reduced by two-thirds, and the area covered by those loans decreased from 127 000 hectares to 40 000 hectares.

In response to the problems of the cotton growers, the government guaranteed them a price of 137 000 pesos per ton in 1982 and of 145 000 pesos in 1983. For its part, the textile industry committed itself to purchasing 16 000 tons of cotton during the second half of 1982 and 25 000 tons in the first half of 1983 at those prices. In exchange, besides its financial backing, the government was to grant a subsidy to the textile industry for the cotton content of exported fabrics which would be equal to the difference between those prices and the going rate on the Liverpool market.

The production of legumes fluctuated very little during the year, remaining at about 74 000 tons. Potato production rose slightly, and the output of yucca and yams decreased considerably.

Banana production activities also experienced some financial difficulties because of the oversupply of bananas on the international market and the resulting decline in prices. The situation with regard to this crop was further aggravated by the announcement that two banana companies intended to leave the country, which would mean that they would not be purchasing more than 5 million crates (equivalent to 20% of national banana production).

During 1982 stock-raising production rose 2.3% despite the fact that cattle slaughtering decreased 7%, the yield of slaughtered head dropped by 0.5% and pig slaughtering also fell (8%), although this last decrease was mitigated by a slight improvement in the yield of the animals butchered. However, the fact that a smaller number of cattle and pigs were slaughtered during the year was more than offset by the increases in the cattle herd, (which began to be held back from butchering) and in the number of pigs. The production increase was 3% for poultry, nearly 6% for milk and approximately 2% for eggs.

The Agricultural Finance Fund furnished substantial credit backing for crop-farming and stock-raising activities in 1982. About 37 billion pesos was provided, which was 9% more in real terms than the amount of credit extended in the preceding year. The cotton, rice and sorghum crops, which employ very modern technology, absorbed slightly more than 40% of this credit. Approximately 9% was received by the remaining crop-farming activities. Stock-raising activities obtained about 9 billion pesos, most of this sum being accounted for by cattle raising.

Loans for 3.8 billion pesos —44% more than in 1981— were granted for infrastructure activities: leveling and site preparation, irrigation canals, land clearing, agricultural buildings, electricity network installations, cold storage plants, etc. Loans for the purchase of farm machinery and implements rose 28%, and farm-purchase loans increased only 9%, which represents a decrease of over 15% in real terms.

Table 5

## COLOMBIA: INDICATORS OF MINING PRODUCTION

	1979	1980	1981	1982 <sup>a</sup>	Growth rates			
					1979	1980	1981	1982 <sup>a</sup>
Gross mining product <sup>b</sup>	165	196	206	215	1.6	18.9	3.9	4.5
Petroleum <sup>c</sup>	45.3	45.9	48.9	51.6	-5.0	1.3	6.5	5.5
Iron ore <sup>d</sup>	378.0	491.0	410.6	445.4	-16.6	29.6	-16.4	8.5
Gold <sup>e</sup>	265.6	497.0	516.6	459.6	4.2	87.1	3.9	-11.0
Silver <sup>e</sup>	93.5	140.5	133.3	124.2	12.1	50.3	-5.1	-6.8
Platinum <sup>e</sup>	12.9	14.3	14.8	11.9	-13.4	10.8	3.5	-19.7
Salt <sup>d</sup>	633.6	887.1	716.3	...	-15.6	40.0	-19.3	...

Source: ECLA, on the basis of data supplied by the Ministry of Mining and Energy and the Banco de la República.

<sup>a</sup>Preliminary figures.

<sup>b</sup>Millions of dollars at 1970 prices.

<sup>c</sup>Millions of 42-gallon barrels.

<sup>d</sup>Thousands of tons.

<sup>e</sup>Thousands of troy ounces.

ii) *Mining*. During 1982, the value added by mining activity climbed 4.5%; although this was slightly higher than in the preceding year, it was far from the 19% increase recorded in 1980.

With the exception of crude oil and iron ore extraction, there was a significant deterioration in the production volumes of major mining products. These decreases were larger than in 1981 and are in sharp contrast to the excellent results achieved in 1980 as regards most of these products (see table 5).

Between 1970 and 1979, crude oil production fell from 80 million to 45 million barrels. In 1980 there was a slight upturn which then became stronger in 1981 and 1982, with increases of approximately 6% in each of those years. Although it has never been a large oil producer, Colombia was a net exporter of crude oil until 1974, whereupon it became a net importer of petroleum and petroleum products, shortly after international oil prices more than quadrupled.

That very unfortunate economic situation led to the adoption of a series of measures designed to boost oil exploration and extraction and to rationalize domestic consumption. One of the measures for achieving the former goal was to replace the system of granting exploration and exploitation leases to companies with a system of partnerships formed between the Colombian Petroleum Company (ECOPETROL) and foreign companies on quite favourable terms as regards the purchase price of oil destined for national refineries. In order to attain the latter objective, first the (lower) exchange rate used for oil purchases was gradually brought into line with the exchange rate used for other currency exchange operations, and then oil prices were raised to their international level; this increase initially favoured oil from new deposits, and later extended to all domestic extraction.

In 1969 a law was passed empowering the government to declare any potentially oil-bearing area to be a national reserve and to hand it over to ECOPETROL for exploration, exploitation and either direct administration or administration in association with public or private, national or foreign capital. Later, in 1974, the signing of new oil lease contracts was eliminated, and partnership with ECOPETROL became a requirement for participating in national petroleum activities.<sup>7</sup> From 1969 to the end of 1982, 126 partnership contracts were signed, 38 of which were in force on the latter date,

<sup>7</sup>The partnership contracts are signed for a term of 28 years, composed of a 6-year exploration period and a 22-year exploitation period; they include provisions for the return of contracted areas according to their size, to be carried out in stages over a period of 10 years. A company in partnership with ECOPETROL assumes all the risks of exploration; however, if the deposit discovered is declared to be commercially feasible, ECOPETROL assumes 50% of the investment, i.e., the costs and profits of exploitation are shared equally with the partner company. The partner pays a 20% royalty, which in practice means that 60% of the oil extracted goes to the State and 40% to the partner; in addition to being responsible for paying the taxes required by law, the partner must also meet the requirements of the investment programme for surface and underground exploration, must accept the administration of operations by a joint committee and, upon the expiration of the contract, must return to ECOPETROL, at no cost, the deposit and its related facilities in perfect condition.

covering a surface area of 10.3 million hectares. Ten of those contracts were in the exploitation stage. An increase in the volume of proven reserves naturally depends on the intensity with which exploratory activities are carried out. In Colombia, the participation of foreign enterprises in these activities has proved to be very important. In 1977 these companies provided 77% of the investments in surface exploration; in 1980 this figure had risen to 86%, but dropped to 83% in 1981. This last figure is equivalent to an investment of US\$ 150 million, which was 7.5 times more than the level of investment in 1977. The number of exploratory wells which were drilled rose from 8 in 1977 to 44 in 1981, and the total depth increased from 82 000 feet to 297 000 feet. During those five years, the companies in these partnerships drilled a total of 112 exploratory wells, and 855 000 feet. If the exploratory activities conducted by ECOPETROL and by the companies still holding leases are also counted, these totals increase to 172 wells and 1 380 000 feet. This brought proven reserves up to 171.8 million barrels of oil and 32 billion cubic feet of natural gas during that five-year period. Exploratory activities were primarily conducted on the eastern plains and in other areas where facilities for such projects did not always exist.

Exploration decreased in 1982, demonstrating a great deal of sensitivity to the beginning of a downturn in international oil prices. Drilling by foreign companies dropped from 83 wells and 373 000 feet in 1981 to 63 wells and 371 000 feet in 1982. Only 15 of these wells proved to be productive. For its part, ECOPETROL reduced the number of wells being drilled from 13 to 12 and their total depth from 190 000 feet to 104 000 feet. Only six of the wells proved to be productive.

The 5.5% increase in oil extraction in 1982 made it possible to cut imports by slightly more than 5%, which represented a saving of US\$ 18 million. With respect to petroleum products, the slight decrease in production (1%) was accompanied by the stagnation of import volumes and a small drop in their value. In addition to importing, Colombia usually exports petroleum-based fuels. In 1982 the value of these purchases reached US\$ 413 million, and exports represented US\$ 291 million; net payments thus decreased by US\$ 24 million in comparison to the preceding year (see table 6).

The sharp drop in international gold prices from slightly over US\$ 600 per ounce in 1980 to approximately US\$ 380 in 1982, in conjunction with other causes such as the depletion of the deposits themselves, caused production in the country to decrease. Output fell from some 500 000

Table 6

COLOMBIA: PETROLEUM INDUSTRY INDICATORS

	1980	1981	1982 <sup>a</sup>	Growth rates		
				1980	1981	1982 <sup>a</sup>
<b>Millions of barrels</b>						
<b>Production</b>						
Extraction of crude oil	45.9	48.9	51.6	1.3	6.5	5.5
Production of petroleum products	59.3	63.3	62.6	0.1	6.7	-1.1
<b>External trade</b>						
Imports of crude oil	7.3	7.7	7.3	-18.4	5.5	-5.2
Imports of petroleum products	13.0	11.0	11.0	-2.6	-15.4	-
Exports of petroleum products	9.4	10.4	12.0	-10.5	10.6	15.4
<b>Millions of dollars</b>						
Imports of crude oil	220	267	249	4.3	21.4	-6.7
Imports of petroleum products	491	417	413	36.4	-15.1	-1.0
Exports of petroleum products	240	271	291	63.7	12.9	7.4

Source: ECLA, on the basis of data supplied by the Banco de la República and the Ministry of Mining and Energy.

<sup>a</sup>Preliminary figures.



ounces per year in 1980-1981 to 460 000 ounces in 1982. Since gold mining is mainly conducted by small-scale mining producers, the decrease particularly affected employment in the departments of Antioquia, Chocó, Nariño, Caldas and Cauca, where many people are engaged in this activity on a small scale. The Banco de la República continued to provide technical assistance to them, and the Monetary Board authorized an entitlement of 40 million pesos to rediscount 100% of the loans made to them by credit institutions for the development of their gold and platinum mining activities. These loans are granted at an annual interest rate of 26% over a two-year term.

The sharp reduction (approximately by half) in the production of sea salt was partly due to the persistent decline in the demand of its main buyer, Alcalis de Colombia, which uses it as an input. This company has lowered its production in response to the imposition of restrictions as a result of the pollution caused by one of its plants in Cartagena Bay. Moreover, problems and disagreements have arisen among large and medium-sized entrepreneurs and the small-scale salt producers.

Despite the drop in production of the Paz del Río steel mills, the mining of iron ore rose by about 9%. The Cerromatoso plant, which processes ferronickel ores from Monte Líbano, began operation midway through the year. Around the same time, the exploitation of the El Cerrejón coal deposits was initiated and a portion of its production began to be exported; its output is still minimal in comparison to its estimated production when the project's exploitation phase is in full swing.

iii) *Manufacturing.* The product of the manufacturing industry decreased by 2% in 1982. One contributing factor was the slow increase in domestic demand, aggravated by the fact that a growing percentage of that demand shifted towards imported manufactures, including some contraband, due to the relatively high prices of domestic manufactures. A second factor was the shrinkage of external demand for some manufactured products such as cotton yarn and textiles, publications, paper and cardboard and, to a lesser extent, sugar and cement. The financial factor was a third element which affected industry; many companies' high levels of indebtedness, at very high rates of interest, and the decline in domestic demand were part of the reason why a significant portion of the credit disbursed was not invested in industrial production activities but was instead directed towards other areas in search of greater profitability and security. Lower sales also prompted the manufacturing industry, in general, to liquidate stocks and to allow a portion of its installed capacity to stand idle.

The production of capital equipment fell nearly 9% as a result of the 15% decline in transport equipment and materials, a decrease of 5% in non-electrical machinery and a 3% drop in the output of electrical equipment and machinery. This decrease was one more example of the low level of activity observed in the goods-producing sectors. Many industries utilized two-thirds of their production capacity on a single shift.

Such important industries as textiles reduced production by nearly 7%, while the output of paper and paper products was cut by about 4% and rubber products by 10%. In contrast, the wood industries increased production by 10% and the output of plastic products rose 20%. In general, the production of intermediate goods fell slightly more than 1%, which—in conjunction with the 4% drop in the permits granted by INCOMEX for imports of these goods for industry—is an indicator of the low level of economic activity during the year.

The production of manufactured consumer goods decreased by slightly more than 2%. With the exception of a small rise in tobacco production and increases of approximately 3% and 6% in chemicals and in printing and publishing, all other product lines showed a drop in production, especially footwear and clothing (8%) and furniture (23%).

Among the major industrial products, sugar output rose by 9% and cement by 10%. The start-up of a cement plant with a production capacity of 600 000 tons at the Paz del Río steel mills and the expansion of the capacity of another large plant to 1.2 million tons brought total cement production capacity to 7.2 million tons.

During 1982 the automobile industry assembled 35 600 vehicles, which was barely 1% more than in the preceding year. Although it was slight, this increase at least put an end to the downturn seen in this and related industries during 1980 and 1981, which had been affected by competition from imported vehicles and parts. In mid-1982 some restrictions were placed on automobile imports, raising the minimum price of an imported vehicle and increasing the *ad valorem* tax on automobiles from 150% to 180%. The output of chassis, on the other hand, continued to fall. There are three automobile companies in the country, with an assembly capacity of 110 000 units using 2.5 shifts; in 1982 only 30% of this capacity was used (see table 7).

The greater monetary liquidity which was promoted during the year, as well as some restrictive measures imposed on imports —such as those which transferred the products in 500 tariff categories from the free import list to a system of prior licensing— helped to improve the situation for national industry with respect to domestic demand. Furthermore, in order to correct some anomalous situations in industrial financing, self-financing companies were liquidated; however this measure did not fully achieve the desired result. In this same vein, the resources of the Industrial Finance Fund were made more available, allowing lines of credit to be opened up to industry for the acquisition of nationally-produced capital equipment and for the production of these goods. Another step taken late in the year to stimulate national industry was the establishment of an official purchasing statute which ensured that domestic products would figure significantly in the supply of the public sector.

With a view towards creating conditions of greater permanency for the impetus given to industrial branches suffering from specific problems or whose development is of special interest, the government set in motion what it has called a policy of "consensus in development". This policy is to be applied to each individual sector after a diagnostic study has been conducted and a strategy has been devised, with care being taken to ensure that it does not diverge from overall development policy.

The policy of "consensus in development" has been designed to promote the participation of the government, entrepreneurs, the sectors providing raw materials and intermediate goods and the workers (through their unions) within the scope of each group of related industries.

An agreement of this nature was concluded with textile industrialists which also included cotton producers; its terms serve as a good example of the scope of these accords. Under the agreement, three large textile enterprises committed themselves to improving their financial standing by issuing and offering shares, selling off assets and taking other steps to reduce their level of indebtedness to 70% of its previous level over a period of three years. They also agreed to reduce their inventories of finished products to a level equal to no more than three months' production and, until this was accomplished, not to raise the prices of their finished goods and, later on, to review prices in conjunction with the government. The companies also pledged to reduce their current accounts with subsidiaries and to put an end to any marketing activities other than those corresponding to them, i.e., the production and marketing of fibres, textiles and clothing. The industrialists also agreed to purchase the cotton harvests at the prices established by the government and the growers, and also committed themselves to a set value of exports in 1983 (3.17 billion pesos).

Table 7

COLOMBIA: INDICATORS OF MANUFACTURING PRODUCTION

	1978	1979	1980	1981	1982 <sup>a</sup>	Growth rates			
						1979	1980	1981	1982 <sup>a</sup>
Gross manufacturing product <sup>b</sup>	3 027	3 037	3 424	3 533	3 463	0.4	12.7	3.2	-2.0
Production (thousands of tons)									
Sugar	1 027	1 107	1 248	1 212	1 318	7.8	12.9	-2.9	8.7
Cement	4 152	4 257	4 351	4 470	4 917	2.5	2.2	2.7	10.0
Steel ingots	265	234	263	217	215	-11.7	12.4	-17.5	-0.9
Metallurgical coke	244	221	237	237	-	-9.4	7.4	-	-
Caustic soda	32	25	20	19	15	-21.9	-20.0	-5.0	-21.1
Carbonates	167	133	125	106	111	-20.4	-6.0	-15.2	4.7
Motor vehicles <sup>c</sup>	44.5	48.8	42.8	35.2	35.6	9.7	-12.2	-17.8	1.1
Motor cars	32.3	32.8	32.3	24.7	26.5	1.7	1.3	-24.1	7.2
Chassis	12.2	16.0	10.6	10.4	9.1	31.1	-34.5	-1.9	-12.5
Petroleum products <sup>d</sup>	57	59	59	63	63	3.5	0.1	6.5	0.1
Industrial consumption of electricity <sup>e</sup> (millions of kWh)	3 377	3 596	3 686	3 651	3 656	6.5	2.5	-0.9	0.1

Source: ECLA, on the basis of data supplied by the Banco de la República and the National Bureau of Statistics (DANE).

<sup>a</sup>Preliminary figures.

<sup>b</sup>Millions of dollars at 1970 prices.

<sup>c</sup>Thousands of units.

<sup>d</sup>Millions of barrels.

<sup>e</sup>In the 24 major cities.

Table 8

## COLOMBIA: CONSTRUCTION PERMITS APPROVED

	Thousands of square metres				Growth rates			
	1979	1980	1981	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>a</sup>
<b>Total area</b>	6 093	5 941	6 134	...	-14.5	-2.5	3.2	...
<b>Ten principal cities</b>	4 859	4 653	5 150	5 168	-16.3	-4.3	10.7	0.3
Bogotá	2 014	1 893	1 914	2 321	-18.0	-6.0	1.1	21.3
Barranquilla	341	218	237	243	-25.9	-36.1	8.7	2.5
Bucaramanga	206	263	336	271	-21.1	27.7	27.7	-19.6
Cali <sup>b</sup>	777	763	900	600	-1.0	-1.8	17.9	-33.3
Cartagena	81	113	90	69	20.9	39.5	20.4	-23.3
Cúcuta	75	97	45	120	-51.3	29.3	-53.6	166.7
Manizales	237	163	188	123	-7.0	-31.2	15.3	34.5
Medellín <sup>c</sup>	950	1 033	1 352	1 317	-24.3	8.7	30.9	-2.5
Neiva	121	42	29	49	210.3	-65.3	-31.0	69.0
Pasto	58	69	58	55	-21.6	18.9	-15.9	-5.2
<b>46 other cities</b>	1 234	1 287	984	...	-6.4	4.3	-23.5	...
<b>Total area of new housing</b>	4 717	4 634	5 052	...	-20.6	-1.8	9.0	...
<b>Ten principal cities</b>	3 750	3 670	4 196	3 901	-23.3	-2.1	14.3	-7.0
Bogotá	1 488	1 566	1 575	1 771	-31.6	5.2	0.6	12.4
Barranquilla	238	178	152	128	-42.9	-25.2	-14.6	-15.8
Bucaramanga	180	236	290	222	-15.1	31.1	22.9	-23.4
Cali <sup>b</sup>	676	563	767	511	5.8	-16.7	36.2	-33.4
Cartagena	61	60	73	41	19.6	-1.6	21.7	-43.8
Cúcuta	58	53	33	95	-53.6	-8.6	-37.7	187.9
Manizales	192	136	155	78	-12.7	-29.2	14.0	-49.7
Medellín <sup>c</sup>	704	787	1 077	978	-27.8	11.7	36.9	-9.2
Neiva	110	39	24	27	358.3	-64.5	-38.5	12.5
Pasto	44	54	50	50	-34.3	22.7	-7.4	-
<b>46 other cities</b>	967	964	856	...	-8.2	-3.1	-11.2	...

Source: ECLA, on the basis of data supplied by the National Bureau of Statistics (DANE).

<sup>a</sup> Preliminary figures. January-November 1982. Growth rate for January-November 1982 with respect to the same period of 1981.

<sup>b</sup> Includes the permits approved in the metropolitan area of Yumbo.

<sup>c</sup> Includes the permits approved in the metropolitan areas of Bello, Envigado and Itagüí.

In addition, the external credit furnished to them by the government would be used to convert their short-term indebtedness into medium- or long-term debt. While these objectives were being pursued, a government representative would sit on the boards of directors of these companies.

In return, the government agreed to a series of measures benefiting the textile industrialists. These included, *inter alia*, arranging extensions for the industrialists with PROEXPO of up to two years in order to ease the pressure represented by the maturity of short-term debts; providing the industry with 2.5 billion pesos of transitional financing in order to rediscount 80% of the credits which had been granted by financial intermediaries to pay off the portfolios of overdue loans guaranteed by the textile industry; and extending the term of the cotton-backed collateral bonds. The companies would also be reimbursed for the difference between domestic and external prices for cotton of equal quality used in their textile exports; lastly, the government would raise the external borrowing quota of the companies by US\$ 30 million.

iv) *Construction*. With an increase of 5% in the value added by construction, this activity grew more than any other goods-producing sector; nevertheless, this rate was far below the annual increase of almost 12% attained during the two preceding years.

As in recent years, public sector activity was the element which lent the most dynamism to construction. Despite the financial difficulties faced by the government during the year, the investments made by the Ministry of Mining and Energy and the Ministry of Public Works were 25% and 41% higher than the preceding year. The involvement of decentralized companies in developing

projects concerning electricity, highway construction, port facilities, etc., as well as the urban improvement works conducted by local government, and especially by the government in Bogotá, played an important role in boosting construction. After soaring by 11% in 1981, building (measured by construction permits) scarcely increased at all during the year (0.3%). This was the result of very disparate trends. Non-residential building climbed 33% (representing one-fourth of the total built-up area) and housing construction fell 7%, after having increased 14% in 1981. Housing construction in Manizales was halved, while it fell slightly less in Cartagena (44%), by one-third in Cali, and by 23% and 16% in Bucaramanga and Barranquilla. In contrast, the surface area approved for housing construction in Bogotá, which represents 45% of the total area approved in the country, rose slightly more than 12% in 1982 (see table 8).

The financial support provided by the savings and housing corporations was 11% greater in real terms (19% in 1981). Loans to construction companies, which had increased 34% in 1981, showed no growth in 1982. On the other hand, personal housing loans climbed 14%, although the largest increase was seen in the amount of credit extended to producers of construction materials, which doubled. It should be noted that construction costs during the year increased less than in any year since 1976.

The considerable bias of this activity in favour of the construction of high-cost housing for a minority sector of the population has been an important factor in the absence or near absence of growth in housing construction. This has, of course, occurred alongside a rapid movement in prices. During 1982 there was a further widening of the gap which has been opening up between the prices at which housing is offered and the prices which people are willing or able to pay.<sup>8</sup>

The government has assigned a very important role to housing construction in reviving the process of short-term growth in the productive sectors, and has emphasized its role in making a significant contribution to higher levels of employment and greater social stability. In accordance with these goals, an extensive programme is underway for the construction of low-cost housing for the most needy sectors of the population. To this end, the government instituted measures to increase the attraction of savings by housing finance institutions in order to provide support for the programme.<sup>9</sup>

The housing construction programme provides for the financing of 53 000 dwellings under the UPAC system, 26 000 through the Banco Central Hipotecario and 78 000 through the Land Credit Institute. In order to obtain the necessary resources, in early 1982 this institute was authorized to issue 1.2 billion pesos in Low-Cost Housing Bonds, and to undertake another issue for 15 billion pesos late in the year. It was also stipulated that at least one-half of the funds received by the corporations would be used to finance housing of up to 2 500 UPAC, and half of this amount would be used to finance housing of up to 1 000 UPAC with no down payment.

### c) *Employment*

In keeping with the worsening economic situation, employment levels tended to decrease in almost all the urban centres. The rate of unemployment, which was 8% in 1981, climbed to 9.3% of the economically active population in the four largest cities. Only the cities of Manizales and Pasto witnessed some improvement in the employment situation (see table 9).

Rising unemployment was particularly evident in Bogotá—the main job centre in the country—where the percentage of unemployment climbed from 5.5% in 1981 to 7.4% in 1982; this

<sup>8</sup> A study conducted by the National Centre for Construction Studies on construction activity in Cali underlined that fact that, whereas 38% of the 115 000 families wishing to acquire housing in 1982 could pay up to 2 500 Units of Constant Purchasing Power (UPAC)—approximately 1 400 000 pesos—and 43% of these families could not pay over 1 000 UPAC, 74% of the dwellings supplied by private companies were offered at prices which varied between 2 million and 5 million pesos, i.e., between 3 600 and 9 000 UPAC.

<sup>9</sup> In order to promote financing for housing construction, in mid-1972 the system of denominating savings in Units of Constant Purchasing Power (UPAC) was established; in this system, savings deposits are adjusted according to the variation in domestic prices, and a moderate interest rate is applied to the readjusted value. The creation of savings and housing corporations was authorized at the same time in order to promote this form of savings and to channel it towards that activity. The Savings and Housing Fund (FAVI) was also created at this time in order to serve as a central bank for the savings and housing corporations. The resources for this fund are provided by the cash reserves established by the savings and housing corporations and the FAVI credit instruments acquired by the corporations.

Table 9

## COLOMBIA: EVOLUTION OF EMPLOYMENT AND UNEMPLOYMENT

	1978	1979	1980	1981	1981				1982			
					March	June	Sep-tem-ber	De-cem-ber	March	June	Sep-tem-ber	De-cem-ber
<b>Rate of unemployment</b>	8.8	8.6	9.6	8.2	9.2	8.4	7.0	7.0	9.5	9.0	9.3	9.0
Bogotá	7.2	6.6	8.0	5.5	5.9	4.9	5.2	5.8	8.6	7.0	6.8	7.1
Barranquilla	7.7	6.2	8.2	11.1	12.1	11.9	11.4	8.9	9.6	11.3	10.3	10.3
Medellín	12.7	14.4	14.7	13.0	15.9	14.9	12.1	9.2	12.6	12.4	15.0	13.1
Cali	9.8	10.7	10.0	8.9	9.3	9.0	9.6	7.2	9.7	9.6	9.9	9.0
Bucaramanga	...	...	...	...	8.4	8.7	5.8	...	6.6	...	8.0	...
Manizales	...	...	...	...	15.6	10.3	13.4	...	10.3	...	9.9	...
Pasto	...	...	...	...	8.7	9.9	10.4	...	6.9	...	8.0	...
<b>Rates of underemployment</b>	14.8	12.5	16.0	11.5	12.2	12.1	12.8	8.5	...	...	...	...
<b>Gross rates of participation</b>	37.3	39.2	41.0	38.9	39.0	38.6	39.2	38.5	38.7	39.5	39.1	39.4
Bogotá	38.2	39.0	34.2	38.9	38.4	39.7	39.3	39.2	40.1	40.3	39.4	40.1
Barranquilla	34.6	33.0	41.3	36.4	36.1	35.3	37.8	36.5	33.5	34.8	34.8	34.8
Medellín	38.5	39.9	42.2	39.3	40.7	40.4	38.7	37.2	38.1	39.0	39.4	38.7
Cali	37.5	41.5	40.0	40.5	40.6	39.2	41.9	40.2	40.2	41.2	41.3	41.1
Bucaramanga	...	...	...	...	40.8	39.7	38.5	...	37.3	...	39.1	...
Manizales	...	...	...	...	36.7	34.6	33.9	...	34.9	...	36.9	...
Pasto	...	...	...	...	39.0	39.0	39.3	...	36.8	...	39.0	...

Source: ECLA, on the basis of data supplied by the National Bureau of Statistics (DANE).

means that there were 35 000 more unemployed persons in the city than in 1981. It should be mentioned, however, that relative unemployment declined over the last two years in Bogotá, where it had reached 8% in 1980. Moreover, a favourable employment trend was observed in this city during the year. Whereas in March they were 133 000 unemployed persons, in December this figure had dropped to 113 000, which meant that there were 63 000 more employed persons in that month than there had been in March.

In Medellín, after the significant reduction in unemployment achieved in late 1981, the situation worsened once again. An important textile and clothing industry is centred in that city, as well as the wood furniture industries. In 1982 the drop in employment in these industries was 5.5%, 8.5% and 22%, respectively. In Barranquilla, a city which has large metal and metal machinery, clothing, and other export industries, there were significant drops in production and employment in 1982; nevertheless, there was a surprising decrease in the rate of underemployment, which fell from 11% in 1981 to slightly over 10% last year.

### 3. The external sector

#### a) *The trade of goods*

Since 1980 the balance of trade in goods with the exterior has shown a rapidly increasing deficit, which is approaching US\$ 2 billion. The largest imbalances in this trade occurred in 1980 and 1981; the surplus of approximately US\$ 500 million in 1979 became a deficit of US\$ 1.66 billion by 1981. Whereas the 1980 deficit was due to a sharp increase in imports (48%), the 1981 deficit had its origins in a significant reduction in exports. During 1982 there was a slight upturn in exports (3%), but a larger increase in imports (8%); this was quite similar to the rate in 1981, and increased the trade deficit by US\$ 280 million (see table 10).

The increase in exports recorded for 1982 was due to the recovery of prices, since the volume again declined (it has fallen by 20% in the past three years). Import prices rose 2% and the volume of imports fell by roughly 6%.

Changes in the unit values of exports and imports resulted in a 6% improvement in the terms of trade index; in spite of the lower export volume, this meant that the purchasing power of the exports of goods grew slightly.

i) *Exports.* After the sharp drop in exports of goods in 1981, which declined in value from US\$ 4.1 billion to slightly over US\$ 3.1 billion, they recovered slightly in 1982, with an increase of slightly over 3%.

In 1981, the volume of coffee exports and coffee prices plummeted, causing the value of sales to drop by nearly US\$ 900 million (a 39% decrease). On the one hand, the average international price for mild coffee on the New York market improved in 1982, although it gradually dropped throughout the entire year with respect to the high level reached by these prices in late 1981 (see table 11). On the other hand, however, the volume of exports decreased again—from 11.1 million sacks in 1980 to 9.1 million in 1981 and 8.9 million in 1982, of which 900 000 sacks went to countries which are not parties to the Agreement—as a result of the trend in coffee during the latter year<sup>10</sup> (see table 12).

Among the other main primary product exports, banana sales continued to rise steadily (13%), having increased from US\$ 84 million to over US\$ 150 million in only four years, as did flower sales, which have already reached US\$ 114 million. In contrast, cotton exports plunged surprisingly, primarily due to a sharp drop in the export volume. Beef sales were also far lower (25%).

The majority of the most important export products among a wide range of manufactures showed significant decreases in 1982. Exports of cotton yarn and textiles fell by about 40%, and sugar exports declined by approximately the same percentage. Fuel oil sales were one-fourth the amount they were in 1980, cement sales dropped 18%, and so forth. Only clothing exports showed an upturn (see table 12).

Total export sales of products other than coffee, which represents over half of all sales, decreased by only 3% in 1981. However, in 1982 there was a decrease of approximately 11%.<sup>11</sup> These results do not reflect the enormous effort which has been made in recent years to boost exports. The Export Promotion Fund (PROEXPO), in addition to the technical support it provides to exporters, granted credits for 50.7 billion pesos during the year, or 13% more than in 1981; in real terms,

Table 10  
COLOMBIA: MAIN FOREIGN TRADE INDICATORS

	1977	1978	1979	1980	1981	1982 <sup>a</sup>
<b>Growth rates</b>						
Exports of goods						
Value	21.0	18.2	9.4	16.7	-23.6	3.3
Volume	-27.6	40.0	21.4	-5.2	-11.4	-4.4
Unit value	67.1	-15.6	-9.9	23.1	-13.8	8.1
Imports of goods						
Value	18.9	29.6	16.9	47.5	8.3	8.1
Volume	12.4	15.3	5.9	34.4	2.3	6.0
Unit value	5.8	12.3	10.3	9.8	5.9	2.0
Terms of trade for goods	57.9	-24.6	-18.3	12.3	-18.8	6.0
<b>Indices (1970 = 100)</b>						
Terms of trade for goods	189.8	143.0	116.8	131.1	106.5	112.9
Purchasing power of exports of goods	182.3	193.8	192.3	202.2	144.8	146.7
Purchasing power of exports of goods and services	184.4	193.0	200.2	200.9	157.0	163.9

Source: ECLA, on the basis of official figures.

<sup>a</sup> Preliminary figures.

<sup>10</sup> In September 1982 at the meetings of the International Coffee Agreement, Colombia was assigned an export quota of 8.5 million sacks per year for the next two years.

<sup>11</sup> It should be noted that all of this data refers to export permits, whose total decreased slightly in 1982, and differs from the balance-of-payment figures and the data appearing in table 10.

Table 11

**COLOMBIA: TRENDS IN COFFEE PRICES AND  
THE RETENTION QUOTA**

End of:	Prices			Retention quota <sup>d</sup> (percentages)
	External <sup>a</sup>	Export receipt <sup>b</sup>	Domestic <sup>c</sup>	
1979 March	1.37	188.4	6 400	45
June	2.18	251.0	7 000	58
September	2.13	251.0	7 900	58
December	1.84	251.0	8 300	58
1980 March	1.81	251.0	8 733	58
June	1.67	287.3	8 733	62
September	1.25	287.3	8 733	62
December	1.28	182.0	9 200	15
1981 March	1.31	182.0	9 200	15
June	1.08	186.6	9 200	20
September	1.34	186.6	9 200	25
December	1.45	206.5	10 330	30
1982 March	1.45	217.3	11 050	39
June	1.41	206.5	11 050	35
September	1.37	206.5	11 050	35
December	1.34	206.5	12 100	40

Source: ECLA, on the basis of data supplied by the Banco de la República.

<sup>a</sup>Dollars per pound. Corresponds to the prices on the New York commodities exchange for the "other milds" variety, plus US\$ 0.02.

<sup>b</sup>Dollars per 70 kg sack of green coffee.

<sup>c</sup>Pesos per 125 kg load of parchment coffee.

<sup>d</sup>Per 70 kg sack exported.

however, this represents a decrease of approximately 10%. Of this amount, 57% was used to finance the production and export of non-traditional products. In addition, 85% of the total credit was granted for the financing of production suited for export, mainly of manufactured products. The textiles, ready-to-wear clothing and leather goods industries received 8.5 billion pesos; 4.56 billion pesos went to the chemicals and chemical substances industries; the metal products, machinery and equipment industry received 5.73 billion pesos, etc.

As a part of its export promotion policy, PROEXPO opened up two lines of credit for a total of US\$ 10 million to finance exports to El Salvador and Bolivia. It also continued to furnish technical and financial assistance for marketing studies, the solution of design and packaging problems, and for the attendance of Colombian exporters at national and international fairs and expositions. In accordance with the co-ordination agreement concluded between the government and textile entrepreneurs, PROEXPO, as a creditor, extended the term of the debts of the textiles and cotton industries. With the 15% increase in the Tax Credit Certificates (CAT) for most lines of export products and of 5%-10% for other product groups, the only goods excluded from this allowance were live animals, food, dairy products and some basic mineral and agricultural products which are used as food or which are of strategic importance for national industry. The possibilities of using CAT for paying taxes were also broadened by the provision allowing them to be used immediately after issue.

These measures have been intended to mitigate the loss of incentive to exporters occasioned by the fact that they must convert export revenues at an exchange rate which, although it is gradually being devalued, lags behind the increase in domestic costs and prices. The rate at which the peso is devalued, although it has increased from year to year, has also been too slow to prevent Colombian exports from becoming less competitive on international markets as a result of the steady drop in the real effective exchange rate which has been occurring since the mid-1970s, except for brief periods in 1978 and 1980.

The real effective exchange rate (an average of the exchange rate for exports and imports), which had decreased slightly more than 6% in 1981, fell by an equal amount during 1982. The deterioration in this regard was much more marked *vis-à-vis* the currencies of European countries

than with respect to the dollar, due to the steady revaluation of the dollar against European currencies and the yen; this has made Colombian exports to those countries more expensive and less competitive (see table 13 and figure 2).

ii) *Imports.* During 1982, imports of goods rose by much the same amount as in 1981 (approximately 8%) which was far less than during preceding years. The abrupt increase in such imports from slightly over US\$ 1.4 billion in 1975 to US\$ 4.4 billion in 1980 was thus partly curbed; in 1982 they amounted to nearly US\$ 5.2 billion.

The relative drop in the rate at which imports expanded during the last two years was a result of both the slowdown in economic activity and the measures taken to hold them in check. In earlier years, openness to the exterior was promoted for the basic purpose of taking advantage of the flow of income from the coffee boom in order to increase production capacity, as well as for the purpose of preventing an excessive accumulation of international reserves, whose monetization could have an inflationary effect. To this end, the free importation of a large number of previously restricted goods was allowed; customs duties were reduced for a large number of other products including capital equipment, to which a 5% levy was applied. When the coffee boom ended in 1980, this policy gradually changed; in 1982, there was an across-the-board increase in import duties to 20% except for farm products, capital equipment and for goods subject to international conventions. In addition to keeping capital equipment in the category of goods favoured by low import duties, the domestic production of these goods was benefited by the opening of lines of credit on favourable terms for

Table 12  
COLOMBIA: EXPORTS OF GOODS, FOB<sup>a</sup>

	Millions of dollars				Percentage breakdown		Growth rates		
	1979	1980	1981	1982 <sup>b</sup>	1979	1982 <sup>b</sup>	1980	1981	1982 <sup>b</sup>
<b>Total<sup>c</sup></b>	3 362	3 810	2 857	2 822	100.0 <sup>d</sup>	100.0 <sup>d</sup>	13.3	-25.0	-1.2
<b>Total, excluding coffee<sup>e</sup></b>	1 337	1 436	1 397	1 242	37.8	40.3	7.4	-2.7	-11.1
<b>Main primary products</b>	2 344	2 813	1 940	1 949	69.7	69.1	20.0	-31.0	0.5
Coffee	2 025	2 374	1 460	1 580	57.3	56.0	17.2	-38.5	8.2
Bananas	84	109	136	154	2.4	5.1	29.8	24.8	13.2
Flowers	79	102	108	114	2.2	3.8	29.1	5.9	5.6
Uncarded cotton	52	102	109	14	1.4	0.5	96.2	6.9	-87.2
Beef	31	70	60	45	0.9	1.5	125.8	-14.3	-25.0
Milled rice	32	15	32	...	0.9	...	-53.1	113.3	...
Tobacco	22	24	19	21	0.6	0.7	9.1	-20.8	10.5
Shrimp	19	17	16	21	0.5	0.7	-10.5	-5.9	31.2
<b>Main manufactured products</b>	485	722	492	400	14.4	14.2	48.9	-31.9	-18.7
Raw sugar	47	175	75	48	1.3	1.6	272.0	-57.1	-36.0
Cement	58	53	68	56	1.6	1.9	-8.6	28.3	-17.6
Cotton yarn	36	38	20	12	1.0	0.4	5.6	-47.4	-40.0
Cotton textiles	36	34	37	21	1.0	0.7	-5.5	8.8	-43.2
Outer clothing	91	86	86	96	2.6	3.2	-5.5	-	11.6
Fuel oil	117	191	53	48	3.3	1.6	63.2	-72.3	-9.4
Publications	29	42	42	39	0.8	1.3	44.8	-	-7.1
Cardboard boxes	31	40	49	39	0.9	1.3	29.0	22.5	-20.4
Cut precious stones	40	63	62	41	1.1	1.4	57.5	-1.7	-33.9
<b>Other</b>	703	452	565	647	20.9	23.0	-35.7	25.0	14.5
<b>Adjustments<sup>f</sup></b>	-170	-177	-140	-174					

Source: ECLA, on the basis of data supplied by the Colombian Foreign Trade Institute (INCOMEX).

<sup>a</sup>Based on export permits. Totals differ from the balance-of-payment figures.

<sup>b</sup>Preliminary figures.

<sup>c</sup>Adjusted total. Permits issued but not taken up by exporters are not included.

<sup>d</sup>Unadjusted totals.

<sup>e</sup>Permits issued but not taken up by exporters.



Table 13

COLOMBIA: EVOLUTION OF THE REAL EFFECTIVE EXCHANGE RATE<sup>a</sup>

	Exchange rate (pesos per dollar)	Index of nominal exchange rate	Index of real exchange rate	
			Exports	Imports
1975	30.93	65.4	118.2	119.5
1976	34.70	73.4	112.0	113.1
1977	36.78	77.8	102.0	102.0
1978	39.10	82.7	103.1	103.4
1979	42.55	90.0	99.3	98.6
1980	47.28	100.0	100.0	100.0
1981	54.49	115.2	92.8	94.1
1982	64.08	135.5	86.6	88.0
1981				
I	51.70	109.3	96.3	97.8
II	53.30	112.8	92.6	93.9
III	55.30	116.9	90.4	92.4
IV	57.70	121.8	92.2	93.5
1982				
I	60.24	127.4	89.9	91.2
II	62.66	132.6	87.4	88.4
III	65.13	137.7	85.6	86.5
IV	68.30	144.5	84.7	86.4

Source: ECLA, on the basis of data supplied by the Banco de la República.

<sup>a</sup>This corresponds to the average of the indexes of the real exchange rates for the peso with respect to the currencies of trading partner countries, weighted according to the relative importance of exports or imports, as the case may be, to or from those countries. For information regarding the methodology and sources used to calculate the real effective exchange rate, see the technical appendix in the *Economic Survey of Latin America*, 1981, ECLA.

domestic and external buyers of these products. It should be remembered that the capital equipment industries were also aided by the establishment of the State purchasing statute, which is highly beneficial to national industry.

Together with the increase in tariffs, more than 500 import items were removed from the free import list and placed under a system of prior licensing; in general, these were farm products and luxury items whose importation had recently been increasing rapidly.

Despite the restrictive measures adopted during the year, imports of consumer goods climbed 38%, and their two main components rose by the same percentage. In the category of non-durable consumer goods, imports of primary food products more than doubled, and imports of processed foods climbed approximately 26%. Taken together, they totalled US\$ 240 million. The sizeable increase in imports of consumer durables during the year was a contrast to the decrease in 1981, but was relatively minor compared to the increases in 1980 and, especially, in 1979 (see table 14).

Purchases of intermediate goods fell by 19% as a result of the scant growth in domestic economic activity. This reduction was particularly evident as regards fuel purchases, which diminished nearly 30%. On the other hand, imports of intermediate goods for agriculture rose 15%, a large part of this figure being represented by the purchase of animal feed. Imports of intermediate goods for industry fell 8%. Capital equipment imports increased barely 3%, although imports of transport equipment rose 19%, and imports of capital equipment for agriculture were up 6%. In contrast, the value of imports of capital equipment for industry, which was on the order of US\$ 1.3 billion, diminished by 4%, while construction material imports also declined slightly.

#### b) *The balance of payments*

The trade deficit, which had increased by a factor of 3.4 in 1981, given the sizeable decrease (17%) in the exports of goods and services, grew again in 1982, although to a much lesser extent (12%), reaching US\$ 1.93 billion (see table 15).

An expansion in the deficit on the factors services account to almost US\$ 250 million was also witnessed during the year; this can be attributed to an increase of US\$ 115 million in the amount of interest paid and a smaller inflow (US\$ 130 million) of interest received, since the net outflow of profits increased only minimally. Approximately US\$ 220 million were received in the form of private transfers. This helped somewhat to alleviate the acute imbalance on current account, which was US\$ 640 million in 1980, rose to US\$ 1.97 billion in 1981 and to almost US\$ 2.3 billion in 1982.

Unlike what occurred in 1981 —when the trebling of the deficit on current account was accompanied by such a substantial rise in the inflow of capital that it was even possible to increase international reserves— in 1982 there was a lower net inflow of capital (approximately US\$ 800 million) which, in conjunction with the current account imbalance, resulted in a substantial loss of international reserves (over US\$ 700 million) for the first time since 1974. The loss of foreign exchange assets was even greater. It neared US\$ 940 million, after already having fallen by US\$ 150 million in 1981.

The flow of loans to the private sector was less than in 1981, especially that of long-term credit, which was US\$ 270 million lower than the preceding year. In contrast, US\$ 374 million in short-term credit was received by the private sector, which was US\$ 130 million more than in 1981; short-term loans thus increased from one-fourth to almost one-half of the total. The amortization of these private-sector loans declined by 15% during the year, to about US\$ 300 million.

The capital inflows to the official sector totalled US\$ 1.18 billion, which was less than in 1980, while approximately US\$ 340 million of amortization payments were made, leaving a net income of around US\$ 840 million. In addition to this movement of capital to the public and private sectors, there was an inflow of approximately US\$ 270 million in direct investment and an undetermined amount in errors and omissions, resulting in a net capital inflow of US\$ 1.58 billion for 1982; this was one-third lower than in 1981, giving rise to the above-mentioned loss of international reserves.

**Figure 2**  
**COLOMBIA: TRENDS IN THE REAL EFFECTIVE EXCHANGE RATE**  
**INDEXES FOR EXPORTS AND IMPORTS**

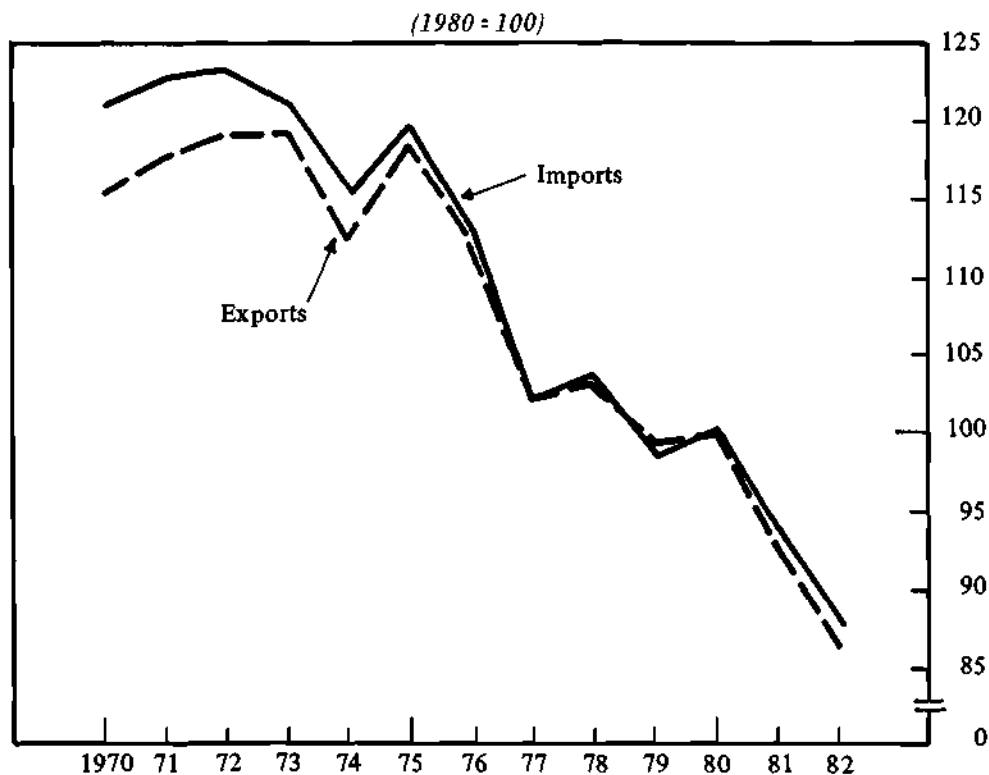


Table 14

COLOMBIA: IMPORTS OF GOODS, FOB<sup>a</sup>

	Millions of dollars			Percentage breakdown		Growth rates			
	1980	1981	1982 <sup>b</sup>	1972	1982	1979	1980	1981	1982 <sup>b</sup>
<b>Total<sup>c</sup></b>	5 412	6 094	6 095	100.0	100.0	35.7	16.9	12.6	-
<b>Consumer goods</b>	760	770	1 062	12.2	17.4	80.0	41.7	1.4	37.9
Non-durable	296	325	449	6.7	7.4	26.8	17.9	9.8	38.1
Durable	464	445	613	5.2	10.0	186.9	63.4	-4.1	37.8
<b>Intermediate goods</b>	2 653	3 112	2 723	47.6	44.7	45.4	11.2	17.3	-18.5
Petroleum and fuels	810	902	645	0.6	10.6	73.6	21.8	11.4	-28.5
For agriculture	164	188	217	2.5	3.6	23.6	49.1	14.6	15.4
For industry	1 679	2 022	1 861	44.5	30.5	37.6	4.3	10.4	-8.0
<b>Capital goods</b>	1 964	2 172	2 240	39.1	36.8	14.6	17.7	10.6	3.1
Building materials	67	126	125	1.1	2.1	197.4	-35.6	88.0	-0.8
For agriculture	69	82	87	1.3	1.4	-42.1	11.3	18.8	6.1
For industry	1 129	1 350	1 296	25.7	21.3	36.1	17.8	19.6	-4.0
Transport equipment	699	614	732	11.0	12.0	-10.8	28.3	-12.1	19.2

Source: ECLA: on the basis of data supplied by the Colombian Foreign Trade Institute (INCOMEX).

<sup>a</sup>The data is based on import permits and therefore differs from the balance-of-payments figures.

<sup>b</sup>Preliminary figures.

<sup>c</sup>Includes small non-classified imports items.

### c) *External debt*

By the end of 1982, the total disbursed external debt had reached US\$ 9.8 billion, which was US\$ 1.5 billion more than at the end of 1981. Between 1975 and 1978 the external debt had grown at a pace of 4.6% annually. In the three following years, this rate increased to 25% per year. It slackened somewhat (to 18%) in 1982, however, even though the disbursements made during the year were higher (see table 16).

Between 1975 and 1978, as a result of the higher earnings gained from the export of coffee on favourable terms, a moderate rate of external borrowing was maintained, and the paying off of debts was encouraged as a means of slowing the rapid accumulation of international reserves. Reserves continued to rise steeply in 1979 and 1980, and there was also a large increase in the disbursement of credit, which rose from approximately US\$ 470 million in 1978 to US\$ 1.74 billion and US\$ 1.58 billion in the two following years. In the last two years the disbursement of loans was stepped up (US\$ 1.87 billion in 1981 and US\$ 1.95 billion in 1982). However, during those years foreign exchange reserves had already diminished, and the increase in amortization payments had been stabilized as well.

Until 1978, the public external debt had expanded at a much higher annual rate than the private external debt (5.4% and 2.7% per year, respectively). In contrast, during the three following years, private sector indebtedness soared by 33% yearly, while public sector indebtedness rose 21% annually. In 1978 the public debt represented 70% of the total; in 1982, it was under 64%. The growth of the public debt again exceeded that of the private debt (19% and 17%) last year.

The increased borrowing by the public sector has been used primarily to finance the large-scale infrastructure projects which are part of the National Integration Plan, although it has also increasingly been utilized for financing the current fiscal deficit and for servicing the public domestic debt. In the 1976-1978 period, while the accumulated surplus in national government accounts rose to 15.4 billion pesos, the amortization of the external debt was 5.6 billion. In contrast, during the following three years an accumulated deficit of 15.4 billion pesos was recorded (in 1979 there was a surplus of 6 billion pesos, which was discounted), and approximately two-thirds of the government's external financing had to be used to discharge obligations within the country.

Table 15

## COLOMBIA: BALANCE OF PAYMENTS

(Millions of dollars)

	1977	1978	1979	1980	1981	1982 <sup>a</sup>
<b>Balance on current account</b>	435	294	490	-644	-1 969	-2 291
Trade balance	643	532	606	-482	-1 725	-1 933
Exports of goods and services	3 403	3 959	4 526	5 040	4 204	4 511
Goods FOB	2 713	3 206	3 506	4 092	3 127	3 230
Real services <sup>b</sup>	690	752	1 019	948	1 077	1 281
Transport and insurance	291	305	335	353	393	470
Travel	245	283	358	357	384	420
Imports of goods and services	2 760	3 427	3 920	5 521	5 929	6 444
Goods FOB	1 979	2 564	2 996	4 420	4 789	5 175
Real services <sup>b</sup>	781	863	924	1 101	1 140	1 268
Transport and insurance	383	421	432	551	568	657
Travel	200	229	236	250	270	275
Factor services	-262	-283	-216	-260	-334	-581
Profits	-86	-121	-49	-61	-37	-40
Interest received	65	124	249	470	610	482
Interest paid	-252	-304	-456	-669	-907	-1 022
Other	12	19	40	-	-	-
Unrequited private transfer payments	54	45	99	98	90	223
<b>Balance on capital account</b>	137	154	969	1 702	2 393	1 580
Unrequited official transfer payments	5	28	1	26	26	25
Long-term capital	230	95	725	1 067	1 253	1 534
Direct investment	43	68	105	233	209	268
Portfolio investment	-2	-3	-12	-4	-0	-2
Other long-term capital	189	30	632	838	1 045	1 268
Official sector <sup>c</sup>	12	30	397	661	468	...
Loans received	88	155	601	843	647	...
Amortization payments	-75	-103	-189	-167	-164	...
Other sectors <sup>c</sup>	177	-	235	177	577	...
Loans received	333	208	512	242	659	...
Amortization payments	-155	-208	-276	-65	-83	...
Net short-term capital	-257	14	176	405	402	274
Official sector	-4	15	-22	-51	-45	65
Commercial banks	-203	14	376	203	106	67
Other sectors	-50	-15	-178	252	341	142
Errors and omissions	159	19	68	204	711	-253
<b>Global balance<sup>d</sup></b>	572	448	1 459	1 058	423	-711
Total variations in reserves (minus sign indicates an increase)	-661	-676	-1 552	-1 311	-199	711
Monetary gold	-13	-56	-75	-324	-289	-169
Special Drawing Rights	-4	-18	-45	-14	-31	-40
IMF reserve position	-41	2	-6	-49	-30	-16
Foreign exchange assets	-603	-604	-1 425	-925	151	936
Other assets	...	...	...	...	...	...
Use made of IMF credit	...	...	...	...	...	...

Source: 1977-1980: International Monetary Fund, *Balance of Payments Yearbook*; 1981: International Monetary Fund, *Balance of Payments Statistics*, vol. 32, 1981; 1982: ECLA, on the basis of official data.

<sup>a</sup> Preliminary figures.

<sup>b</sup> Real services also include other official and private transactions, but exclude factor services.

<sup>c</sup> In addition to loans received and their amortization, this entry includes net loans granted and other assets and liabilities.

<sup>d</sup> The global balance is the sum of the balance on current account plus the balance on capital account. The difference between the total variation of reserves marked with a minus sign and the global balance represents the value of counterpart entries: monetization of gold, allocation of Special Drawing Rights, and variations due to revaluation.

Table 16

## COLOMBIA: INDICATORS OF EXTERNAL INDEBTEDNESS

(Millions of dollars)

	1975	1976	1977	1978	1979	1980	1981	1982 <sup>a</sup>
Debt disbursed by year-end	3 712	3 951	4 106	4 247	5 486	6 718	8 285	9 798
Public	2 527	2 642	2 842	2 962	3 524	4 243	5 268	6 272
Private <sup>b</sup>	1 185	1 309	1 264	1 285	1 962	2 475	3 017	3 526
Servicing of debt	452	505	486	611	937	955	1 184	1 586
Amortization payments	217	247	246	327	503	346	302	437
Public debt	99	125	188	215	263	206	224	303
Private debt	107	63	71	90	40	47	57	75
Payments of interest and commissions	235	258	240	284	434	609	882	1 149
Public debt	108	119	133	135	206	327	433	542
Private debt	117	127	103	117	177	324	477	321
Servicing of debt/exports of goods and services <sup>c</sup>	21.2	18.2	14.3	15.4	20.7	18.9	28.2	35.2

Source: ECLA, on the basis of data supplied by the Banco de la República.

<sup>a</sup>Preliminary figures.<sup>b</sup>Includes: i) debts registered in the Banco de la República, ii) external liabilities of goods and financial corporations, iii) lines of credit and suppliers' credit.<sup>c</sup>Percentage.

The service of the external debt climbed from an annual average of US\$ 510 million in 1975-1978 to US\$ 1.02 billion in the three following years and to US\$ 1.6 billion in 1982. This pattern included a rather slow rate of growth in amortization payments until 1981, which then showed surprising spurts of growth in 1978 and 1979, and shot up again in 1982, with an increase of 45%. Interest and commission payments increased slowly until 1978 and thereafter grew by 42% per year. In 1978 these interest payments represented 46% of the debt service; in 1982 that proportion had risen to 72%.

The percentage of the total value of exports of goods and services represented by the external debt service, which until 1980 had been about 18%, expanded to 28% in 1981 and 35% in 1982.

## 4. Prices and wages

## a) Prices

During 1982, the inflationary process slackened in relation to the preceding year, although it remained high as measured by the consumer price index for either manual or non-manual workers. The variation from December 1981 to December 1982 in the former index was 24%, whereas it had been 27% in 1981; the index for non-manual workers rose by a slightly smaller proportion (25%) than in 1981 (see table 17). This easing of inflationary pressures was not, however, observed in the wholesale price index, which rose 25%, or one percentage point more than in 1981.

The food component once again advanced more rapidly than the index totals; this was also true of the housing category in the index for non-manual workers. The remaining components showed much lower increases than the total; this was particularly the case with clothing, for the fourth consecutive year.

Wholesale prices, as already mentioned, rose slightly more than in 1981, but did not surpass the high levels reached in 1976 and 1979. During 1982, the difference between the price increases for domestic products and imported products widened significantly. The role which imported products have been playing in recent years in curbing the inflationary process was thus reinforced.

Among the products of domestic origin, the steep ascent (32%) of agricultural products stood out, in that it was the highest rate recorded since 1976. The prices of domestically manufactured products rose 20%, which was somewhat less than in 1981 and far below the increases in 1979 and

1980. It should be noted that in 1982 the manufacturing industry experienced difficult demand conditions and had to liquidate the large inventories accumulated over previous years, all of which led to a moderate rise in the prices of some product groups. There was an increase of only 8% in the prices of basic metals, of 9% for miscellaneous manufactures, etc.

The mean variation for the year in the consumer price index was very similar to the December-to-December variation (see table 17).

b) *Wages and salaries*

At the beginning of the year, a minimum wage increase went into effect throughout the country (30% in the departmental capital cities and 32% in the rest of the country, including rural areas). Since that increase proved to be greater than the rise in the consumer price index for manual workers, real salaries rose, after having shown almost no growth in 1981. Real minimum daily wages rose almost 6% in rural areas and urban centres other than departmental capitals, whereas in these latter cities the increase was under 4% (see table 18).

The average real daily wages in the agricultural sector declined for the second year in a row, although at a much slower pace than in 1981. The situation in which there was the greatest deterioration was that of stock-raising workers in hot (lowland) areas (see table 19).

In contrast, the rise in real wages for workers in the manufacturing sector was greater than in 1980 and 1981. These wages, which had shown approximate increases of scarcely 1% in each of those years, grew by almost 4% in 1982. The real wages of industrial employees, on the other hand, rose at a rate similar to that of 1981 (2.6%). The wages paid to workers in the commercial sector underwent a real increase of nearly 5%, after a slump in 1981 (see table 20).

Table 17  
COLOMBIA: EVOLUTION OF DOMESTIC PRICES  
(Percentages)

	1976	1977	1978	1979	1980	1981	1982
<b>Variation from December-December</b>							
Consumer price index <sup>a</sup>							
Total for manual workers	25.9	29.3	17.8	29.8	26.5	26.7	23.9
Food	27.8	35.0	11.9	32.1	25.4	28.2	24.9
Total for non-manual workers	25.4	27.5	19.7	26.5	24.5	25.6	24.5
Food	28.0	34.4	14.1	32.1	26.7	28.8	25.1
Wholesale price index	27.3	19.7	21.6	27.4	25.4	23.5	24.6
Imported products	14.2	11.7	21.2	20.6	23.6	22.4	18.5
Domestic products	35.6	21.8	20.7	28.7	26.5	25.3	27.0
Agricultural products	37.8	26.4	21.7	28.3	21.3	29.3	32.3
Manufactures	24.0	18.2	19.7	33.3	30.0	20.9	20.2
Residential building cost index							
Whole country	18.9	22.3	32.7	30.0	26.9	22.0	21.7
Bogotá	18.9	18.6	36.4	29.7	27.4	20.2	22.0
<b>Variation between annual averages</b>							
Consumer price index <sup>a</sup>							
Total, manual workers	19.9	34.8	17.1	24.7	27.2	28.1	24.6
Food	20.2	43.2	12.6	22.7	28.7	28.5	25.4
Total, non-manual workers	20.4	31.3	18.9	23.8	24.9	26.0	24.5

Source: ECLA, on the basis of data supplied by the National Bureau of Statistics (DANE) and the Banco de la República.  
<sup>a</sup>National average.

Table 18

## COLOMBIA: MINIMUM DAILY LEGAL WAGES

(Averages)

	Pesos					Real growth rates <sup>a</sup>				
	1978	1979	1980	1981	1982	1978	1979	1980	1981	1982
Rural wages and salaries <sup>b</sup>	71.3	105	140	177	234	13.7	18.7	5.4	0.4	5.5
Urban sector <sup>c</sup>										
High <sup>d</sup>	83.3	115	150	190	247	13.1	11.3	3.0	0.6	3.7
Low <sup>e</sup>	78.0	105	140	177	234	13.4	8.6	5.4	0.4	5.5

Source: ECLA, on the basis of data supplied by the Banco de la República and the National Bureau of Statistics (DANE).

<sup>a</sup>Deflated by the monthly consumer price index for manual workers.<sup>b</sup>Crop farming, stock-raising, forestry, hunting and fishing.<sup>c</sup>Remaining economic activities.<sup>d</sup>In the departmental capital cities and adjacent municipalities.<sup>e</sup>In the remaining municipalities.

Table 19

## COLOMBIA: AVERAGE DAILY WAGES IN AGRICULTURE AND STOCK-RAISING

	Pesos				Real growth rates <sup>a</sup>			
	1979	1980	1981	1982	1979	1980	1981	1982
<b>Crop farming</b>								
Cold (upland) areas								
With food	97.3	125.3	158.3	188.0	2.7	0.8	-3.1	-0.8
Without food	144.3	182.3	227.0	268.0	1.9	-0.6	-5.0	-2.1
Hot (lowland) areas								
With food	105.8	137.5	171.8	202.0	-0.8	-1.5	-4.6	-1.2
Without food	151.0	195.0	240.7	284.0	-2.9	1.4	-5.9	-1.8
<b>Stock-raising</b>								
Cold (upland) area								
With food	98.3	125.8	160.8	191.0	1.3	0.7	-2.7	-1.0
Without food	143.8	182.0	229.5	272.0	2.0	-0.4	-3.8	-2.1
Hot (lowland) areas								
With food	111.3	147.0	184.3	216.0	-2.2	3.8	-4.4	-2.3
Without food	159.0	206.8	256.0	301.0	-1.7	2.2	-5.6	-2.5

Source: ECLA, on the basis of data supplied by the National Bureau of Statistics (DANE).

<sup>a</sup>Deflated by the consumer price index for manual workers.

## 5. Monetary and fiscal policy

a) *Monetary policy*

In 1982 there was a considerable reduction in the growth rate of the money supply (means of payment plus quasi-money) in comparison to the two preceding years. After having increased 46% and 39% in 1980 and 1981, it slowed to slightly under 25% in 1982 (see table 21). This fulfilled the general objectives of the monetary policy applied during the year. Nevertheless, given the slower growth of the gross domestic product, the expansion which occurred in 1982 meant that there was a larger money supply in relation to that product than the year before.

The increase in the means of payment was similar to that of the money supply in 1982, but was far lower than the increase in the supply during the two preceding years. The expansion of quasi-money in 1982 was substantially lower than in those years; after increasing by 70% in 1980 and 57%

in 1981, quasi-money grew only 24% in 1982. The decrease in the rate of growth of time deposit certificates was particularly great (from 171% and 94% in 1980 and 1981, it plummeted to scarcely 14% in 1982), although the rise in savings deposits and deposits in housing corporations was also lower than in 1981. In contrast, the growth rate of money rose between 1981 and 1982 from 21% to 25%, primarily because of the greater preference shown by the public for cash holdings.

The clear-cut downturn in the monetary base's rate of expansion in 1982—from 32% annually in 1978-1980 to 22% in 1981 and 18% in 1982—did not moderate the growth rate of money, due to the 7% increase in the monetary multiplier.

Among the factors which converged to produce these results, the major element was the elimination of international reserves as an expansionary factor in the monetary base, in that they grew only 3% in 1982, after having risen 78% in 1979, 47% in 1980 and 19% in 1981 (see table 22). The marked expansion of the principal monetary liabilities of the Banco de la República also had an impact, since deposits of development finance funds in the bank of issue were 15 billion pesos greater at the end of 1982 than they were one year before, which was a 23% increase; the Agricultural Finance Fund raised its deposits by 25%, the Savings and Housing Fund by 18%, the Industrial Finance Fund

Table 20  
COLOMBIA: EVOLUTION IN THE WAGES AND SALARIES  
IN INDUSTRY AND COMMERCE

	Growth rates					
	1977	1978	1979	1980	1981	1982 <sup>a</sup>
<b>Nominal wages</b>						
<b>Industry</b>						
Non-manual workers	22.9	24.5	25.9	26.6	29.0	27.8
Manual workers	27.1	30.4	32.8	28.1	29.7	28.8
Commerce	32.4	26.5	28.3	32.1	26.3	30.9 <sup>b</sup>
<b>Real wages</b>						
<b>Industry</b>						
Non-manual workers <sup>c</sup>	-5.9	4.1	1.6	1.4	2.5	2.6
Manual workers <sup>d</sup>	-5.6	11.5	6.5	0.8	1.4	3.7
Commerce <sup>d</sup>	1.0	6.8	3.8	2.6	-0.6	4.8 <sup>b</sup>

Source: ECLA, on the basis of data supplied by the National Bureau of Statistics (DANE).

<sup>a</sup>Preliminary figures.

<sup>b</sup>January-September with respect to the same period in 1981.

<sup>c</sup>Deflated by the consumer price index for non-manual workers.

<sup>d</sup>Deflated by the consumer price index for manual workers.

Table 21  
COLOMBIA: EVOLUTION OF THE PRINCIPAL  
MONETARY AGGREGATES

	Year-end balance in billions of pesos				Growth rates			
	1979	1980	1981	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>a</sup>
<b>Means of payments (M<sub>1</sub>)</b>	167.6	214.3	259.7	325.7	24.2	27.9	21.2	25.4
Currency	66.9	83.3	100.6	129.1	23.2	24.5	20.8	28.4
Current account deposits	100.7	131.0	159.1	196.6	23.6	30.1	21.5	23.5
<b>Quasi-money (M<sub>2</sub>)</b>	126.1	214.4	336.0	416.8	25.5	70.0	56.7	24.0
Deposits in housing corporations	53.2	83.2	122.2	171.8	52.2	56.5	46.8	40.6
Saving deposits	46.0	58.3	72.7	84.3	36.8	26.8	24.6	16.0
Time deposit certificates	26.9	72.8	141.1	161.0	-15.6	170.6	93.8	14.1
Extended money supply (M <sub>1</sub> + M <sub>2</sub> )	293.7	248.7	595.7	742.5	24.8	46.0	39.0	24.6

Source: ECLA, on the basis of data supplied by the Banco de la República.

<sup>a</sup>Preliminary figures.



Table 22

## COLOMBIA: ORIGIN OF THE MONETARY BASE

	Year-end balance in billions of pesos				Growth rates			
	1979	1980	1981	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>a</sup>
<b>Monetary base</b>	132.0	170.1	207.1	243.7	30.4	28.8	21.8	17.7
<b>Assets of the Banco de la República</b>	181.5	246.3	288.6	357.8	34.9	35.7	17.2	24.0
Net international reserves	176.7	260.0	309.7	318.0	78.0	47.1	19.1	2.7
Domestic credit	12.1	-2.7	-0.8	61.6				
Treasury	-7.4	-15.4	-16.5	29.8				
Rest of the public sector	-16.0	-18.2	-18.9	-9.9				
Commercial banks	13.9	10.9	13.2	21.2	1.9	-21.6	21.1	60.6
Finance funds	3.4	-2.0	-6.6	-12.9				
Other financial intermediaries	11.9	15.8	18.1	21.6	19.8	32.8	14.6	19.3
Private sector	6.3	6.2	9.5	11.7	40.1	-1.6	53.2	23.2
Exchange difference	-8.1	-14.4	-18.7	-22.5				
Other net assets	0.8	3.4	-1.2	0.7				
<b>Non-monetary liabilities of the Banco de la República</b>	50.6	77.9	83.6	117.5	47.9	54.0	7.3	40.5
Commercial banks	0.7	0.8	0.7	0.4	34.0	14.3	-12.5	-42.9
Other financial intermediaries	0.6	0.4	0.3	1.0	138.5	-33.5	-25.0	233.0
Private sector	14.4	19.1	20.3	21.1	49.0	32.6	6.3	3.9
Money market operations	25.8	44.3	45.2	73.6	57.9	71.7	2.0	62.8
Long-term external operations	9.4	13.6	17.3	21.7	22.0	44.7	27.2	25.4
Other liabilities	-0.4	-0.4	-0.4	-0.4				
<b>Treasury currency in circulation</b>	1.2	1.8	2.1	3.5	20.0	50.0	16.7	66.6

Source: ECLA, on the basis of data supplied by the Banco de la República.

<sup>a</sup>Preliminary figures.

by 25% and the Private Investment Fund by 60%. This was made possible by these funds' low level of credit utilization. Open market operations, since their total amount rose almost 63%, also prevented a greater expansion of the monetary base. This situation may primarily be attributed to the disturbances which occurred in the sphere of financial intermediation, which caused the public to prefer government bonds.

To a large extent, all of these factors helped to counterbalance the steep increase in the amount of net domestic credit granted by the Banco de la República, which amounted to 62 billion pesos after having shown negative values in 1980 and 1981. The central government accounted for 74% of the total increase, while this figure rises to 89% if the rest of the public sector is also included. The commercial banks, which had functioned as a restraining factor on the monetary base for a long time and continued to do so until 1980, also increased their debt with the bank of issue. This was primarily for the purpose of meeting the greater liquidity requirements of the government during the final months of the year and in order to mitigate the repercussions of disturbances in the financial intermediation system.

#### b) *Fiscal policy*

During 1982, the central government's deficit trebled with respect to its level during the preceding year, and came to represent 13% of public revenue. This percentage had been 5% in 1981 and 8% in 1980, while in 1976-1979 fiscal management had produced positive results. In 1982, whereas the growth rate of current income slackened—from 35% in 1981 to 26%—the expansion of total expenditures, and especially current expenditures, accelerated (see table 23).

The Ministry of Public Works and the Ministry of Mining and Energy, as entities involved in project execution, raised their combined share in the investment expenditures of the central government to 56% in 1982. The Ministry of Public Works invested 31 billion pesos primarily in road infrastructure works, such as the completion of the new Bogotá-Medellín highway route, road

and port maintenance; and the expansion of basic services in the urban centres. The Ministry of Mining and Energy invested more than 13 billion pesos in the execution of hydroelectric generation projects and the extension of transmission lines. It also devoted resources to continuing the exploration of mineral deposits and the determination of their extensiveness, and to mining projects feasibility studies. The Ministry of Health undertook investments of over 2 billion pesos, and the investments made in the construction of schools and other educational facilities by the Ministry of Education were slightly under 3 billion pesos.

Tax revenue rose slightly more rapidly than the inflation rate; the increases in gasoline tax receipts (11% in 1982 versus 60% in 1981) and sales tax receipts (33% in 1981 and 23% in 1982) were less rapid. The significant amount provided by the Special Exchange Account also showed less dynamism, although the share of total revenue which it represented increased from 27% to 29%.

There was a major change in the sources of funds for financing the deficit. In order to finance a deficit of 10 billion pesos in 1981, external credits for nearly 20 billion pesos were obtained, of which over 9 billion pesos were used to amortize domestic indebtedness. In 1982, however, 44% of the deficit of nearly 34 billion pesos was financed through external sources, and the remaining 56% came from domestic sources; this had not occurred since 1974.

The government's total expenditure rose 36% in 1982, which was a slightly higher rate than in 1981 (32%). This was entirely attributable to the more rapid expansion of current expenditures which, after increasing 27% in 1981, grew 37% in 1982. The investment expenditures of the central government rose 31%, showing a marked slowdown from the high growth rates recorded in 1981 (46%) and especially in 1980 (62%).

Table 23

COLOMBIA: EFFECTIVE INCOME AND EXPENDITURES  
OF THE CENTRAL GOVERNMENT

	Billions of pesos				Growth rates			
	1979	1980	1981	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>a</sup>
Current income	114.6	151.8	204.9	257.5	36.3	32.5	35.0	25.7
Tax revenue	112.6	148.8	201.1	252.5	37.3	32.2	35.1	25.6
Income and complementary taxes	37.3	47.1	53.0	65.2	22.6	26.4	12.5	23.0
Sales taxes	23.0	30.5	40.3	49.6	31.1	32.9	32.8	23.1
Customs duties and surcharges	16.6	24.8	29.4	36.6	24.3	49.2	18.5	24.4
Profits on exchange operations	23.8	30.1	55.5	74.3	118.3	26.4	84.4	33.4
Gasoline taxes	8.0	11.3	18.1	20.1	37.1	41.4	60.2	11.0
Others	4.3	4.9	4.8	6.7	8.2	15.7	-2.0	39.6
Non-tax revenue	2.0	3.0	3.8	5.0	-4.3	51.0	26.7	31.6
Current expenditures	82.6	121.3	153.8	211.0	44.7	46.7	26.8	37.1
Current savings	31.9	30.6	51.1	46.5	19.0	-4.3	67.0	-9.0
Investment	26.0	42.0	61.1	80.2	23.7	61.6	45.5	31.3
Total expenditure	108.6	163.3	214.9	291.2	38.9	50.3	31.6	35.5
Fiscal deficit (or surplus)	6.0	-11.4	-10.0	-33.6	2.1		-12.3	236.0
Financing of deficit								
External credit	5.2	16.5	19.5	14.9				
Domestic credit	-11.2	-5.9	-9.5	18.8				

Source: ECLA, on the basis of data supplied by the Banco de la República.

Note: Because they have been rounded off, the sum of partial entries does not always coincide with the total.

<sup>a</sup>Preliminary figures.

## COSTA RICA

### 1. Recent economic trends: Introduction and summary

During 1982, the Costa Rican economy continued to suffer a severe contraction. The macroeconomic indicators showed negative trends for the second year in a row; this followed upon a biennium —1979-1980— in which there had already been clear signs of deceleration and of an aggravation of some of the disequilibria inherited from previous years.<sup>1</sup>

The per capita gross product dropped for the third time in a row, this time at a much more significant rate (-9%) than during the previous biennium. Because this indicator was lower than it had been during the mid-1970s, average living conditions declined substantially (see table 1 and figure 1).

In addition, the acceleration of inflation, already extremely high, brought about an even sharper drop in the income of wage earners than had been the case in 1980 and 1981. At the same time, the constant rise in unemployment during most of the year had a highly unfavourable effect on the real income of families.

This behaviour was caused by several adverse factors —most of them conjunctural in nature, but some of them structural— which had been acting on each other in recent years, giving rise to serious disequilibria. The situation was aggravated by the unfavourable state of the international economy, by the difficulty of continuing to mobilize external financing and by the climate of uncertainty prevailing during the first half of the year because of the often erratic nature of economic policies, speculation with the exchange rates and the anticipation preceding the change of government.<sup>2</sup> All this had a negative effect on the business sector, which maintained an attitude of caution with respect to investment projects and production programmes.

Although by the end of the year there was some improvement in trade relations with the exterior and the atmosphere of uncertainty was overcome, the external sector continued to have a limiting effect on domestic production and to exercise pressure on financial variables in at least three areas.

In the first place, the terms of trade deteriorated for the fifth year in a row. International prices for the main export commodities remained low and this in turn had a depressive effect on the agro-export industry.

In the second place, the economic contraction experienced by the other Central American countries and the abnormal functioning of the Common Market continued to limit regional demand and weaken what had once been a dynamic intra-regional trade.

In the third place, for the second year in a row, external financing, which in previous periods had played an important part in the country's growth, was not available. During the last few years, the inadequacy of exports had been offset by a rapid increase in the external public debt —particularly *vis-à-vis* private sources. However, the burden of servicing this debt had become unbearable: in 1981, the authorities had been obliged to suspend payments. Although some significant gains were made during the second half of 1982 with respect to the renegotiation of the external debt, the external disequilibria persisted. The shortage of foreign currency, although somewhat mitigated during the last quarter of the year, persisted throughout the year and hindered the regular supply of inputs, affecting the entire productive apparatus in general and some important industries in particular.

In addition, the serious fiscal disequilibrium, which had increased during the previous years, prevented the public sector from continuing to exercise its role in compensating for the decline of

<sup>1</sup>See: ECLA, *Economic Survey of Latin America* (1979, 1980 and 1981), ECLA, Santiago, Chile. The 1981 *Economic Survey* contains a retrospective analysis of the origins of the economic crisis.

<sup>2</sup>National elections were held in February 1982. The new authorities took over in early May.

private demand. Up to 1980, the Government had followed a policy geared towards increasing expenditure which, along with an inelastic tax structure, had generated a growing deficit in public finances. This put strong pressure on domestic credit, created inflationary trends and, in the absence of any modification of the exchange policy, led to a systematic overvaluation of the colón. During 1982, the Government was obliged to restrict public expenditure in real terms; the fiscal disequilibrium was one of the most difficult problems with which it had to deal.

In 1981, in view of the serious shortage of foreign exchange and the obvious overvaluation of the colón, the authorities established a system which provided for the floating of the colón. Because it did not have the reserves necessary to play an active part in the market, the Central Bank was not able to keep the floating currency within reasonable limits. The exchange rate rose dramatically up to July 1982, largely as a result of speculation. During the first half of the year, the variations in the exchange rate continued to aggravate the inflationary pressures and financial destabilization.

Table 1  
COSTA RICA: MAIN ECONOMIC INDICATORS

	1977	1978	1979	1980	1981	1982 <sup>a</sup>
<b>A. Basic economic indicators</b>						
Gross domestic product at market prices (millions of 1970 dollars)	1 975	2 099	2 202	2 220	2 118	1 984
Population (millions of inhabitants)	2.08	2.15	2.21	2.28	2.34	2.41
Per capita gross domestic product (1970 dollars)	948	977	995	974	904	825
<b>Growth rates</b>						
<b>B. Short-run economic indicators</b>						
Gross domestic product	8.9	6.3	4.9	0.8	-4.6	-6.3
Per capita gross domestic product	5.7	3.1	1.9	-2.1	-7.2	8.8
Gross income <sup>b</sup>	14.2	4.6	4.0	-0.5	-11.1	-6.3
Terms of trade (goods and services)	24.1	-6.8	-4.1	-6.6	-25.7	-1.3
Current value of exports of goods and services	36.0	5.1	8.9	9.2	1.8	-11.1
Current value of imports of goods and services	32.8	13.7	19.2	9.1	-20.6	-19.2
<b>Consumer prices</b>						
December to December	5.3	8.1	13.2	17.8	65.1	81.8
Variation between annual averages	4.2	6.0	9.2	18.1	37.0	90.1
<b>Money</b>						
Wages and salaries <sup>c</sup>	25.9	22.0	9.4	15.0	52.2	75.7
Unemployment rate <sup>d,e</sup>	9.4	8.8	4.8	-2.8	-11.2	-23.6
	4.6	4.6	4.9	5.9	8.7	9.4
Current income of central government	29.5	17.9	5.7	21.0	41.7	85.9
Total expenditures of central government	17.0	27.2	20.3	26.8	9.8	50.9
Fiscal deficit/total government expenditure <sup>d</sup>	25.1	30.5	39.0	41.8	24.8	18.7
<b>Millions of dollars</b>						
<b>C. External sector</b>						
Trade balance (goods and services)	-162	-266	-421	-459	-95	22
Balance on current account	-226	-364	-554	-658	-371	-412
Balance on capital account	337	391	436	749	322	547
Variation in international reserves	110	22	-113	33	-71	...
External debt <sup>f</sup>	812	1 112	1 463	2 140	2 405	3 015

Source: ECLA, on the basis of official figures.

<sup>a</sup>Preliminary figures.

<sup>b</sup>Gross domestic product plus terms-of-trade effect.

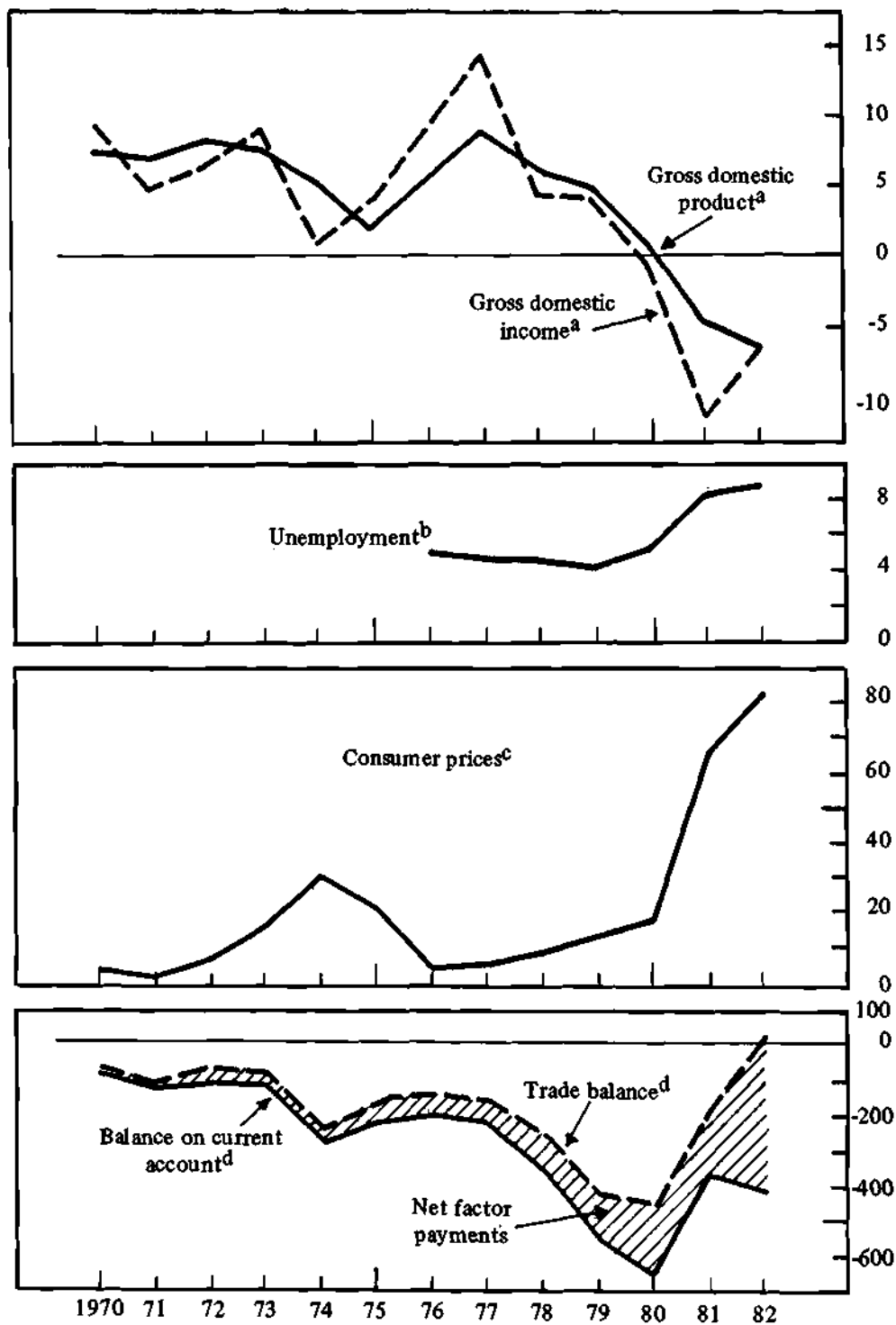
<sup>c</sup>General real wage index of affiliates of Costa Rican Social Security Fund.

<sup>d</sup>Percentages.

<sup>e</sup>As at July.

<sup>f</sup>Disbursed public external debt.

Figure 1  
**COSTA RICA: MAIN ECONOMIC INDICATORS**



Source: ECLA, on the basis of official figures.

<sup>a</sup>Annual growth rate.

<sup>b</sup>Average annual rate for country total.

<sup>c</sup>Percentage variation from December to December.

<sup>d</sup>Millions of dollars.

During the first part of the year, economic policy wavered between the application of the adjustment measures required in a depressed balance-of-payments situation and other measures aimed at maintaining an acceptable level of productive activity and employment. The latter prevailed and fundamental decisions were taken in order to alleviate the financial disequilibria. During that period, therefore, the inflationary pressures, the fiscal deficit and the external disequilibrium all tended to increase. Several public enterprises continued to have serious liquidity problems and some even became insolvent.

During the second half of the year, in view of the evidence that the failure to adjust the demand was aggravating the disequilibria, the new administration applied a series of measures aimed at restoring the macroeconomic equilibrium, even at the expense of a new decline in production and living conditions.

In the first place, the free foreign exchange market, which had been speculating and putting pressure on the exchange rate, was eliminated. This put an end to the sharp variations in the exchange rate. In addition, the Central Bank set prices for the dollar which led to a gradual revaluation of the colón.

In the second place, several measures were taken to restore fiscal equilibrium. Thus, some changes were made in the tax system, subsidies were eliminated and a programme of austerity with respect to public expenditure was announced. In addition, the prices of fuels and of certain utilities, which had been one of the main sources of the public sector deficit, were readjusted.

Finally, channels of communication with external creditors were reopened, as discussions on the renegotiation of the external debt were begun. Two important achievements were made in this regard during 1982. Firstly, negotiations on a stand-by agreement with the International Monetary Fund were concluded. Secondly, discussions with bilateral official creditors concerning an agreement on the restructuring of the external debt were practically completed. Likewise, during the second half of the year, considerable progress was made in negotiations on the readjustment of the public debt with foreign commercial banks.

Some indicators, mentioned below, show that towards the end of the year the adverse trends (i.e., disequilibria in the external sector and in public finance, as well as inflationary pressures and economic recession) were mitigated; nevertheless, the overall results for the year clearly reflected the circumstances which prevailed during the first half of the year.

In brief, in 1982 the country faced serious difficulties because of the unfavourable international situation and the growing financial disequilibria of the public sector. The new authorities took strong action to deal with this situation. The first positive results were noted during the last quarter of the year, as inflationary pressures were decelerated, the rate of exchange was stabilize, the public sector deficit (particularly that of State enterprises) was reduced and a small but growing surplus was achieved on the balance-of-payments trade account. This surplus, however, was due to a contraction of imports and not a gain in exports. Both production and employment remained depressed.

## 2. Recent economic trends

### a) *Total supply and demand*

All components of total supply and demand dropped significantly with respect to the already low figures of 1981. The total supply of goods and services fell by 8.4%: in absolute terms, it fell back to the level of eight years ago. This was partly due to the combined effect of a 6% decline in the gross domestic product and a 19% decline in the volume of imports, the latter factor being the result of the slowdown, the loss of domestic purchasing power and the measures taken to check imports (see table 2).

With regard to demand, the greatest concern was caused by the heavy and sustained decline (35%) of gross fixed capital formation. After having been quite dynamic up to 1979, it dropped much more sharply than the other macroeconomic variables. This was more than a short-term phenomenon, inasmuch as it caused a weakening of future capacity for increasing production. Private investment fell more rapidly in 1982 (39%). This could cause a certain degree of decapitalization of certain activities. Thus, the investment coefficient fell from 29% in 1980 to 12% in 1982.

Table 2

## COSTA RICA: TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1970 prices			Percentage breakdown		Growth rates			
	1980	1981	1982 <sup>a</sup>	1970	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>a</sup>
Global supply	2 792	2 545	2 331	126.6	117.5	5.0	-1.1	-8.8	-8.4
Gross domestic product at market prices	2 220	2 118	1 984	100.0	100.0	4.9	0.8	-4.6	-6.3
Imports of goods and services <sup>b</sup>	572	427	347	26.6	17.5	5.0	-7.8	-25.3	-18.8
Total demand	2 792	2 545	2 331	126.6	117.5	5.0	-1.1	-8.8	-8.4
Domestic demand	2 361	1 989	1 827	105.0	92.1	5.9	-1.1	-15.8	-8.1
Gross domestic investment	643	393	246	20.5	12.4	9.3	6.6	-38.9	-37.4
Gross fixed investment	561	406	263	19.5	13.2	15.3	-9.4	-27.6	-35.4
Construction	332	258	158	9.8	7.9	18.9	2.0	-22.3	-39.0
Machinery and equipment	229	148	105	9.7	5.3	11.6	-22.0	-35.3	-29.2
Changes in stocks	82	-13	-17	1.0	-0.8				
Total consumption	1 718	1 596	1 581	84.5	79.7	4.8	-3.7	-7.1	-0.9
General government	312	290	283	12.6	14.2	7.7	1.5	-7.0	-2.5
Private	1 406	1 306	1 298	71.9	65.5	4.2	-4.7	-7.1	-0.5
Exports of goods and services <sup>b</sup>	431	556	504	21.6	25.4	-	-1.2	29.1	-9.4

Source: ECLA, on the basis of figures supplied by the Central Bank of Costa Rica.

<sup>a</sup>Preliminary figures.

<sup>b</sup>These figures for exports and imports of goods and services were obtained from the balance of payments in current dollars, converted to constant 1970 values using unit price indexes calculated by ECLA for the purpose.

The private sector has been losing its role in stimulating growth, at least as far as investment is concerned. Whereas in 1970, private fixed investment accounted for 77% of total investment, in 1980, it accounted for only 64% and in 1982 it represented only 60% of the national capitalization effort.

Moreover, the public sector also reduced its capital expenditures (29%) considerably—although to a lesser degree—because of the financial difficulties it faced and because it had completed certain large-scale projects.

Stocks declined again in 1982 because of the shortage of foreign exchange for the purchase of imported goods, particularly in commerce and industry. Coffee inventories increased, however, because of the restrictions imposed by the quota system of the International Coffee Agreement and the difficulties encountered in placing coffee on non-traditional markets; consequently, the decline in stocks of other goods must have been considerable.

Consumption also dropped, but at a rate of 1%, which is much lower than the rate of decline of the last two years and than that of the other variables of demand. It would appear from some indicators that the trend towards rural-urban migration began to change and that part of the nearly marginal urban population which had been engaged in unskilled construction work (construction being a sector which has expelled a substantial amount of labour) took up agricultural activity, probably giving rise to an increase in own-account production for consumption. In addition, wage increases were aimed at favouring the lower income groups: although, on average, real wages dropped sharply, the loss of purchasing power affected the poorer strata less than the others. Despite this fact, however, per capita consumption dropped for the third year in a row and, according to some indicators, this had serious implications for the general level of well-being. This is reflected in statistics on children treated for severe malnutrition and studies on the evolution of social groups classified as being below the critical poverty level.

Consumption expenditures of general government fell by 2.5% with respect to those of 1981, which had already fallen considerably because of the austerity policy imposed by the Government during the second half of the year. Hence there was some deterioration in the quality and quantity of the many social services provided in the country.

Exports of goods and services dropped by 9.4%, after having increased by 29% during the preceding year. This was partly due to the deterioration of the real exchange rate, the tax on exports and the largely unfavourable terms prevailing on the markets for the main export commodities. For example, coffee exports declined considerably; the excess world supply restricted banana exports and the economic depression in the other Central American countries brought about a 37% decline in exports to the rest of Central America.

b) *Behaviour of the main sectors*

Most sectors reflected the nature of the crisis. Thus, although there was some growth in the agricultural sector, the production of goods dropped by 8%. Non-basic services declined by 5%, mainly because of the decline of the commercial sector. Basic services, however, remained at their 1981 levels (see table 3).

i) *The agricultural sector.* The agricultural sector has been very weak since the early 1970s. This may be attributed, among other factors, to the apparent exhaustion of the agricultural frontier, the decline of external prices for the main export commodities and, towards the end of 1980, the undervaluation of the exchange rate. Nevertheless, as it had in 1981, and despite a prolonged drought in the western region, agriculture grew slightly; in fact, it was the second which grew the most in 1982. Although disaggregated data on the various subsectors are not available, it may be said that this growth was partly due to the increased production of most crops, inasmuch as livestock production, fisheries and forestry declined (see table 4).

Agricultural activity was mainly conditioned by two factors. The first was the drought, which mostly affected the rice crop, but which also affected other crops. This adverse situation occurred for the second year in a row and could, over the short term, change the country from an exporter to a net importer of rice. The second was another record coffee crop, totalling almost 3 million bags, and representing an increase of 25% over the 1979 figure. This was achieved mainly as a result of the

Table 3

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

	Millions of dollars at 1970 prices			Percentage breakdown		Growth rates			
	1980	1981	1982 <sup>d</sup>	1970	1982 <sup>d</sup>	1979	1980	1981	1982 <sup>d</sup>
<b>Gross domestic product<sup>b</sup></b>	1 973	1 882	1 764	100.0	100.0	4.9	0.8	-4.6	-6.3
<b>Goods</b>	864	839	771	44.9	43.4	4.1	-0.1	-2.9	-7.9
Agriculture	369	373	382	25.0	21.5	0.5	-0.5	1.2	2.5
Mining	353	340	314	15.1	17.7	2.7	0.8	-3.7	-7.5
Manufacturing	142	126	75	4.7	4.2	19.3	-1.1	-11.6	-40.0
<b>Basic services</b>	197	200	202	6.8	11.4	10.6	6.7	2.5	0.5
Electricity, gas and water	48	51	53	2.0	3.0	5.1	11.8	8.3	2.0
Transport, storage and communications	149	149	149	4.8	8.4	12.5	5.2	0.6	-0.1
<b>Other services</b>	910	850	805	48.3	45.2	5.4	0.8	-6.5	-5.3
Commerce	300	244	201	17.2	11.3	4.1	-3.0	-18.5	-17.8
Financial institutions, insurance, real estate and business services	278	274	277	13.6	15.5	6.8	5.7	-1.4	1.2
Ownership of dwellings	142	144	155	8.4	8.2	4.2	2.4	1.7	0.6
Community, social and personal services	332	332	327	17.5	18.4	5.4	2.8	0.1	-1.5
Government services	240	243	245	12.0	13.8	5.9	3.6	1.5	0.8

Source: ECLA, on the basis of figures supplied by the Central Bank of Costa Rica.

<sup>a</sup> Preliminary figures.

<sup>b</sup> As the individual activities and the totals were calculated independently, the sum of the former does not exactly correspond to the latter.



Table 4

## COSTA RICA: INDICATORS OF AGRICULTURAL PRODUCTION

	1970	1975	1980	1981	1982 <sup>a</sup>	Growth rates <sup>b</sup>			
						1979	1980	1981	1982 <sup>a</sup>
<b>Index of agricultural production (1970 = 100)</b>	100.0	123.1	134.2	135.2	137.4	0.1	-1.1	0.7	1.6
Agriculture	100.0	122.8	131.5	133.0	...	-0.7	0.7	1.1	...
Livestock	100.0	118.5	133.8	139.8	...	0.1	-3.6	4.5	...
Forestry	100.0	139.4	142.9	114.2	...	-	5.9	-20.0	...
Fisheries	100.0	197.7	270.2	219.3	...	17.7	-22.8	-18.8	...
<b>Production of principal crops<sup>c</sup></b>									
<b>For export</b>									
Coffee	81	85	106	112	121	-	7.9	5.4	7.5
Bananas	959	1 221	1 108	1 142	1 219	-2.4	-4.1	3.1	6.8
Sugar cane	2 135	2 324	2 516	2 521	2 317	1.4	-3.8	0.2	-8.1
Cocoa	4	7	5	5	6	-0.2	-49.2	-4.1	12.5
<b>For domestic consumption</b>									
Rice	56	179	231	209	167	11.0	5.0	-9.4	-20.0
Maize	71	68	75	84	85	17.0	3.3	11.1	1.9
Beans	12	15	12	12	12	-19.2	1.6	6.8	2.7
Sorghum	-	20	42	30	31	-36.0	23.7	-27.6	3.0
Tobacco	2	3	2	2	2	-12.6	-22.8	5.3	-
Plantains	60	67	90	90	93	6.7	10.6	0.4	3.0
<b>Indicators of livestock production<sup>c</sup></b>									
<b>Animals slaughtered</b>									
Cattle	111	128	118	141	135	-6.0	-13.7	19.0	-4.4
Pigs	9	10	19	21	21	34.8	-3.9	9.9	-2.0
Poultry	4	5	5	6	6	-	-12.4	17.9	-3.0
<b>Other production</b>									
Milk <sup>d</sup>	206	251	308	307	301	1.8	0.7	-0.3	-2.0
Eggs <sup>e</sup>	272	344	430	344	334	-1.4	16.0	-20.0	-3.0
<b>Indicators of forestry production</b>									
Wood <sup>f</sup>	482	671	687	550	510	-	5.7	-19.9	-7.3
<b>Indicators of fishery production<sup>c</sup></b>									
	7	14	19	15	15	17.8	-22.8	-18.8	-

Source: ECLA, on the basis of official figures.

<sup>a</sup>Preliminary figures.

<sup>b</sup>Growth rates are given in real, not rounded, figures.

<sup>c</sup>Thousands of tons.

<sup>d</sup>Millions of litres.

<sup>e</sup>Millions of units.

<sup>f</sup>Thousands of cubic metres.

application of the Programme for the Improvement of Coffee Production. The substantial increase in the agricultural labour force also played a part in this record production.

The production of bananas, the second most important crop, grew by almost 7%, despite the fact that there was another relatively long strike in 1982 and that the excess world supply limited exports and caused considerable losses to small independent producers. The foreign concessionaire substituted African palm for bananas in some areas of the Pacific region; this, however, was amply offset by the increased production of the higher yielding Atlantic regions, which brought about an increase in productivity at the national level.

The sugar industry continued to experience marketing difficulties because of increased costs and the downward trend of international prices. The area planted decreased and, when serious financial problems arose, so did refining. Other problems, such as the drought and the sugar cane rust, also affected production and plantations.

With regard to crops for domestic consumption, rice production dropped by 20%, despite the fact that the planted area had increased and that measures had been taken to increase yields. This decline was caused by the drought, which damaged 20 000 hectares in the Chorotega region.

The cultivation of beans and sorghum, which were also affected by the drought, increased only at a moderate rate. The situation with regard to sorghum, which is mostly used for livestock feed, indirectly affected livestock production.

After its strong growth of the previous year, the livestock sector suffered decreases in productivity and production, mainly as a result of the heavy increase in the cost of inputs brought about by the devaluation of the colón and by the fact that prices, both for domestic consumption and for export, did not offset the rises in costs.

ii) *The manufacturing sector.* Industry was one of the sectors most affected by the economic crisis, not only as regards production, but also as regards capital formation. This activity had been showing signs of weakness since 1979 and in 1982 it declined by 7.5% (see table 5).

Several factors had an adverse effect on almost all branches of industry, affecting production plans and investment projects. Among them were the contraction of domestic demand, the climate of

Table 5  
COSTA RICA: INDICATORS OF MANUFACTURING PRODUCTION

	1978	1979	1980	1981	1982 <sup>a</sup>	Growth rates <sup>b</sup>			
						1979	1980	1981	1982 <sup>a</sup>
<b>Index of value added (1977 = 100)</b>	108.2	111.1	112.9	107.9	99.8	2.7	0.8	-3.7	-7.5
<b>Non-durable consumer goods</b>	104.6	106.5	107.7	...	...	1.8	1.1	...	...
Foods, beverages and tobacco	109.4	112.7	113.7	113.1 <sup>cd</sup>	113.6 <sup>d</sup>	3.0	0.9	-0.5	0.4
Coffee processing	116.9	115.5	116.2	...	...	-1.2	0.6	...	...
Meat	100.3	97.3	95.2	...	...	-3.0	-2.2	...	...
Sugar	98.2	99.6	97.4	...	...	1.4	-2.2	...	...
Other foods	108.8	114.2	115.9	...	...	5.0	1.5	...	...
Textiles, leather and footwear	97.5	94.6	92.7	95.6 <sup>c</sup>	104.9 <sup>c</sup>	-3.0	-2.0	3.1	9.7
Furniture and wood	85.0	92.7	104.7	99.4 <sup>c</sup>	75.0 <sup>c</sup>	9.0	13.0	-5.1	-24.5
Printing, publishing and related industries	110.0	115.1	125.5	115.1 <sup>ee</sup>	104.0 <sup>ee</sup>	4.6	9.0	-8.3	-9.6
Others	103.0	107.0	111.3	94.2 <sup>c</sup>	77.2 <sup>c</sup>	3.9	4.0	-15.4	-18.0
<b>Intermediate goods</b>	109.2	114.0	122.9	...	...	4.4	7.8	...	...
Paper and paper products	105.6	117.0	125.0	...	...	10.8	6.8	...	...
Chemical products and rubber	112.7	118.0	127.4	121.8 <sup>c</sup>	105.1 <sup>c</sup>	4.7	8.0	-4.4	-13.7
Petroleum refining	108.0	107.4	113.9	...	...	-0.5	6.0	...	...
Non-metallic minerals	101.4	105.5	115.0	99.0 <sup>c</sup>	82.6 <sup>c</sup>	4.0	9.0	-13.9	-16.6
<b>Metal manufactures and machinery</b>	108.9	115.5	115.9	94.2 <sup>c</sup>	64.4 <sup>c</sup>	6.0	0.4	-18.7	-31.6
<b>Other indicators of manufacturing production</b>									
Employment (1968 = 100)	186.8	190.4	187.6	177.4	171.2 <sup>f</sup>	1.9	-1.4	-5.4	-1.5 <sup>g</sup>
Industrial consumption of electricity (1970 = 100)	279.7	290.1	314.7	...	...	3.7	8.5	...	...

Source: ECLA, on the basis of figures supplied by the Ministry of Economic Affairs, Industry and Commerce of Costa Rica and by the Central Bank of Costa Rica.

<sup>a</sup> Preliminary figures.

<sup>b</sup> Growth rates are given in real, not rounded, figures.

<sup>c</sup> Figures calculated on the basis of data supplied by the Institute for Research in the Economic Sciences, University of Costa Rica, January 1983, in the document entitled *Evolución de la industria en Costa Rica durante 1982 y perspectivas para el primer semestre de 1983*.

<sup>d</sup> Does not include livestock slaughtering, coffee processing and sugar processing.

<sup>e</sup> Includes paper and paper products.

<sup>f</sup> January-July.

<sup>g</sup> Variation between January-July 1981 and January-July 1982.

Table 6

COSTA RICA: EVOLUTION OF EMPLOYMENT AND UNEMPLOYMENT<sup>a</sup>

	1979			1980			1981			1982		
	March	July	November	March	July	November	March	July	November	March	July	November
<b>Unemployment rates<sup>b</sup></b>												
Open	4.5	4.9	3.0	4.6	5.9	5.5	7.4	8.7	8.7	9.5	9.4	6.6
Rural	4.0	4.2	2.1	4.0	5.9	4.3	7.2	8.4	6.8	8.7	8.3	4.4
Urban	5.0	5.7	4.0	5.2	5.9	6.8	7.5	9.1	10.7	10.4	10.5	8.9
Urban, Central Valley	4.3	5.6	3.5	4.6	5.4	6.7	7.3	8.4	10.7	10.4	10.6	8.9
<b>Equivalent<sup>c</sup></b>	7.0	7.6	7.6	8.8	7.6	8.1	8.5	8.7	9.7	11.8	14.4	...
Rural	8.1	8.3	8.4	10.3	8.4	9.1	10.0	10.8	10.7	...	11.7	...
Urban	5.8	6.0	6.8	6.9	6.7	7.0	6.9	6.4	8.5	...	16.8	...
Urban, Central Valley	5.2	5.5	5.9	6.2	6.1	6.7	6.6	6.0	...	...	11.8	...
<b>Participation rates<sup>d</sup></b>	34.0	34.9	35.9	34.4	34.7	36.3	34.5	35.0	38.7	35.8	36.1	37.8
<b>Indexes<sup>e</sup></b>												
Labour force	124.8	129.1	134.0	129.3	131.6	138.7	132.7	136.0	151.3	141.0	143.2	151.1
Employment	126.8	132.5	140.3	133.2	133.6	141.4	132.7	133.9	149.1	137.6	140.1	152.4
Unemployment	76.2	85.8	54.4	80.4	106.0	103.7	133.1	162.0	178.4	183.3	182.8	134.8

Source: ECLA, on the basis of figures supplied by the Ministry of Labour and Social Security and by the Ministry of Economic Affairs, Industry and Commerce.

<sup>a</sup>Figures obtained from household surveys on employment and unemployment.

<sup>b</sup>Percentage of labour force.

<sup>c</sup>Underemployed population expressed in terms of open unemployment.

<sup>d</sup>Labour force as a percentage of total population.

<sup>e</sup>On the basis of data from the census carried out in May 1973.

uncertainty which prevailed during most of the year because of the sharp fluctuations in the exchange rate, the uncertainty —to be expected during the first half of the year— with regard to the economic policy of the new administration, and the atmosphere of unrest and instability prevailing in the other countries of the Central American area.

The difficulty of maintaining a regular supply of inputs, caused by the shortage of foreign exchange, had a particularly serious effect on the metal manufactures and machinery industry, while a weakening of domestic demand affected the chemicals, wood and canned food industries and the contraction of Central American demand affected several industries the dynamics of which traditionally depend on that market.

The Government took steps to solve some of the problems of the manufacturing sector; although these did not have a clear-cut effect during the period in question, they did help restore a certain confidence in the entrepreneurial sector. The measures taken include a programme of co-operation between the Government and the chamber of industries which is aimed at helping the businesses affected by the devaluation by granting credit and technical assistance to enterprises which generate foreign exchange or a minimum number of jobs or which produce basic consumer goods.

In addition, studies concerning the establishment of duty-free zones to encourage the offshore processing industry were completed and the relevant legislation was drafted.

Finally, a management and planning subsystem for co-ordinating the activities of all public institutions was created as part of a major institutional reorganization designed to strengthen and streamline the sectoral planning system.

ii) *The construction sector.* This was another activity which received the full impact of the crisis. Its 40% decline had a decisive effect on the overall economy and accounts for 43% of the decline of the product. The contraction of this sector had a depressive effect on employment and on various other activities, especially the wood and cement industries.

Both private and public construction showed a similar rate of decline. In the case of private construction, it would appear that the main factors which determined its behaviour were financial instability and increased costs, particularly because of the high imported component of this industry.

The price index for basic inputs and labour in housing construction rose at an average rate of over 89%, with the rate of growth accelerating towards the end of the year.<sup>3</sup>

Public construction also dropped sharply as a result of the austerity policy under which some works were cancelled and others postponed, although the most important strategic projects were continued (see section 5.b).

iv) *Other sectors.* As regards the other sectors, trade again underwent a sharp contraction, almost 18%. The lower level of demand made it necessary to rationalize consumption. The shortage of foreign exchange caused imports to drop and the increasing cost of meeting dollar commitments caused operating costs to rise.

It is worth noting that basic services actually grew somewhat with respect to the preceding year. In the case of the energy sector, the efforts made to improve the utilization of water resources and thus substantially reduce dependency on oil are bearing fruit.<sup>4</sup> Nevertheless, because this effort has been financed to a large degree with external credit, the national currency commitments of the Instituto Costarricense de Electricidad (ICE) increased considerably.<sup>5</sup>

Finally, the value added of public administration grew by less than 1%, both because of financial difficulties and because of the austerity programme implemented during the second half of the year. The financial sector grew by somewhat over 1% and community, social and personal services dropped by 1.5% (see table 3).

### c) *Employment and unemployment*

For many years, Costa Rica maintained a high level of employment. In 1979, the average unemployment rate was only 4.1%. In 1980, however, the effect of the economic slowdown began to be felt and the unemployment rate rose to 5.3%; with the 1981 recession, it rose to 8.3%. During 1982, the continued decline of production was reflected not so much in the deterioration of the level of employment as in the deterioration of the quality of employment. Although the average rate of unemployment only increased to 8.5% of the labour force, the productivity of employment decreased appreciably, as suggested by the heavy increase of so-called equivalent unemployment (see table 6).

This trend was partly due to the considerable growth of employment in the agricultural sector, as the labour force previously employed in the construction and manufacturing industries moved away from the urban and semi-urban areas. At the same time, there was an increase in employment in low-productivity services, such as the marketing of foods, especially foodstuffs, repair shops and hand-made clothing.

The employment survey for November, however, showed a considerable improvement with respect to the first half of 1982 and all of 1981. This phenomenon was closely linked to the fact that the record coffee crop absorbed a large portion of the unemployed work force.

## 3. The external sector

The severe limitations of the external sector were perhaps the main cause for the persistence of the recession in the Costa Rican economy. The adverse conditions of the international market for the major export commodities affected production, while the constant pressure with regard to the service of the external debt continued to contribute to financial destabilization. The lack of foreign exchange throughout the year gave rise, during the first light months of the year, to speculative transactions which pushed the exchange rate up. During the last quarter of the year, however, the shortage of foreign exchange was considerably attenuated and the exchange rate began to come down.

<sup>3</sup>See: Dirección General de Estadísticas y Censos, *Indicadores sociales y económicos*, October-December 1982.

<sup>4</sup>Of the Central American countries, Costa Rica is the one in which the highest proportion (75%) of total energy production is generated from hydroelectric sources.

<sup>5</sup>It is estimated that ICE has foreign financial commitments amounting to approximately US\$ 500 million. With the changes in the exchange rate, these commitments now amount to US\$ 15 000 million, as compared with US\$ 4 300 million at the end of 1980.

Table 7

**COSTA RICA: AVERAGE EXCHANGE RATES FOR THE COLON  
WITH RESPECT TO THE DOLLAR, 1982**

	Average monthly purchasing rate (colones per dollar)		
	Interbank exchange rate	Free exchange rate in the national banking system	<i>Lonja</i>
January	36.05	-	39.75
February	37.05	-	42.12
March	37.49	-	44.15
April	38.00	-	48.39
May	38.00	-	48.06
June	38.00	51.62	53.66
July	38.00	55.00	62.22
August	38.19	57.35	-
September	40.00	53.51	-
October	40.00	51.24	-
November	40.00	46.93	-
December	40.00	47.59	-

Source: ECLA, on the basis of figures supplied by the Central Bank of Costa Rica.

a) *Trends in the exchange rate*

After having remained stable for six years, the exchange rate underwent spectacular and erratic variations between the second quarter of 1980 and the last quarter of 1981, and the parallel rate rose by 400% with respect to the original rate. In early 1982, there were three rates of exchange: the official rate, of 20 colones per dollar, which was used for only a few transactions; the interbank rate, which was applied to most transactions; and the free or parallel rate (called *lonja* in Costa Rica), for transactions not going through the banking system. In January, the interbank rate was 36 colones per dollar; the average *lonja* rate was almost 40 colones. During the course of the year, the difference between the two rates increased rapidly and by the end of July, it was 63% (see table 7).

One of the most important measures taken during the second half of the year by the new administration was the elimination of the parallel exchange market and the centralization of the foreign exchange market in the banking system. After that, the so-called free exchange rate began to decline and by the end of December, it was around 24% lower than it had been in July.<sup>6</sup> Meantime, the interbank rate remained practically stable. It was hoped that it would be possible eventually to unify the two exchange rates.

The mere introduction of discipline in the management of foreign exchange brought the exchange rate down and restored the private sector's confidence in the currency. This was a decisive factor in the lessening of the depressive trends of the economy during the last quarter of the year, the reduction of inflation and the attraction of short-term capital. It also led, between 1981 and 1982, to a 17% reduction of the real rate of exchange for exports (see table 8). Taking export taxes into account, the rate of exchange actually received by exporters, in real terms, towards the end of the year had returned to the level of late 1980, when the devaluation of the colón began.

b) *Merchandise trade*

i) *Exports.* In 1982, the value of FOB sales of goods to the exterior dropped by 15.5%. This was due almost exclusively to the reduction of the volume exported, which declined by somewhat over 14%, while the average prices of exports fell by almost 2%. The physical volume of sale to the

<sup>6</sup>The Central Bank establishes the so-called free exchange rate every day on the basis of the balance of purchases and sales of foreign currency on the preceding day. Maximum allowances are established for the purchase of foreign currencies for different transactions; the sale of foreign currency is not allowed for certain purposes. This type of exchange is applied for imports of goods considered to be luxuries and for travel, as well as for imports of capital.

exterior dropped in the case of almost all major export items. Despite the fact that production rose substantially, the volume of coffee exports declined by 4%, partly because of the extraordinary increase (30%) of the previous year —when a large portion of domestic stocks of coffee were exported in order to take advantage of the rise in the exchange rate— and partly because of the reduction of international export quotas. This reduction helped, however, to check the fall of international coffee prices and even contributed to the beginning of a recovery. Thus, the decrease in the volume exported was amply offset by the increase in the unit value. Another factor which may have discouraged coffee exports was the worsening of the exchange rate actually received.

In the case of bananas, the volume exported also dropped despite the fact that the harvest had increased. A 7% rise in the international price, however, raised the total value of banana sales by 4%. This situation was due partly to an extended strike which affected the main producing company and partly to an excess supply on the international market, which led the marketing firm to decide not to buy part of the small producers' crop.

With regard to sugar, a 29% decrease in the volume exported went hand in hand with a 53% decrease in the unit price, as a result of which the value of sugar sales dropped sharply (67%). Thus, there was a continuation of the crisis which has existed in the sugar market for several years as a result of the excess world supply, with the resulting fall in prices and increase in production costs.

The volume of fresh meat exported dropped by 27.5%, mainly because of the reduction of imports on the part of the major meat-purchasing countries. At the same time, the average export price declined by 4%.

All in all, the current value of the major traditional export commodities decreased by 7.6% (see table 9).

The current value of non-traditional goods decreased by 23%, basically as a result of the decrease of approximately 37% in exports to Central America (according to figures available for the period January-November). Sales of non-traditional goods to third countries declined to a lesser

Table 8

**COSTA RICA: EVOLUTION OF INDEXES OF EFFECTIVE REAL EXCHANGE RATE OF EXPORTS AND IMPORTS<sup>a,b</sup>**

(1980 = 100)

Average	Exports	Imports
1975	114.8	112.5
1976	111.6	109.4
1977	113.1	110.7
1978	114.5	114.1
1979	110.1	108.1
1980	100.0	100.0
1981	156.8	163.9
I	143.7	150.0
II	148.3	154.9
III	131.4	137.9
IV	190.8	198.3
1982	130.1	132.6
I	157.0	161.9
II	137.8	140.7
III	120.5	121.9
IV	116.0	117.7

Source: ECLA, on the basis of information supplied by the International Monetary Fund, *International Financial Statistics*.

<sup>a</sup>These indexes were obtained by adding the indexes of the real exchange rate for each country weighted according to the geographical composition of exports or imports, considering the main commercial flows of Costa Rica. The exchange rate index for a given country was obtained by dividing the exchange rate index into the Costa Rican currency and the Costa Rican exchange rate by the Costa Rican wholesale price index and the price indexes for that country, giving priority to the wholesale price index. The estimates for exports include eight countries and those for imports include eight countries representing 74.6% and 71.7%, respectively, of Costa Rican foreign trade for the period 1975-1979. For further detail on the methodology used, see the *Economic Survey for 1981*, part III.

Interbank exchange rates.

Table 9  
COSTA RICA: EXPORTS OF GOODS, FOB

	Millions of dollars				Percentage breakdown <sup>c</sup>		Growth rates <sup>c</sup>			
	1980	1981	1981 <sup>a</sup>	1982 <sup>ab</sup>	1970	1982 <sup>b</sup>	1979	1980	1981	1982 <sup>b</sup>
<b>Total</b>	1 001	1 003	931	799	100.0	100.0	9.0	6.2	0.2	-14.2
<b>Main traditional exports</b>	571	584	541	500	73.5	62.6	6.9	-7.1	2.2	-7.6
Coffee	248	240	222	220	31.6	27.6	0.5	-21.4	-3.1	-0.9
Bananas	207	225	212	220	28.9	27.6	12.1	8.9	8.3	4.0
Cocoa	4	3	2	2	0.8	0.3	-35.8	-56.7	-35.7	-8.7
Meat and livestock	71	74	63	44	7.8	5.4	35.5	-13.5	4.5	-30.4
Sugar	41	42	42	14	4.4	1.7	10.1	132.6	3.2	-67.6
<b>Main non-traditional exports</b>	430	419	390	299	26.5	37.4	13.2	31.4	-2.5	-23.3
To Central America	270	222	207	130	19.9	16.3	-1.8	54.1	-17.8	-37.3
To the rest of the world	160	197	183	169	6.6	21.1	37.5	5.1	23.4	-7.5
Industrialized	74	112	...	...	...	...	107.7	-22.0	51.8	...
Agricultural and sea product	86	85	...	...	...	...	-12.1	50.4	-1.2	...

Source: ECLA, on the basis of official figures.

<sup>a</sup>January-November.

<sup>b</sup>Preliminary figures.

<sup>c</sup>Percentage breakdown and growth rates are given in real, not rounded, figures.

extent, thanks to the efforts made for several years to open up the market of the Caribbean islands and to take advantage of some of the facilities provided by the United States generalized system of tariff preferences. The devaluation of the colón should have influenced the behaviour of these exports; nevertheless, inflation, the high imported content of domestic industry and the taxes on the exchange rate differential (on exports) largely wiped out the stimulating effect of the changes in the exchange rate.

With regard to intra-regional trade, Costa Rica has been gaining ground to the point where, during the last quarter of the year, it was a surplus country. This was due, among other things, to the decline of production in Nicaragua and El Salvador and, more recently, to the competitiveness achieved by Costa Rican goods as a result of the changes in the exchange rate for the colón. In any case, Central American trade has been weakening rapidly. On the one hand, the regional demand has declined along with the productive activity and the aggravation of all the countries' financial problems; on the other hand, this same situation has led some countries to establish restrictive measures.

ii) *Imports.* The CIF value of imports of goods declined by 25%, reflecting the atonicity of economic activity, on the one hand, and, on the other, the expenditures caused by the shortage of foreign exchange and the spectacular increase in the colón prices of imported goods and services, caused by the successive devaluations of the currency. The contraction of purchases from the exterior shows clearly how sharp has been the adjustment forced on a relatively equalitarian society whose consumption and investment patterns had had a high imported content which has now become incompatible with their loss of income (see table 10).

It is worthwhile to stress the importance of the 40% decline in purchases of capital goods. The most seriously affected were industry and mining, which showed a decline of 49%. Imports of consumer goods declined by 25% and imports of intermediate goods fell by 16%.

With regard to the origin of imports, the sharpest reduction was noted in purchases from other Central American countries. Between 1980 and 1982, such transactions dropped by 50%. Imports from the rest of the world also dropped sharply. In contrast with the general situation, imports of crude oil and oil by-products rose by 33%, after two years of sharp decline. This was due, on the one hand, to the fact that a special purchase was made during December to replace stocks and, on the other

hand, to the fact that the domestic price of fuels continued to be subsidized during the first half of the year, because of the authorities' reluctance to bring the price in line with the new exchange rates (see table 11).

iii) *The terms of trade.* The terms of trade worsened for the fifth year in a row. With this new deterioration of 1982, the terms of trade for goods reached the lowest level since 1974; the terms of trade for goods and services reached the lowest level of the postwar period. This setback has been a crucial factor in the evolution of the economy in recent years, since it has had a great deal to do with the aggravation of the external disequilibrium, the rise in the exchange rate, the acceleration of inflation and the contraction of investments, not to mention the significant loss of income it represents, i.e., 7.5% of the gross domestic product during each of the last two year.

c) *Trade in real services and payments for factor services*

Trade in non-factor services showed a positive trend, both as regards income, which rose by 6%, and payments, which rose moderately (2%). Nevertheless, the country was not able to cover its traditional deficit in this regard, which in 1982 amounted to US\$ 29 million. It should be noted that for the third year in a row, tourism generated a positive and rising balance due to the fact that income from this activity has been growing slightly, while expenditures have declined considerably during the last two years (see table 12).

The balance of payments with respect to factor services was negative, as it rose from US\$ 219 million in 1980 to US\$ 300 million in 1981 and US\$ 462 million in 1982. This considerable increase is due mainly to the high cost of the short-term external debt. Nevertheless, it should be noted that the balances for 1981 and 1982 include unpaid interest.

Table 10  
COSTA RICA: IMPORTS OF GOODS, CIF

	Millions of dollars			Percentage breakdown <sup>b</sup>		Growth rates <sup>b</sup>			
	1980	1981	1982 <sup>a</sup>	1970	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>a</sup>
<b>Total</b>	1 524	1 208	907	100.0	100.0	19.8	9.1	-20.7	-24.9
From Central America	220	152	110	21.7	21.1	4.4	3.8	-30.7	-27.6
From the rest of the world	1 304	1 056	797	78.3	87.9	23.1	10.0	-19.0	-24.5
<b>Consumer goods</b>	388	252	163	32.5	18.0	18.4	10.8	-35.1	-35.1
Non-durables	245	165	131	22.0	14.5	15.2	19.1	-32.5	-20.2
Durables	143	87	32	10.5	3.5	23.1	-0.9	-39.4	-63.4
<b>Raw materials and intermediate goods</b>	791	689	579	42.7	63.8	24.1	18.9	-13.0	-16.0
For agriculture	51	44	48	2.9	5.3	5.3	40.8	-13.0	9.1
For industry	573	523	401	32.3	44.2	23.4	27.5	-8.7	-23.3
Construction materials	72	46	29	5.5	3.2	-16.9	23.3	-36.2	-37.2
Fuels and lubricants	95	76	101	2.0	11.1	79.8	-21.5	-20.9	33.4
<b>Capital goods</b>	325	258	155	24.8	17.1	17.8	-14.8	-20.4	-39.9
For agriculture	23	13	11	2.0	1.2	7.7	-19.5	-42.6	-19.3
For industry, manufacturing, mining and construction	145	97	49	11.3	5.4	34.5	-19.0	-33.1	-49.3
For transport	85	66	37	7.3	4.1	0.5	-22.8	-22.4	-43.4
Other capital goods	72	82	58	4.2	6.4	17.2	13.1	14.9	-29.6
<b>Miscellaneous</b>	20	9	10	-	1.1	...	...	-53.1	8.7

Source: ECLA, on the basis of official figures.

<sup>a</sup>Preliminary figures.

<sup>b</sup>Percentage breakdown and growth rates are given in real, not rounded, figures.



Table 11

## COSTA RICA: MAIN FOREIGN TRADE INDICATORS

	1977	1978	1979	1980	1981	1982 <sup>a</sup>
<b>Growth rates</b>						
Exports of goods						
Value	39.7	4.4	9.0	6.2	2.9	-15.5
Volume	-2.1	7.1	0.1	-3.3	18.9	-14.1
Unit value	42.7	-2.5	8.9	9.9	-13.5	-1.7
Imports of goods						
Value	33.0	13.4	19.8	9.1	-20.6	-25.0
Volume	21.4	7.0	4.7	-9.2	-24.7	-24.8
Unit value	9.6	6.0	14.4	20.5	5.5	-0.2
Terms of trade	30.6	-7.9	-4.5	-7.7	-18.4	-1.7
<b>Indexes (1970 = 100)</b>						
Terms of trade	121.7	112.1	107.0	98.8	80.7	79.3
Purchasing power of exports of goods <sup>b</sup>	176.0	173.4	166.5	149.4	144.7	122.9
Purchasing power of exports of goods and services <sup>b</sup>	170.1	168.8	161.8	149.3	143.1	127.9

Source: ECLA, on the basis of official figures.

<sup>a</sup>Preliminary figures.

<sup>b</sup>Volume of exports of goods or of goods and services, as the case may be, adjusted by the relevant terms-of-trade index.

d) *The trade balance and the balance on current account*

In 1982, the deficit on current account rose moderately, to US\$ 412 million, which is much lower than the figures for 1979 and 1980 (see table 12). With regard to the product, the deficit on current account was 6.8% in 1982, as compared with 5.7% in 1981 and 10.2% in 1979 and 1980.

Contrary to the situation in 1981, and, particularly, in 1979-1980, the 1982 deficit may be attributed almost exclusively to payments for factor services, inasmuch as the trade account showed a surplus for the first time since 1952. In 1979-1980, around 70% of the deficit on current account was due to the commercial imbalance.

Finally, it should again be stressed that the figures for 1981 and 1982 include unpaid interest. Actually, there was a small surplus on current account in 1982. Thus, unpaid interest financed 40% of the imports of goods and services.

e) *The capital account and the global balance of payments*

The capital account showed a positive balance of US\$ 547 million, an amount which is much higher than that of the previous year. However, this was entirely due to the fact that a counterpart entry was made in the books for unpaid interest on current account. The net flow was actually around US\$ 125 million and it would appear that a high proportion of this amount was accounted for by income from returns on exports as capital imports (in order to take advantage of the higher exchange rate on the free market and to avoid taxes). Fresh external financing was practically nil, as was to be expected considering that the country was delinquent in meeting its external obligations.

At any rate, there was a surplus of US\$ 135 million on the global balance of payments, compared with the US\$ 50 million deficit of the previous year.

f) *The external debt*

One of the financial variables which reflects the origin and magnitude of the disequilibria of the Costa Rican economy is the external debt. The impact of this debt, which had grown at a very fast rate, is now being felt and is accentuating the aforementioned disequilibria. Since 1978, the fiscal deficit and the balance-of-payments deficit have been increasingly linked with external financing, which has mostly been obtained from private sources on commercial terms as regards repayment periods and interest rates. Between 1977 and 1980, the total external debt rose from US\$ 1 446 million to US\$ 3 183 million (see table 13).

Table 12

## COSTA RICA: BALANCE OF PAYMENTS

(Millions of dollars)

	1977	1978	1979	1980	1981	1982 <sup>a</sup>
<b>Balance on current account</b>	-226	-364	-554	-658	-371	-412
Trade balance	-162	-266	-421	-459	-95	22
Exports of goods and services	959	1 008	1 097	1 198	1 220	1 085
Goods FOB	828	864	942	1 001	1 030	870
Non factor services <sup>b</sup>	131	144	156	197	191	215
Transport and insurance	35	28	33	48	46	56
Travel	62	72	74	85	83	91
Imports of goods and services	1 120	1 274	1 519	1 657	1 316	1 063
Goods FOB	925	1 049	1 257	1 375	1 092	819
Real services <sup>b</sup>	195	225	262	283	225	244
Transport and insurance	115	129	155	177	147	153
Travel	51	62	63	60	36	34
Factor services	-80	-113	-150	-218	-303	-462
Profits	-18	-27	-17	-16	-10	-20
Interest received	9	16	11	16	21	22
Interest paid	-68	-100	-140	-216	-311	-461
Other	-3	-3	-4	-2	-3	-3
Unrequited private transfer payments	15	16	17	20	27	28
<b>Balance on capital account</b>	337	391	436	749	322	547
Unrequited official transfer payments	0	1	-4	-5	0	0
Long-term capital	300	353	353	402	161	235
Direct investment	62	47	42	48	46	...
Portfolio investment	4	21	0	124	1	...
Other long-term capital	234	285	311	230	114	...
Official sector <sup>c</sup>	81	114	221	81	83	...
Loans received	99	241	304	112	143	...
Amortization payments	-18	-120	-79	-25	-53	...
Commercial banks <sup>c</sup>	37	-12	-35	9	-11	...
Loans received	51	12	63	32	9	...
Amortization payments	-14	-23	-28	-23	-20	...
Other sectors <sup>c</sup>	115	182	55	140	43	...
Loans received	236	333	357	267	176	...
Amortization payments	-121	-151	-302	-127	-133	...
Short-term capital	64	88	6	422	65	200
Official sector	4	57	2	287	41	...
Commercial banks	5	2	6	32	5	...
Other sectors	55	29	-2	104	18	...
Net errors and omissions	-27	-51	80	-71	96	112
<b>Global balance<sup>d</sup></b>	111	27	-119	92	-50	135
Total variation in reserves (- sign indicates an increase)	-110	-22	113	-33	71	...
Monetary gold	0	0	0	0	28	...
Special Drawing Rights	-5	3	-2	6	0	0
IMF reserve position	0	-10	0	10	0	0
Foreign exchange assets	-90	4	77	-43	14	-95
Other assets	-12	-14	12	-5	-17	...
Use made of IMF credit	-2	-4	26	-1	46	-10

Source: 1977-1981: International Monetary Fund, *Balance of Payments Yearbook*; 1982: ECLA, on the basis of official figures.<sup>a</sup> Preliminary figures.<sup>b</sup> Real services also include other official and private transactions, but do not include factor services.<sup>c</sup> In addition to loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities.<sup>d</sup> The global balance is the sum of the balance on current account plus the balance on capital account. The difference between the total variation in reserves and the global balance represents the value of counterpart entries: monetization of gold, allocation of Special Drawing Rights and variation due to revaluation.

Table 13  
COSTA RICA: INDICATORS OF EXTERNAL INDEBTEDNESS

	1977	1978	1979	1980	1981	1982 <sup>a</sup>
Millions of dollars						
<b>Public external debt</b>						
<b>Balances</b>	812	1 112	1 463	2 140	2 405	3 015 <sup>b</sup>
Medium- and long-term	790	1 034	1 378	1 797	2 345 <sup>c</sup>	2 603 <sup>b</sup>
International agencies	293	362	402	490	...	835
Bilateral credit	133	171	200	239	...	420
Commercial banks	283	376	609	874	...	865
Other	81	125	167	194	...	613 <sup>b</sup>
Short-term	22	78	85	343	334 <sup>d</sup>	282
Disbursements	250	413	455	755	397	346 <sup>e</sup>
Servicing	104	182	196	251	418 <sup>f</sup>	1 445 <sup>g</sup>
Amortization payments	60	113	104	78	126 <sup>h</sup>	951 <sup>g</sup>
Interest payments	44	69	92	173	292 <sup>i</sup>	494 <sup>g</sup>
<b>Private external debt</b>						
<b>Balances</b>	634	758	770	1 043	1 049	1 120
Servicing	122	149	166	226	...	...
<b>Total external debt</b>						
<b>Balances</b>	1 446	1 870	2 233	3 183	3 454	4 135 <sup>b</sup>
Servicing	226	331	362	477	...	...
Percentages						
<b>Ratios</b>						
Servicing of external debt/ exports of goods and services						
Public external debt	10.8	18.0	17.9	21.0	34.7	133.2 <sup>g</sup>
Private external debt	12.7	14.8	15.1	18.8	...	...
Total external debt	23.5	32.8	33.0	39.8	...	...
Servicing of the public external debt/disbursements	41.6	44.1	43.1	33.2	105.3	417.6

Source: ECLA, on the basis of figures supplied by the Central Bank of Costa Rica and the Ministry for National Planning and Economic Policy.

<sup>a</sup> Preliminary figures based on data supplied by the External Debt Recording and Control Section of the Central Bank of Costa Rica.

<sup>b</sup> Includes certificates of deposit in general, at three and four-year terms, not previously recorded, in the amount of US\$ 351 million, and excludes delinquent interest in the amount of US\$ 422 million.

<sup>c</sup> As at October, and including delinquent interest in the amount of US\$ 69 million.

<sup>d</sup> As at October.

<sup>e</sup> Excluding certificates of deposit in the amount of US\$ 351 million, recorded in 1982.

<sup>f</sup> Includes delinquent amortization payments in the amount of US\$ 61 million and delinquent interest payments in the amount of US\$ 121 million.

<sup>g</sup> Includes delinquent amortization payments in the amount of US\$ 864 million and delinquent interest payments in the amount of US\$ 422 million.

<sup>h</sup> Includes delinquent amortization payments in the amount of US\$ 61 million.

<sup>i</sup> Includes delinquent interest payments in the amount of US\$ 121 million.

As current transactions and the servicing of the debt exhausted the international reserves, the Government found it necessary, in September 1981, to suspend its payments on the public external debt contracted with private sources and even, during a brief two-week period, with multilateral public sources. This paralyzed the flow of external capital. Since then, and up to the end of 1982, both amortization and interest payments on part of the balance of external debt were stopped. This included private obligations which had fallen due and for which the debtors had requested the necessary foreign currency but had not been able to obtain it because of its being unavailable in the banking system. During 1981, public external debt commitments amounting to US\$ 61 million for amortization and US\$ 121 million for interest remained unpaid. In 1982, the public sector accumulated a total of US\$ 864 million of unpaid amortization and US\$ 422 million unpaid interest; this does not include the delinquent payments of the private sector.

It is estimated that at the end of 1982, the total balance of the external debt was US\$ 4 135 million. Around one-third of the total external debt consists of obligations with foreign banks; 17%, of overdue debts of the private sector, and around 10%, of the overdue public debt.

In 1982, the country had to pay a total of US\$ 1 445 million for interest and amortization on the public external debt, including US\$ 180 million which had not been paid the year before. This represented 133% of exports of goods and non-factor services, compared with less than 35% the year before.

Faced with this situation, the new authorities set as one of their most important short-term goals that of resuming talks with foreign creditors and renegotiating the external debt.

To begin with, discussions were held with the International Monetary Fund which led to the granting of a US\$ 100 million stand-by loan to support efforts to stabilize the exchange policy and meet external financial commitments. This loan was granted during the second half of December; its financial impact will begin to be felt in 1983. This represented the first step towards restoring confidence in the Costa Rican economy and in its capacity to meet its international obligations; such confidence is fundamental to the success of the adjustment programme being followed by the Government.

In the second place, communications with the international financial community were reopened with a view to renegotiating the external debt owed to bilateral sources. By the end of the year, agreement had virtually been reached on a consolidation arrangement which would give the Government ample manoeuvring room with regard to the external disequilibrium.

Finally, the prospects were encouraging for the discussions with private creditor banks aimed at renegotiating the debt and the delinquent payments (particularly as regards repayment periods) so as to bring the service of the debt in line with the country's capacity to pay and with the recovery of its economy.

#### 4. Prices and wages

##### a) Prices

In 1982, the cost of living index rose at an unprecedented average rate of 90%. The food price index rose even more rapidly. In 1981, the average variation in the consumer price index had been 37%. Inflation, however, rose at a much faster rate, as the variation from December to December was 82% in 1982, compared with 65% in 1981 (see table 14).

In 1982, the main inflationary pressures originated in the erratic variations in the exchange rate and the increased public utility rates, which rose sharply because in the past they had not been increased in accordance with the increase in costs. During the first four months of the year, the policy of not raising the prices of fuels and of several basic services was maintained, despite the increase in costs. Beginning with the second half of the year, however, the new authorities embarked on a

Table 14

#### COSTA RICA: EVOLUTION OF DOMESTIC PRICES

	1977	1978	1979	1980	1981	1982
<b>Variation from December to December</b>						
Consumer price index <sup>a</sup>	5.3	8.1	13.2	17.8	65.1	81.8
Food <sup>a</sup>	8.6	15.9	14.7	18.8	70.4	101.1
Wholesale price index	7.4 <sup>b</sup>	9.4 <sup>b</sup>	24.0	19.3	117.2	79.1
<b>Variation between annual averages</b>						
Consumer price index <sup>a</sup>	4.2	6.0	9.2	18.1	37.0	90.1
Food <sup>a</sup>	4.8	10.3	12.6	21.8	36.7	113.6
Wholesale price index	7.5 <sup>b</sup>	7.8 <sup>b</sup>	16.1	23.7	65.3	108.3

Source: ECLA, on the basis of official figures.

<sup>a</sup>Price index for middle and low-income consumers in the San José metropolitan area.

<sup>b</sup>Corresponds to the previous wholesale price index.

Table 15

**COSTA RICA: MONTHLY EVOLUTION OF CONSUMER PRICES<sup>a</sup>**  
(Indexes 1975 = 100)

	1980		1981		1982	
	Total	Food	Total	Food	Total	Food
January	136.9	144.5	166.1	175.1	286.9	325.4
February	137.6	145.0	170.1	178.9	296.5	341.5
March	142.8	156.0	173.2	180.5	315.6	374.5
April	143.3	156.2	178.8	188.6	328.6	394.6
May	143.9	156.6	187.1	192.7	344.7	414.7
June	147.8	160.7	192.8	200.1	367.4	449.5
July	149.1	161.2	204.3	219.5	406.8	485.7
August	149.3	161.3	207.7	221.7	421.4	501.1
September	151.2	161.1	212.6	229.6	444.1	540.9
October	153.0	162.7	227.8	254.1	457.6	568.9
November	155.7	166.2	242.6	268.8	464.7	572.3
December	158.3	169.2	261.3	288.4	474.9	580.0

Source: ECLA, on the basis of official figures.

<sup>a</sup>Price index for middle and low-income consumers in the San José metropolitan area.

programme of financial adjustment designed to restore balance to the economy and to lay the foundations for recovery. A very important part of this programme was the readjustment of demand and the attenuation of inflationary pressures arising from the deficits of certain public enterprises. In this context, several major price adjustments were made. Thus, in July, fuel prices were increased by 92% and public transport rates, by 100%. The increases in the rates of other services, such as electricity, water and telephone, ranged from somewhat over 60% for the telephone company to somewhat under 200% for electricity.

Despite these increases, inflation began to drop towards the end of the year. From October on, the general price index showed a clear downward trend and the food price index fell even more sharply (see table 15 and figure 2).

The inflationary pressures were mitigated mainly as a result of the reduction of the exchange rate, although the appreciable reduction of the fiscal deficit and the resulting reduction of the monetary base were also influential in this regard.

#### b) *Wages and salaries*

During the first half of 1982, real average wages and salaries suffered a new and dramatic decline of 23.6%, after having fallen by over 11% in 1981 and by almost 3% in 1980 (see table 16). This meant a return to a level similar to that of the previous decade. Considering that inflation rose somewhat during the second half of the year, the overall drop in wages and salaries for the year was probably even greater.

The drop was sharpest for employees of the central government; the average minimum wages of the lower level of workers declined much less (6.3%) than the average (see table 16). This was the result of a wage policy aimed at containing inflation and protecting the lower-income strata. In the case of public employees, for example, readjustments of equal absolute amounts for all categories were granted in January, June and October.

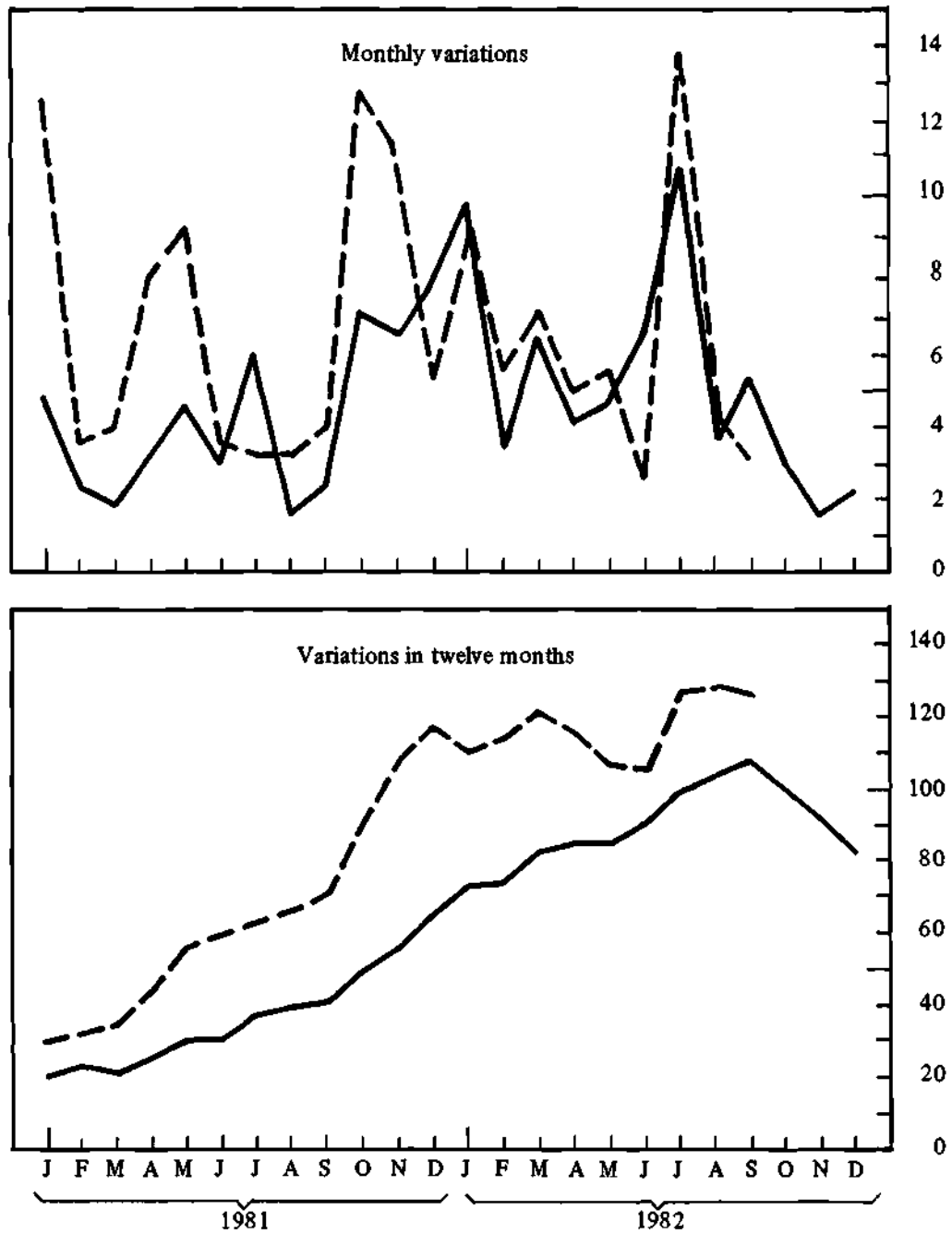
### 5. Monetary and fiscal policy

#### a) *Introduction*

The greatest and most difficult disequilibria of the Costa Rican economy were those which appeared in the financial sphere. On the one hand, public expenditure had become an important stimulus of demand and had accounted for a considerable expansion of social services, which are very difficult to reduce. On the other hand, because fiscal income grew more slowly than outlays, the latter created an increasing need for domestic and external credit and this ultimately weakened government finances.

Figure 2  
**COSTA RICA: EVOLUTION OF THE PRICE INDEX**

———— Consumer prices.  
 - - - - - Wholesale prices.



Source: ECLA, on the basis of official figures.

Table 16

## COSTA RICA: EVOLUTION OF WAGES AND SALARIES

	Indexes (1975 = 100)				Growth rates			
	1979	1980	1981	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>a</sup>
<b>Average wages and salaries<sup>b</sup></b>								
Total (nominal)	175.4	201.2	244.8	355.7 <sup>c</sup>	14.4	14.7	21.7	45.3 <sup>d</sup>
Public sector	171.8	187.9	237.4	332.1 <sup>c</sup>	11.8	9.4	26.4	39.9 <sup>d</sup>
Central government	178.6	176.3	239.0	325.3 <sup>c</sup>	9.8	-1.3	35.6	36.1 <sup>d</sup>
Autonomous institutions	170.0	198.6	241.0	364.4 <sup>c</sup>	15.5	16.8	21.3	51.2 <sup>d</sup>
Private sector	173.6	201.9	252.1	356.5 <sup>c</sup>	14.7	16.3	24.9	41.4 <sup>d</sup>
Total (real) <sup>e</sup>	140.5	136.5	121.2	92.6 <sup>c</sup>	4.8	-2.8	-11.2	-23.6 <sup>d</sup>
Public sector	137.7	127.5	117.5	86.5 <sup>c</sup>	2.4	-7.4	-7.8	-26.4 <sup>d</sup>
Central government	143.1	119.6	118.3	84.7 <sup>c</sup>	0.6	-16.4	-1.1	-28.4 <sup>d</sup>
Autonomous institutions	136.2	134.7	119.3	94.9 <sup>c</sup>	5.7	-1.1	-11.4	-20.5 <sup>d</sup>
Private sector	139.1	137.0	124.8	92.8 <sup>c</sup>	5.0	-1.5	-8.9	-25.6 <sup>d</sup>
<b>Minimum wage</b>								
Nominal								
Higher level	133.3	154.4	189.4	...	5.8	15.8	22.7	...
Lower level	176.2	210.4	261.0	465.1	12.0	19.4	24.0	78.2
Real <sup>e</sup>								
Higher level	106.8	104.7	93.7	...	-3.1	-2.0	-10.3	...
Lower level	141.2	142.7	129.2	121.1	2.6	1.1	-9.5	-6.3

Source: ECLA, on the basis of figures supplied by the Costa Rican Ministry of Labour and Social Security.

<sup>a</sup> Preliminary figures.

<sup>b</sup> Estimates based on tabulations of the Costa Rican Social Security Fund.

<sup>c</sup> Estimate based on the increment for the period January-June 1982 with respect to the same period in 1981.

<sup>d</sup> Variation between January-June 1982 with respect to the same period in 1981.

<sup>e</sup> Deflated by the consumer price index for middle and low-income consumers in the San José metropolitan area.

During the second half of 1982, the new authorities put underway a stabilization programme aimed at neutralizing inflationary pressures, promoting the orderly development of the exchange market, resuming the service of the external debt and attenuating the negative effect of the adjustment on economic activity.

Although it would have been premature to expect to see any substantial results of the new fiscal and monetary policies in 1982, some partial indicators show that some improvements in several financial and real variables could be noted towards the end of the year.

#### b) *Fiscal policy*

According to the information available, which covers the period from January to October, the finances of the central government continued to show a budgetary deficit, although it was lower than the deficit for the same period of the preceding year, which had in turn been lower than that of 1980. In relative terms, the deficit decreased from 34% to 19% of total expenditure (see table 17). This was possible because tax revenues had increased more than outlays for current expenditures and capital. Thus, the 1982 fiscal deficit was slightly under 3 000 million colones; although this represents an increase of 20% with respect to 1981, it is far lower than the 5 000 million colones budgeted at the beginning of the year. In real terms, the 1982 deficit was much lower than that of the preceding year.

The financial disequilibrium of the central government was attenuated thanks to a series of measures taken on two fronts. On the one hand, certain changes were made in the tax laws and other temporary measures decided on in 1981 were extended; some of these dealt with income taxes, property taxes and sales taxes and were designed to expand the tax base and increase revenues. These measures, together with the increase in the value in colones of external trade, raised tax revenues by 93%. On the other hand, a restrictive wage and hiring policy was maintained. Consequently, current expenditures increased at a much lower rate (50%), giving rise to a positive savings for the first time since 1977.

Capital expenditures also grew more slowly (53%) than income and inflation. Because of the delay in meeting financial commitments in the exterior, disbursements of loans from private sources and from the Central American Bank for Economic Integration (CABEI) were temporarily interrupted; this caused delays in the execution of certain projects. Subsequently, in keeping with its aim of reducing the fiscal deficit, the Government established certain priorities for resuming work on some of these projects or interrupting others which had not yet been affected.

Among the projects that were deferred or cancelled were the road works in San José —construction of expressways—, the San José-Guapiles-Siquirres highway, and the Boruca road project. After a long delay, work on construction of the southern coastal highway was resumed and the Ventanas-Garita and Corobicí hydroelectric projects and the Miravalles geothermal project were continued.

With regard to the financing of the deficit of the central government, it managed to reduce the pressure on flotation and domestic credit. In nominal terms, domestic financing during the period January-October was less than half what it had been during the preceding year. Towards the end of the year, the central government was faced with certain temporary cash problems; however, instead of restoring to the Central Bank or the forced sale of bonds to the rest of the public sector, as had been

the practice previously, it increased the interest rates on public debt bonds and thus managed to place around 1 500 million colones in the private sector during December.

Table 17

COSTA RICA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of colones					Growth rates			
	1979	1980	1981	1981 <sup>a</sup>	1982 <sup>ab</sup>	1979	1980	1981	1982 <sup>c</sup>
1. Current income	4 344	5 258	7 453	5 131	9 539	5.7	21.0	41.7	85.9
Tax revenues	4 010	4 681	6 933	4 734	9 144	5.5	16.7	48.1	93.2
Direct	993	1 069	1 555	...	...	3.5	7.7	45.5	...
Indirect	1 522	2 060	2 255	...	...	0.9	35.3	9.5	...
On foreign trade	1 495	1 552	3 123	...	...	14.4	3.8	101.2	...
Non-tax revenues	334	577	520	397	395	7.7	72.8	-9.9	-0.5
2. Current expenditures	5 204	6 747	7 938	6 288	9 448	16.3	29.7	17.7	50.3
Wages and salaries	2 488	2 968	3 483	3 097	3 958	15.4	19.3	17.4	27.8
Purchases of non-personal goods and services	318	350	461	391	798	15.2	10.1	31.7	104.1
Other current expenditures	2 398	3 429	3 994	2 800	4 692	17.4	43.0	16.5	67.6
3. Current savings (1 - 2)	-860	-1 489	-485	-1 157	91				
4. Capital expenditures	1 915	2 283	1 973	1 490	2 286	32.6	19.2	-13.6	53.4
Real investments	983	1 086	1 201	822	1 282	65.8	10.5	10.6	56.0
Debt amortization payments	355	380	420	363	519	3.8	7.0	10.5	43.0
Other capital expenditures	577	817	352	305	485	13.4	41.6	-56.9	59.0
5. Total expenditures (2 + 4)	7 119	9 030	9 911	7 778	11 734	20.3	26.8	9.8	50.9
6. Fiscal deficit (or surplus) (1 - 5)	2 775	3 772	2 458	2 647	2 195	53.5	35.9	-34.8	-17.1
7. Financing of deficit									
Domestic financing	2 209	3 125	1 571	2 146	1 024	141.2	41.5	-49.7	-52.3
Central Bank	-10	9	20	...	...	...	...	122.2	...
Issue of securities	1 828	2 979	991	894	286	225.8	63.0	-66.7	-68.0
Other <sup>d</sup>	391	137	560	...	...	31.2	-64.9	308.8	...
External financing	566	647	887	501	1 171	-36.5	14.3	37.1	133.7

Source: ECLA, on the basis of figures supplied by the Central Bank of Costa Rica.

<sup>a</sup>January-October.

<sup>b</sup>Preliminary figures.

<sup>c</sup>Variation January-October 1982 with respect to the same period in 1981.

<sup>d</sup>Includes drafts and commitments, common and special funds and other accounts of the National Treasury.



Table 18

## COSTA RICA: MONETARY POSITION

	Balance at end of year (millions of colones)					Growth rates			
	1979	1980	1981	1981 <sup>a</sup>	1982 <sup>ab</sup>	1979	1980	1981	1982 <sup>c</sup>
<b>Money</b>	6 175	7 104	10 809	9 905	17 399	9.4	15.0	52.2	75.7
Currency outside banks	1 955	2 255	3 501	3 003	4 779	14.7	15.3	55.3	59.1
Demand deposits	4 220	4 849	7 308	6 902	12 620	7.1	14.9	50.7	82.8
<b>Factors of expansion</b>	17 934	19 829	17 184	14 636	30 128	29.6	10.6	-13.3	105.8
Net international reserves <sup>d</sup>	1 003	-1 142	-6 784	-8 476	-2 780	-39.2	...	...	...
Domestic credit	16 931	20 971	23 968	23 112	32 908	38.7	23.9	14.3	42.4
Government (net)	3 957	5 542	6 555	6 368	7 643	119.7	40.0	18.3	20.0
Public institutions	2 334	3 380	4 163	3 780	7 363	51.5	44.8	23.2	94.8
Private sector	10 640	12 049	13 250	12 964	17 902	20.0	13.2	10.0	38.1
<b>Factors of absorption</b>	11 759	12 725	6 375	4 731	12 729	43.4	8.2	-49.9	169.1
Quasi-money (savings and time deposits and bonds)	8 927	10 455	20 574	19 855	31 115	29.1	17.1	96.8	56.7
Long-term foreign borrowing	4 708	4 835	25 468	24 607	31 111	62.8	2.7	426.4	26.4
Other items (net)	-1 876	-2 565	-39 667	-39 731 <sup>e</sup>	-49 497 <sup>e</sup>	13.0	36.7	1 446.5	24.6

Source: ECLA, on the basis of figures supplied by the Central Bank of Costa Rica.

<sup>a</sup>Balances at November.

<sup>b</sup>Preliminary figures.

<sup>c</sup>Variation between the balance as at November 1982 and November 1981.

<sup>d</sup>According to official estimates, accounts in foreign currency were considered at 8.50 colones per dollar in 1979 and 1980, at 36 colones per dollar in 1981 and at 40 colones per dollar in 1982.

<sup>e</sup>Includes adjustments for variations in the rate of exchange.

Thus, it may be said that in 1982 the central government achieved its goal of reducing the pressure on the Central Bank to provide credit and enhance monetary expansion.

In the case of the rest of the public sector, which is very important in Costa Rica because of its impact on the economy and its role in generating the public deficit, it was not possible to mitigate the pressures on domestic credit or to reduce transfers from the fiscal budget, despite the readjustment of fuel prices and utility rates and the increase in social security quotas during the second half of the year, because of the magnitude of the deterioration which had taken place during the first half of the year. In addition, the deficit of the Development Corporation increased greatly because of the difficulties faced by some of its enterprises, especially in the cement, fertilizer and metal manufactures and machinery industries.

Despite the above, it is estimated that in 1982, the global deficit of the public sector went down from 13% to 9% of the GDP.

### c) *Monetary policy*

The monetary variables have been under heavy pressure as a result of the financial disequilibrium of the public sector. These pressures continued for the most part of 1982, giving rise to a rapid and sustained increase of the domestic factors of monetary expansion throughout the first eleven months of the year. This pressure came especially from the credit attracted by decentralized institutions and public enterprises, which grew by 95%, a much higher rate than that of previous years (see table 18). With some variations, net credit to the central government grew at a slower rate (20%) and it is estimated that in this case the annual rate was moderate because of the open-market transactions carried out in December. The balance, as at November, of credit to the private sector increased by 38% with respect to the same month in 1981.

Although this rate of expansion was the highest of the last four years, in real terms there was a new contraction. Beginning with the second half of the year, this variable showed a certain recovery,

which might suggest a slowing of the downward trend of the economy. All in all, domestic credit increased 42%, compared with 14% in 1981. In real terms, credit was reduced by 26% in 1982 and 31% in 1981. At the same time, net international reserves increased for the first time in many years. As a result of these trends, the factors of expansion more than doubled in 1982, after having declined in 1981.

At the end of November, the money supply ( $M_1$ ) had grown by almost 76%. In real terms, however, it shrank for the fourth year in a row. The nearly 8% reduction of 1982 was only slightly lower than that of the previous year. In contrast,  $M_2$  increased by 63% in 1982, whereas in 1981 it had decreased by 5%.

In 1982 the monetary authorities concentrated mainly on reorganizing the exchange situation. With control over foreign exchange now concentrated in the banking system under the management of the Central Bank, the prospects for devaluation changed and there was a surplus in exchange transactions on the bank market. The rates of interest on deposits rose by almost 25% and lending rates rose by over 28%. Although nominal rates had remained heavily negative in real terms during most of the year, their increase seems to have helped normalize exchange transactions and checked the private sector's tendency to place capitals in the exterior; the flow of such foreign placements during the previous two-year period and the first half of 1982 had been of such a magnitude that it had aggravated the external disequilibrium. At the same time, many producers objected to the increase, arguing that the resulting rise of production costs was out of proportion to the increase in the prices of their goods and services. In response to these arguments, the monetary authorities maintained some preferential lines of credit for certain priority activities, especially in agriculture, and towards the end of the year there was a possibility that interest rates might be reduced if inflation continued to slow down. At the same time, the Central Bank had to assume the financial cost of the excess reserves in order that the commercial banks would not cancel or restrict their lending operations.

## CUBA

### 1. Recent economic trends: Introduction and summary

After its extraordinary dynamism of 1981, the Cuban economy showed a relatively slow rate of expansion in 1982. The global social product increased by 2.7%, a rate somewhat lower than that recorded in the 1979-1980 biennium, and the per capita social product showed its slowest growth in the last six years (see table 1).

The growth of economic activity differed in intensity between the combined material production sectors and the productive services sector. While in the former the rate was barely 1%, in the latter it reached nearly 6%.

The loss of momentum of the economy was connected with various factors of domestic and external origin. Thus, during the 1981/1982 growing season the sugar harvest amounted to nearly 7.8 million tons, the second largest in the country's history. However, the effect on the balance of payments of this sizeable increase in the production of the main export commodity was counterbalanced by the serious deterioration in the terms of trade and by the growing burden represented by the servicing of the external debt contracted with the market economy countries. In addition, its impact on material production was partially offset by the less favourable growth of the other productive activities, including that of some crops affected by a very irregular weather cycle.

In the external sector, there was an unprecedented increase in the total volume of exports. The effort made in 1981 to improve the integration of the production of sugar cane and sugar through mechanization and other technological innovations bore fruit in the 1981/1982 harvest, which, as mentioned above, was the highest since that of 1969/1970. The dynamism of external sales was also aided by the increases noted in some traditional export products, such as tobacco (due to the high yield in 1981), citrus fruit and fish, and by the efforts to diversify both the composition of exports and their markets of destination. Moreover, efforts were made to increase the inflow of freely convertible currency through tourism, the provision of transport services and the execution of works in some Third World countries. These activities resulted in a surplus on trade in goods and a slightly smaller positive balance on current account, both of them in convertible currency.

Together with the positive factors referred to, which in normal circumstances would have been able to impart considerable dynamism to the economy, there were others, also of external origin, which in large measure counterbalanced the effects of the first.

The most important of these factors was the spectacular drop in the price of sugar in the international market. It fell to practically half what it had been the preceding year, thus reaching one of its lowest real levels in history. This circumstance was largely responsible for the deterioration in the terms of trade with the market economy countries and in most cases nullified the favourable result represented by the increased volume of sugar exported. Likewise, nearly all the sales of agricultural or mineral commodities were also affected by a drop in international prices. As a result, the terms of trade with the market economy countries fell dramatically (-15.4%). The harm which this caused to the economy was partially attenuated by the system of relatively constant prices established in agreements with the countries in the socialist sphere; however, the terms of trade with the Soviet Union —by far Cuba's main trading partner— also deteriorated. All these factors caused the overall terms of trade to deteriorate more intensely than could have been expected at the beginning of the year.

The second important factor was that the capacity to import, from the market economy countries at least, was sharply restricted by the financial obligations to service the external debt in convertible currency. This phenomenon deserves a short explanation. For a number of reasons, Cuba's trade with the market economy countries as a whole has been weakening despite the effort made to diversify trade relations with these countries geographically. For example, in the period

1970-1975, the share of these markets in Cuba's exports as well as in its imports was 36%. This coefficient fell to around 21% for exports and 24% for imports, between 1976 and 1981. This drop was caused, among other things, by the fact that in the course of one decade a number of countries in the European Economic Community had gradually become net exporters instead of net importers of sugar, partly as a result of the attempts made to increase the production of sugar beet. In addition, other member countries of OECD decreased their purchases of cane sugar in the traditional exporting markets.

Table 1  
CUBA: MAIN ECONOMIC INDICATORS

	1977	1978	1979	1980	1981	1982 <sup>a</sup>
<b>A. Basic economic indicators</b>						
Global social product (millions of 1981 pesos) <sup>b</sup>	16 989	18 180	18 756	19 339	22 203	22 793
Population (millions of inhabitants) <sup>c</sup>	9 541	9 638	9 714	9 718	9 717	9 794
Per capita global social product (1981 pesos)	1 781	1 886	1 931	1 990	2 285	2 327
<b>Growth rates</b>						
<b>B. Short-run economic indicators</b>						
Global social product	5.0	7.0	3.2	3.1	14.8	2.7
Per capita global social product	3.7	5.9	2.4	3.2	14.7	1.8
Terms of trade						
Soviet Union	-	15.1	-4.9	17.6	0.8	-8.2
Market-economy countries	-29.8	-13.7	-3.6	58.9	-16.9	-15.4
Current value of exports of goods						
Total	8.4	17.9	1.7	13.4	6.1	17.3
Sugar	4.0	22.3	0.9	10.4	14.3	9.5
Current value of imports of goods						
Total	8.9	3.2	-0.3	23.3	13.5	7.3
Petroleum and petroleum products	38.7	34.3	16.7	20.5	26.1	...
Average annual wage	-2.5	2.1	2.6	3.1	14.7	3.8
Implementation of State budget						
Current income	...	...	...	2.8	15.0	-10.2
Total expenditure	...	...	...	5.4	20.0	-15.0
Deficit/total expenditure <sup>d</sup>	...	...	0.3	2.6	6.7	1.5
<b>Millions of pesos</b>						
<b>C. External sector</b>						
Trade balance (goods)	-544	-134	-188	-579	-948	-597
Soviet Union	208	168	-143	-576	-809	-459
Other socialist countries	-105	-101	-26	-177	-185	-270
Rest of world	-647	-201	-19	174	46	132
Balance on current account <sup>e</sup>	...	-523	-139	-45	51	265
Balance on capital account <sup>e</sup>	...	484	133	60	-52	-531
Variation in international reserves <sup>e</sup>	...	-39	-6	14	-1	-266
Disbursed external debt <sup>f</sup>	...	...	3 267	3 227	3 170	2 683 <sup>g</sup>

Source: ECLA, on the basis of data supplied by the State Statistical Committee and the National Bank of Cuba and other international statistics.

<sup>a</sup>Preliminary figures.

<sup>b</sup>See footnote <sup>a</sup> of table 4.

<sup>c</sup>Annual average, taking migratory movements into account.

<sup>d</sup>Percentages.

<sup>e</sup>In freely convertible currency. Excludes much of the trade with member countries of the Council for Mutual Economic Assistance (CMEA).

<sup>f</sup>In freely convertible currency. With market-economy countries. Excluding debt with CMEA countries.

<sup>g</sup>Preliminary figure up to August.

Throughout this entire period, part of the equipment, repair work, raw materials and inputs, and even food which Cuba obtains from the exterior came from the market economy area. Some of those supplies were financed by suppliers and credit institutions in the exporting countries, which made it possible for Cuba to maintain (as is usual) reasonable and very stable levels of short-term external indebtedness with regard to both export and import trade. Two events, however—one of which took place in preceding years and the other in 1982—put this financial relationship considerably out of balance. The first of these events was the raising of interest rates and the establishment of different terms by the private international financial centres, which gradually caused a rise in the servicing of the external debt. The other event, which was much more significant in the circumstances which prevailed in 1982, was the decision of international private creditors, all at about the same time, beginning in the last months of 1981, to withdraw their short-term credit support or to diminish it considerably. This circumstance was partially responsible for the fact that, according to preliminary official estimates, Cuba ended the year with a negative balance on its capital account (in the convertible currency balance) of over 530 million pesos (similar to the negative balance in the short-term capital account). As a consequence, in spite of the surplus obtained on the current account the international reserves in convertible currency experienced a severe loss. This loss occurred in spite of the fact that steps had already been taken at the end of 1981 to apply a strict selective policy in external purchases, with priority given to the imports which made it possible to maintain adequate levels in the satisfaction of basic needs and to procure the basic inputs needed for the development of export activities.

In view of the critical situation in the financial relations with its creditors from the market economy countries, in August 1982 Cuba asked that its medium- and short-term external debt be renegotiated. The principal terms it sought in the process of negotiation, which ended around the beginning of the second quarter of 1983, were a) the postponement of the amortization payments which were due to be made in what remained of 1982 and in the period 1983-1985 for 10 years, including a period of grace extending up to the beginning of 1986; and b) the continuation of the interest payments on the whole of the external debt in convertible currency. As for short-term loans and deposits, it asked that a way be found to keep them at the levels at which they had stood before they began to diminish drastically. At the same time, according to official information, Cuba asked that the payment of the debt accumulated with the Soviet Union in recent years and that contracted in the period 1982-1985<sup>1</sup> be postponed to 1986.

In addition to these adverse factors in the external sector, there were others of considerable significance at domestic level. The most important of these was the irregularity of the rainfall, there being heavy rains and also drought. Both phenomena were seriously prejudicial to the production of some export crops as well as to that of some for domestic production, so that it was necessary to have recourse to imports in spite of the austerity policy adopted by the Government.

In addition, the efforts begun in prior years to overcome the problem of low productivity in many branches of economic activity were continued. To this end, important changes were made in the system of economic management, decentralization was embarked upon with a view to its gradual extension, the organization and administration of the State enterprises were improved, so that they could become self-financing, and efforts were made to decrease subsidies.

Within the framework of an austerity expenditure policy, there was continued application of standards designed to stimulate production, rationalize the use of resources and eliminate superfluous expenditure. Although some progress was made in the accomplishment of these objectives, the increase in productivity was very much lower than that achieved in 1981. However, in this regard, an outstanding performance was turned in for the second year running by the sugar sector, whose extraordinary productivity was due partially to the consolidation of the bonus system provided for in the wage reform applied since early in 1981. With regard to savings, there was a notable decrease in national consumption of petroleum products, especially in the sugar cane production cycle.

Finally, in the context of the reforms introduced over the last three years with regard to wholesale prices (1980), wages (1981) and retail prices (which began to be applied at the end of 1981

<sup>1</sup>In 1972 a debt restructuring agreement was signed with the Soviet Union, under which the payments were postponed for a period of grace ending at the beginning of 1986. As of that year, amortization payments would be resumed in 25 equal annual installments, without interest. Finally, in the course of the trade carried out with CMEA, agreement has been reached, in general terms, on financing with a five-year period of grace, to be amortized without interest in a period of from 10 to 12 years.

but whose economic effects became evident in 1982), efforts were made to mitigate the financial imbalance caused the preceding year by the second of those reforms. In 1981 the total income of the population had been higher than its expenditure by about 5%, with the result that money outside banks had increased beyond the potential of the supply of goods to absorb it. In 1982 the money actually in circulation was decreased as a result of the rise in retail prices, the expansion of the supply of goods and services and, to some extent, the development of a parallel market in which a rising proportion of certain products is sold at prices very much higher than those prevailing in the rationed distribution system.

To cope with the worsening in the financial situation, which was already looking difficult at the end of 1981 as a result of the greater domestic and external imbalances, the authorities chose to sacrifice some of the great dynamism achieved in economic activity the preceding year and to reduce the imports from the market economy countries as much as possible. At the same time efforts were made to be more rigorous in the implementation of the budget, partly because in 1981 there had been more of a deficit than envisaged. In 1982 progress was made in relieving the situation, and the imbalance was less than expected in spite of the fact that the outlay for security and defence rose more than usual because of the intensification of extra-economic pressures of international origin.

Similarly, to alleviate the pressure on the capital account, not only was the renegotiation of the external debt described above initiated but also, for the purpose of increasing the overall income of convertible foreign exchange in future, at the beginning of the year some standards were established with the objective of encouraging foreign investment in the country on certain conditions, in the form of "economic associations with foreign entities with market potential, production experience and financial resources complementary to those available on the part of Cuba".<sup>2</sup>

In summary, in 1982 there was a notable decrease in the rate of growth of economic activity. This situation was due to a number of negative factors, of which the most important were the external origin, including the serious worsening of the terms of trade and the changes in the linkages with the creditor institutions in the market economy countries. Consequently, the authorities decided to follow a policy of austerity and selectivity in the use of both external and domestic resources and to some extent to sacrifice the dynamism of the economy. One result of these measures was the substantial decrease in the execution of the investment programmes.

## 2. Trends in economic activity

### a) *Use of the global social product*

As already noted, one of the major obstacles to the economy in 1982 was the imbalance in the global performance of the external variables which had been building up for some time. Thus, in the preceding four years the negative balances on trade in goods and services had been increasing, rising from approximately 1% of the global social product in 1978 and 1979 to 3% and nearly 4% in the following two years. In addition, some variables were also increasing their share in the global social product owing, in part, to the fact that imported articles were becoming more expensive. This was true of intermediate consumption, whose relative share rose from 43% in 1978 to 47.5% in 1981 (see table 2).

The performance of the external variables mentioned above has been having an undoubted impact on the structure of both final consumption and net capital formation, in some cases preventing and in others postponing the fulfilment of some of the objectives provided for in the five-year plan formulated at the beginning of this decade. In view of the external bottleneck, it was necessary to defer some investment projects, but those considered to be of priority were maintained. The latter included, first, those which helped to expand the country's export capacity, and, second, projects such as those in the field of energy, which are vital for the future development of the economy.

<sup>2</sup> This foreign investment arrangement, which was not applied to any specific projects during 1982, basically promotes the establishment of mixed enterprises in the form of limited companies through the issue of bearer shares, "the foreign party being permitted to possess, as a general rule, up to 49% of those shares" (see *Gaceta Oficial de la República de Cuba*, Decree-Law No. 50 on economic association between Cuban and foreign entities, 15 February 1982).

Table 2  
CUBA: USE OF THE GLOBAL SOCIAL PRODUCT

	(Percentages)				
	1978	1979	1980	1981 <sup>a</sup>	1982 <sup>b</sup>
Global social product	100.0	100.0	100.0	100.0	100.0
Intermediate consumption	42.8	43.9	44.9	47.5	...
Final consumption	45.9	47.2	47.0	42.5	...
Consumption of the population	42.3	43.4	43.6	38.8	38.4
Personal consumption	37.5	38.1	37.8	33.8	...
Consumption of organizations serving the population	4.8	5.3	5.8	5.0	...
Consumption of organizations meeting collective needs	3.6	3.8	3.4	3.7	...
Net capital formation	13.5	11.3	11.6	13.8	12.0
Fixed capital	9.2	8.4	8.3	10.6	...
Stocks	4.3	2.9	3.3	3.2	...
Losses	0.1	0.1	0.1	0.2	...
Export minus imports <sup>c</sup>	-0.9	-1.1	-2.9	-3.5	-2.2
Statistical discrepancy	-1.5	-1.4	-0.7	-0.6	...

Source: ECLA, on the basis of figures supplied by the State Statistical Committee and the National Bank of Cuba and other official data.

<sup>a</sup> Preliminary figures.

<sup>b</sup> Estimated by ECLA on the basis of figures contained in the *Informe ante la Asamblea Nacional acerca del cumplimiento del Plan de la Economía Nacional en 1982 y sobre el Proyecto de Plan para 1983, presentado por Humberto Pérez, Presidente de la Junta Central de Planificación, Granma, Havana, 16 January 1983*, and other official data.

<sup>c</sup> Of material goods and productive services.

Although no detailed official information was available on the use of the global social product in 1982, it may be noted that in that year fixed capital formation decreased by approximately 10%. In addition, faced with the obvious weakness of the international sugar market, Cuba found it necessary to maintain high levels of stocks of that commodity. It is probable that this adverse circumstance has to some extent been compensated for by the decrease in the stocks of imported inputs effected because of the shortage of freely convertible foreign exchange.

As regards final consumption, its coefficient with respect to the global social product had already declined in 1981 (from 47% to 43%). However, this did not mean a deterioration in the absolute levels of per capita consumption, because of the unusually large growth in economic activity that year. In spite of the fact that the obstacle represented by the external variables was more in evidence than before, it was decided to maintain the high growth rate of net capital formation, although that rate was lower than envisaged in the five-year plan. In 1982, a number of factors combined to put a stop to the dynamism of the preceding year. In addition to the external agents already mentioned, there were unforeseen natural phenomena, such as the heavy rains and the floods recorded in some parts of the country as well as an intense drought which affected some crops of vital importance in the diet of the population.

Up until 1981, two important food indicators had shown an almost uninterrupted improvement. From 1970 to 1981, the per capita daily consumption of calories rose by nearly 13% to 2 885 units, while that of proteins increased by close to 15%, reaching 76 grams. In 1982, however, as a reflection of the difficult prevailing situation, these two indicators fell by 0.2% and 2.6%, respectively. As may be seen from table 3, the deterioration in consumption reached quite high levels, particularly as regards the consumption of some products such as vegetables (-7%), milk and milk products (-7%), roots and tubers (-6%) and eggs (-4%). This decline was partly offset by the increased consumption of fish (4%), beans (6%) and also rice, whose share in the cereals category grew significantly.

All in all, the total consumption of the population increased slightly (1.6%). This meant that the relative share of foodstuffs in that consumption fell while that of other commodities, including durables, rose. Attention might be attracted by the fact that the consumption of durables with a high

imported content appears to have increased; but nearly all such commodities are purchased in the socialist area under complementarity agreements with the member countries of CMEA and do not require the use of freely convertible currency.

b) *Evolution of the main sectors*

As happened in nearly all the other Latin American countries, the international crisis affected the dynamism of the Cuban economy in 1982, lowering the growth rate from nearly 15% in 1981 to slightly under 3% in 1982. However, in spite of this notable deceleration, the level of the global social product at 1981 constant prices was more than one-third higher in 1981 than five years previously (see table 4 and table 1).

In this five-year period (except in 1981), non-material production increased more rapidly than material production, which continued to represent nearly two-thirds of the total. In 1982, the material product grew by somewhat less than 1%, so that the per capita product remained virtually stagnant, whereas the non-material product rose by more than 6%. This increase was caused by the expansion of communications and, above all, commercial activity, including, in addition to the distribution of local and imported goods, productive and related services and State intermediation of export products, the growth of which was very dynamic in 1982.

As for material production, it showed very uneven quantitative results. On the one hand, construction expanded hardly at all in the context of the policy of austerity and selectivity mentioned above; on the other, nearly all the components of the agricultural sector experienced a pronounced deterioration. Although this trend was to some extent accounted for by the decline in external purchases of essential inputs (fertilizers, animal feed, etc.), the biggest difficulty was due to the floods and the drought, which hindered the work of preparing the land and caring for plantations and sowing crops and the ripening and harvesting of many products.

Table 3

CUBA: INDICATORS OF PER CAPITA CONSUMPTION

	1970	1975	1979	1980	1981	1982 <sup>a</sup>	Growth rates		
							1980	1981	1982 <sup>a</sup>
<b>Foodstuffs</b>									
Calories (units/day)	2 565	2 622	...	2 866	2 885	2 880	...	0.7	-0.2
Proteins (grams/day)	68.4	71.4	...	74.5	78.0	76.0	...	4.7	-2.6
Meat <sup>b</sup>			33.5	36.4	37.5	38.5	8.7	3.0	2.7
Fish <sup>b</sup>			10.6	12.3	14.9	15.4	16.0	21.1	3.4
Milk and milk products <sup>b</sup>			155.8	157.9	160.5	149.5	1.3	1.6	-6.9
Eggs (units)			198.3	232.8	235.7	225.6	17.4	1.2	-4.2
Cereals <sup>b</sup>			103.8	108.9	110.1	107.2	4.9	1.1	-2.6
Fats <sup>b</sup>			16.4	17.3	17.6	17.4	5.5	1.7	-1.1
Vegetables <sup>b</sup>			37.6	52.3	66.7	61.8	39.1	27.5	-7.3
Roots and tubers <sup>b</sup>			75.7	80.4	83.7	78.8	6.2	4.1	-5.9
Fruits <sup>b</sup>			47.6	60.7	62.2	63.0	27.5	2.5	1.3
Beans <sup>b</sup>			10.1	10.7	11.5	12.2	5.9	7.5	6.1
Sugar <sup>b</sup>			49.9	51.7	51.9	51.4	3.6	0.4	-1.0
<b>Industrial products</b>									
Textiles (m <sup>2</sup> )			29.2	30.3	28.9	...	3.8	-4.6	...
Outer clothing (units)			5.2	5.2	4.8	...	-	-7.7	...
Underclothing (units)			6.6	6.8	6.9	...	3.0	1.5	...
Footwear (pairs)			2.1	2.3	2.7	...	9.5	17.4	...
<b>Durable goods<sup>c</sup></b>									
Television sets			...	53	61	67	...	15.1	10.0
Refrigerators			...	29	33	35	...	13.8	6.0
Washing machines			...	24	30	34	...	25.0	12.0
Radios			...	108	112	119	...	3.7	6.0

Source: ECLA, on the basis of figures supplied by the State Statistical Committee.

<sup>a</sup> Preliminary figures.

<sup>b</sup> Kilograms.

<sup>c</sup> Number owned per hundred households, in units.



Table 4

CUBA: GLOBAL SOCIAL PRODUCT BY ECONOMIC SECTORS<sup>a</sup>

	Millions of Cuban pesos at 1981 prices			Percentage breakdown <sup>c</sup>		Growth rates <sup>c</sup>			
	1980	1981	1982 <sup>b</sup>	1980	1982 <sup>b</sup>	1979	1980	1981	1982 <sup>b</sup>
Global social product	19 339	22 203	22 793	100.0	100.0	3.2	3.1	14.8	2.7
Total material product	12 812	14 890	15 022	66.3	65.9	1.8	1.0	16.2	0.9
Agriculture	3 354	3 769	3 613	17.3	15.9	1.9	1.1	12.4	-4.1
Sugar-cane agriculture	973	1 121	1 024	5.0	4.5	3.4 <sup>d</sup>	-2.6 <sup>d</sup>	15.3	-9.1
Non-sugar-cane agriculture	744	910	844	3.9	3.6	3.0 <sup>d</sup>	6.3 <sup>d</sup>	22.3	-7.2
Stock-raising	1 355	1 415	1 389	7.0	6.1	10.2 <sup>d</sup>	6.3 <sup>d</sup>	4.5	-1.8
Agricultural services	26	35	33	0.1	0.2	6.3 <sup>d</sup>	29.8 <sup>d</sup>	33.2	-4.6
Forestry	69	80	83	0.4	0.4	-8.0	-0.7	16.4	3.9
Fishing	188	208	240	0.9	1.1	-9.1	28.2	10.7	15.2
Industrial	7 960	9 359	9 639	41.2	42.2	2.1	2.1	17.6	3.0
Electrical energy	390	452	490	2.0	2.1	16.4 <sup>d</sup>	15.2 <sup>d</sup>	16.0	8.3
Mining and metallurgy	222	245	246	1.1	1.1	1.8 <sup>d</sup>	8.2 <sup>d</sup>	10.4	0.6
Manufacturing	7 349	8 662	8 903	38.1	39.0	4.6 <sup>d</sup>	1.6 <sup>d</sup>	17.9	2.8
Construction	1 498	1 762	1 769	7.8	7.8	0.8	-2.2	17.6	0.4
Non-material product	6 527	7 313	7 772	33.7	34.1	6.2	7.6	12.0	6.3
Transport	1 377	1 623	1 597	7.1	7.0	5.4	9.8	17.9	-1.6
Communications	158	172	187	0.8	0.8	17.8	11.3	9.0	9.0
Commerce	4 912	5 409	5 866	25.4	25.7	5.8	6.9	10.1	8.5
Other productive activities	80	109	120	0.4	0.6	26.8	4.9	36.0	11.0

Source: ECLA, on the basis of figures supplied by the State Statistical Committee.

<sup>a</sup>The global social product is equivalent to the value of the gross production. According to official sources "the basic criterion for recognizing the gross production and ascribing it to a given sector, branch and sub-branch is the nature of the basic activities carried out by the enterprise, establishment or department with an independent balance in which the economic activity is carried out" (see State Statistical Committee, *Bases metodológicas del Sistema de Balances de la Economía Nacional*, Havana, November 1981, p. 9.) Consequently, the information contained in this table does not relate solely to sectors and branches of origin; the classification adopted records not only the main production of the entrepreneurial units but also the secondary production carried out in those units, whether or not it corresponds, by origin, to the same branch of activity. If a system of classification based strictly on sectors of origin were adopted (in accordance with the criterion adopted by United Nations in the ISIC), the conclusions at sectoral and branch level would be different. Thus, the data on the agricultural sector include secondary production of industry and construction not computed in these sectors. Nevertheless, these differences are cancelled out in the total material product.

<sup>b</sup>The percentage breakdown and the growth rates correspond to real, rather than rounded-off, figures.

<sup>c</sup>Preliminary figures.

<sup>d</sup>At 1965 prices.

Finally, the industrial product grew by 3% after having grown very markedly the preceding year. The most dynamic sector, once again, was the generation of electricity, which expanded by over 8%, thereby marking an increase of 70% over the past four years (see table 4). On the other hand, many branches of manufacturing were affected by the decline in the stocks of imported inputs.

i) *The agricultural sector.* As already noted, the result of the global activity of the agricultural sector contrasted with that obtained the preceding year. Whereas in 1981 it had shown great dynamism, primarily due to the impact of the increase in basic export crops, in 1982 it declined by 4% because many of the items decreased abruptly, affecting global levels of production and consumption of some basic foodstuffs.

The most severely affected was the product of sugar-cane agriculture, which fell by over 9%, after having risen more than 15% in 1981 as a consequence of the big outlays made to maintain and refurbish the plantations and to combat the disease which had been undermining the crop for some time. This meant that the increase in the production effort was greater in 1981 than normally and the decline in 1982 was all the more marked, as also in the tobacco sector, which was hard hit by one of the storms which ravaged the main tobacco-growing area, with the result that production was barely above that of the mid-1970s.

As for the production of citrus fruit, it again showed a considerable increase thanks to the effort made to expand its cultivation with a view to increasing exports.

A rise was also recorded in the production of coffee (a commodity where the policy of replanting and caring for the plantations is beginning to produce benefits), cocoa, which is still of comparatively little importance, and henequen, which had declined during the preceding biennium.

On the other hand, livestock raising suffered an overall decline of 2%, with very uneven results in its components. Thus, there was a decline in the slaughtering of cattle and in the number of chickens killed, which was very marked in the latter case. Indeed, egg production, which rose by more than 8%, was the only leading commodity which has expanded uninterruptedly over the past four years, under the stimulus of a sustained policy to promote this activity. In spite of the fact that similar efforts have been made in connection with the production of milk and poultry meat for years past, the results have been quite patchy (see table 5).

The effect of the drop in the slaughtering of cattle and poultry on consumption was partly compensated for by the increase in the slaughtering of swine and in the fish catch. However, according to official estimates, the increase in the slaughter of swine recorded in 1982 was obtained at the cost of reducing stocks.

Finally, as regards agricultural policy, apart from those aspects of a general nature relating to the application of standards of economic management and financial reorganization, the intensification of the formation of agriculture co-operatives for small producers is most noteworthy.<sup>3</sup>

ii) *The fishery sector.* In the 1980s great impetus was given to fishery activity. From the beginning the aim of this policy was two-fold: to help to raise the level of satisfaction of one of the basic needs of the population (food), which meant changing its consumption habits away from its preference for "red meat", and to increase foreign exchange earnings, especially through the sale of shrimps.

The efforts made to expand the fishing fleet and fishery activity achieved their best results in 1978, when the catch was double that of 1970. However, subsequently the limitations imposed by the provisions that maritime sovereignty extended up to a distance of 200 miles from a country's coast made themselves felt.

Following the slackening off of the sector in subsequent years, in 1982, thanks to intergovernmental agreements and the reorganization of the activity, a 19% increase in the total gross catch was achieved.<sup>4</sup> In addition, the capacity to produce fishing vessels (of medium and shallow draught) continued to be enlarged with a view not only to import substitution but to exporting in the future.

iii) *Mining and metallurgy.* According to official data, the product of this sector, after rising at an average rate of over 9% in the preceding two years, increased by only 0.6% in 1982 (see table 4). However, in the course of the year the still relatively limited programme to expand the production of the ferrous metallurgy branch was intensified.<sup>5</sup>

Nickel (the leading export product, whose rapid growth was the basic cause of the expansion of the mining sector in the 1980-1981 biennium) was given preferential treatment when the order of priority of the investment projects was set. Because of the great importance which is attached to the development of activities with export potential, further progress was made in the implementation of projects designed to enlarge the capacity to produce this mineral, which are scheduled for completion in the middle of the present decade.<sup>6</sup>

iv) *Manufacturing.* In 1982, the volume of sugar produced was 8.2 million tons —the second highest in the history of Cuba and close to 11% higher than that of the preceding year. This increase was due, in turn, to a generalized improvement in the yield of the sugar sector (see table 6). The effort made to rationalize the organization of both the harvesting and the industrial processing of sugar, the

<sup>3</sup>Up until 1976 only 28 co-operatives had been established; in the three-year period 1977-1979, 697 were created; in the biennium 1980-1981, 403 were formed, and finally, in 1982, 288 were established. The 1 416 co-operatives integrated by the end of that year had 55 000 members and covered 600 000 hectares, an area equivalent to close to 40% of the land owned by small producers.

<sup>4</sup>According to sources of the State Statistical Committee, the total catch evolved as follows: 1970, 106.4 tons; 1975, 143.5 tons; 1978, 213.1 tons; 1980, 186.0 tons and 1982, 195.0 tons.

<sup>5</sup>Covering, *inter alia*, the production of steel bars and some cast-iron parts.

<sup>6</sup>These projects include the enlargement of the plant at Nicaro and the completion of that at Punta Gorda.

Table 5

## CUBA: INDICATORS OF AGRICULTURAL PRODUCTION

	1970	1975	1980	1981	1982 <sup>a</sup>	Growth rates <sup>b</sup>			
						1979	1980	1981	1982 <sup>a</sup>
<b>Crop production<sup>c</sup></b>									
Grains									
Rice	366	447	478	461	520	-7.1	12.4	-3.5	12.8
Maize	15	20	24	23	21	1.9	41.7	-3.7	-5.3
Beans	3	3	10	8	13	1.8	123.7	-14.3	59.3
Vegetables									
Tomatoes	53	169	207	312	222	17.5	26.2	50.7	-28.9
Onions	6	9	10	16	15	21.9	-4.0	68.7	-7.5
Peppers	-	21	45	34	36	0.4	45.5	-24.0	4.8
Roots and tubers									
Potatoes	77	121	239	273	257	1.3	19.2	14.0	-5.6
Boniato	19	82	228	202	177	46.0	141.1	-11.6	-12.4
Malanga	9	30	161	99	45	-9.8	-17.7	-38.4	-54.3
Fruits									
Citrus fruits	93	170	444	474	529	1.0	55.9	6.7	11.7
Oranges	69	121	298	260	338	-0.3	61.0	-12.6	29.9
Lemons	5	12	25	30	41	46.4	29.6	20.5	35.2
Grape fruit	...	23	84	146	127	-	72.9	74.1	-13.0
Bananas	73	183	233	261	271	-6.8	1.1	11.7	3.7
Mangoes	3	33	59	50	55	245.8	-10.2	-15.9	10.9
Guavas	6	18	46	41	43	30.6	10.3	-9.8	3.6
Tobacco	32	42	8	55	45	-20.4	-74.8	564.5	-17.8
Coffee	20	20	24	23	29	73.4	-7.5	-4.2	26.1
Cocoa	1	1	1	1	3	21.3	-45.4	5.5	123.8
Fibre crops									
Kenaf	1	21	10	16	16	39.6	-35.6	61.9	-4.3
Henequen	215	276	206	133	229	3.4	-6.0	-35.3	71.7
Cultivated pasture fodder	36	39	43	43	...	3.6	0.8	0.9	...
Livestock									
Stocks									
Milk cows <sup>d</sup>	309	359	398	410	414	-0.6	3.2	3.2	1.0
Swine <sup>d</sup>	280	599	765	840	831	2.3	7.1	9.8	-1.0
Poultry <sup>e</sup>	13	18	25	24	...	11.1	-1.0	-2.5	...
Animals slaughtered <sup>f</sup>									
Cattle			293	304	300	-7.0	4.9	3.8	-1.3
Swine	16	43	58	68	70	-1.8	-4.7	18.3	2.7
Poultry	...	57	91	103	76	4.5	13.5	13.1	-26.1
Other production									
Milk <sup>g</sup>	380	591	889	926	926	1.0	12.4	4.3	-
Eggs <sup>h</sup>	1 361	1 646	2 050	2 066	2 247	4.9	14.4	0.8	8.5
Honey <sup>i</sup>	5	6	7	9	10	-8.8	12.1	20.3	13.8

Source: ECLA, on the basis of figures supplied by the State Statistical Committee.

<sup>a</sup> Preliminary figures.

<sup>b</sup> The growth rates correspond to real, rather than rounded-off, figures.

<sup>c</sup> Thousands of tons, except for henequen, which is expressed in millions of units.

<sup>d</sup> Thousands of head.

<sup>e</sup> Millions of units, final stocks.

<sup>f</sup> Thousands of tons.

<sup>g</sup> Tons.

<sup>h</sup> Millions of units.

saving on inputs (which in the case of fuel was very great), the achievement of greater mechanization, the employment of modern techniques and the use of less labour were notable features which helped to secure this increase in productivity.

The global indicators of manufacturing production clearly show the great dynamism of the activity of the sector in the past decade, culminating in 1981 with an increase close to 18%, which is practically unprecedented in the period since the revolution. That result was due primarily to the fact that a number of investment projects reached maturity, with the entry into operation of some plants, the consolidation of big efforts to rationalize and centralize administration and at the same time to effect regional decentralization, and the application of incentives to production through the systems of awards provided for in the general wage reform. This latter policy bore fruit in 1981, and the productivity per worker showed a similarly unprecedented increase.

This promising picture changed in 1982 with the emergence of a number of problems which, although they had been forming and growing for some time, took on greater dimensions in that year. When things became more difficult, the authorities decided to introduce some changes in the implementation of the economic policy, such as the establishment of an order of priority for the application of the various measures, with the aim of using the available convertible currency as rationally as possible. The intensification of this basic orientation of the economic policy made it necessary to decide to sacrifice to some extent the growth of some activities closely related to manufacturing, since many of them were heavily dependent on inputs imported from countries in which purchases can be made only with convertible currency. The immediate effect of this policy was a generalized deceleration of the growth rate of manufacturing activity and even a decrease in absolute terms of the production of some branches (see table 7).

Two factors for which the shortage of foreign currency was responsible affected the growth rate of manufacturing in 1982. The first was the difficulty of replenishing the stocks of raw materials, which had visibly decreased in 1981 owing to the great dynamism shown by production. In many branches activity also had to be reduced because of some delay in the supply of raw materials from the exterior, especially from the market-economy countries. The second factor, which is very closely related to the first one, was the abnormal supply of the repairs and spare parts needed to maintain the production equipment from those countries. Industry was therefore the victim of a problem which, although it had been present since the beginning of the economic blockade in the 1960s, had been partially surmounted in recent years thanks to the timely support received from various governments and suppliers.

Table 6

CUBA: BASIC INDICATORS OF THE SUGAR INDUSTRY

	Production (thousands of tons) <sup>a</sup>		Industrial yield base 96 <sup>o</sup> (percentage)	Days		Sugar cane milled per day (tons)	
	Sugar cane milled	Raw sugar (base 96 <sup>o</sup> )		Nominal harvest	Actual	Nominal harvest	Actual
1960	47 492	5 943	12.51	103	88	466 289	542 344
1965	50 687	6 156	12.15	130	105	388 449	482 050
1970	79 678	8 538	10.71	217	143	367 442	557 818
1975	50 770	6 314	12.44	123	99	413 747	513 521
1976	51 999	6 156	11.84	130	99	399 088	526 922
1977	56 149	6 485	11.55	141	104	395 774	542 951
1978	67 043	7 351	10.96	168	119	400 087	563 198
1979	73 050	7 992	10.94	182	128	402 320	571 424
1980	61 600	6 665	10.82	149	109	412 663	565 775
1981	66 408	7 359	11.08	136	114	489 100	580 300
1982 <sup>b</sup>	73 500	8 210	11.17	152	124	484 600	594 100

Source: 1960-1970: Central Planning Board, Statistical Bureau, *Boletín Estadístico*, 1970; 1975-1981: *Anuario Estadístico de Cuba*, 1981, and 1982: data provided by the State Statistical Committee.

<sup>a</sup>Harvest year.

<sup>b</sup>Preliminary figures.

Table 7

## CUBA: INDICATORS OF MANUFACTURING PRODUCTION

	1979	1980	1981	1982 <sup>a</sup>	Growth rates <sup>b</sup>			
					1979	1980	1981	1982 <sup>a</sup>
<b>Material product index</b> (1975 = 100)								
Total <sup>c</sup>	116.4	118.2	138.4	142.2	4.6	1.6	17.9	2.8
<b>Non durable consumer goods industry</b>								
Foodstuffs (excluding sugar)	112.6	120.2	137.4	142.2	5.4	6.8	14.2	3.5
Sugar and sugar products	131.3	121.6	141.1	145.7	4.5	-7.4	16.1	3.2
Beverages and tobacco	117.5	117.0	142.6	161.9	7.3	-0.4	21.7	13.6
Ready-made clothing	149.3	143.1	171.7	165.9	12.5	-4.1	20.1	-3.4
Printed matter	122.5	129.3	153.7	119.2	6.2	5.6	18.9	-22.5
<b>Intermediate goods industry<sup>c</sup></b>								
Textiles	85.6	101.0	113.7	113.8	-7.3	18.0	12.6	0.1
Chemicals	99.2	100.1	124.9	103.5	3.1	0.9	24.8	-17.1
Fuels	98.8	96.7	100.3	102.0	0.2	-2.1	3.7	1.7
Construction materials	115.2	117.7	133.3	122.8	0.2	2.1	13.3	-7.9
<b>Consumer durables and capital goods industry</b>								
Construction of non-electrical machinery	162.3	172.2	215.8	234.9	9.3	6.1	24.8	8.8
Electrotechnical and electronic goods	95.9	93.6	123.9	110.6	10.7	-2.5	33.4	-10.7
Metal products	137.0	130.9	150.2	165.3	12.5	-4.5	14.8	10.1
<b>Other manufactures<sup>d</sup></b>								
Other manufactures <sup>d</sup>	107.9	116.4	142.9	144.8	-3.9	7.8	23.7	1.3
<b>Consumption of electricity by industry<sup>e</sup></b>								
First quarter	...	3 003	3 590	3 641	...	...	19.6	1.4
Second quarter	...	698	849	932	...	...	21.6	9.8
Third quarter	...	790	909	972	...	...	15.1	6.9
Fourth quarter	...	745	902	888	...	...	21.0	-1.6
Fourth quarter	...	770	930	849	...	...	16.4	-8.7

Source: ECLA, on the basis of figures supplied by the State Statistical Committee.

<sup>a</sup> Preliminary figures.

<sup>b</sup> The growth rates were calculated on the basis of real, rather than rounded-off, figures.

<sup>c</sup> Excluding basic metals.

<sup>d</sup> Including, *inter alia*, the leather, glass and pottery, paper and pulp and forestry and timber processing industries.

<sup>e</sup> GWh.

In addition, only a few investment projects entered production in 1982, in sharp contrast with the situation in 1981 when the manufacturing sector operated at close to full capacity. In these circumstances, and because less of the installed capacity was used, the sector's overall growth was not very significant. However, this result was also related to the external imbalance, since the paralysation of some investment projects or the deceleration in the rate at which others progressed was, in the last analysis, due to the limitation on external financial resources already noted.

Altogether, manufacturing production grew at a rate of not quite 3% in 1982, compared with 18% the preceding year. To judge by the growth of the consumption of electricity by industry, which, after expanding rapidly in the first half of the year, contracted violently in the second half, the growth rate of manufacturing production probably also followed a downward trend over the year (see table 7).

The loss of dynamism was due to a big decline in the intermediate goods industry (-8%), which in turn reflected the sharp drop (-17%) in the output of the chemicals industry. The two other major categories (non-durable consumer goods and durable and capital goods) grew by close to 6% after showing extraordinary growth in 1981. To a large extent this result is explained by the

implementation of a policy aimed at the mechanization of the agricultural sector, the development of construction, and an increase in the assembly of transport equipment as well as the manufacture of fishing boats in the country.<sup>7</sup>

An increase was also shown, *inter alia*, by the assembly of parts and components imported from the CMEA area and by the production of certain mass-consumption equipment. On the whole, however, this branch decreased considerably, since the deceleration of the growth rate of the production of those activities which depended on raw materials imported from the market economy countries nullified the positive impact of the other activities.

The big contraction in the intermediate goods industry was partially attributable to the deterioration in the chemicals branch mentioned above and to that in the manufacture of construction materials. The latter deterioration was largely due to the drop in the production of grey cement (-4%) and concrete reinforcing rods (-16%).

On the other hand, the increase of 6% in the production of non-durable consumer goods was partly due to the fact that the economic policy continued to put priority on activities closely linked to the satisfaction of basic needs, such as the production of foodstuffs, and to the production of export commodities such as tobacco and alcoholic beverages, the former (excluding sugar) growing by 4% and the latter by 14%.

In the food industry, a large share of the increase was achieved thanks to the rises obtained in categories such as the processing of rice (11%), tinned meat (62%), wheat flour (6%) and butter (4%). Conversely, the production of liquid milk was seriously affected by the decrease in the importation of powdered milk from the market economy countries, which could not be totally compensated for by the increase in that coming from the socialist sphere, so that it was 3% lower than in 1981.

In spite of its importance, ready-made clothing felt the effects of the shortage of imported inputs, which caused its production to decline by 3%. In addition, the lack of leather from the exterior was responsible for a 5% decline in the manufacture of footwear, which was to some extent offset by the increase of 194% in the manufacture of artificial leather shoes, whose main input came from the socialist area. The same limitation caused a decline in the production of other branches, such as that of printed matter (-22%).

v) *Construction*. Construction stagnated in 1982 following the great dynamism observed the preceding year. If secondary production is taken into account, it grew by 0.4%, but analysis of the variation in the main activity alone shows a decline of 0.7% (see tables 4 and 8).

The stagnation of the sector had a number of causes, including the big deceleration in the rate of investment, the drop in the availability of convertible currency, and a number of internal difficulties which particularly affected some of the branches producing materials.

Total investments fell by 10% with respect to those of 1981 as a result of the strict programme in which priority was given to works whose execution was guaranteed, for technical, administrative or financial reasons. Preference was also given to some industrial investments, maritime works and the completion of dwellings, and the supply of maintenance materials was in general facilitated. A strictly selective criterion was also applied in the initiation of new works.

In spite of the drop in investment, 1982 marked the completion of some industrial works, including a plant manufacturing lubricants in Santiago de Cuba, an animal feed factory in Cienfuegos, a citrus fruit combine in Jagüey Grande (Matanzas), and a mineral water bottling plant in Pinar del Río. In addition, works such as Unit No. 8 of the Mariel Thermoelectric Power Station and a citrus fruit canning factory in Santiago de Cuba entered into their final phase. Similarly, and in spite of the difficulties referred to, impetus continued to be given to the construction of infrastructure for the social sectors. Among the works completed by enterprises of the Ministry of Construction were 22 educational centres, 2 hospitals, 9 intensive care units, 8 polyclinics and 2 homes for the physically handicapped, while in addition a surgical hospital began to function in Havana.

Finally, the increase in building maintenance was reflected in a big rise in the sale to the population of building materials such as cement, wood, textured steel bars, sanitary appliances and electric cable. This liberalization resulted partly from the fact that, as a consequence of the application

<sup>7</sup>The production of fishing boats rose by one-third; that of railway cars more than doubled; the assembly of buses increased by 12%, and the production of lifting gear grew by 29%.

Table 8

## CUBA: INDICATORS OF CONSTRUCTION

	Gross production (thousands of Cuban pesos at 1981 prices)			Percentage breakdown <sup>b</sup>			Growth rates <sup>b</sup>			
	1980	1981	1982 <sup>a</sup>	1970	1980	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>a</sup>
<b>Index of construction and erection (1975 = 100)</b>	<b>1 423</b>	<b>1 622</b>	<b>1 610</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>0.1</b>	<b>-0.1</b>	<b>13.9</b>	<b>-0.7</b>
Agriculture	63	58	21	9.6	4.5	1.3	-5.6	-6.5	-8.5	-64.5
Housing and urbanization	116	165	123	5.0	8.1	7.6	-4.5	-2.3	42.1	-25.3
Education	107	67	39	2.3	7.6	2.4	-19.0	-20.9	-38.0	-41.4
Industry	326	348	308	15.2	22.9	19.1	5.4	0.4	7.0	-11.5
Water resources	112	102	70	10.7	7.9	4.3	-10.6	-4.7	-9.0	-31.5
Highways (excluding railways)	114	145	143	13.4	8.0	8.9	-3.4	14.5	27.1	-1.9
Railways	62	49	39	0.4	4.4	2.4	-8.8	39.9	-21.6	-20.5
Hydrological works	27	27	24	1.9	1.9	1.5	-6.2	20.9	1.1	-10.3
Maritime facilities	30	36	43	0.9	2.1	2.7	-9.3	11.8	20.5	17.8
Others	465	624	801	40.6	32.6	49.8	14.1	5.5	34.2	28.3
Electricity systems	23	16	16	1.9	1.6	1.1	8.5	4.6	-29.8	2.7
Communications networks	6	17	14	-	0.4	0.9	436.4	-	181.3	-23.7
Maintenance	148	196	230	22.4	10.4	14.3	15.2	24.8	32.5	17.6
Other buildings	180	255	383	16.3	12.6	23.8	12.7	-12.4	41.6	50.1
Other production marketed	108	140	156	-	7.6	9.7	11.5	16.2	29.7	11.4
<b>Production of some selected building materials</b>										
Textured steel bars <sup>e</sup>	260	275	207				7.1	-17.0	5.7	-24.8
Steel bars <sup>e</sup>	248	285	252				15.3	-18.2	15.0	-11.8
Gray cement <sup>e</sup>	2 831	3 292	3 163				-3.6	8.7	16.3	-3.9
Prefabricated concrete products	737	778	754				-1.2	-16.5	5.6	-3.1
Clay bricks <sup>f</sup>	109	113	116				-0.3	-5.7	3.9	2.5
Tiles <sup>f</sup>	67	66	50				30.2	13.4	-1.8	-24.8
Sheet glass <sup>g</sup>	189	88	284				-12.4	-35.6	-53.2	220.8

Source: ECLA, on the basis of data from the State Statistical Committee.

<sup>a</sup>The percentage breakdown and growth rates are based on real, rather than rounded-off, figures.

<sup>b</sup>Preliminary figures.

<sup>c</sup>Thousands of tons.

<sup>d</sup>Thousands of cubic metres.

<sup>e</sup>Millions of units.

<sup>f</sup>Thousands of square metres.

of the wage reform of 1981, there was a considerable rise in the surplus money outside banks,<sup>8</sup> which made it possible to make better repairs and to extend private dwellings, basically through the expenditure of personal effort.

vi) *Electrical energy.* The generation of electrical energy was the branch in the industrial area which grew the most, although the measures taken to rationalize the use of this type of energy relieved the pressure on its generation, which grew at a lower rate than had been observed in the last few years (see tables 4 and 9). This fact made it possible to decrease the growth rate of the consumption of oil, an imported input with a large share in foreign trade.

During the year the new substations of the high voltage power lines (110 to 220 kV) at Cienfuegos, Jatibónico and Jagüey Grande, and the Violeta, Uruguay and Antonio Guiteras power stations went into operation. Thus it was possible to extend the network to the sugar cane areas and at the same time to facilitate irrigation in the citrus orchards.

<sup>8</sup>According to official sources, this surplus amounted to 140 million pesos that year, equivalent to 5.5% of the total income of the population and to 5.8% of its expenditure.

### 3. The external sector

In 1980, and even more so in 1981, the imbalance in the performance of the external sector variables of the Cuban economy intensified. Certain longstanding sources of rigidity, such as the negative effects of the economic blockade imposed on the country two decades ago (which were accentuated in 1982) and the great dependence of export earnings on sugar, re-emerged. In addition, a large number of new obstacles arose, some of the most important of which were the deterioration in the terms of trade with the market economy countries, the increasing rigidity in obtaining financing from those countries, and finally, the increase in extra-economic tensions, which began to be especially severe from early 1981 onwards.

The external sector was thus confronted by a number of difficulties, although there were some positive factors, such as the upward trend in the volume of exports (chiefly due to the physical expansion of sugar sales) and the improvement of the mechanisms for integration with the member countries of CMEA. In addition, thanks to the notable economic growth, in 1981 the levels of consumption of the population and of capital formation were maintained and even increased. At that time, the external financial imbalance had not greatly diminished the economic growth rate.

In 1982 not only were these adverse effects intensified, but they were also made worse by the much more rigid behaviour of the financial centres in the market economy countries. Between October 1981 and mid-1982, the country was forced to honour financial commitments occasioning a net outflow of capital of nearly 500 million Cuban pesos, because of the decrease in the short-term financial support which had traditionally been granted to the country by those financial centres. This change in the pattern of financial relations over a relatively short lapse of time came on the heels of the negative effects produced in past years by the generalized rise in interest rates in international financial markets and the changes in other conditions connected with the granting of loans.

In addition, there was a further fall in 1982 in the price of sugar, which had begun to drop sharply in the world market at the beginning of 1981. This occurrence had a particularly grave effect on the foreign trade results. There was a reduction in the income which had been expected from exports, and this, together with the increase in debt servicing and the negative balance on the capital account, had a share in the dramatic decline in the level of the international reserves in convertible

Table 9

#### CUBA: ELECTRICITY INDICATORS

	GWh					Growth rates <sup>b</sup>			
	1970	1975	1980	1981	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>a</sup>
Gross generation	4 888	6 583	9 895	10 574	11 016	10.9	5.2	6.9	4.2
Ministry of the Electricity Industry	3 609	5 413	8 679	9 204	...	12.7	7.4	6.0	...
Ministry of the Sugar Industry	881	756	954	982	...	0.3	-0.4	3.0	...
Enterprises producing nickel	237	239	170	266	...	5.1	-30.8	57.0	...
Other producers	160	175	92	121	...	-1.8	-20.4	31.5	...
Consumption <sup>c</sup>	4 048 <sup>d</sup>	5 404	7 330	7 763	8 045	14.7	10.8	5.9	3.6
Industrial	1 829 <sup>d</sup>	2 477	3 003	3 590	3 640	17.4	9.7	19.6	1.4
Agricultural	37 <sup>d</sup>	204	312	238	217	4.0	30.0	-23.7	-8.9
Commercial	1 100 <sup>d</sup>	1 277	1 851	1 827	1 886	15.6	14.0	-1.3	3.2
Residential	1 019 <sup>d</sup>	1 343	2 087	2 009	2 195	12.2	7.5	-3.7	9.3
Other	63 <sup>d</sup>	103	77	99	107	1.1	6.6	28.6	7.7

Source: ECLA, on the basis of figures from the State Statistical Committee.

<sup>a</sup>The growth rates are based on real, rather than rounded-off figures.

<sup>b</sup>Preliminary figures.

<sup>c</sup>Excluding the consumption of the Ministry of the Sugar Industry, the nickel producing enterprises, and that corresponding to "other producers".

<sup>d</sup>Corresponds to the year 1971.



Table 10

## CUBA: PRODUCTION, EXPORTS AND EXPORT PRICES OF SUGAR

	Thousands of tons		US cents per pound	
	Sugar production <sup>a</sup>	Sugar exports	Price paid by the Soviet Union	Price on the world market <sup>b</sup>
1970	7 559	6 906	5.94	3.68
1971	5 763	5 511	6.41	4.50
1972	4 541	4 140	6.45	7.27
1973	5 188	4 797	11.82	9.45
1974	5 701	5 491	19.30	29.66
1975	6 193	5 744	26.36	20.37
1976	5 918	5 764	27.43	11.51
1977	6 705	6 238	26.94	8.10
1978	7 427	7 197	36.71	7.82
1979	7 515	7 199	37.17	9.65
1980	6 554	6 170	42.61	28.15
1981	7 647	7 055	36.30	16.88
1982 <sup>c</sup>	7 778	7 727	33.60	8.38

Source: ECLA, on the basis of figures from the *Anuario Estadístico de Cuba*, (various issues); the State Statistical Committee, the Statistical Yearbook of the Soviet Union and other International data.

<sup>a</sup> Calendar year.

<sup>b</sup> International Sugar Agreement prices.

<sup>c</sup> Preliminary figures.

currency. In these circumstances, at the beginning of the second half of 1982 the authorities decided to renegotiate the external debt in convertible currency. At the same time, they decided to continue strictly honouring their short-term undertakings and paying the interest on the medium and long-term debt, while, on the other hand, suspending amortization payments on the latter debt.

a) *Trade in goods*

i) *Exports.* External sales of sugar, the main export commodity, were influenced by two phenomena with opposite effects. On the one hand, the volume exported rose considerably as a consequence of the good harvest of the 1981/1982 growing season and the use of some of the stocks which had been accumulated in previous years. However, from the end of 1981 and in much of 1982 the prices of this commodity experienced a very severe deterioration on the world market. In actual fact, the average quotation fell by half, dropping from 16.88 US cents a pound in 1981 to 8.38 cents in 1982.<sup>9</sup> In contrast, the price paid by the Soviet Union, which is regulated every five years in order to avoid substantial changes in the terms of trade, was 305% higher than that which prevailed in the world market in 1982, after having exceeded it by 115% in 1981 and by 50% in 1980 (see table 10). This growing gap was, however, exclusively due to the abrupt decline in the quotation in the market economy countries. Expressed in US cents per pound, the price declined from 42.6 cents in 1980 to 36.3 cents in 1981 and to 33.6 cents in 1982. Thus, in spite of the favourable quotation obtained in trade with the socialist countries (primarily with the Soviet Union), the deterioration in the export prices of sugar was, in any case, considerable in 1982.

The marketing of sugar was also affected by other factors which were somewhat removed from the economic situation and were a consequence of tendencies observed over several periods in the past which in actual fact kept the physical expansion of the sales from being even greater in 1982. Thus, as already noted, the countries of the European Economic Community, which were once overall net importers of this commodity, became net exporters some years ago, thanks to the great advance made in some of them by the production of beet sugar. For the same reason, other developed

<sup>9</sup> Although this indicator does not exactly reflect the trend followed by the price actually received by Cuba in sales to the market economy countries (because in some cases agreements with different figures are in effect), it still comes fairly close to reality, since these agreements usually deviate very little from this indicator.

countries, such as Japan, have gradually diminished their imports. In these circumstances, all the efforts made by Cuba to diversify by exporting to other countries and areas in the developing world have in recent years come up against the problem of the gradual increase in the total supply of sugar in the world, which has pretty much paralleled the rise in Cuba's production.

Thus, there was a tendency for the main impediment for the Cuban economy —the scarcity of freely convertible currency— to grow more severe, since most of this currency is obtained from trade with the market economy countries, which are precisely those countries where sales of Cuban sugar are declining in current value terms<sup>10</sup> (see table 11).

Even though no official detailed data are available concerning the trend in overall exports of goods in 1982, it is estimated that their current value grew by somewhat more than 17%, with that of exports to the socialist countries rising by more than 31% and those destined for the market economy countries going down by 26%. Thus, while the value of the former increased by over 40% during the past biennium, that of the latter fell by 30% during the same period (see table 12).

Because of lack of information, it was not possible to analyse the structure of exports in 1982. However, up to 1981, sales of products of the sugar industry continued to represent nearly 80% of the total value of exports, and the traditional exports category as a whole represented nearly 95% of this value. The only traditional exports to increase their share over what it had been in 1970 were citrus fruits, fishery products, and the category of "other traditional products". As for the value of non-traditional exports (which were virtually non-existent in 1970), it amounted in 1981 to somewhat less than 68 million pesos, a figure equivalent to only 1.6% of the total amount of external sales of goods (see table 12).

ii) *Imports.* Because of the difficulties referred to with regard to the behaviour of the capital account of the balance of payments, imports from the capitalist countries had already been cut down to the strict minimum before the end of 1981, and this curtailment was one of the central objectives of the 1982 annual plan. The steady worsening of the financial situation in that year made it necessary to intensify this policy even further, especially in the final months of the year after the Government had proposed a programme for refinancing the convertible currency debt owed to creditors in the market economy countries.

In this connection, the Government officially announced its decision to limit imports from those countries so that "payments in convertible currency are kept down to the absolute minimum and are used to guaranteeing", firstly, "production for export, tourism, and other activities which generate income in convertible currency and the programmes aimed at increasing and diversifying such production", and, secondly, also for guaranteeing the "basic consumption of the population and medical care".<sup>11</sup>

Table 11

**CUBA: VALUE AND VOLUME OF SUGAR EXPORTS  
BY COUNTRIES OF DESTINATION**  
(Percentage breakdown)

	1978	1979	1980	1981	1982 <sup>a</sup>
<b>Value</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Soviet Union	79.7	76.1	61.7	65.0	72.0
Rest of socialist countries	11.7	14.0	12.8	17.2	18.0
Rest of world	8.6	9.9	25.5	17.8	10.0
<b>Volume</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Soviet Union	54.4	52.9	44.0	45.4	46.0
Rest of socialist countries	17.3	18.8	20.6	22.8	22.0
Rest of world	28.3	28.3	35.4	31.8	32.0

Source: ECLA, on the basis of figures from the State Statistical Committee of Cuba (except for figures relating to 1982).

<sup>a</sup>Preliminary figures estimated by ECLA.

<sup>10</sup>This drop is, however, due more to the decline in prices than to any decrease in volume.

<sup>11</sup>See National Bank of Cuba, *Informe Económico*, August 1982.

Table 12

## CUBA: EXPORTS OF GOODS FOB BY MAIN COUNTRY AREAS

	Millions of Cuban pesos			Percentage breakdown			Growth rates			
	1979	1980	1981	1970	1979	1981	1979	1980	1981	1982 <sup>d</sup>
<b>Total</b>	3 499	3 967	4 210	100.0	100.0	100.0	1.7	13.4	6.1	17.3
Socialist area	2 884	2 786	3 181	74.0	82.4	75.6	-1.1	-3.4	14.2	31.4
Market economy area	615	1 181	1 029	26.0	17.6	24.4	17.4	92.0	-12.9	-26.1
<b>Traditional exports</b>	3 466	3 827	3 979	99.9	99.1	94.5	1.3	10.4	4.0	...
Socialist area	2 861	2 677	2 996	...	81.8	71.2	...	-6.4	11.9	...
Market economy area	606	1 150	983	...	17.3	23.3	...	89.8	-14.5	...
Sugar industry	3 003	3 317	3 335	77.1	85.8	79.2	0.3	10.5	0.5	...
Socialist area	2 679	2 452	2 625	...	76.6	62.4	-0.8	-8.5	7.1	...
Market economy area	324	865	710	...	9.3	16.9	11.2	167.0	-17.9	...
Mining	162	193	319	16.7	4.6	7.6	-0.1	19.1	65.3	...
Socialist area	106	138	262	...	3.0	6.2	...	30.2	89.9	...
Market economy area	56	55	57	...	1.6	1.4	...	-1.8	3.6	...
Nickel	154	184	312	16.5	4.4	7.4	-0.7	19.5	69.6	...
Tobacco industry	60	36	56	3.2	1.7	1.3	-13.0	-40.0	55.5	...
Socialist area	10	2	2	...	0.3	...	-26.4	-80.0	...	...
Market economy area	50	34	54	...	1.4	1.3	-9.6	-32.0	58.8	...
Fishery products	97	90	98	1.8	2.8	2.3	14.1	-7.2	8.9	...
Socialist area	...	...	...	...	...	...	...	...	...	...
Market economy area	97	90	98	...	2.8	2.3	14.1	-7.2	8.8	...
Agricultural commodities	66	72	113	0.7	1.9	2.7	17.8	9.1	56.9	...
Socialist area	48	49	80	...	1.4	1.9	...	2.1	63.3	...
Market economy area	18	23	33	...	0.5	0.8	...	27.8	43.5	...
Citrus fruits	34	41	78	0.2	1.0	1.8	15.2	20.6	90.2	...
Coffee	22	22	28	0.5	0.6	0.7	-5.6	...	27.3	...
Other products	78	118	57	0.4	2.2	1.4	27.0	51.3	-51.7	...
Socialist area	17	36	27	...	0.5	0.6	...	111.8	-25.0	...
Market economy area	61	82	30	...	1.7	0.7	...	34.4	-63.4	...
Alcoholic beverages	19	25	16	0.2	0.5	0.4	39.9	31.6	-36.0	...
Naphtha	54	72	16	...	1.5	0.4	-14.6	33.3	-77.8	...
<b>Non-traditional exports</b>	31	43	68	0.1	0.9	1.6	...	38.7	58.1	...
Socialist area	21	13	21	...	0.6	0.5	...	...	61.5	...
Market economy area	10	31	47	...	0.3	1.1	...	...	51.6	...
Iron and steel and machinery industry	1	6	20	...	...	0.5	...	500.0	233.3	...
Light industry and leather industry	2	3	7	...	...	0.2	...	50.0	133.3	...
Chemical industry	8	9	13	0.1	0.2	0.3	...	13.5	47.7	...
Construction materials	4	13	15	...	0.1	0.4	...	225.0	15.4	...
<b>Re-exports</b>	2	96	163	...	...	3.9	-88.8	...	69.8	...

Source: ECLA, on the basis of figures from the State Statistical Committee and UNCTAD.

<sup>d</sup>Preliminary figures estimated by ECLA.

As a consequence of this restriction and of the policy of austerity and selectivity in external purchases, the pattern shown by these purchases by area of origin was very different, although the global value of external purchases of goods rose by somewhat more than 7%. Thus, those originating in the socialist area (which are basically governed by agreements signed at the beginning of this decade and covering the first five years in it) rose by close to 18%, whereas those originating in the market economy countries decreased by 36%, after having declined by 2% in 1981. Thus, purchases in the latter countries, which in 1970 had represented 30% of the total value of imports, corresponded to only 22% in 1980, 19% in 1981 and approximately 11% in 1982 (see table 13).

For lack of official information, it was also impossible to analyse the growth of imports by main commodity groups. However, reference may be made to the trend shown in recent years—which has undoubtedly intensified recently—whereby the relative share of foodstuffs and beverages in the total

value of imports, which in 1970 amounted to 26%, went down to 17% in 1980 and 1981; three-quarters of these purchases were from the socialist area. That contraction was of course largely due to the import substitution policy, but the latter was responsible for improving the level of the main indicators of the average diet of the population up to 1981. Although no information is available on external purchases of foodstuffs in 1982, it may be assumed —bearing in mind that one of the priorities stressed when external purchases were restricted was that of guaranteeing the population's essential consumption— that the deterioration in the production of some items in the crop-raising sector may have made it necessary to increase external purchases of those articles.

Another important change shown in the structure of imports appears in the item of fuels and lubricants, minerals and related products, in which petroleum is the most important article. In 1970 this category represented only 11% of the total, but this share increased gradually until it doubled by 1981, in spite of the favourable prices which Cuba obtained by comparison with the quotations prevailing on the international markets. Consequently, during the year intense efforts were made to save on fuel in the various phases of the production processes and particularly in the harvesting and processing of sugar cane.<sup>12</sup>

Table 13

CUBA: IMPORTS OF GOODS CIF BY MAIN COUNTRY AREAS

	Millions of Cuban pesos			Percentage breakdown			Growth rates			
	1979	1980	1981	1970	1979	1981	1979	1980	1981	1982 <sup>a</sup>
<b>Total</b>	3 687	4 545	5 158	100.0	100.0	100.0	-0.3	23.3	13.5	7.3
Socialist area	3 053	3 540	4 175	69.9	82.8	80.9	7.2	16.0	17.9	17.6
Market economy area	634	1 005	983	30.1	17.2	19.1	-12.6	58.5	-2.2	36.1
Foodstuffs and beverages	627	775	873	25.9	17.0	16.9	-3.8	23.6	12.6	...
Socialist area	539	539	674	...	14.6	13.1	-1.8	-	25.0	...
Market economy area	88	236	199	...	2.4	3.8	-15.2	168.2	-15.7	...
Raw materials, excluding fuels	156	197	218	6.0	4.2	4.2	1.3	26.3	10.7	...
Socialist area	131	141	177	...	3.5	3.4	-1.1	7.6	25.5	...
Market economy area	25	56	41	...	0.7	0.8	12.1	124.0	-26.8	...
Fuels and lubricants, minerals and related products	760	930	1 154	11.2	20.6	22.4	15.8	22.4	24.1	...
Socialist area	751	908	1 145	...	20.4	22.2	15.7	20.9	26.1	...
Market economy area	9	22	9	...	0.2	0.2	23.3	144.4	-59.6	...
Chemical products	238	302	337	7.7	6.5	6.5	5.4	26.9	11.6	...
Socialist area	143	183	209	...	3.9	4.0	-6.2	28.0	14.2	...
Market economy area	95	119	128	...	2.6	2.5	29.4	25.3	7.6	...
Manufactures, classified primarily by material	563	627	728	12.9	15.3	14.1	4.6	11.4	16.1	...
Socialist area	429	454	543	...	11.6	10.5	4.3	5.8	19.6	...
Market economy area	134	173	185	...	3.6	3.6	5.3	29.1	6.9	...
Machinery and equipment and their parts, components and accessories	1 259	1 598	1 723	36.3	34.2	33.4	-1.1	26.9	7.8	...
Socialist area	991	1 226	1 322	...	26.9	25.6	10.1	23.7	7.8	...
Market economy area	268	372	401	...	7.3	7.8	-2.0	38.8	7.8	...
Miscellaneous manufactures	83	116	125	0.1	2.3	2.4	13.5	39.8	7.8	...
Socialist area	69	90	104	...	1.9	2.0	24.8	30.4	15.6	...
Market economy area	14	26	21	...	0.4	0.4	-21.3	85.7	-19.2	...

Source: ECLA, on the basis of figures from the State Statistical Committee and UNCTAD.

<sup>a</sup> Preliminary figures estimated by ECLA.

<sup>12</sup>In the 1981/1982 growing season a saving of 100 000 tons of petroleum was realized, and in 1982 the total consumption of petroleum and petroleum products decreased by 3.7% with respect to the preceding year. See *Informe ante la Asamblea Nacional acerca del cumplimiento del Plan de la Economía Nacional en 1982, op. cit.*

Table 14

## CUBA: STRUCTURE OF IMPORTS BY PRINCIPAL COUNTRIES OF ORIGIN

	1977	1978	1979	1980	1981	1982
<b>Soviet Union</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Machinery in general <sup>a</sup>	27.4	30.8	30.1	32.4	28.4	27.4
Energy products <sup>b</sup>	23.2	25.4	27.6	27.0	31.1	35.0
Raw materials <sup>c</sup>	15.6	15.1	13.7	13.9	13.6	12.7
Foodstuffs	16.4	11.3	12.9	15.5	18.9	9.9
Durable consumer goods <sup>d</sup>	4.3	4.4	3.9	3.1	2.6	2.7
Other non-specified goods	13.1	13.0	11.8	8.1	5.4	12.3
<b>OECD</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Federal Republic of Germany	6.6	8.4	10.8	7.2	6.8	6.6
Canada	15.4	22.0	22.8	23.8	27.4	25.6
Spain	13.5	11.5	20.7	12.5	12.8	13.3
France	5.0	5.1	4.6	17.7	11.4	5.9
Japan	32.1	24.4	14.1	15.9	19.4	14.0
Others <sup>e</sup>	27.4	28.6	27.0	22.9	22.2	34.6

Source: ECLA, on the basis of figures from the *Foreign Trade Yearbook* of the Soviet Union (various issues), and *Statistics of Foreign Trade*, OECD.

<sup>a</sup>Includes machinery, equipment and means of transport.

<sup>b</sup>Includes coal, petroleum and related products.

<sup>c</sup>Includes metals, chemical products, textile fibres, paper and wood.

<sup>d</sup>Includes electro-domestic appliances and cultural articles.

<sup>e</sup>January-August.

<sup>f</sup>Includes the other OECD countries, except Yugoslavia.

In 1981, imports of chemical products (fertilizers, detergents, and various types of oils) from the market economies accounted for close to 40% of total external purchases of this type of merchandise. Manufactures (classified primarily by material) purchased in those economies represented 25% of the total imports of such goods, with the corresponding shares being somewhat lower in the categories relating to foodstuffs and beverages and machinery and equipment and their parts, components and accessories. However, in 1981 this latter group of commodities represented 41% of the total purchases of merchandise in the market economy countries.

Thus, although the process of integration with the member countries of CMEA has for some time been subject to improvement and consolidation, the supply of some categories from the market economy area continued to be of importance for the Cuban economy.

Finally, as regards the structure of imports by countries of origin, within the market economy area the share of the members of the Organization for Economic Co-operation and Development has been decreasing. Among these countries, the most important supplier in recent years has been Canada, in replacement of Japan, which assumed the second position, followed by Spain (see table 14).

iii) *The terms of trade.* In spite of the fact that in 1982 Cuba managed to achieve the greatest overall volume of exports in its history, its economy suffered perhaps the most critical repercussions ever from its external financial situation. One of the primary causes of this deterioration has been the unaccustomed drop in the international prices of sugar. The low level of the price of nickel as well as that of coffee and other commodities such as tobacco has also had unfavourable effects. The impact of this global phenomenon has been lessened, however, by the agreements signed with most of the socialist countries, some of which have kept the terms of trade from changing substantially in recent years.

In 1982, the terms of trade with the market economy countries worsened by 15%. As for the corresponding index with the Soviet Union, it fell by 8% with respect to 1981, when it had risen to the highest level in Cuba's history (see table 15). However, because of the Soviet Union's enormous importance in Cuba's total trade, this decline had a greater effect on the global terms of trade in 1982 than did the drop in the terms of trade with the market economy countries.

iv) *The balance of trade in goods.* After reaching a figure of close to 190 million pesos in 1979, the trade deficit rose to nearly 580 million pesos in 1980 and to almost 950 million in 1981. This pattern of behaviour was rather similar to that followed by trade with the Soviet Union (which generated negative balances of 143 million pesos, 576 million pesos and 809 million pesos in the same years). The deficit with the other socialist countries was also significant in the years 1980 and 1981 (see table 16); on the other hand, the deficit with the market economy countries amounted to barely 19 million pesos in 1979, and in the following two years surpluses of 174 million pesos and 46 million pesos, respectively, were achieved. However, these results were due in part to the fact that there are bilateral agreements with socialist countries which provide for triangular transactions allowing Cuba to receive some goods from the market economy countries whose origin is not recorded in the Cuban foreign trade statistics.<sup>13</sup>

Up until the beginning of this decade, the trade deficit was financed basically in the following way: in trade with the socialist area, it had been agreed with the Soviet Union in 1972 that the payment of the balances accumulated up to that year would be deferred for 14 years, i.e., until 1986, without bearing interest. With respect to subsequent debit balances, multilateral (through CMEA) and bilateral agreements were entered into, on similarly concessional terms. In some cases triangular and compensatory agreements were also included (arrangements to which reference has already been made), whereby Cuba can receive some supplies from market economy countries without having to pay in freely convertible currencies but instead in transferable roubles. As for the negative balances

Table 15  
CUBA: MAIN FOREIGN TRADE INDICATORS<sup>a</sup>

(Indexes 1970 = 100)

	1977	1978	1979	1980	1981	1982 <sup>b</sup>
<b>Exports of goods</b>						
Value						
Soviet Union	390.5	471.8	448.0	425.9	464.1	623.3
Market economy countries	174.0	191.9	225.6	432.6	359.6	278.4
Volume						
Soviet Union	105.1	103.8	100.2	75.5	84.4	115.0
Market economy countries	84.8	98.0	99.5	106.2	114.5	120.0
Unit values						
Soviet Union	371.7	454.6	446.9	563.9	550.0	542.0
Market economy countries	205.2	195.9	226.7	407.2	314.0	232.0
<b>Imports of goods</b>						
Value						
Soviet Union	268.9	336.9	363.7	409.4	466.4	543.6
Market economy countries	284.8	184.0	159.6	253.6	249.0	159.4
Volume						
Soviet Union	145.9	172.0	179.7	188.6	222.1	241.2
Market economy countries	188.9	110.2	79.7	112.0	118.5	86.9
Unit values						
Soviet Union	184.3	195.9	202.4	217.1	210.0	225.4
Market economy countries	150.8	166.9	200.2	226.4	210.1	183.4
<b>Terms of trade, goods</b>						
Soviet Union	201.7	232.1	220.8	259.7	261.9	240.5
Market economy countries	136.1	117.4	113.2	179.9	149.5	126.5

Source: ECLA estimates on the basis of figures from the *Anuario Estadístico de Cuba*, (several issues) the State Statistical Committee of Cuba, and the *Monthly Bulletin of Statistics* and other international statistics.

<sup>a</sup>Does not include trade with the socialist countries other than the Soviet Union.

<sup>b</sup>Preliminary figures estimated by ECLA.

<sup>13</sup>This partly explains the differences in the foreign trade balance based on official Cuban statistics and the balance based on OECD data.

Table 16

## CUBA: EXPORTS, IMPORTS AND TRADE BALANCE

(Millions of Cuban pesos)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982 <sup>a</sup>
<b>Total exports</b>	1 050	861	771	1 153	2 237	2 952	2 692	2 918	3 440	3 499	3 967	4 210	4 940
Soviet Union	529	304	224	477	811	1 662	1 638	2 066	2 496	2 370	2 253	2 414	3 297
Rest of socialist countries	248	261	197	268	472	341	452	377	420	514	534	767	883
Rest of world	273	296	350	408	954	949	602	475	524	615	1 180	1 029	760
<b>Total imports</b>	1 311	1 387	1 190	1 463	2 226	3 113	3 180	3 462	3 574	3 687	4 545	5 158	5 537
Soviet Union	691	731	714	811	1 025	1 250	1 490	1 858	2 328	2 513	2 829	3 223	3 756
Rest of socialist countries	226	239	200	224	328	407	374	482	521	540	711	952	1 153
Rest of world	394	417	276	428	873	1 456	1 316	1 122	725	634	1 006	983	628
<b>Overall balance</b>	-261	-526	-419	-310	11	-161	-488	-544	-134	-188	-578	-948	-597
Soviet Union	-162	-427	-490	-334	-214	412	148	208	168	-143	-576	-809	-459
Rest of socialist countries	22	22	-3	44	144	-66	78	-105	-101	-26	-177	-185	-270
Rest of world	-121	-121	74	-20	81	-507	-714	-647	-201	-19	174	46	132

Source: ECLA, on the basis of data from the State Statistical Committee, the National Bank of Cuba, UNCTAD and other sources including *Comercio Exterior* (USSR).

<sup>a</sup>Preliminary figures.

with the market economy countries, in many cases intergovernmental bilateral agreements were entered into —both with developed and with other developing countries— on various terms and normally with the support of the financial institutions of the countries with which the agreements were signed.

However, as already noted, the rules governing financial support were rapidly changing in 1981 and especially in 1982. Thus, by force of circumstances and in view of the decline in its reserves of convertible currencies, in the latter year Cuba was forced to restrict its imports from the market economy countries, which helped to slow down its rate of economic growth. Consequently, even as early as the end of 1981, when the 1982 annual plan was formulated, modest goals were set and the groundwork of an extremely severe external supply policy was laid. As a result of this highly selective policy, which was also influenced by the disadvantageous behaviour of the terms of trade, the country's total trade deficit decreased from 950 million pesos in 1981 to a little under 600 million pesos in 1982, and it was possible to remain in surplus (132 million pesos) with the market economy countries (see table 16).

#### b) *The balance of payments in freely convertible currency*

In order to understand Cuba's difficult situation with regard to freely convertible currencies in 1982, it is necessary to examine the trend followed by both the current and the capital account of a balance of payments limited to transactions in this type of currency, translated into pesos (see table 17). This balance of payments covers all trade and financial relations with the market economy countries (with the exception of trade on a compensatory basis) and only includes those transactions with the socialist area which correspond to business conducted in convertible currency. In order to have a more accurate notion of the share of the trade with the market economy countries in this balance, it must be borne in mind that exports to that area represented 90% of those included in the balance in 1979; 84% in 1980 and 76% in 1981.<sup>14</sup> Thus, as the problem with freely convertible currencies became more severe, the socialist area began to have a bigger share in this kind of transaction.

<sup>14</sup>The export figures contained in table 17 may be compared with those in table 12. A similar comparison cannot be made for imports, not only because in one case the figures are expressed in values FOB and in the other in values CIF, but also because the amount of barter transactions is relatively large in some years.

Although the merchandise balance has been positive since 1979, and even achieved a surplus of nearly 625 million pesos in 1982, the services balance had a deficit throughout the entire period. This imbalance occurred in spite of the fact that, under a policy which has been in effect for a number of years, the Cuban merchant fleet has been strengthened and has thus increased income from transport and insurance (which was non-existent in 1978 but amounted to over 100 million pesos in the past two years). Similarly, for a number of years tourism has been intensely promoted, basically by expanding the country's hotel capacity. Between 1978 and 1982 the income from this sector rose from 8 million pesos to over 50 million pesos. Other earnings have also been received in freely convertible currencies, notably those derived from the provision of services, including earnings from construction in some Third World countries.

The most significant categories in expenditure on services, which was nearly equivalent to the surplus on the merchandise balance in 1982, included freight and insurance, and, above all, the interest on the external debt paid in freely convertible currency, which amounted to 220 million pesos and 345 million pesos, respectively.

Consequently, the surplus on current account was very much lower than that on the merchandise balance. In addition, in 1981 the balance on the capital account in this kind of currency began to be negative, and in 1982 this deficit exceeded 530 million pesos. The balance of long-term

Table 17

**CUBA: BALANCE OF PAYMENTS IN FREELY CONVERTIBLE CURRENCY<sup>a</sup>**

(Millions of Cuban pesos)

	1978	1979	1980	1981	1982 <sup>b</sup>
<b>Balance on current account</b>	-523	-139	-45	51	265
Merchandise balance	-136	99	367	285	624
Exports FOB	595	680	1 248	1 406	1 358
Imports FOB	-731	-581	-881	-1 121	-734
Services balance	-393	-237	-414	-233	-355
Income	148	227	237	344	263
Transport and insurance	-	72	95	126	113
Tourism	8	6	30	38	51
Interest received	-	17	34	28	21
Other	140	132	78	152	78
Expenditure	-541	-464	-651	-577	-618
Transport and insurance	-101	-122	-173	-181	-220
Interest paid	-143	-176	-263	-338	-345
Other	-297	-166	-215	-58	-53
Other net transfers	6	-1	2	-	-4
<b>Balance on capital account</b>	484	133	60	-52	-531
Long-term capital	387	86	-16	-116	-15
Loans received	606	187	80	26	80
Amortizations payments	-219	-101	-96	-142	-96
Official sector	...	6	7	-	2
Private banks	...	179	18	-92	-36
Other sectors	...	-99	-42	-24	19
Short-term capital	98	47	76	64	-515
Loans received	165	173	134	203	80
Amortizations payments	-67	-126	-58	-139	-595
Official sector	...	-	-	69	-49
Commercial banks	...	68	-20	47	-447
Other sectors	...	-21	96	-53	-20
<b>Total variation in reserves</b> (- sign indicates an increase)	39	6	-14	1	266

Source: ECLA, on the basis of data contained in *Cuba: Recent Economic Developments and Future Prospects*, UNCTAD/MFD/TA/21, November 1982.

<sup>a</sup>Includes all commercial and financial movements with market economy countries but only some of the movements with socialist countries.

<sup>b</sup>Preliminary figures estimated in November on the basis of the restructuring of the debt on the terms requested.



Table 18

CUBA: INDICATORS OF EXTERNAL INDEBTEDNESS<sup>a</sup>

(Millions of Cuban pesos)

	1979	1980	1981	1982
Total disbursed debt	3 267	3 227	3 170	2 683 <sup>b</sup>
Bilateral official debt	1 280	1 384	1 294	1 232 <sup>b</sup>
Multilateral official debt	-	8	15	17 <sup>b</sup>
Suppliers	33	27	33	28 <sup>b</sup>
Financial institutions	1 953	1 837	1 826	1 405 <sup>b</sup>
Medium-term bilateral loans and loans from consortiums	659	563	505	443 <sup>b</sup>
Short-term deposits	1 269	1 238	1 282	907 <sup>b</sup>
Credits for current imports	25	36	39	55 <sup>b</sup>
Other credits	2	1	1	1 <sup>b</sup>
Disbursements <sup>c</sup>	...	114	224	204
Service <sup>d</sup>	403	417	619	1 036
Interest paid	176	263	338	345
Amortization payments on long-term debts	101	96	142	96
Amortization payments on short-term debts	126	58	139	595
<b>Ratios</b>				
Total disbursed debt/global social products	19.3	18.3	14.0	9.9
Total debt service/exports of goods and services <sup>e</sup>	45.3	28.7	35.9	64.7
Total debt service/disbursements	...	365.8	276.3	507.8
Total debt service/global social product	2.4	2.4	2.8	4.5

Source: ECLA, on the basis of data from the State Statistical Committee, the National Bank of Cuba and UNCTAD.

<sup>a</sup>Includes commitments in freely convertible currency falling due one year or more after the date of issue.<sup>b</sup>Preliminary figures (August).<sup>c</sup>Estimated on the basis of the difference between the total disbursed debt, plus total amortization payments made during the year.<sup>d</sup>Relates to service payments included in the balance of payments (see table 17).<sup>e</sup>Owing to lack of broken-down information, exports of goods and services include factor services, except for interest payments on the debt.

capital movements was negative for the third year running, especially in respect of the private banks. Furthermore, whereas it had been possible up to 1981 to maintain a significant degree of short-term net financing, in 1982 there was a net outflow equivalent to over 500 million pesos, most of which also corresponded to the private banking system (see table 17).

In short, owing to the abrupt change in the pattern of financial relations with institutions of the market economy countries, preliminary official estimates show that in 1982 the international reserves in convertible currency decreased by the equivalent of 266 million pesos.

c) *External indebtedness in convertible currency*

The disbursed debt in convertible currency, which for three years stayed at the equivalent of about 3.2 billion pesos, fell by approximately 400 million pesos in 1982. This result was obtained largely through the reduction of the debt with financial institutions, especially with regard to short-term deposits. As for the service of the external debt, it rose by over 400 million pesos in spite of the fact that in August, when the level of reserves reached its most critical point and steps were begun to renegotiate the external debt, the authorities decided that only the interest on the debt would be covered and that payments of principal on medium- and long-term credit would be suspended (see table 18).

The figures obtained when the external debt in its various aspects and categories is compared with exports of goods and services point up the worsening of the financial situation in convertible currency, in particular when it is noted that the total servicing in 1982 was the equivalent of 65% of the value of the exports and more than five times as high as disbursements. In addition, the total debt of the country is actually considerably larger than that indicated in table 18 if consideration is given to the debts accumulated with the socialist area, with which, as has already been pointed out, an agreement renegotiated on highly concessional terms is now in force.

#### 4. The labour force, wages and prices

One of the basic principles of Cuban economic policy is that all workers should have a remunerated occupation, thus seeking to ensure that there is no open unemployment in the country. However, when an economic activity loses dynamism or stagnates from one year to the next, as happened in the construction sector in 1982, the labour force must necessarily be redeployed without any of its members ceasing to earn wages, which can result in a certain modification in its structure, with some workers moving from the productive to the non-productive sphere. This, in turn, is in line with the objective of intensifying some of the activities in the latter sphere so that the level of satisfaction of some of the basic needs of the population can be constantly raised.

Table 19  
CUBA: TRENDS IN AVERAGE LABOUR FORCE AND AVERAGE WAGES<sup>a</sup>

	1979	1980	1981	1982 <sup>b</sup>	Percentage breakdown			Growth rates		
					1971	1980	1982 <sup>b</sup>	1980	1981	1982 <sup>b</sup>
<b>Average number of workers (thousands)</b>										
<b>Total</b>	2 768	2 734	2 824	2 882	100.0	100.0	100.0	-1.2	3.3	2.0
<b>Productive sphere</b>	2 014	1 968	2 008	2 037	73.4	72.0	70.7	-2.2	2.0	1.5
Agriculture	620	624	619	616	29.0	22.8	21.4	0.7	-0.9	-0.5
Forestry	18	20	21	21	...	0.7	0.7	13.6	4.0	-1.0
Industry	554	546	576	600	21.2	20.0	20.8	-1.4	5.5	4.1
Construction	319	273	266	261	6.4	10.0	9.0	-14.4	-2.6	-2.1
Transport	169	171	181	180	7.5	6.3	6.2	1.3	5.5	-0.8
Communications	22	22	23	24	1.0	0.8	0.8	1.4	4.1	3.5
Commerce	304	302	311	324	8.1	11.1	11.2	-0.5	2.8	4.3
Other activities	9	10	11	13	0.2	0.3	0.4	10.5	17.9	15.2
<b>Non-productive sphere</b>	755	766	817	845	26.6	28.0	29.3	1.4	6.7	3.4
Community and personal services	93	93	91	86	...	3.4	3.0	0.2	-2.5	-5.6
Science and technology	19	19	20	21	...	0.7	0.7	1.6	6.8	4.9
Education, culture and art	343	360	380	392	...	13.2	13.6	4.9	5.6	3.2
Public health and social welfare, sports and tourism	121	127	138	153	...	4.6	5.3	4.9	9.1	11.2
Finance and insurance	10	11	12	13	...	0.4	0.5	12.5	10.2	11.8
Administration	150	141	152	152	...	5.2	5.3	-6.1	7.5	-0.3
Other activities	19	15	23	27	...	0.5	0.9	-23.2	60.3	16.7
<b>Average wages (p: sos)</b>										
<b>Total</b>	1 721	1 774	2 035	2 113				3.1	14.7	3.8
<b>Productive sphere</b>	1 712	1 761	2 055	2 120				2.9	16.7	3.2
Agriculture	1 418	1 520	1 923	1 999				7.2	26.5	4.0
Forestry	1 672	1 706	1 914	1 991				2.0	12.2	4.0
Industry	1 862	1 883	2 138	2 209				1.1	13.5	3.3
Construction	1 923	1 969	2 242	2 240				2.4	13.9	-0.1
Transport	2 139	2 169	2 403	2 479				1.4	10.8	3.2
Communications	1 763	1 752	1 960	2 021				-0.4	11.9	3.1
Commerce	1 567	1 611	1 816	1 895				2.8	12.7	4.4
Other activities	2 151	2 137	2 241	2 390				-0.7	4.9	6.6
<b>Non-productive sphere</b>	1 744	1 809	1 985	2 095				3.7	9.7	5.5
Community and personal services	1 604	1 637	1 813	1 864				2.1	10.8	2.8
Science and technology	2 123	2 147	2 251	2 402				1.1	4.8	6.7
Education, culture and art	1 708	1 784	1 960	2 102				4.4	9.9	7.2
Public health and social welfare, sports and tourism	1 711	1 777	1 954	2 216				3.9	10.0	13.4
Finance and insurance	2 052	2 009	2 117	2 213				-2.1	5.4	4.5
Administration	1 870	1 952	2 123	2 243				4.4	8.8	5.7
Other activities	1 758	1 781	2 059	2 059				1.3	15.6	-

Source: ECLA, on the basis of figures from the State Statistical Committee.

<sup>a</sup>Includes only civilian employment in the State sector

<sup>b</sup>Preliminary figures.

The foregoing is illustrated by the trend followed by both the average size and the composition of the country's civilian labour force over the past four years. The number has stayed at about 29% of the total population (see table 19). As for the composition, even in 1981—a year in which the economy showed great dynamism—there was a decline in the ratio of workers in the productive sphere to those in the non-productive sphere. In the latter sphere, the sectors of education, culture and art, public health, social welfare, sports and tourism, and finance and insurance showed greater than average dynamism. In the productive sphere, partly as a result of the deceleration of activity in 1982 and also as a result of the effort to improve the level of organization, increase the productivity per worker, introduce modern techniques and intensify mechanization, some goods-producing sectors (agriculture and construction) became "expellers of labour". In other words, the number of their workers diminished, and they were redeployed in industry, in non-material productive activities or in the non-productive sphere.

As regards average nominal wages, these rose by a considerable amount in 1981: by 15% at the global level, 17% in the productive sphere and 10% in the non-productive sphere. In the agricultural sector, for its part, wages rose by 27%, compared to 12% and 14% in the other material production sectors, showing greater dynamism than in virtually all the other sectors of activity. This improvement was a consequence of the wage reform which came into effect at the beginning of 1981 and had a triple objective: to raise basic wages, to stimulate individual production, and to reward workers' "collectives" for greater productivity. This policy was applied more intensively to activities related to the production of export goods (such as the harvesting and processing of sugar cane), and to those producing basic foodstuffs for the population.

The stimulus given to production continued in 1982 and, as a result of this policy, the average wages paid in the agricultural sector increased more rapidly than in the productive sphere as a whole.

In addition, in 1980 the wholesale price reform had begun to be applied. However, unlike what happens in nearly all the other economies of the region, the official policy ensured that the increases were not passed on to retail prices, which are set in accordance with the system for distributing consumer goods. Later on, at the beginning of 1981, the wage reform began to be applied, and mid-December marked the initiation of the retail price reform, which of course had its main effects in 1982. Provision had been made for this sequence of reforms at the beginning of the decade, at the time of the drawing up of the economic policy lines for the five-year plan, whose central objectives include those of maintaining the standard of living of the population, retaining the necessary internal balance between the population's income and expenditure, and developing a parallel market with differentiated prices, with a view to gradually eliminating the system of regulated distribution.

As already noted, the wage reform introduced in 1981 considerably increased the amount of money outside banks. The raising of the retail prices of rationed goods (the majority of which had remained the same since the beginning of the revolutionary process) made it possible to absorb some of the money in circulation in 1982.<sup>15</sup>

Because of the reform, the prices of the products in the rationed distribution system increased, but those of the merchandise in the free distribution system did not change. Thus, since one and the same commodity increased in price in the former system but not in the latter, the existing difference between the two prices of a given commodity narrowed. According to official reports, it is estimated that retail prices on the whole rose by 10% in 1982—i.e., considerably faster than wages—and that the price increase was in general higher in the case of each of the rationed items.<sup>16</sup>

## 5. The State budget

From 1979 to 1981 the State budget showed a steadily increasing deficit, which in the latter year amounted to 7% of total expenditure. The major difference between the actual and the planned performance in 1981 was observed in the expenditure on the productive sphere (5 700 million pesos,

<sup>15</sup>This process was not affected by the elimination in 1982 of the interest rate paid on deposits in the banking system, since because of the very low level (3%) of this rate, such deposits were not attractive.

<sup>16</sup>By way of example, in the rationed distribution system the following increases were recorded in 1982 in the prices which had been in force for close to two decades, up to December 1981: prime beef, 27%; second grade beef, 36%; poultry meat, 8%; pasteurized milk, 25%; condensed milk, 50%; rice, 20%; fresh and frozen fish, 18%; fruits, vegetables and cold cuts, 40%, and detergents, 100%.

compared with 4 700 million pesos), primarily as a result of the notable production effort made in all economic activities. Some impact was also had by the application of the wholesale price reform, since when production costs rose, the enterprises required higher subsidies.

Other elements, in addition to these imbalances, led the authorities to formulate a much more cautious budget in 1982. In the first place, it was decided to intensify the policy of self-financing of enterprises, in an attempt to decrease the amount of the subsidies. Secondly, in view of the obstacle constituted by relations with the market economy area, provision was made for a considerable reduction in the growth rate of economic activity and consequently of total State expenditure. Since this in turn would cause a drop in income, the 1982 budget envisaged a deficit which, although it was lower than that observed in 1981, decreased the expenditure by approximately 4% in relative terms (see table 20).

Table 20  
CUBA: BUDGET OF STATE INCOME AND EXPENDITURE

	Programmed (millions of pesos)				Actual performance						
					Millions of pesos				Growth rates		
	1979	1980	1981	1982	1979	1980	1981	1982 <sup>a</sup>	1980	1981	1982 <sup>a</sup>
<b>State budget</b>											
Current income	9 414	9 534	11 201	9 413	9 130	9 389	10 802	9 695	2.8	15.0	-10.2
Contributions from the State sector	...	9 416	11 082	9 289	...	...	...	...	...	...	...
Taxes and other contributions from the non-State sector	...	17	20	14	...	...	...	...	...	...	...
Taxes and duties paid by population	...	101	99	110	...	...	...	...	...	...	...
Total expenditure	9 409	9 531	11 197	9 834	9 154	9 644	11 577	9 843	5.4	20.0	-15.0
Productive sphere	3 883	3 978	4 672	3 180	4 271	4 566	5 729	3 754	6.9	25.5	-34.5
Housing and community services	399	364	412	483	357	391	467		9.5	19.4	
Education and public health	1 685	1 800	1 848	2 040	1 643	1 779	2 007		8.3	12.8	
Other socio-cultural and scientific activities	1 242	1 315	1 437	1 546	1 216	1 325	1 402	4 232	9.0	5.8	-5.4
"Poder Popular", Central State Government, Tribunals and Public Prosecutor's Office	517	484	675	621	472	459	597		-3.8	30.1	
Defence and domestic law and order	841	811	842	924	818	759	931	1 152	-6.2	22.7	23.7
Other activities	451	443	767	544	377	365	444	705	-3.2	21.6	58.8
Reserves	391	336	544	496	-	-	-	-	-	-	-
Surplus (or deficit)	5	3	4	-421	-24	-255	-775	-148	962.5	203.9	-80.9
<b>Budget of the Central Government</b>											
Current income	7 620	7 584	8 964	6 796							
Total expenditure	7 615	7 581	8 960	7 217							
Direct expenditure	7 061	7 085	8 473	6 931							
Subsidies to the provincial governments	554	496	487	286							
Surplus (or deficit)	5	3	4	-421							
<b>Budget of the Provincial Governments</b>											
Current income	1 794	1 950	2 237	2 617							
Total expenditure	2 348	2 446	2 724	2 903							
Surplus (or deficit)	-554	-496	-487	-286							

Source: ECLA, on the basis of figures from the State Statistical Committee, the National Bank of Cuba and the State Finance Committee.  
<sup>a</sup> Preliminary figures based on the statement by the Minister-Chairman of the State Finance Committee of its third regular session.

The results shown in official data<sup>17</sup> indicate a smaller global deficit than that envisaged (1.5% of total expenditure), but also different behaviour in terms both of income and of expenditure and their components, due in some cases to situations of a certain degree of urgency which made it necessary to effect some changes in connection with the expenditure.

In the first place, the income received was nearly 3% higher than that provided for in the budget, although 10% lower than that of the previous year. This higher-than-expected income was obtained through the more rigorous application of the system for monitoring entrepreneurial units, and also through the entry into force of the retail price reform.

As regards expenditure, the intensification of the policy of selectivity meant that some 450 million pesos were no longer expended on budgeted investments, and this, together with the higher income referred to above, represented a total saving of some 750 million pesos. However, this amount was largely absorbed by a net increase in a number of planned expenses. This expenditure included in particular the following items: a) subsidies —which were to have been one of the main items of reduction provided for in the budget for the year— were again large in the case of many productive enterprises, due to the floods which affected the harvest at a time when much of the production effort, and hence the expenditure, had already been made; b) in some cases the policy providing for rewards and incentives for productive activity met with a more enthusiastic response on the part of the working masses than had been envisaged, making it necessary to spend more than the amount budgeted, and c) in view of the atmosphere of tension prevailing at the international level, the expenditure on defence and internal security (which accounted for a large share of the total) was 25% higher than that scheduled and exceeded the real expenditure of the preceding year by 24%.

<sup>17</sup>See "Intervención del Ministro del Comité Estatal de Finanzas, Francisco García Valls", in *Granma*, Cuba, 29 December 1982.



## CHILE

### 1. Recent economic trends: Introduction and summary

In 1982 the Chilean economy suffered its worst crisis since the Great Depression of the 1930s. Thus, the gross domestic product registered an unprecedented drop of over 14% as a result of the serious slumps in commerce (-18%), manufacturing production (-22%) and above all construction (-29%), while there were also declines in all the other main sectors of the economy except for mining and fisheries. As a result of this sharp and generalized fall in levels of production, and in spite of the considerable expansion of the emergency job programmes of the Government, the rate of open unemployment rose to over 21%: almost twice the already very high level reached the year before and well over the rates registered during the 1975 recession (see table 1 and figure 1). Furthermore, the devaluation decreed in June after almost three years of complete exchange stability meant that as from mid-1982 there was a reversal of the steady downward trend that the rate of inflation had been showing since 1974, so that the year ended with annual increases of rather more than 20% in consumer prices and almost 40% in wholesale prices.

Although the crisis was due partly to the unfavourable evolution of external factors such as the terms of trade —which fell sharply for the eighth time in the last 12 years and thus stood at their lowest level in over half a century— its unusual severity was due mainly to two profound imbalances which had been growing up in previous years and to the vacillating and piecemeal way in which the economic policy sought to correct these during 1982.

Thus, as 1982 began the Chilean economy not only displayed visible signs of setbacks in levels of activity and employment but also registered two imbalances of great importance which on the one hand could hardly be allowed to continue for long, but on the other, seriously affected the country's possibilities of recovery.

The first of these imbalances —originating fundamentally from the exchange lag which had been building up since the exchange rate was fixed in June 1979— was reflected in the enormous current account deficit of the balance of payments. In 1981, this deficit had reached the exceptional amount of close to US\$ 4 900 million, equivalent to almost 90% of the value of the exports of goods and services and to about 15% of the gross domestic product. Although this deficit had been completely financed at that time through a massive inflow of capital, it was obvious that external saving could not be expected to continue covering deficits of such magnitude in the future. The viability of the policy of a fixed exchange rate depended precisely, however, either on the continued procurement of a very large amount of loans and external investments or else on the implementation of a policy of sharp domestic deflation, with the consequent risk of further accentuating the recessive trends which had begun to show themselves increasingly clearly since mid-1981.

The other fundamental imbalance lay in the financial sector and was reflected both in the unusually high level of domestic real interest rates and in the growing disparity between those rates and world rates. Thus, in spite of the opening-up of the financial section of the economy and the enormous amount of capital which entered the country in 1981, the real interest rate rose from an average of 12% in 1980 to over 40% at the end of 1981, while in the first half of 1982 it averaged around 50%. Interest rates of this magnitude, of course, exerted unbearable pressure on the costs of enterprises, whose operating income was simultaneously going down as a result of the continual decline in sales. The fact is that the persistence of such high interest rates probably basically reflected the existence of an inelastic demand for credit by producers who were willing to pay almost any price in order to obtain loans that would enable them to put off the time when they would have to liquidate their assets, whose value was simultaneously falling as the recession got worse. Naturally, this critical situation of the enterprises was already seriously affecting the solvency of the banks, whose portfolio of overdue debts amounted at the end of 1981 to almost 30% of their capital and reserves —double the proportion registered only a year before.

Furthermore, as already noted, economic activity had ceased to grow in mid-1981, in which year the entire growth of the product took place in the first six months. As this stagnation problem seemed to be attributable to the two imbalances already referred to, however, it was not tackled directly during the greater part of 1982, and it was only in the last quarter of the year, after the contraction in the level of activity had reached exceptional dimensions, that the subject of reactivation came to the fore. Thus, during the first half of the year the debates were centered rather on how to tackle the problems of the external deficit and interest rates, especially the first of these. Consequently, in essence the 1982 economic policy consisted of a succession of measures designed first to correct the external imbalance, subsequently to tackle the financial crisis, and finally to achieve

Table 1  
CHILE: MAIN ECONOMIC INDICATORS

	1975	1976	1977	1978	1979	1980	1981	1982 <sup>a</sup>
<b>A. Basic economic indicators</b>								
Gross domestic product at market prices (millions of 1970 dollars)	8 093	8 378	9 203	9 960	10 785	11 624	12 289	10 527
Population (millions)	10.2	10.4	10.6	10.7	10.9	11.1	11.3	11.5
Per capita gross domestic product (dollars at 1970 prices)	794	808	872	928	988	1 047	1 088	915
<b>Growth rates</b>								
<b>B. Short-run economic indicators</b>								
Gross domestic product at market prices	-12.9	3.5	9.9	8.2	8.3	7.8	5.7	-14.3
Per capita gross domestic product	-14.4	1.8	7.9	6.4	6.4	6.0	3.9	-15.7
Gross domestic income <sup>b</sup>	-18.9	3.0	8.6	7.6	7.2	5.7	4.0	-20.1
Terms of trade (goods and services)	-37.3	7.1	-8.8	-4.4	5.7	-5.6	-13.7	-10.6
Current value of exports of goods and services	-21.0	31.3	7.9	13.0	57.1	29.2	-7.7	-8.7
Current value of imports of goods and services	-13.3	-3.4	45.0	26.1	44.1	34.6	26.3	-39.7
Consumer prices								
December - December	340.7	197.9	84.2	37.2	38.9	31.2	9.5	20.7
Variation between annual averages	374.7	232.8	113.8	50.0	33.4	35.1	19.7	9.9
Money	277.1	200.1	123.8	60.5	59.1	77.9	2.1	-19.8
Real wages and salaries	-3.3	0.5	12.9	6.4	8.3	9.0	9.1	-0.4
rate of unemployment <sup>c</sup>								
Greater Santiago	16.2	16.8	13.2	14.0	13.6	11.8	11.1	22.1
Nation-wide	14.5	14.8	12.7	13.6	13.5	12.2	11.7	21.1
Current income of government	366.3	236.5	117.4	70.3	69.3	50.5	14.0 <sup>d</sup>	-6.0
Total expenditure of government	261.9	225.9	112.4	64.5	52.3	54.2	29.3 <sup>d</sup>	10.9
Fiscal deficit/total expenditure of government	9.5	8.9	7.4	3.6	7.2 <sup>e</sup>	2.1 <sup>e</sup>	4.5	8.1
<b>Millions of dollars</b>								
<b>C. External sector</b>								
Trade balance (goods and services)	-217	433	-267	-680	-598	-1 056	-3 367	-432
Balance on current account	-498	132	-567	-1 111	-1 205	-2 024	-4 869	-2 442
Variation in net international reserves <sup>f</sup>	-184	272	125	683	1 061	1 331	162	-1 198
General external debt (gross)	4 854	4 720	5 201	6 664	8 484	11 084	15 542	17 153
General external debt (net) <sup>g</sup>	4 983	4 612	4 928	5 606	6 170	7 010	11 767	14 575

Source: ECLA, on the basis of official data.

<sup>a</sup>Preliminary figures.

<sup>b</sup>Gross domestic product plus terms-of-trade effect.

<sup>c</sup>Percentage.

<sup>d</sup>Growth of public sector income and expenditure as a whole in 1981.

<sup>e</sup>Surplus.

<sup>f</sup>Excluding variation in reserves due to revaluation of gold.

<sup>g</sup>Including variation in reserves due to revaluation of gold.



reactivation. In this respect, it was symptomatic both of the limited vision with which the crisis was tackled and of the surprise caused by its severity that in reality there was never any attempt to tackle these three problems in a simultaneous and integrated manner.

In early 1982, most analysts acknowledged that there was a serious external imbalance whose causes included the exchange lag. The debate was therefore centered on the size of this lag and the best way of carrying out the real depreciation required in order to eliminate it. For their part, the economic authorities tended to minimize the seriousness of the exchange lag and attributed the bulk of the current account deficit to external causes such as the rise in international interest rates and the drop in the terms of trade. According to their interpretation, the exchange lag which existed was due fundamentally to the stubborn refusal of domestic prices to go down, this being caused basically by the wage policy, which indexed wages according to past inflation. In a context in which inflation was going down, this policy meant that real wages continued to increase in spite of the decline in economic activity and the rise in unemployment. Ultimately, this diagnosis recommended the maintenance of the exchange policy and the elimination of the wage "floor" and of wage indexing, in order in this way to achieve a rise in the real exchange rate through the achievement of a level of domestic inflation which was lower than that prevailing world-wide.

This deflationary option was sharply criticized by those who pointed out that the size of the exchange lag was very considerable (of the order of 30-50%), so that if the policy of automatic adjustment preferred by the authorities was followed, several years of negative inflation would be required in order to raise the real exchange rate to an adequate level. Furthermore, those who maintained this position claimed that the refusal of prices to go down was due not to the high unit labour costs—which were still below those of 12 years before—but to the very high financial costs. According to this diagnosis, as long as the real interest rate was high—which would continue to be the case until such time as the real devaluation required took place—the financial costs would not go down and, consequently, neither would prices. It was therefore considered that devaluation was the most rapid way both of restoring the international competitiveness of Chilean products and of lowering real interest rates.

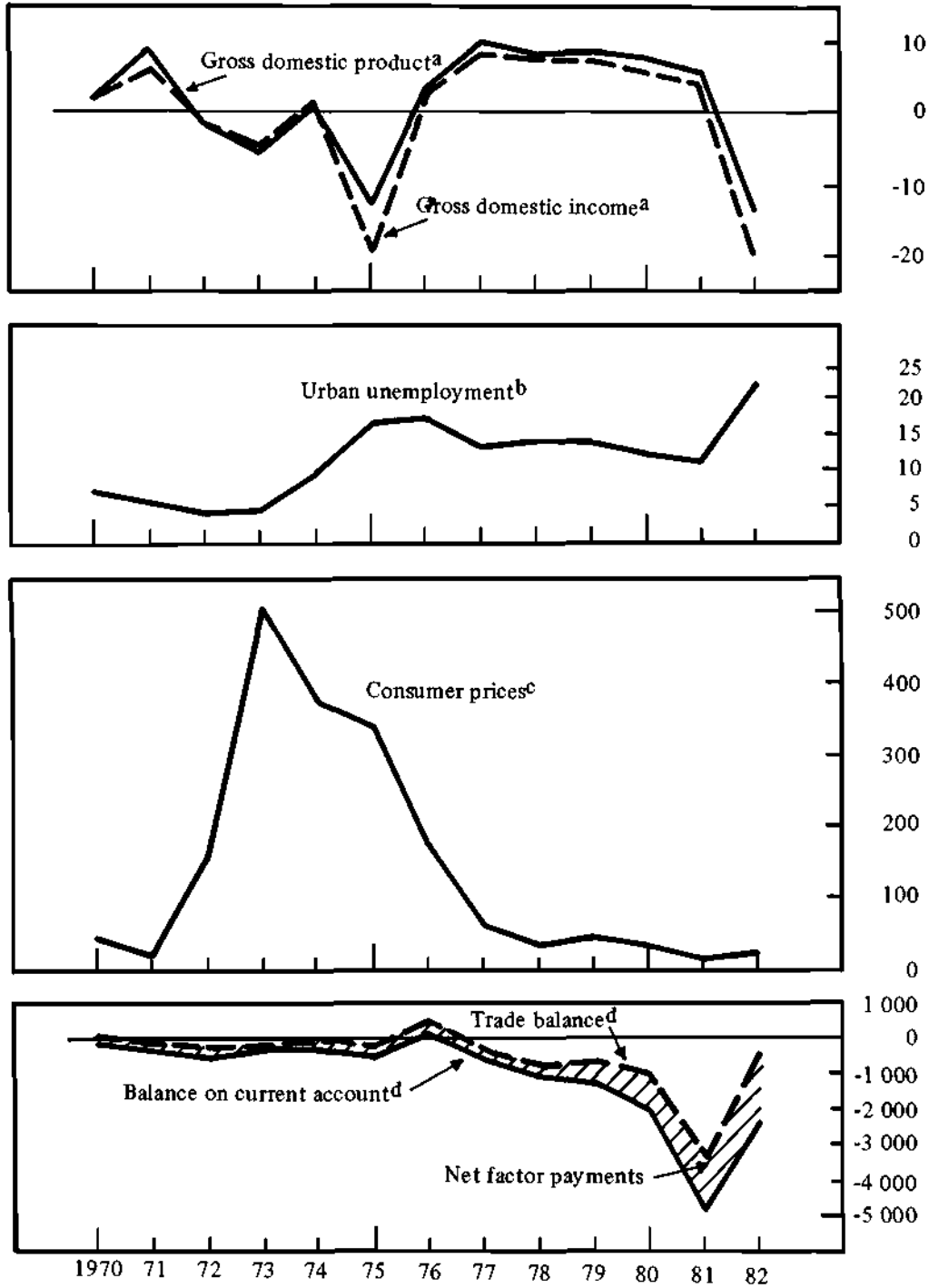
Because of the Government's reluctance to risk the resurgence of inflation, which it believed a devaluation might bring about, the authorities resisted the deflationary option for most of the first half of the year, and the exchange rate was kept fixed. Another event changed the terms of the whole debate, however. Thus, the conjunction of recession, exchange lag and crisis of the banking system sharply checked the inflow of capital, which, as already noted, was essential in order to maintain the prevailing exchange policy. As a result, the international reserves went down significantly, at the same time that productive activity declined and unemployment got worse. In these circumstances, the economic authorities finally opted in mid-June for the devaluation of the peso, raising the exchange rate from 39 to 46 pesos per dollar.

As it was now necessary, however, not only to correct the trade deficit brought about by the exchange lag but also to make up for the sharp contraction in the net inflow of capital and the growing climate of uncertainty, this devaluation proved to be insufficient. As explained in greater detail below, this led the economic authorities to try new exchange policies and to carry out additional devaluations in the following months, thus making the instability and uncertainty still more acute. At the end of the year, the exchange rate was 90% higher than it had been in June. Although this contributed markedly to increased inflation, the rise in the level of prices was substantially less than the increase in the exchange rate, so that ultimately by the end of 1982 it had proved possible to raise the effective real exchange rate by between 30% and 50% compared with the value at which it had stood at the beginning of the year.

Thanks to this sharp devaluation in real terms and, above all, to the acute drop in domestic economic activity, the volume of imports went down by over 40%, so that the deficit on current account was halved. Even so, the contraction in the net inflow of capital was so great that in the course of the year the international reserves went down by US\$ 1 200 million (see table 1).

The other factor which increasingly occupied the attention of those responsible for economic policy during the second half of the year was the crisis in the domestic financial system. As a result of the recession, the high real interest rates and the marked reduction in the volume of external credits, the situation of enterprises continued to deteriorate and the number of unpaid debts continued to increase. Thus, by the middle of the year the banks' portfolio of recognized bad debts came to close on

Figure 1  
CHILE: MAIN ECONOMIC INDICATORS



Source: ECLA, on the basis of official data.

<sup>a</sup>Annual growth rate.

<sup>b</sup>Annual average rate for Greater Santiago.

<sup>c</sup>Percentage variation December - December.

<sup>d</sup>Millions of dollars.

50% of their capital and reserves. In reality, the problem was still more serious, since many risky loans did not figure in the portfolio of bad debts because the banks continued to extend credit, without adequate guarantees, to enterprises which belonged to the same economic groups as owned the banks in question.

Finally, it was obvious that both because of the high level of real interest rates and the decline in economic activity, many enterprises simply could not fulfill their obligations to the financial entities.

In these circumstances, the basic problem was that of who was going to assume responsibility for the losses in question: the enterprises, the banks, depositors, or the Government.

For their part, the enterprises were reluctant to liquidate assets because, in the prevailing recessive context, this meant suffering heavy capital losses and even risking bankruptcy. Consequently, they tried to gain time by seeking increasingly large credits from the banks. The latter, for their part, tended to comply with these demands, since if they foreclosed on their debtors they would only get back a small part of the loans previously extended to them, because of the sharp drop which had been suffered by the prices of assets. Partly for this reason and partly in order to avoid a situation where the credits already granted would help to swell their already heavy portfolio of bad debts, the banks preferred to renew and expand these loans in order to be able to capitalize the overdue interest.

In the face of this helplessness or virtual paralysis of the private sector and its inability to solve the financial problem the Government had to step in. First of all, through the Central Bank, it offered to buy the portfolios of bad debts and high-risk commitments of the banks; secondly, it established a preferential exchange rate for the dollar for debtors in that currency, whose liabilities had increased sharply after devaluation, in order to facilitate in this way the fulfilment by those debtors of their outstanding obligations; and thirdly, it set up a fund to facilitate the renegotiation of the debts contracted in pesos between the banks and enterprises.

These measures made it possible to gain time and partly relieved the debt burden for some sectors, at the cost of the Government. As the magnitude of the real losses involved was so great, however, that it necessarily compromised the solvency of one of the two parties—either the banks or the enterprises—the amount of the renegotiations was smaller than expected. Consequently, at the end of the year the Government took a more active role and appointed official supervisors for the banks: a measure which eventually led to direct government intervention in most of the banking and financial system in early 1983.

In these circumstances, because of the atmosphere of great uncertainty generated by the June devaluation, the frequent subsequent changes in the system and in exchange parity, and the successive measures adopted in order to try to solve the financial problems of the banks and their debtors, the efforts made by the authorities to inject greater liquidity into the economy in the last quarter of the year were frustrated by a run on the dollar. Because of this and of the sharp contraction in the inflow of capital, economic activity continued to decline up to the end of the year.

## 2. Trends in economic activity

### a) *Total supply and demand*

After having expanded at the extraordinarily high rate of almost 9% per year between 1978 and 1981, the total supply of goods and services suffered an equally exceptional drop in 18% in 1982 (see table 2).

This sharp drop was due both to the severe decline in the gross domestic product and the spectacular drop in the volume of imports of goods and services. This volume, which had almost doubled over the previous four years, went down by 36% in 1982 as a result of the pronounced decline in domestic economic activity, the rise in the exchange rate, and the existence of heavy stocks of consumer durables, intermediate products and equipment imported in previous years. In these circumstances, the import coefficient dropped below 15% after having reached a level of close to 20% in 1981—the highest figure registered since 1961.

In 1982 there was also an extraordinarily sharp decline in all the components of domestic demand. As was to be expected, the most pronounced drop was in fixed capital investment. In 1979, this had recovered from the enormous slump suffered during the 1975-1976 depression, and in the following two years it grew at an average annual rate of around 18%, but in 1982 it went down by

almost 43%. This striking drop was reflected in the decline of 29% in the domestic product of the construction industry and the reduction of 53% in the value of imports of capital goods. It also brought about a considerable decline in the coefficient of fixed investment, which went down from 13% in 1981 to only 9.4% in 1982.

As the drop in gross fixed capital formation was also accompanied by a sharp decline in stocks, the fall in gross domestic investment was even greater and it went down by 70%, so that the global investment coefficient shrank below 6%, which was by far the lowest level recorded in the last twenty years.<sup>1</sup>

In addition, the persistent increase in unemployment, the decline in disposable income, the rise in interest rates and the drop in the real value of assets helped to generate an enormous decline of 18% in private consumption, while the restrictive policies applied by the Government caused public consumption to go down by almost 8%.

Thus, in practice, the only item which showed a positive evolution in 1982 was the volume of exports of goods and services, for in spite of the very unfavourable external context and the maintenance during the first half of the year of a very low real exchange rate, the volume of exports rose by 8.5%. Partly because of this increase, but even more so because of the drop in the product, the export coefficient rose to 35%, which was the highest level registered in Chile in the last half century.

#### b) *Evolution of the main sectors*

As well as being very severe, the decline in economic activity was also widespread. Thus, in 1982 there was a decline in the product of all the main activities of the economy except mining (which increased by close to 6%) and electricity, gas and water services (which remained practically unchanged). The drops were particularly marked in the case of construction and commerce—activities which had expanded at an extraordinary rate in the previous four years—and also in manufacturing, whose growth rate had already declined markedly in 1981 (see table 3).

i) *Agriculture.* After having recovered in 1979 from the 5% drop suffered the year before and then growing at an average rate of 4% in the two-year period 1980-1981, the agricultural product

Table 2

#### CHILE: TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1970 prices			Percentage breakdown			Growth rates			
	1980	1981	1982 <sup>a</sup>	1970	1980	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>a</sup>
Total supply	13 651	14 718	12 083	112.7	117.4	114.8	9.9	8.6	7.8	-17.9
Gross domestic product at market prices	11 624	12 289	10 527	100.0	100.0	100.0	8.3	7.8	5.7	-14.3
Imports of goods and services <sup>b</sup>	2 027	2 429	1 556	12.7	17.4	14.8	20.6	13.4	19.9	-36.0
Total demand	13 651	14 718	12 083	112.7	117.4	114.8	9.9	8.6	7.8	-17.9
Domestic demand	10 315	11 335	8 413	98.9	88.7	79.9	6.2	6.6	9.9	-25.8
Gross domestic investment	1 954	2 065	624	16.4	16.8	5.9	29.1	31.2	5.7	-69.8
Gross fixed investment	1 508	1 729	994	15.0	13.0	9.4	16.8	21.9	14.7	-42.6
Construction	723	846	636	9.2	6.2	6.0	19.4	22.4	17.2	-24.9
Machinery and equipment	785	883	358	5.8	6.8	3.4	14.7	21.5	12.4	-59.5
Changes in stocks	446	336	-370	1.4	3.8	-3.5				
Total consumption	8 360	9 270	7 789	82.5	71.9	74.0	2.9	2.1	10.9	-16.0
General government	1 529	1 534	1 415	12.8	13.2	13.4	9.2	-8.1	0.3	-7.8
Private	6 831	7 736	6 374	69.7	58.8	60.6	1.4	4.7	13.2	-17.6
Exports of goods and services <sup>b</sup>	3 336	3 383	3 670	13.8	28.7	34.9	24.3	15.3	1.4	8.5

Source: ECLA, on the basis of data supplied by the Central Bank of Chile

<sup>a</sup>Preliminary figures.

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

<sup>1</sup>The strikingly low level reached by the investment coefficient in 1982 is evident when it is noted that it was 30% below that registered in 1976 (at the end of the crisis of the mid-1970s); 42% below that corresponding to the three-year period 1971-1973; and 51% below the average for the period 1960-1970.

Table 3

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

	Millions of dollars at 1970 prices			Percentage breakdown			Growth rates			
	1980	1981	1982 <sup>a</sup>	1970	1980	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>a</sup>
Gross domestic product <sup>b</sup>	10 008	10 580	9 090	100.0	100.0	100.0	8.3	7.8	5.7	-14.3
Goods	4 610	4 887	4 277	50.4	46.2	46.2	8.1	6.9	6.0	-12.5
Agriculture, hunting, forestry and fisheries	745	785	767	7.7	7.5	8.3	6.2	3.8	5.3	-2.3
Mining and quarrying	1 124	1 214	1 283	10.3	11.3	13.9	5.4	5.2	8.0	5.7
Manufacturing	2 323	2 383	1 868	26.6	23.3	20.2	7.9	6.2	2.6	-21.6
Construction	418	506	359	5.8	4.2	3.9	23.9	23.9	21.1	-29.0
Basic services	1 035	1 049	971	8.9	10.4	10.5	8.4	9.5	1.4	-7.5
Electricity, gas and water	261	267	266	2.1	2.6	2.9	6.8	5.0	2.1	-0.2
Transport, storage and communications	774	783	705	6.8	7.8	7.6	9.0	11.1	1.1	-9.9
Other services	4 910	5 189	4 659	42.9	49.2	50.3	8.8	8.3	5.7	-10.8
Commerce <sup>c</sup>	1 509	1 609	1 323	13.5	15.1	14.3	11.0	12.4	6.6	-17.8
Financial institutions, insurance, real estate and business services	1 588	1 767	1 662	11.0	15.9	18.0	16.0	14.5	11.2	-5.9
Ownership of dwellings	527	535	541	5.9	5.3	5.8	0.5	1.0	1.5	1.0
Community, social and personal services	1 813	1 813	1 674	18.4	18.2	18.1	2.4	0.5	-	-7.6
Government services <sup>d</sup>	612	601	584	6.5	6.1	6.3	-1.2	-3.2	-1.8	-2.9
Less: Imputed bank services	580	750	648	2.2	5.8	7.0	45.6	41.0	29.2	-13.6

Source: ECLA, on the basis of figures supplied by the Central Bank of Chile.

<sup>a</sup>Preliminary figures.

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

<sup>c</sup>Restaurants and hotels are included under community, social and personal services.

<sup>d</sup>Refers to public administration and defence.

went down by 3.3% in 1982. This was the overall result of the 4.5% contraction in crop farming production and the 2.3% decline in stock farming output.

The decline in crop farming production—the fourth in the last five years—was due entirely to the generalized drop in the harvests of the traditional crops. The value of the output of these crops at constant prices went down by almost 6%, thus making a total decline of over 18% in the period 1980-1982 (see table 4).

As in 1981, the main cause of this lower production was the reduction in the area sown, which went down by close to 13% for the second year running. As a result, the area devoted to the traditional crops dropped to its lowest level in over half a century. Yields rose, however, in the case of all crops except peas and chickpeas, and they reached record levels in the case of rice, maize, beans, sugar beet and sunflower seed.

Despite the generalized rise in yields, there was a reduction in 1982 in the harvests of most cereals, the only exceptions being barley, whose output partly recovered after having fallen steadily over the previous four years, and rice, which registered the highest crop of any year except 1979. In contrast, the output of wheat, which had already dropped to the lowest level in the last 50 years in 1981, went down by over 5%, so that it amounted to less than half the record crop registered in 1971.

In 1982 there was also a decline in the production of all pulses except beans, the output of which rose sharply for the second year running and reached a record level. In contrast, the output of lentils went down for the fourth time in the last five years, while the pea crop went down for the fourth successive year.

The declines in production were even greater in the case of industrial crops. Thus, output of sugar beet—which had recovered strongly the previous year—went down by 34% in 1982, while the harvests of sunflower seed and rape went down by 28% and 51%, respectively, after having suffered even sharper drops in 1981 (see table 4).

As in the previous two years, the unfavourable evolution of most of the traditional crops contrasted with the progress in fruit production. Thus, in 1982 there was an increase in the harvests of all the main types of fruit except quinces (see table 5). Once again, there were particularly marked increases in the production of apples (16%) and table grapes (33%), which are intended mostly for the external market and which in 1982 generated around 80% of the total value of fruit exports. Thanks to these increases and to the rapid growth registered in previous years, the output of apples almost doubled between 1979 and 1982, while that of table grapes rose by 105% over the same period. All the same, there was a marked reduction in 1982 in the growth rate of the area planted with fruit trees, since after having expanded at an average annual rate of close to 6% in the previous four years, it grew by only a little over 2% in 1982.

As already noted, there was also a reduction in 1982 in stock raising production, which had increased with considerable rapidity in the previous three years. An important factor in this was the complete stagnation of meat production as a result of the changes in opposite directions which took place in its two main components. Thus, while beef production rose by over 5%, that of poultry meat went down by almost 8%. At the same time, while the increase in pork production continued —albeit

Table 4  
CHILE: INDICATORS OF AGRICULTURAL PRODUCTION

	1970	1975	1980	1981	1982 <sup>a</sup>	Growth rates			
						1979	1980	1981	1982 <sup>a</sup>
<b>Production of the 14 traditional crops</b>									
Value <sup>b</sup>	148.6	135.5	135.7	130.4	122.7	17.5	-9.7	-3.9	-5.9
Volume <sup>c</sup>									
Wheat	1 306.9	1 002.4	966.0	686.0	650.5	11.5	-2.9	-29.0	-5.2
Oats	110.5	131.1	172.6	130.7	117.6	62.2	14.9	-24.3	-10.0
Barley	97.4	120.6	105.0	91.4	117.9	-10.7	-6.3	-13.0	29.0
Rye	10.8	11.1	10.4	9.2	6.1	-16.7	15.6	-11.5	-34.2
Rice	76.2	76.3	95.4	99.7	131.2	72.9	-47.4	4.5	31.5
Maize	239.1	329.0	405.2	518.2	484.1	90.5	-17.2	27.9	-6.6
Potatoes	683.8	737.9	903.1	1 007.3	841.6	-21.4	17.2	11.5	-16.5
Beans	65.6	74.1	84.2	138.2	162.5	3.7	-27.6	64.1	17.5
Lentils	11.2	12.1	26.8	17.7	15.8	67.0	-15.5	-34.0	-10.6
Peas	7.4	6.3	13.6	11.0	7.4	-7.0	-6.8	-19.1	-32.4
Chickpeas	5.4	4.9	11.6	6.4	4.1	70.9	23.4	-44.8	-36.4
Sugar beet	1 655.1	1 616.7	450.2	1 467.0	967.3	-19.1	-33.7	224.4	-34.1
Rape	70.0	61.4	73.4	26.9	13.2	24.2	13.6	-63.4	-50.8
Sunflower	28.2	17.8	38.3	7.4	5.4	11.0	15.0	-80.7	-27.6
<b>Area sown with the 14 traditional crops<sup>d</sup></b>	1 251	1 248	1 237	1 079	944	4.7	-1.1	-12.8	-12.5
Wheat	740	686	546	432	374	-3.3	-2.7	-20.9	-13.5
Oats	73	94	92	80	68	-3.3	16.5	-13.0	-15.1
Barley	47	66	49	46	57	-6.3	-18.3	-6.1	25.1
Rye	8	9	8	9	6	-36.4	14.3	12.5	-37.4
Rice	25	23	41	31	37	42.4	-12.8	-24.4	17.7
Maize	74	92	116	125	98	38.3	-10.8	7.8	-21.6
Potatoes	72	72	89	90	77	-11.0	9.9	1.1	-14.3
Beans	57	68	111	118	134	-0.9	0.9	6.3	14.1
Lentils	17	21	53	48	35	56.3	6.0	-9.4	-27.5
Peas	11	9	18	18	12	-	5.9	-	-31.2
Chickpeas	11	8	21	16	10	54.5	23.5	-23.8	-37.7
Sugar beet	42	42	11	37	22	-23.8	-31.3	236.4	-40.3
Rape	54	45	50	24	10	58.8	-7.4	-52.0	-56.8
Sunflower	20	13	32	5	3	4.2	45.5	-84.4	-33.2

Source: National Statistical Institute (INE).

<sup>a</sup>Preliminary figures.

<sup>b</sup>Millions of pesos at 1974 prices.

<sup>c</sup>Thousands of tons.

<sup>d</sup>Thousands of hectares.

Table 5  
CHILE: INDICATORS OF FRUIT-GROWING ACTIVITY

	1975	1979	1980	1981 <sup>a</sup>	1982 <sup>a</sup>	1979	1980	1981 <sup>a</sup>	1982 <sup>a</sup>
	Production (thousands of tons)					Growth rates			
Almonds	0.8	1.1	1.2	1.2	1.3	3.3	10.0	0.2	0.8
Cherries	5.1	5.5	5.3	5.9	6.3	-5.8	-2.9	11.4	7.4
Plums	13.2	16.0	17.0	17.2	18.4	1.0	6.1	1.4	6.7
Apricots	13.9	14.3	13.6	13.0	14.2	-3.9	-5.0	-4.6	9.3
Peaches	115.0	82.7	78.2	71.0	75.6	-3.3	-5.5	-9.2	6.5
Nectarines	30.8	33.9	36.4	39.7	52.5	5.2	7.2	9.2	32.2
Lemons	69.8	68.3	66.7	64.7	69.6	4.3	-2.4	-3.1	7.7
Apples	125.0	210.0	245.0	298.4	345.0	20.0	16.7	21.7	15.6
Quinces	5.5	7.8	7.9	8.4	7.3	17.1	1.3	6.2	-13.5
Oranges	46.9	50.6	49.2	53.8	55.4	-0.4	-2.7	9.4	2.9
Walnuts	3.1	4.9	5.2	5.7	6.3	7.4	6.2	8.7	11.5
Olives	10.4	9.3	11.2	7.2	9.2	-10.2	21.3	-36.3	28.2
Avocados	14.7	19.4	21.7	25.0	25.7	3.0	12.1	15.2	2.9
Pears	33.8	38.3	39.1	41.5	42.6	0.3	2.2	6.2	2.5
Table grapes	59.1	78.9	85.0	121.7	162.4	4.6	7.8	43.1	33.4
	Area planted (hectares)					Growth rates			
<b>Total</b>	<b>65 775</b>	<b>77 486</b>	<b>82 489</b>	<b>86 789</b>	<b>88 795</b>	<b>6.2</b>	<b>6.5</b>	<b>5.2</b>	<b>2.3</b>
Almonds	1 605	2 099	2 203	2 238	2 250	8.2	5.0	1.6	0.5
Cherries	1 050	1 576	1 822	1 982	2 012	25.6	15.6	8.8	1.5
Plums	1 780	2 358	2 635	2 881	4 101	15.2	11.7	9.3	42.3
Apricots	1 625	1 439	1 285	1 290	1 283	-6.3	-10.7	0.4	-0.5
Peaches	10 400	6 127	6 261	6 492	6 189	-15.5	2.2	3.7	-4.7
Nectarines	4 050	5 330	5 813	6 159	6 532	8.1	9.1	6.0	6.1
Lemons	7 420	6 875	6 454	6 455	5 377	-1.9	-6.1	-	-16.7
Apples	11 700	14 735	15 768	17 452	17 186	8.5	7.0	10.7	-1.5
Quinces	975	780	664	694	492	-11.4	-14.9	4.5	-29.1
Oranges	4 630	4 913	4 966	5 039	5 664	6.7	1.1	1.5	12.4
Walnuts	4 350	5 818	6 429	6 529	6 615	9.1	10.5	1.6	1.3
Olives	3 205	3 206	3 060	2 986	2 977	-	-4.6	-2.4	-0.3
Avocados	4 605	5 800	6 178	6 643	7 535	7.2	6.5	7.5	13.4
Pears	2 630	2 880	2 909	3 191	3 859	2.1	1.0	9.7	20.9
Table grapes	5 650	13 550	16 042	16 758	16 793	24.4	18.4	4.5	0.2

Source: Ministry of Agriculture, Agricultural Planning Office (ODEPA).

<sup>a</sup>Preliminary figures.

much more slowly than in the previous five years— the output of mutton went down by 4.5%. The difficult situation of the poultry raising industry was also reflected in the 9% decline in egg production. In addition, milk production went down by 12%, while the output of greasy wool remained unchanged after having grown steadily between 1976 and 1981 (see table 6).

Finally, during 1982 there was also a reduction in the newly-planted and replanted forested area, in spite of the fact that forestry production is an activity which has major comparative advantages and also enjoys tax incentives. Thus, the total area afforested in 1982 was 68 600 hectares, which was not only well below the figure of 93 200 hectares afforested in 1981, but was also below all the figures registered since 1975 except for 1979. In a further accentuation of the tendency which began in 1977, almost all the afforestation carried out in 1982 was effected by the private sector (see table 7).

ii) *Fisheries*. As in the year before, fisheries were the most dynamic activity in the whole economy in 1982, when their product increased by almost 9% after having doubled between 1976 and 1981 (see table 8). The main element behind this growth, as in previous years, was the catch of fish for industrial processing, which increased for the seventh consecutive year and exceeded three and a half million tons for the first time on record. Thanks to this increase, the fish meal industry was also able to continue expanding vigorously. Indeed, its output in 1982 was not only the highest ever recorded, but also put Chile ahead of all other countries producing fish meal in the world. The bigger

Table 6

## CHILE: INDICATORS OF LIVESTOCK PRODUCTION

	1970	1975	1980	1981	1982 <sup>a</sup>	Growth rates				
						1979	1980	1981	1982 <sup>a</sup>	
<b>Production of main livestock items<sup>b</sup></b>										
Beef	176.1	215.5	162.3	184.6	194.6	1.6	-3.1	13.7	5.4	
Poultry meat	61.6	43.8	102.0	122.5	112.0	34.6	29.3	20.1	-7.8	
Pigmeat	44.4	30.0	49.7	55.8	57.7	25.6	16.9	12.3	3.4	
Mutton	22.4	18.1	15.5	15.6	14.9	15.7	-12.4	0.6	-4.5	
Milk <sup>c</sup>	895.1	956.1	1 077.5	1 200.0	1 056.0	-2.3	13.0	11.1	-12.0	
Eggs <sup>d</sup>	1 205.8	1 196.8	1 425.0	1 442.8	1 312.8	4.3	17.1	1.2	-9.0	
Greasy wool	20.2	18.8	20.6	21.6	21.6	1.6	5.1	4.9	-	

Source: Beef, pigmeat and mutton: National Statistical Institute (INE); other livestock items: Agricultural Planning Office (ODEPA).

<sup>a</sup>Preliminary figures.

<sup>b</sup>Thousands of tons.

<sup>c</sup>Millions of litres.

<sup>d</sup>Millions of units.

Table 7

## CHILE: REAFFORESTED AREA

(Thousands of hectares)

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982 <sup>a</sup>
<b>Total</b>	31.0	30.3	56.2	82.6	107.7	93.2	79.0	52.0	72.3	93.2	68.6
National Forestry Corporation (CONAF)	24.8	27.4	35.2	44.1	54.1	44.6	25.0	0.4	0.2	0.1	-
Private enterprises	6.3	2.9	21.1	38.5	53.6	48.6	54.0	51.6	72.1	93.1	68.6

Source: National Forestry Corporation (CONAF).

<sup>a</sup>Preliminary figures.

Table 8

## CHILE: INDICATORS OF FISHERY PRODUCTION

	1970	1975	1980	1981	1982 <sup>a</sup>	Growth rates			
						1979	1980	1981	1982 <sup>a</sup>
<b>Fishery product<sup>b</sup></b>	24.9	24.5	54.7	64.6	70.3	14.4	7.5	18.1	8.8
<b>Fishing catch<sup>c</sup></b>	1 181	899	2 892	3 503	3 846	32.7	13.0	21.1	9.8
Fish	1 082	804	2 700	3 291	3 577	33.9	11.2	21.9	8.7
Fresh consumption	62	71	75	149	64	9.6	-27.2	98.7	-57.0
Industrial processing	1 020	733	2 625	3 142	3 513	35.3	12.9	19.7	11.8
Shellfish	99	95	192	212	269	13.8	45.5	10.4	26.9
Fresh consumption	34	33	54	46	52	15.8	22.7	-14.8	13.0
Industrial processing	65	62	138	166	217	12.8	56.8	20.3	30.7
<b>Output of fishery products<sup>d</sup></b>	240.6	197.6	734.6	860.5	1 025.2	37.8	9.4	17.1	19.1
Frozen	7.4	6.9	13.5	15.4	60.8	60.0	-39.7	14.1	294.8
Canned	11.9	9.0	38.0	29.5	23.5	22.8	38.2	-22.4	-20.3
Fishmeal	197.3	155.1	571.9	688.3	795.8	36.7	11.6	20.4	15.6
Fish oil	23.3	25.8	111.0	127.3	145.0	43.7	1.9	14.7	13.9
Other	0.7	0.8	0.2	-	0.1	-	-	-	-

Source: Ministry of Agriculture, Crop-farming and Livestock Service (SAG).

<sup>a</sup>Preliminary figures.

<sup>b</sup>Millions of dollars at 1970 prices.

<sup>c</sup>Thousands of tons.

<sup>d</sup>Thousands of tons of finished product.



catch also made it possible to increase considerably the output of fish oil and especially frozen fish. At the same time, the shellfish catch also continued to expand, so that its volume doubled over the last three years (see table 8).

iii) *Mining*. Together with fisheries, mining was the only sector which increased its level of activity in 1982, when the gross domestic mining product rose by 4% after having grown by rather more than 5% annually in the two-year period 1979-1980 and by 8% in 1981.

This growth—which was achieved despite the very unfavourable evolution of the international prices of most minerals—was due mainly to the noteworthy expansion in copper production, which rose by almost 15% to 1 240 000 tons, so that in 1982 Chile became the leading producer of copper in the world. Most of the increase in output came from the State-owned enterprises in the large-scale mining sector, whose production—after fluctuating around 900 000 tons between 1977 and 1981—increased by 15.5% in 1982 to exceed one million tons for the first time. This increase was achieved mainly thanks to the expansion of the concentrating plants at Chuquicamata and El Salvador. At the same time, the small and medium-scale mining sector also continued its rapid growth for the third year running, expanding by close to 11% due mainly to the entry into operation of the new sulphides plant at Mantos Blancos.

In 1982 there was also a record output of molybdenum, which increased by over 30% to more than 20 000 tons after having already increased by 12.5% in 1981.

Gold production also continued to expand vigorously during 1982, when it grew by 35% after having almost doubled in 1980 and growing by over 80% in 1981. This latest increase was due mainly to the entry into full production of the El Indio mine.

The greater output of petroleum also contributed to the higher mining sector product. However, the 3.5% increase registered by petroleum extraction was markedly below the growth achieved in the previous three years, when production of crude rose by almost 160% (see table 9). In

Table 9

## CHILE: INDICATORS OF MINING PRODUCTION

	Production					Growth rates			
	1970	1975	1980	1981	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>a</sup>
Mining sector product <sup>b</sup>	802	866	1 124	1 214	1 262	5.4	5.2	8.0	4.0
Copper <sup>c</sup>	692	828	1 068	1 081	1 241	2.5	0.5	1.2	14.8
Large-scale mining	541	683	905	894	1 033	3.8	-0.5	-1.2	15.5
Medium-and small-scale mining	151	146	163	188	208	-4.4	7.9	15.3	10.6
Iron ore <sup>c</sup>									
Ore	11 265	11 007	8 835	8 514	6 470	5.3	7.4	-3.6	-24.0
Pelllets	...	...	3 179	3 266	3 377	46.4	12.9	2.7	3.4
Coal <sup>d</sup>	1 382	1 460	1 024	1 169	997	-16.6	7.0	14.2	-14.7
Nitrates <sup>d</sup>	669	726	620	624	575	17.3	-0.2	0.6	-7.9
Iodine <sup>e</sup>	2 250	1 962	2 601	2 688	2 609	25.4	7.9	3.3	-2.9
Sodium sulphate <sup>e</sup>			70 100	58 320	51 165	56.9	2.0	-16.8	-12.3
Petroleum <sup>f</sup>	1 977	1 423	1 933	2 401	2 484	29.4	60.8	24.2	3.5
Molybdenum <sup>g</sup>	5 701	9 091	13 668	15 360	20 048	2.8	0.8	12.4	30.5
Gold <sup>h</sup>	1 623	3 997	6 836	12 456	16 786	8.9	97.2	82.2	34.8
Silver <sup>i</sup>	76	194	299	361	379	6.7	9.9	20.7	5.0

Source: Copper: Chilean Copper Corporation; State Department of Mines; iron ore: National Statistical Institute; coal: National Coal Corporation; Nitrates, iodine and sodium sulphate: Chilean Chemical Corporation; petroleum: National Petroleum Corporation; Molybdenum: State Department of Mines and National Statistical Institute; gold and silver: National Statistical Institute.

<sup>a</sup> Preliminary figures.

<sup>b</sup> Millions of dollars at 1970 prices.

<sup>c</sup> Thousands of tons.

<sup>d</sup> Thousands of gross tons.

<sup>e</sup> Tons.

<sup>f</sup> Thousands of cubic metres.

<sup>g</sup> Kilogrammes fine.

1982, as in those years also, most of the production (78%) came from the offshore oilfields in the Straits of Magellan. Due partly to the larger production and partly to the decline in the consumption of liquid fuels, the proportion of domestic demand for the latter which was satisfied by national production rose once again, reaching 52% in 1982.<sup>2</sup>

In contrast with the favourable evolution of the production of copper, petroleum and precious metals, the output of all the other major minerals went down in 1982. The severest drop (-24%) was in the extraction of iron ore, which thus continued the almost uninterrupted downward trend begun in 1976.<sup>3</sup> As in previous years, however, this decline was partly offset by the larger production of pellets, which thus continued to increase their relative importance in the iron ore mining branch.

There were also substantial declines in production in the coal mining and nitrates industries. In the first of these, coal production went down by close to 15% to the lowest level registered for the last 40 years, except for 1979. In the nitrates industry, for its part, production went down in the three main branches: nitrates (-8%), iodine (-3%) and sodium sulphate (-12%).

iv) *Manufacturing*. As during the great economic contraction of 1975, the sector most seriously affected after the construction industry by the decline in economic activity in 1982 was manufacturing. The industrial product dropped by close to 22% to a level equivalent to that achieved as far back as 1966, when the population of the country was 23% smaller. The great magnitude of the setbacks suffered by the manufacturing sector was also reflected in the declines in industrial output as registered by the indexes of the National Statistical Institute (INE) and the Sociedad de Fomento Fabril, which went down by 24 and 18%, respectively (see table 10).

Because of the sharp reduction in disposable income, the extraordinary rise in real interest rates and the virtual collapse of the building sector, the declines in manufacturing output were naturally most pronounced in those industries producing consumer durables, transport equipment and intermediate goods for the construction sector.

Output of the first-mentioned goods suffered an unprecedented reduction of 56%, which was practically twice as severe as that registered during the 1975 depression. As a result of this extraordinary drop, the level of activity in this branch of industry was not only some 50% lower than in the early 1970s but was even 22% below the level of 1976, at the culmination of the previous economic crisis.

Table 10

CHILE: INDICATORS OF MANUFACTURING

	Indexes (1969 = 100)					Growth rates				
	1970	1975	1980	1981	1982 <sup>a</sup>	1975	1979	1980	1981	1982 <sup>a</sup>
Industrial product <sup>b</sup>	2 073	1 613	2 323	2 383	1 861	-25.5	7.9	6.2	2.6	-21.6
Industrial output										
INE	99.7	77.9	110.2	110.5	84.0	-28.1	7.8	5.9	0.3	-24.0
SOFOFA	103.5	85.0	129.2	129.3	106.6	-23.5	8.2	4.0	0.1	-17.6
Mass consumption goods	104.5	84.6	120.1	119.0	106.3	-18.9	6.5	0.3	-0.9	-10.7
Consumer durable	115.6	88.1	122.1	134.8	59.2	-28.9	4.6	28.4	10.4	-56.1
Transport equipment	100.0	53.6	109.7	94.6	59.5	-26.4	-0.3	19.8	-13.8	-37.1
Intermediate products for industry	100.6	113.1	155.2	154.0	146.3	-14.9	6.5	1.2	-0.8	-5.0
Intermediate products for construction	104.1	65.1	145.7	142.8	99.4	-42.6	18.3	7.6	-2.0	-30.4
Miscellaneous manufactures	97.2	67.4	108.0	121.2	93.4	-36.2	15.1	1.7	12.2	-22.9
Industrial sales	99.7	85.9	128.6	127.9	109.3	-20.4	8.9	4.7	-0.5	-14.5

Source: Industrial product: National Planning Office (ODEPLAN); industrial output: National Statistical Institute (INE) and Sociedad de Fomento Fabril (SOFOFA); industrial sales: Sociedad de Fomento Fabril.

<sup>a</sup>Preliminary figures.

<sup>b</sup>Millions of dollars at 1970 prices.

<sup>2</sup>This proportion had risen from 20% in 1979 to 45% in 1981.

<sup>3</sup>Between 1975 and 1982, iron ore output went down by a little over 40%.

Table 11

## CHILE: MAIN INDICATORS OF CONSTRUCTION

	1970	1975	1980	1981	1982 <sup>a</sup>	Growth rates			
						1979	1980	1981	1982 <sup>a</sup>
Construction product <sup>b</sup>	455	305	418	506	361	23.9	23.9	21.1	-29.0
Building materials									
Deliveries of cement for the domestic market <sup>c</sup>	30.8	23.1	35.4	43.5	27.0	16.7	15.3	22.9	-37.9
Deliveries of round bars for construction <sup>d</sup>	86.1	53.9	107.6	83.8	40.9	35.1	38.5	-22.1	-51.2
Index of real sales of intermediate goods for construction (1969 = 100)	101.4	116.6	151.2	148.4	107.8	31.3	4.4	-1.9	-27.4
Building									
Total area (thousands m <sup>2</sup> )	2 272	1 676	4 297	5 118	2 080	35.7	37.0	19.1	-59.4
Public sector <sup>e</sup>	498	322	265	183	139	-57.4	64.6	-30.9	-24.0
Private sector <sup>f</sup>	1 774	1 354	4 032	4 935	1 941	53.9	35.5	22.4	-60.7
Residential	1 570	1 256	3 058	3 705	1 330	48.8	39.4	21.2	-64.1
Non residential	702	420	1 239	1 413	750	12.5	31.5	14.0	-46.9
Total number of dwellings	21 344	15 845	43 310	49 802	24 139	65.3	28.3	15.0	-51.5
Public sector <sup>e</sup>	3 552	3 105	1 589	534	314	-90.8	463.5	-66.4	-41.2
Private sector <sup>f</sup>	17 792	12 470	41 721	49 268	23 825	92.7	24.6	18.1	-51.6

Source: Construction product: ECLA, on the basis of data provided by the National Planning Office; building materials; Instituto Chileno del Cemento, Instituto Chileno del Acero, Sociedad de Fomento Fabril; building: National Statistical Institute (INE).

<sup>a</sup> Preliminary figures.

<sup>b</sup> Millions of dollars at 1970 prices

<sup>c</sup> Millions of bags.

<sup>d</sup> Thousands of tons.

<sup>e</sup> Buildings on which construction work had been started in 80 communes, except for 1970, when figures refer to only 60 communes.

<sup>f</sup> Permits approved.

There was also a very sharp drop in production in the transport equipment industry, whose output went down by 37% after having declined by almost 14% in 1981. This reduction took place in spite of the fact that the value of imports of motor vehicles fell by over 70% in 1982, and it reflects the results both of the enormous drop in demand and the considerable stock of unsold vehicles accumulated in previous years.<sup>4</sup>

The production of intermediate goods for the construction industry, for its part, went down by over 30%, so that its 1982 level was the lowest in the last 13 years, except for the three-year period 1975-1977.

There was also a considerable decline in the production of goods for everyday consumption (-11%), although, as was to be expected, it was a good deal less severe than in the case of the branches already referred to. Even so, except in the food industry, where production went down by 5.5%, the declines were still very considerable, varying from a little under 14% in the case of textile production to over 20% in the production of shoes and leather goods.

v) *Construction.* As noted earlier, in 1982 the construction sector suffered its severest decline since the serious contraction registered in the period 1975-1976. Thus, its gross domestic product, which had increased at an average rate of around 23% in the previous three years, went down by 29% (see table 11), so that its 1982 level, although higher than those registered during the crisis of the

<sup>4</sup> Between 1977 and 1981, the value of imports of motor vehicles increased more than fourfold, rising from US\$ 99 million to US\$ 428 million.

mid-1970s, was much lower than the levels reached before that and even below that registered as far back as 1962.

The exceptional nature of the decline in construction was also manifested in other significant indicators such as the sales of cement for the domestic market and round iron bars for construction—which went down by 38% and 51%, respectively—and above all, the area constructed, which shrank by almost 60%.

This latter drop was due not only to the high real interest rates and the decline in disposable income but also to the existence of some 15 000 new dwellings which were still unsold at the end of 1982.

The particularly unfavourable evolution displayed by the construction industry was also reflected in the steady decline in its level of activity in the course of the year and the equally sharp and persistent rise in unemployment. Thus, while in the first quarter of 1982 the construction product was 17.5% lower than in the equivalent period of 1981, in the fourth quarter it was 36% lower than in the corresponding period of the year before. Likewise, the rate of unemployment in the construction industry in Greater Santiago, which had already risen from 9% to 27% between June and December 1981, continued rising up to September 1982, when it reached the unprecedented level of almost 57%. Even though this rate went down somewhat towards the end of the year, mainly as a result of the expansion of the Minimum Employment Programme (PEM) and the initiation of the Employment Programme for Heads of Households (POJH), one out of every two construction industry workers was still without a job in December.

c) *Evolution of the employment situation*

In 1982, the employment crisis reached unprecedented dimensions which even exceeded those registered during the acute economic contraction of the mid-1970s. Thus, as the recession which began in the second half of 1981 got worse and, in particular, as a consequence of the enormous drops in activity in manufacturing and construction, the average rate of open unemployment in Greater Santiago reached the unprecedented level of 22%, which was not only twice as high as the year before but was also considerably higher than the rates registered during the 1975-1976 crisis (see table 12).

Table 12

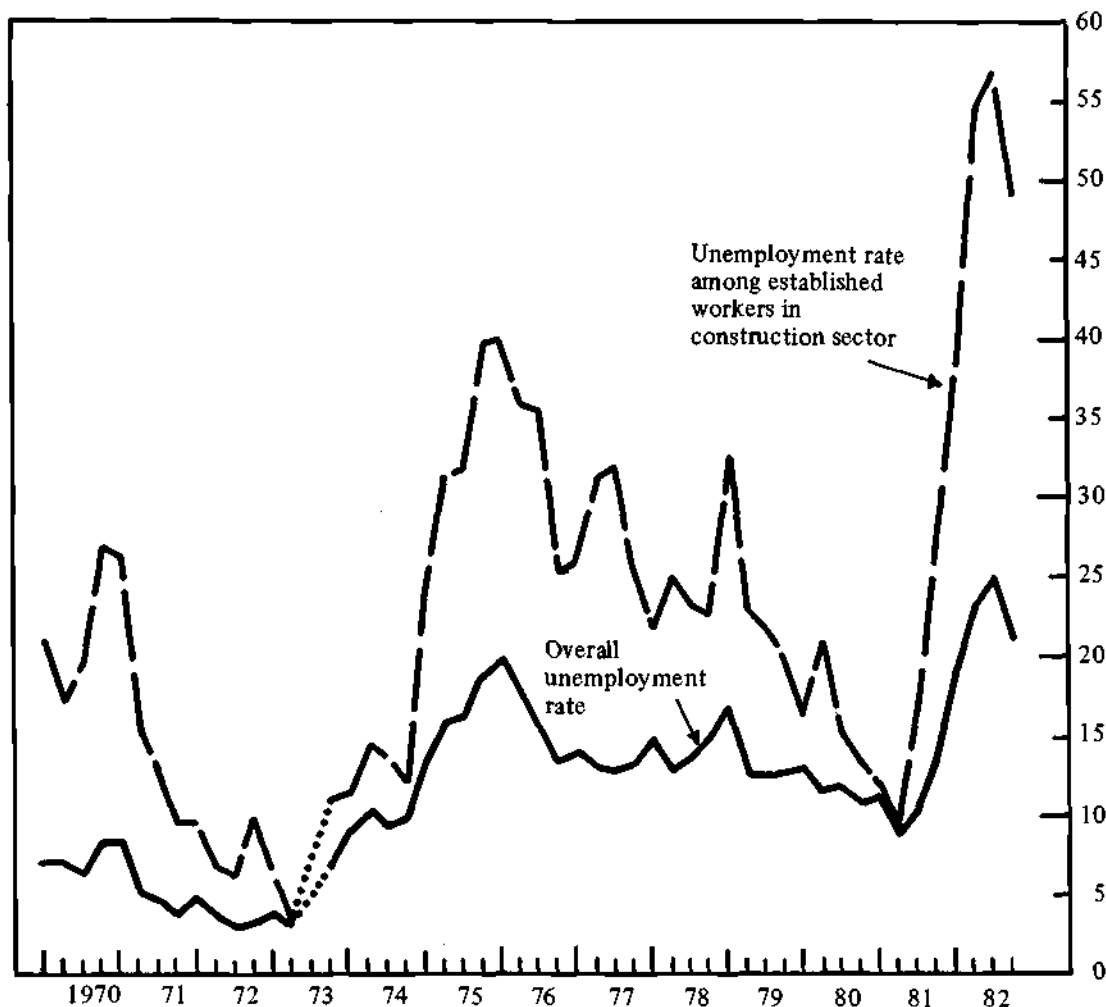
**CHILE: UNEMPLOYMENT IN GREATER SANTIAGO**  
(Percentages)

	Annual averages										
	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
<b>Total rate of unemployment</b>											
Department of Economics of the University of Chile	3.8	4.6	9.7	16.2	16.8	13.2	14.0	13.6	11.8	11.1	22.1
National Statistical Institute	3.2	4.8	9.7	15.0	17.0	13.9	13.8	13.4	11.8	9.0	20.0
<b>Overall rate of unemployment among the established labour force (i.e., excluding persons seeking work for the first time)</b>	2.8	3.2	6.7	11.9	12.6	9.9	10.5	10.1	8.7	8.5	18.8
Manufacturing	3.3	3.5	7.6	14.8	15.5	11.8	11.8	13.1	11.9	11.8	26.7
Construction	8.2	6.9	13.0	31.6	34.1	38.7	23.5	24.5	16.5	16.4	49.4
Commerce	2.2	3.1	5.3	9.1	9.7	7.4	8.8	8.3	6.4	5.9	14.5
Government and financial services	0.5	2.0	3.3	5.8	6.5	6.0	7.5	5.4	5.8	5.9	9.9
Personal and household services	1.9	2.6	7.5	12.5	13.7	8.5	10.8	8.9	8.4	7.0	12.9
Community and social services	2.4	2.0	4.3	6.1	6.0	6.8	7.0	5.9	5.6	4.8	10.3
Non-manual workers	2.2	2.4	4.5	7.4	8.3	6.7	8.0	7.5	5.3	6.3	15.6
Manual workers	4.7	5.2	10.9	20.6	20.7	16.3	16.5	16.0	14.5	14.4	28.9
Own-account workers	0.9	2.0	4.7	8.4	8.5	5.7	6.0	6.1	4.5	3.1	9.1

Source: Department of Economics of the University of Chile and National Statistical Institute (INE).

Figure 2

## CHILE: QUARTERLY UNEMPLOYMENT RATES FOR GREATER SANTIAGO



Source: Department of Economics of the University of Chile.

This exceptional increase in the average rate of unemployment was due to the uninterrupted rise in unemployment between June 1981 and September 1982, the dramatic features of which are clearly illustrated by figure 2. Thus, in the latter month one out of every four workers in Greater Santiago was without a job. The employment crisis was extremely serious in the manufacturing sector and still worse in construction. In this latter sector of activity, the average number of workers employed dropped from around 125 000 persons in the first half of 1981 to only a little over 57 000 in the second part of 1982, while over the same period the rate of unemployment rose from a little over 10% to 53%. The evolution was similar, although somewhat less serious, in manufacturing. Thus, between March 1981 and December 1982 approximately 100 000 workers lost their jobs in the industrial sector of Greater Santiago, so that the rate of unemployment in manufacturing more than trebled over the same period, rising from less than 9% at the beginning of 1981 to almost 26% at the end of 1982.

Partly because of the extraordinary severity of the drop in the global level of employment and partly because of the acute crisis in the financial sector, unemployment also hit the high and middle income groups in 1982. Thus, between September 1981 and the end of 1982 the number of non-manual workers employed in Greater Santiago went down by 25% and the relative share of non-manual workers in the total number of unemployed rose from 27% to 32%.

The deterioration in the employment situation was also very marked in the rest of the country. Indeed, the proportion of the labour force without work in 1982 was greater in the urban centres as a whole than in the capital, while in rural areas the average rate of unemployment rose from 8.2% in 1981 to 14.5% in 1982 (see table 13).

In addition to the sharp increase in open unemployment, the employment crisis had other manifestations, too. The most important of these was the extraordinarily marked increase in the number of persons registered in the Minimum Employment Programme, which had been set up in 1975 to offset in part the effects of the massive unemployment generated in that year by the contraction in economic activity. The participants in this Programme, however, can nevertheless be considered as underemployed because of the nature of the work they do and above all the scanty payment they receive.<sup>5</sup> As a result of the drastic fall in employment in most productive activities, the number of participants in the PEM rose continuously and rapidly throughout 1982, from less than

Table 13  
CHILE: UNEMPLOYMENT RATES, BY REGIONS  
(Percentages)

	Regions				Nation-wide
	I-IV	V-VII	VIII-XII	Metro-politan Region	
<b>Urban</b>					
1980					
March	11.0	13.7	14.2	12.8	13.1
September	10.4	13.3	16.4	11.6	12.9
1981					
March	12.3	11.0	13.6	11.4	11.9
September	11.1	14.7	19.1	10.8	13.2
1982					
March	20.1	18.1	25.1	18.9	20.2
September	24.1	23.7	28.3	24.5	25.2
<b>Rural</b>					
1980					
March	10.3	5.3	9.4	8.4	7.9
September	8.6	12.4	8.1	12.4	10.0
1981					
March	7.3	5.1	10.2	5.2	7.7
September	8.3	9.7	8.0	10.3	8.8
1982					
March	14.5	11.6	11.3	7.6	11.4
September	14.0	24.7	12.7	19.3	17.6
<b>Total</b>					
1980					
March	10.9	10.8	12.5	12.6	12.0
September	10.1	13.0	13.3	11.7	12.3
1981					
March	11.3	9.0	12.3	11.2	11.0
September	10.6	13.0	15.1	10.7	12.4
1982					
March	19.1	16.0	20.0	18.4	18.4
September	22.2	24.0	22.9	24.3	23.7

Source: Department of Economics of the University of Chile.

<sup>5</sup> Although the purchasing power of the monthly allowance received by the members of PEM was greater in 1982 than in 1981, it was still lower than in any other previous year and was 58% lower than in 1975 (see table 14).

Table 14

## CHILE: MINIMUM EMPLOYMENT PROGRAMME

	1975	1976	1977	1978	1979	1980	1981	1982
<b>Number of participants<sup>a</sup></b>								
Total	72.7	157.8	187.7	145.8	133.9	190.7	175.6	225.3
Metropolitan Region	19.6	34.9	36.4	29.0	21.8	28.1	23.2	35.6
Rest of country	53.1	122.9	151.2	116.8	112.1	162.6	152.4	189.7
<b>Monthly allowance paid</b>								
Nominal <sup>b</sup>	153	461	704	834	992	1 275	1 300	1 650
Real <sup>c</sup>	1 863	1 690	1 209	954	831	791	674	778

Source: National Statistical Institute (INE).

<sup>a</sup>Thousands

<sup>b</sup>Pesos.

<sup>c</sup>Pesos at December 1978 prices, on the basis of the corrected consumer price index given in table 23 below.

Table 15

## CHILE: EMPLOYMENT, UNEMPLOYMENT AND THE MINIMUM EMPLOYMENT PROGRAMME (PEM)

	Thousands of persons				Percentage of the labour force			
	Labour force	Employed	Unem- ployed	Minimum Employment Programme	Em- ployed less PEM	Unem- ployed (3) / (1)	Minimum Employment Programme (4) / (1)	Unem- ployed + PEM (3) + (4)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(1) (8)
1974	3 067	2 785	282		2 785	9.2		9.2
1975	3 112	2 661	451	73	2 588	14.5	2.4	16.8
1976	3 164	2 708	456	158	2 550	14.4	5.0	19.4
1977	3 221	2 810	411	188	2 622	12.8	5.8	18.6
1978	3 374	2 915	459	146	2 769	13.6	4.3	17.9
1979	3 481	2 999	482	134	2 865	13.9	3.9	17.7
1980	3 568	3 140	428	191	2 949	12.0	5.4	17.4
1981	3 641	3 247	393	176	3 071	10.8	4.8	15.6
1981 <sup>a</sup>	3 688	3 271	417	171	3 100	11.3	4.6	15.9
1982 <sup>a</sup>	3 504	2 825	679	323	2 502	19.4	9.2	28.6

Source: For labour force, employed and unemployed, 1974-1981: ODEPLAN estimates based on data of the National Statistical Institute. For same items for October-December 1981 and October-December 1982 and all Minimum Employment Programme figures: data of the National Statistical Institute (INE).

<sup>a</sup>October-December average.

160 000 in February to over 336 000 in December. Thus, by the end of the year the PEM was absorbing more than 9% of the total labour force of the country (see table 15).

The main factor which helped to reverse the sharp upward trend of the rate of unemployment in the last quarter of 1982 was the initiation of a new emergency plan called the Employment Programme for Heads of Households (POJH). This Programme, which generally involves the execution of public works with labour-intensive techniques, had as one of its main objectives the need to cope with the new problem represented by the existence of a high level of unemployment among professional persons, technicians and skilled workers. For this reason, a differentiated system of payments at much higher rates than the PEM was established.<sup>6</sup> As from its establishment in October the POJH expanded very quickly, and at the end of December it was employing close to 103 000 persons, that is to say, a proportion equivalent to almost 3% of the labour force.

<sup>6</sup>Thus, the monthly pay of professionally qualified persons acting as project heads was 30 000 pesos; that of technical supervisors was 15 000; that of foremen, 8 000, and that of the rank and file workers, 4 000.

### 3. The external sector

Three factors dominated the evolution of the external sector in 1982. These were the introduction of numerous far-reaching changes in exchange policies; the abrupt drop in imports after five years of rapid and continual expansion, and the equally violent drop in the net inflow of capital, which had also increased with unusual rapidity in the preceding period. In these circumstances, both the trade deficit and the current account deficit went down markedly from the record levels reached in 1981. Nevertheless, as a result of the sharp decline in the net inflow of external loans, the balance of payments closed with an unprecedented deficit of over US\$ 1 160 million. At the same time, the growth rate of the external debt went down markedly and there was a radical turnabout in the net transfer of resources from abroad, which, after reaching the extraordinarily high level of almost US\$ 3 300 million in 1981, became negative in 1982.

#### a) *Exchange policy*

i) *The debate.* At the beginning of 1982 it was obvious that the country was facing an external imbalance which could not be sustained for long and that it could not continue to finance its requirements through greater external indebtedness. Thus, the current account deficit, which had almost quadrupled between 1977 and 1980, rising from US\$ 570 million to US\$ 2 025 million, increased even more rapidly in 1981 to the unprecedented level of close to US\$ 4 900 million, which was equivalent to 90% of the total value of exports of goods and services. Although this enormous deficit had been financed by an equally exceptional net inflow of external capital of US\$ 5 billion, this meant that in that year alone the overall gross external debt increased by 40%, while the net external debt rose by 70%: growth rates which clearly could not be kept up in either case.

Although the utterly excessive current account deficit registered in 1981 was due partly to external factors, such as the very low price of copper and the unusually high level of international interest rates, it was also due partly to the exchange lag which had been building up since the end of 1979, as a result of which both exports and import substitutes had lost international competitiveness.

Estimates regarding the magnitude of the exchange lag accumulated between 1979 and the end of 1981 ranged from 25% to 32% (see table 16). The loss of international competitiveness was even greater if it was taken into account that during this period of time the principal component of domestic costs — wages — had increased by almost 20% in real terms. Thus, if the exchange lag was measured in the light of the rise in wages, the effective real exchange rate at the end of 1981 was almost 40% below its 1979 level. It was therefore easily understandable that in 1981 almost half the increase in domestic demand was channelled towards imports, and the marginal propensity to import reached the level of 40%.

In these circumstances, it was hardly surprising that the debate on how to solve the problem of the exchange lag became more acute during the early months of 1982. Two irreconcilable positions arose in this respect, favouring respectively a nominal devaluation or domestic deflation. Both options sought to recover the lost competitiveness by reducing domestic prices compared with international prices through a depreciation in real terms, but each of them involved different additional risks.

Thus, it is well known that devaluations raise the local-currency prices of imported goods and increase the local-currency return received by exporters. This rise in prices, however, which theoretically occurs only once and brings with it a change in the structure of relative prices which favours internationally tradeable goods, can generate or increase inflationary expectations. If these expectations materialize, the real initial effects of the nominal rise in the exchange rate can rapidly be wiped out, with the further disadvantage that the growth rate of domestic prices becomes much greater than it was before the devaluation. Those in favour of correcting the exchange lag through a devaluation maintained, however, that the net effect of a nominal rise in the exchange rate would be very favourable on the whole, since the high proportion of unused production capacity which existed would considerably moderate inflationary pressures. They also argued that the alternative solution — deflation — would only take effect very slowly and would also involve a considerable risk of possible drops in the levels of production activity and employment.

Unlike the rise in the nominal exchange rate, real devaluations effected through domestic deflation operate indirectly on domestic prices. In this case, the adjustment mechanism is set in



Table 16

CHILE: EVOLUTION OF EFFECTIVE REAL EXCHANGE RATE INDEXES FOR EXPORTS AND IMPORTS<sup>ab</sup>

(1980 = 100)

Annual and quarterly averages	Exports		Imports	
	(1) <sup>c</sup>	(2) <sup>d</sup>	(1) <sup>c</sup>	(2) <sup>d</sup>
1970	133.5	80.2	132.9	79.6
1971	124.4	66.9	120.4	65.2
1972	131.3	60.0	125.4	57.2
1973	148.2	74.1	137.4	68.7
1974	126.5	108.7	122.4	105.1
1975	135.7	142.6	131.1	137.8
1976	116.8	120.3	115.2	118.6
1977	113.8	100.2	110.9	97.6
1978	133.3	113.5	127.0	108.1
1979	118.6	114.5	114.2	110.2
1980	100.0	100.0	100.0	100.0
1981	87.3	80.5	92.2	84.9
1982	101.9	90.8	108.2	96.4
1981				
I	92.3	89.0	95.0	91.2
II	87.5	81.6	92.5	86.3
III	83.8	76.6	90.3	82.4
IV	88.6	77.6	94.2	81.8
1982				
I	90.1	75.9	96.0	80.6
II	93.3	78.4	97.8	81.9
III	107.3	96.7	114.4	102.7
IV	111.9	108.5	120.4	116.7

Source: ECLA, on the basis of information from the International Monetary Fund.

<sup>a</sup>These indexes are obtained by adding together the real exchange rate indexes for each country, weighted according to the geographical composition of exports or imports for Chile's main trade flows. The exchange rate index with respect to a particular country is obtained by dividing the exchange rate index applicable to the currencies of Chile and of that country by the price indexes for Chile and the country in question. The number of countries included in the estimates was 11, both for exports and imports, representing 79.0 per cent and 77.3 per cent of Chile's external trade in those directions in the period 1975-1979. For further details on the methodology and sources used, see the technical appendix of the *Economic Survey of Latin America, 1981*.

<sup>b</sup>Official exchange rates.

<sup>c</sup>For deflation, the domestic products sub-index of the wholesale price index was used.

<sup>d</sup>For the purpose of deflation, the consumer price index prepared by R. Cortázar and J. Marshall was used for the years 1975-1978, and the INE consumer price index from 1979 onwards.

motion by the deficit caused in the balance of payments, which, since it reduces the international reserves, also reduces the money supply, thus tending to bring down the level of prices. In this case, however, there is a danger of generating a recession, since it may happen that the drop in domestic demand is assimilated, at least for a certain length of time, not only through reductions in prices but also through declines in production. Even so, those in favour of raising the real exchange rate through this formula were reluctant to jeopardize what they considered to be the great achievement of the economic policy practiced so far: the reduction of domestic inflation to levels comparable with international inflation. They also claimed that the form of adjustment which they advocated was already beginning to take effect. Indeed, as domestic inflation during the first half of 1982 was less than international inflation—and was even negative in some months—the real exchange rate had, it is true, begun to rise (see table 16).

Furthermore, those in favour of this second alternative—basically, the economic sector authorities—considered that the adjustment could be accelerated if it were possible to eliminate what, in their opinion, represented the main cause of the reluctance of domestic prices to go down:

namely, the automatic indexing of wages in line with past inflation. They therefore proposed the abolition of this mechanism and encouraged the reduction of wages in enterprises by agreement.

Those who favoured a devaluation in nominal terms, in contrast, considered that the main cause of the rigidity of domestic prices lay in the excessively high domestic interest rates and the consequent excessive financial costs. Their view was that in order to reduce interest rates it would be necessary to adopt a more active monetary policy (involving the abandonment of the monetary approach to the balance of payments and the fixed exchange rate) or to force the liquidation of overvalued assets (since many enterprises kept on asking for credit in order to put off as long as possible the heavy loss of assets that would be incurred if they were obliged to take such a decision). These circles also argued that deflation would necessarily tend to keep real interest rates at very high levels, since the nominal interest rate would necessarily have to be positive; consequently, the more intense the deflation was, the higher the real interest rate would be and the higher also would be the financial costs for enterprises, many of which were already heavily indebted. In their view, then, the deflation option would mean subjecting the country to a still more intense and prolonged recession.

ii) *The measures.* Finally, the Government decided in mid-June to carry out a devaluation in nominal terms, thus abandoning the fixed exchange rate policy which it had adopted almost three years before and which it had promised to maintain indefinitely. As a result, the exchange rate rose from 39 to 46 pesos per dollar and it was also announced that it would be adjusted in future at an annual rate of 10%. At the same time, in order to reduce the danger of a strong resurgence of inflation, the economic authorities announced the application of a strictly neutral (passive) monetary policy whereby the money supply would only be expanded to the extent that there was an increase in the international reserves.

The fact that the economic authorities themselves had belittled the value of the exchange measure which they finally decided to adopt, however, militated against the success of the devaluation, so that in reality it gave rise to great uncertainty, not only because it meant the abandonment of a policy which, the Government had repeatedly asserted, would be maintained for an indefinite length of time, but also because most of the economic agents perceived that the size of the devaluation carried out was not sufficient to correct the exchange lag. As a result of the reigning uncertainty, the international reserves did indeed not only fail to increase after the devaluation but actually fell significantly. Thus, the money supply continued to contract and the recession and unemployment continued to get worse.

In these circumstances, the economic authorities made a second major change in exchange policy at the beginning of August. In order to check the loss of reserves and be able to apply an active monetary policy which would favour reactivation, they decided to allow the peso to float freely. Immediately the exchange rate jumped from 47 to 60 pesos per dollar, and within a few days it was fluctuating between 65 and 70. Since it was considered that the exchange lag which needed to be corrected called for an exchange rate of about 55 pesos per dollar at the most, the Central Bank began to intervene in the exchange market. Through this "dirty float" policy it was possible to keep the exchange rate around 60 pesos, but this involved a loss of reserves of approximately US\$ 450 billion in August and September, which came on top of the similar loss suffered in the previous two months.

In addition, as the devaluation caused a drastic deterioration in the financial situation of enterprises with debts in dollars, the Government decided on 20 August to establish a preferential exchange rate for the payment of debt servicing commitments. The initial rate was fixed at 50 pesos per dollar, and it was provided that it would be readjusted in future according to the rate of domestic inflation. The Government would finance the difference between the prevailing exchange rate and the preferential rate. This implicit subsidy in favour of enterprises with debts expressed in foreign currency would naturally increase in proportion as the free market dollar diverged in value (as was the case in this first phase) from the preferential dollar.

The number of new measures, their instability, and their lack of coherence —first of all, devaluation accompanied by neutral monetary policy; then an active monetary policy with a "clean float" to start with but subsequently a "dirty float"— made the uncertainty still more acute, and this was reflected in the persistent loss of reserves. A vicious circle was thus created: the bigger money issues through which the Central Bank sought to reactivate the economy were used by the economic agents to buy dollars, and this exerted upward pressure on the value of this currency and reduced still further the international reserves.

Because of this, between the end of September and the end of October the economic authorities took additional measures which managed to check the drain on the reserves and the pressure on the exchange rate during the last months of the year. Thus, in order to reduce the flight of capital, they restricted the freedom to buy dollars in the banks; in order to stabilize expectations they made a further change in exchange policy by establishing an official reference dollar at the rate of 66 pesos, to be adjusted daily according to the difference between domestic and external inflation, with a maximum permitted fluctuation of 2% as regards the resulting value; and in order to stimulate the inflow of short-term capital, which had fallen sharply, they promised that all those granting new credits to the country would have the right to repurchase foreign exchange within the next six months at the official reference dollar rate.

Finally, the year ended with a loss of reserves of almost US\$ 1 200 million and an exchange rate almost 90% higher than that which had prevailed until mid-June. Despite the size of the devaluation, however, consumer prices rose by only 20% between the time of the devaluation and the end of the year; even the wholesale price index, in which internationally tradeable goods have a much greater incidence, increased by only 40%. The relatively moderate increase in prices as compared with the rise in the exchange rate was due essentially to the enormous volume of stocks accumulated in the past and the considerable surplus production capacity in existence. All in all, then, by the end of 1982 it proved possible to recover to a considerable extent the international competitiveness lost during the period in which the fixed exchange rate policy prevailed (see table 16).

#### b) *External trade*

i) *Exports of goods.* After having fallen by almost 16% the year before, the value of exports suffered a further decline of the order of 4% in 1982. As a result, the total amount of external sales barely exceeded US\$ 3 800 million, which was exactly US\$ 1 billion below the 1980 figure, when the value of exports reached a record level.

The decline suffered in 1982 was attributable entirely to the deterioration in the unit value of exports, since their physical volume showed a substantial increase of close to 16%, which was much more than the increases registered on average during the period 1976-1980. As a result of the international recession, however, the unit value of exports dropped by about one-third in the two-year period 1981-1982 (see table 17).

This unfavourable evolution was due both to the sharp declines suffered by the international prices of fish meal, molybdenum, and other minerals, and to the further drop in the price of copper, which in spite of the recent diversification of Chile's external trade, still generated close to 45% of the country's total value of exports of goods in 1982. Thus, after having suffered a considerable reduction of over 25% in 1981 and hence falling to its lowest level for over two decades, the real price of copper once again fell sharply in 1982 (see table 18). However, the volume of sales of copper expanded so vigorously that this more than made up for the deterioration in prices, so that finally the foreign exchange income in respect of this product was slightly greater than in 1981.

The evolution of the value of the other traditional exports was very uneven: thanks to an increase of nearly 70% in their volume, external sales of fish meal increased by nearly 27%, so that this product became Chile's second biggest export item, but in contrast, the value of exports of wood pulp went down by 15% and that of exports of molybdenum by 10% (see table 19).

Non-traditional exports, for their part, went down for the second year running, although by a considerably smaller amount (-8%) than the year before, when they had dropped by 14%. The main cause of this new decline was the abrupt drop suffered, as in 1981, by exports of industrial goods, whose international competitiveness was particularly hard hit by the persistent decline in the real exchange rate between the beginning of 1980 and mid-1982. Thus, in 1982 their value went down by close to 15% after having dropped by 20% the year before. In contrast, agricultural exports—whose supply is less elastic in the short term with respect to variations in the exchange rate and international prices—increased for the ninth year running, although by a much smaller amount than the spectacular annual growth rates registered between 1974 and 1980.

ii) *Imports of goods.* Whereas the main feature of external trade in 1981 was the sudden slump in the growth rate of exports, in 1982 it was the violent drop in imports, whose value went down by over 45% after having increased at the extraordinarily high average rate of almost 35% in the five

Table 17

## CHILE: MAIN FOREIGN TRADE INDICATORS

	1976	1977	1978	1979	1980	1981	1982 <sup>a</sup>
	<b>Growth rates</b>						
Exports of goods (FOB)							
Value	33.1	3.3	12.6	55.9	22.7	-15.8	-4.1
Volume	21.5	3.8	7.3	19.1	9.2	-0.7	15.9
Unit value	9.5	-0.5	4.9	30.9	12.4	-15.3	-17.2
Imports of goods (FOB)							
Value	-3.1	46.0	34.2	45.2	30.5	19.9	-45.4
Volume	-4.5	31.4	24.1	18.2	4.7	11.9	-40.7
Unit value	1.5	11.1	8.1	22.8	24.6	7.2	-8.0
Terms of trade	7.4	-10.3	-2.8	7.3	-8.3	-21.2	-10.8
	<b>Indexes (1970 = 100)</b>						
Terms of trade	57.1	51.3	49.8	53.4	49.0	38.6	34.4
Purchasing power of exports of goods	87.4	81.6	85.0	108.6	108.7	85.1	87.9
Purchasing power of exports of goods and services	95.6	93.5	96.5	126.9	138.1	120.9	117.3

Source: ECLA, on the basis of official data.

<sup>a</sup>Preliminary figures.

Table 18

## CHILE: PRICE OF COPPER ON THE LONDON METAL EXCHANGE

(US cents per pound)

	Nominal price (US cents of each year)	Price indexes (1970 = 100)		Real price (US cents at 1970 prices)	
		United States wholesale prices	Unit value of Chilean imports of goods and services	(1/2)	(1/3)
	(1)	(2)	(3)	(4)	(5)
1960-1964	32.4	86.3	84.1	37.5	38.5
1965-1970	61.0	93.0	93.5	65.6	65.3
1971-1972	49.0	105.6	106.1	46.4	46.2
1973-1974	87.1	133.6	152.3	65.2	57.2
1975-1982	72.0	211.3	278.4	34.1	25.9
1980	99.2	243.4	346.6	40.8	28.6
1981	79.0	265.5	365.2	29.8	21.6
1982	67.1	271.1	341.8	24.8	19.6
1982					
First quarter	71.3	270.2	...	26.4	...
Second quarter	65.8	270.5	...	24.3	...
Third quarter	65.3	271.9	...	24.0	...
Fourth quarter	66.3	272.1	...	24.4	...

Source: Central Bank of Chile, International Monetary Fund, and ECLA estimates.

Table 19

## CHILE: VALUE AND BREAKDOWN OF EXPORTS, FOB

	Millions of dollars				Percentage breakdown			Growth rates			
	1970	1980	1981	1982 <sup>a</sup>	1970	1980	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>a</sup>
<b>Total exports of goods</b>	1 096	4 818	3 906	3 822	100.0	100.0	100.0	56.3	28.0	-18.9	-2.2
<b>Traditional</b>	1 009	3 189	2 510	2 536	92.1	66.2	66.3	55.6	25.4	-21.3	1.1
Copper <sup>b</sup>	855	2 200	1 715	1 731	78.0	45.6	45.3	50.0	22.2	-22.0	1.0
Iron ore	71	157	162	158	6.5	3.3	4.1	38.7	42.7	2.7	-2.3
Nitrate and iodine	24	89	83	75	2.2	1.8	2.0	24.8	53.4	-7.1	-10.0
Molibdenum <sup>b</sup>	11	229	107	107	1.0	4.8	2.8	309.1	18.6	-53.3	0.7
Fishmeal	15	234	202	256	1.4	4.9	6.7	44.2	52.9	-13.7	26.7
Wood pulp	18	231	204	173	1.6	4.8	4.5	56.2	27.6	-11.7	-15.2
Paper and paperboard	15	49	37	36	1.4	1.0	0.9	27.9	-	-24.5	-4.8
<b>Non-traditional</b>	87	1 629	1 396	1 286	7.9	33.9	33.7	57.8	33.6	-14.3	-8.0
<b>Mining products</b>	2	243	195	196	0.2	5.0	5.1	95.3	164.1	-19.8	0.7
<b>Agricultural and marine products</b>	32	340	365	375	2.9	7.1	9.9	30.0	28.3	7.5	2.6
Crop farming products	22	244	268	278	2.0	5.1	7.3	16.6	32.6	9.7	3.8
Livestock products	8	37	29	34	0.7	0.8	0.9	34.9	-2.6	-21.1	15.1
Forestry products	1	2	2	2	0.1	-	0.1	7.5	-33.4	-	4.8
Fishery products	1	57	66	61	0.1	1.2	1.6	155.8	42.5	15.9	-7.7
<b>Manufactured products</b>	53	1 046	836	715	4.8	21.7	18.7	65.7	21.2	-20.1	-14.6
Food and beverages	16	163	141	123	1.5	3.4	3.2	64.0	10.1	-13.5	-12.6
Wood	9	286	163	122	0.8	5.9	3.2	74.5	73.3	-43.0	-25.1
Chemicals and petroleum products	6	163	148	140	0.5	3.4	3.7	20.7	27.3	-9.2	-5.6
Basic metal industries	3	279	230	245	0.3	5.8	6.4	113.7	-9.1	-17.6	6.4
Metal products, machinery, electronic articles, etc.	5	64	44	36	0.5	1.3	0.9	5.3	6.7	-31.5	-18.3
Transport equipment	10	43	74	23	0.9	0.9	0.6	221.0	65.4	72.1	-69.4
Other	4	47	36	26	0.4	1.0	0.7	26.0	62.1	-23.4	-28.2

Source: Central Bank of Chile.

<sup>a</sup>Preliminary figures.

<sup>b</sup>Up to 1981 these figures were provided by the Chilean Copper Corporation. Since January 1982, however, the figures are prepared on the basis of the export declarations supervised by the National Customs Administration.

previous years. As a result, after having risen from US\$ 1 650 million in 1976 to nearly US\$ 7 400 million in 1981, the value of imports of goods went down to US\$ 4 billion in 1982 (see table 20).

Although this notable reduction was due partly to a decline of 8% in the unit value of imports (the first such reduction registered since 1969), its main cause was the very sharp contraction (-41%) of the volume of imports as a result of the severe drop in domestic economic activity and the sharp reduction of the net inflow of capital.

The drop was particularly marked in the case of imports of capital goods and non-food consumer goods. Thus, the value of the latter went down by 56% as a result of the drop in all its main components, most outstanding among these being the contraction of over 70% in the value of motor vehicle imports. Even so, however, as purchases of non-food consumer goods had increased at an extraordinarily rapid rate in the previous four years, their total value in 1982 was still 10% greater than in 1979 and twice the figure registered in 1977, while their share in total imports (22%) continued to be very high by historical standards. For their part, imports of capital goods — which had increased at an extraordinarily rapid rate between 1977 and mid-1981 but which had already gone

down sharply in the second half of that year, went down in value by 53%. Considerably smaller but still very substantial drops were registered in imports of intermediate goods (-40%) and foodstuffs (-24%).

iii) *The terms of trade and the purchasing power of exports.* In spite of the unusual and significant drop in the unit value of imports (-8%), the terms of trade suffered a further considerable decline in 1982 when, after having gone down by over 8% in 1980 and 21% in 1981, they dropped by almost 11% (see table 17), so that the terms of trade index fell to the lowest level in the entire 34 years for which comparable figures are available. Indeed, as this new decline was the eighth suffered by the terms of trade in the last 12 years, their average level during the period 1978-1982 was equivalent to less than half that registered in the five-year period 1966-1970 (when the world price of copper was very high), and it was even 32% below that corresponding to the period 1931-1935 (which includes the most critical years of the Great Depression).

The decline in the terms of trade suffered in 1982 wiped out most of the effects of the vigorous expansion in the volume of exports. Thus, although the latter rose by 16%, the purchasing power of external sales of goods only increased a little over 3% and was far from recovering the level reached in the period 1979-1980.

c) *The current account balance and capital movements*

As a result of the notable drop in imports, there was an equally violent interruption in 1982 of the upward trend which the trade deficit had been displaying. Thus, after increasing more than fivefold in the period between 1979 and 1981 (from US\$ 600 million to nearly US\$ 3 400 million), the deficit on the trade in goods and services went down to a little over US\$ 400 million in 1982 (see table 21).

In contrast, net payments of interest and profits continued to increase vigorously as a result of the increase in the external debt and in spite of the slight decline registered in 1982 by international interest rates. Thus, the overall amount of payments to foreign capital in 1982 was double that registered in 1980 and four times that corresponding to 1978. Because of this extraordinarily rapid growth and, to a lesser extent, because of the decline in the value of exports of goods and services, the proportion of the latter represented by net payments of interest and profits rose sharply for the second year running. Thus, after having fluctuated around 16% during the period 1977-1980, it rose to 28% in 1981 and exceeded 40% in 1982.

Table 20

CHILE: VALUE AND BREAKDOWN OF IMPORTS OF GOODS, CIF

	Millions of dollars				Percentage breakdown			Growth rates			
	1970	1980	1981	1982 <sup>a</sup>	1970	1980	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>a</sup>
Total	956	6 145	7 368	4 023	100.0	100.0	100.0	45.2	30.5	19.9	-45.4
Consumer goods	235	2 070	2 786	1 471	24.6	33.7	36.6	23.0	56.0	34.6	-47.2
Consumer goods	99	1 271	2 009	881	10.4	20.7	21.9	33.9	57.7	58.1	-56.1
Other than food	99	1 271	2 009	881	10.4	20.7	21.9	33.9	57.7	58.1	-56.1
Motor vehicles	...	203	428	124	...	3.3	3.1	9.5	59.8	110.8	-71.0
Goods of industrial origin	...	1 068	1 581	757	...	17.4	18.8	39.7	57.3	48.0	-52.1
Food	136	799	777	590	14.2	13.0	14.7	9.1	53.4	-2.8	-24.1
Intermediate goods	445	2 801	3 142	1 876	46.5	45.6	46.6	70.3	15.0	12.2	-40.3
Fuels and lubricants	58	963	930	632	6.1	15.7	15.7	123.5	-1.8	-3.4	-32.0
Raw materials	...	632	765	424	...	10.3	10.5	46.4	11.9	21.0	-44.6
Spare parts and intermediate industrial products	...	1 206	1 447	820	...	19.6	20.4	46.9	35.7	20.0	-43.3
Capital goods	276	1 274	1 440	676	28.9	20.7	16.8	28.9	34.7	13.0	-53.1

Source: Central Bank of Chile.  
<sup>a</sup>Preliminary figures.

Table 21

## CHILE: BALANCE OF PAYMENTS

(Millions of dollars)

	1976	1977	1978	1979	1980	1981	1982 <sup>a</sup>
Balance on current account	132	-567	-1 111	-1 205	-2 024	-4 869	-2 442
Trade balance	433	-267	-680	-598	-1 056	-3 367	-432
Exports of goods and services	2 413	2 604	2 941	4 619	5 968	5 507	5 027
Goods FOB	2 116	2 186	2 460	3 835	4 705	3 960	3 798
Real services <sup>b</sup>	298	418	482	784	1 262	1 546	1 229
Transport and insurance	120	149	233	348	433	433	409
Travel	87	82	109	150	174	221	200
Imports of goods and services	1 980	2 871	3 621	5 217	7 023	8 873	5 459
Goods FOB	1 473	2 151	2 886	4 190	5 469	6 558	3 580
Real services <sup>b</sup>	507	720	735	1 027	1 554	2 315	1 879
Transport and insurance	284	342	421	584	872	1 049	661
Travel	88	205	130	165	200	259	210
Factor services	-334	-379	-506	-696	-1 028	-1 547	-2 050
Profits	-2	-23	-33	-41	-82	-121	-150
Interest received	10	18	41	127	305	599	474
Interest paid	-333	-358	-497	-761	-1 152	-1 906	-2 374
Others	-8	-14	-16	-21	-99	-119	-
Unrequited private transfer payments	32	81	75	88	60	45	40
Balance on capital account	200	737	1 855	2 261	3 344	5 008	1 277
Unrequited official transfer payments	16	16	23	17	53	55	60
Long-term capital	47	50	1 510	1 786	2 243	3 732	1 233
Direct investment	-1	16	177	233	171	376	365
Portfolio investment	-6	-7	-	50	-	-	-
Other long-term capital	54	41	1 333	1 503	2 072	3 356	868
Official sector <sup>c</sup>	25	-158	167	96	-193	-485	930
Loans disbursed	289	218	587	581	280	152	...
Amortization payments	-259	-357	-421	-485	-472	-637	...
Commercial banks <sup>c</sup>	-18	7	290	525	1 438	2 472	254
Loans disbursed	-	18	295	593	1 617	2 711	...
Amortization payments	-18	-11	-4	-50	-147	-221	...
Other sectors <sup>c</sup>	47	191	876	882	826	1 369	-316
Loans disbursed	448	668	1 439	1 693	1 645	2 334	...
Amortization payments	-401	-478	-562	-810	-819	-965	...
Short-term capital	68	557	449	470	1 000	1 107	71
Official sector	-80	43	14	4	100	70	...
Commercial banks	-36	127	58	39	469	252	71
Other sectors	184	386	378	428	431	785	...
Errors and omissions (net)	69	114	-126	-13	49	114	-87
Global balance <sup>d</sup>	331	169	745	1 056	1 320	139	-1 165
Total variation in reserves <sup>d</sup> (minus sign indicates an increase)	-272	-125	-683	-1 061	-1 331	-162	1 198
Monetary gold	-2	-1	-1	-44	-90	1	...
Special Drawing Rights	-31	-11	39	-2	25	-15	-
IMF reserve position	-	-	-50	1	-33	7	-3
Foreign exchange assets	-318	-11	-654	-848	-1 177	-81	1 402
Other assets	-	-	-	-	-	-	...
Use made of IMF credit	80	-101	-18	-169	-57	-74	-42

Source: 1976-1981: International Monetary Fund, *Balance of Payments Yearbook*; 1982: ECLA, on the basis of official data.<sup>a</sup>Preliminary figures.<sup>b</sup>Real services also include other official and private transactions, but no factor services.<sup>c</sup>In addition to loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities.<sup>d</sup>The global balance is the sum of the current account balance plus the balance on capital account. The difference between total variation in reserves of opposite sign and the global balance represents counterpart items: monetization of gold, allocation of Special Drawing Rights, and variations due to revaluation.

Nevertheless, this increase in payments to foreign capital was not nearly as marked as the drastic fall that took place in the trade deficit, so that the current account deficit shrank appreciably, thus interrupting the very rapid rise which it had displayed in the previous four years, when it had increased almost ninefold from US\$ 570 million in 1977 to nearly US\$ 4 900 million in 1981. In 1982, in contrast, the deficit on current operations was reduced by half (see table 21).

In spite of this appreciable reduction in the current account deficit, there was nevertheless a radical turnabout in 1982 in the final result of the balance of payments, since after having continuously returned positive balances since 1976, it closed the year with a deficit of nearly US\$ 1 200 million.

Both the unusually large magnitude of this deficit and the fact that it occurred at the same time that there was a very sharp contraction in the current account deficit reflected the great severity of the contraction in the net inflow of capital in 1982, when this inflow fell to less than US\$ 1 280 million after having reached the record level of US\$ 5 billion the year before. The main reasons for this phenomenal drop were the abrupt decline in the medium- and long-term loans procured by commercial banks and the no less radical reduction in the inflow of short-term capital. Thus, while the latter went down from US\$ 1 100 million in 1981 to only US\$ 70 million in 1982, the medium-

Table 22

CHILE: EXTERNAL DEBT<sup>a</sup>

(Billions of dollars)

	1970	1973	1975	1976	1977	1978	1979	1980	1981	1982
I. Medium- and long-term external debt	2.8	3.3	4.3	4.3	4.5	5.9	7.5	9.4	12.6	13.8
1. Public and State- guaranteed private debt	2.2 <sup>b</sup>	2.9	3.6	3.5	3.5	4.4	4.8	4.7	4.4	5.2
2. Private debt	0.5	0.4	0.7	0.8	1.0	1.6	2.7	4.7	8.1	8.7
a) Supplier credits	0.1 <sup>c</sup>	0.1	0.2	0.2	0.2	0.2	0.2	0.3	0.5	0.4
b) Lines of credit for importation of capital goods							0.2	0.3	0.5	0.5
c) Financial credits <sup>d</sup>	0.4	0.3	0.5	0.6	0.8	1.4	2.4	4.1	7.2	7.8
II. Short-term external debt	0.05	0.4	0.6	0.5	0.7	0.7	1.0	1.7	3.0	3.3
Public sector	...	...	0.5	0.3	0.4	0.4	0.3	0.4	1.1	1.5
Private sector	...	...	0.1	0.2	0.3	0.3	0.7	1.3	1.9	1.8
III. Gross general external debt (I + II)	2.8	3.6	4.9	4.7	5.2	6.6	8.5	11.0	15.5	17.1
IV. Net international reserves <sup>e</sup>	0.4	0.2	-0.1	0.1	0.3	1.1	2.3	4.1	3.8	2.6
V. Net general external debt	2.4	3.5	5.0	4.6	4.9	5.6	6.2	6.9	11.7	14.5
<b>Servicing of medium and long-term debt</b>										
Total	0.4	0.2 <sup>f</sup>	0.6 <sup>f</sup>	1.1	1.2	1.3	1.9	2.4	3.0	2.9
Amortization payments	0.3	0.13	0.4	0.8	0.9	0.9	1.3	1.5	1.8	1.2
Interest	0.1	0.04	0.2	0.3	0.3	0.4	0.6	0.9	1.2	1.7
Total as a percentage of exports of goods and services	33	12	31	39	44	45	41	40	58	59

Source: Central Bank of Chile, *Deuda externa de Chile 1982*, August 1983.

<sup>a</sup> Amounts disbursed and pending payment at 31 December of each year.

<sup>b</sup> Including balances and credits contracted by some private enterprises subsequently incorporated into the public sector.

<sup>c</sup> Excluding balances in respect of credits contracted by enterprises subsequently incorporated into the public sector.

<sup>d</sup> Credits entering under articles 14, 15 and 16 of the International Exchange Law and credits under Decree-Law 600.

<sup>e</sup> Corresponds to the international assets of the Central Bank, less liabilities with the International Monetary Fund. Gold is valued at market prices and mutual credit agreements are taken at their net value. This explains the difference compared with table 21, where gold is valued at 35 SDR units per ounce.

<sup>f</sup> The servicing is lower because of the renegotiation of the external debt.



and long-term financing obtained by commercial banks—which had grown at an extraordinarily rapid rate in the previous five years—sank from almost US\$ 2 500 million in 1981 to only US\$ 250 million in 1982. These changes also contrasted sharply with the situation as regards the financing obtained by the official sector, for the latter, which had reduced its indebtedness in net terms in both 1980 and 1981 by making amortization payments which easily exceeded the amount of new loans received, procured net medium- and long-term resources totalling over US\$ 900 million in 1982.

d) *The external debt*

As a result of the sudden reduction in the net inflow of capital, there was a marked decline in 1982 in the rate of expansion of the external debt. Thus, the gross general external debt, which had grown between 1978 and 1980 at an average annual rate of almost 30% and had risen spectacularly in 1981 by more than 40%, grew by only a little over 10% in 1982, to total slightly over US\$ 17 100 million (see table 22).

The origin of the increase in the debt in 1982 was also very different from the previous three years, when the amount of public and State-guaranteed private external debt remained practically unchanged, whereas non-guaranteed private indebtedness increased more than fivefold from US\$ 1 950 million in 1978 to a little over US\$ 10 billion in 1981. In 1982, in contrast, over 70% of the increase in the total debt originated from new credits obtained by the public sector, whose global indebtedness rose by almost 22%, whereas the non-guaranteed private debt grew by only 5%.

Furthermore, and likewise in marked contrast with what had happened up to 1980, the growth rate of the net external debt (24%) was considerably greater than that of gross indebtedness (10%), although even so it was a good deal less in 1982 than in 1981, when the conjunction of an exceptional expansion in the net inflow of capital and the loss of about US\$ 300 million from the net international reserves caused the net external debt to increase by an extraordinarily large amount (70%).

Finally, although in 1982 there was a sharp decrease in payments of principal on the medium- and long-term debt, the increase in interest payments and the decline in the value of exports of goods and services meant that the proportion of the latter absorbed by the medium- and long-term external debt servicing costs was not only very high (59%) but was also considerably greater than the already high levels registered between 1977 and 1980 (see table 22).

#### 4. Prices and wages

a) *Prices*

As already noted, inflation underwent a marked resurgence in 1982, after the consumer prices registered in 1981 had shown one of the smallest variations (9.5%) in the last 30 years. Thus, the 1982 increase in consumer prices (20.5%) was not only more than double the previous year's rate but also represented a clear break in the previous steady downward trend shown by inflation since 1974. The turnaround was even more marked in the case of wholesale prices, which rose by close to 40% during 1982 after having gone down by almost 4% in 1981 (see table 23).

In actual fact, the reversal of the downward trend of inflation was even sharper than the above figures suggest, since that downward trend continued until well into the year. As may be seen from figure 3, up to May the monthly variations in consumer prices were only very small, while those in wholesale prices were actually negative. Because of this, in May 1982 the consumer price index was only 3.7% higher than in the same month of the previous year, while over the same period wholesale prices had undergone a decline of over 8%. Thus, in practice the whole increase in price levels took place in the second half of the year, when consumer prices rose by 20% and wholesale prices by 40%.

Both this sharp reversal of the past trend of inflation and the fact that this was much more marked in the case of wholesale prices than in that of consumer prices primarily reflected the effects of the devaluation decreed in mid-June and the additional increases in the exchange rate in the second half of the year. As was to be expected, the changes in exchange parity had much more influence on the wholesale price index—which mainly includes internationally tradeable goods—than on the consumer price index, in which non-tradeable goods and services have a relatively higher weighting.

For the same reason, the variation in the prices of imported goods was considerably greater than that in the prices of domestically produced goods. In contrast, the incidence of the devaluation was much smaller in the case of the index of building costs (in which labour costs predominate), whose slight increase (a little over 5%) represented an additional indicator of the enormous decline suffered by the construction sector in 1982.

b) *Wages*

In spite of the very marked decline in economic activity and employment, the average level of real wages in 1982 was practically equal to that registered in 1981 (see table 24). This stability displayed by the annual averages concealed, however, the very different trends displayed by the real value of wages and salaries in the course of the year, partly as a consequence of the equally marked changes in the evolution of inflation in this period, and partly because of the modification of the legislation concerning the readjustability of wages.

In nominal terms, wages and salaries did not undergo any significant change in 1982. For this reason, and since there was virtual stability of prices in the first half of the year, wages kept the gains obtained in the course of the previous year, when they had been readjusted in terms of the past variation in prices and inflation was rapidly going down. Thus, real wages in the first half of 1982 were 10% higher on average than those of the corresponding period of the previous year, even though the country was already sunk in a serious recession. In the second half of the year, however, the

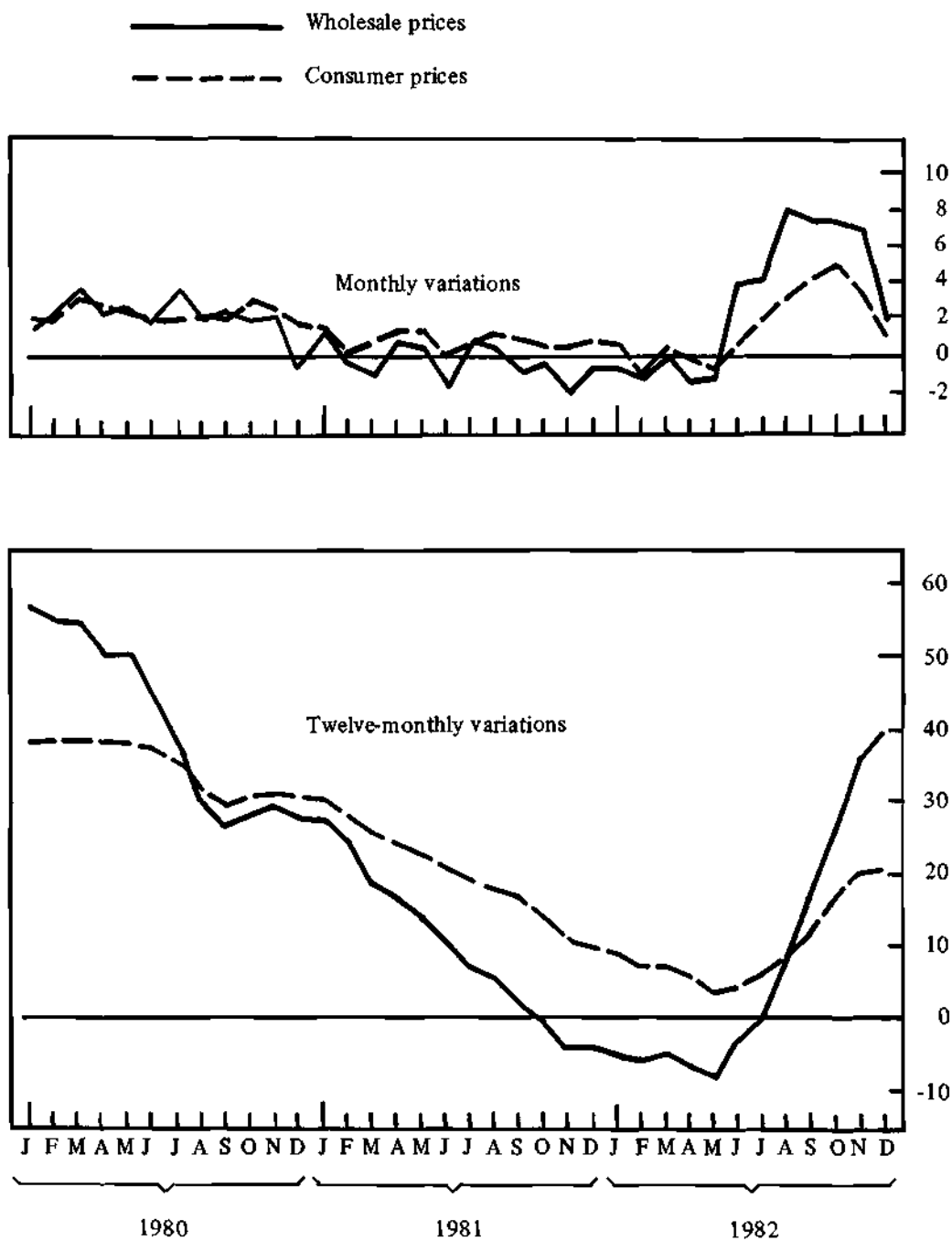
Table 23  
CHILE: EVOLUTION OF DOMESTIC PRICES

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
<b>Variation from December to December</b>										
Consumer price index	508.1	375.9	340.7	174.3	63.5	30.3	38.9	31.2	9.5	20.7
Food	474.2	392.0	321.3	167.4	59.4	25.5	41.9	30.8	0.1	16.3
Corrected consumer price index <sup>a</sup>	605.9	369.2	343.3	197.9	84.2	37.2				
Wholesale price index	1 147.1	570.6	410.9	151.5	65.0	38.9	58.3	28.1	-3.9	39.6
Imported products	1 692.2	714.5	363.8	130.1	79.2	22.2	67.5	12.5	0.5	49.5
Domestic products	1 021.2	517.5	424.9	157.1	61.7	43.2	56.3	31.9	-4.8	37.5
Agricultural products	512.9	381.0	565.2	148.6	53.0	48.9	52.2	27.7	-14.5	41.7
Mining products	1 503.1	823.3	381.8	147.7	46.6	40.6	85.6	37.8	12.1	33.9
Manufactures	1 244.2	527.4	350.7	165.7	70.8	39.6	55.3	33.9	-0.9	35.6
Index of building costs	681.9	315.4	328.1	195.1	78.1	43.7	44.8	31.8	14.5	5.2
<b>Variations between annual averages</b>										
Consumer price index	352.8	504.7	374.7	211.9	92.0	40.1	33.4	35.1	19.7	9.9
Food	376.5	513.7	359.6	212.8	86.2	34.6	31.1	36.1	14.2	3.6
Corrected consumer price index <sup>a</sup>	441.0	497.8	379.2	232.8	113.8	50.0				
Wholesale price index	511.4	1 029.0	482.0	221.1	86.0	42.9	49.4	39.6	9.1	7.2
Imported products	580.4	1 349.8	445.9	201.6	99.8	34.9	41.7	37.7	4.4	10.9
Domestic products	492.2	926.9	486.0	226.1	82.8	45.0	51.3	40.0	10.1	6.4
Agricultural products	448.2	640.1	567.2	245.9	79.3	34.7	51.8	41.4	2.7	0.7
Mining products	499.4	1 503.5	478.8	191.7	73.2	51.1	70.1	54.0	22.3	7.3
Manufactures	505.1	969.1	420.7	215.5	87.4	52.7	48.3	41.3	13.3	9.9
Index of building costs	...	...	333.9	233.2	109.0	54.9	42.7	40.7	22.5	5.6

Source: National Statistical Institute; Cámara Chilena de la construcción; José Yáñez, "Una corrección del índice de precios al consumidor, 1971-1977", in *Comentarios sobre la situación económica*, Department of Economics of the University of Chile; and René Cortázar and Jorge Marshall, "Índice de precios al consumidor en Chile: 1970-1978", *Estudio CIEPLAN*, N° 4, November 1980

<sup>a</sup>1971-1973: based on the index of Yáñez; 1974-1978: based on the index of Cortázar and Marshall.

Figure 3  
**CHILE: EVOLUTION OF DOMESTIC PRICES**



Source: ECLA, on the basis of information from the National Statistical Institute.

sharp acceleration of the inflationary process significantly eroded the purchasing power of wages, whose nominal value remained almost unchanged, as already noted. Thus, in real terms the level of wages and salaries in the second half of 1982 was 8% below the same period the year before and 10% below the first half of 1982.

This deterioration was also due, to a considerable extent, to the changes made in wages policy with the aim of helping the June devaluation to lead to an effective change in the structure of relative prices and a real decline in the cost of labour. Thus, the law providing for the automatic adjustment of wages and salaries of workers not eligible for collective bargaining each time that the accumulated rise in the consumer price index exceeded 10% was cancelled. Furthermore, changes were also made as from June in the rules defining the "wage floor", i.e., the provision whereby in all new wage negotiations the employer must offer as a minimum the wage provided for in the prevailing contract, plus an adjustment equivalent to the inflation accumulated since that contract came into effect. In 1982, this "wage floor" was lowered, since in accordance with the new rules it was set at the wage level prevailing in June 1979 (the month in which the Labour Plan began to be applied), plus the adjustment corresponding to the inflation accumulated since that month. In practice this change meant that workers had to renegotiate—in a context which was very unfavourable for them in view of the very high level of unemployment—to try to keep the considerable real improvements in income which they had obtained in the previous three years. Finally, in the case of the public sector the highest salary levels were made subject to a temporary reduction—to last for two years—by the amounts by which they exceeded certain levels, while the wage increases for personnel covered by the Unified Salary Scale which were due to be given in 1984 were postponed for the period 1985-1987.

## 5. Monetary and fiscal policy

### a) *Monetary policy*

In 1982, monetary developments were conditioned by the interaction of four factors: exchange policy, interest rates, the financial crisis, and the generalized uncertainty regarding the progress of the economy and the economic policy.

i) *The main monetary aggregates.* During 1982 the monetary policy depended to a considerable extent on exchange policy, which, as already explained, underwent a number of far-reaching changes as from June. During the early months of the year, the maintenance of a fixed exchange rate meant that the monetary policy was necessarily passive, with the evolution of the money supply subordinated to the variations in the level of the international reserves. In practice, however, in view of the growing symptoms of external imbalance the maintenance of the exchange parity was increasingly losing credibility and generating a heavy loss of reserves, with a consequent absolute fall in the money supply. Thus, in the first five months of the year the reserves went down by around US\$ 300 million, while the money supply dropped by 13%.

Table 24

### CHILE: EVOLUTION OF REAL WAGES AND SALARIES

(1970 = 100)

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Index of real wages and salaries <sup>a</sup>	119.3	108.2	71.4	64.8	62.1	63.0	71.1	75.7	82.0	89.4	97.5	97.1
Variation during the year	19.3	-9.3	-34.0	-9.1	-3.3	0.5	12.9	6.4	8.3	9.0	9.1	-0.4

Source: Index of nominal wages and salaries of the National Statistical Institute (INE), deflated for the period 1971-1973 by the consumer price index prepared by José Yáñez, *op. cit.*; for the period 1974-1978 by the corrected consumer price index prepared by René Cortázar and Jorge Marshall, *op. cit.*; and for the period 1979-1982 by the consumer price index of the INE.

<sup>a</sup> For the years 1970-1976 the figures correspond to the average for April, July and October, while for 1977-1982 they represent the average for the whole twelve months.

Table 25

## CHILE: MONETARY INDICATORS

	December averages for each year, in billions of pesos			Growth rates			
	1980	1981	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>a</sup>
Money issue (E)	93.7	87.3	61.7	49.4	37.2	-6.8	-29.3
Total money supply	140.2	143.1	114.8	59.1	77.9	2.1	-19.8
Private sector (M <sub>1</sub> )	75.9	82.5	75.0	58.7	59.5	8.7	-9.1
Public sector (PS)	64.3	60.6	39.8	59.6	106.1	-5.8	-34.3
Term deposits (TD) <sup>b</sup>	142.4	244.6	273.6	72.5	70.1	71.8	11.9
From 30 a 89 days	85.8	206.8	221.5	42.9	52.1	141.0	7.1
From 90 to 365 days	37.0	12.5	28.4	217.5	111.4	-66.2	127.2
Readjustables	27.7	2.6	24.4	1 284.5	279.5	-90.6	838.5
Non readjustable	9.3	9.9	4.0	104.7	-8.8	6.5	-59.6
Over one year	19.6	25.3	23.7	160.1	366.7	29.1	-6.3
Private money + term deposits (M <sub>2</sub> = M <sub>1</sub> + TD)	218.3	327.1	348.6	66.6	66.3	49.8	6.6
Bank quasi-money (D <sub>2</sub> ) <sup>c</sup>	196.1	305.6	338.3	78.5	80.2	55.8	10.7
Term deposits	142.4	244.6	273.6	72.5	70.1	71.8	11.9
Savings deposits	39.8	44.0	47.8	82.7	147.2	10.6	8.6
Loans by the banking system							
National currency	251.6	482.1	519.6	100.8	92.9	91.6	7.8
Foreign currency <sup>d</sup>	5 264.0	7 899.9	6 431.0	39.6	73.3	50.1	-18.6

Source: Central Bank of Chile, *Síntesis Monetaria*.

<sup>a</sup>Preliminary figures.

<sup>b</sup>Includes bonds of the Department of Savings and Investments (DAI).

<sup>c</sup>Includes other deposits for less than 30 days.

<sup>d</sup>Millions of dollars.

The June devaluation did not succeed in stopping either the loss of reserves or the decline in the money supply. This was due partly, as already explained, to the fact that the devaluation was relatively small in the light of the magnitude of the accumulated exchange lag, and partly to the fact that the devaluation gave rise to still greater uncertainty. Nor was the contraction of the money supply stopped with the decision to allow the exchange rate to float freely, since after a short time the Central Bank began to sell dollars in order to regulate the market, so that it continued to lose reserves and absorb money.

In short, as long as the considerable uncertainty about the prospects of the economy and exchange policy persisted, the efforts of the economic authorities to expand the money supply were frustrated by the public's desire to buy dollars. Consequently, it was only at the end of the year —when the price of the dollar reached a very high level and restrictions were imposed on its sale to the public— that it proved possible to stop the loss of reserves and increase the money supply. Even so, in the course of the year the latter registered a drop of 20% in nominal terms and 35% in real terms (see table 25).

Furthermore, although quasi-money grew by 11% during the year, the whole of this increase took place in the first quarter. This was particularly significant, since quasi-money had expanded at an average rate of approximately 70% per year in the previous three years and the real interest rate on deposits paid in 1982 was, together with that paid in 1981, the highest since 1977. Because of the generalized uncertainty and lack of confidence, however, the movements of time deposits came to be much more sensitive to the expectations regarding the evolution of the exchange rate and the government intervention in the financial system than to the real level of the rates of interest they

could earn. In these circumstances, the dollar became once again the safest instrument for keeping money, and the banking system's loans in foreign currency, which had expanded at a very rapid rate in the previous three years, fell by almost 20% in 1982 (by around US\$ 1 500 million).

Finally, because of the decline suffered by real interest rates after the devaluation and the expectations of a resurgence of inflation, there was a heavy transfer of funds to readjustable deposits, whose total amount increased almost ten times while that of non-readjustable deposits went down by 60% (see table 25).

ii) *Interest rates.* In 1982 the real interest rates charged for short-term loans remained at the very high levels of the previous year, which were three times the 12% rate registered in 1980. This was partly due to the fact that the demand for credit continued to be very high because an increasing number of economic agents tried to avoid or postpone the liquidation of their assets during a clearly recessive period, and it was also due to the growing doubts regarding the maintenance of the exchange parity. As a result, during the first half of the year real interest rates reached an extremely high average level of around 50% per year (see table 26).

After the devaluation, nominal interest rates rose, but much less than prices, so that in the second half of the year the real interest rate dropped to a little under 22% per year, fluctuating from 0.04% per month in September to a maximum of 4.2% in December. These sharp fluctuations were due partly to the interaction between the pressing need for credit and the severe monetary restrictions, and partly to the abrupt monthly fluctuations in the consumer price index.

iii) *The financial crisis.* In the course of 1982, the deterioration of the banking system gradually got worse, obliging the authorities to take corrective measures which culminated in the first few days of the following year with the compulsory liquidation or government intervention of numerous financial institutions and the virtual seizure of control by the Government of a very considerable part of the national private banking system. This appeared to represent the completion of the cycle begun at the end of 1981 with the government intervention of eight financial-sector institutions whose loans represented a quarter of total bank credit in national currency and to which the Government transferred resources equivalent to some US\$ 600 million in order to guarantee the deposits held in them by the public and enterprises and the commitments into which these institutions had entered with foreign firms.

In actual fact, the high real interest rates, the heavy loans made by some banks to firms that were related to them without demanding adequate guarantees, and the sharp drop in domestic demand meant that by the beginning of 1982 the portfolio of overdue debts acknowledged by the

Table 26

CHILE: BANK INTEREST RATES

	1977	1978	1979	1980	1981	1982	1982 <sup>a</sup>			
							I	II	III	IV
<b>Nominal</b>										
Short-term deposits	93.7	62.8	45.0	37.4	40.8	47.8	38.9	32.4	50.1	73.2
Short-term loans	156.3	85.3	62.0	46.9	51.9	63.1	55.1	47.8	64.2	88.2
<b>Real</b>										
<b>Non-readjustable operations</b>										
Short-term deposits <sup>b</sup>	5.2	18.7	4.6	4.7	28.6	22.5	37.3	31.8	3.3	20.2
Short-term loans <sup>b</sup>	39.1	35.0	16.6	12.0	38.7	35.1	53.3	47.1	13.0	30.7
<b>Readjustable operations</b>										
Deposits	15.5	17.5	14.5	8.4	13.1	12.0	14.6	17.4	10.7	5.7
Loans	...	...	23.0	15.4	14.5	16.9	17.4	20.3	18.9	11.5

Source: Central Bank of Chile.

<sup>a</sup> Annual rates projected on the basis of quarterly rates.

<sup>b</sup> Calculated on the basis of the nominal rates published by the Central Bank, the corrected consumer price index given in table 23, and the consumer price index of the National Statistical Institute (period 1979-1982).

Table 27

**CHILE: GENERAL INDEX OF NOMINAL AND REAL  
PRICES OF SECURITIES**

	IGPA <sup>a</sup> (nominal)	CPI <sup>b</sup>	WPI <sup>c</sup>	IGPA real A	IGPA real B
	(1)	(2)	(3)	(4)=(1)/(2)	(5)=(1)/(3)
<b>Annual averages</b>					
1980	100.0	100.0	100.0	100.0	100.0
1981	90.7	119.7	109.1	75.8	83.1
1982	75.4	131.6	116.9	57.3	64.5
<b>End-year values</b>					
1980	100.0	100.0	100.0	100.0	100.0
1981	74.5	109.5	96.1	68.0	77.5
1982	66.6	132.2	134.2	50.4	49.6

Source: ECLA, on the basis of information from the Central Bank and the National Statistics Institute.

<sup>a</sup>IGPA: General index of security prices.

<sup>b</sup>CPI: Consumer price index.

<sup>c</sup>WPI: Wholesale price index.

private national banking system was equivalent to almost 30% of its total capital and reserves. This proportion continued to rise rapidly during the first half of the year until it was nearly 50%, in spite of the use of various legal expedients serving to conceal the true weight of these loans—which it would be very difficult to recover—within the total portfolio.

Furthermore, the steady worsening of the financial crisis during 1982 reflected to a considerable extent the progressive deterioration of real economic activity and the drastic decline in domestic demand—both factors which helped to reduce the operational income of enterprises—as well as the accumulated effects of the very high real interest rates charged in 1981, which amounted to 39% (if the nominal rates were deflated by the consumer price index) or as much as 58% (if these rates were deflated by the wholesale price index). As already noted, the real level of interest rates was even higher in the first half of 1982. Thus, for an average enterprise the accumulated real interest rate for the 18 months between January 1981 and June 1982 was between 71% and 105%. At the same time, there was a slump in the real prices of stocks and shares: the general index of share prices (as deflated by the wholesale price index) went down from a value of 100 in December 1980 to 78 at the beginning of 1982 and only 50 at the end of that year (see table 27).

The situation was made even more complicated by the difficulties encountered by the banks in procuring resources to enable them to finance the capitalization of overdue interest payments. Indeed, as the inflow of external credits went down appreciably in 1982, it was only the unstinted support of the Central Bank to the institutions which had been officially intervened or were in liquidation which made it possible to free resources to be channelled to the other banks.

The June devaluation gave rise to contradictory effects on the financial situation. As already noted, the real interest rate (as deflated by the consumer price index) dropped from 3.0% per month in May to 2.3% in July and 0.8% in August, while its decline was even more marked if the nominal interest rates are deflated by the wholesale price index.

However, because of the big change which took place in the structure of relative prices as between internationally tradeable and non-tradeable goods after the devaluation, the resulting relief provided by the decline in interest rates was distributed very unevenly among the different sectors. Thus, for domestic entrepreneurs producing goods included in the wholesale price index, the real interest rate dropped from 3.0% a month in the first half of 1982 (when that index was going down in absolute terms) to 0.4% in July and -3.2% in August, when the prices of tradeable goods rose markedly as a consequence of the rise in the exchange rate. In contrast, for producers of non-tradeable goods and services the new nominal interest rates—which were higher than the previous ones

because of the resurgence of inflation brought about by devaluation— tended to be the actual rates applicable in real terms, since the prices of non-tradeable goods and services either did not change or even went down in nominal terms.

For the enterprises with debts expressed in dollars, however, the change in exchange parity decreed in June had a devastating effect, since their liabilities increased by the same percentage as the devaluation. At the same time, the fear of a further rise in the exchange rate gave an incentive for the advance payment of debts taken out in foreign currency and the accumulation of deposits in dollars. Furthermore, the pressure to obtain short-term financing was still further increased, and the banks did not do much to resist this, since they wanted to avoid a situation where their portfolio of overdue debts would appear in their accounts as compromising increasing percentages of their capital and reserves.

In the face of this emergency, the Government decided to establish a preferential exchange rate for foreign currency debtors and offered to buy their overdue or high-risk portfolios from the banks in exchange for promisory notes which the banks would have to buy back with interest after 10 years. The establishment of this preferential exchange rate finally helped to relieve the situation of enterprises and persons with debts expressed in dollars and it also moderated the pressure on the prices of stocks of imported goods. This measure did not help the enterprises with liabilities in national currency, whose global debt to the banks was just as big and which, unlike those who had taken out debts in dollars, had been paying highly positive real interest rates in the previous years. In order to correct this discrimination and relieve the pressure on the financial system, the Central Bank announced at the end of October a programme of renegotiation of debts in national currency up to a maximum of 35 million pesos in each case.

As already noted, the temporary freeing of the price of the dollar and the substantial further devaluation carried out subsequently helped to increase uncertainty during the third quarter of the year. In the face of a sharp decline in real domestic interest rates and a wait-and-see attitude on the part of the international banking system, enterprises preferred to continue taking out debts in national currency and not renewing their dollar loans. Because of this, and also because of the slackening of inflation, interest rates once again rose sharply at the beginning of the last quarter. The persistence of these high interest rates was attributed by the authorities, however, to the reluctance of the banks to take legal recovery proceedings against their debtors, which the authorities claimed, would have caused the total demand for credit to go down, thus making it possible to free resources for the enterprises which really were viable. The financial crisis also got worse because (in view of the possibility that a generalized moratorium might be decreed) many enterprises—including some which did not have any serious liquidity problems— stopped servicing their commitments to the banks.

In these circumstances, in November the Government appointed supervisors for each bank in order to classify the latter's debtors into viable and non-viable enterprises, the criterion used for this purpose being the determination of whether the income of these enterprises covered their operational expenses or not. In practice, however, the process of discrimination between viable and non-viable enterprises was hindered by the fact that it was not sufficiently clear whether, in carrying out this appraisal, it should be assumed that the recessive situation would continue in the future or whether a more normal context should be expected: that is to say, whether a short or long-term horizon should be used.

#### b) *Fiscal policy*

In 1982, the fiscal deficit was close to US\$ 300 million (at 1976 prices), which was equivalent to 2.4% of the gross domestic product and was the biggest deficit since 1974 (see table 28). This negative balance came after the surpluses which had been obtained in 1979 and 1980 and which would also have been registered in 1981, had it not been for the Government's decision to make some external debt service payments in advance. The actual turnaround in the fiscal position was thus even more marked than would appear at first sight.

Indeed, in 1982 both the national currency and foreign exchange budgets showed deficits, which were due in both cases to the fact that income dropped, while expenditure remained almost



Table 28

## CHILE: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	1974	1975	1976	1977	1978	1979	1980	1981	1982 <sup>a</sup>
<b>A. Income and expenditure in national currency</b>									
(Billions of current pesos of each year)									
1. Current income	1.7	7.9	25.2	57.6	100.4	157.1	239.4	319.9	300.7
Direct taxes	0.5	2.4	6.5	14.7	24.7	45.3	65.6	81.1	270.8
Indirect taxes	1.0	5.1	18.0	41.1	69.6	104.3	154.1	203.7	
Non-tax revenue	0.2	0.4	0.7	1.8	6.1	7.5	19.7	35.1	29.9
2. Total expenditure	2.3	7.4	24.1	57.0	94.5	151.2	226.4	291.5	323.4
Servicing of public debt	-	-	0.3	1.0	1.2	7.8	15.8 <sup>b</sup>	2.9	4.2
Other expenditure	2.3	7.4	23.8	56.0	93.3	143.4	210.6	288.7	319.2
3. Deficit (1-2)	0.6	0.5 <sup>c</sup>	1.1 <sup>c</sup>	0.6 <sup>c</sup>	5.9 <sup>c</sup>	5.9 <sup>c</sup>	13.0 <sup>c</sup>	28.4 <sup>c</sup>	22.7
4. Deficit/total expenditure (percentage)	22.8	6.1 <sup>c</sup>	4.6 <sup>c</sup>	1.0 <sup>c</sup>	6.2 <sup>c</sup>	3.9 <sup>c</sup>	5.8 <sup>c</sup>	9.7 <sup>c</sup>	7.0
<b>B. Income and expenditure in foreign currency</b>									
(Millions of dollars at current prices)									
1. Current income	216	219	383	374	360	864	1 007	523	439
Copper	191	177	352	353	331	840	976	449	402
Other	25	42	31	21	29	24	31	74	37
2. Total expenditure	619	556	695	624	675	679	1 178	1 550	564
Service of public debt	338	388	544	445	507	524	958 <sup>d</sup>	1 270 <sup>e</sup>	410
Other expenditure	281	168	151	179	168	156	220	280	154
3. Deficit (1-2)	402	337	312	250	315	184 <sup>c</sup>	171	1 037	125
4. Deficit/total expenditure (percentage)	64.9	60.6	44.9	40.1	46.7	27.1 <sup>c</sup>	14.5	66.9	22.2
<b>C. Consolidate income and expenditure</b>									
(Millions of dollars at 1976 prices)									
1. Current income	2 391	2 360	2 313	2 499	2 688	3 104	3 582	3 840	3 310
Copper	248	193	352	314	253	509	519	219	192
Direct taxes	622	674	515	564	604	752	843	914	2 799
Indirect taxes	1 243	1 388	1 384	1 553	1 681	1 717	1 965	2 290	
Non-tax revenue	278	105	62	68	150	126	255	417	319
2. Total expenditure	3 536	2 607	2 540	2 699	2 788	2 896	3 507	4 022	3 603
Servicing of public debt	482	447	566	435	418	446	710 <sup>f</sup>	651 <sup>g</sup>	239
Other expenditure	3 054	2 160	1 974	2 264	2 370	2 450	2 797	3 371	3 364
3. Deficit (1-2)	1 145	247	227	200	100	208 <sup>c</sup>	75 <sup>c</sup>	182	293
<b>D. Coefficients</b>									
(Percentages)									
4. Deficit/total expenditure	32.4	9.5	8.9	7.4	3.6	7.2 <sup>c</sup>	2.1 <sup>c</sup>	4.5	8.1
5. Deficit/gross domestic product	10.5	2.6	2.3	1.8	0.8	-1.7 <sup>c</sup>	-0.6 <sup>c</sup>	1.2	2.4
6. Current income/gross domestic product	21.9	24.8	23.5	23.1	23.0	24.5	26.3	26.7	26.7
7. Total expenditure/gross domestic product	32.4	27.4	25.8	24.9	23.8	22.8	25.7	27.9	29.0

Source: Ministry of Finance, Budget Office.

<sup>a</sup>Preliminary figures.<sup>b</sup>Including advance payments of 9 565 million pesos.<sup>c</sup>Surplus.<sup>d</sup>Including advance payments of US\$ 422 millions.<sup>e</sup>Including advance payments of US\$ 867 millions.<sup>f</sup>Including advance payments of US\$ 346 millions at 1976 prices.<sup>g</sup>Including advance payments of US\$ 423 millions at 1976 prices.

unchanged in real terms.<sup>7</sup> To some extent, the containment of expenditure was rather surprising, since in 1982 there were two factors tending to raise expenditure automatically. On the one hand, there was an increase in disbursements to finance the special employment programmes (PEM and POJH), the number of beneficiaries of which doubled in 1981 as a result of the hiring of an additional 6% of the labour force. On the other, the inauguration of the new social security system meant a growing deficit, as was expected, since as well as reducing the number of active workers contributing to the old system this increased the number of retired persons to whom the State had to pay a pension.

If it had not been for these automatic increases in expenditure, the deficit would probably have disappeared. Bearing in mind the severity of the recession in 1982, this shows the Government's subjection, at least during most of the year, to the theory and practice of the "automatic adjustment" and its reluctance to follow a decisively anticyclical public expenditure policy. Indeed, during the first half of the year the Government took several measures to reduce its expenditure and increase taxes in order to try to avoid a deficit. Thus, although the 1982 fiscal year did end up with a deficit, this was not the result of a contracyclical effort made in the context of economic policy but was due, instead, to the fact that the marked decline in the product caused an equally sharp drop in fiscal revenue.

<sup>7</sup>When the data are analysed, it is seen that the apparent decline in expenditure was due to the fact that in 1981 servicing payments totalling US\$ 867 million in respect of the public debt were made in advance. If this item is excluded, then the dollar expenditure rose in 1982.

## ECUADOR

### 1. Recent economic trends: Introduction and summary

The gradual deterioration of the economic situation in recent years led to an increase of barely 1.4% of the gross domestic product in 1982 and to a decline of nearly 2% in the per capita product: something which had not occurred since 1969 (see table and figure 1).

Similarly, the scant increase of the global product became slightly negative in the case of gross income with the new deterioration in the terms of trade, which have dropped by 14% in the last two years.

The acute external imbalance, which occurred in 1981 when the current account deficit of the balance of payments reached unprecedented figures and international reserves decreased sharply, precipitated the gradual deterioration in the economic situation and contributed decisively to the recession and to the change for the worse in the indicators observed in all sectors and variables of the economy during 1982.

All production activities suffered to a greater or lesser extent from the containment of demand, financial difficulties, restrictions in public spending and low investment levels. Only a few activities—such as manufacturing, stock-raising, fishing and some basic services—succeeded in maintaining a certain dynamism. On the other hand, agricultural production decreased by more than 2%, affected at first by a drought and later by heavy rains and floods, and construction also dropped slightly. Oil production, for its part, stayed at the levels of the previous year and services increased at the same slow rate as the economy in general.

With regard to external trade and financial relations, the precarious levels recorded in 1981 generally did not get much worse. Exports decreased by more than 8%, affected by lower sales of oil and of the main manufactured products. On the other hand, coffee, cocoa and seafood exports rose sharply.

Due to difficulties which arose in marketing, the volume of oil exported decreased by 6% and its average price dropped from US\$ 34.50 to US\$ 32.50 per barrel. Together with the drop in sales of petroleum products, this meant a drop in income of US\$ 200 million.

Imports, for their part, decreased by a percentage similar to that of exports, as a result of the measures taken for that purpose during the year and of the currency devaluation which made them more expensive: the lower demand for imports from a depressed economy also helped to contain them.

This development in trade relieved the imbalance slightly; nevertheless, it was offset by a relatively small increase in interest payments, finally giving rise to a current deficit not much higher than the extremely high deficit recorded in 1981 and in which outflow for interest payments accounted for a high share (see figure 1).

As regards the capital account of the balance of payments, the high amortization payments on the external debt meant that the inflow of capital was insufficient to cover the current imbalance, and for the second consecutive year it was necessary to make use of the international reserves, this time in the amount of US\$ 330 million. At the end of the year, their availability, without considering gold, amounted to US\$ 304 million: a little over half of them had been lost during the course of the year.

At the end of 1982, the total external debt amounted to US\$ 6.3 billion. However this figure could have been substantially higher if in August the flow of external loans to the public sector had not been checked and loans to the private sector restricted. The year closed with an external debt US\$ 430 million higher than it had been one year before, so that its growth rate dropped abruptly. But apart from the size of the debt, the most noteworthy fact was the magnitude attained by its service—US\$ 1 970 million in amortization payments and US\$ 780 million in interest—which slightly exceeded the total value of exports of goods and services. The Government, concerned by the

size of these payments, began steps in October to refinance the external public debt falling due between the beginning of November 1982 and the end of 1983.

For the purpose of improving the difficult external payments situation and safeguarding the international reserves, the monetary authorities devalued the currency. First, in March, an exchange rate of 30 sucres per dollar was established for a number of operations which until then had been carried out at the official rate of 25 sucres. Subsequently, in May, the official rate rose to 33 sucres per dollar. This did not prevent the price of the dollar in the free market from doubling between then and the end of the year.

Later on, a stabilization programme was implemented which involved a broad series of measures designed mainly to correct the external imbalance, reduce the fiscal imbalance, reactivate production and contain a possible renewal of inflation. The Monetary Board also reformulated the monetary programme for the rest of the year, which more or less coincided with the actual increase recorded in money supply (approximately 21%). This improved somewhat the difficult liquidity situation which the economy had been experiencing in 1981. Higher interest rates were also fixed, but in any case they continued to be too low to encourage domestic savings.

Table 1  
ECUADOR: MAIN ECONOMIC INDICATORS

	1977	1978	1979	1980	1981	1982 <sup>a</sup>
<b>A. Basic economic indicators</b>						
Gross domestic product at market prices (millions of 1970 dollars)	4 985	5 313	5 595	5 869	6 136	6 221
Population (millions of inhabitants)	7.32	7.54	7.78	8.02	8.28	8.54
Per capita gross domestic product (dollars at 1970 prices)	681	705	719	732	741	728
<b>Growth rates</b>						
<b>B. Short-run economic indicators</b>						
Gross domestic product	6.5	6.6	5.3	4.9	4.5	1.4
Per capita gross domestic product	3.4	3.5	2.1	1.8	1.3	-1.7
Gross income <sup>b</sup>	6.7	5.3	8.5	5.9	3.0	-0.3
Terms of trade (goods and services)	4.8	-8.7	18.8	9.5	-6.4	-8.6
Current value of exports of goods and services	12.3	7.0	41.5	18.9	1.6	-8.6
Current value of imports of goods and services	35.2	22.1	25.1	11.2	6.8	-8.0
Consumer price index						
December - December	9.8	11.7	9.0	14.5	18.6	24.3
Variation between annual averages	13.1	11.7	10.3	13.0	16.5	16.1
Money	31.0	10.2	27.4	27.7	12.5	20.9
Minimum wage in real terms <sup>c</sup>	-13.1	-7.6	21.6	76.5	-14.2	-9.5
Current income of government	12.3	15.8	21.1	62.7	4.7	14.1
Total expenditure of government	16.9	17.2	7.8	47.9	42.4	10.9
Fiscal deficit/total expenditure of government <sup>d</sup>	26.2	27.1	18.1	10.0	33.8	32.0
<b>Millions of dollars</b>						
<b>C. External sector</b>						
Trade balance (goods and services)	-182	-463	-299	-147	-304	-297
Balance on current account	-377	-730	-634	-672	-1 027	-1 070
Balance on capital account	489	736	698	942	656	742
Variation in international reserves	146	13	87	291	-381	-328
Total external debt	1 264	2 975	3 554	4 667	5 871	6 314

Source: ECLA, on the basis of official data.

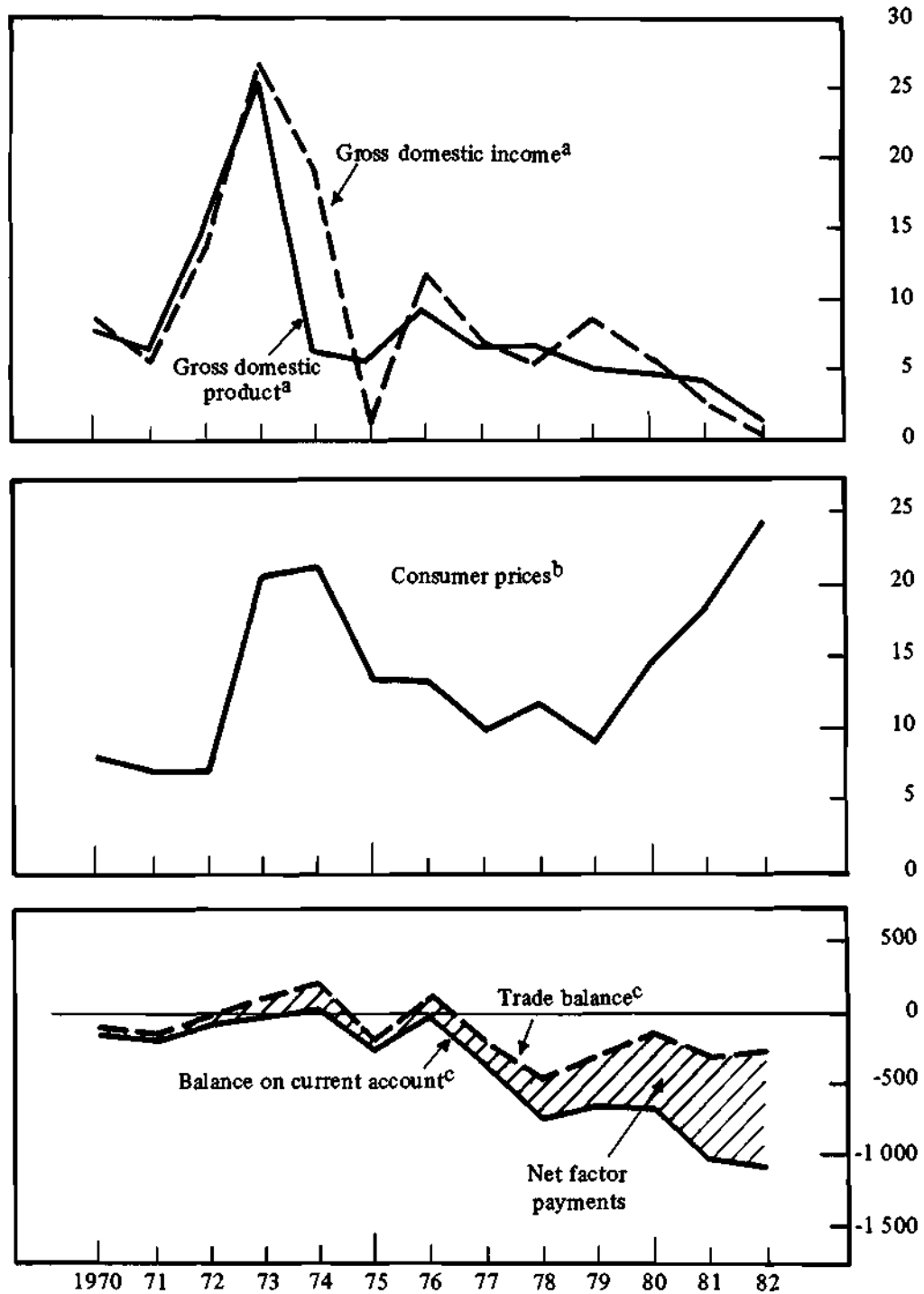
<sup>a</sup>Preliminary figures.

<sup>b</sup>Gross domestic product plus terms-of-trade effect.

<sup>c</sup>Including various bonuses and allowances.

<sup>d</sup>Percentages.

Figure 1  
**ECUADOR: MAIN ECONOMIC INDICATORS**



Source: ECLA, on the basis of official information.

<sup>a</sup>Annual growth rate.

<sup>b</sup>Percentage variation from December to December.

<sup>c</sup>Millions of dollars.

Contrary to expectations, the currency devaluation in May did not have immediate effects on domestic prices, which only began to rise again in September. In October the price index began to reflect the effects of the doubling of gasoline prices and the elimination of the wheat subsidy, and at the end of December the variation in the index compared with December 1981 had reached 24%, which is the highest inflation rate recorded since 1950 at least.

The consequent rises produced by the increase in the price of gasoline and several basic consumer products had far-reaching social repercussions, resulting in strikes and shutdowns in demand for pay rises. At the beginning of November the minimum wage for workers in general was raised from 4 000 to 4 600 sucres per month, in addition to other fringe benefits and special bonuses. Nevertheless, the average minimum wage during the year dropped by around 10% in real terms after having already decreased by 14% in 1981 (see table 1).

The austerity measures regarding public spending, which were stepped up in the middle of the year for the purpose of reducing the high fiscal deficit, barely fulfilled their objective. Although total expenditure decreased by approximately 5% in real terms, income also decreased, although to a lesser extent, for which reason the ratio between the fiscal deficit and the gross domestic product only went down from 5.8% to 5.2%.

## 2. Trends in economic activity

### a) Total supply and demand

An estimated increase of barely 1.4% in the gross domestic product in 1982 completed four years of continual decline in the product's growth rate. This was in sharp contrast to what occurred in the period 1976-1978, when the product grew at the rate of 7.4% per year. This gave way, however, to a virtual crisis situation which worsened from year to year and eventually deteriorated into the acute external imbalance which occurred in 1981 and continued into 1982 (see table 2).

The gradual slackening of global production was accompanied from 1980 on by a decrease in the volume of imports of goods and services, which, although slight in 1980 and 1981, exceeded 9% in 1982. This decrease in imports occurred as a result of the measures adopted to reduce them, in an attempt to equalize the balance of payments, and as a result of the devaluation of the sucre. Other factors contributing to their decrease were the reduction of external credit from suppliers which occurred in the third quarter of the year and the sluggishness of economic activity.

Table 2

### ECUADOR: TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1970 prices			Percentage breakdown		Growth rates		
	1980	1981	1982 <sup>a</sup>	1970	1982 <sup>a</sup>	1980	1981	1982 <sup>a</sup>
<b>Total supply</b>	7 170	7 428	7 394	114.4	118.9	3.8	3.6	-0.5
Gross domestic product at market prices	5 869	6 136	6 221	100.0	100	4.9	4.5	1.4
Imports of goods and services <sup>b</sup>	1 301	1 292	1 173	14.4	18.9	-0.7	-0.7	-9.2
<b>Total demand</b>	7 170	7 428	7 394	114.4	118.9	3.8	3.6	-0.5
Domestic demand	6 589	6 841	6 818	104.1	109.6	4.5	3.8	-0.3
Gross domestic investment	1 226	1 171	1 055	18.2	17.0	9.2	-4.5	-9.9
Gross fixed investment	1 075	1 078	968	16.7	15.6	6.1	0.3	-10.2
Construction	481	493	470	10.9	7.6	1.7	2.5	-4.7
Machinery and equipment	594	586	498	5.8	8.0	10.0	-1.4	-14.9
Changes in stocks	152	93	87	1.5	1.4			
Total consumption	5 362	5 669	5 763	85.9	92.6	3.5	5.7	1.6
General government	858	893	889	11.0	14.3	9.0	4.1	-0.5
Private	4 504	4 776	4 874	74.9	78.3	2.5	6.0	2.0
Exports of goods and services <sup>b</sup>	581	587	576	10.3	9.3	-3.1	1.0	-1.9

Source: ECLA, on the basis of figures supplied by the Central Bank of Ecuador.

<sup>a</sup>Preliminary figures.

<sup>b</sup>The figures for exports and imports of goods and services correspond to those of the balance of payments, deflated by means of price indexes calculated by ECLA.

The scant increase in production, together with the lower volume of imported goods and services, caused the volume of global supply to be nearly the same as that of the previous year. Since in addition the volume of exports of goods and services decreased, although by less than 2%, the domestic availability of goods and services during the year was practically equal to that of 1981.

In the last two years domestic gross investment decreased by 14% and gross fixed capital formation by 10%. The coefficient of fixed investment with respect to the product decreased from slightly more than 19% in 1978 to less than 16% in 1982. Both investment in construction and in machinery and equipment experienced substantial reductions in 1982, especially the latter which had also decreased in 1981.

Several factors contributed to the drop in investment. Financial problems, restriction of public spending and the drop in demand for new housing explain the contraction in construction investment. To this should be added the rise in the cost of external credit and of imports, which adversely affected investment in machinery and equipment, but in reality what had the most influence on the drop in investment was the uncertain economic situation and the lack of prospects of prompt reactivation. In 1981 and 1982 the current value of imports of intermediate goods for construction decreased sharply (25% and 22%), while that of capital goods dropped by 3% and 7% in the same years.

Finally, Government consumption expenditures dropped slightly, in accordance with the austerity policy applied, while private consumption rose more slowly.

#### b) *Evolution of the main sectors*

Except for a few individual sectors and the behaviour of the gross product in the most important production sectors during 1982, there was a general drop in growth rates. Thus, in goods-producing activities, which represent around 47% of the global product, the increase was 2.4% —less than half of what it had been in 1981. There was growth of between 5% and 6% in basic services, owing to the moderate expansion of electricity, gas and water supply, while the remaining services, including commercial and financial activity, generally grew at a rate on the order of 3% (see table 3).

Among the goods-producing sectors, agriculture increased by 2%, due to the poor results in crop-farming and forestry and despite the strong performance of livestock production and, especially fishing. The volume of petroleum produced was maintained at the levels of the previous year, while manufacturing succeeded in maintaining a certain growth rate in its production (4%), although this was nevertheless lower than its vigorous behaviour of previous years. Construction, which since 1979 had lost all vestiges of the strong momentum it had had in the past, decreased slightly during 1982, with the attendant consequences for the industries created around it and for employment.

i) *Agriculture.* This sector's long-standing and repeated problems of low yields, high costs of certain inputs, marketing difficulties and unprofitable sales prices were added to in 1982 by a drought which mainly affected some provinces on the coast; a currency devaluation which made imported inputs, equipment and tools more expensive; and towards the end of the year by heavy rains and floods which laid waste the coastal region and caused heavy losses, mainly in crop-farming production but also in stock-raising and fishing. The latter was also affected by heavy seas.<sup>1</sup>

Because of these circumstances, crop-farming production decreased by about 2.3%; however, since stock-raising activity and fishing maintained relatively high growth rates, the agricultural product as a whole increased slightly by about 2% (see table 4).

The most noteworthy production decreases were in cotton and sugar cane. The cotton harvest decreased by nearly 40%, mainly due to the drought which destroyed around 8 000 hectares of this crop and to a drop in yield. However, this lower supply was mitigated by the stock of 80 000 quintals of ginned cotton held by the National Marketing Corporation (ENAC) and the stocks held by the textile industry.

As regards cane for sugar production, production went down by approximately 18% during 1982, because of the floods which prevented completion of the harvesting of 9 600 hectares of this

<sup>1</sup>In the last three months of the year rainfall in the cities of Portoviejo, Machala and Guayaquil amounted to 725 millimetres, a figure 7.3 times higher than that of a normal year; in Guayaquil, especially, precipitation was more than ten times the average of those months over the last 66 years. See *Ecuador: Evaluación de los efectos de las inundaciones de 1982/1983 sobre el desarrollo económico y social*, E/CEPAL/G.1240.

crop. In 1982 there were around 45 000 hectares of cane intended for sugar production and some 59 000 intended for the manufacture of brown sugar and alcohol.

Other products, intended mainly for the domestic market, whose production decreased were rice and soya; the remaining products generally recorded moderate increases in their harvests (see table 4).

Rice production fell by approximately 11% due to the floods which prevented the harvesting of around 23 000 hectares of this crop, equivalent to 15% of the sown area.

Soya production for its part, decreased by around 3%. A strong recovery in soya production had been expected for 1982 since, the area sown had been extended. However, since soya is grown mainly in three of the provinces most affected by the heavy rains (Los Ríos, Manabí and Guayas), around 12 000 hectares of the crop were damaged in them, and this reduced the anticipated production by around 19 000 tons, although only by some 3 000 tons in comparison with 1981.

Among the products intended mainly for export, there were decreases during the year in the production of coffee and bananas, while that of cocoa increased by nearly 5%. Coffee production decreased by around 9% —due to a drop in yields from climatic causes— with respect to the exceptional harvest of 1981 which had caused an extraordinary increase in coffee stocks. In addition, the export quota assigned to the country was reduced and there were difficulties in selling the product in markets not participating in the International Coffee Organization.

For its part, banana production dropped 3%. It is estimated that some 35 000 tons of export bananas were lost as a result of the floods, not counting the losses caused by inability to transport the fruit from the farms as a result of the large-scale destruction of highways and bridges caused by the disaster, especially in the province of El Oro.

Table 3

ECUADOR: GROSS DOMESTIC PRODUCT, BY KIND OF ECONOMIC ACTIVITY

	Millions of dollars at 1970 prices			Percentage breakdown		Growth rates		
	1980	1981	1982 <sup>a</sup>	1970	1982 <sup>a</sup>	1980	1981	1982 <sup>a</sup>
<b>Gross domestic product<sup>b</sup></b>	5 344	5 587	5 665	100.0	100.0	4.9	4.5	1.4
<b>Goods</b>	2 248	2 367	2 425	47.8	46.8	2.2	5.3	2.4
Agriculture	762	805	821	25.1	15.8	5.3	5.7	2.0
Mining	259	269	267	0.2	5.2	-3.7	3.9	-0.9
Manufacturing	1 058	1 122	1 167	18.2	22.5	1.8	6.0	4.0
Construction	169	172	170	4.3	3.3	0.8	1.4	-0.8
<b>Basic services</b>	503	531	560	8.5	10.8	7.7	5.6	5.5
Electricity, gas and water	48	54	60	0.9	1.2	9.8	11.4	11.6
Transport, storage and communications	455	477	500	7.6	9.6	7.8	4.8	4.9
<b>Other services</b>	2 218	2 319	2 388	45.7	46.1	9.9	4.5	3.0
Commerce	743	774	776	14.2	15.0	8.4	4.2	0.2
Financial, institutions, insurance, real estate and business services	405	419	438	8.5	8.5	14.3	3.4	4.6
Ownership of dwellings	(227)	(235)	(241)	(6.3)	(4.6)	3.2	3.3	2.8
Community, social and personal services	1 070	1 126	1 174	23.0	22.6	9.2	5.2	4.3
Government services	(491)	(508)	(521)	(9.6)	(10.1)	9.2	3.6	2.5
Less: Imputed charges for banking services	180	180	190	2.0	3.7	38.6	-0.2	6.0

Source: ECLA, on the basis of figures provided by the Central Bank of Ecuador.

<sup>a</sup>Preliminary figures.

<sup>b</sup>At factor cost. As the individual activities and the totals were calculated independently, the sum of the activities does not correspond with the totals.



Table 4

## ECUADOR: INDICATORS OF AGRICULTURAL PRODUCTION

	Area harvested in 1980 (thousands of hectares)	1980	1981	1982 <sup>a</sup>	Growth rates			
					1972-1979	1980	1981	1982 <sup>a</sup>
<b>Millions of 1975 sucres</b>								
Agricultural product		21 198	22 399	22 839	2.3	5.3	5.7	2.0
Crop farming		10 831	11 355	11 090	0.2	2.1	4.8	-2.3
Livestock		7 216	7 547	7 976	3.9	3.9	4.6	5.7
Forestry		1 540	1 727	1 765	9.9	6.9	12.1	2.2
Fishing and hunting		1 611	1 770	2 008	8.3	41.2	9.9	13.4
<b>Thousands of tons</b>								
<b>Principal products</b>								
Bananas	70	2 270	2 009	1 950	-3.4	11.7	-11.5	-3.0
Coffee	288	70	92	84	3.3	-22.5	31.8	-8.8
Cocoa	270	91	92	97	1.9	17.8	1.1	5.1
Sugar cane	51	3 862	3 348	2 750	1.8	0.9	-13.3	-17.9
Cotton	19	40	42	26	11.7	57.9	5.5	-38.6
Soya	25	34	33	30	67.7	12.0	-0.9	-3.0
African palm	26	245	300	312	20.6	48.7	2.9	0.6
Rice	127	381	434	387	17.2	19.5	14.1	-10.9
Wheat	32	31	41	43	-6.7	-0.3	33.1	4.3
Hard maize	167	196	233	241	8.8	7.7	18.4	3.2
Soft maize	59	45	49	50	-19.1	7.3	7.3	3.1
Barley	26	24	27	28	-19.8	17.9	11.1	4.4
Potatoes	30	323	392	396	-8.5	27.0	21.2	1.0
<b>Primary products</b>								
Beef		89	92	96	1.3	0.9	2.8	5.2
Poultry meat		32	34	35	12.1	4.9	5.3	3.2
Milk (millions of litres)		897	916	935	7.7	2.2	2.1	2.0

Source: ECLA, on the basis of information from the Central Bank of Ecuador, the Ministry of Agriculture, and the National Development Council.

<sup>a</sup>Preliminary figures.

The livestock product increased by 5.7% in 1982: a higher rate than that recorded in recent years and attributable to growth of slightly over 5% in cattle slaughtering (meat production) and to increases of approximately 9% in cattle stocks, but of only 2% in milk production.

During 1982 special concern was given to establishing minimum prices at the producer level for various agricultural products, for the purpose of stimulating their cultivation. Among these were rice, sugar cane, barley, wheat, hard maize, soya, unginned cotton and cotton seed, cattle on the hoof, and milk. Similarly, the National Coffee Programme and the Cocoa Programme were entrusted with the setting and control of prices for the respective producers. It was also laid down that cocoa prices should be increased by the amount of decrease of export taxes on this commodity. In September 1981, the tax scale for cocoa bean exports had been altered, and taxes would only apply when the FOB price exceeded US\$ 200 per quintal: a situation which has not occurred in recent years.

Another aspect of agricultural policy which has been considered important in recent years has been the creation of grain storage centres and the construction of silos. With regard to the latter, ENAC has completed the construction of 8 plants on the coast and has begun studies for the installation of centres and silos in the Sierra region.

The afforested area has increased significantly in recent years, as has forest production, but the latter grew barely more than 2% in 1982. As part of the afforestation programme, around 5 million trees were planted this year in a 3 000 hectare zone in the provinces of Chimborazo, Bolívar and Tunguragua.

With the information available, it was not possible to determine the magnitude of the losses suffered by fishing as a result of the heavy seas which affected the coast and the changes in salinity and temperature of the sea. All that is known is that those phenomena and the overflowing of the rivers caused destruction in a small percentage of points intended for the raising of shrimp, and this is believed to have affected shrimp production. In any event, it is estimated that the fishery product increased by slightly more than 13%, which is more than the increase recorded in 1981.

ii) *Petroleum*. During 1982 the level of crude oil extraction of the previous year remained practically unchanged, notwithstanding the addition of three new fields in the east which added 18 000 barrels daily to production as from the second half of October. The opening of new productive wells has barely been sufficient to replace the decrease in yields and the exhaustion of the already long-exploited wells.

In 1982, 77.3 million barrels (an average of 212 000 barrels per day) were produced: a figure barely higher (0.4%) than that recorded in 1981. In the last months of the year the volume of extraction increased to around 227 000 barrels per day, with the entry into operation of the Secoya, Shuara and Shushuqui fields in the north-east (see table 5).

At the same time, the volume of oil exports decreased from 45.4 to 42.7 million barrels (6.1%) in 1982, due to the marketing difficulties which arose during the year and which were reflected in the decline in prices. Between the first and fourth quarters, the average sale price fell from US\$ 34.25 to US\$ 31.70 per barrel.

The amount of petroleum processed by the national refineries, which represents around 43% of crude oil extraction, increased by 3.6%. However, this was only reflected in increases in the production of kerosene and fuel oil, since output of gasoline, diesel oil and turbo fuel decreased.

In 1982 5.6 million barrels of petroleum products --mainly gasoline and diesel oil-- were imported. In recent years, this volume has approached that of fuel oil exports; previously the volume of the latter had been substantially higher.

In mid-October, along with a series of other economic measures, the sale price of the different types of gasoline in the country was doubled. That of 80-octane "extra" gasoline, which is the gasoline of highest consumption, rose from 15 to 30 sucres per gallon; that of 92-octane gasoline rose from 20

Table 5

ECUADOR: INDICATORS OF PETROLEUM PRODUCTION

	Thousands of barrels				Growth rates			
	1979	1980	1981	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>a</sup>
Crude oil								
Production	78 163	74 760	77 028	77 298	6.1	-4.4	3.0	0.4
Exports	44 792	39 636	45 449	42 669	-	-11.5	14.7	-6.1
Processed in refineries	31 761	33 786	32 250	33 419	5.6	6.4	-4.5	3.6
Percentage of total production	40.6	45.2	41.9	43.2				
Production of principal derivatives								
Gasoline	31 611	33 038	32 001	32 098	8.0	4.5	-3.1	0.3
Fuel oil	8 145	8 411	8 599	8 156	11.7	3.3	2.2	-5.2
Diesel oil	13 879	14 813	13 939	14 432	6.6	6.7	-5.9	3.5
Turbo fuel	5 143	5 606	5 326	5 180	13.8	9.0	-5.0	-2.7
Kerosene	1 134	1 099	1 135	1 043	15.1	-3.1	3.3	-8.1
Liquefied gas	2 498	2 266	2 232	2 512	-8.0	-9.3	-1.5	12.5
Imports of derivatives	812	843	770	775	10.5	3.8	8.7	0.6
Exports of derivatives	2 730	4 592	5 480	5 570	28.7	68.2	19.4	1.6
Domestic fuel sales	7 421	7 957	5 848	5 340	-6.2	7.2	-26.5	-8.7
	24 581	26 588	27 469	27 336	12.0	8.2	3.3	-0.5

Source: Central Bank of Ecuador.

<sup>a</sup>Preliminary figures.

Table 6

## ECUADOR: GROSS MANUFACTURING PRODUCT

	Millions of 1975 sucres			Growth rates			
	1980	1981 <sup>a</sup>	1982 <sup>a</sup>	1972-79	1980	1981 <sup>b</sup>	1982 <sup>b</sup>
<b>Manufacturing product<sup>c</sup></b>	26 807	28 181	29 467	11.1	3.6	5.1	4.6
Food, beverages and tobacco	11 592	11 805	11 808	10.0	3.6	1.8	-
Textiles, clothing and leather goods	5 681	5 863	6 495	10.7	1.9	3.2	10.8
Wood and wood products	1 478	1 604	1 615	10.1	1.9	8.5	0.7
Paper and publishing	1 657	1 690	1 745	8.2	8.5	2.0	3.3
Chemical and rubber products <sup>c</sup>	1 739	2 008	2 254	13.3	2.6	15.5	12.3
Basic metal and non-metallic products	2 973	3 338	3 438	14.6	1.4	12.3	3.0
Machinery, equipment and transport materials	959	1 072	1 277	9.5	12.4	11.8	19.1

Source: Central Bank of Ecuador, National Accounts, No. 3, 1982.

<sup>a</sup>Preliminary figures and estimates.

<sup>b</sup>The index of manufacturing production normally included in this section has been replaced by the gross product of the manufacturing sector at constant prices, due to the considerable differences observed between the trends of the two indicators, mainly in the last two years.

<sup>c</sup>Excluding petroleum refining.

to 40 sucres, and 60-octane gasoline went up from 10 to 20 sucres.<sup>2</sup> This rise reduced the large difference that had existed between domestic and international gasoline prices, decreased the subsidy which burdened the fiscal accounts and brought about more careful consumption of fuel.

Since the higher gasoline prices were decreed in the tenth month of the year, their possible repercussions on consumption were not reflected in the annual data. However, gasoline sales in the country increased very little during 1982 (1.4%), and that of 80-octane 'extra' gasoline -87% of sales- decreased by 3%, being replaced by other types, mainly higher-octane gasoline which increased 38%.

The virtual absence of variation in fuel production and the scant increase in fuel imports were reflected in a domestic sales volume which did not change in comparison with the previous year. In 1981 sales had already increased at a rate substantially lower than the customary one. Apart from gasoline, during 1982 diesel oil sales rose very slightly, fuel oil sales decreased around 10% and the decrease in turbo fuel was even more marked. Only kerosene sales had an increase of any importance (of the order of 8%).

The decrease in international oil prices and the difficult domestic situation have reduced the availability of resources for the development of the oil industry and the search for new fields. In 1982 only 22 wells were drilled in comparison with 29 the year before, five of them exploration wells. Two of these wells were drilled in the Gulf of Guayaquil; only one was found to contain oil, and even then of non-commercial quality. In the south-eastern region another well, Nuevo Amazonas I, was drilled with better results, since 18.5<sup>o</sup> API oil appeared from a new structure.

The proven oil reserves, which at the end of 1978 were estimated to be some 1 050 million barrels in the fields exploited by the CEPE-TEXACO consortium, had decreased to around 780 million barrels by December 1982, including those of the CEPE-CITY consortium. The adoption of the new Hydrocarbons Law, in August 1982, opened possibilities for greater participation by foreign companies in exploration works and oil exploitation, which might make it possible to discover new deposits and increase production.

iii) *Manufacturing.* In 1982 the deceleration of the growth rate of the manufacturing product which had been observed since 1980 became more accentuated.<sup>3</sup> The annual growth rate of 11% observed during most of the 1970s dropped to one on the order of 4.5% in the last three years (see table 6).

<sup>2</sup>The new gasoline prices are equivalent to 24, 32 and 16 U.S. cents per litre, respectively. Fuel prices had not been changed since February 1981, when gasoline prices nearly tripled; thus "extra" gasoline rose from the equivalent of 5 cents per litre to 16 cents.

<sup>3</sup>The gross manufacturing product to which reference is made in this section does not include the value added by petroleum refining, which appears with a minus sign in the national accounts.

The slackening of manufacturing activity in recent years has taken place side by side with the gradual worsening of the main variables of the economy. However, the increase of close to 5% in the value added in manufacturing in 1982 was one of the highest attained by the goods- and services-producing sectors.

Several of the factors which in recent years have prevented more rapid development of industry and of production in general worsened in 1982. Thus, investment in the sector continued to fall. Some projects did not become a reality and others were postponed because of lack of external financing, which was difficult to obtain, or because of the strict limits on public spending.

Furthermore, although the devaluation of the sucre made imports of manufactured goods more expensive and favoured their production in the country—which was strengthened by the restrictions on imports of non-essential goods—it also raised the price of imported inputs, material and equipment for industry and the financial cost of external indebtedness. But the greatest difficulty faced by manufacturing stemmed from the recessive situation of the economy and from the insufficient liquidity, which was reflected in the restrictions on public spending and on demand in general.

According to the economic surveys carried out by the Department of Planning, during the first half of the year the percentage of utilization of industrial production capacity dropped from 67% to around 65%. However, in the third quarter that proportion had risen to 71%, because of the recovery in food production, at least in the companies in this category included in the sample. The recent expansion of the production capacity of industries such as the cement industry, for example, coincided with the drop in construction activity or with the completion of some important civil engineering works (such as the first two phases of the Punte hydroelectric power station) and the postponement of others. It is also a well-known fact that there is an excess of installed capacity in the cocoa-processing industries due to the drastic drop in cocoa exports.

The foodstuffs, beverages and tobacco industries were affected by the recession. There was no change in their gross product with respect to 1981, and in that year too their growth had been slight. However, the marked decreases in the production of sugar and processed cocoa represented a high share of those results. That of sugar was due to the rains and floods which destroyed crops and impeded the harvest at the end of 1982, and that of processed cocoa was caused by the lack of cocoa beans, which it had been decided to export as such because of the higher price they obtained in the international market in comparison with processed cocoa.

The wood and paper industries and those of basic metal and non-metallic products also decreased their product growth rates drastically with respect to the previous year. On the other hand, there was a substantial recovery in production in the important textile and clothing industry and the same occurred with the machinery, equipment and transport material industries, which further stepped up the rapid evolution they had shown since the early 1970s. The chemicals and rubber products industries also noted a rapid growth in their product, which came on top of the even higher level attained the previous year. According to economic surveys which measure the evolution of the industrial product, manufacturing production rose slightly during the first half and even more perceptibly during the third quarter, to a level 8% higher than that of the corresponding period of the previous year. At the same time, sales of manufactured products—according to the surveys—rose by a higher proportion and the same trend was shown by employment in industry and sales prices of manufactured products.

During the first eight months of 1982, 23 new companies received benefits under the Industrial Development Law: approximately the same number as during the same period of the previous year. During the year special encouragement continued to be given to the installation of agro-industries. A seed-treatment plant was opened, as was a balanced feed factory for animals, with a capacity of 44 000 tons per year.

A sewing machine factory intended to produce for the Andean market was opened; work was begun on the installation of an industrial park in Ibarra for 90 firms, and a study was begun on the construction of another in Quito. However, the installation of a steelworks in El Oro and an automobile plant in Riobamba was postponed.

Among the international loans obtained by the industrial sector was one for US\$ 40.6 million granted by the World Bank for the development of small-scale and cottage industries, which will give a strong impulse to production and provide employment for 10 000 to 12 000 persons. In addition,

the Inter-American Development Bank approved a credit of US\$ 35 million to promote the installation, expansion and modernization of agro-industrial and export companies.

iv) *Construction.* There was a slight reduction in the construction sector product in 1982, thus confirming the sluggishness this sector has shown since 1979 as a result of the gradual deterioration in the general economic situation. This activity was one of the first to experience the consequences of the economic recession, from its very beginning. At the same time the contraction caused by the latter in construction has had serious repercussions on employment and on other economic activities.

Among the main causes of the drop in construction were the postponement of housing demand by the private sector, due to the difficult economic situation; the restrictions on investment expenditures by the public sector, which delayed the carrying out of works in progress and halted the initiation of new projects; and the negative financial situation of many construction companies because of the substantially lower activity and the high cost of external indebtedness, aggravated by the currency devaluation and by the rapid rise in the price of the dollar in the free market. It may be noted that the companies which had not registered with the Central Bank the external loans received by them had to service these loans with foreign currency acquired in the free markets.

The quarterly economic surveys carried out by the Department of Planning among companies of the sector indicate that towards the middle of the year construction activity fell to its lowest level, with a sharp decrease in public and private works and volumes of contracts, especially those relating to private works. This aggravated the companies' general situation and increased the dismissal of workers. In the third quarter, some recovery was noted in public works and dismissals of workers slowed down, but private works continued to decline. A similar situation was anticipated for the last quarter.

Such depressed trends as those noted above, however, contrasted with those of another indicator which is fairly representative of an important construction area, namely, construction permits granted in the country's four main cities. These permits, expressed in terms of area to be constructed, indicated up to August 1982 an extraordinary increase of 43% over the corresponding period of the previous year. What is more, this proportion rose to 66% with regard to residential construction. The increases were particularly high in Guayaquil (68% and 123% respectively), while in Quito the percentages were similar to those of the four cities as a whole, and in Cuenca they were lower.

With credit support from national institutions and international organizations, the housing programmes intended mainly for low- and medium-income sector continued during the year. These programmes are the responsibility of institutions such as the National Housing Board (JNV) and the Ecuadorian Housing Bank (BEV), which planned to deliver 12 housing developments in 1982, and the Ecuadorian Social Security Institute (IESS).

Thus, the BEV was granted a loan of US\$ 20 million by a United States financial organization, for the construction of 4 500 low-income housing units in Quito. In addition the Ecuadorian Development Bank granted a loan of 800 million sucres to the BEV in order to complete the counterpart funds for a loan from the World Bank to finance a broad low-income housing programme. Towards the end of the year, this international agency approved a loan of US\$ 35.5 million for that purpose.

At the beginning of August the Monetary Board approved credits in the amount of nearly 2 billion sucres for the construction industry, which were channelled through the private banking system and financial institutions. Construction was also stimulated through the acquisition of mortgage securities. The IESS earmarked 1 200 million sucres for this purpose and its investment programme for 1982 included budget items of 1 036 million sucres for the construction of housing for its members and 800 million sucres for hospital construction.

v) *Electrical energy.* During the year the Esmeraldas thermal power station, with a capacity of 125 MW, and a small hydroelectric power station in Cumbayá with a capacity of 20 MW came into operation. This brought the total installed capacity to around 1 350 MW and total electricity generated grew by around 8%.

Due to the scarcity of financial resources, the Ecuadorian Electrification Institute (INECEL) placed greater emphasis on the completion of projects under construction than on the initiation of those which had been programmed. At all events, it was not possible to bring into operation, as had been expected, the first 100 MW of a projected total of 500 MW of capacity for the first two phases of

the Paute I hydroelectric project. With regard to the Agoyán hydroelectric project with a capacity of 156 MW, two contracts were signed in April for the initiation of its construction.

The Inter-American Development Bank granted INECEL three loans totalling US\$ 168 million. To finance the third phase of the Paute project, which will have a capacity of 500 MW, two loans were granted, one for US\$ 105 million over a 20-year term, including a 6-year grace period and 9.25% annual interest, and another for US\$ 35 million to be paid over 40 years, with a 10-year grace period and an interest rate of 1% during the grace period and 2% over the remaining 30 years.

For the rural electrification programme, a loan of US\$ 27.5 million was granted on the same favourable conditions as those for the US\$ 35 million loan for the Paute project. This electrification programme includes the installation of 3 500 kilometres of primary and secondary lines in the Sierra and coastal regions which will bring electricity to around 62 000 families in rural areas.

### 3. The external sector

#### a) *Merchandise trade*

While exports of goods decreased a little more than 8% in 1982, imports dropped in a slightly smaller proportion, so that the positive trade balance continued to decrease. This balance, which only two years ago (in 1980) had amounted to US\$ 300 million, fell to around US\$ 180 million in 1981 and to US\$ 150 million in 1982.

The deterioration in the merchandise trade balance began in 1981 with the stagnation of exports. There was a loss of international reserves in that year also —following a five-year period of continued accumulation— and when this continued in 1982 this led the economic authorities to take a series of measures aimed at preventing the external trade and financial situation from worsening. Many of these steps sought to raise exports and reduce imports, the most obvious being the devaluation of the sucre in May. Along with provisions which specifically prohibited certain imports and discouraged others, these measures succeeded in reducing external purchases and lessening the loss of international reserves, which would otherwise have been greater. In the case of exports, they only succeeded cushioning the fall.

The decrease in the value of exports in 1982 stemmed from a slight reduction in their volume —attributable entirely to the low volume of oil sales, since that of the remaining products increased significantly— and a substantial general deterioration in prices. In the case of imports, the reduction was in their volume and prices practically did not change (see table 7).

Table 7

#### ECUADOR: MAIN FOREIGN TRADE INDICATORS

	1977	1978	1979	1980	1981	1982 <sup>a</sup>
<b>Growth rates</b>						
Exports of goods						
Value	7.2	9.2	40.6	18.3	-	-8.3
Volume	-10.3	18.0	-0.9	-5.9	1.0	-0.8
Unit value	19.5	-7.5	41.9	25.7	-1.0	-7.6
Imports of goods						
Value	29.8	25.2	23.1	6.9	5.3	-7.6
Volume	18.0	18.9	5.9	-4.8	-1.3	-7.4
Unit value	10.1	5.3	16.2	12.3	6.7	-0.3
Terms of trade	8.6	-12.2	22.2	11.9	-7.2	-7.3
<b>Indexes (1970 = 100)</b>						
Terms of trade (goods)	199.1	174.9	213.7	239.1	222.0	205.7
Purchasing power of exports of goods	346.4	359.7	442.5	467.3	434.8	399.9
Purchasing power of exports of goods and services	357.7	364.0	450.6	478.3	452.3	408.4

Source: ECLA, on the basis of official figures.

<sup>a</sup>Preliminary figures.

Table 8  
ECUADOR: EXPORTS OF GOODS, FOB

	Millions of dollars			Percentage breakdown		Growth rates			
	1980	1981	1982 <sup>a</sup>	1970	1982	1979	1980	1981	1982
<b>Total<sup>b</sup></b>	2 506	2 541	2 335	100.0	100.0	45.4	15.3	1.4	-8.1
<b>Primary products</b>	1 891	2 036	1 953	91.2	83.6	49.7	15.7	7.7	-4.1
Petroleum	1 394	1 560	1 328	0.3	59.4	97.3	35.1	11.9	-11.0
Coffee	130	106	135	25.1	5.8	-6.4	-50.6	-18.5	27.4
Bananas	237	208	212	46.8	9.1	16.3	18.5	-12.2	1.9
Cocoa	30	44	63	11.0	2.7	-16.0	-28.6	46.7	43.2
Marine products	66	83	128	3.4	5.5	50.0	4.8	25.8	54.2
Others	34	35	27	4.6	1.1	45.8	-2.9	2.9	-22.9
<b>Manufactured products</b>	615	505	382	8.8	16.4	34.2	14.3	-17.9	-24.4
Cocoa products	181	106	55	1.3	2.9	13.0	-22.6	-41.4	-48.1
Petroleum products	193	167	137	-	5.9	59.3	33.1	-13.5	-18.0
Processed marine products	90	99	80	-	3.4	27.7	50.0	10.0	-19.2
Others	151	133	110	7.5	4.7	76.8	52.5	-11.9	-17.3

Source: Central Bank of Ecuador.

<sup>a</sup>Preliminary figures.

<sup>b</sup>The data are based on export permits, so that the totals do not necessarily match the ones in table 10.

In the past two years there has been a marked deterioration in the terms of trade, notwithstanding the fact that the growth rate of prices of imported goods has dropped substantially. Because of this, 14% of the advantage gained during the two-year period 1979-1980 (mainly due to the rise in oil prices) has been lost. Similarly, the index of the purchasing power of exports—which also attained its highest level in 1980—decreased in 1981 and 1982 by a similar amount to the terms of trade.

i) *Exports of goods.* During the 1970s, with the sole exception of 1975, the value of exports of goods increased at an average rate of 30% per year. This growth, which was not steady, attained much higher rates in some years—such as when oil was incorporated into the export products (an event which also coincided with the first extraordinary rise in oil prices) or when in 1979 new rises in these prices occurred. An additional contribution to the rapid increase in exports up to 1975 was made by some manufactured products—among them, fuel oil—and sporadically some significant increases were observed among primary and traditional export products.

In contrast with the dynamic growth experienced by exports up to 1980, in 1981 they registered practically no change and in 1982, because of a decrease of US\$ 200 million in oil sales, they dropped by close to 8%. The substantial increase (19%) experienced by other export commodities, for its part, was offset by the considerably bigger decrease (-28%) in exports of manufactured products other than petroleum products (see table 8).

Falls in both the volume and prices of petroleum sales were determining factors in the drop in exports. During 1982 42.7 million barrels of crude oil were exported (6% less than the previous year). Of this quantity, 9.7 million, that is, 40% more than in 1981, were bartered for imported fuel, mainly gasoline and diesel oil. In other words, oil sales as such decreased by 14%, which indicates the difficulties now encountered in selling this product in external markets.

The difficulties in oil sales were also reflected in the changes in the composition of the purchasing countries. Thus Korea, which in 1981 had absorbed a third of the oil exported, reduced that proportion to 20% in the last year and Japan, which had also been an important purchaser of Ecuadorian oil, ceased to purchase it altogether in 1982. On the other hand, oil exports to Brazil increased sharply, from US\$ 62 million to US\$ 277 million and sales to the United States also rose (from US\$ 450 million to US\$ 517 million). An unusual feature was that some US\$ 100 million worth of oil was sold to the Middle East.

Average crude oil sale prices dropped from US\$ 34.25 per barrel in the first quarter to US\$ 31.50 in the final months of 1982. They decreased by an average of slightly more than 5% with respect to 1981, when they had already dropped by 2.4%.

The decrease in fuel oil exports, for its part, was more marked, with the volume decreasing by 9% and the value by 18%.

Among primary commodity exports, noteworthy results were achieved by coffee, cocoa and seafood, but banana exports barely increased.

The value of coffee exports rose by 27% in 1982, but even so it did not attain half of the value exported in 1978 while since that time the price of coffee has dropped by 31%. At the beginning of the year, large coffee stocks of around 48 000 tons had been accumulated, which helped raise the volume of the product exported during 1982 by 32%, from 56 000 to 70 000 tons. In order to achieve this, it was necessary to sell to countries outside of the International Coffee Organization market, since Ecuador's export quota had been further reduced (to some 67 200 tons). Furthermore, sales prices of coffee tended to go down, especially in the third quarter.

In the last two years, the value of cocoa bean exports has doubled, rising by 47% in 1981 and 43% in 1982, while the volume sold, for its part, which had nearly doubled in 1981, increased by 56% in 1982. The volume of processed cocoa exported, on the other hand, has decreased to less than half in the last two years. These divergent trends partly reflected the effects of the tax exemption which was granted in 1981 to cocoa bean exports not exceeding the price of US\$ 140 per quintal. It has not been difficult to fulfil this requirement, since the average sales prices have been substantially lower in recent years, and in the last two years they have decreased by one-third. This exemption, along with the measure establishing higher minimum price for cocoa producers, stimulated cocoa bean exports at the expense of those of processed cocoa.

With regard to bananas —the most important traditional export product— both the volume and value of exports rose only very slightly during the year, despite the fact that around 35 000 tons of bananas were lost on account of the serious floods which affected the coastal region in the final months of the year and the fact that the damage to highways and bridges seriously impeded the dispatch of fruit to the ports of embarkation. This apparent contradiction is explained, on the one hand, by the fact that banana production considerably exceeds the volume exported, and on the other, by the fact that the cutting-off of road links occurred towards the end of December and in the early months of 1983.

Seafood exports increased by 54% in 1982 after having grown by 26% the previous year. Since 1977 the value of these exports has risen at the rate of 30% per year, stimulated by the rapid development of shrimp raising in large artificial pools. External sales of this product amounted in 1982 to US\$ 122 million and thus quadrupled the value exported four years before.

In contrast, the most important exports of manufactures suffered significant decreases in the past two years, with their total value decreasing by 18% in 1981 and 24% in 1982. Besides the decrease in sales of petroleum products already mentioned, exports of processed cocoa products, which had already decreased by 45% in 1980 and 1981, went down almost by half. This was due not only to the purchasers' preference for acquiring cocoa beans instead of processed cocoa, but also to the tax advantages granted to cocoa bean exporters. Furthermore, the industry was harmed by the elimination of the tax refunds on exports of semi-processed cocoa products.

Sales to the exterior of processed seafood products also decreased (19%), and those of soluble coffee practically did not change with respect to the previous year.

ii) *Imports of goods.* Imports of goods, which increased at the rate of 26% per year in the three-year period 1977-1979, grew by only 13% the following year, stagnated in 1981, and dropped by around 12% in 1982.<sup>4</sup> This downward trend has followed exactly, although in very accentuated terms, the deceleration of domestic economic activity and has reflected the measures adopted in order to reduce imports and relieve the current disequilibrium in the balance of payments (see table 9).

Already in 1981 a series of measures had been taken to contain the growth of imports. They included measures raising the percentages of prior deposits, higher taxes on certain products (mainly luxury goods), and a prohibition on importing vehicles. For some categories of the latter, however, the possibility of importing them on a barter basis was left open.

<sup>4</sup>This trend corresponds to import permits granted in CIF values, as shown in table 9, which differ from the information given in table 7, which refers to FOB values from the balance of payments.



Table 9

## ECUADOR: IMPORTS OF GOODS, CIF

	Millions of dollars			Percentage breakdown		Growth rates			
	1980	1981	1982	1970	1982	1979	1980	1981	1982
<b>Total<sup>a</sup></b>	2 250	2 246	1 988	100.0	100.0	27.5	13.3	-0.2	-11.5
<b>Consumer goods</b>	250	202	224	13.5	11.2	18.8	38.1	-19.2	10.9
Non-durable	123	104	128	8.4	6.4	10.2	41.4	-15.4	23.1
Durable	127	98	96	5.1	4.8	29.8	35.1	-22.8	-2.0
<b>Raw materials and intermediate goods</b>	943	923	918	50.0	46.2	26.7	13.5	-2.1	-0.5
For agriculture	58	63	60	2.2	3.0	14.9	31.8	8.6	-4.8
For industry	765	770	797	42.3	40.1	30.9	8.7	0.7	3.5
For construction	120	90	61	5.5	3.1	7.9	44.6	-25.0	-32.2
Fuels	23	26	27	6.2	1.4	15.9	64.3	13.0	3.8
<b>Capital goods</b>	608	591	550	18.2	27.7	28.6	1.7	-2.8	-6.9
For agriculture	38	44	37	2.9	1.9	1.1	22.6	15.8	-15.9
For industry	570	547	513	15.3	25.8	31.2	0.5	-4.0	-6.2
Transport equipment	408	494	267	12.0	13.4	40.4	14.3	21.1	-46.0

Source: Central Bank of Ecuador.

<sup>a</sup>Corresponds to import permits granted. The total includes a relatively insignificant group of unclassified imports.

In March 1982 imports payable in more than 270 days were exempted from the prior deposit requirement and subsequently, in October, a new scale was established for prior deposits which went up to 80% of the FOB value of the imports, according to how necessary they were, while the holding period for deposits was set at between 130 and 270 days.<sup>5</sup>

Furthermore, for the same purpose of discouraging imports, a significant number of goods in Schedule I (essential goods) were transferred to Schedule II (non-essential goods), and imports of a considerable number of goods were also prohibited. Furthermore, the selective currency devaluation which had taken place in March, and the devaluation raising the price of the dollar from 25 to 33 sucres in May, had the direct effect of making imports more expensive.

Both in 1981 and 1982 the value of imports of intermediate goods and capital goods decreased. Among the intermediate products, there were sharp decreases in both years (-25% and -32%) in imports intended for construction. Imports of transport equipment were also reduced drastically (-46%) and those of capital goods for agriculture and industry decreased by 16% and 6% respectively.

With regard to imports of consumer goods, which had been greatly reduced in 1981, an increase was observed in 1982 as a result of the purchase of larger amounts of non-durable goods, with the exception of the food and beverages component, which declined slightly. In 1982 US\$ 130 million worth of food ready for consumption and foodstuffs for processing and semi-processing were imported (13% less than in 1981). Wheat purchases amounted to 247 000 tons with a value of US\$ 56 million, the corresponding figures being approximately 310 000 tons and US\$ 67 million in the two previous years. Barley (US\$ 6 million), oats (US\$ 4.6 million) and powdered milk (US\$ 5.8 million) were also imported.

#### b) *The current account position and its financing*

Compared to the rapid intensification of the current account imbalance in 1981, its deterioration in 1982 was minimal. The deficit rose surprisingly in 1981 by more than US\$ 350 million (53%), exceeding the level of US\$ 1 billion for the first time. The trade imbalance also

<sup>5</sup> A 20% deposit was established on essential imports in Schedule I, Section A, and another of 40% for imports in Section B (which includes necessary but not indispensable products), provided that the purchases are paid for within 270 days. Imports payable over a longer time period do not require a deposit in the case of merchandise in Section B. In the case of goods included in Schedule II (non-essential and luxury goods), deposits of 80% and 60% were set, according to whether payment is made before or after 270 days have elapsed. Furthermore, the mandatory holding period of the deposits was set at 130 days for merchandise included in Schedule I, Section A, 180 days for those in Section B, and 270 for those in Schedule II.

worsened that year, and interest payments increased sharply. The sustained and rapid growth of the latter factor over the last five years (it rose from US\$ 38 million to US\$ 710 million between 1976 and 1981) has been the main cause of the continual deterioration in the current balance of payments situation (see table 10).

In contrast to what occurred the previous year, however, in 1982 the current imbalance increased only slightly (4%). Some reduction of the trade deficit was noted and another favourable circumstance was the fact that interest payments appear to have risen only 10%, after the rapid increase they had shown in previous years.

In 1982 US\$ 780 million was paid out in interest on the external debt, a figure equivalent to 29% of the total income generated by exports of goods and services. If that sum is added to the amount of amortization payments it makes the extraordinary figure of US\$ 2 750 million, which is 3% higher than the value of total exports.

There was a loss of international reserves in 1982 for the second consecutive year, this being due in both years to the fact that the entry of new credits into the country was insufficient to cover the higher amount of the current deficit —caused to a large extent by interest payments— and especially to offset amortization payments. Between the end of 1981 and the end of 1982 the international reserves decreased by US\$ 328 million (around US\$ 50 million less than the amount by which they had decreased the previous year).<sup>6</sup> Foreign exchange reserves dropped by US\$ 266 million, and at the end of the year their availability amounted to US\$ 304 million, so that around half of these reserves had been lost during the year.

### c) *The external debt*

The deterioration of the world economic and financial situation made it difficult for Ecuador to secure new loans in 1982 and helped worsen the conditions as regards repayment terms and interest rates on which they were granted. There was also a considerable increase in the debt service. The combination of these two factors, however, meant that there was only a relatively small increase in the amount of the debt at the end of the year (7.5%), if compared with the previous five-year period, when the external debt increased 8.5 times.

At the end of 1982, the external debt amounted to approximately US\$ 6 310 million. Around three-quarters of it was public and 88% had been contracted for a period of more than one year. However, comparison with the debt of five or six years before leads to the conclusion that, since that time, the private sector debt and short-term loans have increased more rapidly (see table 11).

During 1982 loans in the amount of US\$ 2 410 million were drawn (12% less than the previous year). Of these, around US\$ 1 120 million were drawn by the public sector and US\$ 1 290 million by the private sector. This was the first time that the private sector drawings exceeded those of the public sector. Only three years before, the latter sector had drawn 69% of the loans paid out during the year.

In another departure from traditional behaviour, the amount of long-term loans drawn by the public sector fell from US\$ 1 270 to US\$ 515 million in 1982, while short-term loans are estimated to have increased sharply, from some US\$ 250 million to around US\$ 600 million. These trends are diametrically opposed to those shown by private sector disbursements.

It is a novel situation for the public sector to have made short-term commitments with private banks for a larger amount than its new longer-term debt, and this must certainly have been reflected in a significant rise in the cost of credit.

The lower utilization by the public sector of long-term credit on advantageous terms was connected with the slower development of some projects because of less availability of that sector's own financial resources. During the year loans for the public sector of US\$ 947 million were contracted, 20% less than in 1981, and US\$ 312 million of this represented renewals of old loans. Of the amount contracted in 1982, US\$ 600 million were short-term loans obtained from the international private banking system and the remaining US\$ 345 million were long-term credits granted mainly by international finance agencies.

<sup>6</sup>In calculating the decrease in the international reserves, no account was taken of the revaluation of the gold reserves, which brought them up from US\$ 17.5 to US\$ 124.3 million.

Table 10

## ECUADOR: BALANCE OF PAYMENTS

(Millions of dollars)

	1977	1978	1979	1980	1981	1982 <sup>a</sup>
<b>Balance on current account</b>	-377	-730	-634	-672	-1 027	-1 070
Trade balance	-182	-463	-299	-147	-304	-297
Exports of goods and services	1 592	1 703	2 411	2 866	2 913	2 662
Goods FOB	1 401	1 529	2 151	2 544	2 544	2 334
Real services <sup>b</sup>	192	174	260	322	369	328
Transport and insurance	93	49	109	113	151	133
Travel	48	65	80	131	131	114
Imports of goods and services	1 774	2 167	2 710	3 014	3 218	2 959
Goods FOB	1 361	1 704	2 097	2 242	2 362	2 181
Real services <sup>b</sup>	414	463	613	772	856	778
Transport and insurance	257	283	295	328	368	342
Travel	82	97	156	228	250	235
Factor services	-196	-279	-356	-525	-722	-773
Profits	-119	-116	-94	-111	-100	-73
Interest received	25	37	68	109	87	80
Interest paid	-76	-176	-329	-523	-709	-780
Others	-27	-24	-	-	-	-
Unrequited private transfer payments	-	12	-	-	-	-
<b>Balance on capital account</b>	489	736	698	942	656	742
Unrequited official transfer payments	36	29	29	30	25	20
Long-term capital	591	782	690	763	1 077	...
Direct investment	34	49	63	70	60	30
Portfolio investment	52	-	-	-	-	...
Other long-term capital	504	733	626	693	1 017	...
Official sector <sup>c</sup>	440	352	344	609	898	...
Loans disbursed	487	498	952	795	1 283	...
Amortization payments	-42	-139	-601	-176	-378	...
Commercial banks <sup>c</sup>	-	63	1	5	2	...
Loans disbursed	-	64	2	8	7	...
Amortization payments	-	-1	-1	-1	-1	...
Other sectors <sup>c</sup>	64	319	281	79	117	...
Loans disbursed	123	469	593	496	462	...
Amortization payments	-58	-88	-374	-416	-345	...
Short-term capital	-88	-120	-24	217	-360	...
Official sector	-101	3	9	-30	1	...
Commercial banks	-26	3	-10	-17	-5	...
Other sectors	39	-126	-22	264	-356	...
Errors and omissions	-50	44	3	-68	-86	...
<b>Global balance<sup>d</sup></b>	112	5	44	270	-370	-328
Total variation in reserves (- sign indicates an increase)	-146	-13	-87	-291	381	328
Monetary gold	-1	-	-	-	-	- <sup>e</sup>
Special Drawing Rights	-3	-4	-11	1	-9	34
IMF reserve position	-	-10	-2	-15	-1	29
Foreign exchange assets	-143	2	-73	-277	391	266
Other assets	-	-	-	-	-	-
Use made of IMF credit	-	-	-	-	-	-

Source: 1977-1981: International Monetary Fund, *Balance of Payments Statistics*, vol. 32, 1981; 1982, ECLA, on the basis of data from the Central Bank of Ecuador.

<sup>a</sup> Preliminary figures.

<sup>b</sup> Real services also include other official and private transactions, but not factor services.

<sup>c</sup> In addition to loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities.

<sup>d</sup> The global balance is the sum of the current account balance plus the balance on capital account. The difference between total variation in reserves of opposite sign and the global balance represents counterpart items: monetization of gold, allocation of Special Drawing Rights, and variations due to revaluation.

<sup>e</sup> Does not take account of a US\$ 107 million revaluation of gold reserves.

The external debt of the private sector increased from US\$ 1 455 million to US\$ 1 615 million between the beginning and end of 1982. During the year US\$ 1 024 million was drawn in long-term loans (51% more than in 1981) and around US\$ 270 million in short-term loans (half the amount drawn the year before).<sup>7</sup>

Together with the reduction in the amount of credit received during 1982 there was an increase of 29% in the external debt service, which had already grown by 51% in 1981. The extraordinary sum of US\$ 2 745 million was paid out under this category: an amount which slightly exceeded (3%) the value of exports of goods and services. The proportion had been 50% and 76% in 1980 and 1981. While interest payments increased from US\$ 710 million to US\$ 780 million, amortization payments increased by slightly more than US\$ 1 500 million to around US\$ 1 970 million in 1982.

The gradual rise in the debt service and the slow acquisition of new loans in the last third of the year hastened the decline of the international foreign exchange reserves. This situation led the economic authorities to initiate negotiations with international private banks for refinancing the external public debt falling due between 1 November 1982 and the end of 1983.<sup>8</sup>

Table 11  
ECUADOR: EXTERNAL DEBT

	1978	1979	1980	1981	1982 <sup>a</sup>	Growth rates				
						1979	1980	1981	1982	
Millions of dollars										
External public debt <sup>b</sup>	2 478	2 848	3 530	4 416	4 699	14.9	23.9	25.1	6.4	
Disbursements	615	1 269	1 103	1 522	1 117	106.3	-13.1	38.0	-26.6	
Service	354	1 147	731	1 057	1 409	224.0	-36.3	44.6	33.3	
Amortizations payments	244	906	417	598	834	271.3	-54.0	43.4	39.5	
Interest	110	241	314	459	575	119.1	30.3	46.2	25.3	
External private debt <sup>b</sup>	497	706	1 137	1 455	1 615	42.1	61.0	28.0	11.0	
Total external debt <sup>b</sup>	2 975	3 554	4 667	5 871	6 314	19.5	31.3	25.8	2.5	
Medium- and long-term	2 679	3 343	4 111	5 234	5 579	24.8	23.0	27.3	6.6	
Short-term	296	211	556	637	725	-28.7	163.5	14.6	13.8	
Disbursements	1 017	1 851	1 950	2 747	2 410	82.0	5.3	40.9	-12.3	
Service	577	1 606	1 422	2 214	2 747	178.3	-11.5	55.7	24.1	
Amortizations payments	401	1 277	899	1 505	1 967	218.5	-29.6	67.4	30.7	
Interest	176	329	523	709	780	86.9	59.0	35.6	10.0	
Debt coefficients (percentages)										
Total external debt/GDP	38.9	37.7	41.1	43.7	53.2					
Total debt service/exports of goods and services	33.9	66.6	49.6	76.0	103.2					
Total debt service/disbursements	56.7	86.8	72.9	80.6	114.0					
Total debt service/GDP	7.5	17.0	12.5	16.5	20.3					

Source: ECLA, on the basis of data from the Central Bank of Ecuador.

<sup>a</sup>Preliminary figures.

<sup>b</sup>Balance at end of year.

<sup>7</sup>Because of a resolution by the Monetary Board guaranteeing the private sector foreign currency of a preferential exchange rate for servicing the external debt, on condition that it was registered and fulfilled other conditions, a substantial portion of the credits which came in during the second half of the year were diverted toward the official exchange area.

<sup>8</sup>In January 1983 an initial agreement was reached with the managing committee which represents 140 lending banks, to refinance US\$ 1.2 billion of the public debt for a term of 9 years, including 2 years of grace, at interest rates of 2 1/4 over LIBOR and 8 1/8 over Prime Rate, depending on the terms on which the loans had been obtained. At that date, this agreement was subject to the acceptance of the lending banks, which depended, among other factors, on the evaluation made by the International Monetary Fund of the recent evolution of the economy and on the acceptance of a stand-by loan to cover the balance-of-payments deficit and pay the debt service, notwithstanding the renegotiation. The refinancing of the private external debt was left pending.

d) *Exchange policy*

For the purpose of strengthening the balance-of-payments position and safeguarding the international monetary reserves, which had suffered a substantial decrease in 1981, the Monetary Board decided at the beginning of March to raise the price of the dollar from 25 to 30 sucres for a series of transactions which until then had been carried out at the official exchange rate.

According to these provisions, all external trade must be carried out at the new rate, except for exports of petroleum and petroleum products, transactions which would continue to take place at the official exchange rate, and 40% of the value of imports of essential products listed in Schedule I, which would also continue to be subject to the 25 sucres-per-dollar rate.

The new exchange rate also applied to foreign currency arising from the public external debt and from loans to the private sector which fulfilled the requirements set by the Monetary Board. The servicing of loans received from the exterior (both by the public and private sectors) which had been exchanged in the Central Bank before 4 March would take place at the official rate of 25 sucres per dollar. The same procedure would be followed for remittances of profits on foreign investments changed in the official market before that date.

The Monetary Board complemented the foregoing measures by guaranteeing debtors with external loans having a term of 1 to 2 years that foreign currency at the free market rate of the Central Bank, that is, 30.30 sucres per dollar, would be made available for servicing them on condition that the loans had been registered in the Central Bank and exchanged in that market.

This partial or selective devaluation of the sucre which meant a break with the exchange rate of 25 sucres per dollar at which around 70% of total foreign currency transactions were carried out and which had remained unchanged since August 1970, produced varied reactions in different production sectors and had an immediate repercussion on the price of the dollar in the free exchange market. Between the middle of 1981 and February 1982, the price of the dollar in this market rose from 30 to 35.70 sucres, or approximately 19%, but in March 1982 alone it rose 13%, to 40.36 sucres.

Table 12

## ECUADOR: EVOLUTION OF EXCHANGE RATES

Annual and quarterly averages	Exchange rates (sucres per dollar)		Indexes of effective real exchange rate <sup>a</sup>	
	Official	Free	Exports	Imports
1975	25.00	25.40	111.5	109.0
1976	25.00	27.45	105.2	102.4
1977	25.00	27.47	99.0	98.0
1978	25.00	26.60	96.2	98.9
1979	25.00	27.61	99.2	100.2
1980	25.00	27.78	100.0	100.0
1981	25.00	31.17	93.6	90.6
1982	30.00	51.03	101.5	96.0
1981				
I	25.00	29.59	98.4	96.8
II	25.00	30.49	93.6	90.6
III	25.00	30.76	92.1	88.0
IV	25.00	33.83	90.4	87.4
1982				
I	25.00	36.97	92.4	89.4
II	29.00	47.64	113.2	106.9
III	33.00	58.65	107.0	100.4
IV	33.00	60.85	97.7	91.7

Source: ECLA, on the basis of data from the Central Bank of Ecuador, *Información Estadística*; and from the IMF, *Supplement of Exchange Rates and International Financial Statistics*.

<sup>a</sup>These correspond to indexes of the official real exchange rate of the peso—except for the period March-October when an average between the official rate (weighted 40%) and the free market exchange rate (weighted 60%) was used—with respect to currencies of countries with which Ecuador has trade relations, weighted by the relative importance of exports or imports, according to the case, to or from those countries. The methodology and sources used in calculating the effective real exchange rate may be found in the technical appendix to the *Economic Survey of Latin America*, 1981.

On 30 May, slightly more than two months after fixing the dollar at 30 sucres for many external transactions, the monetary authority raised the official exchange rate from 25 to 33 sucres per dollar. At the same time, it adopted several other measures aimed at defining the operations subject to the new exchange rate.

Servicing of the external debt (especially the short-term component), had increased rapidly and become an important factor of foreign currency drain, thus furthering the rapid rise of the rate on the free exchange market. Similar consequences were brought about by the outflow of capital in search of higher interest rates and by the expectation that the price of the dollar would continue to increase. Thus, between the beginning and end of 1982, the free exchange rate nearly doubled, increasing from 33.70 to 64.20 sucres per dollar. In this way the difference with the official exchange rate widened from 35% to 95%, which created growing expectations of devaluation and also favoured the under-invoicing of exports and over-invoicing of imports (see table 12 and figure 2).

In contrast with what had occurred in 1981, when the effective real exchange rate of the sucre fell to its lowest level (at least since 1970), in 1982 it recovered significantly, particularly in the second quarter when the official exchange rate was raised from 25 to 33 sucres. This devaluation of the sucre made it possible to correct the drop which had taken place in the real exchange rate in 1981 and thus improved the competitiveness of Ecuadorian products in external markets and/or raised their profitability in sucres, therefore stimulating exports. Furthermore, the increase in the real exchange rate made imports more expensive in comparison with national products, thus discouraging them and helping to reduce their amount and prevent the trade imbalance from being larger.

However, the devaluation effect on the effective real exchange rate, which had caused the latter to rise around 15% in March 1982 and 29% in May (both with respect to February), became weaker as the year went on, and by November had lost two-thirds of that effect.

#### 4. Prices and wages

##### a) *Domestic prices*

In 1982, and particularly towards the end of the year, the country attained the highest rate of inflation it has ever known. In this period, the consumer price index increased slightly more than 24%, measured from December to December. However, its variation as between annual averages was only 16%, i.e., a few tenths less than that recorded in 1981 (see table 13).

The rise in domestic prices only intensified when the second half of the year was well under way. Up to July the average increase did not amount to even 1% per month, and the 12-month variation, of the order of 12%, was lower than that of the beginning of the year. Only in August did prices begin to accelerate, culminating in a monthly increase of 5.4% in October and in the annual rate of 24% in December noted above (see figure 3).

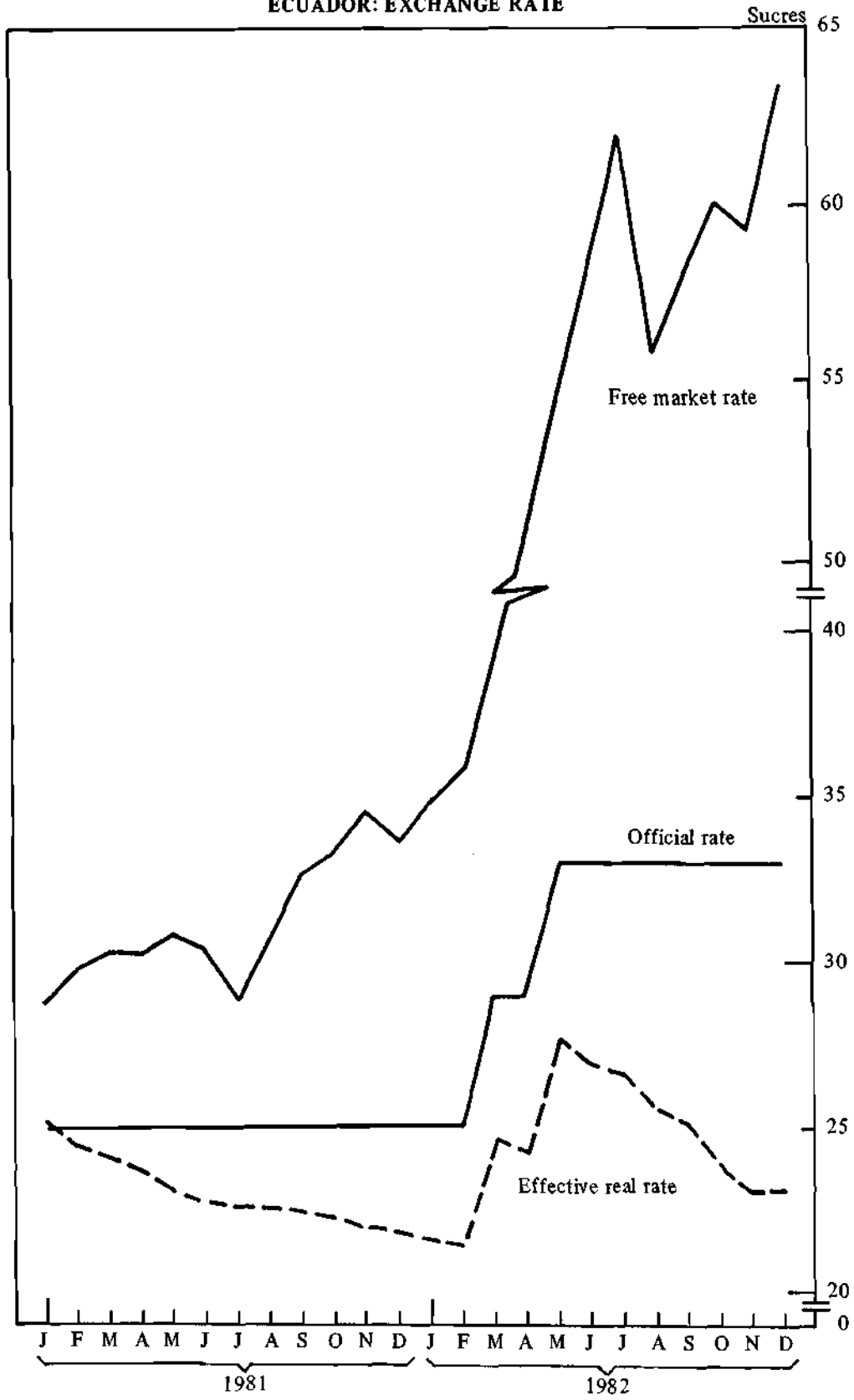
The growing rise of prices reflects to various degrees, first, the effects of the devaluation, then those of the price-setting policy followed throughout the year and especially of the rise in gasoline prices and the elimination of the wheat subsidy, and finally, the effects of the wages policy. In addition, the serious effects of the rains and floods on agriculture at the end of the year caused a scarcity of some commodities, and as a result their prices increased rapidly.

The inflationary effects of the devaluation on the prices of imported articles, raw materials and other inputs took some time to appear, but the consequences of the devaluation on the prices in sucres of some export goods were soon noted.

Even before the price of the dollar was raised, several mass-consumption articles had risen in price. In June, the economic authorities established a schedule of products subject to control and the fixing of maximum consumer prices and another of goods assigned minimum producer support prices. However, the greatest impact on domestic prices was caused by the doubling of the prices of the various types of gasoline and the elimination of the wheat subsidy, which raised the price of a quintal of flour from 330 to 464 sucres, in the second half of October.

These and other measures adopted had as their immediate repercussion mass popular demonstrations of discontent, a general strike in demand of higher wages and the repeal of some measures, and a wave of price rises. The inflationary upsurge was also fuelled by the paralyzation of transport, which caused shortage of supplies and speculation, and an increase in minimum wages which came to about 30%, taking account of added allowances.

Figure 2  
ECUADOR: EXCHANGE RATE



The retail prices of some foods rose by the following proportions between October and December in Quito: rice 14%, wheat flour 65%, bread 35%, beef and chicken 7% and 4.3%, and sugar 11%. Milk, beans and potatoes rose little and oils and fats, whose prices had risen in July, did not change. Thus the food and beverages component index of the consumer price index increased at the rate of 4.5% per month in the third quarter, i.e., faster than the general index, which rose at a rate of 3.9%. In addition, the price of urban public transport was raised from 2 to 3 sucres.

Attempts were made to contain the inflationary outbreak in the third quarter of the year through stricter control of prices and the extension and installation of storage and marketing centres for mass-consumption products, together with the establishment of retail distribution agreements.

#### b) *Wage adjustments*

In 1981 an end had been put to the system of readjustment of minimum wages, which had been applied at widely varying intervals, so that each revision had meant substantial changes which upset budgets and helped intensify inflationary pressures. The system was replaced by one which continually establishes and revises wage levels by activity: a task entrusted to wage commissions composed of representatives of workers, employers and the Government.

Despite the existence of that system, the rapidity of the increase in domestic prices in the third quarter of 1982, the social discontent (expressed in public demonstrations, slow-downs and strikes) caused by those rises, and the economic measures adopted in October outstripped those commissions' possibility of action and made a general wage readjustment absolutely essential.

Consequently, at the beginning of November all wages below 8 600 sucres per month were raised by 600 sucres per month, among them the minimum wage for manual workers, except for agricultural workers in the Sierra and the Oriente regions and domestic workers whose wages were raised by 700 sucres per month. They had not been readjusted since the beginning of 1980 (see table 14).

Along with the adjustments in wages of up to 8 600 sucres and in the minimum wages (which rose from 4 000 to 4 600 sucres for manual workers in general), the amounts of various allowances and fringe benefits were readjusted. In monthly amounts, the allowance known as "compensación" increased from 250 to 1 050 sucres; the bonus as such, from 333 to 383 sucres; the bonus corresponding to three months' wages per year increased from 1 083 to 1 246 sucres; and finally, the travel allowance rose from 100 to 240 sucres. Altogether, the minimum wage plus all these additions increased from 5 766 to 7 519 sucres per month, i.e., by around 30%.

However, since the readjustment of wages was only carried out in the tenth month of the year, the average increase during 1982 was only 5% and equalled a 9.5% drop in the real minimum wage, on top of the decline of 14% suffered the previous year (see table 15).

Table 13  
ECUADOR: CONSUMER PRICE INDEX<sup>a</sup>

	1977	1978	1979	1980	1981	1982
<b>Variation from December to December</b>						
Consumer price index	9.8	11.7	9.0	14.5	18.6	24.3
Food	9.0	10.6	7.0	12.3	13.0	26.2
<b>Variation between annual averages</b>						
Consumer price index	13.1	11.7	10.3	13.0	16.5	16.1
Food	15.6	10.2	10.0	11.0	14.2	19.7

Source: Central Bank of Ecuador and National Statistics and Census Institute.

<sup>a</sup>Corresponds to the consumer price index for Quito.



Figure 3  
 ECUADOR: CONSUMER PRICE INDEX

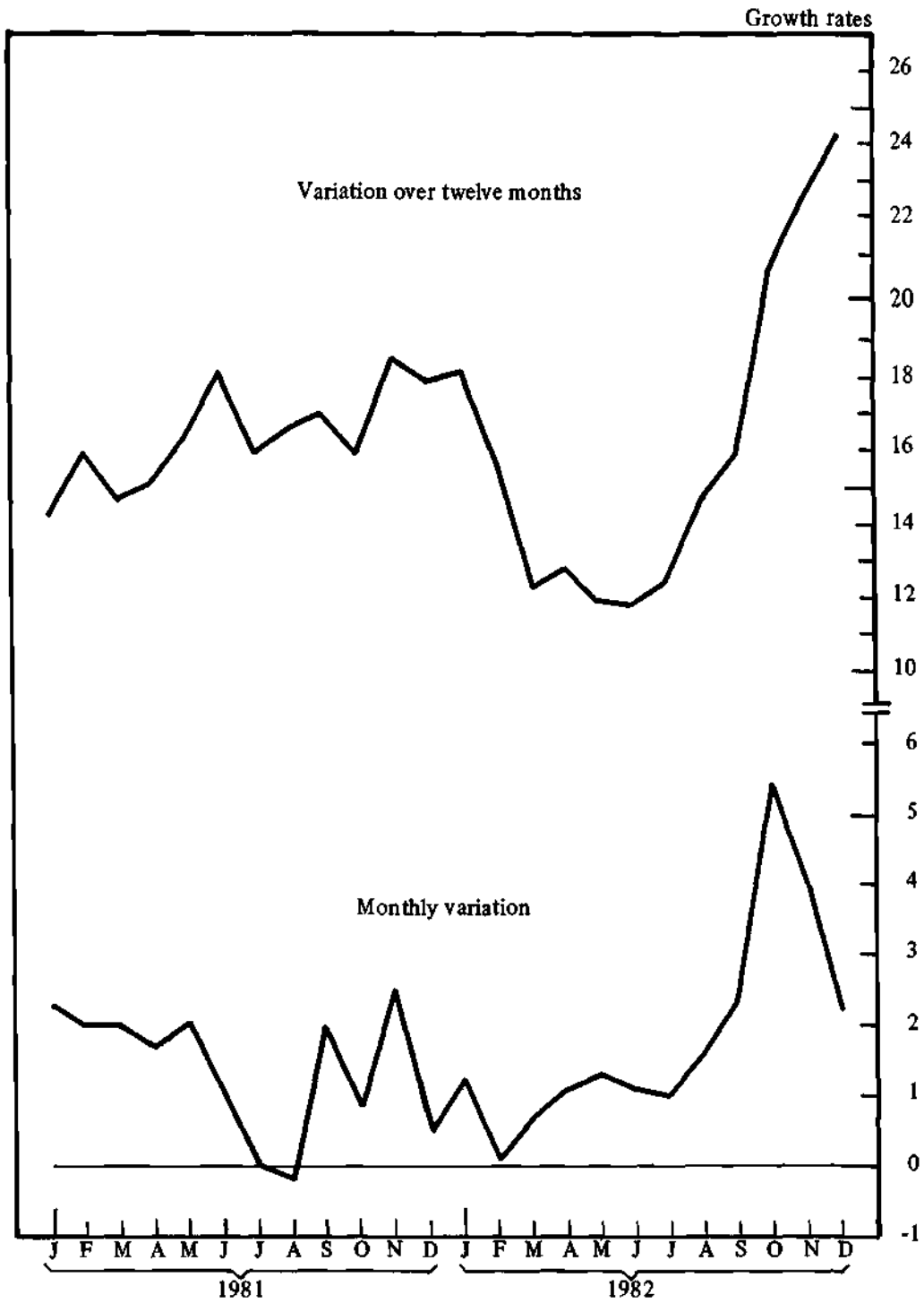


Table 14

## ECUADOR: EVOLUTION OF MINIMUM MONTHLY WAGES

	Sucres at current prices (nominal) and at constant 1978 prices (real) <sup>a</sup>				Growth rates		
	1979	1980	1981	1982	1980	1981	1982
<b>General workers</b>							
Nominal	2 000	4 000	4 000	4 100	100.0	-	2.5
Real	1 813	3 209	2 757	2 434	77.0	-14.1	-11.7
<b>Agricultural workers, Sierra region</b>							
Nominal	1 350	2 500	2 500	2 617	85.2	-	4.7
Real	1 224	2 006	1 723	1 554	63.9	-14.1	-9.8
<b>Agricultural workers, Costal region</b>							
Nominal	1 500	3 000	3 000	3 100	100.0	-	3.3
Real	1 360	2 407	2 068	1 840	77.0	-14.1	-11.0
<b>Agricultural workers, Oriente region</b>							
Nominal	1 500	2 500	2 500	2 617	66.7	-	4.7
Real	1 360	2 006	1 723	1 554	47.5	-14.1	-9.8
<b>Artisanal-type workers</b>							
Nominal	1 550	2 800	2 800	2 900	80.6	-	3.6
Real	1 405	2 246	1 930	1 722	59.9	-14.1	-10.8
<b>Domestic servants</b>							
Nominal	900	1 500	1 500	1 617	66.7	-	7.8
Real	816	1 203	1 034	960	47.4	-14.0	-7.2
<b>Small-scale industry</b>							
Nominal	...	3 000	3 000	3 100	...	-	3.3
Real	...	2 407	2 068	1 840	...	-14.1	-11.0

Source: ECLA, on the basis of data from the Central Bank of Ecuador.

<sup>a</sup>The real wages are expressed in 1978 sucres and were calculated by deflating nominal wages by the consumer price index for Quito.

Table 15

ECUADOR: EVOLUTION OF THE ANNUAL MINIMUM WAGE  
AND SUPPLEMENTARY ALLOWANCES

	1979	1980	1981	1982 <sup>a</sup>	Growth rates			
					1979	1980	1981	1982
	Sucres							
<b>Total remuneration</b>	34 700	69 200	69 200	72 705	34.1	99.4	-	5.1
Minimum wage	24 000	48 000	48 000	49 200	33.3	100.0	-	2.5
Bonuses	4 500	13 000	13 000	13 325	33.3	122.2	-	2.5
Allowances <sup>b</sup>	6 200	8 200	8 200	10 180	37.8	32.3	-	24.1
	1978 sucres							
<b>Total real remuneration</b>	31 460	55 538	47 658	43 123	21.6	76.5	-14.2	-9.5

Source: W. Spurrier Barquerizo, *Análisis semanal*, vol. XIII, No. 21, 27 May 1983.

<sup>a</sup>At the beginning of November the minimum wage for workers in general was raised from 4 000 to 4 600 sucres per month. The bonus corresponding to 3 additional monthly wage payments per year (13<sup>th</sup>, 14<sup>th</sup> and 15<sup>th</sup> month) was raised from 13 000 to 14 950 sucres per year. "Compensación" was increased from 250 to 1 050 sucres per month; allowances increased from 4 000 to 4 600 sucres per year, and transport allowances was raised from 1 200 to 2 880 sucres per year.

<sup>b</sup>Includes: The "Compensación" allowance, the allowance proper, and the transport allowance.

Table 16

## ECUADOR: MONETARY BALANCE

	End-year balance (billions of sucres)				Growth rates			
	1979	1980	1981 <sup>a</sup>	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>a</sup>
<b>Money</b>	42.0	53.6	60.3	72.9	27.4	27.7	12.5	20.9
Currency outside banks	12.3	15.3	17.4	20.7	20.1	23.9	13.9	19.1
Demand deposits <sup>b</sup>	29.6	38.3	42.9	52.1	30.8	29.3	11.9	21.6
<b>Factors of expansion</b>	69.1	89.3	101.0	116.8	20.9	29.2	13.1	15.6
Foreign assets (net)	16.8	23.0	15.1	8.8	6.5	37.1	-34.3	-41.8
Domestic credit	52.4	66.3	85.9	108.0	26.3	26.7	29.5	25.7
Government	4.1	3.8	3.5	3.8	-1.9	-8.2	-6.1	8.5
Private sector	42.3	54.2	71.7	91.4	29.4	28.0	32.2	27.5
Financial institutions	5.9	8.4	10.7	12.8	29.7	40.9	27.8	19.3
<b>Factors of absorption</b>	27.2	35.7	40.7	43.9	12.0	31.5	14.0	7.8
Quasi-money (savings and time deposits)	10.2	12.6	14.1	19.7	50.0	23.1	11.6	40.0
Government deposits	6.2	7.5	11.4	6.5	-20.7	21.0	50.7	-42.4
Bonds	7.8	10.6	12.0	16.1	11.8	34.8	13.4	34.1
Other items (net)	2.9	5.0	3.3	1.6	11.5	74.8	-33.5	-51.2

Source: 1978-1980: International Monetary Fund, *International Financial Statistics*, May 1983; 1981-1982: ECLA estimates on the basis of partial data from the above mentioned source and from the Central Bank of Ecuador.

<sup>a</sup>Preliminary figures and estimates by ECLA.

<sup>b</sup>Includes deposits in the Central Bank made by the private sector.

## 5. Monetary and fiscal policy

### a) *Monetary developments*

The insufficiency of money which had been observed the previous year and which hindered the smooth progress of economic activity was corrected during 1982. Thus, the means of payment, which had increased by only a little over 12% in 1981, whereas the nominal increase of the gross domestic product had been approximately 18%, rose 21% in 1982 (December-December figures). Both money in circulation and sight deposits increased in similar proportions (see table 16).

The increase in the money supply in 1982, which rises to 23% when the average increase for the year is considered, exceeded the growth of the gross product valued at current prices (18%). However, this situation appears less clear when the rapid rise of prices towards the end of the year is noted. Measured from December to December, the increase of prices exceeded that of the means of payment.<sup>9</sup>

The expansion of domestic credit by 26% was the only factor stimulating a larger increase in the money supply. On the other hand, the rapid decrease of international monetary reserves, as in 1981, was a significant factor of contraction. The same effects were caused by the accumulation of savings and time deposits, which increased by 40%, stimulated by a more attractive interest rate, and the sale of bonds, which grew by 34%. The effect of the last two factors, however, was attenuated by the drastic reduction registered in government deposits in the Central Bank near the end of the year.

For the first time in the last four years, Central Bank credit to the Government increased, but its absolute level has varied little during these years and its relative importance in the expansion of money has been slight. The case of credit granted to the private sector has been different: because of its magnitude and sustained increase, it has been the main stimulus of the means of payment. This effect has been reinforced with the equally rapid growth of credit to financial institutions, which has doubled since 1979.

<sup>9</sup>The monetary programme for 1982, revised by the Monetary Board after the currency devaluation, established increases of around 21% for money supply and 16% for the monetary base, assuming an increase of 3.2% in the gross domestic product and an average inflation rate of 14%.

In the first ten months of 1982, the Central Bank granted loans in the amount of approximately 70 billion sucres (22% more than the previous year), a high proportion (80%) of these being intended for the private sector. However, credit to businesses and individuals decreased by 6% during the year, which can be attributed to the restrictions on advances for future exports. At the end of the year, the total amount of Central Bank credits, US\$ 55 700 million, was 20% higher than it had been at the end of 1981, and the private bank portfolio amounted to 75 100 million sucres, around 50% higher than that year.

The main concerns of the monetary policy during the year were to try to adjust the balance of payments and provide the necessary financial resources for the normal progress of productive activity, without neglecting control of inflationary pressures.

In the early months of the year, interest rates were altered and the reference rate was set at 12%. The rates paid for savings and time deposits, which had been 10% for private banks and 11% for savings and loan associations (called mutual benefit societies), began to rise, by decision of the relevant authorities, one point every 45 days: by August they had reached 12% in the banks and 13% in the mutual benefit societies. For a long time negative real interest rates have prevailed: these have discouraged domestic savings and stimulated the flight of capital from the country, the latter being further encouraged by the existence of a relatively low exchange rate for the dollar.

#### b) *Fiscal and public sector income and expenditure*

An estimate of the accounts of the General State Budget, made by the Central Bank, shows an increase of 14% for current income and 11% for total expenditure. In the case of income, the increase was substantially higher than that recorded the year before (when it was less than 5%), while in the case of expenditure it was much lower than the rate at which expenditure increased in that year (42%). As a result, the fiscal shortfall (which had increased by a factor of 4.8 in 1981) rose by only 5%

Table 17

#### ECUADOR: STATE BUDGET INCOME AND EXPENDITURE

	Millions of sucres				Growth rates			
	1979	1980	1981	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>a</sup>
1. Total income <sup>b</sup>	23 080	37 549	39 297	44 820	21.1	62.7	4.7	14.1
Current income	23 722	38 430	40 510	46 611	20.7	62.0	5.4	15.1
Traditional	19 372	23 057	25 379	25 296	10.7	19.0	10.1	-0.3
Tax revenue	18 445	22 078	23 744	24 016	10.1	19.7	7.5	1.1
Direct	3 419	4 174	6 137	5 996	15.7	22.1	47.0	-2.3
Indirect	6 527	8 177	8 098	9 689	17.8	25.3	-1.0	19.6
On foreign trade	8 499	9 727	9 509	8 331	3.0	14.4	-2.2	-12.4
Other income	927	1 838	1 635	1 280	23.1	98.3	-11.0	-21.7
From petroleum	4 350	14 607	15 131	20 954	101.5	235.8	3.6	38.5
Transfers	-	766	-	361				
2. Total expenditure	28 189	41 698	59 395	65 895	7.8	47.9	42.4	10.9
3. Deficit (1-2)	-5 109	-4 149	-20 098	-21 075	-28.0	-18.8	384.4	4.9
4. Financing	3 890	4 149	16 838	18 390				
Net indebtedness	4 260	4 324	8 301	15 916				
Foreign	-	1 553	7 658	11 636				
Domestic	4 260	2 771	643	4 280				
Use of special resources	-	30	9 757	1 575				
Cash balances <sup>c</sup>	-370	-205	-1 220	899				
Difference (3 - 4) <sup>d</sup>	1 219	-	3 260	2 685				

Source: Central Bank of Ecuador and National Development Council.

<sup>a</sup> Preliminary data.

<sup>b</sup> Total net income. Taxes paid with tax credit certificates and agrarian reform bonds have been deducted.

<sup>c</sup> Utilization or net accumulation of funds during the period in question, according to whether the balance is positive or negative.

<sup>d</sup> Payments deferred to the following year, minus payments made in respect of expenditures of the preceding year.

in 1982, which is undoubtedly an important achievement of fiscal policy. These results are all the more impressive when the trend of domestic prices in the meantime is considered (see table 17).

The deceleration in fiscal spending which was achieved in 1982 nevertheless does not take into account the amortization payments on the central administration debt, which was just short of doubling in the last year and which amounted to some 8 600 million sucres. If this sum is added in, the deficit rises to 30 billion sucres, 20% more than the deficit of 1981.

The increase of 14% in current income came almost entirely from oil income, which increased by 39% because of the rise in the domestic prices of the various types of gasoline, representing additional income of 3 150 million sucres for the Government, and the doubling of income from the tax collected on the petroleum companies' income. These increases in taxation were especially significant in a year when oil production did not increase and in which its external sales decreased by 6% in both volume and price.

Traditional income other than income from the petroleum industry practically did not vary with respect to the year before (meaning that it decreased by 16% in real terms), due to the lower collection of taxes on external trade (-12%), which had already dropped the year before, and the lower collection of income tax. On the other hand, collection of production and sales taxes increased around 20% after collection of indirect taxes had decreased slightly in 1981.

Among taxes on external transactions, those on imports dropped by 11% as a direct result of the significant reduction in external purchases. Moreover, the amount collected in this category represented virtually the entire amount collected as taxes on foreign trade, since income from the tax on coffee exports disappeared as a result of the changes introduced in 1981. It may be recalled that the value of imports of goods decreased around 8% during 1982, due to the effect of the prohibitions and hindrances laid down and also because of alterations in the exchange rate.

After deduction of the tax paid with Tax Credit Certificates (CAT) and with agrarian reform bonds, it would appear that tax collection did not vary much in 1982, whereas in 1981 it had increased by 6%. This means that in each of the last two years central government tax income has decreased by 9% and 16% in real terms, respectively, and the tax burden with respect to the gross domestic product had decreased from 7.5% in 1980 to only 5.4% in 1982. The latter figure rises to 7.1% if tax received from the petroleum industry, which the statistical data include together with other income from that source, is added. With respect to the low level of the tax burden frequent reference is made to the large amount of tax evasion.<sup>10</sup>

With the primary aim of decreasing the fiscal deficit, in mid-1982 the Government established a series of restrictions on its spending, chiefly in respect of current expenditure, and also prohibited the creation of new posts in the public service. Furthermore, in October the wages of government civil servants exceeding 31 000 sucres per month were lowered by 20%. However, at the end of that month the wages of public- and private-sector workers not exceeding 8 600 sucres per month were raised by 600 sucres.

According to estimates by the Central Bank, of the 1982 fiscal deficit of 21 075 million sucres, slightly more than half was financed with net external indebtedness, 20% with domestic resources, and around 7 700 million remained unfinanced.

At the global public sector level, estimates made by the National Development Council indicate that total expenditure appears to have increased by 15% in 1982 and income by nearly 14%, thus bringing the deficit (including the public debt service) to 48 billion sucres: 18% higher than that recorded in 1981 (see table 18).

In the case of the consolidated public sector accounts, the amount received from petroleum activities was substantially higher than that collected by the central government from this industry. The 22% increase in that income in 1982 helped offset the poor performance of traditional revenue.

Furthermore, while current expenditure increased less (13%) than domestic prices, in keeping with the austerity measures laid down, real investment grew at a slightly higher rate than prices, while financial investment was sharply reduced. However, outlays in respect of amortization

<sup>10</sup>Statements by the Minister of Finance, reproduced in the press in February 1983, emphasized the high degree of tax evasion in the country. The tax burden falls on barely 5% of the economically active population. Of an approximate total of 14 000 businesses, only 4 000 make tax returns and pay taxes to the State, and of the approximately 2.4 million economically active persons, only 200 000 declare their income and only half of these actually pay taxes.

Table 18

## ECUADOR: PUBLIC SECTOR INCOME AND EXPENDITURE

	Millions of sucres				Growth rates		
	1979	1980	1981	1982 <sup>a</sup>	1980	1981	1982 <sup>a</sup>
<b>Total income</b>	<b>50 555</b>	<b>72 036</b>	<b>75 340</b>	<b>85 843</b>	<b>42.5</b>	<b>4.6</b>	<b>13.9</b>
Traditional	30 726	38 907	42 040	43 398	26.6	8.1	3.2
From petroleum	19 434	32 148	32 770	39 827	65.0	1.9	21.5
Other income	395	981	530	2 618	148.4	-46.0	394.0
<b>Total expenditure</b>	<b>74 180</b>	<b>102 457</b>	<b>116 193</b>	<b>133 860</b>	<b>38.1</b>	<b>13.4</b>	<b>15.2</b>
Current	38 913	54 734	64 563	72 981	37.5	18.0	13.0
Capital	34 367	47 723	51 630	60 879	38.9	8.2	17.9
Real investment	20 153	31 178	32 410	37 948	54.7	4.0	17.1
Financial and other investment	1 775	2 327	2 875	360	31.1	23.5	-87.5
Amortization payments	12 439	14 218	16 345	22 571	14.3	15.0	38.1
<b>Deficit</b>	<b>-23 625</b>	<b>-30 421</b>	<b>-40 853</b>	<b>-48 017</b>	<b>28.8</b>	<b>34.3</b>	<b>17.5</b>
<b>Financing</b>							
Domestic credit	14 752	8 596	15 487	11 469			
External credit	7 859	23 584	24 823	36 927			
Other	1 014	-1 759	543	-379			

Source: National Development Council.

<sup>a</sup>Preliminary figures.

payments on the public debt increased rapidly. Under this heading and that of earned interest, 38 500 million sucres were paid out (47% more than in 1981). Of this sum approximately 80% corresponded to external indebtedness, whose service grew extraordinarily fast (90%) in 1982.

The slower increases observed in the expenditure and deficit of the General State Budget and the public sector in 1982, in comparison with the two previous years, conceal two significant facts: firstly, the difficulties encountered in obtaining medium- and long-term financing under more or less favourable conditions, and secondly, the effects caused by the containment of expenditure and the lack of financial resources in the shape of the delays, stoppages and postponement of many projects of high priority for the country's development which had figured in the annual operational plans for 1981 and 1982. Among these were projects on coastal fishing, the Jubones irrigation and hydroelectrification project, rural telecommunications, sewerage and border development.

## EL SALVADOR

### 1. Recent economic trends: Introduction and summary

The situation of the economy of El Salvador continued to be notably critical in 1982. The gross domestic product fell (-5%) for the fourth consecutive year, reaching a level 24% below that recorded four years earlier. Although part of the population emigrated for economic or other reasons, the per capita product diminished by one-third between 1978 and 1982 (from US\$ 510 to US\$ 360 at 1970 prices), equivalent to a retrogression of over two decades<sup>1</sup> (see table I and figure 1). In addition, the balance-of-payments situation deteriorated, with a loss of reserves, also for the fourth consecutive year, while the fiscal deficit remained at a very high level. Finally, almost a third of the economically active population were unemployed.

The acute political conflict affecting the people of El Salvador was an important factor in the severe economic deterioration described. For several years past, the antagonism prevailing between various groups in the Salvadorian community has progressively deteriorated into situations of violence and into the fragmentation of the national political scene. The resulting discord has aroused international concern as the conflict has grown in intensity, with lives being lost and considerable damage caused to the infrastructure and to economic activity. At the end of March 1982 voting was held—in which, however, not all elements of Salvadorian society took part—to elect the members of a Constituent and Legislative Assembly. This in turn nominated a President for a period of transition scheduled to last slightly more than 18 months.

The difficult situation gave rise to the need to introduce important changes in economic policy. However, the complicated political situation of the country (owing to armed confrontations and tensions arising in connection with the electoral process carried out in the year), made it very difficult to adopt appropriate corrective measures. The new government which took office after the elections maintained, in general terms, the same economic orientation as the preceding administration; the only exceptions were the new exchange regulations adopted in the second half of the year, partial suspension of one of the agrarian reform decrees which had come into force two years earlier, and an adjustment of public service tariffs.

Among the economic effects of this already prolonged conflict—which, far from reaching a solution, tended to become worse in 1982—those deserving particular mention were the contraction of private investment, the flight of foreign currency, emigration of entrepreneurs and professionals and physical damage to the infrastructure. To all this was added the strong influence of a combination of adverse factors stemming from international economic circumstances which tended to aggravate the country's chronic external imbalance and the financial deficit in the public sector. These same factors have also affected other economies as open as that of El Salvador; in the case of this country, however, their effects have been more severe since they have combined with the internal problems already referred to, and with the generalized economic deterioration of the rest of the Central American countries, transmitted to the Salvadorian economy through reciprocal trade conducted in the framework of the subregion's integration commitments.

As the internal and external financial situation grew in severity, and the meagre levels of international reserves became one of the principal obstacles to be tackled, the authorities redirected the immediate objectives of their economic policy towards the correction of financial imbalances, even at the expense of economic activity and employment.

<sup>1</sup> Twenty years previously, in 1962, the gross domestic product amounted to US\$ 374, at 1970 prices. It should be borne in mind that if the growth rate of the population resident in the country had been similar to traditional levels in the preceding four years, the per capita product in 1982 would have been only slightly higher than the average recorded in the 1950s.

Already in 1981, coinciding with negotiations then being conducted to obtain the financial support of the International Monetary Fund, the Government had drawn up an economic stabilization programme which included import controls and a number of measures aimed at moderating the inflationary process: regulation of the prices of some basic articles, freezing of salaries and wages, and austerity in public expenditure.

During 1982, the economic policy in general maintained the same characteristics, but emphasis was placed on increasing the inflow of foreign capital, especially of a short-term nature, in view of the acute and increasing difficulties. Two relatively important loans were thus obtained from the International Monetary Fund: one on a stand-by basis for US\$ 50 million and the other, providing compensatory financing, for US\$ 37 million. At the same time the financial support of the Government of the United States was increased, in particular through the Agency for International Development (AID), part of this support taking the form of a donation of approximately US\$ 100 million.

Table 1  
EL SALVADOR: MAIN ECONOMIC INDICATORS

	1977	1978	1979	1980	1981	1982 <sup>a</sup>
<b>A. Basic economic indicator</b>						
Gross domestic product at market prices (millions of dollars at 1970 prices)	2 184	2 307	2 272	2 054	1 859	1 758
Population (millions of inhabitants)	4.39	4.52	4.66	4.76	4.84	4.88
Per capita gross domestic product (dollars at 1970 prices)	497	510	488	432	384	360
<b>Growth rates</b>						
<b>B. Short-run economic indicators</b>						
Gross domestic product	6.4	5.6	-1.5	-9.6	-9.5	-5.4
Per capita gross domestic product	3.4	2.6	-4.2	-11.5	-11.0	-6.2
Gross domestic income, in real terms <sup>b</sup>	13.1	0.4	-1.3	-12.5	-11.3	-5.1
Terms of trade (goods and services)	40.6	-22.2	-4.9	-12.5	-10.7	1.6
Current value of exports of goods and services	26.3	-10.9	40.0	-18.3	-15.9	-2.3
Current value of imports of goods and services	25.6	12.9	2.6	-4.8	-0.3	-5.5
Consumer prices						
December-December	14.9	14.6	14.8	18.6	11.6	13.8
Variation between annual averages	11.8	13.3	15.9	17.4	14.8	11.7
Money	7.8	9.9	21.6	7.2	-0.8	4.7
Wages and salaries <sup>c</sup>	...	-5.9	1.7	-6.1	-12.9	-10.5
Unemployment rate <sup>d</sup>	...	3.7	6.7	16.2	25.0	30.0
Current income of government	45.8	-13.1	18.3	-14.4	6.4	1.6
Total government expenditure	17.5	12.2	12.8	17.6	13.2	5.7
Fiscal deficit/total government expenditure <sup>e</sup>	14.5 <sup>f</sup>	11.3	7.0	32.3	36.3	38.8
<b>Millions of dollars</b>						
<b>C. External sector</b>						
Trade balance (goods and services)	19	-238	119	-71	-243	-200
Balance on current account	22	-245	123	-117	-281	-240
Balance on capital account	19	301	-257	44	233	170
Variation in international reserves	41	57	-128	-69	-43	-70
Disbursed external public debt (medium and long term)	280	339	398	475	654	778

Source: ECLA, on the basis of official data.

<sup>a</sup> Preliminary figures.

<sup>b</sup> Gross domestic product plus terms-of-trade effect.

<sup>c</sup> Real minimum wages of agricultural workers, except for harvesting of coffee, sugar cane and cotton.

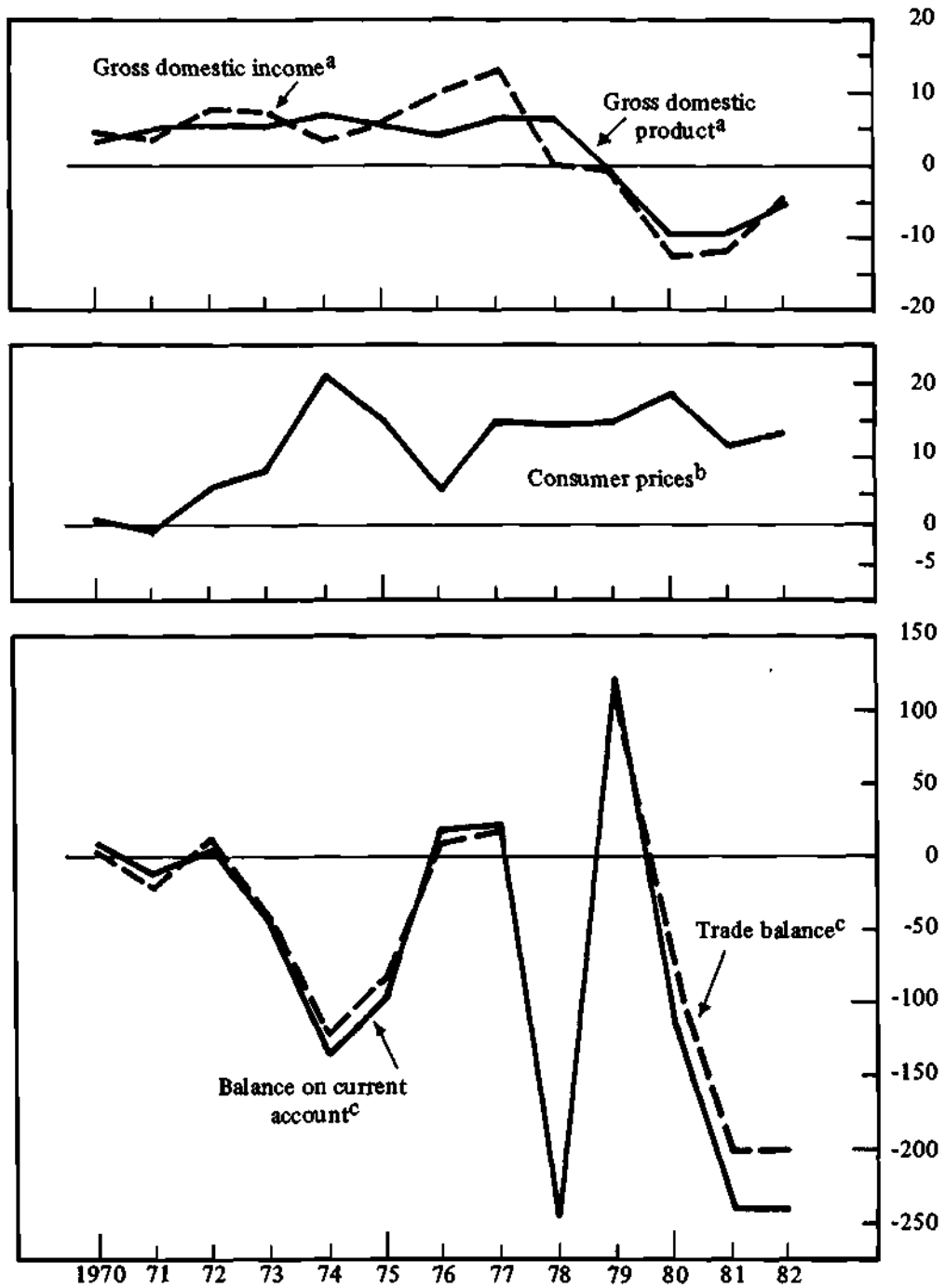
<sup>d</sup> Percentages.

<sup>e</sup> Surplus.



Figure 1

EL SALVADOR: MAIN ECONOMIC INDICATORS



Source: ECLA, on the basis of official data.

<sup>a</sup>Annual growth rate.

<sup>b</sup>Percentage variation, December-December.

<sup>c</sup>Millions of dollars

The external resources obtained during the year were devoted primarily to avoiding as far as possible any further deterioration of the external and internal imbalances, only a small proportion being directed to productive purposes. Moreover, due to the state of internal convulsion, project execution capacity also suffered a decline.

Within foreign trade policy, the restrictions on external purchases of supplies were applied more rigorously, with a consequent contraction of inventories of imported products. A dual exchange rate system was also instituted (as explained in detail hereunder), mainly with the aim of securing more rational allocation of foreign currency. A reduction of almost one-fifth was thus achieved in the trade deficit, although this still remained at a high level. The terms of trade, for their part, showed a small improvement after four years of significant deterioration.

In the fiscal sphere, tax rates remained almost unchanged after the increase introduced in 1981. However, in order to place the finances of public enterprises on a sounder basis, their service tariffs were updated. This last-named factor, together with rising import costs (especially when expressed in national currency, in view of the dual exchange rate system), caused a general increase in prices, although this was less than in the preceding year (12% compared with 15%). As a result, with inflation running at a rate slightly below that of 1981 and a policy enforcing the rigid freezing of wages, the deterioration of wage levels in real terms (added to that of previous years), together with the increase in open unemployment, brought about a considerable fall in the level of satisfaction of the basic needs of the population.

With regard to monetary policy, the increase in interest rates introduced at the beginning of 1982 proved insufficient to attract resources to the extent foreseen. Furthermore, the growing financial imbalance in the public sector led to a shortage of credit for the private sector. The policy of austerity in the management of public finances failed to produce the results envisaged, making it necessary to seek the support of the national banking system and to negotiate a larger inflow of external resources, supplemented by donations.

To sum up, the economic situation was characterized by serious maladjustments in the financial sphere (balance-of-payments and fiscal deficits) and in real terms (generalized recessive trends in economic activity and lower levels of employment). The final result was similar to that of the preceding year, although with some changes of emphasis in the intensity of imbalances. The gravity of the crisis was such that no prospects could be foreseen of overcoming it in the near future. Even if the civil conflict were to end and consensus were reached with regard to a minimum of economic policy measures, levels of activity recorded as recently as four years previously could only be regained after quite a long period.

## 2. Trends in economic activity

The prolonged economic contraction of recent years has contributed to the 26% reduction registered since 1979 in total levels of supply and demand. On the supply side, while the gross domestic product fell slightly more than 5% in 1982, the quantum of imports of goods and services decreased by almost 11%, a trend similar to that of the two preceding years (see table 2). This behaviour by imports was associated with a lower level of domestic demand and reflected the intensification of the policy of austerity applied by the Government with regard to expenditure and allocation of the scarce availability of foreign exchange.

The situation as regards the components of total demand followed the same trend. That originating internally diminished at a similar rate to the gross domestic product, while external demand fell to an even more marked extent (-9%) after the considerable decreases registered in the two preceding years. The lower level of exports in 1982 was due in part to the depressed situation of the internal productive system, aggravated by political conflict and adverse climatic conditions. In addition, the deterioration in the volume of external sales of most commodities was attributable to the combined effects of the slackness of international markets (in both prices and demand) and the deterioration of overall demand in the rest of the Central American countries, causing a sharp contraction in intra-regional trade.

As regards domestic demand, the most pronounced setback—in contrast with 1981—occurred in gross capital formation (-9% in 1982, making a spectacular drop of 70% over the last four years).

Table 2  
EL SALVADOR: TOTAL SUPPLY AND DEMAND

	Millions of 1970 dollars			Percentage breakdown			Growth rates			
	1980	1981	1982 <sup>a</sup>	1970	1980	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>a</sup>
<b>Total supply</b>	2 478	2 258	2 115	116.7	120.6	120.3	-3.0	-11.2	-8.9	-6.3
Gross domestic product at market prices	2 054	1 859	1 758	100.0	100.0	100.0	-1.5	-9.6	-9.5	-5.4
Imports of goods and services <sup>b</sup>	424	399	357	16.7	20.6	20.3	-8.8	-18.4	-5.8	-10.5
<b>Total demand</b>	2 478	2 258	2 115	116.7	120.6	120.3	-3.0	-11.2	-8.9	-6.3
Domestic demand	2 107	1 928	1 814	99.8	102.5	103.2	-7.3	-9.5	-8.5	-5.8
Gross domestic investment	187	175	159	13.2	9.1	9.0	-26.8	-53.8	-6.6	-9.1
Gross fixed investment	238	233	198	12.0	11.6	11.3	-19.1	-43.7	-2.2	-15.1
Public	113	111	...	2.8	5.5	...	-10.8	-23.1	-1.9	...
Private	125	122	...	9.2	6.1	...	-22.9	-54.7	-2.5	...
Construction	115	113	100	5.1	5.6	5.7	-14.3	-34.1	-1.6	-11.6
Machinery and equipment	123	120	98	6.9	6.0	5.6	-22.1	-50.4	-2.7	-18.4
Changes in stocks	-52	-58	-39	1.3	-2.5	-2.2	...	...	...	...
Total consumption	1 920	1 753	1 655	86.6	93.4	94.2	-2.3	-0.2	-8.7	-5.5
General government	291	290	279	10.7	14.2	15.9	2.8	1.6	-0.2	-4.0
Private	1 629	1 463	1 376	75.9	79.2	78.3	-3.2	-0.5	-10.2	-5.8
Exports of goods and services <sup>b</sup>	371	330	301	16.9	18.1	17.1	30.7	-20.0	-11.0	-9.0

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

<sup>a</sup> Preliminary figures.

<sup>b</sup> The figures for exports and imports of goods and services were taken from balance of payments data expressed in dollars at current prices which were converted to constant 1970 values by deflation, using price indices calculated by ECLA for the purpose.

Changes in stocks for their part, showed negative results due to the combined effects of a reduction (less than that expected by the authorities) in inventories of such products as coffee, and the virtual exhaustion of raw materials and inputs.

Fixed capital formation fell for the fourth consecutive year, this time by 15%, after a total contraction of 55% in the three-year period 1979-1981. Similarly, and as in the latter period, the contraction in the renovation of productive equipment was more marked than the decreases suffered by the building industry and the execution of works in general. In 1982 investment in machinery and equipment amounted barely to a third of that recorded in 1978. Furthermore, while gross fixed investment in machinery in 1970 had represented almost 7% of that year's gross domestic product and construction's share of the product had been only 5%, in 1982 both items had about the same share (somewhat more than 5%).

This recessive situation, reflected in a coefficient of investment at constant prices which fell between 1970 and 1982 from 13% to 9%, is probably one of the main obstacles that will have to be faced in the Salvadorian economy when it is able to recover its former dynamism. Apart from the fact that in several cases the severe contraction of economic activity has reduced the stock of productive capital (as in the case of manufacturing), some negligence has been observed in the maintenance of equipment, and installations and equipment have been physically damaged as a result of the civil conflict.

There have also been considerable depressive effects on total demand and its components. In 1979 and 1980, government consumption was the only element of domestic demand that grew to a certain extent (by 3% and 2% respectively), but in 1981 it remained practically immobile, and in 1982, after the reorientation of economic policy towards greater austerity and selectivity, this item contracted (-4%), like demand in general.

Private consumption again dropped, for the fourth consecutive year, although less than in 1981 (-6% compared with -10%). This was caused primarily by the combined effects of greater

unemployment and underemployment and pronounced deterioration in the real value of wages. Per capita private consumption fell by 7%, on top of the reduction of 12% recorded in the preceding year. Thus, between 1980 and 1982 its value fell from US\$ 340 to US\$ 280 at 1970 prices. This situation was reflected in a progressive change in the composition of consumer imports, since purchases of durable and luxury goods diminished considerably while the proportion of basic and essential products rose.

a) *Evolution of the main sectors*

Although, as already mentioned, the gross domestic product fell in 1982 for the fourth consecutive year, the reduction proved to be noticeably less than in the two preceding years. However, as a result of the accumulation of this deterioration on top of previous contractions, the crisis reached greater dimensions than in those former periods (see table 3).

In this critical situation, the recession affected all economic activities, although with different degrees of intensity. However, in almost all cases, with the exception of construction and electricity generation, the decrease was smaller than in 1981. On the other hand, the crisis was more evident in construction, which had been one of the sectors least affected in 1981. Scant activity in private sector production and building, added to the stricter public expenditure policy, contributed to this aggravation.

As regards electricity generation, for its part, the slackening was somewhat greater than in 1981, partly because of the material damage done to various transmission lines and pylons, which caused cuts in the supply of energy.

The goods-producing sectors as a whole suffered more than average deterioration (-7%), while basic services reflected the average trend, and services in general were affected to a lesser degree.

i) *Agriculture.* Activities in this sector —of great importance in the economy of El Salvador owing to its impact on the availability of basic food products and its capacity to generate foreign

Table 3

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

	Millions of 1970 dollars			Percentage breakdown			Growth rates			
	1980	1981	1982 <sup>a</sup>	1970	1980	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>a</sup>
Gross domestic product <sup>b</sup>	1 897	1 717	1 624	100.0	100.0	100.0	-1.5	-9.6	-9.5	-5.4
Goods	922	817	758	51.4	48.6	46.5	-1.7	-11.9	-11.5	-7.2
Agriculture	539	485	449	30.6	28.4	27.5	1.5	-5.9	-10.1	-7.4
Mining	3	3	3	0.2	0.1	0.2	2.8	2.7	-2.6	-
Manufacturing	318	268	252	17.6	16.8	15.5	-2.9	-15.5	-15.8	-5.9
Construction	62	61	54	3.0	3.3	3.3	-14.4	-34.2	-1.3	-11.7
Basic services	165	150	141	7.0	8.7	8.7	-2.7	-5.1	-9.1	-5.6
Electricity, gas and water	52	50	48	1.6	2.7	3.0	7.4	-1.4	-3.3	-3.9
Transport, storage and communications	113	100	93	5.4	6.0	5.7	-6.5	-6.7	-11.8	-6.5
Other services	810	757	731	41.6	42.7	44.8	-0.8	-6.9	-6.5	-3.5
Commerce <sup>c</sup>	367	321	308	20.3	19.4	18.9	-2.1	-13.2	-12.5	-4.1
Ownership of dwellings	81	82	82	4.0	4.3	5.0	3.6	3.0	1.5	-0.1
Community, social and personal services <sup>d</sup>	362	354	341	17.3	19.0	20.9	-0.1	-1.7	-2.3	-3.7
Government services	215	220	215	8.4	11.3	13.2	3.8	3.5	2.4	-2.5

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

<sup>a</sup>Preliminary figures.

<sup>b</sup>As the individual activities and the totals were calculated independently, the sum of the former does not necessarily coincide with the latter.

<sup>c</sup>Includes financial institutions, insurance and real estate, except ownership of dwellings.

<sup>d</sup>Includes restaurants, hotels and business services.

Table 4

## EL SALVADOR: INDICATORS OF AGRICULTURAL PRODUCTION

	1970	1975	1980	1981	1982 <sup>a</sup>	Growth rates			
						1979	1980	1981	1982 <sup>a</sup>
<b>Index of agricultural production (1968 = 100)</b>	112.0	145.3	142.5	129.6	120.0 <sup>b</sup>	0.8	-7.2	-9.1	-7.4 <sup>h</sup>
Crop farming	112.4	142.2	140.2	126.4	...	1.2	-5.4	9.8	...
Stock-raising	110.9	156.1	150.6	140.6	...	-0.5	-12.5	-6.6	...
<b>Production of main crops<sup>c</sup></b>									
<b>For export</b>									
Coffee	7 912	3 587	4 094	3 475	3 023	17.2	-0.8	-15.1	-13.0
Ginned cotton	1 207	1 616	1 349	948	883	-17.7	-4.3	-29.7	-6.9
Sugar cane	1 587	3 166	2 564	2 263	2 300	-7.6	-22.8	-11.7	1.6
<b>For domestic consumption</b>									
Maize	7 912	9 565	11 473	10 868	9 660	2.7	0.7	-5.3	-11.1
Beans	636	838	852	832	720	7.6	-15.6	-2.3	-13.5
Milled rice	625	818	858	650	520	14.6	4.3	-24.2	-20.0
Sorghum	3 200	3 800	3 041	2 950	2 565	-0.9	-12.7	-3.0	-13.1
<b>Indicators of stock-raising</b>									
<b>Number of animals slaughtered</b>									
Cattle <sup>d</sup>	147	187	185	148	110	-6.5	-8.9	-20.0	-25.7
Pigs <sup>d</sup>	158	115	126	121	130	-8.0	-16.0	-4.0	7.4
Poultry <sup>e</sup>	...	...	35	36	37	3.0	2.9	2.9	2.8
<b>Other products</b>									
Milk <sup>f</sup>	218	319	351	334	320	9.0	-14.4	-4.8	-4.2
Eggs <sup>g</sup>	341	599	809	750	815	0.2	-3.2	-7.3	8.7

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

<sup>a</sup>Preliminary figures.

<sup>b</sup>Estimated on the basis of variations in added value at constant prices.

<sup>c</sup>In thousands of quintal, with the exception of sugar cane which is shown in thousands of tons.

<sup>d</sup>Thousands of head.

<sup>e</sup>Millions of pounds of meat.

<sup>f</sup>Millions of bottles.

<sup>g</sup>Millions of units.

exchange, quite apart from its incidence in employment— suffered a contraction of 7% in the year (see table 4). This deterioration was smaller than the 9% drop registered in 1981, but was nevertheless more acute than the average decline of national production.

Several impediments combined to bring about the retrogression of agricultural production in 1982. In the first place, extra-economic factors caused serious losses of production, with the consequent discouragement of many producers, either in the phase of sowing or that of soil preparation. Secondly, some delayed effects of the agrarian reform legislation enacted in the first half of 1980 made themselves felt, since on the one hand those legal provisions needed time to reach maturity and on the other some production circles feared that the decree issued in May 1982 (which suspended the application of the reform in the case of rented properties and affected the output of a number of products, including cotton) would in fact not be applied. Thirdly, two factors of a financial nature came into play, namely the rising prices of the main inputs used in the productive process and the low product prices prevailing in international markets.

For their part, two natural phenomena, namely a drought (due to late commencement of the rainy season), followed by severe floods in the month of September (which also affected other Central American countries), impaired this already depressed activity to an even greater extent. Heavy damage was caused in the agricultural sector in general, both in respect of products for domestic consumption (some basic foods) and of those for export such as livestock, due to the loss of a large number of animals in some areas.<sup>2</sup>

<sup>2</sup>See *El Salvador: Los desastres naturales de 1982 y sus repercusiones sobre el desarrollo económico y social* (E/CEPAL/MEX/1982/L.30), 19 November 1982.

This critical combination of circumstances provoked losses in all the important crops produced for domestic consumption: rice (-20%), beans (-14%), sorghum (-13%) and maize (-11%). Output of these products had also fallen in 1981, so that in the case of rice, for example, the decrease over the two years amounted to 40%. This adverse development came about despite the existence of a preferential credit programme and another ensuring relatively favourable guaranteed prices for producers. Thus, although the country had traditionally managed to cover most of its requirements of grains for domestic consumption and had even on several occasions been able to sell a certain proportion of the output of some products in foreign markets, it became necessary in 1982 to resort partially to imports, despite the scarcity of foreign exchange.

The three main export crops (see table 4) continued in an extremely critical situation. With the exception of coffee in 1979 and sugar cane in 1982, production of these crops has been falling steadily. With regard to coffee, uncertainty caused by the armed conflict coincided with international prices which were low compared with those obtained five years earlier —although certain increases came into effect in the early months of the year. The consequent lack of interest in caring for the plantations is likely to have negative effects on future harvests (lower yields and re-appearance of rust), since this crop needs to be renewed continuously.

Production of cotton, which was seriously affected by the drought, fell by 7% with the result that the volume harvested was one-third less than that obtained two years earlier. Despite the fact that in 1982, in response to insistent requests from growers, the Government revoked the decision to apply the agrarian reform to customarily rented properties, neither this measure nor the credit programme introduced in support of producers succeeded in achieving the recovery of the former dynamism of this activity.

Sugar cane was the only agricultural item showing a certain increase in output (2%), since it was relatively unaffected by the year's natural disasters and planting was encouraged by the relatively remunerative prices ruling at the end of 1981 which, however, subsequently collapsed.

In the livestock field, the number of head of cattle slaughtered and the volume of milk produced both followed the diminishing trend of recent years, while the slaughtering of pigs and poultry and egg production rose in varying degrees of intensity. In the case of poultry, output continued, as in the preceding three years, to exceed the rate of population growth, and pig slaughtering reversed the downward trend of the three previous years.

ii) *Manufacturing.* Manufacturing output suffered a contraction of 6% in 1982 after having dropped by 16% in both 1980 and 1981. Thus, the accumulated growth of the manufacturing sector in the past 12 years does not even amount to 6% (see table 5). Circumstances already described, such as the weakness of the national and Central American markets, were largely responsible for the unusually severe drop in industrial activity in these recent years. In addition to the considerable discouragement in the entrepreneurial sector caused by the depressed level of internal and external demand, however, another very important limiting factor was the financial strangulation which made it difficult to acquire imported inputs. These are of vital importance in the industrial structure of El Salvador, which is characterized by a limited degree of integration between branches of activity. The new administration, which came into office in the middle of the second quarter of the year, failed to institute an industrial policy capable of satisfying expectations.

With regard to trends by branches of manufacturing activity, some results may be inferred by considering almost exclusively the fluctuations in purchases of imported inputs, without taking into account the variable incidence of the utilization of raw material inventories or of locally-produced raw materials. In the first place, the production of foodstuffs, beverages and tobacco remained almost stagnant in 1982, although this would suggest that a certain measure of demand for essential products nevertheless continued despite the prevailing crisis. On the other hand, the greatest deterioration was observed in the case of metal products and was associated, in part, with the contraction of construction activity already mentioned.

An indicative aspect of the recession affecting the industrial sector was the lower industrial consumption of electricity, which, in the period January-September, was 11% lower than in the equivalent period of 1981 (see table 5).

The institutions responsible for promoting the country's industrial development were restructured at the beginning of the year. Thus, the place of the Instituto Salvadoreño de Fomento Industrial (INSAFI) was taken by the Banco Nacional de Fomento Industrial (BANAFI) and the

Table 5

## EL SALVADOR: INDICATORS OF MANUFACTURING PRODUCTION

	1970	1975	1980	1981	1982 <sup>a</sup>	Growth rates			
						1979	1980	1981	1982 <sup>a</sup>
<b>Index of value added</b> (1970 = 100)	100.0	138.2	133.4	112.4	105.7	-2.9	-15.5	-15.8	-5.9
Foodstuffs, beverages and tobacco	100.0	144.0	136.7	120.2	119.8	-5.2	-14.1	-12.1	-0.3
Textiles, clothing and leather products	100.0	95.8	102.3	81.8	54.3	1.8	-16.5	-20.0	-33.6
Textiles	100.0	64.7	62.0	53.0	44.4	1.0	-21.1	-14.5	-16.2
Clothing, footwear and other leather products	100.0	131.6	148.8	114.9	65.8	2.3	-14.1	-32.8	-42.7
Wood and paper	100.0	129.0	139.6	118.3	102.5	-4.6	-19.1	-15.3	-13.4
Wood and its manufactures	100.0	136.3	139.0	119.9	...	-8.4	-20.8	-14.7	...
Paper and paper products	100.0	123.1	140.2	117.0	...	-1.3	-17.6	-16.5	...
Chemicals and products of petroleum and rubber	100.0	126.7	116.6	94.9	86.6	-6.1	-17.6	-18.6	-8.7
Chemical products	100.0	113.2	96.9	87.5	80.0	-6.4	-21.6	-9.7	-8.6
Petroleum and rubber products	100.0	148.0	147.7	106.7	97.0	-5.8	-13.0	-27.8	-9.1
Non-metallic mineral products	100.0	140.5	104.2	82.2	90.5	-9.9	-21.4	-21.1	10.1
Metal products and machinery	100.0	158.6	163.5	122.9	...	5.2	-19.9	-24.8	...
Metal products	100.0	175.9	157.6	105.8	45.6	-0.4	-19.5	-32.9	-56.9
Machinery and equipment	100.0	151.1	166.0	130.3	...	7.7	-20.1	-21.5	...
Other manufactures	100.0	114.9	119.4	97.6	69.3	-11.0	-14.5	-18.3	-29.0
<b>Other indicators of manufacturing production</b>									
Industrial consumption of electricity (millions of kWh)	246	410	557	544	486 <sup>b</sup>	10.2	-14.1	-2.3	-10.7 <sup>b</sup>

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

<sup>a</sup>Preliminary figures estimated on the basis of variation in imported inputs.

<sup>b</sup>Estimated on the basis of variation in the period January-September.

Corporación Financiera de Inversiones (CORSAIN). The central aim of BANAFI is to promote the development of manufacturing activities, mineral extraction, fishing and processing of marine products, agro-industrial activities and tourism. CORSAIN devotes its efforts primarily to strengthening existing enterprises and creating new ones.

iii) *Construction*. As already mentioned, this was the sector which suffered the severest depression in 1982, when its gross product contracted by 12% after pronounced declines in the preceding three years. Although official estimates are not available, the deterioration appears to have been much greater in the private than in the public sector. In contrast with 1981, however, when the policy of austerity in government expenditure was not yet in full force, investments in public construction in 1982 also dropped considerably.

The execution of some projects nevertheless continued with external financial support, thereby preventing a more pronounced deterioration of this activity. These projects included construction of the San Lorenzo hydroelectric plant, work carried out in the northern part of the country to increase water supplies for the metropolitan area of San Salvador, continuation of work on the construction of a fishing port, conclusion of the highway between the new international airport and the city of San Salvador, continuation of work on a stretch of the San Salvador-San Miguel highway, and the construction of dwellings by the Instituto de Vivienda Urbana (IVU) with financing provided by the Inter-American Development Bank.

iv) *Services*. In the area of basic services the greatest decrease occurred, as in 1981, in transport, storage and communications (see table 3). The first of these items suffered the effects of the drop in production and both external and domestic trade and was severely affected within the country, both in urban areas and as regards the road network, by the extra-economic phenomena

already referred to, which in many instances caused the destruction of automotive equipment and loss of cargoes.

Electric power generation declined for the third consecutive year despite the efforts being made to expand the production network as part of a Central American interconnection programme. As already mentioned, this decrease was due in part to repeated attacks against transmission lines and pylons which interrupted distribution and caused temporary suspensions (for hours or days) of electric energy supplies in some localities.

As regards electricity consumption, the greatest decrease was recorded in the industrial sector (-11%), as compared with government and other public services (-1%). On the other hand, electricity supplies to the residential and commercial sectors grew, since work continued on the programme of expansion of the distribution network in urban areas (see table 6).

Of the remaining service activities, wholesale and retail trade was most adversely affected, with a drop of 4% in 1982, thereby completing a four-year decrease of 29%. Other services also showed declines of some magnitude, prominent in this respect being a drop in the value added by government, for the first time in recent years.

#### b) *Employment and unemployment*

It has been very difficult to estimate in a reliable manner the extent of unemployment and underemployment in some urban and regional centres, due to a lack of direct information from surveys or other procedures. Some facts, however, appear certain. For example, given the situation of political tension and prolonged economic recession, aggravated by long-standing shortcomings in the

Table 6

#### EL SALVADOR: INDICATORS OF ELECTRICITY PRODUCTION AND CONSUMPTION

	Millions of kWh					Growth rates			
	1970	1975	1980	1981	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>a</sup>
Net production	671	1 059	1 540	1 512	1 474	7.5	-3.7	-1.8	-2.5
Total consumption	584	941	1 338	1 323	1 284	7.9	-5.5	-1.1	-2.9
Residential	157	241	337	382	400	11.1	4.9	-1.3	4.8
Commercial	78	126	174	166	170	8.1	-7.0	-4.7	2.3
Industrial	246	410	557	544	485	10.2	-14.2	-2.3	-10.6
Government and other	103	164	220	231	229	-3.7	4.3	5.0	-0.9

Source: ECLA, on the basis of figures supplied by the Dirección de Minería y Recursos Energéticos.

<sup>a</sup>Preliminary figures estimated on the basis of variation in the period January to September.

Table 7

#### EL SALVADOR: EVOLUTION OF UNEMPLOYMENT

	1978	1979	1980 <sup>a</sup>	1981	1982 <sup>b</sup>
	Unemployment rates				
National	3.7	6.7	16.2	25.0 <sup>c</sup>	30.0
Agricultural sector	3.3	7.8	27.0	...	...
Other activities	4.0	5.7	8.9	...	...

Source: ECLA, on the basis of information supplied by the Ministry of Planning and Economic and Social Development and by the Central Reserve Bank of El Salvador.

<sup>a</sup>First half of the year.

<sup>b</sup>Preliminary figures.

<sup>c</sup>See *Informe sobre la economía*, delivered by the President of the Central Reserve Bank of El Salvador on 22 December 1981.



national economy, it may be assumed that emigration from the country increased in recent years. This process seems to involve a variety of social strata including businessmen, urban wage-earners, and even peasants. Furthermore, the fact that several areas of the country have been the scene of sporadic confrontations which have paralysed or considerably reduced productive activity must have led to a lower employment level. On the basis of official estimates for 1981 and the further drop in activity in 1982, open unemployment would on no account appear to have been less than 30% of the work force. The unemployment and underemployment situation has therefore reached levels that may be termed dramatic.

In view of the state of martial law prevailing throughout most of the year, and despite the deterioration of workers' wages in real terms (see table 7), practically no confrontations occurred in the year between labour unions and employers or between unions and the Government, except for an incident in October when several thousand Ministry of Agriculture workers demanded salary increases.<sup>3</sup>

### 3. The external sector

The critical internal situation of the country has been compounded by the instability of the external variables which, for the fourth consecutive year, led to a considerable decrease in the net international reserves, amounting on this occasion to US\$ 70 million (see table 1).

In spite of the measures applied since 1981 in the spheres of exchange control and the strict allocation of foreign exchange to meet the most urgent and indispensable needs, the deficit on current account failed to improve in the manner expected. Earnings from external sales were smaller than those foreseen, due in particular to the lower volume of products exported, while the austerity policy in the import field proved insufficient to counteract other negative effects. In this respect, the amount of external resources which had to be allocated to debt-servicing commitments continued at a very high level. Thus, the current account deficit although somewhat lower than in the preceding year, was still significant (7% of the gross domestic product) and could not be compensated by the net movements on capital account despite a considerable donation received from the Government of the United States which only partially found its way to the productive sectors. Consequently, as already noted, the already low level of the international reserves declined still further, this being one of the main problems faced in the year. The continuing deterioration of the reserves induced the authorities in the final months of the year to adopt the exchange regulations described later on in this chapter.

#### a) *Merchandise trade*

i) *Terms of trade.* Although the international prices of several of the products sold abroad by El Salvador remained at a generally low level, the price of the main export commodity—coffee—was higher than the 1981 average. Due to the considerable incidence of this commodity in the country's total external sales, the average unit value of exports of goods rose in the year by 7%; but this was only sufficient to make up for approximately 50% of the drop in volume. On the other hand, as the price of imported products rose only by a small amount (6%), the merchandise terms of trade improved by 1%, reversing for the first time the four-year trend which had brought about a total contraction of 50%. However, due to the lower volumes exported for the third consecutive year, the purchasing power of exports of goods fell by almost 12% compared with the year before and by 46% compared with the level prevailing three years earlier (see table 8).

The drop in the terms of trade and in the purchasing power of exports in recent years, coupled with the internal recession, further aggravated external trade relationships, this being one of the principal restrictive features in the economy of El Salvador in recent times.

ii) *Exports.* Earnings from exports of goods fell by 7%. Since this drop had been preceded by two even greater annual decreases (-21% and -18% in 1980 and 1981 respectively), the value of exports was 40% lower than in the year 1979 (see table 9).

Sales to Central America declined by a similar proportion to the drop in exports to third countries, since they were affected by the general crisis in the subregion (economic activity deteriorated in all the countries) and by the aggravation of the external bottleneck due to the

<sup>3</sup>In general terms, the wage freeze policy was maintained throughout the year as part of the general framework of austerity.

Table 8  
EL SALVADOR: MAIN FOREIGN TRADE INDICATORS

	1977	1978	1979	1980	1981	1982 <sup>a</sup>
<b>Growth rates</b>						
Exports of goods, FOB						
Value	30.7	-12.8	44.2	-20.9	-18.2	-6.8
Volume	-14.2	7.1	37.8	-21.3	-10.8	-13.0
Unit value	52.3	-18.6	4.6	0.6	-8.3	7.1
Imports of goods, FOB						
Value	26.5	10.5	-1.3	-3.4	-0.7	-8.7
Volume	22.7	-0.2	-13.7	-18.7	-5.1	-13.8
Unit value	3.1	10.7	14.3	18.8	4.6	6.0
Terms of trade (goods)	47.7	-26.5	-8.5	-15.3	-12.3	1.0
<b>Indexes (1970 = 100)</b>						
Terms of trade (goods)	180.1	132.5	121.3	102.6	90.0	91.0
Purchasing power of exports of goods <sup>b</sup>	212.9	169.6	217.4	147.3	113.8	100.4
Purchasing power of exports of goods and services <sup>b</sup>	219.6	178.9	222.4	155.5	123.7	114.5

Source: ECLA, on the basis of official data.

<sup>a</sup>Preliminary figures.

<sup>b</sup>Volume of exports of goods, or of goods and services as the case may be, adjusted in accordance with the corresponding terms-of-trade index.

Table 9  
EL SALVADOR: EXPORTS OF GOODS, FOB

	Millions of dollars			Percentage breakdown			Growth rates			
	1980	1981	1982 <sup>a</sup>	1970	1980	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>a</sup>
<b>Total</b>	969	794	738	100.0	100.0	100.0	34.8	-14.6	-18.1	-7.1
To Central America	296	205	190	...	30.5	25.7	12.7	12.1	-30.7	-7.3
To the rest of the world	673	589	548	...	69.5	74.3	42.1	-22.7	-12.5	-7.0
<b>Main traditional exports</b>	621	539	487	66.1	67.5	66.0	44.6	-23.4	-13.2	-9.6
Coffee	512	453	398	51.1	57.2	53.9	58.1	-25.3	-11.5	-12.1
Cotton	85	53	52	9.8	7.9	7.0	-11.6	-2.3	-37.7	-1.9
Sugar	13	14	13	3.0	1.2	1.8	41.9	-51.9	7.7	-7.1
Shrimps	13	19	24	2.2	1.2	3.3	17.8	-	46.2	26.3
<b>Main non-traditional exports</b>	63	40	42	4.8	5.9	5.7	12.8	18.9	-36.5	-5.0
Perfumeries, toiletries and cosmetics	15	9	8	0.1	1.4	1.1	20.7	15.4	-40.0	-11.1
Insecticides, fungicides and disinfectants	6	3	3	0.8	0.6	0.4	-14.2	50.0	-50.0	-
Cotton yarn and thread	11	7	10	1.3	1.0	1.4	2.0	10.0	-36.4	42.9
Clothing	31	21	21	2.6	2.9	2.8	16.2	19.2	-32.3	-
<b>Others</b>	286	215	209	29.1	26.6	28.3	13.4	5.5	-24.8	-2.8

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

<sup>a</sup>Preliminary figures.

generalized scarcity of foreign exchange. This trade nevertheless continued to be important to a group of industries whose evolution already depended on it.

Although the export situation in general was very unfavourable, the value of non-traditional external sales increased by 5% in nominal terms despite a probable contraction in their physical volume. This indicates that as sales to the Central American Common Market had gone down in general, some producers, with government support, managed to open up new markets. In particular, the higher value of cotton manufactures was fairly significant and enabled this group to recover partially from the considerable contraction experienced in the preceding year, although the figure was still below that of two years before.

The export value of the two main traditional products —coffee and cotton— sustained a setback for the third consecutive year, with their share in total exports falling from 65% to 61% between 1981 and 1982. Coffee export earnings diminished, despite a relative improvement in international prices, because the volume sold fell to a level equivalent to only half those of the mid-1970s. This was attributable to several factors, including the generalized slackness of international markets, the limited import quota fixed by the United States, the fact that many competitors in other countries attempted to gain new markets under modified conditions (at prices lower than the regulated ones normally paid in the more traditional markets), and big international stocks in existence. El Salvador has moreover been one of the coffee-producing countries that for some years has preferred to maintain relatively high stocks in relation to production levels, in view of the possibility of a rise in prices. Unfortunately, the prospects changed in this respect, so that the present administration has tried to reduce stocks gradually to levels more consistent with potential production. It has not been possible to carry out this policy to the full, however, due to the instability and weakness of international markets.

Exports of cotton, second in importance within the total, decreased by 2% in current values after a severe contraction (-38%) in the preceding year. The international price of this commodity remained on average very low for the greater part of the year. It tended to rise between December 1981 and July 1982, but subsequently subsided. In this case too, production was much lower than usual due to the impediments already mentioned.

In the case of sugar —another traditional export commodity— although the volume exported rose slightly, the results were far from satisfactory since prices continued to drop. The international market was very depressed because of the extremely high stocks held in the producing countries in general as a result of the increase in the production of beet sugar and changes in market conditions (for example, countries which had traditionally been net importers of sugar became exporters).

Finally, exports of shrimps increased from US\$ 11 million in 1978 to US\$ 24 million in 1982, thus becoming the third most important export item and the only one not affected by deterioration in value over the previous four years. This was due in part to the efforts made to stimulate extraction of this species, and also to a significant increase in international prices in 1982.

iii) *Imports.* External purchases at current values declined even more than exports (-9% as against -7%), as a consequence of the policy of austerity and selectivity in the use of foreign exchange introduced in 1981. This helped to reduce the balance-of-payments deficit. As regards their source of origin, imports showed some noticeable changes: those coming from the countries of the subregion fell by only 4%, in contrast with a drop of close on 11% in the case of those from the rest of the world (see table 10). The scarcity of freely convertible foreign exchange may have been partly responsible for this circumstance, since it tended to stimulate barter transactions and payment compensation agreements in currencies of the area.

All import items diminished in current value, although in varying degrees. Purchases of consumer goods fell by 11%: a decline that would have been greater had it not been necessary to import some food products on an emergency basis due to the drought and floods already mentioned. On the other hand, the policy of austerity and selectivity in the use of foreign exchange brought about an appreciable drop in purchases of durable consumer goods (-19%), although their significance in the total was comparatively small.

Acquisitions of raw materials and intermediate goods in general fell by 6%, i.e., less than other items. This reduction was attributable to the generalized recession and probably led to a drastic reduction of stocks of this type of product. The smallest reduction in this group was observed in the case of petroleum and fuels and was mainly due to the fact that prices in international markets

remained more or less stable. Imports of building materials, on the other hand, fell by 19% in current terms; in real terms this represented an even greater drop than that of the product of the construction sector, indicating that in many cases stocks must also have suffered a considerable contraction.

Finally, a further steep reduction (-17% in nominal terms) was observed in imports of machinery and equipment, due to the lack of vigour in private activity, especially with regard to investment. The contraction would have been even greater had it not been for purchases of equipment for some public works such as the continuation of the energy projects already referred to.

b) *The services trade and factor payments*

The deficit on the non-factor services account contracted by approximately 15%, from US\$ 136 million in 1981 to US\$ 116 million in 1982. Tourist service exports amounted in current terms to barely half the level of four years earlier. As a direct consequence of the tension prevailing in the country, some "package" tours instituted in El Salvador around the mid-1970s all but disappeared, leaving a considerable amount of idle hotel capacity, particularly in San Salvador.

On the other hand, net service payments to the exterior in respect of factors of production increased considerably, from US\$ 54 million to US\$ 91 million, although according to official information profit remittances to foreign investors were almost insignificant. The higher value of these transactions was mainly due to foreign debt interest payments, which in the past three years have amounted to US\$ 70 million annually.

c) *The current account balance and its financing*

Altogether, the goods and services trade deficit diminished in nominal terms by 18%, although it was still almost three times higher than the 1980 trade account balance. More than half of the drop in 1982 was due to the smaller deficit on trade in goods (which contracted by 22%). Trade in non-factor services also showed a smaller negative balance, to which was added a steep increase in private unilateral transfers. Net factor payments, however, deteriorated considerably, thereby preventing the above-mentioned improvements from bringing about a greater reduction of the current account deficit, which finally went down by 15%, from US\$ 280 million in 1981 to US\$ 240 million in 1982 (see table 11).

This lower current account deficit, achieved at the expense of a recessive policy, continued, however, to be an important restrictive element in the national economy which it was not possible to compensate to the same extent as in the preceding year by net capital inflows. On the one hand,

Table 10

EL SALVADOR: IMPORTS OF GOODS, CIF

	Millions of dollars			Percentage breakdown			Growth rates			
	1980	1981	1982 <sup>a</sup>	1970	1980	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>a</sup>
<b>Total</b>	962	986	900	100.0	100.0	100.0	-0.7	-5.8	2.5	-8.7
From Central America	320	302	290	...	33.3	32.2	7.1	24.5	-5.6	-4.0
From the rest of the world	642	684	610	...	66.7	67.8	-3.0	-16.0	6.5	-10.8
<b>Consumer goods</b>	307	302	270	33.4	31.9	30.0	0.8	14.6	-1.6	-10.6
Durables	34	26	21	...	3.5	2.3	-14.5	-35.8	-25.5	-19.2
Non-durables	273	276	249	...	28.4	27.7	5.4	27.0	1.1	-9.8
<b>Raw materials and intermediate goods</b>	544	569	534	48.9	56.5	59.3	10.5	-0.4	4.6	-6.2
Petroleum and fuels	151	149	145	1.2	15.7	16.1	47.0	23.8	-1.3	-2.7
Construction materials	57	59	48	47.7	5.9	5.3	-6.5	-20.8	3.5	-18.6
Others	336	361	341	...	34.9	37.9	5.4	-4.5	7.4	-5.5
<b>Capital goods</b>	111	115	96	17.7	11.6	10.7	-32.8	-46.4	3.6	-16.5

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

<sup>a</sup>Preliminary figures.

Table 11

## EL SALVADOR: BALANCE OF PAYMENTS

(Millions of dollars)

	1977	1978	1979	1980	1981	1982 <sup>a</sup>
<b>Balance on current account</b>	22	-245	123	-117	-281	-240
Trade balance	19	-238	119	-71	-243	-200
Exports of goods and services	1 089	970	1 358	1 109	933	912
Goods, FOB	973	849	1 224	969	792	738
Real services <sup>b</sup>	115	121	133	140	141	174
Transport and insurance	19	23	24	25	20	...
Travel	32	37	25	13	16	18
Imports of goods and services	1 070	1 208	1 239	1 180	1 177	1 112
Goods, FOB	861	951	939	907	900	822
Real services <sup>b</sup>	209	257	301	273	277	290
Transport and insurance	88	98	107	84	80	69
Travel	58	103	117	106	106	102
Factor services	-28	-52	-40	-63	-54	-91
Profits	-26	-26	-45	-41	-25	...
Interest received	20	15	40	18	9	...
Interest paid	-32	-49	-72	-72	-70	...
Labour and property	10	8	37	31	32	...
Unrequited private transfer payments	30	45	45	17	16	51
<b>Balance on capital account</b>	19	301	-257	44	233	170
Unrequited official transfer payments	9	7	6	31	15	109
Long-term capital	36	175	78	177	270	274
Direct investment	19	23	-10	6	4	...
Portfolio investment	1	4	-6	-1	-	...
Other long-term capital	17	148	94	172	266	...
Official sector <sup>c</sup>	20	115	83	170	253	...
Disbursements	37	127	100	204	339	...
Amortization payments	-16	-10	-16	-29	-86	...
Commercial banks <sup>c</sup>	-	-	-	3	-	...
Disbursements	-	-	-	4	-	...
Amortization payments	-	-	-	-1	-	...
Other sectors <sup>c</sup>	-3	32	11	-2	13	...
Disbursements	51	54	22	36	6	...
Amortization payments	-72	-32	-11	-37	-19	...
Short-term capital (net)	6	195	-127	43	-46	-73
Official sector	-1	24	-15	199	5	...
Commercial banks	20	4	-2	-67	-	...
Other sectors	-14	167	-110	-89	-51	...
Errors and omissions	-32	-76	-214	-208	-6	-140
<b>Global balance<sup>d</sup></b>	40	55	-134	-74	-48	-70
Total variation in reserves (- sign indicates an increase)	-41	-57	128	69	43	70
Monetary gold	-	-	-	-	-	...
Special Drawing Rights	-5	-	-7	17	-	...
IMF reserve position	-6	-5	-	11	-	...
Foreign exchange assets	-15	-51	135	34	6	...
Other assets	-	-	-	-	-	...
Use made of IMF credit	-15	-	-	7	37	...

Source: 1977-1981: International Monetary Fund, *Balance of Payments Yearbook*; 1982: ECLA, on the basis of official data.<sup>a</sup>Preliminary figures.<sup>b</sup>Real services also include other official and private transactions, but not factor services.<sup>c</sup>In addition to loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities.<sup>d</sup>The global balance is the sum of the current account balance plus the balance on capital account. The difference between total variation in reserves of opposite sign and the global balance represents counterpart items: monetization of gold, allocation of Special Drawing Rights, and variations due to revaluation.

receipts of official donations increased appreciably (growing from only US\$ 15 million to US\$ 109 million) as a result of the financial support given to El Salvador by the Government of the United States; on the other, the net entry of long-term foreign capital remained at the same high level as in 1981 (some US\$ 270 million), although this result might have been greater had it not been for the inordinate increase in medium- and long-term debt amortizations. Moreover, for the second consecutive year there was a steep net outflow of short-term capital which on this occasion exceeded US\$ 70 million. As a result, the net international monetary reserves continued to decline, following the trend observed since 1978, and a drop of US\$ 70 million was recorded in the year, i.e., 46% more than in 1981.

These new balance-of-payments maladjustments occurred despite the support received from the International Monetary Fund. In 1981 El Salvador had already requested the co-operation of this agency to meet the country's balance-of-payments difficulties, obtaining compensatory financing of the order of 32 million Special Drawing Rights. The persistence in 1982 of the difficulties mentioned induced the new administration to continue its negotiations with a view to obtaining further IMF support. As mentioned earlier, this resulted in the signing of a stand-by credit agreement for the equivalent of 43 million Special Drawing Rights, followed by another compensatory financing loan of 32 million SDRs.

#### d) *External indebtedness*

Official estimates indicate that the medium- and long-term external public debt increased by 19% in 1982 (only half the rate registered the year before) to almost US\$ 780 million. Of the total increment, the central government accounted for 63%. In the light of these increases and the fact that economic activity was still contracting, the coefficient of the external public debt with respect to the gross domestic product continued to rise. After increasing from 10% to 13% between 1977 and 1980, this coefficient reached 19% in 1981 and rose further to 21% in 1982. For its part, external public debt servicing as a percentage of exports of goods and services rose for the third consecutive year (see table 12).

Although these figures are not by any means indicative of a critical level of indebtedness—especially when compared with other Central American countries and Latin America as a whole—it should be pointed out that they include neither the private nor the short-term debt, which have been rising appreciably.

Due to the prevailing tense situation, El Salvador has received little credit support in the last few years from foreign private sources. This support has rather been provided by international financing agencies such as the Inter-American Development Bank, the Central American Economic Integration Bank, and especially the International Monetary Fund. Some bilateral agreements have also been reached, among them being the considerable support given by the US Agency for International Development, loans received from Latin American governments such as those of Venezuela, Argentina, Colombia and others (tied to imports from those countries), and credits from European countries, an example being that recently received from the Federal Republic of Germany.

### 4. Prices and wages

#### a) *Prices and anti-inflationary policy*

The rate of inflation, as measured by the December-December variation in the consumer price index, slightly exceeded that recorded in 1981 (14% compared with 12%). However, after reaching a peak in the second quarter of the year, price increases in the following quarters slowed down steadily. Thus, the variation in the consumer price index between annual averages fell for the second consecutive year: from 17% in 1980 to 15% in 1981 and 12% in 1982 (see table 13).

In spite of being lower than the Latin American average, these inflation rates compare unfavourably with the traditional stability of prices in El Salvador prior to the year 1973. This relative stability came to an end in 1974 when an inflationary process began to take effect and, with the sole exception of 1976, has not abated since that year.

As from 1981, a stabilization programme based mainly on the regulation of prices of some basic articles and the freezing of wages and other prices was attempted. However, two factors intervened in

Table 12

## EL SALVADOR: EXTERNAL INDEBTEDNESS INDICATORS

	1977	1978	1979	1980	1981	1982 <sup>a</sup>
Millions of dollars						
<b>External public debt</b>						
<b>Balances</b>	280	339	398	475	654	778
Central government	102	121	143	204	328	406
Official institutions	178	218	255	271	325	372
Guaranteed	149	193	235	255	306	347
Non-guaranteed	29	25	20	16	19	25
<b>Loans received</b>	54	74	75	98	194	146
<b>Servicing costs</b>	65	32	31	40	39	49
Amortization payments	54	15	16	21	15	22
Interest payments	11	17	15	19	24	27
Percentages						
External public debt/gross domestic product	9.8	11.0	11.5	13.3	18.6	21.2
Servicing of external public debt/ exports of goods and services	6.0	3.3	2.3	3.2	4.1	5.3
Servicing of external public debt/loans received	120.4	43.2	41.3	40.8	20.1	33.6
Servicing of external public debt/ gross domestic product	2.3	1.0	0.9	1.1	1.1	1.3

Source: ECLA, on the basis of official data.

<sup>a</sup>Preliminary figures.

Table 13

## EL SALVADOR: EVOLUTION OF DOMESTIC PRICES

	1977	1978	1979	1980	1981	1982
Variation from December to December						
Consumer price index <sup>a</sup>	14.9	14.6	14.8	18.6	11.6	13.8
Food	8.9	12.7	13.7	22.5	14.4	11.0
Wholesale price index <sup>b</sup>	6.9	4.7	22.9	17.1	12.6	4.8 <sup>c</sup>
Agricultural product	-0.5	3.0	4.3	12.3	5.4	7.7 <sup>c</sup>
Manufactures	0.8	-1.0	20.4	6.3	15.4	3.9 <sup>c</sup>
Construction materials	15.4	7.6	17.8	4.7	25.0	4.0 <sup>c</sup>
Fuels and energy	23.0	3.5	37.0	23.7	19.6	- <sup>c</sup>
Variation between annual averages						
Consumer price index <sup>a</sup>	11.8	13.3	15.9	17.4	14.8	11.7
Food	8.7	10.7	14.8	19.7	17.6	10.7
Wholesale price index <sup>b</sup>	11.7	4.8	14.5	18.8	14.8	7.3 <sup>d</sup>
Agricultural products	4.3	1.7	4.6	3.9	1.1	11.7 <sup>d</sup>
Manufactures	8.2	-1.6	9.6	17.1	13.3	6.1 <sup>d</sup>
Construction materials	16.7	0.5	13.2	20.2	12.5	5.5 <sup>d</sup>
Fuels and energy	9.8	0.3	46.9	36.2	24.7	10.3 <sup>d</sup>

Source: ECLA, on the basis of official data.

<sup>a</sup>Corresponds to the metropolitan area of San Salvador. Base for 1977-1978: June 1954 = 100. For the years 1979 to 1982 use has been made of the new index with base December 1978 = 100.<sup>b</sup>Base 1955 = 100. Excludes coffee.<sup>c</sup>Variation July 1981 - July 1981.<sup>d</sup>Average variation between January-July 1981 and the same period in 1982.

1982: firstly, application of the dual exchange rate system whereby some non-essential imported goods had to be financed with foreign exchange obtained in the free market (at much higher prices than the official level), and secondly, the higher public-service tariffs adopted with a view to reducing subsidies to public entities, although this measure met with only relative success. The disruption of distribution systems caused by the internal armed conflict also had the effect of raising prices.

In contrast with the preceding year, food prices rose somewhat less than the overall index both when compared with the annual averages and with the December-December variation (see table 14). This situation shows that in the metropolitan areas of San Salvador —where the official price surveys are conducted— the policy of fixing the price of some foodstuffs such as cereals alleviated the effects of the increase in other products. However, with the spread of the armed confrontation, it is probable that the real evolution of prices at the national level has been different, considering the temporary shortages of some products in certain areas owing to transportation difficulties.

On the other hand, in the first seven months of the year wholesale prices (see table 13) rose rather less than the consumer price index and in a manner more consistent with the variations in the prices of imported articles. This was attributable mainly to the prevailing climate of tension, which altered to a more pronounced extent the prices ruling in retail distribution channels, where speculative tendencies were more pronounced, although varying in intensity throughout the country.

#### b) *Wages*

The financial difficulties in both the public and private sectors induced the authorities to extend the validity of the wage-freeze decree currently in force. In 1981 it had been decided, for a period ending in mid-1982 but later extended until March 1983, to recommend to the private sector that wages be raised by a maximum of 10%, financial conditions permitting. In practice, however, owing to the generalized insolvency at the microeconomic level, very few employers decided to grant wage increases.

The most representative situation in this respect was observed in respect of minimum wages (see table 15), which deteriorated in real terms by approximately 11%. This drop was of particular significance in the case of agricultural workers, since their remuneration thus went down for the third consecutive year, giving rise to a real wage level 27% lower than that prevailing in 1979. Owing to the increase in open unemployment and underemployment as a consequence of the continuing recessive situation, the total national wage bill again contracted in real terms, this being one of the main causes of the deterioration in family consumption levels.

Table 14  
EL SALVADOR: MONTHLY EVOLUTION OF CONSUMER PRICES<sup>a</sup>

(Index base: December 1978 = 100)

	1980		1981		1982	
	Total	Foodstuffs	Total	Foodstuffs	Total	Foodstuffs
January	115.3	113.9	138.1	141.7	153.6	160.8
February	117.0	117.1	139.9	145.5	154.5	162.6
March	121.2	121.6	141.4	148.6	157.8	164.3
April	123.9	125.2	143.6	151.5	159.9	166.1
May	126.5	129.7	145.2	153.4	161.7	168.1
June	128.0	131.9	147.1	154.2	164.1	171.1
July	130.9	136.5	148.3	155.5	164.6	171.4
August	131.2	136.0	149.1	156.4	165.0	172.1
September	132.4	136.5	150.0	156.7	168.9	172.4
October	133.6	138.5	150.9	157.9	169.8	174.0
November	134.2	137.3	151.4	158.5	170.9	175.6
December	136.1	139.3	152.0	159.3	172.9	176.9

Source: ECLA, on the basis of official data.

<sup>a</sup>Corresponding to the metropolitan area of San Salvador.



Table 15

## EL SALVADOR: EVOLUTION OF WAGES

	Indexes (1970 = 100)				Growth rates			
	1979	1980	1981	1982	1979	1980	1981	1982
<b>Nominal minimum wages</b>								
Agricultural workers	209.8	231.1	231.1	231.1	18.0	10.2	-	-
Harvesting								
Coffee	388.8	529.7	529.7	529.7	8.4	36.2	-	-
Sugar cane	228.0	425.8	444.4	444.4	7.3	86.8	4.4	-
Cotton	255.6	377.8	388.9	389.9	7.8	47.8	2.9	-
Seasonal agricultural industries								
Coffee processing	306.8	560.0	560.0	560.0	9.6	82.5	-	-
Sugar refining	257.6	320.0	320.0	320.0	7.3	24.2	-	-
Cotton processing	265.2	320.0	320.0	320.0	6.1	20.7	-	-
Other activities in San Salvador								
Industry and services	240.9	322.8	343.8	343.8	10.1	34.0	6.5	-
Commerce	231.4	295.1	314.3	314.3	12.5	27.5	6.5	-
<b>Real minimum wages</b>								
Agricultural workers	88.3	82.9	72.2	64.6	1.7	-6.1	-12.9	-10.5
Harvesting								
Coffee	163.7	190.0	165.6	148.3	-6.5	16.1	-12.8	-10.5
Sugar cane	96.0	152.7	138.9	124.4	-7.4	59.1	-9.0	-10.5
Cotton	107.6	135.5	121.6	108.9	-7.0	25.9	-10.3	-10.5
Seasonal agricultural industries								
Coffee processing	129.2	200.9	175.1	156.8	-5.4	55.5	-12.8	-10.5
Sugar refining	108.5	114.8	100.0	89.5	-7.3	5.8	-12.9	-10.5
Cotton processing	111.7	114.8	100.0	89.5	-8.4	2.8	-12.9	-10.5
Other activities in San Salvador								
Industry and services	101.4	115.8	107.5	96.2	-5.1	14.2	-7.2	-10.5
Commerce	97.4	105.8	98.2	87.9	-3.0	8.6	-7.2	-10.5

Source: ECLA, on the basis of official data.

## 5. Monetary and fiscal policy

### a) *Monetary policy*

The drop in the international monetary reserves for the fourth consecutive year, coupled with the continuing pressure of the imbalance in public finances, continued to determine to a large extent the evolution of the monetary aggregates (see table 16) and to reduce the efficacy of the stabilization efforts made since 1981. A programme had been put into effect that year with the aim —among other objectives— of at least attenuating some undesirable tendencies such as the flight of foreign currency which had begun some years earlier.

The small contraction registered in 1981 in the means of payment (currency outside banks and current account deposits) was followed by an increase of approximately 5% in 1982 (see table 16). This represented a reduction in real terms of the order of 8%, after contractions of 10% and 11% in 1980 and 1981. The reduction in currency outside banks (-9%) and in demand deposits (-8%) both played a part in the drop in real money supply in 1982. Similarly, the two basic types of factors of expansion of the monetary base both contributed to the growth of money in nominal terms. Thus, the negative amount of the net international reserves was halved, while domestic credit grew by 15% due to the increased amounts granted to both the public and private sectors. However, the amount of new credits (670 million colones) was 12% lower in nominal terms than in 1981. Of this, the central government accounted for 69%. This proportion was lower than in 1981 (84%), but could not be reduced as much as had been hoped for, mainly because of the persistent imbalance in the public finances. Factors of absorption, for their part, increased by 27% as a result of the real positive growth of all their components, especially long-term foreign loans.

The accumulated negative factors of domestic and external origin referred to above reached such dimensions that the combined instruments of monetary policy —credit and exchange-rate measures— could hardly have been expected to overcome such a critical financial and economic situation in the short term. Few economic policy measures were adopted in the year, but they were nevertheless of some importance, especially in two instances. The first was the Monetary Board's decision to raise interest rates (which had in general remained unchanged since 1978) in an attempt to encourage domestic saving, increase the availability of credit resources, reduce the flight of foreign exchange, and thereby facilitate the rationalization of credit, directing it to priority productive sectors. In practice, however, these central objectives were to a large extent diluted. Some rates remained unchanged, such as those relating to demand savings accounts (both in banks and savings and loan associations), while others (for accounts permitting withdrawal subject to prior notice) rose only by half a percentage point. Lending rates in general rose by 2 to 3 points, although credits granted by savings and loan institutions to construction enterprises rose by 6 points. This rise in interest rates failed to achieve the desired results, and from its outset provoked criticism on the part of business associations due to the higher costs implied. On the other hand, a preferential line of credit under certain conditions remained in force for some activities, as for example exports of coffee and cotton, exports to destinations outside Central America, small-scale industry, and basic grain production.

The second important measure, adopted in August and supplemented in November, referred to foreign exchange policy. In practice, it represented a partial devaluation of the colón, since it modified the exchange-control system. One of the main provisions established by the monetary authorities prohibited free foreign exchange transactions, on pain of severe penalties, thereby entrusting these operations exclusively to the national banking system. The official exchange rate remained unchanged at 2.50 colones to the dollar, but some foreign trade operations began to be carried out at the rate ruling in the parallel bank market, which was somewhat higher than that in the non-banking exchange market. The price of the dollar in the latter exceeded the official rate by approximately 50%. When the non-banking market was declared illegal, the banking system found itself obliged to sell part of the foreign exchange deriving from exports, refining services, external transfers<sup>4</sup> and

Table 16

EL SALVADOR: MONETARY BALANCE

	End-year balance (millions of colones)			Growth rates			
	1980	1981	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>a</sup>
<b>Money</b>	1 416	1 404	1 470	21.6	7.2	-0.8	4.7
Currency outside banks	719	703	732	48.6	-3.2	-2.2	4.1
Demand deposits	697	701	738	-1.4	20.6	0.6	5.3
<b>Factors of expansion</b>	3 689	4 255	5 101	11.3	10.3	15.3	19.9
Net international reserves	-175	-373	-197	...	...	...	...
Domestic credit	3 864	4 628	5 298	25.2	27.7	19.8	14.5
Government <sup>b</sup> (net)	418	1 059	1 520	...	...	153.3	43.5
Official entities	1 145	1 133	1 028	75.6	121.0	-1.0	-9.3
Private sector	2 301	2 436	2 750	12.1	-7.5	5.9	12.9
<b>Factors of absorption</b>	2 273	2 851	3 631	5.5	12.4	25.4	27.4
Quasi-money (savings and time deposits)	1 135	1 397	1 633	-2.5	0.9	23.1	16.9
Bonds	190	205	246	5.7	-21.8	7.9	20.0
Long-term foreign borrowing	725	922	1 239	22.3	50.4	27.2	34.4
Other items (net)	223	327	513	23.7	29.7	46.7	56.9

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

<sup>a</sup>Preliminary figures.

<sup>b</sup>Net government credit (credit less deposits) was negative in 1977 and 1978 (by 127 million colones and 98 million respectively) and positive in 1979 (by 21 million colones).

<sup>4</sup>According to official estimates, approximately US\$ 120 million of foreign exchange per year deriving from remittances sent by Salvadorians living abroad was prevented from entering the official market due to being diverted to other intermediaries or speculators, to mention only one instance.

Table 17

## EL SALVADOR: EVOLUTION OF SOME PUBLIC FINANCE INDICATORS

(Percentages based on figures at current prices)

	1970	1975	1979	1980	1981	1982 <sup>a</sup>
Fiscal deficit/total government expenditure	7.0	11.9	7.0	32.3	36.3	38.8
Fiscal revenue/gross domestic product	10.3	11.9	13.5	11.1	11.3	10.9
Total government expenditure/ gross domestic product	11.9	14.4	15.2	17.2	19.8	20.1
Government added value/gross domestic product	7.8	8.6	8.8	10.7	11.5	11.0
Fiscal deficit/gross domestic product	...	...	1.1	5.6	7.2	7.7

Source: ECLA, on the basis of official data.

<sup>a</sup>Preliminary figures.

others. A further result of the new exchange system was the establishment of maximum allowances for the purchase of foreign currency for travel purposes. Finally, as already mentioned, a strict central system was instituted to rationalize the use of foreign currency, and imports were limited to those considered strictly indispensable by the Central Bank.

b) *Fiscal policy*

The critical situation of the economy again became evident in the sphere of public finances in 1982 with relatively similar intensity to that of the preceding year, thereby continuing the trend of imbalances in government finances that had begun in 1980. Thus, while taxation had remained at a level of 11% for more than ten years—a decidedly low percentage in Latin American terms—total outlays, which in 1970 had represented almost 12% of the nominal gross domestic product, had risen to approximately 20% annually in 1981 and 1982. The fiscal deficit consequently grew over the past 12 years from 7% of current government expenditure to close on 40%, causing one of the most serious difficulties faced by the national economy. The fiscal deficit in 1982 represented almost 8% of the gross domestic product, whereas in 1979 it had been equivalent to only 1% (see table 17).

Current revenue rose by slightly less than 2% compared with the preceding year (see table 18). This was probably because, in view of the imminent change of government, measures were not taken early in the year to introduce modifications in the tax regulations. Later, although concern was shown in this respect, the scope for modifying the tax legislation in a manner likely to obtain short-term results had practically disappeared due to the prevailing low levels of economic activity. In the light of this situation, an attempt was instead made to recover revenue pending due to non-payment of some direct taxes. In this manner, the level of revenue from the latter was maintained after a drop registered in 1981.

Indirect taxation, for its part also expanded only moderately (2%). This was due, on the one hand, to the contraction of consumption, although this was more than compensated by price increases, and on the other to the negative performance of taxation on foreign trade. Non-tax revenue, whose significance is only slight, rose by 5%.

Measures adopted during the year to facilitate the settlement of overdue debts to the treasury included the relatively novel expedient of accepting as payment the transfer of real estate property to public ownership. Application of this measure began with the transfer of some large properties in San Salvador.

In spite of the restrictive expenditure policy instituted in the preceding year, government outlays as a whole rose faster than revenue in 1982 (6% as against 2%). In real terms this meant that, after having increased slightly (by 1%) in 1981, these disbursements fell by 7% in 1982. Attempts were made during the year to restrain the growth of public expenditure by reducing the hiring of new civil servants and cutting purchases of inputs such as fuels, administrative materials and equipment in general. These measures, however, did not fully achieve the objectives sought since they were offset by three main factors: debt amortization costs rose by 60%, transfers were made to other official entities facing financial difficulties, and expenditure was incurred for military purposes.

Although real government investment fell by 17% in nominal terms (27% in real terms), the execution of highway projects continued to a moderate extent (mainly those for which external financing had been contracted in former years). Certain projects in areas frequently subject to armed confrontation, such as in the eastern part of the country, naturally had to be postponed or suspended.

As already mentioned, one of the items affecting government finances was precisely the considerable increase in transfer to other official entities. Prominent among the beneficiaries was the Río Lempa Electricity Commission (CEL), the reason being that this entity had the largest external indebtedness, it had been compelled to replace urgently various items of equipment which had been wholly or partially destroyed (transmission towers and lines, transformers, etc.), and it had had to make greater outlays in emergency situations by bringing into operation thermal plants using imported fuel. This enterprise also continued with the execution of the country's principal energy project (San Lorenzo), which had been delayed fundamentally for financial reasons due to rising costs.<sup>3</sup>

In short, the policy of austerity introduced by the Government in 1981 failed to produce the results hoped for. The deficit rose by slightly more than 80 million colones (almost 13%), of which 63 million represented lower current savings.

As in 1980 and 1981, approximately 70% of the deficit was financed by domestic credits. In reality, however, the importance of external financing was greater because, according to official reports, a large proportion of domestic credit was based on foreign resources obtained by the national banking and financial system.

Table 18

EL SALVADOR: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

(Millions of colones)

	1979	1980	1981	1982 <sup>d</sup>	Growth rates			
					1979	1980	1981	1982 <sup>a</sup>
1. Current income	1 215	1 040	1 107	1 125	18.3	-14.4	6.4	1.6
Tax revenue	1 162	989	990	1 002	19.5	-14.9	0.1	1.2
Direct	277	312	297	296	-3.1	12.6	-4.2	-0.3
Indirect	885	677	693	706	29.0	-23.5	2.4	1.9
On foreign trade	571	375	323	330	42.4	-34.3	-14.9	2.2
Non-tax revenue	53	51	117	123	-3.6	-3.8	141.2	5.1
2. Current expenditure	862	1 077	1 234	1 315	10.1	24.9	14.6	6.6
Remunerations	475	618	658	726	15.6	30.1	6.5	10.3
Other current expenses	387	459	576	589	4.0	18.6	25.5	2.3
3. Current savings (1 - 2)	353	-37	-127	-190	44.7	...	...	...
4. Capital expenditure	444	459	504	522	18.4	3.4	9.8	3.6
Real investment	274	382	381	316	25.1	39.4	-0.3	-17.1
Debt amortization	29	23	57	91	-12.1	-20.7	147.8	59.6
Other capital expenses	141	54	66	115	14.6	-61.7	22.2	74.2
5. Total expenditure (2 + 4)	1 306	1 536	1 738	1 837	12.8	17.6	13.2	5.7
6. Fiscal deficit (1 - 5)	-91	-496	-631	-712				
7. Financing of deficit								
Internal financing	33	361	429	497				
Central Bank	-8	143	198	55				
Sale of securities	100	299	350	375				
Others	-59	-81	-119	67				
External financing	58	135	202	215				

Source: ECLA, on the basis of data supplied by the Central Reserve Bank of El Salvador and the Ministry of Finance.  
<sup>a</sup>Preliminary figures.

<sup>3</sup>The cost of the project, originally estimated at some US\$ 150 million, has risen to US\$ 290 million.

## GUATEMALA

### 1. Recent economic trends: Introduction and summary

In 1982, Guatemala was faced with a profound economic depression. For the first time since the end of World War II, the gross domestic product experienced a sharp drop (-3.5%), which was reflected at the macroeconomic level in substantial decreases in employment and real income and at the microeconomic level in a growing number of enterprises differing from a severe shortage of liquidity and even insolvency. Likewise, due to the persistent deterioration in the terms of trade, the per capita gross domestic income fell by nearly 7.0% (see table 1 and figure 1).

These negative developments were largely a reflection of the impact of the unfavourable trends in the international economy on the developing countries in general and on the small Latin American agroexporting economies in particular. In the case of Guatemala, such factors were aggravated by the steady decline in intra-Central American trade, in which the country has traditionally recorded a high positive balance, and by domestic factors including the intense political and social tensions present in the country. This combination of adverse circumstances assumed unaccustomed proportions since 1982 was the fifth consecutive year in which economic activity slowed down. On the one hand, the cumulative effect of the recession has become increasingly difficult to attenuate; on the other, the margin of manoeuvrability which the country had acquired for dealing with unfavourable circumstances has narrowed. For example, the net international monetary reserves had already been exhausted by the end of 1981.

In brief, despite the fact that Guatemala also faced the international crisis with some factors in its favour (for example, by contrast with other countries in the region, the burden of the public debt was still relatively modest and its foreign trade is the most widely diversified in Central America), the depth of the economic depression of 1982 is without precedent since the 1930s.

The international crisis affected the Guatemalan economy in many ways, the most dramatic being the fall in the prices of its export commodities to the lowest real levels recorded since the war. The combination of stagnation in export prices, which had already slumped in 1981, and the increase in unit values of imports caused the terms of trade to deteriorate for the fifth year running, this time by close to 7%. Thus, during the period 1977-1982, they fell by nearly 40%. Similarly, because of the contraction in the demand of the industrialized countries, the volume of Guatemala's exports of goods and, in particular, services, fell sharply, and this was reflected in a drop of over 18% in the purchasing power of exports and goods and services.

The same phenomena affected the other Central American countries to varying degrees, thereby contributing to a widespread contraction in global demand and to a severe shortage of foreign currency, which delayed settlement of the outstanding accounts in intra-Central American trade. Consequently, the level of regional trade also declined appreciably, pushing Guatemala's trade balance even lower. As a result, the value of the country's exports to the rest of the region fell by 15%, while its favourable trade balance shrank to less than half that recorded in 1981.

In addition, in spite of the efforts made by the financial and monetary authorities to obtain additional external financing, the unfavourable terms prevailing on the international capital markets meant that the results were only modest. Thus, the net intake of external public resources, apart from the compensatory financing granted by IMF, fell from slightly more than US\$ 315 million in 1981 to about US\$ 250 million in 1982. The inflow of private external financing was also scanty, and at the same time the flight of capital continued, although apparently at a lower rate than in previous years.

The difficulties of access to external financing, the virtual exhaustion of liquid monetary reserves and the persistent deficit in current transactions with the rest of the world resulted in a serious shortage of foreign currency. The Bank of Guatemala applied emergency regulations to control foreign currency movements in accordance with criteria of selectivity in the case of imports.

These measures were supplemented towards the end of the year with a system of prior permits for the importation of merchandise and additional restrictions on the delivery of foreign currency for travel, family remittances and similar expenses.

When restrictions were placed on imports, two phenomena arose which were relatively new in the history of the Guatemalan economy. First, there was an accumulation of requests for foreign currency pending authorization by the monetary authorities; towards the end of the year they amounted to close to US\$ 400 million. Secondly, there was an increase in the parallel market for foreign currency which, although it violated the legal provisions, was discreetly tolerated by the authorities so as to relieve the pressure due to demand for foreign exchange. Even so, the shortage of foreign currency and the consequent problems with regard to supplies of raw materials, spare parts and other imports (at least in respect of the delay in their arrival) had an impact on the normal operation of a number of productive activities.

The depressive effects of the situation in the external sector became stronger and combined with other factors of domestic origin, including some which were matters of chance. The agricultural sector, for example, was affected by the especially adverse weather cycle (a long drought followed by

Table 1  
GUATEMALA: MAIN ECONOMIC INDICATORS

	1976	1977	1978	1979	1980	1981	1982 <sup>a</sup>
<b>A. Basic economic indicators</b>							
Gross domestic product at factor cost (millions of dollars at 1970 prices)	3 313	3 571	3 750	3 926	4 074	4 110	3 966
Population (millions of inhabitants)	6.4	6.6	6.8	7.1	7.3	7.5	7.7
Per capita gross domestic product (dollars at 1970 prices)	515	538	548	557	561	549	515
<b>Growth rates</b>							
<b>B. Short-run economic indicators</b>							
Gross domestic product	7.4	7.8	5.0	4.7	3.7	0.9	-3.5
Per capita gross domestic product	4.1	4.6	1.9	1.6	0.7	-2.1	-6.3
Gross income <sup>b</sup>	10.6	12.6	3.9	2.5	3.6	-1.1	-4.1
Terms of trade	28.6	33.4	-5.1	-15.7	-2.7	-16.0	-6.6
Current value of exports of goods and services	23.8	37.8	-2.8	13.5	17.4	-16.0	-12.2
Current value of imports of goods and services	39.7	19.3	15.2	8.5	9.3	3.4	-23.4
Consumer prices							
December-December	17.6	7.4	9.1	13.7	9.1	7.3	2.9
Variation between annual averages	10.7	12.6	7.9	11.5	10.7	9.5	5.0
Money	38.6	18.6	8.9	10.9	2.5	4.1	1.4
Current income of government	23.3	45.3	11.7	1.0	11.8	-0.8	-2.7
Total expenditure of government	55.4	9.0	15.9	15.3	29.4	24.3	-17.4
Fiscal deficit/total expenditure of government <sup>c</sup>	35.6	14.2	17.3	27.5	37.4	50.0	41.1
<b>Millions of dollars</b>							
<b>C. External sector</b>							
Trade balance (goods and services)	-232	-98	-354	-320	-228	570	-275
Balance on current account	-79	-37	-271	-209	-165	-567	-315
Balance on capital account	292	216	341	172	-86	262	278
Variation in international reserves	213	180	71	-29	-244	-300	-38
Public and private external debt <sup>d</sup>	239	302	391	511	609	765	858
Total external debt	588	669	821	934	1 093	1 409	1 504

Source: ECLA, on the basis of official figures.

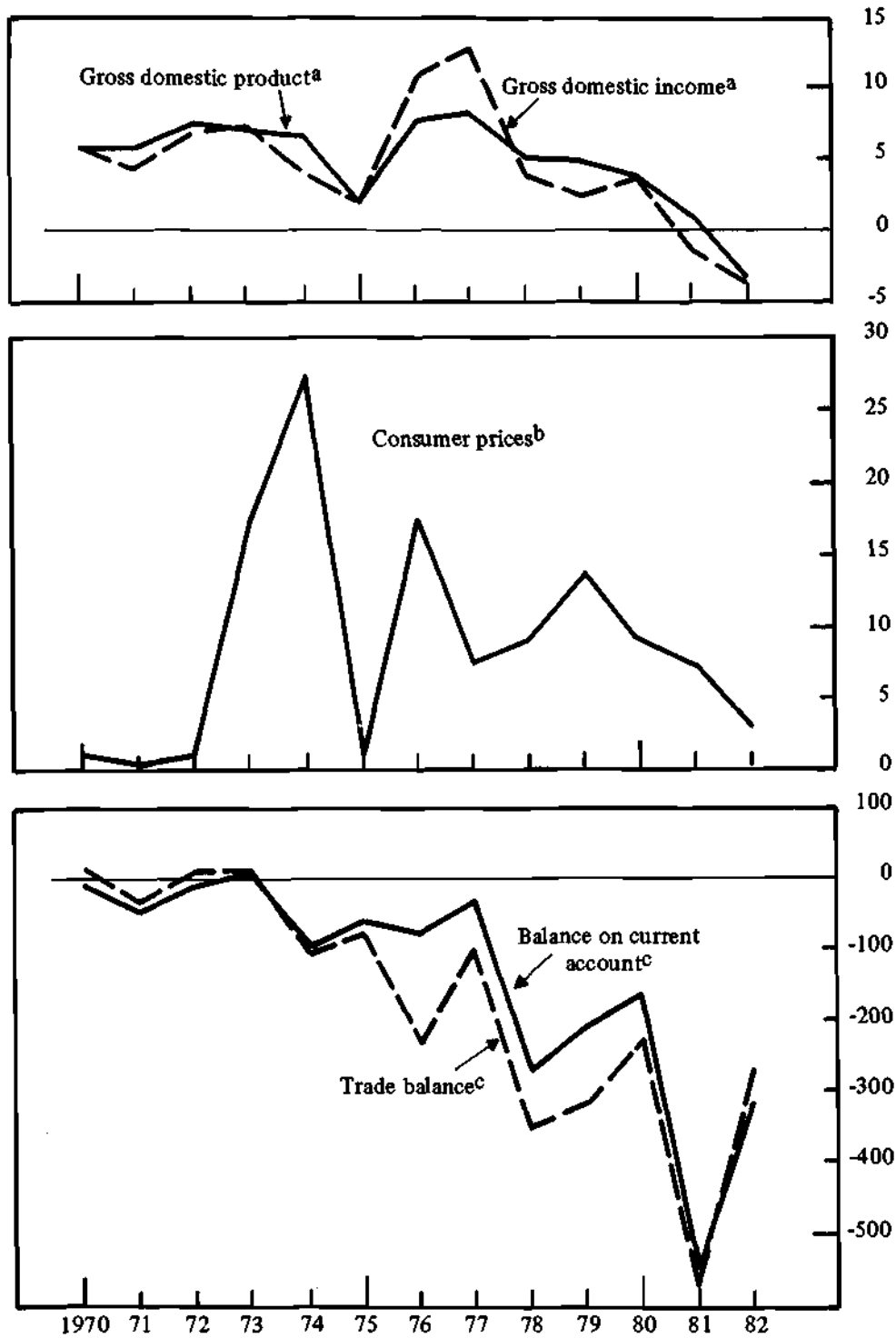
<sup>a</sup>Preliminary figures.

<sup>b</sup>Gross domestic product plus terms-of-trade effect.

<sup>c</sup>Percentages.

<sup>d</sup>Disbursed State-guaranteed private debt.

Figure 1  
**GUATEMALA: MAIN ECONOMIC INDICATORS**



Source: ECLA, on the basis of official data.  
<sup>a</sup>Annual growth rate.  
<sup>b</sup>Percentage variation, December-December.  
<sup>c</sup>Millions of dollars.

torrential floods which damaged the basic grain harvests)<sup>1</sup> and by some diseases which attacked coffee in particular. Similarly, the political tensions which had given rise to violence in previous years continued and even intensified during the first half of 1982. Two separate occurrences illustrate these phenomena: first, in March the Army deposed the régime then in power, the result being a change in government. Secondly, the conflicts grew more intense in some parts of the country, affecting over 300 000 people according to some observers and causing a considerable number of them to abandon their homes. This latter circumstance, in addition to causing losses of human life, material damage to housing and personal effects and great suffering due to the massive displacement of the civil population, also had a direct effect on crop production, since in certain regions basic food crops were not sown. All this resulted in considerable imbalances in the labour market and in the well-being of many families. Furthermore, these non-economic factors were also partially responsible for keeping private investment small and creating uncertainty in the operation of productive activities.

On the supply side, a contraction was noted in nearly all the sectors, including the crop-growing sector, an exception being the upturn in the production of basic grains. Manufacturing declined by more percentage points than the decrease in the gross domestic product, thus showing, in this depressive cycle, the same elasticity of variation *vis-à-vis* the global product as that observed during periods of expansion. The mining sector recorded moderate expansion, due largely to the continued development of the incipient petroleum sector, which towards the end of the year managed to supply over one-third of national demand. Nevertheless, the importance of minerals in the overall product is still not very significant. As for construction, it suffered a marked contraction, attributable primarily to the notable drop in public investment.

Within this picture of generalized contraction, the income of the central government also showed an absolute decrease of close to 3%, while the tax burden fell from 7.5% to 7.0% between 1981 and 1982.

Public expenditure, and particularly capital expenditure, contracted even more sharply, owing in part to the commitments entered into by the Government in October 1981 when it signed an agreement with the International Monetary Fund and in part to the fact that in March the authorities initiated a policy of relative austerity. Thus, the central government's deficit fell from 8.6% of the gross domestic product in 1981 to 5.7% in 1982.

That deficit was financed to a large extent through internal indebtedness and, in particular, with resources obtained from the Central Bank. Paradoxically, the external sector restraints made that financing possible without subjecting the intermediation system to a great deal of tension, since the accumulation of requests for foreign currency pending authorization released a large volume of resources which the banking system managed to retain. Thus, global credit activity, in which loans to the public sector played a leading role, even grew slightly less than that of the receipt of deposits.

In the preceding years, the increase in public expenditure had counterbalanced the drop in private investment, although that expenditure was not always earmarked for projects with high social returns. In 1982, however, its reduction was added to that of the other components in global demand, causing growing unemployment and underemployment, particularly in the crop-farming sector. In addition, in spite of the fact that, there was a considerable let up in inflationary pressures as a result of the domestic and international economic recessions (the consumer price index varied on average by only about 5% during the year), the few indicators available suggest a drop in average real wages. On the other hand, the moderate variation in the consumer price index concealed latent inflationary factors on the supply and cost side, caused by the scarcity of imported inputs, the failure of domestic supply to show much growth and the costliness of the growing share of imports financed with foreign currency acquired in the parallel market.

The new authorities announced an economic policy programme whose central objective was to mitigate the effects of the international depression on economic activity and employment.<sup>2</sup> In the context of that programme some measures were adopted to promote exports, contain imports, create job opportunities and alleviate the situation of enterprises with liquidity or insolvency problems. For that purpose, use was made of the conventional instruments of credit, monetary and financial and

<sup>1</sup>ECLA, *Guatemala: Repercusiones de los fenómenos meteorológicos ocurridos en 1982 sobre la situación económica del país* (E/CEPAL/MEX/1982/L.31), 24 November 1982.

<sup>2</sup>Government of Guatemala, *Política económica de corto plazo*, July 1982.



public expenditure policy. However, since times were difficult economically and politically, the financial deficits of the central government, accumulated over some period of time, led to the reduction of expenditure, perhaps because it was considered unfeasible to increase the income from taxes. Thus, there were factors which limited the scope of public action aimed at influencing economic growth. During the year it was even decided to reduce the tax on coffee exports, with a view to alleviating the situation of the producers, and the deductions permitted on personnel income tax were increased. It would seem that the policy of decreasing expenditure will continue to be applied in the immediate future, since the budget of income and expenditure for 1983 envisages maintaining the restrictions on capital outflows.

On the other hand, the new administration adopted a policy of holding consultations with the entrepreneurial sectors of the country in order to identify measures for reactivating production. In that context, towards the end of the year a high-level permanent economic commission was established whose membership includes representatives of the public sector and the main associations of private entrepreneurs. Its purpose is to study, analyse and make recommendations concerning changes, adjustments or extensions in the existing laws with a view to the appropriate rationalization of the economic and material resources and the more efficient development of the country's productive sectors.<sup>3</sup> This commission met frequently during November and December, primarily to examine the import quota system agreed on by the Government but also to enlarge its terms of reference and give itself the attributes of permanent consultation machinery.

## 2. Trends in economic activity

### a) *Global supply and demand*

As already noted, in 1982 the economy showed its poorest performance since the 1930s. The gross domestic product fell by 3.5%, which meant a drop of 6.3% in the per capita product. This adverse trend can be attributed largely to a drop of over 11% in the volume of exports of goods and services and to a decline of 19% in gross capital formation (see table 2).

The decrease in the volume of exports of goods and services, aggravated by the deterioration in the terms of trade, was probably the phenomenon most responsible for the severe economic depression. This contraction was added to that of the preceding year, so that the volume of external sales in 1982 amounted to only 80% of that recorded in 1980.

Fixed capital formation also decreased owing to the sharp reduction in public investment. This latter phenomenon —a consequence of the austerity policy— must, however, be interpreted in the light of the exceptionally high capital expenditure of the public sector in 1981. For its part, private investment —which had been declining systematically since 1977— was utterly stagnant in 1982.

The austerity of the fiscal policy also explains the marked contraction in general government consumption, which included a moderate decline in the contracting of services and a more pronounced decrease in the purchase of goods. The drop in private consumption, for its part, was a consequence of the downward trends in employment and real wages as well as of the general restrictions on demand associated with the economic depression.

On the supply side, imports virtually collapsed as a reaction to the drop in overall demand and the restrictions imposed on foreign purchases by the severe shortage of foreign currency. Thus, the import coefficient, which had been decreasing since 1978, fell in 1982 to the lowest level it had recorded in a long time. The lack of imported inputs affected the operation of some activities in the crop-growing sector and, in particular, in the industrial sector.

Finally, in 1982 there was a reduction in stocks of domestic products, due in particular to the sale of the coffee inventories which had accumulated in past years,<sup>4</sup> although it would seem that this drop was counterbalanced by the slight increase in stocks of imported goods.

<sup>3</sup> Agreement No. 522-82 of the Ministry of the Economy, 24 November 1982.

<sup>4</sup>ECLA, *Notas para el estudio económico de América Latina, 1981. Guatemala* (E/CEPAL/MEX/1982/L.13/Rev.1), p. 7.

b) *Evolution of the main sectors*

Domestic supply, by branches of activity, grew in accordance with the global picture described above. With the exception of mining (whose share in the total product is not very significant), financial services and ownership of dwellings, all the sectors showed negative growth rates (see table 3). This was attributable to the decline in external and internal demand and to some factors which were adverse for production, such as the irregular climatological cycle, problems relating to the supply of imported inputs, and the effect on productive activities of the political and social tensions prevailing in the country.

i) *Agriculture.* The restrictions on external demand had two overwhelming consequences for the performance of the crop-growing sector. In the first place, the low prices of the majority of export commodities helped to discourage the production of the two main crops —coffee and, above all, cotton. Thus, in view of the great importance of those two commodities, the volume of production of export activities as a whole declined. Secondly, the production of basic grains increased significantly by comparison with the preceding year, owing largely to the fact that the areas traditionally devoted to export crops (especially cotton) were sown with maize, sorghum and rice and, to a much lesser extent, soya beans. The production of basic grains would have been much higher had it not been for a prolonged drought followed by severe storms at the end of September. As a result, the relative dynamism in the production of foodstuffs for domestic consumption, together with moderate growth in stock raising, was not enough to counterbalance the unfavourable performance of the majority of export commodities. For this reason the production of the sector as a whole fell by close to 2% (see table 4).

Among the main export commodities, cotton suffered the most drastic contraction, owing to the low international price which prevailed during the sowing period, the high cost of the technologies applied in the country, and adverse climatic factors. The surface sown fell from nearly 105 000 hectares in 1980/1981 to 78 000 in 1981/1982, and it is estimated that in 1982/1983 it will come to only 58 000 hectares. The yield per hectare also fell as a result of the more restricted use of inputs. This not only affected the production of cotton but also the supply of oilseeds, since cottonseed is one of the main sources of the fats and oils manufactured in the country. Consequently, the production of raw cotton and cottonseed contracted by more than 35% by comparison with 1981. The

Table 2

GUATEMALA: TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1970 prices			Percentage breakdown		Growth rates		
	1980	1981	1982 <sup>a</sup>	1970	1982 <sup>a</sup>	1980	1981	1982 <sup>a</sup>
<b>Total supply</b>	4 772	4 788	4 451	114.3	112.2	2.2	0.4	-7.1
Gross domestic product at market prices	4 074	4 110	3 966	100.0	100.0	3.7	0.9	-3.5
Imports of goods and services <sup>b</sup>	698	678	485	14.3	12.2	-5.9	-2.8	-28.6
<b>Total demand</b>	4 772	4 788	4 451	114.3	112.2	2.2	0.4	-7.1
Domestic demand	4 141	4 203	3 933	99.4	99.1	2.2	1.5	-8.5
Gross domestic investment	499	577	468	12.8	11.8	-14.7	15.7	-19.0
Gross fixed investment	524	547	462	12.5	11.7	-9.9	4.4	-15.4
Public	214	287	201	2.3	5.1	19.2	34.3	-29.8
Private	310	260	261	10.2	6.6	-22.9	-16.2	-0.5
Changes in stocks	-25	30	6	0.3	0.1			
Total consumption	3 642	3 626	3 465	86.6	87.3	5.1	-0.4	-4.5
General government	331	346	303	8.0	7.6	12.0	4.4	-12.4
Private	3 311	3 280	3 162	78.6	79.7	4.4	-0.9	-3.6
Exports of goods and services <sup>b</sup>	631	585	518	14.9	13.1	2.2	-9.4	-11.3

Source: ECLA, on the basis of official figures.

<sup>a</sup>Preliminary figures.

<sup>b</sup>The figures for exports and imports of goods and services were obtained from the balance of payments in current dollars, and were converted to constant 1970 values using price indexes calculated by ECLA for that purpose.

Table 3

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

	Millions of dollars at 1970 prices			Percentage breakdown		Growth rates		
	1980	1981	1982 <sup>a</sup>	1970	1982 <sup>a</sup>	1980	1981	1982 <sup>a</sup>
<b>Gross domestic product<sup>b</sup></b>	3 806	3 840	3 705	100.0	100.0	3.7	0.9	-3.5
<b>Goods</b>	1 813	1 832	1 751	47.0	47.2	3.5	1.1	-4.5
Agriculture	1 043	1 058	1 038	30.1	28.0	1.6	1.4	-1.9
Mining	18	12	13	0.1	0.4	71.2	-36.4	12.8
Manufacturing	587	572	543	14.6	14.6	5.6	-2.5	-5.0
Construction	165	191	157	2.2	4.2	3.8	16.2	-17.9
<b>Basic services</b>	219	217	211	4.8	5.7	6.8	-0.7	-3.2
Electricity, gas and water	49	49	48	0.9	1.3	2.4	-0.2	-1.7
Transport, storage and communications	170	169	163	3.5	4.4	8.2	-0.8	-3.7
<b>Other services</b>	1 764	1 792	1 745	48.6	47.1	3.7	1.7	-2.7
Commerce <sup>c</sup>	1 020	1 026	974	27.5	26.4	2.1	0.6	-5.2
Ownership of dwellings	189	193	198	7.8	5.3	3.0	2.6	2.5
Community, social and personal services	555	573	573	13.3	15.4	7.2	3.3	-0.1
Government services	290	306	303	7.0	8.2	10.6	5.8	-1.0

Source: ECLA, on the basis of official figures.

<sup>a</sup>Preliminary figures.

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

<sup>c</sup>Includes financial institutions, insurance, and real estate, except for ownership of dwellings.

repercussions on the balance of payments were considerable (among other adverse effects, the country became a net importer of oilseeds) and also had a very adverse effect on the levels of employment, since the cultivation of this crop is labour-intensive. Finally, the number of enterprises traditionally devoted to cotton-growing fell notably.

The decline in the production of coffee was due both to reasons connected with price trends in the international markets and to internal problems. One of the most important of the latter was the gradual proliferation of rust (*hemileia vastatrix*), a disease which diminishes yields and raises the cost of cultivation significantly, being particularly harmful to small producers who use outdated techniques. In addition, like the majority of agricultural tasks, coffee growing was affected in certain areas by the social and political tensions prevailing in the country, which were manifested, *inter alia*, in acts of violence on the plantations, physical damage in some cases, and interruptions in the normal cycle of harvesting, processing and marketing.

The coffee-growers' associations, affected by losses or declining profits, asked for the reduction of the taxes on their exports and for the refinancing of their credits. Although the Government did not accede to all their petitions, it did reduce the tax base relating to exports of this commodity. In brief, coffee production declined by over 5%, although the volume exported increased because some of the considerable stocks accumulated in past years were disposed of in the exterior. It should be noted that a large part of these exports went to markets outside the quota allocated by the International Coffee Organization.

The evolution of the remaining export crops was uneven. In the case of sugar, both the surface planted and the amount harvested rose between the 1980/1981 and 1981/1982 growing periods, in spite of the pronounced drop in international prices recorded during the second half of 1982. This increase occurred first of all because the production of sugar is still profitable in Guatemala, since the domestic price is fixed in such a way that it compensates for the decreases in international prices, and secondly, because the prices in the external markets at the time of planting the 1981/1982 crop were still attractive, especially in view of the preferential price which the country receives for its quota of sugar sales to the United States market. Thus, the production of sugar cane grew by 16% in the calendar year 1982 by comparison with the preceding year, although the surface harvested at the end

of the year (1982/1983 harvest) fell from 80 000 to 60 000 hectares in reaction to the drop in prices on the international market.

Banana production also rose in spite of the contraction in the world demand for this crop, partly because of the expansion of the plantations of both national producers and foreign corporations. Finally, the volume of production of other export crops, such as cardamom, rubber, chicle and raw tobacco, remained similar to previous years.

Crops for domestic consumption, as already noted, grew very dynamically for the second year running in spite of the adverse meteorological factors and the imbalances in the production of certain areas in the altiplano, attributable to the violence already referred to. This increase was partly due to the mechanization of cultivation in areas of high productivity normally given over to export crops and to the very remunerative guaranteed prices fixed prior to the time of sowing by the National Agricultural Marketing Institute (INDECA). Thus, although first the drought and then the storms caused losses of 5% in the corn and bean harvest, and of more than 20% in that of sorghum, it is calculated that the production of maize and rice increased by 10% over that of the preceding growing season, and that of beans by 35%, while the wheat harvest remained constant, and only sorghum and sesame experienced declines.

On the other hand, the livestock sector showed greater dynamism than crop-raising. The production of cattle, measured in terms of number of head, rose by 4.4% over the preceding year, but not all this increase was exported or butchered, so that it is estimated that the total number of cattle rose. In any case, the volume of meat exported declined in 1982 both because of the lower prices of processed meat in the external market and because the Mexican market for sales of live cattle has been closed, since it is considered that such exports do not take enough advantage of the foreign-currency-

Table 4

GUATEMALA: INDICATORS OF AGRICULTURAL PRODUCTION

	1979	1980	1981	1982 <sup>a</sup>	Growth rates			
					1979	1980	1981	1982 <sup>a</sup>
<b>Index of agricultural production<sup>b</sup></b> (1975 = 100)	116.4	118.3	120.0	117.7	3.2	1.6	1.4	-1.9
Crop farming	110.9	112.4	113.9	...	2.6	1.3	1.4	...
Stock raising	125.2	127.5	128.4	...	3.9	2.2	0.7	...
<b>Production of the main crops</b>								
Coffee <sup>c</sup>	3 500	3 628	3 700	3 500	3.8	3.6	2.0	-5.4
Cotton <sup>c</sup>	3 441	3 140	2 618	1 683	8.2	-8.7	-16.6	-35.7
Bananas <sup>d</sup>	13 047	16 260	16 489	17 130	0.4	24.6	10.5	3.9
Sugar cane <sup>e</sup>	94	101	119	138	-9.6	7.4	18.2	16.0
Maize <sup>c</sup>	20 448	20 602	21 000	23 151	3.8	0.8	1.9	10.2
Beans <sup>c</sup>	1 751	1 372	1 300	1 785	-5.0	-11.2	60.3	37.3
Rice <sup>e</sup>	573	803	917	1 007	1.1	40.1	14.2	9.8
<b>Indicators of stock raising production</b>								
Stock								
Cattle <sup>f</sup>	...	2 374	2 498	2 609	...	...	5.2	4.4
Slaughtering								
Cattle <sup>f</sup>	...	323	325	338	...	...	0.6	16.9
Other products								
Milk <sup>g</sup>	...	275	285	296	...	...	3.6	3.9
Eggs <sup>h</sup>	...	71	78	78	...	...	9.9	-

Source: ECLA, on the basis of official figures.

<sup>a</sup>Preliminary figures.

<sup>b</sup>On the basis of figures at 1958 prices.

<sup>c</sup>Thousands of quintals.

<sup>d</sup>Thousands of hands.

<sup>e</sup>Millions of quintals.

<sup>f</sup>Thousands of head.

<sup>g</sup>Millions of litres.

<sup>h</sup>Millions of dozens.

Table 5  
**GUATEMALA: INDEX OF MINING PRODUCTION<sup>a</sup>**  
 (1979 = 100)

	1980	1981	1982 <sup>b</sup>	Growth rates		
				1980	1981	1982 <sup>b</sup>
Total	171.2	108.9	122.8	71.2	-36.4	12.8
Petroleum	263.1	261.4	364.1	163.1	-0.6	39.3
Minerals	193.7	63.6	67.7	93.7	-67.2	6.5
Sand and gravel	116.5	128.5	116.8	16.5	10.3	-9.1
Salt	88.9	111.1	133.3	-11.1	25.0	20.0

Source: ECLA, on the basis of official figures.

<sup>a</sup>Index of the value added by mining.

<sup>b</sup>Preliminary figures.

generating potential. Finally, milk production increased by almost 4%, but still against the background of the low yields characteristic of this activity in the country.

ii) *Mining and hydrocarbons.* Up to 1979, Guatemala's main mining activity was the extraction of nickel. However, during the last quarter of 1980 this activity was temporarily suspended owing to the adverse international market conditions, which persisted during the 1981-1982 biennium. The production of the mining sector was of little significance in the country's gross domestic product, but within it the incipient, but growing, petroleum activity stood out as being the most important (see table 5).

The total production of petroleum amounted to some 2.3 million barrels — 6 300 barrels a day on average, but the rate increased until it reached a maximum of 10 000 barrels at the end of the year— which represented an increase of over 50% with respect to 1981. Close to two-thirds of this amount was exported and the rest was consumed domestically, basically for electric power generation.<sup>5</sup>

During the year, a new Petroleum Law was studied and discussed. Among other things, this law, when viewed in terms of the arrangements now enforced, seeks to promote exploration, increase the relative share of the contractor in the gross value of production and diminish the State's share somewhat. However, at the end of 1982, the new legislation still had not been adopted. Even so, the exploration and exploitation programme continued to move ahead, although still at a slow rate, and it is hoped that in 1983 it will be possible to supply close to one-third of the domestic consumption of hydrocarbons.

iii) *Manufacturing.* The industrial sector was one of the most severely affected by the contraction of global demand and in particular by the decrease in exports to the rest of Central America. This unfavourable situation was aggravated by some other problems, including their regular supply of raw materials due to the scarcity of foreign currency. The production of nearly all the branches in the sector contracted by around 6%; only the soft drinks and tobacco industries recorded increases. Another indicator of the decline in the manufacturing sector was the 20% decrease in the industrial consumption of electricity (see table 6). Moreover, 185 establishments (over 8% of those registered in the country) stopped operating during the year.

Directors of the leading industrial association estimate that industry as a whole operated at only 60% of capacity. Some plants, such as the one which manufactures glass containers, operated at less than 30% of capacity. The branches linked to construction were also very much affected by the marked contraction in that activity.

To compensate for the depressive effects of the fall in national and regional demand, the authorities initiated a campaign to promote exports of manufactures outside the region. As part of that effort, a new law on incentives for export enterprises was issued<sup>6</sup> and the development

<sup>5</sup> Although Guatemala is a net importer of petroleum, some of the hydrocarbons it produces are exported since there are no facilities for refining them.

<sup>6</sup> Decree-Law 80-82 of 30 September 1982. This legislation offers tax incentives to enterprises which promote and are engaged in the export of merchandise outside the Central American Common Market.

programmes sponsored by the National Export Promotion Centre (GUATEXPO) were continued. However, these efforts yielded scanty results, not only because of the difficulties involved in reorienting production towards external markets but also, and in particular, because of the restrictions on external demand due to the international depression.

In the circumstances described above, investment in the manufacturing sector fell even below the low level obtained in previous years. The only project worthy of mention, which is still in execution, was a sawmill complex which constitutes the first stage in the pulp and paper industry. On the other hand, there was relatively little that public action could do to relieve the depressed situation of the industrial sector. The main instrument of industrial development —the National Finance Corporation (CORFINA)— faced serious financial problems because of the size of its portfolio of overdue debts, and as a result it has only limited capacity to offer financial support to enterprises in difficulties.

iv) *Construction.* During the year, the Government stimulated the construction of dwellings by extending lines of preferential credit as a measure for creating job opportunities and avoiding greater deterioration in economic activity. This effort was reflected in an increase of 80% in the area covered by home building permits granted in Guatemala City during the first ten months of 1982 by comparison with the same period in 1981. No information is available for calculating what percentage of the permits became projects in execution. However, even if the construction of private dwellings had recorded a jump of 80% (which seems rather unlikely judging by what has been seen in Guatemala City), it would not have been enough to counterbalance the drop in private building of a commercial and industrial nature and the even more marked decline in construction by the public sector. This is shown by cement sales, which during the first ten months of the year were 23% lower than during the same period in 1981. This information suggests a profound depression in the construction sector and accords with the 18% contraction in the value added in construction (see table 3).

v) *Other sectors.* Services, including transport, commerce and private services, evolved in a negative manner consistent with the results of the goods-producing sectors. Of particular importance in this connection was the 5.5% drop in commerce, which undoubtedly had adverse effects on employment, especially in the urban areas. Tourism also contracted (for the fourth consecutive year), partly as a result of the recession in the industrialized countries and the extra-economic factors affecting Central America in general and Guatemala in particular. Only finance and insurance showed slight growth, because their activities were not squeezed as much as the activity of the economy as a whole.

Table 6

GUATEMALA: INDICATORS OF MANUFACTURING PRODUCTION

	1979	1980	1981	1982 <sup>a</sup>	Growth rates <sup>b</sup>			
					1979	1980	1981	1982 <sup>a</sup>
<b>Index of manufacturing production (1977= 100)</b>								
Foodstuffs	112.5	119.3	116.7	109.0	5.6	6.0	-2.8	-6.6
Textiles	113.2	121.7	117.8	109.6	6.4	7.3	-3.2	-7.0
Clothing	111.4	113.6	106.7	99.2	4.7	0.2	-6.5	-7.0
Chemical products	110.2	109.3	105.0	100.8	6.5	-0.6	-3.9	-4.0
Others	111.8	117.6	112.8	104.9	3.8	6.0	-4.1	-7.0
	112.8	120.9	119.1	112.1	5.0	7.3	-1.5	-5.9
<b>Other indicators of manufacturing production</b>								
Consumption of electricity by industry (GWh)	545.7	515.0	467.9	...	4.3	-5.6	-9.2	-20.8 <sup>c</sup>
Employment (thousands of persons)	69.5	78.9	78.4	...	-1.5	13.5	-0.6	...

Source: ECLA, on the basis of official figures.

<sup>a</sup>Preliminary figures.

<sup>b</sup>The growth rates correspond to real, rather than rounded-off, figures.

<sup>c</sup>Period January-October.

Table 7  
 GUATEMALA: MAIN FOREIGN TRADE INDICATORS

	1976	1977	1978	1979	1980	1981	1982 <sup>a</sup>
<b>Growth rates</b>							
Exports of goods							
Value	18.6	52.6	-5.8	11.8	24.4	-14.5	-10.6
Volume	0.9	12.1	-7.0	12.4	8.3	-3.2	-9.7
Unit value	17.5	36.1	1.2	-0.5	14.9	-11.7	-1.0
Imports of goods							
Value	41.4	14.3	18.1	9.2	5.1	4.6	-19.9
Volume	57.1	12.5	10.6	-8.0	-11.9	-0.0	-24.7
Unit value	-10.0	1.6	6.8	18.6	19.2	4.6	6.4
Terms of trade (goods)	28.6	33.4	-5.1	-15.7	-2.7	-16.0	-6.6
<b>Indexes (1970 = 100)</b>							
Terms of trade (goods)	89.9	120.5	114.2	95.8	92.3	77.9	72.5
Purchasing power of exports of goods	134.5	199.6	176.6	170.2	182.3	146.5	122.1
Purchasing power of exports of goods and services	145.7	195.3	178.3	174.4	176.4	139.4	114.1

Source: ECLA, on the basis of official figures.

<sup>a</sup>Preliminary figures.

### c) *Employment and unemployment*

Very few statistics are available on employment, and they are not such as to permit the quantification of precise orders of magnitude. However, in view of the existing political tension and economic depression, it may be assumed that the levels of unemployment and underemployment rose in virtually every sector.

As a partial response to this deterioration of the employment situation, the Government initiated a number of highly labour-intensive investment programmes, especially in the fields of road construction and maintenance. However, their effects were only moderate in the broader frame of the austerity policy which characterized public expenditure. In order to try to defend employment, assistance was also offered to productive enterprises, basically through the granting of credits.

## 3. The external sector

The profound international recession of 1982 was clearly manifested in the external sector. The country's external transactions, on both current and capital account, was seriously restricted. Although the deficit on current account decreased in comparison with the preceding year, especially as a result of the marked contraction in imports, there was also a decrease in the net mobilization of external capital, as a result of which it was impossible to cover all of the deficit, and the country lost monetary reserves amounting to close to US\$ 40 million. That loss makes it impossible to evaluate the fact that a large number of requests for foreign currency also built up, pending authorization by the monetary authorities.

In addition, there was expansion in 1982 of the parallel market which had appeared for the first time in 1980 after an emergency system for the delivery of foreign currency was adopted. It is difficult to determine the relative size of this parallel market, but its mere existence suggests that the figures recorded in the balance of payments do not faithfully reflect the magnitude and characteristics of the country's external transactions.

### a) *Merchandise trade*

The value of exports of goods fell by over 10% by comparison with 1981. This drop was caused by a marked contraction in volume and by a slight drop in unit prices (see table 7).

It may be noted that the decrease in volume would have been even greater had some circumstances not intervened to cushion its fall. In the first place, during 1982 an effort was made to

sell some of the surplus coffee which Guatemala had accumulated in previous years in fulfilment of its commitments under the International Coffee Agreement. Those sales were made to the so-called "new markets", i.e., markets outside the quota, at prices very much lower than normal. Thus, in 1982 the volume of coffee exports was 20% higher than the low level recorded the preceding year. Secondly, the programme to expand the banana plantations continued, which resulted in a further increase of 7% in the volume of banana exports. Finally, the country's incipient petroleum activity gave rise to a steady increase in the volume of exports of hydrocarbons. Nevertheless, the increase in the volume of the three items referred to was not enough to offset the drop in the volume of sales of cotton, sugar, meat and, in particular, the manufactures normally sold to the rest of the Central American Common Market.

Furthermore, the unit prices of nearly all articles decreased (bananas being the sole exception); in some cases, such as sugar, they decreased notably. For this reason, the unit value of exports suffered another drop.

On the whole, due to the deterioration in the terms of trade, together with the steep decline in the volume of exports of goods, the purchasing power of the latter diminished by comparison with the previous year (see table 7).

In the evolution of the country's foreign trade, a noteworthy feature is the drop in intra-Central American trade, in which Guatemala has traditionally shown a surplus and which has received a very high share of the country's total exports. In 1982, this trade declined notably, partly because of the restrictions on overall demand in all the countries of the region and partly because of the policies adopted by the majority of them (in the areas of exchange rates, taxes and administration) aimed at limiting their global imports.<sup>7</sup> As a result, the value of Guatemala's exports to the rest of the Common Market fell from nearly US\$ 380 million in 1981 to US\$ 320 million in 1982, and their relative share in total exports fell from 29% to 27% (see table 8). On the other hand, imports purchased by

Table 8

GUATEMALA: EXPORTS OF GOODS, FOB

	Millions of dollars				Percentage breakdown <sup>b</sup>		Growth rates <sup>b</sup>		
	1979	1980	1981	1982 <sup>a</sup>	1970	1982 <sup>a</sup>	1980	1981	1982 <sup>a</sup>
<b>Total</b>	1 241	1 520	1 299	1 161	100.0	100.0	22.5	-14.5	-10.6
<b>Exports to Central America</b>	306	441	379	321	34.4	27.6	44.1	-14.1	-15.3
<b>Exports to the rest of the world</b>	935	1 079	920	840	65.6	72.4	15.4	-14.7	-8.7
Traditional	735	773	663	605	57.1	52.1	5.2	14.2	-8.7
Green coffee	432	464	325	370	33.9	31.8	7.4	-30.0	13.8
Ginned cotton	189	166	173	100	8.9	8.6	-12.2	4.2	-42.2
Bananas	19	45	51	74	6.9	6.4	136.8	13.3	45.1
Meat	41	29	29	15	4.3	1.3	-29.3	-	-48.3
Sugar	54	69	85	46	3.1	4.0	27.8	23.2	-45.9
Non-traditional	200	306	257	235	8.5	20.3	53.0	-16.8	-8.6
Cardamom	49	56	34	26	1.3	2.3	14.3	-39.3	-23.5
Cocoa	5	3	1	31	-	2.7	-40.0	-50.0	...
Sesame seed	12	10	16	12	0.3	1.0	-16.7	60.0	-25.0
Nickel	27	59	-	-	-	-	118.5	-	-
Petroleum	...	24	22	46	...	4.0	...	-8.3	109.1
Others	107	154	184	120	6.9	10.3	43.9	16.5	-34.8

Source: ECLA, on the basis of official figures.

<sup>a</sup>Preliminary figures.

<sup>b</sup>The growth rates correspond to real, rather than rounded-off, figures.

<sup>7</sup>Strictly speaking, the integration undertakings prohibit restricting imports from the rest of the region, with a very few exceptions. However, in practice restrictions have been applied to such purchases, although invariably accompanied by more favourable treatment than that given to imports from the rest of the world.



Table 9

## GUATEMALA: IMPORTS OF GOODS, CIF

	Millions of dollars				Percentage breakdown <sup>b</sup>		Growth rates <sup>b</sup>			
	1979	1980	1981	1982 <sup>a</sup>	1970	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>a</sup>
Total	1 504	1 598	1 673	1 336	100.0	100.0	8.2	6.3	4.7	-20.1
Consumer goods	358	341	342	267	29.7	20.0	6.9	-4.8	0.3	-21.9
Durable	133	123	117	74	9.3	5.5	7.3	-7.5	-5.0	-36.8
Non-durable	225	218	225	193	20.4	14.5	6.7	-3.1	3.0	-14.2
Intermediate goods	801	955	1 011	823	48.0	61.6	17.4	19.3	5.9	-18.6
Petroleum and fuels	242	339	369	289	5.0	21.6	42.3	40.0	8.8	-21.7
Building materials	101	93	100	76	6.3	5.7	16.7	-7.9	7.9	-24.0
Others	458	523	542	458	36.7	34.3	7.6	14.2	3.5	-15.5
Capital goods	338	286	300	246	20.8	18.4	-6.8	-15.4	5.1	-18.0
For agriculture	23	19	16	13	1.9	1.0	-33.0	-17.4	-15.0	-18.7
For industry	226	193	221	189	14.6	14.1	-0.7	-14.6	14.6	-14.5
For transport	89	74	63	36	4.3	2.7	-11.5	-16.9	-15.1	-42.9
Miscellaneous	7	16	20	8	1.5	0.6	-30.0	128.5	18.9	-60.0

Source: ECLA, on the basis of official figures.

<sup>a</sup>Preliminary figures.

<sup>b</sup>The percentage breakdown and the growth rates correspond to real, rather than rounded-off, figures.

Guatemala from the rest of the region did not decline in the same proportion (indeed, they rose from US\$ 195 million to US\$ 215 million between the two years), so that the positive balance of US\$ 185 million which the country recorded in 1981 fell to US\$ 105 million in 1982.

The volume of imports of goods fell by nearly 25%, a decline which reflected a contraction in global demand and the additional restraints imposed by the application of exchange controls. This in turn gave rise to the problems relating to the supplies of imported inputs referred to earlier. Even taking into account the increase in the unit value of those imports (6%), their total value is estimated to have been 20% lower than the level achieved the preceding year. Due to this severe contraction, the deficit on the merchandise account decreased from US\$ 240 million in 1981 to US\$ 73 million in 1982.

The contraction in imports affected all types of goods, although it naturally had a particular effect on external purchases of consumer durables because of the criteria of selectivity governing the delivery of foreign currency. The drop in the importation of capital goods was a result of the small public and private investment, while the demand for intermediate goods declined because of the depressive situation in the manufacturing sector. Although the value of hydrocarbon imports also contracted at a rate close to that of the total decline in imports, it may be noted that gross petroleum imports now represent nearly 22% of the total value of purchases abroad<sup>8</sup> (see table 9).

#### b) *The services trade and factor payments*

Exports of services went down even faster than external sales of goods, although it might be held that this was because some of the main items, such as tourism, are channelled towards the parallel foreign exchange market. Thus, the balance of payments only registered US\$ 14 million under income from tourism and travel (compared with US\$ 30 million in 1981 and over US\$ 80 million in 1979). However, the number of passengers entering the country by air only went down by about 20%. Indeed, the country's tourism authorities estimate that international tourism generated

<sup>8</sup>It is worth noting that according to the official figures of Guatemala, the unit price of hydrocarbons rose slightly in 1982, in spite of the fact that, as is very well known, in the international market those prices tended to drop. A more careful review of the data shows that the average price of crude oil did in fact fall—from US\$ 23.60 a barrel in 1981 to US\$ 21.35 in 1982—but that the average price of the refined products (close to half the imports of hydrocarbons and their derivatives) increased by approximately 10%.

Table 10

## GUATEMALA: BALANCE OF PAYMENTS

(Millions of dollars)

	1977	1978	1979	1980	1981	1982 <sup>a</sup>
<b>Balance on current account</b>	-37	-271	-209	-165	-567	-315
Trade balance	-98	-354	-320	-228	-570	-275
Exports of goods and services	1 335	1 298	1 473	1 730	1 454	1 276
Goods FOB	1 160	1 092	1 221	1 520	1 299	1 161
Real services <sup>b</sup>	175	205	251	211	155	115
Transport and insurance	28	33	40	43	33	27
Travel	66	67	82	62	30	14
Imports of goods and services	1 433	1 651	1 792	1 958	2 024	1 551
Goods FOB	1 087	1 284	1 402	1 473	5 540	1 234
Real services <sup>b</sup>	346	368	390	486	484	317
Transport and insurance	172	142	161	187	188	135
Travel	100	108	120	164	133	101
Factor services	-33	-32	-13	-45	-86	-105
Profits	-33	-35	-45	-42	-49	-13
Interest received	33	50	78	75	55	24
Interest paid	-32	-47	-46	-92	-109	-96
Others	-1	-	-	14	17	-20
Unrequited private transfer payments	94	115	123	109	89	65
<b>Balance on capital account</b>	216	341	172	-86	262	278
Unrequited official transfer payments	2	1	3	1	1	-
Long-term capital	199	268	258	247	416	354
Direct investment	98	127	117	111	127	82
Portfolio investment	5	12	5	4	-	-
Other long-term capital	96	129	135	132	288	272
Official sector <sup>c</sup>	68	102	112	106	219	277
Loans disbursed	82	117	130	121	246	345
Amortization payments	-14	-15	-18	-18	-27	-68
Commercial banks <sup>c</sup>	-	-	-	-	-	-
Loans disbursed	-	-	-	-	-	-
Amortization payments	-	-	-	-	-	-
Other sectors <sup>c</sup>	28	27	23	26	69	-5
Loans disbursed	43	58	60	25	100	19
Amortization payments	-24	-41	-47	-10	-42	-24
Short-term capital	42	131	-44	-316	-144	-60
Official sector	-	8	2	59	44	-18
Commercial banks	1	3	13	9	-10	-
Other sectors	41	121	-59	-384	-178	-42
Errors and omissions	-27	-59	-44	-18	-11	-17
<b>Global balance<sup>d</sup></b>	179	70	-37	-251	-304	-37
Total variation in reserves (- sign indicates an increase)	-180	-71	29	244	300	38
Monetary gold	-1	-	-	-	-	-
Special Drawing Rights	-1	-1	-9	2	20	3
IMF reserve position	-1	-2	-2	-9	18	10
Foreign exchange assets	-176	-70	56	259	257	25
Other assets	-2	2	-15	-7	-106	16
Use made of IMF credit	-	-	-	-	111	-16

Source: 1977-1981: International Monetary Fund, *Balance of Payments Yearbook*; 1982: ECLA, on the basis of official data.<sup>a</sup>Preliminary figures.<sup>b</sup>Real services also include other official and private transactions, but not factor services.<sup>c</sup>In addition to loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities.<sup>d</sup>The global balance is the sum of the current account balance plus the balance on capital account. The difference between total variation in reserves of opposite sign and the global balance represents counterpart items: monetization of gold, allocation of Special Drawing Rights, and variations due to revaluation.

approximately US\$ 80 million of foreign exchange income, but that only one-fifth of these resources was tapped by the banking system. The same view may be taken regarding transfers, which registered a drop of nearly 30% compared with 1981 (see table 10).

In imports of services, factor payments are the variable on which attention should be focused. In that connection, it may be noted that Guatemala still has a relatively low external debt and that its servicing and amortization payments require a smaller proportion of the supply of foreign currency than that needed in other Central American countries. Nevertheless, interest payments on the public debt all but doubled between 1981 and 1982, rising from US\$ 43 million to nearly US\$ 83 million. On the other hand, factor payments by the private sector fell markedly: remittances of profits dropped from US\$ 49 million to US\$ 13 million, while remittances for interest on the private debt fell from US\$ 66 million to US\$ 13 million owing to the abrupt decrease in the lines of credit granted by international banks to their correspondents in Guatemala. All this explains why factor payments as a whole diminished between the two years referred to, falling from nearly US\$ 160 million to somewhat less than US\$ 110 million.

In summary, the services account continues to have a large deficit. Indeed, in absolute terms this amounts to much more than the negative balance on the merchandise account (see table 10).

c) *The current account situation and its financing*

As a result of the trends described above, the deficit on current account fell from nearly US\$ 570 million in 1981 (6.5% of the gross domestic product) to US\$ 315 million (3.5%) in 1982. However, this improvement was accompanied by high social costs and an unaccustomed containment of external purchases, to the point where many productive activities had problems in respect of supplies of imported inputs.

Contrary to what happened the preceding year, that deficit was not financed primarily through a loss of international reserves, because when the year began the position with regard to net liquid reserves was already negative. For that reason, nearly all the deficit on current account was financed through net inflows of capital, largely derived from public sources. Even so, as already noted, the Government had difficulties in mobilizing a larger volume of external resources which might have made it possible to raise its import capacity, thereby gaining additional margin for action as regards production capacity.

As for private capital, short-term credits —largely from backers of imports and exports— showed a negative balance, while long-term financing consisted basically of direct investment earmarked for petroleum exploration and exploitation activities. Even so, that investment was smaller than in preceding years (direct foreign investment dropped from US\$ 127 million in 1981 to US\$ 82 million in 1982).

In public financing, the net inflow of 1982 was considerably lower than in 1981 (US\$ 253 and US\$ 426 million, respectively), although it should be borne in mind that in 1981 financing in the amount of US\$ 110 million was received from the International Monetary Fund. In 1982, the resources came primarily from multilateral bodies, from the Mexico-Venezuela Energy Co-operation Programme and from a number of short-term credit lines contracted by the Central Bank. Nearly 90% of the total net external financing came from public sources.

d) *External indebtedness*

The net levels of contracting of external indebtedness were relatively low. In the first place serious obstacles were encountered in the mobilization of gross financing. The increment in the global debt amounted to less than US\$ 100 million and practically all of it consisted in an increase in the public debt, which thus came to represent 57% of the total external debt, the highest figure recorded in recent years. There was also a large increase in its servicing, which nearly doubled between 1981 and 1982 because of the short-term debts contracted in the preceding year.

Up to 1980, the public sector had a moderate external debt with an excellent structure owing to the fact that most of it had been contracted with official sources of financing, largely on concessional terms. In 1981, however, recourse was had in a larger percentage of cases to financing by supplies and to the contracting of lines of credit on commercial terms, in some cases tied to large-scale public investment projects. These projects included a concession to a private firm for the design and

construction of highways, which was revoked in 1982. Although that firm made no investment whatsoever in works, it did acquire external financing with the guarantee of the State. Some of those bonds reached maturity in 1982 and bore some of the responsibility for the fact that in that year the servicing and amortization of the external public debt absorbed close to 11.5% of the foreign currency generated by the export of goods and services, in comparison with a coefficient which fluctuated between 2.5% and 5.0% in the preceding years. Thus, although the burden of external public indebtedness in Guatemala is far from reaching the proportions recorded in other countries of the region, its relative impact on the balance of payments is showing a tendency to increase rapidly (see table 11).

#### 4. Prices and wages

During 1982, the inflationary pressures present in the Guatemalan economy in past years tended to slacken markedly. This was due both to the price trends in international markets, which have traditionally had a substantial repercussion on domestic price trends, as well as to the abundant supply of basic grains and of foodstuffs in general and the more restrictive expenditure policy followed by the public sector.

Thus, the annual average growth rate of the general consumer price index was 5.0% —only half the rise recorded in the preceding three years—, while in December 1982 it had grown by only 2.9% in respect of the same month the preceding year. Food price trends had a decisive effect on this result—in December the index was nearly 6% lower than it had been in the same month in 1981, and on average food prices remained virtually stagnant throughout 1982. In summary, in that year prices showed the least variation in the entire period since the mid-1970s, when inflationary pressures were first noted in the country (see table 12).

In these circumstances, a gradual change was noted in the concern to relieve those pressures, and greater emphasis was placed on the reactivation of production. For example, in spite of the fact that ceilings were maintained on the prices of a wide range of consumer goods (basically foodstuffs, such as powdered milk, flour, eggs, sugar, vegetable oil, margarine and bread), there was a marked tendency to raise these prices and, in some cases, to remove the ceilings altogether. In the same order of

Table 11  
GUATEMALA: INDICATORS OF EXTERNAL INDEBTEDNESS

	1976	1977	1978	1979	1980	1981	1982 <sup>a</sup>
	Millions of dollars						
<b>Total external debt<sup>b</sup></b>							
Balance	588	669	821	934	1 093	1 409	1 504
Servicing	54	70	103	111	120	178	188
Amortization payments	43	38	56	65	28	69	92
Interest payments	11	32	47	46	92	109	96
<b>Public and State-guaranteed private external debt</b>							
Balance	239	302	391	511	609	765	858
Servicing	19	26	33	41	47	77	147
Amortization payments	9	14	15	16	18	34	64
Interest payments	10	12	18	25	29	43	83
	Percentages						
Total external debt servicing as a percentage of exports	5.6	5.2	7.9	7.5	6.9	12.2	14.7
Public and private external debt servicing as a percentage of exports	1.9	1.9	2.5	2.7	3.0	5.2	11.5

Source: ECLA, on the basis of official figures.

<sup>a</sup>Preliminary figures.

<sup>b</sup>Disbursed.

Table 12

## GUATEMALA: EVOLUTION OF DOMESTIC PRICES

	1976	1977	1978	1979	1980	1981	1982
<b>Variation December to December</b>							
Consumer price index	17.6	7.4	9.1	13.7	9.1	7.3	2.9
Food	14.0	5.9	8.2	13.3	8.2	4.0	5.9
Wholesale price index	10.8	5.9	5.1	18.7	12.0	4.9	...
Imported products	16.0	-6.3	2.3	25.5	6.8	10.8	...
Domestic products	10.1	8.0	5.4	18.1	12.4	4.5	...
Building materials	38.5	6.0	12.0	30.4	3.5	-2.3	...
<b>Variation between annual averages</b>							
Consumer price index	10.7	12.6	7.9	11.5	10.7	9.5	5.0
Food	9.6	11.0	4.6	10.3	11.2	9.3	0.5
Wholesale price index	10.5	13.0	3.6	10.3	16.0	11.7	...
Imported products	9.8	3.2	1.6	15.2	19.0	10.1	...
Domestic products	10.5	14.6	3.8	9.9	15.7	11.9	...
Building materials	28.9	18.8	15.7	13.8	12.4	4.7	...

Source: ECLA, on the basis of official figures.

things, towards the end of the year the Government eliminated the subsidy which it had so far granted to urban collective transport, with the result that bus fares experienced a rise in December.

In view of the moderate inflationary pressures in 1982, the Government made no efforts to promote wage adjustments. During the year the minimum wages established in previous periods were not revised, nor was any wage adjustment granted to civil servants.

In short, although an effort was noted on the part of the authorities to avoid the resurgence of inflationary pressures, as shown by the relatively cautious fiscal and monetary policy measures, this was not their major concern during 1982 in view of the tendency for prices to decelerate. However, note should be taken of the latent danger of an intensification of inflationary pressures in the future, due to some phenomenon which began to arise in 1982 and which include the slack domestic supply, the growing use of the parallel market to obtain foreign currency for imports, and the problems relating to supplies of imported inputs.

## 5. Fiscal and monetary policy

### a) *Fiscal policy*

The financial position of the central government has been deteriorating notably in recent years as a consequence of the inelasticity of the tax system, combined with a big expansion in public expenditure and especially in capital expenditure. The latter phenomenon grew, at least in part, out of the need to counterbalance the drop in the level of private investment. Thus, the central government deficit grew at a rising rate, until it reached the equivalent of 8.6% of the gross domestic product in 1981.<sup>9</sup>

In 1982, the drop in the income received continued and even worsened, but at the same time the Government took the decision to restrict public expenditure and, particularly, capital expenditure, by a larger percentage than the drop in income. In this way, it managed to reduce the deficit, whose relative share in the gross domestic product nevertheless still came to 5.7% (see table 13).

Since it grew at a lower rate than the growth rate of the product, the tax coefficient decreased for the fourth consecutive year, falling from 7.5% in 1981 to 7.0% in 1982. The collection of nearly all taxes showed a decline in respect of the preceding year, the most pronounced drop being in the taxes on foreign trade. The revenue from import taxes decreased by nearly 30%, owing largely to the smaller volume of imports, and the average ratio of import taxes to the value of external purchases also diminished, falling from 6.7% in 1981 to 5.8% in 1982. The contraction in the revenue from

<sup>9</sup>ECLA, "Guatemala", *Economic Survey of Latin America*, 1981.

export taxes was due, in the first place, to the trend in the international prices of the main commodities taxed, the impact being all the greater because of the progressive nature of those taxes, while secondly, it was the result of a change made in the tax base of the coffee export tax as a way of relieving the national coffee growing sector.

The trend with regard to other tax revenue was consistent with the recessive economic situation. The collection of the tax on the income of corporations grew by less than 1%, and the revenue from personal income tax shrank by more than 15%, this being due in part to the fact that in 1982 an increase in the deductions permitted in estimating the taxable income of individuals was applied for the first time. The only items which showed relatively dynamic growth were, first, the stamp tax on sales, 1982 being the first full year of the rise in the tax rate from 2% to 3%;<sup>10</sup> and, secondly, the royalties which the central government collects for the exploitation of petroleum, which brought in 30 million quetzales, compared with 26 million in 1981.

In summary, as in past years, the collection of fiscal income was one of the weakest areas in the economic picture of the country. Although the financial authorities announced the adoption of a programme of improvements in tax administration and inspection, there is no indication that this has yielded significant results in the short term. In addition, during the year no change whatsoever was adopted which might tend to raise the amount collected; on the contrary, owing to the variation made in the base of certain export taxes (those on coffee and, to a lesser extent, sugar) in order to promote production, that amount fell even further.<sup>11</sup>

Table 13

GUATEMALA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

(Millions of quetzales)

	1979	1980	1981	1982 <sup>a</sup>	Growth rates <sup>b</sup>		
					1980	1981	1982 <sup>a</sup>
1. Current income	668	747	741	721	11.8	-0.8	-2.7
Tax revenue	621	678	652	626	9.2	-3.9	-3.9
Direct	97	100	110	108	3.1	9.4	-2.5
Indirect	524	578	542	518	10.3	-6.2	-4.2
On foreign trade	241	259	171	125	7.4	-34.0	-27.1
2. Current expenditure	540	678	759	691	25.5	11.9	-9.0
3. Current saving (1 - 2)	128	69	18	30	-46.1	-75.4	76.4
4. Capital expenditure	382	515	724	534	34.8	40.6	-26.2
Real investment	310 <sup>c</sup>	438 <sup>c</sup>	621 <sup>c</sup>	418 <sup>c</sup>	41.3 <sup>c</sup>	41.8 <sup>c</sup>	-32.7 <sup>c</sup>
Debt amortization payments	72	77	103	116	6.9	33.8	12.6
5. Total expenditure (2 + 4)	922	1 193	1 483	1 225	29.4	24.3	-17.4
6. Fiscal deficit (1 - 5)	-254	-446	-742	-504	75.6	66.4	-32.1
7. Financing of deficit							
Domestic financing	122	328	634	404	168.9	93.3	-36.3
External financing	132	118	108	100	-10.6	-8.5	-7.4

Source: ECLA, on the basis of official figures.

<sup>a</sup>Preliminary figures.

<sup>b</sup>The growth rates are given in real, rather than rounded-off, figures.

<sup>c</sup>Includes other capital expenditure.

<sup>10</sup>The new rate came into force on 1 January 1981; however, during the first months of that year, the taxes collected were those applicable in the final months in 1980 and were levied at the former rate.

<sup>11</sup>This was the third time in two years that a change was made in the base of the coffee-export tax. That base consists of the FOB value, on which the tax is applied. In 1982 exports to "new markets" (outside the quota system of the International Coffee Organizations) were virtually tax-free, since any export at an FOB price less than US\$ 125 a 46-kilogram sack (a price very much higher than that which prevailed during the year) was not taxed. In addition, the base of the tax on coffee sales within the quota was changed in such a way as to reduce its incidence.

To cope with the severe financial restrictions related to the low tax coefficient, the Government chose to restrict its expenditure. Operating expenditures decreased by 9% with respect to 1981, while expenditures on fixed capital formation and on financial investments contracted by one-third. It should, however, be noted that exceptionally high levels of investment had been recorded in 1981, so that the amount of the public investment in 1982 in some respects represented a return to the pattern followed prior to 1981.<sup>12</sup>

In spite of the policy of austerity in fiscal expenditure, the small amount of ordinary revenue collected and the low level of taxes in general meant that there was a big fiscal deficit: the equivalent of 40% of total fiscal expenditure. Even current income was barely enough to finance the operating expenditure. In other words, nearly all the capital expenditure, including the amortization of the public debt, was financed through net indebtedness. For this purpose, the Government decided as in past years, to raise the level of domestic indebtedness (80% of the debt was of domestic origin and only 20% of external origin), and close to 70% of that indebtedness was negotiated with the Central Bank.

The fact that greater advantage was not taken of external financing was not the result of a deliberate policy. The programme agreed to with the International Monetary Fund in October 1981 committed the Government to financing a growing proportion of the capital expenditure of the public sector with external resources, so as to increase the access of the private sector to domestic credit. The new financial and monetary authorities also made an effort to mobilize additional external financing. However, the previous administration had had a certain proclivity for carrying out large-scale projects which were usually financed with domestic resources, and since these projects (including the new port on the Pacific, some hydroelectric facilities and a number of hospitals) were in full execution, only a few of them could be interrupted. Moreover, in the case of the projects which did have external financing, the disbursements were frequently slow because of the already traditional problems of execution. Finally, the authorities had difficulty in contracting new long-term financing because of the financial restrictions imposed by the official multilateral bodies and the refusal of the private international banking system to commit a growing amount of resources to what is considered to be a high risk region.

In addition to the changes in the coffee export tax, perhaps the main fiscal policy measure taken during 1982 was that of converting and consolidating the central government's domestic public debt for the purpose of releasing resources for future fiscal years by deferring the payment of commitments relating to that debt. A new series of bonds was issued in the amount of 1 380 million quetzales, which is to reach maturity progressively over a 15-year period. The immediate effect of this measure can be observed in the budget of income and expenditure for 1983, in which the amount required to service the domestic debt is close to 155 million quetzales instead of the 210 million which would have been required without this new measure.

Similarly, in the framework of the policy of austerity in public expenditure, in December the Government eliminated a public urban transport subsidy which represented an expenditure of slightly more than 10 million quetzales.

Finally, detailed figures were not available for the rest of the public sector, whose current income and operating expenditure represent close to 40% of those of the central government. Some of the most important institutions in this regard are the Guatemalan Social Security Institute, the National Electrification Institute, some Municipalities and a group of enterprises which supply public services. However, the current expenditure of all those institutions is close to the level of their income, while the central government participates in close to 90% of their capital expenditure, so that the trends and magnitudes described above are characteristic of the financial situation of the public sector as a whole.

<sup>12</sup>It seems that the practice of handling the fiscal deficit through a restrictive expenditure policy will have to be continued in the immediate future, since in the budget of income and expenditure for 1983 provision is made for keeping fixed capital formation at the same level as in 1982, although an expansion of 6.8% in operating expenses is envisaged. Nevertheless, not all the items in the budget were cut in the same proportion. Expenditure on health, education, and particularly defence and security was increased with respect to previous years.

b) *Monetary policy*

In 1982 external monetization (the difference between external assets and liabilities)<sup>13</sup> decreased by US\$ 113 million, in line with the trend observed the previous year. This phenomenon was more than offset by an expansion in domestic liquidity caused by the increase in the credit granted to the public sector. The magnitude of these two phenomena, which together explain the 14% growth in the money supply, was determined by the general economic situation described above and particularly by the shortage of foreign currency throughout the entire year. One of the ways in which this was reflected was the steady accumulation of requests for foreign currency awaiting authorization by the monetary authorities, whose amount at the end of the year totalled nearly 400 million quetzales.

This latter phenomenon to some extent halted the drop in the international reserves and was partially responsible for the accumulation by those requesting foreign currency of considerable liquidity in local currency which eventually swelled the monetary and time deposits. This, in turn, is the reason for the relatively dynamic expansion of the factors of absorption —quasi-money grew by nearly 22% between the end of 1981 and the end of 1982.

In examining the growth of credit activity, a distinction should be made between loans to the public sector and those to the private sector. In view of the financial deficits of the central government and some of the semi-public enterprises, net financing for the public sector from the intermediation system rose by 37%; over 85% of this amount came from the Central Bank. This is why, after three consecutive years of notable expansion of the net domestic indebtedness of the public sector, its relative share in total credit activity reached 40% in 1982. By contrast in 1978, for example, the share of that sector in the total portfolio of the intermediation system amounted to barely 5.8%.

On the other hand, credit to the private sector, all of it derived from the banks in the system, grew by only 5.3%. The high growth of deposits on one hand and the slow rise in credit pressures on private banks (a result of the generalized economic depression), on the other, were reflected in a growing situation of excess bank liquidity. Part of that surplus was invested in the purchase of State securities. At the end of January the banks had acquired an additional 7 million quetzales worth of securities, compared with the same period of the preceding year, and by the end of the year this figure came to 98 million quetzales. Nevertheless, as has already been pointed out, the financing provided by the private banks to the public sector constituted only 15% of the total net domestic indebtedness of the Government; the rest came from the Bank of Guatemala, promoting subsequent monetary expansion.

In summary, it may be affirmed that the monetary policy was only moderately expansive (credit activity grew by 17% in contrast with an expansion of 17.7% in total deposits, although the gross domestic product rose by only 2.7% in nominal terms) and was focused on financing the public sector deficit. In view of the urgent need to reactivate the productive sectors, the expansion of primary money was insignificant and that of credit to the private sector was quite limited (see table 14).

The overall monetary situation described above does not adequately reflect the increasingly high incidence of overdue debts resulting from the liquidity problems and even in some cases insolvency from which many enterprises suffered. To cope with this situation, some professional organizations and bodies proposed solutions of the most diverse nature, including that of declaring a generalized moratorium for two years. In response to those proposals, and in view of the real difficulties faced by a large number of debtors, towards the end of the year the monetary authorities approved a set of measures aimed at facilitating the refinancing of the agricultural portfolio of the banks affected by the general economic situation of the country. Those measures included: a) an exhortation by the Monetary Council to the banks of the system to continue meeting, on a selective basis, the requests for extension and renegotiation of the credits granted with a view of adapting their repayment periods, amortization programmes and guarantees to the characteristics of the investment and to the capacity of the debtor to pay; b) the establishment of a commission made up of representatives of the public and private sectors responsible for analysing and assessing that part of the portfolio which the banks cannot handle, with a view to proposing appropriate solutions; c) the

<sup>13</sup>This definition does not coincide with the way in which the Bank of Guatemala estimates the amount of its net international monetary reserves. In the methodology employed in respect of the "net reserves" in section 3 of this chapter, the value of the gross reserves is entered, and only bonds which take one year or less to mature are deducted.



Table 14

## GUATEMALA: MONETARY BALANCE

	Balance at end of year (millions of quetzales)				Growth rates <sup>b</sup>		
	1979	1980	1981	1982 <sup>a</sup>	1980	1981	1982 <sup>a</sup>
<b>Money</b>	692	709	738	749	2.5	4.1	1.4
Currency outside banks	364	379	403	403	4.1	6.3	-0.2
Demand deposits	328	330	335	346	0.6	1.6	3.4
<b>Factors of expansion</b>	1 899	2 049	2 266	2 555	7.9	10.6	12.8
International reserves (net)	663	351	-98	-211	-47.1	...	115.4
Domestic credit	1 236	1 698	2 364	2 766	37.4	39.2	17.0
Public sector	118	355	802	1 097	200.8	125.9	36.7
Private sector	1 118	1 343	1 562	1 669	20.1	16.3	6.8
<b>Factors of absorption</b>	1 207	1 340	1 528	1 806	11.0	14.0	18.2
Quasi-money (savings and time deposits)	927	1 088	1 260	1 532	17.4	15.8	21.5
Other items (net)	280	252	268	274	-10.0	6.3	2.2

Source: ECLA, on the basis of official figures.

<sup>a</sup> Preliminary figures.

<sup>b</sup> The growth rates are based on real, rather than rounded-off, figures.

decision to earmark 50 million quetzales in the Central Bank for a period of up to three years in support of the banks' activities through rediscounts, postponements or credit renegotiations and d) the strengthening of the Guarantee Fund which now exists within the framework of the Central Bank to handle cases of this kind.

During 1982 the credit policy was concerned primarily with regulating bank credit and providing support for productive activities and the needs of the public sector, in the framework of the restrictions imposed by the external imbalances. As a result of the excess liquidity in the banking system, advance operations and rediscounts were very much reduced, and most of the credit was channelled to the public sector, as already pointed out. The monetary authorities considered it unnecessary to make any more changes in the compulsory bank reserve regulations, since the liquidity situation mentioned above caused the cash ratio to rise from 17.8% at the end of 1981 to 21.3% at the same period in 1982, nor did they change the minimum requirements relating to capital and capital reserves of the banks.

On the other hand, partly in response to the trends of interest rates in the international financial market, the active and passive interest rates prevailing in the country were changed at the beginning of November. The Monetary Council decided to set the maximum rate of interest charged by banks on active transactions at 12% a year (by comparison with the rate of 15% in force up to that point) and the maximum interest rate which could be paid on deposits they received and on the bonds they issued at 9% a year (by comparison with the former rate of 12%). The rediscount rate and the rates on mortgage loans insured by the Mortgage Insurance Fund (FHA) were also changed in the same proportion.

With regard to the policies regarding the exchange rate and external finance, the beginning of November marked the expiry of a programme agreed to with the International Monetary Fund in October 1981 under the Compensatory Financing Facility for fluctuations in export income. The first tranche of the regular financing arrangements had also been resorted to. At the time this chapter was drafted, this agreement had not been renewed or extended. On the other hand, as noted, during the year the monetary and financial authorities of the country made intensive efforts to obtain additional external financing, with rather limited results, given conditions in the international capital markets.

In view of the severe shortage of foreign currency which characterized the economic picture during the year, the monetary authorities continued to apply exchange controls under which the foreign currency export earnings was allocated to pay for imports, using criteria of selectivity based on whether the external purchases were essential or not. In November (after the agreement with the Monetary Fund had expired) these measures were supplemented by the establishment of a system of

prior permits for the importation of merchandise on the basis of a system of quotas allocated to each firm.<sup>14</sup> At the same time, under the emergency exchange controls, additional restrictions were adopted which sharply reduced the ceilings on the amount of foreign currency authorized for tourist travel abroad (US\$ 2 000 a year per person including the cost of the ticket) and increased the percentage of the guarantee deposit which travellers had to make in order to obtain that currency. Limits were also put on the sale of foreign currency for persons studying abroad, for medical attention in the exterior and for personal remittances.

In addition, during the entire year an intense public debate was carried on concerning the advisability of altering the exchange parity —a possibility which the monetary and financial authorities decisively rejected. However, with the application of the emergency exchange regulations referred to above, a parallel market (not official but relatively active) came into being, which was used increasingly, even by importers, as the year progressed. It can be very roughly estimated that between 15% and 20% of the country's exchange transactions took place in that market and that during 1982 the exchange differential between it and the official market was between 20% and 30%.

<sup>14</sup>Under governmental agreement No. 406-82 of 14 November, a ceiling was established on imports of various products (classified by the degree of the need for them) included in different tariff items. The Ministry of the Economy was empowered to apply the system, which was changed slightly towards the end of the year to cover various problems which arose when the new machinery went into operation.

## HAITI

### 1. Recent economic trends: Introduction and summary

After having kept up a relatively brisk growth rate during the 1970s, the Haitian economy entered a stage of virtual stagnation in 1981, and this persisted in 1982. The results in the first of these years were greatly influenced by external factors such as the marked decline in the terms of trade and the contraction in demand for some important export products, as well as the passage of hurricane Allen, which caused a fall in agricultural production.

Although in 1982 there was an improvement in the external terms of trade, the deteriorated foreign trade situation continued to militate against an increase in production. Other factors which had a similar influence were the shortage of domestic investment resources and the measures taken to contain public expenditure in order to reduce the big fiscal deficit, which had got worse in 1981. Furthermore, during the year there was a decline in the net inflow of capital, including donations, because of the difficult international financial situation, and this seriously affected levels of investment.

In these circumstances, the gross domestic product virtually stagnated, rising by only 0.3%,<sup>1</sup> which was a similar amount to the year before. Thus, for the second year running there was a decline of around 2% in the already low per capita product of the country. Gross income, for its part, rose more than the product in 1982 (1.1%), thanks to the recovery of slightly over 8% in the terms of trade, although this was not enough to make up for the drop suffered by these terms the year before (see table 1 and figure 1).

The consequences of hurricane Allen in agriculture persisted in 1982 and were reflected in the slow growth of agricultural production, which, in view of the sector's high relative importance, had considerable repercussions on general economic activity. Another factor which influenced the scanty growth of the product was the marked slackening in industrial production, especially in the assembly industries, where the contraction of external markets had particularly severe repercussions. It may be recalled that this type of industry was one of those which did most to propel economic activity in previous years. Construction, too, suffered a significant decline in 1982 in line with the drop in investment, which had adverse consequences on employment and helped to bring the rate of open unemployment up to 12%. Only basic services such as electricity and transport and communications, together with the relatively unimportant mining sector, showed some buoyancy during the year.

In contrast with 1981, there was an increase in exports of goods and services in 1982 thanks to a significant improvement in external prices, particularly for services. This, together with the drop in imports because of the decline in investment and levels of consumption and the shortage of foreign exchange, led to a slight reduction in the trade deficit and contributed to a similar decline in the imbalance on current account, despite the smaller income from private transfer payments. During the year, there was a substantial inflow of capital, but it was smaller than that registered the year before and was not enough to cover the current deficit, so that for the third year in succession it was necessary to make use of the international reserves, this time in the amount of US\$ 11 million.

The financial problems which had been affecting the country with growing intensity for some years past were less severe in 1982 thanks to the application of a set of measures to reduce the large fiscal deficit (which was amounting to almost 10% of the gross domestic product), to contain the flight of capital from the country, and to prevent further reductions in the international reserves. Some of these measures had already begun to be applied the year before, and in 1982 they were intensified, particularly in the case of those designed to place the public finances on a sounder basis.

<sup>1</sup>Unless otherwise indicated, the period under review is the fiscal year 1981-1982, which runs from 1 October 1981 to 30 September 1982.

Among these, special mention may be made of those aimed at preventing smuggling (in order to raise revenue from customs duties); the establishment of a general sales tax in November in place of some specific taxes; the reduction of public expenditure by close to 10%; and the fixing of limits on the financing of the public sector by the Central Bank. These measures were in line with those agreed with the International Monetary Fund in August for the opening of a credit of 35 million Special Drawing Right units, and the prime objective was to halve the ratio between the fiscal deficit and the gross domestic product, although it did not prove possible to fulfill this objective completely.

The contraction in public investment in real terms was accompanied by a somewhat less marked reduction in private investment, coinciding with the smaller inflow of capital for direct investment. Furthermore, the low level of economic activity during the year and the contraction in public expenditure and in the other components of domestic demand were reflected in a sharp drop in the rate of inflation to a little under 3% as measured by the differences between annual averages and to a negative figure, as measured between the months of September of each year. Despite this small increase in domestic prices, however, minimum wages in the industrial sector went down in real terms by a similar amount to prices.

Table 1  
HAITI: MAIN ECONOMIC INDICATORS

	1977	1978	1979	1980	1981	1982 <sup>a</sup>
<b>A. Basic economic indicators</b>						
Gross domestic product at market prices (millions of 1970 dollars)	741	774	813	860	863	865
Population (millions of inhabitants)	5.41	5.53	5.67	5.81	5.95	6.10
Per capita gross domestic product (1970 dollars)	137	140	143	148	145	142
<b>Growth rates</b>						
<b>B. Short-run economic indicators</b>						
Gross domestic product at market prices	1.3	4.4	5.1	5.8	0.3	0.3
Per capita gross domestic product	-1.0	2.0	2.6	3.3	-2.2	-2.2
Gross income <sup>b</sup>	3.3	3.8	3.9	6.2	-0.8	1.1
Terms of trade (goods and services)	20.6	-7.6	-9.0	2.7	-9.8	8.2
Current value of exports of goods and services	23.9	21.3	0.8	43.2	-18.0	3.3
Current value of imports of goods and services	21.0	17.4	6.9	46.5	8.4	-9.8
<b>Consumer price index</b>						
September to September	5.0	2.3	18.6	9.5	17.8	-1.7
Variation between annual averages	7.4	-2.9	9.7	18.1	15.9	2.7
Money	8.4	25.1	22.0	11.1	21.4	14.8
Wages and salaries <sup>c</sup>	...	26.6	-8.8	18.3	2.0	-2.6
Current income of government	25.6	15.1	12.0	14.0	-4.3	24.4
Total expenditure of government	19.2	31.6	14.7	21.5	19.5	1.5
Fiscal deficit/total expenditure of government <sup>d</sup>	55.9	40.6	42.2	42.5	54.0	43.6
<b>Millions of dollars</b>						
<b>C. External sector</b>						
Trade balance (goods and services)	-89	-98	-117	-179	-275	-215
Balance on current account	-70	-84	-97	-141	-215	-179
Balance on capital account	83	96	112	112	181	168
Variation in international reserves	13	6	24	-26	-50	-11
Disbursed external public debt	159	210	248	290	372	410

Source: ECLA, on the basis of official data.

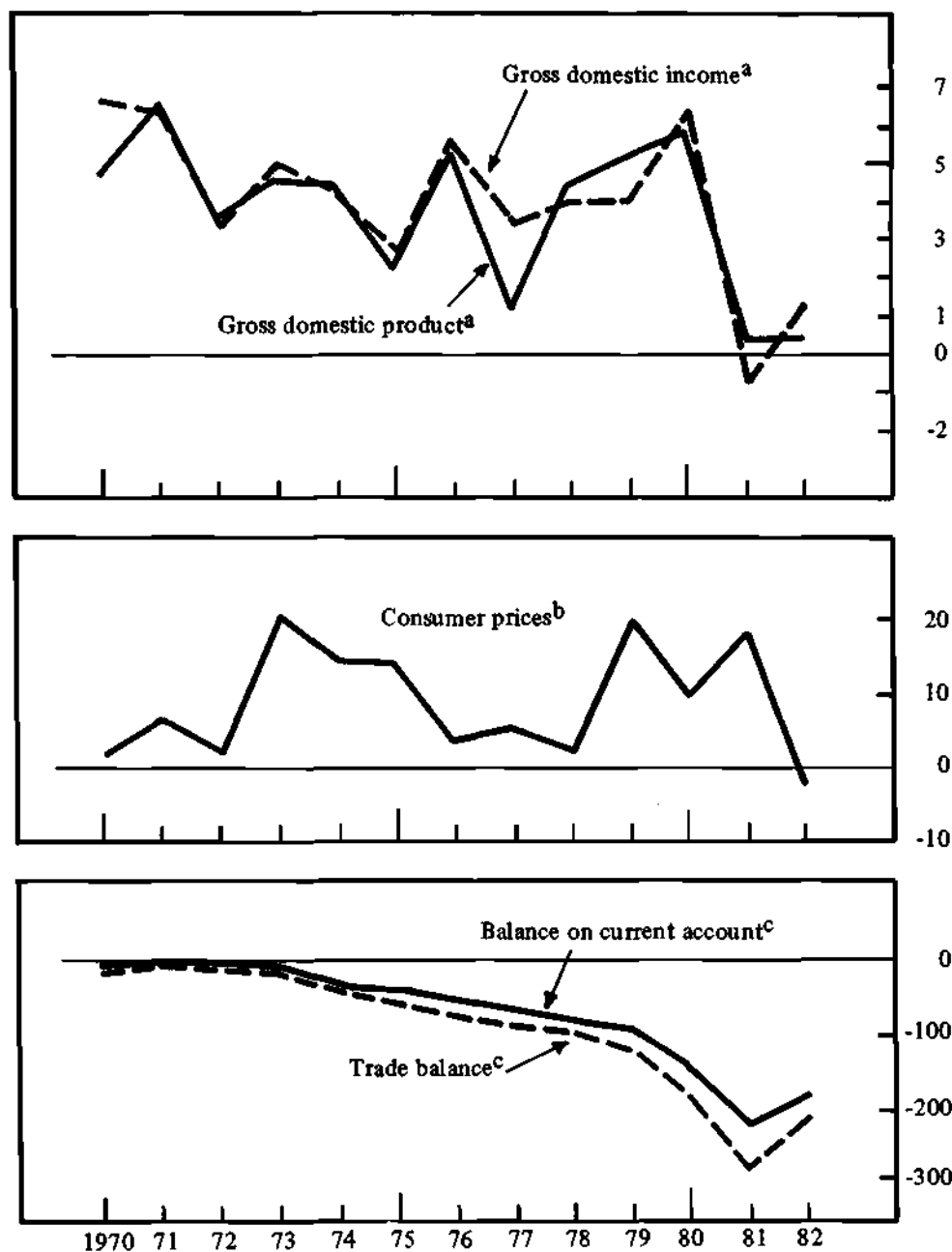
<sup>a</sup>Preliminary figures.

<sup>b</sup>Gross domestic product plus terms-of-trade effect.

<sup>c</sup>Minimum wages in industry, in real terms.

<sup>d</sup>Percentage.

Figure 1  
 HAITI: MAIN ECONOMIC INDICATORS



Source: ECLA, on the basis of official data.

<sup>a</sup>Annual growth rate.

<sup>b</sup>Percentage variation, September-September.

<sup>c</sup>Millions of dollars.

## 2. Trends in economic activity

### a) *Total supply and demand*

The clearly recessive economic situation observed during the year was reflected in a slight reduction of just over 1% in the overall availability of goods and services, due to the stagnation of domestic production on the one hand and to a significant drop of 8.3% in imports on the other. During the 1970s there had been a process of rapid opening up to the exterior, and the imported component of total supply practically doubled, amounting to 21% of the latter in 1980, although exports did not expand at an equal rate. In 1982, however, there was a slight decline in the relative importance of imports, both because of balance-of-payments problems, whose most obvious manifestation was the shortage of foreign exchange, and because of the contraction in investment and the sluggishness of economic activity and consumption (see table 2).

Thus, on the total demand side, the volume of exports of goods and services went down as a result of the world economic recession, while domestic demand dropped by around 1%. Public investment went down by 11% as a result of the policies applied from the second half of the year onwards with the aim of reducing public expenditure and balancing the finances, and also because of the drop in the inflow of external finance. Consequently, after growing rapidly during the 1970s to become one of the fundamental factors propelling growth, public investment lost dynamism and sank below the amounts foreseen in the 1982-1986 five-year plan. Private investment also declined, although to a smaller extent (-4%), because of the discouraging market prospects both for national investors and for foreigners investing in the industries which assemble imported parts for export. Government consumption expenditure registered a slight increase (2%) in spite of the budget reductions, but private consumption remained practically unchanged.

### b) *Evolution of the main sectors*

According to the first official results made available, the gross domestic product expanded for the second year running by only 0.3%. As in 1981, the only sector which showed some degree of buoyancy was basic services, especially electricity generation and gas and drinking water supply. In contrast, the goods-producing sectors, and especially agriculture and manufacturing, hardly increased

Table 2

### HAITI: TOTAL SUPPLY AND DEMAND

	Millions of 1970 dollars			Percentage breakdown		Growth rates		
	1980	1981	1982 <sup>a</sup>	1970	1982 <sup>a</sup>	1980	1981	1982 <sup>a</sup>
<b>Total supply</b>	1 040	1 048	1 034	112.3	119.5	9.3	0.7	-1.3
Gross domestic product at market prices	860	863	865	100.0	100.0	5.8	0.3	0.3
Imports of goods and services <sup>b</sup>	180	185	169	12.3	19.5	30.0	2.4	-8.3
<b>Total demand</b>	1 040	1 048	1 034	112.3	119.5	9.3	0.7	-1.3
Domestic demand	932	955	944	102.9	109.1	7.9	2.4	-1.1
Gross domestic investment	141	149	135	7.6	15.6	8.5	5.7	-9.4
Public	106	109	97	1.3	11.2	6.9	2.8	-11.0
Private	35	40	38	6.3	4.4	12.9	14.3	-4.4
Total consumption	791	806	809	95.3	93.5	7.8	1.8	0.4
General government	69	74	76	8.3	8.7	9.7	7.2	2.0
Private	722	732	733	87.0	84.8	7.6	1.3	0.3
Exports of goods and services <sup>b</sup>	108	93	90	9.4	10.4	23.6	-14.2	-3.0

Source: ECLA, on the basis of figures provided by the Haitian Statistical Institute and the Ministry of Planning.

<sup>a</sup>Preliminary figures.

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

Table 3

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

	Millions of 1970 dollars			Percentage breakdown		Growth rates		
	1980	1981	1982 <sup>a</sup>	1970	1982 <sup>a</sup>	1980	1981	1982 <sup>a</sup>
Gross domestic product <sup>b</sup>	782	785	787	100.0	100.0	5.8	0.3	0.3
Goods	479	478	478	64.6	61.1	3.5	-0.5	0.2
Agriculture	348	341	342	50.8	43.5	2.8	-1.8	0.2
Mining	9	7	3	1.7	1.0	-4.5	-14.8	7.3
Manufacturing	91	94	96	9.8	12.1	7.0	3.9	1.2
Construction	36	37	36	2.3	4.5	4.4	4.1	-4.1
Basic services	38	41	43	3.7	5.4	7.1	4.9	5.7
Electricity, gas and water	14	16	17	1.3	2.1	8.1	8.1	8.1
Transport, storage and communications	24	25	26	2.4	3.3	6.5	3.0	4.1
Other services	259	261	265	31.7	33.5	7.4	0.9	0.7
Commerce, restaurants and hotels <sup>c</sup>	94	93	94	10.9	11.9	6.6	-0.9	0.4
Ownership of dwellings	59	58	59	9.9	7.4	-2.6	-0.8	0.1
Community, social and personal services <sup>d</sup>	106	110	112	10.9	14.2	14.8	3.6	1.3
Government services	45	47	48	4.6	6.1	5.0	3.8	2.2

Source ECLA, on the basis of data supplied by the Ministry of Planning.

<sup>a</sup> Preliminary figures.

<sup>b</sup> As the individual activities and the totals were calculated independently, the sum of the former may not coincide with the latter.

<sup>c</sup> Including financial institutions, insurance and real estate, except ownership of dwellings.

<sup>d</sup> Including business services.

their product at all, while construction, which is usually one of the first activities to reflect the effects of a recession, suffered a decline of 4%. The services sectors, for their part, did not show much change, except for government services, which increased by a little over 2% (see table 3).

i) *Agriculture*. The agricultural results were well below those expected after the significant contraction suffered in 1981 as the result of the passage of hurricane Allen. Altogether, the added value of the sector practically stagnated (growth of 0.2%) because, *inter alia*, of a severe drought which affected cereal production (especially rice), the lack of financial counterpart resources for the development projects agreed upon with international agencies, and the low coffee prices in recent years.

As regards production for the domestic market, only that of sorghum showed a significant increase (approximately 46%), while the harvests of other products either went down or showed only slight increases which were not enough to recover the production levels of previous years. Production of such important basic consumption items as rice and beans once again fell, as in 1981, as a result of climatic problems. The maize harvest registered a slight recovery thanks to the increase in the area sown, but the increase in banana production did not even amount to 1%. Production of sugar cane, which occupies the best land in the country, dropped for the second year running, this time by 2% (see table 4).

In the stock-raising sector, African swine fever made it necessary to slaughter a considerable number of pigs, thus significantly reducing the herds and consequently also bringing down pork production. In order to make up for the shortage of pork, a programme aimed at increasing the production and consumption of chicken was organized with very good results. This explains the sudden considerable increase in sorghum production.

The swine fever and the campaign which has had to be carried out to eradicate it have resulted in very great losses for the peasants, for whom pigs are their main food and one of their few sources of income. Furthermore, it is costly for the country to replace the herds with imported stock, quite apart from the difficulty experienced by imported stock in adapting to the pig breeding conditions prevailing in the country.

Among export agricultural products, the most outstanding performance was that of cocoa, production of which more than doubled during the year, even though the volume continued to be 60% below that registered in 1979. In contrast, production of coffee, which is the main agricultural export crop, rose by only 5%, thus falling to recover the levels registered before hurricane Allen, which destroyed 30% of the plantations. It will be hard to replant this area as long as the international price of coffee remains so low.

Cotton production, for its part, after having stagnated in previous years, went down by around 5% because of the drop in yields.

Finally, in the institutional context serious problems were experienced during the year in promoting agricultural activity because there were increased difficulties in covering the costs corresponding to the country in projects financed by international banks and agencies. Moreover, the long-standing structural deficiencies persisted, especially the prevalence of minifundios and the problems of low productivity stemming from the use of rudimentary technology.

ii) *Mining.* The share of mining in the Haitian economy has gone down, and it now represents only 1% of the gross domestic product. This has been largely due to the decline in the mining of bauxite, which accounts for over 80% of the added value of the mining sector. Since the mid-1970s (average 1974-1977), bauxite production has dropped from 670 000 tons to a figure one-third lower than this (in the two-year period 1980-1981), largely because of low extraction yields and rising operational costs. In 1982, however, there was a noteworthy recovery of the order of 30% in production levels, which was reflected in a rise of a little over 7% in the product of the sector. The quarrying of marble has continued, albeit at levels which are still not very significant.

iii) *Manufacturing.* Manufacturing, like the other productive activities, has been affected by the decline in domestic and external demand. In addition, there has been a drop in investment due to the shortage of financial resources and difficulties in importing, and, above all, to the discouraging prospects offered by an economy in recession. In these circumstances, the manufacturing product grew by only a little 1% in 1982.

It may be assumed that the decline in levels of consumption was generalized, albeit somewhat less severe in the case of processed foodstuffs and other essential goods. The indicators for manufacturing production show results which vary widely from one product to another, however.

Table 4  
HAITI: INDICATORS OF AGRICULTURAL PRODUCTION

	Thousands of tons				Growth rates		
	1979	1980	1981	1982 <sup>a</sup>	1980	1981	1982 <sup>a</sup>
<b>Production of the main crops</b>							
<b>For domestic consumption</b>							
Rice	122.1	124.1	119.7	117.4	1.6	-3.5	-1.9
Maize	183.3	186.2	179.2	185.0	1.6	-3.8	3.2
Sorghum	123.3	125.2	120.8	176.9	1.5	-3.5	46.4
Beans	51.9	52.6	50.8	50.5	1.3	-3.4	-0.6
Plantains	511.5	519.7	501.5	506.1	1.6	-3.5	0.9
Sugar cane	5 552	5 640.8	5 443.4	5 336.0	1.6	-3.5	-2.0
<b>For export</b>							
Coffee	35.9	42.9	33.3	35.0	19.5	-22.4	5.1
Cotton	5.8	5.9	5.7	5.4	1.7	-3.4	-5.3
Cocoa	11.4	3.4	2.2	4.6	-70.2	-35.3	109.1
<b>Livestock production</b>							
Beef	18.0	18.0	18.6	19.5	-	3.3	4.8
Pork	34.0	44.0	35.0	35.0	29.4	-20.5	-
Goat meat	4.0	4.1	4.1	6.0	2.5	-	46.3
Poultry	3.3	3.4	3.4	15.5	3.0	-	355.9
Eggs	17.3	17.6	17.8	17.7	1.7	1.1	-0.6

Source: ECLA, on the basis of figures supplied by the Bank of the Republic of Haiti.

<sup>a</sup>Preliminary figures.



Table 5

## HAITI: INDICATORS OF MINING AND MANUFACTURING PRODUCTION

	Thousands of tons					Growth rates <sup>b</sup>			
	1975	1979	1980	1981	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>a</sup>
<b>Mining production</b>									
Bauxite	523	614	414	480	622	-2.5	-32.5	15.9	29.6
<b>Manufacturing output</b> (Index 1959-1960 = 100)	186	235	251	261	264	4.0	7.0	3.9	1.2
<b>Main products</b>									
Flour	81	75	85	121	88	8.8	12.6	42.5	-26.8
Sugar	52	59	54	52	56	19.2	-8.6	-4.3	7.9
Carbonated beverages (millions of bottles)	41	80	74	64	62	54.5	-7.4	-13.6	-2.2
Cigarettes (millions)	680	1 006	1 064	852	965	9.4	5.8	-19.9	13.2
Fats	1.3	2.6	3.3	3.1	2.8	13.0	26.9	-6.1	-9.7
Edible oils	8.8	19.3	18.9	24.5	17.1	53.1	-2.1	29.6	-30.2
Soap	7.3	11.0	13.1	11.7	12.7	5.8	19.1	-10.7	8.5
Detergents (tons)	184	534	579	513	586	61.7	8.4	-11.3	14.2
Footwear (thousands of pairs)	223	392	795	528	588	28.2	103.1	-33.6	11.3
Cement	145	239	243	241	206	-5.8	2.0	-1.0	-14.4
Cotton textiles (millions of yards)	1.5	0.5	0.8	0.7	0.8	-73.7	60.0	-12.5	14.3
Toilet soap (tons)	...	253	253	258	...	-10.6	-	2.0	...
Essential oils (tons)	...	268	242	208	234	-13.9	-10.0	-13.7	12.0

Source: Ministry of Commerce and Industry.

<sup>a</sup>Preliminary figures.

<sup>b</sup>The growth rates were calculated on the basis of real, not rounded figures.

Thus, while there were fairly significant increases in the case of textiles, footwear, soap and detergents, cigarettes, and sugar, there was a sharp decline in production of flour and edible oils and, to a lesser extent, fats and cement (see table 5).

Among export products, the outstanding feature was the recovery of around 12% in the production of essential oils, contrasting with the substantial drops in production in some assembly industries, such as those for radios and accessories and rubber and plastic articles. In contrast, rapid growth continued in the manufacture of transformers and electrical articles, clothing, and toys and sporting goods, thus showing the growth possibilities and importance for the country of these assembly industries, which employ about 40 000 people. These industries set up with foreign capital have of course been established in the country to take advantage of tax incentives, such as the right to import machinery, inputs and components free of import duty, the facilities offered by the Government for setting up factories in an industrial park, and the availability of cheap and abundant labour. The industrial policy now in force aims at greater incorporation of local added value in the products sold on domestic markets or exported. Other objectives are that the industries should make more and better use of domestic raw materials and that there should be greater integration between agriculture and industry, to which end various agro-industrial projects with private sector participation are underway. Both assembly industries and agro-industrial development are scheduled to occupy a priority position in industrial policy in the coming years.

Electricity generation has increased rapidly in recent years. The value added in this sector has grown by over 8% per year since 1980 (see table 3), but even so this has not been enough to satisfy the electrification needs of the country.<sup>2</sup> In 1982 the generation of electric power expanded by over 6%, due mainly to the entry into operation of two thermal power stations—the larger of them located at Carrefour, near Port-au-Prince—and to further small hydroelectric stations. Among the new works, mention may be made of construction of a high-tension power transmission and distribution system

<sup>2</sup>It is interesting to note, in this connection, that 92% of the electricity is consumed in Port-au-Prince, 6% in the other four main cities, and only 2% in the remainder of the country.

in Port-au-Prince and the renovation of the medium-tension network in the metropolitan area. Little progress was made in the interior of the country. Finally, electricity consumption increased by close to 5%, due mainly to increased use of residential and street lighting purposes, since consumption by commerce and industry practically did not increase at all during the year because of the smaller demand by two important consumer industries: a sugar mill and a cement works (see table 6).

c) *Population and employment*

The generalized economic recession had undoubted repercussions on employment. According to official estimates, the economically active population grew by 1.9%, while employment is only estimated to have grown by little over 1%, i.e., by some 28 000 jobs. This meant an increase of over 3% in open unemployment, the rate of which rose from 11.5% in 1981 to 12% in 1982, and further expansion of underemployment (which affects over 40% of the labour force) especially in agricultural activities and the informal urban sector.

In the formal sector, too, there were reductions in the number of jobs in industry (around 2 000), in large-scale commerce, and of course in housing construction and public works. The level of employment remained unchanged or even increased slightly, however, in the electricity sector, in transport and communications, and even in the public service, where no jobs were eliminated in spite of the budget cuts.

It is estimated that the employed population came to 2.3 million persons, two-third of them engaged in the agricultural sector, which, together with the urban informal sector, absorbs most of the labour, almost all of it unskilled. Even in the modern sector it is observed that nearly 75% of the workers in manufacturing are unskilled, as there are practically no training programmes. One of the great problems affecting Haiti is the shortage of skilled workers and middle management personnel.

Table 6

**HAITI: MAIN INDICATORS OF ELECTRICITY GENERATION AND CONSUMPTION**

	Millions of kWh					Growth rates			
	1978	1979	1980	1981	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>a</sup>
Generation	284	322	336	355	378	13.5	4.4	5.7	6.5
Consumption <sup>b</sup>	209	241	256	262	274	15.3	6.2	2.3	4.6
Commercial and industrial	133	154	156	152	153	15.8	1.3	-2.6	0.7
Sugar industry	19	27	18	7	6	42.1	-33.3	-61.2	-14.3
Cement industry	16	19	21	23	20	18.8	5.2	9.5	-14.0
Other	98	108	117	122	127	10.2	8.3	4.3	4.1
Residential	59	70	81	90	99	18.6	15.7	11.1	10.0
Street lighting	8	8	9	8	9	-	12.5	-11.2	12.5
Public and community services	9	9	10	12	13	-	11.1	20.0	8.3

Source: ECLA, on the basis of figures supplied by *Electricité d' Haiti* and the the Bank of the Republic of Haiti.

<sup>a</sup>Preliminary figures.

<sup>b</sup>The difference between generation and consumption is due to losses and unrecorded consumption.

### 3. The external sector

In 1982 the external accounts continued to reflect an adverse situation, in spite of the relative improvement compared with the particularly difficult conditions of the previous year. The partial recovery in the terms of trade, together with the decline in imports due to the low level of economic activity, helped to reduce the trade deficit. The adjustment programme put into effect by the authorities aimed not only to reduce the fiscal deficit but also to improve the deteriorated external position of the country, although at the cost of the slowing down of the economy. The results were not altogether satisfactory, however, and for the third year running there was a loss of international reserves and shortage of foreign exchange, while the current account registered a deficit of the order of 11% of the gross domestic product, although this imbalance was, it is true, smaller than the year before.

Table 7

## HAITI: MAIN FOREIGN TRADE INDICATORS

	1977	1978	1979	1980	1981	1982 <sup>a</sup>
<b>Growth rates</b>						
Exports of goods FOB						
Value	38.2	8.9	-8.0	56.3	-30.3	4.4
Volume	-0.1	11.0	-3.9	35.5	-18.0	1.4
Unit value	38.4	-1.9	-4.2	15.4	-15.0	3.0
Imports of goods FOB						
Value	21.7	3.8	6.0	45.0	11.7	-20.3
Volume	12.7	-3.3	-5.0	27.3	8.1	-16.2
Unit value	8.0	7.4	11.6	13.9	3.2	-4.9
Terms of trade (goods)	28.1	-8.7	-14.2	1.3	-17.7	8.3
<b>Indexes (1970 = 100)</b>						
Terms of trade (goods)	123.6	112.9	96.9	98.2	80.8	87.5
Purchasing power of exports of goods	165.5	168.4	138.9	193.0	128.8	139.7
Purchasing power of exports of goods and services	159.5	186.2	169.7	215.6	167.0	175.3

Source: ECLA, on the basis of official data.

<sup>a</sup>Preliminary figures.

The unfavourable international economic situation continued to hinder productive activity. In an economy which has been opened up to the exterior in the past decade, the economic difficulties in the central countries have had immediate domestic repercussions. The feeble recovery shown by exports of goods in 1982 was wiped out by the decline in tourism and other services and also by the smaller inflow of official transfer payments and remittances by Haitians living abroad.

a) *Merchandise trade*

After the exceptionally large increase in 1980 and the sharp contraction in 1981, exports of goods increased by over 4% in 1982 as a result of a slight increase in the volume exported and a partial recovery of prices (see table 7).

At the same time, the value of imports went down by one-fifth because of the drastic reduction of 16% in the volume imported, together with a 5% drop in prices, the latter event being a new feature in the country's external relations. As a result of the opposite movement of export and import prices, there was an improvement of 8.3% in the terms of trade, which had gone down so severely in 1981, and the purchasing power of exports of goods went up by a similar percentage, while the purchasing power of exports of goods and services went up by 5% because the unit value of imports of services—unlike that of imports of goods—rose by rather more than 6%.

i) *Exports*. The significant recovery in sales of coffee and bauxite, which had gone down markedly in 1981, particularly in the case of coffee, together with the rapid rise in exports of a considerable number of other goods of smaller relative importance, made up for the decline in external sales of manufactures from the free zone and the sharp reduction in exports of meat and cocoa, the final result being an increase of 4.4% in total exports of goods, thus recovering US\$ 7 million of the US\$ 65 million lost in 1981 (see table 8).

Even though exports of coffee increased by over 8% in 1982, their value still only came to 40% of that registered two years before. This increase was achieved through the bigger harvests and larger volume exported, together with an improvement in prices. In contrast, exports of cocoa and meat went down substantially, and it was necessary to import sugar: a product which Haiti normally exports. The decline of around 12% registered in exports of manufactures from the free zone, for its part, is a reflection of the contraction in demand in the United States, which is the main destination for such goods. Exports of these products had already suffered stagnation in 1981.

ii) *Imports.* Imports of goods, which had shown an uneven but always upward trend since at least the early 1970s, suffered a reduction of about 20% in 1982 because of the smaller demand caused by the depressed level of economic activity, the restrictions and surcharges imposed on some of them (especially the least essential ones), and the drop in import prices.

Unfortunately, no information is available on the performance of imports by product groups or types; all that is known is that purchases of fuels continued to increase rapidly (see table 9).

b) *Services and factor payments*

In contrast with the trend followed by merchandise trade, the deficit on services continued to increase. A contributory factor in this was the loss of dynamism of tourism, since because of the smaller number of visitors foreign exchange earnings went down by 4% compared with 1981. It

Table 8

**HAITI: EXPORTS OF GOODS, FOB**

	Millions of dollars			Percentage breakdown		Growth rates			
	1980	1981	1982 <sup>a</sup>	1970	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>a</sup>
<b>Total</b>	215.8	150.4	157.0	100.0	100.0	-8.0	56.4	-30.3	4.4
<b>Main products</b>	130.7	62.7	68.7	69.6	43.8	-26.4	-66.1	-52.0	9.6
Coffee	90.9	33.1	35.9	35.2	22.9	-36.9	131.3	-63.6	8.5
Cocoa and cocoa products	4.5	3.4	2.2	2.5	1.4	-5.6	-33.8	-24.4	-35.3
Sugar	6.4	-	-	7.5	-	-78.6	966.7	-	-
Sisal and sisal products	1.4	0.5	1.7	4.2	1.1	-15.6	-48.1	-64.3	340.0
Essential oils	5.4	4.9	5.7	6.1	3.6	-22.7	-28.0	-9.3	16.3
Bauxite	19.6	16.6	21.4	13.0	13.6	4.7	8.9	-15.3	28.9
Cement	0.7	-	0.1	-	0.1	-75.9	-	-	-
Meat	1.8	4.2	1.7	1.1	1.1	82.3	-41.9	133.3	-59.5
<b>Products of the free zone (net)</b>	54.7	54.8	48.3	6.5	30.8	31.8	29.3	0.2	-11.9
<b>Other goods</b>	30.4	32.9	40.0	23.9	25.4	35.9	49.8	8.2	21.6

Source: ECLA, on the basis of figures supplied by the General Customs Administration.

<sup>a</sup>Preliminary figures.

Table 9

**HAITI: IMPORTS OF GOODS, CIF**

	Millions of dollars			Percentage breakdown		Growth rates			
	1980	1981	1982 <sup>a</sup>	1970	1982	1979	1980	1981	1982 <sup>a</sup>
<b>Total</b>	365.0	388.7	300.0	100.0	100.0	20.5	37.2	6.5	-22.0
<b>Foodstuffs, beverages and tobacco</b>	62.1	65.5	...	11.2	...	2.6	55.3	5.5	...
Hydrocarbons	35.8	41.2	51.0	5.6	17.0	40.8	3.8	15.1	23.8
Oils and fats	24.4	25.8	...	6.7	...	40.3	29.8	5.7	...
Chemical products	29.9	31.5	...	10.4	...	18.9	25.6	5.4	...
Manufactured articles <sup>b</sup>	76.2	80.4	...	17.7	...	43.3	24.5	5.5	...
Machinery and transport equipment	87.3	92.1	...	20.0	...	26.6	60.8	5.5	...
Miscellaneous manufactured articles <sup>c</sup>	31.9	33.7	...	21.4	...	-12.6	58.7	5.6	...
Other <sup>d</sup>	17.4	18.5	...	7.0	...	-12.0	31.8	6.3	...

Source: ECLA, on the basis of figures supplied by the General Customs Administration and the Bank of the Republic of Haiti.

<sup>a</sup>Preliminary figures.

<sup>b</sup>Including manufactures of textiles, leather, rubber, wood, paper and metallic and non-metallic minerals.

<sup>c</sup>Including clothing, footwear, travel goods, furniture, professional instrument and sanitary, heating and lighting articles.

<sup>d</sup>Including non-edible raw materials.

should be noted that approximately half the tourists visit the country on cruises and only stay for a few hours. Furthermore, their number has been going down steadily since 1979 because Haiti has been left off the routes of several major shipping lines. As regards visitors entering the country by other means, mainly by air, their numbers have been variable, depending on their country of origin.

Travel abroad by Haitian citizens virtually stagnated because of the shortage of foreign exchange, the unfavourable domestic economic situation, and the taxes on foreign travel which have been in force since 1981. Thus, the tourism flow again became positive and this activity continued to generate a substantial amount of foreign exchange.

Another important item within services was the outflow in respect of transport and insurance, which, although it had risen to considerable levels in the previous two years, went down significantly because of the smaller volume of transactions. As for external factor payments, these remained at the level of recent years and continued to be relatively low compared with other countries.

Finally, unrequited private transfer payments, which consist basically of remittances by Haitian nationals living abroad, went down by over 20% from the figure of US\$ 65 million registered in 1981.

c) *The current account position and its financing*

The reduction in the trade deficit, the slight variation in payments of profits and interest to the exterior, and the smaller income in respect of private transfer payments resulted in a 17% reduction to US\$ 179 million of the big current account deficit registered the year before, which had represented 86% of exports of goods and services. In 1982, this proportion went down to 69% (see table 10).

During the year, there was scarcely any increase in the net inflow of capital, while income in respect of official transfer payments, which are an important source of funds for the country, went down and caused a drop of some US\$ 13 million in the capital account surplus compared with the year before. The 1982 surplus of US\$ 168 million, as in the previous two years, was not enough to cover the current account deficit and resulted in a drop of US\$ 11 million in the international reserves, which have gone down by US\$ 87 million over the last three years. The reserves reached their lowest level in April, when the liquidity problems were most acute; subsequently they made a gradual recovery and at the end of the year stood at approximately US\$ 20 million.

The available information on capital movements during the year indicates that there was a larger net inflow of long-term capital, especially in the case of that going to the private sector; that the inflow of short-term capital, including errors and omissions, went down, and that direct investment was less than in 1981.

d) *The external public debt*

Although the private sector external debt followed an upward trend, the growth rate of the public external debt slowed down, since after increasing by 28% in 1981 it went up by only 10% in 1982 to US\$ 410 million. This increase was due to the bigger disbursements made by the central government, since the additional resources channelled to the public enterprises were only small. The financing obtained was in fact only half that disbursed the year before, in line with the strict policy of containing public expenditure followed this year (see table 11).

The special circumstances of the country, on account of which the international community grants it concessionary financing, help to explain why the debt servicing burden is relatively low both compared with total exports and with the gross domestic product.

#### 4. Prices and wages

After two years in which inflationary pressures had been heightened, these weakened somewhat and permitted relative stability of prices. Thus, the average growth rate of consumer prices came to only 2.7%. Indeed, there was even a decline if the variation at September is compared with the same month in 1981 (see table 12). It should be noted that the consumer price index in Haiti is extremely erratic because of the important role played in the "shopping basket" by agricultural products, which often register sharp price fluctuations from one month to another. In spite of these variations,

Table 10

## HAITI: BALANCE OF PAYMENTS

(Millions of dollars)

	1977	1978	1979	1980	1981	1982 <sup>a</sup>
Balance on current account	-70	-84	-97	-141	-215	-179
Trade balance	-89	-98	-117	-179	-275	-215
Exports of goods and services	174	211	213	305	250	258
Goods FOB	138	150	138	216	150	157
Real services <sup>b</sup>	37	61	75	89	99	101
Transport and insurance	2	2	3	6	7	3
Travel	30	53	65	77	84	81
Imports of goods and services	263	309	330	484	525	473
Goods FOB	200	207	220	319	356	284
Real services <sup>b</sup>	63	102	110	165	168	189
Transport and insurance	40	49	48	83	89	47
Travel	6	28	33	41	41	42
Factor services	-12	-15	-13	-14	-13	-14
Profits	-8	-9	-7	-8	-6	-8
Interest received	-	-	-	1	1	-
Interest paid	-4	-6	-7	-6	-8	-6
Unrequited private transfer payments	31	29	34	52	73	50
Balance on capital account	83	96	112	112	181	168
Unrequited official transferred payments	33	39	42	37	65	50
Long-term capital	70	50	67	71	82	102
Direct investment	8	10	12	13	18	14
Portfolio investment	-	-	-	-	-	-
Other long-term capital	62	40	55	58	64	88
Official sector <sup>c</sup>	43	29	49	49	45	54
Loans received	45	43	45	49	50	...
Amortization payments	-2	-3	-2	-	-4	...
Commercial banks	-	-	-	-	-	-
Loans received	-	-	-	-	-	-
Amortization payments	-	-	-	-	-	-
Other sectors <sup>c</sup>	20	11	5	9	19	34
Loans received	26	17	10	9	19	...
Amortization payments	-6	-6	-5	-	-	...
Short-term capital	-1	-3	-1	-18	...	17
Official sector	-	-	1	2	...	...
Commercial banks	-1	-3	-2	-20	...	...
Other sectors	-	-	-	-	...	...
Errors and omissions	-19	9	4	23	34	-1
Global balance <sup>d</sup>	13	12	15	-29	-34	-11
Total variation in reserves (minus sign indicates an increase)	-13	-6	-24	26	50	11
Monetary gold	-	-	-5	-4	2	...
Special Drawing Rights	-	-3	-2	4	3	...
IMF reserve position	-	-3	-3	6	-	...
Foreign exchange assets	-8	-	-11	22	15	...
Other assets	-	-	-	-	-	...
Use made of IMF credit	-5	-	-2	-3	30	...

Source: 1977-1981: International Monetary Fund; 1982: Bank of the Republic of Haiti.

<sup>a</sup>Preliminary figures.<sup>b</sup>Real services also include other official and private transactions, but not factor services.<sup>c</sup>In addition to loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities.<sup>d</sup>The global balance is the sum of the balance on current account and the balance on capital account. The difference between the total variation in reserves (of opposite sign) and the global balance represent the value of counterpart items: monetization of gold, allocation or settlement of Special Drawing.

Table 11  
HAITI: INDICATORS OF EXTERNAL INDEBTEDNESS<sup>a</sup>

	1977	1978	1979	1980	1981	1982 <sup>b</sup>
<b>Millions of dollars</b>						
<b>External public debt</b>						
<b>Total</b>	159	210	248	290	372	410
Government	113	152	183	223	247	282
Public enterprises	46	58	65	67	125	128
<b>Disbursements</b>	68	60	45	52	93	48
<b>Servicing costs</b>	12	15	11	15	16	16
Capital	8	9	7	10	11	10
Interest	4	6	4	5	5	6
<b>Percentages</b>						
<b>Proportions</b>						
External public debt/gross domestic product	16.8	22.1	22.6	21.1	23.3	25.0
Servicing of external debt/exports of goods and services	6.9	7.1	5.2	4.9	6.4	6.2
Servicing of external debt/disbursements	17.6	25.0	24.4	28.8	17.2	33.3
Servicing of external debt/gross domestic product	1.3	1.6	1.0	1.1	1.0	1.0

Source: Bank of the Republic of Haiti.

<sup>a</sup>Balance at 30 September of each year in respect of disbursed public debt and of disbursement and service payments effected in the previous twelve months.

<sup>b</sup>Preliminary figures.

Table 12  
HAITI: CONSUMER PRICE INDEXES

	1977	1978	1979	1980	1981	1982
<b>Variation from September to September</b>						
Consumer price index	5.0	2.3	18.6	9.5	17.8	-1.7
Food	8.1	-2.0	26.4	13.9	17.5	-3.5
<b>Variation between annual averages (fiscal years)</b>						
Consumer price index	7.4	-2.9	9.7	18.1	15.9	2.7
Food	7.3	-6.6	9.9	26.8	19.2	-0.9

Source: ECLA, on the basis of figures supplied by the Bank of the Republic of Haiti.

Table 13  
HAITI: EVOLUTION OF WAGES AND SALARIES

	1979	1980	1981	1982 <sup>a</sup>
<b>Indexes (1977 = 100)</b>				
<b>Wages and salaries<sup>b</sup></b>				
Nominal	123.0	169.2	203.1	203.1
Real	115.5	136.6	139.3	135.7
<b>Growth rates</b>				
<b>Wages and salaries<sup>b</sup></b>				
Nominal	-	37.6	20.0	-
Real	-8.8	18.3	2.0	-2.6

Source: ECLA, on the basis of figures supplied by the Bank of the Republic of Haiti and the Haitian Statistical Institute.

<sup>a</sup>Preliminary figures.

<sup>b</sup>Minimum wages paid in industrial enterprises.

however, a marked downward trend is to be observed in food prices, both on the basis of annual averages and between the ends of corresponding periods, attributable both to smaller demand and to the increase in the supply of certain agricultural products, as well as the drop in the prices of imported foodstuffs.

The last wage increase granted by industrial firms was in October 1980. The purchasing power of workers improved slightly in 1981, and went down in 1982 to the extent that domestic prices rose. This indicator is not very significant, however, because of the small size of the formal sector (see table 13).

## 5. Monetary and fiscal policy

### a) *Monetary policy*

The monetary situation remained sunk in the same difficulties as the year before. Outstanding among these was the shortage of foreign exchange, as a result of which the dollar ceased to circulate with its traditional fluidity. Indeed, in the case of some unofficial operations a parallel market even arose for the dollar where the exchange rate was up to 10% higher: a distortion which seems extraordinary in the case of Haiti, where monetary and financial policy has remained unchanged, on the basis of exchange freedom and a fixed exchange rate, for over 60 years.

With the decline in the circulation of dollars, the Central Bank made up for them with a larger issue of gourde banknotes, so that the currency outside banks increased by close to 22% during the year. On the other hand, as a reflection of the evolution of economic activity in the modern sectors of the country, current account deposits increased by close to 9%, so that the total increase in means of payment was 15% less than in 1981, although this did not reflect the application of a restrictive monetary policy (see table 14).

Another of the distortions shown by the financial system was the way in which it remained subject to the effects of fiscal imbalances. In spite of the strict measures to contain government expenditure from May onwards and the limits already referred to on the financing of the public sector, the Government continued to absorb a substantial proportion of credit. Domestic credit grew by almost 11%, which represents a slackening compared with the previous year, but it was the public

Table 14

### HAITI: MONETARY BALANCE

	Balance at end of September of each year (millions of gourdes)			Growth rates			
	1980	1981	1982 <sup>d</sup>	1979	1980	1981	1982 <sup>d</sup>
<b>Money</b>	681	827	949	22.0	11.1	21.4	14.8
Currency outside banks	347	400	486	27.8	-0.3	15.1	21.7
Demand deposits	334	427	463	15.2	26.3	27.8	8.5
<b>Factors of expansion</b>	2 239	2 490	2 730	17.9	15.8	11.2	9.6
Foreign assets (net)	149	-10	-33	70.8	-24.6		
Domestic credit	2 090	2 500	2 763	16.7	20.2	19.6	10.5
Government (net)	768	1 085	1 299	33.2	33.2	41.2	19.7
Official entities	265	229	287	15.4	-2.0	-13.6	25.2
Private sector	1 057	1 186	1 177	15.6	11.0	12.2	-0.8
<b>Factors of absorption</b>	1 558	1 663	1 781	16.0	17.9	6.7	7.1
Cuasi-money (savings and time deposits)	929	999	1 078	12.6	25.0	7.5	7.9
Long-term foreign borrowing	440	491	532	34.5	-4.0	11.6	8.4
Other items (net) <sup>c</sup>	189	173	171	-13.0	57.5	-8.5	-1.2

Source: ECLA, on the basis of figures supplied by the Bank of the Republic of Haiti.

<sup>d</sup>Preliminary figures.

<sup>b</sup>Does not include interbank transactions.

<sup>c</sup>Includes allocations of Special Drawing Rights and allocation from the IMF trust fund.



entities which, after having relied mainly on external financing the year before, absorbed most domestic resources in 1982. All this reduced the private sector's possibilities of access to credit, which contracted in real terms, thus explaining why this sector had greater recourse to external financing.

All activities were affected by the substantial decline in the amount of credit granted by commercial banks, especially in the case of credit for consumption, which went down by one-third, but the total amount of financing received by the assembly industries not only did not go down but even registered a slight increase. Industry continued to absorb most of the financial resources (48%), closely followed by commerce (38%). The absence of credit from the commercial banks for agriculture is worthy of attention; only the modern sector of agriculture receives assistance from the Institute of Agricultural and Industrial Development (IDAI).

To sum up, domestic credit increased by 8% in real terms, compared with approximately 1% in 1981. The reduction in the net international reserves did very little to alter this situation; altogether, the factors of expansion showed an increase in real terms of over 6%, thus increasing the degree of financial intermediation of the banking system, although this was still based on larger financing to the public sector.

Finally, it was the factors of absorption which showed least dynamism (an increase of 7%), although in real terms this represented an advance compared with the contraction registered in 1981. Throughout the period, interest rates remained unchanged at high levels which were competitive with the exterior, reaching a maximum of 18%. Since the flight of capital registered the year before was not repeated in 1982, procurement of savings and time deposits increased by close to 8%.

#### b) *Fiscal policy*

The correction of the big fiscal deficit suffered in 1981 (close to 10% of the gross domestic product) adversely affected the level of public expenditure, including investment, and this had direct repercussions on economic activity in general. There were various causes for the increased fiscal imbalance in that year, outstanding among them being the drastic fall in export income due mainly to the decline in the price of coffee exports to one-third of their former level. It should be noted that tax income comes mainly from customs duties, which went down by almost a quarter in 1981. The persistence of a number of items of extrabudgetary expenditure gave rise to lack of control over spending, in addition to the rather liberal policy followed as regards current expenditure. Finally, the growing financial outlays connected with the amortization of the public debt also had effects tending in the same direction. It should be noted, however, that public investment remained low during that year.

In view of this situation, various measures were taken in 1982 to adjust the public finances. Outstanding among them was the campaign against smuggling, whose results in terms of customs revenue, however, were not as favourable as expected, because of the drop in external trade flows, since this revenue went down by 9%. In contrast, internal revenue went up substantially (25%) because of the authorities' interest in basing fiscal revenue on this type of taxation rather than on customs duties. The changes made in 1981, among them the placing under stricter official control of the tobacco and match monopoly (Régie du Tabac et des Allumettes), were important in this respect. These efforts culminated, as already noted, with the introduction of the general sales tax which replaced other separate specific taxes and came into effect in November 1982, when the fiscal year under review was already over. These changes have mainly affected indirect taxes. Altogether, in 1982 the Government received current income amounting to 822 million gourdes, 25% more than in 1981, so that the fiscal burden increased from 8.3% in 1981 to 10% in 1982 (see table 15).

On the expenditure side, there was a sharp drop in current expenditure from May onwards, so that the growth rate of this item dropped from the 33% registered in 1980 and 1981 to only 3% in 1982. Capital expenditure remained practically unchanged because of an appreciable drop of 13% in real investment. In spite of the increase provided for in the development budget (expenditure of 144 million gourdes), not enough counterpart funds were available for the development projects. In addition, there was a decline in the amount of donations from abroad and a reduction in the preferential credit granted by specialized departments of foreign governments and by international agencies participating in the development projects.

A larger proportion of the inflow of external capital than in previous years had to be allocated to debt amortization, which increased very greatly in 1982 (73%).

Table 15

## HAITI: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of gourdes				Growth rates		
	1979	1980	1981	1982 <sup>a</sup>	1980	1981	1982 <sup>a</sup>
1. Current income	606	691	661	822	14.0	-4.3	24.4
Tax revenue	494	629	644	711	27.3	2.4	10.4
Direct and indirect	250	268	365	457	7.2	36.2	25.2
On foreign trade	244	361	279	254	48.0	-22.7	-9.0
2. Current expenditure	407	540	719	741	32.7	33.1	3.0
3. Current saving (1 - 2)	199	151	-58	81			
4. Capital expenditure <sup>b</sup>	641	662	717	716	3.3	8.3	-0.1
Real investment <sup>c</sup>	561	580	609	529	3.4	5.0	-13.1
Debt amortization payments	80	82	108	187	2.5	31.7	73.1
5. Total expenditure (2 + 4)	1 048	1 202	1 436	1 457	21.5	19.5	1.5
6. Fiscal deficit (1 - 5)	-442	-511	-775	-635	57.1	51.7	-18.1
7. Financing of deficit							
External financing	330	340	434	423	3.0	27.6	-2.5
Grants	209	183	328	251	-12.4	79.2	-23.5
Loans	121	157	106	172	29.8	-32.5	62.3
Domestic financing	112	171	341	212	52.7	99.4	-37.8

Source: ECLA, on the basis of figures supplied by the Department of Finance and Economic Affairs of the Ministry of Planning and by the Bank of the Republic of Haiti.

<sup>a</sup>Preliminary figures.

<sup>b</sup>Including all capital expenditure financed from domestic and external funds and not only that listed in the central government development budget.

<sup>c</sup>Including capital transfers.

The absence of any major change in capital expenditure and the slight increase in current expenditure meant that total expenditure grew by barely 1.5%, leading to a significant decrease in the fiscal deficit after several years of rapid and continual increase. Thus, the fiscal deficit as a proportion of the gross domestic product declined from approximately 10% in 1981 to 7.7% during the year under review.

In the financing of the deficit, there was a slight decrease in the use of funds of external origin, due to the smaller inflow of donations, and an appreciable reduction of close to 38% in domestic financing for this purpose.

## HONDURAS

### 1. Recent economic trends: Introduction and summary

The symptoms of slackening dynamism already perceived in the economy of Honduras since 1980 culminated in 1981 in the stagnation of the economic growth rate and in 1982 in an actual reduction of 1% in the gross domestic product. This decline was widespread throughout the system of production (except for agriculture and the generation of electric power) and adversely affected the levels of employment and income achieved in the second half of the previous decade. In 1982, the per capita product went down by 4%, making a cumulative deterioration of 8% over the last three years (see table 1 and figure 1).

In order to appreciate the phenomena conditioning the evolution of the economy of Honduras in 1982, brief reference should be made to some trends which began in the previous two years. This period marked the termination of the cycle of rapid growth experienced between 1976 and 1979, which had been propelled by the boom in the export sector and, to a certain extent, by the access to external financing which made it possible to expand the action of the public sector beyond the structural limitations of the economy, and especially those imposed by a highly vulnerable external sector. Thus, in the last two years the combined effect of the deterioration (with varying degrees of intensity) in the volume and unit prices of external sales brought about a drop of almost 20% in the current value of exports of goods, with consequent repercussions on the gross national income, which fell by close to 4% over that period.

Already in 1981 the economic situation of Honduras was showing serious imbalances in the financial area —both at the domestic and external level— while in the sphere of real activities a gradual deterioration was observed which led to the stagnation of economic activity and hence the aggravation of the indexes of underemployment and unemployment.

These imbalances were to be seen in the balance-of-payments current account deficit, which was equivalent on average to a little over 12.5% of the gross domestic product in 1980 and 1981, and in growing disparity between public sector income and expenditure: the central government deficit alone came to represent the equivalent of almost 10% of the gross domestic product in 1981. In order to cover these two deficits, the Government had increasing recourse to external credit, sometimes on unfavourable terms as regards maturity and interest rates.<sup>1</sup>

Efforts were already begun in mid-1981 to adapt the economy to the new conditions prevailing in the international context, within the framework of the commitments previously entered into with the International Monetary Fund, with which an Extended Facility agreement had been in effect since 1979. This agreement provided for reduction of the fiscal deficit, control of the growth of domestic credit —especially that to the public sector— and the continuation of a policy aimed at encouraging net inflows of long-term capital. Despite the application in the second half of 1981 of some measures to raise the level of taxation, however, fiscal revenue went down as a result of the slackening of economic activity. Because of this and of the pressures to maintain and even raise public spending, the Government was not able to comply with the targets of the programme agreed with IMF for the reduction of the fiscal deficit, and disbursements were therefore suspended during the second half of 1981. At the same time, because of the growing financial restrictions of domestic and external origin, the Government was obliged to suspend amortization payments on part of the external debt contracted by a number of quasi-autonomous bodies, including in particular the National Investment Corporation (CONADI). Because of this virtual unilateral moratorium (payments of interest on the external debt and amortization payments on the debt with bilateral and multilateral official sources continued to be made) and the suspension of the IMF Extended Facility agreement, the Government experienced increasing difficulty in obtaining additional external financing.

<sup>1</sup>See the section on Honduras in *Economic Survey of Latin America, 1981*.

The consequences of all these phenomena began to show themselves in 1982, and also coincided with the change of administration at the end of January in that year. The adverse factors inherited by the new Government included the growing imbalances already referred to and, in general, the difficulties which any small agricultural exporting economy has to face as a result of the world recession; the unsatisfactory situation with the international financial community, due to the above-mentioned interruption in the disbursement of compensatory financing; and the growing financial burden resulting from the short-term indebtedness contracted in previous years. There were also some encouraging signs, however, such as the atmosphere of new hope generated by the installation of the first civilian government since the 1960s, after a peaceful and orderly electoral process, and the generalized confidence that this change would enable the country to mobilize wide support from the international financial community.

It was precisely against the background of these expectations that the new authorities began a programme aimed at reducing the internal and external imbalances so often mentioned, without giving rise to excessive social costs. In other words, it was believed that if measures were taken to adjust to the depressed performance of the international economy, sufficient external aid could be obtained to reduce the negative effects of such measures on economic activity and employment. With this in mind, a set of measures were taken whose central characteristics and results are briefly analysed below.

As regards *fiscal policy*, the rates of income and sales tax were raised at the end of 1981, and in mid-1982 a 20% surcharge was applied to most exports, while there were substantial increases in some selective consumption taxes, such as that on the use of automobiles. An austerity spending policy was also followed. Thus, the filling of vacant posts was suspended and public sector wages were maintained at the level of the year before, while extremely strict and selective criteria were applied to the remaining expenditures. Although these measures did slow down the growth of the fiscal deficit, they did not—as had been hoped—succeed in substantially reducing it, mainly because of the deterioration in revenue from taxes on external trade and the pressure exerted by the debt servicing on public spending.

Thus, the leeway for managing public spending was limited, as already noted, by the effects of the recession, which led to a smaller inflow of fiscal resources—the decline in these would have been even greater if the tax measures already referred to had not been taken—and the resurgence of financial imbalances due to earlier events. Consequently, in spite of the efforts made, the fiscal deficit rose from the equivalent of 69% of current income in 1981 to 76% in 1982, while as a proportion of the gross domestic product it increased from 9.6% to 10.2% between these two years.

Moreover, although the action of public development institutions in recent years made it possible to expand production capacity in certain fields (such as sugar and cement), the financial deterioration observed in many of these institutions—due, *inter alia*, to difficulties of organization and management and problems in the recovery of loan portfolios—contributed to the further aggravation of the financial imbalances which already affected the public sector in 1981. Thus, in 1982 the central government had to absorb a number of outstanding debts which it had backed (especially those of the National Investment Corporation) and to incorporate them in the package it was renegotiating with external creditors.

The budget restrictions did not seriously affect the continuity of investment in large projects such as the "El Cajón" hydroelectric plant and the Olancho lumbering complex, which have external financial support. There were, however, delays in the execution of these projects, which were designed to propel the economy in the future.

In general terms, there was an aggravation in 1982 of the financial imbalances of most public enterprises, which led, on the one hand, to the weakening of promotion activities and, as part of the corrective policies undertaken, the far-reaching review of the operations of some institutions such as CONADI, and on the other hand to increases in the charges made by non-financial enterprises for services provided for the community.

As regards *credit policy*, ceilings were placed on the support provided by the banking system to the public sector, in an effort to channel such assistance primarily to productive activities. Even so, the financing provided by the Central Bank to the public sector exceeded the original targets because of the growing deficits accumulated in the course of 1982. Towards the end of the year, the authorities selectively reduced the interest rates on loans because it had not been possible to carry out the

Table 1

## HONDURAS: MAIN ECONOMIC INDICATORS

	1977	1978	1979	1980	1981	1982 <sup>a</sup>
<b>A. Basic economic indicators</b>						
Gross domestic product at market prices (millions of 1970 dollars)	1 116	1 199	1 281	1 317	1 318	1 305
Population (millions of inhabitants)	3.3	3.5	3.6	3.7	3.8	4.0
Per capita gross domestic product (dollars at 1970 prices)	336	349	359	357	345	330
<b>Growth rates</b>						
<b>B. Short-run economic indicators</b>						
Gross domestic product	11.5	7.4	6.8	2.8	0.1	-1.0
Per capita gross domestic product	7.5	3.6	3.1	-0.7	-3.3	-4.3
Gross income <sup>b</sup>	14.7	7.4	4.7	3.5	-3.1	-0.7
Terms of trade (goods and services)	13.5	-0.5	-8.2	2.9	-12.9	-0.1
Current value of exports of goods and services	28.0	18.4	21.9	12.3	-6.1	-13.1
Current value of imports of goods and services	27.4	18.6	19.8	21.1	-5.8	-23.3
<b>Consumer prices</b>						
December - December	7.7	5.3	22.5	11.5	9.2	9.4
Variation between annual averages	8.4	5.7	12.1	18.1	9.4	9.4
<b>Money</b>						
Real minimum wages						
Agriculture	-7.8	-5.4	34.0	0.7	17.1	2.7
Manufacturing	-7.8	-5.4	11.5	8.3	5.1	-1.0
Rate of unemployment <sup>c</sup>	...	...	...	14.4	19.3	20.6
Current income of government	31.4	7.8	16.7	20.1	-2.3	2.1
Total expenditure of government	28.0	22.4	8.3	35.8	1.6	6.2
Fiscal deficit/total expenditure of government <sup>c</sup>	30.0	38.3	30.7	38.8	40.8	43.2
<b>Millions of dollars</b>						
<b>C. External sector</b>						
Trade balance (goods and services)	-74	-89	-92	-185	-177	-46
Balance on current account	-139	-170	-205	-331	-321	-238
Balance on capital account	205	180	225	254	264	149
Variation in net international reserves	66	10	25	-73	-69	-89
External debt <sup>d</sup>	687	845	1 007	1 274	1 474	1 651

Source: ECLA, on the basis of official data.

<sup>a</sup>Preliminary figures.

<sup>b</sup>Gross domestic product plus terms-of-trade effect.

<sup>c</sup>Percentage.

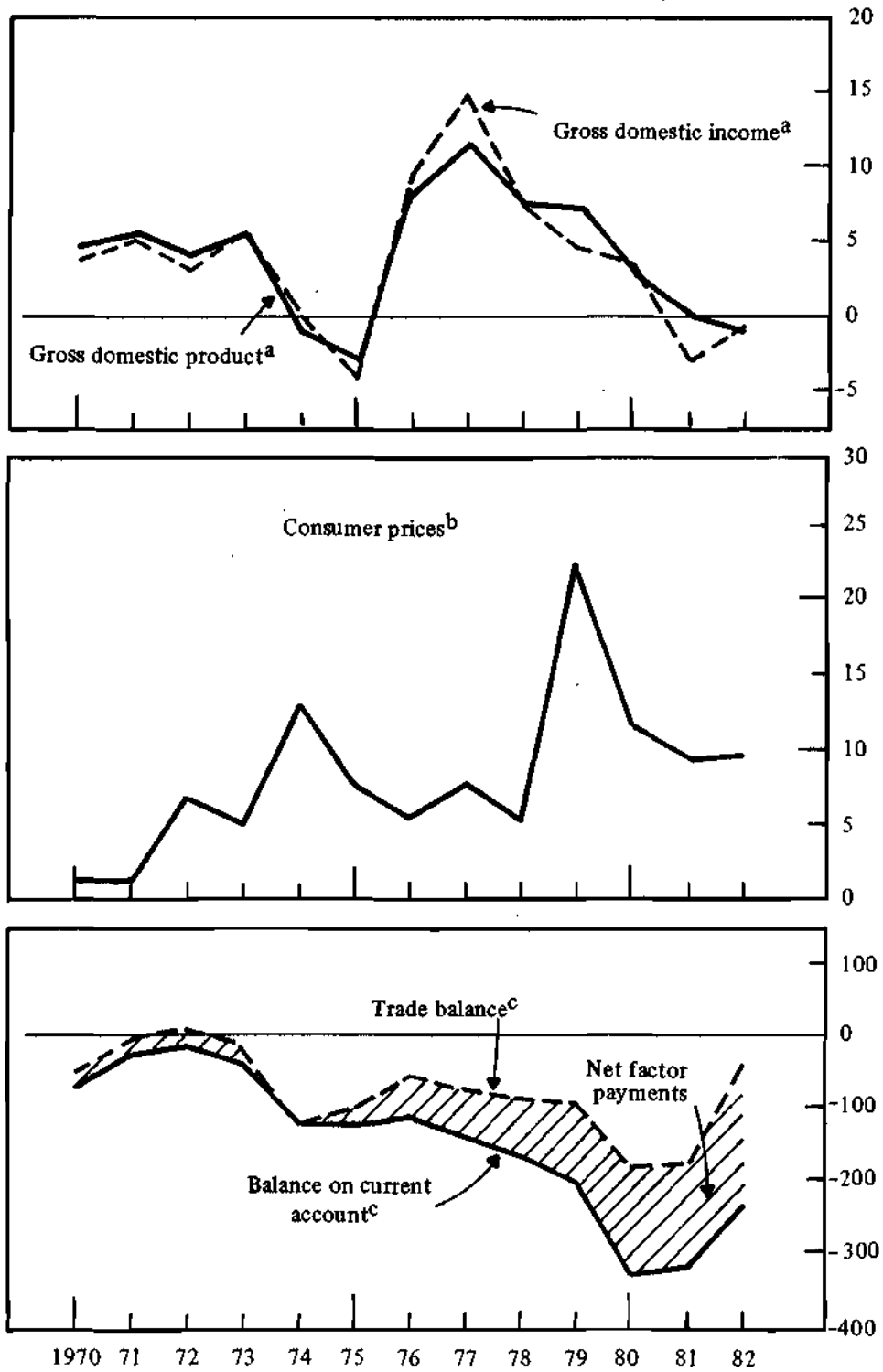
<sup>d</sup>Total medium and long-term external debt.

previous credit policy in view of the generalized sluggishness of the economic system, which meant that the demand for credit was very slack.

As far as *policies to promote productive activities* are concerned, it may be noted that during 1982 the public sector showed continued concern for the performance of domestic food supply. In this connection, it took a number of measures to support the production of basic grains, through incentives provided by higher guaranteed prices and the strengthening of the credit, marketing and technical assistance institutions. Thus, the fact that the 1981 levels of grain production were maintained obviated the greater inflationary pressures which might have arisen as a result of the shortage of food—as had occurred in 1980—while they also helped to prevent the levels of consumption of these products from going down too drastically.

In the area of *prices and wages policy*, various scales of charges were raised during the year, especially in view of the financial imbalances of most of the public enterprises providing services. These measures, together with increases in the prices of some scarce articles and industrial inputs, ran

Figure 1  
**HONDURAS: MAIN ECONOMIC INDICATORS**



Source: ECLA, on the basis of official data.

<sup>a</sup>Annual growth rate.

<sup>b</sup>Percentage variation, December-December.

<sup>c</sup>Millions of dollars.

counter to the efforts made to contain inflation—as for example, in the case of the consumer price of some basic foods—and resulted in a rise of 9% in prices, which was similar on average to that recorded in 1981. As regards wages, there was a generalized freeze, as well as that in the public sector. This naturally meant a deterioration in the real purchasing power of wages, with a consequent impact on levels of consumption.

In *external trade*, the efforts of the Government were concentrated on keeping external purchases down to what was strictly necessary, through a system of priorities in the allocation of foreign exchange. These measures, together with the contraction in total demand, led to a substantial decline in imports, which helped in turn to keep the trade deficit down to only US\$ 46 million, i.e., about a quarter of that registered the year before. This reduction in the deficit was achieved in spite of the considerable deterioration suffered for the second year running in the value of exports (-6% and -13%, respectively) and in the terms of trade (-13% and 0%). It may be noted that there was a drop in sales both to the rest of Central America and to markets outside the region.

The balance-of-payments current account registered a large deficit (although less than in 1981) because of the heavy external debt servicing burden. Factor payments rose from US\$ 153 million in 1981 to over US\$ 200 million, while the servicing of the external debt absorbed 36% of the foreign exchange generated by exports of goods and services. This high proportion, which reflects both the rising burden due to the external debt and the pronounced drop in exports, obliged the authorities to begin negotiations with their creditors to restructure part of their external commitments.

The Government's hopes of being able to enjoy an ample flow of finance were frustrated during the year under consideration. Notwithstanding an increase in the level of official bilateral co-operation from the United States Government under the "Caribbean Project", Honduras had difficulty in mobilizing multilateral official financing—at least in the amounts originally planned—and encountered even greater obstacles in obtaining private external financing. In the middle of the year a major effort was begun to renew an agreement with the International Monetary Fund, and towards the end of 1982 a stand-by credit agreement was signed, the first disbursement under which took place before the end of the year. During the second half of the year progress was also made in the negotiations to restructure part of the external public debt with private creditors, for an amount of approximately US\$ 230 million. Although these negotiations were at an advanced stage by the end of the year, however, it was not possible to complete them until the first quarter of 1983. Altogether, the level of net external financing went down from US\$ 264 million in 1981 to less than US\$ 150 million in 1982, which was not enough to cover the balance-of-payments current account deficit. Consequently, it was necessary to have recourse to the international reserves, which suffered a marked drop for the third year running, this time of almost US\$ 90 million. A contributory factor in this continued to be the flight of local capital for both economic reasons—among them the fear of a future variation in the exchange rate of the lempira—and non-economic causes such as the political unrest in neighbouring countries, which had some indirect effect in Honduras. The shortage of foreign exchange, already observed in 1981, grew more pronounced and led to an increase in activities on the small parallel market which had already begun in 1981.

To sum up, the external sector was responsible during 1982 for the main depressive factors which played a part in the contraction of economic activity in the country and aggravated the financial imbalances persisting from previous years. Public expenditure, which was restricted by limitations in government finances in spite of the efforts made to overcome them, was insufficient to offset the recessive trends visible in almost all sectors of the economy. Ultimately, since the burden of the public debt represents one of the greatest obstacles to the smooth mobilization of external resources, the reactivation of the economy will depend largely on the recovery of international trade and the renegotiation of financial commitments.

## 2. Trends in economic activity

### a) *Global supply and demand trends*

The total supply of goods and services went down by 6% in 1982, due mainly to a sharp reduction in imports (-24%), which continued their downward trend already observed the previous year. This contraction in imports was due to various factors, connected mainly with a decline in total demand and the scarcity of foreign exchange. Domestic economic activity for its part, as already

noted, went down by 1% after having stagnated in 1981. Consequently, the import coefficient, which had amounted to 30% two years before, went down to 20% in constant terms (see table 2).

On the demand side, both domestic and external demand encountered obstacles which affected the growth of the main aggregates. The volume of exports went down by 15%, thus following the downward trend begun in 1980.<sup>2</sup> The international situation gave rise to depressive elements which affected sales of the main Honduran products, so that in the case of some items such as coffee the increase in production helped to raise stocks considerably.

Domestic demand also went down for the second year running (around -3% in 1981 and -4% in 1982). A major element in this was the decline of 20% in gross domestic investment, together with virtual stagnation of consumption. The first of these factors was the result of two elements which operated simultaneously and mutually reinforced each other in the crisis: on the one hand, there was the already mentioned weakness of public expenditure due to the financial imbalances which arose once again in 1982, while on the other hand there was the continued sluggishness of private activity which reflected the reluctance to expand the production system, partly because the recession had led to substantial levels of idle capacity, especially in the manufacturing sector. Altogether, gross fixed investment went down by 16%, which was similar to the 15% decline registered the year before. Within this investment, there were declines in construction and especially in the acquisition of machinery and equipment, with the figures going down for the second year running (-4% and -25%, respectively, compared with -8% and -22% in 1981).

It may be noted that in addition to the financial restrictions suffered by the new administration, there was a weakening of the demand arising from the execution of some big projects. Now that much of the infrastructural work (roads, electrification, etc.) has been completed for projects such as the Olancho lumbering complex, and with the reorientation of the activities of the rural settlement agencies from big concentrated investments such as those in the Aguán Valley to various small projects, there is no immediate prospect of other programmes which will have such major effects on income and employment as these.

Table 2  
HONDURAS: TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1970 prices			Percentage breakdown			Growth rates			
	1980	1981	1982 <sup>a</sup>	1970	1980	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>a</sup>
<b>Total supply</b>	1 713	1 668	1 569	129.6	130.0	120.3	7.8	3.0	-2.6	-5.9
Gross domestic product at market prices	1 317	1 318	1 305	100.0	100.0	100.0	6.8	2.8	0.1	-1.0
Imports of goods and services	396	350	264	29.6	30.0	20.3	11.5	3.7	-11.5	-24.5
<b>Total demand</b>	1 713	1 668	1 569	129.6	130.0	120.3	7.8	3.0	-2.6	-5.9
Domestic demand	1 396	1 347	1 294	105.8	105.9	99.3	4.4	5.5	-3.4	-3.9
Gross domestic investment	329	289	231	20.9	25.0	17.7	9.0	4.7	-12.1	-20.3
Gross fixed investment	308	261	219	18.5	23.4	16.8	5.2	8.1	-15.1	-16.1
Construction	149	137	131	9.8	11.3	10.0	7.2	6.7	-7.8	-4.3
Machinery	159	124	88	8.8	12.1	6.8	3.4	9.3	-21.9	-29.1
Changes in stocks	21	28	12	2.4	1.6	0.9				
Total consumption	1 067	1 058	1 063	84.9	80.9	81.6	3.1	5.7	-0.8	0.6
General government	185	191	187	11.5	14.1	14.3	5.4	8.4	3.2	-2.2
Private	882	867	876	73.4	66.8	67.3	2.6	5.2	-1.6	1.2
Exports of goods and services <sup>b</sup>	317	321	275	23.8	24.1	21.0	23.6	-6.5	1.2	-14.5

Source: ECLA estimates.

<sup>a</sup>Preliminary figures.

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

<sup>2</sup>Thus, the export component of the gross domestic product went down from 28% in 1979 to 25% in 1980 and 1981 and 22% in 1982.



Table 3

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

	Millions of 1970 dollars			Percentage breakdown			Growth rates			
	1980	1981	1982 <sup>a</sup>	1970	1980	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>a</sup>
<b>Gross domestic product<sup>b</sup></b>	1 172	1 173	1 161	100.0	100.0	100.0	6.1 <sup>c</sup>	3.3 <sup>c</sup>	0.1	-1.0
<b>Goods</b>	591	586	583	53.1	49.8	49.5	7.8	4.1	-0.9	-0.4
Agriculture	321	324	330	32.4	27.0	28.1	7.9	3.1	1.0	2.0
Mining	25	25	25	2.1	2.1	2.1	16.2	-7.0	2.5	-2.4
Manufacturing	179	176	170	13.8	15.1	14.4	6.7	6.6	-2.0	-3.3
Construction	66	61	58	4.8	5.6	4.9	7.5	6.8	-7.8	-4.2
<b>Basic services</b>	115	115	114	9.4	9.7	9.7	7.0	4.1	-	-1.2
Electricity, gas and water	25	25	26	1.4	2.1	2.2	19.2	10.0	-	2.8
Transport, storage and communications	90	90	88	8.0	7.6	7.5	4.3	2.6	-	-2.2
<b>Other services</b>	482	487	480	37.5	40.5	40.8	7.1	1.8	1.5	-1.4
Commerce, financial institutions, insurance and real estate	218	219	215	15.8	18.3	18.3	7.7	2.6	0.6	-1.9
Ownership of dwellings	87	86	86	7.2	7.3	7.3	4.6	5.2	-0.7	-
Community, social and personal services <sup>d</sup>	177	182	179	14.5	14.9	15.2	7.7	-0.8	2.9	-1.7
Government services	(54)	(57)	(56)	(3.4)	(4.5)	(4.8)	(22.1)	(3.6)	(4.7)	(-1.2)

Source: ECLA, on the basis of figures supplied by the Central Bank of Honduras, except for the manufacturing sector and its incidence in the total, which were estimated on the basis of data supply by CONSUPLANE.

<sup>a</sup> Preliminary figures.

<sup>b</sup> As the individual activities and the total were calculated independently, the sum of the former does not correspond exactly with the latter.

<sup>c</sup> These growth rates differ from those given in tables 1 and 2 because they measure different concepts of the products: here at factor cost instead of at market prices.

<sup>d</sup> Includes restaurants and hotels and business services.

For their part, stocks tended to go down as a result of two opposite movements. On the one hand, stocks went down in commerce and the industrial sector because of the difficulties in making imports, but on the other hand certain export sectors such as coffee and sugar increased their stocks because of the limited external demand.

The depressive tendencies of the economy as a whole had repercussions on levels of global consumption, since public consumption went down by 2%, while that of the private sector grew by barely 1%. Contributory factors in this were the reduction of personnel in the government sector and private enterprise and the freezing of nominal minimal wages, as well as the repercussions of the increases in the prices of mass consumption goods. The consumption of basic grains was not affected by this contraction, since there was an abundant supply of these which even made it possible to export a certain amount, thanks to the new authorities' policy of giving priority to food production.

**b) Evolution of the main sectors**

Except in the case of agriculture and basic electricity, gas and water services, which grew by 2% and 3% respectively, the other sectors all declined during 1982. Particularly noteworthy, because of their relative importance in the structure of the gross domestic product, were the drops in manufacturing (-3%) and construction (-4%) in the goods-producing sectors and the 2% decline in transport, storage and communications in the basic services sector. Commerce, which had traditionally shown greater relative dynamism in the different economic situations of the past, has registered a decline in the last two years which to some extent reflects the new circumstances prevailing in the economy, especially the restrictions on the acquisition of goods from abroad (see table 3).

i) *Agriculture*. The 2% growth in the agricultural added value represented a result which was relatively similar to that of the year before (1%), but below the growth rate of the population. The higher production achieved in 1982 both for domestic consumption and for export was due mainly to the relatively normal climatic conditions<sup>3</sup> and the effects of the official support policy for the sector, particularly in the area of basic grains.

Except in the case of cotton, there was an appreciable improvement in the production of export crops (see table 4). Production of bananas, which are the main export item, recovered significantly from the low levels of 1980 and 1981 thanks to both the stability of prices and demand in world market for this product and the favourable weather conditions. This crop continued to be affected by the black sigatoka disease, however, especially on the plantations of small and medium-sized producers, where the low technological level characteristics of this type of enterprise made it difficult to control. Although its impact on recent production has not been very serious, the danger that it may spread remains.

Table 4  
HONDURAS: INDICATORS OF AGRICULTURE PRODUCTION

	1979	1980	1981	1982 <sup>a</sup>	Growth rates <sup>b</sup>			
					1979	1980	1981	1982 <sup>a</sup>
<b>Production of the main crops<sup>c</sup></b>								
<b>For export</b>								
Bananas	1 273	1 232	1 080	1 200	3.2	-3.2	-12.3	11.1
Coffee	72	66	71	74	7.5	-8.3	7.0	5.0
Sugar cane	2 069	2 526	2 686	2 839	2.4	22.1	6.3	5.7
Cotton	7	9	7	7	-30.1	18.9	-18.2	-9.7
Tobacco	...	10	11	11	...	...	9.3	3.8
<b>For domestic consumption</b>								
Maize	373	361	439	450	7.5	-3.2	21.5	2.6
Beans	39	36	38	39	-11.2	-8.7	6.4	2.4
Rice	30	36	37	41	-7.7	20.0	2.5	12.0
Yuca	...	54	56	57	...	...	3.5	2.3
Plantains	...	93	102	105	...	...	10.0	2.9
Africa palm	63	99	118	132	8.6	57.1	19.8	11.9
<b>Indicators of stock-raising production</b>								
<b>Stock<sup>d</sup></b>								
Cattle	2 332	2 337	2 358	...	-	0.2	0.9	...
Pigs	701	703	706	...	0.4	0.4	0.4	...
Sheep and goats	24	24	24	...	-1.2	-1.2	-1.2	...
<b>Slaughtering<sup>e</sup></b>								
Cattle	49	62	60	58	6.5	6.1	-4.5	-2.4
Pigs	9	10	10	11	-	9.8	3.0	2.9
Poultry	9	9	10	11	14.5	8.0	9.6	8.7
<b>Other products</b>								
Milk <sup>f</sup>	229	238	246	255	3.2	3.5	3.5	3.6
Eggs <sup>g</sup>	13	14	14	15	-27.0	4.6	2.9	3.5

Source: ECLA, on the basis of data supplied by the Central Bank of Honduras and CONSUPLANE.

<sup>a</sup>Preliminary figures.

<sup>b</sup>The growth rates correspond to real, not rounded, figures.

<sup>c</sup>Thousands of tons.

<sup>d</sup>Thousands of head.

<sup>e</sup>Millions of litres.

<sup>f</sup>Millions of dozen.

<sup>3</sup>In some areas of the country there were some irregularities in rainfall which did not, however, cause substantial losses in production at the national level. This was so in the Southern region, where there was flooding in May, and subsequently a drought.

Coffee production registered a substantial increase (5%) thanks to the higher productivity obtained through technical advances in cultivation and the renewal of coffee plantations undertaken three years before. The situation as regards the cultivation and production of coffee is far from amounting to a boom, however, since the profitability of this crop for producers has deteriorated because the international price of coffee has been depressed since 1980, Honduras has been assigned a smaller export quota by the International Coffee Organization, and the costs of combating the coffee rust disease have represented a growing burden.

Production of sugar cane and cotton face similar problems. The area of sugar cane grown has expanded steadily in recent years and the industrial processing capacity has recently grown at a similar rate. The international prices of sugar have been going down since the end of 1980, however, and this, together with the smaller import quota assigned to the country by the United States, has led to the accumulation of substantial stocks estimated at 40 000 tons in 1982. As in the case of coffee, the critical financial position of the sugar sector has led to a search for new markets and made necessary government subsidies (through the working capital financing fund).

In view of the high costs involved in the cultivation of cotton, the drop in international prices has discouraged the growing of this crop, which began to be exported in the 1970s. Production therefore went down for the second year running (-18% in 1981 and -10% in 1982).

Production for domestic consumption (mainly of basic grains) remained at a reasonable level as a result of the Government support policy and the relatively favourable weather conditions. The maize harvest was up to the 1981 level, thus making available some surpluses for export within the Central American area. There were significant increases in the production of beans and rice, especially in the case of the latter. All these results clearly reflected the rise in guaranteed prices for the 1981/1982 season, the progress made by the Honduran Agricultural Marketing Institute in its efforts to stabilize the supply and marketing of basic grains, the credit support policy of the Agricultural Development Bank (BANADESA), and the rediscounting policy followed by the Central Bank.

Although the occupation of land diminished in 1982, there is still strong pressure on this resource. According to information supplied by the National Agrarian Institute (INA), up to that year over 500 peasant groups had registered applications for approximately 79 000 hectares of land. Although the INA was in the process of administrative reorganization and redefinition of its objectives, it directed its action towards containing such pressures. In 1982, considerable progress was made in the allocation and adjudication of land, and nearly 17 000 hectares was divided up among 3 500 families. The reorganization of INA provided for a reformulation of its functions. Thus, two main lines of work were laid down for it: i) to place emphasis on the reorientation of project promotion policy so as to favour those on a smaller scale, stressing also the process of consolidation of the reformed sector by the provision of technical assistance and the reorganization of producers, and ii) to provide producers with ownership deeds in order to bring them into the official and private credit scheme. Within this context, 113 deeds in respect of a total of more than 3 000 hectares of land were given to peasant groups and family units in 1982.

ii) *Manufacturing.* Over the last two years the rate of activity in manufacturing has undergone a decline which has brought it back to the level of 1979. Thus, whereas during the 1980 economic boom manufacturing grew substantially (7%) in 1981 and 1982 it shrank by 2% and 3% respectively (see table 5).

This sector has undoubtedly been affected by the contraction of domestic demand in the last two years, which reflects the decline in the population's income. Furthermore, the generalized crisis affecting the Central American countries has reduced demand for Honduran manufactures on the part of countries in the area with which Honduras has integration arrangements. Consequently, the branches of industry which are oriented to a considerable degree towards this market have markedly increased their proportion of idle capacity. Moreover, in view of the low level of vertical integration of manufacturing except in the case of certain traditional consumer goods branches, the scarcity of foreign exchange for the purchase of imported imports and the difficult administrative formalities for obtaining such foreign exchange have also helped to check industrial growth.

The scanty information available for this sector indicates that traditional manufactures were the branch most seriously affected by the drop in domestic demand. Production of processed foodstuffs, for example, registered volumes 15% below those of 1980. It should be noted that some firms producing juices, canned foods and concentrates sell a substantial proportion of their production on the Central American market.

The meat industry for its part, suffered the negative impact of lower prices on international markets and the smaller import quota assigned by the United States. The same phenomena also affected sugar production: a field of activity in which large amounts of installed capacity were left idle. Despite the decline in international prices observed since 1981, domestic sugar prices were raised in 1982—in addition to the financial support already referred to—in order to keep up employment and partially offset the adverse effects of international market conditions on this recently expanding industry which is going through severe financial problems.

Wood manufactures suffered the effects of the economic recession in the United States, which is the main market for them. As regards sawnwood, although restrictions have been imposed on the exploitation of national forest reserves, the smaller demand from the construction and furniture manufacturing industries made it possible to increase exports slightly. The Benito Oriental saw mill is scheduled to start operations in the second quarter of 1983; this project has been promoted by the Honduran Forest Development Corporation (COHDEFOR), which is the body responsible for administering the country's forests. It is hoped that the better sawmilling techniques used in this enterprise will make it possible to open up markets which demand a high quality of finish in the product. At present, most of the exports go to the Caribbean area.

Other branches manufacturing intermediate products also show the effects of the smaller local and foreign demand. The chemical industry, which is the most important of these branches, registered a sharp contraction, and petroleum refining also went down because it was preferred to import fuels which had already been refined.

Table 5

HONDURAS: INDICATORS OF MANUFACTURING PRODUCTION

	1979	1980	1981	1982 <sup>a</sup>	Growth rates <sup>b</sup>			
					1979	1980	1981	1982 <sup>a</sup>
<b>Index of manufacturing value added (1976 = 100)</b>	127	135	132	128	6.7	6.6	-2.0	-3.3
<b>Traditional industries</b>	124	134	132	124	6.4	7.4	-1.6	-5.4
Food	139	143	140	...	11.2	2.7	-2.0	...
Beverages	108	110	109	...	-1.4	2.1	-1.0	...
Tobacco	126	117	123	...	4.7	-7.0	5.0	...
Textiles	126	149	142	...	1.1	18.1	-4.7	...
Clothing	116	149	149	...	3.6	29.0	-	...
Leather	174	166	163	...	28.5	-4.5	-2.2	...
Leather footwear	140	137	140	...	16.0	-2.7	2.4	...
Wood	102	101	100	...	-1.0	-1.3	-0.4	...
Wooden furniture	115	137	127	...	9.2	2.7	-7.3	...
Printing and publishing	115	135	145	...	4.5	17.8	7.4	...
Miscellaneous	76	103	96	...	17.7	35.7	-6.7	...
<b>Intermediate industries</b>	132	135	119	125	5.7	2.8	-11.7	5.1
Paper	187	182	167	...	14.2	-2.7	-8.3	...
Rubber	166	189	142	...	42.3	13.9	-25.1	...
Chemicals	146	152	131	...	4.0	4.0	-13.8	...
Petroleum refining	100	101	76	...	-6.0	0.6	-24.0	...
Non-metallic mineral products	121	123	118	...	4.9	1.5	-4.0	...
<b>Machinery and metal-working</b>	156	171	228	222	20.6	9.2	33.3	-2.8
<b>Other indicators of manufacturing production</b>								
Consumption of electricity by industry (millions of kWh)	347	379	415	404 <sup>c</sup>	17.0	9.2	9.5	-2.7

Source: ECLA, on the basis of data from CONSUPLANE and the Central Bank of Honduras.

<sup>a</sup>Preliminary figures.

<sup>b</sup>Growth rates correspond to real, not rounded, figures.

<sup>c</sup>Estimated on the basis of the January-November variation.

Table 6

## HONDURAS: ELECTRICITY CONSUMPTION, BY USER SECTOR

	Millions of kWh					Growth rates <sup>b</sup>			
	1970	1975	1980	1981	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>a</sup>
Total	149	436	759	837	855	12.5	17.1	10.2	2.2
Residential	44	103	211	240	263	22.5	16.9	13.6	9.5
Commercial	33	64	117	124	130	16.5	8.3	5.6	4.6
Industrial	59	241	379	415	404	17.0	9.2	9.6	-2.6
Street lighting	3	12	19	18	22	6.1	8.3	-9.0	20.2
Government	10	15	32	38	30	26.0	16.4	20.5	-19.8
Other	-	1	1	2	6				

Source: ECLA, on the basis of figures supplied by the Central Bank of Honduras.

<sup>a</sup>Estimated on the basis of the January-November variation.

<sup>b</sup>The growth rates correspond to real, not rounded, figures.

The decline in construction activity also led to a reduction in demand for cement, with the result that the output of this product went down by 12% and the firms producing it have experienced problems in covering their financial commitments.

The generalized crisis in the manufacturing sector brought difficulties for a considerable number of enterprises, and in some of them the situation which had already dragged on from previous years was further aggravated. In 1982, there was an increase in the number of enterprises which requested permission from the labour authorities to suspend their operations temporarily. This made the financial deterioration of the National Investment Corporation (CONADI) still more acute, and together with the problems it experienced in recovering its loans —mainly to a sugar mill and a cement plant— and obtaining further domestic and external resources, this brought it to a situation of virtual insolvency. This body is at present being subjected to a thorough reorganization.

iii) *Construction.* Construction activity declined by 4% after the 8% drop suffered in 1981 (see table 3). This contraction is particularly serious in the present economic depression, since although this sector demands a considerable content of imported inputs, it also absorbs a substantial proportion of locally manufactured inputs and provides employment to a broad sector of the population. Thus, its unfavourable performance in the last two years has further aggravated the drop in productive activities and the deterioration in the income of the population.

In 1982, construction activities were hindered both by the financial restrictions faced by the public sector in its investment programmes and by the decline in private demand for commercial and industrial buildings. Public sector investment spending was limited to the continuation of projects already underway, especially the infrastructural work in connection with big projects such as the El Cajón hydroelectric plant and the Benito Oriental sawmill. Some projects were also carried out for the health and education sectors, and some stretches of the road network were completed.

As regards housing construction, the National Housing Institute completed construction of almost 3 500 low-cost dwellings, mainly in urban areas, compared with some 600 in 1981. The possibilities of continuing with this kind of project are limited in the short term because of the financial problems faced by the housing credit institutions, among them the already mentioned National Housing Institute and the National Housing Finance Agency.

iv) *Electricity.* According to available information, total consumption of electric energy increased by 2% (see table 6). Consumption by the industrial sector, which absorbs approximately 50% of the total, went down by 3%, but residential consumption grew by almost 10%, probably because of the expansion of the network of users, due to the increase in the number of low-cost dwellings. In the third quarter of the year the scales of charges for electricity were changed as part of the policy adopted by the new administration of placing the finances of State enterprises on a sounder footing.

c) *Employment*

The deterioration in economic activity for the second year running helped to bring about a further increase in the level of open unemployment, which, according to official information, came to 20% (approximately 240 000 persons) of the economically active population at the end of the year.<sup>4</sup> In addition, 45% of the economically active population (some 528 000 persons), mostly in the agricultural sector, were underemployed.

Since agriculture was almost the only activity whose operations increased, it may be assumed that the problems of unemployment and underemployment were more severe in the cities than in rural areas. As the growth rate of the labour force was over 3%, however, it may be inferred that even in agriculture there was no improvement in the employment situation during 1982.

Another factor which contributed to the deterioration in employment was the number of manufacturing enterprises which, as already noted, requested authorization from the labour authorities to suspend their operations temporarily on account of financial and marketing problems and the lack of imported raw materials.

### 3. The external sector

The external sector once again showed that it is a crucial element in the performance of the Honduran economy. In 1982 the outflow of capital more than offset the efforts made to moderate the contraction in export income.

The gradual exhaustion of the capacity for increasing external indebtedness, in the present adverse conditions as regards exports and income,<sup>5</sup> helped to make access to external sources of capital still more difficult. At the same time, it led the authorities to take steps to renegotiate part of the outstanding debt and to have recourse to compensatory credit from international organizations.

a) *Merchandise trade*

i) *Exports.* In 1982 the contraction in external sales became still more marked and the current value of exports of goods came to only US\$ 678 million, which was 14% less than in 1981 and over 20% less than in 1980 (see table 7).

This evolution was due to the lower level of international prices, in contrast with the rises registered in 1980, and to the unfavourable effects of the quota restrictions encountered by the main Honduran products abroad, as well as the generalized contraction in trade within the region. Generally speaking, the decline most seriously affected non-traditional exports and exports of manufactures to the Central American market.

The biggest relative drop among the most important Honduran export products was in sales of coffee, sugar and meat, which together accounted for 60% of the deterioration in export income. In the case of the first of these commodities, the main effect was caused by the reduction in the export quota allocated to Honduras by the International Coffee Organization from 1.1 million bags in the 1980/1981 season to 960 000 in 1981/1982. As a result, in spite of the increase in production the value of exports went down by almost 13%, and for the second year running substantial surpluses were generated (approximately 380 000 bags in 1982), which made it necessary to seek alternative markets.

Sugar exports, for their part, went down to less than half the 1981 value because of the sharp drop in international prices. Furthermore, this commodity is subject to import quotas in the United States, which is the main purchaser.

Meat, like sugar, also suffered from the import restrictions imposed by the United States Government to protect its own local producers. Consequently, in spite of the slight rise in prices, the value of external sales went down by 33% on top of the 23% decline registered in 1981.

Another crop which suffered from the impact of lower world prices was cotton, which had increased its share in exports since 1978. The area planted with cotton went down considerably

<sup>4</sup>In 1972 open unemployment represented only 7% of the economically active population.

<sup>5</sup>The medium and long-term debt alone represented 59% of the gross domestic product in 1982, compared with 52% in 1980, while its servicing as a proportion of exports grew from 20% to 52% over the same period.

Table 7

## HONDURAS: EXPORTS OF GOODS, FOB

	Millions of dollars			Percentage breakdown <sup>a</sup>			Growth rates <sup>b</sup>			
	1980	1981	1982 <sup>a</sup>	1970	1980	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>a</sup>
<b>Total</b>	850	784	678	100.0	100.0	100.0	19.8	13.4	-7.8	-13.6
Central America	84	65	46 <sup>c</sup>	10.4	9.9	6.8	...	40.3	-22.0	29.7
Rest of world	766	719	632	89.6	90.1	93.2	...	9.7	-6.1	-12.1
<b>Main traditional exports</b>	607	541	526	77.9	71.4	77.6	15.0	7.9	-10.7	-3.1
Bananas	228	213	239	42.0	26.8	35.3	-40.6	14.1	-6.4	12.1
Coffee	204	173	151	14.5	24.0	22.3	-6.7	3.7	-15.3	-12.6
Wood	36	43	45	9.1	4.2	6.6	-0.6	-13.9	19.2	3.7
Chilled meat	61	46	32	5.4	7.2	4.7	56.6	-	-23.5	-31.0
Zinc	10	12	14	2.4	1.2	2.1	-19.2	-8.7	22.5	15.9
Shrimp and lobster	23	26	27	0.8	2.7	3.9	55.5	-3.5	11.5	2.1
Silver	32	16	14	3.1	3.8	2.1	57.3	85.1	-50.4	-9.5
Cotton	13	12	4	0.6	1.5	0.6	-27.3	19.0	-13.4	-67.4
<b>Main non-traditional exports</b>	66	72	38	2.4	8.5	5.6	63.2	41.9	8.1	-19.1
Wood manufactures	16	12	9	0.3	1.4	1.3	77.7	-3.3	-26.8	-24.9
Unrefined sugar	29	47	20	0.7	5.5	3.0	141.8	120.7	58.6	-57.0
Soap	21	13	9	1.4	1.5	1.3	21.3	24.2	-36.6	-30.8
<b>Others</b>	177	171	114	19.7	20.2	16.8	30.8	15.7	-3.2	-33.0

Source: ECLA, on the basis of data supplied by the Central Bank of Honduras and CONSUPLANE.

<sup>a</sup> Preliminary figures.

<sup>b</sup> The percentage breakdown and growth rates correspond to real, not rounded, figures.

<sup>c</sup> Estimated on the basis of the January-September variation.

(67%) during the year under consideration, so that there was likewise a drop in the volumes exported.

A still greater deterioration in external sales was prevented, however, by the favourable performance of certain products. Thus, for example, over the last three years there has been relative stability in the world prices of bananas, which are the most important export item of the country. As a result, the favourable production level achieved in 1982 made it possible to achieve higher income. Other traditional products also showed significant increases in sales: timber (4%), zinc (16%) and shrimps and lobsters (2%), the increase in the first two cases being due to the larger volumes sold and the rise in the latter being registered thanks to a substantial increase in prices.

The main non-traditional exports, mostly manufactures, suffered a sharp contraction due to the generalized depression in the countries of the Central American Common Market, as will be analysed later in this study.

ii) *Imports.* The value of imports of goods came to US\$ 727 million, which represented a 24% decline compared with 1981, when there had already been a drop of 6% compared with the previous year. This behaviour was mainly due to the sharp reduction in the volume of goods imported into the country, together with a noteworthy diminution in the growth rate of international prices in the last two years (see table 8).

In 1981 and 1982, imports reflected the loss of dynamism of the economy in general, and in the latter year they also reflected the renewed shortage of foreign exchange and the controls established in order to rationalize foreign purchases. In view of the high degree of openness to the exterior which characterizes the Honduran economy, the smaller export income for the second year running tended to compress economic activity and the demand for inputs and final goods from abroad. This was aggravated by the heightening of the imbalances resulting from payments in respect of external factors of production, which made it necessary in mid-year to take measures to restrict imports even more. On the one hand, an extraordinary surcharge of 20% was applied to the CIF prices of all imports

except those of petroleum and petroleum products, essential consumer goods, agricultural inputs, and imports of goods under international agreements, especially those with the other Central American countries. On the other hand, the issue of import permits was governed by a set of priorities which tended to discourage purchases of luxury consumer goods.<sup>6</sup>

The decline in external purchases affected to similar extents both those from the Central American area (-23%) and those from outside the region (-25%). By major groups of goods, the biggest reductions were in both consumer durables and non-durable consumer goods. This had a substantial influence on the contraction in commercial activity, and although the favourable agricultural output of the last two years helped to keep down imports of essential consumer goods, the biggest reduction was in durable goods.

As a result of the slower rate of activity in the manufacturing sector and construction, purchases of raw materials and intermediate products together fell by 18%. The available information reveals substantial declines in purchases of inputs for the chemical, textiles and metal products and machinery industries. It should be noted that the intermediate goods category includes fuels and lubricants, the prices of which went up significantly (9%) in 1982 because the only refinery in the country imported refined fuels instead of crude petroleum for local processing.

Finally, purchases of machinery and other capital goods for the transport sector went down by 27%, on top of the pronounced decline registered the previous year. Thus, imports of investment goods in 1982 were approximately 40% less than those registered in 1980. This depression reflects

Table 8  
HONDURAS: IMPORTS OF GOODS, CIF

	Millions of dollars			Percentage breakdown <sup>a</sup>			Growth rates <sup>b</sup>			
	1980	1981	1982 <sup>a</sup>	1970	1980	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>a</sup>
<b>Total</b>	1 019	960	727	100.0	100.0	100.0	19.6	22.5	-5.8	-24.3
Central America	104	118	91 <sup>c</sup>	24.9	10.2	12.5	1.0	5.8	14.1	-22.9 <sup>c</sup>
Rest of world	915	842	636	75.1	89.8	87.5	22.5	24.8	-8.0	-24.5
<b>Consumer goods</b>	238	237	154	30.7	23.3	20.8	16.0	22.0	-0.2	-35.0
Durable	84	77	...	9.9	8.2	...	14.7	13.5	-7.5	...
Non-durable	150	160	...	20.8	15.1	...	16.9	27.4	3.8	...
<b>Raw materials and intermediate goods</b>	518	503	413	44.1	50.8	56.8	29.5	23.0	-2.8	-18.0
Fuels and lubricants	167	159	144	1.4	16.4	19.8	49.6	52.0	-5.0	-9.4
Raw materials for agricultural	47	55	...	3.6	4.6	...	22.0	16.7	16.1	...
Raw materials for industry	252	247	...	33.9	24.7	...	23.4	11.0	-1.9	...
Raw materials for construction	52	42	...	5.2	5.1	...	26.2	18.8	-18.0	...
<b>Capital goods</b>	262	217	159	25.0	25.7	21.9	7.5	22.2	-17.2	-26.6
For agriculture	23	19	...	3.8	2.2	...	37.8	-23.2	-18.3	...
For industry	178	157	...	14.6	17.5	...	3.8	33.4	-11.8	...
For transport	61	41	...	6.6	6.0	...	4.2	19.0	-32.0	...
<b>Other products</b>	1	2	1	0.2	0.2	0.1	-52.9	-12.5	53.6	-66.2

Source: ECLA, on the basis of data from the Central Bank of Honduras and CONSUPLANE.

<sup>a</sup>Preliminary figures.

<sup>b</sup>The percentage breakdown and growth rates correspond to real, not rounded, figures.

<sup>c</sup>Estimated on the basis of the January-September variation.

<sup>6</sup>The order of priorities for obtaining foreign exchange was set as follows: i) foodstuffs and pharmaceutical products; ii) fuels and lubricants; iii) raw materials and agricultural inputs; iv) machinery and spare parts, and v) other goods and services.



Table 9

## HONDURAS: TRADE WITH THE OTHER CENTRAL AMERICAN COUNTRIES

(Millions of dollars)

		1970	1975	1979	1980	1981	1981 <sup>a</sup>	1982 <sup>a</sup>
Total	Balance	-37	-25	-38	-20	-53	-32	-27
	Exports, FOB	18	27	60	84	65	51	36
	Imports, CIF	55	52	98	104	118	83	63
Costa Rica	Balance	-5	-8	-15	-15	-28	-19	-11
	Exports, FOB	7	6	14	17	14	12	8
	Imports, CIF	12	14	29	31	42	31	19
El Salvador	Balance	-	-	-	-	-	-	3
	Exports, FOB	-	-	-	-	2	1	5
	Imports, CIF	-	-	-	-	2	1	2
Guatemala	Balance	-22	-13	-19	-20	-30	-10	-17
	Exports, FOB	7	11	32	38	31	21	18
	Imports, CIF	29	24	51	58	61	41	35
Nicaragua	Balance	-10	-4	-3	15	5	-7	-2
	Exports, FOB	4	10	14	29	18	17	5
	Imports, CIF	14	14	17	14	13	10	7

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

<sup>a</sup>Preliminary figures for the period January-September.

the deterioration registered in both public and private investment expenditure in these two years, as well as the unpromising prospects displayed by economic activity in 1982, especially in the manufacturing and construction sectors.

iii) *Central American trade.* Trade with the other Central American countries, which had received a sharp impetus in 1980, suffered a severe setback in 1982 both on the export and import side, reflecting the generalized economic problems facing the region. An event worthy of note was the recent resumption of trade between Honduras and El Salvador (after having been interrupted for almost ten years) as part of the system of bilateral agreements which Honduras has been signing. These new trade links have not been able to manifest their effects to the full, however, because of the situation prevailing in both economies during the last two years.

According to information available for the period January-September, exports to the Central American area went down by 30% compared with 1981. There was a decline in the volume of exports to all countries, but the biggest drops were in sales to Nicaragua (-71%) and Costa Rica (-27%).

Imports from the area suffered the impact of the economic recession with one year's delay. Thus, purchases from the region reached their peak in 1981 when they came to US\$ 118 million and led to an increase in the deficit with the region (see table 9). In the first nine months of 1982, imports from the region went down by 24%, mainly as a result of the decline in trade with Costa Rica and Nicaragua. In this period, purchases from and sales to Guatemala went down in a similar manner, but this country continued to be the most important trading partner of Honduras in the area, with a share of close to 50% in total regional trade.

iv) *The terms of trade.* Both import and export prices remained relatively unchanged compared with the previous year: the former increased by 1% and the latter by only 0.3% (see table 10). As a result, the terms of trade showed a slight deterioration of 0.6%, coming on top of the decline of 14% suffered in 1981, and hence stood 10% lower in 1982 than in the reference year of 1970.

The purchasing power of exports of goods, for its part, went down by 15% compared with 1981, due fundamentally to the drastic fall in the volume of goods exported.

b) *Services trade and factor payments*

Since it is a variable which is intimately linked with the dynamism of merchandise transactions, the deficit on the trade in real services also went down (by 30%) to US\$ 43 million. This was due to receipts of US\$ 90 million (10% less than in the previous period) and outlays of US\$ 133 million in respect of the acquisition of services abroad (see table 11).

Among factor services in recent years, payments of interest to the exterior have been acquiring greater importance, as a result of the growing volume of indebtedness, the impact of short-term credits, and the higher interest rates. Although this trend had already been observed in previous years, it was in 1982 that the imbalance reached its highest level. Altogether, the outflow from the country under this heading came to US\$ 172 million, which represented an increase of 35% over 1981. In addition, there was an outflow of US\$ 45 million in respect of profits payable on direct investment. In contrast, the inflow of funds in respect of interest on investments by Honduran residents abroad only came to US\$ 15 million.

c) *The current account position and its financing*

The balance-of-payments current account registered a deficit of US\$ 238 million, equivalent to 9% of the gross domestic product, as a result of the deficits of US\$ 3 million on merchandise trade, US\$ 43 million on real services, and US\$ 202 million on factor services, compared with income from private transfer payments of only US\$ 10 million. Although the recurrent trade deficit of the Honduran economy was substantially smaller in 1982, the current account balance clearly reflected the rigidities imposed by the growing commitments contracted abroad in respect of interest payments on the debt. Thus, in spite of the redoubled efforts made during the year to reduce the flow of imports, the restricted export income meant that the relationship between the latter and the current account deficit remained practically the same as in the previous two years (35%).

The balance on the capital account sank drastically and made it necessary, for the third year running, to use part of the international monetary reserves, which consequently went down by US\$ 89 million. The country thus suffered severe tensions which went beyond the local sphere when problems arose, albeit temporarily, in servicing the loans contracted abroad.

The net inflow of capital from the exterior (US\$ 149 million) was 42% below the average for the previous two years. The inflow of short-term capital went down by US\$ 25 million, while direct

Table 10

HONDURAS: MAIN FOREIGN TRADE INDICATORS

	1977	1978	1979	1980	1981	1982 <sup>a</sup>
<b>Growth rates</b>						
Exports of goods						
Value	28.7	18.2	20.8	12.4	-7.8	-13.5
Volume	0.6	13.1	22.8	-6.6	1.4	-13.8
Unit value	28.0	4.5	-2.4	20.4	-9.1	0.3
Imports of goods						
Value	27.2	19.0	19.7	21.8	-5.8	-24.2
Volume	14.3	13.5	11.8	3.1	-10.9	-25.0
Unit value	11.3	4.9	7.0	18.1	5.8	1.0
Terms of trade (goods)	15.0	-0.4	-8.8	1.9	-14.0	-0.6
<b>Indexes (1970 = 100)</b>						
Terms of trade (goods)	113.2	112.8	102.9	104.8	90.1	89.6
Purchasing power of exports of goods <sup>b</sup>	137.8	154.8	174.1	167.6	145.1	123.7
Purchasing power of exports of goods and services <sup>b</sup>	136.9	154.1	174.9	168.3	148.4	126.7

Source: ECLA, on the basis of official data.

<sup>a</sup>Preliminary figures.

<sup>b</sup>Corresponds to the volume of exports of goods or of goods and services, as appropriate, adjusted by the respective terms-of-trade index.

Table 11  
HONDURAS: BALANCE OF PAYMENTS

(Millions of dollars)

	1977	1978	1979	1980	1981	1982 <sup>c</sup>
Balance on current account	-139	-170	-205	-331	-321	-238
Trade balance	-74	-89	-92	-185	-177	-46
Exports of goods and services	581	687	838	942	884	768
Goods FOB	530	626	750	850	784	678
Real services <sup>b</sup>	51	61	88	92	100	90
Transport and insurance	19	22	30	40	39	34
Travel	14	17	21	25	31	25
Imports of goods and services	655	776	930	1 127	1 061	814
Goods FOB	550	654	783	954	899	681
Real services <sup>b</sup>	105	122	147	173	162	133
Transport and insurance	54	64	79	98	89	71
Travel	22	23	29	31	27	23
Factor payments	-69	-85	-120	-154	-153	-202
Profits	-39	-47	-68	-78	-44	-45
Interest received	12	18	20	24	18	15
Interest paid	-42	-56	-72	-100	-127	-172
Unrequited private transfer payments	4	4	7	8	9	10
Balance on capital account	205	180	225	254	264	149
Unrequited official transfer payments	10	13	14	14	19	20
Long-term capital	149	176	167	268	207	166
Direct investment	9	13	10	6	-4	-2
Portfolio investment	-	-	-	-	-	-
Other long-term capital	140	163	157	262	211	168
Official sector <sup>c</sup>	34	50	60	53	16	...
Loans received	57	73	78	94	71	...
Amortization payments	-17	-20	-19	-31	-40	...
Commercial banks <sup>c</sup>	13	1	1	2	7	...
Loans received	19	17	9	12	18	...
Amortization payments	-6	-17	-24	-11	-11	...
Other sectors <sup>c</sup>	93	112	96	207	188	...
Loans received	134	160	205	279	250	...
Amortization payments	-41	-43	-95	-72	-81	...
Short-term capital	53	-21	68	12	28	-25
Official sector	11	-6	-1	-9	49	...
Commercial banks	10	-17	42	-8	-35	...
Other sectors	32	2	27	29	14	...
Errors and omissions	-7	12	-24	-40	10	-12
Global balance <sup>d</sup>	66	10	20	-77	-57	-89
Total variation in reserves (minus sign indicates an increase)	-66	-10	-25	73	69	89
Monetary gold	-	-	-	-	-	...
Special Drawing Rights	-1	-	-6	10	-2	...
IMF reserve position	-	-8	-	8	-	...
Foreign exchange assets	-48	3	-19	41	51	...
Other assets	-3	-	-	-1	-3	...
Use made of IMF credit	-14	-5	-	15	23	...

Source: ECLA, on the basis of data from the Central Bank of Honduras and the International Monetary Fund.

<sup>a</sup>Preliminary figures.

<sup>b</sup>Real services also include other official and private transactions, but not factor payments.

<sup>c</sup>In addition to loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities.

<sup>d</sup>The global balance is the sum of the balance on current account and the balance on capital account. The difference between the total variation in reserves (opposite sign) and the global balance represents the value of the counterpart items; monetary gold, allocation of Special Drawing Rights and variation due to revaluation.

investment went down by US\$ 2 million, and this helped to reduce the external payments capacity. The persistent flight of capital and the failure of some export sectors to repatriate income from sales abroad also aggravated the shortage of international means of payment faced by the banking authorities.

During the third quarter, the Honduran Government renegotiated the terms of the economic stabilization programme agreed with the International Monetary Fund and obtained additional credits of 100 million Special Drawing Right units from the Fund to support that programme during the period 1982-1983.<sup>7</sup> In addition, it obtained 23 million Special Drawing Right units as compensatory financing.

d) *The external debt*

Excluding direct foreign investment, the Honduran economy absorbed US\$ 177 million in net medium- and long-term loans during 1982 from public and private sources, making a total external debt of US\$ 1 651 million (see table 12). The biggest increase was registered by the public sector, mainly through loans underwritten by government agencies, while long-term credits obtained by the private sector went down substantially.

Table 12  
HONDURAS: INDICATORS OF EXTERNAL INDEBTEDNESS

	1977	1978	1979	1980	1981	1982 <sup>a</sup>
Millions of dollars						
<b>External public debt</b>						
Balance outstanding	...	696	864	1 107	1 288	...
Medium and long-term	446	570	692	872	1 055	1 198
Short-term	...	126	172	235	233	...
Disbursements <sup>b</sup>	121	155	193	201	241	261
<b>Global external debt</b>						
Balance outstanding <sup>c</sup>	...	971	1 279	1 509	1 707	...
Medium and long-term	687	845	1 077	1 274	1 474	1 651
Disbursements <sup>b</sup>	211	249	300	381	333	284
Service <sup>b</sup>	105	136	198	193	228	212
Capital <sup>b</sup>	71	90	138	113	133	107
Interest <sup>b</sup>	34	46	60	80	95	105
Percentages						
<b>Proportions<sup>d</sup></b>						
Global external debt/gross domestic product	41.4	44.3	46.0	51.2	55.7	58.5
Servicing of global external debt <sup>e</sup> / exports of goods and services	19.4	21.3	25.1	22.6	29.4	36.3
Servicing of global external debt <sup>e</sup> /disbursements	49.8	54.6	66.0	50.7	68.5	74.6
Servicing of global external debt <sup>e</sup> / gross domestic product	6.8	7.7	9.6	8.6	9.8	9.9

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

<sup>a</sup>Preliminary figures.

<sup>b</sup>Medium and long-term.

<sup>c</sup>Including total external public debt and medium and long-term private debt.

<sup>d</sup>Estimated on the basis of the balance outstanding, the disbursements and the service of the global medium and long-term external debt.

<sup>e</sup>Including interest in respect of the short-term debt service.

<sup>7</sup>The economic stabilization programme includes measures for containing the fiscal deficit, the balance-of-payments imbalance and the expansion of global credit. Through the strengthening of public saving, by taking measures affecting both income and expenditure, it is aimed to moderate the pressures exerted by the public sector on domestic credit and the balance of payments.

Although no detailed figures are available on short-term capital movements, the available information indicates the persistence of the pressures exerted by the commercial debt on the structure of public sector external commitments.

Some indicators of indebtedness show the nature of the crisis with the exterior suffered by the Honduran economy in 1982. Although the medium and long-term external debt as a proportion of the gross domestic product only increased slightly (to 59% compared with 56% in 1981), the servicing of this debt (including also the interest on the short-term debt), as a proportion of export income, increased from 29% to 36% over the same period. Likewise, the difficulty in obtaining additional credits abroad—to which the shortage of local counterpart funds because of the low level of domestic saving also contributed—meant that the debt servicing absorbed 75% of the amounts disbursed. In other words, the restrictions on obtaining additional external financing were so great that only 25% of the gross funds mobilized could be used for the expansion of economic activity.

#### 4. Prices and wages

During 1982, domestic prices evolved on a similar pattern to that of the year before. On average, consumer prices rose by 9.4%, compared with the increase of 18% registered in 1980 (see table 13). The results in the last two years were significantly influenced by the slower rise in food prices, due to larger output of basic grains, and the slackening in the growth rate of the prices of imports. In contrast, there were more rapid increases in the rises of some important consumer items such as clothing and beverages and tobacco and, to a lesser extent, personal services. The adjustments in the charges levied by public service enterprises—as in the case of electricity and telecommunications—also exerted upward pressures.

The official policy of providing support for the production of basic grains helped to keep up the levels of production already achieved in 1981, and this prevented a shortage of agricultural products from helping to stimulate inflationary pressures as had occurred in 1980.

Thus, with the exception of some products such as rice, the prices of cereals and fruits, root crops and green vegetables went down considerably, in contrast with the upward tendency in the prices of processed foodstuffs. Among the latter, the price of sugar went up considerably for the reasons already given.

According to official information, there were no great disparities in cost-of-living increases at the regional level, although the capital, Tegucigalpa, was among the areas where inflation was slightly over the national average.

By the end of the first two months of the year, as in 1981, prices had gone up almost 4%, and this might have aggravated inflation, but fortunately the rate of price increases slackened during the course of the year in line with the evolution of the economic recession.

As regards minimum wages, in line with the austerity policy they remained at the levels set in the decree of June 1981, which had granted substantial rises, especially in agriculture and stock-raising. After having been adjusted in mid-1981, the average levels of minimum wages during 1982 stood above the averages for the previous year by amounts varying from 6.5% for construction to a little over 12% for agriculture. Thus, the minimum wages for three branches of activity increased by amounts which were slightly greater than the rise in consumer prices, that is to say, they increased very slightly in real terms (see table 14). Furthermore, in 1982 the legislation making it obligatory to pay a thirteenth month to wage earners came into force and the payment of the seventh day was approved as from January 1983.

Although there was practically no increase in real wages, no labour unrest was observed, partly perhaps on account of the rising levels of unemployment. Another reason was the fact that the collective bargaining contracts remained in force. These contracts are usually signed in large enterprises for periods of three, and sometimes as much as five years.

The public sector, for its part, in line with an austerity programme, did not give its employees any wage increases at all. Furthermore, the financial restrictions mentioned earlier prevented the Government, and especially the semi-autonomous agencies, from continuing to play the role of a source of new jobs, in contrast with 1981, when they had significantly expanded their number of employees.

## 5. Fiscal and monetary policy

### a) Fiscal policy

The public finances were subjected to severe stresses which led to a 12% increase in the fiscal deficit compared with 1981 (see table 15).

The new administration which took office at the beginning of the year kept up the budgetary and credit austerity measures agreed upon with the IMF in November 1981. Furthermore, the smaller collection of current income and the rapid increase in the cost of servicing the public debt led the Government to take a number of additional measures to contain the growing deterioration in the public finances. This deterioration proved impossible to avoid, however, as is shown by the increase in the fiscal deficit as a proportion of current income from 63% in 1980 to 76% in 1982 and its expansion, as a proportion of the gross domestic product, from 9.6% to 10.2% over the same period.

Current income increased by 2% thanks to a number of tax measures and changes which prevented revenue from falling in line with the level of economic activity and, in particular, that of

Table 13

### HONDURAS: EVOLUTION OF DOMESTIC PRICES

	1977	1978	1979	1980	1981	1982
<b>Variation December to December</b>						
Consumer price index	7.7	5.3	22.5	11.5	9.2	9.4
Food	10.5	5.5	20.3	12.3	5.2	7.3
<b>Variation between annual averages</b>						
Consumer price index	8.4	5.7	12.1	18.1	9.4	9.4
Food	11.4	6.2	11.4	17.1	7.3	6.7

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

Table 14

### HONDURAS: INDICATORS OF OFFICIAL MINIMUM WAGES<sup>a</sup>

	Indexes (base 1976 = 100)				Growth rates <sup>b</sup>			
	1979	1980	1981	1982	1979	1980	1981	1982
Official minimum wages								
Nominal								
Agriculture	150	179	228	256	50.0	19.3	28.2	12.4
Manufacturing and mining	125	135	155	168	25.0	8.2	15.1	8.3
Artisanal activities	127	140	165	181	26.7	10.8	18.2	9.5
Construction	133	147	168	179	33.3	10.3	14.8	6.5
Commerce and services	120	130	153	169	20.0	8.5	17.8	10.4
Real								
Agriculture	117	118	138	142	34.0	0.7	17.1	2.7
Manufacturing and mining	97	89	94	93	11.5	-8.3	5.1	-1.0
Artisanal activities	99	92	99	99	13.0	-6.2	7.9	0.1
Construction	104	97	101	98	19.0	-6.7	4.8	-2.7
Commerce and services	93	86	92	91	7.0	-7.9	7.7	0.9

Source: ECLA, on the basis of official decrees on minimum wages.

<sup>a</sup>The estimated minimum wages correspond to the average for each year in the Central District and San Pedro Sula. After 1974, minimum wages were officially updated in December 1978, May 1980 and June 1981.

<sup>b</sup>The growth rates were calculated on the basis of real, not rounded, figures.

Table 15

## HONDURAS: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of lempiras				Growth rates		
	1979	1980	1981	1982 <sup>a</sup>	1980	1981	1982 <sup>a</sup>
1. Current income	632	758	741	756	20.1	-2.3	2.1
Tax revenue	574	697	695	705	21.5	-0.3	1.5
Direct	153	236	186	206	54.5	-21.2	10.8
Indirect	421	461	509	499	9.5	10.3	-2.0
On foreign trade	257	278	312	272	8.2	12.2	-12.8
Non-tax revenue	58	61	46	51	5.9	-24.4	11.0
2. Current expenditure	527	727	807	824	38.0	11.1	2.0
Wages and salaries	299	353	430	447	18.0	22.0	3.7
Other current expenditure	228	374	377	377	64.3	0.8	0.1
3. Current saving (1 - 2)	105	31	-66	-68			
4. Capital expenditure	385	511	445	507	32.7	-12.8	13.8
Real investment	152	179	135	150	17.1	-24.2	10.8
Debt amortization payments	88	93	108	141	5.6	16.3	30.2
Other capital expenditure	145	239	202	216	65.7	-15.6	7.1
5. Total expenditure (2 + 4)	912	1 238	1 252	1 331	35.8	1.6	6.2
6. Fiscal deficit (1 - 5)	-280	-480	-511	-575	71.2	6.8	12.3
7. Financing of the deficit							
Domestic financing	123	214	234	261	74.0	9.3	11.5
Central Bank	124	189	276	270	52.4	46.0	-2.2
Sales of securities	-	-	-	31			
Other	-1	25	-42	-40			
External financing	157	266	273	314	69.4	2.6	15.0

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

<sup>a</sup>Preliminary figures.

external transactions. Thus, as from January a surtax of 3% was applied to the income of natural persons and one of 5% on sales. In July, a 20% surcharge was applied on the CIF value of all imports except petroleum and fuels, essential consumer goods, agricultural inputs and goods subject to international agreements, and selective surtaxes of 10% were applied to non-essential consumer goods such as alcoholic beverages, cosmetics, household electrical appliances and automobiles (the tax on which varies from 10% to 50% according to the size of the engine), together with other taxes modifying the rates for foreign travel and the taxable basis for the production of soft drinks. Altogether, these measures succeeded in increasing revenue by approximately 70 million lempiras, of which half corresponded to the sales tax.

Although the measures aimed at raising tax revenue were not completely effective because of the generalized recession, at all events they served to moderate the increase in the fiscal deficit which would certainly have resulted from a situation as dramatic as the present one. It may be noted that in 1982 the Honduran tax burden was one of the highest in Central America, even though it went down from 14% to 12.5% of the gross domestic product.

The efforts to contain government expenditures were concentrated on the virtual freezing of the number of public employees and their wages and of purchases of furniture and office supplies.

The containment of current expenditure (which increased by 2% in 1982 compared with 38% in 1980 and 11% in 1981), together with the slight increase in fiscal revenue, nevertheless only made it possible to keep the fiscal deficit at the 1981 level.

Within capital expenditure, which expanded by 14%, the most outstanding increase was in amortization payments on the public debt (30%), which represented 28% of total central government capital expenditure. As regards real investment, this rose by 11% compared with 1981, when it had undergone a severe contraction of the order of 24%. The slight increase in investment in real terms was concentrated on the completion of highways and the initiation of some other

infrastructural work. There was also a modest increase in construction and equipment work in the health and education sectors.

Although the semi-autonomous enterprises have external financing at their disposal in order to continue their projects, they too suffered financial problems, and in line with the programme of placing finances on a sounder footing they were obliged to raise the charges for their services. This was the case for example with the energy, port and telecommunications enterprises.

In short, the public sector as a whole seems to have reached a situation of financial rigidity which limits its possibilities of continuing to play the role of a promoter of development through investment.

As already noted, the fiscal deficit came to 575 million lempiras in 1982 and was financed through greater external indebtedness (314 million lempiras) and, to a lesser extent, credit from the Central Bank and the issue of bonds worth 30 million lempiras. It should be noted that ceilings were fixed for both sources of financing in agreement with the IMF, but because of the lack of effective control over both direct and indirect external indebtedness, the total external debt at the end of the year exceeded the figures projected for this item.

#### b) *Monetary policy*

In 1982, monetary policy was obliged to operate within the framework of the restrictions on expansion laid down in the programme agreed between the Government and the IMF and it also had to take account of the effects of the external sector imbalances and the declining domestic economic activity.

The net inflow of external capital was not sufficient to avoid a substantial fall in the international reserves, although this decline was less than that registered in 1981. Consequently, the decline in monetary assets was greater than that foreseen in the economic stabilization programme because of the fall of 180 million lempiras in the international reserves (see table 16).

In 1982 the economy suffered an acute shortage of foreign exchange which on the one hand made it necessary to intensify the import controls initiated in 1981 and, on the other, strengthened the pressure on the official exchange rate for the lempira *vis-a-vis* the dollar through the influence of a small parallel foreign exchange market.

Table 16

### HONDURAS: MONETARY BALANCE

	Year-end balance in millions of lempiras				Growth rates		
	1979	1980	1981	1982 <i>ab</i>	1980	1981	1982 <i>ab</i>
<b>Money</b>	546	605	632	600	10.8	4.5	3.3
Currency outside banks	264	269	297	262	1.9	10.4	-5.4
Demand deposits	282	336	335	338	19.2	-0.3	11.2
<b>Factors of expansion</b>	1 789	1 909	1 982	2 028	6.7	3.8	2.9
Foreign assets (net)	232	125	-20	-180	-46.1	...	...
Domestic credit	1 557	1 784	2 002	2 208	14.6	12.2	11.7
Government (net)	188	286	418	466	52.1	46.2	15.6
Official entities	9	33	-6	5	266.7	...	-50.0
Private sector	1 360	1 465	1 590	1 737	7.7	8.5	11.1
<b>Factors of absorption</b>	1 243	1 304	1 350	1 428	4.9	3.5	2.8
Quasi-money (savings and time deposits)	499	527	607	715	5.6	15.2	22.4
Bonds	102	103	68	133	1.0	-34.0	9.0
Long-term foreign borrowing	438	485	545	510	10.7	12.4	-5.0
Other items	204	189	130	70	-7.4	-31.2	-52.1

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

<sup>a</sup> Preliminary figures.

<sup>b</sup> At end of November 1982. The growth rates were calculated with respect to the same month in 1981.



Thanks to the limitations established by the public sector on the use of domestic credit, with the aim of freeing resources for private use, the financial system did not show any substantial symptoms of lack of liquidity, and the lower level of general economic activity even created an excess of available resources, due partly to the restrictions on the purchase of foreign exchange, which were reflected in greater availability of local currency resources for many enterprises. The situation did perhaps change briefly at the end of the year when the Central Bank established compulsory national currency deposits as counterpart for the procurement of foreign exchange for imports.

The public sector was able to obtain the financial resources programmed without coming into conflict with the private sector needs. Thus, the net domestic indebtedness of the public sector, which had grown excessively in the previous two years, increased by 15% in nominal terms during 1982, which was equivalent to a real increase of a little over 5%.

Domestic credit for the private sector went mainly to strictly productive activities, since that intended for commerce and consumption decreased considerably. The most significant increases in credit were in that directed to industry, export agricultural production (mainly coffee and sugar cane), basic grains and stock-raising.

In the last quarter of the year, there was a change in the discount rates for productive activities. Thus, those applicable to basic grains, which have been receiving preferential treatment, went down from 10% to 8%, and those corresponding to marketing, agricultural products and production in general went down from 15% to 13%. The maximum rates fixed for commercial bank lending operations thus went down to 14% in the case of basic grains and to 17% in the case of general production. For other non-preferential activities, the rate was kept at 19%.

As regards commercial bank deposit operations, the rates were left free except for fixed income bonds and securities, which remained at 10%.

Although there were no serious liquidity problems, the commercial banks took a conservative attitude regarding the granting of loans, and the criteria for selecting applicants for credit became stricter. Because of the uncertainty in connection with the depressive conditions of economic activity and the difficulties in obtaining foreign exchange for imports, many credit applications did not come to fruition, so that some commercial banks closed the financial year with a smaller loan portfolio.

As regards factors of absorption, the smaller opportunities for real investment caused part of the resources to be diverted to savings and time deposits which, as at November 1982, showed an increase of 24% over the same period in 1981. Thus, in 1982 the money supply only increased by 3%, as a result of a 5% reduction in currency outside banks and an increase of 11% in current account deposits.



## MEXICO

### 1. Recent economic trends: Introduction and summary

For the Mexican economy a spell of four consecutive years of rapid growth came to an end in the year 1982, in a climate of marked internal and external disequilibria.

At the micro-economic level, production declined, unemployment increased, and inflation soared to an unprecedented pitch, contributing to the deterioration of the levels of consumption of most of the population, while the long-standing imbalances—the external deficit and that of public finance—persisted and even rose higher (see table 1 and figure 1).

At the micro-economic level, many enterprises were faced with bankruptcy—particularly as a result of their financial commitments in foreign currency in the context of the devaluation of the peso—while the acute shortage of foreign exchange that prevailed throughout part of the year, especially from August onwards, adversely affected the normal operation of many establishments, particularly in the manufacturing sector.

A palpable manifestation of this state of affairs was the depreciation of the Mexican peso by up to 82% in relation to the dollar, taking as points of reference the end-of-year free exchange rates. Analysis of all these elements in conjunction with the measures adopted by the Government in the course of the year to cope with the situation leads to the conclusion that 1982 marks a veritable turning-point, both in economic trends and in what have been the main features of economic policy over the last few decades.

The decline in economic activity was widespread, and had severe effects on the components of global supply and demand alike. The per capita gross domestic product contracted by almost 3%, and if it is measured sector by sector, the only exceptions to its negative behaviour were to be found in the petroleum industry and the generation of electricity, and in the provision of public services, although in any event these last expanded at a lower rate than in preceding years. In the agricultural sector, long spells of drought seriously affected some crops, especially basic grains, thus detracting from the progress in production which had been achieved by virtue of the active policy pursued in recent years. This policy had placed the accent, precisely, on the non-irrigated areas which had been hardest hit by weather conditions in 1982. Manufacturing output, in its turn, was heavily handicapped by the lack of supplies from abroad due to the foreign exchange shortage, besides suffering by the steep drop in domestic demand.

On the global demand side, only the Government's purchases of consumer goods and services showed some increase despite the austerity policy which had been announced, but which hardly affected programmes considered urgent by the authorities. Private consumption and the volume of exports expanded slowly, while gross fixed investment notably decreased (by 17%), a situation which had repercussions on both public and private investment, whose acceleration had been a decisive factor in the impetus given to growth in recent years.

In the course of 1982 the imbalances and negative factors present since the middle of the preceding year gradually worsened and escalated. Thus, the decline in demand, in particular that associated with capital formation, forced down production, with the resultant accentuation of unemployment, which, according to official declarations, would seem to have doubled.<sup>1</sup> The public sector's fiscal deficit reached an unprecedented level, amounting to almost 16% of the gross domestic product, and the rate of inflation approximated to 100% between December 1981 and December 1982. The Government's exchange policy, combined with subjective factors, produced, among other effects, an intensive flight of capital for the second year in succession. The external debt climbed to

<sup>1</sup>Office of the President of the Republic, *Criterios generales de política económica para la iniciativa de la Ley de Ingresos y el Proyecto del Presupuesto de Egresos de la Federación para 1983*, Mexico City, 7 December 1982.

more than US\$ 80 billion, and its servicing implied the disbursement of about US\$ 15 billion, a sum which played a decisive part in creating a deficit on current account, notwithstanding the surplus obtained on the merchandise account.

Furthermore, and in contrast to what had happened in previous years, the reduction in the price of most export products—including petroleum—and the rise, moderate though it was, in the unit value of imports resulted in a deterioration of over 10% in the terms of trade. This meant that per capita gross income contracted more than the product (3.9%).

To understand the origin of the problems faced by the Mexican economy in 1982, reference should be made, at least briefly, to the immediately preceding years.

The economic policy pursued in the previous four years had brought about—basically through ample public and private investment, bolstered in part by the oil boom—an exceptional rate of growth, a considerable expansion of employment opportunities and significant progress in the modernization of the production apparatus, at a moment when the economy of the industrialized

Table 1  
MEXICO: MAIN ECONOMIC INDICATORS

	1977	1978	1979	1980	1981	1982 <sup>d</sup>
<b>A. Basic economic indicators</b>						
Gross domestic product at market prices (millions of 1970 dollars)	74 068	80 091	87 460	94 719	102 297	102 692
Population (millions of inhabitants)	63.8	65.7	67.5	69.4	71.3	73.2
Per capita gross domestic product (1970 dollars)	1 160	1 219	1 295	1 365	1 435	1 395
<b>Growth rates</b>						
<b>B. Short-term economic indicators</b>						
Gross domestic product	3.4	8.1	9.2	8.3	8.0	-0.2
Per capita gross domestic product	0.5	5.1	6.2	5.4	5.1	-2.8
Gross income <sup>b</sup>	3.2	8.3	10.0	10.3	8.9	-0.7
Terms of trade (goods and services)	-3.8	2.1	10.1	22.6	10.2	-5.4
Current value of exports of goods and services	13.9	37.9	40.5	55.9	21.4	-0.2
Current value of imports of goods and services	-7.5	47.9	47.5	51.6	28.1	-35.8
<b>Consumer prices</b>						
December to December	20.7	16.2	20.0	29.8	28.7	98.8
Variation between annual averages	29.1	17.5	18.2	26.3	27.9	58.9
Money <sup>c</sup>	26.4	32.7	33.1	33.5	32.8	62.9
Wages and salaries <sup>d</sup>	27.9	13.5	16.8	17.8	30.9	52.1
Rate of unemployment <sup>e,f</sup>	8.0	6.9	5.7	4.5	4.2	4.1
Current income of government	42.6	33.3	35.9	65.2	39.3	62.4
Total expenditure of government	26.8	27.1	57.0	60.3	64.1	87.3
Fiscal deficit/total expenditure of government <sup>g</sup>	23.5	19.7	20.0	16.4	30.3	40.0
<b>Millions of dollars</b>						
<b>C. External sector</b>						
Trade balance (goods and services)	127	-593	-1 629	-1 816	-3 903	7 668
Balance on current account	-1 870	-3 259	-5 570	-7 687	-12 997	-2 740
Balance on capital account	2 247	3 690	5 886	8 593	14 082	-180
Variation in international reserves	384	455	399	1 037	1 133	-2 920
External debt <sup>h</sup>	29 894	33 946	39 685	49 349	72 007	81 350

Source: ECLA, on the basis of official data.

<sup>a</sup>Provisional figures.

<sup>b</sup>Gross domestic product plus terms-of-trade effect.

<sup>c</sup>Money in circulation: notes and checking accounts.

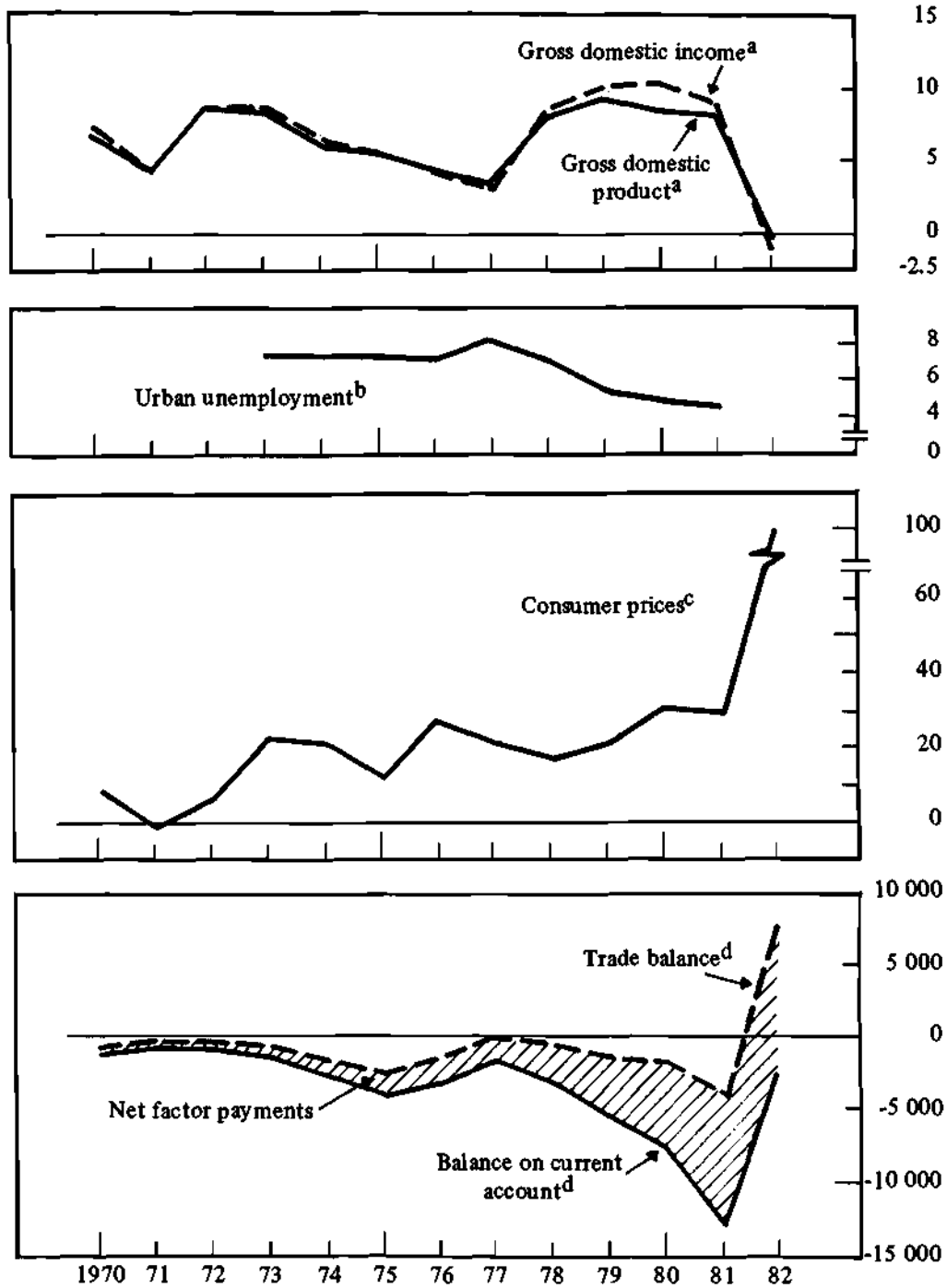
<sup>d</sup>Refers to minimum wages and annual averages.

<sup>e</sup>Percentages.

<sup>f</sup>Weighted average for the metropolitan areas of México City, Guadalajara and Monterrey.

<sup>g</sup>End-of-year figures for total outstanding external debt.

Figure 1  
**MEXICO: MAIN ECONOMIC INDICATORS**



Source: ECLA, on the basis of official data.

<sup>a</sup>Annual growth rate.

<sup>b</sup>Average annual rate in the metropolitan areas of Mexico City, Guadalajara and Monterrey.

<sup>c</sup>Percentage variation from December to December.

<sup>d</sup>Millions of dollars.

countries was passing through a period of recession and stagnation which had set in during 1979 and whose depressive effects spread to the great majority of the developing countries. In fact, in Latin America, Mexico was almost the only country that succeeded in avoiding the loss of dynamism or contraction in the economy to which the international situation gave rise. In these circumstances, the setting and attainment of such high targets for growth (between 8% and 9% as against a historical rate of 6%) and for employment made it indispensable to maintain an expansionist investment programme which far outreached both the economic system's capacity for saving and the resources at the disposal of the banking system, with the result that recourse was had to more and more external and internal borrowing.

Thus, during the period 1978-1981, public-sector expenditure, whose total share in the gross domestic product exceeded 45%, increased very rapidly (at a cumulative annual rate of 13.5% in real terms), and this in turn encouraged private investment, although the latter exhibited a good deal of autonomy in its behaviour and even competed with the public sector in obtaining resources. These two expansionist factors had the backing of a vigorous upswing in the exploitation and export of hydrocarbons (daily output more than doubled between 1978 and 1981, rising from less than 500 000 to 1 200 000 barrels).

From 1981 onwards, however, this rapid economic growth, based on the above-mentioned sources of dynamism, began to meet difficulties of both internal and external origin.

In the first place, the capacity of supply to meet demand lagged considerably behind the latter's continuous expansion, so that imports were called upon to satisfy a steadily increasing proportion of requirements; this meant that the coefficient of imports of goods and services climbed from 11% to 14.5% between 1978 and 1981. Secondly, despite the reform of the tax system and the increase in fiscal income generated by petroleum exports,<sup>2</sup> a time-lag also occurred between the expenditures and the income of the public sector, with the result that the sector's financial deficit rose from 6.7% in 1978 to 14.5% in 1981 and nearly 16.0% in 1982.<sup>3</sup> Thirdly, the rapid expansion of global demand helped to generate considerable inflationary pressures, the consequences of which included an increasing overvaluation of the peso, given the slow pace at which the exchange rate was adjusted during the period in question. This in turn aggravated the external imbalance, by encouraging imports, reducing exports (non-petroleum exports remained static in 1981) and acting as a spur to the flight of capital and the contracting of external credit lines. In addition, the steadily growing burden of the public debt contributed to the increase in the external fiscal deficit. At least from 1981 onwards, the available supply of domestic credit resources for the private sector was restricted in face of the mounting financial requirements of the public sector.

Certain structural factors proper to the Mexican development style continued latent throughout this period. Outstanding among these were shortcomings and time-lags in the industrial sector —insufficient integration, geographical concentration, relative backwardness of the basic metal working industries—, the way the economy was inserted in the international economy, which led to long-standing deficits on the balance-of-payments current account, and the similarly long-standing deficits in public sector finances, given the leading role traditionally played in Mexico by economic and social development. The petroleum boom, with the huge foreign exchange resources which it brought into the country in the four years subsequent to 1976, did not do enough to modify these factors. The argument might even be advanced that up to a point it aggravated them, although in the context of an economy on a far larger scale than in the recent past, inasmuch as it made that economy much more vulnerable to exports of a single product —a manifest setback occurring in the diversification achieved until then— and left exposed the gaps in manufacturing industry, since the growth of the product, of investment and of expenditure called for imports whose elasticity exceeded the high level traditional in Mexico. Hence the first symptoms of a weakening of the hydrocarbons market exacerbated these problems, to which others had already been added, such as the rise in interest rates and the difficulties connected with the recession in the world economy.

Accordingly, withstanding this depressive current and opting for growth virtually *à l'outrance*, without having surmounted the long-term problems of the country's development model, involved

<sup>2</sup> The tax revenue coefficient went up from 16.4% to 19.4% between 1978 and 1981, and from 15.5% to 15.9% if petroleum exports are excluded.

<sup>3</sup> The concept of fiscal deficit used here is that applied by the Mexican Government and refers to the difference between the public sector's total income and total expenditure, excluding from the latter the amortization of the debt. If this were included in the calculation, the resultant deficit would of course be much larger.

consequences which shortly had to be faced, when alterations occurred in some of the premises on which that growth was founded, particularly with respect to utilization of external resources.

Thus, external borrowing, which had become the traditional mechanism for adjustment both of the fiscal deficit and of the balance of payments, and on which economic growth had long been based, became, in view of the new international financial conditions, a major obstacle to development. Since the 1960s Mexico had been making increased use of the external debt as a mechanism to cover the fiscal deficit without having to raise tax revenue to an equal extent. The debt expanded in the 1970s at a rapid pace that was barely checked by the commitments acquired with IMF for the period 1977-1979, which restricted indebtedness to a net annual sum of US\$ 3 000 million during that triennium. Nevertheless, the expectations built on Mexico's petroleum reserves and the abundant supply of financial resources in the international markets were two potent causes of a mass inflow of loans into Mexico, especially in 1980 and 1981, notwithstanding the tendency of debt servicing to absorb a steadily increasing proportion of export earnings.

The foregoing overall picture worsened as from the second half of 1981, when the price of petroleum began to fall and recourse was increasingly had to short-term private credits, and when, from November onwards, the terms on which external financing could be obtained became generally more unfavourable.

In short, the decision adopted by the Government to speed up the growth of the economy, modernize it and defeat unemployment by taking advantage of the development of the energy sector, led, despite the impressive achievements recorded during this period, to the intensification of inflation and to virtually unmanageable disequilibria in public finances and in the balance of payments. Thus, at the start of 1982 the country was enduring the effects of a set of adverse factors, outstanding among which were the pressure on the Mexican peso in face of its obvious overvaluation, with the consequent flight of foreign exchange; the growing financial burden signified by the external debt, and aggravated by the high rates of interest prevailing on the international markets; the acceleration of inflationary pressures; the climate of uncertainty which conditioned the behaviour of the main private agents of the economy; the public sector's increasing financial deficits; and the widespread recession in the international economy.

In face of these phenomena, both economic trends and economic policy itself underwent radical and frequent changes in the course of 1982. The former were neither homogeneous nor linear in their deterioration, and economic policy, despite having retained its leading role, took on a predominantly defensive character and gradually accommodated itself to the changing circumstances, although apparently it was often unable to keep pace with events, and at times proved powerless to attain its proposed objectives.

The year had only just begun when it became impossible to withstand the pressure on the peso, notwithstanding the measures adopted in 1981 to attenuate the external imbalance and the deficit in public finance. The abrupt devaluation put into effect in February, besides being belated, failed to produce the expected results, since its effects were quickly wiped out when no consistent public expenditure and wage policies were pursued, despite the adjustment programme which was then announced by the Government. Thus, the steps taken to reduce the fiscal deficit were offset by a fall in the rate of expansion of income —the outcome of the slowing-down of the economy itself— and an increase in expenditure, as a result of inflationary factors and, above all, of the impact of devaluation on expenditure which had an imported component, such as the servicing of the external debt. Furthermore, the measures designed to restrict total private-sector demand were promptly cancelled out by considerable adjustments in wages agreed upon in March, which were made retroactive to 18 February and which represented a rise of up to 30%, after the average increase of 34% granted on 1 January.

These decisions contributed to the climate of misgiving and speculation which was created in the following months, and was based, in particular, on public expectations as to the course of inflation. In face of the steadily increasing prospects of a further devaluation, the second quarter of the year witnessed a new resurgence of the flight of capital, including the conversion of accounts in domestic currency to accounts in foreign currency. In response, the Government adopted extreme measures in August, among them the freezing of dollar accounts, and established a system of multiple exchange rates. This system comprised a preferential exchange rate on a sliding scale that started at 49 pesos; another general rate which was established at 69.50 pesos for the conversion of frozen

accounts; and a free rate which settled down between 100 and 110 pesos. In the same months the Central Bank again withdrew temporarily from the exchange market and a moratorium of 90 days was arranged with the international banking system for payments falling due on the external debt.

But not even these extreme measures proved efficacious. In view of the manifest insufficiency of exchange provisions to hold the flight of foreign exchange in check, in September generalized exchange controls were introduced, based on fixed exchange rates, and the free exchange rate was eliminated, while in addition another no less radical measure was adopted, i.e., a take-over of the banking system by the State. This last move had a significant political impact, inasmuch as it opened up the possibility that at times of great instability the State could assume tighter control of financial resources and play a key role in the orientation of credit policy.

These measures too, however, helped to aggravate the climate of uncertainty which prevailed among a large proportion of the private agents of the economy, and to which were added the expectations almost always aroused in Mexico by a change of government and the attendant turnover of authorities, events which occurred on 1 December 1982.

Despite the new provisions, it was not possible, on this occasion either, to curb the outflow of foreign exchange; and what was more, although this fact was not of the same importance, its inflow was discouraged, inasmuch as an avalanche of pesos swept across the northern frontier, to meet the requirements of holders of dollars who were planning to enter the country and for whom it was advantageous to conduct the exchange operation outside the Mexican bank market. In effect, the introduction of exchange controls displayed limitations in face of the existence of so wide and open a frontier, plus all sorts of mechanisms devised by individuals and enterprises for continuing to purchase foreign exchange outside the established régime.

These pressures were determinant causes of the unsatisfactory operation of exchange controls, in the establishment of which Mexico had no recent experience. The proliferation of foreign exchange agencies set up in United States territory prevented the inflow of dollars into Mexico, whence, on the other hand, pesos continued to flow out. This compelled the Mexican banks to set up foreign exchange agencies in the frontier zone to compete with those outside the country. These provisions were complemented by a further reduction of public expenditure and an attempt to separate internal from external interest rates, by means of the exchange controls, with the aim of cushioning, at least temporarily, the inflationary impact of the August devaluation.

With the change of government on 1 December, the conduct of economic policy was once again reoriented in the framework of a stabilization and adjustment programme which enjoyed a certain amount of external support, both from the International Monetary Fund and from the country's private creditors. During the months preceding the change of government, an agreement had been negotiated with IMF, signed in November but approved by the Executive Board of IMF in December, which gives Mexico access to credit to the amount of US\$ 3 840 million during the period 1983-1985. At the same time, about a thousand banking institutions abroad were induced to grant an extension of 120 days for the discharge of amortization payments falling due, and negotiations were immediately begun for restructuring the liabilities deriving from the external public debt to the institutions in question.<sup>4</sup>

Among the main components of the "Immediate Economic Reorganization Programme" —as it was called— adopted by the new authorities, mention should be made, *inter alia*, of the suppression of the generalized exchange controls and their replacement by a new mechanism covering only those areas which could reasonably be subject to control. Similarly, a multiple exchange rate régime was established; a "controlled" market rate, fixed on 20 December at 95 pesos per dollar and subject to daily devaluations, applicable to authorized exports and imports, amortization and interest payments on external loans, and other priority requirements; a "special" market rate, set at 70 pesos per dollar and also subject to daily devaluations, for a very limited number of transactions; and a "free" market rate —which opened at 148.50 pesos to the dollar on 20 December— for all foreign exchange transactions not subject to the other market rates. Another objective pursued was a drastic reduction of the fiscal deficit, from 16% of the gross domestic product in 1982 to 8.5% in 1983, by means of increased rationalization of public expenditure, higher taxation and a rise in the tariffs of public enterprises, as well as by the reduction or elimination of subsidies. For example, only a few days after

<sup>4</sup>These negotiations, as well as the procurement of a supplementary consortium credit for US\$ 5 000 million, were effected during the early months of 1983.



the change of government, the new authorities decided to double the price of gasoline and adjust that of other refined petroleum products. In addition a conservative wage policy was adopted, the increase of net indebtedness was limited to US\$ 5 billion per annum, and the introduction of a more flexible exchange policy was considered. Interest rates were to be raised in order to make saving attractive and contain credit. Lastly, another objective was to rationalize tariff protection and imports with view to improving the efficiency of industry.

The measures adopted by the new authorities, as well as those decreed in February, August and September by the preceding government, seemed, as has been said, to point towards a change in the traditional framework in which Mexican policy had evolved since the Second World War. However, the coexistence during the year of different and frequently contradictory currents of economic policy detracted from their efficacy. In any event, they afforded the most reliable evidence of the convulsion suffered by the Mexican economy, whose insertion in the changing and conflictive international economy has now proved different from its position in the past decades. At the close of the year, the economy was confronted with the difficult dilemma of mitigating the internal and external disequilibria described above without aggravating the recent trends towards deceleration of production, higher levels of unemployment and, for most of the population, a loss of real purchasing power. At a more punctual level, the new authorities had to meet the challenge signified by the adoption of a set of measures aimed at rehabilitating a large number of enterprises —small, medium-scale and large— which were up against problems of various kinds, and by the introduction of the necessary measures to consolidate the nationalization of the private banks and settle the terms of their indemnification.

## 2. Trends in economic activity

### a) *Global supply and demand trends*

Trends in the main macroeconomic variables were so definitely unfavourable during 1982 as to warrant the assertion that the economy had not experienced such a profound and far-reaching recession at any other time since the Second World War.

After four years of a dynamism that was exceptional in relation not only to the country's economic history, but also to the recessive international situation, global supply, which had increased at a rate of about 11%, contracted by more than 4% in 1982. This abrupt *volte face* was a consequence not only of a small decrease in the gross domestic product during the year, but also of an unheard-of reduction in the volume of imports of goods and services, approximating to 40% (see table 2). In contrast with previous years, the notably dynamic trend of imports, which had led to a greater openness of the economy to the exterior, was reversed when the available supply of foreign exchange was drastically curtailed by the fall in the purchasing power of exports, together with the unaccustomed ebb in net financial flows on the capital markets. The contraction in external purchases was a determining factor of the depression in the productive sectors, in particular industry, given the external vulnerability of Mexico's manufacturing activities, but it also reflected the sluggishness of expenditure and gross investment.

In short, external constraints and the decline of domestic demand determined the behaviour of global supply and assumed a role of supreme importance when it became evident how great was the dependence of many branches of production on imported inputs, once the stocks of these built up in 1981 were exhausted.

But the substantial decrease in the volume of imports of goods (38%) might have had an even more marked effect on manufacturing activity —whose output shrank by 2.4%— had it not been for the intervention of two factors: the previous accumulation of a substantial volume of stocks of imported inputs, and the likelihood that, in face of the impossibility of importing, some branches of industry with idle capacity would bring out similar products to meet the unsatisfied demand for both final and intermediate goods.

On the global demand side, exports still increased, by about 3%. Despite the contraction in international markets for non-petroleum products and the loss of external competitiveness of Mexican goods, the expansion of petroleum sales had a positive influence on the total volume of exports. This slight rise in the total, however, did not suffice to ward off serious balance-of-payments problems, essentially of a financial character.

Thus, domestic demand contracted by 4.5%, a determinant cause being the 17% drop in gross fixed investment. Investment in production, besides being deprived of an important source of financing by the need for an increasing proportion of public resources to be used for debt servicing was confined to a restricted budget under the policy of progressive austerity announced by the Government. This meant that public investment decreased by 13%. Private investment, in its turn, also slumped by 20%, primarily owing to the above-mentioned loss of confidence, which was reflected, as it had been for some time past, in big outflows of capital, mainly to the United States. The heavier burden that external private liabilities represented also curtailed investment possibilities, which were further hampered by the difficulties to which imports, including those of capital goods, were subjected.

Total consumption increased by less than 5%, on account of its two components' loss of impetus. The rate of expansion of public consumption fell to 4.8% —less than half what it had been—, a figure which indicates that notwithstanding financial constraints, the Government kept up part of its public services programmes. Per capita private consumption increased only slightly as a result of rising unemployment, of the negative effect of inflation on the purchasing power of salaries and wages, and of the reduction in rural incomes owing to poor harvests and to the decrease in many enterprises' profits.

#### b) *Growth of the main sectors*

Except in the case of energy production (hydrocarbons and electricity), trends in the domestic product of all other activities were consonant with the depressive overall situation of the economy (see table 3). The sectors producing goods were adversely affected by the contraction in domestic demand and the reduction of international means of payment which was reflected in a shortage of imported intermediate goods.

Agriculture after two years of rapid growth, declined to a marked extent, mainly on account of weather conditions. This was a serious setback to pursuit of the authorities' objective of attaining self-sufficiency in production of basic grains by 1983. The fishery sector was faced with both credit and

Table 2

#### MEXICO: TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1970 prices			Percentage breakdown		Growth rates		
	1980	1981	1982 <sup>a</sup>	1970	1982 <sup>a</sup>	1980	1981	1982 <sup>a</sup>
<b>Total supply</b>	104 789	114 396	109 655	106.8	107.4	10.4	9.2	-4.1
Gross domestic product at market prices	94 719	102 297	102 092	100.0	100.0	8.3	8.0	-0.2
Imports of goods and services <sup>b</sup>	10 070	12 099	7 563	6.8	7.4	34.5	20.1	-37.5
<b>Total demand</b>	104 789	114 396	109 655	106.8	107.4	10.4	9.2	-4.1
Domestic demand	98 091	107 478	102 551	101.1	100.4	10.2	9.6	-4.5
Gross domestic investment	26 770	30 946	22 281	22.7	21.8	22.1	15.6	-28.0
Gross fixed investment	22 240	25 510	21 224	20.0	20.8	14.9	14.7	-16.8
Public	9 675	11 203	9 780	6.6	9.6	15.4	15.8	-12.7
Private	12 566	14 307	11 444	13.4	11.2	14.5	13.9	-20.0
Construction	11 852	13 191	12 676	11.4	12.4	12.5	11.3	-3.9
Machinery and equipment	10 389	12 319	8 548	8.6	8.4	17.8	18.6	-30.6
Inventory changes	4 530	5 437	1 057	2.7	1.0			
Total consumption	71 321	76 532	80 270	78.4	78.6	6.3	7.3	4.9
General government	8 487	9 344	...	7.3	9.6	9.5	10.1	4.8
Private	62 834	67 188	...	71.1	69.0	5.9	6.9	...
Exports of goods and services <sup>b</sup>	6 698	6 918	7 104	5.7	7.0	12.8	3.3	2.7

Source: ECLA, on the basis of figures supplied by the Ministry of Programming and the Budget.

<sup>a</sup>Provisional figures.

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

Table 3

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

	Millions of dollars at 1970 prices			Percentage breakdown		Growth rates		
	1980	1981	1982 <sup>a</sup>	1970	1982 <sup>a</sup>	1980	1981	1982 <sup>a</sup>
<b>Gross domestic product<sup>b</sup></b>	<b>90 105</b>	<b>97 313</b>	<b>97 119</b>	<b>100.0</b>	<b>100.0</b>	<b>8.3</b>	<b>8.0</b>	<b>-0.2</b>
<b>Goods</b>	<b>38 315</b>	<b>41 403</b>	<b>40 875</b>	<b>43.9</b>	<b>42.1</b>	<b>8.8</b>	<b>8.1</b>	<b>-1.3</b>
Agriculture	8 411	8 923	8 889	12.7	9.1	7.1	6.1	-0.4
Mining	2 832	3 266	3 577	2.5	3.7	22.0	15.3	9.5
Oil production	1 718	2 039	2 365	0.9	2.4	32.7	18.7	16.0
Rest of mining	1 114	1 227	1 212	1.6	1.2	8.4	10.1	-1.2
Manufacturing	21 908	23 441	22 879	23.2	23.5	7.2	7.0	-2.4
Construction	5 164	5 773	5 530	5.5	5.7	12.3	11.8	-4.2
<b>Basic services</b>	<b>8 231</b>	<b>9 084</b>	<b>8 994</b>	<b>6.0</b>	<b>9.2</b>	<b>12.9</b>	<b>10.4</b>	<b>-1.0</b>
Electricity, gas and water	1 202	1 303	1 392	1.0	1.4	6.5	8.4	6.8
Transport, storage and communications	7 029	7 781	7 602	5.0	7.8	14.1	10.7	-2.3
<b>Other services</b>	<b>44 824</b>	<b>48 203</b>	<b>48 765</b>	<b>51.6</b>	<b>50.2</b>	<b>7.3</b>	<b>7.5</b>	<b>1.2</b>
Wholesale and retail commerce, restaurants and hotels	22 449	24 357	23 967	25.9	24.7	8.1	8.5	-1.6
Financial institutions, insurance, real estate and business services	8 928	9 364	9 635	11.3	9.9	5.0	4.9	2.9
Community, social and personal services	13 447	14 482	15 163	14.4	15.6	7.5	7.7	4.7
Government services	3 179	3 465	3 569	3.0	3.7	10.3	9.0	3.0
Less: Commission on bank services	1 237	1 392	1 464	1.5	1.5	11.9	12.6	5.3

Source: ECLA, on the basis of figures supplied by the Ministry of Programming and the Budget.

<sup>a</sup>Provisional figures.

<sup>b</sup>As the general method applied in the calculation was to extrapolate independently individual activities and the total, the sum of the former does not correspond exactly with the latter.

external market problems, affecting not only the volume of the catch, which fell short of the programmed level, but also the output of the canning industry, through the want of imported tinplate.

Mining production, whose lot is directly linked to external demand, was very hard hit by the recession in the market economies and the fall in the prices of its main products. In contrast, extraction of petroleum, despite the unfavourable conditions on the international hydrocarbons market, expanded only a little less rapidly than in 1981, thanks to which its relative share in world hydrocarbons trade improved. Manufacturing was seriously affected by the economic depression. Domestic production was handicapped by the lack of imported raw materials due to the shortage of foreign exchange. Apparently, for many enterprises the progressive devaluations of the peso throughout the year did not suffice to enable them to regain their competitiveness in international markets.<sup>5</sup> The closing of the external market had, however, positive effects on some branches of production of non-durable consumer goods: for example a rise in the cost of foreign exchange and the virtual disappearance of contraband in certain popular consumer items were favourable to progress in import substitution.

Among basic services, the electricity sector once again expanded, although at a slower rate than in the preceding year, basically because of the decline in industrial demand.

The commercial services largely reflected the most characteristic features of the economy in 1982: the populations' loss of purchasing power and the rise in the unemployment index, as a result of which the domestic market was less dynamic than in the preceding triennium. The abrupt contraction in the supply of imported articles had repercussions on the sale and purchase flows.

<sup>5</sup>Probably this assertion is not valid for the last devaluation of the peso in December, but obviously this came too late to influence the results for the year.

i) *The agricultural sector.* Agricultural production declined by 2.5%, mainly because of weather problems; the rainy season was very irregular, and alternated with long periods of drought in the spring-summer cycle, affecting production for domestic consumption, which dropped by 5.6%.

One of the objectives of the official programme for 1982 was a total increase of almost 5% in the area under seed, in order to bring it up to 20 million hectares, including expansion of the crop area by 289 000 hectares and 128 000 additional hectares of irrigated land. But owing to the drought and also to the reduction in real values of transfer payments to the rural area, only 15.5 million hectares were planted, and of those programmed for basic products (grains and oilseeds) it was only possible to cover a little over 75%. As was to be expected, the crops worst affected were maize, beans and sorghum, which are sown in the non-irrigated areas (see table 4).

The target set for the 1982 harvest in the above-mentioned programme was over 30 million tons of basic grains, an amount approaching the self-sufficiency level. But only a little over 25 million tons were harvested, so that in 1983 imports will have to be increased.

The deterioration in the sector's level of production can be seen to acquire more serious proportions if it is considered that it took place despite the application of an official programme of

Table 4

MEXICO: INDICATORS OF AGRICULTURAL PRODUCTION

	1970	1975	1980	1981	1982 <sup>a</sup>	Growth rates				
						1979	1980	1981	1982 <sup>a</sup>	
Quantum index of agricultural gross domestic product <sup>b</sup>	100.0	115.9	139.9	148.4	147.8	-2.1	7.1	6.1	-0.4	
Agriculture	100.0	113.2	138.4	149.6	145.9	-5.9	10.0	8.1	-2.5	
Livestock production	100.0	119.4	138.2	142.5	146.2	2.0	3.0	3.1	2.6	
Forestry	100.0	109.6	135.5	136.0	136.5	6.6	2.2	0.4	0.4	
Hunting and fishing	100.0	153.1	245.6	274.1	289.4	16.8	10.5	11.6	5.6	
Production of main crops										
For export										
Unginned cotton <sup>c</sup>	334	206	329	335	185	-5.8	-4.8	1.9	-44.6	
Coffee <sup>c</sup>	185	228	193	244	231	-7.6	-13.7	26.4	-5.3	
Tomatoes <sup>c</sup>	923	1 056	1 458	1 074	1 313	10.0	-4.9	-26.3	22.2	
For domestic consumption										
Maize <sup>c</sup>	8 879	8 449	12 383	14 766	12 215	-22.7	46.6	19.2	-17.3	
Beans <sup>c</sup>	925	1 027	971	1 469	1 093	-32.4	51.5	51.2	-25.6	
Wheat <sup>c</sup>	2 676	2 798	2 785	3 189	4 468	-18.0	22.0	14.5	40.0	
Sorghum <sup>c</sup>	2 747	4 126	4 812	6 296	4 956	-4.7	20.5	30.8	-21.3	
Sugar-cane <sup>c</sup>	34 651	35 841	36 480	34 905	36 939	-2.5	5.5	-4.3	5.8	
Soya <sup>c</sup>	215	599	312	712	672	110.1	-55.6	128.4	-5.5	
Lucerne <sup>c</sup>	9 240	14 260	18 360	15 999	17 167	-9.7	14.1	-12.9	7.3	
Indicators of livestock production										
Slaughter <sup>c</sup>										
Beef cattle	437	763	1 016	1 126	1 193	9.7	6.7	10.8	5.9	
Swine	240	810	1 250	1 307	1 387	7.6	7.2	4.5	6.1	
Sheep and goats	15	21	22	23	24	2.0	3.8	2.8	3.0	
Poultry	196	296	399	426	456	9.2	8.9	6.8	6.9	
Milk <sup>d</sup>	3 800	5 809	6 742	6 856	7 062	2.0	1.5	1.7	3.0	
Eggs <sup>e</sup>	6 859	6 790	10 311	10 620	10 779	8.5	7.3	3.0	1.5	

Source: ECLA, on the basis of figures supplied by the Department of Agronomic, Ministry of Agriculture and Water Resources, and by the Ministry of Programming and the Budget.

<sup>a</sup>Provisional figures.

<sup>b</sup>The structure of the product in terms of 1980 current values was as follows: crop farming, 60.8%; livestock production, 30.8%; forestry, 5.2%; and hunting and fishing, 3.2%.

<sup>c</sup>Thousands of tons.

<sup>d</sup>Thousands of litres.

<sup>e</sup>Millions of units.

resolute support for production of basic foods, launched in 1979 to put an end to dependence on external sources of food supplies.

Nevertheless, the support given by the Government during 1982 had positive repercussions on levels of productivity whenever farm work was not handicapped by weather conditions. Among the measures in which this support consisted were preferential agricultural credit to growers of basic products, investment in access roads and in marketing infrastructure, and, in addition, better guarantee prices, establishment of insurance systems and distribution of inputs at prices below those quoted on the market.

In the regions where the drought was less severe, crop-growing productivity exceeded expectations, thanks in part to the official support programmes. Although this aid helped to improve the final results of the sector as a whole, in any event the output of the most important basic goods (grains and oilseeds) dwindled by 12% and 16%, respectively.

Wheat moved well away from this trend, since the harvest increased by 40% owing to a decision to reduce the irrigated area assigned to safflower in favour of wheat, in accordance with the overall objective of attaining self-sufficiency in food.

Production of sugar cane also expanded, by nearly 6%. In contrast with the preceding year, there were no problems with cutters or with mill managements. The output of tobacco likewise increased, so that the industrial crops group showed a growth rate of 7% and regained its 1979 levels.

Production of export crops declined in the aggregate more than that of crops for domestic consumption. In face of unfavourable international prices and a rise in production costs, partly caused by inflation and the successive currency devaluations, the Government adopted a policy whereby certain areas traditionally sown to export crops were allocated to the sowing of basic products. Cotton was one of the crops hardest hit, since output dropped by 45%. Furthermore, an attempt was made to diversify export markets, but external demand conditions were to some extent responsible for the negative results obtained. This chiefly affected production of coffee (which declined by 5%), melons (-6%) and strawberries (-45%). Exceptions to this trend were chickpeas and above all, tomatoes, out of which expanded by 22%, thanks to government support, and despite the difficulties of placing the north-east region's harvests on the United States market, for which they were almost exclusively intended. Sales of tomatoes abroad, however, which are generally made in the first two months of the year on the basis of the preceding year's crop, appreciably contracted, reflecting the unsatisfactoriness of the 1981 harvest. The end-of-year exchange adjustment, which makes the export of tomatoes profitable again, together with the excellent 1982 output, will be bound to result in a substantial increase in exports of this product in 1983.

The stimuli to production were supplemented by other measures which did not favour basic products alone. Among these, mention should be made of the enlargement of the irrigated area through small-scale irrigation works; the organization and expansion of the non-irrigated districts (which were given preferential support by credit institutions); the improvement of the marketing structure, in particular construction of access roads and of small silos; the extension of insurance coverage, in terms both of amount and of area, thanks to a system of risk shared with the State, as a means of guaranteeing investment in areas where the climate and rain régime are very variable. Special importance was accorded to the stopping-up of technical assistance, directed towards transformation of the country's traditional crop areas, and benefiting more than half of the national territory.

The increase in livestock production, which in the aggregate was approximately 2.6%, is seen to have been very unequal if it is analysed by type of livestock. The total volume of slaughter of beef cattle amounted to 1.2 million tons in 1982, 6% more than in 1981, while poultry production rose by almost 7%.

Production of milk and eggs continued to expand, although very slowly. In both cases producers alleged that the prices fixed, despite the adjustments introduced during the year, were still not very remunerative.

The high deficit shown in 1981 by the external trade balance on agricultural, forestry, hunting and fishing products (US\$ 940 million) plummeted in 1982 (to US\$ 134 million), as the result of a fall in purchases (55%), and notwithstanding the 18% decrease in exports. This outcome was mainly due to the good grain crop obtained in the preceding year and to use of the stocks available. It is estimated that a saving of foreign exchange to the amount of about US\$ 1 billion was achieved

through the contraction of basic grain imports alone. The chief contributions to this saving were made by the decreases in external purchases of maize and beans —whose values sank between 1981 and 1982 from US\$ 453 million to only US\$ 38 million and from US\$ 338 million to US\$ 98 million, respectively—, and by the 50% reductions in imports of sorghum and wheat, which implied a saving of about US\$ 360 million.

In respect of oilseeds, too, thanks to the development policy pursued, the trade deficit dropped by 29%, mainly because of a decline in imports of cotton-seed and soya.

As mentioned above, exports of agricultural, forestry and fishing products contracted by 18%; especially noteworthy were the decreases of 41% in cotton, 39% in tomatoes, 10% in vegetables and 32% in melons and water-melons. In contrast, there was an increase in external sales of coffee beans (4%) and of beef (68%).

ii) *Fisheries*. This sector met with certain problems which prevented it from attaining the target catch of 2.2 million tons proposed in the corresponding plan. It is estimated that the catch amounted to 1.5 million tons, the same figure as in the preceding year. In that year, however, the increase had been 11.6% and abundant stocks of canned products had also been available. Official policy had considerable success between 1977 and 1981, a period in which production rose at an average annual rate of 17%, climbing from 673 000 tons to 1 565 000 in 1981.

The slower growth recorded during 1982 was not unconnected with the situation prevailing in the economy as a whole. Public budget problems and the adjustments in the prices of certain basic inputs, such as fuels, had repercussions on production costs by the end of the year. Moreover, the lack of resources for financing fishing activities as a whole made itself plainly felt in 1982, and the shortage of working capital, in both private and public enterprises, held up the execution of investment programmes and the entry into operation of certain plants.

To all this was added the difficulty of bringing in supplies of imported inputs, owing partly to the shortage of foreign exchange, which was gradually aggravated, especially when exchange controls were decreed in September, as well as to the stumbling-blocks encountered by the sector in obtaining foreign exchange subject to control.

Industrial processing of the produce of the sea also felt the impact of the problems described. Owing to the difficulties of importing tinplate, which became more acute in the second half of the year, there was a drastic slump in canned products, especially tunny and sardines, and a large proportion of the catch of these varieties was allocated to the manufacture of meal for animal feeds. Furthermore, the increases in production costs were prejudicial to the sector inasmuch as the official sales prices for its products were not updated at a similar speed. Since inventories stood at a high level at the beginning of the year, marketing of canned sardines and tunny was promoted, sales prices being kept relatively low. This contributed both to the expansion of the domestic market and to improvement of the population's diet, in conformity with the National Programme on Basic Products (Programa Nacional de Productos Básicos). But in the second semester, when stocks were exhausted, problems were created by the inadequacy of the catch, and supply fell short of the expanded demand, the gap becoming even wider in the last quarter of the year. The Programme, nevertheless, was unable to provide the sector with the proposed financing at preferential interest rates. The Banco Nacional Pesquero y Portuario alone was the object of an adjustment which reduced by two-thirds the resources available for credit. Furthermore, the delay in paying the indemnification due to shipowners since 1981 on account of the transfer of the shrimping fleet to the public sector must have been among the factors militating against timely allocation of these resources to industrial processing of the produce of the sea.

The value of the traditional export species, such as shrimps, rose by 30%, mainly owing to the improvement in international prices, which also benefited exports of abalone and lobster. In contrast, exports of frozen tunny and other recently introduced species diminished.

iii) *Mining and petroleum activities*. *Mining*. After two years of great dynamism —with annual growth rates of up to 15%— mining output declined by over 2% in 1982 (see table 5).

The general downward trend in mining growth observable in that year was largely influenced by external factors, such as the recession and the extremely low prices, since a great deal of mining output is earmarked for export. The contraction in domestic demand on the part of several branches of production —the motor-vehicle and durable consumer goods industries, steel-making and construction— also played a key role. In addition to these depressive factors, which directly affected

Table 5

## MEXICO: INDICATORS OF MINING PRODUCTION

	1970	1975	1980	1981	1982 <sup>a</sup>	Growth rates <sup>b</sup>			
						1979	1980	1981	1982 <sup>a</sup>
<b>General index of mining production (1970 = 100)</b>	<b>100.0</b>	<b>112.0</b>	<b>149.0</b>	<b>166.2</b>	<b>162.3</b>	<b>5.6</b>	<b>15.0</b>	<b>11.5</b>	<b>-2.3</b>
General, index excluding copper	100.0	108.8	121.6	124.3	116.4	1.5	1.0	2.2	-6.3
Precious metals	100.0	87.4	109.6	122.4	114.5	-2.9	-3.6	11.7	-6.4
Non-ferrous industrial metals	100.0	100.8	154.7	181.0	187.3	8.7	26.7	17.0	3.5
Metals and ores for steel-making	100.0	142.9	187.5	198.5	185.8	6.8	8.7	5.9	-6.4
Non-metallic ores	100.0	135.2	125.3	125.7	103.8	2.9	6.0	0.3	-17.4
<b>Production of some important minerals</b>									
Precious metals									
Gold <sup>c</sup>	6 166	4 501	6 096	6 319	6 084	-5.9	3.1	3.7	-3.7
Silver <sup>d</sup>	1 332	1 183	1 473	1 655	1 546	-2.7	-4.2	12.4	-6.6
Non-ferrous industrial metals									
Lead <sup>e</sup>	177	163	146	157	146	1.7	-16.1	8.1	-7.3
Copper <sup>e</sup>	61	78	175	230	240	22.9	63.8	31.4	4.3
Zinc <sup>e</sup>	266	229	238	212	232	0.2	-3.0	-11.2	9.7
Bismuth <sup>d</sup>	571	445	770	656	606	-22.9	2.1	-14.8	-7.6
Cadmium <sup>c</sup>	1 967	1 581	1 791	1 433	1 444	-6.1	0.7	-20.0	0.8
Metals and minerals for the iron and steel industry									
Coke <sup>e</sup>	1 300	2 088	2 409	2 425	2 450	3.9	-7.0	0.7	1.0
Iron ore	2 612	3 369	5 087	5 293	4 822	13.6	25.9	4.1	-8.9
Manganese <sup>e</sup>	99	154	161	208	182	-5.8	-9.2	29.3	-12.6
Non-metallic minerals									
Sulphur <sup>e</sup>	1 381	2 164	2 102	2 077	1 815	11.4	3.8	-1.2	-12.6
Fluorite <sup>e</sup>	978	1 089	916	925	628	-8.9	4.7	1.0	-32.1
Barite <sup>e</sup>	319	300	269	318	324	-34.7	78.2	18.0	1.9

Source: ECLA, on the basis of data supplied by the Ministry of Programming and the Budget.

<sup>a</sup>Provisional figures.

<sup>b</sup>Calculated on the basis of total, not rounded, figures.

<sup>c</sup>Kilograms.

<sup>d</sup>Tons.

<sup>e</sup>Thousands of tons.

sales volume, mining companies were faced with financial problems, since they had to begin to pay off liabilities in dollars at prices higher than they had expected.

All this broke into a boom in mining supported by a development programme that implied, in the period 1977-1982, investment to the amount of 86 billion pesos, which was applied to new projects, as well as to the modernization of installed capacity and to the metal-working industry. Thus, in the period mentioned new deposits of silver, lead, zinc, copper, molybdenum, barite, coal and phosphoric rock entered production; sulphur and non-ferrous metal mines and plants were expanded; new electrolytic zinc plants and iron ore concentrators, pelletizers and synthesizers were constructed; and non-ferrous metal foundries and copper refineries were substantially enlarged.

The slump in demand and in international prices had decisive effects on production of silver (-6.6%), since 90% of this is exported, and external sales of silver contracted by 48%. Even so, Mexico still remains the leading world producer. In the domestic sphere, the exponential rise in silver prices, linked to the devaluation of the peso, so seriously affected demand that a great many silversmiths' workshops —perhaps some 10 000— brought their activities to a partial or total standstill.

The fate of industrial non-ferrous metals was much the same. Output of lead dropped by 7.3%, and although there was a notable improvement in the value of exports of concentrates (more than 300%) the same was not true of sales of the refined product, the most important item in lead exports.

The price of refined lead fell sharply (-29%), with the result that the value of the corresponding exports decreased by 26%.

The growth rate of copper production slackened to a snail's pace after the marked dynamism of previous years (in 1982 it crept up by only 4% as against increases of 64% in 1980 and 31% in 1981). The reduction of domestic demand left large exportable surpluses in the form of concentrates and bars, but, in view of the decline in external demand, exports of the former contracted, although those of bars substantially increased. It was also possible to meet more fully refining requirements for the processing of electrolytic copper, in which Mexico will shortly be self-sufficient.

Production of zinc climbed by almost 10%, thanks to the entry into operation of a modern refinery which entailed an investment of US\$ 175 million. In contrast, output of bismuth went down by about 8% and that of cadmium remained stationary.

Among ores for steel-making, destined mainly for the domestic market, mention should be made of the decreases in production of iron ore (-9%) and of manganese (-13%), due to the contraction in industrial demand, while output of coke grew by barely 1%.

As regards non-metallic minerals, increased production of fertilizers influenced demand for sulphur, and prevented the decline in its production (-13%) from being greater still. The contraction in production of fluoride was more pronounced (-32%), because exports decreased in view of competition from South Africa and the People's Republic of China in a depressed market. Barite production expanded slightly and holds out promising prospects for the opening of a new mine. Lastly, production of salt kept up its dynamic growth, since Mexico possesses one of the biggest natural salt deposits in the world and covers one-third of the international export market.

*Petroleum activities.* Petroleum production continued to expand (19%) until a daily average of 2.7 million barrels was reached (see table 6). Its repercussions on the rest of the economy, however, were less significant than those observable from mid-1980 to 1981. Perhaps this earlier situation of intensive interaction might have been prolonged during 1982 if the world fuels picture had not changed so greatly halfway through 1981 and the internal imbalances mentioned above had not been accentuated.

Table 6

MEXICO: INDICATORS OF PETROLEUM ACTIVITY

	1979	1980	1981	1982 <sup>a</sup>	Growth rates <sup>b</sup>			
					1979	1980	1981	1982 <sup>a</sup>
Index of extraction of crude oil and natural gas (1970 = 100)	287.8	381.8	462.4	544.2	21.9	32.7	21.1	17.7
Production of main items								
Petroleum <sup>c</sup>	591	779	932	1 096	21.7	32.0	19.6	17.6
Crude and condensate	537	708	844	1 003	21.5	32.0	19.1	18.8
Gas liquids	54	71	88	93	25.7	32.0	24.5	5.5
Natural gas <sup>d</sup>	30 146	36 772	41 972	43 890	13.9	22.0	14.1	4.6
Refined products <sup>c</sup>	358	425	471	444	9.7	18.6	10.8	-5.8
Gasoline	104	120	132	127	15.9	15.3	9.8	3.9
Diesel oil	79	89	98	86	8.5	13.8	10.2	-13.1
Fuel oil	87	113	127	128	-2.6	30.2	12.2	1.1
Others	88	103	114	103	17.9	15.5	11.1	-9.5
Exports								
Crude oil <sup>c</sup>	194	302	401	545	46.0	55.3	32.7	35.9
Natural gas <sup>d</sup>	-	2 903	2 979	2 684	-	-	3.6	-9.9
Other indicators <sup>f</sup>								
Proven reserves	45 803	60 126	72 008	72 008	14.0	31.3	19.8	-
Domestic consumption of petroleum	396	477	531	551	12.5	20.5	11.4	3.8

Source: ECLA, on the basis of figures supplied by Petróleos Mexicanos (PEMEX) and by the Ministry of Programming and the Budget.

<sup>a</sup>Provisional figures.

<sup>b</sup>Growth rates correspond to total, not rounded, figures.

<sup>c</sup>Millions of barrels.

<sup>d</sup>Millions of cubic metres.



As early as 1980 some observers noted manifest trends towards a decrease in demand for crude in the industrialized economies of the West, as a result of the economic crisis and fuel-saving and of the growing tendency to replace petroleum by natural gas and other primary sources of fuels, as well as of the stagnation of hydrocarbons consumption in the developing regions —events which were accompanied by a constant expansion of the world supply of hydrocarbons and other fuels.<sup>6</sup>

This circumstance, together with direct purchases of crude oil by a likewise increasing number of countries, gave birth to a freer, but at the same time more unstable, market.

In other words, the year 1982 witnessed an interruption of what is often called Mexico's "oil syndrome" in 1980-1981, a two-year period in which the abundant foreign exchange generated by sales of crude permitted: a) a phenomenal expansion of public expenditure; b) the maintenance of the highest rates of economic growth in a world of daily intensifying recession; c) a considerable increase in the imports of goods and services account, for the purpose of eliminating the bottlenecks in infrastructure and in the productive apparatus, supplying demand for basic and also for luxury goods, and meeting the requirements entailed by petroleum development itself; and d) the defence of freedom of exchange operations and the parity of the peso.

While it is true that foreign exchange earnings from petroleum sales in 1982 exceeded the preceding year's, this was basically due to a very marked increase in volume (36%), since unit prices fell, on an average, almost five dollars per barrel between 1981 and 1982.

Output of crude declined at the beginning of the year because of violent storms in the south-east, but it increased again in the later months, with the result that in December more than 3 million barrels daily were produced. Thus, Mexico gained fourth place in the world as a producer of crude oil, and avoided the trend followed by the members of OPEC, whose output in that year contracted by more than 17%.

With a 36% increase in the volume of external sales, an average of nearly 1.5 million barrels daily was reached, i.e., exactly the figure contemplated in the Energy Plan. This was possible, despite the reduction in world demand, thanks to the sales policy pursued by PEMEX, which also managed to diversify its markets to some extent (for example, the proportion of sales of crude shipped to the United States sank from 82% in 1979 to somewhat less than 50% in 1982). This policy included the liberalization of certain contract regulations: thus, for example, whereas previously the buyer country had necessarily to purchase 50% of "Isthmus type" crude and 50% "Maya type", thenceforward it could choose the combination best adapted to its requirements. The result was that sales of the Maya heavy crude notably increased and that some countries, such as Japan, Spain and France, in changing their relative position by types of crude, bought between 20% and 30% less than the total specified in their respective contracts.

The fall in export prices was linked to their trends at the world level. After several reductions, the price of Maya type heavy crude stood at US\$ 25.10 per barrel at the end of 1982 (it had been 28.50 at the end of 1981), and that of the Isthmus type at 28.37 (as compared with US\$ 35 at the same date in the preceding year). Thus, the average price of exports during 1982 was US\$ 29.10 per barrel, US\$ 5.6 less than in 1981, with the result that the country's earnings from this source dropped by about US\$ 3.7 billion. But thanks to the big increment in the volume sold, the total value amounted to US\$ 15.9 billion, i.e., 14% more than at the close of the previous year. Thus, the petroleum sector as a whole continued to increase its share in total sales of goods, which rose to 77% as against somewhat under 73% in the preceding year.

In 1982, production of natural gas did not quite reach 44 billion cubic metres, expanding by only 4.6%. This growth rate was a good deal lower than those recorded in 1981 and 1980 (14% and 22%, respectively). On the other hand, exports in 1982 decreased by 10%, owing to a certain substitution effect deriving from the liberalization of domestic restrictions on the natural gas market in the United States, under the aegis of the fall in petroleum prices on the world market and the depressed state of demand in general because of the recession in that country. With the drop in exports of natural gas, foreign exchange earnings under this head were 9% less than in 1981.

Owing to the country's financial circumstances, PEMEX had to suspend 15 programmes designed to expand refining activities, and comprising both the construction of new plants and the

<sup>6</sup>Miguel Wionczek, "Algunas reflexiones sobre la futura política petrolera de México", *Revista de Comercio Exterior*, Vol. 32, No. 11, November 1982.

enlargement of those in existence. Consequently, it was able to increase its refining capacity only by 1.4 million barrels daily instead of the 2 million envisaged.

iv) *The manufacturing sector.* After four years of steady growth at a rate exceeding 8%, manufacturing declined by 2.4% in 1982 (see table 7). So negative a result had not previously been recorded in a sector whose dynamism traditionally outstripped that of the rest. Internal and external factors combined to bring about this contraction, although the former were also affected by the problems with which the Mexican economy was faced in its relation with the international economy.

The severe constraints imposed by the external sector in 1982 —both commercial and financial— threw into relief the external vulnerability and dependence of manufacturing industry. The shortage of foreign exchange and the successive devaluations of the peso were among the reasons why imports for the sector were halved. This situation, albeit widespread, was particularly acute for those branches which operate with low degrees of domestic integration, and in which the participation of transnational corporations is usually high.

Another factor which contributed to the deterioration of industrial production was the notable contraction in domestic demand, which affected consumer and, to an even greater extent, capital goods. In consequence, output of capital and durable consumer goods shrank by 14% and that of intermediate goods by 3%; production of non-durable consumer goods, on the other hand, increased by 3%.

Financial problems also bore very hard on this sector, particularly on enterprises that availed themselves of external financing. Moreover, while the growth rate of bank credits —of which the industrial sector absorbed a significant proportion— had been positive at the beginning of the year, by the end of December it had gone down to about -30%. In addition, the payment of their dollar

Table 7

MEXICO: INDICATORS OF MANUFACTURING PRODUCTION

	Indexes (1970 = 100)				Growth rates			
	1975	1980	1981	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>a</sup>
<b>Index of manufacturing production</b>	140.7	199.3	213.3	208.2	10.6	7.2	7.0	-2.4
Food, beverages and tobacco	128.7	168.3	176.5	184.3	7.5	6.0	4.9	4.4
Textiles	135.1	178.3	190.2	178.8	12.4	1.5	6.7	-6.0
Clothing	126.0	153.8	160.0	155.2	9.7	3.3	4.0	-3.0
Wood	128.7	193.2	198.8	195.0	11.4	6.9	2.9	-1.9
Paper	130.5	205.7	211.0	218.6	9.7	10.3	2.6	3.6
Printing and publishing	120.6	171.2	183.4	175.7	10.8	12.4	7.1	-4.2
Rubber products	157.7	256.1	253.0	279.6	2.6	15.9	-1.2	10.5
Basic petrochemical products	206.5	325.3	379.3	421.0	15.8	9.5	16.6	11.0
Basic inorganic chemical products	152.3	240.1	256.2	248.3	5.6	8.3	6.7	-3.1
Petroleum products	139.4	219.3	246.1	244.6	13.3	12.2	12.2	-0.6
Non-metallic mineral products	143.3	194.6	203.7	197.4	10.4	8.8	4.7	-3.1
Steel products	139.5	201.9	209.0	191.9	8.0	3.4	3.5	-8.2
Machinery, equipment and metal products	156.4	236.1	261.1	227.7	15.7	9.6	10.6	-12.8
<b>Production of some important manufactures</b>								
Beer and malt	143.3	207.0	221.1	212.9	14.0	7.5	6.8	-3.7
Fertilizers	149.3	190.5	235.5	299.1	8.6	6.9	23.6	27.0
Man-made fibres	214.4	337.0	347.1	337.4	12.8	7.0	3.0	-2.8
Cast iron	135.9	190.5	199.6	174.7	16.6	4.9	4.8	-12.5
Motor vehicles	162.9	300.3	368.2	273.6	17.0	14.2	22.6	-25.7
<b>Other indicators of manufacturing production</b>								
Consumption of electricity by industry <sup>b</sup>	22.7	33.4	34.9	35.9	8.8	4.2	4.4	2.9

Source: ECLA, on the basis of figures supplied by the Ministry of Programming and the Budget.

<sup>a</sup>Provisional figures.

<sup>b</sup>Billions of kWh.

liabilities detracted from the enterprises' investment resources, despite the Government's decision to grant them the most favourable exchange rate for the servicing of outstanding debts. The clearing tax on certain export items applied by the United States also acted as a constraint.

The devaluations in February, August and December did something to restore to manufactures part of their capacity to compete on external markets. In fact, on the northern frontier there was almost an explosion of sales of specific products to the neighbouring country. But most of the enterprises with export opportunities were unable to react as quickly as was necessary, although by the end of the year the situation seemed to be improving.

Nevertheless, despite these apparent advantages, prevailing conditions precluded any recovery in manufacturing activity, except for the speculative demand generated on the northern frontier. Thus, the shortage of foreign exchange, the unstable financial position of enterprises with dollar liabilities, and the decline in domestic demand proved, in general terms, highly negative factors.

Notwithstanding the unfavourable trends described, results might have been worse, in view of the severe external constraint with which the sector was confronted. Indeed, industry showed signs of some vitality whenever the force of circumstances drove it rapidly to generate some sort of import substitution process in the branches that made most use of domestic raw materials and in those possessing idle capacity. The maturation of some projects —outstanding among which were those executed in the basic petrochemicals, fertilizers and cement industries— may also have helped to mitigate the decline in industrial activity. Lastly, a factor that counteracted the reduction in supplies of imported inputs was intensive use of stocks built up in previous years.

Production by branch of industry showed substantial differences. The growth rate of the food, beverages and tobacco industries was higher than that of the population (4.4%), mainly because of the dynamism displayed by production of canned and bottled fruit (chiefly for export), alcoholic beverages and soft drinks. The textile, clothing, leather and footwear industries declined in the aggregate by 3.7%, owing to the long-drawn-out strike which affected output of cotton yarn, and, above all, to the effects of the contraction in per capita income on a group of products less indispensable than foods. Output of wood and wood products also decreased as a result of the slump in demand on the part of construction. The printing and publishing industries remained stationary, but thanks to a 60 000-ton expansion of capacity, the manufacture of paper increased by 5% and that of newsprint by 11%, although the stagnation of pulp production and the inability to import caused serious supply problems. Furthermore, publishing, despite the programme for its promotion, dropped by 30%, partly on account of its dependence upon inputs from abroad and partly because of its sensitiveness to changes in the purchasing power of the population.

Basic inorganic chemical products suffered a setback of 3%, owing to a falling-off in production of hydrochloric acid and hydrofluoric acid in consequence of the sharp contraction in external demand, upon which nearly 80% of these items depends: similarly, production of sodium carbonate decreased —on account of a decline in the glass industry, its main purchaser— and so did that of magnesium oxide and chloride. Production of sodium tripolyphosphate, however, significantly increased, owing to the notable expansion of the soap industry; output of caustic soda and sodium sulphate also rose. Moreover, during 1982 substantial investment in the manufacture of sulphuric acid and phosphoric acid matured, guaranteeing a high level of production of fertilizers.

The basic petrochemical industries expanded by 11%, by virtue of an exceptional upswing (32%) in output of ammoniac, which placed Mexico in the position of first world producer. Production of other petrochemicals followed the same dynamic trends as in recent years, under the impetus of the abundant investment which in previous years had been channelled into the sector; output of some of these items, however, deteriorated, owing to the slackened pace of work on the La Cangrejera petrochemicals complex and to the lack of foreign exchange for the purchase of imported inputs. During the year the subsidies transmitted by the basic petrochemicals industry (State-owned) to the secondary petrochemicals industry (private capital) were suspended when the prices of the latter's products shot up by between 50% and 100%. Output of fertilizers covered 90% of domestic demand, in the framework of the agricultural development strategy introduced by the preceding government, which had appreciably boosted their use. Lastly, production of inner tubes went up by 11%, despite the pronounced decline in the motor vehicle industry, because of the increase in demand for spare parts, and partly, too, in external demand.

Production of non-metallic minerals, which is linked to construction trends, fell by 3%. In contrast, a 7.3% increase in cement manufacture resulted from the entry into operation of previous investment projects which expanded installed capacity by 25%. Output thus easily satisfied the demand deriving from countless construction and road works which were completed when the last government ended its term in office, as well as from residential building called "informal construction", and self-help construction, which would seem to have followed a dynamic trend. Some exports, also, were effected, although they were limited by transport and port management problems, and domestic production was substituted for external purchases of certain types of cement.

A decrease of somewhat over 8% in the production of the basic metal industries was primarily due to the contraction of demand. The biggest drop (-12.8%) was experienced by metal products, machinery and equipment, mostly investment goods. Among these, the largest reduction was shown by the motor-vehicle industry —assembly and car parts—, and next came electrical machinery and equipment.

In short, manufacturing industry had a difficult time in 1982. Although in the first quarter the dynamism inherited from previous years persisted and sizable investment continued to be placed, as the year advanced the picture underwent a radical change. Outstanding among the first measures of defence put into practice by the Government was the support given to small and medium-sized enterprises, because of the source of employment they represented; and, as far as possible, entrepreneurs were accorded facilities, through the preferential exchange rate, for external debt servicing on less unfavourable terms, with the aim of keeping industry going. Expansion plans, however, were seriously affected by the overall situation described above.

v) *Construction.* The construction sector declined by almost 4% in 1982, after having kept up an average growth rate of 12% in the past four years (see table 8). This falling-off was entirely due to the drop in public-sector construction, since that of the private sector slightly increased (2.6%). Apparently, however, a substantial volume of completed buildings could not be sold during the year, because of the economic depression itself. Besides, to this and the recessive situation of the world economy was added Mexico's change of government at the end of the year, an event which as a general rule detracts from the continuity of many public works.

As was to be expected, the downward trend of construction disseminated its negative effects throughout other important branches of the economy, such as the branches of manufacturing supplying inputs for construction —the iron and steel, non-metallic minerals (except cement, output of which increased), copper and wood industries— and, of course had repercussions on employment.

In this setting, the group of construction firms making up the Chamber of Construction —the members of which include the leading companies in the sector, whose production is designed to satisfy

Table 8

MEXICO: INDICATORS OF CONSTRUCTION ACTIVITY

	1975	1980	1981	1982 <sup>a</sup>	Growth rates			
					1979	1980	1981	1982 <sup>a</sup>
Index of volume of production	142.1	206.0	229.3	220.4	13.1	12.5	11.3	-3.9
Production of some of the most important building materials <sup>b</sup>								
Reinforcing rod	906	1 439	1 517	1 365	13.6	19.6	5.4	-10.0
Seamless steel tubes	200	241	251	273	0.9	-5.3	4.2	8.5
Copper wire and cables	41	57	79	53	36.9	6.6	38.3	-33.4
Cement	11 612	16 243	17 978	19 296	8.0	7.0	10.7	7.3
Refractory brick	148	246	242	180	25.0	0.4	-1.8	-25.6
Flat glass	56	86	85	83	10.7	3.6	-1.2	-1.6
Employment <sup>c</sup>	1 151	1 687	1 881	1 802	12.3	12.7	11.5	-4.2

Source: ECLA, on the basis of figures supplied by the Ministry of Programming and the Budget and by the National Chamber of Cement.

<sup>a</sup> Provisional figures.

<sup>b</sup> Thousands of tons.

<sup>c</sup> Thousands of persons.

to a large extent (80%) public sector demand— reduced their activity on a scale commensurate with the decrease in public investment in construction. This activity also had to face a rise in costs which affected its liquidity levels, since the increased costliness of inputs and financial liabilities prevented it, at times, from operating at a profit, in view of the sales prices previously agreed upon. Furthermore, the speeding-up of inflation meant that advance payments received on account against works for which estimates had been prepared and accepted earlier, were no longer sufficient.

Furthermore, public construction almost came to a standstill in the last quarter of the year, primarily on account of the constraints deriving from the petroleum and petrochemicals sector. Similarly, there was a slackening of pace in infrastructure, highway, airport and social services works. On the other hand, those connected with electric energy, rail and maritime infrastructure, transport services and the supply of drinking water were given priority.

In contrast, the private sector undertook a number of works. The so-called "informal sector", which comprises many small firms and own-account builders, was able to satisfy a brisk demand for works which had been postponed during the boom years of construction, because at that time inputs had been channelled primarily into major projects, both public and private; with the decline in these, a more fluid supply of building materials made it possible to execute works of the type indicated above.

vi) *Basic services. Electricity.* During 1982, according to estimates, electric power generation capacity showed an increase of 5.7%, representing about 1 000 additional mW. Furthermore, with the entry into operation of several steam plants in different parts of the country, a total of 18 390 mW of installed capacity was attained.

Although 7.9% more electricity was generated in the year, this was a lower growth rate than had been achieved in the preceding year. At the same time, the share of hydroelectric energy in the total rose from 27% in 1980 to 31% in 1982—despite the entry into operation of the above-mentioned steam plants—because of the recent incorporation of production units at the big Chicoasen power station on the River Grijalva. Moreover, energy consumption expanded by 11.3%, which reflects an improvement in the efficiency of the system, if this percentage is compared with the increase in gross generation.

With the object of maintaining the financial balance of Mexico's electricity sector, helping to reduce the fiscal deficit, and promoting the efficient use of electricity, a rise in tariffs was authorized, which was applied progressively so that it might prove less burdensome for users of the service in the lower income strata. The increase in question is part of a policy designed to prevent this, like other public sector activities, from having to resort to too much supplementary credit.

*Transport.* It is estimated that in 1982 the domestic product of the transport sector dropped by almost 5%, owing to the smaller volume of goods transported, as a result of the sharp downturn in output of agricultural, mining and industrial products, as well as in construction, and of the drastic contraction in the volume of merchandise imported. Other factors which exerted a negative influence on transport were: domestic inflation (which pushed up the costs and tariffs of the service), the exchange problem (which was reflected in shortages and rising costs of imported spare parts and parts); and, lastly, the introduction of exchange controls (which during the last quarter of the year restrained outgoing merchandise and passenger flows).

Motorized freight transport carried over 70% of the merchandise handled and generated nearly 50% of this sector's domestic product. For the reasons stated, it was greatly reduced in relation to the preceding year and consequently had surplus capacity. Railborne freight declined by almost 11%, primarily because of the decreases in agricultural and industrial freight (29% and 13%, respectively), while transport of mining freight fell by 1% and that of petroleum considerably increased (by 28%). To judge from partial data, by sea, too, less cargo was shipped, owing to the contraction in merchandise trade, although exports of crude oil expanded.

Overland passenger transport—90% of which was motorized—decreased because of the substantial rise in costs and tariffs and the fact that the flow of passengers to the frontier areas of Northern Mexico slackened in consequence of the devaluation of the peso. In the Federal District, however, transport of this type expanded, since production of buses was primarily designed to meet demand for urban transport, a service which was transferred to the control of the municipalities in 1981, and whose tariffs remained stable throughout the following year.

Mexico City's underground transport system —the "Metro"— completed extensions of its lines amounting to almost 80 km, and increased its capacity to 1 386 cars, which enabled it to carry 5.5 million passengers daily. It should be pointed out that this service has kept the same tariff rates since its inauguration in 1970.

Demand for national airline passenger transport and the service itself likewise declined, because of the rise in tariff rates, the long-drawn-out labour strike in one of the country's two major airlines, and also, up to a point, the decrease in the population's purchasing power. International airborne transport was affected both by the devaluations and by exchange controls. Consequently, some international airlines ceased to operate in Mexico or reduced the frequency of its flights, on account of the much smaller outflow of passengers abroad.

An important event which took place at the end of the year was the inauguration of the Multimodal Trans-Isthmus Service (Servicio Multimodal Transístmico) —a State enterprise— which established road links between two major ports on the Atlantic and Pacific coasts, and which transported merchandise freight in containers.

The overall downward trend in the transport sector's activity was reflected in its turn in a contraction of demand for equipment. Consequently, production of motor vehicles dropped sharply; thus, while output of trucks dropped by 26.5%, that of tractors for trailers fell by 60%. Similarly, the manufacture of bodywork for trucks was reduced by 22%, for trailers by 50%, for imported buses by 86% and for tugs by 33%. Construction of railway coaches also decreased by 12%. In contrast, the manufacture of cars for the Metro increased by 72%; that of autobuses, by 10.5%; that of trailers by almost 14% and that of bodywork for urban autobuses, by 12%.

vii) *Domestic trade.* During 1982, the gross product generated by trade was reduced by 2.4%, in contrast with an increase of almost 9% in 1981. This decline was basically caused by the contraction of the domestic market, resulting in its turn from the drop in the population's income levels and the spread of unemployment, as well as by the exceptional rise in prices, which eroded the purchasing power of the population. To offset this rise, purchases were made ahead of requirements, especially in the case of durable consumer goods, of which considerable stocks had been built up in previous years, by virtue of the facilities then available for importing inputs for their manufacture, and of the overvalued exchange rate.

As a result of the critical economic situation prevailing in 1982 and in particular after the February devaluation, a number of problems were created in local trade by the accentuation of speculative practices in a climate of inflation. In face of the expectations of a bigger devaluation of the currency, industrialists and dealers used part of their capital to accumulate stocks in an endeavour to protect their profits, a move which speeded up inflation still more as shortages of some goods occurred.

Together with the stockpiling of final goods came the stagnation of inventories of intermediate goods, which affected the manufacturing sector. Another factor which had repercussions on the levels of trade activity was the shortage of financing (credit throughout the whole banking system of this sector expanded by only 1.6% in nominal terms), which was detrimental both to the liquidity of dealers and to the replenishment of their inventories.

Particularly serious was the problem of supplies in the frontier areas of Northern Mexico, a result of disequilibria in relative prices, mainly in the case of products which, because they were subject to price controls or were subsidized by the Government, were in great demand among the population on the other side of the frontier.

On the occasion of the February devaluation, the authorities introduced price controls for 5 000 products, which were maintained throughout the whole year. At the end of December the controls in question were reviewed and were applied only to 300 basic items.

Retail trade, which is partly carried on by the State through the Distribuidora CONASUPO, S.A. (DICONSA), was still oriented towards fulfilling not only its supply function but also those of market regulation and income redistribution in the rural sector. During 1982, DICONSA increased the value of its sales by 74%, bringing it up to an amount approaching 65 billion pesos. Nevertheless, in consequence of the budget restrictions by the Federal Government, in real terms sales values decreased by over 12% in relation to the preceding year's figures. Owing to shortfalls in industrial production, especially of popular consumer goods such as oil, salt, milk, biscuits and detergents, *inter alia*, the State enterprise encountered serious supply problems.

The structure of DICONSA's sales in the urban and rural sectors was the same as in the preceding year (87.6% in the former and 21.4% in the latter), despite the closing-down of 1 305 shops in the rural areas, in compensation for which 1 930 units were opened under a joint programme run by DICONSA and the Co-ordination of the National Plan for Depressed Areas and Marginal Groups (Coordinación del Plan Nacional de Zonas Deprimidas y Grupos Marginados (COPLAMAR). Thus, the total number of shops in Mexico rose by 7% during 1982.

The part played by CONASUPO in supplying and regulating the basic grains markets is highlighted by the fact that in sales of maize it accounted for 26% of the national total, and in purchases for 38%; in the marketing of beans, its corresponding shares were 42% and 54%; in that of wheat, 58% and 64%; in that of rice, 50% and 38%; and in that of sorghum, 25% and 19.5%, respectively.

### 3. The external sector

In the year 1982 the trends followed by the main economic variables in preceding years suffered an interruption, whose disturbing effects included the aggravation of the financial difficulties which had been besetting the country and which were most painfully apparent in the external accounts.

From this standpoint, several facts stood out as causes of the radical external imbalance, but financial predominated over commercial factors. In contrast with the traditional course of events, in 1982 a surplus of almost US\$ 6.7 billion was obtained on merchandise trade, whereas in 1981 a deficit of 3.9 billion had been recorded. This reversal of the trend was the result of a drastic contraction in imports, consequent upon the decline in domestic demand and upon restrictive measures adopted by the Government, as well as upon the still dynamic behaviour of petroleum exports. The decrease in external purchases affected almost all sectors of the economy, which just in the last four years had opened up considerably to the outside world.

In its turn, the balance on non-financial services (in particular tourism and frontier transactions) became positive. But interest payments on the external debt to the amount of about US\$ 10.5 billion not only cancelled out the trade surplus, but were partly responsible for the deficit of nearly US\$ 2.7 billion shown in the balance on current account. Deviating from the traditional trend, the capital account proved insufficient to cover this deficit—the "errors and omissions" item alone exhibited a negative balance of over US\$ 5 billion, partly reflecting the enormous outflows of capital. Thus, international currency reserves diminished by rather more than US\$ 2.9 billion.

The year 1982 was marked by the discontinuance of the policy of overvaluing the Mexican currency, whose value in relation to the dollar dropped by over 80% after the succession of parity changes that had taken place in the course of the year.

In short, the external sector became so great a constraint upon economic growth that Mexico was obliged to have recourse to the International Monetary Fund for the second time in the last ten years. In addition, the Government was compelled to apply to the international financial community for a moratorium of 90 days and the renegotiation of its debt expiry dates.

#### a) *Merchandise trade*

Merchandise trade abruptly swung away from the trend it had followed in recent years, when the expansion of the economy had been accompanied by a persistent upsurge in external purchases.

Thus, after a fourfold increase between 1977 and 1981, the value of imports of goods dropped by 37% in 1982. This downturn was exclusively due to the contraction of the quantum, which fell by almost 38% (see table 9). Apparently, the stockpiles built up in previous years prevented the decline from causing worse distortions in the production apparatus, at least during most of the year.

i) *Exports.* The year 1982 also witnessed an interruption of the prolonged upward movement in the value of exports. After soaring at an average annual rate of 40% between 1977 and 1981, the value of external sales of goods rose by only a little over 7%. In contrast with what happened in the case of imports, this slowing-down of the growth rate was due to the evolution of the average price of exports, which fell by more than 9%. The volume of exports, on the other hand, increased by 18%, i.e., much more intensively than in 1981.

The decrease in the unit value of external sales reflected the effects of the fall in international prices for crude oil, and, also, for most of Mexico's export commodities, which were adversely affected both by the contraction of demand attributable to the recession in the industrialized economies, and by the rise in the dollar on international exchange markets. The price decline was particularly marked in respect of tomatoes, fresh fruit, pulses, sulphur, ammonia, and refined lead and zinc. Only a few products—coffee, for instance—commanded higher prices. But the downturn of most significance from the standpoint of its repercussions on the economy was that of the price of hydrocarbons.

The expansion of the physical volume of total exports, in its turn, was due to increases in the volume of sales, moderate in the case of non-petroleum products, and amounting to about 36% in that of petroleum and petroleum products. As from July 1981, the month in which petroleum exports dropped to their lowest level, these sales began to expand, thanks to a more dynamic trade policy. Even so, the value of petroleum sales rose by only about 14%, much less than in recent years. This was attributable to the fall of US\$ 5.6 per barrel (16%) in the average price received. As a result of the increase, the relative importance of sales of hydrocarbons in total exports of goods considerably improved for the sixth consecutive year, reaching 77% (see table 10).

The value of other external sales dropped by 9%, owing to the 12% decrease in the value of exports of agricultural and mining products, and to the stagnation of manufactures.

Although the growth rate of the unit value of imports was one of the lowest in recent years, the steep downturn in the price of exports caused a deterioration of 10.5% in the terms of trade.

ii) *Imports.* The drastic decrease in the value of imports of goods was especially marked in consumer goods, which contracted by 46%. Outstanding cases in point were afforded by the fall in purchases of basic grains, as a result of the satisfactory 1981 harvest, and, among durable goods, by the notable reduction in imports for the motor-vehicle industry. Purchases of all types of intermediate goods also dropped sharply (-38%). The counterpart of the contraction in investment expenditure, both public and private, was a pronounced slump in purchases of capital goods from abroad (-40%), affecting both agricultural and industrial machinery (see table 11).

Trade policy instruments had to be adapted in the course of the year to the exercise of control over purchases of goods. From 1981 onwards import controls began to be stepped up—mainly because of the problems arising out of the shortage of foreign exchange—by means of prior permits for purchases whose relative share in total value was greatest. This regulatory instrument was subsequently extended to the whole of the General Import Tariff, with the introduction of exchange controls in September 1982. The situation remained the same until early 1983, when about 300 items covering intermediate goods of frequent use in the production apparatus were liberalized.

Table 9  
MEXICO: MAIN FOREIGN TRADE INDICATORS

	1977	1978	1979	1980	1981	1982 <sup>a</sup>
<b>Growth rates</b>						
Exports of goods, FOB						
Value	32.5	35.7	48.9	74.6	22.1	7.2
Volume	20.2	30.2	17.5	24.9	5.5	18.2
Unit value	10.2	4.2	26.7	39.8	15.8	-9.3
Imports of goods, FOB						
Value	-2.5	42.1	51.8	52.9	24.9	-37.0
Volume	-5.2	31.4	33.7	35.3	18.1	-37.8
Unit value	2.8	8.1	13.6	13.0	5.7	1.3
Terms of trade, FOB/CIF	7.0	-3.5	11.7	24.0	9.3	-10.5
<b>Indexes (1970 = 100)</b>						
Terms of trade, FOB/CIF	122.9	118.6	132.5	164.3	179.6	160.7
Purchasing power of exports of goods	184.7	233.4	309.0	478.6	548.3	572.3
Purchasing power of exports of goods and services	153.6	197.1	246.3	340.5	387.8	376.9

Source: ECLA, on the basis of official statistics.

<sup>a</sup> Provisional figures.



Table 10  
MEXICO: EXPORTS OF GOODS, FOB<sup>a</sup>

	Millions of dollars			Percentage breakdown		Growth rates			
	1980	1981	1982 <sup>b</sup>	1970	1982 <sup>b</sup>	1979	1980	1981	1982 <sup>b</sup>
<b>Total exports<sup>c</sup></b>	16 241	19 837	21 270	100.0	100.0	48.9	74.6	22.1	7.2
Hydrocarbons	10 306	14 440	16 361	2.6	76.9	114.5	166.9	40.1	13.3
Petroleum and petroleum products	9 857	13 916	15 883	2.6	74.7	114.5	155.3	41.2	14.1
Natural gas	449	524	478	-	2.2	-	...	16.7	-8.8
<b>Non-petroleum products</b>	5 935	5 397	4 909	97.4	23.1	22.4	9.1	-9.1	-9.0
Main traditional exports	1 693	1 658	1 460	30.5	6.9	25.1	-5.9	-2.1	-11.9
Coffee beans	415	334	345	6.0	1.6	49.0	-27.8	-19.5	3.3
Shrimps	383	348	453	4.4	2.1	13.9	6.4	-9.2	30.2
Cotton	321	309	184	8.6	0.9	0.3	3.5	-3.7	-40.4
Tomatoes	185	250	154	7.5	0.7	4.5	-10.6	35.1	-38.4
Pulses and fresh vegetables	172	198	178	0.8	0.8	52.5	11.7	15.1	-10.1
Fresh fruit	109	84	72	2.0	0.3	29.3	12.4	-22.9	-14.3
Sulphur	108	135	74	1.2	0.4	81.1	12.5	25.0	-45.2
Main non-traditional exports	1 202	1 064	1 071	15.3	5.0	13.0	18.4	-11.5	0.7
Mechanical and electrical machinery and equipment	475	398	321	4.2	1.5	4.3	64.4	-16.2	-19.3
Parts for motor vehicles	284	271	404	7.5	1.9	-0.7	5.2	-4.6	49.1
Automobiles and trucks	128	110	81	-	0.4	72.1	9.4	-14.1	-26.4
Vegetable and fruit preparations	124	112	130	1.1	0.6	10.0	-6.1	-9.7	16.1
Ammoniac	90	124	102	-	0.5	58.0	13.9	37.8	-17.7
Refined lead	55	30	22	1.8	0.1	50.0	-23.6	-45.4	-26.7
Refined zinc	46	19	11	0.7	...	-11.1	-17.9	-58.7	-42.1
<b>Others<sup>c</sup></b>	3 040	2 675	2 378	51.6	11.2	24.5	15.7	-12.0	-11.1

Source: ECLA, on the basis of figures supplied by the Banco de México.

<sup>a</sup> Excluding sub-contracting.

<sup>b</sup> Provisional figures.

<sup>c</sup> Including uncoined gold and silver.

With the aim of containing external purchases in the first two months of the year, increases in tariff duties were decreed. After the devaluation in mid-February the growth rate of imports declined, and a process of tariff reductions was started with a view to lowering domestic costs of imported goods and thus mitigating their effects on domestic prices. These reductions were applied primarily to inputs in common use and to items where the tariff had reached very high levels. This policy did not last long (barely two months), at least with respect to the tariff as a whole, owing to the fact that in the period mentioned the peso once again became overvalued because of the rise in domestic prices.

The generalized exchange controls decreed on 1 September furnished trade policy with an instrument, additional to the prior permit, for the management of the available foreign exchange. This consisted in the establishment of a dual exchange system with an ordinary exchange rate (70 pesos to the dollar) and a preferential rate, applicable to priority imports (50 pesos to the dollar) (see table 12). Even when the generalized exchange controls decree was abrogated on 13 December, and a system was established which provided for a "controlled" rate for imports (lower than the free rate), the criterion of according priorities to basic goods in the granting of both permits and foreign exchange was maintained. Next in order of importance came goods for the operation of existing industries, and then capital goods.

b) *Services trade and factor payments*

The effects of the change in the merchandise trade balance on current account were largely neutralized by interest payments, which increased considerably as a result of the huge external debt contracted in the immediately preceding years and the high level reached by interest rates on the international financial markets. Thus, in 1982 the public sector disbursed under the head of interest the sum of US\$ 7.75 billion (2.2 billion more than in 1981) (see tables 13 and 14).

Both income and expenditure on account of tourism decreased, although the latter did so to a greater extent, so that the positive balance rose from US\$ 100 to 1 100 million between 1981 and 1982. Owing to the adjustments of the exchange rate which took place during the second half of the year, there was a considerable reduction in the outflow of tourists, whose total expenditure diminished by one-third in relation to the corresponding 1981 figure. On the other hand, the potential positive influence which devaluations might have exerted on the inflow of foreign exchange through tourism was offset by the aggravation of the recession in the United States and by the decline in average expenditure per tourist, measured in dollars. Furthermore, the increasing competition from other tourist areas, both in Europe and in the Caribbean, had adverse effects on tourism in Mexico. Towards the end of 1982, however, tourism resumed its former dynamic role.

Table 11  
MEXICO: IMPORTS OF GOODS, CIF<sup>a</sup>

	Millions of dollars			Percentage breakdown		Growth rates			
	1980	1981	1982 <sup>a</sup>	1970 <sup>b</sup>	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>a</sup>
<b>Total imports</b>	10 496	25 127	15 122	100.0	104.2	51.6	52.9	28.9	-39.7
<b>Consumer goods</b>	2 426	2 809	1 519	9.4	10.5	124.2	142.1	15.8	-45.9
Sugar	562	360	141	...	1.0	...	...	-35.9	-60.8
Beans	241	338	98	...	0.7	...	...	40.2	-71.0
Milk	186	227	145	...	1.0	73.0	190.6	22.0	-36.2
Automobiles	155	182	94	...	0.7	323.1	40.9	17.4	-48.4
Butane and propane gas	145	151	109	...	0.8	-25.7	173.6	4.1	-27.8
<b>Intermediate goods</b>	11 028	13 545	8 400	58.8	57.9	38.3	48.9	22.8	-38.0
Automobiles components	949	1 004	583	...	4.0	28.4	20.7	5.8	-41.9
Maize	589	453	38	...	0.3	-37.0	477.5	-23.1	-91.6
Iron and steel sheets	564	497	298	...	2.1	30.4	139.0	-11.9	-40.0
Spare parts for automobiles and trucks	374	552	296	...	2.0	74.3	57.8	47.6	-46.4
Sorghum	308	432	195	...	1.3	-0.6	92.5	40.3	-54.9
Parts for electrical installations	270	399	284	...	2.0	56.1	51.7	47.8	-28.8
Chemical products for industry	222	270	206	...	1.4	41.1	22.0	21.6	-23.7
Paper and cardboard	206	192	136	...	0.9	91.2	89.0	-6.8	-29.2
<b>Capital goods</b>	5 032	7 576	4 502	30.8	31.0	80.6	40.7	50.6	-40.6
Metalworking machinery	409	716	606	...	4.2	91.1	91.1	75.1	-15.4
Textile machinery	337	417	252	...	1.7	56.8	32.7	23.7	-39.6
Drilling machinery	327	502	176	...	1.2	160.4	18.5	57.5	-64.9
Pumps	299	482	284	...	2.0	68.8	10.7	61.2	-41.1
Aircraft and aircraft part	274	323	171	...	1.2	94.7	48.1	17.9	-47.1
Agricultural tractors	186	127	39	...	0.3	100.0	1.1	-31.7	-69.3
<b>Unclassified goods</b>	65	109	90	1.0	0.6	-26.9	-57.2	67.7	-17.4
<b>Total imports, FOB</b>	18 551	24 039	14 512	...	100.0	51.9	52.8	29.6	-39.6
Public sector	6 754	8 822	5 309	...	36.6	41.8	67.6	30.6	-39.8
Private sector	11 797	15 217	9 202	...	63.4	57.3	45.5	29.0	-39.5
<b>Insurance and freight</b>	945	1 088	610	...	4.2	45.6	54.9	15.1	-43.9

Source: ECLA, on the basis of figures supplied by the Banco de México and the Ministry of Programming and the Budget.

<sup>a</sup> Provisional figures.

<sup>b</sup> Figures calculated on the basis of CIF values.

Table 12  
**MEXICO: EVOLUTION OF OFFICIAL AND PARITY EXCHANGE RATES**

(Index 1976 = 100)

	Official exchange rate <sup>a</sup> (pesos per dollar)	Wholesale price index (average for the period)		Parity exchange rate 19.95 x (2/3)	Relation between official and parity exchange rates (1/4) = (5) (5)
		Mexico	United States		
	(1)	(2)	(3)	(4)	(5)
1976	19.95	100.0	100.0	19.95	100.00
1977	22.74	141.1	106.1	26.53	85.71
1978	22.72	163.4	114.4	28.50	79.72
1979	22.80	193.3	128.8	29.94	76.15
1980	23.26	240.5	146.9	32.66	71.22
1981	26.23	299.5	160.4	37.25	70.42
1982					
First quarter	45.53	363.2	163.0	44.45	102.43
Second quarter	48.04	419.8	163.2	51.32	93.61
July	48.92	456.2	164.2	55.42	88.27
August	104.00	514.4	164.2	62.50	176.40
September <sup>b</sup>	70.00	528.1	163.6	64.40	108.70
October <sup>b</sup>	70.00	549.4	163.8	66.91	104.62
November <sup>b</sup>	70.00	571.6	164.2	69.45	100.79
December					
Controlled	96.82	640.2	164.2 <sup>c</sup>	77.78	124.48
Free	148.50	640.2	164.2 <sup>c</sup>	77.78	190.92
Special	71.96	640.2	164.2 <sup>c</sup>	77.78	92.52

Source: ECLA, on the basis of figures supplied by the Banco de México.

<sup>a</sup>End of period.<sup>b</sup>Another preferential exchange rate of 50 pesos per dollar existed during these months, and its relation with the parity rate was 77.64 for September; 74.73 for October; and 71.99 for November.<sup>c</sup>Provisional figures.

Another point to note is that effective foreign exchange income from tourism did not coincide with the balance-of-payments entries, the reason being that in consequence of the exchange controls introduced as from September, a parallel market grew up, with an exchange rate much more advantageous than the controlled parity rate. This market, located particularly on the northern frontier, supplied Mexican currency to a large number of tourists from the United States before they even entered Mexico. Thus, to an appreciable extent, the national foreign exchange market was replaced by a peso market abroad.

In addition, subcontracting activities in the frontier area increased considerably, as production costs were brought down by the decrease in wages and salaries due to the devaluations. Since wage contracts were drawn up in domestic currency, however, the dollar income under this head dropped perceptibly in relation to 1981 (from US\$ 980 to 780 million), so that despite the expansion of activities in United States industry operating on the Mexican side, there was no commensurate increase in the absolute value of foreign exchange inflows into the country. Moreover, in respect of frontier transactions the same sort of thing happened as in the case of tourist flows, inasmuch as both inflows and outflows of foreign exchange diminished.

Income from the provision of various services on the frontier —among which outstanding examples were medical attention, automobile repairs, and entertainment— decreased not only because the United States population had less income available for such purposes, but because of the above-mentioned effect of the devaluations, since services, in terms of dollars, became cheaper. Lastly, both income and expenditure deriving from transport and insurance services fell by 15% and 30%, respectively, in consonance with the contraction in volumes of trade.

Table 13

## MEXICO: BALANCE OF PAYMENTS

(Millions of dollars)

	1977	1978	1979	1980	1981	1982 <sup>a</sup>
<b>Balance on current account</b>	-1 870	-3 259	-5 570	-7 687	-12 997	-2 740
Trade balance	127	-593	-1 629	-1 816	-3 902	7 668
Exports of goods and services	7 792	10 743	15 093	23 531	28 568	28 520
Goods, FOB	4 604	6 246	9 302	16 241	19 837	21 270
Real services <sup>b</sup>	3 189	4 497	5 791	7 290	8 731	7 250
Transport and insurance	200	250	318	450	497	420
Travel	2 122	3 208	4 133	5 200	6 242	5 200
Imports of goods and services	7 665	11 336	16 722	25 347	32 471	20 852
Goods, FOB	5 625	7 992	12 132	18 551	23 166	14 590
Real services <sup>b</sup>	2 040	3 344	4 590	6 796	9 304	6 262
Transport and insurance	487	779	1 128	1 931	2 379	1 660
Travel	1 183	2 152	2 936	4 178	6 150	4 080
Factor services	-2 151	-2 771	-4 072	-6 002	-9 219	-10 500
Profits	-401	-676	-927	-1 283	-1 827	-700
Interest received	168	405	693	981	1 332	1 250
Interest paid	-1 979	-2 576	-3 739	-5 435	-8 204	-10 500
Work and ownership	61	77	-99	-266	-520	-550
Unrequited private transfer payments	153	104	132	132	125	92
<b>Balance on capital account</b>	2 247	3 690	5 886	8 593	14 082	-180
Unrequited official transfer payments	16	88	94	144	180	133
Long-term capital	4 611	5 121	5 176	7 259	15 199	8 590
Direct investment	556	824	1 337	1 846	2 253	941
Portfolio investment	1 345	737	-392	-71	648	...
Other long-term capital	2 710	3 560	4 231	5 484	12 298	...
Official sector <sup>c</sup>	1 077	362	-180	655	375	...
Loans received	1 143	857	1 753	1 153	1 456	...
Amortization payments	-67	-495	-1 933	-498	-1 080	...
Commercial banks <sup>c</sup>	893	1 006	1 246	1 125	8 551	...
Loans received	2 273	3 338	3 452	2 551	12 847	...
Amortization payments	-1 379	-2 331	-2 206	-1 426	-4 296	...
Other sectors <sup>c</sup>	740	2 192	3 165	3 704	3 372	...
Loans received	1 787	4 246	6 107	5 320	4 689	...
Amortization payments	-982	-2 037	-2 960	-1 627	-930	...
Short-term capital	-2 431	-1 421	-32	3 284	4 063	-3 850
Official sector	-292	-1	33	-51	0	...
Commercial banks	-469	-837	1 076	2 333	2 432	...
Other sectors	-1 669	-583	-1 140	1 003	1 631	...
Net errors and omissions	49	-98	647	-2 092	-5 360	-5 053
<b>Global balance<sup>d</sup></b>	377	430	316	906	1 085	-2 920
Total variation in reserves (- sign indicates an increase)	-384	-455	-399	-1 037	-1 133	2 920
Monetary gold	-6	-6	-4	-3	-8	...
Special Drawing Rights	-56	1	-144	56	-34	...
IMF reserve position	0	0	0	-128	-60	...
Foreign exchange assets	-405	-194	-46	-727	-662	...
Other assets	-55	-46	-42	-100	-370	...
Use made of IMF credit	138	-211	-163	-136	0	...

Source: 1977-1981: International Monetary Fund, *Balance of Payments Yearbook*; 1982: ECLA, on the basis of official data.<sup>a</sup> Provisional figures.<sup>b</sup> Real services also include other official and private transactions, but exclude factor services.<sup>c</sup> In addition to loans received and amortization payments on these, this entry includes net loans granted and other assets and liabilities.<sup>d</sup> The global balance is the sum of the balances on the capital and current accounts. The difference between the total variation in reserves with the opposite sign and the global balance represents the value of counterpart items: monetization of gold, allocation of Special Drawing Rights and variations due to revaluation.

Table 14

## MEXICO: INDICATORS OF EXTERNAL INDEBTEDNESS

	1977	1978	1979	1980	1981	1982 <sup>a</sup>
<b>Millions of dollars</b>						
<b>External public debt</b>						
Balances outstanding	22 912	26 265	29 757	33 813	53 007	60 500 <sup>b</sup>
Disbursements	5 607	7 617	10 778	7 779	22 867	10 505
Services	3 837	6 287	10 174	7 681	9 171	10 762
Amortization payments	2 295	4 264	7 286	3 723	3 673	3 012
Interest payments	1 542	2 023	2 888	3 958	5 498	7 750
<b>Global external debt</b>						
Balances outstanding	29 894	33 946	39 685	49 349	72 007	81 350
Medium- and long-term	23 676	28 869	33 279	39 779	51 137	58 383
Short-term	6 218	5 077	6 406	9 570	20 870	22 967
Disbursements	6 611	8 791	14 794	14 252	28 942	14 655
Servicing	5 202	7 311	12 792	10 025	14 952	15 812
Amortization payments	3 223	4 739	9 055	4 588	6 284	5 312
Interest payments	1 979	2 572	3 737	5 437	8 668	10 500
<b>Percentages</b>						
<b>Relations</b>						
Global external debt <sup>c</sup> /gross domestic product	26.4	25.8	25.4	26.6	32.9	35.4
Global external debt servicing/exports of goods and services	66.8	68.1	84.8	42.6	52.3	55.4
Global external debt servicing/disbursements	78.7	83.2	86.5	70.3	51.7	107.9
Global external debt servicing/gross domestic product	4.6	5.5	8.2	5.4	6.8	6.9

Source: ECLA, on the basis of figures supplied by the Banco de México and the Ministry of Finance and Public Credit.

<sup>a</sup>Provisional figures.

<sup>b</sup>Approximately US\$ 7 billions should be incorporated into this balance, as corresponding to the private banks at the data of their nationalization (1 September 1982).

<sup>c</sup>The reference is to balances outstanding.

c) *Financing of current account position and external indebtedness*

Although the deficit on current account plummeted from US\$ 13 billion in 1981 to US\$ 2.7 billion in 1982, the fall in net income from loans and investment, together with an unregistered outflow of capital estimated at about US\$ 5 billion, resulted in a decrease of more than US\$ 2.9 billion in the international reserves of the Banco de México. This decline—the first recorded since 1977—brought down the end-of-year level of reserves to little over US\$ 1.8 billion.<sup>7</sup>

According to provisional figures, the total net inflow of capital is estimated to have reached US\$ 4.7 billion, a much lower figure than in 1981. The loss was noted in both long-term and short-term capital, and was greater in the latter case since net income under this head dropped from 4 billion to -3.8 billion. It should be recalled that while short-term capital inflows in 1981 served largely to offset the decrease in foreign exchange earnings on petroleum sales during the last half of that year, those recorded in 1982 were mainly used to cover payment of the previous period's commitments.

As stated above, the policy of borrowing pursued in the past reached a crisis in 1982. The practice of sustaining the marked expansion of imports—and of economic growth in general—not only on petroleum activities but on increasing external indebtedness disclosed its limitations. The pronounced increase in the debt in 1980, and above all in 1981, a year in which in addition a large

<sup>7</sup>In addition, the so-called secondary reserve, constituted by credit lines negotiated with IMF and with central banks in the United States and some European countries, closed the year at US\$ 400 million, a smaller sum than the 1.12 billion recorded in the preceding year, since use was made of US\$ 700 million under the monetary agreement signed with the United States Federal Reserve System and US\$ 220 million out of the first IMF credit tranche, *inter alia*.

amount of short-term debts was incurred, made it essential to contract new loans in 1982 in order to cover the liabilities that were approaching their maturities. According to provisional figures, the total external debt, mainly public, amounted to US\$ 81.35 billion, i.e., over 9 billion more than in 1981 (see table 14).

As from mid-1981 and throughout the whole of 1982 credit terms were gradually hardening. The sharp upswing in interest rates signified a heavy additional burden. Nevertheless, despite the country's financial problems, in the month of June it was possible to obtain—with difficulty—credit amounting to US\$ 2.5 billion. These problems reached their climax in August, and it became necessary to apply to the international financial community for a moratorium of 90 days in respect of interest payments on the external debt, in the framework of the negotiations with IMF that were concluded three months later and served as a basis for subsequent renegotiation.<sup>8</sup>

#### 4. Prices, wages and employment

##### a) *Prices*

Throughout 1982 inflation was one of Mexico's most serious and thorny problems. It was essentially an expression of the disequilibria that had emerged in an economy which, for the sake of modernization and growth, had rapidly increased public expenditure and the fiscal deficit for several years, despite the continued burden of structural rigidities which restricted the supply and variety of goods and services available on the domestic front to meet the said expenditure. It also reflected the limitations of the anti-inflationary policies which it was sought to apply and the problems of implementing them, explicable inasmuch as Mexico had enjoyed long spells of price stability and had no experience in applying schemes for combating the inflationary pressures that had begun to make themselves felt in 1973 and were gradually intensified in the subsequent years.

The "petroleum boom", with the resultant high growth rate of public and private demand between 1978 and 1981, was not matched by similar increases in the supply of specific goods and services and constituted, in addition to imported inflation, a ponderable element of pressure making for an annual rise in the overall price index, which fluctuated between 20% and 30%. Although economic policy sought to attenuate the effects of inflationary pressures—freezing the prices of many products supplied by public enterprises and controlling those of a vast assortment covered by private concerns—it gave priority to generation of employment and rapid expansion of the economy.

In 1982 the overall picture changed completely when the economy stagnated and inflation quickened its pace instead of slackening as, generally speaking, was to be expected in face of so marked a contraction in economic activity. Thus, measured from December to December, consumer prices practically doubled and wholesale prices rose by almost 93%. In terms of annual averages, the increases amount to 59% and 56% respectively (see table 15). The speed with which inflation accelerated as the year went by and the enormous impact of the devaluations can also be clearly seen in figure 2.

A number of factors influenced the accentuation of inflation in 1982. Outstanding among these were the devaluations of the currency, the adjustment of public service tariffs which had been postponed for several years, the reduction of a number of subsidies on consumer and intermediate goods, and the wage increases determined in January and again in May. To all these were added speculative pressures in face of expectations that prices would rise even faster, and— notwithstanding the policy of austerity in public expenditure that had been announced—the continued expansion of the fiscal deficit, which was partly financed through the Central Bank. The climate of speculation was intensified in the second half of the year, and also did an inordinate amount to swell demand for durable consumer goods.

As stated above, changes in parity produced direct effects on the structure of domestic prices, through their repercussions on the local currency cost of imported components, and on export prices,

<sup>8</sup>Mexico's case has been a cause of concern to the international financial community on account of the repercussions that a possible suspension of payments on the part of this country would generate, given the magnitude of its operations. Thus, once an IMF credit of about US\$ 4 billion had been approved for the period 1983-1985, the Mexican authorities succeeded in obtaining from the international private banking system, at the beginning of 1983, a consortium credit amounting to US\$ 5 billion. These new resources will be allocated mainly to payments of interest and short-term liabilities, which means that no resources are likely to remain available for investment.

Table 15  
MEXICO: EVOLUTION OF THE DOMESTIC PRICES

	1977	1978	1979	1980	1981	1982
<b>Variation December to December</b>						
Consumer price index <sup>a</sup>	20.7	16.2	20.0	29.8	28.7	98.8
Food	21.6	15.4	20.1	29.4	24.7	89.8
Wholesale price index <sup>b</sup>	18.1	15.8	19.9	26.4	27.2	92.6
Consumer goods	23.5	16.7	20.9	30.1	28.9	72.6
Food	25.4	17.6	20.6	32.7	27.9	65.6
Others	19.1	14.7	21.8	24.4	31.2	88.3
Producer goods	9.7	14.3	18.2	20.5	24.3	127.6
<b>Variation between annual averages</b>						
Consumer price index <sup>a</sup>	29.1	17.5	18.2	26.3	27.9	58.9
Food	28.6	16.5	18.4	25.0	26.2	53.5
Wholesale price index <sup>b</sup>	41.2	15.8	18.3	24.5	24.5	56.1
Consumer goods	41.8	17.4	19.9	26.9	27.3	49.2
Food	40.5	18.7	19.9	28.2	28.1	42.6
Others	45.0	14.2	19.9	23.7	25.4	64.0
Producer goods	40.1	13.0	15.5	20.7	19.8	68.0

Source: ECLA, on the basis of figures supplied by the Banco de México.

<sup>a</sup>National.

<sup>b</sup>In México City.

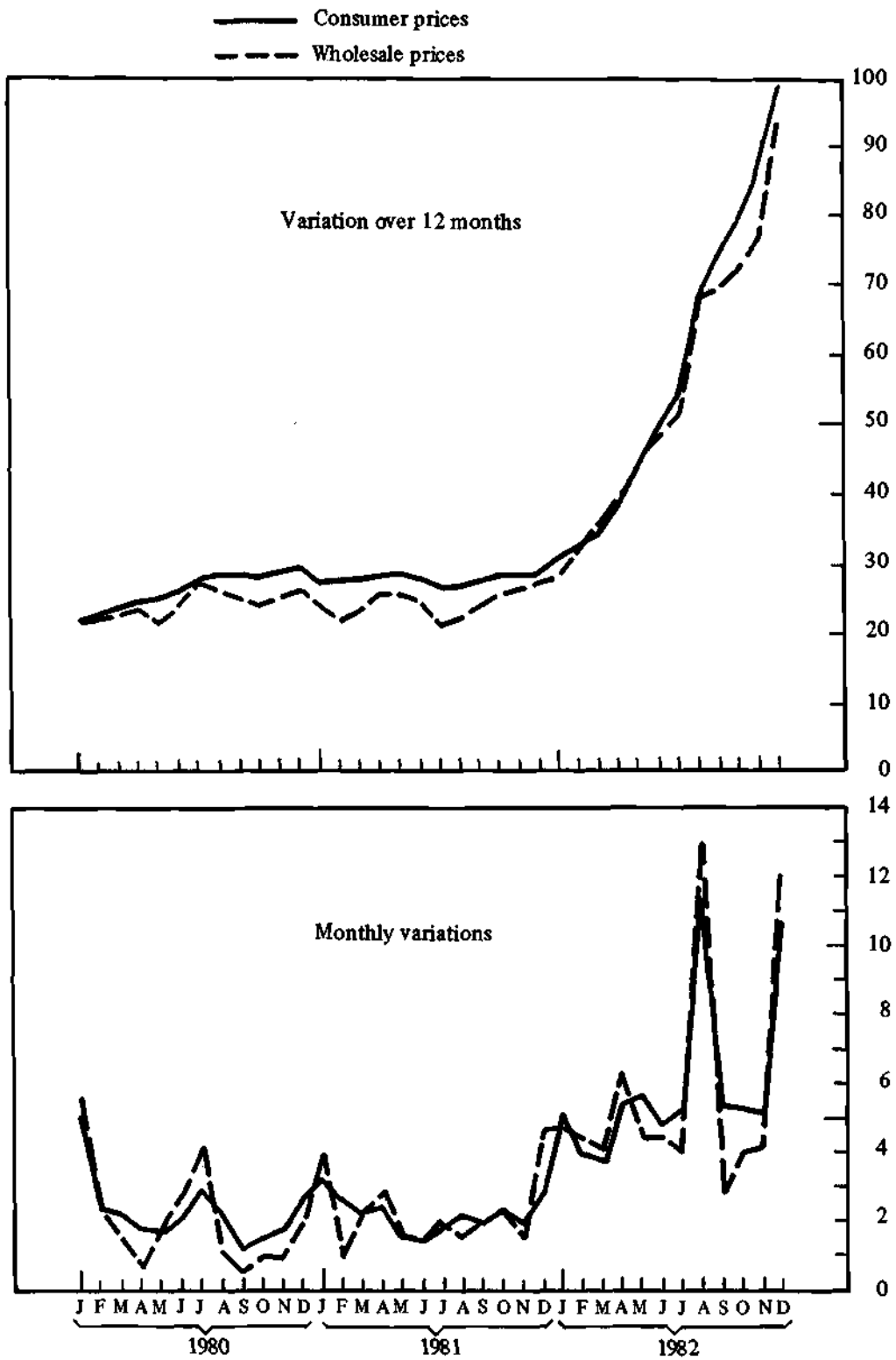
especially after the devaluation in the second half of the year, which was the stage when the inflation problem became most acute. Furthermore, in an attempt to boost income with a view to reducing the fiscal deficit, gasoline prices —subsidized for years— were raised by 53% in January, 66% in August and 100% in December; telephone tariffs also shot up in June and December. In addition, big increases were authorized in the prices of various basic products —*tortillas*, bread, sugar, eggs, milk, meat, medicaments, etc.— whose incidence on the cost of living of most of the population is substantial. Even so, in the course of the year the rise in food prices turned out to be less than the increase in prices of other consumer goods and of capital goods, which have a larger quantity of imported components and are therefore more exposed to the impact of changes in parity.

#### b) Wages

If in the years of the "petroleum boom" wage policy was restrictive and the purchasing power of minimum wages fell by almost 10% between 1976 and 1980, in 1982, a year of serious economic difficulties, the situation of wage-earners deteriorated still further, for two reasons. The first was a new loss in the purchasing power of minimum wages, which according to estimates may have been as much as 4% in the year, and which occurred notwithstanding an average annual increase of 52% in minimum wages at current prices; and the second was the growth of unemployment (see table 16).

Strictly speaking, it is difficult to trace with precision the real behaviour of minimum wages during the year. In line with tradition, they were revised in January, and, in accordance with the tendency to make them gradually more uniform, the number of different levels in the country's 89 economic areas was reduced from eight in 1981 to five in 1982. This first revision implied an average increase of 34.2%, a rate exceeding that of inflation in the preceding year (28%). But following upon the impetus acquired by inflation in the first two months of 1982, the Government recommended that further increases should be granted, retroactive to 18 February. These were set at 30% for minimum wages and those of up to 20 000 pesos a month, at 20% for wages between 20 000 and 30 000 pesos, and at 10% for the highest wages. This measure, besides creating confusion as to how far it was mandatory, neutralized, at least in part, the improvement in the real exchange rate which it was hoped to achieve by the February devaluation, and tended to stimulate the inflationary process. It is estimated that about 40% of enterprises complied with this recommendation in March and that gradually others did so until in November its adoption was generalized, by which time the

Figure 2  
**MEXICO: EVOLUTION OF PRICE INDEXES**



Source: ECLA, on the basis of official information.



Table 16  
MEXICO: EVOLUTION OF WAGES AND SALARIES

	1978	1979	1980	1981	1982 <sup>a</sup>
<b>Index (1976 = 100)</b>					
<b>Minimum wages and salaries</b>					
<b>Annual averages</b>					
Nominal	145.1	169.5	199.5	261.2	397.3
Real	95.7	94.4	88.1	90.2	86.4
<b>Month of December</b>					
Nominal	124.8	145.7	171.6	224.6	391.3
Real	89.0	86.5	78.4	79.7	70.0
<b>Growth rates</b>					
<b>Minimum wages and salaries</b>					
<b>Annual averages</b>					
Nominal	13.5	16.8	17.8	30.9	52.1 <sup>b</sup>
Real	-3.4	-1.3	-6.7	2.4	-4.3
<b>Month of December</b>					
Nominal	13.5	16.8	17.8	30.9	74.2
Real	-2.3	-2.7	-9.3	1.7	-12.2

Source: ECLA, on the basis of official data.

<sup>a</sup>Provisional figures.

<sup>b</sup>In calculating the annual average it was assumed that the recommendation of the 30% increase in minimum wages as from 18 February was initially complied with by 40% of enterprises and that the adjustment was gradually generalized until it became mandatory on 1 November.

rise in prices had more than offset its benefits. This ambiguous situation with regard to the real coverage of the increases and the punctuality with which they were granted precludes any reliable calculation of the average behaviour of real wages during the year. In any event, once the adjustment was made, the minimum wage in December was more than 12% less than in the same month in the preceding year, and it is estimated that the decrease was still greater for the higher wage levels.

### c) *Employment*

In recent years, as a result of its development, the economy generated an increasing number of jobs, absorbing a good deal of the country's overt unemployment and even in some degree reducing underemployment levels. Thus, in 1981 alone employment expanded by 6.6%. But in 1982 the trend was drastically altered in consequence of the decline in economic activity. Accordingly, unemployment once again became increasingly acute, especially in the second semester. It is estimated that in the course of the year the average number of employed persons dropped by 0.8% (see table 17).

The sectors in which the decrease in unemployment was biggest were agriculture (2.4%), manufacturing (3.1%) and construction (4.2%). This last reduction was directly related with the constraints on the public sector's investment programmes and with the dwindling of the private sector's investment expenditure. Employment in manufacturing contracted mainly in the second half of the year and its deterioration was worst in the branches producing capital goods and building materials. In the agricultural sector, unfavourable weather conditions affected sowings. This seems to have intensified the underemployment problem in the countryside and to have increased the migratory flow into the United States, which gained impetus from the rise in the value of the United States dollar.

With the reduction of employment in productive activities, the unemployed persons went into services, but while the relative importance of these as employers mounted from 29.6% to 30.6% between 1981 and 1982, in the latter year their rate of absorption of manpower notably declined since this sector could not remain immune to the effects of the depressive overall economic situation (see table 17).

Up to the end of the first semester the available data on open unemployment for the country's three most important cities (Mexico City, Guadalajara and Monterrey) showed much the same rates as in the preceding year. In the second semester, however, with the exacerbation of the recessive phase of the economy, the average rate of unemployment increased in another indicator too: the ratio between the number of persons who lost their jobs during the last quarter of the year and the total number of unemployed in that same period. This coefficient rose considerably above its former levels in the three cities mentioned. Similarly, the duration of unemployment in these cities was longer in the last quarter of the year than in the same period in 1981 (see table 18).

## 5. Monetary and fiscal policy

### a) *Monetary policy*

The severe external constraints on economic growth in 1982 made it essential for radical changes to be introduced into traditional monetary policy, sustained as it was on the unrestricted freedom of exchange operations, with its implications for the fixing of interest rates and exchange rates, as well as for the management of bank liabilities in dollars. The reforms of major importance for economic activity are undoubtedly the adoption of a system of exchange controls and the nationalization of the banks.

Monetary and credit policy in 1982 must therefore be evaluated in the context of the exceptionally unfavourable situation confronting the external sector as a result of the unaccustomed shortage of foreign exchange to which reference has so often been made in the present note. In addition to the negative trade factors and the financial bottleneck, there was a great deal of speculation which contributed to the outflow of foreign exchange. Thus, a period of relative exchange stability between 1977 and 1981 was followed by successive devaluations which raised the value of the dollar from about 27 pesos at the beginning of the year—a quotation which implied a substantial overvaluation of the peso—to 150 pesos in December, which probably represented an undervaluation of the domestic currency. These events gradually conditioned monetary policy, which evolved in a relatively discontinuous fashion and in a climate of controversy between antithetical lines of thought.

Several phases can be distinguished in the evolution of the financial sector in 1982. The first, extending up to 17 February, may be regarded as a continuation of the economic dynamism of preceding years. Despite the first downward movements in petroleum prices and the budgetary reductions that became necessary in 1981, the year 1982 began under the impetus of the foregoing period, with a greatly overvalued exchange rate, and a general lack of confidence which was reflected

Table 17  
MEXICO: TOTAL PAID EMPLOYMENT, BY ECONOMIC ACTIVITY<sup>a</sup>

	Growth rates			
	1979	1980	1981	1982 <sup>b</sup>
National total	4.9	6.3	6.6	-0.8
Agriculture, forestry and fishing	-3.2	3.5	5.9	-2.4
Mining	6.5	9.2	9.6	6.5
Manufacturing	7.4	5.5	5.2	-3.1
Construction	13.3	12.7	11.5	-4.2
Electricity	4.6	8.7	4.8	3.0
Commerce, restaurants and hotels	7.0	4.1	4.7	-1.4
Transport, storage and communications	9.6	16.3	8.9	-4.0
Financial services, insurance and real estate	7.6	8.6	11.3	5.6
Community and personal services	7.8	6.8	6.6	2.6

Source: ECLA, on the basis of figures supplied by the Ministry of Programming and the Budget.

<sup>a</sup>Strictly speaking, the data used in the preparation of this table do not represent the number of persons employed in each activity, but the average number of paid jobs which it is estimated were required for production. Consequently, one and the same person may hold two or more such jobs in one or several economic activities.

<sup>b</sup>Provisional figures.

Table 18

## MEXICO: INDICATORS OF EVOLUTION OF OVERT UNEMPLOYMENT

	1980				1981				1982			
	I	II	III	IV	I	II	III	IV	I	II	III	IV
<b>Rates of overt unemployment</b>												
<b>Main cities (metropolitan areas)</b>												
México City	4.3	4.5	4.9	3.5	4.2	3.8	4.1	3.6	3.5	3.9		
Guadalajara	4.0	4.0	5.9	6.2	6.2	5.8	5.8	5.5	4.4	5.2		
Monterrey	6.0	5.0	6.3	3.4	4.5	4.8	4.2	3.4	4.3	4.7		
<b>Duration of unemployment</b>												
México City								100.0				100.0
1 to 3 weeks								64.0				48.0
4 to 6 weeks								23.0				26.0
7 weeks or more								13.0				26.0
Guadalajara								100.0				100.0
1 to 3 weeks								55.0				49.0
4 to 6 weeks								28.0				20.0
7 weeks or more								17.0				31.0
Monterrey								100.0				100.0
1 to 3 weeks								45.0				29.0
4 to 6 weeks								55.0				46.0
7 weeks or more								...				25.0
<b>Number of persons disemployed during the quarter as a percentage of total number of unemployed persons in the same period</b>												
México City									9.5	14.0	13.0	35.0
Guadalajara									10.0	10.0	20.0	36.0
Monterrey									21.0	17.0	26.0	50.0

Source: ECLA, on the basis of official statistics.

in increasing flights of capital. This phase culminated with the withdrawal of the Banco de México from the exchange market, as had happened in 1976. After the fluctuations consequent on this step, the dollar was temporarily stabilized at a quotation of about 46 pesos.

In the second phase, which was prolonged until 5 August, freedom of exchange operations was maintained and a series of measures was implemented with the aim of containing inflation, stimulating employment, and protecting private enterprises against exchange losses on their dollar liabilities. These measures, which formed part of an Integrated Economic Adjustment Programme, proved insufficient in face of the course of events and inflationary and speculative pressures. It should be pointed out that in this programme allowance was made for economic stagnation during the last three quarters of the year, by virtue of the budgetary restrictions decreed, which as it turned out could do little against the inflationary consequences of devaluation. Lastly, the Banco de México returned to the exchange market on 1 June, with the above-mentioned rate of approximately 46 pesos per dollar.

The third phase, relatively short but bringing significant changes, began on 5 August when a system of multiple exchange rates was put into practice: one of 49.50 pesos per dollar, called the preferential rate, for basic imports; another of 69.50 pesos for other official operations; and a free exchange rate which hovered around 100 pesos for the buyer and 110 for the seller. At the same time, the authorities announced the non-transferability of dollar deposits in the Mexican banks — which amounted to about US\$ 12 billion — and an exchange rate of 69.50 pesos was established for their conversion into domestic currency. These measures, which were dictated by a situation of increasing financial difficulties and shortage of foreign exchange, were the last resource prior to the adoption of exchange controls.

In the fourth phase—which extended from 1 September, the date on which generalized exchange controls and the nationalization of the private banks were announced, until 1 December, when the new government entered upon its six-year term in office—financial events deviated widely from their traditional course. The adoption of the above-mentioned exchange controls was *per se* at once a fundamental and a novel component of Mexico's monetary policy. The free market rate was eliminated and two fixed exchange rates were established: one preferential, at 50 pesos per dollar, and another official, at 70 pesos, the aim being to avert the inflationary pressures of previous months.<sup>9</sup> It was considered that with the closure of the domestic and foreign currency circuit, internal interest rates could for the first time in Mexico be fixed independently of external rates. Thus it was decided to reduce the rates both for assets and, in a lesser proportion, for liabilities. Similarly, the nationalization of the banks opened up the possibility that credit policy could focus on what the State considered to be priority activities. Accordingly, financing for low-cost housing and for the disadvantaged peasantry acquired outstanding importance, at least in declarations of policy.

In this period, however, a large unofficial exchange market grew up, and all along the frontier with the United States money-changing agencies proliferated in which the dollar came to be quoted at almost twice the official parity rate. Consequently, a large proportion of exchange operations were conducted outside Mexican territory, so that foreign exchange hardly entered the country; rather was there an outflow of pesos which then served for the purchase of cheap goods and services in the Mexican frontier area and in the hinterland, causing a shortage of many goods.

Lastly, the fifth phase covered the month of December and evolved within the framework of the new government plan. Monetary policy in general was adapted to the terms of an Extended Fund Facility agreement with IMF, the negotiations for which had been started months before and crystallized when the new government assumed office. During this period exchange controls were somewhat relaxed on the establishment of a very high free exchange rate—150 pesos per dollar—which definitely helped to discourage the purchase of foreign exchange. This rate remained practically fixed, and coexisted with two other rates, one for commercial and official "controlled" market operations, starting at 95 pesos per dollar, and the other a "special" rate for service payments on the external private debt, starting at 70 pesos; both were to be adjusted in accordance with the difference between domestic and external inflation. It was expected that over the medium term free and controlled rates would be fused into one, with some degree of permanent undervaluation of the peso to favour exports. With the introduction of the free rate, control of the exchange market was largely recovered. Lastly, interest rates on liabilities and assets once again rose, following expectations of inflation and of exchange rate adjustments, as had been traditional.

In short, in the course of 1982 vitally important changes took place in monetary policy with the nationalization of the banks, the introduction of partial or complete exchange controls and the undervaluation of the peso. Given the foreign exchange problems described, the big fiscal deficit, speculative pressures, and the unfavourable financial situation which prevailed throughout the year, the monetary balance reflected significant distortions and changes, which resulted in less financial intermediation.

In these circumstances, the end-of-year growth rate of money in circulation was 63%, i.e., notably less than that of inflation, which would appear to indicate a real contraction of about 15%. This downward movement was due to the decrease of over 25% in demand deposits, in real terms. Between March and August, deposits in checking accounts were reduced and the funds that were drawn out went to swell dollar liabilities in the banking system and abroad, as did also short-term non-monetary instruments. Notes and currency in the hands of the public increased by almost 80%, reaching *in toto* a figure lower than the economy's transactional requirements (see table 19).

The factors making for expansion apparently followed an opposite trend; nevertheless, when the effect of inflation and of the book revaluation of balances in foreign currency is discounted, total financing issued dropped by 30% in real terms. This decline was aggravated still further in view of the increasing amount of funds syphoned off by the public sector<sup>10</sup> to finance the notable expansion of its current expenditure, which resulted in a deficit equivalent to 16% of the gross domestic product.

<sup>9</sup>In both cases the difference between the purchase and sale prices was eliminated; it had increased considerably in the past few months and had been a significant source of profit for the banks.

<sup>10</sup>Even discounting the effects of revaluation, these resources were estimated at over 1.6 billion pesos.

Table 19  
MEXICO: MONETARY BALANCE

	End-year balance (billions of pesos)			Growth rates			
	1980	1981	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>a</sup>
<b>Money</b>	461	612	998	33.1	33.5	32.8	62.9
Currency outside banks	195	282	505	30.4	30.0	44.7	79.3
Demand deposits	266	330	493	35.2	36.2	24.1	49.0
<b>Factors of expansion</b>	2 050	3 124	6 838	31.8	35.4	52.4	118.9
Net international reserves	93	132	176	34.6	31.4	41.9	33.5
Domestic credit	1 957	2 992	6 662	31.7	35.6	52.9	122.7
Government <sup>b</sup>	722	1 244	3 569	32.1	30.8	72.3	186.9
Official institutions	369	550	1 541	18.9	33.2	49.1	180.3
Private sector	866	1 198	1 552	38.0	41.0	38.3	29.5
<b>Factors of absorption</b>	1 589	2 512	5 840	31.4	36.0	58.1	132.5
National currency	907	1 383	3 028	33.3	44.4	52.5	118.9
Quasi-money	235	312	751	42.2	42.4	32.8	140.7
Time instruments	422	684	1 381	25.3	42.1	62.1	101.9
Miscellaneous liabilities	250	387	896	39.5	50.6	54.8	131.5
Foreign currency	762	1 275	3 429	28.2	28.9	67.3	168.9
Quasi-money	57	88	34	46.2	50.0	54.4	-61.4
Time instruments	137	268	147	67.2	34.3	95.6	-45.1
Long-term external liabilities	484	822	2 998	20.3	27.4	69.8	264.7
Other liabilities	84	97	250	22.4	18.3	15.5	157.7
Other items (net)	-80	-146	-617	17.8	57.7	82.5	322.6

Source: ECLA, on the basis of figures provided by the Banco de México.

<sup>a</sup>Provisional figures.

<sup>b</sup>Including the Federal Government, state and municipal authorities and the Federal District Department.

Paradoxically, this flow did not detract from the financing available to the private sector; in practice its demand for credit contracted to such an extent, in consequence of the unfavourable overall economic situation and the decline in its investment programmes, that apparently it had surplus bank liquidity. Lastly, if net international reserves showed a nominal increment in pesos it was because of the successive devaluations, since they decreased substantially in terms of dollars.

Within this framework of severe contractions, credit expansion primarily favoured extractive activities, including the petroleum sector, but at all events it proved negative in real terms. Commerce and construction were the branches at the greatest disadvantage (see table 20).

The establishment of interest rates was affected, as has been pointed out, by the adoption of exchange controls. Up to the month of August it was still sought to make them competitive *vis-à-vis* the external rates, both in domestic and in foreign currency. As the difference widened between interest rates and the rate of inflation, rates on peso deposits had to be increased, without much success in procurement of resources because of the uncertainty as to exchange rates which led to large-scale conversion into dollars. As from September, in which month the exchange controls were adopted, it became possible to bring down domestic rates by 2 points a week, until they were 10 points lower.<sup>11</sup> Subsequently, in December, in keeping with the new government's monetary policy and in view of the slight relaxation of exchange controls, rates of procurement were increased again with the aim of encouraging saving. In any event they still remained below the rate of inflation, even those applied to three- and six-month time deposits, which were the most favoured.

The factors of absorption showed an increase of 20% in real terms, mainly by virtue of the conversion of dollar liabilities to domestic currency. These bank liabilities were estimated at US\$ 12 billion, and their gradual conversion into pesos gave the bank system greater liquidity. There was a tendency to place these funds in short-term instruments in view of the climate of uncertainty in

<sup>11</sup>In contrast, the rates of interest on savings accounts were raised from 4.5% to 20%, as a method of protecting the small saver. But the efficacy of this measure was undermined by inflation.

which savers moved. Liabilities in foreign currency, for their part, showed bigger peso balances because of the devaluation. For the reason mentioned, however, there was a significant shrinkage in quasi-money and time instruments. But it was the external liabilities contracted by the bank system that substantially enlarged the debit balance (see table 19).

In view of the preference of savers for liquid instruments, the issues of Treasury Certificates (CETES) were very popular and diverted large amounts of resources from bank procurement. By the end of the year 993 billion pesos had been invested in these securities, i.e., 105% more than in 1981. This meant that their circulation during the year, discounting the CETES redeemed, reached the figure of 394 billion pesos (in nominal terms). These CETES were negotiated on the securities market, together with "petrobonos", which also enjoyed success because of their linkage with international petroleum prices. In contrast, the variable-income market deteriorated, with the almost 60% drop in the amount of operations, as a result of the rise in interest rates and the difficult situation of firms registered on the Stock Exchange.

#### b) *Fiscal policy*

During 1982 the operation of the central government displayed the following characteristics: a very considerable increase in current expenditure (112%); a slight rise in capital expenditure (26%); dissaving on current account, for the first time in many years; and an exceptional expansion of the global deficit, which was two and a half times as high as in the preceding year. The importance of the role played by the Central Bank in financing the deficit was very markedly enhanced, inasmuch as it covered 68% out of its own resources (see table 21).

The public-sector deficit represented a high proportion of the gross domestic product — 16% as against 14.5% in 1981; this was a good deal larger than the proportion corresponding to the central government deficit (10.6%), owing to the financial disequilibria shown in general by decentralized institutions and para-State enterprises (see table 22). These entities suffered the damaging effects of the time-lag between prices and tariffs on the one hand and the course of inflation on the other, notwithstanding the adjustments that took place during the year.

The central government deficit had already notably increased in 1981, owing to the abrupt rise in public expenditure and in debt servicing, and to the weakening of tax revenue in relation to inflation. In this year the burden of debt commitments amounted to over 41% of total expenditure, as against 17% the year before. It increased still further in 1982 (44%), and looks like continuing its upward trend, because of the inflexibility of the commitments in question and the very nature of the policy measures which will have to be applied in 1983, and which will be discussed later.

Table 20

#### MEXICO: BANK CREDIT RECEIVED BY ENTERPRISES AND INDIVIDUALS<sup>a</sup>

	End-year balance (billions of pesos)			Growth rates			
	1980	1981	1982 <sup>b</sup>	1979	1980	1981	1982 <sup>b</sup>
<b>Total</b>	<b>1 161</b>	<b>1 666</b>	<b>2 426</b>	<b>47.4</b>	<b>37.7</b>	<b>43.5</b>	<b>45.6</b>
Primary activities	177	242	356	31.5	46.3	36.7	47.1
Agriculture	163	219	314	30.6	46.8	34.4	43.4
Mining and others	14	23	42	42.9	40.0	64.3	82.6
Industry	455	669	1 010	31.8	35.4	47.0	51.0
Fuels	116	179	326	91.9	63.4	54.3	82.1
Manufacturing	270	386	561	23.1	29.8	43.0	45.3
Construction	69	104	124	16.3	21.1	50.1	19.2
Low-cost housing	34	49	60	15.4	13.3	44.1	22.4
Services and other activities	287	392	681	107.7	32.9	36.6	73.7
Commerce	208	314	319	47.4	48.6	51.0	1.6

Source: ECLA, on the basis of figures supplied by the Banco de México.

<sup>a</sup>Including public and private enterprises. Excluding Central Bank financing.

<sup>b</sup>Provisional figures.

Table 21

**MEXICO: FEDERAL GOVERNMENT INCOME,  
EXPENDITURE AND FINANCING**

	Billions of pesos				Growth rates		
	1979	1980	1981	1982 <sup>a</sup>	1980	1981	1982 <sup>a</sup>
1. Current income	412	680	947	1 538	65.1	39.3	62.4
Tax revenue	395	652	895	1 448	65.1	37.4	61.7
Direct	173	247	339	446	42.5	37.4	31.6
Indirect	159	221	294	500	39.2	33.5	69.8
On foreign trade	63	184	262	502	192.3	42.1	91.4
Non-tax revenue	17	28	52	90	65.4	82.6	74.8
2. Current expenditure	393	597	937	1 988	51.9	56.9	112.0
Wages and salaries	120	159	225	390	32.6	41.9	73.3
Other current expenditure	273	438	712	1 598	60.3	62.3	124.3
3. Saving on current account (1 - 2)	19	83	10	-450			
4. Capital expenditure	108	206	381	480	90.7	85.0	26.0
Real investment	89	172	334	401	93.5	93.6	20.0
Other capital expenditure	19	34	47	79	77.8	36.7	67.4
5. Total expenditure (2 + 4)	501	803	1 318	2 468	60.3	64.1	87.3
6. Budget deficit or surplus (1 - 5)	-89	-123	-371	-930	37.5	205.8	149.2
7. Account not under budgetary control	-11	-9	-28	-56			
8. Total deficit or surplus (6 + 7)	-100	-132	-399	-986	32.0	202.3	147.1
9. Financing of the deficit	100	132	399	986	32.0	202.3	147.1
Net increase in debt	101	135	400	985	33.7	196.3	146.3
Domestic	110	112	376	795			
Banco de México	...	...	265	667			
Others	...	...	111	128			
External	-9	23	24	190			
Variation in available resources	-1	-3	-1	1			

Source: ECLA, on the basis of figures supplied by the Ministry of Finance and Public Credit and the Banco de México.

<sup>a</sup>Provisional figures.

The expansion of central government expenditure in real terms—and its consequent effective repercussions on demand, either directly or through the rise in available private income—was highly intensive in 1980 and 1981 (about 30% in each of those years). This trend continued in 1982, although at a considerably slower pace (18%). Hence efforts to contain private demand through taxation slackened. Central government current income (including the contributions of PEMEX), which in 1980 had amounted to 15.9% of the product, rose to barely 16.1% in 1981 and stood at 16.7% in 1982. In this latter year, as also in 1981, the taxes whose growth was most dynamic were those on foreign trade, because of petroleum sales, and indirect taxes, which increased by nearly 70%, as against the 32% increment in direct taxation (see table 21).

Current expenditure expanded by 12% in nominal terms. This high rate was due, as has been observed, to the pressure of debt interest and transfer payments, but also to the rise in salaries and wages and the increase in employment in the central government area. Interest payments, owing to the sharp upswing in the external debt, were trebled. It has already been shown that this greater indebtedness was partly due to the need to increase the foreign exchange supply on the exchange market. In addition, an appreciable proportion of current expenditure—more than on other occasions—was allocated to covering the cost of internal indebtedness, mainly of the Treasury Certificates (CETES); this circumstance aggravated some regressive characteristics in the tax system, given the income tax regulation exempting income from interest on the public debt.

In the framework of an economic stagnation largely attributable to the lack of confidence prevailing in the private sector, and most directly reflected in the continuous flow of international

currency reserves to the exterior, the public sector's efforts to make up for the lack of dynamism shown by private initiative resulted in a fresh resurgence of inflation which has called for very drastic rectifications of the objectives and instruments of the policies designed for 1983 and subsequent years.

Among the most outstanding components of the new fiscal programme of short-term objectives, mention should be made of the proposal to reduce the public sector's global deficit to about 8.5% of the gross domestic product in 1983, and to take simultaneous action to that end with respect to public expenditure and income alike. In this connection, the programmed reduction of the rate of expansion of expenditure will be of vital importance. Given the foreseeable repercussions of this policy on economic activity and on employment, the 1983 budget makes provision for a series of adjustments in investment priorities and in current disbursements, all this in the framework of a strengthening of allocation and monitoring mechanisms with a view to mitigating the inevitable social effects of the restriction of State demand.

Generally speaking, the total income of the central government is expected to be more than doubled. Complementarily, increases in prices and tariffs will be introduced to enable the para-State sector to operate with a surplus. It is postulated that in the first instance the State will have to rely more on tax revenue (especially from the value added tax —IVA— and income tax) and on income deriving from adjustments in public service tariffs, so as to make less use of credit. Nevertheless, the most important source of funds will be the contribution made by PEMEX, with a predicted increase of almost 240% due to the rise in domestic gasoline prices, which will mean that this enterprise will increase its share in central government income from 23% in 1982 to 35% in 1983.

The income programme makes provision for certain notifications to attenuate the potentially regressive aspects of the measures proposed and thus shape a more equitable tax structure. Among these are a 20% increase in the value added tax on luxury goods and services; the suppression of anonymity in shares and bonds, with a view to more efficient tax inspection; the establishment of a supplementary income tax in the upper income strata; the imposition of higher tolls on highways and bridges; raising of the basic rate for import duties; and a substantial reduction of the amount of fiscal incentives.

Table 22

**MEXICO: PUBLIC SECTOR INCOME AND EXPENDITURE IN  
RELATION TO THE GROSS DOMESTIC PRODUCT**

(Percentages)

	1981	1982 <sup>a</sup>
<b>Expenditures</b>	<b>42.2</b>	<b>46.8</b>
Federal government	22.9	27.3
Institutions and enterprises subject to budgetary control	15.7	15.3
PEMEX	7.5	7.6
Others	8.2	7.7
Institutions and enterprises not subject to budgetary control <sup>b</sup>	2.3	2.4
Financial intermediation	1.3	1.8
<b>Income</b>	<b>27.7</b>	<b>30.9</b>
Federal government	16.1	16.7
Institutions and enterprises subject to budgetary control	10.1	12.9
PEMEX	3.7	6.2
Others	6.4	6.7
Institutions and enterprises not subject to budgetary control <sup>b</sup>	1.5	1.4
<b>Expenditure minus income</b>	<b>14.5</b>	<b>15.9</b>

Source: ECLA, on the basis of figures taken from Banco de México, *Informe Anual*, 1982, p. 115.

<sup>a</sup>Provisional figures.

<sup>b</sup>Includes: Departamento del Distrito Federal (DDF), Altos Hornos de México (AHMSA), Teléfonos de México (TELMEX) and the Metro.



## NICARAGUA

### 1. Recent economic trends: Introduction and summary

During 1982, several factors of an economic and extra-economic nature combined in Nicaragua to cause a 2% decrease in the gross domestic product, reversing the trend noted during the preceding two-year period. During this period the product developed relatively strongly and partially made up for its large drop in 1978 and 1979 (see table 1 and figure 1). At the same time, progress was made in redistributing income, and social programmes were undertaken aimed at wide sectors of the population. To this end, public expenditure was expanded and recourse was had to external financing. Both measures were reflected in financial imbalances which became accentuated in 1982 and made it necessary to reduce the volume of imports drastically. This decrease affected other areas of the economy, and in particular brought about a drop of more than 9% in private consumption and a decrease of nearly 43% in investment in machinery and equipment.

Some external economic phenomena affected the Nicaraguan economy negatively, as they did the rest of the countries of the region. In the first place, the main export products met with several difficulties. On the one hand, the widespread international recession was reflected in a drop, for the third consecutive year, in the unit prices of exports. On the other, the supply of exportable goods was affected by adverse climatic factors and by the sluggishness of some activities, such as that of cotton. Because of this, there was a considerable deterioration in the terms of trade and the purchasing power of exports.

In addition to the depressed situation in the export sector, there were serious restrictions in the capital account, brought about by the high burden of the external public debt and the difficulties in procuring additional external financing. Amortization payments and especially interest payments rose, despite the relatively favourable conditions under which servicing of the external public debt was restructured in preceding years and despite the fact that in 1982 negotiations were concluded to refinance US\$ 55 million owed by the country's private banks. Access to foreign credit was impeded because of both economic and extra-economic problems. Thus, the net external financing mobilized in 1982 amounted to barely US\$ 270 million, in contrast with US\$ 682 million the year before.

As a result of the negative trend in exports and the difficulties in procuring additional external financing, import capacity decreased drastically and worsened the serious lack of foreign exchange which had become apparent in 1981.

Those adverse conditions in the external sector were apparently enough to check the rate of expansion of economic activity and the implementation of various social programmes planned for the beginning of the year. When the volume of external purchases shrank by 34%, the import coefficient decreased from 32% in 1981 to 21% in 1982, and there was a decrease in the supply of inputs and raw materials for several productive activities. This was a factor in reducing jobs, raising prices and constricting private consumption and total savings.

As a result, capital formation —especially that of the private sector— dropped visibly, and supply shrank in nearly all branches of activity. The only exceptions to this trend were agriculture and government services, although the growth rate in the agricultural sector was lower than that of the increase of the population. As a result of the above, unemployment —at least in non-agricultural activities— increased significantly, from around 17% in 1981 to more than 20% in 1982. Inflation, for its part, stayed at a level of around 22%, a rate very similar to that recorded the year before (see table 1).

The negative situation noted above was accompanied by adverse phenomena of an extra-economic nature. In the first place, the heavy rains and floods which took place in May<sup>1</sup> were the cause

<sup>1</sup> See ECLA, *Nicaragua: The May 1982 Floods and their Repercussions on the Economic and Social Development of the Country*, E/CEPAL/G.1206 and E/CEPAL/MEX/1982/R.2/Rev.1, July 1982.

of losses of capital and production which compelled the Government to reformulate its priorities since, on the one hand, export capacity decreased even further and more imported goods were needed to replace the lost production that had been intended for the domestic market, and, on the other hand, there was an urgent need to replace part of the infrastructure destroyed. In contrast, during the months of July, August and September, rainfall was very scarce in the Pacific zone, the region containing the best agricultural lands in the country. This harmed some crops such as cotton and bananas, which are important export products, and also maize, which is one of the basic articles of domestic consumption.<sup>2</sup> The economy was also affected by the continued tensions which were caused by groups opposing the Government and which led to frequent violent situations, especially in the area of the Honduras frontier.

Table 1  
NICARAGUA: MAIN ECONOMIC INDICATORS

	1977	1978	1979	1980	1981	1982 <sup>a</sup>
<b>A. Basic economic indicators</b>						
Gross domestic product at market prices (millions of 1970 dollars)	1 241	1 152	858	944	1 024	1 004
Population (millions of inhabitants)	2.48	256	2.64	2.73	2.82	2.92
Per capita gross domestic product (1970 dollars)	501	450	324	345	362	344
<b>Growth rates</b>						
<b>B. Short-run economic indicators</b>						
Gross domestic product	6.3	-7.2	-25.5	10.0	8.5	-2.0
Per capita gross domestic product	2.8	-10.2	-27.9	6.4	5.0	-5.2
Gross income <sup>b</sup>	10.1	-10.4	-26.1	10.1	7.5	-3.3
Terms of trade (goods and services)	16.2	-13.8	-5.6	-1.4	-5.8	-9.5
Current value of exports of goods and services	17.0	0.1	-6.7	-25.1	8.7	-13.0
Current value of imports of goods and services	40.2	-27.8	-28.8	82.0	10.2	-30.1
<b>Consumer prices</b>						
December - December	10.2	4.3	70.3	24.8	23.2	22.2
Variation between annual averages	11.4	4.6	48.2	35.3	23.9	24.8
Money	6.2	5.7	85.8	29.0	25.1	6.5
Wages and salaries <sup>c</sup>	9.6	-1.6	28.0	14.7	-7.6	41.6
Rate of unemployment <sup>d,e</sup>			21.4	11.1	11.5	18.6
Current income of government	17.6	-9.7	16.7	139.2	17.7	24.9
Total expenditure of government	41.2	6.8	-9.3	113.4	32.2	39.5
Fiscal deficit/total expenditure of government <sup>d</sup>	41.7	50.7	36.5	28.9	36.7	43.3
<b>Millions of dollars</b>						
<b>C. External sector</b>						
Trade balance (goods and services)	-122	62	162	-427	-478	-240
Balance on current account	-192	-34	90	-512	-571	-393
Balance on capital account	202	-49	-85	400	682	270
Variation in net international reserves	9	-83	9	-107	115	-123 <sup>f</sup>
External debt <sup>g</sup>	874	961	1 131	1 579	2 163	2 410

Source: ECLA, on the basis of official figures.

<sup>a</sup>Preliminary figures.

<sup>b</sup>Gross domestic product plus terms-of-trade effect.

<sup>c</sup>Nominal wages and salaries of members of the Nicaraguan Social Security Institute.

<sup>d</sup>Percentage.

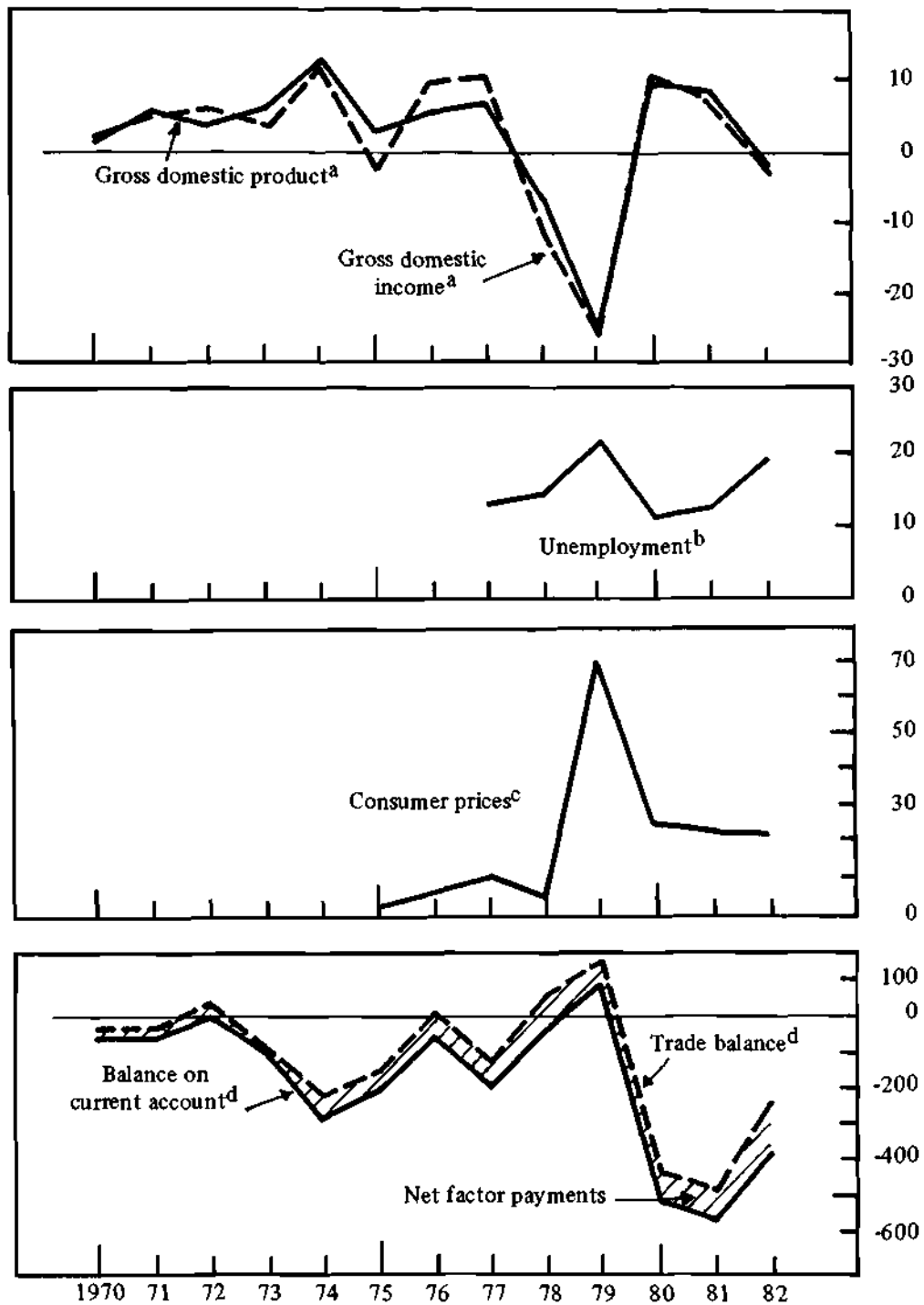
<sup>e</sup>Non-agricultural activities.

<sup>f</sup>Estimates.

<sup>g</sup>Disbursed, in the medium- and long-term.

<sup>2</sup>See ECLA, *Repercusiones de los fenómenos meteorológicos de 1982 sobre el desarrollo económico y social de Nicaragua*, E/CEPAL/MEX/1983/L.1, January 1983.

Figure 1  
NICARAGUA: MAIN ECONOMIC INDICATORS



Source: ECLA, on the basis of official figures.

<sup>a</sup>Annual growth rate.

<sup>b</sup>Non-agricultural activities.

<sup>c</sup>Percentage variation from December to December.

<sup>d</sup>Millions of dollars.

Although it is difficult to measure the extent to which these events affected economic activity, their repercussions appeared in fields as diverse as defense spending, drain of funds abroad, obstruction of capital markets and the brain drain of technical and professional personnel, with their adverse effects on production and investment. They also influenced relations between the Government and the private sector, since they encouraged the reluctance of some entrepreneurs to accept the economic policy lines of the National Reconstruction Government, which assumed office in mid-1979.

The negative phenomena described above occurred in the framework of the efforts being carried out by the Government to restructure the economy on the basis of growing public sector participation so as to give priority to meeting the basic needs of the majority of the population and to encourage greater participation by the people in the process of making decisions on economic policy.

The fulfilment of such objectives involves difficulties of a different nature, even in normal times, and these difficulties increased in periods of recession. Thus, the lack of order inherent in an important change in economic policy —uncertainty among private economic agents, organizational problems in the public sector, tensions between the objective of promoting companies' efficiency and that of providing the entire population with employment— and restrictions on the levels of accumulation, added to the negative external and extra-economic factors noted above.

In order to meet this critical situation, the Government set less ambitious goals than it had in preceding years. Economic policy attempted to reactivate production, especially production which could generate foreign exchange for the country, rationalize imports according to the minimum needs of the population, and attenuate the financial imbalances in the public sector.

Several measures were adopted in that respect. Some were aimed at initiating the implementation of large-scale projects in various productive sectors, which it is hoped will affect the product and the external sector in the next few years; others were directed towards lessening the effects of the recession.

In conviction with the latter, to attempt to reduce the deficit in the trade balance, a tax was levied equivalent to 50% above the official exchange rate of currency purchased for the importation of non-essential goods. For the purpose of stimulating production and exports, incentives were granted such as an increase in prices to producers and payment of a portion of the external sales in dollars which the exporters can either use for their imports or negotiate at the exchange rate prevailing in the parallel currency market authorized by the Government.

For the purpose of defending the purchasing power of the lowest income strata, minimum wages were adjusted slightly above the increases in the prices of basic products.

Finally, with regard to fiscal policy, there was an improvement in tax administration, as a way of raising the level of fiscal income (the tax coefficient went from 18% to 20% between 1981 and 1982) and a less expansive spending policy was followed than in previous years. However, and despite the austerity objectives of the beginning of the year, central government spending increased by 40%, making it possible to meet social expenditures, cover expenditures necessitated by meteorological phenomena and defense, and carry out transfers to official institutions and enterprises.

## 2. Trends in economic activity

### a) *Global supply and demand trends*

During 1982 global supply decreased by nearly 10%, since the gross domestic product dropped by 2% and the volume of imports went down by 34% (see table 2). Both contractions occurred in the framework of the severe external imbalance brought about, among other causes, by a continued deterioration in the terms of trade and the high amount of external supply to which it had been necessary to resort in previous years in order to replace the substantial losses caused by the armed conflict, reactivate the economy and meet the immediate needs of the population. In addition, the external imbalance was aggravated by the sluggishness of the export sector, which was reflected in a drop of 40% in the volume exported during the last five years.

In view of this situation, the Government opted to restrict imports, and established a tax raising price of foreign exchange for external purchases of articles not considered to be essential and not contained in a list which includes food, medicine, fuel, machinery and inputs for agriculture and for some specific industrial branches.

Table 2  
NICARAGUA: TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1970 prices			Percentage breakdown <sup>a</sup>		Growth rates <sup>b</sup>		
	1980	1981	1982 <sup>a</sup>	1970	1982 <sup>a</sup>	1980	1981	1982 <sup>a</sup>
<b>Total supply</b>	1 256	1 352	1 220	127.2	121.5	17.7	7.6	-9.8
Gross domestic product at market prices	944	1 024	1 004	100.0	100.0	10.0	8.5	-2.0
Imports of goods and services <sup>c</sup>	312	328	216	27.2	21.5	49.3	4.8	-34.1
<b>Total demand</b>	1 256	1 352	1 220	127.2	121.5	17.7	7.6	-9.8
<b>Domestic demand</b>	1 074	1 153	1 040	102.0	103.6	37.9	7.4	-9.2
Gross domestic investment	151	219	154	18.6	15.4	...	45.3	-29.7
Gross fixed investment	96	161	108	16.4	10.8	106.2	67.7	-32.9
Construction	36	53	46	6.5	4.6	117.7	44.6	-12.5
Machinery	60	108	62	9.9	6.2	99.8	81.8	-42.8
Changes in stocks	55	58	46	2.2	4.6	...	...	...
Total consumption	923	934	886	83.4	88.2	6.1	1.2	-5.2
General government	237	260	273	9.6	27.3	30.0	9.8	5.2
Private	686	674	613	73.8	61.0	-0.2	-1.8	-9.2
Exports of goods and services <sup>c</sup>	182	199	180	25.2	17.9	-36.8	8.9	-9.4

Source: ECLA, on the basis of official figures.

<sup>a</sup>Preliminary figures.

<sup>b</sup>The growth rates and percentage breakdown correspond to real, and not rounded, figures.

<sup>c</sup>The figures for exports and imports of goods and services were obtained from the balance of payments in current dollars, converted to constant 1970 values using unit value indexes calculated by ECLA for that purpose.

The reduction in supply of inputs of external origin was one of the factors causing the deterioration in the gross domestic product, especially the manufacturing product. Other contributing factors were to a large extent, the meteorological phenomena noted above, first the heavy rains—which caused floods—followed by a drought—which affected the harvests of various products both for domestic consumption and export.

On the global demand side, the volume of exports of goods and services decreased by 9% below the already low level of 1981. This was a reflection of the decrease in cotton and banana production and of the drop in external sales of manufactures in the Central American countries, which were affected by the widespread depression in that area and by the drop in the activity of the industrial sector.

Domestic demand decreased by 9% in the face of a sudden drop of 30% in gross domestic investment and a severe contraction in total consumption. Gross fixed investment declined by 33% upon a combined drop of 13% in construction and 43% in purchase of machinery. Although there was not sufficient information available to break down the investment, available data indicate that both public and private investment shrank. With regard to the former, the increase in investment by the central government was not able to offset the drop in that made by official institutions and productive enterprises. Its main limitation appears to have been financial resources, which hindered the continuation of important road and hydroelectric projects and made it necessary to delay implementation of infrastructure works of a social and productive nature. In some areas of the public administration the decrease was due to the fact that new projects have not been implemented because their feasibility has not been precisely determined; another obstacle was the lack of suitable technical and administrative personnel to carry out the programmes.

Various factors influenced the decrease in private investment. In the first place, the financial imbalances of the last three-year period and the general depression in domestic and external demand kept part of the installed capacity idle in various branches of activity. In the second place, many private agents were reluctant to invest, due to their uncertainty concerning the scope and features of the style of development sought by the Government, and defined by it as a mixed economy. This uncertainty was increased by the political tensions noted above, and it was not possible to relieve

them either by the authorities' explanations of the role of private enterprise in the development of the country or by the incentives granted by the Government to private investment. The latter include production subsidies and price adjustments, and exchange rates for export articles. Despite this uncertainty, in 1982 there was some private investment in mixed enterprises of regional importance, such as that carried out in the chemical industry, aimed at re-orienting production.

Total consumption, as noted above, decreased by 5% because of the combined effect of a 5% increase in Government consumption and a very marked decrease of 9% in private consumption. Although difficulties in public finance led the authorities to attempt to reduce expenditures, and maintain an austerity budget and strict selectivity criteria, this was not always possible in practice. On the one hand, in view of the recession in economic activity, Government consumption continued to promote demand. On the other, several unforeseen events made it necessary to expand public expenditure. Particularly influential were the expenditures for meeting the needs of the flood victims, and those relating to national defense and security.

The contraction in private consumption was linked to the deterioration in the purchasing power of wages. However, the measures taken by the Government to avoid a further increase in unemployment and underemployment, as well as the increases ordered in the minimum legal wages and the price controls on essential articles, caused basic consumption to be decreased less than total private consumption.

#### b) *Growth of the main sectors*

The 2% reduction of the gross domestic product was due to the fact that the goods category dropped by 2%, because of the decrease in the production of manufacturing, construction and mining activities; only the agricultural sector grew moderately. Production of services, for its part, increased slightly due to an increase in generation of electric energy and an expansion in public administration, which categories offset the drop in transport and trade (see table 3).

Table 3  
NICARAGUA: GROSS DOMESTIC PRODUCT, BY KIND OF  
ECONOMIC ACTIVITY, AT FACTOR COST

	Millions of dollars at 1970 prices			Percentage breakdown <sup>b</sup>		Growth rates <sup>b</sup>		
	1980	1981	1982 <sup>a</sup>	1970	1982 <sup>a</sup>	1980	1981	1982 <sup>a</sup>
<b>Gross domestic product<sup>c</sup></b>	864	938	919	100.0	100.0	10.0	8.5	-2.0
<b>Goods</b>	443	481	471	50.3	49.1	0.8	8.6	-1.7
Agriculture	239	263	268	27.0	28.0	-10.0	10.1	2.2
Mining	2	2	1	0.7	0.1	49.2	2.6	-16.0
Manufacturing	183	188	178	19.2	18.5	11.8	2.8	-5.5
Construction	19	28	24	3.5	2.5	117.2	44.7	-12.5
<b>Basic services</b>	75	84	85	7.5	8.8	16.2	10.1	1.4
Electricity, gas and water	25	28	30	1.7	3.1	11.8	8.4	8.0
Transport, storage and communications	50	56	55	5.8	5.7	18.5	10.9	-1.8
<b>Other services</b>	370	398	403	42.2	42.1	18.7	7.8	1.5
Commerce and finance <sup>d</sup>	160	177	174	20.5	18.1	16.3	10.5	-1.7
Ownership of dwellings	38	39	39	7.1	4.1	-	5.0	-
Community, social and personal services <sup>e</sup>	172	182	190	14.6	19.9	26.3	5.8	4.8
Government services	129	134	144	7.1	15.0	29.4	4.1	7.2

Source: ECLA, on the basis of figures supplied by the Central Bank and the Ministry of Planning of Nicaragua.

<sup>a</sup>Preliminary figures.

<sup>b</sup>The growth rates and percentage breakdown correspond to real, and not rounded, figures.

<sup>c</sup>As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

<sup>d</sup>Includes commerce, financial institutions, insurance and real estate, except dwellings.

<sup>e</sup>Includes restaurants, hotels and business services.

Table 4

## NICARAGUA: INDICATORS OF AGRICULTURAL PRODUCTION

	1970	1975	1980	1982 <sup>a</sup>	Growth rates <sup>b</sup>			
					1979	1980	1981	1982 <sup>a</sup>
<b>Index of agricultural production</b> (1970 = 100)	100.0	126.4	100.9	113.7	-11.7	-17.7	10.3	2.2
Agriculture	100.0	132.3	96.8	123.7	-13.2	-19.8	25.7	1.6
Stock-raising	100.0	108.9	108.8	96.9	-8.7	-13.9	-16.5	6.6
<b>Production of main crops<sup>c</sup></b>								
Export crops (calendar year)								
Cotton	1 485	2 880	767	1 355	-25.0	-61.0	106.1	-11.0
Coffee	826	1 072	1 239	1 351	9.1	-9.4	4.8	4.0
Sugar cane	37 554	57 266	49 228	61 764	-3.5	-9.6	11.6	12.4
Bananas	4 770	3 781	2 682	3 078	-28.0	-1.4	25.2	-8.4
Sesame	162	122	206	108	44.4	13.5	-22.5	-32.5
Havana tobacco	15	26	35	37	-6.2	28.3	-31.2	53.3
Crops for domestic consumption (calendar year)								
Maize	5 126	4 224	4 281	3 922	-32.1	14.2	1.8	-10.1
Beans	1 210	1 100	846	1 325	-28.6	-1.9	42.5	9.9
Rice	1 095	1 238	1 218	1 790	-24.3	30.0	34.6	9.1
Sorghum	1 318	1 342	1 988	1 325	2.8	46.6	-8.0	-27.5
Blond tobacco	...	40	45	47	-21.1	35.2	-29.1	49.4
<b>Indicators of stock-raising</b>								
Number of animals slaughtered								
Cattle <sup>d</sup>	310	325	372	290	-7.1	-16.8	-26.8	6.3
Pigs <sup>d</sup>	150	168	204	284	-15.6	2.2	18.8	16.7
Poultry <sup>e</sup>	1 472	7 535	18 900	30 700	-31.7	57.7	29.6	25.3
<b>Other indicators</b>								
Milk <sup>f</sup>	377	433	348	392	-16.9	-7.6	3.4	9.0
Eggs <sup>g</sup>	...	...	29	38	-33.3	16.0	10.3	19.0

Source: ECLA, on the basis of data from the Ministry of Planning of Nicaragua.

<sup>a</sup>Preliminary figures.

<sup>b</sup>The growth rates correspond to real, and not rounded, figures.

<sup>c</sup>Thousands of quintals.

<sup>d</sup>Thousands of head.

<sup>e</sup>Thousands of pounds.

<sup>f</sup>Millions of litres.

<sup>g</sup>Millions of dozens.

i) *Agriculture*. Despite the floods which occurred in May and the low rainfall of the following months —phenomena which affected the cotton, maize and sorghum, banana and sesame harvests— agricultural production increased by 2% through growth in other categories of the agricultural sector, such as sugar cane, tobacco, beans and rice, and the positive development of stock-raising activities developed positively because of the increase in beef, pork and poultry production (see table 4).

Efforts generally continued towards accelerating the process of agrarian reform and distribution of income for the benefit of the peasants and towards improving productive capacity. During the first half of 1982, property deeds were granted for an amount of 90 000 manzanas<sup>3</sup> to peasants associated together in 140 production or service co-operatives. The land in question was both land held by private individuals and large estates expropriated under the Agrarian Reform Law, which provides for such action when unused areas exceed 500 manzanas in the Pacific and Matagalpa regions, and 1 000 manzanas in the rest of the country. The peasant sector was also provided with the technical assistance and financing required for production.

As a result of these efforts, in 1982 there was a trend towards recovery of the production levels attained before the 1978-1979 conflict in the majority of crops. However, production of cotton,

<sup>3</sup>One *manzana* is equivalent to 0.7 hectares.

bananas and maize, and the amount of cattle slaughtered were substantially lower than they had been in the years preceding the conflict.

The deterioration in cotton production was a serious problem, since cotton is the second main export product. After a partial recovery in 1981, production decreased by 11% in 1982 and was thus equivalent to 51% of the volume produced in 1978. Although the lower yields were to a large extent the result of the drought noted above, the drop in production was also influenced by the low prices in international markets, the apathy of private entrepreneurs and even the sluggishness of some enterprises in the Area de Propiedad del Pueblo, which did not take full advantage of the resources at their disposal.

During 1982 there was also a drop of slightly more than 8% in banana production, which had grown by 25% in 1981, although without yet recovering its 1978 level. The drop recorded in 1982 was partly due to the May floods, which affected 1 200 manzanas of crops. This was joined by marketing problems, since the transnational corporation which controls a significant portion of the world market of this fruit and which had been providing technical assistance and purchasing Nicaraguan production under a long-term agreement signed in 1981, decided to abandon its activities in the country in October 1982.

In contrast, the situation of the other export products, especially sugar cane, was positive. Sugar cane production grew for the second consecutive year at a rate of around 12%, exceeding its 1978 level. These results stemmed from the relatively favourable international prices in 1980-1981, which inspired an increase in the area sown during this cycle in the Area de Propiedad del Pueblo, and from the fact that this activity has been promoted by private entrepreneurs who deal in this crop, and who control more than 50% of the sown area.

Coffee production also experienced a relatively favourable expansion rate of 4%, similar to that of 1981. This progress was partly due to the different coffee policy measures and actions applied in the last three-year period. Among them were, in the first place, the blight control programme, which involved heavy expenditures to replace low-yield coffee plants with plants of higher production and make better use of pesticides, technical assistance and provision of services to small producers and co-operatives; in the second place, the generous financial support given to the various production processes in the private sector, especially to co-operatives and small producers, as well as price incentives and better exchange rates; in the third place, the suitable climatological conditions in the main coffee-producing zones, and finally, the improvement of the administrative and technical level of the companies of the Area de Propiedad del Pueblo, both in agricultural production and cattle slaughtering.

Production of Havana tobacco rose by 53%, after the severe contraction of the preceding year. This was due to better cultivation techniques and especially to pest control.

Among crops for domestic consumption, results were also varied. Maize and sorghum production decreased by 10% and 27%, respectively, as a result of the climatic factors noted above. Rice and beans, on the contrary, attained production volumes that were much higher than those reached before 1978. Despite the fact that the drought harmed the temporary seedlings, rice production rose by 9%, while the bean harvest increased by 10%.

The increases obtained in the production of some basic grain products were fundamentally due to the Programa Alimentario Nacional (National Alimentary Programme), which provides for measures to improve the production and distribution of foods making up the basic diet of the population.

In the stock-raising sector, beef production recovered slightly after three consecutive years of decreases caused by the high extraction indexes of 1978 and 1979. This result was influenced by the efforts aimed at replacing the reproductive herd—which included the importation of studs during 1979—and the policy of price incentives to cattle producers which has gradually been adopted and which probably encouraged deliveries of cattle that was relatively young, but with weight requirements imposed by the packers.

The growth in poultry-raising activity, for its part, appeared in poultry slaughter and egg production. This growth was the result of development of enterprises in the Area de Propiedad del Pueblo, in the framework of the above-mentioned Programa Alimentario Nacional, a phenomenon which also had positive effects on pig-raising activity and milk production.



Table 5

## NICARAGUA: INDICATORS OF MINING PRODUCTION

	1970	1975	1980	1981	1982 <sup>a</sup>	Growth rates <sup>b</sup>			
						1979	1980	1981	1982 <sup>a</sup>
Index of mining production (1970 = 100)	100.0	63.3	56.4	57.3	47.8	-18.5	2.4	1.6	-16.6
Production of some important minerals (thousands of Troy ounces)									
Gold	113	69	60	62	53	-19.0	2.5	3.2	-14.1
Silver	127	142	164	140	84	...	...	-14.6	-40.2

Source: ECLA, on the basis of figures from the Ministry of Planning.

<sup>a</sup>Preliminary figures.

<sup>b</sup>The growth rates correspond to real, and not rounded, figures.

ii) *Mining*. This activity is fundamentally based on gold and silver extraction and is aimed primarily at the external market. In recent years the production capacity of the mines located on the Atlantic Coast has gradually been becoming exhausted, and it has been necessary to suspend activities in one of the main mines in that zone, which has brought about a decrease in production of around 17% in 1982 (see table 5).

iii) *Manufacturing*. Manufacturing activity had to meet several problems of an administrative and market nature, as well as apathy on the part of entrepreneurs and a lack of qualified personnel. For this reason, its degree of reactivation from 1979 onwards has been relatively low, despite the fact that some production agreements were concluded between the Government, entrepreneurs and workers. In 1982 some of those constraints continued, but passed into the background. The shortage and higher price of foreign exchange, which limited purchases of imported inputs, became the main cause of the nearly 5% drop in this activity and of the general recession in the different branches (see table 6).

The printing, paper and transport equipment industries experienced severe contractions, from 30% to 36%. But a significant decrease was noted in nearly all the remaining items. This was the case for production of beverages, tobacco, shoes and clothing, wood, furniture, chemical products and machinery, which dropped between 13% and 22%. The production decrease was smaller in the case of textiles, petroleum products and non-metallic minerals. The only production increases were recorded in leather and leather products—which grew by around 7%, in keeping with the increase in cattle slaughtering—rubber and metal products—since importation of their inputs was not burdened with the tax on foreign exchange—and food, which represents more than half of national manufacturing activity. However, the latter did not manage to recover the level it had attained in 1978.

Although in some products the drop in production was the result of restrictions on demand, in the case of several others the cause was the shortage and rise in price of foreign currency. Production thus proved to be insufficient to meet local demands for some non-durable consumer goods such as beverages, tobacco and clothing, while in the case of other articles, such as some chemical products, furniture and wood, it hindered the filling of orders from other Central American countries.

In view of this situation, economic policy, besides tackling the problem of short-term exchange allocation, attempted to respond to structural problems. In this respect efforts were made to re-orient industry so as to replace or decrease external purchases of inputs. For example, during 1982 investments were made in the chemical industry and others were directed towards increasing production of plastic containers and reducing consumption of electric energy, whose generation still requires a high volume of petroleum. In order to encourage exports, investments were also made in ventures such as a wood and wood pulp factory and a sugar refinery which is expected to increase the country's refining capacity by 30%.

iv) *Construction*. After two years during which the construction sector partially recovered from its severe decreases of 1978 and 1979, the sector decreased by 13% in 1982.

This drop was due both to less investment by public institutions and the Area de Propiedad del Pueblo, which the efforts of the central government were unable to offset, and the contraction in private activity. The central government's capital expenditures expanded due to construction of low-income housing and repairs of the damage caused by the armed invasions and the floods of the month of May,<sup>4</sup> despite the fact that in 1982 reconstruction of the Managua centre decreased and despite the completion of construction on some infrastructure works, such as the highway connecting the Pacific and Central zones of the country with the North Atlantic coast.

Construction of low-income housing continued at a slow rate—at least lower than that required to meet the needs of the population—because of financial and foreign exchange problems, since 30% of such constructions contain imported material. During 1982 an area of 83 000 cubic metres was constructed, as opposed to 75 000 cubic metres the year before. In addition, the housing damaged by the floods was moved to better-located sites, with better sanitation and greater facility of access to public drinking water, lighting and transport services. Nevertheless, this housing continues to be precarious because it was built with the material available, which was generally of low quality.

Table 6

NICARAGUA: INDICATORS OF MANUFACTURING PRODUCTION

	Millions of córdobas at 1958 prices				Growth rates <sup>b</sup>			
	1970	1975	1980	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>a</sup>
<b>Value of total production</b>	2 455	3 320	3 131	3 060	-26.8	12.3	2.7	-4.9
Food	1 129	1 422	1 386	1 519	-16.0	-0.3	3.4	6.0
Beverages	135	195	344	289	-20.0	47.5	-2.9	-13.5
Tobacco	63	81	120	100	-22.0	48.1	-3.5	-13.0
Textiles	119	178	102	134	-37.4	-4.9	37.6	-5.1
Footwear and clothing	110	87	112	105	-43.3	132.0	10.0	-14.7
Wood and cork	68	122	61	50	-41.0	3.9	4.7	-22.1
Furniture and fittings	21	19	17	15	-31.5	-9.3	5.4	-14.9
Paper and paper products	33	66	47	36	-40.3	-17.1	9.9	-30.1
Printing, publishing and related industries	49	51	56	40	-26.6	50.5	11.7	-35.7
Leather and leather products	29	24	25	21	-10.0	7.3	-19.9	6.5
Rubber products	9	9	21	25	-25.2	149.4	5.8	15.1
Chemicals and chemical products	282	480	399	311	-32.3	6.4	-3.5	-19.3
Petroleum products	85	132	140	145	-29.4	45.1	12.2	-7.9
Non-metallic minerals	85	145	109	97	-56.3	67.6	-6.0	-5.0
Metal products	135	185	118	116	-50.8	40.9	-2.9	1.0
Electrical and non-electrical machinery	31	54	31	21	-47.6	-22.5	-19.8	-15.0
Transport equipment	5	10	7	6	-40.5	7.6	12.7	-30.0
Others	68	61	36	30	-40.1	36.9	9.1	-25.1
<b>Other indicators</b>								
Industrial consumption of electricity <sup>b</sup>	179	258	236	266	-25.4	3.1	20.9	-6.7
Employment <sup>c</sup>	22	26	29	30	-13.8	11.0	13.3	-9.5

Source: ECLA, on the basis of figures from the Ministry of Planning.

<sup>a</sup>Preliminary figures.

<sup>b</sup>Millions of kWh.

<sup>c</sup>Thousands of persons.

<sup>4</sup>This caused damage or destruction to 732 kilometres of paved roads, 1 000 kilometres of secondary roads, 2 500 kilometres of production roads, 18 kilometres of railroads, and 25 air runways in the interior of the country; there was also considerable damage to the port of Corinto. In the cities 35 bridges and drains were destroyed or collapsed, and there was damage to more than 30 kilometres of paved roads, 50 kilometres of cobblestone roads and 90 kilometres of dirt roads. The floods affected the water supply system in around 40 cities and villages of the Pacific region and the sewage system in two of them. Six thousand five hundred units of precarious housing for families with low economic resources were also destroyed, and 4 700 were damaged. It is estimated that total loss in infrastructure for different uses amounted to US\$ 180 million and losses in housing and other buildings, US\$ 27 million.

Table 7

## NICARAGUA: ELECTRICITY INDICATORS

	Millions of kWh					Growth rates			
	1970	1975	1980	1981	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>a</sup>
<b>Total consumption</b>	429	681	785	834	874	-17.8	8.0	6.2	4.8
Residential	104	132	205	240	252	-14.2	41.3	17.1	5.0
Commercial	54	61	68	161 <sup>b</sup>	178 <sup>b</sup>	-26.4	20.9	...	10.6
Industrial	179	258	242	285	275	-26.5	7.1	17.8	-3.5
Government	21	28	68	...	...	-7.8	46.0	...	...
Public lighting	9	14	20	25	25	-19.7	42.1	24.9	-
Irrigation	17	41	48	68	84	-31.2	45.6	41.7	31.3
Pumping	16	30	52	55	60	-0.1	15.8	5.8	9.1
Electricity wholesalers <sup>c</sup>	29	117	82	-	-	-5.5	-49.4	-	-
<b>Gross generation of power by type of station</b>	509	821	977	1 010	1 015	-18.9	12.4	3.4	0.5
Hydroelectric	276	355	484	485	491	110.3	30.6	0.2	1.2
Thermal	233	466	482	513	512	-44.1	-1.4	6.4	-0.2
Diesel and gas			11	12	12	-50.5	14.4	9.1	-

Source: ECLA, on the basis of figures from the Ministry of Planning and the *Instituto Nicaragüense de Energía* (Nicaraguan Energy Institute - INE).

<sup>a</sup>Preliminary figures estimated on the basis of the January-August variation.

<sup>b</sup>Including Government.

<sup>c</sup>In January 1980, INE began to take over wholesale distribution gradually until it absorbed this whole component in August 1980. For this reason, comparison between 1979 and 1980 is valid only in respect of the total and not of the individual uses.

The central government also gave consideration to reconstruction of the damages to infrastructure works in the areas of transport, health, drainage and the road network of various cities, but this was not able to offset the drop in construction in other public and private sector areas.

Some official institutions delayed their activities because of lack of timely external financing, as happened with several projects, among them the electrification works. In these cases, as with the enterprises of the Area de Propiedad del Pueblo where the work on replacing the capital destroyed during the 1978-1979 conflict has been decreasing, difficulties were met in defining projects to increase productive capacity; this limited opportunities for expanding construction. The projects being implemented, such as thermoelectric power stations, irrigation works and manufacturing concerns, were insufficient to replace the levels obtained in preceding years.

Furthermore, private sector constructions were affected by the climate of uncertainty among entrepreneurs and by the economic depression, in addition to the effect created by the measures announced during the year concerning the possible transfer of housing property to its users.

v) *Basic services.* On the average, these sectors grew by only slightly more than 1%, as a result of unequal activity between electricity, gas and water on the one hand, and transport, storage and communications on the other. The first three grew for the third consecutive year, after their severe contraction of 1979. This was a result both of the continuation of the programme for expanding hydroelectric generation capacity in order to decrease consumption of imported energy inputs, and of the efforts aimed at expanding irrigation and road works, primarily in some rice—and sugar cane—producing zones (see table 7).

Transport thus decreased by 2%, because the rate of activity shrank in the goods-producing sectors and external trade, after a very strong two-year period in which both freight service and urban and inter-urban passenger service expanded, on the basis of equipment imported from some Latin American countries such as Mexico, Brazil and Spain. Lack of spare parts was also a factor in the decline.

vi) *Other sectors.* In a manner similar to what had occurred with basic services, other services as a group grew by more than 1%, with very unequal trends in their components. Only government services continued to increase their rate (7%), because of a rise in purchase of goods and in defense expenditures. Trade activities and finance, on the other hand, declined because of the influence of the general recession.

c) *The evolution of employment*

Upon the increase in the labour force and the decrease in employment because of the lower rate of activity in construction, manufacturing and services, the rate of urban unemployment increased sharply from 11.5% in 1981 to 18.6% in 1982 (see table 8).

The public expenditure policy, aimed at reconstruction through massive utilization of manpower, avoided an even further deterioration in the employment situation in the urban centres.

Furthermore, various factors have combined to alter trends in the economically active population, its composition and employment levels. The rise in school attendance rates, the distribution of lands and the allocation of financial resources to the peasantry helped reduce the number of persons seeking work in the agricultural sector. In particular, supply of manpower for seasonal harvest work decreased, for which reason it was necessary to mobilize students and workers from the public sector to gather the cotton and coffee harvests. Greater resource to mechanization in tasks usually executed by hand was also necessary; this was the case for the cotton harvest, which could be extended to other crops, such as sugar cane and some horticultural products.

### 3. The external sector

The external sector has been a factor of limitation of the economy in recent years. This phenomenon has become more acute to the extent that the terms of trade have been negative because of the constant increase in import prices and the adverse trends in prices of export products. As a result, the trade balance has worsened, despite efforts to expand exportable production and progress attained in some products such as coffee and sugar cane. It has not been possible to recover the traditional volumes of external sales of cotton —one of the main foreign-currency-generating products— meat and the manufactured articles which are sold in the rest of Central America.

In order to increase exports, some exchange measures were adopted. Thus exporters could receive part of their sales in official currency certificates, negotiable in the legal parallel market. That proportion varied from 10 to 40% of the amount of sales, according to the product in question. This meant a change in the effective exchange rate and provided relatively easier access by producers to the foreign currency necessary for importation. Nevertheless, imports decreased considerably in 1982, after the substantial increases of 1980 and 1981 (see table 9). However, the trade deficit continued to be high, although it was reduced to half of that recorded in 1981.

In the last three-year period, international financial assistance made it possible to offset the trade imbalances and the losses stemming from the unfavourable terms of trade, but net external financing decreased substantially in 1982. The external debt, for its part, has increased, and, despite the renegotiation agreements, interest and amortization payments absorbed 51% of exports of goods and services. For all these reasons, there was an acute scarcity of foreign currency in 1982.

Table 8

#### NICARAGUA: EMPLOYMENT AND UNEMPLOYMENT

	1979	1980	1981	1982 <sup>a</sup>
<b>Rates of unemployment</b>				
National	22.9	17.8	16.6	20.3
Agricultural activities <sup>b</sup>	24.8	26.4	23.4	22.6
Non-agricultural activities	21.4	11.1	11.5	18.6
Managua	24.6 <sup>c</sup>	13.7 <sup>d</sup>	...	13.4
<b>Indexes (1976 = 100)</b>				
Labour force	110.3	114.3	119.2	122.6
Employment	86.5	95.7	105.2	98.8

Source: ECLA, on the basis of data from the Ministry of Planning.

<sup>a</sup>Preliminary figures.

<sup>b</sup>Rate of subutilization: includes under-employment and open unemployment.

<sup>c</sup>Regional Employment Programme for Latin America and the Caribbean (PREALC), on the basis of the survey conducted in October 1979.

<sup>d</sup>Instituto Nacional de Estadística y Censos (National Statistics and Census Institute - INEC), on the basis of the survey conducted in August-September of 1980.

Table 9

## NICARAGUA: MAIN FOREIGN TRADE INDICATORS

	1977	1978	1979	1980	1981	1982 <sup>a</sup>
<b>Growth rates</b>						
Exports of goods FOB						
Value	17.4	1.5	-4.7	-26.8	10.9	-14.2
Volume	-4.9	7.1	-11.9	-37.9	13.0	-9.7
Unit value	23.5	-5.2	8.2	17.8	-1.9	-5.0
Imports of goods FOB						
Value	45.2	-21.4	-29.7	106.5	11.7	-28.0
Volume	36.7	-28.8	-38.7	71.9	7.5	-31.4
Unit value	6.2	10.3	14.6	20.1	3.9	5.0
Terms of trade (goods) FOB/CIF	16.2	-13.8	-5.6	-1.4	-5.8	-9.5
<b>Indexes (1970 = 100)</b>						
Terms of trade (goods) FOB/CIF	112.5	97.0	91.6	90.3	85.1	77.0
Purchasing power of exports of goods <sup>b</sup>	177.4	164.4	141.2	84.8	89.4	72.4
Purchasing power of exports of goods and services <sup>b</sup>	168.1	153.6	129.2	79.3	82.0	67.4

Source: ECLA, on the basis of official figures.

<sup>a</sup>Preliminary figures.

<sup>b</sup>Volume of exports, goods or goods and services in each case, adjusted by the respective terms-of-trade index.

a) *The terms of trade*

The terms of trade worsened for the fifth consecutive year, decreasing by around 9.5%. While the unit value of exports decreased by 5%, that of purchases from abroad rose in the proportion (see table 9).

Although the drop in prices of export products was widespread, it mainly affected cotton and coffee, which together represent 50% of exports. The price of the former was an average of US\$ 64 per quintal, in comparison with US\$ 75 in the preceding two-year period. Sugar prices also shrank considerably.

Although international prices of petroleum dropped in 1981, the inflationary process continued in the countries producing manufactured products, which brought about rises in the price of agricultural and industrial inputs, as well as in the spare parts and accessories which the countries purchased that year.

In order to evaluate the impact of the deterioration on the terms of trade, it is sufficient to recall that if the 1980 prices had remained stable, US\$ 140 million less would have been spent on imports and US\$ 40 million more would have been obtained for external sales. Thus on the whole, the country's losses because of trends in international prices since 1980 were approximately US\$ 180 million in 1982.

b) *Merchandise trade*

The 5% reduction in export prices was joined by a drop of nearly 10% in their volume. These two factors brought about a drop of 14% in the total value of sales of goods abroad, after the 11% increase recorded during 1981. Total value of imports, for its part, decreased by 28% because of the more than 31% decrease in their volume (see table 9).

Exports decreased despite efforts to recover pre-1979 levels. This was possible in the case of coffee and sugar cane, whose production had responded to the governmental programmes and projects to raise coffee yields and increase yields from the area containing sugar cane crops. Thus in 1982, the volume of external coffee sales slightly exceeded that of 1981, although its total value decreased by US\$ 3 million due to the drop in its international price. A similar situation prevailed in the case of sugar cane, whose exported volume increased slightly in 1982; however, since the price went down substantially, the value of those sales decreased by 25% (see table 10).

With regard to cotton, although prices decreased by 13%, the value declined mainly because of a decrease in the volume exported. As noted above, the area cultivated stayed practically the same during the last three growing seasons, due to the sluggishness of the cotton policy and the May floods, which even made it necessary to abandon lands that had already been prepared for sowing.

On the other hand, the value of external sales of beef rose by 47% thanks to the increases in production, since prices in external markets remained stable. Despite this substantial increase, the value of meat exports barely recovered its 1977 level and was still lower than that attained in the 1978-1980 period. However, these exports are showing some favourable prospects to the extent that the reproductive herd is being replenished and the different livestock-support programmes being implemented are beginning to show results.

Banana exports were affected by the rains in May which, as noted above, destroyed around 1 200 hectares of crops. In addition, because of a failure on the part of the company which was purchasing the entire production to meet the agreement for purchasing the fruit, sales were lost and it was necessary to change the channels of distribution and negotiate with other intermediaries.

Sales of manufactured products in the Central American Common Market declined for the fourth consecutive year due to severe limitations on purchasing imported inputs, which had negative effects on industrial production. Thus, the value of exports to the region decreased by 25% because of a contraction in exports of chemical and textile products, among others.

In view of the negative performance of exports, the substantial increase in factor payments and the growing difficulties in obtaining additional external financing, the Government was compelled to restrict imports. Thus total purchases of goods decreased by 29%, with a decrease of 4% in consumer goods, 18% in raw materials and intermediary goods, and 43% in capital goods (see table 11). Thus the import coefficient dropped from 32% in 1981 to 21.5% in 1982, measured in constant terms.

Since purchases of raw materials and intermediary goods decreased substantially less than the remaining goods, their relative share increased to represent around two-thirds of total imports.

Although external purchases of capital goods decreased substantially, those intended for agriculture grew at the rate of the investments made in that sector and of the purchases of agricultural

Table 10  
NICARAGUA: EXPORTS OF GOODS, FOB

	Millions of dollars			Percentage breakdown		Growth rates			
	1980	1981	1982 <sup>a</sup>	1970	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>a</sup>
<b>Total</b>	451	500	429	100.0	100.0	-4.6	-26.8	11.0	-14.3
Central America	76	71	53	25.8	12.3	-32.9	-22.6	-6.7	-25.0
Rest of world	375	429	376	74.2	87.7	3.6	-27.6	14.5	-12.4
<b>Main traditional exports</b>	340	391	348	64.6	81.1	-3.1	-21.8	14.6	-11.1
Cotton	30	123	87	19.1	20.3	-3.7	-77.7	307.3	-29.6
Coffee	166	137	134	18.0	31.4	-20.6	4.5	-17.4	-1.8
Sugar	20	50	38	5.5	8.8	-0.3	4.6	145.4	-25.1
Meat	58	23	34	14.9	8.0	38.1	-37.6	-60.4	47.0
Shrimp and lobster	27	20	29	3.4	6.8	47.5	23.3	-26.5	48.2
Gold	33	24	15	2.3	3.5	-8.1	477.2	-27.7	-37.0
Sesame	6	8	6	-	1.4	-5.9	96.9	27.0	-27.5
Cotton-seed cake and meal	-	6	5	1.4	1.1	-9.3	...	...	-20.7
<b>Main non-traditional exports</b>	53	56	35	9.7	8.1	-35.9	6.0	3.0	-37.5
Bananas	8	21	16	0.2	3.7	33.3	31.3	148.8	-24.4
Chemicals	32	29	19	5.3	4.4	-39.8	3.8	-12.0	-34.8
Textiles and relates products	6	5	-	3.1	-	-34.4	-22.7	-16.7	...
Silver	7	1	-	-	-	-34.8	353.3	-85.3	...
Milk products	-	-	-	1.1	-	-56.4	...	-	-
Other	58	54	46	25.7	10.8	1.7	-51.7	-3.7	-21.6

Source: ECLA, on the basis of data from the Ministry of Planning.

<sup>a</sup>Preliminary figures.

Table 11

## NICARAGUA: IMPORTS OF GOODS, CIF

	Millions of dollars			Percentage breakdown <sup>a</sup>		Growth rates <sup>b</sup>			
	1980	1981	1982 <sup>a</sup>	1970	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>a</sup>
<b>Total</b>	<b>887</b>	<b>990</b>	<b>700</b>	<b>100.0</b>	<b>100.0</b>	<b>-39.4</b>	<b>146.3</b>	<b>11.6</b>	<b>-29.3</b>
From Central America	301	217	147	...	21.0	-19.9	170.9	-27.9	-32.3
From rest of world	586	773	553	...	79.0	-45.3	135.3	31.9	-28.5
<b>Consumer goods</b>	<b>258</b>	<b>229</b>	<b>128</b>	<b>29.2</b>	<b>18.3</b>	<b>-34.3</b>	<b>165.2</b>	<b>-11.2</b>	<b>-44.1</b>
Durable	43	47	20	10.2	2.9	-20.9	120.0	9.3	-57.4
Non-durable	215	182	108	19.0	15.4	-60.8	176.0	-15.3	-40.7
<b>Raw materials and intermediate goods</b>	<b>519</b>	<b>552</b>	<b>453</b>	<b>47.6</b>	<b>64.7</b>	<b>-34.8</b>	<b>139.7</b>	<b>6.4</b>	<b>-17.9</b>
Petroleum and fuels	174	202	191	5.7	27.2	-14.8	129.7	16.1	-5.4
Other									
For agriculture	61	55	48	...	6.9	-57.5	295.5	-9.8	-12.7
For manufacturing	248	254	170	...	24.3	-38.9	124.3	2.4	-35.1
For construction	30	35	20	...	2.9	-41.9	138.7	16.7	-42.9
Other	6	6	24	...	3.4	...	...	-	300.0
<b>Capital goods</b>	<b>110</b>	<b>209</b>	<b>119</b>	<b>23.2</b>	<b>17.0</b>	<b>-59.8</b>	<b>137.7</b>	<b>90.0</b>	<b>-43.1</b>
For agriculture	24	30	45	1.8	6.4	-66.4	458.1	25.0	50.0
For manufacturing	61	119	60.17.0	8.6	-58.2	93.9	95.1	-49.6	
For transport	25	60	14	4.4	2.0	-58.7	137.1	140.0	-76.7

Source: ECLA, on the basis of figures from the Ministry of Planning.

<sup>a</sup>Preliminary figures.

<sup>b</sup>The percentage breakdown and growth rates correspond to real, and not rounded, figures.

machinery made by public institutions for sale to individual farmers, enterprises of the Area de Propiedad del Pueblo and co-operatives.

External purchases for the industrial sector, both of raw materials and capital goods, shrank severely, which had a negative effect on manufacturing production. The same occurred with imports of fuels, intermediary products for construction and agriculture and capital goods for transport, all of which helped check global economic activity.

c) *Services trade and factor payments*

The balance between income and expenditures for services, although it remained negative, decreased by 75% in comparison with 1981, going from US\$ 81 million that year to US\$ 23 million in 1982. This situation was due to the fact that the category of income from services remained relatively low since two of its main components, travel and transport and insurance, remained stable. On the other hand, outflow in those categories dropped from US\$ 128 million to US\$ 70 million, owing to the greater influence by the transport and insurance category because of the decrease in merchandise trade.

Factor payments increased considerably because of liquidation of interest on the external debt, which exceeded US\$ 150 million. This sum represented nearly 50% of the current account deficit and meant a very substantial increase over the preceding year (see table 12).

d) *The current account position and its financing*

The events described above, especially the sharp contraction in imports, brought about a substantial decrease in the current account deficit, which dropped from US\$ 570 million in 1981, to slightly more than US\$ 390 million in 1982.

To meet this deficit, nearly US\$ 60 million was provided by the international community through credits to the government, a large portion of which was used to finance social programmes (food, health, education and housing), relating to the damage caused by the floods in May.

Table 12

## NICARAGUA: BALANCE OF PAYMENTS

(Millions of dollars)

	1977	1978	1979	1980	1981	1982 <sup>a</sup>
<b>Balance on current account</b>	-192	-34	90	-512	-571	-393
Trade balance	-122	62	162	-427	-478	-240
Exports of goods and services	719	720	672	503	547	476
Goods FOB	636	646	616	451	500	429
Real services <sup>b</sup>	83	74	56	52	47	47
Transport and insurance	29	28	22	7	8	7
Travel	34	25	18	22	23	20
Imports of goods and services	841	658	511	930	1 025	716
Goods FOB	704	553	389	803	897	646
Real services <sup>b</sup>	137	104	122	127	128	70
Transport and insurance	68	56	31	44	53	35
Travel	46	60	48	31	15	14
Factor services	-71	-97	-73	-86	-94	-154
Profits	-28	-35	-13	-10	-8	-3
Interest received	10	8	6	-	-	-
Interest paid	-50	-67	-65	-79	-85	-151
Others	-3	-3	-1	3	-1	-
Unrequited private transfer payments	1	-	1	1	1	1
<b>Balance on capital account</b>	202	-49	-85	400	682	270
Unrequited official transfer payments	11	9	90	80	54 <sup>d</sup>	59
Long-term capital	211	135	112	296	575	227 <sup>e</sup>
Direct investment	10	7	3	-	-	1
Portfolio investment	-	-	-	-	-	-
Other long-term capital	201	128	109	296	575 <sup>c</sup>	226 <sup>c</sup>
Official sector <sup>d</sup>	140	123	107	296	575 <sup>c</sup>	...
Loans disbursed	172	152	132	371	641 <sup>ee</sup>	319 <sup>ee</sup>
Amortization payments	-27	-24	-22	-75	-66 <sup>c</sup>	-93 <sup>c</sup>
Commercial banks <sup>d</sup>	-	-7	5	...	...	...
Loans disbursed	-	-	-	...	...	...
Amortization payments	-	-	-	...	...	...
Other sectors <sup>d</sup>	62	12	-2	...	...	...
Loans disbursed	97	58	15	...	...	...
Amortization payments	-35	-46	-17	...	...	...
Short-term capital (net)	-16	-184	-258	...	...	...
Official sector	8	-13	14	...	...	...
Commercial banks	55	55	-20	...	...	...
Other sectors	-80	-227	-252	...	...	...
Errors and omissions	-4	-10	-30	24 <sup>f</sup>	53	-16
<b>Global balance<sup>g</sup></b>	9	-84	5	-112	111	-123
Total variation in reserves (- sign indicates an increase)	-9	83	-9	107	-115	123 <sup>h</sup>
Monetary gold	-	-	-1	-	-	...
Special Drawing Rights	-1	-1	6	-5	-4	...
IMF reserve position	-	-	-	-	-	...
Foreign exchange assets	2	99	-75	120	-86	...
Other assets	1	-15	7	-	-	...
Use made of IMF credit	-8	-	55	-8	-25	...

Source: 1977-1981: International Monetary Fund, *Balance of Payments Yearbook*, magnetic tape March 1983; 1982: ECLA, on the basis of official data.

<sup>a</sup>Preliminary figures.

<sup>b</sup>Real services also include other official and private transactions, but not factor services.

<sup>c</sup>Including long-term and short-term capital.

<sup>d</sup>In addition to loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities.

<sup>e</sup>Including US\$ 223 million for renegotiation of the external debt in 1981 and US\$ 6 million for the same item in 1982.

<sup>f</sup>Including short-term capital.

<sup>g</sup>The global balance is the sum of the current account balance plus the balance on capital account. The difference between total variation in reserves of opposite sign and the global balance represents counterpart items: monetization or demonetization of gold, allocation or settlement of Special Drawing Rights, and variations due to revaluation.

<sup>h</sup>Estimates.



Table 13

## NICARAGUA: INDICATORS OF EXTERNAL INDEBTEDNESS

	1977	1978 <sup>a</sup>	1979	1980	1981	1982 <sup>b</sup>
Millions of dollars						
<b>External public debt<sup>c</sup></b>						
Balances	874	961	1 131	1 579	2 163	2 410
Disbursements	243	139	188	470	655	313
Debt service	98	103	60	60	...	196
Amortization payments	50	52	18	22	...	66
Interest payments	48	51	42	38	...	130
<b>Global external debt<sup>d</sup></b>						
Debt service	112	137	104	154	155	244
Amortization payments <sup>e</sup>	62	70	39	75	66	93
Interest payments	50	67	65	79	85	151
Percentages						
Ratios						
Global external debt service/ exports of goods and services	15.6	19.0	15.5	30.6	28.3	51.3
Public debt service/disbursements	40.3	74.1	31.9	12.8	26.1	62.6

Source: ECLA, on the basis of information from the Ministry of Planning.

<sup>a</sup>On 31 December 1978, the short-term debt amounted to US\$ 131 million; commitments in respect of guaranteed to US\$ 36 million, private debt not guaranteed by the State, to US\$ 264 million and State-guaranteed private debt, to US\$ 6 million.

<sup>b</sup>Preliminary figures.

<sup>c</sup>End-year balance of debts having a term of over one year.

<sup>d</sup>Estimates according to balance-of-payments data.

<sup>e</sup>Amortization payments on the long-term debt, with the exception of 1981 and 1982, which also include the short-term debt.

To cover the remainder, loans were obtained from abroad in the amount of nearly US\$ 320 million, a figure which contrasts considerably with the US\$ 640 million received in 1981. Even if account is taken of the renegotiation of the external debt (which brought the country US\$ 223 million in 1981 and only US\$ 6 million in 1982), the loans received decreased by 25%. That drop was partly due to the fact that the lines of credit made available to the country were not totally utilized, either because it had not yet been decided how they would be used, or because the actual viability of the projects for which they were negotiated had not been determined. Of greater significance, however, were the effects stemming from the financial crisis in the industrialized countries which, in the case of Nicaragua, intensified because of the obstacles to external financing for the extra-economic reasons noted above.

Furthermore, since payments on capital expanded by more than 40%, it was necessary to resort to US\$ 123 million in international reserves, chiefly assets and foreign currency from previously-contracted loans which had not been utilized.

#### e) *The external debt*

During 1982 the renegotiation of the external debt was concluded with the establishment of an agreement between the Government and the lending institutions of the commercial banks, by means of which the former assumed the responsibility of paying US\$ 550 million over a period of 10 years, with interests adjusted according to the LIBOR. Another positive event was the loan granted at the end of the year by some private banks. Although it amounted to only US\$ 25 million, it was the first private loan obtained by the new Government.

Nevertheless, one of the main bottlenecks which the economy had to confront was the high burden of servicing the external debt. It increased sharply and came to represent 51% of total exports of goods and services. This increase stemmed from a rise of nearly 78% in interest payments and an increase of more than 40% in payments on capital (see table 13).

In addition, the country received a lower volume of financial resources, as noted above. As a result, the external debt service absorbed more than 62% of the loans received. Thus the balance on capital account was sufficient to cover only a fraction of the petroleum imports —those carried out under the Treaty of San José— and purchase agricultural machinery and other capital goods utilized in productive activities and infrastructural works.

#### 4. Prices and wages

In 1982 the consumer price index indicated an annual average variation of nearly 25%, a figure similar to that of the preceding year. While increases in the sub-indexes of food, beverages and tobacco and clothing exceeded the average, by 29% and 27% respectively, the increase in housing was 21% and that of the miscellaneous category 16% (see table 14).

The marked decrease in imports and the reduction of domestic supplies helped to maintain inflationary pressures, which were also influenced by the increase of prices of imported articles (partly due to the tax levied on foreign exchange) and the expansion of the fiscal deficit. Furthermore, the May floods caused difficulties in the circulation of goods and some temporary shortages, which caused some speculation and a sudden rise of prices in June and July.

The factors noted above could have caused price increases higher than those recorded, but such increases were avoided by the government policy and especially by the restrictive monetary policy, the freezing of nominal wages in the medium- and high-income strata and the subsidy policy. The latter even succeeded in causing the rises in basic foods and other subsistence articles to be substantially lower than the general averages (see table 14).

Among direct actions to control the price rises were the participation of public institutions in trade activities, especially in the distribution of essential articles. Thus in 1982 the State controlled around 50% of the trade in basic grains and a lower proportion of that of other goods and services considered to be indispensable. Prices were also set at the producer and consumer levels for a series of articles including milk and basic cereals, which are subsidized products since the producers receive higher prices than those paid by the consumers. The difference between the two, as well as the marketing costs, are covered by the Government. The State also subsidized urban mass transport. In all of these products and services the official consumer prices remained stable during 1982.

Other control measures included the assignment of quotas for the distribution of some articles such as sugar, rice, gasoline and other petroleum derivatives, and the maintaining of close supervision over trade in articles with pre-established prices which are marketed by private individuals.

With regard to wages, the few indicators available suggest that there was a deterioration in real wages. In the public sector, the policy was generally followed of freezing wages at the levels of the preceding year, while the nominal minimum wages increased by 12% in industry and 7% in the rural area. Unfortunately, sufficient indicators are not available to quantify the deterioration in real wages. Rather, the average wages of the members of the social security system reflect an increase of 13.5% (see table 15). However, that adjustment was due to the rapid expansion of coverage of the social

Table 14

#### NICARAGUA: EVOLUTION OF DOMESTIC PRICES<sup>a</sup>

	1977	1978	1979	1980	1981	1982 <sup>b</sup>
	<b>Variation from December to December</b>					
Consumer price index	10.2	4.3	70.3	24.8	23.2	22.2
Food, beverages and tobacco	10.7	1.6	97.7	36.8	25.9	23.9
Clothing	2.6	4.3	46.0	21.0	24.0	22.5
Housing	8.9	7.9	35.3	9.7	23.7	21.6
Miscellaneous	12.5	5.5	65.6	14.3	16.0	17.9
	<b>Variation between annual averages</b>					
Consumer price index	11.4	4.6	48.2	35.3	23.9	24.8
Food, beverages and tobacco	14.8	3.6	63.3	49.1	29.0	29.1
Main essential foods <sup>c</sup>	...	...	...	...	18.2	9.1
Clothing	2.8	3.3	26.3	32.5	20.5	27.3
Housing	6.9	6.3	29.9	13.9	20.6	21.3
Miscellaneous	12.3	4.8	45.2	28.2	15.2	16.5

Source: ECLA, on the basis of data from the Ministry of Planning.

<sup>a</sup> Index of consumer prices for the Metropolitan area of Managua.

<sup>b</sup> Preliminary figures.

<sup>c</sup> Including rice, beans, sugar, coffee, processed maize, beef, eggs and dairy products.

Table 15

## NICARAGUA: EVOLUTION OF WAGES AND SALARIES

	Indexes (1975 = 100)				Growth rates			
	1979	1980	1981	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>a</sup>
<b>Membership of the Nicaraguan Social Security Institute<sup>b</sup></b>								
<b>Wages and salaries</b>								
Nominal	153.9	176.5	163.0	230.8	28.0	14.7	-7.6	41.6
Real	86.5	73.4	54.9	62.3	-13.6	-15.2	-25.2	13.5
<b>Legal minimum wages<sup>c</sup></b>								
Nominal								
Rural workers <sup>d</sup>	172.3	207.7	244.8	261.5	38.8	20.5	17.0	6.8
Industrial workers <sup>e</sup>	168.1	191.4	237.3	265.3	39.6	13.9	24.0	11.8
Real								
Rural workers <sup>d</sup>	97.1	85.1	81.0	69.3	-6.4	-6.6	-4.8	-14.4
Industrial workers <sup>e</sup>	94.7	78.4	78.5	70.3	-5.9	-11.7	0.1	-10.4

Source: ECLA, on the basis of figures from the Ministry of Planning of Nicaragua.

<sup>a</sup>Preliminary figures.

<sup>b</sup>With the expansion of the coverage of the Nicaraguan Social Security Institute, trends in the nominal and real salaries resulting from its 408 registers do not reflect precisely the sequence of the average salary at the national level, since the membership structure changed rapidly according to levels of income.

<sup>c</sup>Corresponds to annual average.

<sup>d</sup>North Atlantic and Central.

<sup>e</sup>National District.

security system and to the fact that in 1982 workers earning higher incomes, including many professionals, were incorporated into it. In other words, the increase in the average wage was due more to a change in the structure of the members of the system than to an actual and widespread rise in wages.

Although average real salaries as a whole deteriorated, some progress was made with the policy of defending the income of the poorest wage-earners. Thus, although the adjustments mentioned above in the minimum wages were much lower than the variation in the consumer price index, they proved to be similar to the variation of prices of a low-income consumer's shopping basket subject to maximum prices. Prices of the main subsistence foods grew by less than 7% during 1982 (see table 14). This could mean that the real salary of urban workers even increased slightly.

In the medium- and high-income sectors, trends in wages were definitively unfavourable, since they have remained stable since 1979. This means that the real salary of those strata decreased by 20% during 1982 and by more than 50% in the last three-year period. If the deterioration continues in the purchasing power of this group, which contains qualified technical staff and professionals, the shortage of this type of personnel in the government sector and in the enterprises of the Area de Propiedad del Pueblo could worsen.

## 5. Fiscal and monetary policy

### a) *Fiscal policy*

To understand fiscal trends, it should be recalled that from 1979 onwards, the National Reconstruction Government promoted reforms which envisage, among other aspects, a more active public sector role in the economy. Therefore, the rising participation of that sector is a result both of the needs raised by the reconstruction and a new conception of the State as the proponent of a more equitable development process.

In this framework, the new Government pursued a policy of putting public finances in order. On the income side, this was reflected in greater efficiency in tax collection and the application of new tax measures designed to attain objectives in distribution. Among those measures, mention should be

made of taxes on some export products and a 2% annual contribution on inheritances exceeding 10 000 córdobas.<sup>3</sup> Inflow also increased through collection of revenue from activities which were taken over by the State. Because of the foregoing, public income increased rapidly, and the ratio between it and the gross domestic product rose from 11% in 1977 to 18% in 1980. This in turn made possible a relative strengthening of the fiscal situation: although the deficit grew by 69% in nominal terms in 1980, it was equivalent to 29% of total government expenditure, the lowest coefficient recorded in recent years (see table 16).

However, since 1981 total spending once again expanded more sharply than income, and as a result the fiscal imbalance worsened. That development was due to several causes. The government had to meet high demand for investment in infrastructure and had to finance ambitious social programmes. The latter involved large-scale efforts in the field of health and education; for example, educational expenditures came to represent around 5% of the gross domestic product, in contrast with only 2% in 1979, and helped reduce the proportion of illiterate adults from 50% in 1979 to 13% in 1982. Another cause of the expansion of expenditures was represented by the production subsidies granted by the Government for the purpose of avoiding increases in the prices of food and basic services.

In early 1982, the Government had expected a decrease in the fiscal deficit, through improving the collection of tax income and checking the expansion of spending. However, at the end of the year the deficit exceeded 5 000 million córdobas, which meant an increase of 65% over the year before (see table 17). Thus, the fiscal deficit was equivalent to 43% of total government spending, a figure even higher than that experienced in 1977 (see table 1).

The deficit was due, in the first place, to an increase in current inflow which, although it was higher than that attained in 1981 (25% compared to 18%), was slower than anticipated, and in the second place, to the higher growth rate of expenditures.

Table 16  
NICARAGUA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE  
(Millions of córdobas)

	1979	1980	1981	1982 <sup>a</sup>	Growth rates		
					1980	1981	1982 <sup>a</sup>
1. Current income	1 892	4 526	5 327	6 655	139.2	17.7	24.9
Tax revenue	1 487	3 991	4 702	5 910	168.4	17.8	25.7
Direct	309	934	1 325	1 462	202.3	41.9	10.3
Indirect	763	1 840	2 634	3 625	141.2	43.2	37.6
On foreign trade	415	1 217	743	823	193.3	-38.9	10.8
2. Current expenditure	2 587	5 008	6 986	9 042	93.6	39.5	29.4
Wages and salaries	903	1 562	1 904	2 148	73.0	21.9	12.8
Other current expenditure	1 684	3 446	5 082	6 894	104.6	47.5	35.7
3. Saving on current account (1 - 2)	-695	-482	-1 659	-2 387			
4. Capital expenditure	395	1 356	1 425	2 691	243.3	5.1	88.8
Real investment	314	972	883	1 744	209.6	-9.2	97.5
Debt amortization payments	81	170	274	294	109.9	61.2	7.3
Other capital expenditure	-	214	268	653	...	25.2	143.6
5. Total expenditure (2 + 4)	2 982	6 364	8 411	11 733	113.4	32.2	39.5
6. Fiscal deficit (1 - 5)	1 090	1 838	3 084	5 078	68.6	67.8	64.7
7. Financing							
Domestic financing	996	450	2 150	3 124			
Central Bank	...	450	1 789	2 485			
Others	...	-	361	639			
External financing	94	1 388	934	1 964			

Source: ECLA, on the basis of figures from the Ministries of Finance and Planning.

<sup>a</sup>Preliminary figures.

<sup>3</sup>At the official exchange rate, one córdoba is equivalent to ten cents.

Table 17

## NICARAGUA: MONETARY BALANCE

(Millions of córdobas)

	Balance at the end of year			Growth rates			
	1980	1981	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>a</sup>
<b>Money</b>	4 526	5 664	6 030	85.8	29.0	25.1	6.5
Currency outside banks	2 001	2 431	2 504	77.3	27.3	21.5	3.0
Demand deposits	2 525	3 239	3 526	93.4	30.4	28.3	8.9
<b>Factors of expansion</b>	9 223	14 463	16 484	53.0	61.3	56.8	14.0
Foreign assets (net)	-4 438	-3 214	-4 878				
Domestic credit	13 661	17 677	21 362	49.4	87.8	29.4	20.8
Government (net)	2 486	3 177	5 760	109.9	65.5	27.8	81.3
Official entities	1 874	2 405	2 154	152.6	61.0	28.3	-10.4
Private sector and rest of APP <sup>b</sup>	9 301	12 095	13 448	24.8	101.8	30.0	11.2
<b>Factors of absorption</b>	4 697	8 799	10 454	19.4	112.7	87.3	18.8
Quasi-money (savings and time deposits and bonds)	1 835	2 400	2 601	-15.2	114.4	30.8	8.4
Long-term external loans	2 512	4 492	4 801	116.1	44.9	78.8	6.9
Other items (net)	350	1 907	3 052	...	...	444.9	60.0

Source: ECLA, on the basis of data from the Ministry of Planning.

<sup>a</sup> Preliminary figures.<sup>b</sup> Area de Propiedad del Pueblo (APP).

Trends in income partly reflected the global trend of the economy. Thus the drop in national income helped reduce direct tax inflow in real terms. Collections on external trade also grew at a lower rate than the general price level, so that their share in the total tax inflow was reduced to 14%, the lowest percentage in the last five years.

Furthermore, total expenditures expanded more rapidly than the year before and their growth of nearly 40% substantially exceeded the increase in inflow. Capital expenditures, which increased by 89%, played a dominant role in this expansion. Their increase was partly the result of non-foreseen factors of an extra-economic nature, such as the need to reconstruct the infrastructure destroyed by the floods and to repair the losses caused by the military activity which destroyed construction equipment and machinery. But their expansion was also the result of the policy followed by the State to strengthen economic activity: the central government had to make capital transfers to public institutions and enterprises of the Area de Propiedad del Pueblo, especially for new projects aimed at expanding productive capacity, as in the case of enterprises connected with the sugar, wood and food industries. However, the increase in capital expenditures by the central government was not able to offset the drop in investment by other public sector entities. Thus, while investment by the former nearly doubled its 1981 levels, that of the latter decreased considerably, causing the fixed capital formation of the public sector as a whole to shrink substantially.

Among current expenditures, wages grew less than the general price index. However, "other current expenditures" expanded sharply due to the subsidies granted to production of food and basic services, such as transport, and to increases in defense spending. For this reason, total current expenditures increased by 29%, a rate higher than that of current income. As a result, in 1982 there was a continuation of the trend that had begun the preceding year towards an expansion of the negative balance of public savings, owing to which fiscal income in 1982 was able to finance only 74% of operational expenditures.

To cover the deficit there was a higher contribution of external resources in 1982. The amount of external resources more than doubled and made it possible to finance 39% of the deficit in comparison with only 30% the year before. These funds from abroad, mobilized through the central government and assigned to the institutions implementing the projects, also included donations from the international community for repair of the damages caused by the floods.

Although the portion of the deficit financed with domestic resources was reduced, it still represented a very high proportion of 61%. Funds from the Central Bank, for their part, continued to represent around 80% of domestic financing.

b) *Monetary policy*

During 1982 a restrictive monetary policy was followed. The means of payment grew by only 6.5%, in the face of an annual inflation rate of 22%. This result was caused by the significant decrease in international reserves and the fairly moderate increase in domestic credit. The latter grew by only 21%, or somewhat less than the general price level. Credit granted to productive and trade activities of the private sector and the Area de Propiedad del Pueblo increased by barely 11%, which meant a decrease in real terms. This drop was linked to the drop in activity of the manufacturing sector and other sectors, such as construction, which required less investment and operational funds. Loans to the agricultural sector and to trade, on the other hand, rose to an extent similar to the rise in prices.

Credit intended for official entities, in turn, dropped by 10%. Thus, only credit granted to the central government grew considerably (81%). This increase played a compensating role, not only by offsetting the lower growth of the credit granted to other sectors, but also because it was the means employed by the Government to assign fiscal resources to various official entities and public enterprises of the Area de Propiedad del Pueblo and the private sector.

The national financial system continued to depend mainly on funds from the Central Bank to meet its obligations and attempt to attain several economic objectives. The main difference in the results of the monetary balance between 1981 and 1982 was that in 1981, resources of an external origin (current account deposits and quasi-money) rose considerably, while in 1982 they developed at a rate much lower than inflation (9% and 8%, respectively). As a result, the figures clearly indicate a worsening of the domestic financial-monetary situation, since the maintaining of certain levels of activity and the promotion of the governmental function through credit (whether by subsidies or transfers to offset financial imbalances in other productive and service areas) meant a deterioration in the country's solvency abroad.

The same interest rates which had been applied previously continued to be in force, so that, in view of the widespread lack of liquidity, it was not possible to increase the level of bank savings. Finally, it may be stated that the banking system has been losing efficiency in attending to the functioning of the productive apparatus, due to the fact that it has given priority to urgent pressures raised by the governmental financial area.

## PANAMA

### 1. Recent economic trends: Introduction and summary

Contrary to what might have been expected of an economy such as that of Panama, which is characterized by specialization in international financial activities and in services closely linked to foreign trade, the repercussions of the international economic situation on domestic economic activity during 1982 were minimal. Thus, unlike what happened in the majority of the Latin American countries, the gross domestic product was able to keep up a satisfactory growth rate—indeed, one which was even slightly higher than that of the preceding year—and—what is more notable—to do so with a very low rate of inflation. In addition, although exports fell and the terms of trade deteriorated, there was a significant drop in the deficit on the current account of the balance of payments, and the loss of international reserves was much less than that recorded in 1981 (see table 1 and figure 1).

The overall gross domestic product rose by 4% in 1982, and the per capita product by 1.7%. Gross income, for its part, rose by 4.8% in spite of the deterioration recorded in the terms of trade. Since 1980 the economic activities carried out in the Canal Zone have been incorporated in the national accounts, and this very considerable addition of productive resources to the economy surely helped to keep the growth rate of the product relatively high. This was particularly true in 1980, when the expansion in the coverage of the product, brought about by this addition led to a 13.1% rise, whereas the increase would have been one of only 5.3% if the incorporation of these resources had not been taken into consideration.

As regards the sectoral production results, the contrast between the rapid growth recorded by the goods-producing sectors—the highest in many years—and the decline in the growth rate shown by the service activities was particularly notable. Agriculture increased its growth rate substantially by comparison with its slow evolution in preceding years; manufacturing also made a notable recovery from the drop in production experienced in 1981, and construction, which had increased rapidly in 1981, grew even more intensely in 1982. On the other hand, commercial activity dropped, and the large financial sector showed appreciable decreases in its rate of activity, as did transport, storage and communications services.

Not only were the levels of growth of the gross product maintained in 1982, but private sector investment also continued to increase sharply. In the past two years alone it had risen by 75%, and its coefficient with respect to the gross domestic product has risen from 12.5% in 1980 to 20% in 1982. Two factors are chiefly responsible for this rapid expansion: in the first place, in small size economies such as Panama, large works such as the construction of the pipeline (promoted by a private transnational corporation) have a high impact in terms of investment. The construction of the trans-Isthmian pipeline, which went into operation in October, the works being executed along the highway parallel to the pipeline and the building of the ports for the transshipment of the petroleum imparted dynamism to the rest of the economy.

Secondly, mention should be made of the enlargement and modernization of the urban infrastructure in Panama City. Although many of the works involved were initiated in past years, in 1982 they helped to raise employment, increase the use of inputs and, in the last analysis, generated income. A similar contribution was made by the public investment in connection with the installation of new electric generating capacity and the transmission of electricity under the programme for the interconnection of electricity networks in the Isthmus.

As regards external transactions, the decline in exports of goods and services by close to 3% brought about a sharp increase in the trade deficit in spite of the fact that imports rose hardly at all (1.7%), thanks to the strict measures applied for containing them. However, during the year the net outlays for remittances of profits and receipts and outlays in respect of interest payments (which had

been extremely high in 1981) declined very sharply, this being reflected in a substantial reduction (from US\$ 676 million to US\$ 539 million) in the disequilibrium in the current account of the balance of payments

Moreover, during the year there was a significant inflow of external financing, but amortization of the external public debt also reached a fairly high level so that in the end the net inflow of capital was not enough to cover the deficit on current account, and for the second consecutive year it was necessary to make use of the international reserves, although on this occasion by a much smaller amount than in 1981.

External indebtedness and, more than anything else, the amount required to service it, are causes for growing concern. In 1982, the servicing of the public debt alone represented 42% of the value of exports of goods and services.

As for public finances, the deliberately selective way in which the resources are used was also not enough to effect a significant improvement in the fiscal imbalance. Thus, current income

Table 1  
PANAMA: MAIN ECONOMIC INDICATORS

	1977	1978	1979	1980	1981	1982 <sup>a</sup>
<b>A. Basic economic indicators</b>						
Gross domestic product at market prices (millions of dollars at 1970 prices)	1 739	1 909	1 995	2 256 <sup>b</sup>	2 342	2 436
Population (millions of inhabitants)	1.79	1.83	1.87	1.95	2.00	2.05
Per capita gross domestic product (1970 dollars)	973	1 043	1 065	1 155	1 172	1 191
<b>Growth rates</b>						
<b>B. Short-run economic indicators</b>						
Gross domestic product	1.1	9.8	4.5	13.1 <sup>b</sup>	3.8	4.0
Per capita gross domestic product	-1.4	7.1	2.1	8.5	1.4	1.7
Gross income <sup>c</sup>	-	9.8	2.6	9.6	4.6	4.8
Terms of trade (goods and services)	-2.7	-3.5	-6.3	-6.2	0.5	-2.6
Current value of exports of goods and services	10.5	2.8	23.9	48.4	4.0	-3.4
Current value of imports of goods and services	2.9	10.4	24.4	24.6	9.6	1.7
<b>Consumer prices</b>						
December-December	4.8	5.0	10.0	14.4	4.8	3.7
Variation between annual averages	4.5	4.2	7.9	13.8	7.3	4.2
Current income of government	7.7	13.8	23.4	42.0	12.6	8.2
Total expenditure of government	7.2	19.2	44.2	14.1	12.0	7.2
Fiscal deficit/total expenditure of government <sup>d</sup>	26.7	38.7	47.5	34.6	34.3	33.7
<b>Millions of dollars</b>						
<b>C. External sector</b>						
Trade balance (goods and services)	-181	-260	-328	-167	-267	-352
Balance on current account	-183	-240	-351	-363	-676	-539
Balance on capital account	176	327	323	375	595	530
Variation in net international reserves	-10	78	-21	17	-66	-9
External debt <sup>e</sup>	1 274	1 777	2 009	2 211	2 333	2 733

Source: ECLA, on the basis of official data.

<sup>a</sup>Preliminary figures.

<sup>b</sup>The growth of the gross domestic product in 1980 reflects not only the growth in economic activity in that year (estimated at 5.3%), but also the effect of the incorporation into national production of the economic activities carried out in the Canal Zone, by virtue of the treaty (Torrijos-Carter) signed with the United States in 1978.

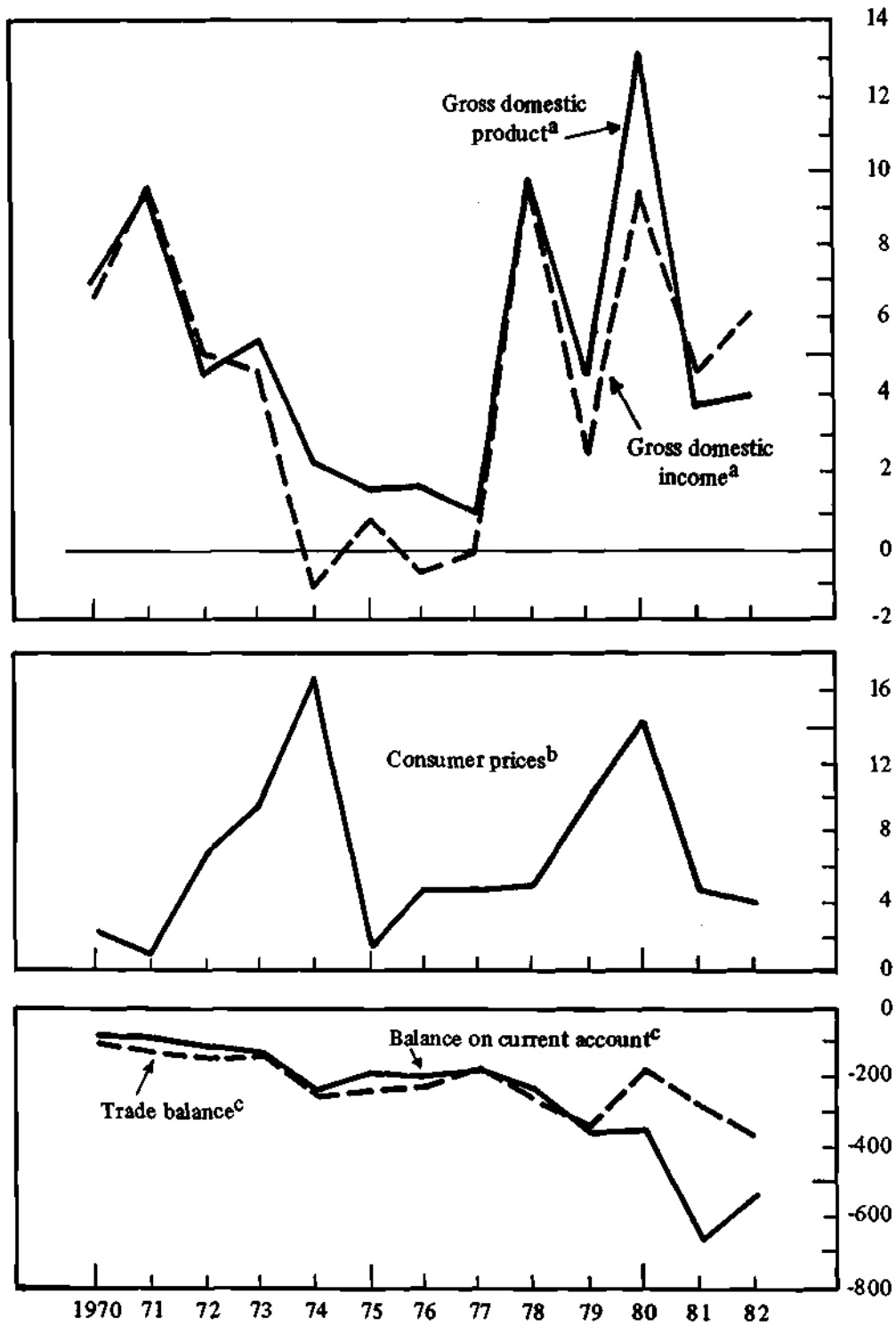
<sup>c</sup>Gross domestic product plus terms-of-trade effect.

<sup>d</sup>Percentages.

<sup>e</sup>Year-end balances of the debt contracted for a term of more than one year by the central government and decentralized agencies.



Figure 1  
**PANAMA: MAIN ECONOMIC INDICATORS**



Source: ECLA, on the basis of official data.  
<sup>a</sup>Annual growth rate.  
<sup>b</sup>December-December percentage variation.  
<sup>c</sup>Millions of dollars.

experienced a sharp decline in its growth rate and even though total expenditure rose only slowly (in spite of the rapid increase in the servicing of the debt) this was not enough to prevent further expansion of the fiscal deficit.

## 2. Trends in economic activity

### a) *Total supply and demand*

In spite of the fact that in 1982 the gross domestic product recorded slightly higher growth than in 1981, total supply rose at a rate of only 2.7% —considerably lower than the rates noted in previous periods. This was due to a surprising drop (-3.6%) in the volume of imports of goods and services, which caused the import coefficient to stand at only 20% during 1982: the lowest level in recent years.

In addition to the reduction in imports and the very slight increase consequently recorded by global supply, however, there was an even sharper drop (-6%) in the volume of exports of goods and services, so that domestic demand was able to go on expanding at the same satisfactory rate (of the order of 5.5%) as in the previous two years. In 1980, the extraordinarily high increase in the total product (13%) had made possible an increase of the same magnitude in domestic demand in spite of the notable rise experienced by exports that year. This situation changed in the past two years, and the coefficient of exports with respect to the product fell from 33.6% to 26.9% between 1980 and 1982 (see table 2).

In the past three years there has been a rapid increase in gross fixed investment, although in 1981 its growth rate slackened somewhat. From 21% and 20% in 1980 and 1981, respectively, it fell to only slightly over 17% in 1982. Thus, the investment coefficient —which was less than 20% in 1979— reached nearly 28% during the past year. In this respect it should be noted that at the beginning of the 1970s this coefficient was similar to that registered in 1982.

The dynamism of gross fixed investment has been related to the construction of large works, such as the Fortuna electric power generation project, the trans-Isthmian pipeline, and other smaller projects. The investment made in respect of construction experienced an increase of nearly 12%,

Table 2

### PANAMA: TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1970 prices			Percentage breakdown		Growth rates		
	1980	1981	1982 <sup>a</sup>	1970	1982 <sup>a</sup>	1980	1981	1982 <sup>a</sup>
<b>Total supply</b>	2 737	2 846	2 922	131.3	120.0	11.4	4.0	2.7
Gross domestic product at market prices	2 256	2 342	2 436	100.0	100.0	13.1	3.8	4.0
Imports of goods and services <sup>b</sup>	481	504	486	31.3	20.0	4.0	4.7	-3.6
<b>Total demand</b>	2 737	2 846	2 922	131.3	120.0	11.4	4.0	2.7
Domestic demand	2 032	2 149	2 267	102.9	93.1	5.6	5.7	5.5
Gross domestic investment	546	570	623	27.8	25.6	17.9	4.3	9.4
Gross fixed investment	479	576	677	25.6	27.7	21.4	20.3	17.4
Public	197	176	185	6.9	7.6	30.5	-10.6	4.9
Private	282	400	492	18.7	20.1	15.8	41.8	22.9
Construction	294	347	389	14.5	15.9	20.2	18.4	11.8
Machinery and equipment	186	229	288	11.1	11.8	23.4	23.4	25.8
Changes in stocks	67	-7	-53	2.2	-2.1			
Total consumption	1 486	1 579	1 644	75.1	67.5	1.7	6.3	4.1
General government	349	375	387	14.9	15.9	-1.4	7.5	3.2
Private	1 137	1 204	1 257	60.2	51.6	2.7	5.9	4.4
Exports of goods and services <sup>b</sup>	705	697	655	28.4	26.9	32.1	-1.1	-6.0

Source: ECLA, on the basis of data supplied by the Statistics and Census Office. These data represent a new series of national accounts revised as from 1970 and published at the end of 1982.

<sup>a</sup>Preliminary figures.

<sup>b</sup>The figures for exports and imports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to 1970 values, using price indexes calculated by ECLA.

while that related to machinery and equipment expanded by nearly 26%. The reduction in the volume of imports of goods which took place in 1982 did not extend to capital goods. On the contrary, the value of capital goods imports rose by close to 34% during that year (see table 10 below).

The share of the private sector in gross capital formation continued to grow, this time by 23%. This shows the dynamism of private investment, which had already expanded by 42% in 1981. In this connection mention should be made, *inter alia*, of the heavy injection of capital—estimated at US\$ 350 million—involved in the construction of the trans-Isthmian pipeline; a large share of that money was disbursed in 1982. Public investment, on the other hand, showed only moderate growth (5%), in accordance with the policy of containing expenditure, and much of it went towards the Fortuna electric power generation project, whose final cost will be US\$ 254 million and whose first stage was completed in 1982.

As for stocks, they showed a decline during the year. That decline was responsible for an increase of 9.4% in gross domestic investment: less than the increase recorded for capital formation.

In addition, general government consumption expenditure showed much less real growth than in 1981 due to the financial restrictions felt during the year and the strict austerity policy applied. The growth rate of private consumption also fell in 1982, but this deceleration was less marked than in the case of government expenditure.

#### b) *Evolution of the main sectors*

In 1982 the Panamanian economy clearly displayed the features binding it closely to the international economy, in that it reflected the economic and financial instability which originated abroad and was characterized by stagnation of transport and storage services, a decline in commercial activities and a marked deceleration of financial activity.

The gross domestic product evolved much the same as in 1981, but unlike what happened that year, the goods-producing sectors achieved a very dynamic growth rate of close to 9%—very much higher than the uneven growth they had shown in previous years, which had caused a decline in their relative importance since the beginning of the 1970s (see table 3).

On the other hand, the basic services sectors and in particular those relating to transport storage, and communications formed a brake on economic activities, registering a growth rate of only slightly over 1%. As for other services, they showed slightly greater activity (3%), but the product of commercial activity, under the impact of the contraction in foreign trade, declined by 2%; the finance sector decreased its growth rate from 6.8% in 1981 to only 3%; and community, social and personal services were alone in maintaining a relatively high growth rate.

i) *Agriculture*. During the year a major concern of the economic authorities was crop growing, and a number of projects to further crop production were put into operation with the objective of supplying the domestic market and reducing the foreign trade deficit.

Thus, an investment of US\$ 100 million was budgeted for the agricultural sector, covering 163 projects designed to stimulate the production of basic food stuffs through credits and the construction of irrigation works to make crop-raising less dependent on natural phenomena and to improve the management of water basins. These projects, aided by the favourable weather conditions which prevailed during the 1981-1982 growing season, brought about a 4.4% rise in the agricultural product in 1982: a considerably higher rate than any recorded by the sector for a number of years (in the three-year period 1979-1981, the agricultural product fell by 3.4%). On the other hand, the drought in the 1982-1983 growing season affected the production of rice, which showed a deterioration of 11% by contrast with the high yield obtained the previous season. This, together with the contraband from Costa Rica (due to the higher support price in Panama), was responsible for the accumulation of surpluses amounting to one million quintals in the silos of the Agricultural Marketing Institute. As for maize, the second most important commodity for domestic consumption, although its production increased by about 5% in 1982, that was still not enough to meet the domestic demand, so that it was necessary to import 800 000 quintals of maize during the year (see table 4).

In addition, export commodities, such as bananas and sugar, were affected by a number of phenomena. In the case of the former, which represent 22% of Panama's exports, a strike which paralysed some plantations in the early months of the year was partially responsible for a 3% drop in production, which affected the volume of banana exports.

The Chiriquí Land Company has been taking steps to reduce its production by one-third, due to the excessive world supply of bananas. The possible termination of the activities of the company in the Puerto Armuelles area (Province of Chiriquí) would leave over 1 000 workers unemployed.

With regard to sugar cane, production in the 1982-1983 growing period was 6% higher than that recorded a year previously, which itself had been fairly high, but because of the restrictions imposed on sugar imports by the United States, some of the production has been used as cattle feed and in the manufacture of molasses for the same purpose.

Coffee production declined partly because of its cyclical nature and partly because of the drought which occurred during the agricultural year 1982-1983. Thus, the harvest was 11% smaller, in contrast with the 16.7% increase achieved the preceding season.

In the stock-raising sector, the animal health programmes begun in 1981, together with other programmes designed to increase the existing herds and to improve the infrastructure and technology of the farms, were continued. The number of head of cattle rose by 9.6% after having experienced drops of 2% and 4% in the preceding years, and the number of cattle slaughtered rose by close to 15%. The difference between the two figures gives cause for concern for the future of the total cattle herds. The number of head of pigs and poultry fell by 1% and 10% respectively, while slaughtering of pigs rose by 2% (see table 4).

ii) *Manufacturing*. Manufacturing recovered from the shrinkage recorded in 1981, and the gross product generated by the sector grew by 5.6%. The industries related in one way or another with construction were especially favoured by the rapid expansion of the latter activity. Thus, the volume of non-metallic minerals produced rose by 24% and that of wood and wood products grew by 32%. Both percentages were well above the 7% rise shown up to September by the index of manufacturing production, which enabled it to recover and even exceed the level at which it had stood prior to the drop experienced in 1981 (see table 5).

Table 3

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

	Millions of dollars at 1970 prices			Percentage breakdown		Growth rates		
	1980	1981	1982 <sup>a</sup>	1970	1982 <sup>a</sup>	1980	1981	1982 <sup>a</sup>
Gross domestic product <sup>b</sup>	2 106	2 186	2 274	100.0	100.0	13.1	3.8	4.0
Goods	604	623	678	34.6	29.2	6.5	3.3	8.7
Agriculture	216	222	232	14.6	10.0	-1.9	2.9	4.4
Mining	4	4	5	0.2	0.2	29.2	16.1	13.9
Manufacturing	219	213	225	12.6	9.7	4.1	-2.7	5.6
Construction	165	184	216	7.2	9.3	23.5	11.6	17.3
Basic services	510	543	549	8.5	23.7	94.0	6.5	1.1
Electricity, gas and water	69	73	76	2.3	3.3	2.1	5.8	4.6
Transport, storage and communications	441	470	473	6.2	20.4	125.8	6.7	0.6
Other services	1 073	1 122	1 155	57.9	49.7	-4.5	4.5	3.0
Commerce, restaurants and hotels	308	308	302	15.7	13.0	5.9	0.2	-2.0
Financial establishments, insurance, real estate and business services	293	313	323	12.7	13.9	1.9	6.8	3.2
Ownership of dwellings	158	162	167	7.5	7.2	3.1	2.7	3.1
Community, social and personal services	472	501	530	29.5	22.8	-13.3	6.1	5.7
Government services	265	284	301	12.5	13.0	2.4	7.4	5.8
Less: Imputed commission for banking services	44	58	60	1.0	2.6	-16.5	31.1	2.4

Source: ECLA, on the basis of data supplied by the Statistics and Census Office. At the end of 1982 users were provided with a new series of national accounts starting with 1970.

<sup>a</sup> Preliminary figures.

<sup>b</sup> As the individual activities and the total were calculated independently, the sum of the former does not correspond exactly with the latter.

Table 4  
PANAMA: INDICATORS OF AGRICULTURAL PRODUCTION

	1970	1975	1980	1982 <sup>a</sup>	Growth rates			
					1979	1980	1981	1982 <sup>a</sup>
<b>Thousands of quintals</b>								
<b>Production of the main crops (agricultural year)</b>								
<b>For export</b>								
Bananas	2 083	1 749	1 505	1 655	-10.3	-10.4	13.4	-3.0
Sugar cane <sup>b</sup>	1 119	2 122	3 194	4 081	5.9	0.5	20.3	6.2
Coffee	98	106	134	139	-0.7	-0.7	16.7	-10.9
<b>For domestic consumption</b>								
Rice	2 892	4 075	3 866	3 911	-1.1	9.2	13.5	-10.9
Maize	1 244	1 438	1 568	1 681	-1.8	12.3	2.4	4.7
Beans	73	93	90	87	13.8	9.9	-6.7	2.9
Tobacco	15	25	31	39	-7.5	66.6	15.9	8.3
<b>Thousands of head</b>								
<b>Indicators of stock-raising production</b>								
<b>Stock</b>								
Cattle	1 188	1 348	1 405	1 474	3.0	-2.0	-4.3	9.6
Pigs	195	166	212	206	-6.9	11.4	-1.4	-1.2
Poultry	2 929	3 704	4 797	4 548	0.9	-2.4	5.8	-10.3
<b>Number of animals slaughtered</b>								
Cattle	173	222	215	274	-9.2	9.4	11.1	14.8
Pigs	81	87	121	130	1.3	15.0	9.8	2.2
<b>Other indicators</b>								
Milk production <sup>c</sup>	71	70	91	...	0.1	0.5	-1.7	...
Eggs production <sup>d</sup>	134	239	284	...	-4.0	-3.9	...	...
Fishery catch <sup>e</sup>	56	76	189	...	36.5	36.1	-33.5	...

Source: ECLA, on the basis of data supplied by the Statistics and Census Office.

<sup>a</sup>Preliminary figures.

<sup>b</sup>Thousands of tons.

<sup>c</sup>Thousands of litres.

<sup>d</sup>Thousands of units.

<sup>e</sup>Tons.

Table 5  
PANAMA: INDEXES OF MANUFACTURING PRODUCTION

	1970	1975	1980	1982 <sup>a</sup>	Growth rates			
					1979	1980	1981 <sup>a</sup>	1982 <sup>a</sup>
<b>Index of volume of manufacturing production (1971=100)</b>								
Foodstuffs, beverages and tobacco	88.2	105.0	128.8	134.9	10.5	4.1	-4.2	7.0
Clothing, footwear and leather goods	90.5	119.5	159.8	168.4	14.4	4.4	-3.0	4.4
Wood, furniture and fittings	89.8	105.7	139.8	139.3	8.4	2.8	0.8	3.8
Paper, printing and publishing	83.6	69.1	69.5	82.1	14.7	8.8	-8.4	32.4
Rubber, chemicals and petroleum products	91.4	74.2	113.2	113.0	1.0	8.2	-12.0	12.0
Non-metallic minerals	97.7	125.7	109.2	111.6	4.5	0.1	-5.3	6.5
Basic metal products	80.7	89.8	94.7	112.5	11.5	0.9	-9.3	23.9
Metal products	90.0	40.0	144.7	115.2	53.5	28.6	-0.8	-19.3
Other manufactures	62.5	81.3	98.5	105.9	2.0	4.7	-4.3	11.4
	80.0	100.0	100.9	84.1	17.3	-20.7	21.0	-30.0

Source: ECLA, on the basis of data supplied by the Statistics and Census Office.

<sup>a</sup>Corresponds to the period January-September. The rates have been calculated with respect to the same period the preceding year.

Rapid increases in production were also shown by the metal products industries and the paper, printing and publishing industries (11% and 12%, respectively). On the other hand, industries engaged in the production of food and beverages and footwear and clothing showed much lower percentages of growth (around 4%). The production index which includes the refining of petroleum rose by 6.5%, reflecting the performance of exports of petroleum products, whose value increased by 20%. The only decrease during the year was shown by the production of the basic metals industries and the industries producing "other manufactures". Otherwise, in 1982 all the remaining manufactures easily recovered from the contraction in production suffered the preceding year.

During 1982 new industries continued to be established and others were enlarged, but the considerable growth in production was due primarily to better use of the existing installed capacity. Projects which remained virtually paralysed include the Cerro Colorado industrial and mining complex, which was given special impetus in preceding years and consumed a large volume of resources because it was considered to be a key project for the future development of the country.

In addition, the national banking system continued to provide manufacturing with support, as shown by the amount of financing granted as of 30 September 1982, which represents an increase of 11% in the loans directed to this sector compared with those granted as of the same date the preceding year.

iii) *Construction.* The gross product generated by construction rose by 17% during 1982, thereby confirming the enormous dynamism which this activity has historically shown.

The value of the building permits issued up to the end of September was 31% higher than that recorded at the same time the preceding year in real terms, deflated by the consumer price index.<sup>1</sup> It may be noted that approximately 90% of the value of the permits requested corresponds to the District of Panama and San Miguelito. The area actually constructed showed an increase of nearly 44% and that corresponding to dwellings, an increase of 17% (see table 6).

Table 6

PANAMA: INDICATORS OF CONSTRUCTION ACTIVITY

	1980	1981	1982 <sup>a</sup>	Growth rates			
				1979	1980	1981	1982 <sup>a</sup>
<b>Area constructed<sup>b</sup></b> (thousands of m <sup>2</sup> )							
Total	401	397	569	100.2	-2.5	-1.1	43.5
Dwellings	208	260	304	53.9	2.5	24.7	17.0

Source: ECLA, on the basis of data from the Statistics and Census Office.

<sup>a</sup>Preliminary figures.

<sup>b</sup>Refers to building permits granted in the District of Panama.

The construction of the Fortuna hydroelectric power station, the first stage of which was completed during the year, and the inter-ocean pipeline begun in 1981 and completed in October 1982 also contributed to the marked growth of the sector.

Petroterminal de Panamá, S.A., the company which constructed the inter-ocean pipeline, has also been made responsible for the construction of the trans-Isthmian Highway, whose cost is estimated at US\$ 50 million.

In addition the Government of Japan agreed to participate in the feasibility studies of the new sea-level canal, whose cost is estimated at US\$ 20 billion and in which, in addition to the Government of Japan, the Governments of Panama and the United States will probably also participate. The construction of this 58-kilometre-long project is expected to take 10 years and would permit the passage of vessels of up to 300 000 tons displacement, with the possibility of admitting ships up to 500 000 tons at high tide.

<sup>1</sup>It must be borne in mind that the building permits requested show the total value of the buildings, and not the value of those parts to be constructed during the year.

iv) *Basic services.* The transport sector bore the impact of the reduction in the volume of imports, and its added value rose by a bare 0.6%. With the construction of the pipeline, it is expected that there will be a substantial recovery in this activity whose contribution to the overall product is as big as that of both agriculture and manufacturing together. It is assumed that when the pipeline goes into operation, the number of tankers going through the Canal will decline, although that drop might be partially offset by the more intensive traffic of other kinds of vessels. In addition, the smaller toll receipts in respect of tankers would be compensated by the receipts resulting from the pipeline. It is estimated that the latter will generate exports amounting to US\$ 200 million a year and will increase the income of the State and the municipalities of Chiriquí and Bocas del Toro through royalties. The Government of Panama received by way of payment a certain percentage of the shares of Petroterminal de Panamá S.A., the corporation which constructed and is responsible for managing the pipeline, and it has the option to buy up to 40% of the shares. It has been estimated that the Government of Panama could eventually receive up to US\$ 120 million a year in dues.

The changes which were made in the contract will make it possible to expand the infrastructure by constructing two ports and storage depots for 2.5 million barrels of crude, as well as other installations, including airports, a terminal building, workers' housing, etc.

As for the supply of electricity, gas and water, its gross product rose by 4.6% during the year (slightly less than in 1981). The generation of electricity had risen by 9% as of September in respect of the same period the preceding year, while sales of liquified gas had risen by 4%.

In 1982 the first stage of the Fortuna project, which will have generating capacity of 840 000 kW and will be finished at the end of 1984, was completed. This is a very large-scale project, both in terms of its technical specifications and because it is being constructed in an area with 4 metres of rainfall and requires excavations 400 metres deep. The dam and the auxiliary works were awarded to a Japanese corporation. The cost of the work is estimated at US\$ 254 million, and it is being financed by the central government and the Institute of Water Resources and Electrification with credits granted by the World Bank, the Inter-American Development Bank and the private banking system.

On 4 February 1982 the agreement concerning the interconnection of the electricity networks of Panama and Costa Rica was signed by the Presidents of the two countries. This represents the culmination of the efforts made, with advisory assistance from ECLA, to rationalize and make greater use of the electricity potential of these two countries,<sup>2</sup> thereby helping also to cut down on the amount of foreign currency devoted by them to fuel imports. The project consists of the construction of a 230 000-volt circuit connecting the Río Claro substation in Costa Rica with the Progreso substation in Panama. During the ceremony, the President of Panama announced his country's decision to join Costa Rica in financing the construction of the Boruca hydroelectric station on Costa Rican territory, whose cost is calculated at US\$ 500 million

### 3. The external sector

#### a) *General features*

The Panamanian external sector was under severe pressure during the year due to the bad world economic situation, which was reflected on the one hand in a decrease of 3.4% in exports of goods and services (something which had not happened since 1976) and, on the other hand, in modest growth (1.7%) of global imports. As a result, the trade deficit rose from approximately US\$ 270 million in 1981 to slightly over US\$ 350 million in 1982. However, in the latter year net factor payments fell by more than half, since the amount of interest received increased, thus resulting ultimately in a notable decrease in the disequilibrium on the current account of the balance of payments.

In spite of the fact that the volume of merchandise exported rose by slightly more than 5% in 1982 (in the three-year period 1979-1981 it had fallen by 24%), the increase in its value was insignificant owing to a drop of 4.4% in its unit value. This phenomenon, together with the increase of 6.2% in the prices of imports, led to a further deterioration (this time of 10%) in the terms of trade and a decrease of 5% in the purchasing power of merchandise exports (see table 7).

<sup>2</sup>See ECLA, *Estudio regional de interconexión eléctrica del Istmo Centroamericano* (E/CEPAL/CCE/SC.5/135), Vols. 1 and 2, Mexico City, September 1980.

b) *Merchandise trade*

The value of exports of goods changed hardly all during 1982, on account of the decrease of about 7% in sales of traditional export items, which had already fallen by 12% in 1981. The hardest hit exports were sugar, coffee, bananas and fish meal. A tax of 5 U.S. cents per pound imposed by the Government of the United States on sugar imports made it impossible to sell this commodity to that country and was responsible for a drop of 58% in total sugar exports. In addition, the decline in the production of coffee resulted in a drop of 11% in coffee exports. As for bananas, a workers' strike on the banana plantations and a drop in the external demand for this commodity caused its exports to fall by nearly 5%. According to information from the Union of Banana Exporting Countries (UPEB), the international market showed a deterioration of nearly 3% as regards purchases of bananas during the first half of 1982, by comparison with the same period in 1981. Finally, owing primarily to the drop in the volumes of fish caught, for the second year running there was a spectacular reduction (57% in 1981 and 63% in 1982) in the value of fish meal exports. In brief, the drop in exports of these four traditional commodities resulted in a US\$ 38 million decline in income and meant that their share in total exports fell from 41% to 30% (see table 8).

Table 7

PANAMA: MAIN FOREIGN TRADE INDICATORS

	1977	1978	1979	1980	1981	1982 <sup>a</sup>
<b>Growth rates</b>						
Exports of goods						
Value	7.2	4.6	17.8	5.3	-8.3	0.5
Volume	8.3	7.7	-2.6	-13.7	-9.5	5.1
Unit value	-1.0	-2.9	20.9	22.1	1.3	-4.4
Imports of goods						
Value	0.9	9.1	24.1	24.7	9.4	-
Volume	-4.1	2.6	1.4	0.9	6.3	-5.8
Unit value	5.2	6.3	22.3	23.6	2.9	6.2
Terms of trade	-5.9	-8.7	-1.1	-1.2	-1.5	-10.1
<b>Indexes (1970 = 100)</b>						
Terms of trade (goods)	80.4	73.4	72.5	71.7	70.6	63.5
Purchasing power of exports of goods	95.8	94.8	94.0	82.7	72.5	69.0
Purchasing power of exports of goods and services	109.3	106.2	110.8	137.3	136.5	125.1

Source: ECLA, on the basis of official data.

<sup>a</sup>Preliminary figures.

Table 8

PANAMA: EXPORTS OF GOODS, FOB

	Millions of dollars			Percentage breakdown		Growth rates			
	1980	1981	1982 <sup>a</sup>	1974	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>a</sup>
<b>Total</b>	373	343	345	100.0	100.0	10.6	11.7	-8.0	0.6
<b>Main traditional exports</b>	274	241	225	...	65.2	16.4	20.7	-12.0	-6.6
Petroleum products <sup>b</sup>	82	58	70	34.5	20.3	20.5	13.0	-28.6	20.0
Bananas	62	69	66	19.8	19.1	-8.6	-6.2	12.3	-4.6
Shrimps	44	43	53	...	15.3	48.5	-2.9	-2.3	23.2
Unrefined sugar	66	53	22	11.0	6.4	27.9	152.1	-20.1	-57.6
Coffee	10	14	12	1.7	3.5	-	4.0	30.8	-11.0
Fish meal	10	4	2	0.5	0.6	88.1	27.8	-57.4	-62.8
<b>Other exports</b>	99	102	120	...	34.8	-	-7.5	3.0	17.6

Source: ECLA, on the basis of official data.

<sup>a</sup>Preliminary figures.

<sup>b</sup>Including sales to the Canal Zone, but excluding sales to ships and aircraft.



Table 9

## PANAMA: IMPORTS OF GOODS, FOB

	Millions of dollars			Percentage breakdown <sup>b</sup>		Growth rates <sup>b</sup>			
	1980	1981	1982 <sup>a</sup>	1970	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>a</sup>
Total	1 345	1 459	1 459	100.0	100.0	26.3	23.5	8.5	-
Consumer and intermediate goods except for crude petroleum	772	874	804	62.0	55.1	20.4	21.1	13.2	-8.0
Crude petroleum	385	368	365	18.3	25.0	45.0	27.5	-4.4	-0.8
Capital goods	188	217	290	19.7	19.9	20.1	25.4	15.4	33.6

Source: ECLA, on the basis of official data.

<sup>a</sup>Preliminary figures. Estimates based on information available for the period up to September.

<sup>b</sup>The percentage breakdown and growth rates correspond to real, not rounded, figures.

On the other hand, other important exports, such as petroleum products and shrimps, showed appreciable increases in value of the order of 20% and 23%, respectively. The same was true of non-traditional exports, which rose by close to 18%.

As for merchandise imports, they too did not vary greatly in 1982. According to the information available, up to the end of September imports of capital goods appear to have shown an unusually large increase of close to 34%, whereas imports of crude petroleum appear to have decreased slightly because of the reduction in their price and those of consumer and intermediate goods (excluding crude petroleum) appear to have fallen by 8%. The rise in imports of capital goods is explained by the rapid advance in the construction of the pipeline across the Isthmus and the adjacent highway, urban infrastructure works and the works relating to electricity interconnection (see table 9).

#### c) *Services trade*

Panama's income in respect of real services is about 3.4 times as high as its income in respect of exports of goods. Its income from services gained greatly in importance in 1980, following the entry into force of the agreements with the United States concerning the Panama Canal, and amounted to US\$ 1 220 million in 1981. This figure dropped somewhat in 1982 (to US\$ 1 170 million), but its main component —transport and insurance— continued to rise (7%).

On the other hand, income from tourism did not vary greatly in spite of the smaller number of tourist arrivals. The daily average of persons staying in first-class hotels had fallen by 4% as of the third quarter of 1982, by comparison with the same period the preceding year, and the percentage of rooms occupied in those same hotels was 55% by comparison with 62% in 1981. At the same time, outlays for services rose by 9%, so that there was a 10% reduction in the net income under this item, which came to US\$ 762 million.

Net payments to foreign factors were quite high for the third year running, although they amounted to less than half the total recorded in 1981 owing to the increase in the income from interest. On the other hand, the outflow in respect of interest payments was not much higher than in the preceding year (see table 10).

#### d) *Financing of the deficit on current account and the external debt*

The notable decrease in net factor payments allowed the deficit on current account in the balance of payments to be reduced by US\$ 137 million during 1982, in spite of the substantial deterioration recorded in the balance of trade. Thus, the deficit on current account, which in 1981 had amounted to 43% of the value of total exports, was the equivalent of 36% of that value in 1982.

In addition to the decrease in the current imbalance, however, the net entry of capital also fell, and once again such income was not enough to cover the deficit on current account, resulting in a decrease of US\$ 9 million in the international reserves (much less than the one recorded in 1981) (see table 10).

Table 10

## PANAMA: BALANCE OF PAYMENTS

(Millions of dollars)

	1977	1978	1979	1980	1981	1982 <sup>a</sup>
<b>Balance on current account</b>	<b>-183</b>	<b>-240</b>	<b>-351</b>	<b>-363</b>	<b>-676</b>	<b>-539</b>
Trade balance	-181	-260	-328	-167	-267	-352
Exports of goods and services	795	818	1 013	1 504	1 564	1 511
Goods FOB	288	302	356	375	343	345
Real services <sup>b</sup>	507	516	658	1 129	1 220	1 166
Transport and insurance	133	105	128	507	536	574
Travel	177	201	214	168	171	172
Imports of goods and services	977	1 078	1 341	1 671	1 831	1 863
Goods FOB	790	862	1 070	1 334	1 459	1 459
Real services <sup>b</sup>	186	216	271	337	372	404
Transport and insurance	112	127	159	218	239	243
Travel	35	37	48	56	65	78
Factor services	28	54	17	-143	-360	-133
Profits	-21	-16	-41	-52	-51	...
Interest received	482	795	1 435	2 107	2 705	2 813
Interest paid	-525	-832	-1 496	-2 199	-3 019	-3 027
Others	92	107	119	2	6	...
Unrequited private transfer payments	-30	-34	-39	-54	-49	-54
<b>Balance on capital account</b>	<b>176</b>	<b>327</b>	<b>323</b>	<b>375</b>	<b>595</b>	<b>530</b>
Unrequited official transfer payments	28	31	53	41	49	84
Long-term capital	-113	453	314	295	283	...
Direct investment	11	-1	50	45	45	40
Portfolio investment	13	70	204	16	25	...
Other long-term capital	-137	383	60	234	212	...
Official sector <sup>c</sup>	90	341	114	215	84	...
Loans received	123	685	225	284	217	...
Amortization payments	-32	-344	-111	-66	-131	-324 <sup>e</sup>
Commercial banks <sup>c</sup>	-411	-33	43	42	134	...
Loans received	1	-	43	42	135	...
Amortization payments	-412	-33	-	-	-	-
Other sectors <sup>c</sup>	184	76	-97	-23	-6	...
Loans received	246	213	98	113	140	...
Amortization payments	-59	-144	-196	-136	-146	...
Short-term capital	331	-156	391	-429	-151	...
Official sector	3	5	-3	2	2	...
Commercial banks	377	-162	433	-385	-85	...
Other sectors	-50	1	-38	-46	-68	...
Errors and omissions (net)	-70	-2	-435	467	414	...
<b>Global balance<sup>d</sup></b>	<b>-7</b>	<b>86</b>	<b>-27</b>	<b>11</b>	<b>-81</b>	<b>-9</b>
Total variation in reserves (- sign indicates an increase)	10	-78	21	-17	66	9
Monetary gold	-	-	-	-	-2	-
Special Drawing Rights	1	-	-	4	-2	-1
IMF reserve position	-	-5	2	-7	10	-
Foreign exchange assets	7	-75	30	5	-11	20
Other assets	-	-	-	-	-	-
Use made of IMF credit	2	1	-11	-18	71	-10

Source: 1977-1981: International Monetary Fund, *Balance of Payments Yearbook*; 1982: ECLA, on the basis of official data.<sup>a</sup> Preliminary figures.<sup>b</sup> Real services also include other official and private transactions, but not factor services.<sup>c</sup> In addition to loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities.<sup>d</sup> The global balance is the sum of the current account balance plus the balance on capital account. The difference between total variation in reserves of opposite sign and the global balance represents counterpart items: monetization of gold, allocation of Special Drawing Rights, and variations due to revaluation.<sup>e</sup> Includes total amortization payments in respect of long and short-term debt.

Table 11  
**PANAMA: EXTERNAL PUBLIC INDEBTEDNESS**

(Millions of dollars)

	1977	1978	1979	1980	1981	1982 <sup>a</sup>
External public debt <sup>b</sup>	1 274	1 777	2 009	2 211	2 333	2 733
Servicing of the debt	165	599	501	453	571	628
Amortization payments	93	478	324	215	293	324
Interest payments	72	121	177	238	278	304
Servicing of debt, as a percentage of exports of goods and services	20.8	73.2	50.8	28.4	37.1	41.6

Source: ECLA, on the basis of data supplied by the Statistics and Census Office.

<sup>a</sup>Preliminary figures up to November.

<sup>b</sup>Balances at end of period in respect of debt contracted by the central government and decentralized agencies for over one year.

In the first 11 months of 1982, the public sector obtained disbursements of external credit in the amount of US\$ 724 million —an increase of 74% over the amount drawn in 1981. The amortization payments made in 1982 showed a much smaller increase (from US\$ 293 million to US\$ 324 million), so that the balance of the external public debt at the end of November was US\$ 2 733 million, 17% higher than at the end of 1981 (see table 11).

The amount of the external public debt was one and a half times as high as that of imports of goods and services. Five years previously it had been 1.3 times as high. In addition, the servicing of the public debt rose by 10% in 1982, since both amortization and interest payments rose at similar rates to a level equivalent to about 42% of exports of goods and services —a relatively high ratio for servicing the public debt alone, but one which is considerably lower than those recorded in 1978 and 1979.

#### 4. Prices and wages

The efforts to overcome the inflation tendencies which first appeared in 1979 and reached their height in 1980 had the desired effect, since the rise in domestic prices gradually lost momentum. The growth rate of the consumer price index fell from 4.8% to 3.7% between 1981 and 1982 (measured from December to December), and the wholesale price index showed a slight drop, at least up to September. The variation between annual averages in respect of consumer prices was also considerably lower in 1982 than in 1981 (see table 12).

The close links between Panama and the international economy mean that generally imported inflation has a greater influence in this country, so that the reduction in inflationary pressures at the international level was also a factor in attenuating the rise in domestic prices in 1982. Among the components of the wholesale price index, imports rose by only 5.2%, by comparison with rates close to 12% and 13% in 1980 and 1981. The prices of local products, on the other hand, increased much faster, this being more marked in the case of agricultural commodities than in that of manufactures. This improved the situation as regards the relative prices of agricultural commodities, which had been very unfavourable up to a short time ago. The rise in the prices of agricultural commodities was partially attributable to the drought, which affected some crops in the 1982-1983 growing season.

The fact that consumer prices did not rise much was partially due to the work performed by the Agricultural Marketing Institute, which has kept the price guarantees to the producer at an adequate level, particularly in the case of mass-consumption goods. The increase in the producer price guarantees for some commodities had an impact on the behaviour of food prices. Thus, the variation between annual averages in respect of global consumer prices was 4.2%, whereas that for foodstuffs was close to 6%.

During the year, negotiations continued between the trade unions and entrepreneurs with the primary objective of gaining a rise in wages and supplementary benefits. In 1982 some 90

worker/employer agreements were reached: nearly twice the number signed the preceding year.<sup>3</sup> Over half of them were the result of negotiations carried out in the industrial sector, and close to a quarter of them emerged from negotiations in the commercial sector. The agreements reached resulted in wage increases of the order of 11% on average. The greatest increase (20%) was in the construction sector, followed by transport with 17%, the industrial sector with 8%, community services with 9% and agriculture and commerce with 6%.

In 1982, the minimum wage was modified after having remained unchanged since 1979. This latest change, which represents a rise of 22%, only went into effect at the beginning of 1983, however. On this occasion, the minimum wage level was established in the light of the cost of a basic shopping basket.

## 5. Public finance and credit

### a) *Fiscal policy*

It is estimated that the restrictions on trade with Costa Rica and the closure of the border with Colombia meant that the State failed to collect US\$ 50 million in current income, to which must be added the loss of income resulting from the decline in traditional exports. In addition, the contraction of the demand of the industrialized countries resulted in a deterioration in the operations of the Free Zone of Colón and the ports of Balboa and Cristóbal, thus also affecting the growth rate of current income, which rose by only slightly more than 8% during 1982.

Tax income, which constitutes 73% of regular income, grew by close to 6%, due primarily to the efforts made in respect of collection, supervision and inspection, since the legal structure of taxation in Panama was not changed during the year. The real increase in tax income, which had been of the order of 8% in 1981, was barely higher than 1% in 1982 in spite of the slight rise experienced in domestic prices in the past year (see table 13).

Direct taxes first became more important than indirect taxes in 1980 and now represent 54% of tax income, which is a step in the right direction as regards the attempt to impart greater equity to the system, with income tax playing a steadily increasing role.

In spite of the fact that imports of goods did not vary during the year, the taxes collected in respect of them rose by over 8%. On the other hand, export tax receipts, primarily in regard to bananas, declined by 6%, and taxes on production and sales rose by a bare 1.3%. In brief, the indirect taxes collected rose by 6.4% in 1982, undoubtedly under the impact of the monetary and financial crisis on the countries which are the main users of the Free Zone of Colón as a source of supply of merchandise.

Table 12

### PANAMA: EVOLUTION OF DOMESTIC PRICES

	1977	1978	1979	1980	1981	1982 <sup>a</sup>
<b>Variation from December to December</b>						
Consumer price index	4.8	5.0	10.0	14.4	4.8	3.7
Food	2.6	9.2	8.8	15.6	6.5	4.9
Wholesale price index	9.1	7.0	15.7	13.8	8.8	8.5 <sup>b</sup>
<b>Variation between annual averages</b>						
Consumer price index	4.5	4.2	7.9	13.8	7.3	4.2
Food	3.0	6.2	10.2	12.6	9.2	5.9
Wholesale price index	7.2	5.4	14.0	15.3	10.4	9.9 <sup>c</sup>

Source: ECLA, on the basis of data supplied by the Statistics and Census Office.

<sup>a</sup> Preliminary figures.

<sup>b</sup> Variation between September 1982 and same month in 1981.

<sup>c</sup> Variation between average for January-September 1982 and that for same period in 1981.

<sup>3</sup> Close to 40% of the workers in the private sector, or an estimated 250 000 people, are affiliated to some trade union.

Table 13

## PANAMA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of balboas				Growth rates			
	1979	1980	1981	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>a</sup>
1. Current income	490	696	784	848	23.4	42.0	12.6	8.2
Tax revenue	406	504	583	615	24.1	24.1	15.7	5.5
Direct	194	258	317	332	35.0	33.0	22.9	4.7
Indirect	212	246	266	283	15.8	16.0	8.1	6.4
On foreign trade	80	91	98	106	17.6	13.7	7.7	8.2
2. Current expenditure	612	766	876	931	31.9	25.2	14.4	6.3
Wages and salaries	264	297	298	318	17.3	12.5	0.3	6.7
Other current expenditure	348	469	578	613	45.6	34.8	23.2	6.1
3. Current saving (1-2)	-122	-70	-92	-83				
4. Capital expenditure	321	299	317	348	74.4	-6.9	6.0	9.8
Real and financial investment and other capital expenditure	263	214	220	221	124.8	-18.6	2.8	0.5
Amortization of the debt	58	85	97	127	-13.4	46.6	14.1	30.9
5. Total expenditure (2+4)	933	1 065	1 193	1 279	44.2	14.1	12.0	7.2
6. Fiscal deficit (1-5)	-443	-369	-409	-431	86.6	-16.7	10.8	5.4
7. Financing of deficit								
Domestic financing	138	178	108	41	22.0	29.0	-39.3	-62.0
Central Bank								
Issue of securities	52	71	82	41	7.3	36.5	15.5	-50.0
Other								
External financing	305	191	301	390	121.0	-37.4	57.6	29.6

Source: ECLA, on the basis of official figures.

<sup>a</sup>Preliminary figures.

Non-tax income, which more than doubled in 1980 but rose by only 5% in 1981, rose by 16% in 1982. Such income includes revenue from the tolls paid by vessels in transit through the Canal, which rose by 18%, as compared with 12% in 1981. From the beginning of October 1982, there was a 10% increase in the rates for passage through the Canal. This is the first time the toll has been changed since 1979, when the new treaties came into force.

The second most important item in non-tax income is made up of the profits of State enterprises. These include primarily the national casinos and the National Beneficent Lottery. These receipts rose by 25%, a rate never before achieved.

During 1982 a strict policy limiting public expenditure was followed, whereby vacant posts were not filled and rises in wages and salaries were contained (although the latter did in fact rise by close to 7%). Subsidies were also reduced. In this way, current expenditure rose by only 6% in 1982 compared with 14% in 1981, i.e., by a rate which was lower than the growth rate of current income.

For its part capital expenditure rose by 10%, exclusively because of the increase in amortization payments on the public debt. Payments made in this connection amounted to 127 million balboas (31% higher than in 1981). As for real and financial investment, and other capital expenditures such as transfers, there was practically no variation compared with the preceding year.

The movement of total central government income and expenditure resulted in a deficit of 430 million balboas, which was slightly higher in real terms than that recorded in 1981 but was lower in nominal terms than that recorded three years ago. In financing the deficit the participation of foreign credit was particularly important (see table 13).

b) *Evolution of financial transactions*

The international financial centre established in Panama continued to expand. In 1982 banks from a number of countries opened new branches, with the result that there was an increase to 128 institutions with assets totalling US\$ 31 350 million at the end of September (see table 14). Investments constituted 70% of this amount and rose by 11% in the past year, reflecting the financial problems which in general characterized the international economy and meant that few resources were available. However, liquid assets grew rapidly, by 31%, or by a great deal more than their increase in 1981 (7.4%).

By the end of September, the international financial centre had received time deposits amounting to over US\$ 26 billion (12.5% more than in the same period in 1981). Sight deposits, for their part, evolved more dynamically (33%), particularly those made by foreign banks, which grew by 74%, and those effected by foreign individuals, which grew by 39%.

Table 14

PANAMA: CONSOLIDATED BALANCE OF THE BANKING SYSTEM

	Year-end balance (millions of balboas)				Growth rates <sup>b</sup>		
	1979	1980	1981	1982 <sup>a</sup>	1980	1981	1982 <sup>a</sup>
<b>Assets<sup>b</sup></b>	22 487	22 262	28 642	31 345	-1.0	28.7	17.0
<b>Liquid</b>	8 165	5 311	5 702	7 457	35.0	7.4	30.6
Cash	114	90	98	75	-21.1	8.9	-2.6
Domestic liquid assets <sup>b</sup>	482	251	235	305	-47.9	6.4	26.6
External liquid assets	7 569	4 970	5 369	7 077	-34.3	8.0	31.2
Sight deposits in banks	241	282	122	718	17.0	-56.7	354.4
Time deposits in banks	7 206	4 427	5 073	6 173	-38.6	14.6	21.3
Deposits in IMF	16	18	13	13	12.5	-27.8	18.2
Other	106	243	161	173	29.3	33.7	29.1
<b>Investments</b>	13 311	15 925	21 350	21 907	19.6	34.1	11.1
Credit portfolio	13 042	15 278	20 446	20 677	17.1	33.8	9.4
Domestic	2 133	2 531	3 146	3 329	18.7	24.3	11.3
External	10 909	12 747	17 300	17 348	16.8	35.7	9.1
Securities	269	647	904	1 230	140.5	39.7	47.7
Other assets	1 011	1 026	1 590	1 981	1.5	55.0	46.2
<b>Liabilities and capital<sup>c</sup></b>	22 487	22 262	28 642	31 345	-1.0	28.7	17.0
<b>Sight deposits</b>	740	936	1 072	1 271	26.5	14.5	33.4
Private	296	329	354	325	11.2	7.6	8.0
Official entities	110	127	195	182	15.4	53.5	2.8
Foreign individuals	225	240	285	240	6.7	18.7	38.7
Foreign banks	109	240	238	524	120.2	-0.8	73.5
<b>Time and savings deposits</b>	20 366	19 406	24 905	26 144	-4.7	28.3	12.5
Individuals	869	1 147	1 387	1 556	32.0	20.9	15.0
Foreign individuals	2 065	2 323	3 411	3 614	12.5	46.8	14.7
Foreign banks	17 432	15 936	20 107	20 974	-8.6	26.2	11.9
<b>Bonds</b>	204	233	462	599	14.2	98.3	39.6
<b>Other liabilities, capital and reserves</b>	1 177	1 687	2 203	3 331	43.3	30.6	53.9

Source: ECLA, on the basis of figures supplied by the Statistics and Census Office.

<sup>a</sup>Balances at September.

<sup>b</sup>Growth rates calculated with respect to September 1981.

<sup>c</sup>Excluding transactions among local banks.

## PARAGUAY

### 1. Recent economic trends: Introduction and summary

In 1982 the level of economic activity declined by 2% according to the most recent preliminary calculations (see table 1 and figure 1). This recession, the first experienced by the country since 1952, was especially noteworthy in view of the extraordinary performance of the Paraguayan economy in recent years, when it had appeared to be one of the strongest in the world, and in view of official forecasts, which had predicted a growth of 6% for 1982.<sup>1</sup> In the boom period, from 1972 to 1981, the economy had expanded at an average rate of 8.2% per year. Between 1977 and 1981, that rate rose to 10.3%, and in 1981 was 8.5%.<sup>2</sup>

The 1982 recession affected all the main sectors of the economy, with the exception of the livestock sector. Construction activity decreased by 6%, manufacturing by 4.5%, agriculture by 4.4% and trade by 2.2%. The only sector which grew at a rate similar to those of the past was electricity, which expanded by 23%.

Despite the contraction in the product and the decrease in domestic demand, global supply increased by 1%, according to official statistics. The small decrease in domestic spending was determined by the severe contraction in gross investment, which amounted to 12.5%, after an expansion of 11.7% the preceding year and an average rate of nearly 19% during the period 1972-1981. The Government barely increased its consumption in 1982, in comparison with a growth of 22% in 1981, while the private sector lowered the rate of increase of its consumption from 8.7% to 5.3% between 1981 and 1982.

As a result of the allocation of a larger portion of the product to consumption, the severe deterioration of the terms of trade and the large increase in net payments for factor services (capital and labour) to the rest of the world, gross national savings decreased visibly in 1982. They dropped by nearly 23%, from around 30% of the gross domestic product in 1981 to an equivalent of 23.5% of the product in 1982. Private sector savings decreased by around 28%, according to estimates; the public sector, on the other hand, increased its savings by 19.5%. As a result, the deficit in the private sector balance increased from 2.7% of the gross domestic product in 1981, to 6.3% of the product in 1982, while that of the public sector decreased from 2.9% to 1.8% of the product. The external savings share of the gross domestic product rose from 5.7% in 1981, to 8.1% in 1982.

The decrease in the gross domestic product was accompanied by a sharp increase in unemployment, which according to statistics from the Central Bank, rose from 2.1% of the labour force in 1980 to 4.6% in 1981 and 9.4% in 1982. The latter rate is the highest in the series, which begins with 1970. In contrast, the rate of increase of price levels slackened markedly, and was the lowest since 1976. Between December 1981 and December 1982, the consumer price index increased by 4.2%, after a 15% increase the year before and an average increase of 17% since 1976. Wholesale price levels decreased by 6.8% in 1982, after having increased by around 20% in 1981 and by an average of 16% for the period 1976-1981. At the end of the third quarter, the consumer price index was slightly lower than it had been in December 1981; however, in the final three months of the year the trend reversed. The wholesale price index, for its part, was 15% lower in September than it had been at the end of the year before.

On the cost side, the marked deceleration of wage rises helped check inflation. After increasing by more than 20% per year between 1979 and 1981, in 1982 the general wage-index for manual workers in Asunción rose by 3.5% between December 1981 and December 1982. This increase was

<sup>1</sup> See, Office of the President: Ministry of Planning, *El esfuerzo nacional y el financiamiento externo (Comportamiento socioeconómico reciente y perspectivas, 1977/1981-1982/1985)*, Asunción, Paraguay, September 1982.

<sup>2</sup> For a description and analysis of the Paraguayan economic boom see ECLA, *Economic Survey of Latin America, 1981*, United Nations publication, sales No.: E.83.II.6.2, Santiago, Chile, United Nations, 1983.

the lowest recorded since 1972. Minimum wages did not vary between the end of 1981 and the end of 1982, after having increased by 15% in 1981 and by more than 32% between 1978 and 1980. In real terms, the average wages for workers in Asunción declined by slightly more than 1% in 1982, in comparison with an increase of more than 6% in 1981. However, that decrease was virtually equal to the average variation recorded during the economic boom. But in contrast to what had occurred during that period, when the deterioration of real wages was attributable to a large extent to the stepping up of the inflation rate, in 1982 it mainly reflected the striking deceleration of nominal wage increases. Minimum legal wages, for their part, declined by 0.5% between 1981 and 1982, while the monetary portion of the agricultural day's wages with food decreased by slightly more than 2%. On the other hand, the agricultural day's wages without food increased by nearly 2% in real terms.

Table 1

PARAGUAY: MAIN ECONOMIC INDICATORS

	1975	1976	1977	1978	1979	1980	1981	1982 <sup>a</sup>
<b>A. Basic economic indicators</b>								
Gross domestic product at factor cost (millions of 1970 dollars)	1 126	1 205	1 358	1 506	1 667	1 857	2 014	1 973
Population (millions of inhabitants)	2.55	2.61	2.68	2.74	2.81	2.88	2.95	3.03
Per capita gross domestic product (1970 dollars)	442	462	520	550	593	645	683	651
<b>Growth rates</b>								
<b>B. Short-run economic indicators</b>								
Gross domestic product	6.3	7.0	12.7	10.9	10.7	11.4	8.5	-2.0
Per capita gross domestic product	2.9	3.3	9.2	7.1	7.1	7.9	5.1	-4.7
Gross domestic income <sup>b</sup>	5.3	7.4	15.4	9.8	9.9	10.5	8.7	-2.4
Terms of trade (goods and services)	-9.2	3.8	20.2	-8.5	-5.8	-7.0	6.7	-5.7
Current value of exports of goods and services	7.2	8.9	61.2	11.4	18.2	10.2	0.1	20.8
Current value of imports of goods and services	15.9	4.4	46.9	22.2	38.7	15.0	16.2	21.9
<b>Consumer prices</b>								
December - December	8.7	3.4	9.4	16.8	35.7	8.9	15.0	4.2
Variation between annual averages	6.7	4.5	9.4	10.6	28.2	22.4	13.0	5.1
Money (M <sub>1</sub> )	18.4	21.0	32.5	39.5	24.5	25.8	0.4	-3.9
Wages and salaries <sup>c</sup>	-1.4	5.3	-4.6	3.5	-6.4	0.6	6.3	-1.1
Rate of unemployment <sup>d,e</sup>	...	6.7	5.4	4.1	5.9	3.9	2.2	...
Current income of central government	10.0	7.5	37.1	30.2	27.1	18.3	14.6	15.8
Total expenditure of central government	31.2	16.3	13.1	32.0	23.6	30.4	14.5	-
Saving/current income of central government <sup>f</sup>	19.5	16.0	29.7	37.0	37.7	26.2	10.3	6.5
Fiscal situation/total expenditure of government <sup>f</sup>	3.6	-14.8	2.2	11.6	7.4	-2.6	-25.1	-6.7
<b>Millions of dollars</b>								
<b>C. External sector</b>								
Trade balance (goods and services)	-60	-52	-42	-93	-218	-276	-412	-508
Balance on current account	-85	-72	-59	-118	-210	284	378	-536
Variation in international reserves	28	43	112	179	165	151	44	-123
Disbursed gross external debt <sup>g</sup>	332	456	518	669	733	861	949	1 204
Disbursed net external debt <sup>g</sup>	304	380	346	339	253	228	282	614

Source: ECLA, on the basis of official data.

<sup>a</sup>Preliminary figures.

<sup>b</sup>Gross domestic product plus terms-of-trade effect.

<sup>c</sup>Real wages of manual workers in Greater Asunción.

<sup>d</sup>Annual average rate in Greater Asunción.

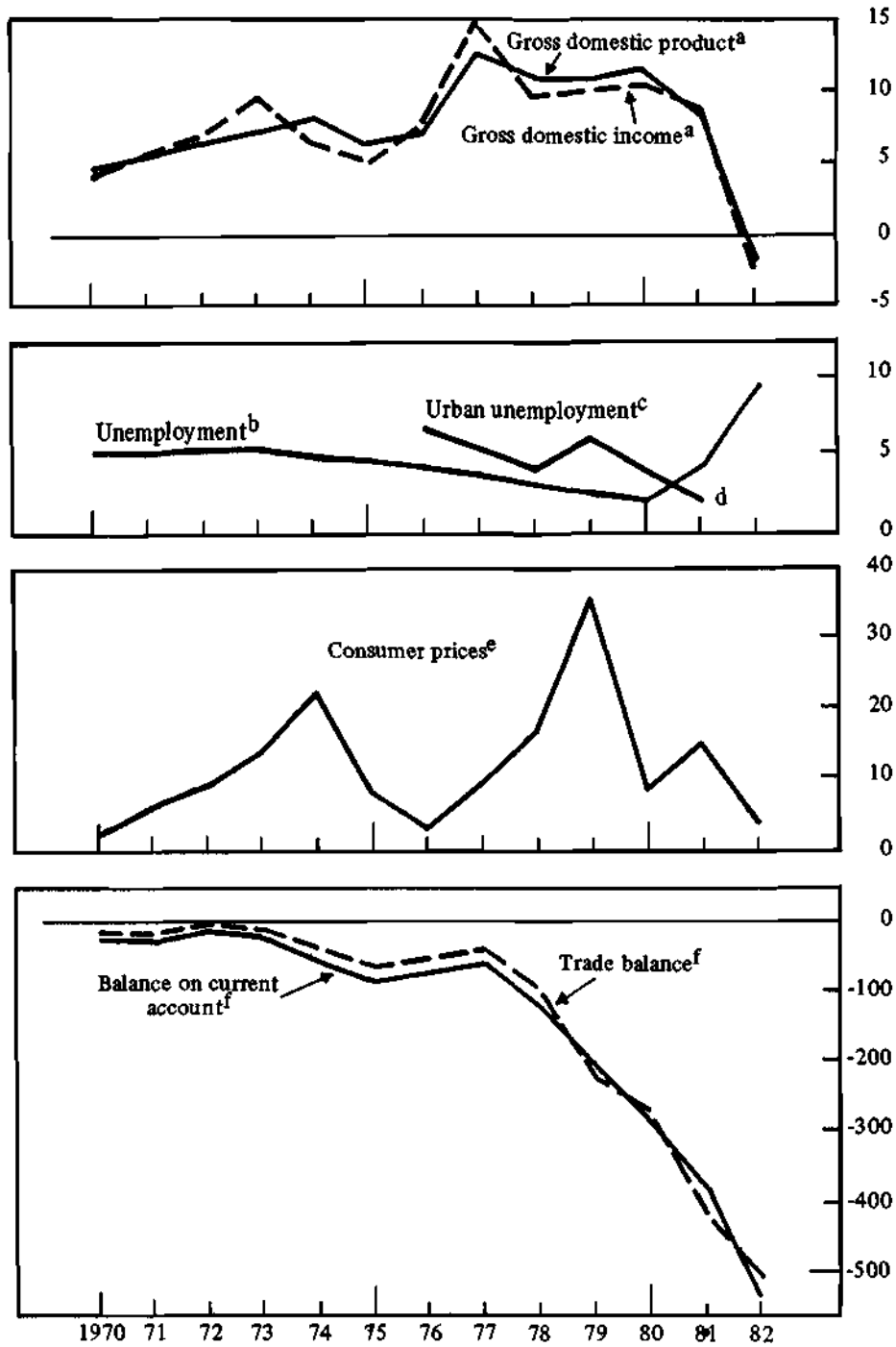
<sup>e</sup>Percentage.

<sup>f</sup>Medium- and long-term public and State-guaranteed private debt.

<sup>g</sup>Disbursed gross external debt, less holdings of net foreign assets in the economy.



Figure 1  
PARAGUAY: MAIN ECONOMIC INDICATORS



Source: ECLA, on the basis of official data.

- <sup>a</sup>Annual growth rate.
- <sup>b</sup>Total annual average growth rate of country.
- <sup>c</sup>Annual average growth rate in Greater Asunción (data from household surveys).
- <sup>d</sup>First half of year.
- <sup>e</sup>Percentage variation, December-December.
- <sup>f</sup>Millions of dollars.

In total contrast to the evolution of the gross domestic product, in 1982 the negative performance of exports made a spectacular recovery, according to data from the Central Bank. Nevertheless, official statistics show that at the same time there was a deterioration of the balances of nearly all the main external sector accounts; what is more, with the exception of the capital account, all showed negative balances for the first time since 1969. The volume of exports of goods and non-factor services showed a decrease of more than 26%, after decreasing by 10% the year before and stagnating in 1980. On the other hand, both the average export price and net inflow of capital declined whereas the unit value of imports increased.

As a result, total import capacity expanded for the first time in three years (14%), although in a proportion considerably lower than the growth in the volume of sales of exports and services abroad. Despite the contraction in domestic spending, there was a 20% increase in the volume of imports of goods, and of non-factor services, which brought about a further significant increase in the current account deficit—from 5.7% to 8.2% of the gross domestic product—and the first global deficit in 13 years occurred. Gross international reserves also decreased for the first time since 1969, declining from 10 to 7 import months, while the gross disbursed external debt increased considerably. As a result, the net external debt more than doubled, although it continued to be relatively moderate, since in net terms it represented barely 10% of the gross domestic product, at the parity exchange rate.

The creation of this recessive situation was influenced both by the tenor of domestic economic policies and by factors beyond the control of the economic authorities, such as bad weather, deterioration of relative external prices, depression of the regional market and the lower activity of the Itaipú and Yacyretá binational entities.

The bad weather greatly decreased the harvests of soya and cotton, the country's main crops. Similarly, the considerable worsening of international prices of these two crops and other export products discouraged their production. The decline or stagnation in the level of economic activity and the marked changes in the exchange rates of the bordering countries depressed demand for a series of Paraguayan export products and also brought about a marked decrease in tourism.

The most harmful factor was the severe reduction in expenditures by the binational entities. The total decrease in sales of goods and services and inflows of capital corresponding to Itaipú and Yacyretá exceeded the global balance-of-payments deficit; it caused around 80% of the variation in the global balance between 1981 and 1982, which went from a surplus of US\$ 43 million to a deficit of US\$ 123 million, and had a strong impact on money existence and interest rates. At the same time, the lower expenditures of the binational entities had noticeable effects on construction, investment and domestic expenditure, and on employment.

From the beginning of the 1970s to mid-1981, Central Bank holdings of external net assets increased systematically and markedly, and attained an average annual expansion of more than 45% between the end of 1970 and the end of 1980. The main challenge which the monetary authority had to face was, then, how to avoid excessive growth of the monetary aggregates without damaging economic growth. A determining factor in the noteworthy success achieved was a consistently anti-cyclical fiscal policy.

From mid-1981 onwards, the net external assets of the Central Bank began to decline. As a result, the main problem of the monetary authority became how to sustain the growth rate of the economy without excessively speeding up the loss of international reserves.

During the second half of 1981, the rate of expansion of the money base remained relatively high and close to the goal established in the monetary programme, despite the unexpected decrease in net external assets. This was due exclusively to the fact that throughout the second half, the central Government had had recourse to its assets over the monetary authority to finance the unexpected increase in its deficit.

In 1982 the decrease of the net external assets of the Central Bank became compounded. However, in contrast with what had occurred the year before, the depressive effects of the loss of international reserves on the money base were not offset. The growth rate of the money base dropped sharply, from an increase of 18.4% between December 1981 and December 1980, to a decrease of 3.7% between December 1982 and December 1981. This result was partly due to the implementation of an exceptionally austere fiscal policy, which led to a fiscal deficit that was equivalent to half of that planned in the budget and a quarter of that recorded the year before. The deficit was barely 0.7% of the gross domestic product, after having been 3.0% in 1981. In a full employment situation,

implementation of the budget would have led to an ample surplus. Another influence on the decrease of the money base was the considerable rise in real interest rates, which, for the second consecutive year, kept money demand very low.

Thus the reduction of the money base was accompanied by a decrease in the existence of money in the economy. After having barely grown in 1981 the  $M_1$  (bills and coins in circulation plus deposits on current account) decreased by 4% in 1982. In real terms it declined by nearly 8% in 1982, remaining at a level of 19.5% lower than its level at the end of 1980, discounting inflation. For its part,  $M_2$  ( $M_1$  plus quasi-money) increased by only 1%, in comparison with a rise of more than 15% the year before.

Of the main money aggregates, the only one which grew significantly in 1982 was domestic credit, although at a much slower rate than in the past. The growth rate of gross domestic credit was 7.7%, in comparison with 17% in 1981 and an average of 25% during the period 1972-1980.<sup>3</sup> Net domestic credit increased by 11% in 1982, whereas it had risen by 35% in 1981 and by an average of 22.5% between 1972 and 1980. Even more significant was the fact that credit intended for the private sector by the banking system grew by 8% in 1982, after increases of 17.5% in 1981 and 31% in 1980.

The high interest rates were very influential in the severe slackening of credit expansion in 1982. However, domestic credit could not increase more than 10% in net terms and more than 14.6% in gross terms at most, given the average existing bank reserve requirements. A large reduction in the bank reserve requirement was needed, or the opening of lines of credit by the Central Bank at considerably lower interest rates, in order to free resources and make them less expensive.

From the evolution of the monetary aggregates it can be inferred that the Central Bank decided not to make policy innovations in 1982, despite the large-scale changes experienced in nearly all the macroeconomic variables from mid- or late 1981 onwards, which in fact meant the adoption of a frankly restrictive monetary policy by omission.

It appears obvious that the magnitude of restriction of the means of payment played an important role in creating the recessive situation. It also appears clear that the monetary authority could have ensured a growth of the means of payment sufficient not only to make possible a further increase of the gross domestic product, but also to sustain the high growth rate of the recent past. Ample external financial resources and abundant domestic financial resources (reserves) from commercial banks were available to it for that purpose.<sup>4</sup> What was more, its margin of manoeuvre was increased during the year as a result of the considerable decrease in external interest rates and the growing disuse of domestic production factors. In contrast, the decision to return to a fixed exchange rate in July, after the brief experiment of semi-flexible exchange rates, limited the monetary authority's degree of freedom to carry out and administer an expansive monetary policy. And it would appear that the concerns caused by the unusual and persistent rise in the parallel exchange rate which began in mid-1981 were determining factors in the decision to implement an austere fiscal policy and permit a restrictive monetary policy to remain in force. Nevertheless, between the end of the first half of 1981 and the end of 1982 the parallel exchange rate increased by 70%.

## 2. Trends in economic activity

### a) *The product and income*

In 1982 the rapid growth process of the Paraguayan economy was checked. After displaying an average expansion rate of 8.2% between 1972 and 1981, the level of economic activity declined by 2% in 1982, according to the most recent estimates of the Central Bank of Paraguay.<sup>5</sup> The gross national product, for its part, increased by 3.1% while gross national income fell by 3.4%. These larger decreases reflected the increase experienced in the balance of the factor service account, and the deterioration of the terms of trade (see table 2).

<sup>3</sup>Gross domestic credit does not exclude the deposits of the central Government with the monetary authority. Net domestic credit does include them.

<sup>4</sup>At the end of 1981, Central Bank net external assets were equivalent to nearly 10 months of imports of goods and services, and the reserves of the commercial banks amounted to 46.2% of savings on deposit.

<sup>5</sup>The Central Bank is currently preparing a fifth version of the national accounts for 1982. Therefore, the figures appearing here are preliminary and subject to revision.

In the area of growth, the economy's performance in 1982 was the most negative since 1966, the last year in which the per capita product had declined. What is more, for the first time since 1952 the global product decreased, and this decrease was the largest since 1947, when the product fell by 13% in the middle of a civil war.<sup>6</sup>

#### b) *Supply and demand*

In 1982 global supply increased by around 1%, despite the contraction of the domestic product and due to the marked expansion of more than 20% in the volume of goods and non-factor services (see table 3). In the period 1972-1981, on the other hand, global supply had grown at an average rate of 9.6% per year.

On the one hand, trends in supply were affected by the decline in the relative international prices of the main export products and by the deterioration of the effective real exchange rate during the sowing and harvest of the 1981/1982 crop year. On the other, they were affected by the sluggishness of domestic demand, whose rate of expansion fell from slightly less than 9% in 1981 to -0.9% in 1982.

The decrease in domestic demand, for its part, was largely due to the contraction in gross domestic investment, which amounted to 12.5%. General government consumption barely grew at all after its 22% increase in 1981, while private consumption grew by 5.3%, in comparison with an increase of 8.7% recorded the year before.

Domestic demand ceased to grow in 1982, chiefly due to the slackening of construction activity in the Itaipú and Yacyretá hydroelectric power stations, but due also to other factors which shrank investment in the rest of the economy, such as the reduction of central government expenditures, the rise of real interest rates, and the domestic recession.

Thus, although in principle the domestic recession was largely influenced by circumstances beyond the control of the economic authorities —the lower activity at Itaipú and Yacyretá and the recession abroad— it was also influenced by a restrictive economic policy, especially in the monetary

Table 2

### PARAGUAY: SOME FIGURES ON THE PRODUCT, INCOME AND EXPENDITURE

(Millions of dollars at constant 1970 prices)<sup>a</sup>

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982 <sup>b</sup>
Gross domestic product at market prices	985	1 055	1 142	1 214	1 300	1 466	1 625	1 799	2 004	2 173	2 130
Indirect taxes, less subsidies	73	77	83	88	95	108	119	132	147	159	157
Gross domestic product at factor cost	912	978	1 059	1 126	1 205	1 358	1 506	1 667	1 857	2 015	1 973
Net imports of goods and services	4	36	36	36	38	66	79	112	105	156	178
Net factor payments to rest of world <sup>c</sup>	9	8	10	13	10	8	12	-3	3	-11	9
Terms-of-trade effect	5	28	16	6	11	46	35	25	11	21	13
Gross domestic expenditures	916	1 014	1 096	1 162	1 243	1 424	1 585	1 779	1 962	2 171	2 151
Gross national product	903	970	1 049	1 113	1 195	1 350	1 494	1 670	1 854	2 026	1 964
Gross national income	908	998	1 065	1 119	1 206	1 396	1 529	1 695	1 865	2 047	1 977

Source: ECLA, on the basis of official data.

<sup>a</sup>At parity exchange rate.

<sup>b</sup>Preliminary figures.

<sup>c</sup>Includes private non-compensatory transfer payments.

<sup>6</sup>See ECLA, "Series históricas del crecimiento de América Latina", *Cuadernos Estadísticos de la CEPAL*, Santiago, Chile, 1978. This series is in 1970 prices. If another year is taken as base, such as 1975, for example, small recessions can also be observed in 1959 (-1.1%) and 1960 (-0.4%). In 1970 prices, the product increased by 0.4% in 1959 and 0.2% in 1960. For the series at 1975 prices, see International Monetary Fund, *International Financial Statistics*.

Table 3  
PARAGUAY: TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1970 prices				Growth rates			
	1979	1980	1981	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>a</sup>
<b>Total supply</b>	2 090	2 291	2 493	2 515	11.7	9.6	8.8	0.9
Gross domestic product at market prices	1 799	2 004	2 173	2 130	10.7	11.4	8.5	-2.0
Imports of goods and services <sup>b</sup>	291	287	320	386	18.4	-1.4	11.5	20.4
<b>Total demand</b>	2 090	2 291	2 493	2 515	11.7	9.6	8.8	0.9
Domestic demand	1 910	2 109	2 329	2 307	12.2	10.4	10.5	-0.9
Gross domestic investment	597	690	770	674	20.3	15.6	11.7	-12.5
Total consumption	1 313	1 419	1 559	1 633	8.8	8.0	9.9	4.8
General government	111	120	146	147	6.2	8.0	22.0	0.3
Private	1 202	1 299	1 413	1 486	9.1	8.0	8.7	5.3
Exports of goods and services <sup>a</sup>	180	183	165	208	7.1	1.6	-9.9	26.4

Source: ECLA, on the basis of figures supplied by the Central Bank of Paraguay.

<sup>a</sup>Preliminary figures.

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

sphere. It is sufficient to refer here to the 11% decrease in the average effective real exchange rate between the 1980/1981 and the 1981/1982 crop years; the 75% reduction of the fiscal deficit and the 4% contraction in the nominal money supply, between 1981 and 1982.

In addition to the effects of an austere fiscal policy, the decrease in the expansion rate of domestic consumption was the result of a decline in real wages and employment in the private sector.

External sector behaviour, presented in table 3, deserves a separate commentary, since there are compelling reasons to believe that it is more fictitious than real.<sup>7</sup>

As a result of the trends noted, the structure of supply and demand was considerably altered in 1982, as can be seen in table 4.

### c) *Investment and savings*

The 12.5% drop in gross domestic investment was composed of a 6% decrease in investment in construction and a 23% drop in investment in machinery and equipment, bringing the former from 21.7% down to 20.8% of the domestic product, while the latter declined from 12.4% to 9.8% of the product between 1981 and 1982.<sup>8</sup> Public sector investment expenditures were reduced by more than 8%, while those of the private sector decreased by more than 13%. The public investment share of the product dropped from 6.1% to 5.7%, and private investment decreased from 29.3% to 25.9% of the product (see table 5).

The external savings share in the financing of domestic investment continued to rise in 1982, but at a considerably lower rate. At constant prices external savings grew by more than 40% that year,

<sup>7</sup>The national accounts which are prepared for the Paraguayan economy suffer from lack of precision. The accounting of the external sector aggregates is particularly inadequate since large proportions—more than 50% in recent years—of external trade and capital flows are not registered. Similarly, commercial and capital flows produced by the hydroelectric power stations (Itaipú and Yacyretá), are also not entirely entered into the accounts. As a result, the variations measured by official statistics from one year to the next do not necessarily reflect either the sizes or directions of the true variations being experienced by the external sector aggregates. It is in this framework that we can understand the extremely inconsistent behaviour indicated by official statistics between exports and imports, on the one hand, and the product and expenditures, on the other, in recent years (see table 3). Thus, the fact that a rise of more than 20% in the volume of imports is registered for 1982, under conditions in which domestic expenditures would appear to have declined by 1%, and that a growth of more than 26% is entered in the volume of exports, under circumstances in which the gross domestic product appears to have declined by 2%, is attributable to the fact that the portion of total registered trade increased considerably. As will be seen later on, this was the result of the exchange movements which occurred in 1982. For more reflections and data on the Paraguayan national accounts and alternative estimates for the main macroeconomic aggregates, see Richard Lynn Ground, "Las cuentas nacionales del Paraguay", which will be published shortly in the *Revista paraguaya de sociología*.

<sup>8</sup>The accounting for variations in stock covers only the livestock sector. Various data suggest that there was a significant accumulation of stock in the economy in 1982.

**Table 4**  
**PARAGUAY: STRUCTURE OF TOTAL SUPPLY AND DEMAND**  
(As a percentage of the gross domestic product)<sup>a</sup>

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982 <sup>b</sup>
<b>Total supply</b>	109.6	112.2	112.0	111.6	111.7	114.2	115.1	116.2	114.3	114.7	118.1
Gross domestic product at market prices	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Imports of goods and services <sup>c</sup>	9.6	12.2	12.0	11.6	11.7	14.2	15.1	16.2	14.3	14.7	18.1
<b>Total demand</b>	109.6	112.2	112.0	111.6	111.7	114.2	115.1	116.2	114.3	114.7	118.1
Domestic demand	100.5	103.4	103.2	103.0	102.9	104.5	104.8	106.2	105.2	107.2	108.3
Gross domestic investment	16.6	21.3	22.0	22.1	25.4	27.8	30.5	33.2	34.4	35.4	31.6
Total consumption	83.9	82.1	81.2	80.8	77.6	76.7	74.3	73.0	70.8	71.7	76.7
General government	7.5	6.3	5.3	6.1	6.1	6.0	6.4	6.2	6.0	6.7	6.9
Private	76.4	75.8	75.9	74.8	71.5	70.7	67.9	66.9	64.8	65.0	69.8
Exports of goods and services <sup>c</sup>	9.2	8.8	8.7	8.7	8.8	9.7	10.3	10.0	9.1	7.6	9.8
Terms-of-trade effect	0.5	2.7	1.4	0.5	0.9	3.1	2.1	1.4	0.5	1.0	0.6

Source: ECLA, on the basis of figures supplied by the Central Bank of Paraguay.

<sup>a</sup>At market prices in constant 1970 dollars, using the parity exchange rate.

<sup>b</sup>Preliminary figures.

<sup>c</sup>The figures for exports and imports of goods and services were taken from balance-of-payments data expressed in dollars at current prices, which were converted to constant 1970 values, using price indexes calculated by ECLA for the purpose.

**Table 5**  
**PARAGUAY: COMPOSITION, ORIGIN AND FINANCING OF GROSS DOMESTIC INVESTMENT**

(As a percentage of the gross domestic product)<sup>a</sup>

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982 <sup>b</sup>
<b>Gross domestic investment</b>	16.6	21.3	22.0	22.1	25.4	27.8	30.5	33.2	34.4	35.4	31.6
<b>Origin</b>											
Private sector	11.5	16.6	18.6	17.1	16.3	18.9	22.5	26.2	27.7	29.3	25.9 <sup>c</sup>
Public sector	5.1	4.7	3.4	5.0	9.1	8.9	8.0	7.0	6.2	6.1	5.7 <sup>c</sup>
<b>Composition</b>											
Construction	7.6	8.3	8.7	10.0	11.0	12.8	15.1	17.8	20.2	21.7	20.8
Machinery and equipment	8.0	11.2	11.5	9.7	12.3	14.1	13.7	13.9	12.8	12.4	9.8
Changes in stocks	1.0	1.8	1.8	2.4	2.1	0.9	1.7	1.5	1.4	1.3	1.1
<b>Financing</b>											
Gross domestic saving	16.1	17.9	18.8	19.1	22.4	22.4	25.7	27.0	29.2	28.3	23.3
Net factor payments to rest of world <sup>d</sup>	0.9	0.7	0.9	1.0	0.8	0.6	0.8	-0.2	0.1	-0.5	0.4
Terms-of-trade effect	0.5	2.7	1.4	0.5	0.9	3.1	2.1	1.4	0.5	1.0	0.6
Gross national saving	15.7	19.8	19.3	18.6	22.5	25.9	27.1	28.5	29.6	29.8	23.5
Private sector	14.4	15.2	14.7	15.1	19.3	20.3	20.3	21.0	23.8	26.6	19.6 <sup>c</sup>
Public sector	1.3	4.6	4.6	3.5	3.2	5.6	6.8	7.5	5.8	3.2	3.9 <sup>c</sup>
External saving	0.8	1.5	2.7	3.5	2.9	1.9	3.4	4.7	4.8	5.7	8.1

Source: ECLA, on the basis of data supplied by the Central Bank of Paraguay and the Ministry of Planning.

<sup>a</sup>At market prices in constant 1970 dollars at the parity exchange rate.

<sup>b</sup>Preliminary figures.

<sup>c</sup>Estimated figure.

<sup>d</sup>Refers to livestock sector only.

<sup>e</sup>Including private non-compensatory transfer payments.

Table 6

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

	Millions of dollars at 1970 prices				Percentage breakdown		Growth rates			
	1979	1980	1981	1982 <sup>a</sup>	1972	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>a</sup>
<b>Gross domestic product<sup>b</sup></b>	1 667	1 857	2 014	1 973	100.0	100.0	10.7	11.4	8.5	-2.0
<b>Goods</b>	921	1 038	1 128	1 085	55.1	54.0	9.9	12.6	8.7	-3.9
Agriculture, hunting, forestry and fishing	519	567	605	587	34.4	29.2	6.7	9.2	6.7	-3.0
Mining and quarrying	9	12	14	14	0.3	0.7	42.1	26.0	15.0	2.0
Manufacturing	271	305	330	315	17.3	15.7	7.7	12.6	8.0	-4.5
Construction	122	154	179	169	3.1	8.4	30.0	26.0	16.2	-6.0
<b>Basic services</b>	122	137	143	156	5.8	7.8	13.9	13.1	10.1	9.6
Electricity, gas and water	42	49	52	64	1.6	3.2	18.9	18.6	13.8	23.0
Transport, storage and communications	80	88	91	92	4.2	4.6	11.5	10.5	8.0	2.0
<b>Other services</b>	644	711	775	766	39.1	38.2	12.2	10.1	8.6	-1.2
Commerce <sup>c</sup>	339	375	406	397	18.9	19.8	12.5	10.5	8.5	-2.2
Ownership of dwellings	49	54	57	56	3.1	2.8	10.5	9.0	8.0	-2.0
Community, social and personal services <sup>d</sup>	256	282	312	313	12.0	15.6	12.2	9.9	9.3	0.4
Government services	66	70	86	90	5.1	4.5	9.9	7.0	7.0	4.0

Source: ECLA, on the basis of figures supplied by the Central Bank of Paraguay.

<sup>a</sup>Preliminary figures.

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

<sup>c</sup>Includes financial institutions, insurance and real estate, except ownership of dwellings.

<sup>d</sup>Include restaurants and hotels and business services.

from an amount equivalent to 5.7% of the gross domestic product in 1981 to slightly more than 8% in 1982. On the other hand, gross domestic savings decreased by 19.3%, while gross national savings declined by 22.6%; the former dropped from 28.3% to 23.3% of the product and the latter from 29.8% to 23.5% of the product between 1981 and 1982. The private sector was a determining influence in this result, since its saving was reduced by nearly 28%. The public sector, on the other hand, attained a 19.5% increase in its savings. As a result of these trends, the deficit in the public sector balance decreased from 2.9% of the product in 1981 to 1.8% in 1982, while that of the private sector increased from 2.7% of the product in 1981 to 6.3% in 1982.<sup>9</sup>

#### d) Sectoral trends in the product

i) *Introduction.* The recession experienced by the Paraguayan economy in 1982 involved all the main sectors, with the exception of livestock. In this framework, the decrease in the level of activity was the most marked in construction, where it amounted to 6%, followed by 4.5% in the manufacturing sector, 4.4% in agriculture and 2.2% in trade. The livestock product, on the other hand, grew by 2.2%. As a result of these trends, total production of goods in the economy declined by nearly 4%, while provision of non-basic services decreased by slightly more than 1%. In contrast, production of basic services, headed by the 25% expansion of electricity, grew by 9.6% (see table 6).

ii) *Agriculture.* The extraordinary strength shown by this sector since the beginning of the preceding decade was interrupted suddenly in 1982, when its total product declined by 3%. This was the first contraction recorded since 1966, after an average annual growth rate of 7.5% between 1972 and 1981; it represented drops of 5% in the product of the forestry subsector and 4.4% in the value of agricultural production as such, as against rises of 2.3% in the livestock product and 3% in the hunting and fishing product (see table 7).

<sup>9</sup>It is not necessarily true that saving by the private sector and therefore by the economy, actually decreased so much more than private and global investment. On the other hand, it should be borne in mind that domestic investment and especially domestic saving are underestimated in the national accounts due to the gaps noted above. See discussion in note 7.

In keeping with what had occurred during its prolonged boom period, in 1982 the development of the sector was determined mainly by the performance of products intended for the external market. For example, after growing 8.8 and 7.8 times between 1972 and 1981, production of soya and cotton decreased by 31.8% and 11.7%, respectively, in 1982. Other important export products, such as citrus fruits and vegetables also decreased their production in 1982.

The marked drops in the soya and cotton harvests were largely due to unfavourable climatic factors. An extremely inopportune rainfall distribution impaired the normal development of these crops, especially soya, which also suffered from an outbreak of caterpillars. In addition, the evolution of relative and nominal prices was clearly unfavourable to both products, especially cotton. The nominal producer price of soya declined by nearly 11%, while that of cotton decreased by 14%, on the average, between 1981 and 1982. Real and relative prices decreased by 15% and 18%, respectively, during the same period (see table 8).

In the case of cotton, the situation was actually even more unfavourable, since the 1982 drop in prices was especially pronounced in the main harvest season, on the one hand, and the nominal and relative prices had already decreased significantly in 1981, on the other. Thus the development of prices discouraged not only the harvest but the sowing as well.<sup>10</sup>

Price formation in these products was mainly influenced by the sharp drop in international prices and, to a lesser extent, the decrease in the effective real exchange rate. For cotton, the Government set a reference price which it believed would cover the average cost of production and

Table 7

PARAGUAY: INDICATORS OF AGRICULTURAL PRODUCTION

	Millions of guaraníes at 1977 prices					Growth rates				
	1978	1979	1980	1981	1982 <sup>a</sup>	1978	1979	1980	1981	1982 <sup>a</sup>
Crop farming	63.0	67.1	74.2	80.3	76.7	6.2	6.5	10.6	8.2	-4.4
Domestic consumption	35.6	38.7	40.5	40.1	...	-2.7	8.9	4.5	-0.7	...
Exports	27.4	28.4	33.7	40.1	...	20.4	3.4	19.0	18.9	...
Stock-raising	22.6	23.5	24.4	25.2	25.8	3.8	4.0	4.0	3.2	2.3
Forestry	9.3	10.4	11.9	12.4	11.8	7.9	14.0	12.3	4.8	-5.0
Total <sup>b</sup>	95.2	101.6	111.0	118.4	114.9	5.9	6.7	9.2	6.7	-3.0
Thousands of tons										
Production of the main crops										
Cotton	285	230	235	317	280	28.0	-19.2	2.2	34.9	-11.7
Rice	36	68	60	62	70	-	88.9	-11.8	3.3	12.9
Sweet potatoes	187	192	207	213	...	-5.0	3.0	7.9	3.0	...
Maize	368	405	506	496	521	-1.0	10.0	24.8	-2.0	5.0
Cassava	1 734	1 787	1 823	1 841	1 850	-1.0	3.1	2.0	1.0	0.5
Soya beans	330	450	650	880	600	-5.7	36.4	44.4	35.4	-31.8
Sugar cane	2 053	1 964	2 357	2 121	2 312	28.3	-4.3	20.0	-10.0	9.0
Cocoa	225	236	248	243	...	-5.0	5.0	5.0	-3.0	...
Tung	96	106	95	100	...	-30.0	10.0	-10.0	5.0	...
Wheat	30	65	44	55	80	11.1	116.7	-32.3	25.0	45.0
Cattle slaughtering <sup>c</sup>	596	578	565	554	554	-6.1	-3.1	-2.1	-2.0	-
Pig slaughtering <sup>c</sup>	1 130	1 291	1 420	1 560	1 591	9.5	14.2	10.0	9.9	2.0
Poultry slaughtering <sup>c</sup>	1 978	2 281	2 438	2 603	2 668	9.5	15.3	6.9	6.8	2.5
Roundwood	1 110	1 420	1 780	1 791	1 513	19.2	28.0	25.3	0.6	-15.5
Firewood	2 605	2 661	2 709	2 800	...	7.9	2.1	1.8	3.4	...

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

<sup>a</sup>Preliminary figures.

<sup>b</sup>Including hunting and fishing.

<sup>c</sup>Thousands of head.

<sup>10</sup>The decreases in the relative prices of these two crops have been continuing since 1977, with the exception of the partial recovery of soya prices in 1981. For their part, the relative prices obtained in 1977 were slightly lower than the prices which had been attained in 1973/1974. Nevertheless, the visible expansion in the production of both crops during that period indicates that they were continuing to be profitable, at least until 1981.



Table 8

**PARAGUAY: NOMINAL AND REAL PRODUCER PRICES OF THE  
MAIN AGRICULTURAL PRODUCTS**

(1970 = 100)

	Rice	Cotton	Sweet potatoes	Maize	Manioc	Soya	Sugar cane	Cocoa	Tung oil	Wheat
Nominal prices <sup>a,b</sup>										
1977	225.0	340.7	333.3	320.0	333.3	280.0	284.1	166.7	500.0	231.6
1978	275.0	318.5	333.3	400.0	300.0	280.0	293.8	166.7	550.0	231.6
1979	337.5	362.9	400.0	480.0	333.3	320.0	316.2	266.7	275.0	252.6
1980	337.5	437.0	466.7	500.0	433.3	253.3	405.8	266.7	225.0	263.2
1981	325.0	404.4	533.3	440.0	433.3	373.3	344.2	248.5	200.0	273.7 <sup>c</sup>
I	370.8		400.0	553.3	366.7		324.7 <sup>c</sup>	155.6	208.3	257.9 <sup>c</sup>
II	300.0	404.9	677.8	426.7	455.6	360.0	335.5	266.7 <sup>c</sup>		
III		403.7 <sup>c</sup>	488.9	373.3	477.8	408.9	340.1	311.1		
IV			533.3	453.3	477.8	400.0 <sup>c</sup>	369.3	177.8		
1982	400.0	348.1	466.7	440.0	333.3	333.3	368.3	466.7	275.0	340.4
I			533.3	500.0	422.2			300.0 <sup>c</sup>		
II	412.5	338.3	422.2	310.0 <sup>c</sup>	288.9	320.0	305.7	266.7		
III	408.3	358.0	455.5	433.3	300.0	337.8	381.1	622.2	266.6	326.3
IV	387.5		422.2	453.3	311.1		430.2	600.0 <sup>c</sup>		
Real prices <sup>a,b</sup>										
1977	114.0	172.7	168.9	162.2	168.9	141.9	144.0	84.5	253.4	117.4
1978	126.0	145.9	152.7	183.2	137.4	128.3	134.6	76.4	251.9	106.1
1979	120.6	129.7	142.9	171.5	119.1	114.3	113.0	95.3	98.2	90.2
1980	98.4	127.5	136.2	145.9	126.4	73.9	118.4	77.8	65.7	76.8
1981	83.9	104.4	137.7	113.6	111.9	96.4	88.9	68.9	51.7	70.7
I	97.5		105.1	145.4	96.4		85.3 <sup>c</sup>	40.9	54.7	67.8 <sup>c</sup>
II	77.6	104.7	175.4	110.4	117.9	93.2	86.8	69.0 <sup>c</sup>		
III		105.3 <sup>c</sup>	127.6	97.4	124.7	106.7	88.7	81.2		
IV			133.8	113.7	119.9	100.4 <sup>c</sup>	92.6	44.6		
1982	98.3	85.5	114.6	108.1	81.9	81.9	105.8	114.6	67.7	83.6
I			130.9	122.7	103.6		76.4	73.6 <sup>c</sup>		
II	102.9	84.4	105.5	77.5 <sup>c</sup>	72.2	80.0	94.3	66.7		
III	101.0	88.5	112.7	107.1	74.2	83.6	103.3	153.9	65.9	80.7
IV	94.4		101.4	108.9	74.7			144.1 <sup>c</sup>		

Source: ECLA, on the basis of data from the Ministry of Agriculture, Department of Agricultural Marketing and Economics, and the Central Bank of Paraguay.

<sup>a</sup>In general a blank space means that there were no prices for the quarter, or that there were prices for only one month.

<sup>b</sup>The quarterly averages may not coincide with the annual averages due to frequency of observation or errors in rounding-off.

<sup>c</sup>Two months only.

<sup>d</sup>Calculated by deflating the nominal prices using the consumer price index.

leave a small profit. And in order to support the reference price, the Central Bank created a special line of credit at lower-than-average interest rates in order to finance the purchase of cotton at that price. In addition, the valuation price for cotton export dropped by 18%. However, in practice the average price paid to producers during the main harvest season was lower than the average estimated cost of production.

Unlike the main export crops, those intended to supply the domestic market generally had favourable results, and thus recovered from the slight deterioration which they had experienced as a group the year before. For example, maize production rose by 5%, that of sugar cane by 9% and that of wheat expanded no less than 45%, which represented a record production. Production of manioc, on the other hand, stagnated (see table 7).

Among these products, rice, sugar cane and wheat had increases in their relative prices which fluctuated between 19% and 23%, after having experienced persistent decreases since 1977 in the case of rice, since 1978 in the case of maize, and since 1975 in the case of wheat. The relative price of maize decreased by nearly 4%, and that of manioc dropped by slightly more than 27%. The real prices of these crops also have been decreasing nearly constantly since 1977/1978.

Besides setting a good reference price, the Government granted strong credit support to the cultivation and marketing of wheat in 1982. Thus the Banco Nacional de Fomento (National Development Bank - BNF) financed the cultivation of around 90% of the hectares devoted to wheat in the 1981/1982 season, after financing approximately 20% of the hectares intended for agriculture. In addition, the BNF granted the mills credit at much lower-than-average rates for cash payments to producers. Maize production, for its part, received a slight incentive when in July a drop in the export tax from 16% to 8.5% was decreed. In August the first significant shipment of the product to the external market since the beginning of 1981 was made.

The slight expansion of livestock activity in 1982 was largely a reflection of increases of 2% and 2.5% in pig and poultry slaughtering, respectively, and a stagnation in the number of head of cattle slaughtered. The growth rates of the first two products were substantially lower than those recorded in previous years, while the stability of cattle slaughtered meant an improvement with respect to the sustained decrease experienced in this activity during the preceding four-year period (see table 7).

Formerly one of the pillars of the economy, stock-raising entered a period of decline in the mid-1970s, when it lost access to the European Common Market. Between 1972 and 1981 cattle slaughtering declined by more than 19%. Perhaps because it occurred during the boom in the rest of the economy, the decline in this activity did not give rise to compensatory measures of any importance. In any case, since mid-1981 policies for strengthening it began to be implemented. Thus in August of that year, the tax on income from meat exports was eliminated; in December it was decreed that stock-raising should be included in the selective portfolio of the commercial banks, which assigns financing at interest rates lower than those prevailing in the economy; and in January 1983 the livestock sector was granted the right to increase returns on sales abroad in the free fluctuating market, whose exchange rate then exceeded the official rate by around 34%. Finally, during 1981 the activity received exceptional credit support, largely due to its inclusion in the selective portfolio of the commercial banks. The amount of financing intended for stock-raising increased by 32.5%, compared with an increase of 7.4% for the rest of the economy, between December 1981 and December 1982. In relation to the value of the stock-raising activity product, bank financing, public and private, rose from 25% in 1981 to over 31% in 1982. For the rest of the economy, the corresponding figures were 17.2% and 18.3%.

Although in 1982 processed meat was once more able to be exported (in relatively modest quantities), the decrease in domestic demand and the floods in the stock-raising areas of Chaco and the southeastern portion of the country in June and July worked against a reactivation of the activity.

The 5% decline in the added value in the forestry subsector in 1982 was chiefly the result of the 15.5% decrease in the production of bolts, which decreased not only because of the recession in the domestic construction sector, but also because of the significant decrease in demand from neighbouring countries.

The development of the agricultural sector in 1982 was also determined to a large extent by the rise in real interest rates in the economy. Although some special lines of credit were extended at lower-than-average rates for certain products during the year, by far the majority of the financing offered to the sector bore nominal interest rates equal to and even higher than those of the year before, under circumstances in which the rate of inflation was slackening markedly. It is sufficient to point out that official rates rose in real terms from 1% to 5% in 1981 and from 9% to 13% in 1982, while the rates collected by financial institutions in the segment not controlled by the portfolio rose by around 10 percentage points, to more than 40% in real terms in 1982, according to partial data.<sup>11</sup>

Besides discouraging production and supply, the high interest rates have had effects on the rural land market which it would be useful to examine.

Beginning with the end of the 1970s, the price of rural land began to rise at rates visibly higher than the general price level and the current value of agricultural production. With the exception of some years, this trend continued until the second half of 1980, and it probably was an important factor in creating the boom, through its effects on private consumption. In any case, at that time the real price of agricultural land was 359% higher, that of stock-raising land 450% higher, and that of forestry land 312% higher than 10 years before (see table 9).

<sup>11</sup> The official rates are those collected by public financial institutions and by the commercial banks on the selective portfolio, whose rates are set by the Central Bank.

Table 9

PARAGUAY: NOMINAL AND REAL PRICES IN  
THE RURAL LAND MARKET

(1970 = 100)

	Nominal price			Real price <sup>a</sup>		
	Crop-farming land	Stock-raising land	Forestry land	Crop-farming land	Stock-raising land	Forestry land
1972	151.2	201.4	134.5	131.8	175.6	117.3
1973	200.0	236.7	156.6	154.7	183.1	121.1
1974	228.8	310.8	229.1	141.3	192.0	141.5
1975	350.9	500.0	311.2	202.9	289.2	180.0
1976	518.6	686.0	442.1	287.3	380.1	244.9
1977	711.7	644.8	448.5	360.7	326.8	227.3
1978	872.5	877.0	448.5	399.7	401.7	205.5
1979	1 023.6	966.3	892.9	365.7	345.2	319.0
1980	1 550.1	1 793.7	1 317.1	452.3	523.4	384.3
I	1 486.7	1 654.8	1 185.9	445.5	495.9	355.4
II	1 615.9	1 936.5	1 448.5	459.2	550.3	411.6
1981	1 467.2	1 821.4	1 367.6	378.9	470.4	353.2
I	1 474.5	1 892.9	1 466.7	384.5	493.5	382.5
II	1 462.3	1 750.0	1 268.7	374.0	447.6	324.5
1982	1 615.9	2 142.8	1 381.8	396.9	526.4	339.4
I	1 335.6	1 829.4	1 105.1	330.8	453.0	273.7
II	1 930.3	2 460.3	1 713.1	468.6	597.3	415.9

Source: ECLA, on the basis of data from the Ministry of Agriculture and Stock-raising, Department of Agricultural Marketing and Economics and the Central Bank of Paraguay.

<sup>a</sup>Calculated by deflating the nominal prices using the consumer price index.

Throughout 1981 and during the first half of 1982, on the other hand, nominal land prices declined substantially. Besides noting the coincidence between that significant downturn and the dramatic rises in interest rates, one might consider the possibility that it played its own part in creating the recession.

In the second half of 1982, there was a further and more marked decline in land prices, since the latter recovered and even exceeded in real terms the levels of the first half of 1980, despite the persistence of high interest rates. It would be extremely difficult to explain such behaviour if it had not been for the sharp rise simultaneously experienced by the exchange rate in the parallel market, which exceeded that of nominal prices of agricultural and stock-raising land. Even so, the amounts of the rises proved to be surprising, given the recession in the level of activity. In any case, they may contribute to the recovery of the economy.

*The agrarian reform and land distribution.* The extraordinary rise in prices of agricultural land since the end of the 1970s went hand in hand with the accelerated settlement process in the agricultural frontier; the latter was encouraged and facilitated by policies promoting the displacement of the rural population from the traditional settlement zone to the periphery of the eastern region, as well as immigration to the frontier zones.

Among those policies were the extension of the basic infrastructure —such as the highway connection with Brazil—, binational co-operation treaties and especially, the agrarian reform.

In 1981 the first agricultural census since 1956 was conducted. The first results of the census are now available. Thus it is possible to begin to examine systematically the impact which agrarian reform has had on ownership and distribution of land in the country.<sup>12</sup>

<sup>12</sup>Several papers have recently been published on this question in Paraguay. See, for example, Church Committee, "Formas de organización productiva campesina", *Cuadernos de investigación*, No. 7, Asunción, November 1981; Paraguayan Episcopal Conference, Equipo Nacional de Pastoral Social, *La tierra, don de Dios para todos*, Asunción, March 1983; J.M. Frutos, "Con el hombre y la tierra hacia el bienestar rural", *Cuadernos Republicanos*, Asunción, 1982; Office of the President, Ministry of Planning, *El esfuerzo nacional y el financiamiento externo*, Asunción, September 1982, chapter II.4; and D.M. Rivarola, et al., *Estado, campesinos y modernización agrícola*, Centro Paraguayo de Estudios Sociológicos, Asunción, 1982.

Between 1956 and 1981 public institutions in charge of agrarian reform —until 1963 the Instituto de Reforma Agraria (Institute for Agrarian Reform - IRA) and from 1963 onwards the Instituto de Bienestar Rural (Institute for Rural Welfare - IBR)— awarded 88 434 lots with a total area of nearly 7.4 million hectares divided into 487 colonies.<sup>13</sup> In addition, nearly 8 000 final title deeds were granted for a total area of 5.7 million hectares. With regard to distribution by size, the relevant data for the entire period were not available. It may be stated that in the last six years 4.5% of the lots awarded were stock-raising lots, and that these lots covered 87% of the total area awarded (2.4 million hectares), with an average of 2 116 hectares per lot, while the agricultural lots had an average measure of 16 hectares (see table 10).<sup>14 15</sup>

The largest portion of land awarded came from reserves in the public domain, and another significant proportion was acquired through purchases from the private sector. However, during the period in question, the Government nationalized and expropriated a total of 1.4 million hectares, from 93 pieces of private property.<sup>16</sup>

In addition to these public sector activities, the private sector set up 91 colonies by transferring through sales 27 052 lots with a total area of 94 million hectares. A portion of these colonies were

Table 10  
PARAGUAY: SUMMARY OF AGRARIAN REFORM INDICATORS

	1956-1982	1977	1978	1979	1980	1981	1982 <sup>a</sup>
<b>Total awards</b>							
Numbers of lots	93 585	2 651	2 837	2 506	3 931	4 316	5 151
Surface area (hectares)	7 620 750	344 990	176 096	422 296	716 597	473 267	244 836
Average (hectares)	81	130	62	168	182	110	48
<b>Agricultural awards</b>							
Numbers of lots		2 517	2 727	2 313	3 720	4 163	5 031
Surface area (hectares)		75 866	51 444	37 500	50 812	49 024	48 565
Average (hectares)		30	19	16	14	12	10
<b>Stock-raising awards</b>							
Numbers of lots		134	110	193	211	153	120
Surface area (hectares)		269 124	124 652	384 796	665 785	424 243	196 271
Average (hectares)		2 008	1 128	1 994	3 155	2 773	1 636
<b>Final title deeds</b>							
Numbers	85 993 <sup>b</sup>	2 507	3 500	3 814	3 836	4 054	...
Surface area (hectares)	5 708 123 <sup>b</sup>	125 894	176 642	283 888	718 989	728 885	...
Average	66 <sup>b</sup>						
<b>Comunal fields</b>							
Numbers	126	...	...	...	...	8	4
Surface area (hectares)	62 132	...	...	...	...	15 557	4 342
<b>Nationalized and expropriated lands (hectares)</b>	1 433 980 <sup>b</sup>	...	...	...	...	...	...
Nationalized	579 140 <sup>b</sup>	...	...	...	...	...	...
Expropriated	377 736 <sup>b</sup>	...	...	...	...	...	...
Occupied	477 104 <sup>b</sup>	...	...	...	...	...	...

Source: ECLA, on the basis of data from the Institute for Rural Welfare, *Report* (several years) and Juan Manuel Frutos, *Con el hombre y la tierra hacia el bienestar rural*, Cuadernos Republicanos, Asunción, 1982.

<sup>a</sup>Through 31 July.

<sup>b</sup>1956-1981.

<sup>13</sup>One hundred twenty-two communal fields, with a total surface of 57 790 hectares, were also created.

<sup>14</sup>Of the 17 711 title deeds delivered during the period 1977-1981, 14.5% were granted free of charge. The rest represented buying and selling operations. The free titles, which benefit the crippled, veterans of the Chaco War and parents of seven minor children, covered 2% of the total area titled during that period.

<sup>15</sup>The adjudications and operations for awarding of titles include some property which is not used for agricultural activities.

<sup>16</sup>These figures include the nationalization of seven pieces of property representing a total area of 574 140 hectares; the expropriation of 377 736 hectares comprising 48 properties, and the occupation (expropriation) of 477 104 hectares comprising 38 properties. The last category includes operations under Law 622/60 in its articles on *de facto* colonies and land developments, and on decrees by the executive power which have affected private properties crossed by public highways.

Table 11

**PARAGUAY: EVOLUTION OF THE DISTRIBUTION OF FARMS AND  
LAND, BY SIZE OF FARM**

	Number of farms		Percentage distribution		Surface area of farms <sup>a</sup>		Percentage distribution		Average surface area of farms	
	1956	1981	1956	1981	1956	1981	1956	1981	1956	1981
<b>Country</b>	149 614	248 903	100.0	100.0	16 816.6	21 425.6	100.0	100.0	112.3	86.1
Less than 1 ha	6 422	21 894	4.3	8.8	3.4	6.0	-	-	.5	.3
From 1 to less than 5 ha	62 292	68 184	41.6	27.3	159.2	163.1	0.1	0.1	2.6	2.4
From 5 to less than 10 ha	34 949	49 337	23.4	19.8	230.2	320.8	1.4	1.5	6.6	6.5
From 10 to less than 20 ha	25 192	56 237	16.8	22.6	316.7	691.1	1.9	3.2	12.6	12.3
From 20 to less than 50 ha	12 982	35 910	8.8	14.4	341.1	940.6	2.0	4.4	26.3	26.2
From 50 to less than 100 ha	2 837	7 059	1.9	2.8	183.2	468.8	1.1	2.2	64.6	66.4
From 100 to less than 200 ha	1 568	4 083	1.0	1.6	223.7	547.1	1.3	2.6	142.7	134.0
From 200 to less than 500 ha	1 234	2 953	0.8	1.2	374.7	868.5	2.2	4.1	303.6	294.1
From 500 to less than 1 000 ha	589	1 053	0.4	0.4	399.4	707.1	2.4	3.3	678.1	671.5
From 1 000 to less than 2 500 ha	687	1 067	0.5	0.4	1 069.4	1 640.0	6.4	7.7	1 556.6	1 537.0
From 2 500 to less than 5 000 ha	328	475	0.2	0.2	1 151.0	1 653.0	6.8	7.7	3 509.1	3 480.0
From 5 000 to less than 10 000 ha	259	344	0.2	0.1	1 794.7	2 383.5	10.7	11.1	6 929.3	6 928.8
From 10 000 to less than 20 000 ha	130	164	0.1	0.1	1 786.7	2 149.3	10.6	10.0	13 743.8	13 105.5
From 20 000 ha and over	145	143	0.1	0.1	8 783.2	8 886.7	52.2	41.5	60 573.8	62 144.8
<b>Eastern region</b>	146 287	244 002	100.0	100.0	7 952.3	9 941.9	100.0	100.0	54.4	40.7
Less than 1 ha	6 289	21 013	4.3	8.4	3.4	6.0	-	0.1	0.5	0.3
1	61 669	67 835	42.2	27.3	158.2	162.4	2.0	1.6	2.6	2.4
5	34 670	49 189	23.7	19.8	228.2	319.9	2.9	3.2	6.6	6.5
10	24 831	56 124	16.9	22.5	312.1	689.6	3.9	6.9	12.6	12.3
20	12 813	35 696	8.8	14.3	336.5	934.0	4.2	9.4	26.3	26.2
50	2 663	6 783	1.8	2.7	170.5	449.0	2.1	4.5	64.0	66.2
100	1 111	3 518	0.8	1.4	150.5	467.9	1.9	4.7	135.4	133.0
200	964	1 946	0.7	0.8	294.1	568.5	3.7	5.7	305.1	292.1
500	447	730	0.3	0.3	303.9	489.9	3.8	4.9	679.9	671.1
1 000	434	634	0.3	0.3	652.7	952.9	8.2	9.6	1 503.9	1 503.0
2 500	164	265	0.1	0.1	568.8	909.9	7.2	9.2	3 468.3	3 433.6
5 000	110	149	0.1	0.1	740.1	1 003.2	9.3	10.1	6 728.2	6 732.9
10 000	63	75	-	-	850.4	968.6	10.7	9.7	13 498.4	12 914.7
20 000 and over	59	45	-	-	3 182.9	2 020.1	40.0	20.3	53 947.5	44 891.1

Source: ECLA, on the basis of data from the 1981 National Agricultural Census, provided by the Ministry of Agriculture and Stock-raising, Office of Agricultural Censuses and Statistics.

<sup>a</sup>Thousands of hectares.

formed in express response to Law 662/60 "On proportional parcelling of large properties", and agrarian policy probably had a significant indirect influence in forming many of the other colonies which the IBR has on record.<sup>17</sup> It should also be noted that properties created through public and private colonization programmes may be submitted to further subdivision.

The number of lots awarded by the IRA and the IBR between 1956 and 1981 was equivalent to slightly more than 59% of the mixed farms included in the 1956 census, 35% of those of the 1981 census and 89% of the increase in farms between those two years. It was also equivalent to 50% of the number of families dependent on agricultural activities in 1956, 30% in 1981, and 75.3% of the increase of families dependent on agriculture between those years.<sup>18</sup> Nevertheless, the ratio between the number of agricultural families and the number of farms remained constant at 118% between the two dates. The area covered by those lots was equivalent to 44% of the total area of farms in 1956, 34.4% in 1981 and 160% of the increase in farming area between those years (see tables 10 and 11).

<sup>17</sup> Law 662/60 states that a minimum of 10% of the area of properties having more than 10 000 hectares suitable for agriculture must be devoted to colonization, under the auspices of either the IBR or the owner.

<sup>18</sup> For 1981, the population dependent on agriculture was calculated on the basis of data from the FAO, Production Yearbook, Rome, 1982, and the preliminary results of the 1982 population census of Paraguay, since the relevant data from the agricultural census of 1981 have not yet been published.

The number of title deeds delivered by public institutions between 1956 and 1981 exceeded by nearly 44% the number of owners of farms included in the 1956 census, and was equal to 48% of those existing in 1981 and to 71% of the increase in owners between those two years. It also exceeded by 18% the number of farms managed irregularly in 1956 and was equivalent to nearly 87% of the increase in farms between 1956 and 1981. This made the proportion of irregularly-managed farms decline from 48.5% of the total in 1956 to 17% in 1981, whereas the number of landowners in relation to the number of farms increased from 39% in 1956 to 72% in 1981.<sup>19</sup> The area covered by those title deeds was equivalent to 34% of the total area of farms included in the 1956 census, to 26.6% in the year 1981 and to 124% of the expansion of the area comprising the farms between those two years.

Finally, it may be noted that the expanse of land nationalized and expropriated during the period in question was equivalent to 8.5% of the total area of farms in 1956; 6.7% of the area of farms included in the 1981 census, and 19.4% of the land awarded between those two years.

Table 11 features some of the effects of the agrarian reform policy on land distribution, by size of farm.<sup>20</sup>

Between 1956 and 1981, the proportion of the total area represented by farms larger than 10 000 hectares declined from 62.8% to 51.5%; this drop reflected nearly exclusively the decrease in the proportion represented by holdings of more than 20 000 hectares. On the other hand, there was not, nor could there have been expected, given the legislation in force, a decrease in the proportion of the total area encompassed by farms from 1 000 to 10 000 hectares. In fact, that proportion rose from nearly 24% in 1956 to 26.5% in 1981. As a result, the portion of the total area of farms of 1 000 or more hectares dropped from 86.7% in 1956 to 78% in 1981. However, the percentage these farms represented in the farm total declined from 1.03% to 0.87%, while the absolute area they covered increased by 15% (see table 11).

The considerable reduction of the portion of land located in farms larger than 10 000 hectares was offset by more or less considerable proportional increases in all the strata between five and 5 000 hectares. The most favoured stratum was that of 20 to 50 hectares, followed by the 50- to 100-hectare stratum. The sharpest relative expansion of the number of farms was found first among those of one hectare or less, followed by the 10- to 20-hectare category and then the 50- to 100-hectare category.

The relative situation of farms smaller than 10 hectares improved somewhat during the period in question, since their share of the total farms declined from 69.3% to 55.9%, while the proportion of land on which they operate rose from 1.4% to 1.5%. The average size of this group also rose. On the other hand, despite the fact that the share of the number of farms less than five hectares in the total number of farms declined markedly, their absolute number increased substantially and their average size fell from 2.4 to 1.9 hectares.

When interpreting these statistics, it should be noted that population density and the use and distribution of the land in the western and eastern regions of the country, differ radically. The western region contains slightly less than 2% of the population, while the land exploited there is almost exclusively devoted to stock-raising and its ownership is exceptionally highly concentrated. Furthermore, the development of land distribution between the two regions during the period 1956-1981 differed significantly. It may therefore be stated that in the eastern region, the proportion of the total farm area covered by farms of more than 10 000 hectares was reduced from 50.7% in 1956 to 30% in 1981; the proportion covered by farms larger than 20 000 hectares decreased from 40% to 20%. Both the degree and pattern of concentration in 1956, as well as subsequent development, generally indicate features in the eastern region different from those recorded at the national level (see table 11).

<sup>19</sup> The statistics on the number of owners in 1981 come from a survey carried out by the Ministry of Agriculture and Stock-raising, and are preliminary.

<sup>20</sup> It should be borne in mind that the potential scope of the reform is determined, in principle, by the legislation in force. In this respect, at least three provisions of the Agrarian Statute should be mentioned. The properties most likely to be affected are those larger than 10 000 hectares in the eastern region and those larger than 20 000 hectares in the western region. Furthermore, the Agrarian Statute envisages the formation of agricultural exploitations from 20 to 100 hectares, forest exploitations from 50 to 100 hectares, and stock-raising exploitations from 300 to 8 000 hectares, for the benefit of individuals meeting certain requirements. The latter include being a farmer or stockbreeder, but not owning more than 50 hectares of land suitable for agriculture, or more than 750 hectares of land suitable for stock-raising in the eastern region or more than 4 000 hectares of stock-raising land in the western region.

When considering this matter, it should also be borne in mind that the land distribution noted in table 11 is not the same as that prevailing in the distribution of the value of land, or of the income generated by it. Although in 1981 farms of more than 1 000 hectares contained 78% of the land, they produced slightly less than 9% of the total harvest of soya, the country's most important crop. Farms of less than 50 hectares, which contained 6.7% of the land, produced more than 28% of the soya harvested in 1981. The main producers of this crop were farms of 50 to 200 hectares, which harvested 45.6% of the total production, under circumstances in which they operated on 4% of the land. In the case of cotton, the country's second crop, farms larger than 1 000 hectares produced less than 1% of the total in 1981. On the other hand, farms of less than 50 hectares harvested 89% of the total, and among them, those of less than 10 hectares produced more than 47% of the total. With regard to sugar cane, the country's fourth crop, farms of more than 1 000 hectares produced 33% of the harvest in 1981, while those of less than 50 hectares produced nearly 85%. Farms of less than 10 hectares harvested more than 35% of the total. In the case of less important crops, such as wheat and tobacco, in 1981 farms of more than 1 000 hectares produced nearly 10% and nearly 3%, respectively, of the totals, while those of less than 50 hectares produced 20.4% and slightly less than 92%, respectively, of the totals. The main wheat producers were farms of 50 to 200 hectares, which produced 42.5% of the total.<sup>21</sup>

With regard to the livestock sector, available statistics relate to cattle and pig holdings. In 1981 farms of more than 1 000 hectares contained nearly 63% of total cattle stocks, while those of less than 50 hectares contained 21.5%. The same year, farms of more than 1 000 hectares held 2.7% of total stock in pigs, while those of less than 50 hectares contained nearly 87% of the total. Those of less than 10 hectares held nearly 47% of the total.<sup>22</sup>

The agricultural census of 1956 did not contain the data which would have made it possible to determine the distribution of agricultural production by size of farm. With regard to the distribution of cattle and pig holdings by size of farm, it may be observed that the degrees of concentration were slightly altered. In 1956 farms of more than 1 000 hectares contained 69.5% of the cattle and 3.7% of the pigs, while those of less than 50 hectares contained 20.9% of the cattle and nearly 89% of the pigs.

iii) *The industrial sector. Manufacturing.* According to the latest estimates, the added value of the manufacturing industry decreased by 4.5% in 1982. The drop in the level of activity was headed by the chemical subsector, whose product decreased by nearly 18%, and the textile subsector, whose added value decreased by nearly 16%. Production of foodstuffs, beverages and tobacco shrank by slightly less than 7%, mainly as a result of the more than 24% decrease in beverage production. The value added by the non-metallic minerals and wood and furniture industries, decreased by 6.5% and 6.0%, respectively. Statistics for the remaining subsectors were not available. However, it may be stated that as a whole they must have expanded sharply, given the weight and negative development of those mentioned above (see table 12).<sup>23</sup>

In 1982 112 investment projects were accepted for the tax benefits established by the law on investment promotion for economic and social development (*Ley de fomento de las inversiones para el desarrollo económico y social* — Law 550). Investment commitments to these projects amounted to 101 million guaraníes. Approximately half of the investments involve expansion of existing firms, while the other half entails the creation of new ones. More than 84% of total investments originated outside of Asunción. Three projects, two new agro-industrial companies and the installation of a new alcohol-fuel factory, absorbed slightly more than 41% of the total investment.

The amount of investments aided by Law 550 in 1982 represented a reduction of 32.4% in comparison with the year before, and of 61.7% in comparison with 1980. At constant prices the 1982 amount was 34.4% and 68.1% less than those of 1981 and 1980, respectively. This development was

<sup>21</sup> It should be noted that these are the only five crops for which statistics have been published up to the present. In 1981 the current value of soya production was 18.5% of the current value of the entire crop-farming production and 12.6% of that of agricultural production, excluding forest production. That same year the current value of cotton production was 12.5% of that of crop-farming production, and 8.5% of that of agricultural production. The current value of sugar cane production in 1981 was 3.4% of that of crop-farming production and 3.3% of that of agricultural production. The corresponding figures for wheat were 1.1% and 0.7%, respectively, and for tobacco, 1.0% and 0.65%, respectively.

<sup>22</sup> In 1981 the current value of cattle slaughtering represented more than 34% of that of livestock production and 9.7% of that of agricultural production, while the current value of pig slaughtering was 28.5% of that of livestock production and 8.0% of agricultural production.

<sup>23</sup> It should be noted that consumption of electric energy in the sector declined by 15.6% in 1982.

closely linked to the negative turn in the economy's performance, but in 1982 it was also connected with the decision to exclude a series of activities from the benefits of Law 550 for one year, since it was felt that these activities contained sufficient installed capacity.<sup>24</sup>

The contraction in the manufacturing sector was also influenced by conjunctural factors such as the lower activity at Itaipú and Yacyretá, and the well-known intensification of competitive pressures and slackening in demand from some of Paraguay's trading partners, as well as the management of domestic economic policy. In the latter field, the sector's performance was negatively affected by the continuation and even increase of the very high real interest rates, the Government's substantial curbing of its capital expenditures and the behaviour of the exchange rate.<sup>25</sup>

Although global economic policies, with the exception of the exchange policy adopted during the second half, tended to heighten rather than mitigate the depressive effects from abroad, some sector-specific measures were taken to meet particular problems raised by the contraction in industry.

Table 12  
PARAGUAY: INDICATORS OF MANUFACTURING PRODUCTION

	1978	1979	1980	1981	1982 <sup>a</sup>	Percentage breakdown		Growth rates				
						1972	1981	1978	1979	1980	1981 <sup>a</sup>	1982 <sup>a</sup>
<b>Gross manufacturing product (millions of guaraníes at 1977 prices)</b>	49.4	53.2	59.9	64.7	61.8	100.0	100.0	9.8	7.7	12.6	8.0	-4.5
Foodstuffs, beverages and tobacco	18.7	19.3	20.1	23.8	22.2	48.7	36.8	-3.6	3.5	4.2	18.7	-6.7
Textiles, clothing and leather	9.6	8.4	8.4	10.5	8.9	16.0	16.3	12.7	-13.0	-0.1	25.0	-15.7
Wood and furniture	4.6	7.5	10.8	8.6	8.1	7.1	13.3	18.7	63.0	44.2	-20.4	-6.0
Paper and printing	1.0	1.8	2.3	1.2	...	2.4	1.9	4.5	74.0	28.3	-48.4	...
Chemicals	7.7	8.0	8.8	9.4	7.7	14.0	14.5	16.7	3.3	10.1	6.8	-17.7
Minerals	1.7	1.7	2.1	2.3	2.1	2.9	3.5	-8.8	-	22.3	9.6	-6.5
Basic metals	-	0.1	0.1	0.2	...	0.1	0.3	-23.5	113.6	59.3	100.2	...
Metal products, machinery and equipment	1.4	1.5	1.5	2.0	...	3.4	3.1	-4.3	5.6	1.6	29.9	...
Other manufacturing industries	0.2	0.2	0.2	0.3	...	0.3	0.5	12.8	31.0	20.4	39.8	...
Artisanal production	4.4	4.7	5.5	6.3	...	5.0	9.7	46.2	7.4	17.1	14.5	...
<b>Output of some of the main manufactures (thousands of tons)</b>												
Cotton cloth	20.8	20.3	16.6	15.9	...			2.5	-2.4	-18.0	-4.0	...
Cotton fibres	90.7	73.3	74.9	105.9	...			24.6	-19.2	2.0	41.0	...
Tannin	17.4	6.7	15.7	13.2	21.0			32.8	-61.5	134.0	-16.0	59.0
Cocoa beans	38.9	37.8	49.1	57.1	...			11.1	-2.8	30.0	16.0	...
Tung oil	11.9	11.2	10.2	12.1	...			-37.7	-5.9	-9.0	19.0	...
Cement	167.0	154.5	176.7	156.1	111.2			-16.4	-7.5	14.0	-11.7	-28.8
Cigarettes	40.9	40.4	32.4	37.8	...			3.8	-1.2	-20.0	17.0	...
Soft drinks	96.5	111.0	116.1	145.7	...			78.0	15.0	5.0	25.0	...
Wheat flour	84.6	82.3	81.8	100.7	...			43.1	-2.7	-1.0	23.0	...
Sugar	68.7	68.5	89.2	76.5	...			-11.0	-0.3	30.0	-14.0	...
Leather	13.8	9.4	9.0	9.5	...			-6.1	-31.9	-4.0	6.0	...
Canned meat	11.2	0.3	-	-	...			-6.7	-97.3	-	-	...

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

<sup>a</sup> Preliminary figures.

<sup>24</sup> These activities include the manufacturing of dairy products, ice cream, ice, sugar cane, beer, non-alcoholic beverages and soft drinks, clothing manufacture, sawmills, cardboard manufacture, printing and publishing, plastics, clay products for construction and portland grey cement, retail fuel stations, commercial and financial banks, cinemas, radio studios and stations, automobile and motorcycle repair shops, laundries and laundry services, manufacture of cigarettes and knitted materials.

<sup>25</sup> With respect to the exchange policy, it should be noted that while at the beginning of the half the problem lay in the persistence of an excessively low real exchange rate, in the second it lay in the sharp rise in prices of imported inputs and the considerable rise in the cost of servicing debts contracted in foreign currency. On the other hand, the high rise in the average exchange rate for imports in the second half made it possible to offset the negative effect of the exchange variations in neighbouring countries, and gave rise to a substantial improvement in the competitive position of the economy in its own market (see section 3, paragraph a) above).



In the first quarter Decree No. 31609 was enacted, requiring all public sector distributions, even to mixed ventures, to have exclusive recourse to domestic products in their purchases of goods and services, up to a 15% margin of price difference. In the second half, implementation of the *Programa de Desarrollo Industrial y Turístico* (Industrial Development and Tourist Programme) was begun, with a relatively substantial loan from the World Bank, for development of small and medium-sized businesses. This programme envisages providing long-term loans at interest rates considerably lower than those prevailing in the domestic market, and exemption from customs duties, exchange fees and prior deposits for external purchases made under it.

Specific measures taken for the benefit of the sector include the decree promulgated in February, which prohibited the import of solid, hot-rolled, twisted iron or steel bars of normal hardness and smooth surface, between 6 and 32 millimetres in diameter, and of structures made from these types of bars, and the decree enacted in September, in response to a request from the *Asociación de Industriales Gráficos del Paraguay* (Association of Graphic Manufacturers of Paraguay) which prohibited the importation of several graphic products, such as wrapping paper, other paper and coloured cardboard, envelopes and post cards, cardboard and paper wrapping, card indexes and filing cabinets, booklets, pamphlets, and books on national topics or authors, and calendars. In addition, in the middle of the year the country's largest textile factory was granted a set of measures to promote its recovery from a serious crisis. The measures included the elimination of all taxes on its exports, the right to exchange foreign money in the black market, and access to tariff preferences; a special régime was created for the importation of vehicles using alcohol as fuel, which made them considerably less expensive than conventional vehicles and indirectly benefitted the local alcohol-fuel industry and sugar cane producers; the State monopoly on the production and marketing of alcohol for fuel was ended, a National Alcohol Fuel Commission was created to regulate that activity, and the installation of two private absolute alcohol factories was authorized.<sup>26</sup>

*Construction.* In 1982 added value in construction decreased by 6%. During the economic boom, the average growth rate of this sector was 22.5%, between 1976 and 1980, it was 30% per year, and in 1981 it was 16.2%. As a result of this extraordinary expansion, the sector's contribution to the gross domestic product rose from 3.1% in 1972 to 8.7% in 1981, and the impact of its behaviour on the evolution of the rest of the economy was heightened.

The drop in construction in 1982 reflected above all the end of the construction works at Itaipú, in both its direct effects and its recessive effects on the rest of the economy, and also in the postponement of the main construction works at Yacyretá, the hydroelectric power station which Paraguay is building together with Argentina. In addition to these factors, there was the restrictive monetary policy, reflected in the rise in interest rates, and the reduction of capital expenditures by the public sector, which lowered the rate of work on some projects and postponed the beginning of others.

iv) *Basic services.* As a whole, the basic services product rose by 9.6% in 1982. Although the growth rate slackened for the third consecutive year, the performance of this sector departed radically from the behaviour of the rest of the economy, basically due to the marked increase in the generation of electricity, encouraged by a sharp rise in residential consumption. In 1982 the quantity of electric energy generated rose by more than 27%, after a growth of slightly more than 3% the year before. Thus it was possible to replace the imports of electric energy and even sell abroad, while also extending the transmission infrastructure, especially with the opening of work on the first stage of the southern transmission system, which services the departments of Itaipú and Misiones. Between 1981 and 1982 the proportion of the population receiving services rose from 31.5% to 37.7%. In contrast with residential consumption, industrial consumption decreased quite substantially in 1982 (see table 13).

Construction works on the hydroelectric power station at Itaipú, which Paraguay is carrying out with Brazil, culminated in the filling of the reservoir in October. The first two of the 18 rotors (turbines) which the company will have also arrived at the site. With the conclusion of these works, between the first and second half the capital inflows and purchases of goods and services declined

<sup>26</sup>The national fuel alcohol project is attempting to reduce the economy's dependence on petroleum, which comes entirely from abroad. Besides promoting the use of alcohol-driven vehicles an attempt is being made to attain a mixture of 20% alcohol and 80% gasoline for conventional vehicles.

more markedly, both by around 30%, while the labour force dropped from 27 000 to 18 000 persons, approximately 9 000 and 6 000 of whom were Paraguayans.<sup>27</sup>

The entry on line of the first turbine was postponed from the first quarter of 1983 to the first quarter of 1984, which will delay the beginning of its commercial operation, originally planned for the first quarter of 1985, and, therefore, the delivery by the Paraguayan and Brazilian Governments of the plan of use of the energy, which by agreement they must draw up two years before commercial operation begins. In this respect, Paraguay must decide which proportion of the energy it will utilize and which proportion it will sell to Brazil over a 10-year period.<sup>28</sup>

The construction of the hydroelectric power station at Yacyretá, which is being carried out by Paraguay and Argentina, met a series of obstacles, the majority of which were beyond the control of Paraguay and reduced the budget of the Yacyretá binational entity by approximately 25% and delayed the planned schedule by one year. However, towards the end of the year the main problems appeared to have been resolved and the beginning of major construction work was planned for the second half of 1983.<sup>29</sup>

Table 13

PARAGUAY: INDICATORS OF THE CAPACITY, GENERATION AND CONSUMPTION OF ELECTRIC ENERGY

	1970	1972	1974	1976	1977	1978	1979	1980	1981	1982 <sup>a</sup>
Installed potential <sup>b</sup>	123.7	127.0	169.2	219.4	269.5	270.7	272.1	272.5	274.1	274.1
Hydraulic	90.0	90.0	90.0	140.0	190.0	190.0	190.0	190.0	190.0	190.0
Thermal	33.7	37.0	79.2	79.4	99.5	80.7	82.1	82.5	84.1	84.1
Electric energy generation <sup>c</sup>										
Gross	159.2	197.6	450.9	540.9	500.4	491.1	618.2	697.4	720.4	916.0
Net	154.2	192.6	445.5	536.7	492.7	482.9	611.4	692.1	716.8	912.7
Net imports of electric energy	-	-	-160.0	-166.0	-43.7	-15.1	-25.6	5.4	103.0	-40.0
Domestic electric energy supply										
Gross	159.2	197.6	290.9	375.0	457.1	476.8	592.9	703.1	824.0	876.0
Net	154.2	192.6	285.5	370.7	449.0	467.8	585.8	697.5	819.8	872.6
Domestic electric energy consumption	129.8	168.6	238.6	307.0	374.5	438.3	544.8	658.0	751.7	800.6
Residential	76.4	93.9	130.1	173.2	205.9	237.6	273.9	344.3	390.7	473.9
Industrial	33.8	48.2	76.3	101.7	126.5	156.0	224.9	263.3	300.1	253.3
ANDE	5.0	5.0	5.4	4.3	8.1	9.0	7.1	5.6	4.2	3.4
Other <sup>d</sup>	14.6	21.5	26.8	27.8	34.0	35.7	38.9	44.8	56.7	70.0
Percentage of population receiving electric energy service	10.9	14.8	19.0	21.2	22.5	24.2	26.6	29.0	31.5	37.7

Source: National Electricity Administration (ANDE), *Compilación Estadística*, 1960-1981, Asunción, 1982, and other statistics also supplied by ANDE.

<sup>a</sup> Preliminary figures.

<sup>b</sup> Thousands of kW.

<sup>c</sup> Millions of kW.

<sup>d</sup> Including street lighting.

<sup>27</sup> In 1981 Itaipú brought nearly US\$ 300 million into the country; this amount was equivalent to 71% of inflow of capital registered in the balance of payments. In 1982 the corresponding figures were US\$ 231 million and 56%, respectively. In 1979, the highest point with regard to employment, the workforce employed by Itaipú reached 38 000. In February 1983 it had decreased by another 5 000 in comparison with December 1982.

<sup>28</sup> In this connection it may be pointed out that a report by the *Comisión Especial Energética* (Special Energy Commission), which studies the utilization of the energy of Itaipú, concluded that the country cannot absorb the quantity of energy offered by Itaipú in the short term. Furthermore, the readjustment factor of the values envisaged in the Itaipú Agreement, and of the price of the electricity which Itaipú will generate, must still be determined. For more details on this question, see ECLA, *Economic Survey of Latin America, 1980*, United Nations, Santiago, Chile, 1981, pp. 457 and 458.

<sup>29</sup> For details on the difficulties met by Yacyretá in 1982, see Paraguayan Data Bank, *Paraguay Económico*, I, Nos. 1 to 12, 1982.

Table 14

## PARAGUAY: INDICATORS OF TOURISM

	1970	1972	1974	1976	1977	1978	1979	1980	1981	1982
Number of tourists (thousands) <sup>a,b</sup>	119.2	93.0	80.1	115.2	176.9	201.9	301.9	302.1	267.1	178.4
From Argentina	54.0	33.7	46.8	38.5	68.1	86.8	132.2	132.6	122.5	56.9
From Brazil	33.3	28.5	25.5	43.0	65.3	68.2	106.9	104.8	92.1	93.8
From United States	6.7	6.3	1.1	3.5	3.2	4.4	3.6	3.3	4.3	3.9
From Japan	3.3	2.5	0.6	2.5	4.2	4.0	5.1	3.9	2.5	1.0
From Uruguay	5.0	4.3	1.3	4.4	3.7	4.6	3.6	3.9	7.5	5.4
From other countries	16.9	17.7	4.8	23.3	36.1	33.9	50.5	53.6	38.2	17.9
Average stay (days)	...	...	3.9	3.0	3.0	3.0	3.3	3.3	3.3	3.3
Average expenditures (dollars)	119	119	150	122	200	200	230	300	300	309
Total expenditures (millions of dollars)	14.2	11.1	12.0	14.0	35.4	40.4	69.5	90.7	80.2	55.1
Supply of rooms (number) <sup>c</sup>	...	...	1 605	2 187	2 279	2 442	2 326	2 750	2 769	...
Supply of beds (number) <sup>c</sup>	...	...	3 896	5 120	5 314	5 691	5 434	6 329	6 243	...
Average rate of occupation										
Of rooms (percentage)	...	...	41.0	43.3	77.6	82.7	129.8	109.9	96.5	64.4 <sup>d</sup>
Of beds (percentage)	...	...	16.9	18.5	33.3	35.5	55.6	47.7	42.8	29.6 <sup>d</sup>

Source: ECLA, on the basis of data supplied by the Department of Tourism, Ministry of Public Works and Communications.

<sup>a</sup>The total number of tourists, which is calculated on the basis of tourist cards, includes only persons over 12 years of age.

<sup>b</sup>The distribution of tourists by country of origin is calculated on the basis of hotel registers. For 1970 and 1972, the distribution refers to the tourists, nationality; subsequently, it refers to their point of departures.

<sup>c</sup>From among the hotels, motels, hostels, and boarding houses considered to be "tourist level" by the Department of Tourism.

<sup>d</sup>Estimated figures.

v) *Tourism*. In 1982 the flow of tourists into the country again decreased visibly, but to an even greater extent than it had the year before. The number of tourists dropped by more than 33% in 1982, following the nearly 16% decline which occurred in 1981. The total expenditures by tourists, for their part, were 32% lower in 1982 than in 1981, and 39% lower than in 1980, in nominal terms. In real terms they declined by 35% in comparison with 1981 and 49% in comparison with 1980. The average ratio of occupation of the rooms contained in all the hotels, motels, hostels and guest houses which the Bureau of Tourism considers to be proper tourist accommodation dropped from 110% in 1980 to 96.5% in 1981, and to 64.4% in 1982 (see table 14).

To a large extent, the contraction reflected a sharp drop in tourism from Argentina, which decreased by 54.6% in 1982, following the nearly 8% decrease recorded the year before. The number of tourists from the other main source, Brazil, grew slightly in 1982, after having decreased by 15% between 1979 and 1981. In 1982, 85% of the tourists entering the country were from Brazil and Argentina.

This negative evolution was decisively influenced by the prolonged recession in Argentina and the gradual rise in the exchange rate in that country. Between 1980 and 1982, the average real exchange rate of the guaraní in the parallel market with respect to the official Argentine peso declined by 40%, and by much more if the calculation is made with the Argentine peso in the parallel market.

After its boom period of 1976-1980, when the number of tourists grew by more than 27% per year, tourism provided foreign currency equivalent to 16% of exports of goods and services and 21% of net inflow of capital. Therefore, its marked contraction has contributed not inconsiderably to the downturn in the economy.

vi) *Trends in employment and unemployment*. The rate of unemployment in the country rose from 4.6% in 1981 to 9.4% in 1982, according to preliminary calculations from the Central Bank.<sup>30</sup> In

<sup>30</sup>In contrast to the data for Greater Asunción, which appear in table 15, this estimate is not based on household surveys. The statistics on employment and unemployment in Greater Asunción, which correspond to the second half of 1981 and to 1982, have not yet been tabulated due to the conducting of the 1982 population census.

1980, with the culmination of the process of systematically reducing unemployment which had begun in 1973, the rate was barely 2.1% of the labour force. The figure calculated for 1982 was the highest in the series which begins with 1970,<sup>31</sup> and naturally reflects and determines the decline in the level of activity. A more than proportional rise in unemployment appears to be consistent with the sectoral pattern of the recession, which was characterized by more pronounced decreases in sectors which use more manpower, such as agriculture and construction.

The first statistics published by the *Censo Nacional de Población y Viviendas* (National Population and Housing Census) of 1982, which unfortunately does not contain statistics on the labour force, indicate some significant variations with regard to existing projections of the total population and the geographic distribution which has been one of the country's outstanding features.

While an annual growth rate of 3.3% was projected for the total population between 1972 and 1982, the population included in the 1982 census was 10% lower than that expected, making the actual annual growth rate 2.5%. Subsequent adjustments may change this interesting result, but it would not be likely to undergo very significant alterations. The growth rate indicated by the 1982 census meant, furthermore, that the rate of expansion of the population in fact continued to slacken to a slight extent (see table 16).

For its part, the slight rising trend in the degree of urbanization of the population observed increased significantly from the 1950s onwards. Thus, after growing by 3.0% per year during the period 1950-1962, the urban population expanded by 3.8% per year between 1972 and 1982, and rose from 34.5% of the total population in 1962 to 37.4% in 1972, and to 42.3% in 1982.

In another sphere, the process of depopulation continued in the already scarcely inhabited western region of the country, which, with 60% of the national territory, was inhabited by less than

Table 15

PARAGUAY: RATES OF OPEN UNEMPLOYMENT IN ASUNCION<sup>a</sup>

Year and quarter	Men	Women	Total
1976	7.2	6.0	6.7
1977	6.2	4.1	5.4
1978	4.0	4.2	4.1
1979	4.9	7.3	5.9
I	5.5	6.7	6.0
II	5.9	7.9	6.7
III	4.8	9.9	6.9
IV	3.5	4.5	3.9
1980	3.3	4.9	3.9
I	4.1	6.8	5.3
II	3.0	5.6	4.0
III	3.3	4.1	3.6
IV	2.8	2.9	2.8
1981	2.5 <sup>b</sup>	1.7 <sup>b</sup>	2.2 <sup>b</sup>
I	2.6	1.0	2.0
II	2.4	2.3	2.3

Source: Department of Statistics and Censuses, *Encuesta de hogares. La muestra de mano de obra* (several issues), and data supplied to ECLA.

<sup>a</sup>In addition to Asunción includes Fernando de la Mora, Lambaré and the urban areas of Luque and San Lorenzo.

<sup>b</sup>First half of year.

<sup>31</sup>The rates in the series are:

1970	5.0%	1977	3.7%
1971	5.0%	1978	3.1%
1972	5.1%	1979	2.6%
1973	5.1%	1980	2.1%
1974	4.8%	1981	4.6%
1975	4.6%	1982	9.4%
1976	4.2%		

Table 16

PARAGUAY: SOME POPULATION INDICATORS<sup>a</sup>

	Thousands of persons				Percentage breakdown				Growth rates		
	1950	1962	1972	1982 <sup>b</sup>	1950	1962	1972	1982	1950-1962	1962-1972	1972-1982
Total											
Projection	1 371	1 878	2 433	3 370	100.0	100.0	100.0	100.0	2.70	2.65	3.30
Census	1 328	1 819	2 358	3 026	100.0	100.0	100.0	100.0	2.70	2.65	2.50
Urban											
Projection	...	...	929	1 459	...	...	38.1	43.3	...	...	4.60
Census	460	652	882	1 281	34.6	35.8	37.4	42.3	2.95	3.10	3.80
Rural											
Projection	...	...	1 504	1 911	...	...	61.9	56.7	...	...	2.40
Census	869	1 167	1 476	1 745	65.4	64.2	62.6	58.7	2.50	2.40	1.70
Eastern region	1 274	1 745	2 288	2 969	95.9	95.9	97.0	98.1	2.70	2.75	2.65
Traditional settle- ment area <sup>c</sup>	842	1 117	1 333	1 603	63.4	61.4	56.6	53.0	2.40	1.80	1.90
Asunción	207	288	389	456	15.5	15.4	16.5	15.1	2.80	3.15	1.60
Rest of											
Metropolitan area	65	120	190	339	4.9	6.7	8.1	11.2	5.20	4.70	6.0
Other areas	570	707	755	808	42.9	38.9	31.0	26.7	1.80	0.65	0.60
Rest of eastern region	432	628	955	1 366	32.5	34.5	40.5	45.1	3.20	4.30	3.60
Western region	54	74	70	57	4.1	4.1	3.0	1.9	2.70	-0.40	-2.00

Source: ECLA, on the basis of Department of Planning, *Diagnóstico demográfico del Paraguay*, Asunción, 1980, Volume I and *Proyección de la población del Paraguay por sexo y grupos de edades, 1950-2025*, Asunción, 1980; CELADE, *Demographic Bulletin*, VIII, No. 25, January 1980; and Department of Statistics and Censuses, *Censo Nacional de Población y Viviendas, 1982. Cifras provisionales*, Asunción, December 1982.

<sup>a</sup>Not including the indigenous population. According to the Indigenous Population Census carried out in 1981, the indigenous population was 38 703 that year.

<sup>b</sup>Preliminary figures.

<sup>c</sup>Including the Central Cordillera, Guairá, Paraguari and Caazapá departments.

2% of the population in 1982. In the eastern region, however, the process of deconcentration of the population also continued, although to a lesser extent; this process gained in strength from the 1970s onwards. Between 1972 and 1982 the demographic growth rate of the traditional settlement area in the southeastern corner of the eastern region was 1.9%. In contrast, that of the rest of the eastern region was 3.6%. As a result, the proportion of the total population of the country residing outside of the traditional settlement area increased from 40.5% in 1972 to 45.1% in 1982. In 1962 the corresponding figure had been 34.5%. On the other hand, within the traditional settlement area there was a higher concentration in the metropolitan area, despite the striking drop in the growth rate of the city of Asunción.

In the rest of the traditional settlement area the growth rate was barely 0.6%, causing its share of the total population of the country to decline from 31% to 26.7% between 1972 and 1982, after having been nearly 39% in 1962 and nearly 43% in 1950. In two of the four departments it comprises—Cordillera and Paraguari—the population included in the 1982 census was equal to or less than that included in the 1972 census, and barely exceeded that of the 1962 census (see table 16).

This area is the so-called small farm zone from which thousands of peasants have emigrated in recent decades to colonize the agricultural frontier in the periphery of the eastern region. In addition to the agrarian policy and the extension of the infrastructure, the process of deconcentration of the population in the eastern region has been influenced by the Itaipú construction and the heavy immigration of colonists from Brazil and other countries, who have also preferred to settle in the easternmost departments.

### 3. The external sector

#### a) *Introduction*

According to preliminary data from the Central Bank, export performance, which had been negative, changed spectacularly, despite the fact that on the average export prices declined. However, official statistics also show that the balances of all the main external sector accounts deteriorated to a greater or lesser extent, and that, with the exception of the capital account, all showed negative balances for the first time since 1969. In 1982 there was an expansion of more than 26% in the volume of exports of non-factor goods and services, after a 10% decrease the year before and a stagnation in 1980. On the other hand, both the unit value of external sales and the net inflow of capital decreased, while the average price of imports of goods and services rose. As a result, and for the first time in three years, total import capacity increased, although in a proportion (14%) much lower than that of the volume of exports, and slightly exceeded that recorded in 1979.

However, since the volume of imports of goods and services grew at a considerably higher rate (20%), the proportion of the current account deficit in the gross domestic product rose once more, from 5.7% to 8.1%, and the first deficit in the global balance of payments in 13 years occurred. Gross international reserves, therefore, also declined for the first time since 1969, and in months of imports of goods and services, decreased from 10 to 7 between 1981 and 1982. On the other hand, the gross disbursed external debt increased more than 25% in real terms, causing the net disbursed external debt to more than double. Nevertheless, its proportion of the product continued to be relatively low, and even lower than that of four years before (see table 17).

The inconsistency between the behaviour of external trade and that of other macroeconomic variables, such as the production of the main export products and domestic expenditures, may be attributed principally to the probable effects of the exchange measures and movements and the changes in tax law on that portion of external trade which is registered, since other relevant factors, such as the negative evolution of external prices, the decline in the rate of activity of the binational entities and the difficulties being met by the regional markets, adversely affected the country's external trade.

In 1982 the effective real official exchange rate of imports considered as having priority, which amounted to approximately 50% of the value of regular imports, decreased by 9.6%, while that of non-priority imports rose by less than 3%. In contrast, the effective real exchange rate in the parallel market increased by 29.5%. Obviously such exchange movements not only represented a strong encouragement to the shift of non-registered imports towards official channels, but also fostered advance external sales in anticipation of higher rises in the exchange rate.

In the case of exports, however, the relationship is not so clear. Since supply of exportable—and exported—products approximately doubled registered exports, a rapid and favourable response might have been expected from the significant increase experienced by the effective official exchange rate in nominal and real terms, especially in view of the fact that the official exchange rate had been fixed for so many years. However, the rise of the exchange rate in the parallel market was on the average much more marked, which appears to have encouraged the marketing of products outside of legal channels. An examination of the situation by quarters indicates that all of the growth of regular exports of goods registered in 1982 occurred in the second and third quarters, when the official exchange rate attained its highest levels of the year, both in effective nominal and real terms. And when in the fourth quarter, the parallel exchange rate reached its highest level, both in absolute terms and in relation to the official exchange rate, the exports recorded were barely 38% of the amount for the last quarter of the year before. Finally, it should be noted that to a large extent the growth in value and volume of external sales in 1982 was due to the performance of services, fostered by an official exchange rate that was closer to that of the parallel market—and even the same as the latter for four months—and visibly higher than in 1981 (see tables 18 and 19).<sup>32</sup>

In any case, it is virtually certain that both total exports and total imports of goods and services, registered and non-registered, declined in 1982, as a result of sharp drops in production of the main export products, and of a reduction in domestic expenditure, and especially domestic investment.

<sup>32</sup>The exchange alterations and movements which occurred in 1982 will be examined in detail later on.

Table 17

## PARAGUAY: MAIN EXTERNAL SECTOR INDICATORS

	1975	1976	1977	1978	1979	1980	1981	1982 <sup>a</sup>
1970 = 100 <sup>b</sup>								
Volume of exports of goods and services <sup>c</sup>	117.8	127.9	159.6	188.0	201.5	204.6	184.3	233.0
Purchasing power of exports of goods and services <sup>c</sup>	124.4	140.3	210.5	226.9	229.2	216.3	207.8	247.9
Net factor payments to rest of world <sup>d</sup>	122.5	99.0	80.4	113.7	‘	25.7	‘	88.2
Purchasing power of net imports of capital	230.7	240.6	333.4	559.9	600.3	600.3	558.6	540.7
Total import capacity	141.8	154.6	205.2	279.8	313.6	311.0	276.0	315.0
Volume of imports of goods and services <sup>c</sup>	143.5	154.9	211.7	250.1	296.1	292.1	325.6	392.0
Gross international reserves Index	328.4	465.6	736.8	1 194.6	1 385.6	1 484.6	1 506.3	1 260.8
In months of imports <sup>f</sup>	4.9	6.4	7.4	10.2	10.0	10.9	9.9	6.9
Gross disbursed external debt	109.0	154.8	163.9	204.7	191.6	192.9	203.9	255.5
GDP = 100 <sup>g</sup>								
Volume of exports of goods and services <sup>c</sup>	8.7	8.8	9.7	10.3	10.0	9.1	7.6	9.8
Terms-of-trade effect	0.5	0.9	3.1	2.1	1.4	0.5	1.0	0.6
Net factor payments to rest of world <sup>d</sup>	1.0	0.8	0.6	0.8	-0.2	0.1	-0.5	0.4
Purchasing power of net imports on capital account	4.7	4.6	5.6	8.5	8.2	7.4	6.4	6.3
Total import capacity	12.3	12.6	14.8	18.1	18.4	16.4	13.4	15.6
Volume of imports of goods and services <sup>c</sup>	11.6	11.7	14.2	15.1	16.2	14.3	14.7	18.1
Trade balance <sup>h</sup>	-3.0	-2.9	-4.5	-4.8	-6.2	-5.2	-7.2	-8.3
Current account balance	-3.5	-2.9	-1.9	-3.4	-4.7	-4.8	-5.7	-8.1
Global balance of payments	1.2	1.7	3.7	5.1	3.6	2.6	0.7	-1.9
Gross international reserves	4.7	6.3	8.8	12.9	13.5	13.0	12.1	10.4
Gross disbursed external debt	13.7	18.2	17.0	19.2	16.2	14.7	14.3	18.3

Source: ECLA, on the basis of official data.

<sup>a</sup>Preliminary figures.

<sup>b</sup>1970 prices.

<sup>c</sup>Non-factor.

<sup>d</sup>Including private non-compensatory transfer payments.

<sup>e</sup>Credit balances.

<sup>f</sup>Gross international reserves and imports of goods and services for each year.

<sup>g</sup>At market prices in 1970 dollars; at the parity exchange rate.

<sup>h</sup>Excluding the terms-of-trade effect.

In capital movements, the exchange variations in 1982 strongly encouraged the drain of private capital and substantially reduced domestic demand for external loans. The decline of the rate of activity at Itaipú and the postponement of the main construction works at Yacyretá also had obvious effects. And, as happened the year before, the marked exchange movements in neighbouring countries had both direct and indirect effects on net inflow of capital. On the other hand, in contrast to the year before, international interest rates decreased markedly, while at the same time the instability of international exchange markets lessened. In addition, absorption by the public sector of already-contracted external loans increased substantially, although the difference between loans contracted and loans disbursed again widened in 1982.

In the face of the gradual but persistent declines in the external accounts in recent years, in the second half of 1981 the authorities began to take some compensatory measures, such as reduction of export taxes for certain minor products and increase of the official interest rates. However, in view of the further deterioration of the external sector, especially of the current account, in early 1982 it was decided to apply policies of broader scope.

In the area of exchange policy, the official exchange rate was altered for the first time since 1960.<sup>33</sup> In early February two new official exchange rates were established for some 60 export products, which as a group amounted to around 87% of the total value of so-called regular exports of goods.<sup>34</sup> For all the products promoted, except meat products, a simple average between the exchange rate of 126 guaraníes per dollar and the parallel market rate was applied, and for meat products an exchange rate equivalent to the parallel market rate was applied. Not only were these two new exchange rates higher than the other, but they also could fluctuate. In February the former—henceforth referred to as the special rate for exports—averaged 142 guaraníes per dollar, while the latter was 158, which represented increases of 13% and 25.4%, respectively, over the 126 guaraníes per dollar rate (see table 18).

One week after the new official exchange rates for the benefit of the main exports were created, a new official exchange rate was also established for imports of articles as diverse as milk and milk products, and automobiles, among others. In any case, as a whole the value of the products affected

Table 18

PARAGUAY: OFFICIAL AND PARALLEL EXCHANGE RATES

	Guaraníes per dollar					Index (1980 = 100)										
	1981		1982			1981		1982								
	Of- ficial	Para- llel	Official		Para- llel	Of- ficial	Para- llel	Official		Para- llel						
			Exports	Imports				Exports	Imports							
January	126	136.9	126	126	167.9	100.0	101.4	100.0	100.0	124.4						
February	126	137.9	126 <sup>a</sup>	142.0 <sup>b</sup>	158.3 <sup>c</sup>	126 <sup>d</sup>	158.3 <sup>e</sup>	158.3	100.0	102.1	100.0	112.7	125.6	100.0	125.6	117.3
March	126	136.4	126	141.9	157.8	126	157.8	157.8	100.0	101.0	100.0	112.6	125.2	100.0	125.2	116.9
April	126	136.1	126	143.3	160.5	126	160.5	160.5	100.0	100.8	100.0	113.7	127.4	100.0	127.4	118.9
May	126	137.8	126	146.0	165.9	126	165.9	165.9	100.0	102.1	100.0	115.1	131.7	100.0	131.7	122.9
June	126	141.0	126	153.1	180.2	126	180.2	180.2	100.0	104.4	100.0	121.5	143.0	100.0	143.0	133.5
July	126	141.9	126 <sup>f</sup>	150.2 <sup>g</sup>	174.3 <sup>h</sup>	126 <sup>i</sup>	186.8 <sup>j</sup>	197.0 <sup>k</sup>	100.0	105.1	100.0	119.2	138.3	100.0	148.3	145.9
August	126	145.2	126	143.0	160.0	126	160.0	230.5	100.0	107.6	100.0	113.5	127.0	100.0	127.0	170.7
September	126	162.9	126	143.0	160.0	126	160.0	254.8	100.0	120.7	100.0	113.5	127.0	100.0	127.0	188.7
October	126	164.4	126	143.0	160.0	126	160.0	287.1	100.0	121.8	100.0	113.5	127.0	100.0	127.0	212.7
November	126	170.7	126	143.0	160.0	126	160.0	262.9	100.0	126.4	100.0	113.5	127.0	100.0	127.0	194.7
December	126	172.5	126	143.0	160.0	126	160.0	238.6	100.0	127.8	100.0	113.5	127.0	100.0	127.0	176.7

Source: ECLA, on the basis of data from the Central Bank of Paraguay.

<sup>a</sup> Applies to all exports of goods not included in <sup>b</sup> or <sup>c</sup>, and those of services and capital through March. From March onwards, applies to some minor exports of goods and to the external debt service and the transactions of the binational entities (Itaipú and Yaciretá).

<sup>b</sup> Applies to cotton fibres and other semi-manufactured cotton products, soya seed, wood products, first and second class dry silk cocoons and tung oil in bulk and in drums. From March onwards, applies to all exports of goods with the exception of some minor ores. From June onwards applies to 17 other products, including several bore products and waste paper products.

<sup>c</sup> Applies to exports of meat products. From March onwards, also applies to services and capital, with the exception of those indicated in <sup>e</sup>. From June onwards, also applies to exports of vegetables and fruits.

<sup>d</sup> Applies to all imports of goods, with the exception of various consumer goods. Also applies to imports of services and capital through March; subsequently, applies only to those of the binational entities.

<sup>e</sup> Applies to imports of various consumer products. From March onwards also applies to imports of services and capital, with the exception of those of the binational entities, and to imports of other consumer goods.

<sup>f</sup> From 16 July onwards applies only to the transactions of the binational entities.

<sup>g</sup> From 16 July onwards on exchange rate of 143 applies to all exports of goods, with the exception of meat products and vegetables and fruits.

<sup>h</sup> From 16 July onwards applies to exports of meat products, vegetables and fruits; for those of services and capital on exchange rate of 160 applies.

<sup>i</sup> From 16 July onwards applies only to wheat, petroleum and petroleum products, capital goods intended for the agricultural and industrial sectors, the external public debt service and the transactions of the binational entities. From 26 July onwards also applies to imports of intermediate goods intended for the agricultural and industrial sectors.

<sup>j</sup> From 16 July onwards applies to all imports of goods with the exception of those indicated in <sup>i</sup> and to all imports of services and capital, with the exception of those indicated in <sup>k</sup>.

<sup>k</sup> The parallel market was abolished as of 16 July. From that date onwards the quotations are therefore from the black market.

<sup>33</sup> However, in June 1975 the purchase and sale rates were unified at the value of 126 guaraníes per dollar; the purchase rate had been 123.6 guaraníes per dollar since 1960.

<sup>34</sup> Regular exports of goods exclude both non-registered exports and exports to the binational entities.



Table 19

**PARAGUAY: EVOLUTION OF INDEXES OF THE EFFECTIVE REAL  
EXCHANGE RATE OF EXPORTS AND IMPORTS**

(1980 = 100)

Averages	Exports			Imports		
	1 <sup>a</sup>	2 <sup>b</sup>	3 <sup>c</sup>	1 <sup>a</sup>	2 <sup>b</sup>	3 <sup>c</sup>
1975	92.6	110.1	99.0	87.6	108.7	97.6
1976	99.0	107.6	102.2	96.3	115.5	105.5
1977	97.5	105.0	100.2	93.6	109.2	101.1
1978	102.2	112.0	105.8	94.3	115.0	104.2
1979	95.0	97.6	95.9	89.3	98.9	93.9
1980	100.0	100.0	100.0	100.0	100.0	100.0
1981	80.0	97.3	86.3	89.0	105.0	96.6
January	96.2	102.7	98.6	104.7	111.1	107.8
February	87.2	94.7	90.0	97.0	105.2	100.9
March	88.5	94.4	90.6	98.2	106.3	102.1
April	89.2	97.6	92.3	99.5	107.6	103.3
May	82.9	92.5	86.4	93.9	104.0	98.7
June	78.0	92.4	83.3	88.2	101.0	94.3
July	81.9	98.8	88.1	92.7	107.9	100.0
August	78.6	98.6	86.0	89.1	106.8	97.5
September	76.6	106.5	87.6	85.4	112.9	98.6
October	70.1	97.2	80.1	77.1	102.1	89.0
November	64.4	93.7	75.2	69.5	96.9	82.5
December	70.6	100.1	81.4	75.8	104.1	89.3
1982	73.0	124.5	90.8	80.5	136.0	107.0
January	68.0	95.1	77.9	73.2	98.7	85.4
February	68.2	87.8	75.4	74.5	95.1	84.4
March	71.1	92.8	79.1	77.6	100.0	88.3
April	73.0	98.7	82.4	79.8	105.3	91.9
May	76.7	104.2	86.8	83.1	112.7	97.3
June	74.1	110.8	87.6	82.1	123.2	101.7
July	70.7	121.7	89.5	77.6	129.0	99.4
August	79.2 (100.4)	153.2	106.3 (119.8)	87.1 (110.6)	166.8	107.1 (119.3)
September	78.0 (99.1)	167.5	110.9 (124.2)	85.6 (108.8)	180.4	130.9 (143.0)
October	76.7 (97.7)	186.7	117.1 (130.3)	84.0 (106.8)	199.2	138.9 (150.9)
November	70.5 (89.5)	159.9	103.3 (115.4)	77.2 (98.0)	170.7	121.8 (132.7)
December	69.1 (87.6)	144.7	96.8 (108.6)	74.5 (94.6)	149.0	110.1 (120.6)

Source: ECLA, on the basis of data from the Central Bank of Paraguay and the International Monetary Fund. International Financial Statistics, various issues.

<sup>a</sup>These indexes are obtained by adding together the real exchange rate indexes with respect to each country weighted according to the geographic breakdown of the exports or imports, considering the main registered trade flows of Paraguay. These indexes were calculated on the basis of the official exchange rate of 126 guaranies per dollar for the entire period. From August through October 1982 the official bank rate of 160 guaranies per dollar was added (figures in parentheses). For more details on the methodology used see the Statistical Appendix of the *Economic Survey of Latin America*, 1981.

<sup>b</sup>These indexes correspond to a weighted average of the exchange rate indexes for Paraguay with respect to Argentina, Brazil, the United States, Japan, the Federal Republic of Germany, Italy and France, according to the relative participation of the non-registered trade flows between Paraguay and these countries. In calculating these indexes the floating free market exchange rate was used.

<sup>c</sup>This corresponds to a weighted average of columns 1 and 2, according to the effective participation of Paraguay's main trading partners in its exports and imports (registered and non-registered).

represented a reduced porportion of the total value of regular imports of goods.<sup>35</sup> This exchange rate—henceforth referred to as the special rate for imports— was equal to the parallel market rate and, therefore, could also fluctuate. At the same time, imports of the products affected were freed from the prior deposit, which at that time varied between 8% and 32% of their value.

The following month the number of products affected by the special rate was expanded substantially, both for imports and exports. As a result, the value of the products governed by the special rate for imports nearly attained the total value of regular sales of goods abroad. However, a

<sup>35</sup>Regular imports of goods exclude non-registered imports, the imports of the binational entities and imports linked to external loans and to official unilateral transfers, as well as those connected with direct foreign investments.

still high proportion of the total value of imports corresponded to products subject to the 126 guaraníes per dollar rate. In addition, an exchange rate that would also equal that of the parallel market was established for services and capital, with the exception of the external debt service and transactions by the binational entities (Itaipú and Yacyretá).

In mid-April, the Central Bank began to intervene, it would appear for the first time, in the parallel market, for the purpose of lessening the fluctuations of the free exchange rate.

At the beginning of May the special rate for imports was temporarily suspended. At the end of that month, a new exchange rate was established for exports of fruits and vegetables, which would be equal to that of the parallel market, and the special exchange rate for exports was extended to 17 other products.

In mid-July the régime introduced in February was discarded completely and replaced by one of multiple, but fixed, exchange rates. The parallel market, which had existed legally for two decades, was also eliminated. At the time when the new exchange régime was created, the special rate for exports was approximately 155 guaraníes per dollar, while the special rate for imports and for exports of meat products was around 180 guaraníes. The former had risen, therefore, more than 9% since February and exceeded the 126 guaraníes rate by 23%; the latter had increased by 14% since February and exceeded the 126 guaraníes rate by nearly 43%.

The new exchange régime set a fixed rate of 143 guaraníes per dollar for all export products with the exception of meats, fruits and vegetables, for which a rate of 160 guaraníes was set. The new 143 guaraníes rate was actually made up of a simple average of the 126 guaraníes rate and a new fixed rate of 160 guaraníes. Fifty per cent of the foreign currency liquidated at 126 guaraníes in the authorized commercial banks had to be transferred to the Central Bank. In addition, foreign currency from exports had to enter the country within a period not exceeding 120 days from the issuance of the bill of shipment.

Under the new provisions, imports of petroleum and petroleum products, wheat, agricultural machinery and implements, and industrial machinery would continue to be carried out at the 126 guaraníes per dollar rate; these operations would be taken care of directly by the Central Bank. For the rest of the imports, an exchange rate of 160 guaraníes would prevail, according to Circular 65/82, which communicated the new exchange measures to the public. However, in the annexes to the circular, which contained the detailed lists of the products subject to each exchange rate, not many import products appeared, and the possibility was therefore left open that external purchases of these products, among which were durable consumer goods and intermediate goods, would have to be financed with so-called own dollars; that is, through the non-official market.

For all services except interest payments on the public sector external debt, the 160 guaraníes per dollar rate would apply. The 160 guaraníes rate would also govern imports and exports of capital. Finally, purchases of guaraníes made by the binational entities of Itaipú and Yacyretá would continue to be subject to the 126 guaraníes rate, whatever the purpose of the transaction (see table 18).

The new rate of 143 guaraníes represented an 8% reduction with respect to the special rate governing exports, while the 160 guaraníes rate meant a reduction of more than 11% with regard to the special rate for imports, which had been in force when the new measures were enacted. However, it should be noted that for several imported products, as well as for factor services and capital movements, except in the cases already noted, the new régime established a rise in the exchange rate from 126 to 160 guaraníes, and left open the possibility that imports of another series of goods would have to be carried out at the black market exchange rate and with currency from that market. Immediately following the distribution of Circular 65/82, that market became virtually paralysed, since its few transactions were being carried out at values fluctuating between 200 and 210 guaraníes, which represented an average rise of 14% over the price on the last day of operation of the parallel market.

On 22 July, the Central Bank published, in its Circular 74/82, a new list of imports which would be carried out at the 160 guaraníes per dollar rate. A large part of the list comprised intermediary products which had formerly been governed by the 126 guaraníes rate. However, on 26 July the Central Bank distributed Circular 78/82, in which the exchange rate for intermediary products was once again set at 126 guaraníes, and Circular 74/82 was therefore superseded.<sup>36</sup>

<sup>36</sup>With these latest changes, approximately 50% of imports could be carried out at the preferential exchange rate of 126 guaraníes per dollar.

During the second half of July and early August, another series of regulations governing exchange operations were enacted. With the publication of Circular 70/82, the Central Bank communicated its decision to compel exchange bureaux to seek authorization from it in order to transfer foreign currency abroad. At that time it also provided that exchange bureaux could charge a commission of up to 2% of the value of the sale of the currency. Through its Circular 72/82, the Central Bank ordered that all sales of foreign currency carried out by the authorized banks for service payments would have to be verified in advance by the Central Bank Exchange Commission. Through Circular 73/82, the Bank ordered that all sales of foreign currency made by the authorized banks for payment of imports of goods should also be verified in advance by the Exchange Commission. Circulars 75/82 and 76/82 announced the establishment of an Imports Register and an Exports Register in the Exchange Department of the Central Bank, with which importers and exporters had to register for the purpose of obtaining authorization to carry out exchange operations. On 1 August, the Central Bank ordered that from 1 September onwards, imports with irrevocable credit and demand collection would be suspended. From that date onwards, the minimum time period for the payment of purchases abroad would be 120 days from the date of delivery of the shipping documentation for the customs despatch. Finally, on 4 August six exchange bureaux were closed in order to increase control over the exchange market, according to the Central Bank's explanation.

Although no new exchange rates were explicitly introduced for the rest of the year, in actual fact not all of the foreign currency necessary to attend to the demand existing at the 160 guaraníes rate was supplied, for which reason there were additional delays in the fulfilling of some external obligations, and at the same time new pressures were created on the black market exchange rate. Those pressures were added to those already being caused by the successive and large currency devaluations in the neighbouring countries.

During the first five months of the year, the exchange rate in the parallel market was relatively stable and averaged 162 guaraníes per dollar. However, in June the average rose to 180 guaraníes, and in July to 197 guaraníes. Immediately following the exchange measures of 16 July, the black market exchange rate began to exceed 200 guaraníes, and attained an average of 231 guaraníes in August, 255 guaraníes in September and 287 guaraníes in October. Subsequently, however, it declined to averages of 263 and 238 guaraníes in the months of November and December, respectively. In comparison with the averages for the four quarters of 1981, those of 1982 represented rises of 17.7%, 22%, 51.6% and 55%.

As a result of the changes introduced during the year, the official exchange rate applicable to exports, with the exception of some minor products, showed averages for the four quarters of 1982 which were 8.4%, 17%, 16.5% and 13.5% higher than the corresponding rates for the quarters of 1981. For its part, the official exchange rate which applied to non-priority imports and the majority of services and capital movements, showed averages which were 17%, 34%, 34% and 27% higher in the respective quarters of 1982 than in 1981 (see table 18).

In real and effective terms, the exchange rate in the parallel market evolved in the following way during the respective quarters of 1981 and 1982: -5.3%, 12%, 46% and 67.3%. The official rate for exports varied -15.2%, 9.1%, 17.5% and 5.3%, respectively, between the same periods, while the official rate for non-priority imports varied -9.7%, 25.7%, 18% and 32%, respectively, between those periods. Finally, the effective real exchange rate for priority imports varied 23.4%, -9.7%, -3.9% and 4%, respectively, during the periods in question (see table 19).

In addition to the changes in the exchange policy described above, in 1982 a set of tax, monetary and other measures were adopted which affected the external sector.

For some products the exchange rate was adjusted not only directly, but also indirectly, through the reduction of the price valuation for some and the lowering of duties for others. In April the valuation prices for soya and cotton were lowered considerably,<sup>37</sup> while in June fruits and vegetables were freed from all of the various export duty rates.<sup>38</sup> The following month the same privilege was extended to maize. In August, the exportation of a large sugar consignment was also freed from all duties, but this was an exceptional measure applied only for the benefit of that transaction.

<sup>37</sup> The valuation price determines the amount of foreign currency which an exporter is legally obliged to deliver at the official exchange rate per unit sold abroad, and the amount of taxes which he must pay.

<sup>38</sup> The fruits and vegetables benefited were: fresh and refrigerated tomatoes, fresh and refrigerated peppers, gourds, squash, sweet potatoes, bananas, pineapples, avocados, oranges, tangerines, lemons, grapefruits and strawberries.

In contrast with these reductions, in April a universally-applied increase was stipulated in the tax on export income, from 1.5% to a maximum of 1.8% of the price valuation of the foreign sales. In June, there were changes in the provisions which set external trade duties on the basis of the 126 guaraní exchange rate. As a result, each duty, except that on sealed paper and stamps, would be applied on the exchange rate applicable to each operation.

With regard to imports, in March and April several articles were included in the special régime for external purchases of intermediary products, which establishes a single duty of between 5% and 12%. That régime had been created in September of the year before, with a view to improving the competitive position of the economy and discouraging non-registered trade. Also in March, the prior deposit for imports was eliminated for several consumer products, in order partially to offset the rise in the exchange rate which affected those products. In September the minimum time period of 120 days from the delivery of the customs documentation entered into force for carrying out remittances abroad for imports. In November, the Regional Despatch Régime was altered to apply only to merchandise from neighbouring countries. This régime sets a single duty of 15% for a wide range of imported products from selected countries. Finally, mention should be made of the protectionist measures which favoured some national iron and graphic products.<sup>39</sup>

In the promotion area, the first offices for export and investment promotion were established abroad, in Brussels and Buenos Aires. In addition, the validity was suspended of Law 235, which reserved river and ocean transport of the country's external trade for ships flying the Paraguayan flag or flags of the other member countries of ALADI.

In the area of monetary policy, the Central Bank again increased in 1982 certain interest rates on loans by the commercial banks. For deposits of 60 to 90 days in national currency the interest rate was increased in June from 12% to 13%, for deposits of 91 to 180 days it was increased from 13% to 14%, and for deposits of 181 days or more, it was raised from 14% to 15%. At the same time, the legal reserve requirement for deposits in foreign currency was increased from 15% to 30%, which placed it on a level with the requirement for deposits in national currency at more than 90 days. For shorter periods in national currency the reserve requirement is 42%.

These measures, designed to combat the negative expectations and uncertainty which were encouraging the drain of private capital and the conversion of deposits in national currency to deposits in foreign currency, were adopted during the period in which domestic inflation had not only disappeared, but price levels were declining, while external interest rates were beginning to decline.

However, between June and December there was a sharp rise in the exchange rate in the parallel market, while the small surplus in the balance of payments in the first half turned into a considerable deficit at the end of the year.

With regard to monetary policy and external sector behaviour, one must also consider the significance of the coexistence of a considerable and prolonged restriction of the means of payment, and a gradual and persistent rise in the exchange rate. Between the end of 1980 and the end of 1982, the parallel exchange rate doubled, despite the fact that in those two years the nominal existence of money in the economy decreased by 3.5%, and the real existence by more than 20%.

It is obvious that the restrictive monetary policy did not check the deterioration of the external situation. To a certain extent, it appears to be the passive result of the deterioration of the external accounts themselves, which, in turn, has brought insurmountable pressure to bear on the exchange rate. In another sphere, it is also obvious that the restriction of money supply has contributed directly to the slackening and subsequent decline in the level of activity of the economy. For its part, the decline in the external accounts—which appears to be the point of departure of the recessive process—is attributable to a large extent to the marked overvaluation of the guaraní throughout 1981 and much of 1982 (see table 19).

## b) *Trade*

i) *Exports of goods, FOB.* After its unfavourable evolution during the two preceding years, the current value of registered exports of goods FOB—the so-called regular exports—increased by 11.6% in 1982 (see table 20).<sup>40</sup> This change was the nearly exclusive result of the visible expansion in sales

<sup>39</sup>For details, see section 2, paragraph iii).

<sup>40</sup>In addition to non-registered exports of goods FOB, adjustments for exports to the binational entities are excluded from the statistics. However, the latter are included in the statistics on the balance of payments contained in table 24.

Table 20

PARAGUAY: EXPORTS OF GOODS, FOB<sup>a</sup>

	Millions of dollars				Percentage breakdown		Growth rates			
	1979	1980	1981	1982	1972	1982	1979	1980	1981	1982
<b>Total</b>	305	310	296	330	100.0	100.0	18.8	1.7	-4.7	11.6
<b>Main traditional exports</b>	95	111	84	86	88.7	29.3	4.4	17.4	-24.2	-3.5
Livestock products	12	4	7	9	39.3	2.7	-62.9	-63.0	53.5	32.3
Timber	42	66	36	44	10.1	13.3	7.6	57.1	-45.2	20.5
Oils	29	26	29	22	10.1	6.7	13.9	-9.1	10.8	-23.4
Tobacco	9	10	6	6	7.8	1.8	-7.6	18.7	-36.3	-7.9
Quebracho extract	3	4	6	5	2.7	1.5				-10.7
Other exports	17	20	16	11	18.7	3.2	-11.9	15.7	-22.7	-33.5
<b>Main non-traditional exports</b>	193	178	195	233	11.3	70.7	29.0	-10.2	12.5	
Cotton fibre	99	106	129	122	4.4	37.1	-1.4	7.3	22.2	-5.3
Oilseeds (soya beans)	79	42	48	90	4.5	27.1	105.0	-46.5	12.9	88.5
Feed-cake and expellers	12	22	14	13	1.7	3.8	45.0	82.0	-35.1	-11.6
Fruits and vegetables	3	8	4	9	0.7	2.6				

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

<sup>a</sup>Includes only exports appearing in the exchange record.

abroad of soya beans, which grew by more than 88%, despite the sharp decrease in the harvest. All of the other main export products, with the exception of timber, decreased in current value. That of cotton fibre decreased by more than 5%, that of cake and expellers declined by 11.6% and that of oils decreased by 23.4%. On the other hand, a growth of 20.5% was recorded in the current value of timber exports. Some secondary exports, such as livestock products and fruits and vegetables, also showed substantial recoveries (see table 20).

In 1982 the drop in commodity prices in the international markets intensified. The decreases for Paraguay's main export products were 15% for soya and cotton, 12% for soya oil and 4.4% for timber. In the case of soya, the average price in 1982 was the lowest since 1976, while in the case of cotton the price was similar to that of 1978, and the lowest since 1975. For timber, the average price paid in the international markets in 1982 was somewhat lower than that received in 1979. In real terms the prices of all these products, with the exception of wood, were visibly lower in 1982 than in the years preceding the first oil crisis (see table 21).

ii) *Imports of goods, FOB.* The current value of registered imports of goods FOB grew by nearly 15% in 1982 (see table 22).<sup>41</sup> This expansion reflected the sharp increase in imports of intermediary goods and more specifically, the 63% rise in external purchases of fuels and lubricants. Imports of intermediary goods grew as a whole by nearly 36%, while those of consumer goods barely increased and those of capital goods decreased by 11%. In the consumer goods category, total imports of non-durables decreased by 2.4%, and among them, foodstuffs dropped by nearly 26%. The current value of external purchases of durables, on the other hand, expanded by more than 13%, despite the decrease of approximately 26% in that of automobiles and as a result of the substantial growth of that of electric appliances. Finally, the contraction of imports of capital goods was distributed among transport elements and accessories (-27.8%), agricultural implements and accessories, hardware and cattle (-18.8%), and machinery, equipment and motors (see table 22).

iii) *Services.* Between 1981 and 1982, there was a striking increase in the volume and current value of both exports and imports of non-factor services, according to preliminary statistics.<sup>42</sup> The value and volume of exports of non-factor services expanded by 73% and 63%, respectively, while

<sup>41</sup>In addition to non-registered imports of goods FOB and the imports of goods FOB carried out by the binational entities Itaipú and Yacretá, imports linked to external loans and to official unilateral transfers are excluded from the statistics, as well as imports linked to direct foreign investment. The latter are included in the statistics on the balance of payments appearing in table 24.

<sup>42</sup>However, it should be borne in mind that some data on the balance of payments for 1982, including these, were projected on the basis of the statistics available for the first half.

imports of non-factor services grew by 86% and 77%, respectively (see table 23). This evolution follows that of the "other regular services" category.<sup>43</sup> The services identified, such as transport, insurance and tourism, decreased in 1982, both on the export and import sides. With respect to factor services, mention may be made of the very considerable growth in payments of profits —after a considerable decrease the year before— and interest, and the marked decrease in the income from the wages of the Paraguayan workers who are working at Itaipú and Yacyretá (who appear as other factor services in the balance of payments) (see table 24).

iv) *The terms of trade.* In 1982 the terms of trade deteriorated considerably. For goods it decreased by nearly 16%, while for goods and non-factor services it declined by 5.7%. Although the prices of imports of goods increased only slightly, the unit value of exports of goods decreased by 12.7%. With the decline experienced in 1982, the terms of trade worsened in four of the last five years and fell to their lowest level since the beginning of the 1970s, when Paraguay's economic boom began (see table 23).

c) *The current account position*

In 1982 the longstanding negative balance of the current account increased sharply. It rose from US\$ 378 million to US\$ 534 million, amounts equivalent to 5.7% and 8.1% of the gross domestic product. This expansion was distributed in approximately similar proportions among the merchandise account, whose deficit rose from US\$ 374 million to US\$ 416 million; that of non-factor services, whose negative balance increased from US\$ 38 million to US\$ 92 million, and that of

Table 21

PARAGUAY: EVOLUTION OF EXTERNAL PRICES OF  
MAIN EXPORT PRODUCTS

(1970 = 100)

	Soya beans <sup>a</sup>		Soya bean oil <sup>c</sup>		Cotton <sup>d</sup>		Timber <sup>e</sup>	
	Nominal	Real <sup>b</sup>	Nominal	Real <sup>b</sup>	Nominal	Real <sup>b</sup>	Nominal	Real <sup>b</sup>
1972	119.0	103.6	84.3	73.3	122.1	106.3	127.6	110.5
1973	239.7	196.2	152.4	124.7	161.0	131.8	201.8	165.1
1974	228.9	117.0	290.9	148.6	215.6	110.2	237.0	121.1
1975	181.8	85.4	196.9	92.5	182.3	85.7	207.9	97.7
1976	190.9	88.0	153.1	70.6	258.3	119.0	219.8	101.3
1977	231.4	98.0	201.0	85.1	240.8	101.9	265.7	112.4
1978	221.5	85.3	212.2	81.7	237.7	91.6	303.1	116.8
1979	244.3	78.7	231.4	74.5	252.3	81.2	388.8	125.1
1980	244.6	64.2	209.1	54.9	307.0	80.6	443.7	116.5
1981	238.0	63.2	177.2	47.1	279.0	74.1	403.5	107.1
I	257.3	67.6	186.0	48.8	314.7	82.6	438.3	115.1
II	251.5	66.8	181.2	48.1	290.4	77.1	399.6	106.1
III	231.7	62.9	177.3	48.2	271.2	73.7	378.9	102.9
IV	212.9	56.2	164.5	43.4	241.6	63.8	397.6	105.0
1982	202.5	56.0	156.3	43.2	237.3	65.6	385.9	107.0
I	212.1	57.3	158.6	42.8	234.3	63.3	400.3	108.1
II	217.1	59.7	170.9	47.0	247.9	68.1	394.0	108.3
III	192.6	53.9	154.1	43.1	246.8	69.1	380.8	106.5
IV	186.5	52.5	142.0	40.0	223.7	63.0	368.7	103.8

Source: ECLA, on the basis of UNCTAD, *Monthly Commodity Price Bulletin*, (various issues) and International Monetary Fund, *International Financial Yearbook*, various issues.

<sup>a</sup> United States, yellow, CIF, Rotterdam.

<sup>b</sup> The nominal prices were deflated by world export prices.

<sup>c</sup> All origins, raw oil, FOB plant, Netherlands.

<sup>d</sup> Mexican middling grade, CIF Northern Europe.

<sup>e</sup> Tropical, wholesale price United Kingdom.

<sup>43</sup> See Central Bank of Paraguay, *Balanza de pagos (Primer semestre, 1982)*, Asunción, Paraguay.

Table 22

## PARAGUAY: IMPORTS OF GOODS, FOB

	Millions of dollars				Percentage breakdown		Growth rates			
	1979	1980	1981	1982	1972	1982	1979	1980	1981	1982
Total	438	517	506	581	100.0	100.0	37.8	18.1	-2.1	14.9
Consumer goods	130	147	151	153	32.8	26.3	20.4	13.1	2.7	1.3
Non-durable	102	112	116	113	26.5	19.4	45.2	10.0	3.4	-2.4
Foodstuffs	20	24	33	24	8.0	4.1	38.2	20.5	35.4	-26.7
Beverages and tobacco	42	40	37	38	8.8	6.6	43.4	-4.6	-6.2	2.6
Other <sup>b</sup>	40	48	46	49	9.8	8.4	51.0	20.0	-4.8	6.4
Durable <sup>c</sup>	28	35	35	40	6.3	6.9	25.1	26.0	1.7	13.4
Automobiles	17	18	17	12	2.4	2.1	54.5	10.0	-8.2	-25.7
Electric appliances	11	16	18	28	3.9	4.7	-3.0	50.6	12.7	48.9
Intermediate goods	135	173	163	222	20.8	38.1	50.4	28.0	-5.3	35.7
Fuels and lubricants	88	130	96	154	8.5	26.5	46.7	48.0	-27.0	63.1
Other <sup>d</sup>	47	43	69	67	12.3	11.6	57.6	-9.0	59.8	-1.9
Capital goods	149	169	173	154	37.0	26.5	25.4	13.8	2.7	-11.0
Machinery, equipment and motors	80	80	108	105	22.4	18.1	48.1	-	35.1	-2.2
Transport elements and accessories <sup>e</sup>	53	75	49	35	10.4	6.0	6.6	42.4	-35.0	-27.8
Other <sup>f</sup>	16	14	17	14	4.2	2.3	5.7	-11.3	3.5	-18.8
Unclassified	25	29	31	38	9.1	6.5	43.1	15.2	6.8	21.1

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

<sup>a</sup>Only includes imports which appear in the exchange record, plus imports with deferred payments and those carried out with long-term external loans.

<sup>b</sup>Includes final paper products, pharmaceutical and chemical products, and textiles and textile manufactures.

<sup>c</sup>Includes jeeps and rural vans.

<sup>d</sup>Includes intermediate paper products, iron and iron manufactures (with the exception of hardware), ordinary metals and their manufactures, stones, earth and earth manufactures, cement and asphalt.

<sup>e</sup>Excludes automobiles, jeeps and rural vans.

<sup>f</sup>Includes agricultural elements and accessories, hardware and cattle.

factor services, which decreased from a surplus of US\$ 34 million in 1981 to a deficit of US\$ 28 million in 1982. The decline in the merchandise balance was, therefore, relatively slight, while those of the service accounts were marked (see table 24).

These results were influenced to a large, if not overwhelming extent by the decrease in purchases of goods and services from Paraguay by the Itaipú and Yacyretá binational entities.<sup>44</sup> Those purchases decreased by one third between 1981 and 1982, after having increased substantially and systematically between 1974 and 1981, and this was responsible for 44% of the expansion of the current account deficit (see table 25). The reduction of purchases by the Itaipú binational entity had been expected, but not the decrease of purchases by Yacyretá. If the purchases had increased at the rate of the preceding year and other conditions had remained equal, the current account deficit would have been around US\$ 486 million, instead of the US\$ 536 million it attained.

#### d) *The capital account and the global balance of payments*

In 1982 the traditional capital account surplus again decreased slightly, which, together with the considerable expansion of the current account deficit, brought about a deficit in the global balance of payments for the first time since 1969. The deficit amounted to US\$ 123 million and was equivalent

<sup>44</sup>It should be noted that in the Central Bank statistics on the balance of payments, 50% of the purchases of goods and services by the binational entities of Paraguay are accounted for as exports of goods and services and the other 50% are accounted for as inflow of capital. The compensations paid by the entities to residents of Paraguay, as well as 50% of the direct investments which they make in the country, appear as inflow of capital. These investments exclude those connected with the construction and operation of the hydroelectric power stations. The effects of the purchases by the binational entities outside of Paraguay on the accounts, and those of the capital flows which finance them, are not taken into consideration by the Central Bank. The accounting system on which table 24, on the balance of payments, is based, is the one used by the Central Bank.

to 2% of the gross domestic product. The resulting loss of international reserves was reflected in the decrease of the existence of money and the rise in interest rates and the exchange rate.

The lower net inflow of capital which occurred in 1982 was decisively influenced by the reduction of capital movements by the binational entities. Entry of capital generated by Itaipú was 17.5% less and that generated by Yacyretá 44% less in 1982 than 1981. On the other hand, net inflow of capital in the rest of the economy increased substantially after having decreased in the two preceding years, due exclusively to the considerable growth of disbursements of medium- and long-term external loans contracted by the public sector.

The transition from a position of surplus to deficit in the global balance of payments after twelve years of credit balances, is also attributable mainly to the decrease in expenditures by the binational entities. The combined reduction of US\$ 131 million in purchases of goods and services and inflow of capital by Itaipú and Yacyretá exceeded the amount of the deficit and represented nearly 79% of the change in the global balance between 1981 and 1982. If the transactions relating to Yacyretá had increased in the same proportion as the year before and other conditions had remained the same, the global deficit would have been on the order of US\$ 33 million instead of the US\$ 123 million it attained.

e) *The external debt*

As it had done the year before, in 1982 the gross contracted external debt increased substantially, rising from US\$ 1 641 million to US\$ 1 939 million; in 1981 it had also increased by US\$ 300 million (see table 26). For its part, the gross disbursed external debt grew much more than

Table 23

PARAGUAY: VALUE AND VOLUME OF EXPORTS AND IMPORTS OF GOODS AND SERVICES<sup>a</sup>

(Growth rates)

	1975	1976	1977	1978	1979	1980	1981	1982 <sup>b</sup>
Exports of goods								
Value	8.5	7.6	61.8	8.8	8.0	4.1	-0.4	-1.2
Volume	8.3	7.9	20.0	19.4	1.1	0.3	-10.0	13.2
Unit value	0.2	-0.3	-34.8	-8.9	6.8	3.8	10.6	-12.7
Exports of services								
Value	0.2	16.7	58.0	24.3	64.9	28.3	1.4	72.9
Volume	-6.1	11.7	44.7	12.4	29.3	5.1	-9.7	62.9
Unit value	6.8	4.5	9.2	10.6	27.5	22.1	12.4	6.2
Exports of goods and services								
Value	7.2	8.9	61.2	11.4	18.2	10.2	0.1	20.8
Volume	5.3	8.6	24.8	17.9	7.1	1.5	-9.9	26.5
Unit value	1.9	0.3	29.2	-5.5	10.3	8.5	11.1	-4.5
Imports of goods								
Value	14.6	4.0	52.3	20.0	33.6	17.0	14.4	4.8
Volume	1.4	10.3	42.7	16.7	11.2	-1.3	10.8	1.5
Unit value	13.1	-5.7	6.7	2.8	20.1	18.5	3.2	3.3
Imports of services								
Value	21.3	5.2	24.7	32.6	61.1	8.1	23.4	86.1
Volume	10.2	0.1	15.5	24.3	47.6	-1.8	13.5	77.2
Unit value	10.1	5.1	8.0	6.6	9.2	10.0	8.7	5.0
Imports of goods and services								
Value	15.9	4.2	46.9	22.1	38.6	15.1	16.2	21.9
Volume	3.3	7.9	36.7	18.2	18.4	-1.4	11.5	20.4
Unit value	12.2	-3.4	7.5	3.3	17.0	16.7	4.2	1.3
Terms of trade	-10.9	4.3	26.3	-11.4	-10.1	-11.3	6.1	-15.8
Terms of trade (goods and services)	-9.2	3.8	20.2	-8.5	-5.7	-7.0	6.6	-5.7
Purchasing power of exports of goods and services	-4.4	12.7	50.0	7.8	1.0	-5.6	-3.9	19.3

Source: ECLA, on the basis of official data.

<sup>a</sup>Non-factor.

<sup>b</sup>Preliminary figures.



Table 24

## PARAGUAY: BALANCE OF PAYMENTS

(Millions of dollars)

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982 <sup>a</sup>
Balance on current account	-9	-19	-55	-85	-72	-59	-118	-210	-283	-378	-536
Trade balance	0	-10	-36	-60	-52	-42	-93	-218	-276	-412	-508
Exports of goods and services	105	149	207	222	242	390	434	514	566	566	684
Goods FOB	86	128	173	188	202	327	356	384	400	399	394
Real services <sup>b</sup>	20	21	34	34	40	63	78	129	166	168	290
Transport and insurance	1	1	2	2	2	2	2	3	4	5	2
Travel	11	11	12	10	14	35	40	69	91	80	55
Imports of goods and services	105	159	244	282	294	432	528	731	842	978	1192
Goods FOB	79	127	198	227	236	360	432	577	675	772	810
Real services <sup>b</sup>	26	32	45	55	58	72	96	154	167	206	382
Transport and insurance	10	15	27	32	31	44	64	93	104	118	91
Travel	8	10	10	12	13	16	20	31	35	38	38
Factor services	-12	-12	-20	-26	-20	-18	-25	4	-11	31	-30
Profits	-3	-4	-10	-19	-13	-20	-42	-18	-54	-41	-60
Interest received	1	2	5	6	9	12	18	45	77	102	113
Interest paid	-10	-10	-16	-18	-23	-26	-37	-55	-81	-90	-129
Others	-	-	-	5	7	16	36	33	48	60	46
Unrequited private transfer payments	3	2	2	1	1	1	1	3	3	2	2
Balance on capital account	17	44	85	114	114	171	296	372	434	421	413
Unrequited official transfer payments	4	3	2	13	3	-	5	4	2	3	-
Long-term capital	20	30	53	86	117	85	167	136	192	168	-
Direct investment	3	9	21	24	-3	22	20	50	32	39	-
Portfolio investment	-	-	-	-	-	-	-	-	-	-	-
Other long-term capital	17	20	32	62	120	64	147	85	160	129	-
Official sector <sup>c</sup>	3	5	11	20	36	31	56	10	85	39	-
Loans disbursed	6	7	14	23	40	38	65	21	98	60	-
Amortization payments	-3	-3	-4	-4	-4	-8	-9	-11	-12	-20	-
Commercial banks <sup>c</sup>	-	-	-	7	-2	-	-	3	1	11	-
Loans disbursed	-	-	-	13	3	4	6	9	7	17	-
Amortization payments	-	-	-	-6	-5	-4	-6	-6	-6	-6	-
Other sectors <sup>c</sup>	15	15	22	35	86	33	91	72	74	79	-
Loans disbursed	20	24	32	50	102	55	118	113	135	141	-
Amortization payments	-6	-8	-13	-14	-15	-22	-28	-41	-60	-61	-
Short-term capital (net)	-4	16	33	11	-6	106	108	223	261	263	-
Official sector	1	2	-	-3	-1	3	7	15	3	12	-
Commercial banks	-2	1	-9	-3	-12	4	9	-9	-14	-13	-
Other sectors	-4	13	42	17	7	99	92	218	271	264	-
Errors and omissions	-4	-6	-4	4	-	-20	17	9	-20	-13	-
Global balance <sup>d</sup>	7	24	30	29	42	112	178	162	151	44	-123
Total variation in reserves (- sign indicates an increase)	-10	-26	-30	-28	-43	-112	-179	-165	-153	-43	123
Monetary gold	-	-	-	-	-	-	-	-4	-	-	-
Special Drawing Rights	-2	-1	-	-	-	-	-1	-4	-2	-3	-9
IMF reserve position	-	-1	-	-	-1	-1	-	-2	-8	-10	-1
Foreign exchange assets	-8	-24	-30	-28	-42	-109	-180	-154	-143	-30	133
Other assets	-	-	-	-	-	-2	2	-1	-	-	-
Use made of IMF credit	-	-	-	-	-	-	-	-	-	-	-

Source: For 1972-1981: International Monetary Fund, *Balance of Payments Yearbook*; For 1982: ECLA, on the basis of official data.

<sup>a</sup> Preliminary figures.

<sup>b</sup> Real services also include other official and private transactions, but not factor services.

<sup>c</sup> In addition to loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities.

<sup>d</sup> The global balance is the sum of the current account balance plus the balance on capital account. The difference between total variation in reserves of opposite sign and the global balance represents counterpart items: monetization or demonetization of gold, allocation or settlement of Special Drawing Rights, and variations due to revaluation.

in 1981, rising from US\$ 949 million to US\$ 1 204 million, after having increased by less than US\$ 100 million in 1981. Therefore, the large difference between the debt disbursed and that contracted decreased slightly, arriving at an amount equivalent to 38% of the debt contracted, as against 42.2% of the amount of the preceding year.

The net external debt experienced unprecedented growth during the year: it expanded in an amount exceeding by 40% the total accumulated balance at the end of 1981. However, at that time its amount was extremely low, less than that which existed in the mid-1970s and not much higher than that prevailing at the beginning of the 1970s. With respect to the external debt service, there was also a considerable expansion of the gross service in 1982, due entirely to the increase in interest payments, while net service also increased markedly.

The abnormal growth of the net external debt in 1982 was to a large extent a reflection of the relatively substantial reduction in net external assets. As in previous years, the expansion of the contracted and disbursed gross external debt was a response to public sector policies in the area of

Table 25

PARAGUAY: EFFECTS OF THE BINATIONAL ENTITIES ITAIPU  
AND YACYRETÁ ON THE BALANCE OF PAYMENTS<sup>a</sup>

(Millions of dollars)

	1974	1975	1976	1977	1978	1979	1980	1981	1982 <sup>b</sup>
<b>Current account</b>									
Total	-54.7	-85.2	-71.8	-59.2	-118.1	-210.2	-283.5	-377.7	-535.7
Binational entities	.8	22.8	38.4	74.5	126.0	147.8	178.3	211.6	142.5
Itaipú	.8	21.5	36.0	71.5	114.5	115.5	121.0	138.5	99.2
Yacyretá	-	1.3	2.4	3.1	11.5	32.3	57.3	73.1	43.3
Remainder	-55.5	-108.0	-110.2	-133.7	-244.1	-358.0	-461.8	-589.3	-678.2
<b>Capital account</b>									
Total	84.5	113.9	114.3	170.9	296.5	372.0	434.0	421.2	412.8
Binational entities	.8	22.8	38.4	74.5	126.2	148.9	216.8	237.1	175.3
Itaipú	.8	21.5	36.0	71.5	114.5	115.9	145.5	159.2	131.4
Yacyretá	-	1.3	2.4	3.1	11.7	33.0	71.3	77.9	43.9
Remainder	83.7	91.1	75.9	96.4	170.3	223.1	217.5	184.1	237.5
<b>Global balance</b>									
Total	29.8	28.7	42.5	111.7	178.4	161.8	150.8	43.5	-122.9
Binational entities	1.5	45.6	76.7	149.0	252.3	296.7	395.1	448.7	317.9
Itaipú	1.5	43.0	71.9	142.7	229.0	231.4	266.5	297.7	230.7
Yacyretá	-	2.6	4.8	6.1	23.3	65.3	128.6	151.0	87.2
Remainder	28.3	-48.0	-106.5	-140.6	-73.9	-134.9	-244.3	-405.0	-440.8
<b>International reserves<sup>c</sup></b>									
Total	87.1	115.0	157.5	267.8	448.7	609.1	761.9	805.7	682.8
Binational entities <sup>d</sup>	1.5	47.1	123.8	272.8	525.1	821.8	1 216.9	1 665.6	1 983.5
Itaipú <sup>d</sup>	1.5	44.5	116.4	259.1	488.1	719.5	986.0	1 283.7	1 514.4
Yacyretá <sup>d</sup>	-	2.6	7.4	13.5	36.8	102.1	230.7	381.7	468.9
Remainder	85.6	67.0	-39.5	-180.1	-254.0	-388.9	633.2	-1 038.4	-1 479.2

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

<sup>a</sup>Does not include imports of goods and services by the binational entities, which are imputable to the balance of payments, with the exception of profits from investments by the binational entity Itaipú in Paraguay. Similarly, does not include the capital flows which finance those imports (which are also imputable to the balance of payments). Therefore, the accounting system used for this table is the same used for table 24, on the balance of payments, the original source of which is the Central Bank of Paraguay.

<sup>b</sup>Preliminary figures.

<sup>c</sup>Gross minus gold.

<sup>d</sup>Shows the accumulated effects on the balance of payments.

Table 26

## PARAGUAY: INDICATORS OF EXTERNAL INDEBTEDNESS

(Millions of dollars)

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Gross external debt contracted <sup>a</sup>	307	366	443	562	628	732	952	1 299	1 323	1 641	1 939
Public sector	294	338	395	494	556	643	842	1 139	1 152	1 490	1 766
Private sector	12	27	48	68	73	89	109	160	170	151	173
Gross external debt disbursed	192	219	272	332	456	518	669	733	861	949	1 204
Public sector	181	195	226	267	383	432	562	574	691	798	1 031
Private sector	11	24	46	65	72	87	107	159	170	151	173
Net foreign assets	-40	-23	7	28	76	172	332	480	633	667	530
Public sector <sup>b</sup>	-22	-7	14	30	67	167	336	475	613	640	497
Private sector <sup>c</sup>	-18	-16	-7	-2	9	5	-4	5	20	27	33
Net external debt	232	242	265	304	379	347	336	253	229	282	674
Public sector	203	202	212	238	317	265	225	99	78	158	534
Private sector	29	40	53	66	63	82	111	153	151	124	140
Gross external debt service	19	21	33	42	47	60	79	113	160	177	216
Capital	9	11	17	24	24	34	42	58	79	87	87
Interest	10	10	16	18	23	26	37	55	81	90	129
Net external debt service <sup>d</sup>	18	19	28	36	38	48	61	68	83	65	113

Source: ECLA, on the basis of data supplied by the Central Bank of Paraguay and the International Monetary Fund.

<sup>a</sup>Medium- and long-term public and State-guaranteed private debt; end-year balances.

<sup>b</sup>Foreign assets of Central Bank less short-term foreign liabilities of Central Bank and National Development Bank.

<sup>c</sup>Foreign assets less short-term foreign liabilities of private commercial banks.

<sup>d</sup>Interest and capital paid, less interest received.

development and external financing projects. The private external debt remained at a rather low level; however, it grew in 1982 after having decreased the year before. For its part, the increase in the gross external debt service was largely a result of expansion of the debt since the average rate of earned interest only increased from 9.4% to 10.7%.

In real terms the gross disbursed external debt expanded by 25.3% in 1982 if deflated according to the import price index, and 33% if the export price index is used. In any case, it was the sharpest growth since 1978. For its part, the net external debt more than doubled in 1982 (see table 27). In relation to the gross domestic product, the gross external debt rose from 17% to 23.6% between 1981 and 1982, at the official exchange rate and at current prices, from 22.6% to 39.4% at the parallel exchange rate and at current prices, and from 14.3% to 18.3% at the parity exchange rate and at constant prices. For the net external debt the corresponding figures were 5% and 13.2%, 6.8% and 22%, and 4.3% and 10.2%. As a proportion of the gross domestic product, the gross external debt, at the official or parity exchange rate, was even lower than the debts recorded towards the mid-1970s, since the net external debt, using the same exchange rates, was still substantially lower than those noted at the beginning of that decade. In contrast, at the parallel exchange rate, the gross disbursed external debt in relation to the gross domestic product reached its highest proportion, according to available statistics. However, at the parallel exchange rate, the net external debt, although it tripled the figure of the year before, still was lower in relation to the gross domestic product than it had been at the beginning of the 1970s, when the economic boom began. The percentage of the gross external debt service in the exports of non-factor goods and services barely increased between 1981 and 1982, going from 31.2% to 31.6%. The net service rose from 11.5% to 16.5%.

Finally, it may be noted that in 1982 the policy continued of assigning the lion's share of external financing to the sectors producing goods and basic services. During the year nearly 58% of the new external credits contracted were devoted to the goods-producing sectors. Among these, the agricultural sector received 25.5% for the financing of several rural development projects, and non-residential construction received nearly 19%, the largest portion of which went to highway and road construction. Nine per cent was channelled to housing construction. The basic services producing sectors were assigned 32.4% of total new external credits; 14% went to transport and nearly 13%

was assigned to communications. In total, 90% of the external financing contracted in 1982 was directed towards the goods and basic services producing sectors. Among the non-basic services sectors, education received 6.5% of total new external credits (see table 28).

There are, therefore, three features which differentiate the external debt of Paraguay from that of countries confronting external payments difficulties: a relatively low total amount, an insignificant private external debt and a sectoral assignment which has favoured the sectors which produce exports and substitute for imports. But it should also be stressed that these external debt statistics exclude those of the binational entities.<sup>45</sup>

Table 27

PARAGUAY: INDEXES AND RATIOS OF THE EXTERNAL DEBT

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
<b>Indexes 1970 = 100</b>											
Disbursed gross external debt <sup>a</sup>											
At current prices	126.2	143.7	178.3	217.8	298.9	340.0	438.8	480.7	564.9	622.4	789.7
Deflated by export prices	108.2	89.0	86.0	103.1	141.0	124.2	169.6	168.4	182.4	180.8	240.2
Deflated by import prices	113.7	115.9	100.0	109.0	154.8	163.9	204.7	191.6	192.9	203.9	255.5
Disbursed net external debt											
At current prices	119.4	124.6	136.1	156.3	195.0	178.2	172.9	129.9	117.5	145.0	346.4
Deflated by export prices	102.3	77.2	65.6	74.0	98.0	65.1	66.8	45.5	38.0	42.1	105.4
Deflated by import prices	107.5	100.5	76.4	78.2	101.0	85.9	80.7	51.8	40.1	47.5	112.0
<b>As a percentage of GDP</b>											
Disbursed gross external debt											
At official exchange rate <sup>b</sup>	25.0	22.0	20.4	22.0	26.8	24.8	26.1	21.4	19.4	16.9	23.6
At parallel exchange rate <sup>c</sup>	...	23.2	22.3	24.9	28.9	26.1	29.4	23.1	23.0	22.6	39.4
At parity exchange rate <sup>d</sup>	17.6	16.7	13.4	13.7	18.2	17.0	19.2	16.2	14.7	14.3	18.3
Disbursed net external debt											
At fixed exchange rate <sup>b</sup>	30.2	24.3	19.9	20.1	22.3	16.6	13.1	7.4	5.1	5.0	13.2
At floating exchange rate <sup>e</sup>	...	25.7	21.7	22.8	24.1	17.5	14.8	8.0	5.5	6.8	22.0
At parity exchange rate <sup>d</sup>	21.2	18.5	13.0	12.5	15.1	11.4	9.7	5.6	3.9	4.3	10.2
<b>As a percentage of exports<sup>f</sup></b>											
Gross external debt service	18.0	14.0	15.9	19.4	15.4	18.2	22.0	28.3	31.2	31.6	
Principal	8.5	7.4	8.2	10.8	9.9	8.7	9.7	11.3	14.0	15.4	12.7
Interest	9.5	6.7	7.7	8.1	9.5	6.7	8.5	10.7	14.3	15.9	18.9
Net external debt service <sup>g</sup>	17.1	12.7	13.5	16.2	15.7	12.3	14.0	16.2	14.7	11.5	16.5

Source: ECLA, on the basis of data supplied by the Central Bank of Paraguay and the International Monetary Fund.

<sup>a</sup>Medium- and long-term public and State-guaranteed private debt; end-year balances.

<sup>b</sup>By the Central Bank, at current prices. For 1982 an exchange rate of 143 guaraníes per dollar was used.

<sup>c</sup>On the parallel. The free market was formally established as from 1973. In July of 1982 it was abolished. For 1982, therefore, the black market exchange rate was used.

<sup>d</sup>Calculated by ECLA at constant prices. In order to deflate the external debt, the import price index was used.

<sup>e</sup>Exports of goods and services, excluding income in respect of interest from abroad.

<sup>f</sup>Interest and principal paid, less interest received.

<sup>45</sup>In this respect, the following paragraph from the *Economic Survey of Latin America, 1981*, is illustrative: "From the point of view of the ownership of Itaipú and Yacyretá, the Government of Paraguay is responsible for 50% of the debts of the binational bodies. According to the treaties of Itaipú and Yacyretá, however, and in actual fact, the responsibility for contracting and guaranteeing the financing of the works has been assumed by the Governments of Brazil and Argentina, respectively. Moreover, the concrete effects of the servicing of this debt on the Paraguayan economy will depend on decisions which have not yet been taken regarding the use made of the electric power. One alternative for calculating the proportion of the debts in respect of Itaipú and Yacyretá which should be incorporated into the external debt of the country would be to work this out as a function of the percentages of the electric power which Paraguay decides to use itself, since this decision will determine the amount of foreign exchange which the economy will have to provide to service the debts of the binational bodies." ECLA, *Economic Survey of Latin America, 1981, op. cit.*, pp. 653 and 654. It may be added that up to a certain degree of use, outflow of foreign currency may be financed entirely by sales of the unused fractions to Brazil and Argentina.

Table 28

**PARAGUAY: SECTORAL DISTRIBUTION OF THE  
EXTERNAL DEBT CONTRACTED ANNUALLY**

(Percentages)

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
<b>Goods-producing sectors</b>	85.0	28.4	61.4	47.9	12.7	50.6	24.5	51.0	60.4	78.0	57.6
Agricultural	82.2	19.8	41.0	23.6	7.8	28.6	9.3	22.5	4.4	15.2	26.7
Crop-farming	78.6	18.9	29.9	21.6	6.9	26.2	9.3	18.9	4.2	5.5	25.5
Livestock	3.6	1.0	11.1	2.0	0.9	2.4	...	3.6	0.2	9.7	1.2
Forestry	-	-	-	-	-	-	-	-	-	-	-
Industrial	2.8	8.6	20.4	24.3	4.9	22.0	15.2	28.5	56.0	62.8	30.9
Manufacturing	1.2	5.7	16.2	15.7	3.1	18.1	10.6	27.4	29.0	48.8	9.3
Construction	1.6	2.9	4.2	8.6	1.8	3.9	4.6	1.1	27.0	14.0	21.6
Residential	...	2.8	4.2	1.1	...	3.0	1.2	-	-	-	2.9
Non-residential	1.6	0.1	...	7.5	1.8	0.9	3.4	1.1	27.0	14.0	18.7
<b>Sectors producing basic services</b>	15.0	57.0	23.4	47.6	82.6	30.5	63.2	46.4	23.9	9.6	32.4
Electricity	0.8	0.2	0.1	23.8	59.5	...	27.6	-	2.2	5.4	5.6
Gas and water	-	-	-	-	-	-	-	-	-	-	-
Transport	14.2	56.8	23.3	23.8	23.1	30.5	35.6	24.7	20.6	2.8	14.1
Communications	-	-	-	-	-	-	-	21.7	1.1	1.4	12.7
<b>Sectors producing non-basic services</b>	-	14.4	15.2	4.5	4.7	19.0	12.2	2.6	15.6	12.4	9.9
Commercial	-	-	-	-	-	-	-	-	-	-	-
Financial	-	-	-	-	-	-	-	-	-	-	-
Community, social and personal services	-	7.0	4.0	4.5	4.7	1.5	4.0	1.0	5.6	0.6	1.8
Government services	-	7.4	11.2	...	...	17.5	...	1.6	10.0	11.8	8.1
Health	-	0.3	11.2	...	...	8.6	8.2	1.6	2.7	7.7	1.6
Education	-	7.1	...	...	...	8.9	...	-	7.3	4.1	6.5
<b>Amount contracted (millions of dollars)</b>	27.9	71.6	95.9	141.4	89.5	135.3	263.0	322.9	181.3	415.0	345.2

Source: ECLA, on the basis of data from the Central Bank of Paraguay.

#### 4. Prices and wages

##### a) Prices

In 1982 the rate of increase of consumer prices declined markedly and was the lowest since 1976. Between December 1981 and December 1982, the consumer price index increased by 4.2% as against a rise of 15% the year before and an average rise of nearly 17% since 1976, when the variation was 3.4%. For its part, the wholesale price level decreased by 6.8% in 1982, after having risen by about 20% in 1981 and approximately 16% during the period 1976-1981 (see table 29).

In six of the first nine months of 1982 the consumer price index variation was negative; and at the end of the third quarter the price level was less than it had been at the end of 1981. However, in the last three months of the year the declining trend reversed, and a rise of 4.7% was attained during the quarter. Wholesale prices during the first three quarters evolved fairly similarly, but their slackening and decline were much more marked; in September the wholesale price index was 15% less than it had been at the end of 1981. The recovery at the end of the year was also more pronounced, with an accumulated rise of 9.8% during the last quarter (see figure 2).

The slackening of inflation indicated by the consumer price index in 1982 was due to an overwhelming extent to the decrease in prices of foodstuffs, since on the average the prices of the other products included in the shopping basket rose by more than 12%. Even the rate of increase of clothing prices intensified, and rose from 9.4% to 16.6%. And although the growth rates of housing prices and miscellaneous expenditures declined, they remained moderately high.

On the cost side, the markedly slower rate of wage increases exerted downward pressure on inflation. After having increased by more than 20% in each of the last three years, the general salary index of the workers of Asunción rose by 3.5% between December 1981 and December 1982, the lowest rise since 1972. The minimum wage index did not vary between the last month of 1981 and the last month of 1982, after having risen by 15% in 1981 and by more than 32% in 1980 and 1979. Meanwhile, gross labour productivity continued to expand, since the drop in employment exceeded the decrease of the product, according to data from the Central Bank. This being the case, the most important inflation rate—the growth rate of unit wage costs—appears to have been even lower than the modest increases which the nominal wages indicate, and considerably lower than in preceding years.

Another factor which helped to reduce inflation on the cost side was the stability of international prices. In 1982 the external import price index rose by barely 1% and that of exports decreased by nearly 5%. In contrast, the rise of the exchange rate should have meant a considerable increase in the prices of marketable goods and services.

However, it should be recalled that for certain goods which are weighted heavily in the consumer price index, such as wheat and petroleum products, the exchange rate did not vary. For their part, the main exports do not influence the domestic shopping basket to a very large extent. In any case, the rise in the exchange rate for them was substantially lower than the average, and was partially offset by the decrease in their external prices. Similarly, the conditions of demand prevented the prices of other marketable goods from being adjusted in proportion to the exchange variation.

Nevertheless, domestic import prices in fact increased quite considerably, in comparison with the prices of goods produced domestically, because of the rises in price of the former and the drop in price of the latter. For example, between the end of 1981 and the end of 1982, the average wholesale price of "other manufactured goods", a category which groups many imported consumer goods, rose by 34%, while the average price of agricultural goods declined by more than 15%. In any case, it may be recalled that the period in which the exchange rate rose the most was followed, with a brief delay, by a reversal of the deflation process recorded since September; the reversal was particularly abrupt and marked in the wholesale prices. The large reduction in wholesale prices of agricultural goods is

Table 29

PARAGUAY: EVOLUTION OF DOMESTIC PRICES

	1975	1976	1977	1978	1979	1980	1981	1982
<b>Average annual variation</b>								
Consumer price index <sup>a</sup>	6.7	4.5	9.4	10.6	28.2	22.4	13.0	5.1
Food	4.6	4.2	11.2	13.0	29.5	18.9	6.5	0.1
Housing	9.2	3.1	8.0	6.4	22.4	22.8	27.1	11.8
Clothing	13.2	5.9	7.5	11.7	23.2	21.2	10.7	12.0
Miscellaneous	7.5	5.5	6.7	7.6	31.3	32.1	20.2	9.1
Wholesale price index <sup>b</sup>	15.2	1.1	8.0	12.8	26.3	7.8	12.2	3.5
Agricultural	26.5	2.5	8.3	21.5	38.4	2.7	13.7	3.5
Index of prices implicit in the gross domestic product <sup>c</sup>	6.7	5.0	9.2	10.4	20.6	16.8	16.6	3.0
<b>Variation from December to December</b>								
Consumer price index <sup>a</sup>	8.7	3.4	9.4	16.8	35.7	8.9	15.0	4.2
Food	11.4	2.0	9.9	22.7	38.4	-2.8	14.4	-2.2
Housing	4.3	4.4	8.3	14.7	20.1	21.1	23.7	11.8
Clothing	9.7	5.3	10.0	12.0	30.4	14.8	9.4	16.6
Miscellaneous	4.8	5.2	8.6	5.9	43.2	30.7	12.9	8.1
Wholesale price index <sup>b</sup>	11.4	-1.2	6.9	23.7	33.0	-1.9	19.6	-6.8
Agricultural	28.3	-11.2	6.4	44.4	43.0	-10.6	30.9	-15.7

Source: Central Bank of Paraguay.

<sup>a</sup>Base year: 1964.

<sup>b</sup>Base year: 1972.

<sup>c</sup>Market prices. Base year: 1977.

also striking, since the production of the sector declined. However, the harvests of many of the main crops which supply the domestic market were larger in 1982 than they had been the year before.

On the demand side, inflation was checked by the substantial drop in gross national income and the decline of domestic spending. This recessive situation was influenced both by circumstantial factors, such as the bad weather, the deterioration in relative external prices, the depression of the regional market and the lower rate of activity of the binational entities, and by a restrictive economic policy.

From the beginning of the 1970s through 1980, the sharp and sustained expansion of the money base was due more than entirely to the increase of net external assets. In 1981, the expansion of the money base was maintained at a relatively high rate, despite the marked slackening in growth of net external assets. But in 1982, the considerable decline in holdings of net external assets — an event which was in large part a reflection of adverse circumstantial factors— was not offset by an increase in net domestic assets. This lack was partly determined by an austere fiscal policy and partly by the fact that a sharp rise in real interest rates had been allowed to occur; this rise kept demand for money very low for the second year running.

#### b) *Wages*

In 1982 real wages declined after two consecutive years of improvement. However, in contrast with what had occurred during the 1970s, when the deterioration in real wages was largely attributable to inflation, this phenomenon was now mainly a reflection of the marked slackening in nominal wage increases. The average wage increase of workers in Asunción was less than 4% between 1981 and 1982, after having been 21% during the period 1978-1981. However, in real terms the decline in wages barely exceeded 1%, on the average, since the average annual variation in the price level also decreased markedly in 1982. This decrease was nearly equal to the average change in the real wage index of the workers of Asunción during the economic boom (see table 30).<sup>46</sup>

The workers most negatively affected were those working in the non-basic services and construction sectors. Real wages of both sectors fell by nearly 5% and 4.4%, respectively. There was also a decline in the real wages of trade (-3.1%), and manufacturing (-2.8%). On the other hand, real wages of the workers in basic services increased between 2.2% (electricity, gas and water) and 4.6% (transport, storage and communications).

Agricultural day wages indicated a contradictory evolution. Indeed, the monetary portion of the average day wage with meals decreased by slightly more than 2% in real terms, while the average day wage without meals rose by nearly 2%. It is not easy to reconcile that difference with the behaviour of foodstuffs prices, since the latter declined.

For their part, the minimum legal wages increased by around 4.5%, which meant that they decreased by half a percentage point in real terms. The nominal growth of minimum wages with respect to 1981 was the result of the last official increase ordered in May of that year.

That increase was also largely responsible for the increase in the wages of the workers of Asunción between 1981 and 1982. Among other factors which determined the evolution of wages in 1981, mention may be made of the sharp drop in employment.

### 5. Fiscal and monetary policy

#### a) *Fiscal policy*

The central Government budget had projected an increase of 37% in current income for 1982, in contrast with the less-than-15% increase attained the year before, when current income declined at constant prices. The expected growth would come from sharp increases in both direct and indirect taxes. Among the former, an expansion of nearly 150% was expected in inheritance taxes (see table 31).

The projection of current central Government income had been based in part on several adjustments introduced into the tax system at the end of 1981 to take effect from the beginning of the 1982 fiscal year. Those adjustments had included, among others, an increase in the tax on sales of

<sup>46</sup>The 1981 Economic Survey analysed the factors determining the evolution of wages during the boom. See ECLA, *Economic Survey of Latin America, 1981, op. cit.*, pp. 659-663.

goods and services in general, and an increase on the special tax on sales of goods considered to be luxury goods; an increase in the tax on sealed paper and stamps; the conversion of some taxes on soft drinks and beer from absolute values to *ad valorem* rates; the application of a specific tax on the profits of the joint venture PETROPAR (*Petróleos del Paraguay*), and the establishment of exceptional facilities during the first quarter to legalize the situation of goods and values on which the corresponding taxes had not been paid, which consisted of the payment of a tax substantially lower than those which normally prevail. Those facilities were programmed to be in force during the first four months of the year. Similarly, several decrees were enacted for tax purposes, among which No. 27866, which had taxed revaluations of goods, No. 28104, which had raised the tax on fuel sales, and Nos. 29470 and 29471, which had increased the reference prices for real estate, for tax purposes.

Table 30

PARAGUAY: EVOLUTION OF WAGES

	Index 1970 = 100						Growth rates					
	1977	1978	1979	1980	1981	1982	1977	1978	1979	1980	1981	1982
<b>Nominal</b>												
<b>Wages of workers in Asunción<sup>a</sup></b>												
General	168.0	192.4	230.9	284.5	341.7	354.7	4.3	14.5	20.0	23.2	20.1	3.8
Manufacturing	167.5	193.4	227.8	283.9	341.4	348.3	3.4	15.5	17.8	24.6	20.3	2.0
Construction	211.7	237.1	270.2	318.1	379.7	381.5	13.8	12.0	14.0	17.7	19.4	0.5
Electricity, gas and water	169.7	188.2	211.0	259.1	310.8	333.8	10.3	10.9	12.1	22.8	20.0	7.4
Transport, storage and communications	162.5	185.4	237.9	287.5	343.4	377.6	3.2	14.1	28.3	20.9	19.4	10.5
Commerce	171.3	190.1	210.2	300.5	374.2	380.7	0.9	11.0	10.9	42.6	24.5	1.7
Other services	156.0	178.7	225.0	296.9	360.9	361.1	0.7	14.6	25.9	32.0	21.6	0.1
<b>Average agricultural daily wages</b>												
With meals	311.7	322.1	415.6	460.9	537.6	547.2	23.4	3.3	29.0	12.5	11.1	4.6
Without meals	304.3	326.1	398.6	435.8	487.9	521.7	23.5	7.2	22.2	9.1	11.7	7.1
<b>Minimum legal wages</b>												
Asunción and Puerto Stroessner	174.1	198.3	247.8	328.4	386.5	404.5	-	13.9	25.0	32.5	17.8	4.6
Other cities	167.0	190.0	237.7	314.7	370.3	387.2	-	13.8	25.1	32.4	17.7	4.6
Agriculture	149.9	188.4	237.3	314.2	369.7	386.5	-	25.7	26.0	32.4	17.7	4.5
<b>Real<sup>b</sup></b>												
<b>Wages of workers in Asunción</b>												
General	85.1	88.1	82.5	83.0	88.2	87.2	-4.6	3.5	-6.4	0.6	6.3	-1.1
Manufacturing	84.9	88.6	81.4	82.8	88.1	85.6	-5.5	4.4	-9.1	1.7	6.4	-2.8
Construction	107.2	108.5	96.5	92.8	98.1	93.8	4.0	1.3	-11.4	-3.8	5.7	-4.4
Electricity, gas and water	86.0	86.1	75.4	75.6	80.3	82.1	0.8	0.1	-12.4	0.3	6.2	2.2
Transport, storage and communications	82.3	84.9	85.0	83.9	88.7	92.8	-8.0	3.2	0.1	-1.3	5.7	4.6
Commerce	86.8	87.0	75.3	87.8	96.6	93.6	-7.8	2.3	-13.4	16.6	10.0	-3.1
Other services	79.0	81.8	80.4	86.6	93.4	88.8	-8.0	3.5	-1.7	7.7	7.9	-4.9
<b>Average agricultural daily wages</b>												
With meals	157.9	147.5	148.5	134.5	137.4	134.5	12.9	-6.6	0.7	-9.4	2.2	-2.1
Without meals	154.2	149.3	142.4	127.2	126.0	128.3	13.0	-3.2	-4.6	-10.7	-0.9	1.8
<b>Minimum legal wages</b>												
Asunción and Puerto Stroessner	88.2	90.8	88.5	95.8	99.8	99.4	-8.6	2.9	-2.5	8.2	4.2	-0.4
Other cities	84.6	87.0	84.9	91.8	95.6	95.1	-8.6	2.8	-2.4	8.1	4.1	-0.5
Agriculture	75.9	86.3	84.8	91.6	95.5	95.0	-8.6	13.7	-1.7	8.0	4.3	-0.5

Source: ECLA, on the basis of data supplied by the Central Bank of Paraguay, Department of Economic Studies; Ministry of Agriculture, Department of Agricultural Marketing and Economics; and Ministry of Justice and Labour, Department of Human Resources.

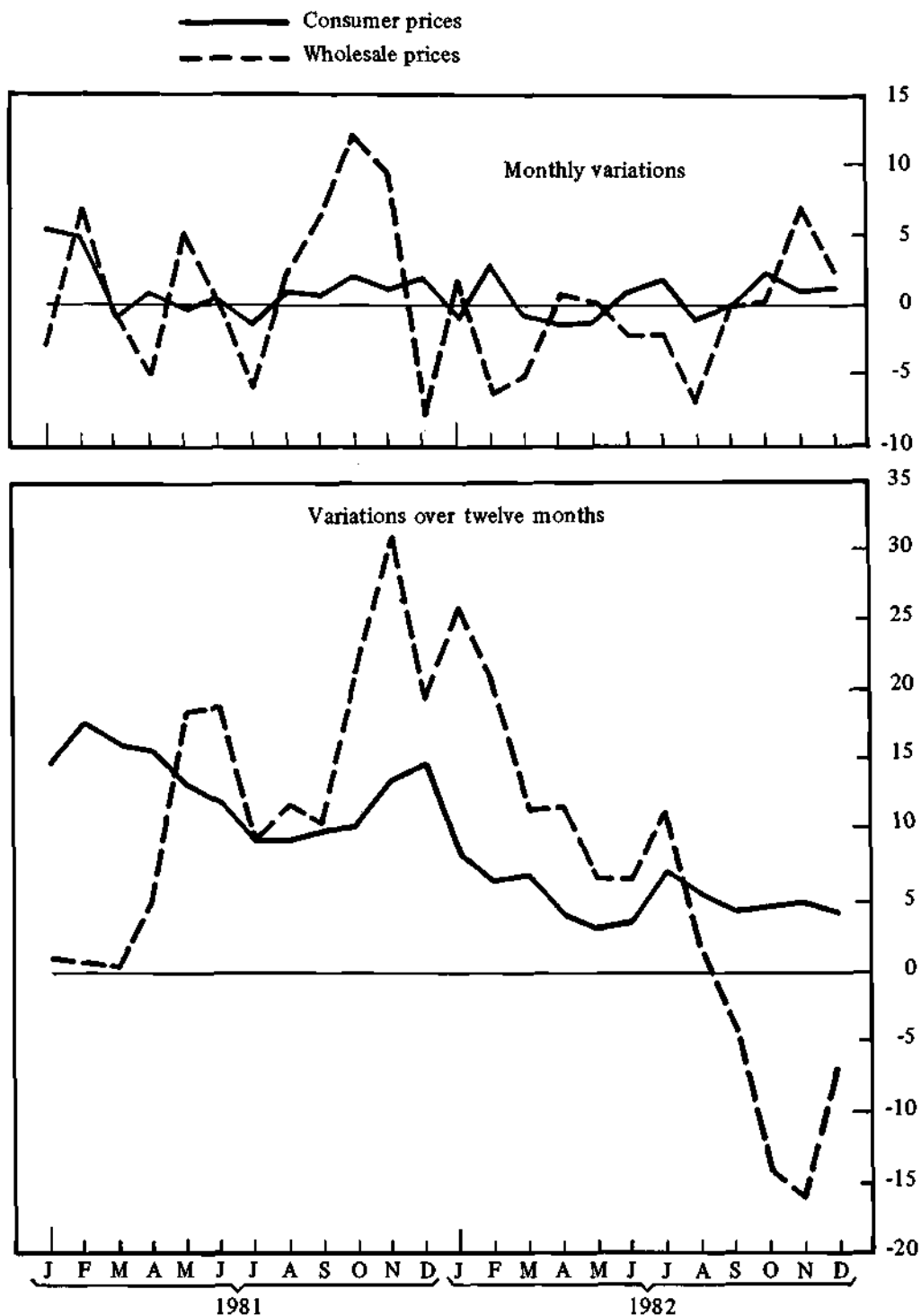
<sup>a</sup> Average of months of June and December.

<sup>b</sup> The nominal values were deflated by the consumer price index.



Figure 2

PARAGUAY: SHORT-TERM EVOLUTION OF PRICES



Source: ECLA, on the basis of official data.

Table 31

## PARAGUAY: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of guaraníes					Growth rates				
	1979	1980	1981	1982 <sup>a</sup>	1982 <sup>b</sup>	1979	1980	1981	1982 <sup>a</sup>	1982 <sup>b</sup>
	Current income	43 629	51 592	59 107	81 029	68 465	27.1	18.3	14.6	37.1
Tax revenue	38 810	46 137	52 351	73 805	61 287	27.9	18.9	13.5	41.0	17.1
Direct taxes	8 449	11 323	14 235	19 991	20 724	25.7	34.0	25.7	40.4	45.6
On personal income	-	-	-	-	-	-	-	-	-	-
On corporative earnings	6 846	9 395	11 735	13 800	12 582	27.7	37.2	24.9	17.6	7.2
On real estate	1 603	1 928	2 500	6 191	8 142	17.9	20.3	29.7	147.6	225.7
Indirect taxes	30 367	34 814	38 116	53 814	40 563	28.6	14.6	9.5	41.2	6.4
On external trade	15 786	17 213	17 825	...	18 915	31.3	9.0	3.6	...	6.1
Imports	14 645	15 945	16 623	...	18 559	31.6	8.9	4.3	...	11.6
Exports	1 141	1 268	1 202	...	356	27.3	11.1	-5.2	...	-70.4
On domestic trade	6 945	8 280	8 691	...	9 594	20.5	19.2	5.0	...	10.4
Others	7 636	9 321	11 600	...	12 054	30.9	22.1	24.5	...	3.9
Non-tax income	4 819	5 455	6 756	7 224	7 178	20.5	13.2	23.8	6.9	6.2
Current expenditure	27 193	38 064	52 990	62 845	64 036	25.8	40.0	39.2	18.6	20.8
Consumption	20 105	28 278	40 191	41 464	42 383	23.3	40.7	42.1	3.2	5.5
Wages and salaries	12 205	15 938	22 474	...	28 075	20.5	36.6	41.0	...	24.9
Goods and non-personal services	5 344	7 324	9 803	...	10 684	15.7	37.0	34.9	...	9.0
Others	2 556	5 016	7 914	...	3 624	63.7	96.2	57.8	...	-54.2
Interest payments	1 345	1 766	2 147	2 048	2 405	57.1	31.3	14.0	-4.6	12.0
Transfers	5 743	7 792	10 653	19 333	19 248	28.9	35.7	36.7	81.5	80.7
Subsidies	63	83	92	100	134	-	31.7	10.8	8.7	45.7
Transfers to the private sector	3 289	4 725	6 233	14 407	14 538	22.0	43.7	31.9	131.1	133.2
Transfers to the public sector	2 151	2 915	3 941	4 536	4 291	43.5	35.5	40.0	15.1	8.9
Others	241	298	357	290	285	22.3	23.7	19.8	-18.8	-20.2
Saving	16 436	13 527	6 117	18 184	4 429	29.3	-17.7	-54.8	197.3	-27.6
Capital income	-	-	-	-	5 184	-	-	-	-	-
Capital expenditure	13 435	14 912	25 974	28 369	14 996	46.7	11.0	74.2	9.2	-42.3
Capital formation	11 379	10 694	14 743	...	13 202	44.3	-6.0	37.9	...	-10.5
Financial investment	257	2 533	9 075	...	214	128.2	...	258.3	...	-97.6
Transfers to the public sector	1 799	1 672	2 153	...	1 527	67.8	-7.1	28.8	...	-29.2
Total expenditure	40 628	52 976	78 964	91 214	78 979	23.6	30.4	49.1	16.8	-
Global balance	3 024	-1 385	-19 857	-10 185	-5 330	-	-	-	-	-
						(Percentage of financing)				
Financing	-3 024	1 385	19 857	10 187	5 330	108.0	100.0	100.0	100.0	100.0
Domestic (net)	-4 980	-1 153	17 646	6 248	5 651	164.7	-83.2	88.9	61.3	106.0
Indebtedness	1 052	-1 813	2 644	...	5 385	-34.9	-130.9	13.3	...	101.0
Direct loans	1 350	-1 011	2 801	...	5 786	-44.6	-73.0	14.1	...	108.6
Central Bank	585	236	379	...	792	-19.3	17.0	1.9	...	14.9
Suppliers	435	230	3 417	-285	6 399	-14.4	16.6	17.2	-2.8	120.1
Others	330	-1 477	-995	...	-1 405	-10.9	-106.6	-5.0	...	-26.4
Bonds	-298	-802	-157	...	-457	9.9	-57.9	-0.8	...	-8.6
Sale	-	-	-	...	-	-	-	-	...	-
Amortization	-298	-802	-157	...	-457	9.9	-57.9	-0.8	...	-8.6
Cash variation	-6 032	660	15 002	6 533	266	199.5	47.7	75.6	64.1	5.0
(- sign indicates an increase)	-6 032	660	15 002	6 533	266	199.5	47.7	75.6	64.1	5.0
External (net)	1 956	2 538	2 211	3 939	-321	-64.7	183.2	11.1	38.7	-6.0
Loans	1 923	2 515	2 167	3 792	-321	-63.6	181.6	10.9	37.2	-6.0
Disbursements	4 226	4 066	4 639	6 528	2 292	-39.7	293.6	23.4	64.1	43.0
Amortization	-2 303	-1 551	-2 472	-2 736	-2 613	76.2	119.9	12.4	26.9	49.0
Donations	33	23	45	147	-	1.1	1.7	0.2	1.4	-

Source: Ministry of Finance of Paraguay, Technical Secretariat and Department of the Budget, and Public Sector Planning Division of the Technical Planning Secretariat.

<sup>a</sup> Budgeted amounts.

<sup>b</sup> Amounts actually registered (preliminary figures).

Mention should also be made of the modification, in August 1981, of the *Régimen de Despacho Regional* (Regional Despatch System), which expanded the list of merchandise subject to the single 15% tariff, for the purpose of reducing contraband and thus increasing tax collection, and the creation of a new tax régime for imports of intermediary goods, with reductions of up to 50% on the tariffs applicable to those products.

On the outflow side, an expansion of 18.6% in current expenditures had been budgeted for 1982; this represented a considerable reduction with respect to the figure for the year before (more than 39%) and reflected a sharp restriction of growth of consumer expenditures, to only 3%, after having been 42% in 1981. On the other hand, transfers were assigned a share 80% higher than the year before, as a result of the large increase in the pensions of the veterans of the Chaco War. It was also intended sharply to restrict the expansion of capital expenditures during the fiscal year 1982, which would increase by 9%, after an expansion of 74% in 1981. A total growth of 16.8% of outflows was planned for 1982; that figure had been 49% the year before.

The income projection and outflow plan meant tripling savings by the central Government and reducing its global deficit to half, with respect to the balances recorded the year before. Nearly 39% of the global deficit would be financed with disbursements expected from external loans; and of the proportion which would be financed with domestic sources, more than 100% would come from the surpluses accumulated by the central Government in fiscal years preceding 1981.

The fiscal policy implicit in the budget adopted for 1981 may be characterized as restrictive, since it planned an increase in Government expenditures which was barely higher than the rate of inflation prevailing at that time, while it also envisaged covering half of the existing deficit through an increase in taxes. However, it is well known that the true degree of restriction (or expansion) can only be measured in relation to the level of activity and of employment, and at that time — November 1981 — it is quite probable that both were already stagnating or declining. At a full employment level, the 1982 budget would have shown a substantial surplus. From that perspective, it therefore proves to be even more restrictive. Nevertheless, the fiscal policy which actually was put into effect during the course of 1982 was ultimately considerably more restrictive than the policy originally contemplated.

The fiscal deficit proved to be only half of that forecast in the budget and, therefore, only one-fourth of that of the year before. The deficit was barely 0.7% of the gross domestic product, after having been 3.0% in 1981 (see table 32).

Total expenditure did not increase, which meant that they fell by around 5% in real terms. This result was decisively influenced by the large reduction in capital expenditures, which exceeded the amount planned in the budget by 47% and the amount the year before by 42%. However, the drop in capital formation was much lower: 10.5% with respect to 1981. In contrast, current expenditures rose by nearly 21%, which meant that they slightly exceeded the expected amount.

Current income rose by 15.8%, a figure which, although it was less than half of that projected in the budget, was higher than that of 1981, even in nominal terms. In real terms current income increased by around 11%, after a decline of nearly 2% recorded in 1981 and in the face of an expansion of approximately 19% implicit in the budget.<sup>47</sup>

The fact that such a large real increase was attained in a recessive economic situation was due to a large extent to the income collected through the exceptional facilities granted by Law 920, for the legalization of goods and securities in irregular situations. Under the provisions of this law, which was extended to September, more than 4 billion guaraníes were collected; this amount was double that estimated in the budget and was responsible for 44% of the increase in current income. Another important portion of the increase came from the higher income collected through import taxes, which partly reflected the growth of registered imports and partly reflected the variation in the exchange rate. The increase in tax collection was less than half of the current value of imports in guaraníes, which would appear to be consistent with the tariff reductions introduced the year before. The higher proportion of the rest of the growth of current income was caused by the higher inflow through land and real estate taxes.

During the course of the year, there were few alterations which entered into force immediately, and these did not have important effects on global tax collection. Among them mention may be made of the reductions of duties on some export products,<sup>48</sup> the new rises in the taxes on gasoline sales, the

<sup>47</sup> When the budget was adopted, the annual inflation rate was 15%.

<sup>48</sup> See section 3, paragraph i).

Table 32

**PARAGUAY: OPERATIONS OF THE CENTRAL GOVERNMENT, THE  
GENERAL GOVERNMENT AND OF THE CONSOLIDATED  
NON-FINANCIAL PUBLIC SECTOR**

(As a percentage of the gross domestic products)<sup>a</sup>

	1972	1977	1978	1979	1980	1981	1982
<b>Central government<sup>b</sup></b>							
Current income	11.6	10.4	11.2	10.8	9.8	8.9	9.4
Tax revenue	10.2	9.3	9.9	9.6	8.8	7.9	8.4
Direct taxes	...	1.8	2.2	2.0	2.2	2.2	2.8
Indirect taxes	...	7.5	7.9	7.6	6.6	6.0	5.6
Transfers from rest of public sector	-	-	-	-	-	-	-
Current expenditure	10.0	7.3	7.1	6.7	7.2	8.0	8.8
Wages and salaries	5.1	3.4	3.3	3.0	3.0	3.4	3.8
Goods and non-personal services	1.8	1.6	1.5	1.3	1.5	1.5	1.5
Transfers	2.0	1.5	1.5	1.4	1.5	1.5	2.6
Interest payments	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Saving	1.6	3.1	4.2	4.1	2.6	0.9	0.6
Capital expenditure	2.2	2.9	3.0	3.3	2.8	3.9	2.1
Capital formation	1.5	2.4	2.6	2.8	2.0	2.2	1.8
Transfers to the rest of public sector	0.6	0.4	0.4	0.5	0.7	1.6	0.2
Global balance	-0.1	0.2	1.2	0.8	0.3	-3.0	-0.7
Financing	0.1	-0.2	-1.2	-0.8	-0.3	3.0	0.7
Domestic (net)	-0.1	-1.2	-1.8	-1.2	-0.8	2.7	0.8
Indebtedness	...	-0.2	-0.1	0.3	-0.9	0.4	0.7
Central Bank	...	0.2	0.1	0.1	-0.1	0.1	0.1
Others	...	-0.4	-0.2	0.2	-0.8	0.3	0.6
Cash variation	...	-1.0	-1.7	-1.5	0.1	2.3	...
External (net)	0.2	1.0	0.6	0.4	0.5	0.3	-0.1
<b>General government<sup>c</sup></b>							
Current income	12.7	12.9	13.8	13.3	12.3	11.3	...
Current expenditure	11.8	8.8	8.8	8.4	8.8	9.5	...
Wages and salaries	...	4.3	4.3	4.0	3.9	4.3	...
Goods and non-personal services	...	2.0	1.9	2.1	1.8	1.9	...
Transfers	...	1.5	1.4	1.3	1.4	1.5	...
Interest payments	...	0.3	0.3	0.4	0.4	0.3	...
Saving	0.9	4.0	5.2	4.8	3.4	1.7	...
Capital expenditure	2.7	3.4	3.4	3.9	3.3	4.6	...
Capital formation	...	2.9	3.0	3.4	2.7	2.7	...
Transfers to rest of public sector	...	-	-	-	-	-	...
Global balance	-1.7	0.7	1.8	1.0	0.5	-2.7	...
Financing	1.7	-0.7	-1.8	-1.0	-0.5	2.7	...
Domestic (net)	0.9	-1.7	-2.4	-1.5	-1.0	2.4	...
Indebtedness	...	-0.1	-0.1	0.3	-0.3	0.5	...
Central Bank	...	0.2	0.2	0.1	-	0.1	...
Others	...	-0.3	-0.3	-0.2	-0.3	0.4	...
Cash variation	...	-1.6	-2.3	-1.8	-0.7	1.9	...
External (net)	0.8	1.0	0.6	0.5	0.5	0.3	...
<b>Consolidated public sector</b>							
Current income	14.7	13.8	14.6	15.0	13.3	11.5	13.8
Current expenditure	11.8	8.8	8.5	8.4	8.8	8.9	10.8
Wages and salaries	...	4.3	4.3	4.0	3.9	7.6	7.4
Goods and non-personal services	...	2.0	1.9	1.8	1.8	7.6	7.4
Interest payments	...	0.3	0.3	0.4	0.4	0.3	...
Transfers to the private sector	...	1.4	1.3	1.3	1.4	1.4	...
Saving	2.9	5.0	6.2	6.6	4.6	2.6	3.0
Capital expenditure	5.5	6.3	7.1	5.9	5.5	6.2	7.2
Capital formation	...	5.8	6.1	5.4	4.8	4.3	6.4
Global balance	-3.6	-0.9	-0.3	1.6	0.4	-2.7	-3.0
Financing	3.6	0.9	0.3	-1.6	-0.4	2.7	3.0
Domestic (net)	1.6	-1.7	-2.3	-2.2	-1.1	1.8	0.8
Debt	...	-	-	0.2	-	0.6	1.0
Central Bank	...	0.1	0.1	-	-	0.1	...
Others	...	-0.1	-0.1	0.2	-	0.5	...
Cash variation	...	-1.7	-2.3	-2.4	-1.1	1.2	-0.2
External (net)	2.0	2.6	2.6	0.6	0.7	0.9	2.2

Source: ECLA, on the basis of data supplied by the Ministry of Finance, Technical Secretariat; The Public Sector Planning Division of the Technical Planning Secretariat and the World Bank.

<sup>a</sup> At factor cost in current prices.

<sup>b</sup> Before consolidation.

<sup>c</sup> Consolidated.

expansion of the list of products subject to the special régime for imports of intermediary products, and the decision to limit the application of the *Régimen de Despacho Regional* to the neighbouring countries. Towards the end of the year a series of adjustments of tax provisions was promulgated, to enter into force during the 1983 fiscal year.<sup>49</sup>

Despite the magnitude of the growth of current income, central Government savings were 20% lower than the year before and barely 24% of the optimistic figure planned in the budget.

With regard to the financing of the global deficit, recourse was had to domestic sources for more than 100% of the necessary resources, since payments on capital exceeded disbursements of external loans. The latter were barely 35% of the figure planned in the budget, largely due to the sharp reductions made in capital expenditures, which delayed or postponed projects financed with those external credits. For its part, domestic financing was provided entirely by credits from suppliers. In contrast with the year before and with the provisions of the budget, the surpluses accumulated in previous fiscal years therefore did not constitute the main source of financing of the deficit. As in previous years, the financing extended by the Central Bank was insignificant.

For the consolidated non-financial public sector, the statistics on implementation of the budget were not available when this study was drafted. Towards mid-1982, the Department of Planning projected results for the sector which implied a global policy that was much less restrictive than that which was actually carried out by the central Government (see table 33).

#### b) *Monetary policy*

Between 1970 and mid-1981, net external assets held by the Central Bank increased systematically and visibly, and attained an average annual rate of expansion of more than 45% between the end of 1970 and the end of 1980. Therefore, the main challenge which had to be confronted by the monetary authority during that decade was how to avoid an excessively rapid growth of the monetary aggregates without damaging the expansion of the economy. And a noteworthy success was achieved, since during the period in question the effective growth rate of the economy was close to the limit of the potential rate of expansion. This performance was helped decisively by a clearly anticyclical fiscal policy.

However, from mid-1981 onwards, the Central Bank's net external assets ceased to grow and even began to decline slightly. For this reason, the monetary authority's main problem became how to maintain the growth rate of the economy without excessively accentuating the loss of international reserves. Among the circumstantial factors which determined the handling of this new challenge were, on the one hand, the existence of full employment of the work force and the high rates of interest abroad and, on the other, the fact that the Central Bank held substantial international reserves—equivalent at the end of 1980 to 11 import months—the prevalence of a very high legal reserve requirement (42%), and the accumulation by the central Government of substantial assets, equivalent at the end of 1980 to nearly 5 months of its total expenditures.

During the second half of 1981, the expansion of the money base was maintained at a rate that was relatively high and close to the goal established in the monetary programme, despite the unexpected decrease in the net external assets of the Central Bank (see figure 3 and table 34). This was attained through a sharp reduction in net domestic debits, which decreased by 45% under circumstances in which the monetary programme had planned an increase of 15%. This large reduction in the negative balance of net domestic assets of the Central Bank was due exclusively to the fact that the central Government had recourse throughout the second half to its assets over the monetary authority in order to finance the unexpected growth in its deficit.

Despite the welcome expansion in the money base, the existence of money ( $M_1$ ) in the economy did not increase in 1981 due to the fact that on the side of money base users, the results were also very different from those forecast. In particular, there was a great divergence between the goal and the result for cash in circulation, which instead of growing by more than 21% barely increased by 2%. For its part, cash outside of banks even decreased, while the total reserves of the commercial banks expanded by 33%. The banks' surplus reserves increased by 75%.

<sup>49</sup> These provisions are: Law 967, which modifies the specific fees comprising the duty on cigarettes and whisky consumption; Law 975, which modifies and readjusts some duties on sealed paper and stamps; Law 977, which increases the duties on carbonated beverages and beers; and Decree 35984 which sets new reference prices for real estate.

Table 33  
**PARAGUAY: OPERATIONS OF THE CONSOLIDATED  
NON-FINANCIAL PUBLIC SECTOR**  
(Millions of guaraníes)

	1979	1980	1981	1982	Growth rates <sup>a</sup>			
					1979	1980	1981	1982 <sup>b</sup>
<b>Central government<sup>c</sup></b>								
<b>Municipalities</b>								
Current income	1 993	2 732	3 379		30.3	37.1	23.7	..
Transfers <sup>d</sup>	48	83	116		...	73.0	38.9	...
Current expenditure	1 289	1 762	2 363		12.0	36.7	34.1	...
Transfers <sup>e</sup>	12	16	19		20.0	25.0	18.8	...
Saving	704	970	1 016		81.0	37.7	4.7	...
Capital income	177	497	358		-23.7	180.8	-28.0	...
Capital expenditure	947	1 589	1 759		15.0	67.8	10.7	...
Global balance	-66	122	-385					...
Financing	66	122	385		100.0	100.0	100.0	...
Domestic (net)	86	122	280		130.3	100.0	72.7	...
External (net)	-20	-	105		-30.3	-	27.3	...
<b>Quasi-autonomous bodies</b>								
Current income	9 599	12 510	15 768		25.8	30.3	26.0	...
Transfers <sup>d</sup>	1 740	2 114	2 923		30.1	21.5	38.2	...
Current expenditure	7 470	9 247	11 921		54.5	23.8	28.9	...
Transfers <sup>e</sup>	-	-	-		-	-	-	...
Saving	2 130	3 263	3 846		-23.8	53.2	17.9	...
Capital income and depreciation	1 537	4 073	3 077		161.8	165.0	-24.5	...
Capital expenditure	2 510	3 376	4 353		92.5	34.5	30.0	...
Global balance	1 157	3 960	2 570		-44.3	242.2	-35.1	...
Financing	-1 157	-3 960	-2 570		100.0	100.0	100.0	...
Domestic (net)	-1 035	-3 900	-2 421		89.5	98.5	94.2	...
External (net)	-122	-60	-149		10.5	1.5	5.8	...
<b>Public enterprises</b>								
Current income	24 351	31 163	36 198		44.7	27.9	16.1	...
Transfers <sup>d</sup>	363	718	902		121.4	97.8	25.7	...
Current expenditure	17 032	24 926	29 085		20.0	-	16.7	...
Transfers <sup>e</sup>	-	25	27		-	-	24.4	...
Saving	7 319	6 237	7 113		177.1	-14.8	14.0	...
Capital income and depreciation	2 968	5 001	4 498		31.3	68.5	-10.1	...
Capital expenditure	8 008	11 700	16 516		-29.4	46.1	41.2	...
Global balance	2 279	-462	-4 905					...
Financing	-2 279	462	4 905		100.0	100.0	100.0	...
Domestic (net)	-2 987	-633	529		131.6	-137.0	10.8	...
External (net)	708	1 095	4 376		-31.6	237.0	89.2	...
<b>Consolidated non-financial public sector</b>								
Current income <sup>f</sup>	60 377	70 139	81 406	100 688	35.2	16.2	16.1	23.7
Current expenditure <sup>f</sup>	33 788	46 142	63 315	78 633	29.4	36.6	37.2	24.2
Consumption	26 152	35 306	49 435	53 896	25.5	35.0	40.0	9.0
Interest payments	1 459	1 941	2 325	...	47.4	33.0	19.8	...
Transfers to the private sector	5 043	7 271	9 631	...	26.0	44.2	32.5	...
Saving	26 589	23 997	18 091	22 055	43.4	-9.7	-24.6	...
Capital income and depreciation	3 639	6 825	6 409	8 294	72.2	87.6	-6.1	29.4
Capital expenditure	23 834	28 830	43 595	52 207	10.0	21.0	51.2	19.8
Capital formation	21 687	25 070	30 817	46 921	27.6	15.6	32.9	52.3
Global balance	6 394	1 992	-19 095	-21 858				...
Financing	-6 394	-1 992	19 095	21 858	100.0	100.0	100.0	100.0
Domestic (net)	-8 916	-4 612	12 799	6 154	139.4	131.5	67.0	28.2
Indebtedness	851	-530	4 513	7 654	-13.3	21.3	23.6	35.0
Loans	1 149	...	4 670	...	-18.0	26.6	24.5	...
Banking system (net)	1 074	...	827	...	-16.8	...	4.3	...
Central Bank (net)	1 148	...	361	...	-18.0	...	1.9	...
Non-banking (net)	75	...	3 843	...	-1.2	...	20.1	...
Bonds	-298	...	-157	...	4.7	...	-0.8	...
Disbursements	...	...	...	...	...	...	...	...
Amortization	-298	...	-157	...	4.7	...	-0.8	...
Cash variations (- sign indicates an increase)	-9 767	-5 036	8 286	-1 500	152.8	252.8	43.4	6.9
External (net)	2 523	3 573	6 295	15 704	-39.5	179.4	33.0	71.8
Disbursements	6 567	...	12 095	21 514	-102.7	...	63.3	98.4
Amortization	-4 044	...	5 845	-5 810	63.2	...	30.6	-26.6
Donations	33	23	45	...	-0.5	1.2	0.2	0.2

Source: Public Sector Planning Division of the Technical Planning Secretariat of Paraguay.

<sup>a</sup>For the financing readings, the figures are percentages of the total financing.

<sup>b</sup>Projected figures.

<sup>c</sup>See Table 31.

<sup>d</sup>Transfers from rest of public sector.

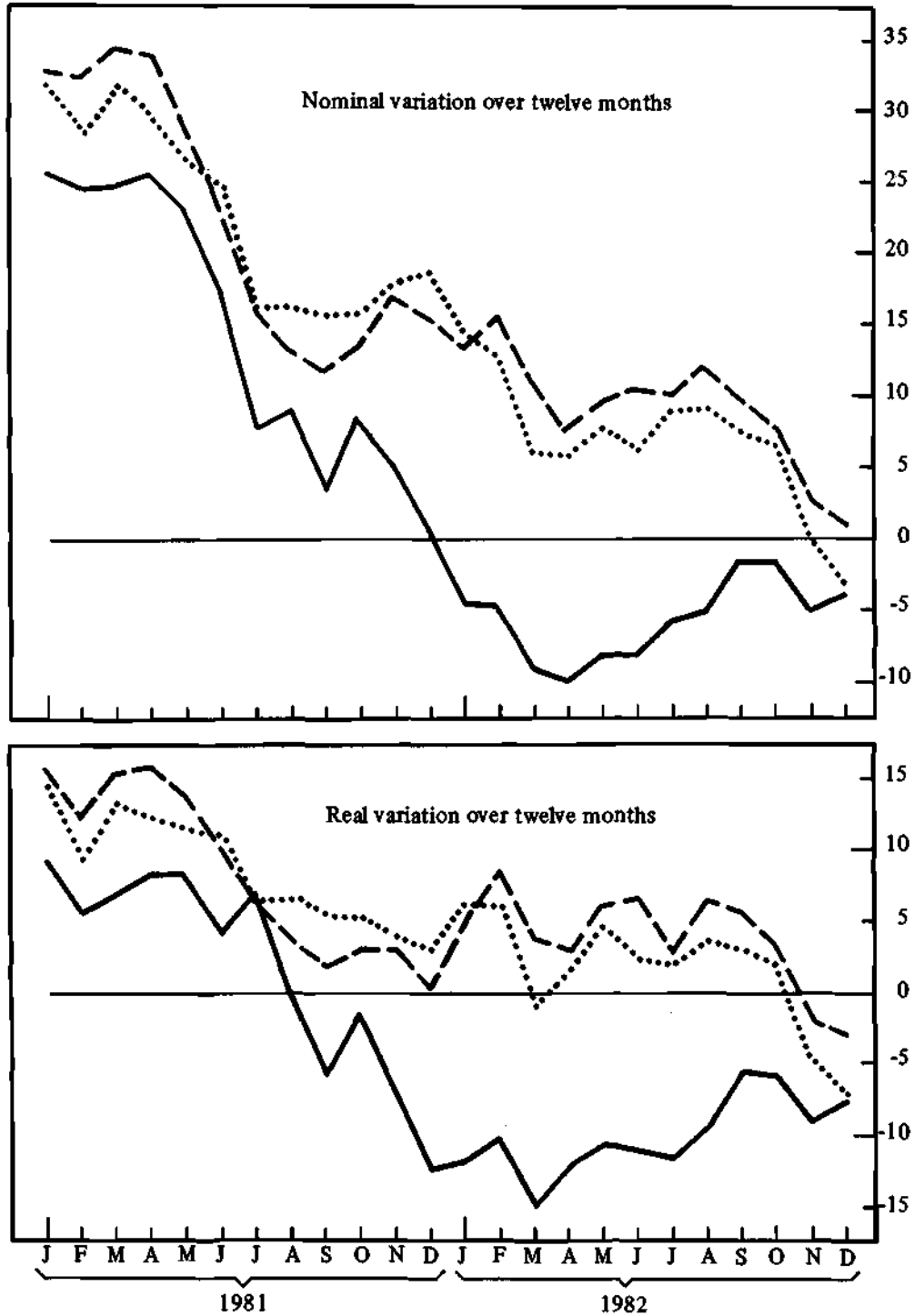
<sup>e</sup>Transfers to rest of public sector.

<sup>f</sup>For public enterprises, only the surplus on current operations is included.

<sup>g</sup>Does not include current expenditure of public enterprises.

Figure 3  
**PARAGUAY: EVOLUTION OF THE MAIN MONETARY AGGREGATES**

— M<sub>1</sub>  
 - - - M<sub>2</sub>  
 ..... Monetary base



Source: ECLA, on the basis of official data.

These results were chiefly due to the unexpected stagnation in public (non-bank) demand for cash balances, but also to the banks' willingness to accumulate reserves far beyond the legally necessary amount. And it is clear that the change in the public's behaviour was brought about by the unusual rise in domestic interest rates, since this strongly discouraged both money holdings and indebtedness while it stimulated placement of assets in the financial system. However, the nominal domestic product grew by 26.4% in 1981, since the income-velocity of the money increased from slightly less than 9.0 in 1980 to 11.3 in 1981 (see table 35).

In contrast to the stagnation of the  $M_1$ , the  $M_2$  grew by 15.3%, since quasi-money increased by more than 30%. The expansion rate of the  $M_2$  was close to that of the money base and did not represent a radical break with the trend noted in previous years. Similarly, the gross domestic credit

Table 34

PARAGUAY: MONETARY PROGRAMME<sup>a</sup>

	Billions of guaraníes					Growth rates				
	1980		1981		1982 <sup>b</sup>	1980		1981		1982 <sup>b</sup>
	Pro-gram-med	Ac-tual	Pro-gram-med	Ac-tual		Pro-gram-med	Ac-tual	Pro-gram-med	Ac-tual	
Monetary base	67.5	70.0	86.6	82.9	79.8	22.3	27.0	23.6	18.4	-3.7
Sources	67.5	70.0	86.6	82.9	79.8	22.3	21.0	23.6	18.4	-3.7
Net foreign assets	97.3	94.0	114.2	96.1	82.2	30.1	25.7	21.4	2.2	-14.5
Assets	99.6	96.6	117.0	102.2	86.8	29.0	25.1	2.1	5.8	-15.1
Liabilities	-2.8	-2.6	-2.9	-6.1	4.7	-12.8	-7.9	-8.4	-134.6	
Net domestic assets	-29.9	-24.0	-27.5	-13.2	-2.4	-52.0	-22.0	-14.8	45.0	-81.8
Domestic credit	-4.8	2.8	4.4	20.1	27.8	-132.6	-	60.1	617.9	38.3
Public sector	12.1	-6.6	7.0	8.9	18.5	-45.3	21.0	-6.2		107.9
Central government (net)	21.7	-17.0	-19.5	-5.0	-2.7	-48.1	-16.6	-14.4		46.0
Credit	4.8	4.1	5.5	4.2	3.5	8.5	-6.3	32.7	2.4	-16.7
Deposits	-26.5	-21.2	-25.0	-9.2	-6.2	-38.9	-11.2	-18.0	56.6	32.6
Other public bodies	9.6	10.5	12.5	14.0	21.2	51.8	65.9	19.6	33.3	51.4
Financial <sup>c</sup>	3.6	3.0	4.0	5.6	11.9	5.5	-10.2	32.3	86.7	112.5
Non-financial	6.0	7.5	8.5	8.4	9.3	104.8	152.8	14.5	12.0	10.7
Private sector	7.3	9.3	11.4	11.1	9.3	16.4	49.5	22.2	19.4	-16.2
Financial	4.8	6.8	8.8	...	...	27.8	80.7	29.9		...
Non-financial	2.5	2.6	2.6	...	...	-0.5	2.7	1.8		...
Other net domestic assets	-25.1	-26.7	-31.9	-33.7	-30.2	-44.0	-53.7	-19.5	-26.2	10.4
Capital and reserves	-3.1	-6.0	-9.3	-9.6	-15.5	-38.3	-170.8	-55.6	-60.0	-61.4
Deposits	-	-11.6	-	-18.8	-25.3	-	-34.7	-	-62.0	-34.6
Private sector <sup>d</sup>	-	-9.2	-	-16.5	-22.5	-	-56.1	-	-79.3	-36.1
Prior deposits on imports	-2.5	-1.9	-	-0.9	.6	-25.6	3.3		52.6	33.3
Special deposits	-	-6.4	-	-11.0	-15.8	-	-76.5	-	-71.9	-14.4
Others <sup>e</sup>	-0.4	-1.0	-1.0	4.6	-6.1	-0.9	-177.5	-1.7		
International organizations	-3.5	-2.4	-2.5	-2.4	-2.8	-30.7	12.1	-5.3		-16.7
Counterpart, adjustment of international reserves	-2.9	-4.0	-4.7			7.5	-28.5	-16.6		...
Special Drawing Rights	-1.8	-1.8	-1.9	-5.3	10.6	-26.8	-27.6	-0.9		...
Others (net)	-11.0 <sup>f</sup>	-3.3	-8.2 <sup>g</sup>			-444.2	-63.7	-147.5		...
Uses	67.4	70.0	86.6	82.9	79.8	22.3	27.0	23.6	18.4	-3.7
Currency outside banks	/	31.2	/	31.2	33.2		28.2			6.4
Commercial bank reserves <sup>h</sup>	/	38.8	/	51.7	46.6		26.0		33.2	-9.9
Legal reserves	/	34.4	/	43.7	41.7		28.6		27.0	-4.6
Surplus reserves	/	4.4	/	8.0	4.9		8.6		81.8	-38.7
Currency in circulation	35.9	33.7	40.9	34.4	36.1	35.7	27.9	21.3	2.1	4.9
Legal reserves and current account deposits <sup>i</sup>	31.6	36.3	45.7	48.5	43.7	10.1	26.4	25.9	33.6	-9.9
$M_1$	/	62.4	/	62.6	60.2		25.8		0.3	-3.8
$M_2$	/	124.0	/	143.0	144.6		34.0		15.3	1.1

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

<sup>a</sup> Various adjustments, based on the monetary accounting used by the International Monetary Fund (IMF) in its *International Financial Statistics*, have been made in the original layout of the monetary programme of the Central Bank, entitled *Desarrollo de activos netos del Banco Central del Paraguay* but there are still some differences between the values in this table and those given in tables whose source is the IMF.

<sup>b</sup> In 1982 there was no monetary programme.

<sup>c</sup> Included in the "Other (net)" section.

<sup>d</sup> Including deposits of the autonomous bodies.

<sup>e</sup> Including deposits.

<sup>f</sup> Not programmed.

<sup>g</sup> Including the surplus reserves in foreign currency deposited in the Central Bank of Paraguay.



Table 35

## PARAGUAY: CREATION AND INCOME-VELOCITY OF MONEY

	1976	1977	1978	1979	1980	1981	1982
<b>Growth rates<sup>a</sup></b>							
Money							
M <sub>1</sub>	21.0	32.5	39.5	24.5	25.8	0.4	-3.9
M <sub>2</sub>	23.7	31.9	35.8	17.0	34.0	15.3	1.1
Monetary base	20.4	31.7	31.1	23.0	27.0	18.4	-3.7
<b>As a percentage of the increase<sup>b</sup></b>							
<b>Sources<sup>c</sup></b>							
Net foreign assets	108.7	168.1	211.5	190.2	129.1	16.5	450.2
Net domestic assets	-8.7	-68.1	-111.5	-90.2	-29.1	84.5	-350.2
Net domestic credit	60.8	62.9	48.2	38.3	-110.1	167.7	71.4
Public sector	52.4	106.2	126.5	141.2	36.7	75.7	123.8
Central government (net)	281.1	79.1	92.8	108.8	-138.3	88.1	24.2
Other public bodies	-181.1	21.9	7.2	-8.8	-38.3	11.9	75.8
Financial	333.5	47.6	117.4	61.1	-8.2	44.2	87.1
Non-financial	-233.5	52.4	-17.4	38.9	108.2	55.8	12.9
Private sector	47.6	-6.2	-26.5	41.2	63.3	24.3	-23.8
Other net domestic assets	39.2	37.1	51.8	62.7	210.1	-50.6	28.6
Capital and reserves	244.7	24.1	8.2	11.7	41.2	67.7	-164.9
Deposits	-160.0	27.9	29.1	94.8	42.5	-95.3	-183.0
Others	15.3	52.0	62.7	-6.5	16.3	127.4	147.9
<b>Uses<sup>c</sup></b>							
Currency outside banks	31.5	37.2	50.3	54.6	46.1	-0.2	65.1
Commercial bank reserves	68.5	62.8	49.7	45.4	53.9	100.2	-165.1
Currency outside banks/demand deposits	0.91	0.88	0.88	0.96	1.00	0.99	1.23
Currency outside banks/total deposits	0.30	0.30	0.33	0.36	0.34	0.28	0.30
Bank reserves/demand deposits	1.39	1.37	1.24	1.22	1.24	1.64	1.73
Bank reserves/total deposits	0.46	0.46	0.46	0.45	0.42	0.46	0.42
<b>Monetary multiplier</b>							
M <sub>1</sub> /monetary base	0.83	0.84	0.89	0.90	0.89	0.76	0.76
M <sub>2</sub> /monetary base	1.70	1.70	1.76	1.68	1.77	1.73	1.81
<b>Income-velocity of money</b>							
Gross domestic product/M <sub>1</sub>	9.93	9.23	8.09	8.68	8.98	11.31	12.11
Gross domestic product/M <sub>2</sub>	4.85	4.53	4.08	4.65	4.52	4.96	5.05

Source: ECLA, on the basis of Central Bank of Paraguay, *Boletín Estadístico*, January 1983, No. 296.

<sup>a</sup>End-year balances.

<sup>b</sup>Each section adds up to 100%.

<sup>c</sup>Of the monetary base.

placed by the banking system grew by nearly 17%, while in net terms domestic credit increased by 35%, making its evolution approximately consistent with that of the recent past (see table 36).<sup>50</sup>

To a large extent, the size of the expansion of these monetary aggregates explains why the decrease in net external assets and the total restriction of M<sub>1</sub> growth were not accompanied by a proportional decrease in the growth rate of economic activity or of inflation in 1981. However, in interpreting the monetary policy and the performance of the economy in that year, it should be borne in mind that indirect and partial indicators suggest that there was a substantial slackening of the growth rate in the second half. In an extreme case, the average for the year would be reflecting the results of the last half of the economic boom and of the first half of the recession. It should also be stressed that the depressive effects of the decrease of net external asset holdings were not offset by an alteration in the monetary policy but by the financing of the central Government deficit with the resources which it had on deposit with the Central Bank. The monetary authority adopted a rather passive position towards the course of events, at least until September, when it reduced from 42% to

<sup>50</sup>Gross domestic credit excludes central Government deposits with the monetary authority. Net domestic credit includes them.

30% the legal reserve requirement for deposits of more than 90 days, and raised the interest rates for fixed-term savings deposits by two to three points. But these measures did not have sufficient scope to be able to avoid considerable repercussions.

At any rate, it is not clear that earlier or more far-reaching changes in monetary policy would have resulted in a larger growth of money. A larger money issue would probably have resulted in increases in bank reserves and not in a larger quantity of cash outside of banks, given the high prevailing interest rates. Alternatively, a substantial decrease in domestic interest rates could have resulted in a smaller surplus in the balance-of-payments capital account, or in an acceleration of inflation rather than in a higher demand for cash balances, given the high interest rates in force abroad and the high level of employment existing in the country.

But to the extent that there had been a continuation of the slackening of economic activity which began to manifest itself in the second half of 1981, the substantial increase in the rate of money expansion could have become not only more feasible but also highly desirable, especially if external interest rates had decreased.

During the course of 1982 there was a steady decline in Central Bank holdings of net external assets, with the exception of the second quarter, when there was a slight recovery, and especially from August onwards. Between December 1981 and December 1982, the loss of reserves was 14.5%, in comparison with the small increase recorded between December 1980 and December 1981. But in contrast with what had occurred the year before, in 1982 the depressive effects of the evolution of net external assets on the money base were not offset to the extent necessary. In 1982 the growth rate of the money base also dropped sharply, from an annual increase of 18.4% in December 1981, to one of 6.2% in June 1982, to decline by 3.7% in December 1982, with respect to December 1981 (see figure 3).

Although the size of the reduction of net domestic liabilities of the Central Bank was similar in 1982 to that of 1981, it represented barely 37% of the reduction which was required, other conditions being equal, to maintain the same growth rate of the money base recorded in 1981. In contrast to

Table 36

PARAGUAY: MONETARY BALANCE

	End-year balances in millions of guaraníes				Growth rates			
	1979	1980	1981	1982	1979	1980	1981	1982
<b>Money</b>	49 590	62 390	62 645	60 182	24.5	25.8	0.4	-3.9
Currency outside banks	24 316	31 181	31 161	33 170	15.2	28.2	-0.1	6.4
Current account deposits	25 274	31 209	31 484	27 012	32.8	23.5	0.9	-14.2
<b>Factors of expansion</b>	130 102	171 719	206 357	220 682	24.7	32.0	20.2	6.9
Net external assets	76 240	97 335	103 025	86 933	38.0	27.7	5.8	-15.6
Net domestic assets	53 862	74 444	103 332	133 749	9.8	38.2	38.8	79.7
Domestic credit	59 259	85 492	115 354	127 927	16.7	44.3	34.9	10.9
Public sector	-10 712	-8 437	5 001	8 875				
Central Government (net)	-14 496	-16 917	-4 917	-2 595				
Credit	4 548	4 267	4 309	3 639				
Deposits	-19 044	-21 184	-9 226	-6 234				
Other public bodies	3 784	8 480	9 918	11 470				
Private sector	69 971	93 929	110 353	119 052	24.8	34.2	17.5	7.9
Other net domestic assets	-5 397	-11 048	-12 022	5 822	215.1			
<b>Factors of contraction</b>	80 512	109 389	143 712	160 500	24.9	35.9	31.4	11.7
Saving and time deposits	42 920	61 605	80 340	84 425	18.5	43.5	30.4	5.1
National currency	30 830	40 856	58 596	67 877	2.5	32.5	43.4	15.8
Foreign currency	12 090	20 749	21 744	16 548	120.8	71.6	4.8	-23.9
Import deposits	3 448	3 116	3 909	4 730	12.6	-9.6	25.4	21.0
Long-term foreign borrowing	9 036	9 143	8 621	9 591	7.5	1.2	-5.8	11.3
Capital and reserves	22 676	32 267	43 136	53 624	46.8	42.3	33.7	24.3
Other net liabilities	2 429	3 258	7 706	8 130	83.9	34.1	136.5	5.5

Source: ECLA, on the basis of data supplied by the Central Bank of Paraguay. *Boletín Estadístico*, January 1983, N° 296.

1981, when the financing required by the well-known expansion of the central Government deficit offset to a large extent the adverse effects of the stagnation in net external asset holdings, in 1982 the central Government deficit was sharply reduced. On the other hand, the financing required by other public institutions increased considerably, but not sufficiently to sustain by itself the expansion of the money base. For its part, credit intended by the Central Bank for the private sector even decreased in 1982, while deposits procured by the Central Bank from the private sector increased considerably. The net reduction of the deficits of the other accounts of domestic assets and liabilities barely exceeded the net increase in Central Bank liabilities with the private sector (see table 34).

Together with the slackening and eventual decrease in the money base, the existence of money in the economy ( $M_1$ ) declined. After having barely increased in 1981, the  $M_1$  was reduced by nearly 4% in 1982. In contrast with the experience of the year before, however, in 1982 the monetary multiplier did not vary. If the sharp decline recorded the year before had continued, the existence of money would have decreased radically. At any rate, it should be stressed that the monetary multiplier was at an exceptionally low level, not only with respect to that of other countries but in comparison with the values in force in Paraguay before 1981 (see table 35). At the same time, it should be borne in mind that the decline of nominal money existence was not accompanied by a disappearance of inflation. In real terms the  $M_1$  decreased by nearly 8% in 1982.

The evolution of the  $M_2$  in 1982 also contrasted with that of 1981. It increased by barely 1%, after an expansion of more than 15% observed the year before. Given the decrease in the money base, at the average existing legal reserve requirement, the  $M_2$  could not have grown more than 3.3% during the year, unless it were to have been at the expense of the  $M_1$ . In fact, the monetary multiplier for the  $M_2$  increased slightly in 1981, chiefly in response to the lowering of the legal reserve requirement for deposits of more than 90 days in September of the year before, although it was also influenced to a large extent by the substantial decrease in the surplus reserves of the commercial banks.<sup>51</sup> If that multiplier had not increased, the  $M_2$  would also have decreased by 3.7%.

Of the main money aggregates, the only one which grew significantly in 1982 was domestic credit, although its rate of expansion was much lower than that which prevailed during the economic boom. In 1982 the growth rate of gross domestic credit was 7.7%, in comparison with a rate of 17% in 1981 and the average of 25% recorded between 1972 and 1980; for its part, net domestic credit increased by 11% in 1982, as against 35% in 1981 and 22.5% on the average between 1972 and 1980. Credit intended by the banking system for the private sector expanded by 8% in 1982, in comparison with a growth of 17.5% in 1981 and an average of over 31% between 1972 and 1980 (see table 36 and table 37).

The much lower expansion of credit in 1982 was influenced significantly by the high interest rates. However, domestic credit could not have expanded more than 10% in net terms and more than 14.6% in gross terms, given the average existing legal reserve requirement. Both to free resources and to make them less expensive, a large reduction in legal reserve requirements would have been needed, or the Central Bank would have had to open lines of credit at interest rates substantially lower than those in effect.<sup>52</sup>

For the first time in many years, in 1982 the Central Bank did not develop its monetary policy in the framework of a pre-established monetary programme. It is not clear what part this change might have played in the monetary results during the year. In any case, the evolution of the monetary aggregates appears to indicate that the Central Bank decided not to make innovations in the area of monetary policy, despite the more or less drastic changes experienced in nearly all the macroeconomic variables from mid-1981 or the end of 1981 onwards. The monetary authority

<sup>51</sup> Between 1981 and 1982, the percentage of the total reserves of the commercial banks as a proportion of their total deposits went from 46.2% to 39.6%, while legal reserves declined from 39.1% to 35.6%, in comparison with total deposits.

<sup>52</sup> Paraguay does not have a systematic record of the evolution of the interest rates collected and paid out in the financial system. The Central Bank has given priority to the interest rates charged under the *Régimen de Cartera Mínima* (Minimum Portfolio Régime), which requires the commercial banks to assign a minimum of 50% of their portfolio to financing industrial (25%) and agricultural (5%) activities, and export operations (20%). The maximum annual rate authorized for this régime at the end of 1982 was 14.5%. This was the same rate in effect at the end of 1981. The maximum annual rates authorized for the banking system towards the end of 1981 fluctuated between 19% for the 50% of the commercial banks' portfolio not subjected to the Minimum Portfolio Régime and for long-term loans by the National Development Bank intended for industry and stock-raising, and 28% for long-term loans from the Stock-raising Fund. In practice, the interest rates of the portion of the portfolio outside of the Minimum Régime are usually higher than those authorized. For the segment of the formal financial system whose interest rates are not regulated, the average annual interest rate was around 50% in 1982, slightly higher than that observed the year before. In real terms, the interest rates of the formal financial system rose considerably in 1982. The informal financial system performs an important role in various activities, and its interest rates are usually higher than those charged in the formal system.

limited itself to introducing small or restrictive changes into the *Régimen de Cartera Mínima* (Minimum Portfolio Régime),<sup>53</sup> the interest rates on loans from the commercial banks,<sup>54</sup> the legal reserve requirement for deposits in foreign currency<sup>55</sup> and the monetary readjustments.<sup>56</sup> In addition, it authorized the commercial banks to make certain discount operations,<sup>57</sup> but rejected a proposal by the banks for refinancing the dollar debts of the private sector.<sup>58</sup> In actual fact, not having made innovations in view of the new economic situation meant adopting a decidedly restrictive policy by omission.

There appears to be no doubt that the sharp restriction of the means of payment helped create the recession. It also appears to be clear that the monetary authority could have ensured an expansion of the means of payment sufficient to foster a further increase in the product, if not in order to obtain a growth similar to that of preceding years. It had available for this purpose its substantial external financial resources and the plentiful domestic financial resources (reserves) of the commercial banks. What is more, its margin of manoeuvre was increasing during the course of the year as a result of the considerable decrease in interest rates abroad and the growing disuse of domestic resources. In contrast, the decision to return to a fixed exchange rate in the middle of the year limited the monetary authority's freedom to administer an expansive monetary policy, and the concern raised by the sharp rise in the exchange rate throughout the year has probably been a determining factor in the decision to allow a restrictive monetary policy to prevail, despite the well-known variation in other conditions which would have justified an expansive policy.

Table 37

PARAGUAY: DESTINATION OF CREDIT GRANTED TO THE PRIVATE SECTOR, BY KIND OF ECONOMIC ACTIVITY<sup>d</sup>

	End-year balances (billions of guaraníes)				As a percentage of the gross domestic product <sup>b</sup>				Growth rates			
	1979	1980	1981	1982	1979	1980	1981	1982	1979	1980	1981	1982
Total	77.1	102.8	121.7	133.6	20.8	18.3	17.2	18.3	24.1	33.5	18.3	9.3
Agriculture	24.7	27.8	34.4	41.3	32.7	18.8	19.6	...	8.7	12.4	24.0	20.0
Crop farming	15.4	16.4	20.6	23.0	33.1	16.2	17.1	...	3.7	6.8	25.3	11.6
Stock-raising	9.3	11.3	13.8 <sup>c</sup>	18.3	32.1	24.3	24.9	...	18.3	21.6	22.0 <sup>c</sup>	32.5
Industry	17.8	23.4	28.5	32.2	24.6	18.5	17.2	...	21.3	31.8	21.6	12.8
Manufacturing	16.9	22.2	27.0	31.0	27.2	24.0	22.8	...	21.0	31.2	21.8	14.4
Construction	0.9	1.2	1.5	1.2	8.9	3.6	3.2	...	26.3	43.7	18.3	-18.0
Commerce (domestic)	19.8	30.3	38.1	41.5	13.9 <sup>d</sup>	20.9 <sup>d</sup>	20.2 <sup>d</sup>	...	31.0	52.9	26.0	8.8
Exports	10.2	15.2	13.8	12.4	16.3	28.4	26.7	...	55.5	49.9	-9.6	-9.9
Others	4.5	6.2	6.9	6.3	...	...	...	...	45.9	38.4	11.1	-8.7

Source: ECLA, on the basis of Central Bank of Paraguay, *Boletín Estadístico* (various issues).

<sup>a</sup>Credits granted by the National Development Bank, the Stock-raising Fund and commercial banks.

<sup>b</sup>At market prices.

<sup>c</sup>Estimates.

<sup>d</sup>Including financing.

<sup>53</sup>In January stock-raising was included in the Minimum Portfolio Régime. The proportions of the portfolio to be assigned to each activity were also made more flexible, in terms of seasonal factors, and a minimum term was established for loans of 240 days.

<sup>54</sup>In June the interest rates for fixed-term deposits were raised, from 12% to 13% for deposits of 60 to 91 days, from 13% to 14% for those of 91 to 180 days, and from 14% to 15% for those of 181 days and over.

<sup>55</sup>In June the legal reserve requirement for deposits in foreign currency was doubled; it rose from 15% to 30%.

<sup>56</sup>At the end of the year the monetary readjustment for operations of the savings and loans system was set at 6%; this rate slightly exceeded the inflation which had occurred during the year. In 1981 the readjustment had been 5%, with inflation of 15%; and in 1980, 9% (savings) and 6.5% (loans), with inflation of 8.9%. There were no monetary readjustments for the rest of the financial system, except for loans by the Stock-raising Fund.

<sup>57</sup>In mid-July, the Central Bank decided to allow the commercial banks, under advantageous conditions, to carry out rediscounting operations equivalent to a maximum of 20% of the amount of credits granted under the Minimum Portfolio Régime, for the purpose of encouraging allocation of credits to production activities.

<sup>58</sup>Furthermore, it was decided not to accept requests by banks and other representatives of the private sector for the State to facilitate the private sector's dollar debt service through a plan for refinancing and converting those debts into guaraníes. It will be recalled that in July the exchange rate for the external private debt service was raised from 126 to 160 guaraníes per dollar.

## PERU

### 1. Recent economic trends: Introduction and summary

According to the official forecast made at the beginning of the year, national production would increase by around 5% in 1982. This forecast was based both on the growth experienced in the preceding three years (which although moderate was sustained) and on the considerable dynamism of the mining sector (because of rising prices) and construction (because public expenditure would remain high).

However, the economic reactivation of 1979-1981 was not sufficiently strong to provide a sound basis for an acceleration in the rate of development. In addition public expenditure on construction, which it was assumed would be one of the pillars of economic growth in 1982, had to be restricted owing to pressures of a fiscal nature.

Thus, the gross domestic product (at market prices) grew at a rate of scarcely 0.4% during the year, thereby ending the period of recovery of economic activity (see table 1 and figure 1). National production had increased at an annual average rate of 3.9% between 1979 and 1981, after having decreased in 1978 and stagnated in 1977 following an annual average growth rate of 5% in the gross domestic product during the period 1951 to 1976.

Moreover, the scanty growth recorded in 1982 was due almost entirely to the performance of the gross domestic product in the first quarter of the year (when it rose at a rate of 5% with respect to the same period in 1981), since in the second quarter it contracted slightly, in the third quarter it grew by only 1%, and in the fourth quarter it experienced a significant decrease (-3%). Thus, not only was the period of economic recovery left behind but everything began to point to the worst recession in the Peruvian economy in this century —a recession which was already clearly apparent in the first months in 1983.

The lack of dynamism of the gross domestic product was the result of declines in fishing (-8%), manufacturing (-2%) and commerce (-3%) which continued throughout the year. On the other hand, it was kept from stagnating completely by increased activity in a few sectors, especially agriculture (3% growth), mining (7%) and construction (2%).

In combination with the unfavourable course followed by the gross domestic product there was a contraction of 4% in imports of goods and services, as a result of which total supply, after having grown for 3 years, stagnated in 1982. As for total demand, the big expansion in exports was not enough to counterbalance a drop of over 1% in final domestic demand.

Although in 1981 and 1982 the results obtained in the production field were significantly different, those in the fiscal, monetary and external sectors, as well as the rate of inflation, do not seem to have changed much from one year to the other. In both years, the public sector deficit (expressed as a percentage of the gross domestic product) was 8.8%; the growth of total real liquidity was close to 2%; the deficit on the current account of the balance of payments remained around US\$ 1 680 million (exports of goods and services grew by less than 0.5%, while imports fell by only a little more than 1%), and finally, the annual accumulated rate of inflation was 73% in both years.

Those marked similarities between 1981 and 1982, however, conceal enormous differences, without which it would be impossible to explain the change already referred to in the economic growth rate.

Thus, although the public deficit as a percentage of the product did not vary between 1981 and 1982, that of the central government fell significantly (from 4.9% to 3.9% of the product), whereas that of the rest of the public sector showed corresponding growth (from 3.9% to 4.9% of the product or from 44% to 55% of the total public sector deficit). Moreover, there was a change in the origin of financing the total deficit, in that there was a significant contraction in financing of domestic origin, while financing from the exterior grew rapidly.

Similarly, although the increase in total real liquidity was practically the same in both years, liquidity in national currency contracted very markedly (-9%) after showing a moderate expansion (3%) in 1981, while the process of "dollarization" of the Peruvian monetary system, which had been interrupted in 1981 when the rate of devaluation fell and real interest rates rose, revived drastically in 1982 when both these trends were reversed. Likewise, total domestic credit, which in 1981 was nearly 30% higher than in 1980, grew by only 3% during 1982.

Thirdly, although the balance on current account was the same in 1981 and 1982, net payments for factor services rose by 9%. Much more important, however, was the fact that the capital account balance doubled in 1982, so that the net international reserves rose by over US\$ 130 million in contrast with the decrease of US\$ 500 million experienced in 1981.

Finally, although the total rise in the consumer price index in 1982 was equal to that of 1981, price rises began to accelerate as from the third quarter, so that the equivalent annual rate of the price increase in the third quarter was 85%, whereas in the second quarter it had been 60%. In addition, in

Table 1  
PERU: MAIN ECONOMIC INDICATORS

	1977	1978	1979	1980	1981	1982 <sup>a</sup>
<b>A. Basic economic indicators</b>						
Gross domestic product at market prices (millions of 1970 dollars)	11 091	11 035	11 491	11 932	12 395	12 446
Population (millions of inhabitants)	16.3	16.7	17.2	17.6	18.1	18.6
Per capita gross domestic product (1970 dollars)	683	661	670	677	684	668
<b>Growth rates</b>						
<b>B. Short-run economic indicators</b>						
Gross domestic product	-0.1	-0.5	4.1	3.8	3.9	0.4
Per capita gross domestic product	-2.7	-3.1	1.3	1.0	1.0	-2.3
Real gross domestic income <sup>b</sup>	-0.7	-2.4	7.7	4.9	1.7	-1.0
Terms of trade (goods and services)	-7.0	-15.3	31.1	8.8	-9.5	-6.8
Current value of exports of goods and services	22.1	12.7	70.8	13.4	-13.7	0.4
Current value of imports of goods and services	2.4	-23.0	20.8	55.4	23.6	-1.4
Consumer prices						
December-December	32.4	73.7	66.7	60.8	72.7	72.9
Variation between annual averages	38.1	57.8	67.7	59.2	75.4	64.5
Money (M <sub>1</sub> )	27.1	43.9	78.4	70.2	46.2	36.8
Real remunerations <sup>c</sup>						
Salaries	-12.5	-14.6	-8.7	7.4	1.7	7.6
Wages	-15.6	-9.9	-3.2	9.9	-2.0	1.4
Rate of unemployment <sup>d,e</sup>	8.4	8.0	6.5	7.1	6.8	6.4
Current income of government	38.3	71.1	109.1	84.6	49.5	63.6
Total expenditure of government	45.9	49.7	68.2	97.6	67.1	56.9
Fiscal deficit/total expenditure of government <sup>d</sup>	33.9	24.4	6.0	12.2	21.4	17.8
<b>Millions of dollars</b>						
<b>C. External sector</b>						
Trade balance (goods and services)	-557	330	1 599	763	-795	-710
Balance on current account	-976	-224	663	-72	-1 680	-1 675
Variation in international reserves	60	6	1 066	607	-649	87
External debt <sup>f</sup>	8 534	9 291	9 301	9 561	9 673	11 611

Source: ECLA, on the basis of official figures.

<sup>a</sup>Preliminary figures.

<sup>b</sup>Gross domestic product plus terms-of-trade effect.

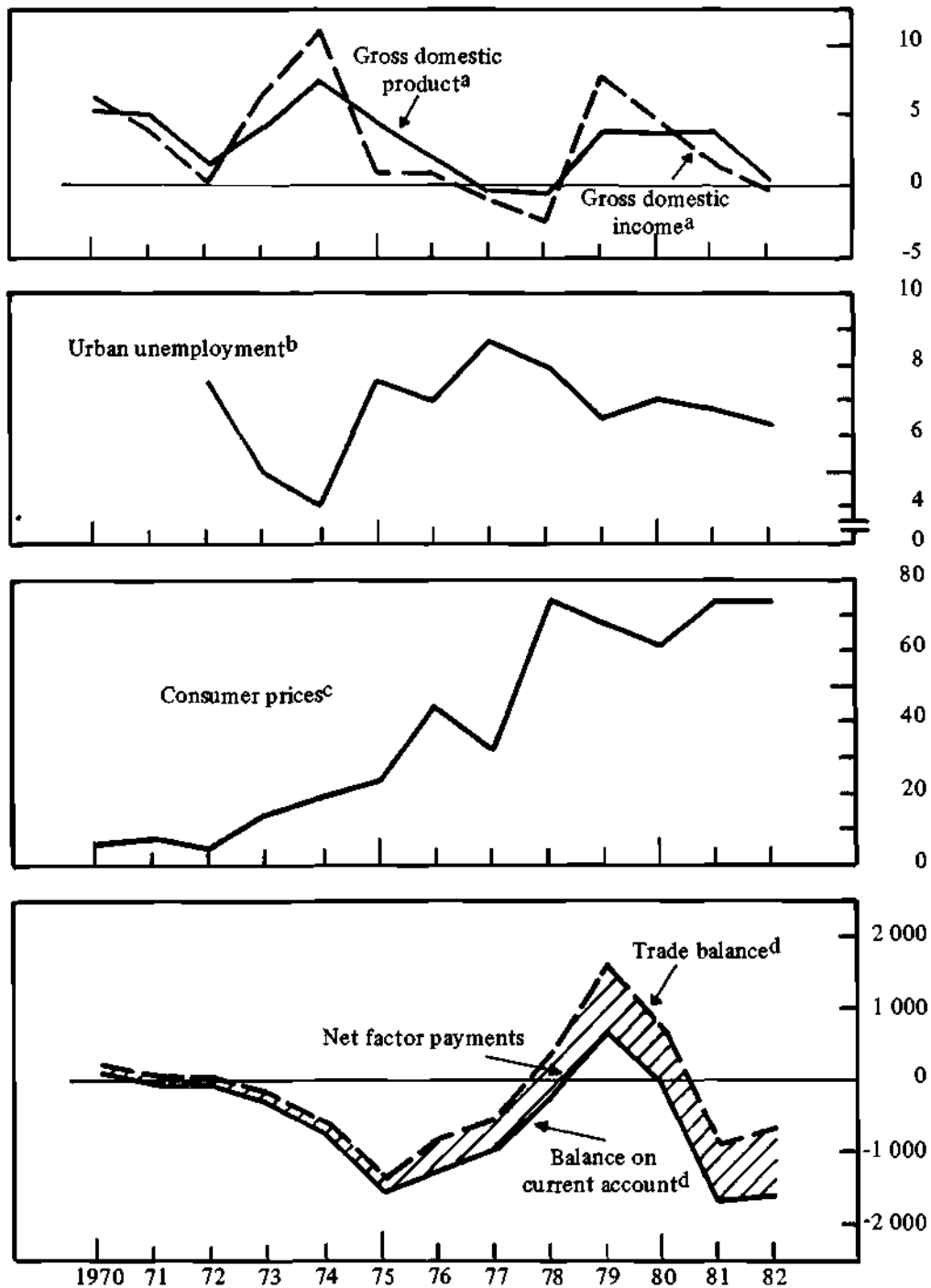
<sup>c</sup>See table 18 for the month considered in each year.

<sup>d</sup>Percentages.

<sup>e</sup>Data relating to Metropolitan Lima. See table 9 for the period considered in each year.

<sup>f</sup>Total public and private external debt, both short and long term.

Figure 1  
**PERU: MAIN ECONOMIC INDICATORS**



Source: ECLA, on the basis of official information.

<sup>a</sup>Annual growth rate.

<sup>b</sup>Annual average rate of unemployment in Metropolitan Lima.

<sup>c</sup>Percentage variation from December to December.

<sup>d</sup>Millions of dollars.

the first two quarters of the year the rise in food prices was less than the overall average and the same as it in the third quarter, but in the last three months of the year food prices grew nearly 50% faster than the overall index. Together with this increase, which particularly affected the poor, there was a worsening of the employment situation.

Thus, there were undoubtedly changes of considerable magnitude in the Peruvian economy during 1982 which were largely the result of changes in the official economic policy. Although these policy changes achieved their objectives with regard to the instruments available to the economic authority (devaluation, domestic credit, financing of the public sector), they did not have the expected results in terms of the reduction of the fiscal deficit or inflation, and moreover they did not promote the growth of national production.

Since the present government took power, the economic policy has generally speaking tended to liberalize the economy, giving greater importance to the private sector and to the operation of the markets. Thus, although without going to extremes, it has followed recent trends of some other Latin American countries, especially in the Southern Cone. The liberalization of foreign trade, the attempt to apply the same policy to the financial sector, the reduction of price controls, the stress laid on the need to reduce the size of the public entrepreneurial sector and the rise in interest rates are the features which have characterized economic management in Peru in the past three years.

However, there has been a notable contrast between these liberal proposals and the existence of a public sector which shows a large and growing deficit. The most probable hypothesis for explaining this apparent contradiction is that the big changes brought about by the measures taken to liberalize the economy affected the position of different population groups and the government has tried to compensate all these groups by resorting to public expenditure, thereby opening a gap between fiscal policy and the rest of the economic policy. The problem in respect of the public sector deficit was aggravated, furthermore, by the inflexibility shown for very diverse reasons by public expenditure (including, for example, the continuation of gigantic but not always profitable investment projects initiated by the previous government).

The economic policy followed during 1982 fell into the general framework described in so far as its broader approaches and goals were concerned. In more specific aspects, however, there was a radical change in its focus from that of the preceding year. In 1981 its central objective had been the reduction of the rate of inflation, but in 1982 the aim was the control of the external accounts.

Thus the process of devaluation, which in 1981 had been slow in comparison with the rate of inflation, greatly accelerated in 1982 to a rate (95%) far surpassing both domestic inflation and the difference between the rates of domestic and external inflation.<sup>1</sup>

In addition to the acceleration in the rate of devaluation, which made it possible to recover much of the parity lost by the sol in 1981 and up to March 1982, the other central element in the economic policy was the contraction of liquidity in real terms. As already indicated, total money, plus quasi-money, in national currency contracted by 9% in real terms between December 1981 and December 1982.

The strict control of liquidity was reflected in a severe shortage of soles in the local financial market, which induced the economic agents to obtain funds from the exterior in considerable amounts. In addition, a large proportion of the few soles available were utilized for speculative purposes, in view of the high yields to be had from deposits in foreign currency.<sup>2</sup>

Thus, enterprises were increasingly forced to have recourse to credits expressed in dollars, with the result that the latter's share in the total indebtedness of the enterprises rose rapidly, causing a drastic increase in the cost of credit financing. Moreover, this cost rose, on average, much more quickly than the enterprises' level of income, since the rate of devaluation exceeded that of inflation, resulting in growing instability and uncertainty in the situation of both the enterprises and banks.

The level of domestic activity was naturally influenced by such factors, aggravated by the persistence of low levels of purchasing power. Proof of this lies in the virtual stagnation of the private sector's domestic expenditure on final consumption, after this had expanded by 5% in 1980 and 4% in 1981.

<sup>1</sup> The exchange rate varied from 507 soles per dollar at the end of 1981 to 990 soles per dollar at the end of 1982.

<sup>2</sup> The attractiveness of a dollar deposit is apparent from the fact that while the actual rate of yield of a deposit in soles was only slightly less than the rate of inflation (close to 71%, resulting from an annual nominal rate of 55% capitalized a number of times a year), dollars offered yields, in terms of soles, of 95% as a result of devaluation alone, to which the prevailing interest rate must be added. The result was that, in real terms, the share of foreign currency deposits in total liquidity rose from 28% in 1981 to 35% in 1982.



In addition to all the foregoing, there were also a number of factors of external origin. The deterioration in the economic situation of the region and of the world in general was reflected both in the low levels of external demand in the very low international prices, as well as in the frequent resurgence of protectionist tendencies.

The continuation (although it was not actually increased) of the policy of trade liberalization also continued to cause serious problems for various industrial activities.<sup>3</sup> In addition, and perhaps because it easily passed unnoticed amidst the large volume of imported consumer goods, smuggling reached quite high levels in many cases.

Naturally, the resulting stagnation of economic activity tended to relieve the pressure on the balance of payments. Thus, the demand for imported inputs contracted when the level of domestic activity fell, while the decline in local purchasing power reduced the demand for imported consumer goods, at the same time increasing the need for entrepreneurs to sell in the exterior.

Although all the factors mentioned above played a role in controlling the inflationary process to some extent, prices were stimulated from another angle, i.e., through the process of devaluation and an increasingly noticeable state of "inflationary inertia".

While the private sector was affected by the problems described, the public sector suffered from difficulties of another kind. After having been very small in 1979, its deficit grew in 1980 and again in 1981, finally representing, as already noted, 8.8% of the gross domestic product. In 1982 it remained at that same level although, unlike the preceding year, the deficit of the public enterprises was considerably higher than that of the central government. This was largely due to the maintenance of the subsidies on the consumption of the goods they marketed, to an investment programme which in some cases was out of proportion to the prevailing conditions, and to delays in transfers from the central government to the enterprises.

As for the financing of the public deficit, the agreement entered into with the International Monetary Fund in June placed specific limits on this. In so far as long-term external financing was concerned, the limit of US\$ 1.1 billion was respected. The restrictions on domestic financing were also observed: while this type of financing covered 70% of the public deficit in 1981 and was the equivalent of 6% of the gross domestic product, in 1982 it covered only 11% of the deficit and was equivalent to 1% of the product.

However, aided by the fact that the agreement referred to did not specify limits with regard to the use of short-term external indebtedness, the public sector made intense use of this. Thus, in addition to the high growth rates of the long-term external debt, both public (17%) and private (10%), the short-term external debt expanded by one-third after having grown at the rate of only 5% in 1980 and 1981. These growth rates represented a turnabout with regard to the previous trends, considering that the total external debt grew by 20% in 1982 by comparison to only 1% in 1981 and 3% in 1980.

In view of the exaggerated use of short-term financing, especially on the part of the public enterprises, certain controls were imposed in the final months of the year to avoid the rapid deterioration of the external debt profile, in respect both of cost and of repayment periods. The results were successful, but were achieved at the cost of the acceleration of the rate of long-term indebtedness of the public sector at the end of the year.

The resulting increase in the entry of capital into the country made it possible to increase the amount of the net international reserves in 1982, as already mentioned.

## 2. Trends in economic activity

### a) *Total supply and demand*

As already noted, 1982 marked the end of the phase of recovery in economic activity begun in 1979. Proof of this is that, after expanding at an average rate of 5.4% a year, total supply and demand now stagnated (see table 2).

The gross domestic product at market prices was only 0.4% higher than in 1981, although this was offset by the fall of 4% in imports after their rapid growth of recent years.

<sup>3</sup>In those industrial branches which had to cope with strong competition from imports, significant drops in production were noted in 1982. Thus, for example, in the paper industry there was a reduction of -35%; in the non-electrical machinery branch, one of -32%; in the footwear industry, one of -30%; in the electrical machinery and equipment branch, one of -20%, and in the textile industry, one of -7%.

As for total demand, one of its most notable features was the drop of more than 1% recorded in the domestic demand following its annual growth of 9% in 1980 and 7% in 1981. Gross fixed investment also contracted by 1%, after having increased by 15% a year in the preceding three-year period. The restrictions imposed throughout the year on the level of public sector investment played a decisive part in that decrease.

Total consumption, for its part, expanded by slightly more than 1% after having grown by 5% in 1981. This result was caused by the opposing tendencies of its components, since private consumption stagnated (as a result of the deterioration in the spending capacity of the economic agents), while general government consumption expenditure, after having decreased its rate of growth from 11% in 1980 to 3% in 1981, grew at the rate of 7% in 1982. Although paradoxical in view of the decrease in public expenditure on investment, this increase is consistent with the hypothesis concerning the use of the fiscal policy suggested in the preceding section.

Finally, after having fallen by 7% in the two preceding years, the real value of exports of goods and services grew by one-tenth, eliminating the need to reduce the total demand.

#### b) *Evolution of the main sectors*

In 1982 substantial changes were noted in the course followed by the gross product of the various sectors of the economy. Mining, after having been the most backward sector (-4%) in 1981, became the most dynamic in 1982, when it grew by nearly 7%. Conversely, in agriculture and fishing the spectacular growth (11%) of 1981 gave way to a very moderate increase (2%) in 1982. However, the reactivation of the agricultural sector in 1981 had been due to some extent to the recovery from a severe drought. As for the expansion of the construction sector, it was very similar to that of the agricultural sector. Manufacturing, for its part, contracted by 2% after stagnating the previous year. In the services sector, however, there was a striking change in the rate of growth of commercial activity from 6% in 1981 to -3% in 1982 (see table 3).

Table 2

#### PERU: TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1970 prices			Percentage breakdown		Growth rates			
	1980	1981	1982 <sup>a</sup>	1970	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>a</sup>
<b>Total supply</b>	13 419	14 092	14 078	111.2	113.1	4.5	6.8	5.0	-0.1
Gross domestic product at market prices	11 932	12 395	12 446	100.0	100.0	4.1	3.8	3.9	0.4
Imports of goods and services <sup>b</sup>	1 487	1 697	1 632	11.2	13.1	8.9	38.6	14.1	-3.8
<b>Total demand</b>	13 419	14 092	14 078	111.2	113.1	4.5	6.8	5.0	-0.1
Domestic demand	11 936	12 716	12 561	97.1	100.9	2.9	8.8	6.5	-1.2
Gross domestic investment	1 803	2 110	1 812	13.3	14.6	1.8	39.8	17.0	-14.1
Gross fixed investment	1 810	2 088	2 061	13.3	16.6	4.9	25.3	15.4	-1.3
Public	...	...	...	3.6	...	18.3	...	...	...
Private	...	...	...	9.7	...	-0.3	...	...	...
Construction	...	...	...	6.5	...	2.5	...	...	...
Machinery and equipment	...	...	...	6.8	...	8.2	...	...	...
Changes in stocks	-7	22	-249	-	-2.0	...	...	...	...
Total consumption	10 133	10 606	10 749	83.8	86.3	3.0	4.7	4.7	1.4
General government	1 665	1 717	1 840	11.4	14.8	-6.0	10.5	3.1	7.2
Private	8 468	8 889	8 909	72.4	71.5	4.9	3.6	5.0	0.2
Exports of goods and services <sup>b</sup>	1 483	1 376	1 517	14.1	12.2	17.4	-7.0	-7.2	10.3

Source: ECLA, on the basis of figures supplied by the National Institute of Statistics.

<sup>a</sup> Preliminary figures.

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

Table 3

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

	Millions of dollars at 1970 prices			Percentage breakdown		Growth rates			
	1980	1981	1982 <sup>a</sup>	1970	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>a</sup>
<b>Gross domestic product<sup>b</sup></b>	<b>10 947</b>	<b>11 332</b>	<b>11 358</b>	<b>100.0</b>	<b>100.0</b>	<b>4.1</b>	<b>3.8</b>	<b>3.5</b>	<b>0.2</b>
<b>Goods</b>	<b>5 007</b>	<b>5 156</b>	<b>5 202</b>	<b>49.2</b>	<b>44.8</b>	<b>5.2</b>	<b>2.4</b>	<b>3.0</b>	<b>0.9</b>
Agriculture, hunting, forestry and fishing	1 359	1 503	1 536	17.8	13.2	4.5	-5.5	10.6	2.2
Mining and quarrying	904	868	925	7.2	8.0	9.1	0.4	-4.0	6.6
Manufacturing	2 336	2 332	2 278	21.0	19.6	4.3	5.7	-0.1	-2.3
Construction	408	453	463	3.2	4.0	4.6	18.8	11.1	2.3
<b>Basic services</b>	<b>1 021</b>	<b>1 079</b>	<b>1 098</b>	<b>6.7</b>	<b>9.5</b>	<b>5.2</b>	<b>7.3</b>	<b>5.6</b>	<b>1.8</b>
Electricity, gas and water	164	175	183	0.9	1.6	7.3	5.4	6.5	4.6
Transport, storage and communications	857	904	915	5.8	7.9	4.8	7.6	5.5	1.2
<b>Other services</b>	<b>5 354</b>	<b>5 567</b>	<b>5 609</b>	<b>45.9</b>	<b>48.4</b>	<b>2.8</b>	<b>4.4</b>	<b>4.0</b>	<b>0.8</b>
Wholesale and retail commerce, restaurants and hotels	1 639	1 732	1 675	13.7	14.4	5.2	5.9	5.7	-3.3
Financial establishments, insurance, real estate and business services	1 432	1 486	1 526	12.3	13.2	2.7	4.0	3.8	2.7
Ownership of dwellings	746	757	766	7.1	6.6	1.3	1.3	1.4	1.2
Community, social and personal services	2 283	2 349	2 408	19.9	20.8	1.2	3.5	2.9	2.5
Government services	1 276	1 319	1 354	10.4	11.7	0.4	4.6	3.4	2.6
<b>Less: Imputed commission for banking services</b>	<b>241</b>	<b>274</b>	<b>309</b>	<b>1.8</b>	<b>2.7</b>	<b>4.5</b>	<b>13.9</b>	<b>13.6</b>	<b>12.8</b>

Source: ECLA, on the basis of figures supplied by the National Institute of Statistics.

<sup>a</sup>Preliminary figures.

<sup>b</sup>As the individual activities and the total were calculated separately, the sum of the former does not correspond exactly with the latter.

i) *The agricultural sector.* After agricultural production experienced a notable turnaround in 1981 with respect to the preceding years, expanding by over 11%, as it recovered from a severe drought, its growth rate fell to only 3% in 1982. Even this was concentrated in the first half of the year, for in the last quarter decreases were recorded in the production of both the crop farming and stock raising subsectors. Furthermore —unlike what occurred in 1981, when crop production increased more rapidly than stock raising— in 1982 the latter was the more dynamic (see table 4).

Crop production expanded by 2% in 1982. Particularly notable was the sharp increase (by one-third) in the production of sugar cane, after it had declined at an average annual rate of 12% between 1978 and 1981. The output of 7 million tons represented a return to normal production levels. The lag in the recovery of this crop with respect to the others (which recovered totally in 1981) was due to the fact that it took more time to overcome the effects of the drought.

Rice, whose domestic sales continued to be subsidized in large measure, was the second most dynamic crop, its production expanding by 8%. This growth, combined with the very big upturn (70%) in 1981, resulted in the highest production levels for the past decade. Especially significant was the increase recorded in the productive areas of the jungle region, where both the area sown and the yields achieved per hectare were greater thanks to the strong credit support from the Agrarian Bank, the favourable price policy followed by ECASA,<sup>4</sup> and the rise in the price of rice with respect to that of cotton, which resulted in its widespread substitution for that crop.

<sup>4</sup>Empresa Pública Comercializadora del Arroz, S.A.

Production of potatoes (the crop of greatest value in the country) increased by 5% during 1982. However, production on the coast (equal to one-fourth of the total output of potatoes) decreased by one-third because of the low prices paid to producers at the end of 1981. Production in the highlands, for its part, increased by 11% as a result of the regularization of the water supply in the valleys of the region.

This regularization, together with the replacement of cotton crops, favoured the production of maize, which expanded by 7%, thus practically returning to its level of 1979. Moreover, coffee production increased for the first time since 1979.

Production of cotton, wheat and some other crops experienced declines in 1982. That of cotton, after having expanded uninterruptedly for a number of years, contracted by 10%, the most immediate cause being the substantial reduction in the areas sown because the drop in the international price of this fibre and the strong competition from imported textiles gave impetus to substitution by other crops. Wheat production, for its part, after having risen by over 50% in 1981, fell by 15% in 1982, primarily on account of the decline in the amount sown because less water was available in the north of the country.

Livestock production showed a growth rate of 5% in 1982: only half that recorded the year before (see table 4). As in 1980 and 1981, the category with the most dynamic production was poultry, which grew by 12% so that its volume exceeded that obtained only three years previously by 73%. A decisive factor in that development was the change in the composition of the demand for meat, with poultry representing almost one-third of total national meat consumption in 1982 as opposed to one-fourth in 1980.

Table 4

PERU: INDICATORS OF AGRICULTURAL PRODUCTION

	1978	1979	1980	1981	1982 <sup>a</sup>	Growth rates			
						1979	1980	1981	1982 <sup>a</sup>
<b>Indexes of agricultural production<sup>b</sup> (1977 = 100)</b>									
Crop farming	97.4	100.3	95.1	105.9	109.1	3.0	-5.3	11.4	3.0
Stock-raising	98.2	103.1	94.3	105.8	108.1	5.0	-8.5	12.2	2.1
	95.9	95.0	96.4	105.9	111.0	-1.0	1.5	9.9	4.8
<b>Production of the main crops<sup>c</sup></b>									
Potatoes	1 713	1 716	1 380	1 705	1 796	0.2	-19.6	23.6	5.3
Rice	468	558	420	712	766	19.2	-24.6	69.4	7.6
Cotton	187	243	256	286	257	29.9	5.4	11.5	-10.1
Coffee	83	104	95	95	97	25.2	-8.5	0.0	2.1
Maize	623	646	453	587	625	3.7	-29.9	29.6	6.5
Sugar cane	7 970	7 034	5 598	5 129	6 725	-11.7	-20.4	-8.4	31.1
Beans	42	42	39	44	42	0.2	-7.1	10.9	-4.5
Wheat	113	104	77	119	101	-7.2	-26.1	53.8	-15.1
Sorghum	52	54	35	44	38	3.6	-35.1	26.6	-13.6
Soya beans	5	7	11	14	8	57.8	50.7	30.8	-42.9
<b>Production of the main livestock products<sup>c</sup></b>									
Beef	89	87	84	90	91	-2.7	-3.2	7.5	1.1
Pork	53	53	55	59	59	-0.9	4.8	7.6	0.0
Mutton	23	23	21	19	20	0.9	-8.8	-9.2	5.3
Poultry meat	119	118	144	183	205	-0.2	21.2	27.1	12.0
Fresh milk	822	824	780	785	805	0.2	-5.3	0.6	2.5
Eggs	58	55	60	64	65	-4.7	8.5	6.3	1.6

Source: Ministry of Agriculture.

<sup>a</sup>Preliminary figures.

<sup>b</sup>Calculated on the basis of values at 1973 prices.

<sup>c</sup>Thousands of tons.

Mutton, although not very important in total livestock production, was the second most dynamic category. The regularization of the volume of water in the highlands made more pasturage available, favouring the production of this meat, which expanded by 5% after having dropped by 9% in each of the two preceding years.

Beef production grew very little (1%) in 1982, while that of pork stagnated completely. In both categories significant growth (8%) had been recorded in 1981.

Generally speaking, the evolution of the agricultural sector in 1982 was characterized by a substantial decline in the use of fertilizers, minor variations in the area harvested, the recurrence of drought on the coast during the first half of the year, and the drop in real values in the credit granted to the sector.

Owing both to the drop in the production of cotton (which makes intensive use of fertilizers) and to problems in the supply of urea by PETROPERU and of island guano by PESCAPERU, the sale of fertilizers fell by 28% in 1982.

The total area harvested in the country was a little over 2% higher in 1982 than in 1981. This was partly due to the fact that the substantial increases in the harvested area for some products, such as sugar cane (25%), starch maize (13%), rice (12%) and potatoes (8%) was to a large extent counterbalanced by the notable reduction in the area given over to the cultivation of other products, such as soybeans (-43%), wheat (-18%), cotton (-14%) and sorghum (-13%). Moreover, the slight expansion in the area harvested at the national level concealed big variations at the regional level. Thus, the area harvested in the north coast departments of Tumbes, Piura, Lambayeque, La Libertad and Ancash contracted by 11%, whereas there was an increase of 13% in the departments of the southern sierra (Ayacucho, Apurimac, Cuzco and Puno) and 19% in the jungle region (departments of Amazonas, San Martín, Loreto, Ucayali and Madre de Dios). On the other hand, during 1982 there was an increase of 14 000 hectares of arable land at the national level and 5 000 new hectares were incorporated through various public works.

The drought which affected the Peruvian coast for a number of years, and whose disappearance in 1981 was largely responsible for the marked upturn in crop production that year, reappeared briefly but intensely in 1982. This was reflected in the fact that the total flow of the critical and semicritical coastal rivers<sup>5</sup> was equivalent to only three-fourths that registered in 1981. This drop in the water supply was concentrated in February, March and April, when the total flow of the rivers referred to was only 53% of that recorded in the same period in 1981.

Finally, during the period August 1981 to July 1982, the total real credit granted by the Banco Agrario to crop raising fell by 12% with respect to the same period in 1980-1981. The main restrictions affected loans for the cultivation of wheat (-45%), coffee (-42%) and sugar cane and cotton (one-third in each case). Growth was shown only by the financing granted for the cultivation of rice (17%).<sup>6</sup> Furthermore, the planted area financed by the Banco Agrario during 1982,<sup>7</sup> fell by 4%.

ii) *The fisheries sector.* In 1982 the real value of the fishery product dropped by 6%,<sup>8</sup> this being the third consecutive year in which it decreased. However, unlike in 1981, when the volume extracted remained stable, in 1982 it expanded by 28%. In particular, the catch of fish for the manufacture of fish meal and oil (indirect human consumption) grew by 55%; on the other hand, that intended for direct human consumption went down by one-third. Since the latter constitutes the larger share in the total value of the ocean catch (60% in 1982, and as high as 80% in 1980), its decline was responsible for the drop in the total value of the fishery product. The drop in the catch for direct human consumption followed another drop of 12% in 1981. This negative trend was in marked contrast with that of the five-year period prior to 1981, when the average annual growth rate bordered on 27% (see table 5).

The unfavourable situation with regard to external markets had a significant influence on the catch of fish intended for both the frozen and canned fish industries. In the former case, a decline of over 50% was recorded for the second year running, so that the total catch in this category was

<sup>5</sup>Rivers whose average flow is just about equal to the needs of the valleys they water are called "critical"; those in which the ratio of average flow to needs is somewhat greater but still close to unity are called "semi-critical".

<sup>6</sup>This, together with the credit for the cotton and potato crops, represented 17% of the financing granted by the Banco Agrario.

<sup>7</sup>I.e., the land cultivated with credit support from the Banco Agrario. Note that this figure refers to the period January to December, rather than the period August to July covered by the data given earlier.

<sup>8</sup>Excludes the continental fishery catch, whose value in 1982 was the equivalent of 7% of the total catch and was 28% lower than in 1981.

equivalent to only one-fifth of that obtained in 1980.<sup>9</sup> This result was influenced by the measures for preserving hake (on which the frozen fish industry is primarily based) and the severe financial crisis in the fishery enterprises. As for the catch for the canning industry (60% of the total volume of the production of fish for direct human consumption), it also shrank very significantly (-38%). It had stagnated in 1981, after having expanded at an average annual rate of over 50% between 1978 and 1980. This decline meant that it was impossible to achieve even half of the programmed goal. Because of the external problems referred to, which were caused by the recovery of sardine fishing in South Africa (as a result of which that market was closed to Peruvian products) and the sharp increase in competition from Japanese products on European markets, a large share of the sardine catch went instead to the manufacture of fish meal and oil.

Fishing for the preparation of dried, salted fish, which is carried out on an artisanal basis and on the north coast in particular, also fell (-6%). The only category for direct human consumption which followed a positive course was fresh fish, which grew by 5% after having experienced successive declines in the preceding two years. This category represents close to three-quarters of the domestic consumption of fish, which has increased considerably in recent years.<sup>10</sup>

In contrast with the case of fishing for direct human consumption, the volume of fish for indirect human consumption expanded at a rate of 55%, thus regaining the catch levels of 1978 and 1979 following the substantial decline in 1980 and the small recovery in 1981.

The anchoveta catch increased by 41% in 1982, following an increase of 70% the preceding year, with the result that it constituted exactly half the total tonnage fished in 1982 and 25% of the total value. In 1980 the corresponding figures were only 27% and 9%, respectively. In spite of its expansion, however, the anchoveta catch in 1982 was only one-seventh that of 1970. The main cause for the expansion in 1982 was the opening-up of new fishing grounds off the central and north coast after six years in which fishing was prohibited north of 17 degrees latitude south (in the extreme south of the country).

However, in the final quarter of the year, the "El Niño" ocean current made its appearance, as it had done in 1972, when, in combination with overfishing, it contributed to the crisis in the sector. This phenomenon, which consists of the warming of the coastal waters,<sup>11</sup> drove the anchoveta away,

Table 5

PERU: INDICATORS OF FISHERY PRODUCTION

	1978	1979	1980	1981	1982 <sup>a</sup>	Growth rates			
						1979	1980	1981	1982 <sup>a</sup>
Index of fishery production <sup>bc</sup> (1977 = 100)	132.3	149.5	146.2	133.3	125.2	13.0	-2.2	-8.8	-6.1
Total deep-sea fishing <sup>d</sup>	3 431	3 640	2 697	2 701	3 453	6.1	-25.9	0.1	27.8
For direct human consumption <sup>d</sup>	619	758	971	851	586	22.5	28.1	-12.4	-31.1
Fresh fish	176	177	156	147	155	0.4	-11.9	-5.8	5.4
Frozen fish	191	201	220	106	49	5.1	9.6	-51.8	-53.8
Canned fish	238	345	567	566	352	45.2	64.2	-0.2	-37.8
Salted dry fish	14	35	28	32	30	146.2	-19.6	14.3	-6.3
Indirect human consumption <sup>d</sup>	2 812	2 882	1 726	1 850	2 867	2.5	-40.1	7.2	55.0
Anchoveta	1 187	1 363	720	1 225	1 726	14.8	-47.2	70.1	40.9
Other species	1 625	1 519	1 006	625	1 141	-6.5	-33.8	-37.9	82.6

Source: Ministry of Fisheries.

<sup>a</sup>Preliminary figures.

<sup>b</sup>Calculated on the basis of values at 1973 prices.

<sup>c</sup>Only deep-sea fishing, which represents close to 93% of the total fishery output.

<sup>d</sup>Thousands of tons.

<sup>9</sup>In addition, its share in the total value of deep-sea fishing, which was 20% in 1980, amounted to barely 5% in 1982.

<sup>10</sup>Fish consumption has grown from 7 kg per capita in 1970 to 12 kg in 1982, when it amounted to one-third of meat consumption. Indeed, in 1980 per capita consumption of fish was 14 kg, and its share in total meat consumption was 39%.

<sup>11</sup>Although this phenomenon occurs every year, in 1982 its magnitude was out of all proportion to what it normally is, in terms of both its geographic extension and its intensity and duration. For example, early in December the coastal water temperature off Chimbote (the main Peruvian fishing port) was 6 degrees higher than normal.

Table 6  
PERU: INDICATORS OF MINING PRODUCTION

	1978	1979	1980	1981	1982 <sup>a</sup>	Growth rates			
						1979	1980	1981	1982 <sup>a</sup>
<b>Index of mining production<sup>b</sup></b> (1977 = 100)	112.3	122.2	118.2	115.4	123.7	8.8	-3.3	-2.4	7.2
Mining of metals	105.8	111.5	106.3	103.6	112.6	5.4	-4.6	-2.6	8.7
Petroleum	165.5	210.2	214.4	211.6	213.9	27.0	2.0	-1.3	1.1
<b>Mining of metals<sup>c</sup></b>									
Copper	376	397	367	342	370	5.5	-7.7	-6.7	8.0
Lead	183	184	189	193	212	0.7	2.8	1.9	9.9
Silver <sup>d</sup>	1 337	1 364	1 392	1 460	1 654	2.1	2.0	5.7	12.9
Zinc	458	491	488	499	555	7.3	-0.7	2.3	11.4
Iron ore	3 275	3 622	3 780	4 008	3 767	10.6	4.4	6.0	-6.0
<b>Petroleum<sup>e</sup></b>	55.1	70.0	71.4	70.4	71.2	27.0	2.0	-1.3	1.1

Source: Ministry of Energy and Mines and Central Reserve Bank of Peru.

<sup>a</sup>Preliminary figures.

<sup>b</sup>Calculated on the basis of values at 1973 prices.

<sup>c</sup>Thousands of tons, unless otherwise indicated.

<sup>d</sup>Tons.

<sup>e</sup>Millions of barrels.

and for that reason it was impossible to secure a bigger increase in the volume caught.<sup>12</sup> Thus, although in the first three-quarters of 1982 the catch was 57% greater than in the same period of 1981, in the fourth quarter it was 22% smaller.

On the other hand, after three years of continuous declines, the catch of other species for the preparation of fish meal and oil grew by over 80% during 1982. Unlike what had happened in the case of anchoveta, there was an upturn in the catch of those species even during the final quarter of the year.

During the year the enterprises in the fishery sector experienced severe financial crises due partly to the problems relating to external markets and partly to other problems such as the excessive indebtedness of some of them and the over-staffing and excessive size of the infrastructure of PESCAPERU, the public enterprise operating in this sector. The foregoing was reflected, for example, in the very low coefficient of utilization of the installed capacity of the processing enterprises (17% on average), especially in the canning and frozen fish factories.

In response, on the one hand the government adopted specific measures in support of the enterprises of the private sector, such as exemption from the payment of the taxes resulting from the revaluation of their fixed assets (August) and the possibility of paying overdue taxes in installments (October). On the other hand, efforts to improve the situation regarding PESCAPERU were undertaken within the discussion on the new fisheries law held throughout the year. This law will also provide for general measures aimed at revitalizing the sector and at preserving marine species and for the provision of decided support for artisanal fishing. The latter has been an essential component of official fisheries policy, and it was manifested in 1982, *inter alia*, in measures for the purchase of vessels especially designed for this type of fishing and in the construction of basic unloading, storage and distribution infrastructure units in various cities.

iii) *The mining sector.* The mining sector was the most dynamic sector in the economy during the year. After successive contractions in 1980 and 1981, its production expanded by 7% in 1982, returning to its value of 1979. The output of the metal mining subsector (which represents four-fifths of the total value of mining production) grew by 9%, while that of petroleum grew by only 1% (see table 6).

The extraction of silver was the most dynamic item among the various minerals, since it expanded by 13% —equivalent to the total accumulated increase in production in the four preceding

<sup>12</sup>This phenomenon also had other consequences such as the death of over one million seabirds which produce guano, since they depend on anchoveta for food. In addition, the fat content of sardines was reduced, which meant that less oil was recovered.

years. This increase was possible thanks to the public measures adopted to promote the mining of silver and to the fact that silver is largely a by-product of zinc, lead and copper, whose production also expanded significantly.

Lead mining grew by 10% after recording very modest growth rates in the preceding years: indeed, this increased activity was the equivalent of the total increase in production in the five-year period 1977-1981. This was due partly to the solving of labour disputes and the entry into operation of enlargements in the installed capacity of the medium-scale mining sector.

Production of copper (by far the most important mineral in Peru)<sup>13</sup> increased by 8% in spite of the fact that its international price in real terms was the lowest recorded in thirty years. The upturn in production occurred after the decreases of 8% in 1980 and 7% in 1981, which explains why production was still 7% below the maximum tonnage obtained (in 1979). This result was partly due to the solving of the labour disputes in the Southern Peru Copper Corp.,<sup>14</sup> which produces roughly three-quarters of Peruvian copper, and another important factor was the conclusion of the project to extend the Cobriza mine (belonging to CENTROMIN) in the department of Huancavelica. This latter event resulted in the first significant increase in the production of Peruvian copper in six years.

Finally, the production of iron ore, after having risen in the past three years, dropped by 6% in 1982. This was the only mineral whose production deteriorated during the year. This was due basically to the contraction of the construction sector, both domestically and in terms of external demand.

Petroleum production, for its part, virtually stagnated for the third consecutive year (see table 6). The 1% expansion experienced during the year brought the total increase between 1980 and 1982 to less than 2%, which is in sharp contrast to the growth experienced in the three-year period 1977-1979, in which the total accumulative growth amounted to 150%.

In spite of the fact that at the beginning of the year it was announced that average production would be 230 000 barrels a day, the figure actually achieved was only 194 900; the largest production was achieved during the third quarter, when slightly more than 201 000 barrels a day was achieved. One-third of the total produced came from the north-west coast and two-thirds from the north-eastern jungle. The production of the Occidental Petroleum Company fell by 9% to 95 400 barrels a day, due to technical problems, but PETROPERU increased its production by more than 28%, exceeding 53 000 barrels a day. The entry into operation in the middle of the year of the Nueva Esperanza auxiliary pipeline was a contributing factor in that increase.

Finally, proven petroleum reserves rose to 874 million barrels, by comparison with the 801 million barrels estimated in 1980 and the 854 million barrels in 1981. In addition, there was confirmation of the existence of approximately 1.5 billion barrels of heavy petroleum in the fields whose exploitation has been contracted with Occidental Petroleum (in the jungle). Although this petroleum is not immediately exploitable, it constitutes an important potential reserve. All this was the result of an intensification of the exploration process, not only in the currently productive areas but also in the southern jungle. Thus, whereas in 1979 three exploratory wells were excavated and only two in 1980, in 1981 the number of such wells rose to 17, and after the first three quarters of 1982 it had already reached 21. Even so, this was far below the maximum achieved in 1974 (39 wells) and 1975 (46 wells).

The increase in mining production during 1982, which occurred in spite of the persistence of negative external factors (low prices and depressed demand levels), was favoured on the other hand by the significant reduction in labour problems, the measures taken by the government to alleviate the difficult financial situation of the sector, and the entry into operation of some extensions (such as that of the Cobriza copper mine mentioned above).

The strikes affecting the sector decreased from 156 in 1981 to 129 in 1982. Of still greater importance, however, was the fact that there was a decrease of one-third in the number of workers who participated in them and of 37% in the number of man-hours lost.

As regards public management, efforts were continued to give greater dynamism in the medium term to the mining sector by supporting private national and foreign investment. Thus, in

<sup>13</sup> Its production represented 47% of the total value of mining output in 1982, by comparison with the share of 34% made up of lead, silver, zinc and iron ore, taken together.

<sup>14</sup> At its Toquepala and Cuajones mines, the number of days of strike fell from 56 to 53, respectively, in 1981 to 18 and 4 in 1982, which was reflected in a production increase of some 30 000 tons.



July the regulations for the General Mining Law were approved. Nevertheless, in view of the seriousness of the situation in the short run, some more specific measures were put into practice.

In view of the negative effect which the decrease in the prices of their products had on the financial position of mining concerns, the government announced that the stability and protection of small and medium-sized mining companies were in the national interest and declared that section of the industry to be in a state of emergency. In that connection, the Mining Consolidation Fund<sup>15</sup> was established to support the producers financially. This Fund, whose approved resources amount to US\$ 120 million, granted credits of up to half the value of export shipments, at promotional interest rates.<sup>16</sup>

Recourse was also had to tax measures to relieve the situation of the enterprises in the sector. On the one hand, the government granted the medium-sized mining industry six months' exemption from the payment of the tax on wages and on exports. On the other hand, the gradual reduction of the tax on exports of hydrocarbons and exports of the large-scale mining industry continued, with the rate dropping from 11% to 7%.<sup>17</sup> The tax on exports of silver from medium-sized mines also fell, from 8% to 4%.

In spite of the foregoing, it was impossible to save the large-scale mining enterprises (MINEROPERU, CENTROMIN, HIERROPERU and the privately-owned Southern Peru Copper Corporation) from having to endure a difficult financial situation made worse by the debt burden.<sup>18</sup> Because of this it was necessary to cancel a number of investment projects initially programmed for 1982, such as CENTROMIN's Toromochu copper project and its Puerto Maldonado gold project and the project to expand Southern Peru Copper Corporation's Toquepala mine.

iv) *Manufacturing.* The contraction in manufacturing production played an important role in the stagnation which affected the economy in 1982. After having grown at an acceptable rate (close to 5% a year) in 1979 and 1980 and having stagnated in 1981, the index of the physical volume of manufacturing production contracted by more than 2% in 1982, this trend being intensified in the final quarter (see table 7). Moreover, the gravity of the situation may be appreciated from the fact that, during the first half of the year, authorized private investment in the sector dropped by 30% in nominal terms compared with the same period in 1981, in spite of the fact that the General Law on Industry came into force in April.

Information for 1982 is available on the changes experienced by the physical production of 22 of the 28 branches covered by statistics on the Peruvian manufacturing sector. Positive growth was reported in only 9 of these, while in the remaining 13 production contracted.

The common denominator of most of these reductions was that they were the result of the enforcement of the import liberalization policy, which reduced the capacity of many national industries to maintain a normal pace of operation and a sound financial position. The industries affected included those producing paper (which contracted by 35%), non-electrical machinery (-32%), footwear (-30%), electrical machinery and equipment (-20%), textiles (-7%) and transport equipment (-4%).

In the textile industry there were also some serious labour problems and growing difficulties in penetrating external markets. Although these difficulties were not spectacular by comparison with those of the other industries referred to, the drop in production was significant both because —unlike what happened in some industries— it came on top of a year of stagnation (1981), preceded by another year of contraction (-5% in 1980), and because of the size of this industry by comparison to the rest of the manufacturing sector (it accounts for 8% of the value of national manufacturing production and employs 13% of the industrial labour force).<sup>19</sup>

As for the footwear industry, the decrease in its production was also due, among other factors, to problems of raw materials supply, the great volume of contraband and the unusually high level of the production of unregistered enterprises.<sup>20</sup>

<sup>15</sup> Established late in 1981 and enlarged in July 1982.

<sup>16</sup> These rates are variable and are set in accordance with the international prices of the product in question prevailing in the preceding quarter.

<sup>17</sup> The rate of this tax was 17.5% until early in 1981. The tax was scheduled to be eliminated in June 1983.

<sup>18</sup> For example, CENTROMIN's total debt with the banks rose by 55% in 1982 to over US\$ 380 million. A quarter of this increase related to short-term debts.

<sup>19</sup> According to data for 1979.

<sup>20</sup> It is estimated that the output of these enterprises might constitute half the national production, and it is not shown in the statistics.

The saturation of the domestic market for home electrical appliances, caused in part by imports, was also one of the factors which brought about the drop in the production of the electrical machinery and equipment sector. In addition, during the year a number of production lines in these categories were closed down once and for all when production enterprises became import distributors.

The deceleration in the growth rate of domestic activity in construction had a serious effect on another group of industries, causing the production of non-metallic mineral articles (including cement) to contract by 12% and that of the basic iron and steel industry to go down by one-fifth. A determining factor in the latter development was also competition from imported products, which was fostered by the rapid decrease in the applicable tariffs.<sup>21</sup> Due to these problems, in May 1982 prior licences for importing iron and steel industry products were required. This measure did not,

Table 7

PERU: INDICATORS OF MANUFACTURING PRODUCTION

	1978	1979	1980	1981	1982 <sup>a</sup>	Growth rates			
						1979	1980	1981	1982 <sup>a</sup>
Index of manufacturing production (1977 = 100)	96.5	100.2	105.4	105.1	102.6	3.8	5.2	-0.3	-2.4
<b>Consumer goods<sup>b</sup></b>									
Food	95.9	96.0	96.4	95.8	91.2	0.1	0.4	-0.5	-4.8
Beverages	89.0	97.3	107.6	106.4	111.5	9.3	10.6	-1.2	4.8
Tobacco	91.2	100.3	110.4	118.2	125.9	10.0	10.1	7.1	6.5
Textiles	108.8	116.0	110.4	110.2	102.5	6.6	-4.8	-0.2	-7.0
Clothing	79.6	74.0	78.3	56.2	...	-7.0	5.8	-28.3	...
Leather footwear	93.8	89.0	99.3	90.9	63.6	-5.1	11.6	-8.5	-30.0
Furniture	85.2	80.0	90.6	70.0	...	-6.1	13.3	-22.7	...
Printing and publishing	92.2	73.4	87.9	102.8	113.7	-20.4	19.8	16.9	10.0
Plastic products	91.2	104.6	114.4	125.0	132.1	14.7	9.4	9.3	5.7
Vocational equipment	102.7	89.5	100.8	126.6	...	-12.9	12.6	25.6	...
Miscellaneous products	91.5	87.7	96.4	90.1	...	-4.2	9.9	-6.6	...
<b>Intermediate goods<sup>b</sup></b>									
Fish meal	134.6	140.8	94.5	98.6	132.4	4.6	-32.9	4.3	34.3
Leather	97.6	93.4	112.3	106.1	...	-4.3	20.2	-5.5	...
Wood	98.4	94.7	86.8	87.3	...	-3.8	-8.3	0.6	...
Paper	84.9	80.3	97.7	90.6	58.9	-5.4	21.7	-7.3	-35.0
Industrial chemicals	107.6	112.5	118.5	118.3	131.3	4.6	5.3	-0.2	11.0
Other chemicals	102.9	92.4	109.2	112.7	107.5	-10.2	18.2	3.2	-4.6
Petroleum refining	98.4	114.1	117.4	119.8	122.2	16.0	2.9	2.0	2.0
Rubber	86.8	93.8	113.7	111.1	107.2	8.1	21.2	-2.3	-3.5
China and porcelain	94.8	82.4	77.0	92.8	69.6	-13.1	-6.6	20.5	-25.0
Glass	79.8	94.5	97.5	97.7	112.4	18.4	3.2	0.2	15.0
Non-metallic mineral products	96.8	97.4	109.6	110.5	97.8	0.6	12.5	0.8	-11.5
Basic iron and steel industry	106.4	112.7	126.5	114.4	90.4	5.9	12.2	-9.6	-21.0
Basic non-ferrous metals industry	98.3	115.0	108.5	102.7	111.3	17.0	-5.7	-5.4	8.4
<b>Capital goods<sup>b</sup></b>									
Metal products, excluding machinery	93.6	88.8	106.9	97.0	92.2	-5.1	20.4	-9.3	-5.0
Machinery, excluding electrical machinery	86.1	94.7	114.8	123.6	84.7	10.0	21.2	7.7	-31.5
Electrical machinery and equipment	89.2	81.7	96.1	108.7	87.2	-8.4	17.6	13.1	-19.8
Transport equipment	53.2	60.1	92.9	87.8	84.7	13.0	54.6	-5.5	-3.5

Source: Ministry of Industry, Tourism and Integration and National Institute of Statistics.

<sup>a</sup>Preliminary figures.

<sup>b</sup>The industries in this section are engaged primarily, but not exclusively, in the production of this type of goods.

<sup>21</sup> For example the tariff relating to bars for building fell from almost 200% in 1970 to 51% in 1979, 21% in 1980 and 6% in January 1981.

however, help much to improve the precarious situation of SIDERPERU, the State iron and steel enterprise, due to the big stocks accumulated by users. Finally, the problems of the construction sector were responsible for a drop of 5% in the metal products industry.

The decline in the production of the food industry (-5%) was due to the sharp decrease in the production of canned fish.

One of the most outstanding cases of expansion in industrial production was that of the preparation of fish meal, which grew by 34% after a small increase of 4% in 1981 and a reduction of 33% in 1980. This development was attributable in part to the bigger catch of fish and the poor situation of the canning companies, which turned their attention to the production of fish meal. The glass industry, for its part, expanded its production by 15% after having stagnated in 1981, while industrial chemical activities grew by 11%, in spite of the drop in the production of fertilizers, because of the entry into operation of plant extensions in the acrylic fibres and glutamates categories. Finally, the production of basic non-ferrous metal articles rose by 8% because of the inauguration of the Cajamarquilla zinc refinery.

From the point of view of external factors, the stagnation of the industrial sector in 1981 was explained by competition from imports, the reduction of the coverage of and magnitude of the tax returns on non-traditional exports (CERTEX), and the progressive overvaluation of the sol. During 1982, on the other hand, the latter factor was to a large extent eliminated thanks to an accelerated process of devaluation,<sup>22</sup> while the legislation regarding CERTEX was not subjected to any change. The negative effect of the opening-up of trade was still very much in evidence and caused serious problems for a number of industrial branches, as already noted. Furthermore, the international recession was reflected in the decrease in external demand and in the resurgence of protectionist measures which made it increasingly difficult to find markets for manufactures in the exterior.

As regards domestic factors, while there was no significant change from the preceding year in the impact of labour disputes (the number of workers participating in strikes and the number of man-hours lost grew by less than 3%), the restrictive effect which the smaller supply of raw materials (fish, sugar, petroleum, minerals) had had in 1981 was reversed. As a result, the production of the industrial branches engaged in primary processing expanded by 5%, in contrast with the growth pattern of the remainder of industry, which contracted by 4%.

All these factors, together with the low level of domestic demand, brought on a crisis which, although it had an especially severe effect on certain industrial branches, was a problem for the sector as a whole.<sup>23</sup> This situation rapidly resulted in a liquidity crisis and in the over-indebtedness of many industrial enterprises (at a time when credit was very costly and scarce), thus heightening the vicious circle of upheavals suffered by the sector.<sup>24</sup>

To cope with this situation, the government set in motion a number of industrial support mechanisms. Thus, in the first half of the year, the so-called FENT<sup>25</sup> credit arrangements in support of non-traditional exports became available. Under these arrangements the ceiling on credit was raised to 90% of the value of exports, for both pre- and post-shipment operations. In July, approval was given to various measures in support of the textile industry, such as the granting of special facilities for the payment of taxes and exemption from payment of the tax on the revaluation of the industry's assets, while in November a special line of credit was opened in the Central Reserve Bank to provide working capital for enterprises in the industrial sector.

Finally, in April 1982 the General Law on Industries was promulgated, the main characteristics of which are support for artisanal activity, the granting of incentives to enterprises located outside the Lima-Callao area, the acceptance of the principle of trade openness and the explicit definition of the role of the State consisting of planning, setting standards for, promoting and protecting the development of national industry, although for reasons of social interest or national security the State can reserve some production activities for itself.

<sup>22</sup> However, the effects of the devaluation were sometimes offset to a large extent by the rise in the cost of imported inputs. This was especially the case with regard to the pharmaceutical and chemical industries (99% of whose inputs are imported), the manufacture of motors (80%), the motor vehicle industry (70%) and the tyre and paint industries (60% in each case).

<sup>23</sup> By way of summing up, a calculation made by the Central Reserve Bank finds that half the drop in the manufacturing sector was due to competition from imports, a quarter reflected the contraction in domestic demand, 15% was due to the deterioration in external demand and 10% was caused by labour disputes.

<sup>24</sup> The situation is made even more complicated for the enterprises by the enforcement of the labour stability laws which make it all but impossible to dismiss a worker, with the result that wage costs become a fixed cost and cannot be used as an adjustment factor.

<sup>25</sup> Non-Traditional Exports Fund.

v) *The construction sector.* In spite of the fact that at the beginning of the year a growth rate of 9% had been forecast, construction grew by only 2%. This rate contrasted sharply with those recorded in 1980 and 1981 (19% and 11%, respectively), when construction was the most dynamic sector in the economy (see table 8). The deceleration of the growth rate of construction was constant throughout the year in that although it registered an upturn of 17% in the first quarter with respect to the same period of the preceding year, the result in the fourth quarter was -2%.

The index of the physical volume of sales of the main building materials, after rising for three successive years, contracted by 5% in 1982, mainly because of the drop in sales of iron and steel and in spite of the increase in those of cement, lime and gypsum.

One factor of decisive importance in those results was the gradual restriction of the government's investment expenditure due to the need to control the fiscal deficit. This item of public expenditure has for a number of years been the driving force behind construction activity, as is shown by the increasing importance of public sector demand for building materials. Thus, between 1977 and 1981 the share of the government in the domestic demand for cement rose from 34% to 61% and in that of steel, from 43 to 74%: percentages which remained constant for the first time in 1982. In that year, the construction activity of the public sector continued to give preference to hydroelectric projects and the construction of roads and housing.

Private sector activity, for its part, was also affected by, among other things, the relative shortage of liquidity in the financial system, the high cost of credit, the weakness of domestic demand and the existence of mortgage systems which are not very well developed (especially in terms of the shortness of the payment periods and the absence of readjustment mechanisms in a climate of high inflation), the saturation of the market for luxury dwellings and the large number of unsold commercial premises.

Finally, a very important factor in the decline of the construction sector was the extremely high incidence of labour disputes. After having already increased almost sixfold in 1981, the number of man-hours lost in 1982 grew by a factor of 38 and the number of workers affected rose from 5 000 to 155 000.

### c) *Employment, underemployment and unemployment*

According to data from the 1981 population census, some 6 million people (or 35% of the total population) make up the country's economically active population (EAP), which is growing at an annual rate of 3%. Independent workers make up 42% of this EAP, 23% consists of manual workers

Table 8  
PERU: INDICATORS OF CONSTRUCTION ACTIVITY

	1978	1979	1980	1981	1982 <sup>a</sup>	Growth rates			
						1979	1980	1981	1982 <sup>a</sup>
Index of the gross domestic product of the construction sector (1977 = 100)	89.7	93.8	111.4	123.7	126.6	4.6	18.8	11.0	2.3
Index of volume of sales of main construction materials (1977 = 100)	85.2	89.4	102.6	108.0	102.3	4.9	14.8	5.3	-5.3
Domestic sales of some construction materials <sup>b</sup>									
Cement	1 773	1 835	2 169	2 305	2 419	3.5	18.2	6.3	4.9
Public sector	(668)	(805)	(1 173)	(1 409)	(1 468)	(20.5)	(45.7)	(20.1)	(4.2)
Private sector	(1 105)	(1 030)	(996)	(896)	(951)	(-6.8)	(-3.3)	(-10.0)	(6.1)
Iron bars for building	123	139	140	209	148	12.9	1.0	48.4	-29.2

Source: National Institute of Statistics and Ministry of Housing.

<sup>a</sup> Preliminary figures.

<sup>b</sup> Thousands of tons.

Table 9

**PERU: EVOLUTION OF EMPLOYMENT, UNEMPLOYMENT AND UNDEREMPLOYMENT**

(Percentage of economically active population)

	1975	1976	1977	1978	1979	1980	1981	1982 <sup>a</sup>
<b>Metropolitan Lima<sup>bc</sup></b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Adequately employed</b>	<b>74.9</b>	<b>66.1</b>	<b>64.5</b>	<b>53.2</b>	<b>60.5</b>	<b>66.9</b>	<b>66.4</b>	<b>61.8</b>
Commerce	71.0	62.0	57.5	44.3	50.3	59.3	57.0	54.3
Services	79.3	71.8	70.3	58.7	67.3	74.7	74.4	73.3
Industry	79.5	72.4	62.2	57.9	63.5	68.2	65.3	67.2
Construction	73.1	67.5	68.9	54.5	64.7	65.0	78.8	77.5
<b>Total unemployment</b>	<b>7.5</b>	<b>6.9</b>	<b>8.4</b>	<b>8.0</b>	<b>6.5</b>	<b>7.1</b>	<b>6.8</b>	<b>6.4</b>
Commerce	3.8	4.0	5.3	4.3	3.5	4.0	3.6	2.9
Services	4.1	3.6	3.8	4.7	3.9	4.1	3.5	4.0
Industry	5.6	5.3	8.2	6.6	5.3	5.4	7.3	5.2
Construction	6.7	5.8	13.2	17.8	8.3	8.7	3.0	5.3
<b>Underemployment</b>	<b>17.6</b>	<b>24.4</b>	<b>24.3</b>	<b>38.8</b>	<b>33.0</b>	<b>26.0</b>	<b>26.8</b>	<b>31.8</b>
Commerce	25.2	30.5	33.8	51.4	46.2	36.7	39.4	42.8
Services	16.6	24.6	23.3	36.5	28.8	21.2	22.1	22.7
Industry	14.9	19.8	25.1	35.5	31.2	26.4	27.4	27.6
Construction	20.2	24.9	16.4	27.7	27.0	26.3	18.2	17.2
<b>By origin: by income</b>	<b>13.4</b>	<b>15.5</b>	<b>16.1</b>	<b>30.0</b>	<b>29.6</b>	<b>24.2</b>	<b>21.3</b>	<b>28.1</b>
Slight	5.9	6.1	6.8	12.7	12.7	10.6	12.5	11.1
Medium	3.6	4.4	4.5	8.3	8.1	6.5	5.5	9.9
Severe	3.9	5.0	4.8	9.0	8.8	7.1	3.3	7.1
Less than 35 hours	4.0	7.6	7.7	8.3	3.1	1.4	3.1	3.7
Income and/or hours	0.2	1.3	0.5	0.5	0.3	0.4	2.4	-
<b>Level of employment not determined</b>	<b>-</b>	<b>2.6</b>	<b>2.8</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

Source: Ministry of Labour and Social Welfare.

<sup>a</sup>Preliminary figures.

<sup>b</sup>The periods considered in each year were: 1975, April and September average; 1976, March and November average; 1977, March and June average; 1978, July-August; 1979, September; 1980: April; 1981, June; 1982, June.

<sup>c</sup>The structure of the economically active population in 1982, by sectors, was: industry, 24%; construction, 7%; commerce, 24%; services, 43%; others, 2%. Household work is excluded.

<sup>d</sup>Annual averages.

<sup>e</sup>Includes mining and undetermined activity.

and 21% of non-manual workers.<sup>26</sup> Nearly all the non-manual workers, as well as three-quarters of the manual workers, are in urban areas. Public sector manual and non-manual workers make up 17% of the EAP, and 95% of them are located in urban areas. Finally 65% of the total EAP is urban and 35% rural.

It is estimated that at the national level total unemployment was 7% in 1982, while underemployment affected 50% of the EAP. Thus, those with adequate employment constituted only 43% of the national EAP, compared with 45% in 1981 and 42% in the three preceding years.<sup>27</sup>

On the other hand, the labour situation in metropolitan Lima experienced a marked deterioration between June 1981 and June 1982.<sup>28</sup> Although the rate of open unemployment fell marginally, from 6.8% to 6.4%, the coefficient of underemployment rose by 5 percentage points, affecting nearly one-third (32%) of the population of the capital (see table 9). This is an alarming development inasmuch as the problem of underemployment primarily tends to affect low-income workers, while open unemployment tends to affect the middle-income strata. Moreover, most (three-quarters) of the increase in underemployment was concentrated in the group with extremely low incomes. This resulted in a decrease of those with adequate employment from 66% of the labour force

<sup>26</sup> The remainder is made up of household workers, unremunerated family workers, employers and unspecified workers.

<sup>27</sup> In the 1970s as a whole, that part of the economically active population with adequate employment amounted to 50%, on average.

<sup>28</sup> Employment surveys in Lima are carried out in June every year.

in metropolitan Lima in June 1981 to 62% a year later. This level of persons with adequate employment is very similar to that registered in 1979 (61%), when the country was emerging from the crisis of 1976-1978, and it is well below the level of 75% recorded in 1975, when underemployment affected only 18% of the labour force of the metropolitan area.

The problem of underemployment was especially severe in commerce—an activity in which one-fourth of the EAP of the capital is engaged—in that it affected 43% of those workers. In industry, 28% of the labour force was underemployed, while in the services and construction sectors the shares were 23% and 17%, respectively.

As regards labour disputes, although the number of workers affected fell by one-third, the number of man-hours lost rose for the second year running by 12%. The sudden sharp increase in such disputes in construction was particularly noteworthy, since they rose from 1% of the total in 1981 to 34% in 1982. This problem arose primarily because of the rapid drop in the real wages of the workers in this branch of activity, and was concentrated primarily in the month of August, in which 70 000 construction workers went on strike. The second most important sector in this connection was industry, which represented 29% of the man-hours lost, a percentage in sharp contrast with the 61% recorded in 1980 but similar to the 32% shown in 1981. Mining also had a quieter year in that the number of man-hours lost was reduced by over one-third. As for the causes of this situation, the increase of over 50% in the man-hours lost for reasons of remuneration is particularly noteworthy.

### 3. The external sector

Unlike the situation in 1981, when the balance of payments closed with a deficit of US\$ 650 million, in 1982 a positive result of nearly US\$ 90 million was obtained.

On the other hand, the current account deficit showed practically no variation, remaining in the neighbourhood of US\$ 1.7 billion. The deficit on trade in goods fell by one-fifth—the value of exports contracted by less than 2%, while that of imports decreased by slightly more than 4%. In the case of the former, after two successive years of decreases, the volume increased by over 10%, but this was counterbalanced by a drop in their unit value. On the import side, after three years of significant growth in volume (a total of 85% in the three-year period 1979-1981), the volume stagnated in 1982 and the unit value of imports fell for the first time in a number of years (see table 10).

On the other hand, the deficit on international transactions in financial and non-financial services rose considerably (by over 9%). This deterioration was attributable both to the increase of

Table 10

#### PERU: MAIN FOREIGN TRADE INDICATORS

	1977	1978	1979	1980	1981	1982 <sup>a</sup>
<b>Growth rates</b>						
Exports of goods FOB						
Value	26.9	12.5	81.3	10.8	-16.5	-1.8
Volume	22.8	15.0	20.8	-11.4	-5.0	10.4
Unit value	3.4	-2.2	50.1	25.0	-12.1	-11.1
Imports of goods FOB						
Value	3.1	-26.1	22.2	56.6	24.2	-4.4
Volume	-3.2	-31.7	9.9	39.7	23.2	0.0
Unit value	6.5	8.2	11.2	12.1	0.8	-4.4
Terms of trade	-6.2	-14.6	35.1	11.9	-13.3	-7.4
<b>Indexes (1970 = 100)</b>						
Terms of trade	101.6	86.8	117.2	131.1	113.7	105.3
Purchasing power of exports of goods	89.3	89.3	145.9	144.2	117.1	117.8
Purchasing power of exports of goods and services	93.1	93.3	143.7	145.3	121.9	125.3

Source: ECLA, on the basis of official figures.

<sup>a</sup>Preliminary figures.

nearly 11% in the deficit on trade in real services and to that of 9% shown by the balance of the financial services account.

As will be seen below, the current-account deficit was overfinanced with an abundant inflow of both long- and short-term capital. This flow of capital consisted of over US\$ 1 billion in new long-term public indebtedness (by comparison with about US\$ 200 million in 1981), nearly US\$ 160 million of long-term private indebtedness (16% more than in 1981) and, finally, close to US\$ 500 million of short-term indebtedness (slightly less than twice the 1981 figure). Commercial openness to the exterior was maintained, except for the application throughout the year of a tariff surtax equivalent to 15% of the prevailing tariff (although this surtax was instituted for the purpose of increasing fiscal receipts). The policy of openness continued to give impetus to imports,<sup>29</sup> at the same time causing serious problems in the Peruvian industrial sector.<sup>30</sup> On the other hand, although the system of tax refunds on non-traditional exports (CERTEX) was not changed, there was a definite tendency to promote and support those exports through tax and credit facilities and through the activities of the Fund to Promote Non-Traditional Exports (FOPEX).

The encouragement given to non-traditional exports was one of the most important aspects of the official development project. It clearly reflected the intention of re-orienting the growth of the industrial sector away from those branches of production which cannot compete with imports to those with export potential and leadership ability.

With regard to the policy of external indebtedness, two facts stood out in the year: early recourse was had to the International Monetary Fund and there was official refusal to renegotiate the debt (except for a small part maintained with the Soviet Union).

When Peru approached the International Monetary Fund in June 1982 and obtained financial support,<sup>31</sup> the country thus received a guarantee which the authorities aimed to use, in combination with strict punctuality in debt servicing, to project a good debtor image. This would supposedly improve the country's reputation for solvency with the international banking system and open the doors to a substantial flow of financial capital.

The big volume of complementary resources needed by the country, however, together with the negative pattern of its debt profile and the crisis within the financial system itself, which reduced the funds available for credit for reasons totally alien to the country's solvency image, made it impossible to achieve the objectives set. Thus, at the end of the year the country had to offer to pay much higher interest rates in order to obtain increasingly scarce financial resources. Finally, in the first quarter of 1983 Peru had no choice but to approach its creditors and draw up a formal agreement to renegotiate its commitments.

Finally, the change in the official exchange policy was one of the most characteristic changes in economic policy in general. In 1981, as part of a centralized overall effort to fight inflation, the exchange policy was used for ends other than that of maintaining the real value of the currency. Thus, although accumulated domestic inflation in that year was 73% and accumulated external inflation was slightly more than 2%,<sup>32</sup> the rate of devaluation was only 49%.

In 1982, on the other hand, stress was laid on the seriousness of the balance-of-payments situation and therefore on the need to take measures to avoid a big crisis in the external sector. Thus the objective of containing prices was abandoned in the formulation of the exchange policy (although it continued, theoretically at least, to be a parameter of the fiscal and monetary policies). The Central Reserve Bank decreed, through its programme of daily mini-devaluations, a total accumulated devaluation of the sol of 95%. This rate was considerably higher than that of the accumulated domestic inflation during 1982 (73%), while the accumulated external inflation affecting Peru was practically nil.<sup>33</sup>

<sup>29</sup> See, for example, the evolution of private imports of consumer goods in the relevant section.

<sup>30</sup> See the relevant section of part 2 of this chapter.

<sup>31</sup> Consisting of US\$ 220 million under the Compensatory Financing Facility during 1982, plus another US\$ 715 million under a three-year agreement by virtue of the Extended Facility.

<sup>32</sup> According to calculations which take into account the inflation in Peru's main trading partners and the variation of their currencies with respect to the dollar.

<sup>33</sup> The devaluation of the sol with respect to the dollar actually exaggerates the true loss of value of the sol a little, since it reflects the devaluation of the European and Japanese currencies, also with respect to the dollar. Thus, for example, the devaluation of the sol with respect to the yen was 87%, to the deutsch mark, 86%, and to the French franc, 66%.

Consequently, the exchange rate in December was, on average, 949 soles per dollar, whereas in the same month in 1981 it had been 498 soles (see table 11). Moreover, this process accelerated throughout the year, starting with a rate of devaluation equivalent to 4.2% a month in the first quarter, but rising to a monthly rate of 6.9% in the last three months of the year.

Because of this, in March 1982, when the real value of the sol<sup>34</sup> was 20% lower than its average value in 1980, the process of ending its over-valuation began. As a result, in December the real value of the sol was 16% higher than in March. However, for the year as a whole, it remained slightly lower than in 1981 and 16% lower than the value in 1980 (see figure 2).

a) *Trade in goods*

i) *Exports.* Unlike the evolution registered in 1981, when the value of all traditional export categories except zinc fell, as did non-traditional exports as a whole, in 1982 there was a decrease in the export value of only four traditional categories, all of them minerals (see table 12). Thus, while in 1981 the total export value declined by 16%, in 1982 it fell by only 1%,<sup>35</sup> in spite of the generalized

Table 11

PERU: EVOLUTION OF NOMINAL AND EFFECTIVE REAL EXCHANGE RATES

(Averages per period)

	Exchange rate <sup>a</sup> (soles per dollar)	Effective real exchange rate <sup>b</sup>	
		For exports	For imports
1975	44	76.6	76.1
1976	57	80.7	81.5
1977	84	90.4	90.3
1978	156	113.1	112.8
1979	225	106.9	107.3
1980	289	100.0	100.0
1981	422	85.6	85.8
I	366	89.6	89.5
II	411	87.6	87.7
III	435	83.0	83.5
IV	480	83.3	84.0
1982	698	84.5	86.1
I	540	80.4	82.1
II	628	82.6	83.5
III	736	84.6	86.0
IV	887	88.3	91.2
January	519	81.2	82.5
February	540	80.4	82.0
March	563	79.8	82.0
April	595	81.8	83.7
May	628	83.9	84.2
June	660	83.1	84.1
July	696	83.7	84.6
August	735	84.6	85.9
September	776	85.1	87.3
October	826	84.7	87.1
November	884	87.7	90.5
December	949	92.8	95.3

Source: Central Reserve Bank of Peru and ECLA, on the basis of information supplied by the International Monetary Fund (International Financial Statistics).

<sup>a</sup> Official exchange rate.

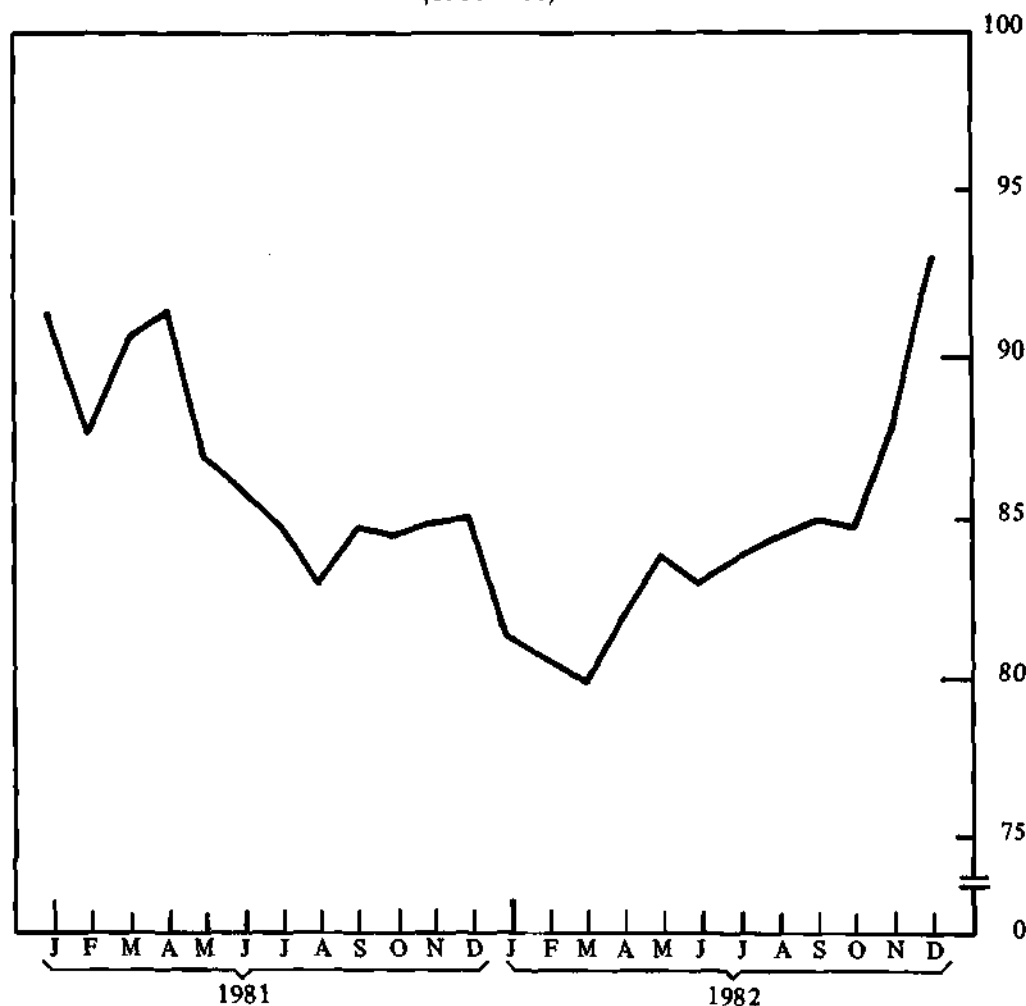
<sup>b</sup> 1980 = 100.

<sup>34</sup> According to the effective real exchange rate of the sol for exports. This index is calculated by taking into account the nominal exchange rate of the sol with respect to the currencies of the main countries to which Peru exports, their respective rates of inflation, and the rate of inflation in Peru. The weightings used are the share of those countries in Peru's total exports (see table 11).

<sup>35</sup> The analysis made in this section and in the following one is based on the figures published by the Central Reserve Bank of Peru, which differ slightly from those given in table 15.



Figure 2  
**PERU: SHORT-TERM EVOLUTION OF THE INDEX OF THE  
 EFFECTIVE REAL EXCHANGE RATE<sup>a</sup>**  
 (1980 = 100)



Source: ECLA, on the basis of information supplied by the International Monetary Fund.

<sup>a</sup>For exports.

drop in prices, which affected all the traditional products except coffee and iron ore.<sup>36</sup> If the prices of 1981 had remained in effect, exports would have been US\$ 444 million (or 14%) higher than they actually were.<sup>37</sup> Similarly, protectionist tendencies were intensified both in the countries of the region and the rest of the world, which made it more difficult to sell products on the external market.<sup>38</sup>

Traditional exports, which grew steadily between 1976 and 1980 but fell by 16% in 1981, decreased by slightly less than 4% in 1982.

<sup>36</sup>For example, the situation with regard to silver was so acute that the government decided to suspend sales to the exterior from July until the price improved. It did indeed improve afterwards, but only after having fallen from US\$ 13 per troy ounce in the first quarter of 1981 to US\$ 8 in the first quarter of 1982 and to US\$ 6 in June the same year. This latter price was less than the production cost of the mineral.

<sup>37</sup>Of this amount, US\$ 248 million is due to the drop in prices of minerals, US\$ 103 million to that in the prices of fishery products, US\$ 69 million to that in the prices of petroleum and petroleum products and, finally, US\$ 24 million to that in the prices of agricultural commodities.

<sup>38</sup>Noteworthy in this connection are the placing by the United States of high compensatory duties on the import of Peruvian textiles (since this was done at the end of the year, its impact will be felt in 1983), the establishment of tariff surtaxes in Chile and Venezuela on Peruvian fishery products and textiles, etc.

The items whose value expanded most rapidly included fish meal and cotton, because of the notable upturn in the volume exported (116% and 88%, respectively) (see table 13). With respect to exports of fish meal, the result obtained was due both to the larger catch of anchoveta, especially in the first three quarters of the year, and to the greater participation of fish canning enterprises in this category, due to the bad situation in the canned fish market referred to earlier.

Exports of petroleum and petroleum products, whose value expanded by 3% to over US\$ 700 million, were in the same situation, since after contracting in 1980 and 1981, their value expanded by 14% in 1982. The fall of 9% in their price came on top of the drop of 2% in 1981, after the uninterrupted rise by a total of 230% between 1976 and 1980. Apart from the small increase in production, factors responsible for the increase in the volume exported compared with 1981 included the smaller domestic demand because of the lack of dynamism of industrial activity, and PETROPERU's express policy of ensuring markets, even by granting financing.<sup>39</sup> Even so, the exported value was 20% less than the goal programmed for the year, which was based primarily on a bigger increase in production.

Iron-ore exports were the only ones whose value rose owing to increases in both price and volume. The value increased by 16% during the year, after a drop of 2% in 1981. The only external sales which experienced a drop in volume (-4%) and a rise in price (11%) were those of coffee, the result being that the export value rose by 7% after having decreased by a total of 57% in 1980 and 1981.

As regards sugar exports, they were resumed in the third quarter and were particularly in evidence in the fourth quarter of 1982. These exports, whose value was about US\$ 269 million (21% of the total) in 1975 but fell to only US\$ 13 million in 1980, had been totally non-existent in 1981.

The small contraction in the value of exports was caused by the decrease in the value of external sales of copper, silver, lead and zinc. The drop of 13% in the value of copper exports, which followed the sharp fall of 30% in 1981, was solely due to the continuation in 1982 of the downward trend in the price of copper (which in real terms reached its lowest value in 30 years). On the other hand, the growth in the volume exported was due to the increase in national production achieved through the

Table 12

PERU: EXPORT OF GOODS, FOB

	Millions of dollars				Percentage breakdown			Growth rates		
	1979	1980	1981	1982 <sup>a</sup>	1970	1980	1982 <sup>a</sup>	1980	1981	1982 <sup>a</sup>
<b>Total</b>	3 491	3 898	3 255	3 230	100.0	100.0	100.0	11.7	-16.5	-0.8
<b>Traditional exports</b>	2 817	3 067	2 562	2 471	97.2	78.7	76.5	8.9	-16.5	-3.6
Fish meal	256	192	141	202	29.3	4.9	6.3	-25.0	-26.6	43.3
Fish oil	23	-	-	-	3.7	-	-	-100.0	-	-
Cotton	49	72	64	85	5.0	1.8	2.6	46.9	-11.1	32.8
Sugar	34	13	-	20	5.9	0.3	0.6	-61.8	-100.0	-
Coffee	245	141	106	113	4.2	3.6	3.5	-42.4	-24.8	6.6
Copper <sup>b</sup>	674	752	529	459	24.4	19.3	14.2	11.6	-29.7	-13.2
Iron ore	85	95	93	108	7.0	2.4	3.3	11.8	-2.1	16.1
Refined silver	234	312	312	206	2.9	8.0	6.4	33.3	0.0	-34.0
Lead	294	383	219	190	6.1	9.8	5.9	30.3	-42.8	-13.2
Zinc	171	210	272	247	4.7	5.4	7.6	22.8	29.5	-9.2
Petroleum and petroleum products	646	792	692	715	0.7	20.3	22.1	22.6	-12.6	3.3
Others <sup>c</sup>	107	105	134	126	3.4	2.7	3.9	-1.9	27.6	-6.0
<b>Non-traditional exports</b>	674	832	693	759	2.8	21.3	23.5	23.4	-16.7	9.5

Source: Central Reserve Bank of Peru.

<sup>a</sup>Preliminary figures.

<sup>b</sup>Includes silver content.

<sup>c</sup>Mostly gold and minor metals.

<sup>39</sup>This was reflected in the fact that although in 1980 and 1981 all exports of petroleum and petroleum products were conducted on the spot market, in 1982 only 35% of those exports went through this market.

Table 13

PERU: VALUE, VOLUME AND PRICES OF MAIN EXPORTS PRODUCTS<sup>a</sup>

	1976	1977	1978	1979	1980	1981	1982 <sup>b</sup>
<b>Fish meal</b>							
Value	178	179	192	256	192	141	202
Volume	625	430	483	657	416	285	616
Price	284.0	416.3	397.1	389.7	460.6	494.7	328.8
<b>Fish oil</b>							
Value	0.3	0.9	1.1	22.6	-	-	-
Volume	5	4	5	56	-	-	-
Price	64.2	197.7	200.0	403.2	-	-	-
<b>Cotton</b>							
Value	71	48	38	49	72	64	85
Volume <sup>c</sup>	776	462	394	434	701	685	1 287
Price <sup>d</sup>	91.4	104.0	96.5	113.7	102.1	92.8	66.1
<b>Sugar</b>							
Value	91	74	52	34	13	-	20
Volume	296	390	291	181	53	-	59
Price <sup>d</sup>	14.2	8.8	8.2	8.7	11.4	-	15.2
<b>Coffee</b>							
Value	101	196	168	245	141	106	113
Volume	43	43	54	70	44	46	44
Price <sup>d</sup>	108.0	210.0	144.6	162.1	147.0	107.4	119.6
<b>Copper</b>							
Value	234	398	412	674	752	529	459
Volume	182	331	343	373	350	322	331
Price <sup>e</sup>	58.4	54.5	54.3	81.9	97.4	74.7	62.9
<b>Iron ore</b>							
Value	64	91	74	85	95	93	108
Volume <sup>f</sup>	4.5	6.1	4.8	5.7	5.7	5.3	5.7
Price <sup>g</sup>	14.2	14.8	15.5	14.8	16.5	17.7	19.1
<b>Refined silver</b>							
Value	90	116	118	234	312	312	206
Volume <sup>h</sup>	20.8	25.1	22.5	24.8	15.9	28.0	26.0
Price <sup>i</sup>	4.3	4.6	5.3	9.4	19.6	11.1	7.9
<b>Lead</b>							
Value	112	132	175	294	383	219	190
Volume	180	172	177	164	154	146	171
Price <sup>e</sup>	28.1	34.8	44.8	81.0	112.8	68.0	50.4
<b>Zinc</b>							
Value	192	164	133	171	210	272	247
Volume	432	434	437	418	438	499	467
Price <sup>e</sup>	20.1	17.1	13.8	18.6	21.8	24.7	24.0
<b>Petroleum and petroleum products</b>							
Value	53	52	180	646	792	692	715
Volume <sup>j</sup>	4.7	4.1	13.8	23.6	22.4	19.9	22.6
Price <sup>k</sup>	11.2	12.7	13.1	27.4	35.3	34.7	31.6

Source: Central Reserve Bank of Peru.

<sup>a</sup>Value in millions of dollars, volume in thousands of metric tons, and prices in dollars per metric ton, unless otherwise indicated.<sup>b</sup>Preliminary figures.<sup>c</sup>Thousands of quintals.<sup>d</sup>Dollars per quintal.<sup>e</sup>US cents per pound.<sup>f</sup>Millions of net legal tons.<sup>g</sup>Dollars per net legal ton.<sup>h</sup>Millions of Troy ounces.<sup>i</sup>Dollars per Troy ounce.<sup>j</sup>Millions of barrels.<sup>k</sup>Dollars per barrel.

entry into operation of the extension of the Cobriza mine and the reduction of labour disputes. As regards exports of lead, whose value decreased by 13% after their severe contraction of 50% in 1981, the situation was similar—their volume began to recover after falling for three consecutive years, but their price experienced a fall of 26% on top of the 44% decline of the preceding year.

With regard to silver and zinc, the export values of which fell by 34% and 9%, respectively, this was due to falls in both volume and price.

Non-traditional exports grew by 10% during the year in contrast with the decrease of 17% in 1981, so that they represented 23% of the total exported. Their share had been only 8% in 1975, but since 1976 the annual average growth rate for these articles had been 33%. The categories in which exports increased the most in 1982 were textiles (25%),<sup>40</sup> agricultural commodities (17%), and fishery products (10%). As for exports of metal products and machinery and products of the iron and steel industry, they showed sharp drops of -19% and -13%, respectively.

The growth in non-traditional exports was due to a number of factors, including the favourable evolution of the real exchange rate, the contraction in domestic demand (which made it possible to generate higher export surpluses) and the firm support provided by the government, as mentioned earlier.

ii) *Imports.* Because of the absence of an effective economic recovery process, the accelerated currency devaluation, the application of a tariff surtax equivalent to 15% of the customs tariff in force, and the increase in some taxes due to the new tax legislation, the total value of imports remained stagnant at about US\$ 3.8 billion<sup>41</sup> (see table 14), although the official projection for the year had envisaged an expansion of close to 10%.

The value of imports of consumer goods, which represented 13% of the total, was nearly one-fifth below that recorded in 1981. This reduction was due solely to the drop in the value of food imports. Thus, while purchases of other consumer goods grew by 3% in value, after having increased by over 50% in 1981, those of rice contracted by 75% (prices fell by 37% and the volume by 54%) and sugar was no longer imported (in 1981 the value of sugar purchases had been US\$ 98 million).

Imports of intermediate goods, for their part, contracted by 6% in value, bringing their share in total external purchases down from 36% in 1981 to only 27% in 1982. As for purchases of food commodities used as inputs (particularly wheat, but also maize, sorghum, soya oil and some milk products), their value remained constant. In more disaggregated terms, however, there was a big

Table 14  
PERU: IMPORTS OF GOODS, FOB

	Millions of dollars				Percentage breakdown			Growth rates		
	1979	1980	1981	1982 <sup>a</sup>	1970	1980	1982 <sup>a</sup>	1980	1981	1982 <sup>a</sup>
<b>Total</b>	1 951	3 062	3 803	3 787	100.0	100.0	100.0	56.9	24.2	-0.4
Consumer goods	146	386	621	508	10.5	12.6	13.4	164.4	60.9	-18.2
Rice	48	93	68	17	0.3	3.0	0.4	93.8	-26.9	-75.0
Sugar	-	32	98	-	-	1.0	-	-	206.3	-100.0
Intermediate goods	900	1 163	1 381	1 302	36.8	38.0	34.4	29.2	18.7	-5.7
Wheat	136	141	167	155	4.6	4.6	4.1	3.7	18.4	-7.2
Maize and/or sorghum	18	65	48	56	-	2.1	1.5	261.1	-26.2	16.7
Capital goods	693	1 126	1 521	1 472	26.7	36.8	38.9	62.5	35.1	-3.2
Miscellaneous and adjustments <sup>b</sup>	213	388	280	505	26.0	12.6	13.3	82.2	-27.8	80.4

Source: Central Reserve Bank of Peru.

<sup>a</sup>Preliminary figures.

<sup>b</sup>Includes adjustments, non-monetary gold and other imports not elsewhere classified.

<sup>40</sup>Thus, exports of textiles represented 38% of non-traditional exports in 1982. In 1980 and 1981 they had represented 28% and 33%, respectively.

<sup>41</sup>However, if we exclude the category "miscellaneous and adjustments", which includes purchases of armaments, total imports fell by 7%.

increase of more than one-third in the volume of maize and sorghum imported and another much smaller increase in that of soya oil. Wheat imports, for their part, after increasing considerably in 1981, showed no change. The above volume increases were offset by falls in prices: 16% in those of maize and sorghum, 10% in that of soya oil, and 8% in the case of wheat. External purchases of other inputs fell by 7%.

The value of imports of capital goods contracted moderately (-3%) to about US\$ 1.5 billion, after having risen by 35% in 1981, over 60% in 1980 and over 50% in 1979. The notable increase in those three years was made possible by the internal economic recovery process and the opening-up of trade to the exterior. The latter policy continued in 1982 although it was not extended except in a few isolated cases of sectoral promotion. Moreover, as mentioned above, during the year a tariff surtax of 15% of the tariff in force was applied.

The dynamism shown by the demand and by the economic activity of the private sector in general in 1981, which had been reflected in an increase of 39% in the value of its imports, did not continue into 1982. This fact was reflected in a drop of 3% in the value of its purchases in the exterior, due to decreases in the value of imports of capital and intermediate goods (-6% and -3%, respectively). On the other hand, imports of consumer goods by the private sector increased in value by 6%, after having risen by 70% the year before.

As for the share of the public sector in total imports, this came to 39%, after having fallen from 45% to 38% between 1980 and 1981. The value of imports of consumer goods by this sector contracted markedly (-63%); a downward trend was also shown by the value of imports of intermediate goods (-13%). Only its purchases of capital goods increased in value, and those only marginally, growing by scarcely 1% in contrast with the 24% growth recorded in 1981.<sup>42</sup> This was a direct result of the deceleration in the rate of the progress made in public works.

iii) *The terms of trade and the purchasing power of exports.* In 1982 the terms of trade index fell for the second year running (-7%) (see table 10). The major determining factor in this drop was the decrease in the unit value of exports. This was a reflection of the depressed world economic situation, since in view of the contraction in the demand for raw materials, the reduction of stocks and the high interest rates which prevailed, international prices of raw materials experienced a marked deterioration.

Because of the marked increase in the volume of exports of goods and services (10%) and the moderate drop in the unit value of imports, however, the purchasing power of the former expanded by 3%, in contrast with the marked contraction (-16%) suffered by this variable the year before.

#### b) *The services trade and factor payments*

After having grown by less than 1% in 1981, exports of real services recovered the dynamism they had shown in previous years in 1982 when their value expanded by nearly 10% to over US\$ 800 million. The growth of income from travel, which increased by over 12%, was especially marked. As for income from the provision of services related to transport and insurance, it grew moderately in 1982, after having fallen in 1981 (see table 15).

Imports of real services were also 10% higher, amounting to slightly more than US\$ 1.1 billion in value. Expenditure on transport and insurance rose by 5% and spending by Peruvians in the exterior increased by 13% to US\$ 150 million, i.e., slightly less than half the expenditure of foreigners in Peru.

Thus, the real services trade deficit was 11% greater than in 1981, representing 16% of the deficit on current account.

Net payments for factor services were much more substantial, however, representing the equivalent of 58% of the deficit mentioned just above. Their growth rate compared with 1981 was 9%.

This increase was due entirely to the bigger negative balance on net payments of interest, since remittances of profits to the exterior contracted by 16%. This decline, which followed on decreases of 25% recorded in both 1980 and 1981, had its origin in the depressed internal economic situation,

<sup>42</sup> However, the "miscellaneous and adjustments" component of public sector imports rose in value from US\$ 280 million in 1981 to US\$ 505 million in 1982.

Table 15

## PERU: BALANCE OF PAYMENTS

(Millions of dollars)

	1977	1978	1979	1980	1981	1982 <sup>a</sup>
Balance on current account	-976	-244	663	-72	-1 680	-1 675
Trade balance	-557	330	1 599	763	-795	-710
Exports of goods and services	2 131	2 401	4 101	4 650	4 012	4 027
Goods FOB	1 726	1 941	3 519	3 899	3 256	3 198
Real services <sup>b</sup>	406	461	582	751	757	829
Transport and insurance	175	179	255	284	275	289
Travel	112	141	175	292	287	322
Imports of goods and services	2 688	2 071	2 502	3 887	4 806	4 737
Goods FOB	2 164	1 600	1 955	3 062	3 803	3 635
Real services <sup>b</sup>	524	469	547	825	1 004	1 102
Transport and insurance	325	263	319	433	508	532
Travel	36	33	45	107	133	150
Factor services	-422	-579	-936	-835	-885	-965
Profits	-54	-84	-393	-292	-218	-183
Interest received	13	14	56	201	204	135
Interest paid	-381	-509	-601	-743	-873	-917
Unrequited private transfer payments	5	4	-	-	-	-
Balance on capital account	1 042	268	414	725	871	1 762
Unrequited official transfer payments	53	54	122	134	172	...
Long-term capital	955	265	698	273	610	1 264
Direct investment	55	26	70	27	263	59
Portfolio investment	-	-	-	-	-	...
Other long-term capital	901	238	628	246	347	1 205
Official sector <sup>c</sup>	883	225	660	182	213	1 048
Loans disbursed	1 285	1 102	1 684	1 581	1 647	1 919
Amortization payments	-395	-868	-1 008	-1 391	-1 433	-871
Other sectors <sup>c</sup>	18	14	-32	64	134	157
Loans disbursed	118	96	89	181	294	378
Amortization payments	-100	-83	-119	-117	-160	-221
Short-term capital (net)	150	-101	-370	501	277	481
Official sector	109	-37	-300	90	6	...
Commercial banks	39	-66	-53	13	31	...
Other sectors	2	2	-18	398	240	...
Errors and omissions	-113	53	-36	-186	-191	17
Global balance <sup>d</sup>	66	24	1 076	653	-809	87
Total variation in reserves <sup>d</sup> (minus sign indicates an increase)	-60	-6	-1 066	-607	649	...
Monetary gold	-	-	-64	-173	-	...
Special Drawing Rights	-	-3	-100	94	1	...
IMF reserve position	-	-	-	-	-	...
Foreign exchange assets	-68	-30	-1 030	-553	769	...
Other assets	-13	-101	-29	43	-35	...
Use made of IMF credit	21	128	158	-17	-87	...

Source: 1977-1981: International Monetary Fund, *Balance of Payments Yearbook*; 1982: ECLA, on the basis of official data.<sup>a</sup>Preliminary figures.<sup>b</sup>Real services also include other official and private transactions, but not factor services.<sup>c</sup>In addition to loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities.<sup>d</sup>The global balance is the sum of the current account balance plus the balance on capital account. The difference between total variation in reserves of opposite sign and the global balance represents counterpart items: monetization of gold, allocation of Special Drawing Rights, and variations due to revaluation.

since the low volumes of production and exports and hence the low level of profits meant that remittances of the latter to the exterior were lower than originally foreseen.

The 16% rise in net payments of interest came on top of a previous rise (23%) in 1981. The decrease of one-third in interest received, caused partly by the fall in the rates paid in the international financial markets in the second half of the year, was particularly severe. This situation was made worse by the small increase in the amount of interest paid, which exceeded US\$ 900 million. As a result, interest payments were 50% higher than those made in 1979 and 2.4 times higher than those made in 1977.<sup>43</sup> The main reason for the increase in 1982 was the accelerated growth of the short-term debt.

c) *The current account position and its financing*

After the substantial surplus on current account recorded in 1979 as a result of that year's stabilization programme, in 1980 there was a small deficit, followed by one of notable proportions in 1981; in 1982 the deficit remained practically the same as that of the preceding year, i.e., approximately US\$ 1.7 billion (see table 15).

This deficit was fully financed by inflows of short- and long-term capital, whose magnitude was such that it even allowed an increase of US\$ 132 million in the net international reserves, bringing them to over US\$ 900 million (equivalent to somewhat less than three months of imports). Thus, the target envisaged in the agreement reached with the International Monetary Fund of not reducing these reserves by more than US\$ 100 million was more than achieved. During 1981, with a current account situation very similar to that of 1982, the movement of the net reserves had been negative by over US\$ 500 million.<sup>44</sup>

Long-term capital movements during 1982 amounted to nearly US\$ 1.3 billion —double the amount recorded in 1981. Moreover, in 1982 there was an even greater increase in proportional terms. Thus, the total net entry of long-term capital during 1982 was over four and a half times greater than two years previously.

During the year the flow of capital relating to new indebtedness on the part of the public sector was especially dynamic, since it grew several times over, amounting to more than US\$ 1 billion. As for the flow of capital due to long-term private net external indebtedness, it grew by 16%, amounting to nearly US\$ 160 million. On the other hand, net direct investment, after increasing very substantially in 1981, declined by over 50%, to a value of less than US\$ 60 million. Finally, one of the most characteristic features of the economic evolution in 1982 was the accelerated growth of short-term indebtedness. After the inflow of funds under this heading had dropped by nearly half in 1981, in 1982 they returned to their 1980 value of US\$ 500 million. In net terms, this short-term indebtedness was concentrated entirely in the first three quarters of the year.

d) *External indebtedness*

In the three-year period 1979-1981, Peru's total external indebtedness followed a pattern diametrically opposed to that of Latin America as a whole. Thus, while the latter expanded by close to 84%, Peru's debt grew by no more than 4% altogether, so that its participation in the total external debt of the region fell from 6.7% in 1978 to only 3.8% in 1981.

In 1982 Peru's external indebtedness pattern was again the opposite of that shown by the region as a whole, but this time the trends were reversed in that whereas the growth rate of Latin America's indebtedness fell to 7%, that of Peru increased very suddenly to 20%, and during the year it received one-tenth of the total flow of the new debts received by Latin America.

Viewed from another standpoint, Peru's total external debt reached the equivalent of 59% of the gross domestic product in 1982: a similar level to that recorded in 1980, but very much higher than that of 1981 (48%) (see table 16). At all events, this level was much lower than the maximum achieved (87% in 1978), although considerably higher than that which prevailed up to just before the

<sup>43</sup> In other words, the average annual growth rate of interest payments to the exterior came to 19% during the five-year period 1978-1982.

<sup>44</sup> The funds obtained by the Central Reserve Bank under the agreement with the International Monetary Fund are not considered to be international reserves but only assets of the Bank. However, it is clear that the fact that they are held makes the level of reserves higher, since if they were not available, recourse would have to be had to other funds, which are included in these reserves, in order to meet financial commitments.

economic crisis of 1976-1978 (about 45%). As compared with exports, the total external debt was equal to two and a half times their value in 1980, three times their value in 1981, and 3.6 times their value in 1982.

The servicing of the external public debt in 1982 was equivalent to only three-quarters of that carried out the preceding year, amounting to somewhat more than US\$ 1.3 billion (41% of total exports). However, during 1981 US\$ 377 million were paid to refinance part of the debt with the international banking system. If this special payment is excluded, the total public debt servicing showed practically no variation from that in 1982. The share of interest payments in this total amounted to over US\$ 900 million, i.e., it was 5% higher than in 1981. The fall in international interest rates towards the end of 1982 partly compensated for the sharp increase in interest payments due to the significant growth of the short-term debt.

Analysis of the external indebtedness by its different components shows that the long-term debt increased by 18% in 1982; that of the public sector, which had grown by only 3% in 1981, expanded by 17%, and that of the private sector grew by 10% for the second year running. As for short-term indebtedness, it was particularly dynamic and increased by one-third to nearly US\$ 2 billion (see table 16).

Table 16  
PERU: EVOLUTION OF EXTERNAL INDEBTEDNESS

	1973	1978	1979	1980	1981	1982 <sup>a</sup>	Growth rates			
							1979	1980	1981	1982 <sup>a</sup>
<b>Millions of dollars</b>										
<b>Total external debt</b>	4 098	9 291	9 301	9 561	9 673	11 611	0.1	2.8	1.2	20.0
Long-term external debt	2 692	7 226	7 941	8 125	8 172	9 629	9.9	2.3	0.6	17.8
Public sector	1 491	5 135	5 764	6 043	6 210	7 258	12.2	4.8	2.8	16.9
Central Reserve Bank	-	751	869	710	455	707	15.7	-18.3	-35.9	55.4
Private sector	1 201	1 340	1 308	1 372	1 507	1 664	-2.4	4.9	9.8	10.4
Public and private short-term external debt	1 406	2 065	1 360	1 436	1 501	1 982	-34.1	5.6	4.5	32.0
Total external debt as a percentage of GDP	44.7	86.7	68.0	55.5	48.1	58.5				
Public external debt as a percentage of GDP	16.3	47.9	42.2	35.1	30.9	36.6				
Servicing of external debt as a percentage of exports of goods and services:										
Interest payments	32.2 <sup>b</sup>	21.2	14.7	16.0	21.8	22.8				
Amortization payments <sup>c</sup>	...	39.6	27.5	32.4	39.7	27.1				
Total <sup>d</sup>	...	60.8	42.2	48.4	61.5	49.9				
<b>Percentages</b>										
<b>Credits granted (by financial sources)</b>	100.0	100.0	100.0	100.0	100.0	100.0				
Public agencies and governments	14.7	56.9	16.1	19.7	10.7	9.8				
International agencies	6.6	13.7	10.1	15.1	25.6	20.9				
Socialist countries	2.7	1.0	16.7	5.6	7.4	0.9				
Suppliers	29.3	16.2	24.3	34.9	9.7	38.6				
Banks	46.7	12.2	33.0	24.6	46.6	29.8				

Source: Central Reserve Bank of Peru.

<sup>a</sup>Preliminary figures.

<sup>b</sup>Includes only servicing of the external public debt.

<sup>c</sup>Does not include amortization payments on the short-term debt.

<sup>d</sup>Includes the long-term external public debt of the central government and the public enterprises.



Such intensive use of short-term indebtedness in 1982 was due to many factors, including the limited liquidity available in the internal financial market, which drove public and private enterprises to seek external financing; the refusal of the government to finance the deficits of public enterprises, which led them to go out of the country in search of funds; the ceiling placed on external indebtedness for terms of one to ten years under the agreement with the International Monetary Fund;<sup>45</sup> the lack of ceilings on short-term indebtedness in this agreement; the greater difficulty than in preceding years in finding medium- and long-term credits in the world financial market, and the drop in international prices which weakened the financial position of many enterprises.

However, the amount of short-term indebtedness began to be excessive, causing a situation of great instability and uncertainty. As a consequence, at the end of the third quarter the government decided to discourage its use by public enterprises, and already in the fourth quarter there was a decline in net terms. In the first three quarters of the year, on the other hand, persistent growth at an average rate of 36% per quarter had been noted.

This decision clearly coincided with the sharp increase in the long-term debt of the public sector in the fourth quarter of the year: 40% of its total indebtedness was concentrated in this period, thus showing that there was an important turning-point in external indebtedness policy at the end of the year.<sup>46</sup> This increase in indebtedness in the latter part of 1982 was nevertheless not easy to obtain, in view of the contraction observed in the world financial market, and by the end of the year Peru was offering to pay a rate of LIBOR plus 2% to 2.25%, i.e., the highest rate since the 1976-1978 crisis.

#### 4. Prices and wages

##### a) *Prices*

The accumulated inflation during the year (73%) was practically the same as in 1981. This marked the completion of a five-year cycle in which the December-December variation in the consumer price index was higher than 60% (see table 17).

Consumer prices rose particularly rapidly in the last quarter of the year, when they showed an increase equivalent to 86% a year. As regards their structure, on the other hand, a change was noted in general, likewise towards the end of the year, in that the prices of the services from which the poorest groups obtain their income ceased to rise at a higher rate than the average of the index, and instead the prices of the goods which those groups consume rose more rapidly. Thus, for example, the annualized rate of increase of food prices, which was 43% in the first quarter, rose to 125% in the last quarter (see figure 3).

As for prices of clothing and footwear, they grew by only 48%, thereby becoming for the second year running the least dynamic prices in the economy and restraining the increase in the overall price index. This behaviour resulted from the fact that foreign trade had a restraining effect on inflation in 1982, as it had in the two preceding years, in spite of the high rate of devaluation and the tariff surtax. During 1982 the prices of tradeable goods rose by 57% as compared with the rise of 84% in the free prices of non-tradeable goods and that of 72% in the prices of controlled products and public services (with regard to the latter, the prices of fuels rose by 125% after having increased by 160% in 1981).

For its part, the variation between annual averages, which was 64% in 1982 after having been 75% in 1981, likewise marked the completion of a five-year cycle in which this rate had consistently exceeded 50% (see table 17). Thus, the annual average rate of increase in prices was 65% from 1978 to 1982, in contrast to the rates of 28% in 1974-1977 and 9% between 1961 and 1973.

As for the variation between annual averages of the wholesale price index, this came to 56%, after having been 68% in 1981. For the third consecutive year, the wholesale prices of imported goods—both agricultural commodities and manufactures—grew more slowly than those of goods of national origin, although the difference between them has become much smaller.

These results were not in line with the 45% target set for the variation in the consumer price index between December 1981 and December 1982. This setback was due to the change in emphasis in the economic policy, which, as indicated above, put greater priority on the improvement of the

<sup>45</sup>This ceiling was US\$ 1.1 billion. Public long-term external indebtedness rose in 1982 by nearly US\$ 1 050 million.

<sup>46</sup>On the other hand, because of the worsening of its financial situation towards the end of the year, the private sector received only 10% of the total increase in long-term debt in the final quarter of the year.

external accounts than on controlling inflation. The resulting accelerated process of devaluation contributed to domestic price rises. Moreover, as the exchange policy was aimed at reducing the overvaluation of the sol and as the evolution of that policy depended largely on the behaviour of domestic prices, a vicious circle was set up in which devaluation and inflation spurred each other on.<sup>47</sup>

Inflation was therefore combated through the reduction in real liquidity and by austerity in public expenditure. However, the latter was not fulfilled, while the former was one of the direct causes of the economic recession in 1982.

Finally, another important factor in the persistent rise in prices was the inflationary atmosphere which prevailed in the country after a number of years of high inflation and failure to control it.

#### b) *Wages and salaries*

During the year a considerable (8%) improvement was noted in the real value of the wages of non-manual workers and a much smaller rise (1%) in those of manual workers. In 1981 the latter had dropped by 2%, while in 1980 both classes of wages had grown by significant percentages (see table 18). Nevertheless, the real value of both classes of wages was 36% and 27%, respectively, lower than in 1973. As for the wages paid to government employees, they dropped for the second year running.

In 1982 the practice of including provision for readjustment in the remunerations agreed upon in contracts reached through collective bargaining became general. These readjustments, which usually amount to between one-fifth and one-third of the total remuneration, are normally applied twice in each year covered by the contract, generally at the end of June and September. Their value also depends on the outcome of the negotiation, so that it is based on the anticipated inflation. This system of readjustments was preceded by the system of "advances", the last of which was granted in

Table 17  
PERU: EVOLUTION OF DOMESTIC PRICES

	1976	1977	1978	1979	1980	1981	1982 <sup>a</sup>
<b>Variation from December to December</b>							
Consumer price index	44.7	32.4	73.7	66.7	60.8	72.7	72.9
Food	44.5	33.0	77.7	75.1	38.1	68.2	72.1
Wholesale price index		43.3	95.7	60.9	53.0	66.1	64.2
Imported products		70.6	113.3	49.0	41.7	48.2	63.5
Agricultural commodities					56.7	42.3	40.5 <sup>b</sup>
Manufactures					41.1	48.5	54.3 <sup>b</sup>
National products		30.5	88.5	66.4	57.7	72.7	64.5
Agricultural commodities		27.3	67.4	79.7	89.4	58.4	47.6 <sup>b</sup>
Manufactures		39.1	100.0	60.4	41.5	82.2	59.4 <sup>b</sup>
<b>Variation between annual averages</b>							
Consumer price index	33.5	38.1	57.8	67.7	59.2	75.4	64.5
Food	32.5	40.3	59.7	74.2	58.8	76.4	52.9
Wholesale price index	38.5	46.5	76.0	70.4	53.1	68.1	56.3
Imported products	36.8	61.1	96.9	73.9	45.4	47.5	54.2
Agricultural products	37.2	24.1	56.2	73.2	69.4	47.5	36.0 <sup>b</sup>
Manufactures	36.7	63.3	101.0	72.0	44.6	47.5	50.8 <sup>b</sup>
National products	39.1	42.0	68.2	69.6	56.3	76.1	57.0
Agricultural products	35.6	40.6	44.3	75.7	78.7	78.4	47.6 <sup>b</sup>
Manufactures	41.4	43.1	82.2	66.7	45.3	74.6	63.9 <sup>b</sup>

Source: National Institute of Statistics.

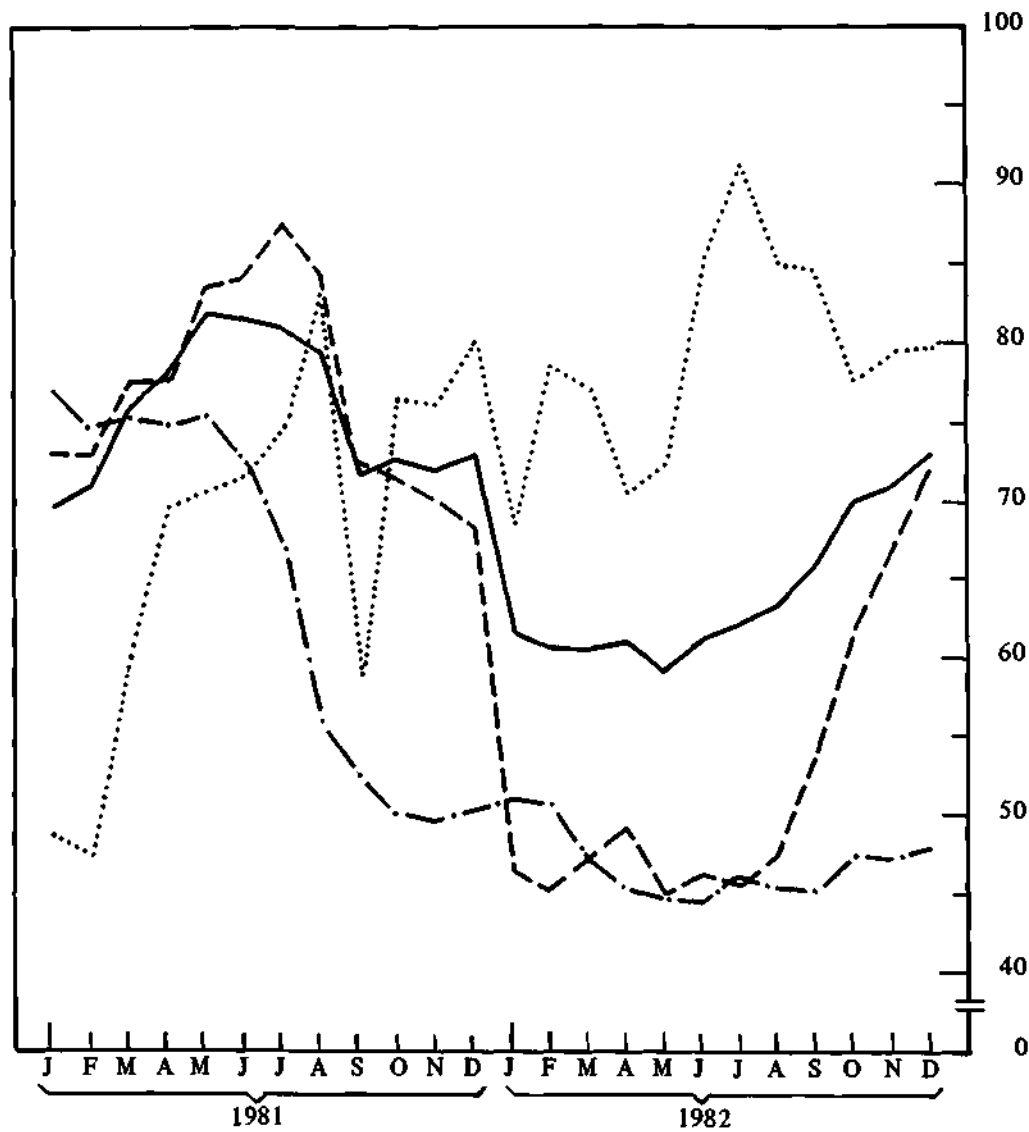
<sup>a</sup> Preliminary figures.

<sup>b</sup> January-November.

<sup>47</sup> According to calculations by a Lima bank, up to 30 percentage points of the 1982 inflation (i.e., two-fifths of it) were due to the devaluation.

Figure 3  
**PERU: VARIATION SHOWN BY THE CONSUMER PRICE INDEX IN TWELVE MONTHS**

- General index.
- - - Food, beverages.
- · - Clothing and footwear.
- Transport and communications.



April 1982.<sup>48</sup> On the other hand, the government continued to decree sporadic readjustments for workers not covered by collective bargaining and for public employees.

The concept of the industrial community, created in 1970 and amended some years later, was further changed in 1982 as part of the process of putting it into its final form and reconciling its participative spirit with incentives for private enterprise.

Originally, the workers were to have gradual access to the working capital of an enterprise until they possessed half of it, this being achieved by capitalizing 15% of the net income of the firm either by reinvestment or by the direct purchase of shares from other shareholders. A later modification changed this original concept, and the community became merely the body representing the workers in the management of the enterprise and was no longer the collective owner of their titles to the property. In addition, the ceiling placed on the participation of the workers was lowered to one-third of the total ownership.

Under the new policy, the workers are given the alternative of either maintaining the system of the industrial community or dissolving the latter. If they decide to maintain it, they receive 10% of the net profits in cash, 13.5% in labour shares and 1.5% for the administrative expenses of the community. If they opt for dissolution, their cash share in the profits increases to 17%, they cease to participate in the ownership, but the workers still have the right to appoint one-fifth of the board of directors. In this case, the enterprise must have previously offered them three options for redeeming their labour shares: in cash, in installments, or in exchange for interest-bearing securities. Since in offering these options the enterprise is free to set virtually all the parameters (purchase price of shares, interest rates offered in the case of exchange for securities, etc.), it can actually decisively influence the choice of the workers.

In view of the difficult economic situation in 1982, the enterprises were not able to make attractive offers in order to redeem the labour shares. Consequently, partly because of this and partly because of the industrial community intrinsic merits as far as the workers were concerned, the great majority of them decided not to dissolve their communities.

Table 18  
PERU: EVOLUTION OF AVERAGE WAGES AND SALARIES

	1976	1977	1978	1979	1980	1981	1982 <sup>a</sup>
<b>Average wages and salaries in the private sector:</b>							
Nominal							
Salaries <sup>c</sup>	16 021	19 231	26 065	39 926	68 237	121 736	214 477
Wages <sup>d</sup>	322	376	534	868	1 510	2 605	4 325
Real (indexes 1973 = 100)							
Salaries	79.7	69.7	59.5	54.3	58.3	59.3	63.8
Wages	90.8	76.6	69.0	66.8	73.4	71.9	72.9
<b>Wages and salaries in general government:</b>							
Real (index December 1973 = 100)	...	...	65.9	52.5	71.9	63.7	58.6
<b>Growth rates of real wages and salaries:</b>							
Private sector:							
Salaries	-8.9	-12.5	-14.6	-8.7	7.4	1.7	7.6
Wages	8.5	-15.6	-9.9	-3.2	9.9	-2.0	1.4
General government							
	...	...	...	-20.3	37.0	-11.4	-8.0

Source: Ministry of Labour and Social Welfare; National Institute of Statistics; Central Reserve Bank of Peru.

<sup>a</sup>Preliminary figures.

<sup>b</sup>Data for Metropolitan Lima. Coverage: establishments with ten or more workers. The salaries correspond to non-manual workers and the wages to manual workers.

<sup>c</sup>Soles per month.

<sup>d</sup>Soles per day.

<sup>48</sup>Under the system of advances, the employer transferred a certain amount of income to the workers, which had to be deducted subsequently in the light of the results of the next collective negotiation. However, very frequently the advances were included in the negotiation, so that the original idea was lost.

## 5. Monetary and fiscal policy

### a) *Monetary policy*

In the course of 1982 a radical change took place in the objectives of monetary policy as compared to the preceding year.

In 1981 the objective had been to increase the levels of real liquidity in national currency for the purpose of providing the financing needed in order to permit growth of the product. When the rate of inflation in that year turned out to be higher than predicted, the scheduled flows of liquidity and nominal credit also increased correspondingly. Moreover, as the loss of international reserves was greater than anticipated, there was more room for the expansion of domestic credit in both the public and the private sectors. All these facts made a significant contribution to the reactivation of the economy in 1981.

In 1982, in contrast, the specified monetary programme, which was certainly fulfilled in its general aims, abandoned the policy of expansion and made its central objectives the reduction in real terms of the liquidity in national currency and the maintenance of the level of credit (channelling practically all of it to the private sector and thereby obtaining a zero net balance for the public sector). The aim of this was to achieve the double goal of avoiding pressure on the inflationary process and of not losing international reserves. In this sense, there was a clear relationship between the application of this monetary policy and the accelerated process of devaluation observed in 1982.

During the year some measures were taken which made it possible to resolve the original incompatibility between the objectives of contracting the monetary base, in order to reduce liquidity, while making more credit available for the private sector yet keeping the total volume of domestic credit constant. In the first quarter of the year, the marginal reserve was reduced to zero with a view to increasing the resources available for loan by the financial system and at the same time reducing the cost of credit. Thus, the financial institutions were exempted from the obligation of maintaining reserves in respect of increases in deposits over the average balances as at January 1982.

Also in the first quarter, a ceiling of 55% was established for all the passive (deposit) interest rates of the financial system and the period of capitalization was liberalized.<sup>49</sup> In this way, an attempt was made to make deposits in soles more profitable and to attract resources to the financial system. However, this measure was offset by the high rate of devaluation, which was an incentive for savings in dollars. As a result, financial savings in national currency, which (expressed as a share of the product) had declined to their lowest level in 1979 (6%) and had then grown to 7% of the product in 1980 and to 8% in 1981, expanded to 9% in the first quarter of 1982 alone, but then remained about the same for the remainder of the year.

Similarly, in September the Central Reserve Bank decided that inter-bank transactions should gradually be reduced, so that in March 1983 they would represent a maximum of only 5% of the deposits of each institution. The objective was to divert these resources towards productive activities, as well as to surmount several difficulties affecting the banking system. Furthermore, the maximum term for bank loans was extended to five years,<sup>50</sup> while finance institutions were permitted to grant short- and medium-term loans. An attempt was also made to attract foreign capital by promulgating a banking law which permitted the establishment of new foreign banking institutions in the country and an increase in the participation of foreign investors in the working capital of Peruvian banks and finance companies from one-fifth to one-third.

As a result of all these measures (except perhaps the last named), the monetary multiplier with respect to money<sup>51</sup> grew by 17%, while the multiplier referring to total liquidity in the hands of the banking system (which is more significant) was 51% higher in 1982, reaching the value of 4.6 (see table 19).

The primary issue (monetary base) expanded by only 17% in nominal terms, thereby experiencing a significant real contraction of one-third, which came on the heels of the 15%

<sup>49</sup>The effective rate was, in fact, much higher. For example, with monthly capitalizations it came to 71%, as already indicated in section 1 above.

<sup>50</sup>Previously the repayment period was up to one year, longer-term loans being reserved for finance houses. This new term can be applied to a maximum of 10% of all the credit granted by the banks.

<sup>51</sup>The monetary multiplier measures the capacity of the financial system to increase the liquidity, starting from the monetary base or primary issue.

reduction recorded in 1981. This contraction was due to a sharp drop (-42%) in the credit granted by the Central Reserve Bank to the public sector. In other words, the objective of not financing that sector with resources from the monetary authority was achieved, and the total nominal credit granted by the Central Reserve Bank to the public sector remained at exactly the same level as in the preceding year. Credit to the development banking system, for its part, grew by 8% (see table 19).

As regards the use made of the primary issue, note should be taken of the real decrease of 17% in money in circulation and the very significant drop (also in real terms) of 53% in the bank reserves maintained in the Central Reserve Bank, due to the reduction in reserve requirements mentioned above. Thus, these reserves, which constituted 44% of the monetary base in 1981, saw their share drop to 31% in 1982.

The total money supply ( $M_2$ , or money plus quasi-money) expanded by somewhat more than 2% in real terms thanks to the aforementioned substantial growth in the multiplier of the monetary base (see table 20). This moderate expansion followed upon the very similar growth recorded in 1981, after the substantial increases registered in 1979 and 1980. However, the slight increase in 1982 concealed a significant contraction of 9% in liquidity in national currency (which was the objective of the monetary policy), after this had grown by 3% in 1981 and 10% in 1980.

As in 1981, the money supply ( $M_1$ ) fell by 21% in real terms, while quasi-money expanded by 13%, also in real terms. Thus, the quasi-money/money supply ratio increased to 0.75. In 1981 it had been 0.68 and in 1977 it was even below 0.50. In other words, as the inflationary process was reinforced, those possessing assets took the logical course of getting rid of holdings whose nominal yield was zero (cash and sight deposits). The real value of money in 1982 was equivalent to only 63% of what it had been 5 years before, and the drop in the value of sight deposits had been particularly marked.

With regard to the components of quasi-money, although the tendency towards the dollarization of financial assets registered up to 1980 had been reversed in 1981, in 1982 it reversed itself once again very markedly. Thus, in 1977-1980 the annual real growth rate in soles of quasi-

Table 19  
PERU: EVOLUTION OF THE MONETARY BASE

	Balance at year end (billions of soles)					Real growth rates				
	1978	1979	1980	1981	1982 <sup>a</sup>	1978	1979	1980	1981	1982 <sup>a</sup>
<b>Monetary base<sup>b</sup></b>	148	304	536	789	924	-12.9	23.2	9.6	-14.7	-32.4
<b>Sources</b>										
Net international reserves (CRB) <sup>c</sup>	-118	107	506	402	905			194.2	-54.0	30.0
Credit from CRB <sup>c</sup> to the public sector	117	161	218	479	480	-10.0	-17.5	-15.8	27.1	-41.9
a) Direct	22	32	183	339	505	25.5	-13.6	258.8	7.1	-13.8
b) Via Banco de la Nación	95	129	35	140	-25	-15.6	-18.8	-83.1	131.4	
Credit from CRB <sup>c</sup> to development banks	64	76	107	189	351	-5.5	-29.1	-12.3	1.9	8.3
Other accounts	85	-40	-295	-281	-812	4.1				
<b>Uses</b>										
In circulation	90	161	273	436	628	-13.6	7.5	5.4	-7.7	-16.7
Banking reserves	46	122	219	348	284	-12.1	59.3	11.7	-7.8	-53.0
Other	12	21	44	5	12	-10.8	3.0	29.4	-93.2	33.3
<b>Monetary multipliers</b>										
$M_1$ /Monetary base <sup>d</sup>	1.16	1.00	0.97	0.96	1.12					
$M_2$ /Monetary base <sup>e</sup>	2.37	2.29	2.51	3.03	4.57					

Source: Central Reserve Bank of Peru (CRB).

<sup>a</sup>Preliminary figures.

<sup>b</sup>Of primary issue, depending on how shown in the accounts of the Central Reserve Bank.

<sup>c</sup>Central Reserve Bank of Peru.

<sup>d</sup> $M_1$  refers to money in the hands of the financial system (see table 20).

<sup>e</sup> $M_2$  corresponds to the sum of the money and the quasi-money in the hands of the financial system (see table 20).

Table 20

PERU: EVOLUTION OF THE MONEY SUPPLY<sup>a</sup>

	Balance at year end (billions of soles)					Real growth rates				
	1978	1979	1980	1981	1982 <sup>b</sup>	1978	1979	1980	1981	1982 <sup>b</sup>
<b>Financial system</b>										
<b>Total</b>	351	696	1 348	2 387	4 220	-11.7	19.1	20.2	2.5	2.2
1. Money	171	305	519	759	1 038	-17.3	7.2	5.7	-15.4	-20.7
a) Bills and coins in circulation	90	161	270	432	625	-13.6	7.5	4.2	-7.4	-16.0
b) Sight deposits in national currency	81	144	249	327	413	-21.1	6.9	7.3	-24.1	-27.0
2. Quasi-money	180	391	829	1 628	3 182	-5.7	30.4	31.6	13.8	12.9
a) In national currency	132	243	449	970	1 691	-28.2	10.7	14.5	25.2	0.7
b) In foreign currency	48	148	380	658	1 491	578.9	84.5	59.7	0.3	31.0
<b>Sources:</b>										
1. Net international reserves	-205	138	436	391	896			96.5	-48.1	32.3
a) Assets	118	464	872	924	2 014	13.2	135.9	16.9	-38.6	26.1
b) Liabilities	323	326	436	533	1 118	-8.4	-39.5	-16.8	-29.2	21.3
2. Net long-term external indebtedness	-80	-78	-118	-299	-762					
3. Net domestic credit	636	636	1 030	2 295	4 086	-13.8	-40.0	0.7	29.0	2.9
a) Public sector	347	303	508	974	1 342	-7.9	-47.6	4.3	11.0	-20.4
b) Private sector	312	487	935	1 928	3 717	-20.2	-6.3	19.4	19.4	11.6
c) Other accounts	-23	-154	-413	-607	-973					
<b>Banking system</b>										
<b>Total</b>	302	616	1 198	2 103	3 728	-8.1	22.6	20.8	1.7	2.5
1. Money	171	305	519	759	1 038	-17.3	7.2	5.7	-15.4	-20.7
a) Bills and coins in circulation	90	161	270	432	625	-13.6	7.5	4.2	-7.4	-16.0
b) Sight deposits in national currency	81	144	249	327	413	-21.1	6.9	7.3	-24.1	-27.0
2. Quasi-money	131	311	679	1 344	2 690	7.7	42.7	35.5	14.7	15.7
a) In national currency	83	163	305	695	1 229	-27.7	18.5	16.0	32.1	2.2
b) In foreign currency	48	148	374	649	1 461	578.9	84.5	57.1	0.5	30.1
<b>Sources:</b>										
1. Net international reserves	-205	138	436	391	896			96.5	-48.1	32.3
a) Assets	118	464	872	924	2 014	13.2	135.9	16.9	-38.6	26.1
b) Liabilities	323	326	436	533	1 118	-8.4	-39.5	-16.8	-29.2	21.3
2. Net long-term external indebtedness	-52	-50	-77	-290	-514					
3. Net domestic credit	559	528	838	2 002	3 346	-12.8	-43.3	-1.3	38.3	-3.3
a) Public sector	296	224	386	772	943	-9.0	-54.6	7.2	15.8	-29.3
b) Private sector	239	392	749	1 586	3 095	-19.5	-1.7	18.9	22.6	13.0
c) Other accounts	24	-88	-297	-356	-692					
<b>Non-banking system</b>										
<b>Total</b>	49	80	150	284	492	-29.0	-2.3	16.3	9.3	0.0
1. Quasi-money	49	80	150	284	492	-29.0	-2.3	16.3	9.3	0.0
a) In national currency	49	80	144	275	462	-29.0	-2.3	11.6	10.4	-3.1
b) In foreign currency	-	-	6	9	30				-16.7	100.0
<b>Sources:</b>										
1. Net long-term external indebtedness	-28	-27	-41	-9	-248					
2. Net domestic credit	77	108	192	293	740	-20.8	-15.9	10.5	-11.6	46.1
a) Public sector	51	79	122	202	399	-2.1	-7.3	-3.9	-4.1	14.5
b) Private sector	73	95	186	342	622	-21.9	-21.9	21.6	6.5	5.1
c) Other accounts	-47	-66	-116	-251	-281					
<b>Rate of entry of money<sup>c</sup></b>										
GDP/Money	9.77	10.06	9.57	11.14	13.34					
GDP/Money plus quasi-money	4.76	4.41	3.68	3.54	3.28					

Source: Central Reserve Bank of Peru.

<sup>a</sup>Exchange rates used (soles per dollar): 196 for 1978; 250 for 1979; 342 for 1980; 507 for 1981; 990 for 1982.<sup>b</sup>Preliminary figures.<sup>c</sup>Data refer to the financial system.

money in foreign currency was, on average, higher than 180% while that relating to quasi-money in national currency was equal to -4%. In 1981, in contrast, the latter expanded by 25% while the former remained stagnant. Finally, in 1982 quasi-money in foreign currency again showed great dynamism in that it grew by 41%, while that in national currency barely increased at all (less than 1%). The reason for this turnabout was simply that the returns on dollar deposits were much greater than those on deposits in soles, owing both to the accelerated process of devaluation and to the fact that the interest rate on deposits in soles was not high enough to compensate for the rate of inflation. In 1981 the opposite had happened, in that in some periods of the year positive interest rates had been obtained on deposits in soles, while the devaluation was considerably lower than the rate of inflation.

Consequently, the share of deposits in foreign currency in the total money supply, which in 1977 had been less than 2%, reached 35% in 1982 after having stood at 28% in 1981. In terms of its share in the gross domestic product, this share rose from 0.4% in 1977 to 7% in 1981, going on to reach the very high figure of 10% in 1982.

The total credit granted to the public and private sectors,<sup>52</sup> for its part, grew by somewhat less than 10% in real terms, thus complying with the monetary programme for the year. In 1980 and 1981, total credit had grown in real terms by 14% and 16%, respectively. As a result, at the end of 1982 such credit amounted to over 5 billion soles, or the equivalent of 34% of the gross domestic product (see table 21).

Of the total bank credit (80% of the credit granted by the financial system), 30% was expressed in dollars, as opposed to 24% in 1981. This kind of credit expanded in real terms by 23% in 1982. As for that granted in soles, it contracted in real terms, in that its nominal value increased by only 58%.

As mentioned below, this tendency was especially marked in respect of credit to the private sector. The main cause of this was the rigorous application of the 1982 monetary programme, which resulted in a relative scarcity of soles in the local financial market so that the local banks had to seek funds in the exterior which could then be loaned in the same currency in the domestic market. This situation was considerably aggravated by the accelerated process of devaluation which led to the conversion of many sol deposits to dollar deposits during 1982.

The real credit granted by the financial system to the public sector contracted by one-fifth between 1981 and 1982, falling to a lower level than in 1979 and thereby fulfilling another of the purposes of the monetary policy.

Credit granted by the banking sector to the public sector (70% of the credit received by the latter) contracted in respect both of loans in national and in foreign currency. However, there was a slight expansion (3%) in the credit extended to the central government, due exclusively to the larger amount of credit received from the Banco de la Nación. In contrast, net credit to the rest of the public sector was negative, once again due almost entirely to developments in respect of credit by the Banco de la Nación.<sup>53</sup>

As for credit to the private sector, it expanded in real terms by 12% in 1982, after growth of 19% in each of the two preceding years. The private sector received five-sixths of the nominal flow of new credit in 1982.

The financing granted by the commercial banks to the private sector expanded by only 6% in real terms, while that given by the development banks increased by 25%, owing both to the opening of special lines of credit with funds from the Central Reserve Bank (in such areas as non-traditional exports, agriculture and industry) and to the establishment by those banks of credit lines in the exterior.

The disproportionate increase in dollar credit made the indebtedness position of the private sector, which was in many cases already critical, even more difficult because of the recessive situation internally and the high cost of credit, and led to the refinancing of a large proportion of private sector debts in 1982. This situation of the enterprises, which in some cases could be considered as over-

<sup>52</sup>Before adjustment for other accounts.

<sup>53</sup>This was due, on the one hand, to a public debt consolidation operation in the amount of 171 billion soles, whereby the Treasury took up a direct debt with the Central Reserve Bank as the counterpart for the amortization of part of the central government debt and that of ECASA and local governments with the Banco de la Nación. In turn, the latter reduced its commitments to the Central Reserve Bank. Ultimately, the negative credit of the Banco de la Nación to the rest of the public sector was due to the fact that ENCI (Empresa Nacional de Comercialización de Insumos) and PETROPERU made big amortization payments and bigger deposits were received from the latter and from MINPECO (MINEROPERU Comercial).



Table 21  
PERU: EVOLUTION OF NET DOMESTIC CREDIT<sup>a</sup>

	Balance at year end (billions of soles)					Real growth rates				
	1978	1979	1980	1981	1982 <sup>b</sup>	1978	1979	1980	1981	1982 <sup>b</sup>
<b>Credit from the banking sector<sup>c</sup></b>	535	616	1 135	2 358	4 038	-14.0	-31.0	14.6	20.3	-0.9
In national currency	387	476	786	1 781	2 812	-16.3	-26.2	2.7	31.2	-8.6
In foreign currency	148	140	349	577	1 226	-7.2	-43.3	55.1	-4.3	23.1
<b>By sectors</b>										
1. <b>Public sector<sup>d</sup></b>	296	224	386	772	943	-9.0	-54.6	7.2	15.8	-29.3
By currency:										
In national currency	179	174	242	585	711	-1.8	-41.7	-13.6	40.1	-29.8
In foreign currency	117	50	144	187	232	-18.1	-74.4	80.0	-25.0	-27.8
By bank:										
From the CRB <sup>e</sup>	33	47	201	365	539	4.8	-14.8	168.0	5.0	-14.2
From the Banco de la Nación	201	120	135	244	189	-12.4	-64.2	-30.1	4.4	-55.3
From the development banks	} 62	57	50	134	171	-3.5	-44.6	-45.7	90.0	-26.9
From the commercial banks				29	44					
a) <b>Central government</b>	226	207	320	567	1 013	-7.8	-45.0	-3.9	2.5	3.4
From the CRB <sup>e</sup>	22	32	183	339	505	25.5	-13.6	258.8	7.1	-13.3
From the Banco de la Nación	152	123	98	72	327	-15.0	-51.5	-50.5	-58.2	165.9
From the development banks	} 52	52	39	127	146	6.9	-39.6	-53.6	133.3	-33.8
From the commercial banks				29	35					
b) <b>Rest of the public sector</b>	70	17	66	205	-70	-12.6	-85.6	144.4	80.3	
From the CRB <sup>e</sup>	11	15	18	26	34	-21.6	-17.2	-25.0	-16.7	-26.7
From the Banco de la Nación	49	-3	37	172	-138	-3.0			170.3	
From the development banks	} 10	5	11	7	25	-35.7	-70.4	37.5	-63.6	100.0
From the commercial banks				-	9					
2. <b>Private sector</b>	239	392	749	1 586	3 095	-19.5	-1.7	18.9	22.6	13.0
By currency:										
In national currency	208	302	544	1 196	2 101	-25.7	-12.9	12.2	27.2	1.7
In foreign currency	31	90	205	390	994	82.6	72.6	41.4	10.2	47.3
By bank:										
From the CRB <sup>e</sup>	-	-	-	1	3					0.0
From the Banco de la Nación	4	11	35	56	103	22.2	63.6	94.4	-8.6	6.3
From the development banks	119	171	301	598	1 290	-17.4	-13.8	9.5	15.0	24.9
From the commercial banks	116	210	413	931	1 699	-22.3	8.4	22.6	30.5	5.6
<b>Credit from the non-banking sector<sup>f</sup></b>	124	174	308	544	1 021	-15.1	-15.7	10.0	2.3	8.6
To the public sector	51	79	122	202	399	-2.1	-7.3	-3.9	-4.1	14.5
To the private sector	73	95	186	342	622	-21.9	-21.9	21.6	6.5	5.1
<b>Total credit to the public and private sectors<sup>g</sup></b>	659	790	1 443	2 902	5 059	-14.2	-28.1	13.6	16.4	0.8
To the public sector <sup>d</sup>	347	303	508	974	1 342	-7.9	-47.6	4.3	11.0	-20.4
To the private sector	312	487	935	1 928	3 717	-20.2	-6.3	19.4	19.4	11.6
<b>Other accounts<sup>h</sup></b>	-23	-154	-413	-607	-973					
<b>Total net credit from the financial system</b>	636	636	1 030	2 295	4 086	-13.8	-40.0	0.7	29.0	2.9

Source: Central Reserve Bank of Peru.

<sup>a</sup>Credit in foreign currency was converted into soles at the following rates of exchange (soles per dollar): 196 for 1978; 250 for 1979; 342 for 1980; 507 for 1981; 990 for 1982.

<sup>b</sup>Preliminary figures.

<sup>c</sup>Not taking the "other accounts" entry into consideration.

<sup>d</sup>Includes credit to the public sector minus deposits made by this sector.

<sup>e</sup>Central Reserve Bank of Peru.

<sup>f</sup>Primarily capital and reserves.

indebtedness, was also reflected in the situation of the banks in that their net profits, which had been equivalent to one-third of their capital and reserves in 1980 and to one-fourth in 1981, fell to 15% in the first half of 1982.

There was also the problem of overdue debt portfolios in 1982, as well as that of the over-concentration of credit in economic groups which were not always solvent. These factors were added to those just mentioned, especially in the cases of the Banco de la Industria y la Construcción, the Banco Comercial del Perú and the Banco del Sur Medio y Callao. The first-named of these banks had to go into liquidation in January 1982 and the other two early in 1983.

#### b) *Fiscal policy*

In line with the limits set in the agreement entered into with the International Monetary Fund, a public sector deficit equivalent to 4.2% of the gross domestic product was envisaged for the year. According to estimates, the central government's deficit should not have been higher than 1.8% of the gross domestic product, while that of the rest of the public sector should have been equal to 2.4% of the GDP. All this was based on the assumption that there would be periodic price adjustments in respect of fuels and of bread, wheat and rice and that more taxes would be collected as a result of the sales tax reform. In addition, the budget was designed on the basis of predominantly external financing of the deficit, while an end was to be put to additional net credit granted by the Central Bank to the public sector, as an aid in combating the inflationary process.

However, the global deficit of the public sector (as a percentage of the gross domestic product) remained at the same level as in 1981, i.e., at 8.8%, amounting to somewhat more than 1 200 billion soles. This deficit which had averaged 4% of the gross domestic product in the period 1966-1975, rose to 9% during the crisis of 1976-1978. In 1979, thanks to a drastic stabilization programme, combined with a significant increase in international prices, it fell to less than 2%, only to rise again to 6.4% in 1980.

The deficit of the central government amounted to 45% of the sector's total deficit in 1982 (by comparison with 56% in 1981), equivalent to 3.9% of the gross domestic product (4.9% in 1981). As for that of the rest of the public sector (public enterprises in particular), its share in the gross domestic product reached a record level (4.9%) (see table 22). However, much of the public deficit has been accounted for by these enterprises since as early as 1974.

In spite of all this, the initial aims of reducing the magnitude of the domestic financing of the public sector deficit, in harmony with the domestic monetary policy of restricting real liquidity and channelling credit to the private sector in so far as possible were achieved, and the real value of domestic financing, which in 1981 had been equivalent to 6% of the product, represented only 1% in 1982, since its nominal value fell by over 70%.

In contrast, both short- and long-term external financing trebled in real terms, covering 90% of the total deficit of the public sector and expanding from 2.5% of the product in 1981 to 7.8% in 1982. Real external financing of the public enterprises grew faster than did that of the central government, since it expanded by 109% while the latter grew by 67%. The increase in short-term external financing was particularly intense, because it rose from a negative figure of 50 billion soles for the public sector as a whole in 1981 to a positive figure of 350 billion soles in 1982.

Throughout the year, but especially as of the third quarter, there were a number of attempts to decrease the central government's deficit both by restricting expenditure and by seeking more revenue. To this end, an attempt was made on the one hand to improve the collection of taxes and, on the other, to reduce much of the expenditure. A considerable part of this effort was made in the budgets of the Ministry of Agriculture and the Office of the Prime Minister, by cutting back on the implementation of a number of irrigation projects. This policy of austerity in expenditure also affected the Ministry of Transport, through the reduction of highway construction funds, while other sectors such as education and health were affected to a lesser degree. Finally, the continued growth of the deficit was checked by the postponement to the end of the year of the payment of public works contractors; thus, in November the government began to pay them with 90 day promissory notes.

The total income of the central government in 1982 amounted to 2 500 billion soles, equivalent to 18% of the GDP (see table 23). The stagnation of the income in real terms was in sharp contrast with the real increase of 20% which had been budgeted.<sup>54</sup>

<sup>54</sup>According to budgetary projections (see table 23) and the annual average inflation initially estimated for 1982 (50%).

Table 22

## PERU: DEFICIT AND FINANCING OF THE NON-FINANCIAL PUBLIC SECTOR

	Balance at year end (billions of soles)				Percentage breakdown			
	Central government	Public enterprises	Rest of the public sector	Total	Central government	Public enterprises	Rest of the public sector	Total
1980								
Deficit	-141	-197	18	-320				
Financing	141	197	-18	320	100.0	100.0	-100.0	100.0
1. Medium-and long-term external financing	15	92	-	107	10.6	46.7	-	33.4
Disbursements	197	139	-	336	139.7	70.6	-	105.0
Amortization payments	-182	-47	-	-229	-129.1	-23.9	-	-71.6
2. Short-term external financing	-5	4	-	-1	-3.5	2.0	-	-0.3
3. Domestic financing	131	101	-18	214	92.9	51.3	-100.0	66.9
Banking system	105	38	-13	130	74.5	19.3	-72.2	40.6
Deposits frozen in CRB <sup>b</sup>	-13	-2	-	-15	-9.2	-1.0	-	-4.7
Other financial intermediaries	2	14	-	16	1.4	7.1	-	5.0
Bonds <sup>c</sup>	-9	4	-	-5	-6.4	2.0	-	-1.6
Other	46	47	-5	88	32.6	23.9	-27.8	27.5
1981								
Deficit	-415	-288	-3	-706				
Financing	415	288	3	706	100.0	100.0	100.0	100.0
1. Medium-and long-term external financing	133	123	6	262	32.0	42.7	200.0	37.1
Disbursements	407	197	6	610	98.1	68.4	200.0	86.4
Amortization payments	-274	-74	-	-348	-66.0	-25.7	-	-49.3
2. Short-term external financing	9	-61	-	-52	2.2	-21.2	-	-7.4
3. Domestic financing	273	226	-3	496	65.8	78.5	-100.0	70.3
Banking system	308	43	-3	348	74.2	14.9	-100.0	49.3
Deposits frozen in CRB <sup>b</sup>	73	-	-	73	17.6	-	-	10.3
Other financial intermediaries	18	25	-	43	4.3	8.7	-	6.1
Bonds <sup>c</sup>	-14	3	-	-11	-3.4	1.0	-	-1.6
Other	-112	155	-	43	-27.0	53.8	-	6.1
1982 <sup>d</sup>								
Deficit	-540	-650	-23	-1 213				
Financing	540	650	23	1 213	100.0	100.0	100.0	100.0
1. Medium-and long-term external financing	398	319	12	729	73.7	49.1	52.2	60.1
Disbursement	860	424	12	1 296	159.3	65.2	52.2	106.8
Amortization payments	-462	-105	-	-567	-85.6	-16.2	-	-46.7
2. Short-term external financing	11	346	-9	348	2.0	53.2	-39.1	28.7
3. Domestic financing	131	-15	9	136	24.3	-2.3	39.1	11.2
Banking system	341	-262	-9	42	63.1	-40.3	-39.1	3.5
Deposits frozen in CRB <sup>b</sup>	-14	-	-	-14	-2.6	-	-	-1.2
Other financial intermediaries	-21	45	-	24	-3.9	6.9	-	2.0
Bonds <sup>c</sup>	-14	-13	-	-27	-2.6	-2.0	-	-2.2
Other	-161	215	18	111	-29.8	33.1	78.3	9.2

Source: Central Reserve Bank of Peru.

<sup>a</sup>Includes social security, decentralized agencies, public welfare and municipalities.<sup>b</sup>CRB = Central Reserve Bank of Peru.<sup>c</sup>Outside the financial system.<sup>d</sup>Preliminary figures.

Table 23

## PERU: CENTRAL GOVERNMENT OPERATIONS

	Billions of soles				Real growth rates			Percentage of the GDP		
	1980	1981	1982 Estim.	1982 Actual <sup>a</sup>	1980	1981	1982 <sup>a</sup>	1980	1981	1982 <sup>a</sup>
<b>A. Total income</b>	1 019	1 523	2 916	2 500	15.9	-14.8	-0.1	20.5	18.0	18.1
1. Current income	1 019	1 523	2 740	2 492	15.9	-14.8	-0.5	20.5	18.0	18.0
a) Tax revenue	941	1 382	2 488	2 254	19.7	-16.3	-0.8	18.9	16.3	16.3
a-1) Income tax	297	303	496	483	58.0	-41.8	-2.9	6.0	3.6	3.5
Single income tax	259	232	372	372	66.0	-49.0	-2.3	5.2	2.7	2.7
Natural persons	16	41	36	35	-15.8	43.8	-47.8	0.3	0.5	0.3
Legal persons	243	191	336	337	77.4	-55.1	7.3	4.9	2.3	2.4
Wages and salaries	34	65	103	108	25.9	8.8	0.0	0.7	0.8	0.8
Other	4	6	21	3	-20.0	-25.0	-66.7	0.1	0.1	0.0
a-2) Property tax	33	61	78	95	13.8	6.1	-5.7	0.7	0.7	0.7
a-3) Import taxes	158	320	589	476	12.9	15.2	-9.3	3.2	3.8	3.4
a-4) Export taxes	123	116	145	116	13.9	-46.3	-39.4	2.5	1.4	0.8
a-5) Production and consumer taxes	379	630	1 193	1 172	5.0	-5.3	13.1	7.6	7.4	8.5
Customs	91	186	374	351	...	16.5	15.1	1.8	2.2	2.5
Fuels	91	156	287	310	...	-2.2	21.3	1.8	1.8	2.2
Other internal taxes	197	288	532	511	...	-16.8	7.9	4.0	3.4	3.7
a-6) Other tax revenue <sup>b</sup>	31	50	72	84	63.2	-6.5	0.0	0.6	0.6	0.6
a-7) Less: credit documents <sup>c</sup>	-80	-98	-85	-172	40.4	-42.9	7.1	-1.6	-1.2	-1.2
b) Non-tax revenue <sup>d</sup>	67	114	218	194	-28.7	-3.0	3.1	1.3	1.3	1.4
c) Own resources and transfers	11	27	34	44	-	36.4	0.0	0.2	0.3	0.3
2. Capital income	-	-	176	8	-	-	-	-	-	0.1
<b>B. Total expenditure</b>	1 160	1 938	2 783	3 040	27.6	-4.8	-4.5	23.4	22.9	22.0
1. Current expenditure	898	1 504	2 205	2 480	27.6	-4.6	0.4	18.1	17.8	17.9
Wages and salaries	238	448	642	718	22.7	7.1	-2.4	4.8	5.3	5.2
Goods and services	36	64	107	93	20.0	0.0	-11.1	0.7	0.8	0.7
Transfers	166	237	361	301	76.6	-18.7	-23.0	3.3	2.8	2.2
Public enterprises	5	3	5	1	...	-60.0	-87.8	0.1	0.0	0.0
Development corporations	-	-	12	18	-	-	-	-	-	0.1
Others <sup>e</sup>	161	234	344	282	...	-17.1	-26.7	3.2	2.8	2.1
Interest payments	214	382	549	558	-2.7	1.9	-11.0	4.3	4.5	4.0
Internal debt	92	203	251	259	-7.1	26.1	-22.4	1.9	2.4	1.9
External debt	122	179	298	299	0.8	-16.4	2.0	2.5	2.1	2.2
Defence	244	373	546	810	47.0	-12.7	31.9	4.9	4.4	5.9
2. Capital expenditure	262	434	578	560	27.8	-5.7	-21.5	5.3	5.1	4.0
Gross capital formation	178	351	427	414	21.9	12.4	-28.0	3.6	4.1	3.0
Transfers	84	81	148	135	47.4	-45.2	2.2	1.7	1.0	1.0
Public enterprises	73	69	16	20	...	-46.6	-82.1	1.5	0.8	0.1
Development corporations	-	-	123	101	-	-	-	-	-	0.7
Others <sup>e</sup>	11	12	9	14	...	-36.4	-28.6	0.2	0.2	0.2
Other	-	2	3	11	-	-	300.0	-	0.0	0.1
Saving on current account (A-B.1)	121	19	535	12	-30.9	-90.9	-63.6	2.4	0.2	0.1
Economic deficit (A-B)	-141	-415	133	-540	370.0	67.8	-20.9	-2.8	-4.9	-3.9

Source: Central Reserve Bank of Peru.

<sup>a</sup>Preliminary figures.<sup>b</sup>Includes revaluation of assets.<sup>c</sup>Primarily tax reimbursement certificates for export promotion purposes.<sup>d</sup>Includes deductions from wages and salaries for Pension Fund, fines and other purposes.<sup>e</sup>Mainly public institutions and local governments.

The only revenue which grew in real terms was that from taxes on production and consumption, which expanded by 13% after having contracted by 5% in 1981. Thus, after having accounted for 40% of the tax income in 1980, these taxes surpassed the initial estimate (48%) and raised their share to 52% (equivalent to nearly 9% of the gross domestic product) in 1982. This increase was partly due to the entry into force of the new tax legislation, which instituted a "general sales tax"<sup>55</sup> applicable to retail sales also, and a new selective tax on consumption. These new tax instruments improved the tax administration and simplified the system of collection. Moreover, because of the rapid rise in the price of fuels, the collection of taxes relating to them grew by over one-fifth.

Income tax collected contracted by 3% in real terms in the year, although growth of 7% had been forecast. Because of the regularization of the cases of many tax-payers, however, the revenue from this tax increased notably with respect to 1981, when it had gone down by 42%. On the other hand, revenue from the export tax remained constant in nominal terms, which meant a sharp drop in real terms, owing both to the drops in the international prices of raw materials and to the reduction in the rates relating to mining exports. For their part, import duties fell by 9% in real terms. This reduction was in contrast with the increase of one-fourth programmed for the year and the increase of 15% recorded in 1981. It was due both to the capitalization of these taxes by public enterprises and to an unforeseen change in the structure of imports in favour of goods on which tax rates were lower. In any case, the revenue in 1982 included a surtax, which was applied throughout the year and was equivalent to 15% of the prevailing tax.

Total central government expenditure, in nominal terms, was nearly one-third greater than had been budgeted. In real terms, however, it fell by 5% with respect to the preceding year. Real capital expenditure was 22% lower, due especially to the fact that the transfers made were smaller than those initially envisaged. As for current expenditure, its real value was the same as in 1981, while its share in total expenditure grew from 77% to 82%. Total government expenditure was the equivalent of 22% of the gross domestic product.

The only item under current expenditure which expanded in real terms was defence (32%), largely because of the increase in wages and salaries in that sector. Real payments of wages and salaries in the rest of the public sector (public employees, social security staff, teachers, police, etc.), which represent nearly a quarter of total government expenditure, contracted by 2% after having grown by 23% in 1980 and by 7% in 1981. This reduction was somewhat smaller than had initially been envisaged. Expenditure on current transfers fell by 23% in real terms after having dropped by 19% during 1981; interest payments on the domestic debt also fell by over 20%.

Capital expenditure dropped in real terms by over 21%, owing entirely to the drop of 28% in gross capital formation, which, in turn, was due to the fact that the pressure brought to bear to reduce the central government deficit was concentrated on this variable. As for capital transfers, they expanded by only 2% in real terms, although there was a notable change in their structure in that transfers to public enterprises declined in nominal terms by over 70%,<sup>56</sup> while Departmental Development Corporations,<sup>57</sup> which did not exist in 1981, received three-quarters of the capital transfers from the government.

Finally, the sizeable deficit of the public enterprises was due to a number of factors. In the first place, in many of these enterprises indebtedness had reached very high levels, which tied up much of their income for financial payments (this was true, for example, of the food importing enterprises). Secondly, during the year the prices of raw materials continued to drop, with serious effects on the mineral exporting enterprises (CENTROMIN, MINEROPERU). Thirdly, 1982 was a year in which adjustments in subsidized prices experienced a considerable lag. This was the case with regard to the enterprises ENCI and ECASA, which had a joint deficit amounting to the equivalent of over 1% of the gross domestic product. With respect to the former, the sales prices of wheat covered only 62% of its cost, as opposed to 90% in 1981, while in the case of maize this percentage remained at about 80%. As for the coverage of the cost of the rice sold by ECASA, it barely increased, rising only from 58% to 59%. Fourthly —and this was true of ELECTROPERU in particular— some disproportionate

<sup>55</sup> Equivalent to a value added tax, applied at a rate of 16%.

<sup>56</sup> This had an influence on the growth of the deficit of the public enterprises.

<sup>57</sup> There is one of these for each department in the Republic. They are decentralized, autonomous bodies which carry out important intersectoral local investment programmes.

investment programmes were engaged in. This public enterprise alone generated 42% of the public sector's total deficit. The negative situations described were not helped by the fact that there is no appropriate institutional framework for the public enterprises sector, although consideration is being given to a law laying down rules for the formation of State enterprises, identifying enterprises which can be transferred entirely to the private sector and those where the State can enter into association with private capital, and guaranteeing workers' benefits in cases where enterprises are sold or liquidated.

## DOMINICAN REPUBLIC

### 1. Recent economic trends: Introduction and summary

The growth rate of the economy decreased once again in 1982. The gross domestic product increased by 1.5%, a figure lower than that of the two preceding years, and as a result the per capita product decreased by 1%. In addition, due to the sharp deterioration in the terms of trade (18%), gross income also dropped by 1% (see table 1 and figure 1).

The development of economic activity was influenced by different factors. The international economic crisis had serious effects, since the Dominican economy is characterized by a high degree of opening towards the exterior. Additional factors were the climate of uncertainty during the first eight months of the year, the tension preceding the presidential elections, the death of the President in office one month before finishing his term, and finally, the entry into office of the new authorities, which delayed some investment decisions and affected the continuity of several public sector programmes.

The policy of containing imports and austerity in public expenditure—which was maintained and made stricter during the fourth quarter of the year—avoided even more serious imbalances; however, it also hindered the growth of economic activity, consumption and investment.

The combined effect of the decrease in unit values of exports (23%) and of the volume sold (17%), substantially reduced the value of exports of goods (35%). Imports also fell, although to a lesser extent (13%), for which reason the disequilibrium in the balance of trade exceeded that of the preceding year by 55%. On the other hand, the current account deficit, although it increased significantly (37%), did so to a lesser extent, since remittances of profits decreased slightly due to the lower profits of the foreign mining companies. The lower supply of capital from international private banks and the lack of resources to cover the national counterpart of loans contracted with bilateral and multilateral sources affected the short- and long-term flow of external financing, which was not sufficient to cover the current deficit and made it necessary to resort to international reserves; the reduction in those reserves amounted to US\$ 162 million.

The negative development of the external sector and the greater strictness in the adjustment policy reduced imports of all types of goods; thus, production in some manufacturing branches was hindered, the investment process was impeded and resources were lost to the public sector since tax collection in this category decreased.

The Central Bank procured less foreign currency, which led to a restriction of its allocation at the official exchange rate; the issuance of letters of credit was also suspended, due to the delay in payments to the corresponding banks. Both situations resulted in an increase in the demand for dollars in the parallel market, with a consequent rise in the exchange rate; from an average of 1.28 Dominican pesos per dollar in 1981, it rose to 1.46 in 1982.

Despite efforts to reduce spending and raise income, the fiscal deficit increased by more than 60%, and its percentage of total government spending rose from 16% to 28%. The insufficiency of external financing, and the decrease in fiscal income, together with the policy of containing public spending, limited current spending and forced the Government to reduce capital expenditures substantially, which in turn had a negative effect on capital formation, consumption and the creation of jobs.

It should be pointed out that from 1978 onwards current spending, especially wages, expanded rapidly. Ordinary income, on the other hand, increased slowly, and as a result the tax coefficient decreased from 13% in 1978 to 8% in 1982.

Furthermore, the insufficiency of external financing put pressure on domestic resources. The growth of credit flow, as in recent years, exceeded currency issuance, and the Government and its

autonomous entities received most of this increase, which restricted the private sector's access to credit.

The growth of domestic prices, measured both by average annual variation and by increase from December to December, amounted to nearly 8%, a percentage quite similar to that of the preceding year. Food prices, however, which in 1981 increased at a rate substantially lower than the global index, rose in 1982 at a rate similar to that index, due to seasonal insufficiencies in agricultural supply.

The economic policy basically attempted to tackle external and fiscal imbalances along the general lines implemented since 1980. The schedule of goods acquired abroad with official foreign currency continued to be limited; the system of import quotas on inputs was extended and the number of goods prohibited for import was increased. With regard to the policy of adjusting public expenditure, the middle- and high-level wages of public employees and the subsistence allowances of civil servants were reduced, and the purchase of office equipment was prohibited. Measures became even stricter in the last quarter, when the imbalances became more acute and negotiations began with the International Monetary Fund to obtain a loan of more than US\$ 450 million.

Although support to the agricultural sector decreased during the first half of the year, the new administration again gave priority to categories relating to the basic needs of the population. To that end, in August it implemented the Immediate Operative Plan (Plan Operativo Inmediato — POI), which was based on the expansion of support services and on a larger financial contribution.

Table 1  
DOMINICAN REPUBLIC: MAIN ECONOMIC INDICATORS

	1977	1978	1979	1980	1981	1982 <sup>a</sup>
<b>A. Basic economic indicators</b>						
Gross domestic product at market prices (millions of dollars at 1970 prices)	2 948	3 012	3 152	3 334	3 454	3 506
Population (millions of inhabitants)	5.19	5.31	5.43	5.56	5.69	5.83
Per capita gross domestic product (1970 dollars)	568	567	580	600	607	602
<b>Growth rates</b>						
<b>B. Short-run economic indicators</b>						
Gross domestic product	5.0	2.2	4.6	5.8	3.6	1.5
Per capita gross domestic product	2.5	-0.1	2.3	3.3	1.2	-0.9
Gross domestic income <sup>b</sup>	3.5	1.9	4.6	7.8	4.1	-0.9
Terms of trade	-8.5	-3.5	1.0	13.7	3.4	-18.3
Current value of exports of goods and services	10.0	-10.7	37.1	12.0	19.3	-27.4
Current value of imports of goods and services	10.8	5.2	28.6	29.3	-6.8	-14.9
<b>Consumer prices<sup>c</sup></b>						
December - December	...	8.8	25.6	4.6	7.4	7.1
Variation between annual averages	...	7.1	9.2	16.8	7.5	7.6
Money	17.9	4.2	33.3	-3.5	14.8	10.2
Current income of government	9.9	-6.8	16.5	29.0	4.5	-18.0
Total expenditure of government	8.7	9.2	48.7	6.1	1.8	-4.8
Fiscal deficit/total expenditure of government <sup>c</sup>	0.2	14.4	32.9	18.5	16.3	27.9
<b>Millions of dollars</b>						
<b>C. External sector</b>						
Trade balance (goods and services)	-170	-326	-349	-647	-272	-422
Balance on current account	-132	-315	-360	-674	-378	-517
Balance on capital account	182	276	358	708	416	373
Variation in net international reserves	38	-29	8	44	31	-162
Global external debt	1 090	1 309	1 565	1 839	1 837	1 921

Source: ECLA, on the basis of official data.

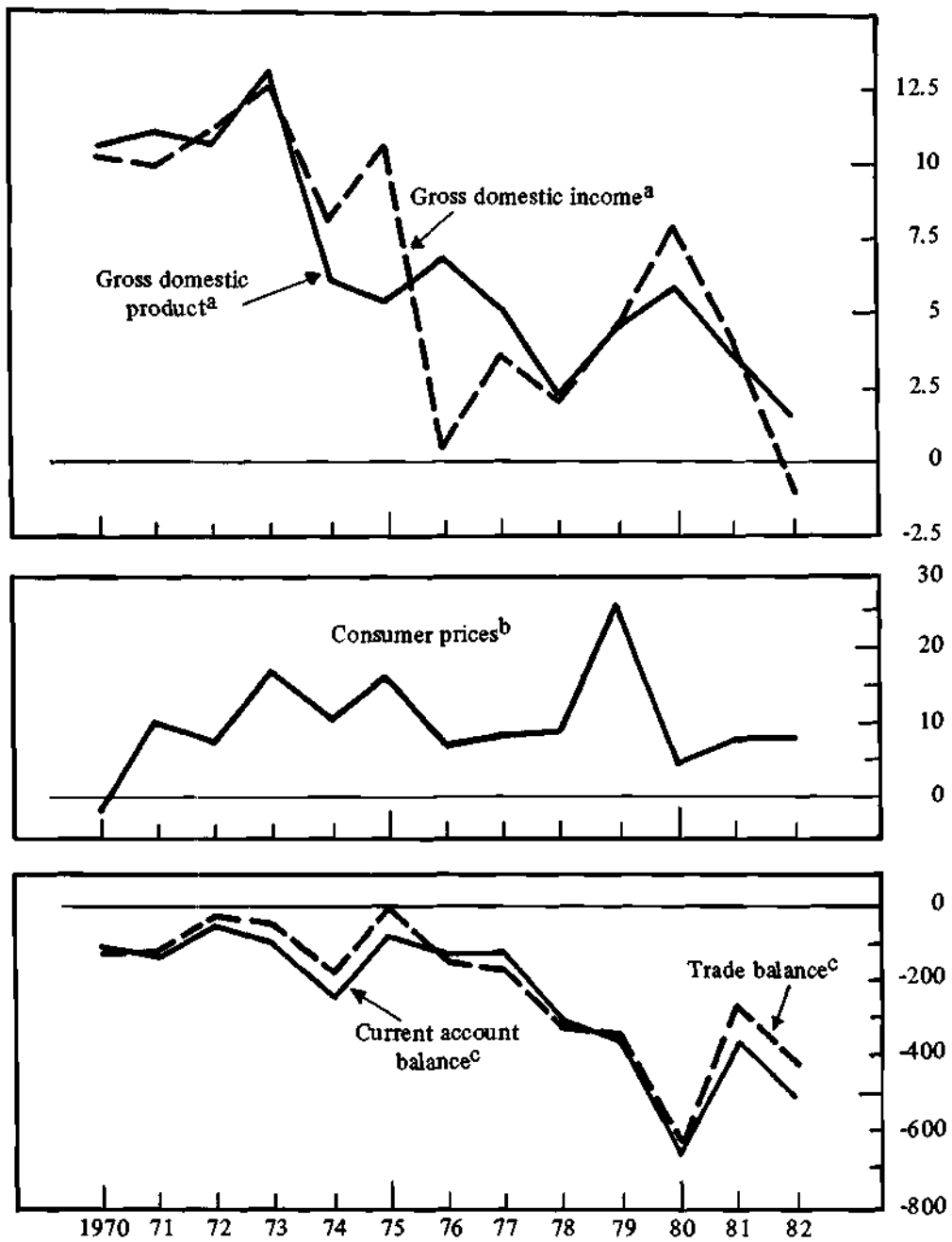
<sup>a</sup>Preliminary figures.

<sup>b</sup>Gross domestic product plus terms-of-trade effect.

<sup>c</sup>Percentages.



Figure 1  
**DOMINICAN REPUBLIC: MAIN ECONOMIC INDICATORS**



Source: ECLA, on the basis of official data.

<sup>a</sup>Annual growth rate.

<sup>b</sup>Percentage variation from December to December.

<sup>c</sup>Millions of dollars.

In short, during 1982 the imbalances in the fiscal and financial area became worse and the net flow of external capital decreased, the latter circumstance causing a sharp contraction in international reserves. Private consumption was affected by the rise of unemployment and underemployment levels, the freezing of minimum wages and the decrease in middle- and high-level wages in the public sector, *vis-à-vis* a widespread increase in prices. Even within such a negative framework, global economic activity attained a minimum amount of growth which was lower, as mentioned above, than the growth of the population.

## 2. Trends in economic activity

### a) *Global supply and demand trends*

The growth of the gross domestic product decreased from nearly 4% in 1981 to slightly more than 1% in 1982 and was accompanied by a substantial drop in the volume of imports of goods and services (17%), higher than that recorded the preceding year (12%). As a result, global supply, which in 1981 had barely increased, decreased by slightly more than 1% during 1982 (see table 2).

On the demand side, exports of goods and services went down by 14% in terms of volume (they had grown by 9% the year before). Gross domestic investment, following the trend of the preceding fiscal year, dropped by 4% and gross fixed capital formation by 6%, completing two consecutive years of decrease in both variables.

The trend in capital formation was accompanied by a deceleration in its components. Public investment, after having decreased by 7% in 1981, shrank considerably (18%), as a result of limitations on public spending and restrictions on external financing. Similarly, private investment, which in 1981 had shown some signs of stagnation, went down by 3% during 1982 in response to the widespread economic recession, scarcity of foreign currency, rise in the price of foreign currency in the parallel market and the prevailing climate of uncertainty due to the change of government.

Consumer expenditures, after a 3% rise in 1981, grew at a percentage of less than 2%. A similar increase may be estimated for private consumption — which implies a decrease in per capita terms —

Table 2

### DOMINICAN REPUBLIC: TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1970 prices			Percentage breakdown		Growth rates		
	1980	1981	1982 <sup>a</sup>	1970	1982 <sup>a</sup>	1980	1981	1982 <sup>a</sup>
<b>Total supply</b>	3 999	4 041	3 991	121.3	113.8	6.0	1.0	-1.2
Gross domestic product at market prices	3 334	3 454	3 506	100.0	100.0	5.8	3.6	1.5
Imports of goods and services <sup>b</sup>	665	587	485	21.3	13.8	7.5	-11.7	-17.4
<b>Total demand</b>	3 999	4 041	3 991	121.3	113.8	6.0	1.0	-1.2
Domestic demand	3 573	3 575	3 589	106.2	102.3	9.9	0.1	0.4
Gross domestic investment	842	761	731	19.1	20.8	6.6	-9.7	-3.9
Gross fixed investment	782	768	719	16.6	20.5	4.2	-1.8	-6.4
Public	609	607	587	5.1	3.8	12.7	-7.3	-17.9
Private	173	161	132	11.4	16.7	2.0	-0.2	-3.4
Construction	457	462	440	9.9	12.5	7.2	1.2	-4.9
Machinery	325	306	279	6.7	8.0	0.3	-6.0	-8.6
Changes in stocks	60	-7	12	2.5	0.3			
Total consumption	2 731	2 814	2 858	87.1	81.5	11.0	3.1	1.6
General government	306	317	322	11.6	9.2	23.2	3.8	1.4
Private	2 425	2 497	2 536	75.5	72.3	9.6	3.0	1.6
Exports of goods and services <sup>b</sup>	426	466	402	15.1	11.5	-18.1	9.3	-13.8

Source: ECLA, on the basis of figures supplied by the Central Bank of the Dominican Republic.

<sup>a</sup> Preliminary figures.

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

Table 3

## DOMINICAN REPUBLIC: GROSS DOMESTIC PRODUCT, BY KIND OF ECONOMIC ACTIVITY, AT FACTOR COST

	Millions of dollars at 1970 prices			Percentage breakdown		Growth rates		
	1980	1981	1982 <sup>a</sup>	1970	1982 <sup>a</sup>	1980	1981	1982 <sup>a</sup>
Gross domestic product <sup>b</sup>	2 973	3 079	3 125	100.0	100.0	5.8	3.6	1.5
Goods	1 409	1 510	1 502	49.7	47.7	2.8	7.2	-0.5
Agriculture	550	622	646	25.8	20.5	4.7	13.0	3.9
Mining	144	157	111	1.7	3.5	-14.7	9.1	-29.4
Manufacturing	489	503	529	16.7	16.8	5.0	3.0	5.0
Construction	226	228	216	5.5	6.9	7.1	0.8	-5.0
Basic services	317	336	343	9.8	10.9	3.9	5.9	2.0
Electricity, gas and water	56	61	56	1.3	1.8	12.1	8.9	-9.3
Transport, storage and communications	261	275	287	8.5	9.1	2.2	5.3	4.5
Other services	1 238	1 267	1 305	40.5	41.4	10.1	2.2	3.2
Commerce and finance	398	414	428	12.7	13.6	4.7	3.8	3.6
Ownership of dwellings	228	230	227	7.6	7.2	6.5	0.8	-1.0
Community, social and personal services <sup>a</sup>	612	623	650	20.2	20.6	15.5	1.7	4.4
Government services	319	316	331	11.5	10.5	17.7	-1.1	4.7

Source: ECLA, on the basis of figures supplied by the Central Bank of the Dominican Republic.

<sup>a</sup> Preliminary figures.

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

due to the drop in real wages and the increase in unemployment. Government consumption, for its part, also recorded a very low increase, of slightly more than 1%, due to the austerity policy applied by the authorities.

#### b) Trends of the main production sectors

The evolution of the gross domestic product by sectors stagnated in activities connected with the production of goods as a result of a large decrease —nearly 30%— in mining and another lower one in construction (5%), which the growth in agriculture (4%) and manufacturing (5%) were unable to offset. Furthermore, the 2% increase in basic services was due to the 5% increase in transport, storage and communications, since electricity, gas and water services decreased by 9% as a result of the substantial losses in the transmission and distribution of electricity. The "other services" item had the strongest performance in 1982, since except for real estate, whose share decreased by 1% because of the slower rate of housing construction, the rest of the activities developed favourably (see table 3).

i) *Agriculture.* The favourable results of agricultural production intended for the external market, together with that of livestock production, which increased by 6%, offset the drop in production intended for domestic consumption (3%), and made it possible to achieve a growth of the agricultural product on the order of 4%, slightly higher than that of the preceding year (see table 4).

Although climatic conditions were generally favourable to agriculture, the institutional changes carried out during the year had a negative effect on agricultural development: there was some decrease in activities of support to the sector, delay in applying some agricultural policy measures and lateness in certain payments.

When the new Government came into power, the authorities attempted to rectify those irregularities through the Immediate Operative Plan (POI), which was an attempt to expand support services and grant more financing for encouraging the sowing of basic products such as rice, beans, maize, potatoes and bananas. Eighty per cent of the goals of the plan were fulfilled, but its results were felt only partially in 1982, owing to the gap between the agricultural year and the calendar year.

The Institute for Price Stabilization (Instituto de Estabilización de Precios — INESPRES), which acts as intermediary between producers and consumers, altered price supports so as to encourage the cultivation of some products, and settled its debts with the rice-processing companies (22 million pesos), which for their part had ceased to finance the small producers.

According to preliminary data, among products for domestic consumption, the most substantial increases were in production of rice and beans (12%), and yautía (11%). On the other hand, there were sharp decreases in production of maize (27%) and to a lesser extent that of manioc (13%) and bananas (3%).

The reduction of exportable production was due to the decrease of nearly 40% in tobacco production, which could not be offset by the increases in that of sugar cane, coffee and cocoa. The sharp drop in tobacco may be explained by the consequences of the blue mold the year before, and by the drought which affected some regions. Sugar cane production, despite the unfavourable conditions of the international market, expanded by 15%, a rate two points higher than that of the preceding year. However, the continued drop in international sugar prices made its profitability decrease, since the three sugar producers began to take measures to reduce production in order to avoid having an even greater drop in those prices, because of the over supply.

Coffee production, on the other hand, rose by 16%, after decreasing by 9% the year before and stagnating during the two-year period 1978-1979. A contributing factor was the rise in external market prices, which, thanks to governmental provisions, was reflected in the price supports to producers; previously, those rises had only benefited middlemen.

Finally, the 10% increase, for the second consecutive year, in cocoa production —which practically allowed it to recover its 1979 levels— was linked to the larger amount of financing and technical assistance with which that crop was provided.

Table 4

DOMINICAN REPUBLIC: INDICATORS OF AGRICULTURAL PRODUCTION

	Indexes (1973 = 100)				Growth rates		
	1979	1980	1981	1982 <sup>a</sup>	1980	1981	1982 <sup>a</sup>
<b>Agricultural production</b>	110.2	115.5	120.6	125.7	4.8	4.2	4.4
<b>Agriculture</b>	105.0	109.0	113.8	118.5	3.8	4.4	4.1
For export	106.9	101.7	105.2	111.6	-4.9	3.4	6.1
For domestic consumption	104.6	114.0	122.4	125.4	9.0	7.4	2.5
<b>Livestock</b>	125.4	134.8	143.5	151.4	7.5	6.5	5.5
<b>Export products</b>							
Sugar cane	102.4	90.0	101.8	117.0	-12.1	13.1	14.9
Cacao	116.9	92.7	103.5	113.7	-20.7	11.7	9.8
Coffee	127.5	126.9	115.8	134.1	-0.5	-8.7	15.8
Tobacco	87.3	102.0	109.5	67.0	16.8	7.4	-38.8
<b>Products for domestic consumption</b>							
Rice	137.9	145.6	146.6	163.6	5.6	0.7	11.6
Beans	130.3	135.0	137.3	153.8	3.6	1.7	12.0
Maize	92.8	88.3	121.3	89.2	-4.8	37.4	-26.5
Plantains	106.0	100.0	144.7	139.8	-5.6	44.7	-3.4
Yautia	103.3	119.2	126.2	140.3	15.4	5.9	11.2
Yuca	68.3	66.3	71.9	62.6	-2.9	8.5	-12.9
Other	79.2	92.5	90.9	97.7	16.8	-1.7	7.5
<b>Livestock production</b>							
Beef <sup>b</sup>	102.5	114.1	127.3	138.1	11.3	11.6	8.5
Pork <sup>b</sup>	123.0	92.9	26.0	63.7	-24.5	-72.0	145.0 <sup>c</sup>
Poultry <sup>b</sup>	210.9	245.5	305.4	329.5	16.4	24.4	7.9
Milk	109.5	115.4	118.7	121.0	5.4	2.9	1.9

Source: ECLA, on the basis of information supplied by the Central Bank of the Dominican Republic.

<sup>a</sup>Preliminary figures.

<sup>b</sup>Cattle slaughtered.

<sup>c</sup>In 1982 the number of pigs slaughtered was 1 586 tons, while in 1981 it was 647 tons.

Table 5

## DOMINICAN REPUBLIC: INDICATORS OF MINING PRODUCTION

	1979	1980	1981	1982 <sup>a</sup>	Growth rates			
					1979	1980	1981	1982 <sup>a</sup>
Index of production <sup>b</sup> (1975 = 100)	158	135	144	104	28.2	-14.8	6.9	-28.0
Main product								
Bauxite <sup>c</sup>	524	510	405	152	-7.7	-2.7	-17.7	-62.5
Ferronickel <sup>e</sup>	66	43	50	14	75.6	-34.9	16.0	-72.0
Gold <sup>d</sup>	353	370	408	386	3.0	4.8	10.3	-5.4
Silver <sup>d</sup>	2 276	1 623	2 034	2 198	23.4	-28.7	25.3	8.1

Source: ECLA, on the basis information supplied by the Central Bank of the Dominican Republic.

<sup>a</sup>Preliminary figures.

<sup>b</sup>Based on the four metals studied excluding the extraction of stone, sand and clay, exploitation of salt and production of gypsum and limestone.

<sup>c</sup>Thousands of tons.

<sup>d</sup>Thousands of troy ounces.

Livestock production grew by around 6% — a slightly lower rate than that of the preceding year — stimulated by an increase in cattle (9%) and poultry (8%) slaughter and milk production (2%). Beef exports increased over their 1981 level. However, they continued to be low, since they only represented around 7% of production and 1% of the total value of exports.

With regard to livestock production, the consequences of the outbreaks of swine fever in 1978 and 1979, which reduced production from an average of 3 000 tons to only 647 in 1981, appear to have been overcome: the figure rose to 1 586 tons in 1982. For the past three years the pig herds have been built up again through the importation of breeds more resistant to the disease, although these breeds have encountered difficulties in adjusting to the conditions of the country.

Agricultural policy continued to give priority to production for the domestic market. Nevertheless, the lack of financial resources affected investments intended for expanding the infrastructure, and credits granted by the Banco Agrícola decreased by nearly 30%. In March a law was enacted to encourage the development of agro-industrial activity through the granting of fiscal incentives. In this way it was hoped to diversify agriculture and encourage the development of some industrial lines, both for domestic consumption and export.

ii) *Mining*. After its recovery (7%) in 1981 as a result of the increase in gold, silver and ferronickel exploitation, mining production suffered an acute downturn which was reflected in a contraction of nearly 30%. There were drops in ferronickel (72%) and bauxite (63%) production, while that of gold, which represents around 60% of the total value of mining production, decreased more moderately (5%). Only silver managed to increase its production by 8%, a figure lower than that of the preceding year (25%), and which only partially offset the depression in the rest of the mining products (see table 5).

Bauxite production has declined gradually since 1974 — when it reached one million tons — despite the fact that until 1981, international prices were favourable. In 1982 production decreased from 405 000 to 152 000 tons, and thus coincided with the drop in the prices of this product in the international market. In the case of ferronickel, the trends in its production closely followed those of international prices. Between 1978 and 1979 the installed capacity of the only company producing it expanded to 66 000 tons and production grew by more than 70%. From that time onwards, it has tended to be erratic due to the depression in international demand for this product. In 1982, the plant was closed for nine months; although it re-opened in the last quarter, it resumed work at only half of its installed capacity, for which reason the company laid off 700 of its 1 200 workers.

Gold and silver extraction is carried out at the Pueblo Viejo mine, Government-owned since 1979. Since that year, its rate of production has depended more on the financial needs of the Government than on external market conditions. In 1981, when international gold and silver prices dropped abruptly, there was a substantial increase in the production of these metals. The following year, when prices declined almost continuously, that of gold decreased (5%), but that of silver rose

another 8%. Work is currently being conducted to determine the gold and silver reserves in the Cacaos and Monte Negro deposits, and several copper extraction projects are also being reviewed by French and German entrepreneurs.

iii) *Manufacturing*. Manufacturing grew at a rate of 5%, two points higher than that of the preceding year, and thus became the goods-producing activity with the most stable behaviour in the last four years. This increase was based to a large extent on those branches which use national inputs, since those requiring imported raw materials became active only in the second half of 1982 due to the scarcity of foreign currency which reduced the availability of inputs in the early months of the year. Thus, the growth of manufactures was chiefly based on the food-processing branches, and especially rice and coffee, wheat mills, and sugar refinery (see table 6).

The manufacturing activities connected with the construction industry developed erratically. Production of reinforcing bars increased by 13%, whereas that of cement stagnated because of paralyssation of the State company. Asphalt production also shrank by nearly 80%, since construction activity in the public sector gave priority to housing construction.

Sugar mill production —which represents around 18% of the total— increased by 18%, despite labour problems affecting the State mills, which began the sugar harvest more than 20 days late.

When the new Government came into power, the negative financial situation being experienced by the public enterprises became obvious. The Consejo Estatal del Azúcar (CEA) sustained numerous losses, especially during 1982, when the cost of sugar production (20 cents per pound) exceeded international market prices. For this reason payment of obligations abroad, which amounted to approximately US\$ 60 million, had to be deferred. Furthermore, 21 public enterprises grouped into the Corporación Dominicana de Empresas Estatales (CORDE) accumulated liabilities in the amount of 142 million Dominican pesos.

Finally, the scarcity of foreign currency led the Central Bank to reduce allocations intended for the purchase of intermediate and capital goods; the entrepreneurs affected by that measure had to purchase their currency in the parallel market at a cost 50% higher.

iv) *Construction*. During nearly the entire 1970s, construction, supported by public spending, became the catalyst of economic growth. In 1980 it was still showing signs of strength, encouraged by the rehabilitation effort directed towards the damage caused by the meteorological phenomena of 1979. But in 1981, and to a greater extent in 1982, the financial problems faced by the public sector

Table 6

DOMINICAN REPUBLIC: SOME INDICATORS OF  
MANUFACTURING PRODUCTION

	1979	1980	1981	1982 <sup>a</sup>	Growth rates			
					1979	1980	1981	1982 <sup>a</sup>
<b>Certain products</b>								
Raw sugar <sup>b</sup>	1 069	911	933	1 175	1.1	-14.8	9.1	18.3
Refined sugar <sup>b</sup>	97	102	114	112	-8.2	4.8	11.7	-1.8
Processed coffee <sup>b</sup>	60	60	52	60	39.1	-0.5	-13.1	15.4
Beer <sup>c</sup>	66	76	84	89	13.7	15.3	10.5	5.9
Cigarettes <sup>d</sup>	225	222	222	224	0.4	-1.3	-	0.9
Cement <sup>e</sup>	21	24	22	22	5.0	14.5	-8.3	-
Flour <sup>f</sup>	3 028	3 346	3 198	3 994	16.9	10.5	-4.4	24.9
<b>Other indicators</b>								
Consumption of electric energy <sup>g</sup>	662	719	758	673	7.1	8.6	5.4	-11.2

Source: ECLA, on the basis of information supplied by the Central Bank of the Dominican Republic.

<sup>a</sup>Preliminary figures.

<sup>b</sup>Thousands of tons.

<sup>c</sup>Millions of litres.

<sup>d</sup>Millions of packets.

<sup>e</sup>Millions of 42.5-kg sacks.

<sup>f</sup>Millions of quintals.

<sup>g</sup>Thousands of kWh.

Table 7

## DOMINICAN REPUBLIC: MAIN FOREIGN TRADE INDICATORS

	1977	1978	1979	1980	1981	1982 <sup>a</sup>
<b>Growth rates</b>						
Exports of goods FOB						
Value	8.9	-13.5	28.7	10.8	23.5	-35.4
Volume	15.1	-16.2	15.1	-23.2	13.2	-16.5
Unit value	-5.3	3.2	11.8	44.3	9.1	-22.6
Imports of goods FOB						
Value	11.2	1.5	31.9	33.6	-5.3	-13.1
Volume	5.1	-6.3	19.5	8.7	-8.8	-14.9
Unit value	5.8	8.4	10.4	22.9	3.8	2.1
Terms of trade	-10.6	-4.5	1.2	19.2	4.4	-24.2
<b>Indexes (1970 = 100)</b>						
Terms of trade (goods)	89.5	85.5	86.6	103.2	107.7	81.6
Purchasing power of exports of goods	180.3	145.5	169.2	155.8	182.1	114.2
Purchasing power of exports of goods and services	178.4	148.6	184.1	171.4	193.6	136.4

Source: ECLA, on the basis of figures from the Central Bank of the Dominican Republic.

<sup>a</sup>Preliminary figures.

and the decrease in the rate of private sector investment affected this activity and were reflected in a stagnation of the product in 1981 and a 5% decrease in the last year.

The structure of the work carried out by the public sector was altered in 1982 and encouragement given to the construction of low-cost housing for the rural and urban population, in the framework of the Plan of the Instituto Nacional de la Vivienda (National Housing Institute), which envisaged the construction of 18 000 units in three years.

Private initiative, for its part, changed the rate of housing construction, reducing housing aimed at high-income groups and encouraging the medium-income market. Thus the cost per residence dropped from more than 25 000 Dominican pesos in 1981 to around 16 000 in 1982.

### 3. The external sector

Although the external imbalance decreased considerably in 1981, it worsened further in 1982, due to the effects of the international recession on current and capital transactions.

The reduction of the international prices of most export products and the decrease in the volumes sold resulted in a contraction of 35% in export income. Although that drop was accompanied by a reduction in imports resulting from the containment policy and the lower rate of economic activity, the trade deficit increased by 55% and the current account deficit by 37%.

Together with this greater imbalance in the current account, there was a decrease in procurement of external capital, and around US\$ 160 million in international reserves were lost; it should be pointed out in this connection that there had been successive increases in the preceding three-year period.

The sharp drop in sugar prices (47%) as well as those of ferronickel and doré (around 26%) and cocoa (17%), could not be offset by the rise in the prices of other agricultural and mineral products; as a result, the unit value of exports of goods decreased by 23%. In addition, since the unit value of imports rose slightly in the meantime (2%), the terms of trade deteriorated by 24%, the biggest setback since 1977. The worsening of the terms of trade, together with the substantial reduction in the volume exported (23%), resulted in a contraction of 37% in the purchasing power of exports (see table 7).

The parallel exchange market expanded its activity during the year. The lower procurement of currency by the Central Bank made it necessary to decrease the number of categories for whose

purchase currency was assigned at the official exchange rate. Similarly, due to the accumulated delay with which this institution liquidated letters of credit between November 1981 and February 1982, the issuance of new documents came to a standstill, making it necessary to resort to the parallel market to meet the most urgent operations. The temporary suspension of the prohibition on importing automobiles, in the middle of the year, also accelerated the purchase of automobiles with currency from the extra-official market. Finally, the period of transition brought about by the change of government authorities also appears to have helped increase parallel market transactions.

All these factors put pressure on the exchange rate in the extra-official market, which in December 1982 reached around 1.50 Dominican pesos per dollar; since the price one year before had been 1.31, this meant an increase of 15%. The official exchange rate continued at par. Finally, it should be pointed out that in October the commercial banks were allowed to carry out operations in the parallel market.

a) *Merchandise trade*

i) *Exports.* The value of exports decreased by 35% owing to the combined effect of the decrease in the volume sold (17%) and the reduction in prices (23%). Although the exported value of nearly all products shrank in comparison with the 1981 figures, special mention should be given to the decrease to nearly half of income from sales of sugar—the most important export product, representing 35% of total sales—and the more than 40% decrease in minerals. The only export values which rose were those of coffee (26%) and cocoa (18%) (see table 8).

Given the marked drop in the sugar price in the world market, additional tariffs were established in the sugar market of the United States, where prices are higher, for the purpose of protecting the national producers, and from May onwards a régime of import quotas by country was applied. These limitations drastically reduced Dominican exports to that market. Thus the value of sales to the United States during the year represented only 30% of those made the year before; in terms of value, it amounted to half. To offset this decrease sales of the product were diverted to other markets, and the volume exported to those markets nearly tripled. However, this meant only a 50% increase in the total value of sugar sales. From October onwards, when international prices were at

Table 8  
DOMINICAN REPUBLIC: EXPORTS OF GOODS, FOB

	Millions of dollars			Percentage breakdown		Growth rates		
	1980	1981	1982 <sup>a</sup>	1980	1982 <sup>a</sup>	1980	1981	1982 <sup>a</sup>
<b>Total<sup>b</sup></b>	962	1 188	768	100.0	100.0	10.7	23.5	-35.3
<b>Traditional exports</b>	509	762	483	87.9	62.9	-5.6	49.7	-36.6
Raw sugar	290	513	266	48.5	34.6	52.0	76.8	-48.1
Coffee <sup>c</sup>	77	76	96	13.5	12.5	-51.3	-1.3	26.3
Cocoa beans	51	45	53	9.0	6.9	-28.8	-12.3	17.7
Leaf tobacco	36	66	21	6.6	2.7	-36.6	88.5	-68.2
Furfural	21	27	22	2.4	2.9	-23.5	27.9	-18.5
Molasses	15	19	20	0.8	2.6	7.9	23.8	5.3
Bauxite	19	16	5	7.1	0.7	-11.5	-15.1	-68.7
<b>Non-traditional exports</b>	445	418	285	12.1	37.1	39.1	-6.1	-31.8
Gold and silver	259	208	164	-	21.4	103.1	-19.9	-21.1
Ferronickel	101	110	24	-	3.1	-17.9	9.1	-78.2
Chemical fertilizers	19	14	8	-	1.1	11.8	-25.3	-42.9
Leather manufactured products	6	6	6	-	0.8	-15.1	-6.4	-
Other manufactured products	41	55	60	...	7.8	10.8	34.2	9.1
Other agricultural products	19	25	23	2.9	2.9	137.5	31.6	-8.0

Source: ECLA, on the basis of figures from the Central Bank of the Dominican Republic.

<sup>a</sup>Preliminary figures.

<sup>b</sup>Including a category of non-classified export products, practically insignificant.

<sup>c</sup>Including roasted coffee.



Table 9

## DOMINICAN REPUBLIC: IMPORTS OF GOODS, FOB

	Millions of dollars			Percentage breakdown		Growth rates	
	1980	1981	1982 <sup>a</sup>	1980	1982 <sup>a</sup>	1981	1982 <sup>a</sup>
Total	1 520	1 452	1 250	100.0	100.0	-4.5	-13.9
Consumer goods	398	337	304	26.2	24.3	-15.3	-9.8
Food	103	108	58	6.8	4.6	4.9	-46.3
Beverages and tobacco	-	3	2	-	-	-	-33.3
Other goods	187	119	165	12.3	13.2	36.4	38.7
Consumer durables	108	107	79	7.1	6.3	-0.9	-26.2
Fuel	456	497	447	30.0	35.8	9.0	-10.1
Intermediate goods	391	389	305	25.7	24.4	-0.5	-21.6
Capital goods	275	229	194	18.1	15.5	-16.7	-15.3

Source: ECLA, on the basis of figures from the Central Bank of the Dominican Republic.

<sup>a</sup>Preliminary figures.

their lowest, the Consejo Estatal del Azúcar —which produces around 60% of the product— withdrew from the world market to wait for a recovery. As a whole, the volume exported decreased only slightly (2%) in comparison with 1981, for which reason the drastic decrease of the unit value (47%) can be considered as the main cause of the contraction of income.

Tobacco exports decreased sharply (68%) due to the severe contraction in their volume. International prices of this product continued the gradual rise which had begun at the beginning of the 1970s, but it has not been possible to take full advantage of these rises because of several obstacles of a conjunctural nature.

Cocoa exports, which had declined during the last quarter, increased by 18% in 1982 due to an increase of 42% in the volume sold, since prices continued the decline which had begun in 1979.

Coffee was one of the few products showing dynamism. With an increase of 27% in the volume exported and 15% in prices, income from coffee sales rose by 27%. It should be pointed out that exports of roasted coffee continued to decrease, for which reason they only represented approximately 5% of the value of this product.

There was a general drop in exports of all mineral products, chiefly caused by the reduction of their prices in the international market. Ferronickel sales decreased to one-fifth and those of bauxite to one-third. In both cases, the volume exported decreased, and in the case of bauxite, exports were even suspended towards the end of the year (it should be borne in mind that its share in total exports had been 7% only two years before). External sales of doré, which represented nearly two-thirds of mineral exports, decreased by 21% due to the 26% drop in its prices, although its sales volume increased by about 6%.

For the purpose of providing exports of sugar, molasses, coffee beans, leaf tobacco and cocoa beans with the necessary currency for purchasing capital goods and imported inputs, the Exchange Credit Certificates were created in November. These certificates could be exchanged for currency at the equivalent of 20% of the FOB value of the raw sugar exports, and 10% of that value for the other export products.

ii) *Imports.* The downward trend of the preceding year grew stronger. In 1982, the value of imports of goods decreased by 13% due to an even greater reduction (15%) in the value imported, which joined the 9% drop it had experienced in 1981; the unit value, for its part, increased by slightly more than 2%, a percentage lower than that of 1981 (see table 7).

The decline of external purchases was linked to the following factors, among others: low investment and sluggishness of some productive activities, the import containment policy, the rise of the exchange rate in the parallel market and an agricultural policy which aimed at self-sustainment in basic agricultural products.

According to preliminary figures, the decline in imports affected all categories, although its influence was greatest on external purchases of petroleum, capital goods and especially durable consumer goods, all of which represented some 58% of the total imported (see table 9).

In the case of petroleum the 10% decrease corresponded to a lower volume purchased —since the price did not change— and was due to the deterioration of economic activity, especially in the mining companies.

Imports of capital and consumer durables shrank on the whole by 19%. Trends in the former were basically linked to low investment, while those of the latter were chiefly due to the restriction of imports. It should be recalled that external purchases of vehicles, prohibited since the year before, were resumed for a few months, which meant a disbursement of US\$ 55 million, a figure lower than that of the preceding year.

With regard to food imports, those of cereals were able to be reduced by less than half, thanks to a larger domestic supply. This fact was partially offset by an increase of more than 40% in purchases of fats and oils, which made this category as a whole decrease by 46%.

Finally, raw materials purchases decreased as a whole by 22%, with differences in the behaviour of the different types of raw materials.

The import containment policy was maintained throughout the year and applied more strictly from August onwards, when the new Government came into office. Thus the list of goods for whose import the Central Bank does not grant currency was expanded; the quotas for raw materials purchases were maintained; there was a one-year suspension on imports in various categories, including basic food products (pork, rice and beans), consumer durables (electrical appliances and vehicles) and some capital goods (tractors, levellers and power shovels) and finally, at the end of the year, and more for the purpose of tax collection than its effects on containing imports, a tax of 10% was established on the value of merchandise purchased abroad.

#### b) *Services trade and factor payments*

i) *Tourism and other services.* The positive balance in the tourism category rose from US\$ 75 million in 1981 to US\$ 138 million in 1982 (84%). This rise was due to the substantial decrease (31%) of expenditures for travel abroad, as a result of the rise in the parallel exchange rate, the drop in income and the general economic situation.

Income from tourism increased by 12%, a lower percentage than that of the two preceding years. This was especially influenced by the stagnation in the flow of foreign visitors arriving by air, whose expenditure is higher than that of the other tourists. This stagnation was partially offset by a slight increase in the average stay (from 7.3 nights to 8) and by an increase in non-resident Dominican visitors (6%). The number of persons taking sea cruises decreased by 9%; however, since their average expenditure is low, this only represented a decrease of some US\$ 300 000 in travel income.

The slackening of tourist activity reflected the economic recession in the United States, the country from which approximately two-thirds of visitors come.

During the year one hotel was partially completed and two were expanded; thus hotel capacity was increased by 105 rooms. Sixteen hotels are being built, extended and remodeled, which will mean a future addition of 2 000 rooms, 50% of which will be located in the capital; a large percentage of the rest will be located in the Puerto Plata tourist complex.

Remittances of profits and interest payments were similar to those of 1981, around US\$ 300 million. Their increase was not greater mainly because of the negative situation of the foreign-owned mining companies and because of the renegotiation of the short-term external debt.

Finally, private transfers —basically remittances by Dominican residents abroad— practically did not change in comparison with the preceding year.

#### c) *The current account imbalance and its financing*

After a reduction of 44% in the current account deficit, the sharp contraction in external sales during 1982 caused an increase of 37%, bringing the deficit to US\$ 517 million. This figure represented around 50% of exports of goods and services and 6% of the gross domestic product; the preceding year the corresponding percentages were 25% and 5% (see table 10).

Inflow of capital, which in 1981 had already suffered a decrease of 37%, decreased by 30% in 1982. However, in contrast with the preceding year, when the sharpest decrease (48%) was noted in net inflow of long-term capital, short-term capital decreased more in 1982 while inflow of long-term capital decreased at a more gradual rate (13%).

## DOMINICAN REPUBLIC

Table 10

## DOMINICAN REPUBLIC: BALANCE OF PAYMENTS

(Millions of dollars)

	1977	1978	1979	1980	1981	1982 <sup>a</sup>
Balance on current accounts	-132	-315	-360	-674	-378	-517
Trade balance	-170	-326	-349	-647	-272	-422
Exports of goods and services	927	828	1 135	1 271	1 517	1 101
Goods FOB	780	675	869	962	1 188	768
Real services <sup>b</sup>	147	152	266	309	329	333
Transport and insurance	19	20	22	26	19	21
Travel	92	92	124	173	201	225
Imports of goods and services	1 097	1 154	1 484	1 919	1 789	1 523
Goods FOB	849	862	1 137	1 520	1 439	1 250
Real services <sup>b</sup>	248	292	347	399	350	273
Transport and insurance	103	111	132	175	165	133
Travel	102	126	158	166	126	87
Factor services	-98	-136	-188	-210	-295	-285
Profits	-29	-41	-57	-65	-180	-100
Interest received	12	21	32	42	45	4
Interest paid	-82	-116	-163	-187	-160	-189
Unrequited private transfer payments	136	146	177	183	189	190
Balance on capital account	182	276	358	708	416	373
Unrequited official transfer payments	4	4	29	5	18	15
Long-term capital	199	187	109	423	220	191
Direct investment	71	64	17	93	87	3
Portfolio investment	-	-	-	-	-	-
Other long-term capital	127	123	92	330	133	188
Official sector <sup>c</sup>	83	145	114	268	213	232
Loans disbursed	111	189	322	242	267	223
Amortization payments	-27	-44	-202	-37	-54	-97
Commercial banks <sup>c</sup>	-1	-1	7	-	-7	-1
Loans disbursed	-	-	8	-	-	-
Amortization payments	-1	-1	-1	-	-7	-1
Other sectors <sup>c</sup>	46	-21	-29	62	-73	-43
Loans disbursed	105	56	53	163	14	51
Amortization payments	-60	-77	-82	-101	-87	-95
Short-term capital (net)	-23	40	208	250	204	106
Official sector	-17	40	101	88	12	222
Commercial banks	9	19	-16	92	197	-45
Other sectors	-15	-19	123	71	-5	-71
Errors and omissions	2	46	12	30	-26	62
Global balance <sup>d</sup>	50	-39	-2	33	38	-144
Total variation in reserves (- sign indicates an increase)	-38	29	-8	-44	-31	162
Monetary gold	-1	-	-	-5	14	15
Special Drawing Rights	1	-	-3	9	-2	1
IMF reserve position	-	-	-	-	-	-
Foreign exchange assets	-57	26	-81	27	-21	95
Other assets	-	-	-	-	7	-
Use made of IMF credit	19	3	77	-76	-29	51

Source: 1977-1981: International Monetary Fund, *Balance of Payments Yearbook*; 1982: ECLA, on the basis of official data.<sup>a</sup> Preliminary figures.<sup>b</sup> Real services also include other official and private transactions, but not factor services.<sup>c</sup> In addition to loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities.<sup>d</sup> The global balance is the sum of the current account balance plus the balance on capital account. The difference between total variation in reserves of opposite sign and the global balance represents counterpart items, monetization or demonetization of gold, allocation or settlement of Special Drawing Rights, and variation due to revaluation.

The nearly complete disappearance of direct investments was the basic cause of the decline in long-term financing. After the 1979 alteration in the law on industrial incentives, which defined the areas intended for foreign capital and national capital —public and private— foreign investment amounted to around US\$ 90 million in 1980 and 1981. However, during 1982, it was negatively affected by prospects of changes in the treatment given to foreign capital (when the new authorities entered into office) and by the international economic crisis.

Net inflow of long-term credit, whose amount had decreased by 60% in 1981, increased 41%, by the amount of US\$ 55 million, due to a greater flow of external financing, which exceeded the increase in amortization payments.

Net inflow of short-term capital was nearly half the amount of the preceding year. In February an agreement was signed between the Central Bank and the foreign commercial banks to document the pending short-term debt which had accumulated with the delay in liquidation of letters of credit, remittances and collections. Thus it was possible to establish a new schedule of payments and also to resume the issuance of letters of credit, which had been suspended since November 1981.

With the decrease in the inflow of capital and the increase in the current account imbalance, it was necessary to use US\$ 162 million in international reserves, which involved a reduction of US\$ 95 million in foreign currency assets and a reduction of US\$ 15 million in gold reserves, in addition to the utilization of US\$ 50 million in a loan from the International Monetary Fund.

d) *External indebtedness*

During the period 1975-1980, the external debt rose at an average annual rate of 18%, more than doubling its value by rising from US\$ 808 million the first year to more than US\$ 1 800 million the last year. As a result, the ratio between debt service payments and foreign currency income from exports of goods and services increased considerably from approximately 30% to 60% (see table 11).

In 1981 the expansion was checked, and the following year the increase in the external debt was less than 5%. As a result, the proportion of export income committed to debt payment was reduced,

Table 11

DOMINICAN REPUBLIC: INDICATORS OF EXTERNAL INDEBTEDNESS

	1977	1978	1979	1980	1981	1982 <sup>a</sup>
Millions of dollars						
<b>External public debt</b>						
<b>Balances</b>	622	877	1 085	1 357	1 402	1 529
Disbursements	225	304	675	607	506	447
<b>Servicing</b>	141	168	544	432	579	421
Amortization payments	123	129	467	335	461	326
Interest payments	18	39	77	97	118	95
<b>Total external debt</b>						
<b>Balances</b>	1 090	1 309	1 565	1 839	1 837	1 921
Medium- and long-term	1 024	1 133	1 425	1 569	1 605	1 751
Short-term	66	176	140	270	232	170
<b>Disbursements</b>	348	461	831	846	606	506
<b>Servicing</b>	285	373	683	718	779	557
Amortization payments	236	242	575	572	609	422
Interest payments	49	131	108	146	170	135
Debt coefficients (percentages)						
Total external debt/ gross domestic product	26.4	31.2	31.6	31.6	28.2	29.1
Servicing of total external debt/ exports of goods and services	30.7	45.0	60.2	56.5	51.5	48.8
Servicing of total external debt/ disbursements	81.9	80.9	82.2	84.9	128.6	110.1
Servicing of total external debt/ gross domestic product	6.9	8.9	13.8	12.2	11.9	8.4

Source: ECLA, on the basis of figures from the Central Bank of the Dominican Republic.

<sup>a</sup>Preliminary figures.

fluctuating at around 50% (a percentage which continues to be very high, in any case). Furthermore, the lower disbursements made amortization and interest payments exceed income by 29% during 1981 and 10% in 1982, which highlights the insufficiency of external resources, not only for supporting investment and increasing reserves, but even for covering external indebtedness payments.

External indebtedness also exhibited other trends. The proportion of the debt contracted by the Government grew larger in relation to that of the private sector: it went from 57% in 1977 to 80% of the total in 1982. Furthermore, the funds for external financing came predominantly from private sources, rather than those provided by institutions of a public nature. Thus, in 1982 some 39% of the external debt came from private sources and 31% and 29%, respectively, from multilateral and bilateral bodies. In 1977, on the other hand, the corresponding figures were 28%, 39% and 33%, respectively. This implies a deterioration in interest conditions and payback periods, which will be reflected in the future in a rise in the debt service.

Recourse was had twice during the year to credit from the International Monetary Fund. In May this body granted compensatory financing of 36 million special drawing rights (SDR) for the purpose of counteracting the decrease in export income. In July a loan equivalent to 10 million SDR was approved, for servicing the financing of buffer stocks, to enable the Dominican Republic to constitute the special sugar reserves stipulated by the 1977 International Sugar Agreement. The new credits, plus pending obligations in the amount of 19 million SDR, raised the commitments pending with the International Monetary Fund to 64 million SDR, with the country's quota in the Fund amounting to 83 million SDR. Negotiations were also begun with the International Monetary Fund to obtain additional financing which would include a loan, in the framework of the Fund's expanded service, in the amount of US\$ 412 million and another compensatory loan of US\$ 47 million; these loans were expected to be approved in the early months of 1983.

During the year, the public sector contracted credits from bilateral and multilateral sources in the amount of US\$ 360 million. The United States Government granted loans in the amount of US\$ 139 million; 47% through the Agency for International Development (AID), 40% through the Commodity Credit Corporation (CCC), and 13% under the PL-480, which covers food aid. For their part, the Inter-American Development Bank (IDB) and the World Bank granted credits for US\$ 108 million and US\$ 84 million. Of this financing, approximately 22% would be directed to agriculture, 20% to food purchase, 12% to public works and services, 10% to the sugar industry and 7% to housing construction.

It should be pointed out that it was not possible to utilize a large part of the loans already contracted due to delay in payment of previous debts or because of inability to cover the national counterpart.

Finally, as noted above, in the early months of the year the Central Bank signed an agreement with the commercial banks, with which it had accumulated a debt of nearly US\$ 400 million owing to the delay in disbursements of orders of payment, collections and remittances. This agreement, which would be in force for 11 months, stipulated partial payment of the debt and authorized the issuance of new payment orders in the amount of US\$ 10 million per week. When the agreement is terminated, it is hoped that the debt will be documented in the medium term.

#### 4. Prices, wages and employment

In 1982, the national consumer price index experienced an annual average variation of nearly 8%, a rate similar to that of the preceding year. However, in contrast with the year before, the food, beverage and tobacco index did not remain stable, but grew by 8% (see table 12).

The seasonal limitation of supply of some agricultural products such as rice and beans, and the decrease in production of others, such as bananas, caused the price of the agricultural shopping basket to rise by 7%. On the other hand, housing rental, which in 1981 had increased by 22%, increased by only 5% in 1982. Prices of clothing, shoes and accessories rose by around 4%.

On the other hand, minimum wages did not change at all, but remained at their level of mid-1979, when the last adjustment was made; this meant a deterioration of 7% in the corresponding real wages. The public sector wage policy reduced the remuneration of medium- and high-level employees, and maintained the minimum wages (see table 13).

The problem of unemployment and underemployment continued to represent one of the severest imbalances in the Dominican economy. The rate of open unemployment, which rose to 24% of the economically active population in 1978, decreased to 19% in 1979 because of the widespread contracting of workers by the Government to repair the damage caused by the hurricane of that year. In 1980 unemployment rose to 21% in the city of Santo Domingo, and it is estimated in 1982 to have returned to its 1978 level, since there was a decrease of construction activity — which absorbs a high proportion of labour — and the policy of austerity in public spending limited the hiring of personnel.

In order to reduce the unemployment rate, and as an emergency measure, in December the Government implemented a plan which employed 100 000 workers for a period of one month, to perform maintenance work in the capital city.

Table 12  
DOMINICAN REPUBLIC: EVOLUTION OF DOMESTIC PRICES

	1978	1979	1980	1981	1982 <sup>a</sup>
Variation from December to December					
Consumer price index	8.8	25.6	4.6	7.4	7.1
Food	11.2	33.8	-5.2	3.1	9.6
Variation between annual averages					
Consumer price index	7.1	9.2	16.8	7.5	7.6
Food	9.2	10.9	15.4	0.4	7.9

Source: ECLA, on the basis of data supplied by the Central Bank of the Dominican Republic.

<sup>a</sup>Preliminary figures.

Table 13  
DOMINICAN REPUBLIC: EVOLUTION OF MINIMUM WAGES<sup>a</sup>

	Indexes (1978 = 100)				Growth rates		
	1979	1980	1981	1982	1980	1981	1982
Nominal	112.5	125.0	125.0	125.0	11.1	-	-
Real	103.5	98.2	91.2	84.7	-4.7	-7.1	-7.0

Source: ECLA, on the basis of official figures.

<sup>a</sup>The estimated minimum wages correspond to the average for each year. Wages were last adjusted in 1979.

## 5. Monetary and fiscal policies

### a) *Monetary policy*

During 1982, as in the preceding year, monetary and financial policies were generally aimed at checking the drop in international reserves and reducing the fiscal imbalance. Measures were also taken for increasing domestic savings and decreasing capital flight. Thus the range of goods which could be bought abroad with official exchange continued to be restricted; the system of import quotas for inputs was expanded, and the import prohibition was extended to a larger number of goods.

Furthermore, for the purpose of encouraging the expansion of financial savings by the private sector, steps were taken to apply a more realistic interest rate policy. As a result, interest on fixed-term deposits, financial bonds and mortgage notes, <sup>1</sup> was raised, and financial certificates were created

<sup>1</sup>Interest rates for fixed-term deposits, which had varied between 7.5% and 9%, began to fluctuate between 7.5% and 10%; those of financial bonds, which had been fluctuating between 8% and 9.5%, remained between 9% and 11.5%, and those of mortgage certificates rose from 9.5% to 11.5%.

Table 14

## DOMINICAN REPUBLIC: MONETARY BALANCE

	Millions of pesos at end of year				Growth rates			
	1979	1980	1981	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>a</sup>
<b>Money</b>	596	575	660	727	33.3	-3.5	14.8	10.2
Currency outside banks	274	275	324	359	22.2	0.5	17.8	10.8
Demand deposits	322	300	336	368	38.6	-7.1	12.0	9.5
<b>Factor of expansion</b>	1 599	1 803	2 016	2 283	15.9	12.8	11.8	13.2
Foreign assets (net)	-40	-161	-303	-622				
Domestic credit	1 639	1 964	2 319	2 773	16.0	19.8	18.1	19.6
Government (net)	381	444	586	755	43.5	16.6	32.0	28.8
Official entities	268	354	575	756	4.2	32.1	62.4	31.5
Private sector	990	1 166	1 158	1 262	11.8	17.7	-0.7	9.0
<b>Factors of absorption</b>	1 002	1 228	1 355	1 556	8.4	22.6	10.3	14.8
Quasi-money (savings and time deposits)	556	595	677	804	4.3	6.9	13.8	18.8
Other items (net)	446	633	678	752	14.1	41.9	7.1	10.9

Source: ECLA, on the basis of figures from the Central Bank of the Dominican Republic.

<sup>a</sup>Preliminary figures.

with a profitability of 10% to 15% for a minimum amount of 100 000 Dominican pesos, at terms of 1 to 3 years. In addition, for the purpose of reducing speculation and giving somewhat of an institutional nature to the parallel market, the commercial banks were authorized to carry out operations in that market and to receive deposits in dollars at terms of not less than 90 days.

The main restriction on the monetary system stemmed from the external sector situation. The worsening of the current account imbalance, which coincided with a decrease in the flow of external capital, caused international reserves to shrink. Given the need to maintain the level of public sector activity, despite lack of international financing, it was necessary to have recourse, as in 1981, to banking indebtedness, which was reflected in a 29% increase in domestic credit intended for the Government and of 32% in that procured by public institutions. Although private sector financing had stagnated the year before, in 1982 it grew by 9%, bringing domestic credit up by 20% (as against 18% the previous fiscal year), a rate much higher than that of money issue (see table 14).

Money, for its part, which in 1981 increased by 15%, decreased its rate to 10% — a rate that was very close to the increase of the gross domestic product in current values — with very similar expansion rates for cash outside of banks and deposits on current account.

Time and savings deposits expanded by 19% — as against 14% in 1981 — due to the fact that depositors preferred financial to real investment in view of the climate of uncertainty in the country and the containment of imports. Furthermore, the increase in interest rates on deposits encouraged recourse to middlemen from the private sector, who offered rates higher than those of the commercial banks.

On the other hand, long-term external loans, included under the "other accounts" item, increased by 11%. The result of these movements was an increase in the variation rate of the factors of absorption: they increased by 15%, as against figures of 10% the year before and 23% in 1980.

During 1981 the monetary policy proved to be effective with regard to its effects on the balance of payments; however, in 1982, given the importance of external factors, it did not succeed in attaining its objectives and became one more obstacle to expansion of the product.

#### b) *Fiscal policy*

The unfavourable conditions experienced by the Dominican economy in 1982 compelled the new authorities to carry to an extreme the application of a policy, begun in mid-1980, whose objective was to contain public spending — especially that of investment — and reduce the fiscal deficit.

To decrease current expenditures, in September wages of State workers higher than 500 pesos per month were reduced. These reductions were effected according to a sliding scale, which went from 30% over the first step (from 500 to 750 pesos) up to 90% of the amount exceeding 4 000 pesos per month. This "sliding scale of reductions" —it was stated in the respective Decree— "will be applied gradually, so that the percentages will only affect that portion of the salary over the maximum of the section covered by the immediately lower percentage reduction".<sup>2</sup> In addition, the workday of government employees was extended by one hour; staff was reduced, but only persons hired after 16 May were laid off, and it was ordered that no person in the public sector should hold more than one paid post. Subsistence allowances of civil servants were also adjusted and purchases of office equipment prohibited.

In addition, administrative tax mechanisms and mechanisms for control of spending were improved, both in government units and public enterprises, and an attempt was made gradually to give the latter more operative effectiveness, for the purpose of ironing out their financial situation.

The most outstanding measure with respect to income was a 10% duty on the value of imports, which took effect in November. However, towards the end of the year legislation was introduced in the National Congress concerning a substantial fiscal reform, which included new taxes and changes in the spending structure.

Despite these efforts, the fiscal deficit grew by more than 60%, and its relative significance with regard to the product rose from 2% to 5%. Those figures are related to a decrease of 18% in current income, since total spending shrank by 5% (see table 15).

Table 15  
DOMINICAN REPUBLIC: CENTRAL GOVERNMENT INCOME  
AND EXPENDITURE

	Millions of pesos				Growth rates			
	1979	1980	1981	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>a</sup>
1. Current income	674	869	908	745	16.5	29.0	4.5	-18.0
Tax revenue	623	714	749	676	12.8	14.6	5.0	-9.7
Direct	151	204	210	206	16.7	35.6	2.7	-2.0
Indirect	166	189	238	253	15.3	13.9	25.5	6.6
On foreign trade	276	287	272	185	9.7	4.1	-5.4	-31.8
Others	30	34	29	32	9.4	9.6	-8.8	7.3
Non-tax revenue	51	155	159	69	93.5	205.1	2.4	-56.7
2. Current expenditure	649	729	776	792	46.4	12.2	6.6	2.0
Wages and salaries	312	376	404	430	44.4	20.5	7.5	6.3
Other current expenditure	337	353	372	362	48.5	4.8	5.4	-2.7
3. Saving on current account (1 - 2)	25	140	132	-47	-81.5	460.0	-5.7	...
4. Capital expenditure	356	337	309	241	53.1	-5.2	-8.2	-22.2
Real investment	97	128	121	98	-37.6	32.8	-5.6	-19.2
Debt amortization payments	25	13	17	44	48.8	-48.2	31.5	155.3
Transfers	166	193	160	83	214.2	16.0	-17.2	-47.8
Other capital expenditure	68	3	11	16	...	...	...	...
5. Total expenditure (2 + 4)	1 005	1 066	1 085	1 033	48.9	6.1	1.8	-4.8
6. Fiscal deficit (1 - 5)	-331	-197	-177	-288				
7. Financing of deficit	331	197	177	288				
Domestic	104	90	97	185				
External	227	107	80	103				

Source: ECLA, on the basis of data supplied by the Ministry of Finance and the Central Bank of the Dominican Republic, Department of Economic Studies.

<sup>a</sup>Preliminary figure.

<sup>2</sup>See Decree No. 180 of 1 September 1982, which amends article 2 of Decree No. 23, of 16 August 1982.



## DOMINICAN REPUBLIC

Among current inflow, tax income decreased by 10% (it had increased by 5% in 1981). Contributing factors were the 32% decrease in tax on foreign trade—as a result of the drop in exports and imports—and the 2% decrease in collection of direct taxes, when capital gains decreased and the income of public employees went down. On the other hand, collection of indirect taxes increased by 7%, especially taxes on alcoholic beverages, cigarettes and petroleum and petroleum products.

Non-tax income—basically the contributions which the State mining company pays on gold and silver production—decreased to less than half, when gold extraction shrank and the international prices of both metals decreased.

With regard to government expenditures, current expenditures grew by barely 2%. This increase was due to the 6% rise in wages, since other expenditures decreased by 3%, which, among other effects, represented an unprecedented event: the fact that current savings became negative. It should be pointed out that from 1978 onwards, expansion of current expenditures and especially those of the wages and salaries category, which increased from 216 million pesos that year to 430 million in 1982, has been the chief cause of the expansion of the budgetary imbalance.

Capital expenditures shrank for the third consecutive year, but on this occasion at a more moderate rate (22%) than in 1980 and 1981. The reduction in real investment, which the year before had been 6%, was approximately 20% in 1982, and capital transfers to autonomous bodies, which in 1981 dropped by 17%, in 1982 amounted to around half of the previous total both because of the insufficiency of financial resources and the Government's policy of reducing support to businesses and thus compelling them to improve their finances.

Resources intended for amortization of the debt increased 2.6 times, despite the fact that both the Government and the decentralized bodies delayed liquidation of some external loans.

Finally, the insufficient flow of external credit made it necessary to finance nearly two-thirds of the deficit with domestic resources, with the consequent pressure on the banking system and restriction of the credit flow to the private sector of the economy.



## URUGUAY

### 1. Recent economic trends: Introduction and summary

The factors of recession and financial imbalance that had begun to have a noticeable effect on the Uruguayan economy at the end of 1981 became increasingly acute throughout the following year. This situation gave rise to important changes in economic policy and contributed to the abandonment of the stabilization policy applied since 1978 (see table 1 and figure 1).

Although the growth of domestic prices followed much the same trend as the rate of devaluation laid down, the appreciable over-valuation of the peso persisted and made it difficult to reduce the balance-of-payments current account deficit. Moreover, developments in external markets were marked by the deterioration of prices of basic products exported by Uruguay and by the successive devaluations in Argentina, which enhanced the competitiveness of that country's products. At the same time, in view of the growing lack of confidence in the maintenance of the exchange-rate policy, capital flows were noticeably negative, thereby aggravating the country's payments situation at a time when international financial conditions were also deteriorating.

The most important causes of the 10% drop in domestic production were the gradual deterioration of sectors linked with foreign trade (including tourism), contraction of demand owing to the downward trend of real wages and employment, excessive family indebtedness incurred in the two preceding years (especially for the purchase of durable consumer goods), and a lower level of investment in response to the limited demand prospects and persistence of high interest rates.

The decline in production also reduced tax revenues, which, coupled with a significant increase in public-sector spending, caused a considerable fiscal deficit. In spite of extensive utilization of short-term external loans it became necessary to finance most of this deficit by means of Central Bank credit.

Economic policy was therefore faced with a serious dilemma. The external imbalance suggested two alternative lines of action: either to continue with the exchange rate system, but with monetary and fiscal restrictions of sufficient intensity to exert downward pressure on prices —thereby intensifying the prevailing situation— or to abandon the policy of advance exchange-rate announcements and adopt measures to enable the rate to settle at a new, higher level.

The first alternative was likely to give rise to serious problems and would be difficult to apply in view of the prevailing monetary conditions and the danger of accentuating economic contraction and unemployment. Lack of credibility with regard to a policy of this kind and the deteriorating fiscal and reserve situation led to a consensus in economic circles regarding the unfeasibility of maintaining the exchange rate policy. This encouraged a flight of capital and contributed to an increase in interest rates, together with a general loss of business profitability. Thus, in the absence of devaluation, there was a risk that real interest rates would reach such levels as to aggravate even further the situation of the productive sectors (especially those associated with the production of goods tradeable in external markets), which were already heavily indebted. Finally, these factors gave rise to doubts in the private sector as to the possibility of maintaining the system of free capital movements, thereby discouraging deposits of foreign currency by non-residents and giving rise to additional pressure on the international reserves.

As the year went on, therefore, the maintenance of the exchange system became increasingly precarious. Finally, at the end of November, the authorities decided that the Central Bank should withdraw from the exchange market and allow the peso to float freely. The termination of the supply of foreign exchange by the Central Bank caused an abrupt increase in the price of the dollar, and by the end of the year the rate of exchange exceeded by more than 110% the level prevailing before floating. This brought about a steep increase in prices; and the rate of inflation in December (8.6%) was almost of the same order of magnitude as the accumulated variation in the preceding 11 months (11%).

The 10% contraction in the gross domestic product already mentioned was of a generalized character, but particularly evident in commerce, manufacturing and construction, which deteriorated by between 16% and 23%. Agricultural output dropped by almost 7% and basic services by 11%. The recession became still deeper from the second quarter of the year onwards and coincided with a reversal of tourist traffic and deterioration of the trade balance with bordering countries, owing mainly to differences between the Uruguayan exchange rate policy and that ruling in those countries.

The physical volume of imports of goods and services fell for the second consecutive year after six years of uninterrupted expansion. The overall drop in external purchases (-23%) was the consequence of a sharp and generalized contraction in purchases of goods (-34%) due to lower activity and stock adjustments, partly offset by higher expenditure of Uruguayan tourists abroad.

The combined effects of the lower gross domestic product and the decline in imports of goods and services brought about a contraction of almost 12% in total supply: four times greater than the decrease in the preceding year. The parallel contraction of total demand was primarily due to large reductions in gross investment and private consumption, and to lower exports.

Table 1

URUGUAY: MAIN ECONOMIC INDICATORS

	1976	1977	1978	1979	1980	1981	1982 <sup>a</sup>
<b>A. Basic economic indicators</b>							
Gross domestic product at market prices (millions of dollars at 1970 prices)	3 461	3 501	3 686	3 913	4 138	4 085	3 675
Population (millions of inhabitants)	2.84	2.86	2.87	2.89	2.91	2.93	2.95
Per capita gross domestic product (in 1970 dollars)	1 219	1 224	1 283	1 354	1 423	1 396	1 247
<b>Growth rates</b>							
<b>B. Short-run economic indicators</b>							
Gross domestic product	4.0	1.2	5.3	6.2	5.8	-1.3	-10.0
Per capita gross domestic product	3.6	0.5	4.8	5.5	5.1	-1.9	-10.7
Gross domestic income <sup>b</sup>	3.3	1.9	5.9	7.3	5.5	-2.2	-10.1
Terms of trade (goods and services)	-2.3	7.8	5.2	8.4	-2.1	-6.4	-2.2
Current value of exports of goods and services	26.4	16.1	12.9	31.3	27.8	10.2	-23.8
Current value of imports of goods and services	4.3	29.7	6.1	55.1	42.5	-3.0	-27.4
<b>Consumer prices</b>							
December - December	39.9	57.3	46.0	83.1	42.8	29.4	20.5
Variation between annual averages	50.6	58.2	44.5	66.8	63.5	34.0	19.0
<b>Money</b>							
Wages and salaries <sup>c</sup>	42.0	39.0	39.6	52.6	64.4	43.6	18.3
Unemployment rate <sup>d</sup>	12.8	11.8	10.1	8.4	7.4	6.7	11.9
Current government income	74.7	70.6	48.1	93.7	77.5	42.2	-8.0
Total government expenditure	51.8	55.2	49.5	74.7	79.3	43.7	43.8
Fiscal deficit/total government expenditure <sup>e</sup>	15.9	8.2	9.2	1.5 <sup>f</sup>	0.5 <sup>f</sup>	0.5	36.4
<b>Millions of dollars</b>							
<b>C. External sector</b>							
Trade balance (goods and services)	-9	-106	-57	-309	-618	-399	-229
Balance on current account	-82	-172	-133	-363	-716	-470	-467
Variation in international reserves	132	201	183	25	174	26	...
Total external debt	1 135	1 320	1 240	1 682	2 153	3 129	4 201

Source: ECLA, on the basis of official data.

<sup>a</sup> Preliminary figures.

<sup>b</sup> Gross domestic product plus terms-of-trade effect (goods and services).

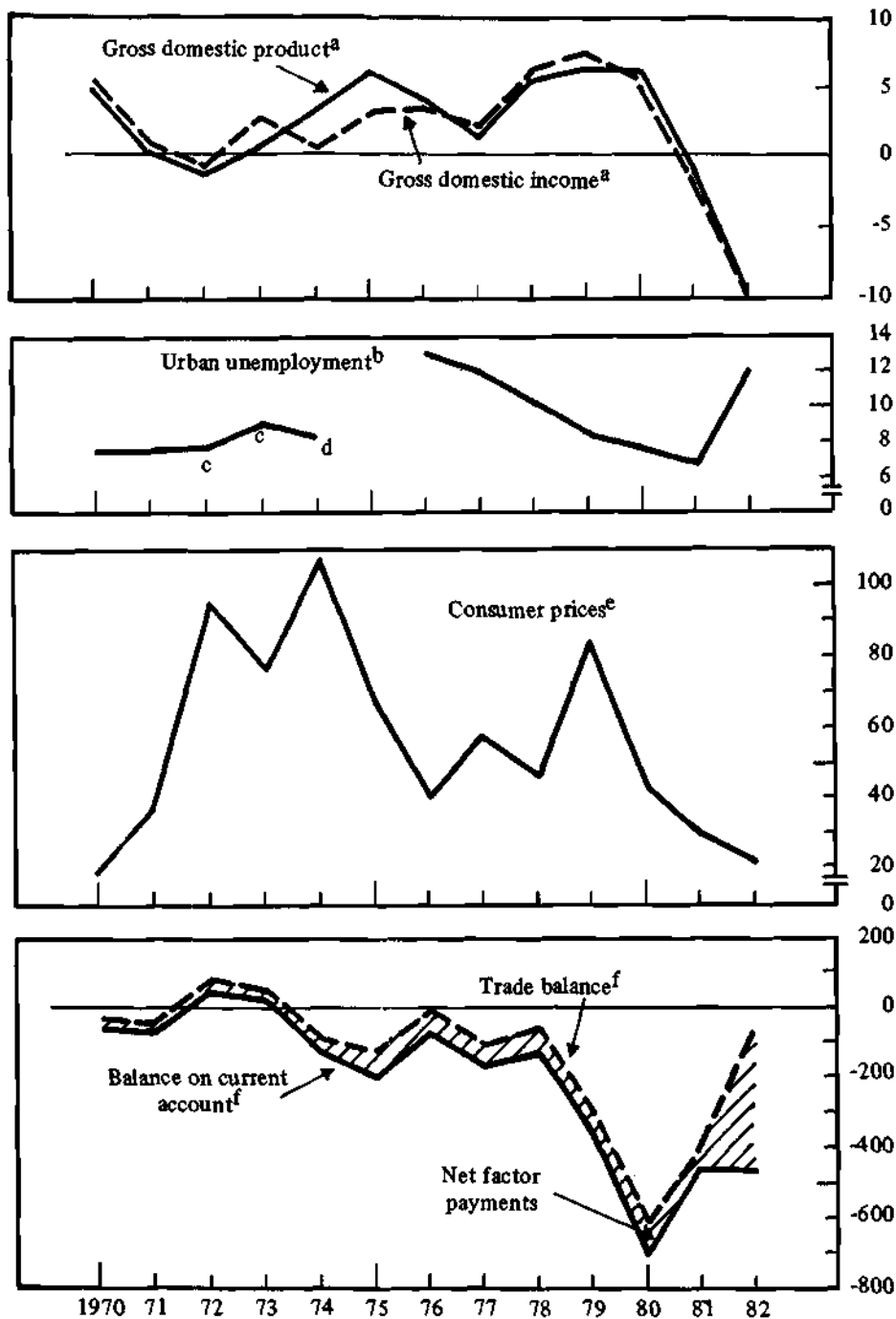
<sup>c</sup> Variation between annual nominal wage averages.

<sup>d</sup> Annual average rate for Montevideo.

<sup>e</sup> Percentages.

<sup>f</sup> Surplus.

Figure 1  
URUGUAY: MAIN ECONOMIC INDICATORS



Source: ECLA, on the basis of official data.

<sup>a</sup>Annual growth rate.

<sup>b</sup>Average annual rate in Montevideo.

<sup>c</sup>First half of year.

<sup>d</sup>August 1974 - February 1975.

<sup>e</sup>Percentage variation from December to December.

<sup>f</sup>Millions of dollars.

As foreign purchases dropped more than exports, the trade deficit diminished significantly, so that after amounting to almost US\$ 370 million in 1981, it dropped to only US\$ 26 million in the following year.

The deficit on the real services account came to some US\$ 200 million owing to a high negative balance on tourism. Net payments of profits and interest rose from US\$ 74 million in 1981 to US\$ 240 million in 1982. Thus, in spite of the above-mentioned improvement in the trade in goods, the balance-of-payments current account deficit was almost the same as in 1981.

The results in the area of capital movements represented a marked reversal in comparison with previous years and in particular with 1981. In the latter year the net inflow (including revaluation adjustments and the like) amounted to almost US\$ 500 million, whereas in 1982 the same item showed an outflow of US\$ 330 million. The trend was significantly unfavourable in the case of private capital movements, which went down by approximately US\$ 1 billion. For its part, public sector indebtedness increased by approximately US\$ 500 million. As a result of these movements, the international reserves held by the Central Bank dropped by US\$ 800 million after six years of uninterrupted expansion.

The monetary contraction through the balance of payments was more than offset both by the financing of the public sector deficit provided by the monetary authorities and by the extraordinary assistance granted to the banking system to enable it to cover withdrawals of funds on deposit. Central Bank net domestic credit expanded by more than 5 400 million Uruguayan pesos, and the monetary base rose by 30%.

In the course of the year, workers' wages in real terms fell by 11%, half of this contraction being due to the price increases provoked by devaluation in the month of November. The unemployment rate rose significantly, from 6.7% of the economically active population in the second half of 1981 to 12.7% in the equivalent period of 1982.

## 2. Trends in economic activity

### a) *Total supply and demand*

Total supply of goods and services diminished significantly in 1982 (-12%), thereby accentuating the trend observed since the second half of the previous year. This trend contrasted with the average annual expansion of 4% recorded in the five-year period 1976-1980. The lower availability of goods and services in 1982 was the result of the 10% drop in the gross domestic product and the reduction of one-fifth in the volume of imports (see table 2).

For its part, domestic demand fell by 11%. Since the volume of exports of goods and services decreased by 18%, however, the overall contraction of total demand was even greater.

Gross investment was the item of domestic demand showing the greatest drop (-25%), thereby confirming the trend observed in 1981, after high growth rates averaging 13% annually in the period 1972-1980. This result was influenced in particular by the drop of 27% in investment in machinery and equipment, due partly to the climate of uncertainty among entrepreneurs. Investment in construction, for its part, fell by 17% for the second consecutive year after a long period of continuous expansion. Public sector construction diminished by 6% with the completion of the hydroelectric power plant building programme, while private activity in this sector fell by more than 25%. The latter result was due especially to the abrupt contraction of construction work by private investors using their own resources, though this was partly compensated by an increase in projects financed by official Mortgage Bank funds.

Total consumption also fell (by 8%) in 1982, since the moderate increase of 4% in public consumption expenditure failed to compensate the 11% contraction in private sector consumption.

### b) *Evolution of the main sectors*

After considerable growth of 5% per year in the five-year period 1976-1980 and a small drop (-1%) in 1981, the gross domestic product fell by 10% in 1982. Among the main causes of this negative result were: the continuous decline in international prices (not offset by the exchange rate corrections introduced before the measures adopted in November); the depressed economic situation in export markets, especially in neighbouring countries; lower purchases in the domestic market by Argentine tourists, together with the incentive for Uruguayan residents to purchase supplies in

Table 2  
URUGUAY: TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1970 prices			Percentage breakdown		Growth rates			
	1980	1981	1982 <sup>a</sup>	1970	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>a</sup>
<b>Total supply</b>	4 828	4 694	4 142	110.4	112.7	8.7	7.1	-2.8	-11.8
Gross domestic product at market prices	4 138	4 085	3 675	100.0	100.0	6.2	5.8	-1.3	-10.0
Imports of goods and services <sup>b</sup>	690	609	467	10.4	12.7	29.1	16.1	-11.7	-23.4
<b>Total demand</b>	4 828	4 694	4 142	110.4	112.7	8.7	7.1	-2.8	-11.8
Domestic demand	4 308	4 137	3 684	101.0	100.2	9.8	7.2	-4.0	-11.0
Gross domestic investment	885	727	547	11.2	14.9	23.9	14.0	-17.9	-24.7
Gross fixed investment	824	715	566	11.2	15.4	19.0	15.9	-13.3	-20.9
Construction	462	443	367	6.6	10.0	13.8	4.6	-4.2	-17.2
Machinery and equipment	362	272	199	4.6	5.4	28.6	34.6	-24.9	-26.9
Variations in stocks	61	12	-19	0.1	-0.5				
Total consumption	3 423	3 410	3 137	89.8	85.3	6.9	5.6	-0.4	-8.0
General government	649	685	712	15.0	19.4	12.6	-0.8	5.4	3.9
Private	2 774	2 725	2 425	74.8	65.9	5.5	7.2	-1.7	-11.0
Export of goods and services <sup>b</sup>	520	557	458	9.4	12.5	0.6	6.3	7.1	-17.8

Source: ECLA, on the basis of official data.

<sup>a</sup>Preliminary figures.

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

Table 3  
URUGUAY: GROSS DOMESTIC PRODUCT, BY KIND OF ECONOMIC  
ACTIVITY, AT FACTOR COST

	Millions of dollars at 1970 prices			Percentage breakdown		Growth rates			
	1980	1981	1982 <sup>a</sup>	1970	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>a</sup>
<b>Gross domestic product<sup>b</sup></b>	3 517	3 472	3 124	100.0	100.0	6.2	5.8	-1.3	-10.0
<b>Goods</b>	1 450	1 405	1 205	39.9	38.1	6.5	6.8	-3.1	-14.2
Agriculture	360	364	339	12.9	10.7	0.4	16.2	1.0	-6.8
Mining	861	821	681	23.1	21.5	7.8	4.1	-4.6	-17.1
Manufacturing									
Construction	228	220	185	3.9	5.8	12.4	3.4	-3.7	-15.9
<b>Basic services</b>	375	382	339	10.3	10.8	9.2	8.8	1.9	-11.1
Electricity, gas and water	59	62	62	1.5	2.0	3.6	9.8	5.5	0.2
Transport, storage and communications	316	320	277	8.7	8.8	10.3	8.7	1.2	-13.3
<b>Other services</b>	1 749	1 741	1 615	48.8	51.1	6.0	4.5	-0.5	-7.2
Commerce, financial establish- ments, insurance and real estate, except ownership of dwellings	659	624	480	17.0	15.2	7.3	9.4	-5.4	-23.0
Ownership of dwellings	143	143	143	5.3	4.5	0.5	-	-	-
Community, social and personal services	947	974	992	27.5	31.4	6.1	1.9	2.8	1.9

Source: ECLA, on the basis of figures supplied by the Central Bank of Uruguay.

<sup>a</sup>Preliminary figures.

<sup>b</sup>As the individual activities and totals were calculated independently, the sum of the former does not correspond with the latter.

adjacent countries due to the deterioration in the competitive position of national products; the unprecedented interest-rate levels in real terms, which in mid-November were equivalent to around 45%; and, finally, the contraction of domestic purchasing power.

The greatest contraction occurred in commerce (-23%), while there were similar drastic drops in manufacturing output (-17%) and in the construction industry (-16%) (see table 3).

i) *Agriculture.* Agricultural output fell during the year by almost 7%. The drop affected both crop farming (-2%) and stock raising (-9%) (see table 4). The low profitability in both sectors was the general cause of this decline, provoking decreases in areas sown and changes in livestock management, both as regards reproduction and animal fattening.

Wheat production rose by more than 25% as a result of expansion of the area sown, enabling domestic needs to be covered, albeit by only a small margin. The increase in rice output was similar to that of wheat, due again to a larger area sown, plus a marked improvement of 14% in yields. Linseed and maize production fell significantly (by almost half in both instances), because the areas sown were considerably smaller, although, in the case of maize, there was also a reduction in yield. The sunflower crop increased slightly but still failed to cover domestic demand (see table 4).

In the livestock field, beef production fell by 15%. This result was mainly due to the smaller number of animals, coupled with a small drop in their average weight. Domestic consumption increased, stimulated by lower relative prices, while exports diminished by approximately 4%. There was a 5% increase in wool production, while that of milk remained practically stable and the combined honey and poultry output dropped by 14% (see table 4).

ii) *Manufacturing.* Manufacturing output, which in the five-year period 1975-1979 had expanded at an average annual rate of 7%, slackened its growth rate to 4% in 1980, suffered a decrease of 5% in 1981, and dropped even more significantly in 1982 (-17%) (see table 5). Both exports of manufactures and domestic sales of these products diminished.

The current dollar values of non-traditional exports of goods produced by the manufacturing sector fell noticeably, with sales of paper products, glass and ceramics, iron and steel, machinery and

Table 4  
URUGUAY: INDICATORS OF AGRICULTURAL PRODUCTION

	1979	1980	1981	1982 <sup>a</sup>	Growth rates			
					1979	1980	1981	1982 <sup>a</sup>
Index of agricultural production (1978 = 100)								
Crop farming <sup>b</sup>	97.4	122.5	118.4	115.7	-2.6	25.8	-3.3	-2.3
Stock-raising	101.2	113.8	115.6	105.4	1.2	12.4	1.6	-8.8
Production of main crops (thousands of tons) <sup>c</sup>								
Wheat	174.3	429.5	306.6	387.8	0.6	146.4	-28.6	26.5
Rice	248.0	287.6	330.3	418.9	9.9	16.0	14.8	26.8
Linseed	31.2	65.1	21.4	11.0	-21.6	108.6	-67.1	-48.6
Sunflower	51.4	47.6	45.0	46.2	-28.2	-7.4	-5.5	2.7
Maize	70.9	119.3	180.8	97.3	-58.7	68.3	51.5	-46.2
Sugar beet	356.7	504.0	345.7	366.8	-5.1	41.3	-31.4	6.1
Indicator of stock-raising production								
Cattle slaughtered (thousands of tons on the hoof)	522.5	629.7	756.4	784.2	-16.7	20.5	16.7	3.7
Cattle production (thousands of tons on the hoof)	682.2	720.6	741.5	627.1	6.2	5.6	2.9	-15.4
Wool output (thousands of tons)	62.5	67.3	71.1	74.5	7.3	7.6	5.6	4.8
Poultry production (thousands of tons)	20.0	24.2	28.8	22.5	27.4	20.6	19.3	-22.1
Egg production (millions)	308.6	381.8	354.4	343.8	-4.4	23.7	-7.2	-3.0
Milk production (millions of litres)	760.0	795.0	805.0	808.0	...	4.6	1.3	0.4

Source: Central Bank of Uruguay.

<sup>a</sup>Preliminary figures.

<sup>b</sup>Including plantations and permanent pastures.

<sup>c</sup>Crop year.



Table 5

## URUGUAY: INDICATORS OF MANUFACTURING PRODUCTION

	1979	1980	1981	1982 <sup>a</sup>	Growth rates			
					1979	1980	1981	1982 <sup>a</sup>
<b>Index of manufacturing production (1978 = 100)</b>	<b>107.8</b>	<b>112.2</b>	<b>107.0</b>	<b>88.7</b>	<b>7.8</b>	<b>4.1</b>	<b>-4.6</b>	<b>-17.1</b>
Foodstuffs	101.2	109.2	117.8	115.9	1.2	7.9	8.0	-1.6
Beverages	114.5	114.5	124.3	103.6	14.6	-	8.5	-16.7
Tobacco	118.1	117.9	128.8	119.3	18.1	-0.1	9.2	-7.4
Textiles	116.8	118.4	106.5	62.4	16.8	1.4	-10.1	-41.4
Footwear and clothing	91.9	90.7	80.8	52.6	-8.1	-1.3	-10.8	-34.9
Paper and paper products	114.6	118.5	103.2	83.8	14.6	3.4	-12.9	-18.8
Printing and publishing	112.5	122.2	126.4	107.4	12.6	8.6	2.5	-15.0
Rubber products	109.3	112.2	88.3	39.3	9.3	2.7	-21.4	-55.5
Chemical products	127.3	109.2	105.6	87.3	27.3	-14.1	-3.4	-17.3
Petroleum products	95.7	94.4	88.8	89.4	-4.3	-1.4	-5.7	0.6
Non-metallic minerals	120.1	146.5	135.7	106.4	20.1	22.0	-7.4	-21.6
Metal products	126.2	116.6	98.7	75.6	26.2	-7.6	-15.4	-23.4
Electrical machinery	136.0	184.8	176.9	122.2	36.0	35.9	-4.3	-30.9
Other manufacturing industries	104.5	111.5	96.3	78.1	4.5	6.7	-13.6	-18.9

Source: Central Bank of Uruguay.

<sup>a</sup>Preliminary figures.

transport equipment being especially affected. Textile manufactures and the physical volume of exports of the foodstuffs industry as a whole (both meat and non-traditional products) diminished to a lesser extent. Prominent among the factors hindering foreign sales were the over-valuation of the national currency, the drop in international prices, the world economic recession, and in particular the economic situation in bordering countries.

Sales in the domestic market declined mainly as a result of the reduction in the purchasing power of wage earners and the smaller purchases made by tourists. Other factors affecting sales of manufactures were the partial shift of purchases to adjacent countries (stimulated by the exchange rate), the prevailing high interest rates, and the considerable indebtedness incurred by consumers in previous years.

Substantial reductions in productive activity were consequently recorded in such sectors as textiles (-41%), footwear and clothing (-35%) and leather goods. The rubber products (-56%), paint and auto battery industries were especially affected by the drop in motor vehicle assembly operations, which also influenced activity in the metalworking sector owing to the drop in the two-way trade in components.

The lower private building activity, for its part, particularly affected the production of ceramics, glass and building materials (-22%), while the lower purchases by the agricultural sector affected the output of fertilizers and metal products. In contrast, the output of the foodstuffs industry diminished only slightly (by less than 2%), thanks to an increase in meat-packing activity (see table 5).

iii) *Construction.* This sector was particularly affected by the economic recession in 1982. The contraction of activity was particularly noticeable in private-sector building (-25%), especially in the beach resort area of Punta del Este and in Montevideo. The withdrawal of foreign capital affected this situation to an important extent, since foreign funds had financed a considerable proportion of these activities in the past. Moreover, the prevailing uncertain conditions militated against the channelling of private domestic funds toward this activity. Only the National Housing Plan partly maintained its dynamism, although the Mortgage Bank of Uruguay was given special support to enable it to sustain activity in this sector, which is of importance in the absorption of manual labour. Public works, for their part, decreased by approximately 6% due to the virtual completion of the large hydroelectric projects formerly under construction.

c) *Employment*

Employment fell and unemployment rose in 1982 in line with the drop in general levels of activity. Thus, unemployment rose to 12.7% in the second half of the year after having amounted to 9.6% in the first half of the year and 6.7% in the second half of the preceding year. Trends in this respect, however, differed between the capital city and the rest of the country. Although the unemployment rate in Montevideo was very similar in the second half of 1982 to that in urban areas in the interior (slightly less than 13%), the situation in the latter deteriorated more noticeably during the year. Thus, whereas in the second half of 1981 unemployment came to 7.5% of the labour force in the capital, it was equivalent to only 5.6% in the urban hinterland. Furthermore, the deterioration in the level of employment in 1982 was concentrated in the first half of the year in the case of Montevideo, whereas in the rest of the country it occurred in the second half of the year (see table 6).

Table 6

URUGUAY: EVOLUTION OF UNEMPLOYMENT

	1977	1978	1979	1980		1981		1982	
				Half year		Half year		Half year	
				I	II	I	II	I	II
<b>Unemployment rate<sup>a</sup></b>									
Montevideo	11.8	10.1	8.4	7.7	6.8	5.8	7.5	11.0	12.7
Inland urban	...	...	...	...	...	5.2	5.6	6.9	12.8 <sup>b</sup>
Total	...	...	...	...	...	5.5	6.7	9.6	12.7 <sup>b</sup>
Unemployment rate (Montevideo) <sup>c</sup>	7.9	6.7	5.8	5.1	4.9	3.9	4.9	7.22	8.4 <sup>b</sup>
Employment rate (Montevideo) <sup>d</sup>	47.4	47.2	47.8	49.4	51.7	51.5	52.2	50.2	49.4

Source: Department of Statistics and Censuses.

<sup>a</sup>Percentage of unemployed persons in total economically active population.

<sup>b</sup>ECLA estimates.

<sup>c</sup>Excludes those seeking work for first time.

<sup>d</sup>Percentage of persons employed in the total population aged 14 or more.

Table 7

URUGUAY: MAIN FOREIGN TRADE INDICATORS

	1976	1977	1978	1979	1980	1981	1982 <sup>a</sup>
	<b>Growth rates</b>						
Exports of goods							
Value	46.8	8.2	12.2	14.9	34.3	16.2	-16.8
Volume	45.0	-0.9	4.6	-11.8	18.2	14.6	-13.0
Unit value	1.2	9.2	7.2	30.2	13.7	1.3	-4.4
Imports of goods							
Value	8.6	28.0	3.4	64.3	43.0	-4.1	-34.4
Volume	6.7	27.8	1.3	33.3	12.4	-13.5	-29.7
Unit value	1.8	0.2	2.0	23.3	27.3	10.9	-6.6
Terms of trade (goods)	-1.2	8.4	4.9	6.3	-9.6	-8.4	1.7
	<b>Indexes (1970 = 100)</b>						
Terms of trade (goods)	74.5	80.8	84.7	90.1	81.4	74.6	75.8
Purchasing power of exports of goods	125.5	133.3	145.3	139.1	152.1	160.8	141.1
Purchasing power of exports of goods and services	119.5	136.1	149.4	162.9	169.5	169.8	136.5

Source: ECLA, on the basis of official data.

<sup>a</sup>Preliminary figures.

Table 8

## URUGUAY: EXPORTS OF GOODS, FOB

	Millions of dollars			Percentage breakdown		Growth rates			
	1980	1981	1982	1970	1982	1979	1980	1981	1982
<b>Total</b>	1 059	1 215	1 023	100.0	100.0	14.9	34.3	14.7	-15.8
<b>Main traditional exports</b>	416	513	386	78.0	42.5	-10.4	86.5	23.3	-25.0
Meat	175	246	177	36.7	18.1	7.4	73.2	40.6	-28.0
Wool	219	240	180	35.4	18.4	-21.6	101.2	9.6	-25.0
Others	22	27	29	5.9	3.0	-18.7	66.9	22.7	7.4
<b>Other exports (mainly non-traditional)</b>	643	702	637	22.0	57.5	29.3	13.8	9.2	-9.3
Fishery products	48	58	46	-	4.5	56.5	34.2	20.8	-20.7
Rice	64	109	92	2.0	9.0	74.3	5.2	70.3	-15.6
Foodstuffs, beverages and tobacco	33	31	18	1.7	1.8	-10.7	31.2	-6.0	-41.9
Minerals, ceramics and glass	22	16	12	2.5	1.2	10.3	-31.3	-27.3	-25.0
Products of the chemical and allied industries	31	33	43	...	4.3	56.3	23.2	6.4	30.3
Plastic materials and rubber products	21	26	19	...	1.9	42.9	4.5	23.8	26.9
Processed hides and leather products	144	138	139	12.1	13.6	10.6	-18.7	-4.2	0.7
Textile manufactures	87	89	83	2.7	8.1	24.6	23.0	2.3	-6.7
Transport equipment	24	12	6	-	0.6	150.0	17.5	-17.6	-50.0
Paper, paper-board and related manufactures	13	11	6	-	0.6	80.0	40.0	-15.4	-45.5
Iron, steel, machinery and electrical equipment	34	28	14	-	1.4	100.0	21.4	17.6	-50.0
Miscellaneous	122	152	159	0.9	10.7	27.1	100.7	24.6	4.6

Source: Central Bank of Uruguay.

The unemployment rate proper (i.e., excluding those seeking work for the first time) reached a level of slightly over 8% at the end of the year.

For its part, the employment rate in Montevideo (defined as the percentage of persons employed compared with the total population of 14 or more years of age), amounted to 50% in the first half-year and slightly more than 49% in the second half-year, after having been 52% in the second half of 1981 (see table 6).

### 3. The external sector

#### a) *Merchandise trade*

The year 1982 was marked by a severe contraction in the physical volume of foreign trade in goods. Imports declined significantly (-30%), while exports also contracted, though to a more moderate degree (-13%) (see table 7). The behaviour of imports was due in part to the contraction of domestic activity and to the accumulated stocks carried over from the previous year. Exports were adversely affected by the recession in foreign markets and loss of competitiveness.

Unit export prices dropped by 4% —a trend that had not occurred since 1975— while those of imports declined by 7%. The terms of trade thus improved —by a little under 2%— after having fallen in previous years.

The combined effect of prices and volume led to a drop of 34% in the value of imports and 17% in that of exports, thereby bringing about a reduction in the balance-of-payments current account deficit.

i) *Exports.* The 17% drop<sup>1</sup> in the current value of exports in 1982 referred to above represented a change in the trend of continuous growth observed in the recent past (see table 8). Until 1979 this growth had been due to the strength of sales of non-traditional products, while in the following two years exports of meat and wool had risen appreciably (by 87% in 1980 and 23% in 1981). In 1982, however, both non-traditional and traditional exports declined.

Thus, the current value of traditional exports fell by one quarter. Beef sales diminished by 28% in current dollars, while their tonnage, in terms of meat on the hook, fell by 4% to 161 000 tons. This coincided with an important reduction (of the order of 23%) in the external selling price of this commodity. At the same time the current value of wool exports dropped by 25%, due mainly to the lower physical volume exported, since prices dropped only slightly. Total wool exports—in terms of greasy wool— came to 67 600 tons in the year.

For their part, non-traditional exports fell in value for the first time (by 9%) after several years of considerable expansion. The average annual increase in the five-year period 1975-1979 had exceeded 31%, thereby converting these products into one of the main causes of growth in total demand. Although still high, this growth rate fell in 1980-1981 to a level of 12% per annum, but in 1982 almost all items of importance showed decreases, with the exception of leather (the value of which remained stable) and chemical products. Exports of food products, beverages and tobacco fell by 42%, fishery products by 21%, rice by 16% and textile manufactures by 7%, for example.

ii) *Imports.* Altogether, imports of goods decreased in value during the year by 34%<sup>2</sup> (i.e., twice the decline in export value), after having registered a small drop in the preceding year and a very high rate of expansion (more than 34% annually) in the three-year period 1978-1980. The largest decrease in 1982 was recorded in the case of consumer goods, imports of which contracted by 62%, largely because of lower domestic purchasing power. The contraction of activity and high inventory maintenance costs contributed to the reduction of 44% in imports of raw materials and intermediate commodities (except petroleum). Imports of petroleum and fuels fell in value (by 10%) for the first time in many years. Purchases of capital goods, which were 39% lower than in 1981, reached the lowest level since 1978 (see table 9).

#### b) *The balance of payments position and its financing*

As already noted, the merchandise trade deficit was considerably lower than in the preceding year (US\$ 26 million compared with US\$ 369 million). In contrast, the real services trade balance deteriorated, showing a deficit of US\$ 200 million as against only US\$ 30 million in 1981. In the five-year period 1976-1980 this deficit had amounted on average to US\$ 8 million annually. A decisive influence on this result was the significant deficit of some US\$ 200 million on tourism transactions

Table 9

#### URUGUAY: IMPORTS OF GOODS, CIF

	Millions of dollars			Percentage breakdown		Growth rates			
	1980	1981	1982 <sup>a</sup>	1970	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>a</sup>
<b>Total</b>	1 680	1 641	1 058	100.0	100.0	59.3	39.3	-2.3	-35.5
Consumer goods	178	257	99	10.4	9.4	89.4	126.2	44.3	-61.5
Raw materials and intermediate goods	1 227	1 148	815	64.9	77.0	56.4	28.7	-6.4	-29.0
Petroleum and fuels	455	503	451	14.6	42.6	38.4	56.9	10.5	-10.3
Others	772	645	364	50.3	34.4	61.3	19.6	-16.4	-43.6
Capital goods	276	236	144	24.7	13.6	64.0	58.2	-14.5	-39.0

Source: Central Bank of Uruguay.

<sup>a</sup>Preliminary figures.

<sup>1</sup>Balance-of-payments figures calculated by the Central Bank. According to the figures shown in table 7, also supplied by the Central Bank, the reduction was slightly less (-16%).

<sup>2</sup>At FOB prices. The equivalent decrease in terms of CIF prices was 36%.

Table 10

## URUGUAY: BALANCE OF PAYMENTS

(Millions of dollars)

	1977	1978	1979	1980	1981	1982 <sup>a</sup>
<b>Balance on current account</b>	-172	-133	-363	-716	-470	-467
Trade balance	-106	-57	-309	-618	-399	-229
Exports of goods and services	809	913	1 194	1 526	1 681	1 281
Goods FOB	612	686	788	1 059	1 230	1 023
Real services <sup>b</sup>	197	227	406	468	451	258
Transport and insurance	36	44	72	89	92	80
Travel	117	137	268	298	283	106
Imports of goods and services	914	970	1 504	2 144	2 080	1 510
Goods FOB	687	710	1 166	1 668	1 599	1 049
Real services <sup>b</sup>	228	260	337	476	480	460
Transport and insurance	80	95	124	161	174	127
Travel	96	109	136	203	203	304
Factor services	-68	-77	-55	-100	-74	-240
Profits	-2	-	-	-	-	-
Interest received	12	18	50	68	146	133
Interest paid	-77	-95	-108	-168	-220	-373
Others	-	-	3	-	-	-
Unrequited private transfer payments	2	1	2	2	3	2
<b>Balance on capital account</b>	351	262	453	811	496	-332
Unrequited official transfer payments	5	6	6	7	7	8
Long-term capital	101	152	359	404	347	
Direct investment	66	129	216	289	49	
Portfolio investment	21	-9	-31	-7	3	
Other long-term capital	14	32	174	122	295	
Official sector <sup>c</sup>	-	38	154	108	246	
Loans received	52	103	163	181	276	
Amortization payments	-49	-57	-18	-66	-27	
Commercial banks <sup>c</sup>	-	-2	-3	5	-2	
Loans received	-	-	-	7	-	-340
Amortization payments	-	-2	-2	-2	-2	
Other sectors <sup>c</sup>	13	-4	23	9	51	
Loans received	36	53	41	26	65	
Amortization payments	-23	-57	-18	-17	-14	
Short-term capital (net)	203	-54	94	311	325	
Official sector	16	-9	9	-23	-5	
Commercial banks	74	-39	128	307	87	
Other sectors	113	-7	-42	26	244	
Errors and omissions	42	159	-5	90	-183	
<b>Global balance<sup>d</sup></b>	179	129	91	95	27	-799
Total variation in reserves (- sign indicates an increase)	-201	-183	-25	-174	-26	...
Monetary gold	-1	-10	-46	-84	4	...
Special Drawing Rights	-6	-5	-20	1	-10	41
IMF reserve position	-	-22	-	-13	1	33
Foreign exchange assets	-140	-4	49	-50	-37	240
Other assets	-28	-24	-9	-29	16	...
Use made of IMF credit	-26	-119	-	-	-	96

Source: 1977-1981: International Monetary Fund, *Balance of Payments Yearbook*; 1982: ECLA, on the basis of official data.<sup>a</sup> Preliminary figures.<sup>b</sup> Real services also include other official and private transactions, but not factor services.<sup>c</sup> In addition to loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities.<sup>d</sup> The global balance is the sum of the current account balance plus the balance on capital account. The difference between total variation in reserves of opposite sign and the global balance represents counterpart items: monetization of gold, allocation of Special Drawing Rights, and variations due to revaluation.

(after the pronounced dynamism of former years), due mainly to the high purchasing power of the Uruguayan peso in comparison with the Argentine currency. Net payments of profits and interest, for their part, rose to US\$ 240 million in 1982 after amounting to US\$ 100 million in 1980 and US\$ 74 million in 1981. Thus, the last two results mentioned offset the improvement in trade in goods referred to earlier, with the result that the balance-of-payments current account deficit was practically the same as in 1981, namely some US\$ 470 million (see table 10).

The capital account showed a deficit of a little over US\$ 330 million in 1982, after nine years of favourable balances which in 1980 had amounted to over US\$ 800 million and to nearly US\$ 500 million in 1981. This reversal in external capital flows threw into vivid relief the crisis of the prevailing economic system and was a crucial factor in the adoption of measures to try to give it fresh vitality. The abrupt contraction of foreign capital inflows was due to the deterioration in the situation of international financial markets and the growing inability of the Uruguayan economy not only to attract but also to retain capital from Argentina.

The capital account showed a significant increase in public sector indebtedness, offset by an outflow of private capital estimated at approximately US\$ 1 billion. The consequent movements in the reserves held by the monetary authority gave a negative balance of approximately US\$ 800 million —equivalent to about 80% of the value of exports of goods (see table 10).

Table 11

**URUGUAY: EVOLUTION OF EFFECTIVE REAL EXCHANGE RATE  
INDEXES FOR EXPORTS AND IMPORTS<sup>ab</sup>**  
(1980 = 100)

Averages	Exports	Imports	
		(1)	(2) <sup>c</sup>
1975	130.2	108.4	121.0
1976	136.5	117.6	132.4
1977	136.2	115.9	129.4
1978	133.8	112.0	127.5
1979	109.9	97.9	106.6
1980	100.0	100.0	100.0
1981	93.8	97.8	94.9
I	101.1	107.0	104.7
II	97.1	102.5	99.4
III	90.0	94.2	90.8
IV	92.0	94.0	92.1
1982	110.2	111.4	110.0
I	96.2	98.4	97.5
II	98.8	100.1	99.8
III	93.8	94.6	92.7
IV	147.2	148.4	147.0
1982			
January	95.4	97.2	96.2
February	96.0	98.3	97.4
March	96.8	98.7	97.9
April	97.1	98.6	97.9
May	101.7	102.3	101.5
June	97.4	98.6	98.0
July	94.5	95.2	93.8
August	94.3	95.0	93.2
September	93.7	94.8	93.2
October	95.1	96.1	95.1
November	136.8	139.1	138.0
December	200.8	202.8	200.4

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

<sup>a</sup>These indexes represent the sum of the real exchange rate indexes with respect to the various foreign currencies, weighted according to the geographic breakdown of exports or imports in the light of Uruguay's main trade flows. For further details of the method of calculation employed, see Part Three of the *Economic Survey of Latin America*, 1981.

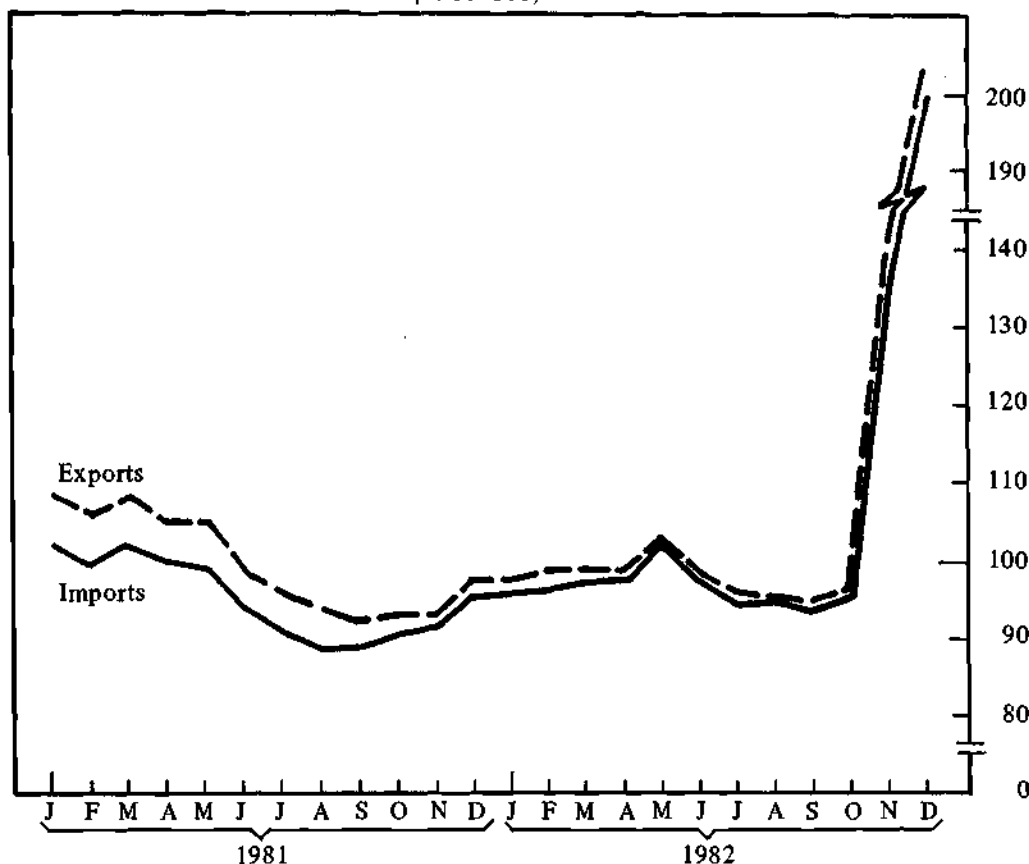
<sup>b</sup>Official exchange rates.

<sup>c</sup>Excluding the three main petroleum exporting countries.

Figure 2

**URUGUAY: EVOLUTION OF EFFECTIVE REAL EXCHANGE RATE INDEXES FOR EXPORTS AND IMPORTS**

(1980=100)



Source: ECLA, on the basis of information supplied by the International Monetary Fund.

c) *Evolution of the real exchange rate*

In so far as exchange rate policy was concerned, the first eleven months of 1982 were characterized by the continuation of the policy applied in the preceding year, which involved daily adjustments in the exchange rate in accordance with a programme publicly announced in advance.

The overvaluation of the Uruguayan peso thus continued unchanged during the period in question. Taking the effective real exchange rate for exports, its value was fairly similar to the 1981 average. Moreover it was almost one-third lower than in 1977, since which year the value of the peso had fallen continuously (see table 11 and figure 2).

However, at the end of November 1982, following an important change in the overall approach to economic policy, the Central Bank decided to withdraw from the exchange market, leaving the peso to find its own level. Thus, from an approximate rate of 14 pesos to the dollar, the level rose by the end of the year to more than 33 pesos.

In view of the size of this nominal devaluation, the effective real value of the peso in terms of exports naturally rose rapidly. The average value in November was similar to the highest levels previously recorded (in 1976 and 1977), and in December alone it rose by 45%. In the case of imports, the variation was proportionately even greater.

d) *External indebtedness*

Gross external indebtedness at the end of 1982 amounted to US\$ 4 200 million dollars —30% more than at the end of 1981 and 2.5 times the debt at the end of 1979. The public sector debt (including that of the Central Bank and other official banks), amounted to more than US\$ 2 600 million and represented 63% of the total. Private sector indebtedness, for its part, came to US\$ 1 550 million (see table 12).

Table 12  
URUGUAY: INDICATORS OF EXTERNAL INDEBTEDNESS  
(Millions of dollars)

	1976	1977	1978	1979	1980	1981	1982 <sup>a</sup>
<b>Total external debt</b>	1 135	1 320	1 240	1 682	2 153	3 129	4 201
Public and State-guaranteed private debt	962	1 028	910	1 012	1 179	1 464	2 651
Private debt not guaranteed by the State	173	292	330	670	974	1 665	1 550
<b>External debt servicing</b>	229	168	343	165	270	279	472
Capital	150	93	248	58	105	59	99
Interest	79	75	95	106	165	220	373
External debt servicing as a percentage of exports of goods and services	32.9	20.8	37.6	13.8	17.7	16.6	34.1

Source: Central Bank of Uruguay.

<sup>a</sup>Preliminary figures.

Table 13  
URUGUAY: EVOLUTION OF DOMESTIC PRICES  
(Percentages)

	1978	1979	1980	1981	1982
<b>Variation between annual averages</b>					
<b>Consumer price index</b>	44.5	66.8	63.5	34.0	19.0
Food	44.5	70.9	57.9	25.6	11.7
Clothing	39.6	72.5	52.3	23.3	9.8
Housing	54.7	58.9	77.8	51.9	30.9
Miscellaneous	37.6	64.5	65.6	35.9	21.3
<b>Wholesale price index (domestic products)</b>	48.6	80.4	41.8	23.4	11.5
Agricultural products	78.0	102.6	18.7	9.8	17.9
Crop-farming products	81.5	58.8	49.9	13.4	12.4
Livestock products	75.7	133.5	3.8	6.9	4.1
Manufactured goods	40.2	72.4	51.6	28.0	14.4
<b>December to December variation</b>					
<b>Consumer price index</b>	46.0	83.1	42.8	29.4	20.5
Food	48.4	86.0	33.5	25.2	13.3
Clothing	39.5	95.2	27.7	18.8	8.0
Housing	45.6	78.8	63.7	42.9	28.8
Miscellaneous	44.9	76.9	47.9	26.3	27.9
<b>Wholesale price index (domestic products)</b>	59.6	77.1	28.6	14.9	33.5
Agricultural products	92.0	63.4	16.7	5.2	17.9
Crop-farming products	86.2	39.3	68.3	14.2	-5.5
Livestock products	95.6	78.0	-7.9	-2.7	41.9
Manufactured goods	49.3	82.7	32.9	18.1	37.9

Source: Central Bank of Uruguay and Department of Statistics and Censuses.



The evolution of these two components showed considerable differences in comparison with previous years. Thus, in the period 1977-1980 the external public debt had risen at an annual rate of only 5%, but in 1981 this rate increased rapidly to 24% and in 1982 the growth was 80%. Furthermore, apart from this considerable expansion, the profile of the public debt deteriorated, partly because of short-term loans contracted to finance housing and public works programmes owing to the interruption of long-term international financing.

In contrast, private sector indebtedness, including foreign-currency deposits held by non-residents and other commercial bank liabilities, diminished slightly (by US\$ 115 million, or 7%), mainly because of the withdrawal of non-resident bank deposits amounting to slightly over US\$ 200 million. Over the five-year period 1977-1981, however, this debt had grown at an average annual rate of 57%.

#### 4. Prices and wages

##### a) *Prices*

Two clearly differentiated phases may be distinguished in the evolution of prices during 1982. In the first, which covered the period January-November, there was a further deceleration of inflation, thus following the trend observed since 1980. In order to reduce inflationary pressures, the Government maintained during this period the pre-existing policy based on prior announcement of the exchange rate and opening-up of the economy to the exterior with a view to broadening the supply of goods in competition with national products therefore continued without restriction, and steps were taken to complete the elimination of superfluous protectionist measures. These policies, combined with the weakening of domestic demand that had been acting as a deterrent to inflation since the preceding year, accounted for the fact that during the first eleven months of the year domestic prices rose by a total of less than 11%. This contrasted noticeably with events in previous years, since in 1980 and 1981 the December-December increase in the prices of consumer goods had been 43% and 29%, respectively (see table 13 and figure 3).

The second phase, however, began at the end of November when, as mentioned earlier, the Central Bank abandoned its policy of making advance announcements of predetermined exchange rates. Thus, an important adjustment of domestic prices took place in December, with the general level of retail prices rising in the month by almost 9%. This adjustment might even have been greater, since steps were not immediately taken to correct wages or public-service tariffs, and in addition the low level of domestic demand continued to restrain prices.

Finally, the consumer price index rose in the year by 21%, or by 19% compared with 1981 on the basis of annual averages. Among the items whose prices rose more than the general level were housing and those in the "miscellaneous" group (medical services, educational expenses, recreation, and other services). Housing rose by 29% while, in the latter group, educational costs increased by 38%, fuels and others by 33%, and transportation by 30%.

Clothing was the item showing the lowest price increase in this period, rising by 8% (although it had risen by only half a percentage point between January and November). The food price index, for its part, rose in the year by 13% as a result of an increase of 11% in December alone. In both cases the main reason for the trend observed in the first eleven months of the year were the generalized drop in demand and —to some extent— the diversion of purchases to bordering countries. Moreover, in the case of foodstuffs, meat prices had a noticeable effect in this direction.

The general level of wholesale prices of domestic goods rose by a third in 1982. In the period January-November the increase in this case amounted to 9%, but by the end of the year the total rose to 22%.

While the prices of crop-farming products fell by 6%, those of livestock products rose by almost 42% and manufactured products by 38% (two-thirds of the increase occurring in both instances in the last month of the year). Lower external prices were to a large extent responsible for the variation in the prices of crop-farming products.

The differing evolution of the wholesale and retail price indexes in the month of December was due to the particular mixes and weightings considered in each instance, with tradeable goods predominating in the case of the wholesale index.

Figure 3  
 URUGUAY: TWELVE-MONTH VARIATION IN DOMESTIC PRICES

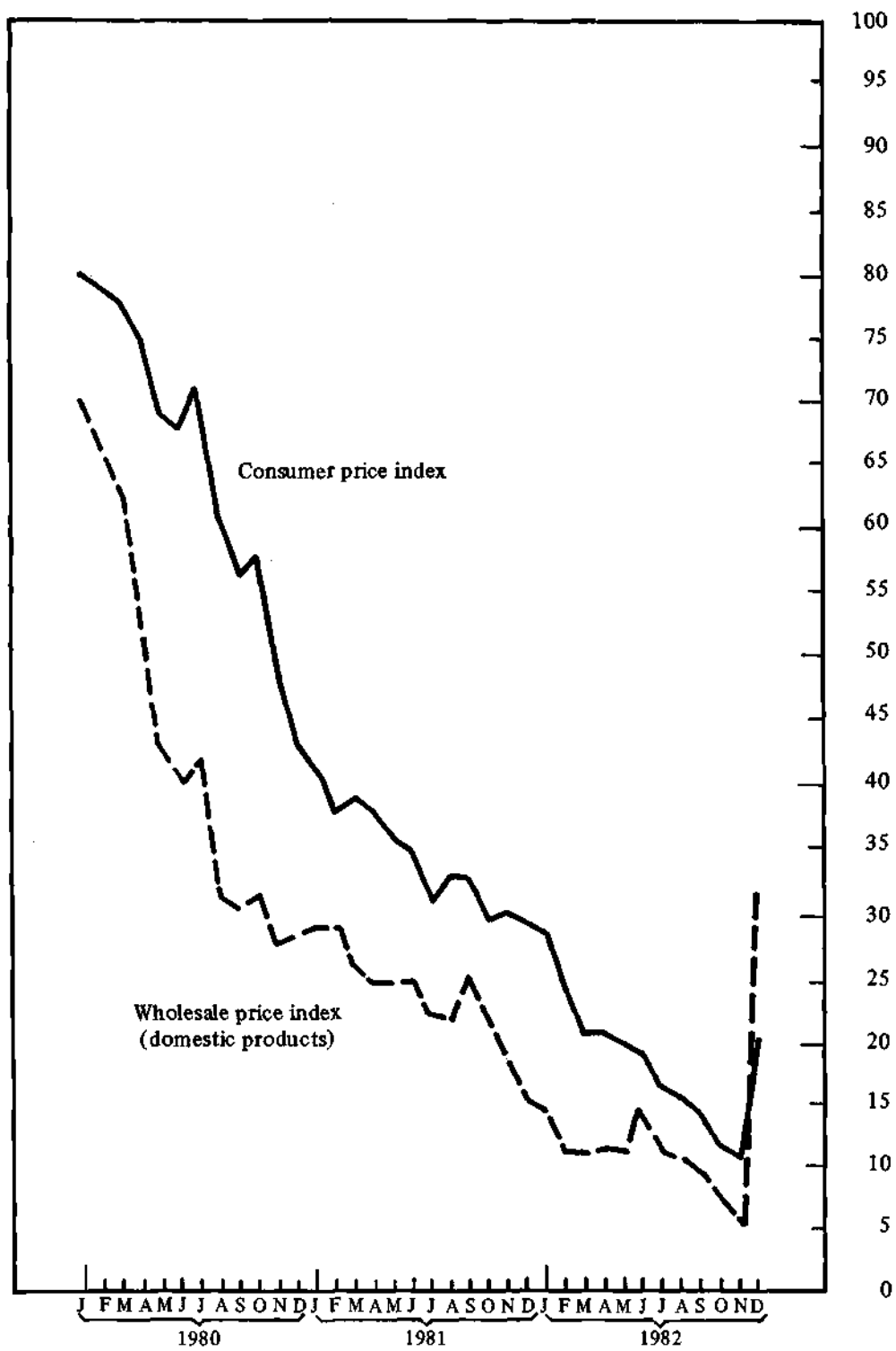


Table 14

## URUGUAY: EVOLUTION OF WAGES

(Variation between annual averages)

	1977	1978	1979	1980	1981	1982
<b>Nominal wages<sup>a</sup></b>	39.0	39.6	52.6	64.4	43.6	18.3
Public sector	40.6	40.4	54.5	74.6	42.7	18.6
Private sector	37.6	38.9	50.8	54.6	44.6	17.8
<b>Real wages<sup>b</sup></b>	-11.9	-3.6	-8.1	-0.4	7.5	-0.3
Public sector	-10.9	-3.0	-7.1	5.9	7.1	-0.1
Private sector	-12.8	-4.1	-9.0	-6.3	-7.9	-0.7

Source: Department of Statistics and Censuses.

<sup>a</sup>Calculated on the basis of the minimum increases decreed by the Government up to October 1980, and thereafter on wages actually paid.<sup>b</sup>Deflated by the consumer price index.b) *Wages*

In 1982 the general nominal wage index rose by almost one-fifth, with a slightly greater increase in the public than in the private sector (19% and 18%, respectively). In real terms, however, wage levels fell, since the average growth of domestic prices in the year was slightly higher. This reversed the trend observed in 1981, when real wages rose by 8% after five years of continuous decline (see table 14).

In terms of the December-December variation, the drop in the real value of wages in 1982 was appreciably greater (-11%) since only one nominal wage increase was granted in the year (10% in the month of January), and this was diluted in July by the introduction of a tax on wages (1% or 2% depending on the level of remuneration) and by an increase in social security contributions in November.

## 5. Monetary and fiscal policy

a) *Monetary policy*

As in previous years, the basic objective of the Central Bank during 1982 was to reduce the rate of inflation, endeavouring to ensure that this was no greater than the rate of international price rises. The instrument used for this purpose during the first eleven months of the year was the management of the exchange rate. It was thus hoped that by determining the money supply in accordance with external developments, any discrepancy between monetary supply and demand would be resolved through the medium of the balance of payments, namely by the movement of excess money to the exterior through the current and capital accounts.

In pursuit of the chosen objective, the exchange rate continued until November to be managed in accordance with the previous system involving announcement of the rate of six months in advance. Monetary control policy instruments were not resorted to, because it was felt that they might generate distortions in the financial market without ensuring control of liquidity. Compulsory bank reserves and free market operations had already been abandoned since 1979, while bank rediscounting was discontinued even earlier. By this means complete neutrality of the monetary authority was sought in respect of any rise or fall in the monetary base. This policy was however abandoned in the last month of the year, when the Central Bank withdrew from the foreign exchange market and left the peso to float freely. This decision was the result of the many imbalances and pressures that had built up during the year in the productive and external sectors, and was therefore part of a broader effort to modify the economic system applied up to that time.

In 1982 the nominal money supply increased by one-fifth, although remaining constant in real terms (see table 15). This was due to a much greater acceleration in the nominal expansion of currency held by the public than in the amount of current account deposits. Indeed, the value of the latter in real terms fell in 1982 for the third consecutive year.

Prominent among the factors of absorption were the variations in savings and time deposits in national currency and in foreign currency deposits. The real value of the former dropped (by 13%) for the first time in several years, after having slackened to a nominal growth level of 32% in 1981 (although still representing positive growth in real terms) after successive annual rates in excess of 100%. For its part, the peso value of foreign currency deposits rose by almost 150%, but this was entirely due to the considerable end-November devaluation, since in dollar terms these deposits fell by 15%, to a little over US\$ 310 million.

Table 15  
URUGUAY: MONETARY BALANCE

(Billions of pesos)

	End-year balances				Growth rates			
	1979	1980	1981	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>a</sup>
<b>Money</b>	5.8	8.7	9.8	11.8	88.5	50.7	12.5	20.4
Currency outside banks	3.2	5.1	6.1	7.9	75.9	60.1	20.4	29.5
Demand deposits	2.6	3.6	3.7	3.9	106.4	39.3	1.4	5.4
<b>Factors of expansion</b>	27.0	43.5	64.2	101.9	72.1	61.0	37.1	58.7
International reserves (net)	8.0	9.8	14.4	-10.3	31.0	22.0	46.9	
Domestic credit	19.0	33.7	49.8	112.2	98.4	77.4	47.8	125.3
Government (net)	0.8	1.2	2.3	15.9	-44.4	44.7	88.6	
Official entities	-0.8	-1.9	-0.7	0.4				
Private sector	19.1	34.3	48.2	95.9	116.3	79.7	40.5	99.0
<b>Factors of absorption</b>	21.2	34.7	54.4	90.1	71.4	63.9	43.2	65.6
Quasi-money (savings and time deposits)	6.3	13.4	17.7	18.6	130.2	112.9	32.3	5.1
Deposits in foreign currency	7.8	12.2	24.7	61.2	69.4	56.2	79.7	147.8
Other items (net)	7.1	9.1	12.0	10.3	41.2	28.0	10.0	-14.2

Source: Central Bank of Uruguay.

<sup>a</sup>Preliminary figures.

Table 16  
URUGUAY: BANK INTEREST RATES

	Nominal interest rate for loans <sup>a</sup>	Rate of inflation <sup>b</sup>	Real interest rate
<b>1980</b>			
March	67.4	78.1	-6.0
June	68.3	67.8	0.3
September	65.6	56.5	5.8
December	65.1	42.8	15.6
<b>1981</b>			
March	63.7	38.7	18.0
June	57.4	34.8	16.8
September	58.6	32.7	19.5
December	59.8	29.4	23.5
<b>1982</b>			
March	49.0	22.3	21.8
June	54.8	18.9	30.2
September	65.9	14.7	44.6
December	76.3	20.5	46.3

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

<sup>a</sup>Most frequent normal rates charged by the five most representative banking institutions at the end of the periods shown, applicable to fixed-term transactions in national currency of a duration of up to six months.

<sup>b</sup>Twelve-month variation in the consumer price index.

The contraction of international reserves was compensated by the extremely rapid expansion of domestic credit (87% in real terms) to both the public and private sectors.

Credit to the former increased in nominal terms almost eight times, thereby representing 14% of total domestic credit in 1982 as compared with 5% in 1981. This was because the extremely rapid growth of the government deficit in 1982 made it necessary to provide the National Treasury with a high volume of financial assistance.

Credit to the private sector doubled in nominal terms after having shown lower growth rates in the two preceding years. Thus, its growth rate in real terms in 1982 exceeded 65%, whereas in 1981 it had been less than 9% and it had only slightly exceeded 25% in 1980. An important proportion of the 1982 increase, however, consisted in the refinancing of existing credits as a result of the growing difficulties faced by debtors in repaying their loans and even in meeting interest commitments. The increase also included assistance to the banks to enable them to deal with a considerable withdrawal of deposits at the end of the year. Moreover, credit to the Mortgage Bank of Uruguay increased considerably as part of an effort to maintain an appropriate financing level for building programmes in order to compensate the contraction of activity in other economic sectors.

National currency interest rates in nominal terms on loans reached a level of 76.3% at the end of the year. This represented a significant increase compared with the situation prevailing twelve months earlier. For their part, real interest rates on loans rose from an average of 23.5% in December 1981 to a record level of 46.3% in December 1982 (see table 16).

Lending rates in foreign currency did not vary significantly in the year under review. They reached a level of 20% in the middle of the year, but subsequently fell back to 18.2% in line with international trends. Deposit rates in foreign currency fell from 13.1% in December 1981 to 10.2% at end-1982.

#### b) *Fiscal policy*

The difference between central government income and expenditure in 1982 showed a considerable contrast compared with previous years. After recording surpluses in two consecutive periods (1979 and 1980) and a small deficit (equivalent to 0.5% of expenditure) in 1981, 1982 closed with a significant imbalance of approximately 36% of total expenditure (see table 17). In other words, after income and expenditure had grown at similar rates in previous years, in 1982 income fell by 8% while expenditure rose by almost 44%, both expressed in current values. The reduction of fiscal revenue meant that the tax burden in 1982 was only 14.4% compared with 16.8% in the preceding year.

The lower tax receipts in 1982 were mainly due to a drop in revenue from the value-added tax (-6%), together with lower yields from taxes on income and foreign trade (-17% in each case). These reductions were intimately connected with the negative trend of national production and the contraction of foreign trade—especially of imports. The three main types of taxation mentioned represented 94% of total government tax revenue in 1982. Revenue from taxes on wealth and tobacco rose by 17% and 23%, respectively, the last-named therefore being the only item of government income to grow in real terms.

As regards government expenditure, the most active item was "other current expenditure" (especially transfers and interest payments), which expanded by some 75% in 1982 compared with the preceding year. Salary and wage payments and social security contributions, for their part, were 58% higher than in 1981, with the latter increasing more than proportionately owing to the application of indexation based on inflation in the preceding period. Finally, capital expenditure also increased, though at a lower rate than in previous years. On the other hand, a reduction was achieved in the nominal cost of purchases of goods and services as a result of the application of measures to contain expenditure.

Four-fifths of the financing of the central government deficit was covered by net credit supplied by the monetary authorities and the Bank of the Republic. This represented another significant change in economic policy during the year, since until 1981 one of the most highly publicized principles of the policy in force was the elimination of this kind of financing, which even showed a negative result in 1980.

Attempts were made during the course of the year to correct the growing financial imbalance. Towards the end of the first half of the year the tax burden was raised by increasing the value-added

tax rate (VAT) from 8% to 12%, the application of this tax also being extended to include services rendered by university-trained professionals. At the same time, the income-tax rate for industry and commerce was increased from 25% to 30%, and certain specific taxes on consumption were also raised. In the field of external trade policy a dual measure was instituted in the form of a general 10% export subsidy and a 10% surcharge on the CIF cost of all imports, on top of the prevailing customs duty. The combined effect of these two measures was tantamount to devaluation in the merchandise market. Finally, as already mentioned, a wages tax was instituted at a rate of 1% to 2%, depending on the level of remuneration.

Several other changes were introduced towards the end of the third quarter with a view to reducing the assistance given by the Treasury to the social security system, while at the same time new measures to bolster up fiscal revenue were adopted. In accordance with the first of these aims an attempt was made to halt the vegetative growth of the commitments of the system, amounting to about 5% annually. For this purpose, certain minimum age limits were established for retirement benefits (60 years for men and 55 for women). Another measure introduced was the obligation for

Table 17

URUGUAY: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of pesos				Growth rates			
	1979	1980	1981	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>a</sup>
1. Current income	8 424	14 955	21 260	19 552	93.7	77.5	42.2	-8.0
Internal taxes <sup>b</sup>	5 705	10 695	14 804	13 487	75.2	87.5	38.4	-8.9
On production, consumption and transactions	5 221	9 287	13 514	...	70.2	77.9	45.5	
Value added	(2 751)	(5 676)	(8 515)	(7 982)	(80.2)	(106.3)	(50.0)	(-6.3)
Fuels	(973)	(1 661)	(2 117)	(1 998)	(67.1)	(70.8)	(27.4)	(-5.6)
Tobacco	(459)	(912)	(1 251)	(1 535)	(54.7)	(98.9)	(37.1)	(22.7)
Others	(1 038)	(1 056)	(1 631)	(...)	(56.8)	(-)	(57.3)	
On income	1 038	2 363	2 427	2 016	82.4	127.7	2.7	-16.9
On wealth	282	724	1 094	1 284	33.0	157.0	51.0	17.4
Taxes on foreign trade	1 597	2 753	3 199	2 669	190.2	72.4	16.2	-16.6
Other income	1 123	1 507	3 257	3 396	106.3	34.3	116.1	4.3
2. Current expenditure	7 260	13 080	18 817	27 503	79.6	80.2	43.9	46.1
Wages and salaries	3 282	5 980	8 800	...	68.5	82.2	47.1	
Contributions and assistance to the social security system	1 117	3 464	4 866	21 573	67.9	210.1	40.5	57.9
Purchase of goods and services	1 397	2 466	3 766	3 526	82.6	76.6	52.7	-6.3
Other current expenditure <sup>c</sup>	1 464	1 170	1 385	2 404	120.4	-20.1	18.3	73.6
3. Current savings (1 - 2)	1 164	1 875	2 443	-7 951	278.4	61.1	30.3	
4. Investments	1 040	1 799	2 560	3 258	46.9	73.0	42.2	27.2
5. Total expenditure (2 + 4)	8 300	14 879	21 377	30 761	74.7	79.3	43.7	43.8
6. Fiscal deficit or surplus (1 - 5)	124	76	-117	-11 209				
7. Financing								
Net credit by Central Bank/ Bank of the Republic	205	-168	396	8 915				
Issue of securities (net) <sup>d</sup>	363	-313	49	1 479				
Other	34	405 <sup>e</sup>	230 <sup>e</sup>	815 <sup>e</sup>				

Source: Up to and including 1981: Government Accounts Department. For 1982: National Treasury. The figures for the internal tax components come from the Tax Department.

<sup>a</sup>Preliminary figures.

<sup>b</sup>Including other tax revenues, documents received, and adjustments for discrepancies between information on cash and collections.

<sup>c</sup>Including transfer payments, interest payments on the public debt, and affected income.

<sup>d</sup>Including net sale of bonds and public debt amortization bills.

<sup>e</sup>Including variations in Treasury position and uncleared checks.

sectors not so far subjected to direct social security contributions (such as rural employers) to become contributors to the system. Higher contributions were also instituted as part of the principle of standardization of the terms affecting all sectors of activity covered by social security.

In so far as government revenue was concerned, it was decided to raise certain taxes and dues as from 1983. The wealth tax rate was accordingly increased by 25% and the real estate tax on urban, suburban and rural properties by 100%.

Finally, the measures adopted in November in the sphere of foreign exchange policy should also have the indirect effect of raising revenue in future, through the generation of a higher level of prices in the national economy.





## VENEZUELA

### 1. Recent economic trends: Introduction and summary

Deterioration of the international economic situation, and in particular that of the petroleum industry, had a marked effect on developments in the economy of Venezuela in 1982, making it necessary to introduce significant changes in policies being implemented at that time.

A severe drop of 21% in petroleum exports affected almost the entire national economy. Since at the same time imports rose by 6%, the trade balance showed a negative result for the first time since 1978. To these developments was added an increase of 27% in foreign debt service payments, with the result that the current account showed a negative balance of approximately US\$ 3.5 billion. This adverse position represented a radical reversal in comparison with 1981, when the trade account showed a surplus of more than US\$ 4 billion (see table 1 and figure 1).

Moreover, deterioration in the petroleum sector reduced current government income by 16%, and a fiscal deficit of over 8 billion bolívares<sup>1</sup> was recorded in the year in spite of a contraction of 9% in total expenditure.

These circumstances had an adverse effect on domestic activity. The gross domestic product remained almost stationary (increasing by only 0.6%), thereby bringing about a drop in per capita product for the fifth successive year. A small increase in the agricultural sector failed to compensate the contraction recorded in petroleum, mining and construction, or the deceleration noted in the production of services.

Employment indicators also confirmed the downward trend. The unemployment rate again rose in the first half year to a level of more than 7%. Inflation continued to drop, with the result that the average increase in consumer prices in the year amounted to less than 10%. However, since this figure was equivalent to twice the increase in nominal family income (5%), the latter showed a contraction in real terms.

In view of this declining situation the policy in force since 1979 had to be partly modified with the aim of improving internal efficiency and controlling inflationary pressures. Although some subsidies were introduced and most productive investments remained unaffected, the contraction of current government income made it necessary to apply a fairly restrictive fiscal spending policy. On the other hand, significant changes were introduced in the monetary sphere. These had the dual purpose of reestablishing external equilibrium and promoting domestic savings. With these objectives in mind, rediscounts and advances to the commercial banks were stepped up, thereby tipping in favour of Venezuela the difference between domestic interest rates and those prevailing in the United States. Import policy was again tightened up during the year, in the form of an increase in customs duties and a ban on foreign purchases of some products. Imports —at constant prices— nevertheless grew by 9%, affected to a certain extent by stock accretion in the light of persistent rumours of devaluation. Furthermore, it was not possible to restrain the constant outflow of foreign currency which continued throughout the year and reached unparalleled proportions. A loss of US\$ 7 billion in the country's international reserves was consequently recorded, and was barely compensated by the revaluation of gold reserves and centralization of international public-sector assets under the control of the Central Bank.

<sup>1</sup>The exchange rate throughout 1982 was 4.3 bolívares = US\$ 1.

## 2. Trends in economic activity

### a) *Total supply and demand*

The total supply of goods and services increased by almost 3% in 1982, thereby partially reversing the decreases recorded in 1979 and 1980 and recovering slightly from the virtual stagnation experienced in 1981. The 1982 level nevertheless barely equalled that of 1979 and was 3% lower than in 1978 (see table 2).

This small increment was mainly due to the constant growth of imports, since the gross domestic product remained practically unchanged. The importation coefficient consequently rose for the second successive year, reaching the high level of 35%, as against 32% in 1978 and barely half this ratio in the early 1970s.

Table 1

### VENEZUELA: MAIN ECONOMIC INDICATORS

	1977	1978	1979	1980	1981	1982 <sup>a</sup>
<b>A. Basic economic indicators</b>						
Gross domestic product at market prices (in millions of 1970 dollars)	19 404	19 982	20 169	19 806	10 877	19 994
Population (millions of inhabitants)	14.1	14.6	15.1	15.6	16.2	16.7
Per capita gross domestic product (in 1970 dollars)	1 337	1 379	1 371	1 336	1 268	1 197
<b>Growth rates</b>						
<b>B. Short-run economic indicator</b>						
Gross domestic product	6.8	3.0	0.9	-1.8	0.4	0.6
Per capita gross domestic product	3.1	-0.6	-2.5	-5.1	-3.0	-2.7
Gross income <sup>b</sup>	5.3	0.1	9.2	3.8	-1.2	-2.9
Terms of trade (goods and services)	0.8	-10.7	29.9	25.7	2.9	-0.7
Current value of exports of goods and services	5.0	-3.6	52.6	33.5	3.7	-16.7
Current value of imports of goods and services	39.8	15.4	-6.4	6.5	13.0	6.4
Consumer prices <sup>c</sup>						
December - December	8.1	7.0	20.5	19.6	10.8	7.7
Variation between annual averages	7.8	7.1	12.3	21.6	16.1	9.9
Money	25.0	21.0	6.7	13.7	7.1	-8.3
Wages and salaries <sup>d</sup>	17.0	17.3	14.8	20.8	9.8	5.0 <sup>e</sup>
Rate of unemployment <sup>f</sup>	4.8	4.7	5.4	5.9	6.2	7.1 <sup>g</sup>
Current government income	-6.3	-6.2	24.8	25.2	47.8	-15.6
Total government expenditure	13.7	1.0	-0.4	43.0	29.7	-8.8
Fiscal deficit/total government expenditure <sup>f</sup>	20.2	21.7	1.8	14.0	2.0	9.3
<b>Millions of dollars</b>						
<b>C. External sector</b>						
Trade balance (goods and services)	-2 985	-5 366	760	4 839	3 611	-931
Balance on current account	-3 125	-5 697	371	4 749	4 045	-3 424
Balance on capital account	2 966	3 866	606	-4 797	-1 551	704
Variation in net international reserves	-171	-1 833	1 104	61	2 676	215
External debt <sup>h</sup>	4 715	7 252	8 215	9 655	9 514	12 101

Source: ECLA, on the basis of official data.

<sup>a</sup>Preliminary figures.

<sup>b</sup>Gross domestic product plus terms-of-trade effect.

<sup>c</sup>Cost-of-living index for the Caracas metropolitan area.

<sup>d</sup>Average family income.

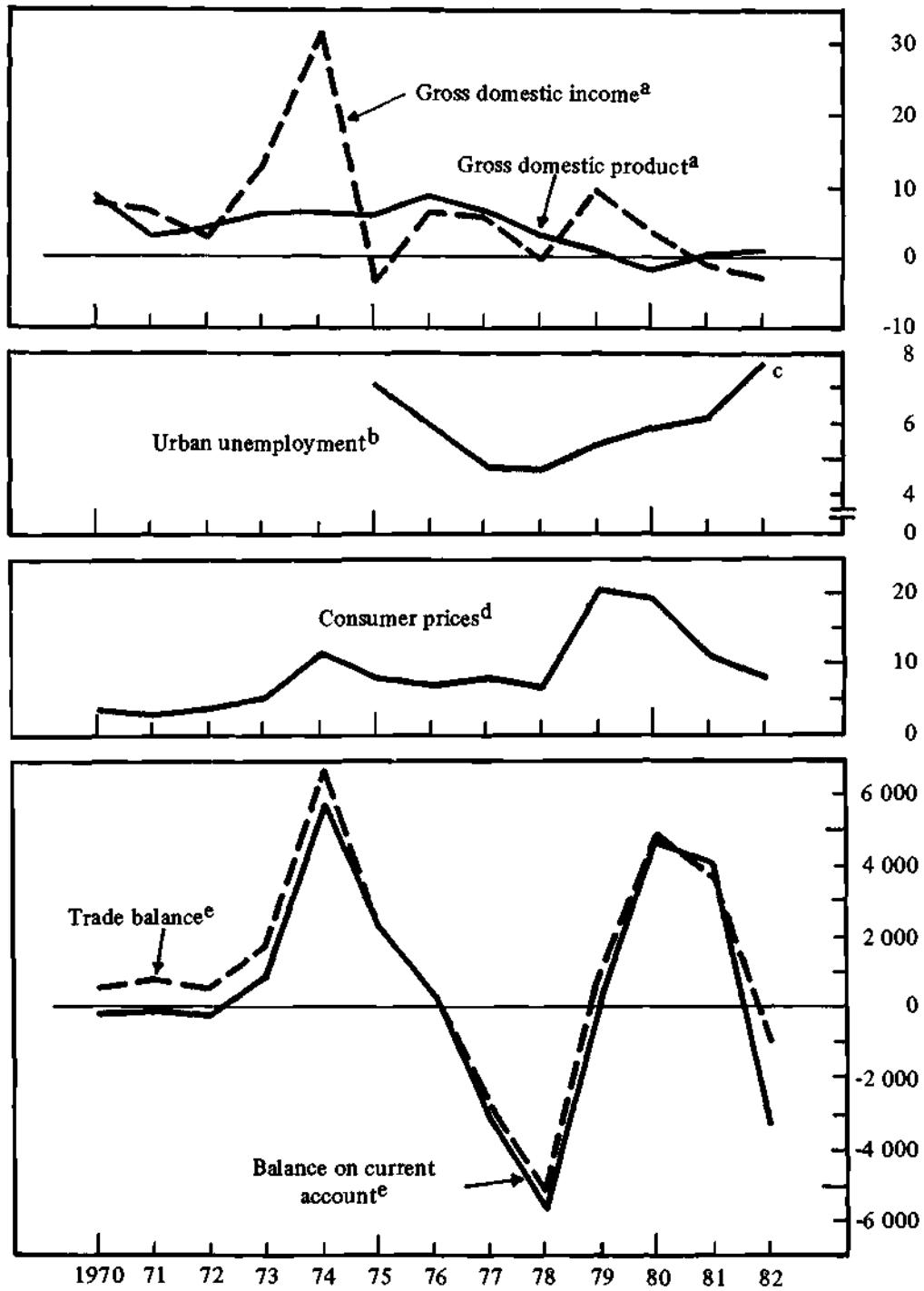
<sup>e</sup>First half of year compared with the same period in 1981.

<sup>f</sup>Percentage.

<sup>g</sup>First half of year.

<sup>h</sup>Refers to the public debt incurred under the terms of the Law on Public Credit.

Figure 1  
**VENEZUELA: MAIN ECONOMIC INDICATORS**



Source: ECLA, on the basis of official data.  
<sup>a</sup>Annual growth rate.  
<sup>b</sup>Average annual rate for whole country.  
<sup>c</sup>First half of year.  
<sup>d</sup>Percentage variation, December - December.  
<sup>e</sup>Millions of dollars.

Expansion of demand was accounted for exclusively by an increase of almost 6% in total consumption after a stagnant position in 1981. Although precise information is not available on the evolution of individual component of demand, it is probable that, as distinct from the situation in 1981, the consumption of the population will have increased at a greater rate than that of the government, since low tax receipts brought about a severe contraction in public spending. Stock fluctuations were also influential in this respect,<sup>2</sup> a marked increase being recorded in those held by the petroleum industry. On the other hand, gross fixed investment showed only a small contraction. The increase of 9% in public investment failed to counteract the considerable contraction in private investment (-18%) recorded for the fifth consecutive year. However, the investment coefficient continued at approximately 30% —an undoubtedly high rate in comparative international terms.

For its part, export volume continued the declining trend observed since 1971 and showed a drop in the year of almost 14% due to lower external demand for hydrocarbons and other traditional export commodities.

#### b) *Evolution of the main sectors*

As already mentioned, the gross domestic product remained virtually unchanged in 1982 for the second successive year. Although showing positive results, rates of expansion of service activities were lower than in the preceding year. The increases in question barely compensated a drop in the production of goods for the third consecutive year, this to some extent being due to the low level of operations in petroleum and mining and in the construction industry (see table 3).

i) *The petroleum sector.* Petroleum extraction showed a continuation of the regular decline observed since 1971 and only temporarily interrupted in 1973 and 1979. The decrease in 1982 (-10%) was, however, much greater than in previous years and crude oil output fell as a result to a level slightly below 700 million barrels. This volume, representing a daily output of 1 896 000 barrels, was equivalent to almost half the level recorded in 1970 (see table 4).

Marked changes in the international energy situation since mid-1981 were decisively influential in the lower level of activity in the petroleum industry during the year. Demand contracted noticeably

Table 2

#### VENEZUELA: TOTAL SUPPLY AND DEMAND

	Millions of dollars at 1970 prices			Percentage breakdown		Growth rates		
	1980	1981	1982 <sup>a</sup>	1970	1982 <sup>a</sup>	1980	1981	1982 <sup>a</sup>
<b>Total supply</b>	26 111	26 276	26 988	116.9	135.0	-3.2	0.6	2.7
Gross domestic product at market prices	19 806	19 877	19 994	100.0	100.0	1.8	0.4	0.6
Imports of goods and services <sup>b</sup>	6 305	6 399	6 994	16.9	35.0	-7.2	1.5	9.3
<b>Total demand</b>	26 111	26 276	26 988	116.9	135.0	-3.2	0.6	2.7
Domestic demand	24 182	24 530	25 482	95.9	127.5	-3.8	1.4	3.9
Gross domestic investment	...	...	...	...	...	...	...	...
Gross fixed investment	5 794	6 139	6 069	22.1	30.4	-18.5	6.0	-1.1
Construction	3 033	2 929	2 766	12.8	13.8	-34.3	-3.5	-5.5
Machinery	2 761	3 211	3 303	9.3	16.6	10.5	16.3	2.9
Public	3 121	3 884	4 227	5.1	21.1	7.3	24.5	8.8
Private	2 673	2 255	1 842	17.0	9.3	-36.3	-15.6	-18.3
Total consumption <sup>c</sup>	18 388	18 391	19 413	73.8	97.1	3.5	-	5.6
Exports of goods and services <sup>b</sup>	1 929	1 746	1 506	21.0	7.5	-7.5	-9.5	-13.8

Source: ECLA, on the basis of official data.

<sup>a</sup> Preliminary figures.

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

<sup>c</sup> Including variations in stocks.

<sup>2</sup>In table 2, stock variations are included in total consumption.

Table 3

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

	Millions of dollars at 1970 prices			Percentage breakdown		Growth rates		
	1980	1981	1982 <sup>a</sup>	1970	1982 <sup>a</sup>	1980	1981	1982 <sup>a</sup>
<b>Gross domestic product<sup>b</sup></b>	18 732	18 799	18 910	100.0	100.0	-1.8	0.4	0.6
<b>Goods</b>	7 022	6 868	6 788	45.6	35.5	-3.7	-2.2	-1.2
Agriculture	1 277	1 253	1 298	7.6	6.8	1.9	-1.9	3.6
Petroleum	1 628	1 556	1 453	21.2	7.6	-6.2	-4.4	-6.6
Extraction	1 298	1 258	1 151	17.4	6.0	-7.0	-3.1	-8.5
Refining	330	298	302	3.8	1.6	-2.7	-9.7	1.3
Mining (excluding petroleum)	170	168	142	1.4	0.7	1.8	-1.2	-15.5
Manufacturing <sup>c</sup>	2 752	2 729	2 789	11.2	14.5	1.6	-0.8	2.2
Construction	1 195	1 162	1 106	4.2	5.8	-16.5	-2.8	-4.8
<b>Basic services</b>	3 052	3 229	3 303	12.6	17.3	1.5	5.8	2.3
Electricity, gas and water	542	592	626	1.7	3.3	12.0	9.2	5.9
Transport, storage and communications	2 510	2 637	2 677	10.9	14.0	-0.6	5.0	1.5
<b>Other services</b>	8 761	8 905	9 023	41.8	47.2	-2.0	1.6	1.3
Wholesale and retail trade, restaurants and hotels	1 760	1 716	1 754	11.0	9.2	-15.5	-2.5	2.2
Financial institutions, insurance, real estate, and business services	2 472	2 543	2 605	12.9	13.6	2.1	2.9	2.4
Community, social and personal services	4 529	4 646	4 664	17.9	24.4	2.1	2.6	0.4
Government services	2 930	3 035	3 074	11.7	16.1	2.0	3.6	1.3

Source: ECLA, on the basis of figures supplied by the Central Bank of Venezuela.

<sup>a</sup>Preliminary figures.

<sup>b</sup>As the individual activities and totals were calculated independently, the sum of the former does not coincide exactly with the latter.

<sup>c</sup>Excludes petroleum refining.

due to several factors of a structural and circumstantial character. World consumption of petroleum fell slightly in the year (-0.2%) while consumption in the OECD countries dropped by 5.3%. In addition to recession in the industrialized countries, other contributory factors were the adoption since 1973 of policies designed to save fuel in the light of the new comparative price situation. Thanks to these policies, energy yields rose considerably together with a greater substitution of other fuels for petroleum.<sup>3</sup>

Some significant changes have also come about in the sphere of supply. On the one hand, many countries have been endeavouring to start petroleum production within their own borders in order to cover an increasing proportion of their requirements. On the other, new large producing countries such as Mexico and the United Kingdom have increased their production levels but remained outside OPEC, the influence of which has consequently become weaker. The participation of OPEC in world petroleum production fell from 53% in 1973 to slightly under 37% in 1981. It dropped further in 1982 to 33.5%, the OPEC countries reducing their total output by more than 21% while other producing countries increased theirs by 1.4%.

Moreover, disagreement between the OPEC member countries became more acute in the course of the year. At a special meeting held in March, the organization decided to freeze reference prices and cut back production, establishing maximum allocations for each producing country. The Venezuelan quota was fixed at 1 500 000 barrels/day — a figure 30% below the target of 2 200 000 barrels/day

<sup>3</sup>In particular, inputs of energy and petroleum per unit of production have shown considerable decreases. Thus, real gross domestic product in the OECD countries rose by 19% between 1973 and 1980, while energy consumption grew by only 4% and that of petroleum contracted by 3% in the same period. For further details, see Agence Internationale de l'Énergie (AIE), *World Energy Outlook*, Paris, 1982.

established by the government. Crude oil production consequently fell from 1 840 000 barrels/day in the first quarter of the year to 1 526 000 in the second quarter. As from July, however, OPEC was unable to reach agreement on production quotas, with the result that Venezuela no longer considered herself obliged to abide by the aforementioned quota and increased production in the third quarter to 1 780 000 barrels/day and to 2 225 000 in the fourth quarter. The latter figure was even higher than the average daily output recorded in the preceding year.

Thus, to the over-supply of hydrocarbons was added a change in market relationships. While the latter became freer, they also became more unstable. All these developments brought about a drop in the international price of petroleum. The situation was aggravated by consumption of part of the accumulated stocks held in the industrialized countries, which fell in the year by 7%.<sup>4</sup> The result was a reduction of more than 15% in net petroleum imports of the OECD countries in 1982, —a contraction almost three times greater than the drop in consumption. Prices on the spot market —in which an

Table 4

VENEZUELA: SOME INDICATORS RELATING TO PETROLEUM AND IRON ORE

	1978	1979	1980	1981	1982 <sup>a</sup>	Growth rates				
						1978	1979	1980	1981	1982 <sup>a</sup>
<b>Petroleum (millions of barrels)</b>										
Crude oil production	790.4	860.1	793.4	769.5	692.1	-3.2	8.8	-7.8	-3.0	-10.1
Output of refined products	359.7	361.9	338.7	313.9	316.5	1.6	0.6	-6.4	-7.3	0.8
<b>Exports</b>										
Crude oil	454.3	514.0	470.9	461.0	387.8	-5.8	13.1	-8.0	-2.1	-15.8
Refined products	254.6	250.1	205.3	175.5	179.3	8.5	-1.8	-17.9	14.5	2.1
Domestic consumption of refined products	100.8	110.7	125.3 <sup>b</sup>	142.1 <sup>b</sup>	144.0 <sup>b</sup>	1.9	9.8	13.1	13.4	1.3
<b>Reserves (billions of barrels)</b>										
Theoretical life of reserves <sup>c</sup>	23.1	21.5	24.7	26.2	35.3	4.5	-6.9	15.3	6.1	34.7
<b>Gas</b>										
Production (billions of cubic metres)	34.8	36.9	35.5	34.9	32.5	-7.1	6.0	-3.9	-1.7	-6.8
Utilized (percentages)	93.4	93.7	93.6	94.5	94.8	0.4	0.3	0.3	1.0	0.3
Wasted (percentages)	6.6	6.3	6.3	5.5	5.2	-12.0		-4.5	-12.6	-5.4
<b>Iron ore (millions of metric tons)</b>										
Production	13.5	15.3	16.1	15.5	11.2	-2.2	13.3	5.2	-3.7	-27.4
Exports	12.8	13.0	11.8	12.4	6.5	7.6	1.6	-9.2	5.1	-47.5
<b>Reserves</b>	1 764.0	1 748.0	2 116.0	2 101.0	2 089.0	-0.8	-0.9	21.0	-0.9	-0.6

Source: ECLA, on the basis of information contained in the address by the President of Venezuela to the Congress of the Republic, March 1983.

<sup>a</sup> Preliminary figures.

<sup>b</sup> Including greases and propane.

<sup>c</sup> Reserves divided by crude oil production in the year concerned.

<sup>4</sup>The increase in petroleum prices in the 1970s was caused not only by the concentration of supplies under OPEC but also by international political developments such as the war in the Middle East. The change of government in Iran and aggravation of regional problems contributed in particular to the wave of price rises in 1979 and the resulting accumulation of stocks by the industrialized countries. The volume of the latter is estimated to have reached 4.5 billion barrels at the end of 1981 —a volume equivalent to 70% of OPEC production in 1982.

average of one-third of world petroleum transactions are carried out— fell in February to a level lower than the reference price adopted by OPEC and thereafter remained at this lower level for the rest of the year.<sup>5</sup>

In this context, Venezuela intensified the marketing policy applied since 1976, the basic objective of which was to maintain secure and stable markets. In addition, diversification of foreign markets continued both in geographical terms and in terms of the number of clients involved. Particular attention was also given to the marketing of the country's large heavy and extra-heavy petroleum reserves.<sup>6</sup> Long-term production and supply contracts were promoted with various European countries and with Brazil. An agreement was reached at the end of December between *Petróleos de Venezuela* and the German company *Veba*, for the refining in Germany of 150 000 barrels/day of heavy crude.

A drop in crude oil exports was nevertheless recorded in 1982 for the fourth consecutive year, amounting on this occasion to a considerable contraction of 16%. The physical volume of foreign sales (390 million barrels, or a daily average of 1 063 000 barrels) barely reached 75% of the 1970 total and only 50% of the level reached in 1972. At the same time, the proportion of heavy and semi-heavy crudes continued to grow. After accounting for 28% of total crude exports in 1976, their share rose to 52% in 1981 and to more than 54% in 1982.

Exports of refined products rose in the year by 2%, reaching a daily average of 491 000 barrels. Their share in total external sales of petroleum products increased from 28% in 1981 to 32% in 1982. The small increase in volume was nevertheless tantamount to stagnation in domestic refining activity. However, due to progressive technological innovations in the refining processes employed, the proportion of gasoline produced rose by 3% while the output of residual fuels decreased.

At the same time, domestic consumption of refined products rose by only 1% in the year — a rate equivalent to barely one-tenth of that recorded in previous years. This modest increase was to a large extent due to a contraction of almost 25% in consumption of refined inputs by the petroleum industry itself. Domestic consumption of gasoline also showed a small reduction as a result of price adjustments which doubled or trebled domestic prices from May onwards.

In view of the international situation already mentioned, Venezuela found it necessary to adapt to the new market conditions and reduced effective selling prices for the first time since 1978. This represented a drop in price of 7.5% for the group of petroleum products exported. Crude oil prices were adjusted on two occasions (January and March) representing an average reduction of 9%. The prices of derivative products for their part were adjusted more frequently but showed a lower average drop of only 5%. Export values, or prices for fiscal purposes, fell even further, with a drop in the case of this group of products as a whole amounting to 9%, and to 13% in that of crude oils (see table 5).

Deterioration in export volumes and prices reduced earnings in the petroleum sector by almost 19%. These nevertheless remained at a higher level in nominal terms than in 1979 and amounted to 73 billion bolívares. As in previous years, exports represented the country's main source of income, although decreasing in value by more than 20% in the year. Domestic sales accounted for only 6% of total petroleum industry earnings, although they showed an increase in value of almost 50% as a result of the higher price of gasoline. Fiscal earnings amounted to 46.3 billion bolívares; 22% less than in 1981.

An active investment policy was instituted by the petroleum industry in 1976 with a view to counteracting declining export capacity arising from constant growth of domestic demand and progressive exhaustion of reserves in traditional drilling areas. A sum of approximately US\$ 2.5 billion was invested under this policy in the period 1976-1982, disbursements in 1982 exceeding 11 billion bolívares, i.e., 28% more than in 1981.

One sixth of this sum was devoted to exploration. An intensive drilling programme put into operation in 1976 produced fairly favourable results in 1982 so that petroleum reserves rose by 21%,

<sup>5</sup>At the end of 1982, while the reference price of light Arabian petroleum stood at US\$ 34 per barrel, sales on the Rotterdam free market were conducted at an average of US\$ 30.50 per barrel.

<sup>6</sup>In accordance with plans for future expansion, and in order to avert the rapid exhaustion of light petroleum reserves, an attempt is being made to modify proportions delivered favouring heavy and semi-heavy grades of petroleum which account for almost half of Venezuela's oil reserves. It should be mentioned that these products are not subject to the output quotas established by OPEC, nor to any ruling reference price.

especially those of light petroleum. Total hydrocarbon reserves increased by 35% between 1978 and 1982. Venezuela's share of total international reserves thus rose from 3% to 3.6% between the above years, and the theoretical life of national reserves increased from 26 years in 1981 to 35 years in 1982 (see table 4).

The remaining investments were mainly direct to refining activities. In order to deal with the unbalanced composition of reserves,<sup>7</sup> a programme involving changes in refining methods was prepared and put into effect at the beginning of 1978. Its purpose was to use a higher proportion of heavy crude oil with consequent saving of light and medium grades. At the same time, the proportion of residual fuels in final refining output was reduced and that of gasoline for domestic consumption increased. The programme was initially introduced at four refineries (El Palito, Amuay, Puerto La Cruz and Cardón), construction being put in hand at the first two of these refineries in 1979, finally coming on stream in March 1982 at El Palito and in December 1982 at Amuay.

However, the international market situation, combined with the above-mentioned increase in reserves of light petroleum, and lower growth rate of domestic and external demand than had been foreseen, made it necessary to re-assess the petroleum investment programme. Plans involving technological innovations at the two remaining refineries —Cardón and Puerto La Cruz— were suspended, thereby saving US\$ 2.5 million of the investments planned. It was also decided in 1982 to postpone a significant part of the investment programme which had been earmarked for the Orinoco area,<sup>8</sup> where profitability dropped in relative terms owing to the newly proven reserves of light crude oil. Implementation of the Cerro Negro project was therefore postponed, reducing by more than half the total cost of the investment programme (from US\$ 8 to US\$ 3 billion as well as future production capacity (from 225 000 to 100 000 barrels per day).

Table 5

VENEZUELA: EVOLUTION OF PETROLEUM PRICES

(Dollars per barrel)

Year	Effective sale price			Export value		
	Crude oil	Refined products	Average	Crude oil	Refined products	Average
1971			2.35			2.48 <sup>a</sup>
1972			2.52			3.02
1973			3.71			4.42
1974			10.53			14.35
1975			10.99			13.76
1976			11.25			14.25
1977			12.61			13.85
1978	11.96	12.18	12.04	13.73	13.88	13.78
1979	16.65	19.78	17.69	19.27	21.10	19.88
1980	25.64	28.21	26.44	31.94	35.55	32.69
1981	29.42	30.46	29.71 <sup>b</sup>	38.23	38.19	38.21 <sup>b</sup>
1982	26.76	29.01	27.47 <sup>b</sup>	33.27	37.47	34.73 <sup>b</sup>

Source: ECLA, on the basis of information contained in the address by the President of Venezuela to the Congress of the Republic, March 1983.

<sup>a</sup> Average of reference and export prices.

<sup>b</sup> Preliminary figures.

<sup>7</sup> As already mentioned, heavy and extra-heavy types of petroleum represent almost half the country's proven reserves and 89% of probable reserves. Their production costs are unfortunately much higher than those normally incurred in the case of light and medium grades. Moreover, refining of heavy grades is decidedly complex and mainly produces residual fuels which are becoming more difficult to dispose of the international markets. Due to various factors including the seasonal nature of consumption, competition from many countries, and the ready accessibility of other sources of energy, these crude oils are also subject to continuous price fluctuations.

<sup>8</sup> The area known as Faja del Orinoco contains immense oil reserves of between 700 and 3 000 billion barrels, i.e., at least 35 times the country's present proven oil reserves. However, they consist of extra-heavy petroleum involving high investment, operating and processing costs. The estimated cost of the initial project was US\$ 8 billion and involved the production of 225 000 barrels/day in 1988; 125 000 at Cerro Negro (in the Monagas del Sur region) and 100 000 in the neighbourhood of Guanipa.



Finally, the policy relating to heavy and extra-heavy grades of petroleum was modified so that priority was given to the conclusion of refining contracts with consuming countries, thereby ensuring future sales and avoiding high conversion costs within Venezuela.

ii) *Mining.* Non-petroleum mining activity continued the decline observed since 1975 and only temporarily interrupted in 1979 and 1980. The gross product of this activity showed a marked contraction of approximately 16% in 1982 as a result of a lower level of iron-ore mining operations, combined with a degree of quality deterioration in diamond extraction.

Iron-ore production dropped by more than 25% and only slightly exceeded 11 million tons—the lowest level recorded since the early 1970s. On the other hand, domestic iron-ore sales reached 4 million tons, representing an increase of 38% over the preceding year. This significant increase nevertheless failed to compensate the considerable drop of almost 48% in volume exported. Total sales of iron ore consequently fell in the year by more than 30%, amounting to only 10.5 million tons (see table 4).

Other mining activities showed little or no expansion in 1982. Lower international prices held back gold-mining operations, the production of which fell slightly short of 890 kg, i.e., only 2.7% more than in 1981. The participation of the State company Minirven fell from 42% of the total in 1981 to 32% in 1982 as a result of technical difficulties at the company's gold-ore processing plant.<sup>9</sup>

Diamond production, for its part, which has gone down considerably since 1974, when output reached 1.3 million metric carats, remained in 1982 at almost the same level as in 1981, showing an increase of only 0.6% and reaching a volume of slightly over 493 000 metric carats. Moreover, the volume produced was of lower commercial value, due to the sharp increase in the proportion of lower-quality diamonds extracted.

iii) *Agriculture.* The product of this sector in 1982 showed an increase of 3.6%, thereby recovering from the drop recorded in the preceding year. Crop-farming output rose by 3% in contrast with the contractions registered in the two preceding years. Also contributing to the overall growth of the sector was an increase in stock-raising and a vigorous recovery in the fishing industry. Other sectors, however, showed little dynamism, and activity in the sphere of agricultural services declined by 4% (see table 6).

In spite of the recovery mentioned, crop-farming production barely exceeded the value (in constant prices) recorded two years earlier. Output benefitted from a change in the pattern of rainfall, which, although exceeding by 35% the average for the period 1961/1970, was considerably less than that recorded in 1981 (when it exceeded that level by close on 90%). Favourable climatic conditions proved beneficial to transport operations and favoured soil-preparation activities. The surface area harvested nevertheless amounted to only 1.6 million hectares, namely 4% less than in 1981 and 9% less than the average for the three-year period 1978/1980. On the other hand, the use of fertilizers increased by 3%, considerably improving yields of some crops such as sorghum, maize, potatoes, yuca and sugar cane.

As a result, the production of cereals exceeded 1 500 000 tons despite a reduction of 9% in the area sown. Although the volume harvested showed an increase of 2% over 1981, however, it was 6% lower than in previous years. Maize production rose by almost 11% but failed to recover fully from the drop recorded in the preceding year. Rice output showed a slight setback, although continuing at a level sufficient to generate surpluses for export or for use as inputs.

Production of pulses amounted to about 32 000 tons, representing a 4% drop due mainly to the lower output of beans. The higher yields were not sufficient to offset the reduction of 13% in the area harvested.

Oilseed production fell by somewhat less than 1.5%. The main factors contributing to this result were financing difficulties, high production costs and low selling prices. The products most affected by this contraction were peanuts (-14%) and cotton (-24%). On the other hand, sesame—production of which is supported by an agreement requiring the whole harvest to be delivered directly to industry—showed an increase in volume of more than 10%.

As for other crops, mention should be made of notable increases in the harvests of potatoes and sugar cane (27% and 10% respectively). Other products showed only small variations in output and area sown.

<sup>9</sup>This plant came into operation in 1981 with a processing capacity of 252 000 tons of ore.

The increase of 6.3% in the stock-raising product was the result of a greater degree of activity in all its components. The poultry sector in particular showed favourable results. Thanks to an increase of 12% in the production of birds and 10.5% in the output of eggs, the domestic market was fully supplied, thereby justifying the technical assistance efforts made in recent years. Milk production also rose (by 2.5%), while that of beef and pork increased by 2.4% and 2.8% respectively.

The larger domestic supplies of these products enabled the Agricultural Marketing Corporation (CMA) to reduce imports in the year by 51% to a total of 1 186 000 tons, representing an outlay of 2 370 million bolívares. Only 9% of total imports (consisting of milk, peanuts, meat and soybean flour) were made directly by CMA, the balance being purchased by the private sector under conditions of delegation.

Table 6

VENEZUELA: VALUE AND VOLUME OF AGRICULTURAL PRODUCTION

	1979	1980	1981	1982 <sup>a</sup>	Growth rates			
					1979	1980	1981	1982 <sup>a</sup>
<b>Value</b> (Millions of bolívares at 1968 prices)								
<b>Agricultural production</b>								
Crop farming	2 545	2 500	2 442	2 515	4.0	-1.8	-2.3	3.0
Cereals	730	705	693	702	14.6	-3.4	-1.7	1.3
Roots and tubers	227	228	220	247	6.0	0.4	-3.5	12.3
Fibres and oilseeds	173	178	129	123	-23.5	2.9	-27.5	-4.7
Fruit	568	560	587	595	-1.6	-1.4	4.8	1.2
Green vegetables	202	209	183	208	21.0	3.5	-12.4	13.7
Coffee, cocoa, etc.	605	576	587	603	3.6	-4.8	1.9	2.7
Pulses	41	44	43	37	3.5	7.2	5.8	6.3
Stock-raising	3 008	3 225	3 411	3 627	3.5	7.2	5.8	6.3
Fishing	107	125	120	130	-3.6	16.8	-0.4	8.3
Forestry	63	41	39	40	-10.0	-34.9	4.9	2.6
Processed products	90	92	100	102	5.9	2.2	8.7	2.0
Buildings and improvements	341	329	338	337	-8.3	-3.5	2.7	0.3
Agricultural services <sup>b</sup>	129	129	122	117	5.7		5.4	-4.1
<b>Volume</b> (Thousands of tons)								
<b>Principal crop-farming products</b>								
Rice	614	619	682	670	22.3	0.8	1.1	-1.7
Maize	613	575	452	501	3.7	-6.2	-21.4	10.8
Sorghum	396	353	347	338	16.5	-10.9	-1.7	-0.3
Sesame	42	57	48	53	35.4	35.7	-15.8	10.4
Coconuts	159	159	161	160	-1.2		1.3	-0.6
Cambur (bananas)	873	890	915	921	-3.0	1.9	2.8	0.7
Oranges	330	331	368	372	5.1	0.3	11.1	1.1
Coffee	54	58	60	59	-8.4	7.4	3.4	-1.7
Sugar cane	4 769	4 987	4 531	4 968	-1.2	4.6	-9.1	9.6
Plantains	437	418	426	430	-1.8	4.3	1.9	0.9
Potatoes	191	199	171	217	11.7	4.2	-14.0	26.9
<b>Principal stock-raising products</b>								
Milk <sup>c</sup>	1 271	1 311	1 395	1 430	5.7	3.1	6.4	2.5
Beef <sup>d</sup>	1 322	1 411	1 453	1 488	1.5	6.7	3.0	2.4
Pork <sup>d</sup>	1 381	1 629	1 672	1 719	-	18.0	2.6	2.8
Poultry <sup>e</sup>	134	159	182	204	4.7	18.7	14.5	12.0
Eggs for direct consumption <sup>f</sup>	2 109	2 034	2 203	2 436	14.5	-3.6	8.3	10.5

Source: ECLA, on the basis of statistics contained in the address by the President of Venezuela to the Congress of the Republic, March 1983.

<sup>a</sup>Preliminary figures.

<sup>b</sup>Including land preparation and levelling, pest control, threshing and drying of grain, etc.

<sup>c</sup>Millions of litres.

<sup>d</sup>Thousands of head slaughtered.

<sup>e</sup>Millions of units.

CMA also made efforts to promote more flexible relations between producers, and it established agreements between them and the farm-products processing industry for the direct purchase of harvested crops by the latter. Most of the measures designed to protect farmers' purchasing power were nevertheless maintained. For this purpose, CMA increased its purchases in the domestic market by 28% in volume and 35% in value. These purchases amounted in volume to over one million tons valued at 560 million bolívares, and consisted mainly of rice, maize, peanuts and sorghum.

Financial subsidies granted through the medium of CMA increased in the year by 15%, the largest rises being for the production of milk (40%) and sorghum. On the other hand, subsidies were discontinued in the case of maize, sugar and coffee. As supplementary measures designed to stimulate activity in the sector, the volume of credit was maintained in spite of the strict budgetary restrictions, and the National Agricultural Insurance Company ("Agroseguros") expanded its operations, which had commenced in 1981.

With the same aim of protecting national producers, foreign purchases of 25 products were prohibited, and the importation of approximately 100 others was reserved exclusively for the State.

Due to the improved domestic supply position from both national and foreign sources, variations in the price indexes of farm products in general showed significant reductions, as did those of processed food. Thus, while the variation between annual averages in the case of the first-mentioned group fell from 19.4% in 1981 to 5.2% in 1982, that of the second group fell from 14% to 10%. As a result, the incidence of food products in the cost-of-living index was also markedly reduced. Thus, the variation between annual averages for the metropolitan area of Caracas declined from 19.5% in 1981 to 9.7% in 1982.

iv) *Manufacturing*. The increase of 2.2% in the manufacturing product in 1982 made up for the contraction registered in the preceding year. Reversal of this adverse trend was the result of greater dynamism in private-sector industry, representing 90% of all national manufacturing activities. To this was added the impetus given to the sector —as in previous years— by government-owned enterprises whose gross product rose in the year by more than 3%, due mainly to higher output levels of sugar and petrochemicals.

The product of traditional industrial activity as a whole showed a drop in growth rate to only 1% —one-third of that recorded in 1981. The only industries showing significant increases were those producing leather and footwear and sugar. Production of the latter rose by 20%, with the State sugar refining company Centrales Azucareros C.A. (CENAZUCA), which produces more than half of the national total, reporting a particularly marked improvement in yields. On the other hand the output of the wood, rubber products, and textile and clothing industries showed contractions of 19%, 6% and 3%, respectively.

Production of intermediate goods rose by 3.4%, thereby making good most of the contraction experienced in 1981. The petroleum products and chemicals and plastics industries were those showing the greatest activity, with growth rates of between 6% and 10%. Specially significant increases were recorded in this group in the case of sulphuric acid (43%), urea (18%) and fertilizers (30%) (see table 7). However, in spite of an increase of 13% in its production of industrial inputs, the State petroleum company PEQUIVEN reported a loss of 120 million bolívares in the year —double that of the previous period.

In contrast, pig iron production fell by 51%, while output of aluminium fell by 12% to 275 000 tons, of which 82% was exported. Most of the reduction in the latter instance was the result of technical problems which made it necessary to shut down or suspend some of the activities of the two producing companies in this field, ALCASA and VENALUM.

The State-owned company SIDOR, for its part, turned out almost 2 million tons of steel; 10% more than in 1981. Influencing this result was an increase in productivity, which improved from 23 man/hours per ton in 1979 to only 14 in 1982. As a result, a drop of 15% was recorded in production costs, and this, together with an increase in unit sales values, reduced the company's operating losses in the year by 64%, although they still amounted to nearly 800 million bolívares.

Finally, the total product of the metal products and machinery industry fell by almost 1%, since increases of 7% in the manufacture of machinery and 2% in that of transport equipment failed to compensate for the contraction of 6% in the output of metal products.

In so far as prices were concerned, the previous official policy was continued of combining the objectives of price liberalization, or "realism", with maintenance of price control in the case of some

articles classified as of prime necessity or general consumption. In addition, it was obligatory to report 30 days in advance any price change in the free-price products group. These measures, together with improved production conditions and considerably lower domestic demand, had the effect of restraining price increases by producers of almost all manufactures. Thus, after average increases of 19.4% in 1980 and 10.4% in 1981, producer prices of industrial goods rose by only 6.2% in 1982.

While private credit to the sector remained at the same level as in 1981, public credit rose to 8 700 million bolívares —an increase of 2% over the preceding year. Financing supplied to government enterprises increased by 35% and represented 65% of the total. This spectacular increase was concentrated in the steel and aluminium industries and was devoted to meeting expansion costs and productive improvements in these activities.

Official policy in connection with the manufacturing sector was basically the same as in 1979, although some changes became necessary due to the prevailing difficult financial circumstances. In particular, steps were taken to support national industry and at the same time save foreign currency. On the one hand, a start was made with the application of the "Buy Venezuelan" decree designed to promote purchases of national goods and inputs, and on the other, measures were adopted in the sphere of customs' tariffs. The textile and footwear industries benefited from supplementary support measures such as the banning of imports of certain products (such as men's clothing) and the adjustment of the domestic prices of such goods.

The programme designed to improve and stimulate incoming technological transfers and to encourage innovations in the industrial field continued in force. The Fund for the Promotion of Technical Innovation (FINTEC) began its first programme in this context. Productivity evaluations

Table 7

VENEZUELA: MAIN INDICATORS OF MANUFACTURING PRODUCTION AND OF THE INTERCONNECTED ELECTRICITY DISTRIBUTION SYSTEM

	Thousands of tons			Growth rates		
	1980	1981	1982 <sup>a</sup>	1980	1981	1982 <sup>a</sup>
Pig iron	498	417	202		-16.3	-51.6
Steel	1 784	1 818	1 990	39.0	1.9	9.5
Bars	469	482	444	45.7	2.8	-7.9
Aluminium	326	314	275	53.8	-3.7	-12.4
Alcasa	110	112	94	3.8	1.8	-16.1
Venalum	216	202	181	103.7	-6.5	-10.4
Cement	4 842	4 876	5 432	21.9	0.7	11.4
Ammonia	439	504	535	32.6	14.8	6.2
Sulphuric acid	114	79	113	-10.9	-30.7	43.0
Urea	276	315	372	25.5	14.1	18.1
Fertilizers	441	485	630	48.5	10.0	29.9
Motor tyres <sup>b</sup>	3 483	3 681	3 590	1.1	5.7	-2.5
Paper and cardboard	501	501	481	-2.0		-4.0
Sugar	325	303	364	0.9	-6.2	20.1
Vehicles <sup>b</sup>	155	154	155	-1.9	-0.6	0.6
Passenger vehicles	94	82	94	2.2	-12.8	14.6
Commercial vehicles	61	72	61	-7.6	18.0	-15.3
Electric energy <sup>c</sup>						
Installed capacity <sup>d</sup>	7.8	8.9	10.9	2.5	14.4	22.3
Generation <sup>e</sup>	33.4	35.3	41.4	17.7	5.5	17.5
Consumption <sup>f</sup>	27.7	29.0	30.0	14.8	4.7	3.5
Industrial	15.0	14.3	14.4	35.5	-4.9	0.6
Residential	5.6	6.6	6.9	23.9	17.2	5.5
Other	7.1	8.1	8.7	24.0	15.4	7.1

Source: ECLA, on the basis of official data.

<sup>a</sup>Preliminary figures.

<sup>b</sup>Thousands of units.

<sup>c</sup>Includes individual plants and generating units.

<sup>d</sup>Millions of kW.

<sup>e</sup>Billions of kWh.

were also made in some industrial activities, and the improvement programmes underway in several enterprises were continued. The registration of national and international standards was also extended.

Investment in the manufacturing sector, either for the installation of new production facilities or the expansion of output capacity, amounted in the year to a total of 3 500 million bolívares. Traditional industrial activities accounted for nearly half this sum, a further third being devoted to the production of intermediate goods, in which respect the execution of the first phase of the Zulia Steel-Coal Programme<sup>10</sup> and improvements to the alumina plant<sup>11</sup> deserve particular mention. This last-named effort raised the level of investment in the aluminium industry to a total of US\$ 1 800 million in the period 1974-1982.

v) *Construction.* The deteriorating trend of activity observed since 1979 in this sector continued in 1982, when the gross product of the sector decreased by almost 5% (see table 3). This unfavourable trend was due to various financial difficulties. In the first place, credit problems limited the financing of both the construction and the purchase of dwellings, and weakened private demand. Secondly, fiscal limitations brought about a severe contraction in public investment. In spite of this reduction, however, the public sector increased its participation from the already traditional level of more than two-thirds of the total product of this sector in 1981 to 73% in 1982. The main activities carried out were those connected with productive investments in the State-owned enterprises already mentioned. Expenditure on the construction of transport infrastructure also increased to a level exceeding 6 billion bolívares.

Housing construction, for its part, rose by 2.5% in the year to a total of 93 500 units (see table 8). This increment was mainly due to the public sector, which increased the number of housing units built by 13% and thus raised its share in national housing construction to more than 50% for the first time since 1976. Private house-building activity, in contrast, contracted by 6.5%.

Government policy in this sphere tended to support plans for low-cost housing facilities. Mortgage loans to the sector, which amounted to 16 800 million bolívares, showed an increase of 33% in the year. Of this total, almost 60% was used to finance the purchase of dwellings, the remainder being devoted to construction. High interest rates militated against bigger growth in these credits.

Effective demand for dwellings decreased in 1982, and by the end of the first half-year the number of units unsold totalled some 35 000, or 27% more than at the same period of the preceding year. Furthermore, the selling price of almost half of these housing units was between US\$ 35 000 and US\$ 58 000, whereas one of the main characteristics of prevailing demand was the predominant proportion of low-income buyers.

vi) *Electric power.* Total electricity generating capacity increased in 1982 by 22%, thereby further accentuating the spectacular growth which took it from 2.8 million KW in 1972 to 10.9 million ten years later (see table 7). Gross electric power generation rose by 17% to 41 432 million kWh. The interconnected distribution system showed lower growth rates. Its installed capacity was increased by 10.7% and it produced slightly more than 36 200 million kWh, an increment of 4.7% over the preceding year. Participation of the interconnected network in total national generation thus fell from 98% to 87% between 1981 and 1982. Government-operated power stations, for their part, generated 73% of the total. As far as energy sources were concerned, hydroelectric plants accounted for over 48% of the total, the remaining 52% being supplied by thermal generating plants.

At the same time, investment programmes were continued in order to expand installed capacity and power transmission and distribution networks. The *Compañía de Electrificación del Caroni, C.A. (EDELCA)* continued work on the final stage of construction of the "Raúl Leoni" power plant; and the

<sup>10</sup>The law financing this project was enacted in 1982. It provides for the investment of 30 billion bolívares to develop the Gusaure coal mines and erect an iron and steel production complex, the first phase of which consists of the installation of a medium-profile rolling mill with an annual capacity of 480 000 tons.

<sup>11</sup>In 1982, 95% of the project of the government-owned company *Interamericana de Aluminio C.A. (INTERALUMINA)* was completed, at a cost of 1 290 million bolívares. The aim of this project is to supply alumina so as to make the Venezuelan aluminium industry more self-sufficient and save imports to an estimated value of almost US\$ 250 million. Two production lines, each of 500 000 tons capacity, were expected to come into operation in the first half of 1983, with the plant achieving full-scale operation in 1984.

Compañía Anónima de Administración y Fomento Eléctrico (CODAFE) went ahead with its research programmes on other sources of energy.

c) *Employment and unemployment*

In the first half of 1982 (the last period for which statistical information is available) the deteriorating trend observed since 1979 in the employment situation in Venezuela continued to worsen. The number of unemployed increased from 259 000 in the first half of 1981 to 333 000 in the same period of 1982, so that the unemployment rate rose from 6.2 to 7.1% (see table 9).

Table 8

VENEZUELA: CONSTRUCTION OF DWELLINGS

	Thousands of units				Growth rates		
	1979	1980	1981	1982 <sup>a</sup>	1980	1981	1982 <sup>a</sup>
<b>Total</b>	67.6	83.6	91.2	93.5	23.5	9.1	2.5
Public sector <sup>b</sup>	32.9	40.0	43.0	48.5 <sup>c</sup>	21.3	7.7	12.6
Inavi *	26.6	26.0	27.1	31.1	-2.0	4.0	14.8
Rural dwellings	5.3	13.1	14.8	14.3	148.2	13.4	-3.7
Other agencies <sup>c</sup>	1.1	0.8	1.1	3.1	-23.1	32.2	175.8
Private sector <sup>d</sup>	34.7	43.6	48.1	45.0	25.6	10.5	-6.5

Source: ECLA, on the basis of statistics contained in the address by the President of Venezuela to the Congress of the Republic, March 1983.

<sup>a</sup>Preliminary figures.

<sup>b</sup>Including plots and credits to low-income purchasers (FUNDACOMUN).

<sup>c</sup>Including Centro Simón Bolívar, Corporación Venezolana de Guayana and Instituto Nacional Agrario.

<sup>d</sup>These figures refer to finished dwellings as from the year 1978, according to FUNDACOMUN.

Table 9

VENEZUELA: EMPLOYMENT AND UNEMPLOYMENT

	1979	1980	1981	1982 <sup>a</sup>	Growth rates				
					1979	1980	1981	1982 <sup>b</sup>	1982 <sup>c</sup>
<b>Thousands of persons</b>									
<b>Total employment</b>	4 054	4 197	4 300	4 351	2.5	3.5	2.5	1.8	0.5
<b>Production of goods</b>	1 713	1 743	1 758	1 790	-0.3	1.8	0.8	2.8	0.9
Agriculture	628	631	631	644	-2.6	0.5	-	1.7	2.6
Petroleum and mining	56	63	58	65	12.0	12.5	-7.9	18.4	5.2
Manufacturing	663	668	678	672	-0.3	0.8	1.5	-	-1.5
Construction	366	381	391	409	2.2	4.1	2.6	7.2	1.5
<b>Basic services</b>	330	347	365	364	3.8	5.2	5.2	-	-0.8
Electricity, gas and water	48	49	50	51	6.7	2.1	2.0	4.5	-1.0
Transport and communications	282	293	315	313	3.3	5.7	7.5	-0.5	-0.7
<b>Other services</b>	2 011	2 107	2 177	2 197	4.7	4.8	3.3	1.4	0.4
Commerce	730	787	1 004	1 018	6.1	7.8	-	-	-
Finance	173	186	1 004	1 018	-	-	4.6	1.6	-0.7
Others	1 108	1 134	1 157	1 174	4.4	2.3	2.0	1.1	1.8
<b>Percentages</b>									
Rate of unemployment		5.4	5.9	6.2	7.1				
Gross participation rate <sup>d</sup>		58.0	58.2	58.6	58.8				
<b>Bolívares</b>									
Average monthly family income	3 000	3 602	3 956	4 072	14.8	20.0	9.8	5.0	0.9

Source: ECLA, on the basis of data compiled by the Oficina Central de Estadística e Informática (OCEI), reproduced in the publication entitled *Encuesta de Hogares*.

<sup>a</sup>First half of 1982.

<sup>b</sup>First half of 1982 in relation to the same period of 1981.

<sup>c</sup>First half of 1982 in relation to the second half of 1981.

<sup>d</sup>Population aged 15 and over, as a percentage of total population.

In absolute terms, total employment showed a small increment of only 1.8% over the same period, thereby failing to absorb the natural growth of the work force. If the level of employment in the second half of 1981 is compared with the first half of 1982, the growing deterioration referred to is seen to have affected almost all activities, growth rates in general either being negative or lower than in 1981, with the exception of agriculture.

Contrasting with developments in previous years, it was the goods-producing sectors that showed the greatest increase in employed in 1982. Petroleum and mining registered the higher relative increases as a result of vigorous investment efforts in these sectors and the policy of protecting jobs in State-operated enterprises. The building industry also showed a significant increase of 7% in the level of employment between the first half of 1981 and the same period in 1982.<sup>12</sup> In view of the contraction of the gross product in the above-mentioned sectors, it must be concluded that a marked decrease in productivity took place in the year.

The level of employment in the services sectors remained virtually unchanged, reflecting the effects on commerce of the prevailing acute financial difficulties. Only the residual component of these sectors showed a small positive variation. This component consists mainly of self-employed workers, whose participation in the total work force also increased.

Average family income, for its part, showed a very small increment in nominal terms of 5.5% between the first six months of 1981 and the same period in 1982. Since there was a 10% rise in prices between these two periods, this means there was a contraction of income in real terms.

### 3. The external sector

#### a) *Merchandise trade*

i) *General trends.* This sector experienced a significant change in 1982 since external sales showed an appreciable drop in both value and volume, with consequent deterioration in the trade balance and terms of trade.

Exports of goods fell in value in absolute terms for the first time since 1978, but on this occasion the decline was much greater (-17%). Export volumes also contracted (-11%), as did unit values, though to a lesser degree (-6%) (see table 10). Imports, on the other hand, rose considerably in volume (13%) although lower unit values had the effect of limiting the rise in the total value of imports to only 6.4%, or half the rate recorded in 1981.

The drop in import prices also enabled the decline in the terms of trade to be kept down to only 1%, so that they stood at the same level as two years earlier. However, the purchasing power of export earnings fell by almost 15%, reaching a level lower than in 1979.

ii) *Exports of goods.* The value of external sales in 1982 was below US\$ 16 billion, this being equivalent, at constant prices, to barely 50% of the 1970 figure.

Influencing this result was the petroleum situation already referred to, which caused a drop of 22% in the value of hydrocarbon exports (see table 11). Export sales of crude oil showed a drop of 16% in value and 9% in average price. While the sales volume of petroleum products rose slightly (2%), average prices dropped by 5% with a consequent decrease in total value (see tables 4 and 5). A small contraction was therefore recorded in the share of hydrocarbon products in total exports, though they still continued to generate 93% of the total value of the country's external sales of goods.

Aluminium —another traditional export product— also met with unfavourable conditions in the international market. Exports fell by 19% as a result of a contraction of 12% in volume (which was only a little over 208 000 tons) and 6.6% in average price (see table 11).

Sales of iron ore, for their part, registered a reversal in the expansionary trend observed for the previous two years, and the physical volume contracted by almost 50% from 12.4 to 6.6 million tons. Total value, however, fell in this case by only 2%.

Among non-traditional exports, external sales of iron and steel products diminished in value by approximately one-third, falling to less than US\$ 60 million. On the other hand, sales of pharmaceutical and petrochemical products (ammonia, urea, ethylene, etc.) increased by more than

<sup>12</sup>In the light of total results in this sector, however, it would be appropriate to assume that the level of employment contracted a good deal over the whole year.

50% to a value of US\$ 153 million in the year. The value of exports of non-traditional products as a whole (i.e., excluding petroleum, iron ore and aluminium) rose by more than 10%.

In order to promote and diversify exports in general, technical assistance was provided, together with credit support and export credit guarantees. The export Financing Fund (FINEXPO) granted direct and indirect credits totalling almost 500 million bolívars: an increase of 40% over the preceding year. To these were added 167 million bolívars in the form of supplementary assistance provided by the commercial banks. More than 80% of the direct credits were granted to the metal products and machinery industry, which thus received 129 million bolívars. The remainder went to construction, fishing and the chemical and electronic sectors.

In addition, within the framework of its programme of international financial co-operation, the government allocated to FINEXPO a total of 726 million bolívars for export-promotion purposes in line with the country's international agreements and in particular with those arrived at with the Central American and Caribbean countries. Worthy of particular mention in this respect was the provision of financing for the construction of a suspension bridge in Panama and a power transmission line in Colombia.

Table 10  
VENEZUELA: MAIN FOREIGN TRADE INDICATORS

	1977	1978	1979	1980	1981	1982
<b>Growth rates</b>						
Exports of goods, FOB						
Value	3.1	-4.8	55.9	34.5	4.2	-16.7
Volume	-9.3	-1.0	11.8	-8.4	-7.3	-11.4
Unit value	13.8	-3.8	39.5	46.5	12.5	-6.0
Imports of goods, FOB						
Value	38.9	10.2	-11.0	8.7	13.8	6.4
Volume	29.2	2.9	-17.0	-6.8	1.7	12.9
Unit value	7.6	7.1	7.3	16.6	11.9	-5.8
Terms of trade, goods (FOB/CIF)	6.0	-10.2	29.6	27.1	0.7	-0.9
<b>Indexes (1970 = 100)</b>						
Terms of trade, goods (FOB/CIF)	344.6	309.6	401.1	509.9	513.3	508.8
Purchasing power of exports of goods <sup>a</sup>	202.1	179.9	260.4	305.1	285.6	244.6
Purchasing power of exports of goods and services <sup>a</sup>	201.5	181.8	257.5	299.4	278.9	238.8

Source: ECLA, on the basis of official data.

<sup>a</sup>Volume of exports of goods, or of goods and services as the case may be, adjusted in accordance with the corresponding terms of trade index.

Table 11  
VENEZUELA: EXPORTS OF GOODS, FOB

	Millions of dollars				Percentage breakdown		Growth rates		
	1979	1980	1981	1982 <sup>a</sup>	1970	1982 <sup>a</sup>	1980	1981	1982 <sup>a</sup>
<b>Total<sup>b</sup></b>	14 360	19 275	20 181	15 952	100.0	100.0	34.2	4.7	-21.0
Petroleum and petroleum products	13 609	18 301	19 094	14 892	90.5	93.4	34.5	4.3	-22.0
Iron ore	138	148	169	166	5.3	1.0	7.2	14.2	-1.8
Aluminium	182	402	409	331	0.3	2.1	120.9	1.7	-19.1
Others	431	424	509	563	3.9	3.5	-1.6	20.0	10.6

Source: ECLA, on the basis of official statistics.

<sup>a</sup>Preliminary figures.

<sup>b</sup>Owing to the different sources of information used, the totals do not coincide exactly with those shown in table 13 (balance of payments).



Table 12

## VENEZUELA: IMPORTS OF GOODS, CIF

	Millions of dollars			Percentage breakdown		Growth rates			
	1980	1981	1982 <sup>a</sup>	1970	1982	1979	1980	1981	1982 <sup>b</sup>
Total <sup>c</sup>	10 652	11 792	5 532	100.0	100.0	-2.9	-0.5	10.7	-2.4
Consumer goods	2 534	2 833	1 298	21.9	23.5	-7.9	26.6	29.2	4.0
Foodstuffs and beverages	872	1 127	475	4.9	8.6	-0.1	16.4	29.2	-2.3
Other goods	1 662	1 706	823	17.0	14.9	-12.0	32.7	2.6	8.2
Luxury items	664	680	306	4.9	5.5	-9.5	51.4	2.4	3.9
Non-luxury items	998	1 026	517	12.1	9.3	-13.2	22.8	2.8	10.9
Inputs and intermediate products	3 712	3 922	1 956	36.7	35.4	-4.7	10.1	5.6	4.7
Auxiliary raw materials	3 021	3 201	1 322	33.4	23.9	7.8	12.5	6.0	-3.7
- for industry	2 799	2 846	1 205	29.7	21.8	8.9	13.2	1.8	-13.0
- for the agricultural sector	221	260	87	1.9	1.6	-2.6	47.3	17.6	-50.1
- fuels and lubricants	173	94	30	1.7	0.5	-3.0	170.3	-45.7	-30.8
Building materials	518	721	634	3.3	11.5	-5.9	-24.4	39.2	141.2
Capital goods	4 405	5 036	2 277	42.4	41.2	-5.2	-17.5	14.3	-10.7
Machinery and tools	2 847	3 032	1 482	26.9	26.8	-1.6	-13.3	6.5	-1.0
Transport equipment	1 558	2 004	795	15.5	14.4	-10.4	-24.5	28.6	-24.7

Source: ECLA, on the basis of official statistics.

<sup>a</sup>Refers to the period January-June.

<sup>b</sup>January-June, compared with the same period in 1981.

<sup>c</sup>Due to the different sources of information used, total amounts do not coincide with those shown in table 13 (balance of payments).

New products were also added to the list of those benefiting from the Law on Export Incentives, for which purpose the sum of 512 million bolívares was granted. Another significant form of export assistance was the export credit insurance system, which provided cover for external sales to a value of US\$ 512 million.

iii) *Imports of goods.* The growth rate of imports of goods, measured in terms of FOB value, was only 6.4%, i.e., little over half that recorded in the preceding year. The total value of imports for the year came to US\$ 13 166 million (see table 10).

Private sector imports rose by 14% to a value of US\$ 9 850 million, whereas those of the public sector contracted by 11%, thereby reducing the latter's share in total imports from 30% in 1981 to 25% in 1982. Imports of the petroleum industry, which in 1981 accounted for more than half of total public sector imports, fell in the year to only a quarter of that total.

However, according to the breakdown of data available for the first half year, the total value of external purchases showed only a small drop (-2.4%) as a result of the decrease of approximately 11% in capital goods. The sub-heading showing the largest contraction within this item was transport equipment, imports of which decreased almost 25% compared with the first half of 1981 (see table 12).

Raw material purchases also showed an appreciable drop, especially in the case of those used by the agricultural sector, whose value fell by 50%. On the other hand, imports of building materials more than doubled, with the result that total imports of raw materials and intermediate goods increased by 4.7% in the year, i.e., by approximately the same amount as in the preceding year.

Imports of consumer goods rose by 4%. Although significant, this growth rate represented barely one-seventh of the percentage increases recorded in the two preceding years. Foodstuff purchases in particular diminished as a result of the larger national agricultural output.

The need to stimulate domestic economic activity and the deteriorating balance-of-payments situation were the main causes influencing the introduction of some changes in import policy. In the first place a new customs tariff was put into effect, and the exemption from payment of import duties previously granted to the public sector, and to the petroleum industry from an even earlier date, were

eliminated. In view of the continuing deterioration in the financial situation, this policy was reinforced towards the end of the year by the introduction of a further increase in customs tariffs and a ban on the importation of 146 products.

b) *The balance of payments*

The merchandise trade balance showed a surplus of nearly US\$ 3 400 million in 1982: i.e., less than half that recorded in 1981. The real services account, for its part, which has traditionally shown negative results, increased its deficit by 11% to more than US\$ 4 300 million. While income under this heading contracted for the second consecutive year —on this occasion by 17%— outgoings continued to grow, especially in connection with travel expenses (see table 13).

The balance of factor services showed an abrupt reversal, with a deficit in 1982 of slightly more than US\$ 1 900 million compared with a surplus of over US\$ 800 million in 1981. Interest received on external investments of public-sector resources decreased by almost 25% due to the repatriation of a considerable proportion of the funds deposited abroad by *Petróleos de Venezuela*. Total interest received thus fell by 35% to slightly less than US\$ 2 500 million for the year, while payments on the other hand rose as a result of high international interest rates to US\$ 3 600 million, of which 70% represented interest payments on the external public debt.

Finally, private unilateral external transfers, consisting mainly of remittances made by foreigners working in Venezuela, also rose considerably to US\$ 574 million.

The results of all these transactions produced a reversal in the current account balance so that, after three consecutive years of surplus amounting altogether to more than US\$ 9 billion, this account showed a deficit in 1982 of over US\$ 3 450 million.

The capital account balance also showed some very significant development in the year. As a result of the difference in interest rates in favour of the United States during the first half of the year and of persistent rumours of possible devaluations and exchange-control measures, the outflow of private capital reached unaccustomed dimensions, causing a negative balance of more than US\$ 4 500 million on short-term private financial movements.

These outgoings were however compensated by public sector operations which produced a positive balance of slightly more than US\$ 8 billion. Of this total, US\$ 5 120 million represented repatriations of capital by government entities. Of particular significance in this respect was the administration contract signed in September 1982 between *Petróleos de Venezuela* and the Central Bank whereby the international assets held abroad by the former were transferred to the latter. These incoming transfers amounted to slightly over US\$ 3 billion in October and to US\$ 630 million in December.

This repatriation of public sector capital avoided a sharp contraction in the international reserves held by the Central Bank, which at the end of the year came to US\$ 12 200 million. Of this total, commercial bank reserves barely exceeded US\$ 200 million (representing a reduction of 40% in comparison with the preceding year), while those of the Venezuelan Investment Fund (FIV) amounted to slightly less than US\$ 2 billion —a reduction of 20% in the year (see table 14).

On the other hand, the Central Bank's own reserves increased from US\$ 7 billion in 1981 to slightly over US\$ 10 billion at the end of 1982. Apart from the transfer already mentioned of more than US\$ 3 600 million from *Petróleos de Venezuela* to the Central Bank, a contribution to this increase was also made by the revaluation of gold reserves, which rose in value by US\$ 2 935 million as the result of an increase in the price per ounce from US\$ 42.35 to US\$ 300. However, if these adjustments are excluded, the country's international reserves are seen to have dropped in the year by US\$ 7 billion.

c) *External indebtedness*

The medium and long-term external public debt rose considerably in 1982. Loans received and securities sold abroad represented a combined total of US\$ 4 165 million, or more than four times the figure for 1981. At the same time, amortization and settlement payments rose by 80% to US\$ 1 579 million. The disbursed public debt consequently increased by over US\$ 2 500 million to a total of more than US\$ 12 billion by the year's end, almost double the 1978 total (see table 15).

Table 13

## VENEZUELA: BALANCE OF PAYMENTS

(Millions of dollars)

	1977	1978	1979	1980	1981	1982 <sup>a</sup>
<b>Balance on current account</b>	-3 125	-5 697	371	4 749	4 045	-3 424
Trade balance	-2 985	-5 366	760	4 839	3 611	-931
Exports of goods and services	10 164	9 803	14 959	19 968	20 712	17 259
Goods FOB	9 544	9 085	14 164	19 050	19 859	16 549
Real services <sup>b</sup>	620	720	795	918	853	710
Transport and insurance	326	384	468	513	458	380
Travel	168	205	178	243	251	209
Imports of goods and services	13 150	15 169	14 199	15 129	17 101	18 190
Goods FOB	10 194	11 234	10 004	10 877	12 378	13 166
Real services <sup>b</sup>	2 955	3 935	4 195	4 252	4 724	5 024
Transport and insurance	1 274	1 555	1 454	1 449	1 516	1 612
Travel	1 053	1 635	1 727	1 981	2 349	2 498
Factor services	89	38	-3	328	817	-1 919
Profits	-292	-304	-313	-321	-337	-792
Interest received	782	1 052	1 346	2 263	3 776	2 473
Interest paid	-402	-710	-1 036	-1 613	-2 622	-3 600
Unrequited private transfer payments	-230	-369	-386	-418	-383	-574
<b>Balance on capital account</b>	2 966	3 866	606	-4 797	-1 551	704
Unrequited official transfer payments	-53	-38	-21	-21	-46	-67
Long-term capital	2 131	3 718	1 517	1 230	-25	3 170
Direct investment	-4	68	88	55	160	254
Portfolio investment	-41	124	-74	1 311	-62	0
Other long-term capital	2 175	3 527	1 503	-135	-123	2 916
Official sector <sup>c</sup>	1 282	2 016	1 059	-173	-175	3 062
Loans disbursed	1 719	2 441	1 857	787	779	...
Amortization payments	-393	-412	-776	-855	-945	...
Commercial banks <sup>c</sup>	414	687	-655	220	-	...
Loans disbursed	-	-	-	-	-	...
Amortization payments	-	-	-	-	-	...
Other sectors <sup>c</sup>	479	824	1 098	-182	52	-146
Loans disbursed	1 078	1 752	2 066	1 942	1 292	-28
Amortization payments	-294	-570	-860	-1 007	-1 077	-118
Short-term capital	-1 350	-1 297	-1 373	-4 807	-151	515
Official sector	44	-8	-3	103	11	5 062
Commercial banks	2	-210	-65	-29	39	-4 547
Other sectors	-1 396	-1 079	-1 306	-4 881	-200	...
Errors and omissions (net)	2 238	1 482	485	-1 201	-1 330	-2 914
<b>Global balance<sup>d</sup></b>	-160	-1 830	977	-48	2 494	-2 720
Total variation in reserves (- sign indicates an increase)	171	1 833	-1 104	-61	-2 676	-215
Monetary gold	-	-	-	-	-	-
Special Drawing Rights	-19	-52	-135	9	-101	5
IMF reserve position	64	246	229	-87	-14	-113
Foreign exchange assets	344	1 507	-1 379	795	-1 446	1 695
Other assets	-218	133	182	-777	-1 115	-1 802
Use made of IMF credit	-	-	-	-	-	-

Source: 1977-1981: International Monetary Fund, *Balance of Payments Yearbook*; 1982: ECLA, on the basis of official data.<sup>a</sup>Preliminary figures.<sup>b</sup>Real services also include other official and private transactions, but not factor services.<sup>c</sup>In addition to loans received and amortization payments made, this entry includes net loans granted and other assets and liabilities.<sup>d</sup>The global balance is the sum of the current account balance plus the balance on capital account. The difference between total variation in reserves of opposite sign and the global balance represents counterpart items: monetization of gold, allocation of Special Drawing Rights, and variation due to revaluation.

Debt servicing costs rose in 1982 by 22% to US\$ 2 790 million. Particularly important in this connection was an increase of 70% in amortization payments, largely due to the irregular distribution of due dates. More than a quarter of the medium and long-term debt thus falls due within the next two years, and only 40% matures after 1987.

The short-term external debt came to almost US\$ 11 billion, of which the central government accounted for US\$ 6 600 million and other public entities for US\$ 4 200 million. The total external public debt therefore came to almost US\$ 27 billion, to which should be added US\$ 3 billion corresponding to private sector liabilities. Interest payments on this overall debt increased in the year by 37% to a total of US\$ 3 600 million. Servicing costs on the total debt were thus equivalent to 30% of exports of goods and services, or almost double the level of the preceding year.

Because of the big imbalance in the distribution of the due dates of the total public debt, a law was approved by Congress in 1981 authorizing the Executive to undertake credit negotiations with a view to refinancing almost US\$ 13 000 million worth of short-term indebtedness incurred by decentralized public entities. However, access to international financial markets became considerably

Table 14

VENEZUELA: INTERNATIONAL RESERVES

(Millions of dollars)

	Central Bank	Commercial banks	Venezuelan Investment Fund	Total
At the end of:				
1976	8 570	74	641	9 285
1977	8 154	68	916	9 129
1978	6 438	288	873	7 599
1979	7 740	350	729	8 819
1980	7 025	377	1 483	8 885
1981	8 619	338	2 452	11 409
1982	10 039	206	1 953	12 198

Source: ECLA, on the basis of statistics compiled by the Central Bank of Venezuela.

Table 15

VENEZUELA: INDICATORS OF EXTERNAL INDEBTEDNESS

(Millions of dollars)

	End-year balances					
	1977	1978	1979	1980	1981	1982 <sup>a</sup>
Disbursed external public debt incurred in accordance with the Law on Public Credit: <sup>b</sup>						
Balance	4 715	7 252	8 215	9 655	9 515	12 101
Servicing of the debt	979	967	1 425	2 122	2 281	2 790
Capital	769	569	865	1 168	941	1 579
Interest	212	398	560	954	1 340	1 211
Disbursed global external indebtedness						
Balance	10 812	16 385	23 078	26 494	28 777	30 000 <sup>c</sup>
Interest <sup>c</sup>	402	710	1 036	1 613	2 622	3 600
Servicing of the debt as a percentage of exports of goods and services <sup>d</sup>	11.5	13.0	12.7	13.9	17.2	30.0

Source: ECLA, on the basis of statistics from the Central Bank of Venezuela and from international financial agencies.

<sup>a</sup>Preliminary figures.

<sup>b</sup>Excluding the floating debt.

<sup>c</sup>ECLA estimates, based on the movements in the relevant balance of payments items.

<sup>d</sup>Debt servicing costs used in calculating this coefficient include amortization of the public debt incurred in accordance with the Law on Public Credit, and interest payments on the total debt.

Table 16  
VENEZUELA: EVOLUTION OF PRICES

	1978	1979	1980	1981	1982
<b>Variation from December to December</b>					
Consumer prices <sup>a</sup>	7.0	20.5	19.6	10.8	7.7
Food	7.0	34.4	22.3	12.7	6.9
Clothing	12.9	40.2	45.4	-2.2	-3.0
Wholesale prices	5.8	15.4	16.9	11.3	6.2
Imported products	6.7	11.2	14.2	9.5	5.7
Domestic products	4.5	18.4	18.6	12.3	6.5
Agricultural products	0.6	30.3	17.2	12.4	4.5
Manufactures	2.7	5.8	16.2	10.1	6.1
<b>Variation between annual averages</b>					
Consumer prices <sup>a</sup>	7.1	12.3	21.6	16.1	9.9
Food	9.3	16.6	33.1	18.5	9.7
Clothing	8.5	25.3	46.2	16.2	-2.7
Wholesale prices	7.4	9.3	20.1	13.8	8.0
Imported products	6.2	7.6	15.6	11.8	7.2
Domestic products	8.3	10.4	22.9	15.0	8.6
Agricultural products	5.0	12.6	27.4	19.6	5.2
Manufactures	7.6	8.1	17.4	11.9	8.3

Source: ECLA, on the basis of official statistics.

<sup>a</sup>In the Caracas metropolitan area.

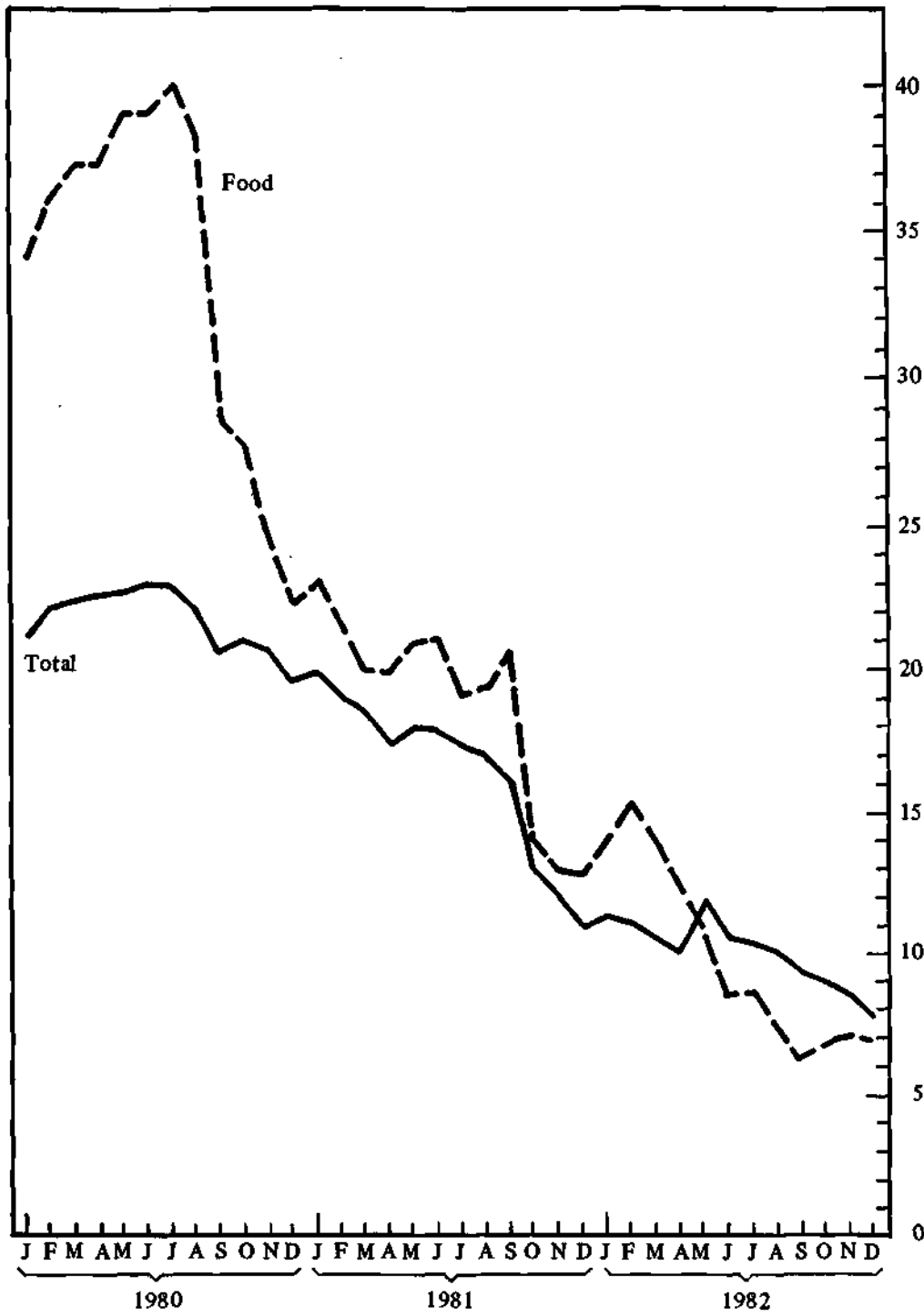
more difficult in the course of the year, with the result that it was only possible to refinance some US\$ 6 300 million of these debts. The maturity dates ruling at the end of the year continued to show considerable imbalances, with almost half of the total public debt (US\$ 13 billion) being due for settlement within one year and only 22% after 1987.

#### 4. Prices

The rate of inflation was again held down in 1982. The variation between annual averages as measured by the consumer price index for the metropolitan area of Caracas barely reached 10%, which was less than two-thirds of the increase in the preceding year. The deceleration of the inflationary process was intensified in the second half of the year, with the result that the December-December price variation came to only 7.7% —a good deal less than the 11% recorded in 1981 and much less than the annual increases of approximately 20% in 1980 and 1979 (see table 16 and figure 2).

Wholesale prices followed a similar trend, showing lower increases than in the preceding year (6.2% between December and December and an average annual variation of 8%) but higher than the equivalent results recorded in 1978. The price increase in the case of domestic products was 6.5%, while that of imported products came to 5.7%. Contributing decisively to this result was an increase of almost 50% in energy and fuel costs, due to the increase in the domestic price of gasoline which came into effect in May. Among foreign products, the items showing the highest increases were agricultural products (28%) and building materials (24%). The lower increase in consumer prices was noticeable in all population centres but was especially marked in Maracaibo, where the December-December variation dropped from 17% in 1981 to 10.4% in 1982, and in Mérida (where the rate of increase contracted from almost 20% in 1981 to 8.6% in 1982).

In so far as the individual components of the index were concerned, clothing and footwear showed a drop in prices of 3% in absolute terms, due mainly to their inclusion in 1981 in the list of articles of prime necessity for which a price reduction of 10% was officially instituted. The prices of products for household use rose by only 3%, in contrast with a sharp increase of more than 14% in the previous year. Foodstuffs, beverages and tobacco also showed a lower level of inflation of 6.9% in



Source: ECLA, on the basis of official data.

<sup>a</sup>Consumer price index for the Caracas metropolitan area.

Table 17

## VENEZUELA: ORIGIN OF THE MONETARY BASE

	Billions of bolvares				Growth rates			
	1979	1980	1981	1982	1979	1980	1981	1982
<b>1. Factors of expansion</b>	40.6	38.4	47.8	48.5	21.5	-5.3	24.4	1.3
Net international reserves	32.9	30.0	37.0	43.2	20.6	-9.0	23.5	16.9
Government securities	0.9	0.3	0.3	3.2	76.6	-62.7	9.9	778.4
Rediscounts and advances	2.9	2.9	1.5	5.4	11.5	-1.5	-47.5	256.4
Loans and investment of other assets	3.9	5.2	9.0	-3.3	29.0	36.7	70.5	...
<b>2. Factors of contraction</b>	15.3	11.2	16.2	20.1	38.7	-26.7	44.4	23.9
National Treasury	6.0	2.1	4.3	3.2	128.0	-64.3	102.0	-25.7
Other government deposits	3.4	3.1	4.2	3.8	32.8	-8.6	35.6	-8.1
Venezuelan Investment Funds and other special deposits	1.5	0.4	0.3	8.5	-34.1	-75.5	-2.8	...
Paid-up capital and reserves	4.4	5.6	7.4	5.6	22.9	27.0	30.3	-24.6
<b>3. Monetary base (1 - 2)</b>	25.3	27.2	31.6	28.4	13.0	7.6	16.2	-10.3

Source: ECLA, on the basis of statistics compiled by the Central Bank of Venezuela.

1982 compared with 12.7% the year before. Other product prices rose by 14.4%, exceeding the equivalent rate of 8.8% in 1981. The main causes of this variation were the higher prices of transportation (37%) and communications (58%).

The deterioration in family incomes brought about a lessening of demand for durable consumer goods, and this in turn restrained price increases in this product group. Thus, compared with an increase of 9.9% in 1981, they rose by only 1% in 1982. Prices of semi-durable goods dropped by 2% in absolute terms after having risen by more than 14% in 1981. Contrasting with these moderate variations, the prices of non-durable goods and services followed a marked upward trend, with growth rates of 13.6% and 12.5% respectively.

The slower growth rate of national demand, which affected private consumption and still more that of the government, was largely responsible for the lower general rate of inflation. To this was added the more moderate increase in producer prices, the bigger supply of agricultural products, and the effect of various anti-inflationary measures.

The policy of "realistic prices" introduced in 1979 continued on the whole to be applied in 1982. Maximum selling prices were established for approximately 3 000 products regarded as essential, some of which were subsidized. Furthermore, the government fixed some minimum prices in order to protect certain productive activities, and also regulated public service tariffs.

Official supervision was also exercised over goods not subject to fixed prices, and it was made obligatory to give at least 30 days' advance notice of any price change. Contrary to what occurred in 1981, prices in this market sector rose less (7.4%) than those in the controlled-price group (8.4%).

## 5. Monetary and fiscal policy

### a) *Monetary policy*

In 1982, the monetary base contracted (by 10%) for the first time in recent years. Although the international reserves rose by almost 17%, loans to the government and purchases of public sector securities increased tenfold, and rediscounts and advances granted by the monetary authority trebled in value, other Central Bank assets underwent a radical change with a significantly contractive effect. Moreover, the Venezuelan Investment Fund (FIV) and other decentralized agencies increased their deposits with the Central Bank to an unaccustomed extent, raising them by a factor of no less than 23 (see table 17).

The contraction in the monetary base brought about a reduction of slightly more than 8% in the means of payment. Current account deposits dropped by 10%, while currency outside banks

Table 18

## VENEZUELA: EVOLUTION OF THE MEANS OF PAYMENT

	Billions of bolivares				Growth rates			
	1979	1980	1981	1982 <sup>a</sup>	1970	1980	1981	1982 <sup>a</sup>
Deposits on current account	34.0	37.8	40.2	36.1	5.7	11.1	6.2	-10.1
Currency outside banks	9.9	12.1	13.3	12.9	10.4	22.5	10.1	-2.9
Total means of payment (M <sub>1</sub> )	43.9	49.9	53.5	49.0	6.7	13.7	7.1	-8.3
Savings deposits	22.9	26.1	28.9	28.6	8.2	13.8	10.8	-1.0
Time deposits and others	17.2	27.7	42.3	51.5	58.6	60.8	52.5	21.7
Total quasi-money	40.1	53.8	71.2	80.1	25.3	34.0	32.3	12.5
Monetary liquidity (M <sub>2</sub> )	84.0	103.7	124.7	129.1	14.8	23.4	20.2	3.6
Mortgage bonds	13.6	10.3	7.4	5.5	-4.8	-24.0	-28.5	-24.9
Expanded liquidity (M <sub>3</sub> )	97.6	114.0	132.1	134.6	11.6	16.8	15.8	2.0

Source: ECLA, on the basis of statistics compiled by the Central Bank of Venezuela.

Note: M<sub>2</sub> = M<sub>1</sub> + quasi-money. M<sub>3</sub> = M<sub>2</sub> + mortgage bonds.

<sup>a</sup>Preliminary figures.

Table 19

## VENEZUELA: DIFFERENTIALS BETWEEN DOMESTIC AND EXTERNAL INTEREST RATES

(Percentages)

	United States prime rate <sup>a</sup>	LIBOR <sup>b</sup>	United States 90-day certificates of deposit <sup>c</sup>	90-day Euro-deposits <sup>d</sup>
Quarter				
1980				
I	-3.14	-1.65	-0.83	-1.45
II	-1.97	1.84	2.26	1.67
III	0.40	1.11	0.81	0.03
IV	-2.60	-2.63	-2.71	-3.35
Annual average	-1.82	-0.20	-0.11	-0.98
1981				
I	-4.67	-2.40	-1.41	-2.18
II	-5.85	-3.81	-3.87	-4.58
III	-6.29	-4.45	-3.30	-4.02
IV	-0.67	1.88	2.37	1.31
Annual average	-4.37	-2.20	-1.55	-2.37
1982				
I	-0.25	0.96	0.28	-0.18
II	-0.06	1.40	0.86	0.39
III	2.20	4.48	4.73	4.15
IV	5.19	0.82	6.40	5.87
Annual average	1.80	3.36	3.07	2.56

Source: ECLA, on the basis of statistics compiled by the Central Bank of Venezuela.

<sup>a</sup>Official commercial bank rate for loans and discounts, less the prime rate on the United States market.

<sup>b</sup>Official commercial bank rate for loans and discounts, less LIBOR.

<sup>c</sup>Agreed domestic rate for fixed-term deposits, less rate for 90-day certificates of deposit in the United States.

<sup>d</sup>Agreed domestic rate for fixed-term deposits, less rate for 90-day Euro-deposits.



decreased by 3%. On the other hand, quasi-money rose by almost 13% thanks to an increase of 22% in time deposits in the financial system (see table 18).

Although at the beginning of the year an attempt was made to continue applying the restrictive and fundamentally anti-inflationary policy instituted in 1979, it became necessary to introduce some changes in that policy in the light of the prevailing foreign trade and fiscal situation. The effects of the difficult petroleum situation began to make themselves felt in mid-February leading to some flight of private capital. The resulting transfers of foreign currency from the Central Bank to commercial banks caused a reduction of more than US\$ 4 billion in the international reserves between February and June.

The first corrective measures adopted were aimed at limiting the outflows of foreign currency. Thus, residents were authorized to make local foreign currency deposits and domestic interest rates were adjusted. As a result, the difference between rates paid in Venezuela and in the United States became favourable to the former (see table 19).

Furthermore, the contraction of government expenditure as a result of the drop in international oil prices naturally had a serious effect on domestic activity. With a view to compensating these adverse effects, substantial changes were introduced in monetary policy during the second half of the year. On the one hand, the rediscount rate was reduced from 14% to 13% and advances to the commercial banks were increased, rising from 63 million bolívars in June to more than 2 billion in September and approximately 5.5 billion in December. As a result, bank credits increased by 9.4% and mortgage loans granted by the national savings and loan system rose by 2%.

The outflow of capital nevertheless continued, encouraged by the persistently unfavourable petroleum and fiscal prospects and by the negative effect of the increasingly general financial problems in other countries of the region, and the Central Bank reserves fell by a further billion dollars between June and August.

It was therefore decided in September to revalue the country's gold reserves, the price per ounce being raised from US\$ 42.25 to US\$ 300. This produced an increase of almost US\$ 3 billion in the value of the international reserves. In addition, the administration of all public sector international assets<sup>13</sup> was concentrated in the Central Bank, as a result of which the latter received some US\$ 4 billion. Despite all these measures, however, it did not prove possible to staunch the outflow of foreign currency, which reached a total of between US\$ 7 billion and 10 billion in the year.

#### b) *Fiscal policy*

The lower price of petroleum and the growing marketing difficulties affecting this product had a marked effect on fiscal management, since current government revenue has for some years depended largely (approximately 70%) on tax receipts and contributions from the petroleum industry.

Steps were consequently taken in April to readjust the fiscal budget. Attempts to reduce costs led to a cut of 7% in current expenditure. Due to the policy of public sector job protection, however, wage and salary costs fell by only 2%. In contrast, financial subsidies paid by the government decreased by almost 17%, although because of the considerable increase of these subsidies in 1981, their value in 1982 was nevertheless more than four times the amount disbursed in 1979 (see table 20).

Capital expenditure, for its part, contracted by more than 40%, representing only 23% of total outgoings compared with more than 35% in 1981. Financial investment was the item showing the greatest drop (72%), while real investment decreased by 7%.

On the other hand, public debt servicing costs rose by 67%, i.e., more than double the amount saved in 1979. This meant that total government expenditure only went down by 9%, to approximately 86 billion bolívars.

Income fell by more than 15%, due mainly to a drop of approximately 31% in revenue from petroleum, which declined from almost 71 billion bolívars in 1981 to only 49 billion in 1982, thereby reducing the participation of this item in total government income from 77% to 63% —the lowest

<sup>13</sup>Comprising those of autonomous public institutions and of all State enterprises, including *Petróleos de Venezuela* but excluding the Venezuelan Investment Fund.

Table 20

## VENEZUELA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Billions of bolívares				Growth rates			
	1979	1980	1981	1982 <sup>a</sup>	1979	1980	1981	1982 <sup>a</sup>
1. Current income	50.0	62.7	92.7	78.2	24.8	25.2	47.8	-15.6
Petroleum	33.3	45.3	70.9	49.2	32.6	36.2	56.4	-30.6
Direct	6.3	7.2	9.9	9.6	0.1	12.0	38.0	-2.5
Indirect and other income	10.4	10.2	11.9	19.3	20.3	-1.8	14.4	62.4
2. Current expenditure	30.1	35.2	48.3	44.8	19.9	17.0	37.1	-7.3
Wages and salaries	12.8	16.5	19.1	18.9	15.3	28.6	15.3	-0.8
Financial subsidies	0.9	0.7	3.7	3.1	7.3	-21.1	436.8	-16.8
Other current expenditure	16.3	18.1	25.6	22.9	24.5	10.0	41.8	-10.7
3. Saving on current account (1-2)	19.9	27.5	44.4	33.4	33.0	37.7	61.5	-24.7
4. Capital expenditure	11.7	25.5	33.4	20.0	-35.8	117.8	31.1	-40.2
Real investment	3.6	4.4	6.8	6.3	-44.3	21.4	54.6	-7.2
Financial investment	1.8	8.9	14.6	4.1	1.6	397.6	66.7	-72.0
Transfers	6.3	12.3	12.0	9.5	36.9	95.5	-2.7	-20.4
5. Servicing of the public debt	9.5	12.1	12.8	21.5	53.7	32.7	5.5	67.4
6. Total expenditure (2 + 4 + 5)	51.0	72.9	94.5	86.2	-0.4	43.0	29.7	-8.8
7. Fiscal surplus or deficit	-0.9	-10.2	-1.9	-8.0				
Financing								
External	0.1	8.8	1.5	3.4				
Other	0.8	1.4	0.4	4.6				

Source: ECLA, on the basis of statistics contained in the address by the President of Venezuela to the Congress of the Republic, March 1983.

Note: Due to the figures being rounded off, the sum of the partial totals does not coincide in all cases with the grand total.  
<sup>a</sup>Preliminary figures.

level recorded in the recent past. However, as a result of the higher taxation on consumption introduced in April (and in particular that applicable to gasoline and tobacco), revenue from indirect taxation rose by 62%, attenuating to some extent the drop in total income.

The fiscal deficit in 1982 nevertheless exceeded 8 billion bolívares, but although almost four times greater than in the preceding year, this was nevertheless less than the equivalent result in 1980. In order to finance this deficit, external credit of approximately 3.5 billion bolívares was resorted to. Although more than twice the amount used in 1981, this barely covered 42% of the deficit: the lowest such proportion in recent years.

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