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C E P A L

Economic Commission for Latin America

A PRELIMINARY BALANCE-SHEET OF THE LATIN AMERICAN ECONOMY DURING 1981*

* Information provided by Mr. Enrique V. Iglesias, Executive Secretary of CEPAL, at his end-of-year press conference held at CEPAL headquarters on 22 December 1981.

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I. THE INTERNATIONAL FRAMEWORK

A year ago, in referring to the external context in which Latin American development took place, we pointed out that the prospects for the recovery and growth of the world economy were gloomy. Unfortunately, the data available to date regarding 1981 confirm this prognosis and indicate that the 1980s have had a discouraging start. Indeed, for two years in a row, the world economy has been virtually at a standstill, while exchange rates, interest rates and other significant financial variables have been characterized by instability.

In 1981, the joint product of the countries members of the Organization for Economic Co-operation and Development (OECD), an institution bringing together the 24 main market economy industrialized countries, had increased by around 1%, i.e., at a rate similar to the very low rate of the previous year. The recovery of the economies of those countries has progressed at a slower pace than had been expected, particularly in some of the European countries and in the United States, where reacceleration has been slow and relatively erratic.

The anti-inflationary and adjustment policies put into effect by the industrialized countries over the last three years -policies which had been linked significantly, though not exclusively, to the imbalances and challenges created by the substantial real increases in the international price of oil in 1979 and 1980- have profoundly influenced this slow evolution of economic activity.

These anti-inflationary policies have led to a slight deceleration in the average rate of increase of consumer prices in the industrialized countries, from approximately 12% in 1980 to somewhat under 10% in 1981. Nevertheless, they have also had a part in generating a sharp increase in the unemployment rate in almost all the OECD economies, so that in these countries taken together the total unemployed labour force is around 25 million persons, i.e., around 7% of the labour force. Naturally, a by-product of the extensive and persistent unemployment problem has been the trend towards a growing neoprotectionism which has become increasingly prevalent in recent times.

Moreover, as a result of the high priority attached to monetary policies as part of the stabilization strategies of the OECD countries, particularly the United States and the United Kingdom, there were significant changes in 1981 in the interest rates applied in the international capital markets and in the exchange rates for the main reserve currencies.

/Thus, as

Thus, as may be seen in table 1, in 1981 the prime rate in the United States continued its upward trend of the three previous years, ranging around the high figure of 20% up to September 1981 and only beginning to drop significantly during the last quarter of the year. Interest rates in the Eurocurrency markets, although lower than those noted in the United States, also reached exceptionally high levels.

As a result of the course followed by interest rates and the differences which arose between the United States and the Eurocurrency markets, between September 1980 and September 1981 the dollar was revalued by over 20% with respect to the average value of the main reserve currencies of the OECD countries. This trend was also partially reversed during the last quarter of 1981.

The developments with regard to these variables had significant implications for the Latin American countries: during 1981, the burden represented by the service of the international debts contracted in dollars became heavier, as the high real dollar interest rates coincided with the substantial revaluation of the dollar with respect to the countries of the other main industrialized countries.

Considering that the industrialized nations as a whole constitute the main dynamic centre of the world economy, it follows that both the evolution of the world economy and that of international trade were very unfavourable in 1981.

It has been estimated tentatively that during 1981 the growth rate of the worldwide product ranged at around 1.5%, i.e., even lower than the rate noted in 1980. Moreover, it is quite likely that the volume of world trade, which in 1980 grew by only 1.5%, came to a virtual standstill during 1981. It is worth pointing out that no such situation had occurred for an annual period during the entire postwar period.

During 1981, the international prices of various types of goods also followed an uneven course. In terms of current dollars, the prices of oil tended to stabilize throughout the year (although the annual average was around 15% greater than in 1980), while the average unit values of manufactures rose (approximately 10%) and the average prices of basic commodities dropped (around 15%).

As a result of these variations in international prices and of the changes in the volume of goods traded by the various groups of countries, there were certain differences between the world balance of payments and its composition and the values noted during the previous year.

/Table 1

Table 1

INTEREST RATES ON INTERNATIONAL FINANCIAL MARKETS
(Annual and quarterly averages)

	LIBOR a/	Prime rate
1972	5.46	5.23
1973	9.24	8.14
1974	11.01	10.71
1975	6.99	7.73
1976	5.58	6.73
1977	6.00	6.83
1978	8.73	9.25
1979	11.96	12.83
1980	14.36	14.06
1981 b/	16.38	18.92
I	16.33	18.67
II	17.47	19.50
III	18.44	20.17
IV b/	13.28	17.33

Source: IMF, International Financial Statistics, December 1981.
Morgan Guaranty Trust Company of New York, World Financial Markets.

a/ London Inter-bank offer rates.

b/ Preliminary estimates.

/Thus, according

Thus, according to preliminary estimates, the current account suprlus of the oil-exporting countries declined from 112 000 million dollars in 1980 to somewhat under 100 000 million in 1981. In the meantime, the current deficit of the industrialized countries dropped from 44 000 million dollars to less than 30 000 million, while the current deficit of the non-oil-exporting developing countries rose from 80 000 million dollars to over 90 000 million. In such circumstances, it is evident that in order to finance their current account deficits, the non-oil-exporting developing countries required increasing amounts of external capital in 1981.

II. MAIN ASPECTS OF ECONOMIC TRENDS IN LATIN AMERICA DURING 1981

The regressive and unstable features of the international economic scenario we have just discussed naturally had an adverse effect on the economy of Latin America. Because of these problems, as well as of the impact of various internal factors to be discussed later on, the economic evolution of the region was very unfavourable in 1981. Thus, the preliminary and partial figures available to CEPAL at this point indicate the following:

(a) the economic growth rate is estimated to have been only 1.2%, which is not only much lower than the 5.8% rate of the previous year, but also represents a record low for the last 35 years;

(b) the average rate of increase of consumer prices was almost 60%, i.e., higher than all past increases with the sole exception of the slightly higher rate for 1976;

(c) the balance-of-payments current account deficit rose to an unprecedented 33 700 million dollars and, as in the case of the negative balance of 28 000 million recorded in 1980, it was not possible to finance it entirely with a net capital income estimated provisionally at 31 800 million dollars. Consequently, the overall balance of payments closed in 1981 with a negative balance for the second year in a row;

(d) this greater external disequilibrium occurred despite the fact that in 1981 the volume of Latin American exports grew vigorously, by around 11%; in view of the very weak growth in the volume of world trade, this rate was only achieved thanks to the great internal efforts made by the Latin American countries to

/promote their

promote their exports. Moreover, this high rate was also necessary in order to offset, at least partly, the decline in the terms of trade of the non-oil-exporting countries of the region;

(e) the external indebtedness of the region continued to increase rapidly and it is estimated that towards the end of the year the amount of the overall gross external debt disbursed amounted to almost 240 000 million dollars, 15% more than the amount for 1980 and easily twice the amount recorded four years before.

1. Economic growth

As was pointed out before, in 1981 the economic growth rate of Latin America dropped suddenly. The gross domestic product, after increasing by 6.5% in 1979 and by 5.8% in 1980, is estimated to have risen by only 1.2% in 1981. This rate is not only the lowest since 1935 -the first year for which relatively reliable statistics on the product of the region as a whole are available-, but is also lower than the population growth rate. Consequently, the per capita gross domestic product dropped by somewhat over 1% in 1981; this had not happened since 1959.

The loss of economic dynamism in 1981 was not only sharp but widespread. As may be seen in tables 2 and 3, the growth rate of the gross domestic product declined in 17 of the 19 countries considered, whereas the per capita product dropped in absolute terms in nine of these.

Nevertheless, in view of the fact that Argentina and, in particular Brazil account for a relatively large share of the global product of the region, the drop in this regional growth rate was particularly influenced by the decline of economic activity in these two countries.

In Brazil -which by itself generates around one-third of the total product of Latin America- economic activity declined by 3% in 1981, after having increased by 8% in 1980. This drop -the first one to take place in Brazil in the last forty years- was basically a reflection of the approximately 9% drop in the production of the manufacturing industry, which in turn was affected by the restrictive measures adopted at the end of 1980 for the double purpose of reducing both the high deficit in the balance-of-payments current account and the intense inflationary process recorded during that year.

/Table 2

Table 2

LATIN AMERICA: TRENDS IN THE OVERALL GROSS DOMESTIC PRODUCT

(Annual growth rates)

Country	1970-1974	1975	1976	1977	1978	1979	1980	1981a/
Argentina	4.1	-0.8	-0.5	6.4	-3.5	7.1	1.0	-6.0
Bolivia	5.8	5.1	6.8	3.4	3.1	2.1	0.8	-1.0
Brazil	11.5	5.7	9.0	4.7	6.0	6.4	8.0	-3.0
Colombia	6.9	4.3	4.2	4.8	8.9	5.1	4.1	3.0
Costa Rica	7.1	2.1	5.5	8.9	6.3	4.9	1.2	-1.5
Chile	2.6	-12.9	3.5	9.9	8.2	8.3	6.5	5.0
Ecuador	9.9	5.6	9.2	6.2	5.5	5.8	4.6	4.5
El Salvador	4.9	5.6	4.0	5.9	4.4	-1.6	-9.0	-9.5
Guatemala	6.4	1.9	7.4	7.8	5.0	4.5	3.4	1.0
Haiti	4.7	2.2	5.3	1.3	4.4	4.7	5.2	-3.0
Honduras	3.5	-2.0	7.0	5.8	7.9	6.8	1.3	0.5
Mexico	6.8	5.6	4.2	3.4	8.1	9.0	8.4	8.0
Nicaragua	5.3	2.2	5.0	6.3	-7.2	-25.1	10.7	6.0
Panama	5.2	0.6	-1.1	1.6	4.1	5.7	4.9	4.5
Paraguay	6.4	6.3	7.0	12.8	10.9	10.7	11.4	8.5
Peru	4.8	4.5	2.0	-0.1	-0.5	3.7	3.1	4.0
Dominican Republic	10.1	5.2	6.7	5.0	2.2	4.8	5.2	3.5
Uruguay	1.3	4.8	4.2	1.8	6.2	8.7	4.5	1.5
Venezuela	5.2	5.9	8.4	6.8	3.2	0.9	-1.2	-
Latin America (19 countries)	7.2	3.8	5.4	4.8	5.1	6.5	5.8	1.2

Source: CEPAL, on the basis of official figures.

a/ Preliminary estimates subject to revision.

/Table 3

Table 3

LATIN AMERICA: TRENDS IN THE PER CAPITA GROSS DOMESTIC PRODUCT a/

Country	Dollars at 1970 prices				Annual growth rates		
	1970	1975	1980	1981 b/	1979	1980	1981 b/
Argentina	1 113	1 199	1 245	1 156	5.8	-0.2	-7.1
Bolivia	290	338	348	337	-0.6	-1.8	-3.3
Brazil	450	662	815	772	3.9	5.5	-5.3
Colombia	539	660	771	776	2.9	1.9	0.6
Costa Rica	658	777	896	862	2.5	-1.1	-3.8
Chile	850	745	971	1 002	6.4	4.7	3.2
Ecuador	369	505	588	594	2.6	1.4	1.1
El Salvador	390	440	391	344	-4.4	-11.6	-12.1
Guatemala	410	462	521	511	1.4	0.3	-2.0
Haiti	112	123	133	126	2.2	2.7	-5.3
Honduras	283	266	295	286	3.1	-2.2	-3.1
Mexico	930	1 087	1 291	1 351	5.8	5.3	4.7
Nicaragua	394	439	320	328	-27.5	7.1	2.6
Panama	865	1 059	949	969	3.2	2.5	2.1
Paraguay	355	419	584	614	7.1	7.5	5.2
Peru	593	648	614	621	1.0	0.3	1.1
Dominican Republic	337	449	498	503	2.2	2.6	0.9
Uruguay	932	989	1 235	1 246	8.1	3.9	0.9
Venezuela	1 140	1 209	1 208	1 168	-2.6	-4.5	-3.3
Latin America (19 countries)	650	785	906	895	3.9	3.2	-1.3

Source: CEPAL, on the basis of official

a/ At factor cost.
b/ Preliminary estimates subject to revision.

/The decline

The decline of economic activity was more pronounced in Argentina, where somewhat over one-tenth of the overall production of the region originates and where it is estimated that in 1981 the gross domestic product and industrial production declined by 6% and 15%, respectively. As a result of this drop -comparable only with the slowdown of economic activity in 1959- and of the slow and irregular evolution of the Argentine economy during the second half of the 1970s, the per capita product dropped in 1981 to a level similar to that of 1972.

During 1981 there was also a decline in the economic growth rate of all the Central American countries, in most of which there was a continuation or an aggravation of social conflicts and political tensions, with the resulting accentuation of economic uncertainty. This deterioration was particularly sharp in the case of El Salvador, where the gross domestic product declined by around 9% for the second year in a row. As a result of this decline and of the slight drop in overall economic activity in 1979, the per capita product was 25% lower in 1981 than in 1978. The level of economic activity also declined, although to a much lesser extent (-1.5%), in Costa Rica and it came to a virtual standstill in Guatemala and Honduras, as a result of which the per capita product dropped in these three countries. Thus, among the Central American countries, only Nicaragua showed any visible increase in economic activity; it is estimated that in this country, the global product rose by 6%, after having increased by around 11% during the previous year. Nevertheless, because of the large drop of around 30% in economic activity during the biennium 1978-1979, the level of economic activity was still amost 20% lower in 1981 than in 1977.

In 1981 the slowdown in the Bolivian economy, which had begun in 1977, was accentuated and the Venezuelan economy remained stagnant for the third year in a row. As a result, the per capita product, which had already declined in both countries over the last two years, dropped in both countries by over 3% in 1981 (see table 3).

Economic progress was somewhat better in Uruguay, where it is estimated that the gross domestic product increased by 1.5% after three years of very rapid growth. The decline in the growth rate was influenced, in particular by the stagnation of agricultural activity and the drop in construction, both of which had increased with particular vigour in 1980.

In the countries whose economic growth rate was above the regional average, overall economic activity increased by around 5% in Chile, 4.5% in Ecuador and Panama, and approximately 4% in Peru. However, while the growth achieved in Peru in 1981 was the highest since 1975, the growth rate of Panama was lower than in 1979 and 1980, whereas in Chile it was the lowest since 1976 and in Ecuador it was the lowest for the last 15 years. A similar situation was noted in Colombia, where global production is estimated to have increased by only around 3% in 1981, i.e., at a rate lower than any recorded over the previous 20 years.

Thus, in 1981, of the 19 countries considered in tables 2 and 3, economic growth only reached satisfactory rates in Mexico and Paraguay.

In Mexico, the gross domestic product rose by around 8%, thus continuing for the fourth year in a row the phase of great dynamism that began in the Mexican economy in 1978. As in previous years, the growth of the economy in 1981 was stimulated mainly by the vigorous growth of oil production and exports and was supported by a rapid increase in construction and services.

In Paraguay, the 8.5% increase in the domestic product, although considerably lower than the exceptionally high rate of over 11% noted in 1980, was based mainly on the continuing and dynamic growth of agriculture and, above all, of construction.

Finally, it is worth adding that in 1981 there was a rapid increase in the level of economic activity in Cuba. It is estimated that the material product 1/ rose by around 10% in 1981, after having increased at an average rate of 1.7% over the previous two years. This acceleration of the growth rate was particularly influenced by the substantial growth of sugar cane agriculture and of construction -both of which had shown a slight contraction in 1980- and the considerable growth of manufacturing, which had increased at an average rate of only slightly over 1% during the previous two-year period.

2. Inflation

In 1981, the average rate of inflation in Latin America rose for the fourth year in a row, reaching almost 60%. This rate, which is obtained by weighing the consumer price variations in the various countries by their respective populations, is the highest ever recorded in the region, with the sole exception of the 61% inflation noted in 1976.

1/ Which is equivalent to the sum of the value of gross production of the agricultural, mining, manufacturing, construction and electric power sectors.

/During 1981

During 1981 there was also a greater diversity of inflationary situations and, for the second year in a row, a widening of the gap between the average price increase rates of the group of countries that had traditionally experienced strong inflationary pressures and those of the group of countries where price increases have usually been more moderate (see table 4).

In the first group of countries -which includes most of the larger and more diversified economies of the region- inflation was particularly high in Argentina and Brazil.

In Argentina, the annual rate at which consumer prices increased, after having dropped almost constantly during 1980, began to rise sharply in April 1981 and by the end of the year had reached 120%. This was due mainly to the effect of the adjustment policies applied in the external sector beginning in the second quarter of the year (see figure A).

The pattern of inflation was different in Brazil, although in this case prices also doubled throughout 1981. Nevertheless, the annual rate of inflation, after having followed an upward trend during the first months of the year and reaching a record 120% in March, declined systematically after that.

Although somewhat lower than in Brazil, a similar inflation rate was noted in Peru, where the annual rate of increase of consumer prices accelerated sharply during the first part of the year, mainly as a result of the elimination of subsidies and controls that had previously affected the prices of a series of goods and services. However, once the price increases brought about by the liberalization policy had taken effect, the intensity of the inflationary process gradually decreased from an annual rate of 82% in May to 72% in November.

The considerable fluctuations and the exceptionally high inflation rates in Argentina, Brazil and Peru contrasted with the trends of prices in Colombia and Mexico, where consumer prices rose by around 28% in 1981, i.e., at virtually the same rate as in the previous year. Moreover, the fluctuations in the rate of inflation throughout the year were minimal in both countries.

The inflationary process slowed down considerably in Uruguay and particularly in Chile. In Uruguay, the annual rate at which consumer prices rose, which had already dropped from 83% to 43% between 1979 and 1980, continued its downward trend in 1981 and was around 30% in November, the lowest it had been for the last ten years. There was even a stronger trend towards price stabilization in Chile, where

/Table 4

Table 4

LATIN AMERICA: TRENDS IN CONSUMER PRICES

(Variations from December to December)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Latin America a/	12.2	13.5	20.9	36.3	40.0	57.6	61.5	40.4	38.7	53.8	56.2	59.8
Countries with traditionally high inflation	14.4	15.6	24.1	41.5	44.9	69.3	74.8	48.4	45.9	61.9	66.3	71.3
Argentina	21.6	39.1	64.2	43.9	40.1	334.9	347.5	150.4	169.8	139.7	87.6	120.7b/
Brazil c/	17.7	18.1	14.0	13.7	33.8	31.2	44.8	43.1	38.1	76.0	95.3	100.5d/
Colombia	3.5	14.1	14.0	25.0	26.9	17.9	25.9	29.3	17.8	29.8	26.5	27.0b/
Chile	34.9	22.1	163.4	508.1	375.9	340.7	174.3	63.5	30.3	38.9	31.2	11.1b/
Mexico	7.8	-0.8	5.6	21.3	20.6	11.3	27.2	20.7	16.2	20.0	29.8	28.4d/
Peru	5.7	7.7	4.3	13.8	19.2	24.0	44.7	32.4	73.7	66.7	60.8	71.8b/
Uruguay	19.3	35.6	94.7	77.5	107.2	66.8	39.9	57.3	46.0	83.1	42.8	30.4b/
Countries with traditionally moderate inflation	2.8	4.6	7.2	15.0	19.8	10.2	7.8	8.3	9.7	22.1	17.0	15.5
Barbados	9.2	10.1	10.4	26.0	36.6	12.3	3.9	9.9	11.3	16.8	16.1	13.7e/
Bolivia	3.8	3.3	23.6	34.8	39.0	6.0	5.5	10.5	13.5	45.5	23.9	32.3d/
Costa Rica	4.3	1.9	6.9	15.9	30.6	20.5	4.4	5.3	8.1	13.2	17.8	48.5d/
Ecuador	8.0	6.8	6.9	20.6	21.2	13.2	13.1	9.8	11.8	9.0	14.5	16.0d/
El Salvador	1.0	-0.6	5.2	7.9	21.0	15.1	5.2	14.9	14.6	14.8	18.6	13.3e/
Guatemala	1.0	0.3	1.1	17.5	27.5	0.8	18.9	7.4	9.1	13.7	9.1	10.2e/
Guyana	2.4	1.4	7.1	15.2	11.6	5.5	9.2	9.0	20.0	19.4	8.5	17.0f/
Haiti	-0.7	13.3	7.3	20.8	19.5	19.9	-0.1	-1.4	5.5	15.4	15.3	18.7g/
Honduras	1.4	1.5	6.8	5.1	13.0	7.8	5.6	7.7	5.4	18.9	15.0	9.9g/
Jamaica	7.5	5.2	9.3	9.6	20.6	15.7	8.3	14.1	49.4	19.8	28.6	9.3e/
Nicaragua						1.9	6.2	10.2	4.3	70.3	24.8	26.8e/
Panama	2.5	1.0	6.7	9.7	16.7	1.4	4.8	4.8	5.0	10.0	14.4	5.6e/
Paraguay	2.3	6.3	9.5	14.1	22.0	8.7	3.4	9.4	16.8	35.7	8.9	10.2d/
Dominican Republic	-1.3	10.6	8.0	17.2	10.5	16.5	7.0	8.5	1.8	26.2	4.2	6.6h/
Trinidad and Tobago	3.3	5.0	8.0	24.4	18.6	13.4	12.0	11.4	8.8	19.5	16.6	13.8d/
Venezuela	3.4	3.0	3.5	5.1	11.6	8.0	6.9	8.1	7.0	20.7	21.6	12.8d/

Source: International Monetary Fund, International Financial Statistics, December 1981, and official information provided by countries.

a/ The totals for Latin America and the partial figures for groups of countries are the average variations of the countries, weighted by the population for each year.

b/ Variation between November 1981 and November 1980.

c/ Up to 1979, this figure represents the variation in the consumer price index for Rio de Janeiro; the figures for 1980 and 1981 represent the variation in the consumer price index for the entire country.

d/ Difference between October 1981 and October 1980.

e/ Difference between September 1981 and September 1980.

f/ Difference between May 1981 and May 1980.

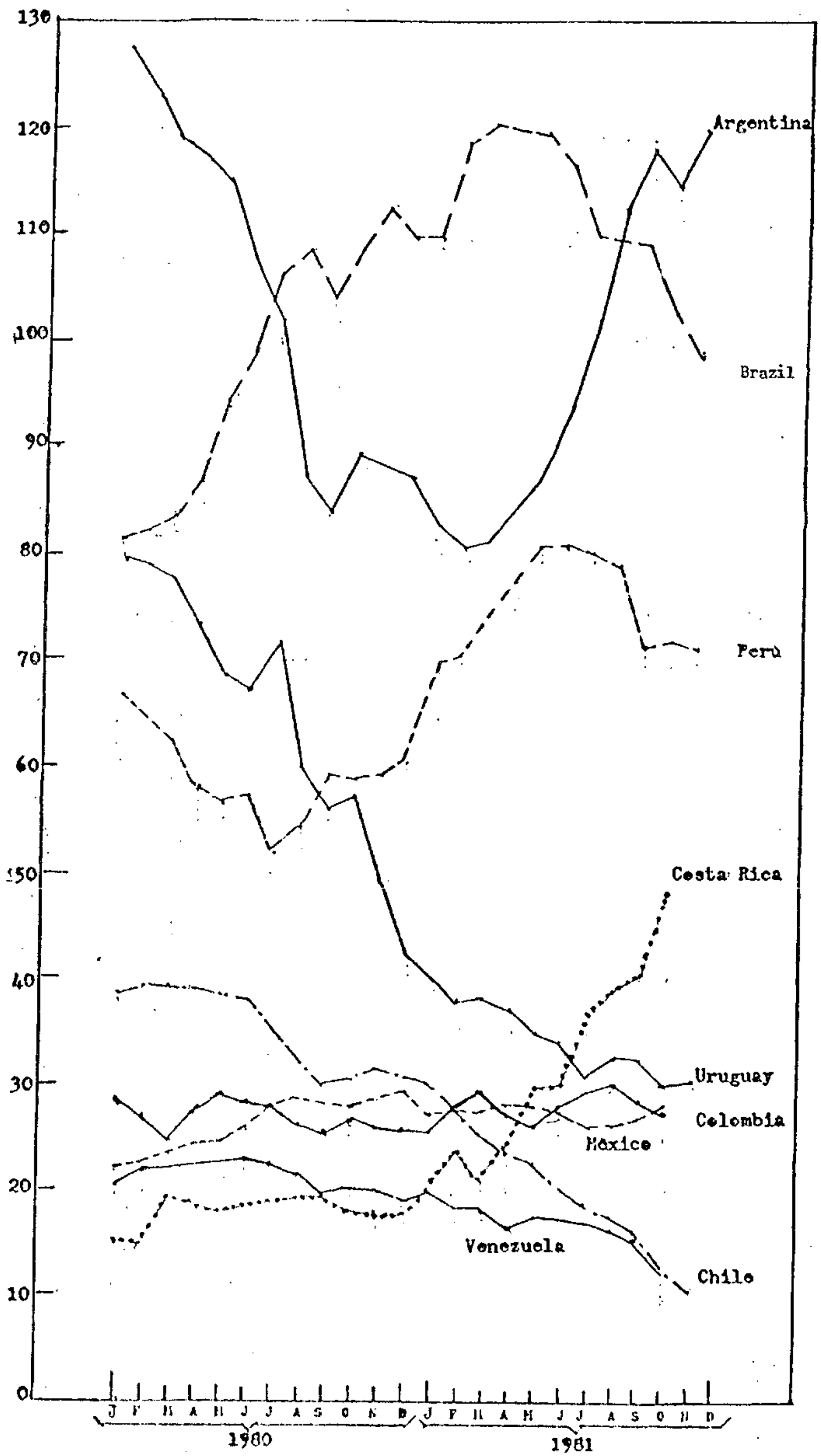
g/ Difference between June 1981 and June 1980.

h/ Difference between July 1981 and July 1980.

/Figure A

Figure A

VARIATIONS OVER TWELVE MONTHS IN THE CONSUMER PRICE INDEXES OF SELECTED LATIN AMERICAN COUNTRIES



/consumer prices

consumer prices rose by 31% in 1980 but only by 9% between January and November 1981, while wholesale prices dropped slightly in absolute terms during that period.

There was also a great diversity among the situations of the countries that had traditionally had low or moderate inflation rates, although in these countries as a group the average rate of increase of consumer prices, which had already dropped 22% to 17% between 1979 and 1980, declined slightly to 15.5% in 1981.

Thus, while inflation was again quite high in Nicaragua (27%) and rose from 24% (1980) to 32% (1981) in Bolivia, and even more sharply in Costa Rica (from 18% to 48%), it dropped sharply in Panama (from over 14% to under 6%) and particularly in Jamaica (from 29% to 9%). Inflation also dropped notably in Venezuela, after having reached levels of over 20% in both 1979 and 1980; however, it was still considerably higher than usual in that country up to the beginning of the past decade. This situation was also characteristic of the other economies in this group (see table 4).

3. The external sector

During 1981, the trends in the external sector of Latin America were characterized by certain basic facts, to wit:

(i) The considerable increase in the balance-of-payments current account deficit, which rose from slightly over 28 000 million dollars in 1980 to over 33 700 million dollars in 1981.

(ii) The sharp increase also noted in the balance-of-payments deficit, which rose from 1 650 million dollars in 1980 to almost 2 000 million in 1981.

(iii) The substantial increase in the external indebtedness of the region, reflected in the increase in the gross external debt disbursed, from approximately 208 000 million dollars at the end of 1980 to around 240 000 million in 1981.

(iv) The continued growth in the volume of exports, which rose by around 11%. As has been noted above, it was difficult to achieve this rate, in view of the recessive conditions prevailing in the international economy and trade.

(v) The very sharp increase in payments for profits and interest. These payments rose from under 18 000 million dollars in 1980 to 23 800 million in 1981; this increase gave rise to the entire increase in the current account deficit of the region, inasmuch as during that period the negative balance of trade in goods and services declined slightly from 11 100 to 10 600 million dollars.

/(vi) The

(vi) The sharp difference, noted once more, between the external sector of the oil-exporting countries of the region and that of the other economies of Latin America.

(vii) In the oil-exporting countries as a whole, the terms of trade again improved, the volume of imports continued to grow at an exceptionally high rate, the current account deficit increased, the net capital income rose and the balance-of-payments surplus rose.

(viii) In the non-oil-exporting countries, on the other hand, the terms of trade showed a pronounced deterioration for the fourth year in a row, the quantum of imports dropped in absolute terms, the current account deficit declined slightly, the inflow of capital declined and the negative balance of payments increased (see table 5).2/

(a) External trade and the terms of trade

In 1981, the growth of Latin American exports which had begun in the mid-1970s continued. After increasing at an average annual rate of around 8.5% between 1978 and 1980, the quantum of exports of goods rose by approximately 11% in 1981.

Although this increase was mainly due to the exceptional increases in the volume of exports by Mexico (36%), Brazil (24%) and Argentina (17%), it was also due in part to the increases noted in most of the 16 non-oil-exporting countries of the region. Among these, the quantum exported increased in nine countries and dropped significantly in only 5 (see table 6).

In the great majority of the non-oil-exporting countries, however, the positive effect of the increased volume of external sales was more than offset by the drop in the unit price of exports, as a result of which the value of exports increased in only 6 of these countries.

This situation -which was in sharp contrast with the situation of the previous year, when the value of external sales rose in almost every country of the region- was a reflection of the effect of the sharp drops which occurred in 1981 in international quotations for almost all Latin American export commodities. Indeed, as may be seen in table 7 and figure B, after having risen significantly in 1980,

2/ Because of the inadequacy of statistical information available at this point in the year, tables 5, 6 and 8 do not include Guyana and Panama, or Trinidad and Tobago, which is a large oil exporter.

/Table 5

Table 5

LATIN AMERICA: BALANCE OF PAYMENTS a/

(Millions of dollars)

	Export of goods (FOB)		Imports of goods (FOB)		Balance of goods		Net payments for services		Net payments for profits and interest		Balance on current account		Net movement of capital		Global balance	
	1980	1981	1980	1981	1980	1981	1980	1981	1980	1981	1980	1981	1980	1981	1980	1981
Latin America	89 059	99 795	90 079	99 840	-1 020	-45	10 156	10 625	17 750	23 795	- 28 219	-33 745	26 571	31 760	-1 649	-1 985
Oil-exporting countries	42 950	50 210	36 274	46 340	6 676	3 870	4 175	5 335	6 822	8 595	-4 465	-10 200	6 478	12 690	1 552	2 490
Bolivia	942	895	680	720	262	175	175	200	261	330	-167	-340	30	360	-137	20
Ecuador	2 530	2 250	2 204	2 200	326	50	456	390	486	820	-616	-1 160	907	710	291	-450
Mexico	16 299	23 530	19 010	25 820	-2 711	-2 290	-270	610	5 696	7 000	-8 006	-9 800	9 045	10 800	1 039	1 000
Perú	3 898	3 305	3 062	3 820	837	-515	74	295	835	945	62	-1 590	660	840	722	-750
Venezuela	19 281	20 230	11 318	13 780	7 963	6 450	3 739	3 840	-456	-500	4 261	2 590	-4 224	-20	37	2 570
Non-oil exporting countries	46 109	49 585	53 806	53 500	-7 697	-3 915	5 991	5 290	10 923	15 200	-23 754	-23 545	20 153	19 070	-3 601	-4 475
Argentina	3 026	9 600	9 386	8 400	-1 360	1 200	1 858	1 300	1 499	3 300	-4 688	-3 320	2 020	-150	-2 668	- 3 480
Barbados	189	175	480	520	-291	-345	-251	-220	3	10	-27	-115	49	95	22	-20
Brazil	20 133	23 300	22 960	22 100	-2 828	1 200	3 177	2 620	7 030	8 800	-12 893	-10 050	9 527	9 350	-3 371	-200
Colombia	4 113	3 300	4 332	4 900	-219	-1 600	148	100	260	335	-530	-1 945	1 841	1 545	1 311	-400
Costa Rica	1 017	1 090	1 376	1 190	-359	-100	102	85	210	290	-653	-460	686	350	33	-100
Chile	4 705	4 100	5 469	6 500	-764	-2 400	390	700	930	1 400	-1 970	-4 400	3 301	4 300	1 331	-100
El Salvador	963	790	956	900	7	-110	70	115	70	30	-95	-225	-45	205	-140	-20
Guatemala	1 520	1 460	1 472	1 500	48	-40	261	260	59	50	-164	-250	-36	50	-252	-200
Haiti	211	170	294	320	-83	-150	62	65	14	15	-132	-185	106	180	-26	-5
Honduras	835	820	956	905	-121	-85	76	65	144	155	-334	-300	261	220	-73	-80
Jamaica	960	1 050	1 039	1 300	-79	-250	-72	-40	265	260	-190	-380	272	210	82	-170
Nicaragua	532	500	953	750	-421	-250	52	80	37	100	-448	-430	279	430	-169	0
Paraguay	400	370	675	725	-275	-355	-47	-30	59	60	-284	-380	437	450	153	70
Dominican Republic	962	1 190	1 514	1 410	-552	-220	121	105	232	280	-803	-505	847	535	44	30
Suriname	514	470	454	500	60	-30	109	95	16	10	-58	-125	82	145	24	20
Uruguay	1 029	200	1 490	1 580	-461	-380	-75	-10	95	105	-480	-475	578	635	98	180

Source: 1980: International Monetary Fund; the figures for El Salvador, Nicaragua and Dominican Republic are CEPAL estimates. 1981: CEPAL, preliminary estimates subject to revision.

a/ The plus and minus figures do not add up precisely because the original figures were rounded out.
b/ Excluding net payments for profits and interest.
c/ Including unilateral private net transfers.
d/ Including long and short-term capital, unilateral official transfers, counterpart entries and errors and ommissions.
e/ This is the variation in international reserves.

Table 6

LATIN AMERICA: EXPORTS OF GOODS

	Value (millions of dollars)			Indexes 1981 (1980=100)		
	1980	1981				
	Current values	Current values	Values at constant 1980 prices	Value	Unit value	Volume
Latin America	89 059	99 795	99 235	112	101	111
Oil-exporting countries	42 950	50 210	46 980	117	107	109
Bolivia	942	895	995	95	90	106
Ecuador	2 530	2 250	2 370	89	95	94
Mexico	16 299	23 530	22 200	144	106	136
Peru	3 898	3 305	3 670	85	90	94
Venezuela	19 281	20 230	17 745	105	114	92
Non-oil-exporting countries	46 109	49 585	52 255	108	96	113
Argentina	8 028	9 600	9 410	120	102	117
Barbados	189	175	190	93	93	99
Brazil	20 133	23 300	25 050	116	93	124
Colombia	4 113	3 300	3 500	80	93	86
Costa Rica	1 017	1 090	1 145	107	95	113
Chile	4 705	4 100	4 660	87	88	99
El Salvador	963	790	930	82	85	96
Guatemala	1 520	1 460	1 585	96	92	104
Haiti	211	170	200	81	85	95
Honduras	835	820	865	98	95	103
Jamaica	960	1 050	1 070	109	98	112
Nicaragua	532	500	555	94	90	105
Paraguay	400	370	345	93	107	87
Dominican Republic	962	1 190	1 080	124	110	112
Suriname	514	470	465	91	101	90
Uruguay	1 029	1 200	1 155	117	104	112

Source: 1980: International Monetary Fund; except El Salvador, Nicaragua and Dominican Republic, CEPAL estimates; 1981: CEPAL, preliminary estimates subject to revision.

/Table 7

Table 7

LATIN AMERICA: PRICES OF PRINCIPAL EXPORT PRODUCTS

(Dollars at current prices)

	1978	1979	1980	1981 January/October	1979	1980	1981
	Annual averages				Growth rates		
Raw sugar a/	7.8	9.7	28.7	17.8	24.4	195.9	-38.0
Coffee a/	185.2	183.4	178.8	142.7	-1.0	-2.5	-20.2
Cocoa a/	154.4	149.4	118.1	94.2	-3.2	-21.0	-20.2
Bananas a/	13.7	15.6	18.9	19.5	13.9	21.2	3.2
Wheat b/	3.8	5.1	6.5	5.7 c/	34.2	27.5	-12.3
Maize d/	113.7	154.8	210.3	181.8	36.1	35.9	-13.6
Beef a/	97.1	130.9	125.9	113.1	34.8	-3.8	-10.2
Fishmeal d/	410.0	395.0	504.0	480.0	-3.7	27.6	-4.8
Soya d/	268.0	298.0	296.0	294.8	11.2	-0.7	-0.4
Cotton a/	72.9	77.4	94.2	88.2	6.2	21.7	-6.4
Wool a/	157.4	190.5	194.5	180.9	21.0	2.1	-7.0
Copper a/	61.9	90.0	98.6	79.8	45.4	9.6	-19.1
Tin a/	584.2	700.7	761.4	626.3	19.9	8.7	-17.7
Iron ore d/	19.7	24.0	28.9	25.9	21.8	20.4	-10.4
Crude oil e/	12.4	16.8	27.6	32.0	35.5	64.3	15.9

Source: For all products, except crude oil: UNCTAD, Monthly Commodity Price Bulletin; for crude oil: IMF, International Financial Statistics.

a/ Cents per pound.

b/ Dollars per 60 pounds.

c/ January to September.

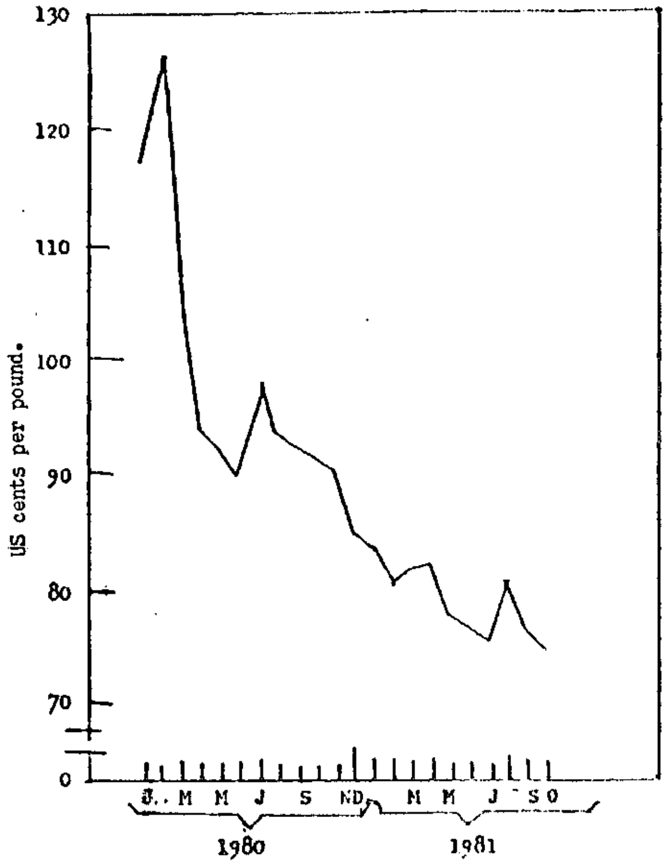
d/ Dollars per metric ton.

e/ Dollars per barrel.

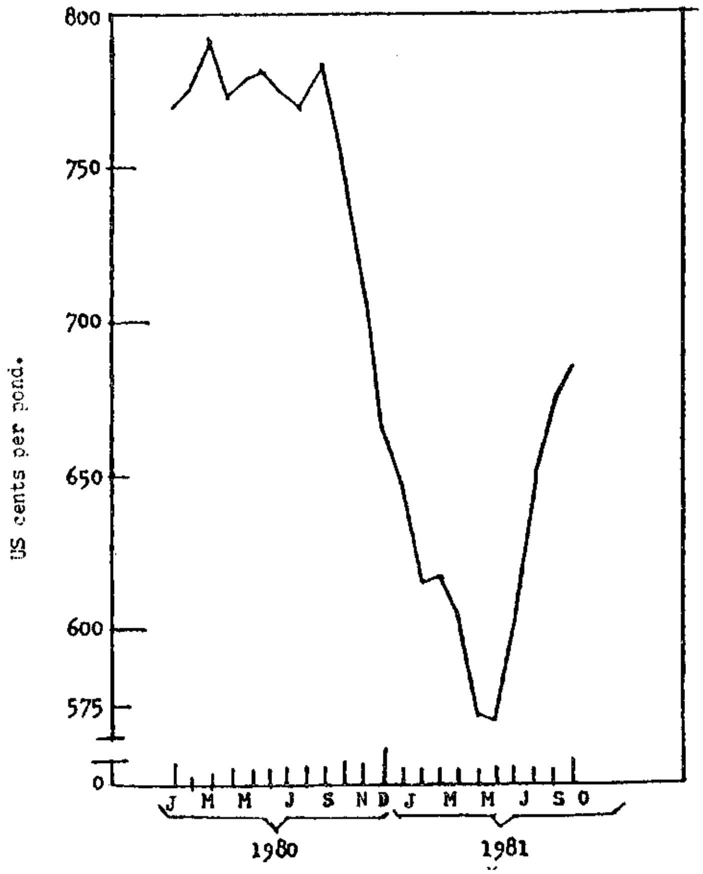
/Figure B

Figure B

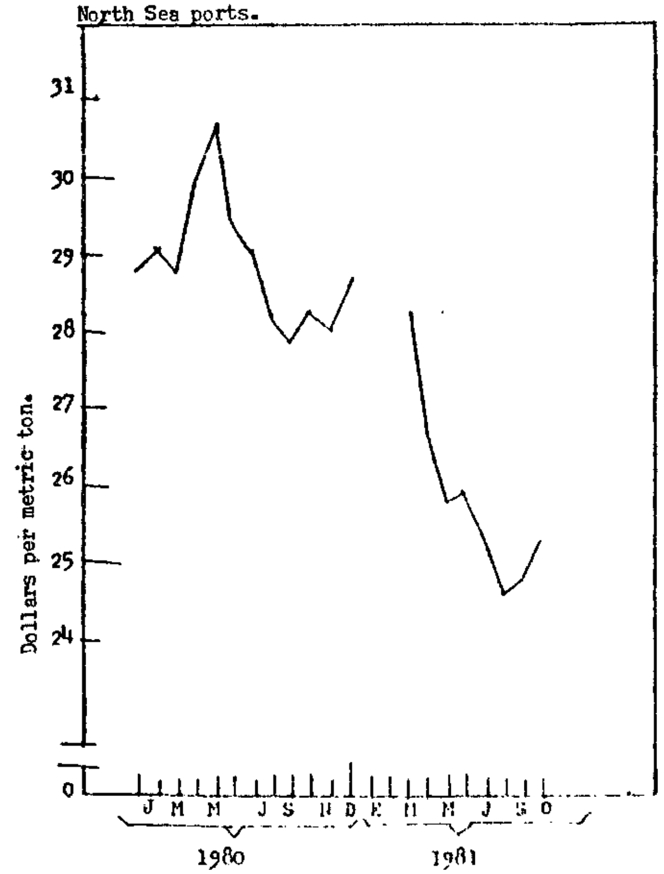
COPPER: Spot prices on London Metal Exchange for electrolytic copper bar.



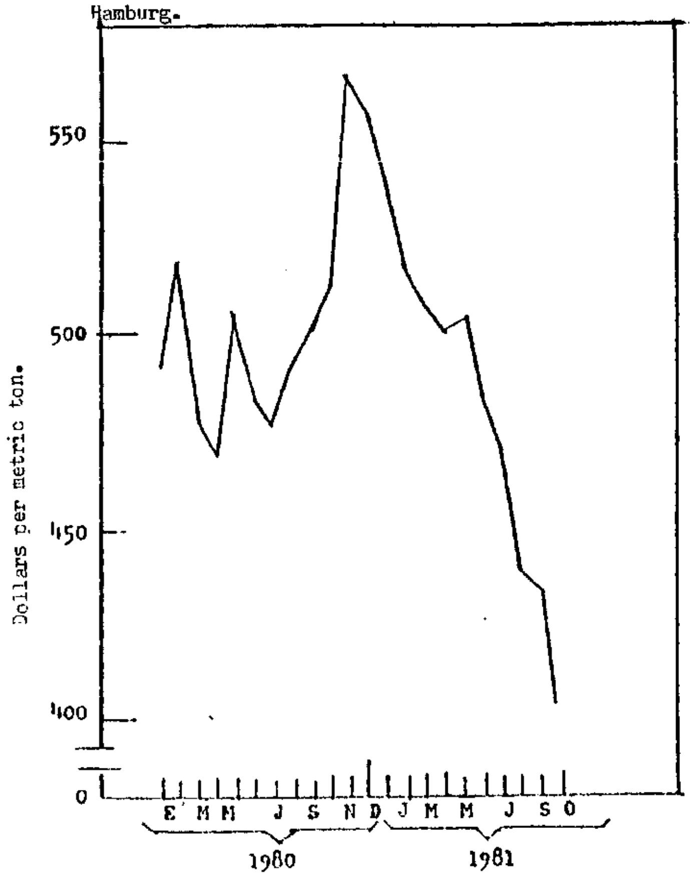
TIN: Spot prices on London Metal Exchange.



IRON ORE: Canada, 64% Fe concentrates, CIF North Sea ports.



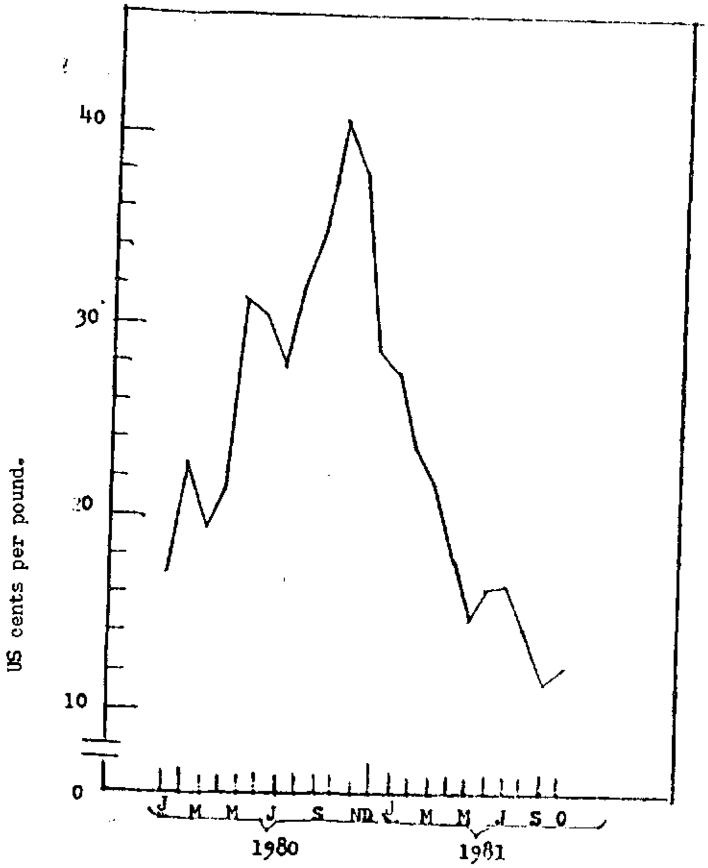
FISHMEAL: All origins, 64-65% protein, CIF Hamburg.



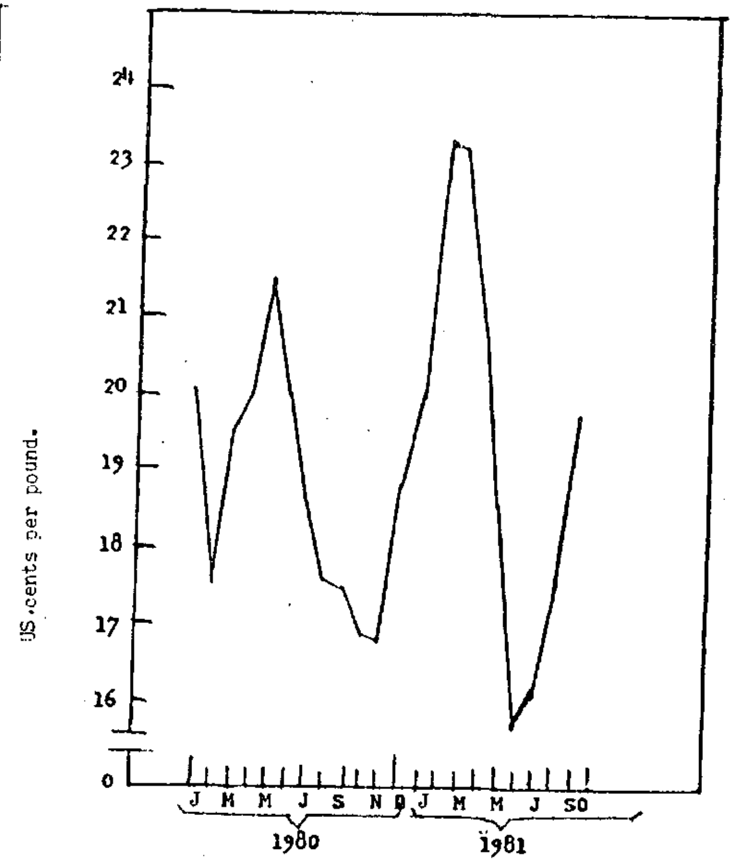
Source: UNCTAD, Monthly Commodity Price Bulletin, November 1981.

Figure B

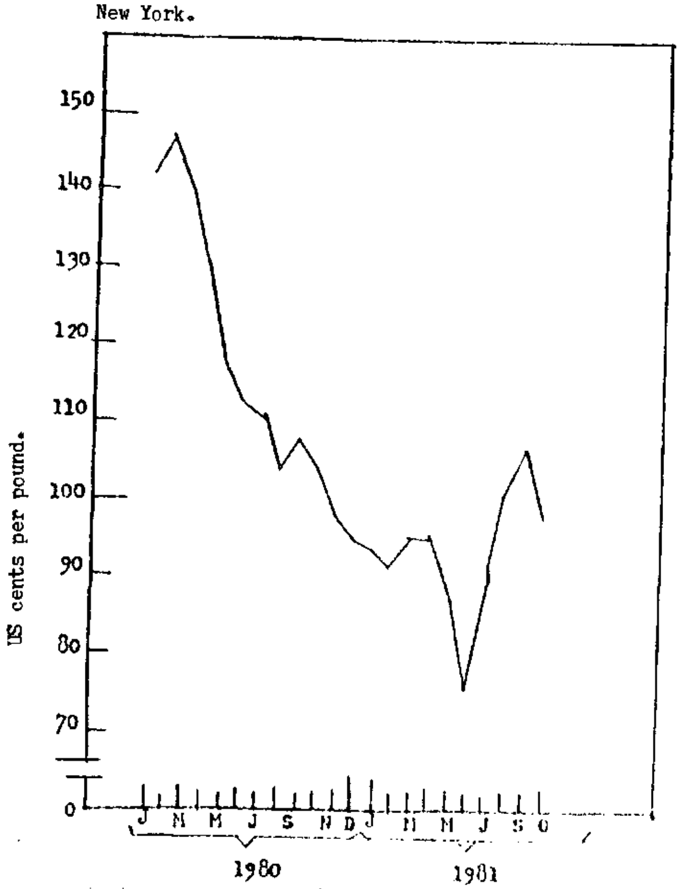
RAW SUGAR: FOB Caribbean ports.
Free market exports.



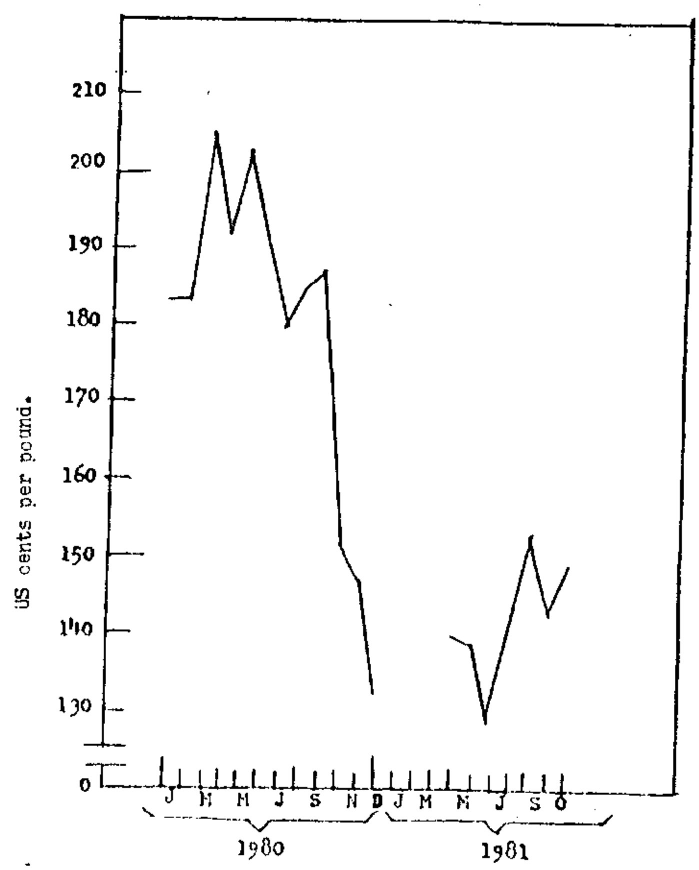
BANANAS: (Central American)
CIF Hamburg.



COCOA BEANS: Monthly average price.
New York.



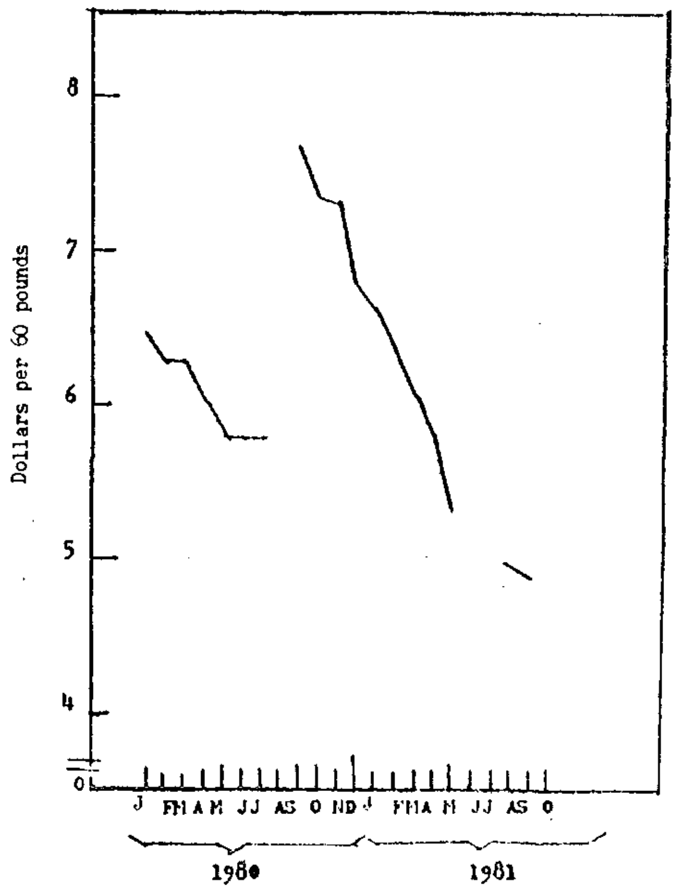
COFFEE: Colombian mild arabica.



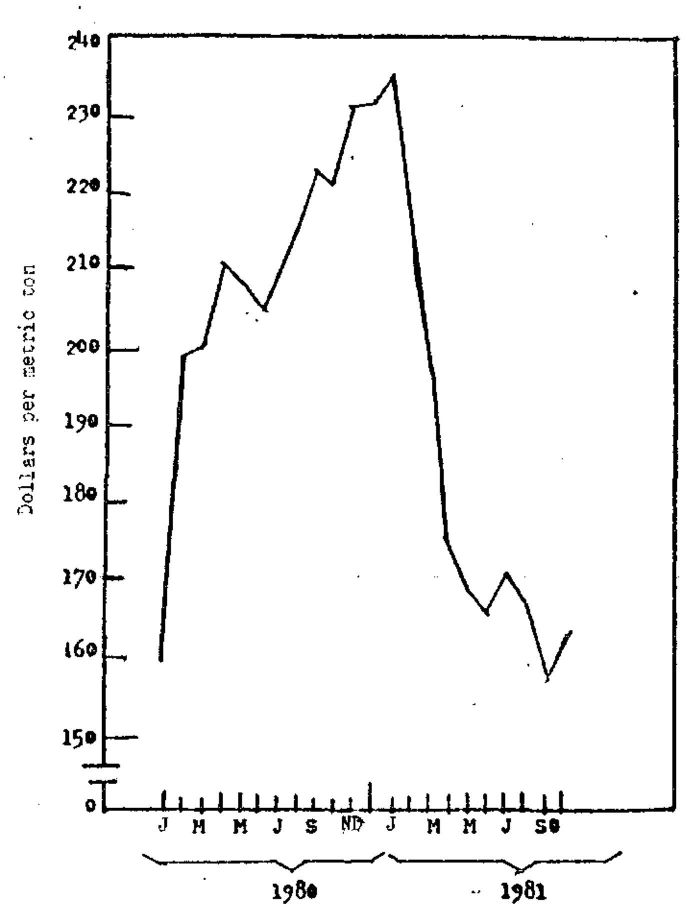
Source: UNCTAD, Monthly Commodity Price Bulletin, November 1981.

Figure B

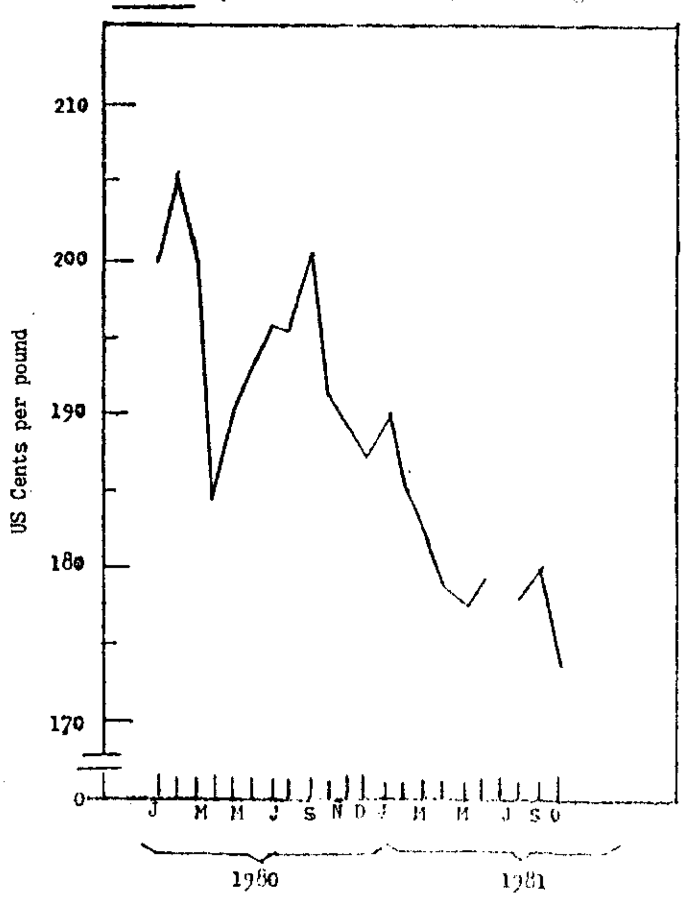
WHEAT (Argentina, Candeal Taganrog, FOB)



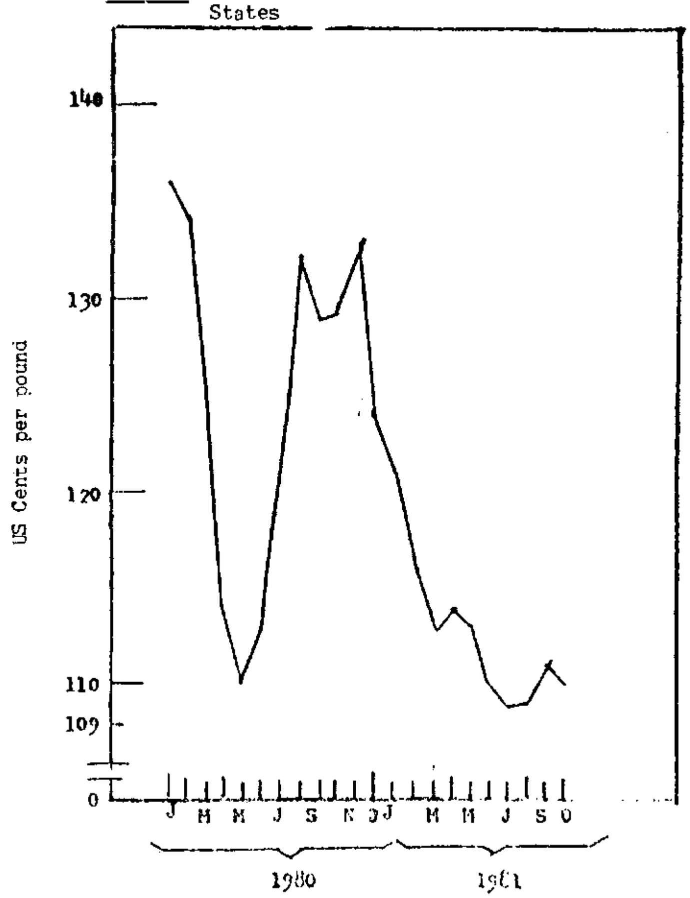
MAIZE (Argentina, CIF)



WOOL (Combed scorved wool, United Kingdom)

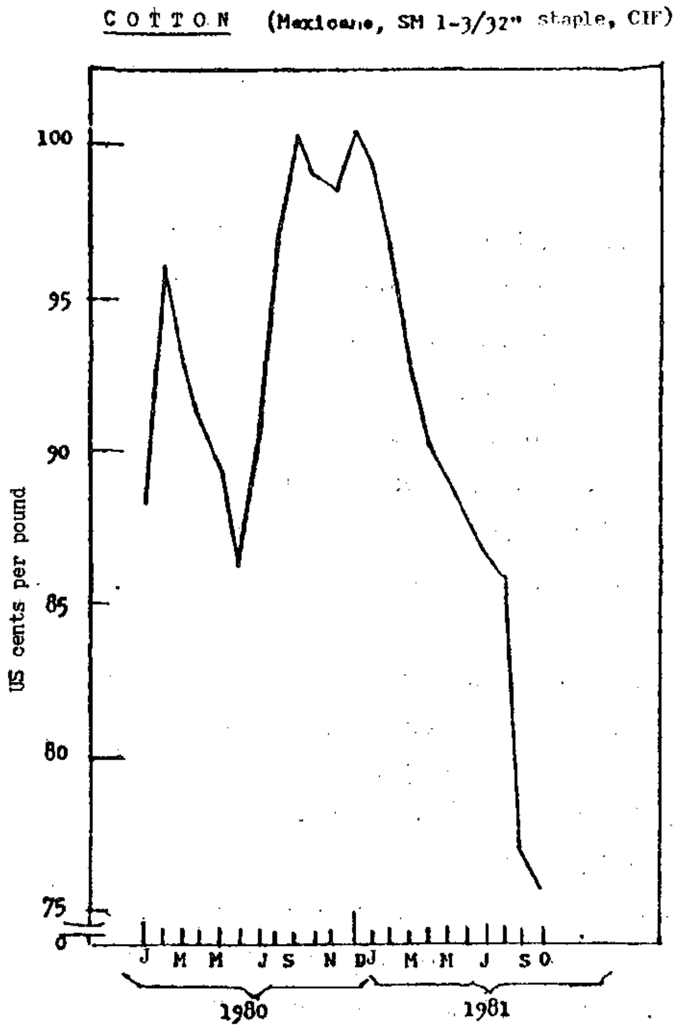


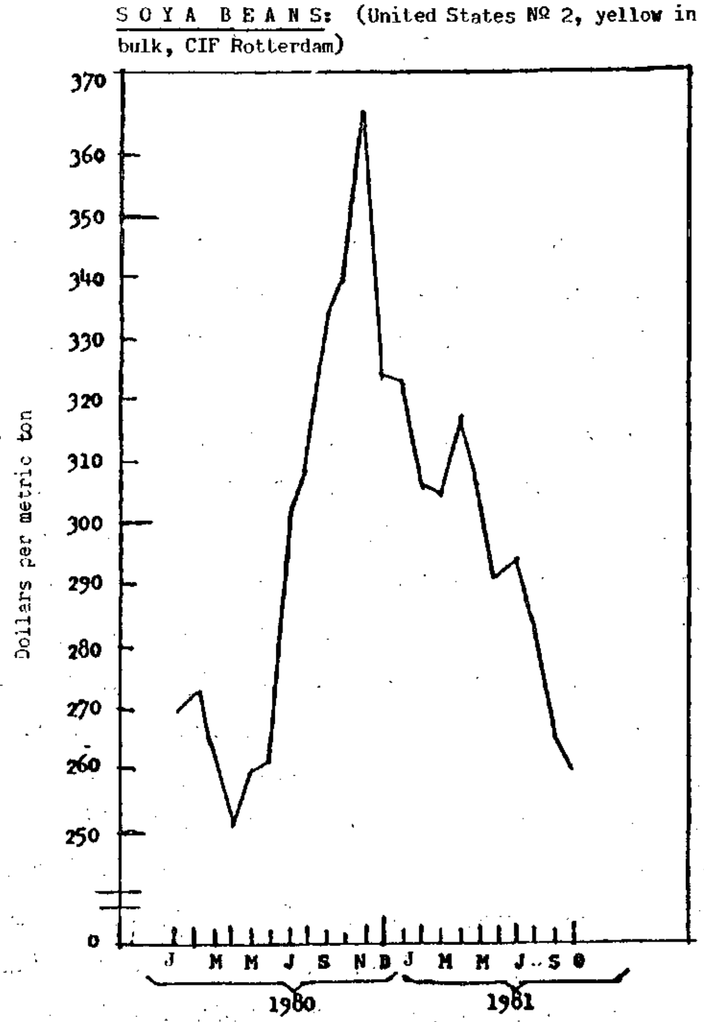
BEEF Frozen boneless, imported into United States

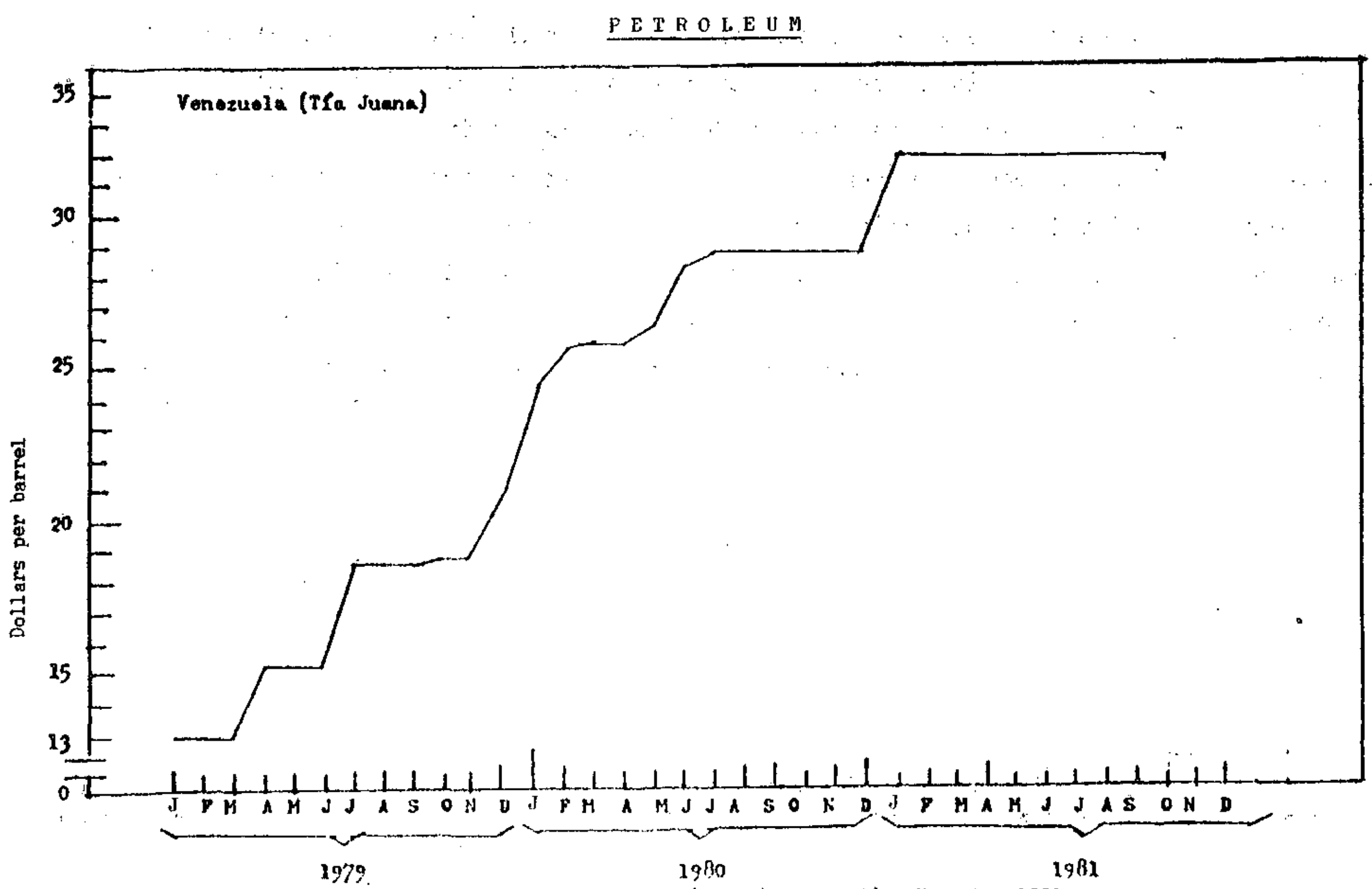


Source: UNCTAD, Monthly Commodity Price Bulletin, November 1981.

Figure B







Source: Cotton and soya beans: UNCTAD, Monthly Commodity Price Bulletin, November 1981.
Petroleum: IMF, International Financial Statistics, December 1981.

/the international

the international prices of most of these goods dropped almost constantly over the first ten months of 1981. Although the price reductions were particularly sharp in the cases of sugar (38%), coffee, cacao, copper and tin (around 20%) and of wheat, maize, beef and iron ore (between 10% and 14%), they also occurred with regard to quotations for fish meal, cotton, wool and soya beans.

The negative effect of the drop in these prices on the purchasing power of exports of the non-oil-exporting countries was reinforced, moreover, by the 7% rise on the average in the unit value of their imports (see table 8). In these circumstances, and despite the vigorous growth in the volume of exports, their buying power remained practically constant and the terms of trade were reduced by approximately 10%, so that in 1981 these countries experienced a potential loss of income from abroad of almost 5 000 million dollars compared to 1980 (see table 9). As the terms of trade had already declined persistently in the previous three years, their level was more than one-third lower in 1981 than in 1977. The increase in the unit value of imports of the non-oil-exporting countries also almost completely neutralized the effect of the fall in their volume on the total amount of imports. Thus, although the volume fell by 7%, the total decreased by barely 1%.

The evolution of the external sector was naturally very different in Mexico and Venezuela, countries in whose total exports the sale of oil accounted for a very high proportion. These countries benefited once again from an improvement in the terms of trade and from considerable increases in the purchasing power of their exports and volume of their imports. On the other hand, both the terms of trade and the purchasing power of exports diminished in Bolivia, Ecuador and Peru, countries which depend less strongly on sales of oil and which are important exporters of some commodities whose international prices fell sharply in 1981.3/

3/ In Ecuador, the deterioration in the terms of trade was also due to the decrease in effective sales price of Ecuadorian oil.

/Table 8

Table 8

LATIN AMERICA: IMPORTS OF GOODS

	FOB Value (millions of dollars)			Indexes 1981 (1980=100)		
	1980	1981				
	Current values	Current values	Values at constant 1980 prices	Value	Unit value	Volume
Latin America	90 079	99 840	97 805	111	102	109
Oil-exporting countries	36.274	46.340	47.770	128	99	132
Bolivia	680	720	735	106	98	108
Ecuador	2.204	2.200	2.270	100	97	103
Mexico	19.010	25.820	26.620	136	97	140
Peru	3.062	3.820	3.940	125	97	129
Venezuela	11.318	13.780	14.205	122	97	126
Non-oil-exporting countries	53 806	53 500	50 035	99	107	93
Argentina	9.386	8.400	8.160	89	103	87
Barbados	480	520	515	108	101	107
Brazil	22.960	22.100	19.385	96	114	84
Colombia	4 332	4 900	4 535	114	97	118
Costa Rica	1.376	1.190	1.155	86	103	84
Chile	5.469	6.500	6.250	119	104	114
El Salvador	956	900	865	94	104	90
Guatemala	1.472	1.500	1.470	102	102	100
Haiti	294	320	315	109	102	107
Honduras	956	905	880	95	103	92
Jamaica	1.039	1.300	1.250	125	104	120
Nicaragua	953	750	720	79	104	76
Paraguay	675	725	680	107	107	100
Dominican Republic	1.514	1.410	1.355	93	104	90
Suriname	454	500	495	110	101	109
Uruguay	1 490	1 580	1 490	106	106	100

Source: 1980: International Monetary Fund; except El Salvador, Nicaragua and Dominican Republic, CEPAL estimates; 1981: CEPAL, preliminary estimates subject to revision.

/Table 9

Table 9

LATIN AMERICA: TERMS OF TRADE AND PURCHASING POWER OF EXPORTS

(Indexes: 1980 = 100)

	Terms of trade 1981	Purchasing power of exports 1981
Latin America	99	110
Oil-exporting countries	108	118
Bolivia	92	97
Ecuador	98	92
Mexico	109	148
Peru	93	88
Venezuela	118	108
Non-oil-exporting countries	90	102
Argentina	99	117
Barbados	92	92
Brazil	82	102
Colombia	96	86
Costa Rica	92	104
Chile	85	84
El Salvador	81	79
Guatemala	90	94
Haiti	83	79
Honduras	92	95
Jamaica	94	105
Nicaragua	87	90
Paraguay	100	87
Dominican Republic	106	119
Suriname	100	90
Uruguay	98	110

Source: CEPAL, preliminary estimates subject to revision.

/(b) The

(b) The current account deficit

Because of the increase in the value of exports from non-oil-exporting countries and the slight drop in their total imports, despite the decrease in the international prices of primary commodities, the merchandise trade deficit of these countries decreased by almost half, from 7 700 million dollars in 1980 to 3 900 million dollars in 1981.

However, in the region as a whole this significant drop was largely offset by the similarly large drop in the merchandise trade surplus of the oil-exporting countries in 1981.

Due to this fact and also to the small increase in the net payment of services that year, the negative trade balance in goods and services of Latin America only fell from 11 100 million dollars in 1980 to slightly less than 10 600 million in 1981.

Nevertheless, because of the appreciable rise in interest rates for the fourth consecutive year in the international market and the increase in the Latin American total external debt, in 1981 net payments of profits and interests rose again very sharply. Their total, after rising 4 000 million dollars in 1980, increased almost 6 000 million dollars in 1981, thus reaching the unprecedented figure of slightly over 23 800 million dollars, well over twice as much as the value of the deficit in the goods and services balance recorded that year (see table 5).

In the non-oil-exporting countries, the intense growth of these financial remittances almost completely neutralized the effects of their making adjustments in the real sphere, through an increase in exports and a containment of imports. As a result, between 1980 and 1981 the current account deficit in this group of countries declined only slightly, from 23 700 million dollars to 23 500 million dollars.

In the oil-exporting countries, on the other hand, the higher payments of profits and interests reinforced the effects of the turnabout which occurred in their goods and services trade balance; the latter, after generating a surplus of 2 500 million dollars in 1980, closed with a negative balance of 1 500 million dollars in 1981. Thus, its current account deficit more than doubled, rising from slightly less than 4 500 million dollars in 1980 to 10 200 million dollars in 1981.

As a result of these changes, and despite the major effort on the part of many of the non-oil-exporting countries to reduce the imbalance in their external trade, the current account deficit of Latin America as a whole registered an increase, although less than that of 1980, which brought it to a historical maximum of more than 33 700 million dollars.

In absolute terms, the largest deficit was once again that of Brazil. However, its 1981 total -slightly over 10 000 million dollars- was almost 30% lower than the 12 900 million dollars imbalance recorded the previous year. This significant drop reflected the success of Brazilian economic authorities' efforts to reduce the external imbalance, whose most important manifestation was the reverse which occurred in the merchandise trade balance: after showing a deficit of 2 800 million dollars in 1980, it had a positive balance of 1 200 million dollars in 1981.

As in the previous year, in absolute figures the second largest deficit in Latin America was that of Mexico. But, unlike the case of Brazil, its 1981 total -9 800 million dollars- was almost 25% greater than the negative balance of 1980.

The growth in the current account imbalance was, however, much greater in Chile, whose deficit more than doubled, going from slightly less than 2 000 million dollars in 1980 to about 4 400 million dollars in 1981, an amount which was greater than the total value of goods exports.

In 1981 the current account deficit in Colombia also rose rapidly -from 530 million dollars to 1 950 million dollars- and Peru -where the small surplus obtained in 1980 was replaced in 1981 by a negative balance of almost 1 600 million dollars.

However, the current account deficit in Argentina was reduced by about 30%, mainly due to the considerable increase in its exports and the sharp drop in its imports because of the rise in the exchange rate and the decline in the level of economic activity.

Venezuela was the only country of the region which obtained a surplus in its current operations in 1981, although the total was about 35% lower than that of the previous year.

/(c) The

(c) The flow of capital and external indebtedness

In 1981 the rising trend in the net inflow of capital resumed. Its total, after stabilizing at slightly over 26 500 million dollars in 1979-1980, rose to almost 31 800 million dollars in 1981.

Despite this, and as had already occurred in the previous year, the influx of capital was unable to finance the current accounts deficit completely and, as a result, the total balance of payments in the region closed for the second consecutive year with a deficit.

Although in 1981 the number of countries in which the balance of payments was negative increased, the deficit reached considerable size only in Argentina, Peru, Ecuador and Colombia.

In the first of these countries, the deficit, which had already been considerable in 1980, reached approximately 3 500 million dollars in 1981, equivalent to 36% of the value of exports of goods. Thus, the loss of international reserves during the past two years was approximately 6 000 million dollars. This occurred even though in 1981 the negative balance in the current account declined and was thus due exclusively to the significant turnabout which occurred in the net movement of capital.

In Peru, Ecuador and especially in Colombia, the balance-of-payments deficits recorded in 1981 (750, 450 and 400 million dollars, respectively), replaced the fairly large positive balances accumulated the previous year and also represented appreciably lower proportions of the value of goods exports than in Argentina.

On the contrary, in 1981 the balance-of-payments deficit dropped sharply in Brazil, after two years in which the loss of international reserves rose above 6 000 million dollars. As a result of the appreciable reduction in the current account imbalance and a small increase in the net inflow of capital, the balance-of-payments deficit in Brazil fell from almost 3 400 million dollars in 1980 to barely 200 million dollars in 1981, a figure equivalent to only 1% of the value of goods exports.

As in previous years, the major part of the external resources obtained by Latin America in 1981 entered in the form of loans and credits. As a result, along with contributing to financing the current account deficit of the balance of payments, they caused the external indebtedness of the region to increase. In the whole region, the gross external debt disbursed apparently increased by about 15% in 1981, that is, at a lower rate than those recorded in the previous years. Still, in absolute terms, the gross external debt more than doubled during the past four years (see table 10).

/Table 10

Table 10

LATIN AMERICA: GROSS DISBURSED EXTERNAL DEBT a/

(End year balances, in millions of dollars)

Country	1975 b/	1976 b/	1977	1978	1979	1980	1981 c/
Argentina	5 970	6 679	8 210	11 193	17 653	24 105	24 200
Bahamas d/	58	49	48	41	38	38	40
Barbados d/	26	37	70	82	89	121	150
Bolivia	849	1 129	1 633	2 097	3 105	2 519	2 800
Brazil	20 834	28 448	32 758	42 945	49 446	57 133	68 100
Colombia	3 575	3 720	3 892	4 454	5 941	7 313	8 200
Costa Rica	663	830	1 030	1 289	1 746	2 152	2 500
Chile	4 459	4 801	4 399	6 120	7 529	10 008	13 800
Ecuador	580	383	2 153	3 268	3 860	4 731	5 400
El Salvador	391	491	539	791	791	846	1 000
Guatemala	314	434	503	780	983	1 166	1 200
Guyana	266	357	429	522	550	634	700
Haiti	79	106	158	191	234	291	350
Honduras	431	507	725	956	1 149	1 312	1 500
Jamaica	661	[illegible]	1 220	1 317	1 674	1 705	1 800
Mexico	17 265	22 706	26 583	30 084	37 578	50 160	61 000
Nicaragua	735	1 027	1 300	1 425	1 248	1 556	2 000
Panama d/	1 188	1 212	1 501	2 190	2 378	2 701	3 000
Paraguay	239	317	329	503	560	919	1 200
Peru	4 107	5 116	6 260	7 135	7 579	8 377	9 200
Dominican Republic	517	692	862	992	1 276	1 597	1 800
Suriname	20	14	17	70	43c/	34c/	70
Trinidad y Tobago	172	119	275	404	525	646	800
Uruguay	813	881	973	823	1 027	1 289	1 400
Venezuela	4 328	7 835	10 812	16 385	23 033	25 870	27 500
Total	68 540	89 434	107 280	136 060	170 185	208 123	239 710

Source: CEPAL, on the basis of the following publications: IBRD: World Debt Tables. External Public Debt of Developing Countries, Vol. I, provisional figures. IBRD: Economic Memorandum on Suriname, Report No. 2851, 30 May 1980. IDB: External Public Debt of the Latin American Countries, July 1981. BIS: Press Review, No. 139, July 1976; No. 79, April 1977. BIS: The Maturity Distribution of International Bank Lending, July 1978, July 1979, July 1980 and July 1981. IMF: International Financial Statistics, Vol. XXXIV, August 1981. OECD: Development Co-operation, 1977 Review, 1978 Review. OECD: Geographical Distribution of Financial Flows to Developing Countries, Paris, 1980.

a/ Besides the public and private external debt with official guarantee, includes the long and short-term non-guaranteed debt with financial institutions which provide information to the Bank for International Settlements of the International Monetary Fund. Not included are the guaranteed and non-guaranteed debt with other commercial banks or the loans from sources without official guarantee.

b/ For the years 1975 and 1976 the coverage of information from the Bank for International Settlements is somewhat less than for the years 1977, 1978, 1979 and 1980.

c/ Provisional estimates by CEPAL.

d/ In the case of the financial centres, does not include the debt with financial institutions without official guarantee or short-term.

III. LATIN AMERICA AND THE INTERNATIONAL CRISIS

1. External and internal factors influencing short-term growth

The preceding facts and figures indicate that both the international economy and that of Latin America are currently facing one of the most critical periods since the war. Although it is true that some industrialized countries and a few developing economies have managed to get through the crisis relatively successfully the generally prevailing mood in the world today is undoubtedly pessimistic. Even worse, even the most optimistic forecasts expect the current recession to last for the greater part of next year, and they anticipate that the beginning of a moderate recovery will only occur towards the end of 1982.

In this context, the Latin American economies, which as we have seen were severely affected by the recent crisis, will have to be prepared to go through a difficult period of international recession which will have domestic repercussions, added to the difficult adjustments which are already taking place in the region.

Thus, it is useful to point out some conclusions which may be drawn from the analysis we have just made of the continental reality:

(a) The considerable loss of economic dynamism which occurred in most of the countries of the region in the year now ending was due to a combination of external and domestic causes. Naturally, the relative importance of the two factors differs in each country but, in our opinion, external events tended to have more impact. However, the disparity of situations makes it extremely difficult if not impossible to make general diagnoses or prognoses. One must therefore be very prudent in both the analysis of recent problems and difficulties and in the identification of their possible solutions or the best ways of overcoming them.

(b) It is clear, however, that the sharp drop in the international prices of basic commodities, as well as the difficulties of access to international markets being faced by some products, contributed to worsening the position of the Latin American countries and especially that of the non-oil-exporting countries. For this reason it is important to recall that the abrupt drop in its terms of trade in 1981 -which, as already mentioned, meant a loss of potential external income of 5 000 million dollars- was added to the considerable losses it had suffered already in the three previous years.

/(c) Another

(c) Another external factor which seriously affected the economies of the region -and particularly those which had accumulated large external debts- was the sudden rise once again in the interest rates in the international financial markets. Considering that Latin America, at current levels of indebtedness, must make a transfer of slightly over 1 000 million dollars for each point that the international rates of interest rise, these increases meant an additional net transfer in 1981 of almost 4 000 million dollars.

(d) To the adverse consequences of these external factors were added, in some countries of the region, the effects generated by the anti-inflationary policies or by those intended to correct the imbalance in the external sector, which usually resulted in some short-term reduction in the rate of growth. These effects were reinforced in some countries by the results of policies of external openness and rapid reduction in tariffs, which tended to decrease the competitive capacity of some domestic productive sectors compared with imported products, although from another perspective they reinforced the exporting activity and sectors connected with it.

2. Possibilities and requirements of compensatory policies

Considering these factors, and taking into account the sombre reality and uncertain prospects of the international economic scene, the concern naturally arises for the capacity of our economies to apply measures to restrain the most negative impacts of the crisis. It is obvious that the external factors we have mentioned -the deterioration of the terms of trade, the increasing cost of external credit and the growing burden of previous commitments, as well as the "stagflation" of the central economies- have jeopardized the major defence capacity of the Latin American economies, on which we have insisted on previous occasions.

This, however, does not imply that this capacity has disappeared and that our countries are in such a position that they must passively suffer the consequences of this negative economic situation and await the time when the international environment changes.

We believe that the important changes in the regional economy -both quantitative and qualitative- have established a margin of manoeuvre for compensatory actions against these unfavourable influences which, although they could be overcome only with great difficulty, could be modified in various and significant degrees according to the realities and policies of each country.

It is well known that historical comparisons are dangerous and may even be fallacious. But although we do not agree with the analogies which are sometimes made with the great depression of the 1930s, it is nonetheless true that it left a legacy which is still true and basic: that faced with a challenge of much greater proportions than that being faced today, a large number of economies of the region managed to react with greater or lesser success, by alleviating the hardships and reducing the time that would have been needed for an eventual spontaneous correction in response to the serious imbalances generated by the crisis. It is worth considering also that this rupture with traditional passivity was manifested at that time in countries with very different political systems and various economic orientations. The profile and requirements of the situation made necessary -and allowed- a flexible approach which was able to diminish or moderate the effects of the depression and which placed the countries in a better position to benefit later on from the international recovery.

Such an opportunity has arisen today, with the added advantage that neither is the external crisis as serious nor has time passed in vain with respect to the expansion and diversification of the Latin American economies. It is thus reasonable to assert that its radius of manoeuvre is greater to counteract the negative impact of the external situation, depending on the conditions of each country and the orientations inspired by their respective economic models.

The task which presents itself is not easy, nor was it in the 1930s. To a greater or lesser extent all the economies of the region -with the exception of those having abundant oil surpluses, which are experiencing another kind of problem- are currently facing the dilemma of reconciling the reduction of inflationary pressures with maintaining satisfactory growth rates in the domestic economic activity and maintaining a reasonable control over the size and evolution of external deficits and indebtedness.

Certainly, given the diversity of national situations in the region, it is not possible to state in an abstract and general way the most adequate method of facing such a challenge. We must merely insist that the simultaneous progress made towards achieving these multiple objectives also requires the use of multiple economic policy instruments. Naturally, these will vary according to the philosophies inspired by each economic model, but the coherent use of a variety of instruments

/seems indispensable

seems indispensable if we wish to reduce to the minimum the social impact which, in some way and to some extent, inevitably results from the unfavourable international situation.

In this respect, a prior basic assessment should take into account the social effects of the recessive situation and the challenges which would have to be met by the adjustment policies. In any case, the main objective of any compensatory policy or set of policies should be the adequate distribution among the various social sectors of the burden caused by the adjustment measures. It should be repeated that, today more than ever, the income levels of the poorest sectors and unemployment must form an integral part of these compensatory policies, and should not constitute only a residual element.

3. Some general conditioning factors in development policies

To conclude, it is useful to point out once again the need for economic policies oriented towards reconciling the above-mentioned objectives to take into account some fundamental and more permanent factors on which we have insisted on other occasions.

Firstly, the perspective of a more moderate global economic expansion in the next few years poses an important restriction for rapid growth, both of income and of public expenditure. This circumstance means that in the future it will be even more essential than in the past to improve the assessment and allocation of State expenditures, to maximize their contribution to both the acceleration of the economic growth rate and the overcoming of poverty and other basic social problems.

Secondly, it is important to support export activities, especially the non-traditional ones which have arisen over the past 15 years, creating conditions which at least do not penalize them with respect to the international situation and which allow the region to maintain the high growth rates of exports achieved until now. However, we must mention once again the not always perfect conditions in which the international markets are developing. For this reason, and also because of the resurgence of protectionist practices and trade restrictions in the industrialized countries, Latin America must be alert and must unite behind actions aimed at eliminating, or at least reducing, the obstacle which this neoprotectionism presents for the growth and diversification of its exports and hence for its development.

/Thirdly, we