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Notes and explanation of symbols

The following symbols have been used in the tables in this Survey:
Three dotes (...) 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 1977

I. THE INTERNATIONAL CONTEXT

Before examining economic events in Latin America during the year 1977 it will be useful, in order to provide a global context for the subsequent analysis on the region, to make a brief prior review of world economic trends in the same year. This review will cover developments as regards economic growth, prices, trade and external finance for the industrialized countries, developing oil exporters and non-oil developing countries, with the latter group broken down into major regions where feasible.

1. *Economic growth and prices*

Given the heavy influence that the economic activity of the central economies has on the performance of the developing countries, the most notable event in 1977 was the marked weakening of the economic recovery in the industrialized countries. Economic growth in these countries averaged only 3.7°/o in that year, thus comparing poorly with the recovery rate of 5.2°/o registered in 1976 and the average of nearly 5°/o per annum achieved during the period 1967-1972 (see table 1). The annual rate of expansion in the first half of 1977 was somewhat more than 4°/o –an improvement over the 3.1°/o annual rate recorded for the second half of the previous year– but in the second quarter of 1977 there was a noticeable slackening of economic growth and even more sluggish performance prevailed for the remainder of the year, when the growth rate was barely 3°/o. One of the most noticeable features of the growth in the centres in 1977 was the contribution of the United States to the overall expansion of the industrialized countries. In 1976, almost all the larger industrial economies participated in the recovery process, but in 1977 the United States was the only major economy that continued to display any vigour as compared with pre-1973 rates of growth. While Japan's 1977 growth rate was almost equal to the rate of the year before, it was far below the rates of expansion customary up to 1973, and the other major industrialized economies all experienced a sharp falling off in growth in 1977, both in comparison with the recovery rate of 1976 and with pre-1973 trends (see table 1).

In 1977 economic growth in the industrialized countries continued to be largely supported by private consumer demand. Trends in productive investment by the private sector remained generally depressed however, due to a low level of capacity utilization and uncertainty as to the vigour of future growth. Once again, the only major country to show any significant divergence from this latter trend was the United States, where 1977 was marked by more buoyant activity in both non-residential and residential construction, while at the same time installed capacity utilization was approaching levels where greater private sector capital outlays might be expected. As regards the role of the public sector in growth, government expenditure was not a strong source of stimulus in the major industrialized countries, as the economic authorities tended to pursue a cautious fiscal policy out of concern for inflationary pressures.

Indeed, concern about inflation has been perhaps the most decisive factor inhibiting a full recovery in the industrialized countries. In 1977 the rate of increase in prices for this group of countries was slightly more than 9°/o. Thus, although inflation was contained below the record levels

Table 1

WORLD: REAL RATES OF ECONOMIC GROWTH [a]

(Percentages)

	Annual growth rates					
	1967-1972	*1973*	*1974*	*1975*	*1976*	*1977*
	Gross national product					
Industrialized countries [b]	*4.8*	*6.2*	*0.4*	*- 0.8*	*5.2*	*3.7*
United States	3.1	5.5	- 1.4	- 1.3	6.0	4.9
Federal Republic of Germany	5.5	5.1	0.7	- 2.5	5.7	2.4
Japan	10.2	9.8	- 1.1	2.4	6.3	6.0
United Kingdom	2.4	6.0	0.3	- 1.6	2.1	0.3
France	6.0	5.3	2.9	- 1.0	5.2	3.0
	Gross domestic product					
Major oil-exporting countries [c]	*9.0*	*10.7*	*8.7*	*0.3*	*12.4*	*6.7*
Non-oil developing countries [d]	*6.1*	*7.3*	*5.3*	*3.9*	*4.8*	*4.7*
Africa	5.1	3.0	6.0	2.4	4.7	2.9
Asia	4.9	7.8	2.7	6.2	5.8	6.0
Latin America [e]	6.8	8.1	7.7	2.6	4.5	4.3
Middle East [f]	6.4	5.1	0.2	5.9	3.6	5.1

Sources: Industralized countries: US Department of State, *Special Report N° 41*, March 1978; other countries : *IMF Survey*, 8 May 1978.

a Because of the unavailability of comparable data the table excludes the centrally planned economies. It also excludes South Africa.
b OECD member countries.
c Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Oman, Qatar, Saudi Arabia, the United Arab Emirates and Venezuela.
d Members of the International Monetary Fund.
e Excluding Venezuela and including the Caribbean.
f Including Israel.

recorded in 1974-1975, it was still double the average rate of 4.6°/o experienced by these countries in the period 1963-1973 (see table 2).

Turning to the trends in the developing countries, table 1 shows that the oil exporters continued to display a rapid rate of economic expansion. However, growth was noticeably less intense than in 1976, as the slowdown in the pace of recovery in the industrialized countries adversely affected demand for oil, causing stagnation or contraction in the output and volume of exports of the petroleum sector. Inflation rates went down in this group of countries as a result of the restraining effects of the fiscal and monetary policies applied as well as the large amounts of imports, which have greatly increased the domestic supply of goods and services.

The economic expansion of the non-oil-developing countries in 1977, was about on a par with the rate achieved in 1976. While in general terms such a growth rate may be considered satisfactory in the light of the current unsettled nature of the world economy, it was nevertheless significantly below the pre-1973 average rate of growth and represents a severe setback to the development aspirations of this group of countries. It must also be remembered that growth was achieved to a large extent by contracting heavy foreign debts, so that debt service payments could –depending on trends in the industrialized countries– weigh heavily on the balance of payments and future growth prospects.

If we examine the trends according to regions, it will be seen from table 1 that in 1977 Asia achieved the highest rate of growth: indeed, its growth in the last three years has actually exceeded the average recorded in the period 1967-1972. Africa, on the other hand, saw its 1977 growth rate

Table 2

WORLD: CONSUMER PRICES [a]

(Percentage change between annual averages)

	1974	*1975*	*1976*	*1977*
Industrialized countries [b]	*13.6*	*11.4*	*8.6*	*9.2*
United States	11.0	9.1	5.8	6.5
Federal Republic of Germany	7.0	6.0	4.5	3.9
Japan	24.5	11.8	9.3	8.1
United Kingdom	16.0	24.2	16.6	15.8
France	13.7	11.7	9.2	9.5
Major oil-exporting countries [c]	*17.0*	*19.0*	*16.1*	*15.5*
Non-oil developing countries [d e]	*33.0*(25)	*32.4*(16)	*31.6*(15)	*32.2*(21)
Africa	18.6	17.8	19.3	27.4
Asia	28.1	9.9	0.7	8.6
Latin America [f]	40.9(25)	54.8(23)	62.7(28)	51.0(33)
Middle East [g]	21.7	21.2	14.6	17.5

Source: OECD, *Economic Outlook* December 1977; IMF, *International Financial Statistics*, April 1978 and *IMF Survey*, 8 May 1978.

a See footnote [a] of table 1.
b OECD member countries.
c See footnote [c] of table 1.
d Members of IMF.
e Figures in parenthesis exclude Argentina, Chile and Uruguay.
f Excluding Venezuela and including the Caribbean.
g Including Israel.

fall to less than 3°/o which is only a little over half the average rate recorded for the 6-year period up to 1973. The 4.3°/o rate of growth recorded in Latin America was only slightly inferior to the rate of growth for the preceding year, but it was almost 40°/o below the average growth recorded in 1967-1972.[1]

The non-oil developing countries as a group experienced a marginal increase in inflation in 1977. Moreover, if several countries in Latin America which suffer, or have recently suffered, from hyper-inflationary situations are excluded from consideration, it is seen that the rate of price increases actually accelerated quite strongly in 1977 for the non-oil-developing countries (see table 2). In Asia, which experienced practically no rise in consumer prices in 1976, the average increase was nearly 9°/o in 1977, while Africa's average increase in prices was 27°/o, compared to 19°/o in 1976. In Latin America, (excluding the hyper-inflationary countries), the average increase in consumer prices in 1977 was 33°/o, compared to 28°/o the year before.

2. *Trade*

Preliminary estimates made by GATT suggest that the value of world trade in terms of dollars at current prices rose by about 13°/o in 1977. While this rate of growth is similar to the one recorded in 1976, there was a major downturn in activity in terms of volume: whereas the volume of trade rose by roughly 11°/o in 1976, it increased by only 4°/o in 1977, the slackening in growth being most

[1] Due to different coverage and methodology, the IMF data on economic growth, inflation and the external sector of Latin America that are presented in this section differ somewhat from the data prepared by CEPAL which appear in the remaining sections of the *Economic Survey*.

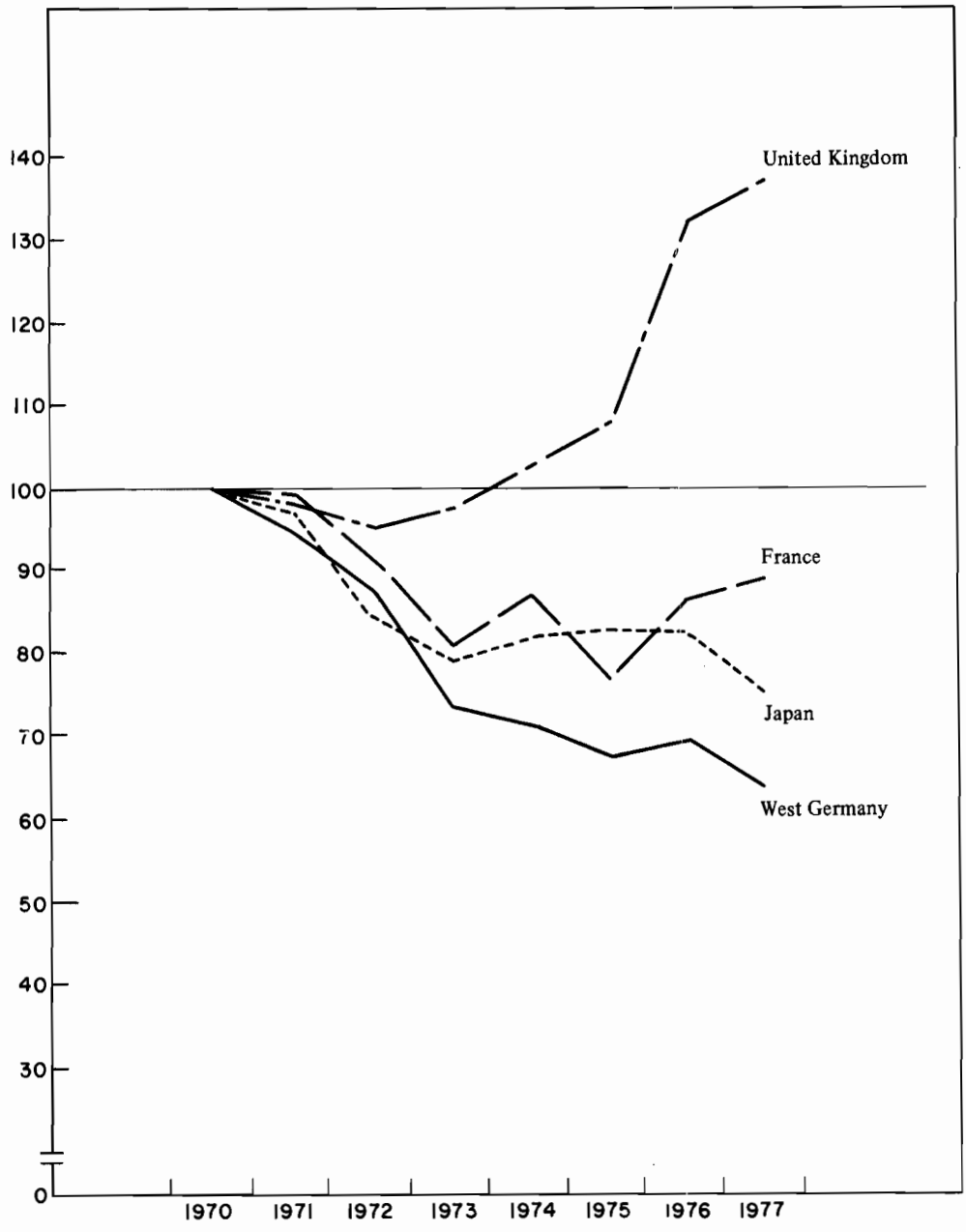
noticeable in the second half of the year. The dollar unit value of trade rose by 9%/o in 1977, as opposed to only 2%/o in 1976, reflecting the effects of domestic inflationary trends and the fall in the dollar against other major currencies (see figure 1).

Figure 1

SELECTED INDUSTRIALIZED COUNTRIES: DOLLAR PARITY OF CURRENCY

(Index: 1970 = 100)

Natural scale



Source: IMF, *International Financial Statistics*, April 1978.

The value of the industrialized countries' exports rose by around 13°/o en 1977, as opposed to 11°/o in 1976 (see table 3). Most of the increase, however, reflected higher prices, as export volume rose by only 4.5°/o - half the increase achieved in 1976. According to preliminary data, the growth in the volume of exports to non-oil-developing countries exceeded the overall average in 1977, while that of exports to the major oil producers was roughly double the overall average. Thus, trends in 1977 would seem to be consistent with the thesis elaborated in a special study on world trade in the present edition of the *Economic Survey*,[2] which suggests that during the present decade the dynamism of the central countries' exports, and therefore of their economic activity, has come to depend more than before on markets in the developing world.

Table 3

WORLD: EXPORTS, IMPORTS AND TRADE BALANCES[a]

	Billions of dollars					*Growth rates*				
	1973	*1974*	*1975*	*1976*	*1977*	*1973*	*1974*	*1975*	*1976*	*1977*
	Exports (FOB)									
Industrialized countries[b]	409	544	579	645	728	36.7	33.0	6.6	11.3	12.9
Main oil-exporting countries[c]	39	118	109	133	145	57.9	204.4	– 7.1	21.6	9.4
Non-oil developing countries[d]	67	98	94	116	135	45.6	45.4	– 4.2	22.9	16.6
	Imports (CIF)									
Industrialized countries[b]	426	606	608	701	791	37.5	42.3	0.3	15.3	12.8
Main oil-exporting countries[c]	20	34	54	63	84	44.7	70.1	59.1	16.7	34.4
Non-oil developing countries[d]	80	131	138	145	161	37.2	64.2	5.5	4.8	11.5
	Trade balance									
Industrialized countries[b]	–17	–62	–29	–56	–63	58.4	262.2	–54.2	95.2	12.1
Main oil-exporting countries[c]	19	84	55	70	61	74.5	346.6	–33.8	26.4	–12.9
Non-oil developing countries[d]	–13	–33	–44	–29	–26	4.1	167.3	34.2	–33.7	–8.4

Source: IMF, *International Financial Statistics*, May 1978.

[a] See footnote [a] of table 1.
[b] OECD member countries.
[c] See footnote [c] of table 1.
[d] See footnote [d] of table 1.

The value of the imports of the industrialized countries also rose by about 13°/o in 1977 –a rate only a little below that recorded in 1976– but, in keeping with the slower rate of economic expansion in 1977, the growth in the volume of imports fell to about two-thirds the 1976 figure, amounting to only 4 to 5°/o. The volume of petroleum imports rose by only 1 to 2°/o as a strong increase in oil imports by the United States was almost completely offset by the lower imports of the other industrialized countries. The volume of imports from the non-oil-developing countries appears to have

[2] See Part Three of the *Economic Survey* entitled "Trends and changes in world trade in the 1970s".

increased by more than the overall average. In value terms, imports of manufactures from this latter group of countries also appear to have grown somewhat faster in 1977 than the industrialized economies total imports of manufactures.

As a result of the above trends, the industrialized countries' trade deficit rose by 12°/o from 56 billion dollars in 1976 to 63 billion dollars in 1977, this increase being basically attributable to the effects of the increase of 22 billion dollars in the trade deficit of the United States.[3]

As for the major oil exporters, their trade surplus declined from 70 to 61 billion dollars because their import growth of 34°/o greatly outstripped the 9°/o rise in the value of their exports (see table 3) due largely to the effects of higher petroleum prices. These countries' import growth continued to be stimulated by the rapid expansion of internal demand, and while much of this demand has been satisfied by imports from the industrialized countries, it appears that a number of non-oil-developing countries have managed to export to the oil exporters as well.

The non-oil-developing countries experienced an 8°/o decline in their trade deficit from 29 to 26 billion dollars because exports rose by 17°/o against a rise of 12°/o in the value of imports.

Whereas the non-oil-developing countries' export growth in 1976 was due to bigger volumes, in 1977 the growth was mostly attibutable to higher unit prices. As may be seen from table 4, prices for the primary commodities exported by the developing countries were considerably higher than in 1976. Exporters of food products, particulary tropical goods like coffee and cocoa, whose prices rose by 56°/o and 83°/o respectively, were the main beneficiaries of these price trends, whereas exporters of minerals (excluding petroleum) and non-ferrous base metals were less fortunate, as their prices showed little dynamism. The much higher prices for agricultural products as opposed to minerals can be explained to a large extent by special events such as the effects of the 1975 coffee frost in Brazil, but they probably also reflect the fact that growth in the centre has been sustained largely by consumption, while investment activity has been very sluggish.

Table 4

WORLD: PRICES OF PRIMARY COMMODITIES

	Index (1970=100)						*Growth rates*			
	1972	*1973*	*1974*	*1975*	*1976*	*1977*	*1974*	*1975*	*1976*	*1977*
All primary commodities	125	180	308	302	311	341	71.1	-1.9	3.0	9.6
(Developing countries)	127	177	394	382	403	454	122.6	-3.0	5.5	12.7
Primary commodities excluding petroleum	121	176	227	215	220	240	29.0	-5.3	2.3	9.1
(Developing countries)	116	166	236	209	225	266	42.2	-11.4	7.7	18.2
1. Food	122	175	232	219	215	241	32.6	-5.6	-1.8	12.1
(Developing countries)	120	166	253	223	233	299	52.4	-11.9	4.5	28.3
2. Agriculture non-food	122	196	224	196	218	234	14.3	-12.5	11.2	7.3
(Developing countries)	114	186	228	178	211	226	22.6	-21.9	18.5	7.1
3. Minerals	131	173	473	494	510	554	173.4	4.4	3.2	8.6
(Developing countries)	136	182	555	571	595	650	204.9	2.9	4.2	9.2
4. Minerals excluding crude petroleum	112	137	209	245	242	248	52.6	17.2	-1.2	2.5
(Developing countries)	106	124	185	226	225	231	49.2	22.2	-0.4	2.7
5. Non-ferrous base metals	87	121	153	120	131	140	26.4	-21.6	9.2	6.9
(Developing countries)	82	127	160	109	121	128	26.0	-31.9	11.0	5.8

Source: United Nations, *Monthly Bulletin of Statistics,* March 1978.

Although prices were clearly the dominant influence in the export trends of the developing contries, it does appear that developing countries exporting manufactures generally expanded the volume of exports more than those producing only primary commodities. The unit value of manufac-

[3]Much of the United States' trade deficit was attributable to the fact that while the volume of imports rose by 12°/o, its export volume showed practically no gain over 1976.

tures, however, is thought to have increased by less than the 9-10% recorded for the unit value of the manufactured goods exported by the industrialized countries.

With regard to the non-oil-developing countries' imports, the growth in their value in 1977 was roughly double that experienced in 1975-1976. Most of the increase reflected price increases, as the volume is estimated to have grown by less than 5%.

Finally, it is significant to note that the decline in the value of the US dollar vis-à-vis other major currencies in 1977 probably caused a sharp increase in import costs for dollar area countries doing significant trade in non-dollar markets, although it is also true that these same countries probably experienced a simultaneous increase in the competitiveness of their exports in these same non-dollar markets. The net effect of the devaluation of the dollar on the trade of these countries is difficult to assess and must undoubtedly have varied sharply from one country to another.

3. *External finance*

The current account balances of the major economic groups continued to display a quite marked disparity in 1977. The industrialized countries experienced a significant widening of their current account deficit during that year, but this deterioration reflects radically different performances by the main central countries. The United States saw its current account balance go from a small surplus in 1976 to a deficit of over 17 billion dollars, whereas Japan's surplus increased by nearly 200% to 11 billion dollars and West Germany's surplus also remained very large. France and the United Kingdom, for their part, experienced an improvement in their current account position (see table 5).

Table 5

WORLD: BALANCES OF CURRENT ACCOUNT [a] [b]

(Billions of US dollars)

	1973	*1974*	*1975*	*1976*	*1977*
Industrialized countries [c]	*10.9*	*−27.5*	*1.6*	*−16.7*	*−21.2*
United States	1.6	0.4	14.4	1.7	−17.4
Federal Republic of Germany	6.8	12.5	7.5	7.1	7.6
Japan	0.1	− 4.5	− 0.4	3.9	11.2
United Kingdom	− 1.3	− 7.5	− 2.8	− 0.6	1.9
France	− 0.4	− 5.5	0.5	− 5.3	− 1.8
Major oil-exporters [d]	*6.5*	*67.8*	*34.7*	*40.8*	*34.9*
Non-oil developing countries [e]	*−11.3*	*−29.9*	*−37.3*	*−25.6*	*−22.1*
Africa	− 1.9	− 2.3	− 5.3	− 5.0	− 6.0
Asia	− 2.3	− 8.6	− 6.9	− 2.4	− 1.4
Latin America [f]	− 4.6	−13.3	−16.6	−11.8	− 8.6
Middle East [g]	− 2.4	− 5.8	− 8.5	− 6.4	− 6.1

Source: *IMF Survey*, 8 May 1978.

[a] Because of unavailability of data this table excludes the centrally planned economies, with the exception of Yugoslavia and Romania.
[b] Goods, services and private transfers.
[c] OECD member countries plus Malta, Romania, South Africa and Yugoslavia.
[d] See footnote [c] of table 1.
[e] Members of IMF.
[f] Excluding Venezuela and including the Caribbean.
[g] Including Israel.

The current account surplus of the oil exporters declined by 15°/o to 35 billion dollars, which was roughly equivalent to the surplus recorded in 1975 and only about half the record surplus generated in 1974 by the historic adjustment in world petroleum prices.

The non-oil developing countries as a group continued to improve their current account position in 1977, when the deficit recorded, although amounting to 22 billion dollars was 14°/o less than the 1976 deficit and more than 40°/o less than the record current account deficit recorded in 1975. There was some disparity between the big regional groups, however, as there undoubtedly must have been between the individual countries within each group. While Asia and Latin America showed considerable improvement in their current account position, there was a less noteworthy reduction in the deficit of the non-oil Middle East countries and a significant deterioration in the position of Africa. Thus, Asia's current account was nearly in balance in 1977, and actually represented an improvement over its position in 1973. Latin America's deficit declined by 27°/o in 1977 to 9 billion dollars, a level which is roughly half of the record deficit recorded in 1975 and rather less than double the current account deficit experienced in 1973. The deficit for the Middle East also declined but by only 5°/o with respect to 1976, and in absolute terms it was several times higher than the level recorded in 1973. In the case of Africa, the current deficit rose to a level roughly 3 times that of 1973.

It appears that the financing of current account deficits in 1977 followed the same pattern as in recent years, with the industrialized countries having recourse to the Eurocurrency and Eurobond markets and the non-oil-developing countries financing their deficits through grants and concessionary loans from the industrialized countries and OPEC, loans from multilateral organizations like the International Monetary Fund and the World Bank, and the tapping of private capital (basically through the use of the Eurocurrency market). In general, the lower-income non-oil-developing countries have relied more heavily on grants and concessionary finance, while the middle and higher-income countries have depended more heavily on the private capital markets.

In order to gain an idea of how important private capital has been in the financing of deficits, publicized authorizations of Eurocurrency and Eurobond financing are presented in table 6. As may be seen, the industrialized countries increased slightly their gross use of Eurocurrency financing in 1977, but it should be noted that since 1974 these countries have largely shifted out of Eurocurrency credits and into bonds, which can be more attractive debt instruments because they usually bear fixed rates of interest.

Among the non-oil-developing countries, those of Latin America have been by far the greatest users of Eurocurrency financing. This is consistent with their upper income status among the group of non-oil-developing countries. In gross terms, the region's borrowing rose by 15°/o in 1977 to 9.4 billion dollars - more than double its gross borrowing in 1974. Latin America was able to gain greater access to the bond market in 1977.

Asia, the only other region within this group having major access to private finance, reduced its gross borrowing by 13°/o in 1977. As for the oil exporters, they sharply increased their borrowing in 1977. This basically reflects the increased financing requirements of some countries that had absorbed their oil surplus and were confronting deficits on their current and/or capital account.

The higher profile of the oil exporters in the Eurocurrency market might suggest that the non-oil-developing countries had to compete more vigorously for loans, but this was not the case, as banks and institutional investors were very liquid with loanable funds in 1977.

In 1977 the overall balance of payments situations of both the oil exporters and the non-oil-developing countries were characterized by surpluses. While the industrialized countries as a whole registered a balance-of-payments deficit of almost 3 billion dollars in 1977, this was due basically to an enormous rise in the deficit of the United States; most other major industrialized countries generated considerable surpluses (see table 7). The United Kingdom showed a very large surplus of almost 14 billion dollars, because an improved current account was complemented by heavy capital inflows, and West Germany, Japan and Italy also had big overall surpluses in 1977.

The overall surplus of the oil exporters increased by 12°/o in 1977. However, the increase was not symmetrical as the overall balances of Algeria, Nigeria, Saudi Arabia and Venezuela deteriorated, while those of Iran, Iraq, Kuwait and Libya improved. As regards the non-oil-developing countries, their overall surplus increased by 8°/o to 10 billion dollars, but the improvement did not apply to all regions. Thus, the surpluses recorded for Asia and Latin America, though still substantial, were less than in 1976, whereas Africa and the Middle East improved their overall balance-of-payments position.

Table 6

WORLD: PUBLICIZED EUROCURRENCY FINANCING [a]

(Billions of US dollars)

	1974	*1975*	*1976*	*1977*
Industrialized countries [b]	*26.3*	*24.1*	*36.0*	*35.8*
Bonds	6.1	17.0	24.2	22.9
Eurocurrency credits	20.2	7.1	11.8	12.9
Major oil exporters [c]	*0.8*	*3.1*	*3.6*	*6.1*
Bonds	0.1	0.1	0.2	0.8
Eurocurrency credits	0.7	3.0	3.4	5.3
Non-oil developing countries [d]	*7.5*	*8.5*	*12.7*	*14.2*
Bonds	0.8	7.8	1.7	3.0
Eurocurrency credits	6.7	0.7	11.0	11.2
Africa	*0.4*	*0.6*	*0.9*	*1.2*
Bonds	–	–	0.1	–
Eurocurrency credits	0.4	0.6	0.8	1.2
Asia [e]	*1.7*	*1.7*	*3.1*	*2.7*
Bonds	0.1	–	0.6	0.5
Eurocurrency credits	1.6	1.7	2.5	2.2
Latin America [f]	*4.5*	*5.9*	*8.2*	*9.4*
Bonds	0.1	0.4	0.6	2.2
Eurocurrency credits	4.4	5.5	7.6	7.2
Middle East [g]	*0.9*	*0.3*	*0.5*	*0.9*
Bonds	0.6	0.3	0.4	0.3
Eurocurrency credits	0.3	–	0.1	0.6

Source: World Bank, *Borrowing in International Capital Markets*, March 1978.

a Excluding the centrally planned economies.
b OECD member countries plus South Africa, Yugoslavia and Romania.
c See footnote [c] of table 1.
d Members of IMF.
e Including Hong Kong.
f Excluding Venezuela and including the Caribbean.
g Including Israel.

From the preceding summary of world economic trends, it is clear that the developing countries have experienced a marked improvement in their external position after the deterioration that occurred in 1975, and this improvement undoubtedly reflects the skill with which these countries have manoeuvered through the most difficult world economic crisis since the war. However, there are no grounds for complacency about the situation of the developing countries. Their improved current account position has been achieved mainly through a sacrifice of growth, with the accompanying loss of income and employment (probably disproportionately borne by the lower income strata). Imports have also been severely curtailed in recent years, and this could very well prejudice future growth, while it must be remembered that much of the improvement in the current account in 1977 was attributable to special, and perhaps transitory price trends as in the case of coffee. Finally, expansion of the volume of exports of the non-oil developing countries remains constrained by the slow recovery of the industrialized countries as well as by the rise in protectionism in some of the latter.

Table 7

WORLD: OVERALL BALANCE OF PAYMENTS [a]

(Billions of US dollars) [b]

	1976	*1977*
Industrialized countries [c]	*– 6.2*	*– 3.0*
United States	–10.5	–35.0
Federal Republic of Germany	3.4	4.6
Japan	3.8	6.5
United Kingdom	– 0.9	13.6
France	– 2.7	0.4
Major oil exporting countries [d]	*8.8*	*9.8*
Non-oil developing countries [e]	*9.6*	*10.3*
Africa	– 0.2	0.6
Asia	5.2	4.8
Latin America [f]	4.2	3.8
Middle East [g]	0.3	1.3

Source: *IMF Survey*, 8 May 1978.

[a] See footnote [a] of table 5.
[b] Converted from SDRs at average rate prevailing for each year.
[c] See footnote [c] of table 5.
[d] See footnote [c] of table 1.
[e] Members of IMF.
[f] Excluding Venezuela and including the Caribbean.
[g] Including Israel.

The picture is further complicated, especially for middle income countries like those of Latin America, by the large external debt from private sources which has accumulated as a result of their efforts to finance the current account of the balance of payments and to maintain suitable reserve balances. This type of finance has been very costly and provided on relatively short maturities, thereby making rising debt service itself a potential threat to future growth.

All the above factors would seem to suggest that, despite the recent apparent improvement in the balance-of-payments situation, the underlying external position of the developing countries remains very delicate. This is especially clear if one realizes that it is not reasonable to expect the majority of developing countries to handle their external imbalances by making further adjustments to their level of domestic economic activity and maintaining unsatisfactory growth rates as in recent years. Therefore, in order to strengthen the external position to an extent compatible with the high growth rates that developing countries require and to prevent excessively burdensome debt service, it is indispensable that such countries should have access to finance on reasonable terms (especially as regards the period of amortization) and that their exports should be vigorously expanded. And, of course, in order to achieve the latter objective it is essential that the industrialized countries should resume and maintain a dynamic rate of economic growth as well as avoid the recent tendencies towards protectionism.

II. AN OVERALL APPRAISAL

As in the preceding year, the Latin American economy in 1977 was characterized by a moderate rate of growth of production activities and a reduction in the external imbalance (see table 8). These features, together with the relatively high inflation which once again prevailed in a good many countries of the region, are part of the gradual and as yet incomplete process of adjustment of the

Latin American economies –particularly the non-oil-exporting countries– to the drastic changes brought about in the world economic scenario by the recession in the industrialized countries, the acceleration of their inflationary processes, and the four-fold increase in the world price of petroleum decided by the Organization of Petroleum Exporting Countries (OPEC) at the end of 1973.

Table 8

LATIN AMERICA: MAIN ECONOMIC INDICATORS [a]

	1970	*1971*	*1972*	*1973*	*1974*	*1975*	*1976*	*1977* [b]
Basic economic indicators								
Gross domestic product at factor cost (billions of US dollars at 1970 prices)	172	183	196	213	213	235	245	256
Population (millions)	265	272	280	287	295	303	312	321
Per capita gross domestic product (US dollars at 1970 prices)	648	672	700	739	771	774	786	798
			Growth rates					
Short-run economic indicators								
Gross domestic product	6.9	6.7	6.9	8.5	7.1	3.1	4.5	4.4
Per capita gross domestic product	4.0	3.8	4.1	5.6	4.3	0.4	1.6	1.6
Gross income [c]	7.2	6.6	7.2	9.7	8.6	1.7	4.8	4.7
Terms of trade	3.3	– 2.7	3.0	12.4	14.1	–12.1	3.7	4.6
Current value of exports of goods and services	8.3	4.4	15.7	38.6	54.3	– 5.6	14.4	16.9
Current value of imports of goods and services	13.8	10.2	13.8	28.2	65.1	7.1	2.8	11.0
Consumer price index [d]								
Latin America	12.2	13.3	21.2	37.0	40.7	60.1	64.0	41.8
Latin America (excluding Argentina and Chile)	10.3	10.4	11.2	17.6	27.4	21.2	31.1	29.0
			Millions of US dollars					
External sector								
Trade balance (goods and services)	– 355	–1 468	–1 292	690	–2 197	–8 435	–3 449	–802
Oil-exporting countries	478	611	388	1 905	7 349	2 631	2 079	–91
Non-oil-exporting countries	–833	–2 078	–1 680	–1 214	–9 546	–11 066	–5 528	–711
Balance on current account	–3 105	–4 409	–4 315	–3 375	–6 990	–14 046	–10 057	–8 297
Oil-exporting countries	–273	–248	–317	729	6 139	2 047	1 480	–815
Non-oil-exporting countries	–2 832	–4 160	–3 998	–4 104	–13 129	–16 093	–11 537	–7 482
Balance of payments position	1 558	496	2 829	4 047	3 704	965	2 662	5 026
Oil-exporting countries	86	430	305	684	5 031	3 088	572	578
Non-oil-exporting countries	1 472	67	2 524	3 363	–1 328	–2 123	2 090	4 444
External debt [e]	16 096	18 333	21 768	26 595	34 321	41 809	54 588	...

Source: Product, income, prices and external sector: CEPAL; population: CELADE; external debt: Inter-American Development Bank.

[a] The figures for the product, population, income and terms of trade relate to the group of 19 countries included in table 9; the figures for the external sector and prices relate to the same group of countries plus Barbados, Guyana, Jamaica and Trinidad and Tobago.

[b] Preliminary figures.

[c] Gross domestic product at market prices plus terms-of-trade effect.

[d] Variation from December to December.

[e] Amount of the medium- and long-term disbursed gross public external debt.

It should be recalled that in the great majority of the economies of the region this process of adjustment did nod begin until 1975, since in 1974 - the year in which the United States, Western Europe and Japan slid almost simultaneously into their deepest and longest recession since the Great Depression of the 1930s, during which time their economic growth was practically nil– Latin America's gross domestic product rose by over 7%.

Thus in 1974 the vigorous economic expansion that had characterized Latin America's development since the end of the previous decade continued. In the same year Latin America's imports also continued their rapid increase. For the region as a whole, the value of imports of goods rose by over 73%. The most significant fact, however, was that imports rose almost at the same rate (77%) in the four oil-exporting countries[4] –whose external position had been extraordinarily strengthened by the increase in fuel prices - as in the non-oil-exporting countries (72%), whose balance-of-payments position had, in contrast, been weakened by the same reason.

As a result of this exceptional growth of imports, the trade balance of the non-oil-exporting countries deteriorated sharply, and their deficit soared from 1.2 billion dollars in 1973 to over 9.5 billion in 1974. At the same time, the current account deficit of the balance of payments more than trebled, rising from 4.1 billion dollars in 1973 to 13.1 billion in the following year (see table 8).

Although these deficits were partly offset by the huge surpluses obtained by the four oil-exporting countries, the worsening of the external situation was also very marked for the region as a whole. Proof of this is that after obtaining a surplus of nearly 700 million dollars in trade in goods and services in 1973, it registered a deficit of 2.2 billion dollars in 1974, while the current account deficit of some 7 billion dollars recorded that year was more than double the 1973 deficit and the region's gross public external debt showed an unusually large increase of nearly 8 billion dollars.

At the same time as Latin America's external situation deteriorated, its inflationary processes became more intensive and widespread. This situation, which had already begun in 1973 as a result of the industrialized countries' accelerated inflation and the rise in the prices of basic commodities, was greatly aggravated in 1974 because of the persistence and worsening of inflation in the central economies and above all, the rise in the world price of oil.

Faced with the dual challenge represented by inflationary processes of unprecedented intensity and characteristics and the structural weakening of their balances of payments, in 1975 most of the non-oil-exporting countries of the region began to adopt restrictive economic policies aimed at reducing the external deficit and rate of inflation.

As a result of those policies and the deterioration in the terms of trade, in Latin America as a whole the rate of growth of the product, and particularly of gross income, dropped sharply in 1975 (see table 8). The rate of expansion of imports of goods fell even more drastically, from over 70% in 1974 to less than 6% for the region as a whole and 3% for the non-oil-exporting countries. Indeed, the latter reduced the absolute volume of their imports by 6%. In spite of this, and in view of the fact that the value of the exports of the non-oil-exporting countries decreased slightly in 1975, their trade deficit once again increased, to the unprecedented level of 11 billion dollars. At the same time, there was a marked decline in the trade surplus of the oil countries, whose imports continued to rise at a high rate in 1975 while their exports decreased in value.

Accordingly, the goods and services trade deficit for the region as a whole almost quadrupled, rising from 2.2 billion dollars in 1974 to over 8.4 billion in 1975, while the balance-of-payments deficit on current account reached and all-time high of 14 billion dollars and the external debt balance recorded a further substantial increase of 7.5 billion dollars.

The results of the restrictive policies were more favourable however as regards inflation. Except in Argentina and Chile, which continued to experience exceptionally intense inflationary processes, the rate of price increases declined markedly in the great majority of countries. This general reduction was also decisively influenced by the decline in the rate of price increases for the region's imports, from 42% in 1974 to just under 10% in 1975, and the even more pronounced drop, from 62% to -3.4%, in the growth rate of its export prices.

In 1976 the economic evolution of Latin America once again changed direction. Thanks to the recovery of the central countries' level of activity, the export promotion policies adopted by several

[4] Bolivia, Ecuador, Trinidad and Tobago and Venezuela.

countries of the region, and the exceptional rise in the world price of coffee due to the frosts in Brazil in mid-1975, the value of exports of goods of the non-oil-exporting countries increased by over 18%. At the same time these countries managed to reduce the volume of their imports of goods by over 6% for the second consecutive year. As a result of these changes, the unfavourable balance of their trade in goods and services was reduced to half and their deficit on current account dropped from 16.1 billion dollars in 1975 to 11.5 billion in 1976. The oil-exporting countries, on the other hand, continued to show reductions in their trade and balance-of-payments current account surpluses. Therefore, the decrease in the external deficit was less marked for the region as a whole than for the non-oil-exporting countries. At all events, the current account deficit of Latin America's balance of payments, which had doubled in both 1974 and 1975, dropped from 14 billion dollars in the latter year to 10 billion in 1976 (see table 8).

In 1976 the rate of economic growth also rose. Although Argentina's domestic product declined in absolute terms and Mexico's economic activity barely increased, the growth rate of the product for the whole region was 4.5%, and it was much higher for Brazil, the oil-exporting countries and nearly all the coffee-exporting economies.

In most of the smaller countries the intensity of inflation continued to diminish with the considerable decline once again in the growth rate of import prices. Inflation regained considerable momentum, however, in Mexico and Peru (mainly owing to the devaluation of their currencies after 23 and 8 years, respectively, of exchange stability), and in Brazil and Colombia (as a result of the increasing liquidity generated by the accumulation of international reserves and also of the sharp increases in the domestic prices of fuels in both countries).

The moderately favourable trends shown by the region in 1976 were, on the whole, maintained in 1977. While economic activity once again grew at a rate of around 4.5%, there was a further decrease in the external deficit and the rate of inflation declined.

In some respects, however, the evolution of the economy in 1977 differed from that of the preceding year. Thus, the increase in the product –which, as in 1974 and 1975, was greater in relative terms than that of the industrialized countries– took place in spite of the marked decline in the rate of growth of the Brazilian economy. Furthermore, only in Paraguay, Chile, Venezuela and some of the Central American countries was the rate of growth substantially higher than the regional average. In most of them, moreover, this was due to specific circumstances rather than to expansive trends that might be considered as lasting. Thus, while the Central American countries were decisively influenced by the boom in coffee exports, in Chile and also Argentina the 1977 production increase basically represented a recovery more or less compensating for previous setbacks.

In the external sector, the divergent trends of the oil-exporting countries and the rest of the economies of the region recorded in the previous three years persisted in 1977. Whereas the latter again increased the value of their exports of goods at a rapid rate (23%) while stabilizing the volume of their imports of goods, the oil countries continued to increase their imports at a much higher rate than that of their external sales. As a result of these uneven trends, the current account deficit of the non-oil-exporting countries dropped significantly for the second year running, while the oil countries' current account closed with a deficit for the first time since 1973.

The regional situation also varied widely as regards inflation. While Argentina and Chile succeeded in sharply reducing the rate of their intensive and prolonged inflationary processes, the rate of price increases declined only slightly in Brazil and Mexico, and rose in Colombia. In all these countries, as in Peru and Uruguay, the high levels of inflation also severely handicapped the possibilities of implementing more expansive policies, which were also limited in some countries by the restrictions imposed by the persistently large deficits in the external sector. In nearly all the smaller open economies of the region the rate of inflation increased, thus reversing the declining trend of import and export price increases in the previous two years.

It will be seen, therefore, that in 1977 the Latin American economy, although partly recovered from the impact of the long and intensive recession in the industrialized countries and the exceptional rise in oil prices, continued to suffer the effects of those changes on its evolution. Thus, the rate of economic growth, though higher than in 1975, was distinctly lower than that attained in the first five years of the decade; the average rate of inflation in 1977, even if the special cases of Argentina and Chile are excluded, was more than twice that customary before the rise in the price of oil; and lastly,

the deficit on the current account of the balance of payments, though a good deal smaller than in the previous two years, was likewise double that recorded on average during the period 1970-1973, while in 1976 the external public debt was already double the 1973 figure (see table 8).

III. ECONOMIC GROWTH

1. *The rate of growth*

As noted earlier, in 1977 Latin America maintained the moderate rate of growth attained in the previous year. The gross domestic product of the region[5] rose by 4.4%, i.e., at virtually the same rate as that recorded in 1976 and slightly higher than in 1975, but much lower than the rate of over 7% achieved on average during the five-year period 1970-1974. As in 1976, because of a slight improvement in the terms of trade, the growth rate of income was somewhat higher than that of the product (see table 9).

Table 9

LATIN AMERICA: EVOLUTION OF GROSS DOMESTIC PRODUCT [a] AND GROSS INCOME

Country	*Total*				*Per capita*				
	Annual growth rates				*Dollars at 1970 prices*		*Annual growth rates*		
	1970-1974	*1975*	*1976*	*1977* [b]	*1970*	*1977* [b]	*1975*	*1976*	*1977*
Argentina	5.2	−1.3	−3.0	4.4	1 208	1 344	−2.6	−4.2	3.0
Bolivia	5.5	6.8	6.9	4.8	290	360	4.0	4.1	2.1
Brazil	11.5	5.7	9.2	4.7	450	706	2.7	6.1	1.8
Colombia	6.9	4.3	4.1	4.5	528	666	1.9	1.7	2.0
Costa Rica	7.1	2.1	4.3	6.9	658	826	−0.3	1.8	4.4
Chile	2.6	−11.3	4.5	8.6	850	833	−12.8	2.8	6.8
Ecuador	8.1	7.5	8.0	5.4	368	505	4.4	4.9	2.3
El Salvador	4.9	4.2	4.7	5.5	390	452	1.2	1.7	2.4
Guatemala	6.4	2.0	7.6	8.5	410	507	−1.1	4.4	5.3
Haiti	4.7	2.2	5.3	1.3	112	125	−0.1	2.9	−1.1
Honduras	3.3	−	8.0	7.5	278	296	−3.4	4.4	3.8
Mexico	6.2	4.0	1.9	2.8	893	978	0.6	−1.4	−0.6
Nicaragua	5.3	1.8	5.2	5.5	394	455	−1.4	1.8	2.1
Panamá	5.6	0.6	−	2.5	868	913	−2.2	−2.8	−0.3
Paraguay	6.4	5.0	7.5	11.7	353	468	2.1	4.4	8.5
Peru	6.6	3.3	3.0	−1.0	527	578	0.5	0.2	−3.7
Dominican Republic	10.1	5.0	5.8	3.3	351	468	1.6	2.4	−0.1
Uruguay	0.8	4.4	2.6	3.5	947	1 029	4.2	2.2	2.9
Venezuela	5.2	5.2	7.4	8.1	1 163	1 351	1.7	3.9	4.6
Gross domestic product	*7.2*	*3.1*	*4.5*	*4.4*	*648*	*798*	*0.4*	*1.6*	*1.6*
Gross income [c]	7.9	1.7	4.8	4.7	716	899	−1.0	1.9	1.8

Source: CEPAL, on the basis of official data.

[a] At factor cost.
[b] Preliminary figures.
[c] Gross domestic product at market prices plus terms-of-trade effect.

[5] Because of the lack of data on the real variations of the product in the English-speaking Caribbean countries, the analysis which follows covers only the 19 countries that appear in table 9.

Naturally, these global figures only partially reflect the diversity of rates and types of economic growth in the various Latin American countries.

Thus, the sluggish growth of the product of the region as a whole in 1977 was largely due to the sharp drop in the growth rate of the Brazilian economy that year.[6] This rate declined from over 9°/o en 1976 to less than 5°/o in 1977, mainly because of the implementation of an economic policy deliberately aimed at curtailing production expansion in order to reduce the external deficit and control inflationary pressures.

The moderate economic growth of the region was also partly due to the weak expansion of Mexico's economic activity once again, as a result of which the per capita product of that country fell slightly for the second year in succession.

In contrast, the growth rate was fairly high in the countries of the Central American Common Market, in nearly all of which it easily exceeded the previous years' rates. Furthermore, since those countries also benefited considerably from the boom in coffee prices, in all of them income rose much more than the product, as occurred, for the same reason too, in Colombia and to a much lesser degree in Brazil.

The still greater expansion of the Paraguayan economy –which grew at a rate of over 11°/o– was due basically to the impact of the construction of the great Itaipú hydroelectric dam undertaken jointly with Brazil, and to the effects of the notable growth of exports.

The increase in the per capita product was also considerable in the three countries of the Southern Cone. Because of the declines in the economic activity of Argentina and Chile in previous years, however, their expansion in 1977 was not enough to regain the per capita product levels reached by these two countries in 1974.

The high rate of increase of the product achieved by Venezuela, on the other hand, represented a continuation of the strong and sustained process of growth which has been recorded by its economy since the beginning of the decade and which further accelerated following the rise in the world price of petroleum agreed on by OPEC at the end of 1973.

In contrast, in the other two oil-exporting countries of the region (Bolivia and Ecuador) the process of expansion –which was also very vigorous in previous years– slackened in 1977, so that the per capita product increased that year by only half the average rate attained in the period 1970-1976.

Economic growth also fell off considerably in the Dominican Republic and Haiti, with the result that the per capita product dropped slightly in both these countries.

Finally, the unfavourable evolution that had characterized the economies of Panama and Peru since 1975 continued in 1977. While in Panama the per capita product dropped for the third consecutive year, in Peru it fell by about 4°/o, to a level barely exceeding that attained in 1973.

2. *Total supply and demand*

As in 1976, real exports of goods and services formed the main dynamic element of total demand in 1977. After remaining static in 1974 and declining by some 4°/o in 1975 owing to the world economic depression, these exports recovered the following year and grew by nearly 7°/o in 1977 (see table 10).

During that same year, the growth rate of gross fixed investment, which had fallen sharply in 1976, also rose slightly. Consequently fixed capital formation increased for the second year running at the very low rate of around 2.5°/o, wich contrasted sharply with its intensive expansion of nearly 10°/o annually during the period 1970-1974. Even so, the relation between gross fixed investment and the total product remained slightly above 22°/o in 1977, thus exceeding its values in any of the preceding years except 1975 and 1976 (see table 11).

In contrast with the two previous years when the quantum of imports of goods and services declined, in 1977 it rose by a little over 4°/o. The growth rate of total supply was thus very similar to that of the domestic product and increased for the second consecutive year. Nevertheless, the increase was much smaller than that recorded between 1970 and 1974, when total supply rose at an average annual rate of about 8°/o, thanks to the high and sustained rate of growth of the product and the even more dynamic evolution of real imports of goods and services (see table 10).

[6] Brazil alone generates nearly one-third of Latin America's total product.

Table 10

LATIN AMERICA: TOTAL SUPPLY AND DEMAND

	Annual growth rates [a]			
	1970-1974	*1975*	*1976*	*1977* [b]
Total supply	*7.6*	*2.7*	*3.8*	*4.3*
Gross domestic product	7.2	3.2	4.5	4.4
Imports	10.9	−1.3	−3.2	4.2
Total demand	*7.6*	*2.7*	*3.8*	*4.3*
Domestic demand	*7.9*	*3.3*	*3.6*	*4.2*
Gross fixed investment	9.9	7.3	2.3	2.6
Total consumption [c]	6.0	3.0	4.7	4.2
Exports	4.1	−3.6	6.6	6.8

Source: CEPAL, on the basis of official data.

[a] Calculated on the basis of constant 1970 values.
[b] Preliminary figures.
[c] In the case of some countries, these figures include changes in stocks wich were not taken into account in calculating investment.

Table 11

LATIN AMERICA: GROSS FIXED INVESTMENT COEFFICIENT [a]

(Percentages)	
1970	19.6
1971	20.3
1972	20.9
1973	21.3
1974	22.2
1975	23.1
1976	22.7
1977 [b]	22.3

Source: CEPAL, on the basis of official data.

[a] Gross fixed investment as a percentage of the gross domestic product.
[b] Preliminary figures.

3. *Sectoral trends*

Contrary to what happened in 1976, when growth rates varied widely in the main sectors of economic activity, the trends in these sectors were on the whole fairly similar in 1977. Thus agriculture, mining and construction grew about 5.5%. Only manufacturing and basic services differed from this general trend: the latter expanded at a higher rate (6.6%), while the former rose by only 3.5% (see table 12).

After rising slowly in the previous two years, the agricultural product expanded vigorously in 1977. Some factors contributing decisively to its growth rate of 5.3% –three times that of the

Table 12

LATIN AMERICA: EVOLUTION OF THE MAIN ECONOMIC SECTORS

(Growth rates)

Country	Agriculture			Mining and quarrying			Manufacturing			Construction			Subtotal goods [a]			Basic services [b]			Other services [c]		
	1975	1976	1977[d]	1975	1976	1977[d]	1975	1976	1977[d]	1975	1976	1977[d]	1975	1976	1977[d]	1975	1976	1977[d]	1975	1976	1977[d]
Argentina	−3.5	3.5	7.0	−4.6	0.8	8.8	−2.8	−4.5	3.8	−9.5	−14.1	13.2	−3.7	−3.4	5.6	−0.3	−2.7	5.6	2.7	−1.6	1.8
Bolivia	6.7	5.8	1.4	−9.2	7.0	−2.8	11.3	9.1	6.6	13.5	8.1	5.9	4.0	7.3	2.4	8.3	7.4	7.4	8.5	6.4	6.2
Brazil	3.4	4.2	9.6	6.6	6.2	−4.7	4.5	10.5	2.3	13.3	12.8	9.0	5.4	9.6	4.4	11.3	8.2	6.8	5.9	9.0	4.2
Colombia	6.1	1.5	2.5	−6.8	−5.9	−5.0	1.3	6.7	4.0	−4.3	−9.0	6.0	3.0	2.2	3.2	8.2	7.7	5.7	5.1	5.6	5.5
Costa Rica	3.0	−0.6	1.7	e	e	e	3.2[e]	6.4[e]	11.0[e]	5.7	0.3	5.4	3.4	2.2	5.9	5.2	7.1	...	0.4	5.4	...
Chile	3.8	2.6	14.2	−4.9	14.5	2.0	−27.4	6.7	12.2	−31.0	−16.8	3.5	−17.6	6.6	9.0	−7.3	5.1	7.6	−5.4	3.8	6.3
Ecuador	6.5	6.6	1.4	−5.0	13.2	−7.4	15.1	9.7	14.0	29.8	14.4	4.1	9.6	9.2	4.6	4.5	8.8	11.4	5.7	6.9	4.7
El Salvador	6.5	−2.7	0.2	8.3	23.1	−9.4	2.4	7.8	5.6	42.6	2.9	7.0	7.4	1.4	2.7	6.5	7.3	11.4	0.8	6.8	7.7
Guatemala	2.5	4.9	5.0	5.2	30.0	14.8	−1.5	10.5	10.5	15.3	88.4	17.8	1.9	11.1	7.8	3.3	10.0	11.8	3.8	4.3	8.4
Haiti	0.3	3.2	−0.4	−33.5	34.2	−7.0	4.8	8.5	0.6	10.0	9.7	7.8	0.7	5.2	0.2	6.6	6.2	0.7	3.0	6.7	3.8
Honduras	−6.1	12.2	8.0	−26.7	−15.5	7.1	2.6	11.8	11.5	5.6	5.3	3.3	−3.9	9.9	8.4	1.2	6.9	8.4	5.4	5.6	6.0
Mexico	0.9	−3.8	3.4	3.6	8.1	11.6	3.6	2.6	3.0	5.7	−1.9	3.0	3.4	1.1	3.1	8.0	3.6	...	4.2	2.5	2.4 [f]
Nicaragua	3.4	4.1	2.7	−20.7	−25.0	−11.9	2.4	2.6	5.8	2.2	5.9	10.7	2.6	3.5	4.6	2.0	4.7	6.5	1.5	6.3	5.3
Panamá	4.8	−0.5	6.0	−5.7	6.1	−5.7	−0.9	−1.7	4.5	20.4	3.4	−3.1	4.7	−0.3	3.7	4.0	4.2	3.0	−2.7	−2.5	1.3
Paraguay	3.9	5.0	9.4	26.5	1.4	24.1	−2.0	5.5	17.0	21.1	17.6	31.7	3.2	6.3	13.7	14.3	11.9	11.7	6.3	8.5	8.9
Peru	1.8	4.3	−0.5	−10.9	8.9	25.4	4.7	4.2	−4.0	16.8	−2.8	−14.0	2.9	3.9	−0.3	4.0	1.8	...	3.9	−1.9	−1.6
Dominican Republic	−2.5	9.3	1.4	7.4	21.7	−3.1	3.6	3.1	3.7	13.0	2.2	9.9	2.9	7.6	2.8	4.8	3.2	5.3	7.8	4.6	2.8
Uruguay	3.1	3.4	−1.3	−10.0	−14.8	12.8	7.5	4.8	6.4	31.6	−6.5	14.6	7.6	2.4	5.3	5.1	3.9	4.4	0.7	2.1	1.9
Venezuela	7.0	−3.8	10.4	−20.4	−0.5	−2.6	11.4	11.1	9.5	18.0	17.5	17.0	−1.5	5.5	7.3	11.1	10.7	11.5	9.2	7.7	9.0
Total	*2.3*	*1.8*	*5.3*	*−5.2*	*6.3*	*5.5*	*1.6*	*5.2*	*3.5*	*6.5*	*3.3*	*5.7*	*1.8*	*4.1*	*4.4*	*6.5*	*5.1*	*6.6*	*4.4*	*4.8*	*3.7*

Source: CEPAL, on the basis of official data.

[a] Includes agriculture, mining and quarrying, manufacturing and construction.
[b] Includes gas and water and transport and communications.
[c] Includes commerce, restaurants and hotels; financial institutions, insurance and real estate; community, social and personal services.
[d] Preliminary figures.
[e] Mining and quarrying are included in manufacturing.
[f] Includes basic services.

preceding year– were the large agricultural production increases in Argentina and Brazil– where the growth of the sector was double the 1976 rate - combined with the even greater increases achieved in Chile and Venezuela and the increase in Mexico's production, which partially recovered from its previous year's decline.

After a fall in 1975 and a recovery in 1976, the mining product grew by 5.5°/o in 1977. This growth was primarily influenced by the exceptional expansion of mining production in Peru, with the entry into operation at full capacity of the big Cuajone copper mine, and the substantial rise for the second year running in Mexico's mining sector, which generates about one-third of Latin America's total mining product. In contrast, that same year mining output declined in the three oil countries and its growth rate decreased markedly in Chile (see table 12).

The rate of growth of manufacturing also declined in 1977. The main factor underlying this drop was the sharp fall in the rate of expansion of Brazilian industry which, after increasing by over 10°/o in 1976, rose by only just over 2°/o in 1977. In view of the size of this drop and Brazil's large share in the region's manufacturing product, its effects were not offset by the partial recovery of this sector's production in Argentina from its decline in the previous two years and the small increase of Mexico's manufacturing growth rate, which remained at a very low level.

In contrast with the weak expansion of industry in the three major countries of the region and the decline recorded in Peru, the manufacturing products rose rapidly in most of the Central American economies and in two out of the three oil-exporting countries. Thus, in Guatemala and Honduras growth rates of about 11°/o were recorded for the second consecutive year, and in Costa Rica a similar rate of expansion was recorded, following a 6°/o increase in 1976. There was even greater growth in Ecuador –which completed a period of five years in which the manufacturing product rose at an average annual rate of over 14°/o– and also a big increase in Venezuela, whose manufacturing product has grown by about 50°/o over the past four years.

The rate of growth of construction activity rose perceptibly in 1977. A determining factor in its expansion –which was faster than that of any other goods producing sector– was the recovery of this activity in Argentina, where it grew by over 13°/o in 1977 following a severe decline in the two preceding years. Other contributory factors were the rise in the construction product of Brazil –whose growth rate, though slightly less than in 1975 and 1976, was still very high– and the persistence of the exceptionally vigorous processes of expansion of this activity in Venezuela, Guatemala and Paraguay. In the first of these countries the construction product grew at a rate of about 17°/o for the third year running. In the second, it increased by 18°/o, after nearly doubling in 1976 as a result of the reconstruction programme initiated to repair the damage caused by the February 1976 earthquake, and in Paraguay the level of construction activity rose by about 32°/o with the impetus provided by the construction of the Itaipú dam. Thanks to this expansion and its marked growth in the previous two years, Paraguay's construction product in 1977 was almost twice that obtained only three years earlier.

Finally, in 1977 there was also an increase in the growth of basic services, which expanded at very high rates in the oil-exporting countries, most of the Central American economies and Paraguay, and fairly satisfactorily in the rest of the countries with the sole exceptions of Panama and Haiti (see table 12).

IV. THE EXTERNAL SECTOR

1. *External trade*

In 1977, Latin America's external trade continued the rapid increase recorded in 1976, when it partially recovered from the contraction experienced in 1975 as a result of the world economic recession. This, as already noted, interrupted the steady, vigorous growth registered in the region's trade since the middle of the previous decade.

Naturally, however, the 1977 expansion did not benefit all the countries of the region equally, nor did it manifest itself to the same degree in the various aspects of external trade. As will be seen, it was generally more marked in the non-oil-exporting countries than in the oil economies and was more evident in the evolution of exports than in the course followed by imports.

(a) *Exports of goods*

In 1977 the value of Latin America's exports of goods rose sharply (17.5%) for the second consecutive year, reaching the unprecedented total of some 51 billion dollars. As in the previous year, the growth of external sales was due mainly to the rise in their unit value and only to a considerably lesser degree to their expansion in volume (see table 13).

Table 13

LATIN AMERICA: VARIATIONS IN EXPORTS AND IMPORTS OF GOODS

(Growth rates)

Year	Exports			Imports			Purchasing power of exports
	Value	Volume	Unit value	Value	Volume	Unit value	
			Latin America				
1970	9.0	1.3	7.7	13.5	8.8	4.3	3.4
1971	2.9	0.7	2.2	10.9	5.6	5.0	−1.0
1972	16.3	6.8	8.9	14.3	8.1	5.7	10.0
1973	42.7	8.4	31.6	30.5	11.4	17.1	21.9
1974	60.3	−0.8	61.5	73.2	22.3	41.6	16.6
1975	− 7.6	−4.3	−3.4	5.7	−3.7	9.8	−15.4
1976	16.3	6.6	9.0	2.0	−3.1	5.2	8.4
1977 [a]	17.5	4.5	12.4	11.1	3.4	7.5	8.6
			Oil-exporting countries				
1970	5.2	2.4	2.7	6.5	0.6	4.6	−0.4
1971	14.1	−3.4	18.1	13.7	7.4	5.8	8.0
1972	5.8	2.0	3.7	14.0	7.3	6.2	1.2
1973	46.8	6.7	37.6	16.9	0.7	16.0	29.9
1974	140.2	−8.0	161.0	77.4	27.2	39.5	78.5
1975	−19.0	−21.1	2.6	19.0	7.4	10.8	−28.8
1976	11.9	5.4	6.2	19.2	9.7	8.8	2.1
1977 [a]	4.6	−5.7	10.8	24.1	15.3	7.7	−2.9
			Non-oil exporting countries				
1970	10.2	0.7	9.4	15.3	10.5	4.3	4.4
1971	− 0.6	2.0	−2.6	10.2	5.1	4.8	−3.4
1972	20.1	8.3	11.0	14.3	8.3	5.5	12.6
1973	41.3	8.9	29.8	33.7	13.9	17.4	19.7
1974	33.7	1.2	32.0	72.3	21.3	42.0	−1.3
1975	−0.7	–	−0.7	2.9	−6.1	9.6	−8.4
1976	18.4	6.9	10.8	−2.3	−6.2	4.1	11.0
1977 [a]	23.4	6.5	15.9	7.2	–	7.2	12.9

Source: CEPAL, on the basis of official data.

[a] Preliminary figures.

The evolution of exports was, however, very different in the oil-exporting economies and in the rest of the countries of the region. While in the former the value of external sales rose at a rate of less than 5%, or much lower than in the previous year, in the latter it expanded by over 23% thus easily exceeding the already high rate of over 18% recorded in 1976.

The moderate increase in the value of exports of the four oil countries was accompanied by a contraction in their volume, as occurred in 1975 (see table 14).

Table 14

LATIN AMERICA: VARIATIONS IN EXPORTS OF GOODS

(Growth rates)

	Value			*Volume*			*Unit value*			*Purchasing power*		
	1975	*1976*	*1977*	*1975*	*1976*	*1977*	*1975*	*1976*	*1977*	*1975*	*1976*	*1977*
Latin America	*-7.6*	*16.3*	*17.5*	*-4.3*	*6.6*	*4.5*	*-3.4*	*9.0*	*12.4*	*-15.4*	*8.4*	*8.6*
Oil-exporting countries	*-19.0*	*11.9*	*4.6*	*-21.1*	*5.4*	*-5.7*	*2.6*	*6.2*	*10.8*	*-28.8*	*2.1*	*-2.9*
Bolivia	-20.0	22.8	14.3	-13.4	14.7	-2.8	-7.7	7.1	17.6	-25.7	14.7	4.8
Ecuador	-17.3	27.9	6.9	-5.3	7.9	-4.8	-12.7	18.6	12.3	-25.6	18.5	-1.7
Trinidad and Tobago	-12.9	24.8	-1.4	-20.4	17.7	-7.0	9.5	6.0	6.0	-18.4	14.5	-6.2
Venezuela	-20.3	6.7	5.1	-25.4	0.6	-6.1	6.8	6.0	11.9	-30.8	-2.6	-3.0
Non-oil-exporting countries	*-0.7*	*18.4*	*23.4*	*--*	*6.9*	*6.5*	*-0.7*	*10.8*	*15.9*	*-8.4*	*11.0*	*12.9*
Argentina	-24.6	31.5	44.0	-19.8	39.8	51.3	-6.1	-5.9	-4.8	-31.8	24.7	20.1
Barbados	40.4	-21.3	0.8	1.0	31.2	1.0	39.0	-40.0	-0.1	4.3	-7.2	-0.7
Brazil	9.0	17.3	21.5	7.9	-0.4	-3.5	1.0	17.7	26.0	3.0	10.7	13.8
Colombia	16.8	36.9	17.0	24.0	-8.8	-26.2	-5.8	50.1	58.5	9.7	25.6	7.9
Costa Rica	12.0	19.4	39.8	-1.7	2.0	3.7	14.0	17.0	34.9	0.1	11.8	23.1
Chile	-30.0	32.3	5.0	-3.7	20.8	5.5	-27.3	9.5	-0.5	-32.6	28.2	0.1
El Salvador	14.7	40.9	30.0	11.6	2.4	-3.7	2.8	37.6	35.0	4.5	37.2	16.2
Guatemala	10.1	23.9	44.2	-0.9	6.8	6.8	11.1	16.0	34.9	- 0.7	11.9	29.3
Guyana	30.1	-22.5	-7.4	-7.1	-16.7	-14.6	40.0	-7.0	8.4	6.3	-19.8	-8.7
Haiti	14.0	39.3	28.4	-4.4	0.2	-21.9	19.1	38.9	64.1	1.1	23.4	16.3
Honduras	3.1	31.1	27.6	-3.9	11.9	2.1	7.2	17.1	25.0	-6.6	20.7	13.1
Jamaica	7.5	-18.4	21.0	-19.6	-9.2	14.1	33.7	-10.1	6.0	-4.3	-17.6	8.9
Mexico	0.6	14.9	20.2	-2.6	1.6	9.3	3.3	13.0	9.9	-8.1	6.4	8.4
Nicaragua	-1.2	44.5	21.0	6.3	6.1	-2.7	-7.1	36.3	24.3	-10.9	32.3	11.1
Panama	31.9	-19.2	1.3	20.2	-21.0	-1.6	9.8	2.4	3.0	-1.8	-10.1	3.1
Paraguay	2.0	2.8	53.9	1.8	3.1	14.3	0.2	-0.4	34.8	-9.2	1.8	39.2
Peru	-14.3	5.5	26.9	-9.8	7.2	16.4	-4.9	-1.6	9.0	-17.6	0.5	17.8
Dominican Republic	40.4	-19.8	8.9	-11.4	13.8	-1.1	58.5	-29.6	10.2	22.2	-21.5	2.6
Uruguay	0.9	46.8	7.4	16.8	45.0	-2.7	-13.6	1.2	10.4	-3.1	31.8	-1.1

Source: CEPAL, on the basis of official data.

In the group comprising the remaining 19 countries on the other hand, the export quantum rose by 6.5%o (slightly less thant in the previous year (7%o)) whereas the unit value of exports rose by 16%o, thus considerably surpassing the 1976 rate of 11%o (see table 13).

Furthermore, the increase in external sales of the non-oil-exporting countries was more generalized in 1977 than in the preceding year. In 1977 the value of exports dropped in only one country (Guyana) and increased moderately in only two (Barbados and Panama), whereas it rose by 40%o or more in Argentina, Costa Rica, Guatemala and Paraguay, and by amounts varying between 17%o and 30%o in Brazil, Colombia, El Salvador, Haiti, Honduras, Jamaica, Mexico, Nicaragua and Peru. In Chile, Uruguay and the Dominican Republic the increase in the value of exports was a good deal smaller, between 5 and 9%o, but in the first two countries it followed the vigorous increases of the preceding year (see table 14).

(b) *Imports of goods*

Contrary to developments in 1976, when the value of imports rose only slightly and their volume declined, in 1977 their volume rose by 11%o. However, since at the same time the declining trend

shown by the growth rate of the unit value of imports since 1975 was reversed, the increase in the import quantum in 1977 was only a little over 3°/o and failed to offset the decline in the previous two years. Consequently, the volume of imports of goods for the region as a whole remained for the third consecutive year below the exceptionally high level attained in 1974 (see table 13).

The drop in the quantum of imports compared with that year was exclusively concentrated in the group of non-oil-exporting countries, whose real imports of goods, after declining by 6°/o in both 1975 and 1976, remained completely stagnant in 1977.

In the oil countries, however, the volume of imports rose by over 15°/o in 1977, thus continuing the rapid expansion of the three previous years, as a result of which real imports in 1977 exceeded their 1973 level by over 70°/o. The volume of imports continued to expand with particular intensity in Venezuela, while it declined in absolute terms in Trinidad and Tobago, increased moderately in Bolivia for the second year running, and rose again in Ecuador following the stagnation of previous two years (see table 15).

In the non-oil-exporting countries, the stagnation of the total quantum of imports in 1977 was the result of the divergent evolution of the quantum in most of the medium and small economies of the region on the one hand and in Brazil, Mexico, Guayana, Jamaica, Panama and Peru on the other. These six were the only countries in which real imports declined in 1977, but because of the significant influence of the economies of Brazil and Mexico in the region as a whole and the severe drops they experienced in the volume of their imports, their reduction completely cancelled out the increase in volume of the remaining 13 countries, where real imports rose between 20 and 40°/o in Argentina, Chile, Haiti, Nicaragua and Paraguay, and between 10 and 15°/o in Barbados, Colombia, Costa Rica, El Salvador, Guatemala, Honduras and Uruguay (see table 15).

(c) *The purchasing power of exports and the terms of trade*

Following its severe contraction in 1975, the purchasing power of exports of goods in Latin America increased by around 8.5°/o for the second year in succession. Factors contributing equally to this increase were the expansion of the quantum of exports and the improvement in the terms of trade (see tables 13 and 16).

As in 1976, the evolution of the purchasing power of exports was very different in the oil countries and in the group comprising the other economies of the region. While in the former it fell 3°/o after its somewhat weak recovery the previous year, in the latter it increased 13°/o following its 11°/o growth in 1976.

This uneven course was influenced both by the unequal performance of the volume of exports –which declined nearly 6°/o in the oil countries while increasing 6.5°/o in the rest of the economies of the region– and by the more favourable evolution of the terms of trade in the latter countries in 1977.

The improvement in the terms of trade of this group of countries was 8°/o, due mainly to the exceptionally high prices of coffee, cocoa and soya in 1977, and this brought the index for these countries in 1977 to a level above that of the beginning of the decade and close to that recorded in 1973 before the full entry into force of the much higher price of oil decided on by OPEC.

In contrast, the terms of trade of the oil countries rose by barely 3°/o in 1977, after two years in which they had fallen by about 10°/o. Because of its exceptional increase in 1974, however, the terms of trade index of these countries was still more than double its 1970 level (see table 16).

2. *The blance of payments*

(a) *The trade and current account balances*

The much faster growth of the value of exports than that of imports in 1977 improved Latin America's trade balance in goods for the second consecutive year. After showing a deficit of over 5 billion dollars in 1975 and generating a small surplus of about 200 million dollars the following year, in 1977 it produced a surplus of nearly 2,950 million dollars (see table 17).

As in 1976, this favourable evolution was exclusively due to the trends of exports and imports of goods by the non-oil-exporting countries, which, after reducing their huge 1975 deficit of 8,850

Table 15

LATIN AMERICA: VARIATION IN IMPORTS OF GOODS

(Growth rates)

	Value			*Volume*			*Unit value*		
	1975	*1976*	*1977*	*1975*	*1976*	*1977*	*1975*	*1976*	*1977*
Latin America	*5.7*	*2.0*	*11.1*	*-3.7*	*-3.1*	*3.4*	*9.8*	*5.2*	*7.5*
Oil-exporting countries	*19.0*	*19.2*	*24.1*	*7.4*	*9.7*	*15.3*	*10.8*	*8.8*	*7.7*
Bolivia	41.4	9.2	14.5	25.1	4.9	3.2	13.0	4.1	11.0
Ecuador	15.0	5.4	23.1	0.1	-0.6	11.9	14.9	6.0	10.0
Trinidad and Tobago	-17.7	30.5	-8.7	-26.1	24.3	-14.7	11.3	5.0	6.9
Venezuela	33.2	19.8	34.3	14.8	9.9	21.9	16.1	9.0	10.2
Non-oil-exporting countries	*2.9*	*-2.3*	*7.2*	*-6.1*	*-6.2*	*-*	*9.6*	*4.1*	*7.2*
Argentina	9.2	-20.7	34.4	-4.3	-23.1	20.0	14.1	3.1	12.0
Barbados	6.3	-1.0	17.8	-5.0	-3.9	10.1	11.9	3.0	7.0
Brazil	-4.0	1.9	-2.3	-12.0	-2.0	-8.7	9.0	4.0	7.0
Colombia	-5.7	17.7	22.1	-9.4	12.2	11.0	4.1	4.9	10.1
Costa Rica	-3.3	11.0	29.3	-14.7	4.7	15.3	13.3	6.0	12.1
Chile	-13.4	-10.5	43.8	-20.5	-12.3	30.6	8.9	2.0	10.1
El Salvador	5.4	17.4	28.4	-4.6	16.9	14.7	10.5	0.5	12.0
Guatemala	6.5	34.5	26.1	-5.7	25.3	15.4	12.9	7.3	9.3
Guyana	32.8	8.0	-14.3	9.3	5.9	-19.2	21.5	2.0	6.0
Haiti	25.9	30.6	50.2	12.5	22.0	39.2	12.0	7.0	8.0
Honduras	-2.6	13.1	27.6	-13.9	4.6	15.1	13.0	8.1	10.9
Jamaica	19.5	-18.4	-7.8	5.8	-20.7	-13.0	13.0	2.9	6.0
Mexico	8.7	-6.9	-9.1	-0.4	-10.4	-11.8	9.0	4.0	3.0
Nicaragua	-10.8	3.2	31.5	-22.4	-0.2	23.7	15.0	3.4	6.3
Panama	8.2	-4.7	-3.1	-5.9	-10.2	-7.7	15.0	6.1	5.0
Paraguay	14.6	1.2	51.3	1.8	5.8	41.6	12.5	-4.4	6.9
Peru	25.2	-12.1	3.0	11.8	-13.8	-3.3	12.0	2.0	6.5
Dominican Republic	14.8	-1.2	11.0	1.6	-5.9	4.7	13.0	5.0	6.0
Uruguay	13.5	8.2	21.1	5.6	2.1	10.1	7.5	6.0	10.0

Source: CEPAL, on the basis of official data.

Table 16

LATIN AMERICA: TERMS OF TRADE

(1970 = 100)

Year	*Latin America*		*Oil-exporting countries*		*Non-oil-exporting countries*	
	Index	*Variation*	*Index*	*Variation*	*Index*	*Variation*
1970	100.0	3.3	100.0	-1.7	100.0	4.9
1971	97.3	-2.7	111.6	11.6	93.0	-7.0
1972	100.3	3.0	108.9	-2.4	97.7	5.1
1973	112.7	12.4	129.1	18.6	108.0	10.6
1974	128.5	14.0	241.6	87.1	100.4	-7.1
1975	113.0	-12.1	223.8	-7.4	91.0	-9.4
1976	117.2	3.7	218.5	-2.4	96.8	6.4
1977 [a]	122.5	4.5	224.9	3.0	104.6	8.0

Source CEPAL, on the basis of official data.

[a] Preliminary figures.

Table 17

LATIN AMERICA: TRADE BALANCE

(Millions of dollars)

	Exports of goods FOB			*Imports of goods FOB*			*Merchandise trade balance*			*Net non-factor services*			*Trade balance*		
	1975	*1976*	*1977 [a]*	*1975*	*1976*	*1977 [a]*	*1975*	*1976*	*1977 [a]*	*1975*	*1976*	*1977 [a]*	*1975*	*1976*	*1977 [a]*
Latin America	*37 220*	*43 267*	*50 824*	*42 261*	*43 082*	*47 883*	*–5 041*	*185*	*2 941*	*–3 394*	*–3 634*	*–3 743*	*–8 435*	*–3 449*	*–802*
Oil-exporting countries	*12 206*	*13 653*	*14 273*	*8 395*	*10 009*	*12 419*	*3 811*	*3 644*	*1 854*	*–1 180*	*–1 565*	*–1 945*	*2 631*	*2 079*	*–91*
Bolivia	462	568	649	515	562	644	– 53	6	5	–87	–87	–111	–140	–81	–106
Ecuador	1 013	1 296	1 385	1 006	1 060	1 305	7	236	80	–192	–182	–267	–185	54	–187
Trinidad and Tobago	1 899	2 370	2 337	1 413	1 843	1 683	486	527	654	64	–27	–8	550	500	646
Venezuela	8 832	9 419	9 902	5 461	6 544	8 787	3 371	2 875	1 115	–965	–1 269	–1 559	2 406	1 606	–444
Non-oil-exporting countries	*25 014*	*29 614*	*36 551*	*33 866*	*33 073*	*35 464*	*–8 852*	*–3 459*	*1 087*	*–2 214*	*–2 069*	*–1 798*	*–11 066*	*–5 528*	*–711*
Argentina	2 961	3 895	5 610	3 510	2 783	3 741	–549	1 112	1 869	–310	–69	–76	–859	1 043	1 793
Barbados	94	74	75	197	195	230	–103	–121	–155	64	55	58	–39	–66	–97
Brazil	8 512	9 988	12 139	12 052	12 282	11 999	–3 540	–2 294	140	–1 514	–1 780	–1 725	–5 054	–4 074	–1 585
Colombia	1 746	2 390	2 796	1 424	1 676	2 047	322	714	749	–183	–140	–70	139	574	679
Costa Rica	493	589	823	627	696	900	–134	–107	–77	–32	–34	–52	–166	–141	–129
Chile	1 570	2 077	2 180	1 577	1 412	2 030	–7	665	150	–288	–278	–300	–295	387	–150
El Salvador	533	751	976	550	646	830	–17	105	146	–74	–72	–147	–91	33	–1
Guatemala	641	794	1 145	672	905	1 141	–31	–111	4	–46	–35	–87	–77	–146	–83
Guyana	351	272	252	306	330	283	45	–58	–31	–44	–56	–53	1	–114	–84
Haiti	80	111	143	121	158	238	–41	–47	–95	–15	–25	–33	–56	–72	–128
Honduras	308	403	515	378	427	545	–70	–24	–30	–39	–42	–54	–109	–66	–84
Jamaica	809	660	798	970	791	730	–161	–131	68	–47	–61	–67	–208	–192	1
Mexico	3 464	3 978	4 781	6 292	5 859	5 326	–2 828	–1 881	–545	451	494	795	–2 377	–1 387	250
Nicaragua	375	542	655	482	498	654	–107	44	1	–40	–47	–68	–147	–3	–67
Panama	331	267	271	823	784	760	–492	–517	–489	351	359	402	–141	–158	–87
Paraguay	176	181	279	227	230	348	–51	–49	–69	–39	–38	–58	–90	–87	–127
Peru	1 291	1 361	1 726	2 389	2 100	2 164	–1 098	–739	–438	–250	–142	–119	–1 348	–881	–557
Dominican Republic	894	716	780	773	764	848	121	–48	–68	–125	–121	–134	–4	–169	–202
Uruguay	385	565	607	496	537	650	–111	28	–43	–34	–37	–10	–145	–9	–53

Source: CEPAL, on the basis of official data.

[a] Preliminary figures.

million dollars to less than half in 1976, achieved a surplus of approximately 1,100 million dollars in 1977.

This radical swing was decisively influenced by the changes which took place in the foreign trade of Argentina, Brazil and Mexico during the year. The first of these countries increased its previous year's surplus by nearly 70°/o to the favourable level of some 1,900 million dollars, while Brazil, which in the previous two years had systematically reduced its huge 1974 deficit of 4,750 million dollars, achieved a small surplus in its foreign trade in goods in 1977. Lastly, Mexico managed to reduce its deficit considerably for the second consecutive year, so that in 1977 it was equal to less than one-fifth of the negative balance recorded in 1975 (see table 17).

In addition to the favourable developments in the three biggest economies of the region, there was also an improvement during 1977 in the foreign trade position of Colombia, Costa Rica, El Salvador and Guatemala (which benefited from the exceptional rise in the world price of coffee), Guyana, Jamaica and Peru (which adopted policies aimed at reducing the high balance-of-payments current account deficits recorded in earlier years), and Panama.

In contrast, the surplus on the merchandise account of the oil-exporting countries declined in 1977 for the third year in succession. This account, which as a result of the rise in the price of fuels produced a surplus of over 8 billion dollars in 1974, gave a positive balance in 1977 of around 1,850 billion dollars, or only a little over half that recorded in 1976.

The favourable evolution of the merchandise balance for the region as a whole and the slight increase (3°/o) in net non-factor service payments in 1977 helped to bring about another sharp drop in Latin America's trade deficit. This had already fallen by 5 billion dollars in 1976 and was reduced by a further 2.4 billion in 1977, thus bringing its total that year to less than 10°/o of the peak level attained in 1975.

This evolution of the trade balance for the region as a whole was the net result of the divergent trends shown during those years by the oil-exporting countries and the rest of the countries of the region. While in the latter the sharply declining trend of the trade deficit coincided with that observed at the regional level, in the former the traditional surplus was converted in 1977 into a small deficit of about 100 million dollars. This turn-around was decisively influenced by the net variation of over 2 billion dollars in Venezuela's trade balance, which for the first time showed a deficit.

In 1977, Latin America's net payments of profits and interest rose by 12°/o. This increase, although a good deal less than that recorded in the previous year (19°/o), meant that in 1977 there was a net outflow of nearly 7.8 billion dollars under this head, and this, added to the lower trade deficit and taking into account a net inflow of private transfer payments of about 350 million dollars, meant that Latin America's deficit on current account amounted to 8.3 billion dollars in 1977. The current account deficit was thus nearly 20°/o lower than in 1976 and 40°/o lower than in 1975, when the unprecedented figure of a little over 14 billion dollars was recorded (see table 18).

The declining trend for the region as a whole once again hid the very different evolution of the oil countries and the rest of the Latin American economies. Thus, while the former's current account showed a deficit for the first time since 1972, the deficit on the non-oil-exporting countries dropped by over 4 billion dollars, just as it did in 1976. This drop was mainly due to the much smaller balance-of-payments current account deficits of Brazil and Mexico in 1977 and, to a lesser extent, to the higher surpluses achieved that year by Argentina and Colombia. These countries were, moreover, the only two among the non-oil-exporting countries to show a current account surplus in 1977.

(b) *The capital account*

In 1977 the net flow of non-compensatory capital into the region amounted to 13.3 billion dollars. This was slightly higher than the 1976 total, and much more than the deficit on current account. Thus in 1977 there was a total balance-of-payments surplus of a little over 5 billion dollars: nearly 90°/o higher than the 1976 surplus and more than five times the surplus obtained in 1975 (see table 18).

The inflow of capital was, however, distributed very differently in 1977 compared with the previous year. While in 1976 the oil-exporting countries showed a net outflow of capital in the form of compensation paid by Venezuela to foreign companies when it nationalized its oil industry and external loans granted by the Venezuelan Investment Fund, in 1977 these countries received a net amount totalling nearly 1,400 million dollars.

Table 18

LATIN AMERICA: BALANCE OF PAYMENTS

(Millions of dollars)

	Trade balance			*Net payments of profits and interest*			*Balance on current account* [a]			*Movement of capital*			*Balance-of-payments position before compensation*		
	1975	*1976*	*1977* [b]	*1975*	*1976*	*1977* [b]	*1975*	*1976*	*1977* [b]	*1975*	*1976*	*1977* [b]	*1975*	*1976*	*1977* [b]
Latin America	*−8 435*	*−3 449*	*−802*	*−5 846*	*−6 965*	*−7 780*	*−14 046*	*−10 057*	*−8 297*	*15 011*	*12 719*	*13 319*	*965*	*2 662*	*5 022*
Oil-exporting countries	*2 631*	*2 079*	*−91*	*−442*	*−411*	*−511*	*2 047*	*1 480*	*−815*	*1 041*	*−908*	*1 393*	*3 088*	*572*	*578*
Bolivia	−140	−81	−106	−31	−50	−80	−167	−129	−183	128	185	215	−39	56	32
Ecuador	−185	54	−187	−161	−200	−231	−334	−133	−408	241	319	564	−93	186	156
Trinidad and Tobago	550	500	646	−227	−266	−265	312	223	370	197	38	99	509	261	469
Venezuela	2 406	1 606	−444	−23	105	65	2 236	1 519	−594	475	−1 450	515	2 711	69	−79
Non-oil-exporting countries	*−11 066*	*−5 528*	*−711*	*−5 404*	*−6 554*	*−7 269*	*−16 093*	*−11 537*	*−7 482*	*13 970*	*13 627*	*11 926*	*−2 123*	*2 090*	*4 444*
Argentina	−859	1 043	1 793	−428	−450	−508	−1 281	616	1 317	602	−495	1 162	−679	121	2 479
Barbados	−39	−66	−97	−10	−4	−6	−40	−58	−90	58	40	99	18	−18	9
Brazil	−5 054	−4 074	−1 585	−1 794	−2 248	−2 700	−6 838	−6 317	−4 285	5 874	8 629	4 745	−964	2 312	460
Colombia	139	574	679	−262	−293	−299	−97	331	420	210	278	243	113	609	663
Costa Rica	−166	−141	−129	−61	−76	−87	−218	−206	−205	218	242	301	–	36	96
Chile	−295	387	−150	−284	−357	−359	−578	24	−493	150	156	511	−428	180	18
El Salvador	−91	33	−1	−29	−41	−50	−95	19	−21	109	62	48	14	81	27
Guatemala	−77	−146	−83	−66	−66	−81	−65	−5	−67	171	216	272	106	211	205
Guyana	1	−114	−84	−19	−20	−20	−21	−136	−106	71	33	102	50	−103	−4
Haiti	−56	−72	−128	−7	−7	− 9	−43	−48	−96	30	60	104	−13	12	8
Honduras	−109	−66	−84	−28	−56	−59	−132	−118	−138	186	157	170	54	39	32
Jamaica	−208	−192	1	−103	−115	−139	−288	−307	−128	214	47	144	−74	−260	16
Mexico	−2 377	−1 387	250	−1 817	−2 173	−2 186	−4 080	−3 423	−1 786	4 257	2 437	2 256	177	−986	470
Nicaragua	−147	−3	−67	−54	−73	−95	−195	−72	−154	233	95	128	38	23	−26
Panama	−141	−158	−87	−23	−33	−39	−175	−203	−141	152	220	141	−23	17	–
Paraguay	−90	−87	−127	−13	−12	−16	−94	−98	−141	123	138	251	29	40	110
Peru	−1 348	−881	−557	−242	−371	−426	−1 573	−1 233	−964	1 076	912	668	−497	−321	−296
Dominican Republic	−4	−169	−202	−93	−87	−123	−63	−221	−283	91	210	340	28	−11	57
Uruguay	−145	−9	−53	−71	−72	−67	−217	−82	−121	145	190	241	−72	108	120

Source: CEPAL, on the basis of official data.

[a] Including net private transfer payments.
[b] Preliminary figures.

In contrast, the capital flows to the non-oil-exporting countries diminished, as has already occurred in 1976. Because of the much more pronounced reduction in their current account deficit, however, the non-oil countries as a whole showed a balance-of-payments surplus of over 4.4 billion dollars in spite of this decline thus doubling the positive balance achieved the previous year.

The decline in the amount of net non-compensatory capital received by the non-oil-exporting countries was mainly due to a fall of nearly 4 billion dollars in the amount of capital entering Brazil and the drops of around 250 and 200 million dollars in the capital flows into Peru and Mexico respectively.

In the rest of the non-oil-exporting countries, except Colombia, El Salvador and Panama, the net inflow of capital was higher in 1977 than in the preceding year. Moreover, in all of them except Barbados, Nicaragua and Peru it also exceeded the current account deficit. Therefore, in all the non-oil-exporting countries except those three the balance of payments showed a surplus in 1977.

In line with the variations analysed above, Latin America's gross international reserves increased by nearly 20% in 1977, reaching the unprecedented figure of 28 billion dollars by the end of the year (see table 19).

Table 19

LATIN AMERICA: EVOLUTION OF GROSS INTERNATIONAL RESERVES

(Millions of dollars)

	1974	*1975*	*1976*	*1977*	*Growth rates*			
					1974	*1975*	*1976*	*1977*
Latin America	*18 203*	*18 599*	*23 432*	*28 030*	*27.8*	*2.8*	*26.0*	*19.6*
Oil-exporting countries	*7 447*	*10 054*	*10 275*	*10 605*	*168.6*	*35.0*	*2.2*	*3.2*
Bolivia	194	156	168	237	168.3	-19.4	7.7	41.1
Ecuador	350	286	515	671	45.1	-18.4	80.1	30.3
Trinidad and Tobago	390	751	1 014	1 483	730.4	92.4	35.1	46.3
Venezuela	6 513	8 861	8 578	8 214	170.0	36.1	-3.2	-4.2
Non-oil exporting countries	*10 756*	*8 545*	*13 157*	*17 425*	*-6.2*	*-20.6*	*54.0*	*32.4*
Argentina	1 315	452	1 608	3 331	- 0.2	-65.6	255.8	107.2
Barbados	39	40	28	37	21.9	2.6	-30.0	32.1
Brazil	5 272	4 034	6 541	7 256	-17.8	-23.5	62.1	10.9
Colombia	449	521	1 158	1 821	-15.9	16.0	122.2	57.3
Costa Rica	45	51	98	193	-12.4	14.8	92.2	96.9
Chile	102	109	460	484	-43.3	7.1	322.0	5.2
El Salvador	98	127	205	233	59.2	29.0	61.4	13.7
Guatemala	202	304	511	690	-4.5	50.4	68.1	35.0
Guyana	63	100	27	23	350.0	58.7	-73.0	-14.8
Haiti	20	13	28	34	15.8	-35.0	115.4	21.4
Honduras	44	97	131	180	6.3	118.5	35.1	37.4
Jamaica	190	126	32	48	49.5	-34.0	-74.6	50.0
Mexico	1 395	1 533	1 253	1 723	3.0	9.9	-18.3	37.5
Nicaragua	105	122	147	149	-9.9	16.2	20.5	1.4
Panama	39	...	...	...	-7.7	...	...	...
Paraguay	87	115	158	268	52.7	31.9	37.4	69.6
Peru	968	467	330	311 [a]	70.3	-51.8	-29.3	-5.8
Dominican Republic	91	116	127	185	3.3	27.9	9.5	45.7
Uruguay	232	218	315	459	-3.3	-6.0	44.5	45.7

Source: International Monetary Fund, *International Financial Statistics*, May 1978.

[a] November.

Since the rate of growth was much lower in the oil-exporting countries than in the non-oil countries, the former's share in the region's total reserves declined from 44% in 1976 to 38% in 1977.

Among the non-oil-exporting countries the growth rate of reserves in 1977 was particulary high in Argentina, Costa Rica, Paraguay, Colombia, Uruguay, Honduras and Guatemala. As a result of this and of the marked expansion in those countries' reserves during the previous year also, the gross international reserves of Argentina were 6.4 times higher in 1977 than in 1975, those of Costa Rica and Colombia increased 3.8 and 3.5 times, respectively, and those of Guatemala, Paraguay, and Uruguay more than doubled.

V. INFLATION

1. *Price trends*

Latin America as a whole experienced a marked slowing-down of the inflationary process in 1977, as indicated by the average rise of about 42% in prices during that year compared with 60% in 1975 and 64% in 1976 (see table 20).

Table 20

LATIN AMERICA: VARIATIONS IN CONSUMER PRICES

(December-December)

	1970	*1971*	*1972*	*1973*	*1974*	*1975*	*1976*	*1977*
Countries with high inflation	*24.9*	*34.4*	*92.5*	*167.2*	*132.7*	*314.4*	*277.1*	*126.5*
Argentina	21.6	39.1	64.2	43.9	39.9	334.8	347.1	159.9
Chile	34.9	22.1	163.4	508.1	375.9	340.7	174.3	63.5
Uruguay	19.3	35.6	94.7	77.5	107.2	66.8	40.0	57.3
Countries with intermediate inflation	*12.3*	*11.6*	*10.9*	*17.2*	*28.2*	*23.5*	*37.6*	*34.4*
Brazil	17.7	18.1	14.0	13.7	33.8	31.2	44.8	43.1
Colombia	3.5	14.1	14.0	25.0	26.9	17.9	25.9	29.3
Mexico	7.8	−0.8	5.6	21.3	20.6	11.3	27.2	20.7
Peru	5.7	7.7	4.3	13.8	19.2	24.0	44.7	32.4
Countries with moderate inflation	*2.8*	*4.8*	*7.4*	*15.4*	*20.1*	*10.7*	*7.6*	*8.3*
Barbados	9.2	10.1	10.4	26.0	36.6	12.5	4.0	9.9
Bolivia	3.8	3.3	23.6	34.8	39.0	6.0	5.5	10.5
Costa Rica	4.3	1.9	6.9	15.9	30.6	20.5	4.4	5.2
Ecuador	8.0	6.8	6.9	20.6	21.2	13.2	13.1	9.7
El Salvador	1.0	−0.6	5.2	7.9	21.0	15.0	5.3	14.9
Guatemala	1.0	0.3	1.1	17.5	27.4	0.8	17.4	7.4
Guyana	2.4	1.4	7.1	15.2	11.6	5.5	9.2	9.0
Haiti	−0.7	13.3	7.3	20.8	19.5	19.9	−0.1	−1.4
Honduras	1.4	1.5	6.8	5.1	13.0	7.8	5.6	7.7
Jamaica	7.5	5.2	9.3	9.6	20.6	15.7	8.1	14.1
Panama	2.5	1.0	6.7	9.7	16.6	1.8	3.3	9.2
Paraguay	2.3	6.3	9.5	14.1	22.0	8.7	3.4	9.4
Dominican Republic	−1.3	10.6	8.0	17.2	10.5	16.5	7.0	8.5
Trinidad and Tobago	3.3	5.0	8.0	24.4	18.6	13.4	12.0	11.4
Venezuela	3.4	3.0	3.5	5.1	11.6	8.0	6.9	8.1
Latin America	*12.2*	*13.3*	*21.2*	*37.0*	*40.7*	*60.1*	*64.0*	*41.8*
Latin America (excluding Argentina and Chile)	*10.3*	*10.4*	*11.2*	*17.6*	*27.4*	*21.2*	*31.1*	*29.0*

Source: IMF, *International Financial Statistcs,* December 1977; and official data provided by the countries.

Nevertheless, the drop in the global indicator conceals a variety of situations. Of course, if Argentina and Chile are excluded, the index of inflation in 1977 is similar to that of the preceding year and much higher than in any other year of the present decade.

The countries of the region may be divided into three categories typifying clearly distinguishable processes and levels of inflation.

The first category comprises the three countries of the so-called Southern Cone. Although in this group there was an evident slowing down of inflation –the average rise in prices in 1977 dropped to less than half of the previous year's increase– their rates of inflation were still the highest in the region. Even so, the three countries did not follow the same pattern: while Argentina and Chile made some progress in curbing inflation, there was a considerable resurgence of the process in Uruguay.

In the second group comprising Brazil, Colombia, Mexico and Peru the rate of inflation in 1977 was generally slightly lower than in 1976. Colombia was the only country of this group in which the rate of price increases accelerated. In Peru, in contrast, inflation diminished considerably, while in Brazil and Mexico it slowed down somewhat. All the same, the level of price increases in this group of countries ranged from 20% to 43%, which gives an idea of the intensity of their inflationary processes.

Lastly, in the group comprising the rest of the countries a slight increase was observed in the growth rate of prices, resulting from uneven movements of the indexes in the component countries. In 11 out of the 15 countries in this category, prices rose more in 1977 than in 1976, and in seven of them the increases were double and in some cases three times those of the previous year. Be that as it may, however, in none of the countries of this group was the rise in the level of prices more than 15% (see table 20).

The evolution of price increases in Latin America during 1977 confirms that throughout the decade inflation has been very unevenly distributed geographically. In the three countries of the Southern Cone the rates of inflation were systematically higher than in the rest of the countries in the region, with the single exception of Uruguay in 1976. In these countries the situation took on alarming proportions, especially from 1973 onwards, and quite apart from the ups-and-downs of inflation, the annual index often reached three figures.

In the countries with an intermediate level of inflation, there were outbreaks of virulent inflation but these did not lend to uncontrollable price rises. Throughout the decade, the main feature of this group was two-figure inflation.

The rest of the countries, in general, experienced what might be called moderate inflation. Annual price increases were seldom over 20%, and when there was inflation of that order they usually soon returned to lower rates. Notwithstanding the relatively large number of countries included in this category, their population is not more than 20% of the region's total population: it may therefore be concluded that in this decade only this proportion of the population was unaffected by acute and persistent inflation.

The inflationary situation described above and the different levels of inflation of the last two groups of countries suggest a certain association between the indexes of inflation and the stages of industrialization and integration of economic activities. On the whole, inflation was most pronounced in the more industrialized countries which have large domestic markets and are at relatively advanced stages of inter-sectoral integration. In contrast, inflationary pressures either did not get worse, or were controlled in time, in those countries with small economies and markets, industrialization at an incipient stage or in the process of being consolidated, and generally little integration of sectoral activities.

Furthermore, the emergence of latent inflationary pressures, their reproduction, and multiple price increases would seem to be related to the degree and form of the productive and social structure –for example, through the capacity for resistance and pressure of enterprises and groups in the modern sector. Hence, the policies designed to bring the situation under control seem less complex and therefore easier to implement in economies where the "primitive" or unintegrated strata predominate.

Of course, on top of the features indicated in relation to the greater or lesser proclivity to chain-type inflation are other factors which complement and, on occasion, support an interpretative view of the situation. The disparities in the endowment of resources and wealth, the secular or conjunctural character of price increases, the behaviour of the agents of the socio-economic system,

the cohesion and strength of trade union power, the diversification of exports, the dependence on basic supplies, and the organization and functioning of the political system are some of the other factors which it would no doubt be relevant to examine in a country-by-country study of inflation.

2. *Factors of inflation*

Underlying the Latin American inflationary processes are different types of structural disequilibria. These are ultimately due to certain characteristics of underdevelopment and generate constant pressures on the price systems and levels in the course of the processes of changing that situation.

Although recent Latin American inflation, i.e., that which emerged from 1973 onwards, has its distant roots in those disequilibria, the situation was clearly affected by other decisive ingredients, such as world inflation.[7]

The 1977 changes in price levels reproduce, on a smaller scale of course, the salient features of the inflationary experience described above: different combinations of external and internal conjunctural factors acting in a context characterized by the existence of problems of a structural nature.

However, in view of the conjunctural character of this study of the inflationary situation in the region, attention will be paid to the factors determining the acceleration, slowing down and halting of the rate of price increases, rather than to causes of a structural kind.

(a) *External inflation*

If the countries in the Southern Cone whose inflationary processes have predominantly internal roots are excluded, the rest of the Latin American countries have, in differing degrees, suffered from external pressures that have affected their economies. The increases in import and export prices in 1977 account for much of the tendency to rising prices in those countries. In fact, 1977 was marked by a significant resurgence of external inflation. Imports went up by about 8%, compared with a little over 5% in the preceding year, and export prices rose more than 12% in 1977 compared with only 9% in 1976. Consequently, the rate of increase in the price levels of the region's external trade[8] rose from 7% in 1976 to 10% in 1977 (see table 21).

In the countries with "intermediate" inflation, the increases in external market prices helped to keep inflation at fairly high levels. It should be noted that external inflation was "internalized" in these countries more through export prices than through import prices. For the group as a whole, import prices rose by about 6% in 1977, while export prices increased by nearly 24%. Thus, the rate of increase in external trade prices accelerated from approximately 11% in 1976 to about 15% in 1977. The fact that in these countries inflation did not gain even greater momentum in line with the resurgence of external inflation is related to the mixed nature of this process in the countries concerned and it may be assumed that the confrontation with internal factors succeeded in mitigating the pressures on prices.

The third group of countries, characterized on the whole by moderate inflation, showed a closer association with external inflation. Those in which price increases regained most impetus also registered the biggest rises in their foreign trade prices. Table 21 shows that in this group import prices rose by nearly 9% in 1977 and export prices by a little over 15%. Thus, between 1976 and 1977 the growth rate of these countries' foreign trade prices nearly doubled. Among the reasons why these increases did not cause bigger rises in domestic prices is the fact that the rates of exchange were maintained unchanged, thus creating to some extent a climate of stability in these countries.

(b) *Internal conjunctural factors*

In order to examine this category of factors, a group of variables has been selected which are intended, on the one hand, to reflect the variations in the supply of products included in the consumer price indexes and, on the other hand, to reflect to some extent the factors determining the

[7] See CEPAL, *Economic Survey of Latin America, 1974,* chapter II, and "La inflación reciente en América Latina", in the Series *Cuadernos de la CEPAL,* N° 9.

[8] The level of external trade prices was obtained by averaging the changes in the indexes of the unit value of imports and exports.

Table 21

LATIN AMERICA: PRICES OF IMPORTS AND EXPORTS OF GOODS

(Growth rates)

	Imports					*Exports*				
	1973	*1974*	*1975*	*1976*	*1977*	*1973*	*1974*	*1975*	*1976*	*1977*
Countries with high inflation	*19.4*	*45.2*	*11.8*	*3.0*	*11.5*	*41.8*	*30.1*	*−14.4*	*0.2*	*−2.2*
Argentina	19.2	46.9	14.1	3.1	12.0	41.9	27.8	−6.1	−5.9	−4.8
Chile	22.6	32.5	8.9	2.0	11.0	41.8	40.1	−27.4	9.5	−0.5
Uruguay	7.2	85.3	7.5	5.9	10.0	40.9	−2.2	−13.6	1.2	10.4
Countries with intermediate inflation	*16.6*	*38.9*	*8.7*	*3.9*	*5.9*	*29.4*	*34.5*	*−0.4*	*17.6*	*23.5*
Brazil	18.3	52.9	9.0	4.0	7.0	29.4	30.0	1.0	17.8	26.0
Colombia	12.2	32.6	4.1	4.9	10.0	28.0	19.9	−5.8	50.1	58.5
Mexico	16.8	30.1	9.1	4.0	3.0	20.4	42.3	3.3	13.0	10.0
Peru	14.5	24.1	12.0	2.0	6.5	43.1	46.6	−4.9	−1.6	9.0
Countries with moderate inflation		*40.6*	*14.2*	*6.1*	*8.8*	*30.0*	*119.9*	*10.1*	*7.3*	*15.3*
Barbados	13.7	32.7	11.9	3.0	7.0	14.3	77.1	39.0	−40.0	−0.1
Bolivia	15.8	24.3	13.0	4.1	11.0	26.9	98.4	−10.2	7.1	17.6
Costa Rica	16.4	35.9	13.2	6.0	12.1	20.2	15.0	14.0	17.0	34.9
Ecuador	11.6	29.7	15.0	5.9	15.0	25.8	128.3	−12.7	18.6	12.3
El Salvador	16.4	42.2	10.4	0.5	12.0	22.9	24.2	2.8	37.6	35.0
Guatemala	21.2	42.7	13.0	7.3	9.3	19.6	20.7	11.1	16.0	34.9
Guyana	13.3	40.0	21.5	2.0	6.0	1.6	66.7	40.0	−7.0	8.4
Haiti	17.1	30.0	12.0	7.0	8.0	14.2	35.8	19.1	39.0	64.0
Honduras	15.5	28.1	13.0	8.1	10.9	15.8	31.1	7.2	17.1	25.0
Jamaica	8.4	39.2	13.0	2.9	6.0	−2.8	80.5	33.7	−10.1	6.0
Nicaragua	18.5	31.7	15.0	3.4	6.3	13.0	26.1	−7.0	36.2	24.4
Panama	14.8	52.8	15.0	6.1	5.0	9.9	40.3	9.8	2.4	3.0
Paraguay	12.3	47.4	12.4	−4.3	6.9	43.9	30.1	0.2	−0.4	34.8
Dominican Republic	18.3	27.9	13.0	5.0	6.0	14.1	44.9	58.5	−29.6	10.2
Trinidad and Tobago	12.3	121.9	11.3	5.0	7.0	30.6	198.5	9.5	6.0	6.0
Venezuela	18.1	24.2	16.0	9.0	10.2	42.7	166.7	6.8	6.0	11.9
Latin America	*17.1*	*41.6*	*9.8*	*5.2*	*7.5*	*31.6*	*61.5*	*−3.4*	*9.0*	*12.4*

Source: CEPAL, on the basis of official data.

behaviour of total demand. Naturally, the selected variables help in particular to interpret the variations in the rate of price increases in countries with high and intermediate inflation, i.e., where internal factors have a relatively higher influence. In countries with moderate inflation, where the decisive influence is rooted in exogenous factors, their examination partially supplements the analysis.

The changes in the rate of inflation in the countries of the Southern Cone, in general, show a close association with the growth of the agricultural product, the increase in the volume of imports, the rise in their rates of exchange and the variations in monetary liquidity. Thus, in Argentina and Chile the decline in the rate of inflation in 1977 went hand in hand with considerable increases in their real imports (23%o and 29%o, respectively), the growth of their agricultural product (7%o and 14%o),

devaluations smaller than the rises in their price indexes, and smaller increases in liquidity. In Uruguay, on the other hand, these factors did not operate in the same manner, and in some cases even showed contradictory trends; the highest inflation that affected this country in 1977 seems to have been influenced rather by the fall in its agricultural product (see table 22).

Table 22

LATIN AMERICA: SOME FACTORS EXPLAINING THE EVOLUTION OF DOMESTIC PRICES

(Growth rates)

	Quantum of imports		*Agricultural product*		*Rate of exchange*		*Liquidity*	
	1976	*1977*	*1976*	*1977*	*1976*	*1977*	*1976*	*1977*
Countries with high inflation								
Argentina	−21.6	22.8	3.5	7.0	350.8	117.7	269.6	232.1 [a]
Chile	−8.8	28.5	2.6	14.2	104.9	60.5	263.8	166.3
Uruguay	4.0	4.9	3.4	−1.3	46.5	35.3	94.4	56.5
Countries with intermediate inflation								
Brazil	−1.1	−7.9	4.2	9.6	36.1	30.0	68.0	87.1 [b]
Colombia	7.4	15.0 [c]	2.0	2.5	10.2	4.5	35.0	30.3
Mexico	−7.4	−12.0	−3.8	3.4	59.6	14.0	16.1	31.1
Peru	−16.1	−1.8	4.3	−0.5	54.2	89.4	11.0	19.8
Countries with moderate inflation								
Barbados	5.8 [d]	15.6 [d]	−52.6	15.6	–	0.3	10.3	13.2
Bolivia	2.2	5.9	5.8	1.4	–	–	51.6	25.2
Costa Rica	4.9	16.2	−0.6	1.7	–	–	29.6	29.2
Ecuador	−2.5	14.9	6.6	1.4	–	–	31.0	18.6
El Salvador	13.9	21.0	−2.7	0.2	–	–	27.0	15.4
Guatemala	22.9	13.7	4.9	5.0	–	–	32.2	23.6
Guyana	13.1 [d]	−9.9 [d]	−32.5	−13.2	–	–	5.9	24.6
Haiti	22.9	32.3	3.2	−0.4	–	–	40.2	21.9
Honduras	4.3	13.5	12.2	8.0	–	–	27.6	25.1
Jamaica	−18.8 [d]	−10.0 [d]	13.3	14.0	–	–	5.0	11.2
Nicaragua	0.4	20.6	4.1	2.7	–	–	24.5	10.0 [a]
Panama	−8.1	−5.3	−0.5	6.0	–	–	...	...
Paraguay	0.1	38.6	5.0	6.7	–	–	25.2	31.9
Dominican Republic	−5.7	4.1	9.3	1.4	–	–	3.3	16.9
Trinidad and Tobago	32.6 [d]	−8.0 [d]	−1.5	...	1.3	–	35.6	21.0
Venezuela	10.0	20.0	−3.8	10.4	0.2	–	23.7	2.8 [b]

Source: CEPAL, on the basis of official data from the countries; and IMF, *International Financial Statistics*, May 1978.

[a] Up to November.
[b] Up to October.
[c] Goods only.
[d] Corresponds to current value of imports.

In the group of countries with intermediate inflation, Brazil and Mexico both reduced their rates of inflation in 1977 and registered increases in the agricultural product that were much greater than those recorded in 1976, and even though in both these countries the quantum of imports once again

declined and liquidity expanded at more accelerated rates, the exchange rate rose more slowly than prices.

Peru, in contrast, showed marked asymmetry. Instead of a slowing down of inflation, the behaviour of internal factors during 1977 –the fall of imports, the drop in the agricultural product, the faster growth of liquidity and accelerated devaluation– would suggest rather an increase in prices. In the interpretation of this inflationary process the movements of variables in the course of the year appear to have had more effect than those registered at the end of the year. Thus, a more detailed examination shows that during the first nine months of 1977 a policy of forcibly controlling inflation was in force and it was only towards the end of the year that the pressures burst through the dams.[9]

Inflation in Colombia seems to have been more closely related, in terms of internal factors, with the slow growth of the agricultural sector. Despite the fact that coffee production grew at a high rate (11%) in 1977, agriculture as a whole, and particularly production of other commodities linked with the standard of living, experienced only slight growth. Indeed, the higher prices of foodstuffs compared with other items included in the price index are an indication of this. The accelerated growth rate of imports, particularly in the second half of the year, partly offset the deficiencies of domestic supply, but in spite of the relative containment of the exchange rate and the reduction in the speed of the expansion of liquidity during 1977, prices rose at a higher rate than in the preceding year.

In the group of countries with moderate inflation, in which internal factors generally appear to have less influence than the impetus coming from abroad, some revealing patterns of behaviour may also be identified. In certain countries in which inflation came back significantly, the agricultural product declined or showed minimal growth. Bolivia, Costa Rica, the Dominican Republic and El Salvador are representatives of this situation. In other countries such as Guyana, Jamaica and Panama, the intensification of inflation was accompanied by contractions in the volume of imports. All the countries in this group kept their exchange rates at a fixed level and in the great majority of them the rate of expansion of monetary liquidity diminished appreciably.

[9] The intensity of Peruvian inflation in the first few months of 1978 confirms this observation and suggests some dephasing in the changes in the exchange rate, liquidity and prices.

Part Two

ECONOMIC TRENDS BY COUNTRIES

ARGENTINA

1. *Main recent trends: Introduction and summary*

The most notable events in the evolution of the Argentine economy in 1977 were the increase in investments, the marked expansion in agricultural production, the high level achieved by exports and the satisfactory position of international reserves, together with a reduction in the fiscal deficit. In contrast to these achievements, however, inflation continued at a high and fluctuating rate which countermeasures failed to control, while real wages made no appreciable recovery. At the same time, the country suffered for the fourth year running a marked deterioration in its terms of trade, which dropped to their lowest level in the last 50 years.

The gross domestic product increased by 4.4%, recovering from its fall during the two preceding years (see table 23), while the unemployment rate remained low throughtout the year. The excellent cereal crop in the 1976/1977 crop year contributed to economic growth in the early months of the year. The slight recovery of manufacturing at the end of 1976 became more marked during the second and third quarters of 1977, but its cumulative effect was not enough to regain the values of the previous cyclical peak. The fourth quarter registered a new fall in production and industrial sales, affecting in particular the metal-working industries, which had been in the forefront of the earlier expansion.

As regards the performance of overall demand, there was a noteworthy increase of 27% in durable equipment for production, a rise which easily outstripped the levels achieved before the recession of 1975 and 1976. This growth was due to the expenditure of the agricultural sector, the increased investment of State enterprises, the continuation of important projects –iron and steel, paper, petrochemicals– and the replacement of production equipment in the private enterprise sector. Investment growth took place in both the public and private sectors. In the public sector, noteworthy investment were made by State enterprises in petroleum, hydroelectric energy, communications and transport. On the whole, investment was largely directed towards import substitution and the improvement of the economic infrastructure by the continuation of projects already begun, their rate of progress being accelerated through confidence in government policy and the opportunity of gaining greater access to external finance.

The current value of exports of goods and services increased by 44%, basically through the sale of agricultural products from the large surplus available. Moreover, exports of industrial products maintained the firm rising trend already observed the year before.

There was a large inflow of non-compensatory capital in addition to the expansion of exports and by the end of the year the international reserves reached an unprecedented level, representing approximately 11 months of imports.

Inflation was the most serious problem which economic policy had to face. Although the increase in the consumer price index was less than half that of the previous year, the difference was due to the fact that the rates recorded in the early months of 1977 were much lower than those of the corresponding months in 1976. In contrast, for the rest of the year the 1976 and 1977 rates were practically the same.

Table 23

ARGENTINA: MAIN ECONOMIC INDICATORS

	1972	1973	1974	1975	1976	1977 [a]
A. *Basic economic indicators*						
Gross domestic product at factor cost (millions of US dollars at 1970 prices)	31 004	32 901	35 039	34 570	33 561	35 025
Population (millions)	24.4	24.7	25.1	25.4	25.7	26.1
Per capita gross domestic product (US dollars at 1970 prices)	1 271	1 331	1 399	1 362	1 305	1 344
	Growth rates					
B. *Short-run economic indicators*						
Gross domestic product	3.1	6.1	6.5	- 1.3	- 3.0	4.4
Per capita gross domestic product	1.8	4.7	5.1	- 2.6	- 4.2	3.0
Gross income [b]	3.7	8.2	5.2	- 2.8	- 3.4	3.0
Terms of trade in goods	13.0	18.7	- 15.2	- 17.4	- 6.8	- 15.0
Current value of exports of goods and services	9.7	60.8	23.1	- 22.9	29.1	43.9
Current value of imports of goods and services	- 1.7	19.2	57.2	6.5	- 19.9	35.5
Consumer price index						
December to December	64.2	43.7	40.1	334.9	347.5	160.4
Variation between annual averages	58.5	60.4	24.2	182.8	444.0	176.0
Money [c]	44.0	95.0	57.9	192.9	242.6	138.5
Wages and salaries [d e]	46.3	74.6	35.8	162.0	213.0	...
Rate of unemployment [f]	6.6	5.4	3.4	3.7	4.5	3.0
Current income of government	58.0	47.7	51.1	87.1	650.1	225.7
Total expenditure of government	60.4	110.3	52.1	249.1	387.9	108.0
Fiscal deficit/total expenditure of government [g]	28.1	49.5	49.8	73.1	58.7	35.3
	Millions of US dollars					
C. *External sector*						
Trade balance (goods and services)	114	1 099	458	- 858	1 042	1 793
Balance on current account	- 219	705	125	- 1 281	616	317
Variation in net international reserves	- 49	726	54	- 679	122	2 479

[a] Preliminary figures.
[b] Gross domestic product plus terms-of-trade effect.
[c] Balance at end of year. For 1977, balance at end of November compared with the same period in 1976.
[d] Agreed basic wage for an unskilled industrial worker.
[e] For 1977 this series has lost its validity as an indicator of the evolution of wages actually paid.
[f] Simple average of the results of the surveys for each year in the Federal Capital and Greater Buenos Aires.
[g] Percentage.

In view of the high inflation rates at the end of 1976 and the beginning of 1977, the Government froze the prices of the products of the principal enterprises for 120 days. During this breathing space the rate of price rises was seen to fall, but inflationary expectations persisted, and at the end of the freeze there were new price increases side by side with the recovery of activity mentioned above.

In this situation the Government decided to place more emphasis on the application of overall policies. In the second half of the year, therefore, the reduction of the fiscal deficit was intensified, because ever since it assumed power the Government regarded this as the major cause of inflation. New instruments of monetary policy were applied –a measure made easier by the financial reform which took place in June. In view of the difficulties in controlling the growth of the monetary base –mainly owing to the expansion of the external sector– it was decided to act on the demand for financial assets by encouraging an increase in the nominal interest rates and thereby reducing the

pressure on the market for goods. In the few months which passed from the application of this policiy until the end of 1977 there was a reduction in demand for and production of industrial goods, but no change was observed in the rate of inflation.

2. *Economic trends*

(a) *Total supply and demand*

The supply of goods and services rose by 5.5°/o in 1977, largely recovering from its fall during the two previous years. This rise was due to the increase in the gross domestic product (4.4°/o) and the considerably greater growth in the physical volume of imports (23°/o), attributable to greater purchases of capital goods and the higher level of activity (see table 24).

The recovery of the gross domestic product began with the increase in agricultural production and then spread to the other sectors of the economy. In the third quarter all the main components of production registered growth and the gross domestic product reached a level equal to that of the previous cyclical peak (the fourth quarter of 1974). In these circumstances the Government grew afraid of forcing the economy and in the later months of the year applied overall restrictive policies which produced a downturn in activity.

Throughout 1977, as in the last months of 1976, gross fixed investment and exports were the dynamic factors of demand.

The physical volume of exports of goods and services exceeded by almost 50°/o the already high values of 1976. Practically all the products of agricultural origin (especially cereals) and, to a lesser degree, non-traditional manufactured goods, had a share in this achievement.

Gross fixed investment grew by a fifth during the year in consequence of increases of 27°/o in expenditure on durable production equipment and of 14°/o in construction.

The recovery of investment in equipment and machinery accelerated throughout 1977, reaching a level which considerably exceeded those achieved before the recession of 1975-1976. One of the causes of this growth was the expenditure in the agricultural sector, which up to the third quarter boosted sales of agricultural machinery and equipment and stimulated the demand for commercial vehicles. There was also a greater investment by State enterprises in transport, telecommunications and energy equipment. Despite the existence of high nominal interest rates and lower than usual demand in many branches, non-agricultural private investment also shared in the expansion, at least until the third quarter. The more stable socio-political environment, the prospect of higher returns than in the previous period and the easier access to international credit accelerated the work on major projects in some industries (the paper and iron and steel industries, for example) and encouraged investments in others, mainly on previously postponed replacements.

Investment in construction, although showing marked improvement, did not recover fully from its fall in 1975-1976. Official action on public works was directed towards rationalizing their execution. Thus, priority was assigned to projects already well under way, while a start on new projects was delayed. In this way an attempt was made to contain expenditure without affecting the supply of infrastructure in the near future. More important was the growth in housing construction. Although the budgetary restrictions affected official financing, there was a marked expansion in building financed by the private sector. This increase –stimulated in part by the issue of a new building code in the Federal Capital– was chiefly confined to buildings with a higher unit value.

Towards the end of the year, however, the declining demand of the agricultural sector and the contractive effects of the monetary and fiscal policy curbed the expansionary trend of gross fixed investment.

During the first nine months of the year the stocks in the possession of industrial firms tended to go down, although still remaining above normal levels. During the fourth quarter, however, privately-conducted opinion surveys indicated that, in the face of falling demand, most of the branches of industry had accumulated unwanted stocks at a time when the financial burden of maintaining them was reaching very high levels.

Consumption continued to show a declining trend throughout 1977, interrupted only in the third quarter (see table 24). The magnitude of the cumulative drop in 1976 and 1977 shows very

Table 24

ARGENTINA: TOTAL SUPPLY AND DEMAND

	Millions of pesos at 1970 prices			*Percentage breakdown*		*Growth rates*		
	1975	*1976*	*1977 [a]*	*1970*	*1977 [a]*	*1975*	*1976*	*1977 [a]*
Total supply	*122 140*	*116 979*	*123 360*	*107.9*	*106.6*	*– 1.7*	*– 4.2*	*5.5*
Gross domestic product at market prices	114 211	110 759	115 719	100.0	100.0	– 1.3	– 3.0	4.4
Imports of goods and services [b]	7 929	6 220	7 641	7.9	6.6	7.0	– 21.6	22.8
Total demand	*122 140*	*116 979*	*123 360*	*107.9*	*106.6*	*– 1.7*	*– 4.2*	*5.5*
Domestic demand	115 799	108 435	110 604	99.4	95.6	– 0.5	– 6.4	2.0
Gross domestic investment	21 347	20 022	23 922	20.4	20.7	– 7.2	– 6.2	19.5
Gross fixed investment	21 102	19 972	24 040	20.0	20.8	– 7.2	– 5.4	20.4
Construction	11 256	10 169	11 634	11.3	10.1	– 7.8	– 9.7	14.4
Machinery	9 846	9 803	12 406	8.7	10.7	– 6.4	– 0.4	26.6
Changes in stock	245	50	– 118	0.4	– 0.1			
Total consumption	94 452	88 413	86 682	79.0	74.9	1.1	– 6.4	– 2.0
Export of goods and services [b]	6 341	8 544	12 756	8.5	11.0	– 19.0	34.7	49.3

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

[a] Preliminary figures.

[b] The figures for exports and imports of goods and services were taken from balance-of-payments data expressed in dollars at current price, wich were converted to constant 1970 values, using prices indexes calculated by CEPAL for the purpose.

clearly the effects of the redistribution of income and, in the latter year, of the greater incentives to saving arising from the prospect of high profits from financial assets, an effect which was particularly noticeable in the last quarter of the year.

(b) *Growth of the principal sectors*

(i) *The agricultural sector.* In 1977 this sector grew by 7%, the sub-sectoral rises being 9.4% for crop-farming and 5.5% for stock-raising (see tables 25 and 26).

The outstanding event was the achievement of a record grain harvest together with the maintenance of an unprecedented stock of cattle, revealing, over and above the favourable climatic conditions, an increase in the capacity of supply of pampa products, which form the basic exports of the country.

The marked increase in agricultural production in 1976 was due to the expansion of almost 9% in the area sown and especially to the improvement in yields.

The area sown with cereals increased by 7% as a result of growth of 24% and 17% in wheat and grain sorghum, respectively, and a reduction of 19% in the area sown to maize. The area sown with oilseeds increased by 22%. This increase in the cultivated area and the high yields resulted in exceptionally high production (31.7 million tons) of cereals and oilseeds. Cereals increased by 32% (wheat 28%, grain sorghum 30% and maize 42%) and oilseeds by 41% (soya 101% and linseed 64%, though sunflower seed production dropped by 17%), generating an unprecedented exportable surplus (see table 27).

The area devoted to industrial crops did not in general show significant changes except in the case of cotton, where the area was extended by 25% and production grew by 16%. The sugar cane crop was very similar to that of the previous year but the volume exported increased by 232% owing to the sale of accumulated surpluses to forestall the expected restrictions by international agreement on the exportable quota of Argentine sugar in 1978. Adverse weather conditions affected the production of grapes (-10%), but at the end of the year the domestic surplus of wine persisted.

There was a fall of 15% in tobacco production, also as a result of weather conditions.

The sale of the increased supply of fruit and vegetables was favoured by the reduced production of these items in the northern hemisphere.

For 1978 the prospects are less favourable for the production of cereals, especially wheat. Agricultural policy has been directed towards the elimination of export taxes and subsidies, so that domestic prices are tied exclusively to international prices and the exchange rate. Thus, the unfavourable evolution of international prices since the middle of 1976 and the rate of devaluation of the peso in relation to the dollar –slower than the rise of the general level of domestic prices– have reduced the incentive to sow. In contrast, in the case of oilseeds, the good prospects of international prices at the time of sowing led to an increase of more than a million hectares in the area sown.

In the case of the stock-raising subsector, the rise of 5.5% in production was due exclusively to the increase in beef cattle farming. A noteworthy feature in this activity was the persistently high level of stocks at a time when slaughtering and other indicators (slaughtering rate, proportion of cows and heifers slaughtered and the average weight of the animals slaughtered) were reaching values traditionally associated with a reduction of stocks (see table 28). This situation might be explained by the achievement of higher productivity as a result of technological advances and favourable weather conditions. The high proportion of breeding stock and young animals in the total slaughtering was due to the fact that, despite the increase in the price of steers, the rise in the cost of fattening (an important constituent of which is the use of credit) reduced the demand for young animals for this purpose, thus leading to a fall in their real prices and a consequent disincentive for stock-raising.

The increased slaughtering was basically for exports, the volume of which increased by 16%, since domestic consumption remained practically the same.

As regards milk production, prices remained low during 1977, discouraging production. Poultry farming, which encountered problems of demand, mainly because of the increase in the consumption of beef, fell to a very low level after two years of continuous decline.

(ii) *Mining.* The sector as whole grew by almost 9%. Oil production continued the recovery which began in the middle of 1976, achieving an annual growth rate of 8% and approaching the record levels of 1972 (see table 29), largely due to greater yields from the wells in operation. In order

Table 25

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

	Millions of pesos at 1970 prices			*Percentage breakdown*		*Growth rates*		
	1975	*1976*	*1977* [a]	*1970*	*1977* [a]	*1975*	*1976*	*1977* [a]
Agriculture	11 626	12 033	12 881	13.1	12.5	– 3.5	3.5	7.0
Mining	1 785	1 800	1 958	2.1	1.9	– 4.6	0.8	8.8
Manufacturing	32 598	31 138	32 331	30.2	31.4	– 2.8	– 4.5	3.8
Construction	4 751	4 080	4 621	5.7	4.5	– 9.5	– 14.1	13.2
Subtotal goods	*50 760*	*49 051*	*51 791*	*51.2*	*50.3*	*– 3.7*	*– 3.4*	*5.6*
Electricity, gas and water	2 662	2 754	2 890	2.1	2.8	6.4	3.4	5.0
Transport, storage and communications	9 896	9 466	10 018	10.1	9.7	– 1.9	– 4.3	5.8
Subtotal basic services	*12 558*	*12 220*	*12 971*	*12.2*	*12.5*	*– 0.3*	*– 2.7*	*5.6*
Commerce, restaurants and hotels	13 945	13 122	13 844	13.5	13.8	– 1.3	– 5.9	5.5
Financial institutions, insurance and real estate	4 965	5 139	5 149	4.5	5.1	6.7	3.5	0.2
Community, social and personal services	19 273	19 312	19 254	18.5	19.3	4.9	0.2	– 0.3
Subtotal other services	*38 183*	*37 573*	*38 247*	*36.5*	*38.2*	*2.7*	*– 1.6*	*1.8*
Total gross domestic product [b]	*101 983*	*99 004*	*103 325*	*100.0*	*100.0*	*– 1.3*	*3.0*	*4.4*

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

[a] Preliminary figures.
[b] As the individual activities and the total were calculated independently, the sum of the former does not correspond exactly with the latter.

Table 26

ARGENTINA: INDICATORS OF AGRICULTURAL PRODUCTION

	Millions of pesos at 1960 prices				*Growth rates*		
	1974	*1975*	*1976*	*1977*[a]	*1975*	*1976*	*1977*[a]
Gross product of the agricultural sector at factor cost [b]	*2 062*	*2 029*	*2 100*	*2 248*	*– 3.5*	*3.5*	*7.0*
Crop farming	1 232	1 171	1 191	1 303	– 5.0	1.8	9.4
Stock-raising	758	758	805	850	–	6.2	5.5

Source: Central Bank of Argentina.

[a] Preliminary figures.
[b] Includes agricultural construction, hunting, forestry and timber extraction and fishing.

Table 27

ARGENTINA: AREA SOWN AND PRODUCTION OF MAIN AGRICULTURAL COMMODITIES

	Area sown (Millions of hectareas)				*Production (thousands of tons)*		
	Average 1972/1973-1976/1977	*1975/1976*	*1976/1977*	*1977/1978*[a]	*Average 1972/1973-1976/1977*	*1975/1976*	*1976/1977*[a]
Cereals	*17.3*	*17.0*	*18.2*	*15.5*	*23 954*	*21 349*	*28 219*
Wheat	5.6	5.8	7.2	4.6	8 000	8 570	11 000
Grain sorghum	2.8	2.4	2.8	2.8	5 470	5 060	6 600
Maize	3.8	3.7	3.0	3.0	8 291	5 855	8 300
Oilseeds	*2.8*	*2.7*	*3.3*	*4.3*	*2 392*	*2 495*	*3 517*
Linseed	0.5	0.5	0.7	0.9	400	377	617
Sunflower	1.4	1.4	1.5	2.0	913	1 085	900
Soya	0.4	0.4	0.7	1.0	670	695	1 400
Total annual crops	*25.9*	*25.1*	*27.3*	*25.7*	...	...	...
Total area sown	*27.0*	*26.1*	*28.4*	*26.8*	...	...	...

Source: Ministry of Agriculture and Stock-Raising.

[a] Preliminary figures.

to increase its efficiency the State enterprise Yacimientos Petrolíferos Fiscales (YPF) was transformed into a limited company with State capital, to function as co-ordinator of official petroleum policy.

Furthermore, an attempt was made to increase the activity of private enterprises, for which purpose, at the beginning of the year, companies with national capital were assigned 7 areas for primary exploration and secondary recovery. For the zones where exploration required investment on a larger scale it was proposed to obtain the participation of foreign firms by means of risk contracts.

Coal production was 13% lower than in 1976 owing in part to operational problems. There was also a sharp drop in demand during the second half of the year.

Table 28

ARGENTINA. CATTLE SLAUGHTERING AND PRICES

	Stocks [a]	Slaughtering	Slaughtering rate (percentage) [b]	Yield in kg of dressed meat (per head)	Proportion of cows and heifers (percentage) in typified slaughtering	Per capita consumption (kg)	Prices of steers in terms of	
	(Millions of head)						Industrial prices [c] [d]	Price of wheat [e] [d]
1972	52.3	10.0	19.3	219	26.9	62	1.31	7.89
1973	54.8	9.8	17.9	219	26.1	66	1.24	7.46
1974	55.4	10.1	18.3	214	25.7	75	0.97	6.08
1975	56.7	12.1	21.4	201	29.3	87	0.66	3.60
1976	58.1	13.9	23.9	203	34.9	89	0.70	3.69
1977 [f]	59.6	14.7	24.7	198	35.8	90	0.85	4.82

Source: National Meat Board and CEPAL, on the basis of official data.

[a] At 30 June of each year.
[b] Annual slaughtering as a percentage of stocks at 30 June of each year.
[c] Steer prices in the Liniers market, deflated by the wholesale price index for non-agricultural goods (base: 1970 = 100).
[d] Annual averages.
[e] Number of kilogrammes of wheat per kilogramme of steer.
[f] Preliminary figures.

Table 29

ARGENTINA: INDICATORS OF MINING PRODUCTION

	1974	1975	1976	1977 [a]	Growth rates		
					1975	1976	1977 [a]
Gross mining product at factor cost (millions of pesos at 1960 prices)	260	248	250	272	– 4.6	0.8	8.8
Production of some important minerals							
Petroleum (millions of m^3)	24 022	22 968	23 147	25 006	– 4.4	0.8	8.0
Injected natural gas (millions of m^3)	6 013	6 314	6 305	6 372	5.0	– 0.1	1.1
Coal (thousands of tons)	626	502	615	533	– 19.8	22.5	– 13.3

Source: Central Bank of Argentina and Ministry of Energy.

[a] Preliminary figures.

Production of natural gas increased hardly at all, while consumption rose by 4.5% and imports by 16%. With a view to exploiting the gas reserves of Tierra del Fuego construction works were authorized for the underwater stretch of the southern gas pipeline.

In the remaining mining industries, the most important event was the start of production in the iron ore deposits of Sierra Grande. The manufacture of pellets was planned to start in 1978 with an annual output of 2 million tons.

(iii) *Manufacturing.* Towards the end of 1976, manufacturing production showed some signs of recovery. There were partial increases in demand over the former very depressed levels and a slow

absorption of stocks (still considered to be excessive). Nevertheless, except in some metal-working sectors –mainly those producing capital goods– production continued to fall, and this situation persisted during the first quarter of 1977.

In the second and third quarters there was an appreciable recovery, though it did not reach all branches of industry. Important sectors producing consumer goods (mainly textiles and some foodstuffs) were unable to reverse the declining trend. Even so, there was appreciable growth during this period in industry as a whole and in the more buoyant branches (metal products, paper and chemicals), largely as a result of the expenditure on agriculture mentioned above and, in the case of some branches, the demand of the public sector and the recovery of construction. Another influential factor was the freeze on price increases from March to June, since this favoured the increase of real liquidity and created favourable expectations for the puchase on credit of durable goods by consumers and of inputs by entrepreneurs. On the other hand, the freeze reduced the profitability of many businesses, making them more sensitive to the financial changes which occurred towards the end of the year.

These changes, in conjunction with the drop in demand from the agricultural sector, led in the last quarter to a general contraction in the sales of industrial products, especially those of the metal-working industry. The accumulation of stocks, especially of finished products, aggravated the financial difficulties, so that production declined and towards the end of the year many companies were predicting reductions in the number of hours worked.

Among the main branches of activity, the evolution of the food industry was uneven. There was a further rise in production in those sectors which were mainly interested in processing and exporting agricultural goods from the pampa, of which there was a notable increase in supply (oils and flour). There was also an increase in cattle slaughtering. On the other hand, there was a drop in production in areas mainly concerned with domestic consumption such as beverages, dairy products, fruit canning, cigarettes and beer.

Textiles and clothing were among the most depressed industries in the course of 1977, owing to the scanty demand for their products (see table 30). The slight recovery in the third quarter was abruptly cut short by a marked decline in the volume of sales, aggravated in the case of clothing by the fall in relative prices (compared with the general level of non-agricultural domestic prices) of 15%/o in the course of the year.

The favourable evolution of the metal-working subsector was the chief factor in the recovery of manufacturing in the first nine months of the year. Indeed, the increase in absolute values of the value added in the branches of basic metals and the manufacture of metal products, machinery and equipment was in that period greater than that for the rest of manufacturing put together.

Iron and steel production increased as from the early part of the year, owing to the growth in the final demand for metal and construction products, the fulfilment of export contracts made in 1976 and the reduction in imports. At the same time there was a reduction in the volume of stocks. In the third quarter, with sales of rolled products still satisfactory, there was a marked increase in primary iron and steel production, largely through the starting up of the second blast furnace of the State enterprise Sociedad Mixta Siderúrgica Argentina (SOMISA). The improved use of capacity enabled production in the basic stages to continue to increase during the fourth quarter. The smaller demand, however, led to a reduction in the rolled products industry as from November, which nevertheless did not prevent the accumulation of considerable stock of finished and semi-processed products.

As regards the rest of the metal-working sector, reference has already been made to the dynamic demand for capital goods up to the third quarter, which was so great that production holdups were frequently due to a shortage of skilled labour. Towards the end of the year, however, the trend was reversed.

The demand of the agricultural sector, which in the first nine months had caused the production of tractors to rise by 24%/o over the already high levels of 1976, subsequently greatly declined, and in December sales to the domestic market fell to less than 30%/o of the annual average. This, and the low profitability which many firms in the industry were experiencing, led to suspensions and dismissals of personnel and to a standstill in purchases of inputs. The situation was also unfavourable in the industries producing other types of agricultural machinery.

In other sectors producing capital goods, such as machine tools, production remained steady

Table 30

ARGENTINA: INDICATORS OF MANUFACTURING PRODUCTION

	1975	1976	1977[a]	Growth rates						
				1975	1976	1977[a]				
						I	II	III	IV	Total
I. *Gross manufacturing product at factor cost*										
(millions of pesos at 1960 prices)	6 343	6 059	6 291	– 2.8	– 4.5	– 0.3	2.1	10.5	2.8	3.8
Food	996	999	963	– 1.1	0.3	– 4.5	– 6.7	– 1.0	– 1.6	– 3.5
Textiles	805	768	722	4.5	– 4.6	– 11.5	– 5.9	– 1.2	– 5.7	– 6.0
Wood	82	60	53	– 12.6	– 27.8	– 24.9	– 15.0	– 3.0	– 0.6	– 11.5
Paper	262	243	254	– 0.8	– 7.3	– 1.8	4.6	10.8	4.2	4.6
Chemicals	1 213	1 204	1 254	–	– 0.7	1.2	2.5	7.3	5.2	4.1
Non-metallic mineral products	254	242	241	0.8	– 4.5	– 3.7	– 1.5	3.9	– 1.3	– 0.6
Basic metals	419	318	366	– 1.9	– 24.1	0.5	7.3	25.0	28.0	15.1
Machinery and equipment	2 077	1 998	2 207	– 7.9	– 3.8	7.3	9.0	21.6	3.7	10.4
Other industries	235	227	233	– 3.7	– 3.4	3.3	2.0	6.6	– 1.8	2.4
II. *Production of some important manufactures*										
Pig iron (thousands of tons)	1 043	1 310	1 385[b]	– 2.5	25.6	– 12.5	– 17.4	2.6	64.1	5.7
Steel (thousands of tons)	2 198	2 409	2 673	– 6.7	9.6	– 0.6	– 5.7	9.8	47.6	11.0
Rolled products (thousands of tons)	2 927	2 413	2 789	– 0.5	– 17.6	19.1	16.4	19.5	8.2	15.6
Motor vehicles (thousand of units)	240	194	236	– 16.1	– 19.2	16.7	13.9	54.6	6.7	21.7
Tractors (thousands of units)	19	24	26	– 24.0	26.3	59.9	10.8	18.4	–25.6	8.0

Sources: I. Central Bank of Argentina;
II. Pig iron, steel and rolled products: Centro de Industriales Siderúrgicos; motor vehicles: Asociación de Fábricas de Automotores; tractors: Asociación de Fabricantes de Tractores.

[a] Provisional figures.
[b] Including sponge iron.

until the end of the year, although the firms reported reductions in their order books.

The industries producing consumer durables had a similar experience. Up to the third quarter production of electrical and gas household appliances increased. Although there is no information for the rest of the year, it is thought that demand was affected by the increased cost of funds for financing sales and by a decline in public demand.

Motor-vehicle production, which had been recovering since the last quarter of 1976, maintained an increasing growth rate until September. In the first nine months of 1977 production was 23°/o higher than in the same period of 1976 (although without reaching the levels of previous years). The spread of new selling systems, the generally longer credit periods, and the stability of prices during the freeze would explain these increases. The recovery was more marked for commercial vehicles, being boosted in part by the demand from the agricultural sector. Total production of these up to September was 42°/o higher than in the same period in 1976 (but 6°/o lower than in 1974). There was a subsequent sudden drop in sales, however. In December deliveries of cars to dealers amounted to only half the monthly average of 1977, and during the last quarter stocks began to accumulate both in the factories and in the distributing firms. By the end of the year, manufacturers' stocks represented 1.5 months of production, and this would be doubled if the stocks in the hands of distributors were also taken into account.

(iv) *Construction.* With a growth rate of somewhat more than 13°/o, construction became the industry with greatest expansion in 1977. This recovery, however, took place after two years of marked decline, so that at the end of the year its production was still below pre-1975 levels.

Recovery was concentrated in the private sector. Almost two-thirds of the growth of this sector can be explained by new construction in the Federal Capital, in which the new building code of the city of Buenos Aires played an important part (see table 31). The application of this code led to an advance in the dates of construction of some housing units with the establishment of deadlines for the execution of parts of the programmed work. This building rate could not be maintained, partly

Table 31

ARGENTINA: INDICATORS OF CONSTRUCTION ACTIVITY

	1974	*1975*	*1976*	*1977*[a]	*Growth rates*		
					1975	*1976*	*1977*[a]
I. Construction permits (thousands of m^2)							
Federal Capital	3 699	4 079	2 488	7 037	10.3	– 39.0	182.8
Córdoba	712	914	748	...	28.4	– 18.2	– 21.4 [b]
Rosario	249	271	175	...	8.8	–35.4	...
Santa Fé	107	183	95	178	71.0	– 48.1	87.4
II. Production of certain building materials							
Sales of cement (thousands of tons)	5 409	5 482	5 512	5 845	1.3	0.5	6.0
Public works	1 409	1 463	1 418	1 317	3.8	– 3.1	– 7.1
Private works	4 000	4 019	4 094	4 524	0.5	1.9	10.6
Reinforcing rods (thousands of tons)	424	504	381	448	18.9	– 24.4	17.6

Sources: I. National Institute of Statistics and Censuses;
II. Sales of cement: Asociación de Fabricantes de Cemento Portland; reinforcing rods: 1974, Centro de Industriales Siderúrgicos; from 1975, Instituto Argentino de Siderurgia; last quarter of 1977, information from private source.

[a] Preliminary figures.
[b] January-October 1977, compared with the same period in 1976.

on account of the high cost of financing and the contraction of funds which affected the construction firms and partly because of a sharp drop in the demand for new apartments, attributable mainly to the problem of obtaining credit on terms in keeping with the financial resources of the buyers.

The construction of residential buildings by State agencies remained limited. No new major housing schemes were approved, so that practically all available resources were devoted to completing those already under way.

Activity in public works increased at a slower rate than private construction. In view of the official economic strategy for reducing the fiscal deficit, public building concentrated on the continuation of works which it was considered could not be postponed. Thus, work was accelerated on priority commitments such as the Zárate Brazo Largo complex, the hydroelectric plants at Salto Grande and Futaleufú, and the infrastructure works brought forward or commissioned for the holding of the World Cup Football Championship in 1978.

(v) *The electricity sector.* The generation of electric power increased by 8%. There were difficulties in the generating system, which at various times was unable to satisfy demand because of interruptions in the service of the nuclear power station at Atucha and the limitations of the interconnected grid system.

The scheme for the gradual replacement of thermal electricity by hydroelectricity and nuclear energy was continued. In 1977 more than half of the second nuclear power plant was completed and financial support was obtained to enable work to begin on the Yacyretá dam in conjunction with Paraguay. The tenders awarded will be fulfilled during 1978. The bringing into service of the hydroelectric power plant at Futaleufú was announced for the beginning of 1978, which by mid-1979 it is hoped to put into operation the Salto Grande project, carried out in conjunction with Uruguay. For the longer term, work continues on the study of the Corpus project in conjunction with Paraguay.

3. *The external sector*

The changes which occurred in the external sector from the beginning of the second quarter of 1976 and which led to a reversal of the 1975 deficit situation were maintained and reinforced in 1977. The surplus on the 1976 trade balance and that achieved during 1977, together with the inflow of capital, meant that by the end of December Argentina had almost 4 billion dollars in reserves, enough to cover 11 months of imports. Moreover, the short-term external debt subject to exchange-rate insurance was substantially reduced. There was an increase in credits from international finance agencies and private banks for the financing of investment projects and the provision of working capital for public and private companies.

This recovery in the level of external assets and the lines of economic policy in general led to the modification or elimination of restrictions on imports of goods and on the buying and selling of foreign currency. Permission was given for the cash payment of the FOB cost of ordinary goods, a new procedure was established for investment goods which shortened the minimum periods laid down for their financing, and the restrictions on the operations of the exchange market were largely eliminated.

During the year the system of daily mini-devaluations of the peso was maintained at an average monthly rate of approximately 7%, i. e., lower than that of domestic prices (see table 32).

From 1 June onwards the post-financing credits for non-traditional exports were eliminated, although the lines of financing and prefinancing were maintained. In the later months of the year changes in the lines of prefinancing were introduced which were to operate from 1 January 1978, whereby the credits received by exporters would be indexed in relation to the United States dollar.

Furthermore, with a view to increasing competition in the domestic market, import tariffs were lowered on products for various sectors of the economy. By September this reduction affected 182 items in the tariff list.

(a)*Foreign trade*

(i) *Exports.* In 1977 the current value of exports of goods rose by the exceptional amount of 43%. There was a notable increase in the value of agricultural exports, especially cereals, despite the

Table 32

ARGENTINA: EVOLUTION OF EXCHANGE RATE

End of each year	Exchange rate (pesos per dollar)				Indexes of the deflated exchange rate [a] Base: December 1974 = 100			
	Exports		Imports	Financial transactions	Exports		Imports	Financial transactions
	Traditional	Non-traditional			Traditional	Non-traditional		
1970	4.00	4.00	4.00	4.00	214.7	187.0	213.7	186.0
1971	5.96	6.28	5.98	8.25	215.9	198.1	215.5	258.9
1972	8.65	9.93	8.69	9.98	178.0	178.0	178.0	178.0
1973	8.65	9.93	8.69	9.98	136.1	136.1	136.1	136.1
1974	8.65	9.93	8.69	9.98	100.0	100.0	100.0	100.0
1975	60.80	86.40	60.97	60.75	156.9	194.1	156.5	136.3
1976	272.00	272.00	277.00	277.00	144.3	125.7	146.3	127.4
1977			423.17		90.9	79.2	90.5	78.8
1977								
First quarter			316.33		94.1	82.0	93.7	81.5
Second quarter			373.33		94.4	82.2	94.0	81.8
Third quarter			444.00		89.7	78.2	89.1	77.7
Fourth quarter			558.00		85.3	74.4	84.9	74.2

Source: CEPAL, on the basis of official data.

[a] Deflated by the wholesale price index.

fall in international prices (see table 33). Exports of grain, whose prices continued to fall (-15%), reached an unprecedented volume, exceeding by more than 70% that of the previous year.

In 1977 meat shipments exceeded 500,000 tons, and there was an improvement in prices which meant that the total value of exports of meat and offal (including beef on the hoof and by-products) surpassed 1976 exports by more than 100 million dollars. The pessimistic forecasts for the sale of meat products did not materialize in view of the increase of puchases by non-traditional customers, especially the Soviet Union and African countries, and also because, in spite of restrictions, the European Economic Community exceeded its 1976 imports, though without regaining the levels reached in 1973.

As regards exports of the remaining agricultural products, exports of sugar increased by 232%. In addition, there was an excellent market for vegetable oils and oilseed by-products, their sales increasing 61% in physical volume while their average prices rose by 23%.

The value of non-agricultural industrial products increased by 22%. Notable among these were the sales of machinery and electrical equipment, which rose to approximately 275 million dollars (an increase of 36% over 1976). In addition, exports of basic metals rose to 145 million dollars, while in the first eight months of the year exports of paper and printed matter rose by 164% over those of the same period in 1976. In contrast, in the first eight months exports of transport equipment (especially motor vehicles and tractors) fell by 18%.

(ii) *Imports.* In 1977 the value of imports of goods rose by 35%. This increase was mainly due to the doubling of imports of capital goods, which amounted to almost 26% of the import total compared with around 15% during the three years 1974-1976 (see table 34). About 45% of these goods were imported by the public sector, which made substantial purchases of transport equipment (sea and air), communications equipment and equipment for the drilling of oil wells on land and under the sea. The private sector, for its part, practically trebled its purchases of imported equipment.

Imports of intermediate goods rose by 17%, though they were still below the levels of 1974 and 1975. Purchases of chemical products amounted to around 570 million dollars, 13% higher than in

Table 33

ARGENTINA: VALUE AND BREAKDOWN OF GOODS (FOB)

	Millions of dollars				*Percentage breakdown*		*Growth rates*		
	1974	*1975*	*1976*	*1977*[a]	*1970*	*1977*	*1975*	*1976*	*1977*[a]
Cereals [b]	1 339	1 069	1 192	1 765	28.7	31.5	– 20.2	11.5	48.2
Meat	471	300	560	679	28.4	12.1	– 36.4	86.8	21.1
Wool, animal hair and horsehair	109	110	140	256	4.9	4.5	0.5	28.1	82.1
Hides and skins	99	72	152	220	5.5	3.9	– 27.7	112.4	44.6
Other agricultural products	1 011	737	1 015	1 642	19.6	29.3	– 27.1	37.7	61.7
Total agricultural products	3 030	2 287	3 060	4 562	87.1	81.3	– 24.5	33.8	49.1
Non-agricultural industrial products	901	674	856	1 048	12.9	18.7	–25.2	27.1	22.4
Grand total	*3 931*	*2 961*	*3 916*	*5 610*	*100.0*	*100.0*	*– 24.7*	*32.2*	*43.3*

Sources: Up to 1976, National Institute of Statistics and Censuses; 1977, Central Bank of Argentina and other sources.

[a] Preliminary figures.
[b] Including soyabeans and peanuts.

Table 34

ARGENTINA: VALUE AND BREAKDOWN OF IMPORTS OF GOODS (CIF)

	Millions of dollars				*Percentage breakdown*		*Growth rates*		
	1974	*1975*	*1976*	*1977*[a]	*1970*	*1977*	*1975*	*1976*	*1977*[a]
Capital goods	432	562	503	1 060	21.6	25.9	30.0	– 10.5	110.8
Fuels and lubricants	526	515	531	597	4.7	14.6	– 2.0	3.1	12.5
Intermediate goods	2 543	2 738	1 934	2 263	68.8	55.2	7.7	– 29.4	17.0
Products of chemical industries	633	629	505	570	12.8	13.9	– 0.7	– 19.7	12.9
Materials used in paper-making	187	183	129	130	5.9	3.2	– 2.3	– 29.3	0.5
Metals, machinery and electrical apparatus and transport equipment	1 100	1 267	784	950	31.3	23.2	15.2	– 38.1	21.1
Other intermediate goods	623	659	515	613	18.8	14.9	5.9	– 21.8	18.9
Consumer goods	134	132	65	180	4.9	4.4	– 1.9	– 50.2	174.8
Total	*3.635*	*3 947*	*3 033*	*4 100*	*100.0*	*100.0*	*8.6*	*– 23.1*	*35.2*

Sources: CEPAL, on the basis of information supplied by the National Institute of Statistics and Censuses, the Central Bank of Argentina and other sources.

[a] Preliminary figures.

1976. Imports of metals and of parts for making machinery and electrical equipment increased by 21% over 1976, a figure which is in line with the growth of the metal-working sector.

Imports of fuels and lubricants rose by 12.5%, mainly on account of increased purchases of natural gas. Finally, imports of consumer goods were almost trebled, reaching a total of approximately 180 million dollars, owing to larger puchases of durables.

(iii) *Terms of trade.* The drop in the unit value of exports and the rise in imports led to a pronounced deterioration in the terms of trade for the fourth year running (see table 35). For this reason the corresponding index was almost 45% lower than in 1973, reaching its lowest level for the last fifty years.

Table 35

ARGENTINA: MAIN INDICATORS OF FOREIGN TRADE

	1972	*1973*	*1974*	*1975*	*1976*	*1977* [a]
	Growth rates					
Exports of goods						
Value	11.9	68.3	20.3	– 24.6	31.5	44.0
Volume	– 3.1	18.9	– 3.4	– 19.8	39.8	51.3
Unit value	15.5	41.5	24.5	– 6.1	– 5.9	– 4.8
Imports of goods						
Value	2.2	17.4	62.6	9.2	– 20.7	34.4
Volume	–	– 1.5	10.7	– 4.3	– 23.1	20.0
Unit value	2.2	19.2	46.9	14.1	3.1	12.0
Terms of trade	13.0	18.7	– 15.2	– 17.4	– 6.8	– 15.0
	Indexes(1970 = 100)					
Terms of trade in goods	123.2	146.2	124.0	102.4	95.4	81.1
Purchasing power of exports of goods	102.4	144.6	118.5	78.3	100.3	111.1
Purchasing power of exports of goods and services	100.6	140.7	124.8	84.7	107.1	139.3

Source: CEPAL, on the basis of official data.

[a] Preliminary figures.

Despite this adverse trend, the purchasing power of exports of goods rose by more than 10%, thanks to the exceptional growth in its physical volume, which actually more than doubled in the last two years, achieving a record level in 1977.

(b) *The balance of payments*

(i) *The current account.* Current transactions showed a favourable balance of 1,320 million dollars during the year, with a merchandise trade surplus of around 1,900 million, while non-financial services showed a deficit of approximately 75 million. Factor payments also registered a negative balance of something over 500 million dollars. This arose from the remittance of profits and dividends amounting to approximately 130 million dollars and of interest for 500 million, while revenue under the same headings was around 125 million dollars (see table 36). Approximately two-thirds of the deficit on interest payments was due to outflows from the public sector.

(ii) *The capital account.* Movements of non-compensatory capital resulted in a net inflow of around 1,160 million dollars, of which 62% corresponded to financial operations of the public sector, 26% to net loans to the private sector and the rest to financing by suppliers.

Table 36

ARGENTINA: BALANCE OF PAYMENTS

(Millions of US dollars)

	1972	1973	1974	1975	1976	1977
Current account						
Exports of goods and services	2 315	3 723	4 583	3 532	4 560	6 560
Goods FOB	1 941	3 266	3 930	2 961	3 895	5 610
Services	374	457	653	571	665	950
Transport	137	203	337	199	282	450
Travel	79	87	109	154	164	212
Imports of goods and services	2 201	2 624	4 125	4 390	3 518	4 767
Goods FOB	1 685	1 978	3 216	3 510	2 784	3 741
Services	516	646	909	880	734	1 026
Transport	264	340	528	534	475	638
Travel	78	85	105	94	110	175
Net payments of profits and interest on foreign capital	– 333	– 395	– 333	– 429	– 450	– 508
Profits	– 61	– 78	– 36	– 16	– 20	– 131
Interest	– 272	– 317	– 297	– 413	– 430	– 377
Net private transfer payments	–	–	–	6	24	32
Balance on current account	– 219	704	125	– 1 281	616	1 317
Capital account						
Net external financing (a+b+c+d+e)	219	– 704	– 125	1 281	– 616	– 1 317
(a) Net external non-compensatory capital	48	171	78	284	– 244	
Direct investment	10	10	10	–	–	
Long- and medium-term loans	459	603	815	703	70	
Amortization payments	– 341	– 652	– 652	– 615		
Short-term liabilities	– 77	206	– 91	197	– 308	1 162
Official transfer payments	– 3	4	– 4	– 1	– 6	
(b) Domestic non-compensatory capital or assets	64	– 209	– 174	328	– 240	
(c) Errors and omissions	7	60	25	– 10	– 10	
(d) Allocation of SDRs	51	–	–	–	–	
(e) Net compensatory financing (– = increase)	49	– 726	– 54	679	– 122	– 2 479
Balance-of-payments loans, trade arrears, IMF loans, and other liabilities of the monetary authorities	286	176	111	359	936	– 262
Amortization payments	– 25	– 27	– 207	– 312		
Variation in gross international reserves (minus sign signifies an increase)	– 212	– 875	42	632	– 1 058	
Foreign exchange reserves (– = increase)	– 261	– 817	75	559	– 1 107	– 2 217
Gold reserves (minus sign signifies an increase)	65		– 13	13	–	
SDRs (minus sign signifies an increase)	– 16	– 58	– 20	60	49	

Sources: International Monetary Fund, and CEPAL, on the basis of official data.

The increase in the external indebtedness of the public sector was almost exclusively due to the State enterprises (970 million dollars).

In the private sector, the net reduction in loans subject to exchange insurance amounted to more than 550 million dollars, while the net increase in operations not subject to exchange insurance

reached 950 million. The net inflows through loans from international financial bodies amounted to 30 million dollars, 75°/o of these representing loans from the IDB to the private sector.

The balance of payments recorded a surplus of some 2.5 billion dollars with a net variation in reserves of about 2,220 million and a net outflow of compensatory capital amounting to 260 million (see table 36). In respect of the movement of compensatory capital, the largest payments were those made to the International Monetary Fund (approximately 115 million dollars) and amortization payments to banks in the United States, Europe, Canada and Japan (150 million dollars).

At the end of 1977 the total of international reserves in the Central Bank amounted to a little over 3,860 million dollars, of which 6°/o corresponded to gold and freely convertible currency, 78°/o to placements in foreign currency, 2°/o to Special Drawing Rights and 14°/o to foreign currency held under bilateral agreements.

4. *Prices, wages and employment*

(a) *The evolution of prices*

The variation in the consumer price index between December 1976 and December 1977 was 160.4°/o, a substantial reduction compared with the previous year, when there was an increase of 347.5°/o (see table 37). The equivalent annual rate of price increases in the last eight months of 1976 (156.7°/o) was, however, practically equal to that recorded in 1977.

In the first two months of 1977 the trend towards a speed-up of inflation which had begun in the last four months of 1976 continued. This prompted the authorities to declare a price freeze for four months from March onwards. During this period the monthly rate of inflation dropped to between 6 and 7°/o. From August onwards, however, there was once again an upswing in the rate of inflation (see table 38).

The new flare up of inflation has been attributed to various factors, such as the lifting of the price freeze, the big monetary expansion in the first half of the year and the reactivation of the economy, especially in the third quarter, together with exceptional increases in the prices of certain items which had a major impact on the consumer price index.

The wholesale price index followed a similar pattern, with an increase of 147°/o between December 1976 and December 1977. The reduction of price increases during the freeze was more marked in the case of wholesale prices, which might be explained by the fact that the freeze basically affected manufacturing firms and did not impose restrictions on the retail sector.

Among the various categories making up the consumer price index, the increase in the prices of domestically-produced non-agricultural goods amounted to 157°/o. Increases in the prices of agricultural and imported products were lower, reaching 130°/o and 127.5°/o, respectively.

The index of the cost of construction, which for the second year running increased more slowly than the price indexes mentioned above, registered an increase of 125°/o.[10]

Finally, the increase in the general level of tariffs of public enterprises offset to some extent the relative decline which they had suffered in previous years. There was a particularly sharp rise in the prices of communications and health services (see table 37).

(b) *Prices policy*

In accordance with the economic policy in force, the measures to reduce inflation during 1977 continued to be based on the application of overall policies.

Nevertheless, inflation continued at an increasing rate from the last quarter of 1976 and into the first two months of 1977, prompting the authorities to introduce at the beginning of March a new element into their policy: the call for a price freeze. This measure annulled the increases announced by the 430 leading companies as from 22 February and except in a few limited and specially authorized cases it froze the prices of their products for a period of 120 days. The freeze was presented as a necessary instrument for eliminating expectations of inflation, which the authorities regarded as mistaken.

[10] As the estimate of the labour component of this index is based solely on the agreed basic salaries it might be underestimated (see subparagraph (c): "Wage and employment policy and developments").

Table 37

ARGENTINA: EVOLUTION OF DOMESTIC PRICES

(Growth rates)

	December to December					*Variation between annual averages*				
	1973	*1974*	*1975*	*1976*	*1977*	*1973*	*1974*	*1975*	*1976*	*1977*
Consumer price index	*43.7*	*40.1*	*334.9*	*347.5*	*160.4*	*60.4*	*24.2*	*182.8*	*444.0*	*176.0*
Food and beverages	36.1	33.2	349.9	365.6	146.9	55.2	15.1	187.6	458.6	187.1
Clothing	44.9	79.7	318.0	290.3	129.3	57.0	54.6	190.5	424.8	109.5
Housing, fuels and electricity	166.9	18.3	122.3	453.7	339.6	166.2	11.2	80.2	276.9	447.1
Wholesale price index	*30.8*	*36.1*	*348.2*	*386.3*	*147.1*	*50.0*	*20.1*	*192.4*	*499.1*	*149.4*
Imported products	47.2	41.3	545.3	390.8	127.5	62.8	36.9	257.4	690.3	126.2
Domestic products	30.0	35.9	337.0	385.9	148.8	49.4	19.2	188.7	485.2	151.7
Agricultural	16.7	21.5	297.3	459.0	130.3	42.4	10.0	145.0	529.5	163.5
Manufactures	37.6	42.9	353.5	359.3	156.9	53.3	23.9	208.6	469.2	146.9
Construction cost	*61.3*	*63.4*	*378.3*	*218.1*	*124.9*	*72.2*	*38.8*	*251.5*	*360.6*	*97.4*
Charges of public enterprises	...	*53.5*	*345.3*	*308.3*	*187.9*	*77.0*	*67.9*	*191.9*	*358.8*	*174.5*
Fuels and energy	...	64.1	334.2	314.0	164.1	82.3	81.2	192.9	363.4	160.1
Fuels	...	72.4	347.4	281.6	164.6	88.3	91.6	203.9	342.9	153.4
Electricity	...	19.3	231.3	653.3	161.9	57.8	30.2	113.8	574.2	204.8
Transport and communications	...	30.9	371.2	294.4	252.8	68.0	40.5	186.4	349.9	213.1
Transport	...	14.5	418.9	289.1	165.5	74.4	27.7	186.4	412.0	151.6
Communications	...	47.9	333.0	299.5	334.3	61.9	53.7	186.4	296.7	281.0
Industry and services	...	8.1	579.0	277.3	210.0	36.5	22.2	301.0	236.0	321.2

Sources: National Institute of Statistics and Censuses, and National Enterprises Corporation.

Table 38

ARGENTINA: QUATERLY PRICE VARIATIONS

	Consumer price index	*Wholesale price index*	*Construction costs*	*Charges of public enterprises*
1976				
I	78.3	136.8	151.3	107.1
II	54.2	38.5	11.8	30.7
III	21.6	24.8	3.8	30.2
IV	33.9	18.8	9.1	15.6
1977				
I	25.8	26.5	30.9	17.9
II	21.5	19.9	9.5	45.1
III	29.4	27.6	29.0	21.0
IV	31.6	27.7	21.6	39.1

Sources: National Institute of Statistics and Censuses, and National Enterprises Corporation.

In view of the possibility that a general and simultaneous return to the system of free prices would provoke a sharp increase in prices, an attempt was made to secure a gradual return by lifting the freeze for different enterprises at different times and maintaining some kind of price regulation when the 120 days of its enforcement were over.

From the third quarter onwards, however, inflation flared up once more. In these circumstances emphasis was again placed on the application of restrictive monetary and fiscal policies. Towards the end of the year these policies were being fully applied, in combination with partial tariff reductions to modify prices in sectors where it was thought there was insufficient competition.

(c) *Wage and employment policy and developments*

It is difficult to estimate the evolution of real wages in 1977. Although there was a further drop in real agreed wages, various partial surveys conducted in the course of the year showed that wages in the sectors covered had risen appreciably more than was stipulated in the agreements. In view of the limited scope of this information, however, it is not possible to quantify the overall effect of this increase on the income of wage-earners.

In accordance with the policy in force, the agreed basic wages and the family allowance continued to be fixed officially. The 1977 wages policy was less severe than that of the previous year and in some sectors higher wages were paid than those officially authorized, especially in the metal-working industries during the rapid growth of the third quarter. Faced with this situation, the Government adopted in practice a more flexible wage policy so that the companies were able to pay higher wages than those officially agreed.

During the second half of the year there were no changes in agreed basic wages, so that workers' income increased almost exclusively as a result of the relaxation and greater flexibility of the wage policy, overtime payments and other benefits granted by the companies. As a result of this the evolution of wages was uneven, those of public employees noticeably lagging behind.

The rate of unemployment declined in the course of the year, as shown in table 39. Moreover the index of demand for labour, prepared by the National Institute of Statistics and Censuses on the basis of classified advertisements in the press, registered a favourable development, since after falling from an average value of 150 in 1974 to 62 and 57 in the next two years, it reached an average value of 125 in 1977.

Table 39

ARGENTINA: EVOLUTION OF UNEMPLOYMENT

(Percentage of economically active population)

	1974			1975			1976			1977		
	April	August	November	April	August	October	April	July	October	April	July	October
Capital and greater Buenos Aires	4.2	3.4	2.5	2.4	6.0	2.8	4.8	4.5	4.1	3.4	3.4	2.2
Rosario	4.7	...	3.8	5.3	...	5.7	5.3	...	4.1	3.5	...	2.6
Córdoba	7.0	...	5.4	6.1	...	7.2	6.5	...	5.4	5.9	...	4.0
Tucumán	10.5	...	7.5	8.4	...	6.9	7.4	...	5.6	7.2	...	4.6

Source: National Institute of Statistics and Censuses.

5. *Monetary and fiscal policy*

(a) *Monetary policy*

As stated earlier, the anti-inflationary strategy was mainly based on the management of the monetary policy, especially in the last part of the year. Thanks to this, the quantity of money increased by 138%, a much lower rate than that of 1976 and also lower than that of the domestic price increases (see table 40). The first half of 1977 can be clearly distinguished from the second half by the changes in liquidity, the factors influencing the monetary base, and the modification of financial rules with the consequent use of new instruments.

In the first six months of the year the system of nationalizing bank deposits ramained in force.[11] During this period, the surplus in the external sector, the financing of the fiscal deficit and the differences in exchange through the settlement of operations covered by exchange insurance produced a great increase in the monetary base. From the end of 1976 the Central Bank had taken certain steps to reduce the secondary expansion of liquidity by prohibiting the transfer of fixed-term deposit certificates between financial bodies and by establishing a requirement for a 10% reserve on this type of deposits. It was considered, however, that the existing system hampered the control of this expansion. The regulations on fixed-term deposits introduced at the end of 1976 resulted in a decline in their growth in the first quarter of 1977 and correspondingly greater growth in the bank acceptance market. Subsequently, requirements were laid down which limited the growth of acceptances in order to contain the growing liquidity of the financial system during this quarter.

In the early part of the year there was also an increase in interest rates owing to greater expectations of inflation. This rising trend was reversed in March as a consequence of the price freeze announced by the Ministry of the Economy.

The Government also stimulated the downward trend by means of the yields fixed for Treasury bonds and endeavoured to influence the structure of interest rates by offering lower returns for longer periods. This was not reflected in the time-deposits market, however, since inflationary expectations fell more in the case of the shorter periods.

In June there was a change in the financial system its chief characteristics being the decentralization of deposits, the freeing of active and passive interest rates and the fixing of a reserve of 45% on all types of deposits. Furthermore, a Monetary Regulation Account was established whereby the Central Bank pays interest on the reserves in respect of time deposits, while at the same time, a charge was established on the lending capacity arising from sight deposits.

[11] For a description of this system see the section on Argentina in the *Economic Survey of Latin America, 1974.*

Table 40

ARGENTINA: MONETARY POSITION

	End-year balance (billions of pesos)				*Growth rates*		
	1974	*1975*	*1976* [a]	*1977* [b]	*1975*	*1976*	*1977*
Money	*89*	*260*	*717*	*1 710*	*192.9*	*242.6*	*138.5*
Currency outside banks	43	124	289	703	187.1	231.2	143.2
Demand deposits	46	136	428	1 007	198.4	253.0	135.3
Factors of expansion	*178*	*506*	*1 758*	*5 839*	*183.9*	*315.8*	*352.1*
Foreign assets (net)	8	– 19	– 24	476			
Domestic credit	170	525	1 782	5 363	208.8	308.8	201.0
Government (net)	62	199	517	1 497	220.8	187.3	189.6
Official entities	8	34	67	210	295.4	116.3	213.4
Private sector	95	274	815	2 925	189.2	288.1	258.9
Exchange differences	4	18	383	731	294.2	2 364.7	90.9
Factors of absorption	*89*	*246*	*1 041*	*4 129*	*174.9*	*393.3*	*296.6*
Quasi-money (savings and time deposits)	80	181	835	3 652	124.1	433.5	337.4
Other net items	9	65	206	477	642.4	281.3	131.6

Source: Central Bank of Argentina.

[a] Figures up to 23 November 1976.
[b] Provisional figures up to 23 November 1977.

From July onwards there was a decline in the rate of expansion of the monetary base as a result of the reduced financing requirements of the Government and the lower surplus on external trade. In contrast, the demand for credits developed in the opposite direction. Private enterprises required more funds to finance a higher level of activity and to meet the expected increase in nominal interest rates. There was also the pressure exerted by public enterprises owing to Treasury restrictions on financing. At the same time there was an effort to sell Treasury bonds at the prevailing market interest rates, with a view to reducing the monetary effect of the fiscal dificit. These factors combined, in conjunction with the demand for funds on the part of banks and financial bodies in order to meet the reserve requirements imposed by the Central Bank, put pressure on the interest rates and the nominal rates rose considerably, thus increasing the demand for financial assets to the prejudice of that for goods.

The monetary policy, based on high nominal interest rates, led to a change in the structure of monetary resources,[12] since in December 1975 the cash held by the public plus demand deposits (M_1) had represented 62°/o and deposits at interest 18°/o; in December 1976 the respective shares were 43°/o and 25°/o, but towards the end of 1977 M_1 represented 34°/o of the total of monetary resources and deposits at interest 49°/o, the remaining 17°/o being represented by bank acceptances (1°/o) and Readjustable National Bonds and Treasury Bonds (16°/o).

(b) *Fiscal policy*

As in 1976, the management of public finances was one of the areas of economic policy to which the Government assigned a major role in its efforts to achieve the goal of stabilization. The fiscal deficit was regarded as the chief cause of the inflation registered in previous years, and in 1977 the Government proposed to continue its efforts to reduce it.

[12] Coins and bills held by the public, demand deposits, deposits at interest, bank acceptances and readjustable National Bonds and Treasury Bonds.

One of the aims of the fiscal budget for 1977 was to reduce the Treasury deficit to 3%[13] of the gross domestic product (in 1976 the deficit was around 8%), and to 27% of total expenditure (in 1976 it was 59%).

It was planned to reduce expenditure through the following mechanisms: (i) rationalization of public administration; (ii) reduction of subsidies to public enterprises, to be counterbalanced by increasing their charges in real terms; (iii) reduction of the federal contribution designed to meet the deficits of provincial budgets, to offset which it was proposed to increase provincial revenues through an adjustment of the tax base of the principal taxes and the reintroduction of other taxes traditionally applicable in that area; and (iv) the restriction of public works within the limits imposed by the non-inflationary funds available.

No fixed targets were established for the levels of employment in the public sector, the low salary levels being a sufficient motive for their reduction.

As regards revenue, reliance was placed on (a) the modifications to the tax system introduced the previous year –new national taxes, improved tax administration, greater protection of the tax system against inflation by means of the automatic indexing of tax debts, and less evasion in consequence of the foregoing measures and of firmer control, and (b) the initiation of a tax regulation period in order to collect sums unpaid in previous years owing to the then widespread practice of evasion.

In this context it was planned to exert throughout the year a total fiscal pressure (including Social Security contributions) of 25% of the gross domestic product.

The results of the year were satisfactory in many respects. Goals were achieved in respect of the Treasury cash deficit, which increased by only 25% in nominal terms and dropped in real terms to half the previous year's value (see table 41).

Although the volume of overall financing required by the Treasury was contained within the budgetary estimate, its structure differed considerably from what had been hoped for, mainly because of the sharp drop in net funds obtained through the sale of bonds, above all through the reabsorption of the Readjustable National Bonds (which were less in demand owing to the competition of fixed-term deposits in financial bodies, with positive interest rates in real terms), the expiry of the Readjustable Savings Bonds and the settlement of Investment and Foreingn Trade Bonds.

In real terms, expenditure in the second half of the year was less than in the first half, while at the same time revenues were higher. As a result, the financing of the dificit by the Central Bank was mainly concentrated in the first half of the year (89%), and especially in the second quarter (54%), one reason for this being the large quantity of public bonds withdrawn from the market at that time.

The reduction in expenditure was due to a lower volume of transfers to provinces, State enterprises and other bodies (-49% compared with the previous year) and lower wage and salary payments (-16%). On the other hand there was an increase in purchases of goods and non-personal services, interest payments on the public debt, and physical investment.

Transfers and other payments (often in the form of loans, advances, and guarantee payments) to the provinces, State enterprises and other entities continued to be the major expense of the Treasury, although their share in the total expenditure dropped in relation to former years. There was an increase in the tax revenues of the provinces and the State enterprises. In the case of the former this was mainly based on an increase in various tax rates and the linking of the taxable value of a property to its presumed sale value. At the same time, uniform basic tax criteria were laid down for all the provinces, among which were the indexing of tax debts and the strengthening of mechanisms for preventing evasion. The State enterprises, for their part, introduced plans for the rationalization of expenditure which, together with the lag in the evolution of wages, led to major reductions of personnel in many of them. Charges continued to be adjusted at monthly intervals in most cases, with a view to keeping them at level with domestic prices.

[13] This percentage refers to the deficit calculated according to the methodology of the National Treasury, i.e., including the amortization of the public debt as an expense and the funds obtained through the sale of bonds as revenue. In contrast, in this report the net sale of bonds is included under the heading of financing and the amount of the deficit is adjusted accordingly. The discrepancy between the two definitions of the deficit for accounting year ending in 1977 was 172 billion pesos, which represents about 30% of the deficit according to the methodology of the National Treasury (588 billions).

Table 41

ARGENTINA: CENTRAL GOVERNMENT INCOME AND EXPENDITURES

	Billions of pesos				*Growth rates*		
	1974	*1975*	*1976*	*1977*	*1975*	*1976*	*1977*
Current income	30	57	428	1 394	87.1	650.1	225.7
Tax revenue	28	47	370	1 196	72.5	678.9	223.6
Current expenditure	55	200	917	1 815	261.5	359.1	98.0
Wages and salaries	18	47	196	490	152.1	320.8	149.5
Other current expenditure	37	153	721	1 325	316.5	370.8	83.9
Current saving	– 25	– 143	– 489	– 421			
Capital expenditure	5	12	118	339	125.8	849.3	186.1
Real investment	2	6	54	184	193.2	711.5	239.5
Other capital expenditure	3	6	64	155	78.4	1 008.7	140.9
Total expenditure	61	212	1 035	2 154	249.1	387.9	108.0
Fiscal deficit [a]	– 30	– 155	– 608	– 760			
Financing of deficit							
Domestic financing	30	155	608	760	412.3	291.5	25.1
Central Bank	24	119	253	312	394.9	112.2	23.1
Unified fund for official accounts	4	20	111	231	431.3	467.8	109.0
Issue of securities [b]	2	16	242	172	574.6	1 412.8	– 28.8
Others	–	–	2	45	–	–	2 150.0

Source: National Treasury.

[a] The National Treasury calculates the deficit by considering "amortization of the public debt" as expenditure and "issue of securities" as income. According to this methodology, the deficit for 1977 amounts to 588 billion pesos.

[b] Less debt amortization payments.

This increase in current income was nevertheless insufficient to meet the needs of operating costs and the increased volume of investments. In the face of the firm determination of the Treasury to reduce transfers in accordance with the budget guidelines, this led to a high degree of indebtedness on the part of State enterprises and provinces with the banking system and the external sector.

Treasury payments in respect of wages represented only 23°/o of total expenditure (compared with an average of over 40°/o during the years 1968-1972), as a result of the decline in the real wages of public employees and the reduction in their number.

National tax revenues increased 41°/o in real terms. The coparticipation of the provinces in these taxes increased 58°/o, so that the tax revenues of the Treasury increased by 28°/o.

An important part of the increase of 41°/o in overall taxation –before deducting the share due to the provinces through coparticipation – resulted from the taxes on income and wealth, the yield of which increased by 96°/o in real terms: Indirect taxes increased by 29°/o in real terms, but this percentage drops to 19°/o if the additional revenues provided by tax regulation are discounted. The performance within this group was uneven. The real yield of taxation on foreign trade dropped 35°/o as a result of the elimination and reduction of tariffs in accordance with the policy of opening up the economy and liberalizing trade. The remaining indirect taxes increased 54°/o in real terms. The value added tax increased 37°/o as a result of an increase in the average rate and inproved control. The rest of the indirect taxes on domestic activity increased by 69°/o in real terms, mainly through the increase in tax revenue from fuels (70°/o) with the reorganization of the transfer procedure of the State oil company, which is the agent for collection.

As a result of these measures there was an increase in the importance of taxes on income and wealth (23°/o of the total compared with 19°/o in 1976 and 15°/o in 1975) and a reduction in the proportion of taxes on foreign trade (11°/o of the total compared with 22°/o in 1976 and 19°/o in 1975), while the weight of the other taxes on production, consumption and transaction remained unchanged.

BAHAMAS

1. *Main recent trends: Introduction and summary*

The available information on the economy of the Bahamas indicates that in 1977 there was a general increase in economic activity and a slackening of the rate of inflation, the average increase in consumer prices being 3%.

As regards sectoral activity, income from tourism increased slightly, although the total number of tourists went down by about 3%. Agricultural production increased for the second year running, thus responding positively to the Government's efforts to increase production and reduce the substantial expenditure on food imports. The construction sector also continued to be active, as a result of the programme of low-cost housing construction. Manufacturing, too, showed an increase.

Despite the increased economic activity and government policies designed to increase employment, it is estimated that in 1977 unemployment rose to 22%, continuing to be concentrated among those under the age of 20.

As regards the external sector, there was an appreciable surplus on current account and a 20 million dollar surplus on the overall balance of payments. At the end of 1977 the international reserves stood at 67 million dollars.

The domestic money supply increased by 16% –about three times as much as the growth rate recorded the year before. The increase in the means of payment was due principally to a shifting of funds from savings and time deposits to cash holdings or current accounts, and it did not appear to have any major repercussion on domestic prices.

Fiscal performance showed signs of deterioration over the first nine months of the year. Income went down, while expenditure increased, thus giving rise to a fiscal deficit equivalent to 18% of expenditure.

The Government's development policy is aimed mainly at diversifying production and exports and reducing dependence on tourism. To this end, efforts are being made to expand the exploitation of agricultural and marine resources, since the development of these activities will help to increase exports, reduce food imports, and create jobs. Efforts are also being made to promote the expansion of tourism, banking, insurance and sea transport.

In order to back up their diversification programme, the authorities are improving the rural infrastructure, the water and electricity systems, airports and ports, while the public education programme is also being reappraised with a view to adapting it to the needs of development. Particular priority has also been given in government programmes to housing construction, –especially for the lowest-income sectors– and sanitation works and programmes.

2. *Sectoral trends*

(a) *Tourism*

Tourism continues to be the most important economic activity of the country. It is estimated that in 1977 the number of visitors fell by a little under 3%: cruise visitors, in particular, went down by 13%. The other kinds of tourists, who are less numerous but who leave much more foreign currency in the country, increased by 2% (see table 42). The decline in the number of cruise passengers can probably be attributed to the reduction in the one-night cruises on gambling ships (which will be totally eliminated for 1978). The drop in the number of visitors to the Bahamas contrasts with the estimated 10-12% increase in world tourism in 1977.

In 1977 the percentage of United States visitors went down slightly and the proportion of European tourists increased slightly, while the number of Canadian visitors remained unchanged. The increase in the number of European tourists was due to the bigger promotional effort made in that continent and to the fall in the dollar, to which the Bahamas currency continues to be pegged in a 1:1 parity

Table 42

BAHAMAS: SELECTED DATA ON TOURISM

	1974	1975	1976	1977 [a]	Growth rates 1975	1976	1977 [b]
Number of visitors (thousands) [c]	1 316	1 324	1 345	1 201	0.6	1.5	- 2.5
Stop-over visitors	929	903	940	874	- 2.8	4.1	2.1
Cruise-ship visitors	387	421	405	327	8.8	- 4.0	- 13.1
Average length of stay days [d]	7.0	6.9	6.7	6.9	- 1.4	- 2.9	4.5
Total tourist expenditures (millions of dollars)	328	318	368	...	- 3.0	15.9	...
Stop-over visitors	311	299	351	...	- 3.9	17.7	...
Cruise-ship visitors	17	19	17	...	11.8	- 12.7	...
Number of hotel rooms available	11 612	9 639	11 007	...	- 17.0	14.2	...
Average hotel room occupancy rate [e]	63.7	60.4	64.3	...	- 5.1	6.5	...

Sources: Central Bank, of the Bahamas, *Quarterly Review,* September 1977; and CEPAL, on the basis of official data.

[a] Preliminary figures corresponding to the period Jannuary-November.
[b] January-November 1977 compared with similar period of 1976.
[c] Excluding transit visitors.
[d] Excluding cruise-ships visitors.
[e] Nassau. Occupancy rate for Grand Bahamas in 1974, 1975, 1976: 50, 56 and 53 per cent respectively; Family Islands; 40, 35 and 37 per cent.

As the spending of tourists who travel by air is appreciably greater than that of cruise-ship tourists, and as the average length of stay of the former increased to almost 7 days, it is estimated that the total revenue from tourism during the year must have been close to 400 million dollars.

The Government has set itself the objective of attaining tourism revenue of 500 million dollars in 1980. In order to achieve this, the 1978 budget of the corresponding Ministry was increased by 12% to 12 million dollars. In spite of this increase, however, the tourism budget has grown slower than inflation.

The Ministry of Tourism is taking measures to improve the tourist infrastructure and increase the percentage of tourists making repeat visit to the islands.

(b) *Agriculture*

The Government has assigned prime importance to the development of agricultural production. The aim is to make the country self-sufficient in food by 1980, so as to secure sustained economic growth, reduce expenditure on food imports, diversify the economy and improve the standard of living. It should be borne in mind that at present only about 6,000 people (about 7% of the labour force) work in agriculture, fishing, forestry and hunting.

It is estimated that the total amount spent on food in 1975 was over 74 million dollars, while the total value of food imports was approximately 59 million dollars. Consequently, in that year about 80% of the food consumed in the country was imported. The gradual process of clearing and sowing agricultural land has helped to increase production slightly.

The Government has started to adopt a number of measures to improve the agricultural performance. Among these are the construction of access roads; the improvement of inter-island sea transport services; the establishment of packing and storage services on the so-called "family islands", that is to say, the islands which do not form part of the main population centres of New Providence and Grand Bahama; the sponsoring of an agricultural research and development institute; expansion of agricultural education programmes, and the improvement of statistical data collection. At the same time, the

Government has fostered the improvement of credit facilities, the renting of land from the public domain, settlement programmes, and customs protection for goods produced in the country.

So far, the campaign has had a few concrete results. Thus, for example, in the last 18 months an extensive programme of land clearance has been carried out which has increased the productive area by 500 acres. This has resulted in an increase in the production of tropical fruit and vegetables (see table 43), and the value of the produce sent to the Government's produce market rose from less than 700,000 dollars in 1975 to 1.1 million dollars in 1976. Approximately one-third of the total production is traded through the produce market, so it is estimated that the total value of the production of fruit and vegetables must have been some 3 million dollars in 1976 and it is estimated that this figure increased further in 1977. Although the trend is encouraging, however, there is still a long way to go before reaching self-sufficiency in food supplies.

Table 43

BAHAMAS: INDICATORS OF AGRICULTURAL PRODUCTION

					Growth rates	
		1974	*1975*	*1976*	*1975*	*1976*
Transactions of selected commodities by the government produce exchange (thousands)						
Oranges and tangerines	(units)	1 064	16 551	1 053	1 456.3	- 94.0
Limes	(units)	825	1 156	1 815	40.1	57.1
Watermelons	(lb)	268	319	387	19.0	21.4
Pigeon peas	(lb)	41	94	132	128.9	41.1
Tomatoes	(bushels)	18	18	43	4.0	133.2
Onions	(lb)	900	419	640	- 53.4	52.8
Sweet potatoes	(lb)	105	213	197	103.0	- 7.2

Source: Department of Statistics of the Bahamas, *Agricultural Statistics Report*, several issues.

The faulty linkage between sectoral activities continues to be an obstacle to the attainment of better results. Thus, for example, although cold stores have been set up to store fresh fruit and vegetables and the Government has chartered ships to transport these among the islands, these ships do not have any refrigeration plant, so that the proportion of losses is high. Similarly, livestock are reared on Abaco island, but no suitable marketing channels have yet been established. The same sort of thing has happened with the production of peppers, pumpkins, cucumbers and tomatoes for export to the United States and Canada. It has not been possible to develop this activity to the full because of transport problems.

(c) *Manufacturing, mining and quarrying*

The manufacturing sector, made up mainly of light industries, has not shown any significant changes in its structure. It is estimated that output of manufactures increased by about 5% in 1977, but their relative importance within total production continues to be slight.

Oil refining –based on the import of crude oil and the re-export of refined products– continues to be the dominant activity. Even so, a considerable proportion of the installed capacity was not used because of the limited world market for refined products. It is estimated that in recent years the refinery has used approximately 36% of its production capacity.

Furthermore, the production of cement ceased some time ago: the local factory has gone out of business and cement has to be imported from Cuba, the United States and Haiti.

(d) *Construction*

Building activity is greatest in New Providence, where most of the new construction is of private dwellings rather than commercial and industrial buildings. Up to the end of the third quarter of 1977, the number of buildings begun in New Providence was 16°/o greater than the number for the same period of 1976, but the total value was 14°/o lower. The corresponding figures for the country as a whole were 15°/o and 8°/o, respectively (see table 44). The total value of buildings begun in 1977 is probably below the 1976 level, because more importance was given to the construction of low-cost dwellings and less to the construction of commercial buildings.

Table 44

BAHAMAS: INDICATORS OF CONSTRUCTION ACTIVITY

	1974	*1975*	*1976*	*1977* [a]	*Growth rates*		
					1975	*1976*	*1977* [b]
1. Number of building starts	634	603	637	557	- 4.9	5.6	15.3
New Providence	402	445	548	470	10.7	23.1	15.8
Grand Bahama	67	115	89	88	71.6	- 22.6	14.3
Other islands	165	43	...	...	- 73.9	...	...
2. Value of building starts (millions of dollars)	26	19	34	21	- 26.5	74.9	- 7.6
New Providence	18	15	31	18	- 15.4	105.2	- 13.7
Grand Bahama	5	3	2	3	- 41.1	- 27.7	55.0
Other islands	3	1	...	...	- 78.9	...	...

Source: Central Bank of the Bahamas, *Quarterly Review*, September 1977, and CEPAL, on the basis of official data.

[a] Preliminary figures corresponding to the period Jannuary-September.
[b] January-September 1977 compared with corresponding period of 1976.

3. *The external sector*

In 1977 the Bahamas maintained its traditionally favourable balance of payments position. Both the goods and services account and the current account showed a surplus for the third year running, and in spite of the net outflow of capital it was also possible to increase the international reserves during the year (see table 45).

Trade showed little dynamism, however. Exports of goods increased by little more than 1°/o, while imports increased even less, resulting in a drop of 9°/o in the deficit on the trade in goods. The surplus on non-factor services, for its part, which traditionally more than makes up for the negative balance on the trade in goods, showed little variation from the year before. As a result, the surplus on the goods and services account increased by 24°/o to 116 million dollars.

Among the exports, sales of petroleum continue to predominate, and in the first quarter of the year they represented 68°/o of the total, but their level was considerably lower than that recorded for the same period in 1976, and this tendency persisted during the second quarter of the year too. Preliminary information available, however, indicates that in the second half of 1977 there was a strong recovery in the petroleum trade. As regards other exports, those of prawns were an important source of income, although their relative weight in the total continued to be small (see table 46).

Table 45

BAHAMAS: BALANCE OF PAYMENTS

(Millions of US dollars)

	1973	*1974*	*1975*	*1976*	*1977*[a]
Current account					
Exports of goods and services	875	2 205	2 638	3 074	3 115
Goods FOB	531	1 796	2 220	2 602	2 640
Services	344	409	418	472	475
Transport	29	70	92	93	98
Travel	302	328	313	363	359
Imports of goods and services	847	2 210	2 577	2 981	2 999
Goods FOB	740	2 084	2 464	2 866	2 880
Services	107	126	113	115	119
Transport	37	44	40	38	38
Travel	22	23	24	23	25
Net payments of profits and interest on foreign capital	– 51	– 78	– 14	– 24	– 50
Profits	30	35	48	40	42
Interest	– 81	– 113	– 62	– 64	– 92
Net private transfer payments	– 20	– 20	– 15	– 16	– 17
Balance on current account	– 43	– 103	32	53	49
Capital account					
Net external financing (a+ b+ c+ d+ e)	43	103	– 32	– 53	–49
(a) Net external non-compensatory capital	94	115	37	7	
Direct investment	79	111	43	8	
Long- and medium-term loans	31	14	12	14	
Amortization payments	– 19	– 12	– 23	– 20	
Short-term liabilities					– 29
Official transfer payments	3	2	5	5	
(b) Domestic non-compensatory capital or assets	– 4	39	– 24	– 33	
(c) Errors and omissions	– 40	– 44	– 41	– 33	
(d) Allocation of SDRs	–	–	–	–	
(e) Net compensatory financing (minus sign signifies an increase)	– 7	– 7	– 4	6	– 20
Balance-of-payments loans, trade arrears, IMF loans, and other liabilities of the monetary authorities	–	–	–	–	–
Amortization payments	–	–	–	–	–
Variation in gross international reserves (– = increase)					
Foreign exchange reserves (minus sign signifies an increase)	– 7	– 7	– 4	6	– 20
Gold reserves (minus sign signifies an increase)	–	–	–	–	–
SDRs (minus sign signifies an increase)	–	–	–	–	–

Sources: 1973-1976: CEPAL, on the basis of data from the International Monetary Fund;
1977: CEPAL, on the basis of official data.

[a] Preliminary figures.

The lack of dynamism of imports in 1977 is partially explained by the data for the first six months of the year, which show marked drops in the value of all the main categories of imports (see table 47). The decrease in imports of fuels, which represent 90% of the total, coincided with the drop in exports of these products over the same period.

The United States market took 93% of the country's exports in the first quarter of 1977, while over the same period it supplied 68% of total imports. The source of imports varies radically from

Table 46

BAHAMAS: EXPORTS OF DOMESTICALLY PRODUCED GOODS (FOB)

	Millions of dollars				*Percentage breakdown*		*Growth rates*		
	1974	*1975*	*1976*	*1977* [a]	*1973*	*1977*	*1975*	*1976*	*1977* [b]
Principal domestic exports									
Petroleum products	926	993	850	36	83.2	67.9	7.2	– 14.4	– 76.6
Hormones	38	26	19	10	5.4	19.3	– 31.6	– 26.2	24.4
Cement	15	7	6	1	4.1	1.3	– 54.0	– 14.5	– 75.9
Rum	14	14	4	2	3.8	4.6	– 0.7	– 70.6	60.0
Pulpwood	3	1	2	–	0.9	–	– 71.4	125.0	– 33.3
Crude salt	4	4	9	2	0.7	3.6	– 2.4	122.5	–
Crawfish	4	3	5	2	0.5	2.9	– 31.7	71.4	66.7
Other	5	4	–	–	1.4	–	– 20.0	–	–
Total [c]	*1 009*	*1 051*	*894*	*53*	*100.0*	*100.0*	*4.2*	*– 14.9*	*– 68.7*

Source: Data supplied to CEPAL by the Department of Statistics of the Bahamas.

[a] Preliminary figures corresponding to the period Jannuary-March.
[b] January-March 1977 compared with corresponding period of 1976.
[c] Excluding re-exports, which are quite substantial.

Table 47

BAHAMAS: IMPORTS OF GOODS (CIF)

	Millions of dollars (CIF)				*Percentage breakdown*		*Growth rates*		
	1974	*1975*	*1976*	*1977* [a]	*1973*	*1977*	*1975*	*1976*	*1977* [b]
Food, beverages and tobacco	79	70	83	33	9.6	2.9	– 11.8	18.3	–25.3
Petroleum and fuels	595	2 466	3 281	994	61.5	90.2	54.7	33.0	– 20.4
Chemicals	38	38	56	19	3.6	1.7	1.1	48.2	– 34.2
Manufactured materials	72	37	47	16	9.0	1.4	– 49.3	27.8	– 31.0
Machinery and transport equipment	69	45	49	19	9.5	1.8	– 34.7	8.7	– 19.5
Miscellaneous manufactured products	45	34	37	17	5.3	1.5	– 24.9	10.7	– 10.1
Other	11	8	7	3	1.5	0.5	– 31.8	– 5.3	– 12.8
Total	*1 908*	*2 697*	*3 560*	*1 102*	*100.0*	*100.0*	*41.3*	*32.0*	*– 20.8*

Sources: Department of Statistics of the Bahamas. *Quarterly Statistical Summary*, First Quarter 1977; Central Bank, *Quarterly Review*, September 1977; and CEPAL, on the basis of official data.

[a] Preliminary figures corresponding to the period January-June.
[b] January-June 1977 compared with corresponding period of 9176.

one year to another, however, depending on where the petroleum used to supply the national refineries comes from. Thus, in 1976 only 9%o of the oil purchased came from the United States.

It is estimated that the overall balance-of-payments surplus came to 20 million dollars, in contrast with the deficit of 6 million dollars recorded in 1976 The increase in international reserves in 1977 was several times greater than that recorded in the three-year period 1973-1975 (see table 45).

At the end of the year, the gross international reserves came to 67 million dollars, i.e., 43%o more than the figure for the end of 1976. In September 1977 the external debt of the Government came to 24 million dollars.

4. *Prices*

In 1977 the consumer price index in the island of New Providence rose by 3%o. The biggest increase (7%o) was recorded by the transport component, because of the increases in prices of fuels, insurance and new automobiles. Food only increased by 2%o, while housing rose by 3%o, as did clothing and footwear.

In the last two years there has been a marked decline in the inflationary process. However, price rises tended to accelerate anew in the last quarter of 1977. The variation between the 1976 and 1977 figures for December was close to 5%o and was greater than that recorded in the immediately preceding period (see table 48).

Table 48

BAHAMAS: EVOLUTION OF CONSUMER PRICES

	1972	*1973*	*1974*	*1975*	*1976*	*1977* [a]
Annual average						
Index (1970= 100)	112.0	117.9	133.3	147.0	153.3	158.3
Percentage change	7.1	5.3	13.1	10.3	4.3	3.3
December-December						
Index (1970= 100)	...	...	141.0	150.1	154.9	162.0
Percentage change	...	...	...	6.5	3.2	4.6

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

[a] Preliminary figures.

5. *Monetary and fiscal policy*

Events in the monetary and fiscal sector continued to be very important for the economy, both from the point of view of employment and from that of their effects on economic activity.

At the end of 1977, the domestic money supply was 16%o greater than at the end of 1976, when the means of payment increased only 5%o in the whole year. Cash in circulation increased by 14%o, while sight deposits rose by 17%o (see table 49).

During the year the expansion in the money supply was influenced by the conversion into cash of funds kept in savings and time deposits. As regards domestic credit, the liabilities of the private sector to commercial banks went down for the second year running, while net credit granted to the government also went down after having shown a very appreciable increase in 1976.

Table 49

BAHAMAS: MONETARY POSITION

	Balance at end of				Growth rates		
	1974	*1975*	*1976*	*1977* [a]	*1975*	*1976*	*1977* [a]
Money	*78*	*74*	*78*	*90*	*– 5.3*	*5.2*	*15.9*
Currency outside banks	19	20	21	23	4.1	2.0	13.7
Demand deposits	59	54	57	67	– 8.4	6.3	16.7
Factors of expansion [a]	*252*	*329*	*354*	*330*	*30.7*	*7.4*	*– 6.6*
Net international reserves	– 75	– 31	– 12	– 43	...	...	...
Domestic credit	327	360	365	373	10.3	1.4	2.3
Government (net)	59	62	89	88	6.1	42.7	– 1.1
Private sector	265	294	265	259	11.1	– 9.9	– 2.2
Other official entities	3	4	11	26	33.3	175.0	136.4
Factors of absorption	*174*	*255*	*276*	*240*	*46.8*	*8.1*	*– 13.0*
Quasi-money (savings and time deposits)	137	160	237	212	16.6	48.6	– 10.7
Other items (net)	37	95	39	28	158.4	– 59.6	–27.2

Source: International Monetary Fund, *International Financial Statistics,* April 1978.

[a] Preliminary figures.

At the beginning of 1977 the reserves and deposits of commercial banks exceeded the mininum cash and reserve requirements, because of the increase in the deposits made by the National Insurance Board. Subsequently, quite a high proportion of these funds was invested in an issue of government securities to the value of 30 million dollars, so that these liquid balances were reduced.

As regards the fiscal accounts, the overall deficit for the first nine months of 1977 was almost double that for the same period in 1976. The reason for the deficit was the drop in revenue, together with increases of 5 and 15% in the current and capital accounts, respectively (see table 50).

The Government generally generates current savings which are used to finance part of the capital budget. From September onwards, however, a slight current deficit was recorded, which is a sign of the deterioration in the fiscal performance in 1977.

Although capital expenditure increased by 15% during the first 9 months of the year, most of the increase reflected increased debt payments, since the expenditure on real investments went down by 22%.

In September 1977 the overall deficit represented 18% of total expenditure, compared with 10% in 1976.

Table 50

BAHAMAS: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	1974	1975	1976	1977 [a]	Growth rates 1975	1976	1977 [b]
Current income	*115*	*119*	*134*	*100*	*3.1*	*12.9*	*– 2.6*
Tax revenue	103	98	114	90	– 5.1	16.4	5.2
(Customs duties)	71	164	73	59	– 9.7	13.3	11.8
Non-tax revenue	12	21	20	11	73.0	– 3.8	– 40.3
Current expenditure	*112*	*116*	*128*	*101*	*3.7*	*9.5*	*5.0*
Consumption	91	97	107	84	6.7	9.5	8.9
Transfers and subsidies	14	17	18	15	15.4	9.7	5.6
Other	7	3	3	2	– 63.2	8.0	– 60.9
Saving on current account	*4*	*3*	*7*	*– 1*	*– 29.7*	*161.5*	–
Capital expenditure	*40*	*34*	*37*	*22*	*– 15.1*	*8.3*	*14.9*
Real investment	14	11	15	8	– 19.6	36.0	– 21.8
Debt amortization payments	4	12	10	13	167.4	– 12.2	52.9
Other capital expenditure	22	11	11	1	– 48.6	1.8	250.0
Total expenditure	*152*	*150*	*164*	*122*	*– 1.2*	*9.3*	*6.6*
Fiscal deficit	*– 37*	*– 31*	*– 30*	*– 22*	*– 14.8*	*– 4.5*	*89.6*
Financing of deficit							
Domestic financing	35	21	33	...	– 40.0	57.1	...
Government securities	15	17	27	...	13.3	58.8	...
Other	20	4	6	...	– 80.0	50.0	...
External financing	5	–	–	...	–	–	...
Other financing	– 3	10	– 3	...	–	–	...

Sources: Central Bank of the Bahamas, *Quarterly Review*, September 1977, and CEPAL, on the basis of official data.

[a] Preliminary figures.
[b] January-September, compared with corresponding period of 1976.

BARBADOS

1. *Main recent trends: Introduction and summary*

In 1977 the economy showed some recovery from the stagnation which it had suffered in 1976, and estimates of the gross domestic product at current prices indicate an increase of 10%o (see table 51). Since the consumer price index increased by 8%o, this would mean that the real gross domestic product grew slightly in 1977.

The major part of this increase came from traditional sectors such as sugar production and tourism rather than manufacturing or non-traditional exports. In 1977 the output of sugar increased by 16%o, while its price rose by 2%o, and there was also a marked recovery in income from tourism (tourist spending increased by 24%o), which helped in the growth of the gross domestic product.

Table 51

BARBADOS: MAIN ECONOMIC INDICATORS

	1972	1973	1974	1975	1976	1977 [a]
A. *Basic economic indicators*						
Gross domestic product at factor cost (millions of Barbados' dollars at current prices)	354	423	577	656	675	743
Population (thousands of inhabitants)	241	242	244	245	246	248
Per capita gross domestic product (Barbados' dollars at current prices)	1 469	1 748	2 365	2 678	2 744	2 996
	Growth rates					
B *Short-run economic indicators*						
Gross domestic product at current prices	10.0	19.5	36.4	13.7	2.9	10.1
Per capita gross domestic product	9.5	19.0	35.3	13.2	2.5	9.2
Terms of trade	1.6	0.6	33.5	24.1	- 41.8	- 6.6
Current value of exports of goods and services	25.0	16.9	26.3	18.2	- 7.1	6.0
Current value of imports of goods and services	14.0	18.7	15.8	11.1	5.8	15.6
Consumer price index						
December-December	10.4	26.0	41.2	13.4	3.9	9.9
Variation between annual averages	7.0	16.9	38.9	20.3	4.9	8.3
Money	8.5	13.6	14.7	21.1	9.6	3.3 [a]
Current income of government	...	...	10.7	28.2	4.0	17.5
Total expenditure of government	...	...	5.2	20.1	17.7	27.4
Fiscal deficit/total expenditure of government	...	...	17.5	14.2	22.2	28.2
	Millions of US dollars					
C. *External sector*						
Trade balance (goods and services)	- 43	- 52	- 47	- 39	- 66	- 97
Balance on current account	- 44	- 53	- 48	- 41	- 58	- 90
Variation in net international reserves	- 5.1	- 8.9	- 0.8	18.2	- 18.5	9.0
External debt [b]	11.8	15.9	26.7	27.2	28.0	28.8

Source: CEPAL, on the basis of official statistics.

[a] Percentage growth from January to October 1977 compared with similar period in 1976.
[b] Total external disbursed debt.

The results in both the manufacturing sector and agriculture were more modest. The index of total industrial production rose by 3%, while that of the manufacturing sector rose by only 1%, and the results for agriculture were patchy. Except in the case of sugar, as already mentioned, and some vegetables and root crops, agricultural production fell with respect to previous years.

The balance of payments significantly restricted Goverment policy. The deficit on current account increased by 56% because imports grew much more rapidly than exports (16% as against 6%), and this situation led to a slight devaluation of the Barbados dollar in the third quater of 1977, to the drawing of compensatory funds from the International Monetary Fund, and to the imposition of restrictions on the import of consumer durables. As a result of these measures, the net international reserves increased by 9 million dollars, after having fallen by 19 million in 1976.

The economic policy followed during 1977 was marked by two opposing trends. One of them, in the first half of the year, was expansionary and led to a notable increase in domestic credit and the money supply, resulting in a critical balance-of-payments situation, while as a reaction there was a

marked policy of contraction in the second half of the year which substantially reduced the money supply and the credit granted to the private sector.

Total government expenditure increased by 27°/o compared with 18°/o in 1976. In line with the Government's desire to stimulate investment, the rate of increase of capital expenditure was twice as high as that of current expenditure, contrasting with the almost identical rates recorded in 1976.

2. *Sectoral trends*

(a) *Agriculture*

In 1977 agriculture gave varying results. Sugar, which is the most import crop of the country, showed an appreciable improvement due both to an increase in output and a rise in the special bonus price paid on the European market. Several secondary crops maintained their 1976 levels but the production of cotton went down significantly.

Although the tendency towards a reduction in the area planted persisted, sugar cane production increased in 1977 (see table 52). The total area harvested went down by less than 1°/o, whereas the volume of cane milled was 14°/o higher than in 1976. The yield of cane per hectare rose to 65 tons, which is the highest figure recorded since 1970, when a yield of 71 tons per hectare was recorded. The 17°/o increase in sugar yields was due mainly to the favourable conditions in which harvesting was carried out and the abandonment of the practice of burning the cane fields. Furthermore, there were no major interruptions in the harvest nor serious labour conflicts. The only negative factor was and early drought which led to the loss of some 2,000 tons of sugar. As a result of these circumstances, the contribution of the sugar sector to the gross domestic product increased by 16°/o in 1977 (see table 53).

Table 52

BARBADOS: SUGAR PRODUCTION

	1974	*1975*	*1976*	*1977*	*Growth rates*		
					1975	*1976*	*1977*
Thousand of hectares reaped	16.8	16.1	15.9	15.8	– 4.2	– 1.2	– 0.6
Cane milled [a]	941	832	904	1 029	– 11.6	8.7	13.8
Sugar produced [a]	110	97	102	118	– 11.8	5.1	15.7
Yields [b]							
Sugar cane	56.0	51.7	56.9	65.1	– 7.7	10.1	14.4
Sugar	6.5	6.0	6.4	7.5	– 7.7	6.7	17.2

Source: Barbados Sugar Producers' Association and the Sugar Export Central Board. Published in Central Bank of Barbados, *Quarterly Report*, Vol. IV, N° 3, September 1977.

[a] Thousands of long tons.
[b] Long tons per hectare.

In recent years there has been a steady decline in deliveries of cane by small producers. Thus, the proportion of cane supplied by these farmers has gone down from 18°/o in 1975 to 17°/o in 1976 and 16°/o in 1977.

Preliminary data indicate that production of yams and sweet potatoes maintained the 1976 levels, while the production of onions rose because of improved cultivation techiques. The main drawback continued to be the losses due to the lack of suitable storage installations.

Table 53

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

	Millions of Barbados dollars			*Percentage breakdown*		*Annual growth rates*		
	1975	*1976*	*1977*	*1975*	*1977*	*1975*	*1976*	*1977* [a]
Sugar	95	45	52	14.5	7.0	82.0	– 52.6	15.6
Commerce	132	152	165	20.1	22.2	8.6	15.2	8.6
Government	94	110	118	14.3	15.9	5.1	17.0	7.3
Other	333	368	408	51.1	54.9	6.6	9.9	10.9
Total	*656*	*675*	*743*	*100*	*100*	*13.6*	*2.9*	*10.1*

Source: Central Bank of Barbados, *Quarterly Report*, vol. IV, No 2, June 1977.

As regards cotton, the yield dropped sharply from 1,224 pounds per hectare in 1976 to less than 200 pounds in 1977. These poor results were due to various factors, including difficulties in obtaining good quality seed, unsuitable cultivation practices, unfavourable climatic conditions, and the fact that part of the area usually used for growing cotton was assigned to sorghum by the Agricultural Development Corporation as part of an experiment in the production of that grain for forage.

In 1977 fishing went down by about 29% compared with the 1976 total, although the results obtained in shrimping were better than those of 1976.

Livestock raising, for its part, received a considerable boost in July, when a special farm was set up for breeding black-belly sheep. If this venture is successful, Barbados could become a regional supplier of first-quality breeding sheep.

(b) *Manufacturing, mining and quarrying*

In the period under consideration, this sector continued to contribute around 12% of the gross domestic product. Although total industrial production rose by 3%, the real product of the manufacturing sector, as measured by the index of manufacturing production only increased by 1% (see table 54).

Among manufactures, the most outstanding increases in production were those of beverages and tobacco (14%) and clothing (7%), which may be attributed to the winning of new foreign markets in response to the quantitative restrictions imposed within CARICOM. Production of petroleum derivates, in contrast, only showed a slight increase. Moreover, part of these increases was offset by the quite appreciable drop in the output of chemical products (-19%) and the drop in "other manufactures" (-5%).

As regards oil production, a new drilling programme began to be put into practice in September 1977, and by the end of the year five wells were being exploited. As a result, it was possible to satisfy 7% of total domestic requirements of crude from domestic production, while at the same time sales of natural gas to the Natural Gas Corporation increased by 2%. These sales, however, only represented two-thirds of the total amount of natural gas extracted.

During 1977, quarrying underwent and appreciable drop of 15%, in contrast with the increase of 81% recorded in 1976.

(c) *Tourism*

The recovery of tourism, which had begun in 1976, continued in the period under consideration, during which the total number of tourists (excluding cruise-ship tourists) increased by 19% (see table 55). This increase was quite satisfactory in view of the fact that the average annual increase of

Table 54

BARBADOS: INDICATORS OF MANUFACTURING PRODUCTION

	1974	1975	1976	1977	Growth rates		
					1975	1976	1977
Index of industrial production	*112.3*	*120.7*	*140.7*	*144.7*	*7.5*	*16.6*	*2.8*
Index of manufacturing production	*112.2*	*121.9*	*143.7*	*145.1*	*8.6*	*17.9*	*1.0*
Food	110.8	132.0	149.7	152.0	19.1	13.4	1.5
Beverages and tobacco	97.7	110.3	109.0	124.4	12.9	- 1.2	14.1
Wearing apparel	122.1	128.2	158.6	169.0	5.0	23.7	6.6
Chemicals	...	119.5	134.9	109.8	...	12.9	- 18.6
Petroleum products	...	116.3	114.9	115.5	...	- 1.2	0.5
Other manufacturing	116.1	129.2	174.4	165.1	11.3	35.0	- 5.3
Electricity and gas	119.3	125.7	134.1	153.0	5.4	6.7	14.1
Quarrying	71.2	53.1	96.3	81.5	- 25.4	81.4	- 15.4
Production of some important manufactures							
Lard [a]	2.7	2.5	2.6	2.7	- 7.4	4.0	3.8
Margarine [a]	3.7	3.9	3.8	4.3	5.4	- 2.6	13.2
Animal feed [a]	46.2	62.7	76.3	84.5	35.7	21.7	10.7
Rum [b]	1.7	1.8	1.9	2.3	5.9	5.6	21.1
Beer [b]	1.4	1.3	1.3	1.6	- 7.1	-	23.1
Malt beverages [b]	0.9	0.6	0.6	0.7	- 33.3	-	16.7
Cigarettes [a]	0.3	0.5	0.4	0.4	66.7	- 20.0	-
Natural gas production [c]	68.0	75.0	147.0	148.0	10.3	96.0	0.7
Crude petroleum [b]	2.5	5.2	6.1	5.2	108.0	17.3	- 14.8
Gasoline [b]	12.5	12.8	13.1	13.8	2.4	2.3	5.3
Diesel oil [b]	15.1	18.0	15.0	8.9	19.2	- 16.7	- 40.7
Fuel oil [b]	10.3	8.1	11.7	21.7	- 21.4	44.4	85.5
Electricity generated [d]	196.0	207.0	214.0	246.0	5.6	3.4	15.0

Sources: Statistical Service, Barbados, *Monthly Digest of Statistics,* and CEPAL, on the basis of official data.

[a] Millions of pounds.
[b] Millions of gallons.
[c] Millions of cubic feet.
[d] Millions of kWh.

world tourism in 1977 was between 10 and 12%. The number of cruise-ship tourists, whose contribution to the country's economy is relatively slight, only increased by 4%, and the absolute figures were still bellow those for 1974.

In addition to the fact that the number of tourists increased, it is estimated thattheir average stay increased to 10 days (a little more than in 1976), while the hotel room occupation rate is estimated to have increased to 56%. This increase is all the more significant when it is noted that hotel capacity increased by 6% in 1977.

In spite of this increase in tourist activity, greater irregularity was observed in tourist arrivals, and this adversely affected the flow of foreign currency and the levels of employment in the tourist industry.

It is estimated that tourist spending increased by 24%. This increased inflow of foreign currency contributed considerably to the reduction of the balance-of-payments deficit in 1977, but some disturbing features still persisted.Thus, for example, the average per capita expenditure by tourits only increased by 4%, which represents a drop of a little under 4% at constant prices, and this situation has been recurring for several years now (see table 55).

Table 55

BARBADOS: INDICATORS OF TOURISM

	1974	1975	1976	1977	Growth rates		
					1975	1976	1977
Number of tourists (thousands)	231	222	224	267	- 4.0	1.3	19.0
Arrivals from (thousands):							
Canada	77	76	73	87	- 2.2	- 3.3	19.0
United States	66	55	56	67	- 17.1	2.0	19.1
CARICOM	38	38	36	42	-	- 6.8	19.2
Other countries	50	53	59	71	6.0	11.3	20.3
Estimated tourist expenditure (millions $BD)	157	156	166	205	0.4	6.0	24.0
Average tourist expenditure ($BD)	679	704	737	768	3.8	4.6	4.2
Hotel bed occupancy rate (percentages) [a]	55.6	49.5	44.7	55.8	- 11.0	- 10.0	24.8
Average length of stay (days)	9.1	8.6	8.5	9.7	- 5.5	- 1.2	14.1

Sources: Statistical Service, Barbados; *Montly Digest of Statistics;* and CEPAL, on the basis of official data.

[a] Includes occupancy rates for hotels, apartments, cottages and guesthouses.

3. *The external sector*

The deterioration of the trade balance continued, although a little slower than the year before. Thus, the deficit came to 97 million dollars, which is 47°/o more than the deficit of 66 million recorded in 1976, which in its turn was nearly 70°/o higher than in 1975. Imports increased by about 10°/o in both 1976 and 1977, but in 1977 exports increased by 6°/o in contrast with the drop of 3°/o recorded in 1976 (see table 56).

The increase in exports was due mainly to the rise in income from sugar exports. Almost 60°/o of the total sugar output was exported to the EEC at the special bonus prices provided for in the Lomé Convention, which were readjusted by 2°/o in May. This higher income from sugar sales to the EEC more than made up for the drop of 30°/o in the prices of the remaining sugar exports. The partial information available indicates that sugar exports only increased by 3°/o (see table 56), but it is estimated that their value at the end of the year was close to 33 million dollars, which would mean that they had increased by about 10°/o during 1977.

Traditional exports –including sugar and sugar products– dominated trade flows and accounted for about 40°/o of total exports. They only increased by 2°/o, however, whereas non-traditional exports rose by almost 20°/o, thus raising their share of the total to 24°/o in 1977. To some extent this apparent tendency towards diversification of exports may be attributed to a vigorous export promotion campaign effected outside the CARICOM market, as a result of which it was possible to increase exports of clothing and textiles by 23°/o, i.e. more than any other line of production.

In contrast with the slow growth of exports, imports continued to increase rapidly because of significant increases in both prices (7°/o) and volume (10°/o) (see table 57).

The price fluctuations of both imports and exports resulted in a deterioration of 7°/o in the terms of trade. This second consecutive drop brought the terms of trade index below the 1970 level.

The effects of this deterioration were offset in part by the improvement in the tourism sector. As already noted, not only did the number of tourists increase significantly but their total spending also increased 24°/o, in spite of a drop in the average real expenditure per tourist.

Table 56

BARBADOS: EXPORTS OF GOODS

	1974	1975	1976	1977[a]	Percentage composition		Growth rates		
					1974	1977	1975	1976	1977[b]
Principal traditional exports	*34.4*	*57.8*	*35.3*	*29.9*	*40.0*	*37.8*	*68.0*	*– 38.9*	*2.4*
Sugar	26.0	48.1	26.8	24.1	20.3	30.5	85.0	– 44.3	2.6
Molassas	4.6	5.9	4.7	2.4	5.3	3.0	28.3	– 20.3	– 17.2
Rum	2.5	2.2	2.2	2.1	2.9	2.6	– 12.0	-	23.5
Lard, margarine	1.3	1.6	1.6	1.3	1.5	1.6	23.1	-	18.2
Principal non-traditional exports	*12.4*	*17.1*	*18.6*	*19.1*	*14.5*	*24.2*	*37.9*	*8.8*	*18.6*
Clothing	9.2	13.4	12.3	13.3	10.7	16.9	45.7	– 8.2	23.1
Electrical components	3.2	3.7	6.3	5.8	3.8	7.4	15.6	70.3	9.4
Other exports	*38.9*	*34.1*	*32.4*	*29.8*	*45.4*	*37.9*	*– 12.3*	*– 5.0*	*37.3*
Total	*85.9*	*109.0*	*86.3*	*78.8*	*100.0*	*100.0*	*26.9*	*– 20.8*	*17.6*

Sources: External trade publications of the Statistical Service, Barbados, and official data supplied to CEPAL.

[a] Preliminary data corresponding to the period January-September 1977.
[b] Corresponds to the first nine months of 1977, compared with the same period in 1976.

Table 57

BARBADOS: MAIN FOREIGN TRADE INDICATORS

	1972	1973	1974	1975	1976	1977
	Growth rates					
Exports of goods						
Value	12.9	27.1	40.5	40.4	– 21.3	0.8
Volume	6.8	11.0	– 20.6	1.0	31.2	1.0
Unit value	5.6	14.4	77.1	39.0	– 40.0	– 0.1
Imports of goods						
Value	13.8	19.2	21.6	6.3	– 1.0	17.8
Volume	9.5	4.9	– 8.4	– 5.0	– 3.9	10.1
Unit value	3.9	13.7	32.7	11.9	3.0	7.0
Terms of trade	1.6	0.6	33.5	24.2	– 41.8	– 6.6
	Indexes (1970= 100)					
Terms of trade	108.5	109.1	145.7	180.8	105.3	98.3
Purchasing power of exports of goods	104.8	110.8	134.3	145.7	113.3	106.8
Purchasing power of exports of goods and services	121.4	126.8	123.3	128.6	119.3	118.2

Source: CEPAL, on the basis of official data.

The increase in imports is attributable both to this recovery of tourism, which is a sector involving a high content of imported goods, and by the bigger oil imports. Thus, in the first nine months of 1977 oil imports increased by 48%, due largely to increased volume, since oil prices increased about 5%.

Faced with this growing trade deficit, the Government adopted a series of corrective measures in the second half of the year. Import duties were established for certain consumer goods, and the terms of payment of credits for the acquisition of consumer durables, which are mostly imported, were shortened. In addition, a slight (0.4%) devaluation of the Barbados dollar with respect to the United States dollar was carried out in the third quater. The variation in the exchange rate as weighted by the trade of the main countries with which Barbados has transactions[14] was 6% (see table 58).

Table 58

BARBADOS: REAL EXCHANGE RATES

	Nominal exchange rate [a]		*Consumer price index*		*Real exchange rate* [a b]		*Percentage change* [c]	
	1976	*1977*	*1976*	*1977*	*1976*	*1977*	*Nominal*	*Real*
Weighted exchange rate [d]	1.75	1.85					5.7	
United States	2.00	2.01	146.6	156.1	1.19	1.17	0.5	- 1.7
United Kingdom	3.62	3.50	215.0	249.0	3.16	3.26	- 3.3	3.2
Canada	2.03	1.89	153.2	165.4	1.26	1.17	- 6.7	- 7.1
Jamaica	2.20	2.21	209.7	233.0	1.87	1.93	0.5	3.2
Trinidad and Tobago	0.82	0.84	204.7	228.8	0.68	0.72	2.4	5.9
Guyana	0.79	0.79	154.6	169.4	0.50	0.50	–	–

Sources: International Monetary Fund, *International Financial Statistics*, and CEPAL, on the basis of official data.

a Cost, in Barbados dollars, of one unit of foreign currency (average for period).
b $(r \cdot p^f)/p^d$, where r = the nominal exchange rate; p^f = the price index of the foreign country; p^d = the domestic price index of Barbados.
c An increase signifies an effective devaluation of the Barbados dollar.
d Exchange rate weighted by share of industrial countries in overall trade flows.

(b) *The balance of payments*

The growth of imports, together with the relatively slower increase in exports, aggravated the trade deficit on trade and services, and the situation deteriorated still more as a result of the increase of 43% in net payments of profits and, above all, interests. Consequently the deficit on current account increased to 90 million dollars, which was 56% more than the 1976 deficit (see table 59).

During the year, however, there was a net inflow of non-compensatory capital of 99 million dollars, and this not only made it possible to cover the current account deficit but also to increase the international reserves by 9 million dollars. In the last quarter of 1977 it was necessary to obtain a compensatory loan of 8 million dollars from the International Monetary Fund.

[14] The countries included in the index were Canada, the United States, Guyana, Jamaica, the United Kingdom and Trinidad and Tobago. Altogether, these countries acquired 61% of the exports of Barbados and provided with 66% of its total imports.

Table 59

BARBADOS: BALANCE OF PAYMENTS

(Millions of US dollars)

	1972	*1973*	*1974*	*1975*	*1976*	*1977*
Current account						
Exports of goods and services	127.8	149.5	189.4	219.9	213.3	226.0
Goods FOB	37.7	47.9	67.3	94.5	74.4	75.0
Services	90.1	101.6	122.1	125.4	138.9	151.0
Transport	10.3	10.1	22.8	22.7	21.0	23.0
Travel	62.5	69.9	76.2	77.3	84.3	93.0
Imports of goods and services	170.6	201.7	236.6	258.5	279.5	323.0
Goods FOB	127.9	152.5	185.5	197.2	195.2	230.0
Services	42.7	49.2	51.1	61.3	84.3	93.0
Transport	19.2	22.3	25.7	31.7	50.9	57.0
Travel	4.7	6.1	5.9	6.9	8.2	9.0
Net payments of profits and interest on foreign capital	– 6.7	– 7.2	– 7.9	– 10.0	– 4.2	– 6.0
Profits	– 6.3	– 5.9	– 5.1	– 8.0	– 3.8	– 4.0
Interests	– 0.4	– 2.3	– 2.8	– 2.0	–0.4	– 2.0
Net private transfer payments	5.1	6.7	7.3	8.1	12.8	13.0
Balance on current account	– 44.4	– 52.7	– 47.8	– 40.5	– 57.6	– 90.0
Capital account						
Net external financing (a+ b+ c+ d+ e)	44.4	52.7	47.8	40.5	57.6	90.0
(a) Net external non-compensatory capital	24.9	38.9	6.0	28.3	31.1	
Direct investment	18.3	5.6	2.4	22.9	6.9	
Long- and medium-term loans	4.9	20.5	2.9	2.7	17.0	
Amortization payments	–	–	–1.4	– 0.1	–	99
Short-term liabilities	0.2	12.0	2.6	3.8	6.6	
Official transfer payments	1.5	0.8	– 0.5	– 1.0	0.6	
(b) Domestic non-compensatory capital or assets	– 4.4	– 9.3	– 1.6	– 0.6	– 3.8	
(c) Errors and omissions	17.3	14.2	42.6	31.0	11.8	
(d) Allocation of SDRs	1.5	–	–	–	–	
(e) Net compensatory financing (— = increase)	5.1	8.9	0.8	– 18.2	18.5	– 9
Balance-of-payments loans, trade arrears, IMF loans, and other liabilities of the monetary authorities	3.0	13.6	–	–	4.4	–
Amortization payments	–	–	– 9.3	– 8.5	–	–
Variation in gross international reserves (minus sign sinifies an increase)	2.1	– 4.7	10.1	– 9.7	14.1	– 9
Foreign exchange reserves (— = increase)	3.6	– 4.7	10.1	– 8.2	14.1	–9
Gold reserves (minus sign signifies an increase)	–	–	–	– 1.5	–	–
SDRs (minus sign signifies an increase)	– 1.5	–	–	–	–	–

Sources: 1972-1976: CEPAL, on the basis of data from the International Monetary Fund;
1977: CEPAL, on the basis of official data.

(c) *External debt*

The external indebtedness of Barbados continued to increase slowly during the period under consideration. In the years since the oil crisis of 1974, the external debt has only risen 8%, and as a percentage of the gross domestic product it has actually declined (see table 60). Moreover, there has been a shift from private sources to official sources of capital. While loans from private sources have gone down by 13% since 1974, those from official sources have increased 125%. Only in the last two years, however, has this indebtedness to official sources included loans from multilateral organizations such as IMF and the World Bank, since most of the official loans were obtained on a bilateral basis.

Table 60

BARBADOS: INDICATORS OF EXTERNAL INDEBTEDNESS

	Millions of US dollars				*Growth rates*			
	1974	*1975*	*1976*	*1977*	*1974*	*1975*	*1976*	*1977*
Total external indebtedness [a]	26.7	27.2	28.0	28.8	67.9	1.9	2.9	2.9
Private sources	22.7	21.9	20.3	19.8	54.4	– 3.5	– 7.3	– 2.5
Official sources [b]	4.0	5.3	7.7	9.0	233.3	32.5	45.3	16.9
Servicing of external debt	4.5	3.7	3.4	5.7	275.0	– 17.8	– 8.1	67.6
Amortization	1.8	1.8	1.9	4.2	500.0	–	5.6	121.1
Interest	2.7	1.9	1.5	1.5	200.0	– 29.6	– 21.1	–
Total debt as percentage of GDP	4.6	4.1	4.1	3.9				
Debt servicing as percentage of exports of goods and services	2.4	1.7	1.6	2.5				

Source: World Bank.

[a] Includes only disbursed debt. Balance at end of year.
[b] Both bilateral and multilateral sources.

In 1977 external debt servicing rose by 68%, but even so it only represented 3% of total exports. Furthermore, the total amount of the debt was only equivalent to 4% of the gross domestic product (see table 60). Most of the increase in debt servicing corresponded to amortization payments; payments of interest remained at the 1976 levels.

4. *Domestic prices*

In 1977 the consumer price index rose by 8%, thus representing a resurgence of inflation after the notable reduction achieved in 1976 (see table 61). The increase was due both to domestic factors and to adverse circumstances in the external sector.

It is possible that the significant increase in the money supply which took place in the first half of the year may also have had some influence in this resurgence of inflation. Although the money supply only increased by 3% over the whole year, it increased by 14% during the first half of 1977 as a result of the expansionary monetary and fiscal policy applied during that period, and this must certainly have had an influence on the evolution of prices outside that period too.

Table 61

BARBADOS: EVOLUTION OF DOMESTIC PRICES

	1972	*1973*	*1974*	*1975*	*1976*	*1977*
Variation between annual averages	7.0	16.9	38.9	20.3	4.9	8.3
Variation December to December	10.4	26.0	41.2	13.4	3.9	9.9

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

With regard to influence from the exterior, it is worth noting the openness of the economy of Barbados, whose imports represented 87°/o of the gross domestic product in 1977, thus making the country very sensitive to imported inflation. In 1977 not only did the high rate of inflation of Barbados' main trading partners persist, but in the third quarter balance-of-payments problems made it necessary to devalue the Barbados dollar, so that, as already noted, the trade weighted exchange rate suffered a devaluation of 6°/o. Moreover, owing to the size of the external sector there can be no doubt that the price rises of imports brought about by the devaluation had their repercussions on domestic prices. The fact that the variation of prices between December 1976 and December 1977 was greater than the annual average confirms the importance of the effects of the devaluation on price levels.

5. *Monetary and fiscal policies*

The relatively slow growth of the gross domestic product in 1976 initially led the Government to adopt expansionary monetary and fiscal policies, but around the middle of the year it decided instead to apply policies in the opposite direction. As a result, the money supply rose only a little in 1977 and the fiscal deficit increased by 60°/o, which was only half the rise of the previous year.

During 1977 the means of payment increased by barely 3°/o, which was much less than the 10°/o increase in 1976 (see table 62). In the first half of the year the money supply increased by 14°/o, due exclusively to increases in domectic credit, while the international reserves went down. Domestic credit increased by 25°/o in the first 11 months of the year, especially that granted to the central goverment, which doubled during this period, while credit to the private sector, which accounted for about 80°/o of the total, increased by 13°/o.

Another indication of the level of effective demand is provided by commercial bank loans (see table 63). At the end of November 1977, this type of loan had increased by 13°/o compared with the figure for the end of December 1976. Personal loans accounted for a quarter of the total commercial loans. Within this category, loans for hire-purchase purposes increased by 20°/o, so that the Central Bank had to impose restrictions on the granting of credit for the purchase of consumer goods, in order to improve the balance of payments of the country. Despite the amount of personal loans, they grew relatively little, whereas loans to the manufacturing sector, commerce, tourism and government increased considerably more rapidly. Loans destined for activities connected with construction and tourism were stimulated, in particular, by the dynamism of the latter sector, whereas loans for agriculture remained unchanged.

Government expenditure continued to increase in 1977 (see table 64). With respect to the gross domestic product, total government expenditure increased from 31°/o to 44°/o between 1974 and 1977, and this increase was accompanied by changes in its structure. Thus, between 1974 and 1977 the share of capital expenditure rose from 18°/o to 24°/o of the total. In 1977, capital expenditure increased by 45°/o compared sith an increase of 22°/o in current expenditure. This increase in capital expenditure mainly reflected the Government's policy of diversifying the economy in order to make

Table 62

BARBADOS: MONETARY POSITION

	Balance at end of: (millions of Barbados dollars)				Growth rates		
	1974	*1975*	*1976*	*1977*[a]	*1975*	*1976*	*1977*[b]
Money	*88.3*	*106.9*	*117.1*	*123.1*	*21.1*	*9.5*	*3.3*
Currency outside banks	34.1	41.8	47.0	50.2	22.6	12.4	16.5
Demand deposits	54.0	64.7	69.4	71.7	19.8	7.3	– 4.9
Factors of expansion	*303.5*	*365.2*	*402.7*	*431.7*	*20.3*	*10.3*	*12.0*
Foreign assets (net)	6.8	42.5	2.9	– 13.2			
Domestic credit	296.7	322.7	399.8	444.9	8.8	23.9	24.9
Government (net)	29.4	29.3	65.7	98.3	– 0.3	124.2	104.4
Official entities	5.4	5.3	5.9	3.6	– 1.9	11.3	– 18.2
Private sector	261.9	288.1	328.2	343.0	10.0	13.9	13.0
Factors of absorption	*215.3*	*258.3*	*285.5*	*308.7*	*20.0*	*10.5*	*16.0*
Quasi-money (savings and time deposits)	223.6	259.2	281.8	300.9	15.9	8.7	6.9
Other items (net)	– 8.3	– 0.9	3.7	7.8			

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

[a] Position in November 1977.
[b] Variation between figures for November 1976 and November 1977.

Table 63

BARBADOS: DISTRIBUTION OF COMMERCIAL BANK CREDIT

	$BD millions				Growth rates		
	1974	*1975*	*1976*	*1977*[a]	*1975*	*1976*	*1977*[b]
Agriculture	20.6	22.3	26.2	26.3	8.3	17.5	0.4
Mining and quarrying	1.2	3.4	4.2	4.2	183.3	23.5	–
Manufacturing	26.9	28.4	24.9	32.7	5.6	– 12.3	31.3
Commerce	55.2	51.5	51.9	64.2	– 6.7	0.8	23.7
Construction	35.4	33.3	35.4	38.5	– 5.9	6.3	8.8
Tourism	29.4	37.5	45.5	56.1	27.6	21.3	23.3
Government	10.8	9.3	10.2	12.1	– 13.9	9.7	18.6
Public utilities	7.8	12.5	19.5	19.5	60.3	56.0	–
Personal	63.4	74.4	88.2	92.3	17.4	18.5	4.6
Other	23.0	22.5	23.5	26.9	– 2.2	3.6	15.5
Total	*273.7*	*295.1*	*329.5*	*372.8*	*7.9*	*11.6*	*13.1*

Sources: Central Bank of Barbados, *Economic and Financial Statistics,* April 1977, and official data supplied to CEPAL.

[a] Figures as at end of November.
[b] Variation between November 1976 and November 1977.

it less dependent on sugar exports and tourism. The nature of current expenditures also showed a similar trend. Between 1974 and 1977 the social expenditures of the Government on education, health and social security dropped steadily from 56°/o to a little over 50°/o of total expenditure, whereas economic services acquired increasing importance. In 1977 the growth rates of payments in respect of interest and economic services occupied the first and third positions, respectively among all types of expenditures.

Government revenue also increased in the year under consideration, but slower than expenditure. As a result, the total deficit of the Government increased by 60°/o, and it would have been still greater if there had not been a reduction of government expenditure in the last quarter of the year (see table 64).

Table 64

BARBADOS: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of Barbados dollars				*Growth rates*		
	1974	*1975*	*1976*	*1977*	*1975*	*1976*	*1977*
Current income	*151* [a]	*194*	*202*	*237*	*24.2* [b]	*4.7*	*17.3*
Tax revenue	136	172	179	204	29.9	4.1	14.0
Direct	70	84	88	91	17.5	4.8	3.4
Indirect	37	57	52	72	69.3	– 8.8	38.5
On foreign trade	29	31	39	47	6.1	25.8	20.5
Current expenditure	*150*	*175*	*207*	*253*	*16.7*	*18.3*	*22.2*
General public services	25.6	34.5	38.8	38.7	34.8	12.5	0.3
Education	38.2	41.0	51.0	57.4	7.3	24.4	12.5
Health	28.3	32.1	37.2	40.2	13.4	15.9	8.1
Social security	17.3	19.3	22.9	32.9	11.6	18.7	43.7
Economic services	22.8	24.2	30.4	41.9	6.1	25.6	37.8
Debt service	12.9	15.3	18.0	30.1	18.6	17.6	67.2
Current saving	9	19	– 5	– 16			
Capital expenditure	*33*	*45*	*53*	*77*	*36.4*	*17.8*	*45.3*
Total expenditure	*183*	*220*	*260*	*330*	*20.2*	*18.2*	*26.9*
Fiscal deficit	– 32	– 26	– 58	– 93			

Sources: Central Bank of Barbados, *Economic and Financial Statistics,* December, 1977, and official data supplied to CEPAL.

[a] Fiscal year April 1974 to March 1975.
[b] Percentage change between fiscal year 1975-1976 and previous fiscal year.

Some changes were made in the structure of the taxation system. For example, the proportion of revenue accounted for by direct taxes dropped from 51°/o to 45°/o between 1974 and 1977, whereas indirect taxes rose over the same period from 27 to 35°/o. Taxes on external trade remained relatively unchanged over the period. In 1977 the transfer taxes on 39 items were raised, as also was the sales tax in hotels and restaurants.

BOLIVIA

1. *Main recent trends: Introduction and summary*

Although in recent years the Bolivian economy has been growing rapidly, its dynamism slowed in 1977 and the growth rate of the product dropped to less than 5% from an annual growth rate of nearly 7% during the period 1973-1976 (see table 65).

The slow growth of the agricultural sector and the drop in the mining product were the reasons for the decrease in the general growth rate. In view of the importance of both sectors for the country's economy, variations in their rate of activity have special significance and implications. In

Table 65

BOLIVIA: MAIN ECONOMIC INDICATORS

	1972	*1973*	*1974*	*1975*	*1976*	*1977*[a]
A. *Basic economic indicators*						
Gross domestic product at factor cost (millions of US dollars at 1970 prices)	1 357	1 451	1 548	1 654	1 768	1853
Population (millions)	5.02	5.15	5.28	5.41	5.55	5.70
Per capita gross domestic product (US dollars at 1970 prices)	270	282	293	306	318	326
			Growth rates			
B. *Short-run economic indicators*						
Gross domestic product	5.1	6.9	6.7	6.8	6.9	4.8
Per capita gross domestic product	2.6	4.2	4.1	4.1	4.2	2.3
Gross income [b]	4.5	8.1	16.5	1.6	7.6	6.5
Terms of trade	– 2.7	9.6	59.5	– 20.5	2.9	5.9
Current value of exports of goods and services	13.3	32.0	111.7	– 15.9	19.3	14.6
Current value of imports of goods and services	14.6	18.8	56.7	37.5	6.6	16.4
Consumer price index						
December to December	23.6	34.8	39.0	6.0	5.5	10.5
Annual average variation	6.5	31.5	43.7	11.8	36.5	9.3
Money	25.1	34.3	43.7	11.8	36.5	9.3
Current income of government	21.7	85.6	107.0	12.2	20.3	6.9
Total expenditure of government	48.9	63.9	92.4	20.5	27.1	10.6
Fiscal deficit/total expenditure of government [c]	24.4	14.3	2.9	9.6	14.4	17.3
			Millions of US dollars			
C. *External sector*						
Trade balance (goods and services)	– 36	– 13	142	– 140	– 82	– 107
Balance on current account	– 53	– 31	108	– 167	– 128	– 183
Variation in net international reserves	5	– 10	125	– 38	56	32
External debt contracted	942	1 018	1 192	1 525	1 979	2511
Real external debt	681	708	786	883	1 107	1 426

[a] Preliminary figures.
[b] Gross domestic product plus terms of trade effect.
[c] Percentage.

addition to generating a considerable volume of the product, agriculture absorbs a large proportion of the population while mining produces more than 85°/o of the value of exports.

The evolution of the main variables of the external sector also reflected situations which merit some consideration. Although the prices of exports were very favourable during 1977, the balance of-payments current account showed a deficit of an unprecedented volume for Bolivia. Both essential and non-essential imports grew rapidly, establishing a mode of growth of the economy which the Economic and Social Development Plan 1976-1980 proposed to modify. The subsidy which benefits imports through the fixed exhange rate and freedom of exchange meant a very considerable constraint on the management of the economy. It was therefore necessary to resort to external financing which raised the level of the public external debt to more than 1,400 million dollars and that of the private debt to around 1,000 million dollars. The burden placed on the economy by the servicing of the debt began to be felt more in 1977, when amortization payments and interest on the public debt were equivalent to more than 26°/o of exports and exceeded the level of the country's reserves. The rate of growth of indebtedness (around 29°/o in 1977) indicates that debt servicing will in time weigh even more heavily on the balance of payments.

In the light of the performance of the main variables of the economic system it may be concluded that the intentions contained in the Development Plan and actual developments did not coincide in 1977 to the extent that they did in 1976, the first year of the Plan. The short-term economic policy came into conflict with problems –especially inflationary pressures– which prevented it from implementing the main lines of the Development Plan.

The inflationary pressures which were imminent at the end of 1976 yielded to the economic policy applied which brought them under control. Although prices increased during 1977 at a rate double that of the previous year, the level of inflation was fairly moderate. The freezing of wages, exchange stability and the flow of external financing, among other causes, made it possible to fend off the resurgence of inflation, while the measures directed at the absorption of liquidity also contributed to achieving this objective.

The lower rate of growth, the gap in the external sector and some decline in the labour sector's share of income distribution were apparently the main counterparts of the policy aimed at achieving stability.

It is not easy to determine if the events of 1977 constituted merely a temporary reduction in the dynamism which the Bolivian economy had acquired. The country's endowment of natural resources and the initiation of some projects which were being developed offer hopeful prospects. However, to recover the growth rate and discipline inflationary pressures, guarantee the purchasing power of wages during a phase of political readjustments and reduce the dependence on external financing certainly constitute hard tasks which are difficult to reconcile.

2. *Evolution of the economy*

(a) *Global trends*

Economic activity, as already noted, lost its dynamism in 1977 and the growth of the product which in recent years had reached annual rates of nearly 7°/o, was slightly less than 5°/o in 1977 (see table 66).

Overall supply, as a result, showed a slower rate of growth than in previous years, while the growth of exports was less than 6°/o, a rate which although higher than that of 1976 was far below those of 1974 and 1975 (29°/o and 22°/o respectively).

The performance of the economy from the point of view of overall demand reveals some events which merit consideration. The growth rate of investment fell, partly due to the fact that gross fixed investment did not increase at even half the rates recorded in the previous two years, although it grew more than the product. Consumption, on the other hand, which had increased very inadequately in 1976, in 1977 reached a growth rate of nearly 6°/o. With the increase in consumption and investment at higher rates than those of the product, the drop in the absolute value of exports is noteworthy.

The loss of dynamism of the economy can therefore be explained in part by the course followed by exports. The dissimilar movements indicated suggest that the linkage of economic activity is still inadequate.

The variations in the main components of global supply and demand during 1977 confirmed the trends observed when recent structures are compared with those of 1970. Investment, consumption and imports, as already noted did in fact register higher growth rates than the product in 1977, and had a larger share in that year than in 1970. The investment coefficient increased from 16°/o to 18.5°/o, the average propensity to consumption increased from 82°/o to 88°/o, and the import coefficient increased from nearly 21°/o to 27.5°/o. Exports, which dropped in 1977, reduced their share in the product (see table 66).

Table 66

BOLIVIA: TOTAL SUPPLY AND DEMAND

	Millions of pesos at 1970 prices			*Percentage breakdown*		*Growth rates*		
	1975	*1976*	*1977* [a]	*1970*	*1977* [a]	*1975*	*1976*	*1977* [a]
Total supply	*20 627*	*21 834*	*22 930*	*120.8*	*127.5*	*9.8*	*5.9*	*5.0*
Gross domestic product at market prices	16 057	17 162	17 986	100.0	100.0	6.8	6.9	4.8
Imports of goods and services [b]	4 570	4 672	4 944	20.8	27.5	21.9	2.2	5.9
Total demand	*20 627*	*21 834*	*22 930*	*120.8*	*127.5*	*9.8*	*5.9*	*5.0*
Domestic demand	17 323	18 168	19 318	100.2	107.4	13.8	4.9	6.3
Gross domestic investment	2 997	3 300	3 587	17.7	19.9	13.4	10.1	8.7
Gross fixed investment	2 794	3 141	3 323	15.9	18.5	13.2	12.4	5.8
Changes in stocks	203	159	264	1.8	1.4			
Total consumption	14 326	14 868	15 731	82.5	87.5	13.9	3.8	5.8
General government	2 093	2 112	2 287	11.2	12.7	10.9	0.9	8.3
Private	12 233	12 756	13 444	71.3	74.8	14.4	4.3	5.4
Exports of goods and services [b]	3 304	3 666	3 612	20.6	20.1	– 7.1	11.0	– 1.5

Sources: 1970-1976: CEPAL calculations on the basis of figures supplied by the Central Bank of Bolivia.
1977: CEPAL estimates on the basis of preliminary data from the same source.

[a] Preliminary figures.
[b] 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 CEPAL for the purpose.

The structural changes observed reflect fairly faithfully the steadiest trends of the Bolivian economy in the present decade to date. From this point of view, the picture of macroeconomic equilibrium in 1977 is fairly different from that of 1976, which was a year of notable dynamism in export activity, when the growth rate of fixed investment was nearly double that of the product. At all events, the weight of external trade conditioned –although not exclusively– the evolution of the most representative variables of economic activity.

(b) *Sectoral developments*

The performance of the different goods-producing sectors in 1977 was also very different from that of the previous year, since in contrast with the growth rate of more than 7°/o registered by these sectors as a whole in 1976, they only expanded by slightly over 2°/o in 1977. All four of the sectors making up the basic product of the economy showed results which were very inferior to those of 1976 (see table 67).

Table 67

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

	Millions of pesos at 1970 prices			*Percentage breakdown*		*Growth rates*		
	1975	*1976*	*1977* [a]	*1970*	*1977* [a]	*1975*	*1976*	*1977* [a]
Agriculture	2 300	2 433	2 467	16.9	14.9	6.7	5.8	1.4
Mining	1 681	1 799	1 748	14.9	10.6	- 9.2	7.0	- 2.8
Manufacturing	2 003	2 185	2 329	12.9	14.1	11.3	9.1	6.6
Construction	664	718	760	4.5	4.6	13.5	8.1	5.9
Subtotal goods	*6 648*	*7 135*	*7 304*	*49.2*	*44.3*	*4.0*	*7.3*	*2.4*
Electricity, gas and water	288	306	315	1.9	1.9	7.4	6.3	2.8
Transport storage and communications	1 378	1 483	1 606	8.9	9.7	8.5	7.6	8.3
Subtotal basic services	*1 666*	*1789*	*1 921*	*10.8*	*11.6*	*8.3*	*7.4*	*7.4*
Commerce, financial institutions and insurance	2 112	2 264	2 456	11.3	14.9	11.4	7.2	8.5
Real estate [b]	1 219	1 282	1 348	8.7	8.2	6.7	5.2	5.1
Community, social and personal services [c]	3 104	3 302	3 470	20.0	21.0	7.4	6.4	5.1
Subtotal other services	*6 435*	*6 848*	*7 274*	*40.0*	*44.1*	*8.5*	*6.4*	*6.2*
Total gross domestic product [d]	*14 933*	*15 963*	*16 729*	*100.0*	*100.0*	*6.8*	*6.9*	*4.8*

Sources: 1970-1976: CEPAL calculations on the basis of figures supplied by the Central Bank of Bolivia;
1977: CEPAL estimates on the basis of data from the same source, National Accounts Section.

[a] Preliminary figures.
[b] Refers to ownership of dwellings only.
[c] Also includes restaurants, hotels, and services provided to enterprises.
[d] As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

The low rate of growth of the agricultural sector is worthy of attention in view of the large proportion of the population working in it. The drop in the production of potatoes (-18%), manioc (-3%) oca (-18%), soya beans (-42%) and some vegetables determined the poor growth of the sector (see table 68). Two factors contributed to the decline in production of these goods: poor climatic conditions and the reduction of the area cultivated in the case of some important items.

The drop of nearly 3% in the product of the mining sector –which also includes the production of petroleum and natural gas– was a decisive factor in the decline in exports and to some extent in the loss of dynamism of the economy as a whole. In 1977 there was a drop in the production of: lead (-4%), copper (-28%), antimony (-11%), tungsten (-8%), petroleum (-15%) and gas (-2%). The drop of nearly 15% in petroleum production confirmed a disquieting trend which had its origins in the slow exhastion of some wells (see table 69). The "enclave" situation characteristic of most of the mining sector, despite the progress which the smelting plants have signified, means however that the variations in the product generated do not provoke simultaneous crises in the other sectors of the economy.

Manufacturing and construction showed lower growth rates compared with previous years, although they grew more rapidly than the product. In industry, numerous projects which in the recent

Table 68

BOLIVIA: INDICATORS OF AGRICULTURAL PRODUCTION

	1974	1975	1976	1977[a]	Growth rates 1975	1976	1977[a]
Index of agricultural production (1970=100)	*121.6*	*129.8*	*134.3*	*136.2*	*6.7*	*3.5*	*1.4*
Crop farming	121.5	129.5	130.0	129.0	6.6	0.4	-0.8
Forestry	166.5	160.0	140.4	143.8	-3.9	-12.3	2.4
Stock-raising	117.7	127.5	135.4	139.5	8.3	6.2	3.1
Hunting and fishing	102.0	120.2	125.2	130.9	17.8	4.2	4.5
Production of some important crops (thousands of metric tons)							
Sugarcane	2 050	2 336	2 248	3 556	15.4	-5.0	58.2
Cotton	27	22	13	15	-18.5	-40.9	15.4
Wheat	62	62	70	48	–	12.9	-31.4
Potatoes	749	834	824	679	11.3	-1.2	-17.6
Rice	...	119	113	107	...	...	-5.3
Barley	...	...	92	60	...	...	-34.8
Maize	277	...	342	299	...	...	-12.6
Quinoa	...	...	15	9	...	...	-40.0
Manioc	...	285	305	294	...	...	-3.6
Oca	...	...	55	45	...	...	-18.2
Soya bean	8	...	15	9	...	...	-40.0
Cotton seed	...	...	35	...	...	...	...
Peanuts	...	15	14	16	...	...	14.3
Tobacco	...	...	2	2	...	...	–

Source: Central Bank of Bolivia on the basis of data supplied by the Ministry of Peasant Affairs and the Ministry of Agriculture.

[a] Preliminary figures.

past absorbed a substantial proportion of investment are now maturing.[15] The most dynamic areas in the manufacturing sector were the basic metals industries, the production of non-metallic minerals, chemicals, rubber and plastics, and paper products and printing. Construction continued its trend of recent years with the building of apartment blocks for the high income sectors.

The two sectors producing basic services showed dissimilar performances in 1977. While the transport, storage and communications sector continued its high rate of growth (more than 8%), the electricity, gas and water sector did not achieve even 3%. However, the basic services as a whole showed a growth rate similar to that of previous years.

With regard to other services, there was only a very slight reduction in their growth rates compared with 1976. The commerce, financial institutions and insurance sector was the most dynamic not only of the services but of economic activity as a whole. Its high growth rates throughout the present decade reflect a mode of growth based on importing activity and the growth of financial institutions. Despite Government concern to reverse this form of growth in favour of the production of goods, as was clearly seen in the Development Plan, the short-term policy and consequently the operation of the market did not correspond to this line of action.

[15] CEPAL, *Economic Survey of Latin America, 1976*, Par Two, "Economic trends by countries, Bolivia", United Nations publication, Sales No E.78.II.G.1.

Table 69

BOLIVIA: INDICATORS OF MINING PRODUCTION

	1974	1975	1976	1977[a]	Growth rates		
					1975	1976	1977[a]
Production of some important minerals (thousands of fine tons)							
Tin	30.2	32.0	30.3	32.6	6.0	-5.1	7.6
Silver	155.0	160.0	169.0	183.0	3.2	5.6	8.3
Lead	19.5	18.0	19.2	18.4	-7.7	6.9	-4.0
Copper	7.2	6.2	5.1	3.7	-13.9	-18.0	-28.1
Bismuth	0.6	0.6	0.6	0.7	–	–	16.7
Antimony	14.9	16.1	17.0	15.2	7.9	5.8	-10.9
Tungsten	2.5	2.3	3.2	2.9	-7.9	37.7	-7.6
Zinc	49.4	48.8	53.0	60.8	-1.3	8.7	14.6
Energy products							
Petroleum (thousands of m^3)	2 640	2 342	2 362	2 015	-11.3	0.9	-14.7
Gas (millions of m^3)	4 081	3 888	4 360	4 271	-4.7	12.1	-2.0

Sources: Ministry of Mining and Metallurgy and Central Bank of Bolivia.

[a] Preliminary figures.

The analysis of the structure of production achieved in 1977, as compared with that of 1970, leads to considerations similar to those prompted by the variables of global supply and demand. Sectoral developments during 1977 confirmed the steadier trends observed in the decade: the growth of the goods-producing sectors was less than that of the other sectors, so that their share in the product dropped from 49°/o in 1970 to 44°/o in 1977, while services correlatively increased their share in economic activity (see table 67).

(c) *Fulfilment of the Economic and Social Development Plan 1976-1980*

The development of economic activity during 1977 was significantly different from the goals laid down in the Development Plan. During 1976,[16] the correspondence between objectives and achievements was manifest, and generally speaking, the real performance of the sectors was very similar to that planned. Developments in 1977, however, will naturally call for some modification of the Plan and a short-term economic policy aimed at correcting the line followed by the agents of the economic system.

It is natural that when the goals of the Plan and the results obtained in practice are compared year by year there should be some discrepancies, even quite large ones, but in 1977 distorsions were observed which went beyond the usual temporary maladjustments. The product was expected to show a growth of 7.5°/o in 1977, but according to the information available this growth did not reach 5°/o (see table 70). At the sectoral level, the differences were most pronounced in agriculture and mining. The agricultural product should have increased by more than 6°/o in 1977, but due to circumstances which were partly beyond the control of economic policy its real growth did not reach even a quarter of that percentage. The mining and hydrocarbons product, for its part, had an 8.4°/o growth target in 1977, but the preliminary estimate shows that it actually decreased by nearly 3°/o.

[16] See CEPAL, *op. cit.*

In energy, industry and construction, appreciable gaps may also be observed between the targets and the results obtained. Generally speaking, with the sole exception of the commerce and finance sector, whose performance was more dynamic than expected, the growth rates were in practice lower than those planned (see table 70).

Table 70

BOLIVIA: FULFILMENT OF THE DEVELOPMENT PLAN IN 1977

	Plan	*Actual results*
	Millions of 1970 pesos	
Gross domestic product	18 470	16 729
Gross investment	4 620	3 587
Exports of goods and services	3 086	3 442
Imports of goods and services	4 112	4 944
Total consumption	14 876	15 901
	Growth rates	
Product, by sectors		
Agriculture	6.4	1.4
Mining	8.4	-2.8
Hydrocarbons	8.4	
Manufacturing	10.0	6.6
Construction	7.5	5.9
Energy	7.4	2.8
Transport and communications	8.6	8.3
Commerce and finance	7.4	8.5
Ownership of dwellings	7.4	5.1
Services	6.5	5.1
General government	4.8	
Gross domestic product	7.5	4.8

Sources: Plan: information taken from "Síntesis del Plan de Desarrollo Económico y Social, 1976-1980", published in *El Diario*, 13 June 1976, actual results:
CEPAL estimates based on preliminary data prepared by the Central Bank of Bolivia.

3. *The external sector*

In view of the size of the export and import coefficients (20 and 28o/o respectively in 1977), and despite the still inadequate integration of the economic system, the evolution of the external sector played a significant role in the general course of the economy. It is, particulary appropiete, however, to distinguish physical flows from financial flows when analysing the external sector. In the evolution of the current economic situation, the prices in force are of capital importance, while in the longer-term analysis it is the amounts expressed in constant prices which are proponderant. The greater the differences, the more need there is to pay careful attention to both types of units of measurement.

In 1977, the prices of the main export products continued to be very favourable, so that the decrease in the physical quantum exported did not cause critical disequilibria in the economy.

Moreover, it must be borne in mind that Bolivia has constantly resorted to external indebtedness which has also allowed it to cope with the effects of the drop in real exports and face up to some increase in imports, which had already expanded very fast, especially in 1974 and 1975.

(a) *External trade*

The current value of exports of goods increased in 1977 by nearly 12°/o (see table 71). The increase of greatest significance was in tin (59°/o), while the most important decreases were in crude petroleum (-40°/o), and industrial exports (-16°/o). Illegal exports are noteworthy not so much for their volume as because of the large increase in them and their effects.

The increase in the total value of exports of goods was due to the rise in their prices (nearly 14°/o), which absorbed the drop in the quantum exported (-3°/o) (see table 72).[17]

The structure of exports in 1977 was considerably different from that observed in 1976. Tin increased its share of 33°/o in 1976 to nearly 47°/o in 1977, while in contrast crude petroleum's share dropped practically to half. Traditional exports as a whole had a larger share in 1977, while the share of non-traditional exports, both agricultural and industrial, declined (see table 72).

The current value of imports of goods went up by over 14°/o in 1977. The growth rates of imports of capital and intermediate goods were higher than those of imports of consumer goods (see table 73). Around three-quarters of the increase in the total value of imports was due to the rise in prices, since the quantum imported only increased by slightly over 3°/o (see table 72).

From the point of view of the structure of imports, the increasing share of consumer durables is noteworthy, as is their manifest content of luxury goods. While in 1970 these imports hardly exceeded 6°/o of the total, in 1977 they amounted to over 10°/o, a difference which acquires still greater importance if it is considered that total imports increased very rapidly in recent years. However, the increase in the share of capital goods is reasonable because of their strict correlation with the growth potential of the economy and import substitution (see table 73).

The evolution and volume of illegal imports should be noted. The Central Bank valued them at 65 million dollars in 1977, representing an increase of more than 8°/o over the year before.

The prices of Bolivia's external trade, as has been said, evolved favourably during 1977, although without surpassing the extraordinary situation of 1974. The terms-of-trade index achieved its highest value of the decade (with the exception noted) which meant an increase of nearly 6°/o compared with 1976, and as a result of this the purchasing power of exports –despite the drop in the quantum– reached a very high level (see table 72).

(b) *The balance of payments and the external debt*

During 1977, as in the previous year, the balance of the trade in goods showed a slight surplus while the balance of services substantially increased its chronic deficit. Exports of goods were nearly 5 million dollars up on imports of goods even though these came to the extraordinary sum of 644 million dollars, but the balance of services showed a deficit of more than 111 million dollars, i.e. 27°/o higher than in 1976 (see table 74).

Net payments of profits and interest on foreing capital continued to grow rapidly. In 1977, they reached the sum of 80 million dollars: nearly 60°/o higher than the previous year. It should be noted that while the repatriation of profits abroad dropped in 1977, interest payments increased by more than 100°/o and the policy of external indebtednes, as will be seen below, began to weigh heavily on the balance of payments.

The flows observed meant that the deficit on current account in 1977 came to the unprecedented amount of 183 million dollars. This was approximately 40°/o more than the previous year, and was equivalent to slightly over 25°/o of exports.

The financing of the deficit was amply covered by external indebtedness. Long- and medium-term loans reached the extraordinary level of 460 million dollars, 43°/o higher than the year before. This considerable influx of external financing made possible 123 million dollar's worth of amortization payments, an outflow of non-compensatory funds abroad totalling more than 84 million and an increase in the country's international reserves of nearly 34 million dollars (see table 74).

The flows characterizing the evolution of the external sector were very much influenced in recent years, and especially in 1977, by the policy of external indebtednes. Loans obtained abroad were equivalent in the last two years to more than 50°/o of the total value of exports, thus showing how

[17] The slight differences between the increases in the current value of exports and imports in tables 71, 72 and 73 are due to the different ways in which illegal trade was calculated and considered.

Table 71

BOLIVIA: VALUE AND BREAKDOWN OF EXPORTS OF GOODS (FOB)

	Millions of US dollars				*Percentage breakdown*			*Growth rates*		
	1974	*1975*	*1976*	*1977*	*1970*	*1976*	*1977*	*1975*	*1976*	*1977*
Main traditional exports	*495.1*	*392.0*	*481.0*	*548.0*	*95.4*	*83.7*	*85.4*	*-20.8*	*22.7*	*13.9*
Tin	183.7	135.4	187.8	298.2	44.6	32.7	46.5	-26.3	38.7	58.8
Other minerals	118.3	94.6	125.7	115.5	45.0	21.9	18.0	-20.0	32.9	-8.1
Crude petroleum	163.9	114.5	112.6	67.5	5.8	19.6	10.5	-30.1	-1.7	-40.1
Natural gas	29.2	47.5	54.9	66.8	–	9.5	10.4	62.7	15.6	21.7
Main non-traditional exports	*61.3*	*50.5*	*82.0*	*75.9*	*4.6*	*14.2*	*11.9*	*-17.6*	*62.4*	*-7.4*
Agricultural	42.1	35.4	47.0	46.6	4.2	8.1	7.3	-15.1	32.8	-0.8
Cotton fibre	19.2	15.5	10.2	14.1	0.4	1.8	2.2	-19.3	-34.2	38.2
Wood	11.3	8.8	8.3	9.8	0.8	1.4	1.5	-22.1	-5.7	18.1
Other exports	11.6	11.1	28.5	22.7	3.0	4.9	3.6	-4.3	156.8	-20.4
Manufactures	19.2	15.1	35.0	29.3	0.4	6.1	4.6	-21.4	131.8	-16.3
Illegal exports	*20.0*	*18.0*	*12.0*	*17.0*	–	*2.1*	*2.7*	*-10.0*	*-33.3*	*41.7*
Total	*576.4*	*460.5*	*575.0*	*640.9*	*100.0*	*100.0*	*100.0*	*-20.1*	*24.9*	*11.5*

Source: Central Bank of Bolivia.

Table 72

BOLIVIA: MAIN INDICATORS OF EXTERNAL TRADE

	1972	1973	1974	1975	1976	1977[a]
			Growth rates			
Exports of goods						
Value	11.7	32.8	114.2	-20.0	22.8	14.3
Volume	7.8	4.7	8.0	-13.4	14.7	-2.8
Unit value	3.6	26.9	98.4	-7.7	7.1	17.6
Imports of goods						
Value	7.9	20.4	54.5	41.4	9.2	14.5
Volume	1.7	3.6	24.3	25.1	4.9	3.2
Unit value	6.5	16.2	24.3	13.0	4.1	11.0
Terms of trade	-2.7	9.6	59.5	-20.5	2.9	5.9
			Indexes (1970= 100)			
Terms of trade	79.9	87.6	139.7	111.0	114.2	120.9
Purchasing power of exports (goods and non-factor services)	97.9	113.7	195.2	145.1	166.3	174.2

Source: CEPAL, on the basis of official data.

[a] Preliminary figures.

Table 73

BOLIVIA: VALUE AND BREAKDOWN OF IMPORTS OF GOODS (CIF)

	Millions of dollars				*Percentage breakdown*		*Growth rates*		
	1974	*1975*	*1976*	*1977[a]*	*1970*	*1977*	*1975*	*1976*	*1977[a]*
Consumer goods	*90.4*	*127.8*	*118.7*	*126.7*	*20.3*	*20.5*	*41.4*	*-7.1*	*6.7*
Non durable	52.7	67.5	62.7	64.9	14.1	10.5	28.1	-7.1	3.5
Durable	37.7	60.3	56.0	61.8	6.2	10.0	59.9	-7.1	10.4
Intermediate goods	*119.6*	*199.2*	*195.8*	*219.3*	*37.6*	*35.5*	*66.6*	*-1.7*	*12.0*
Petroleum and fuels	4.0	7.2	6.1	6.2	1.3	1.0	80.0	-15.3	1.6
Others	115.6	192.0	189.7	213.1	36.3	34.5	66.1	-1.2	12.3
Capital goods	*177.2*	*223.7*	*235.7*	*267.6*	*41.6*	*43.3*	*26.2*	*5.4*	*13.5*
Total[b]	*390.0*	*557.9*	*554.6*	*617.9*	*100.0*	*100.0*	*43.1*	*-0.6*	*11.4*

Source: Central Bank of Bolivia.

[a] Preliminary figures.
[b] Includes miscellaneous goods.

Table 74

BOLIVIA: BALANCE OF PAYMENTS

(Million of US dollars)

	1972	*1973*	*1974*	*1975*	*1976*	*1977* [a]
Current account						
Exports of goods and services	225	297	627	528	630	721
Goods FOB	203	270	578	462	568	649
Services	22	27	49	66	62	72
Transport	3	3	5	7	8	12
Travel	9	12	18	19	25	29
Imports of goods and services	261	310	485	667	711	828
Goods FOB	196	236	364	515	562	644
Services	65	74	121	152	149	184
Transport	35	40	72	99	87	105
Travel	11	14	24	26	31	38
Net payments of profits and interest on foreign capital	-22	-23	-37	-31	-50	-80
Profits	-6	-6	-16	-7	-17	-10
Interest	-16	-17	-21	-24	-33	-70
Net private transfer payments	5	5	3	3	3	4
Balance on current account	-53	-31	108	-167	-128	-183
Capital account						
Net external financing (a+ b+ c+ d+ e)	53	31	-108	167	128	183
(a) Net external non-compensatory capital	104	58	112	166	228	338
Direct investment	-11	5	26	53	12	9
Long- and medium-term loans	141	81	145	187	320	458
Amortization payments	-31	-43	-70	-78	-90	-123
Short-term liabilities	-4	5	–	-6	-25	-18
Official transfer payments	9	10	11	10	11	12
(b) Domestic non-compensatory capital or assets	-17	-6	-37	-18	-21	-84
(c) Errors and omissions	-33	-31	-58	-19	-23	-39
(d) Allocation of SDRs	4	–	–	–	–	–
(e) Net compensatory financing (— = increase)	-5	10	-125	38	-56	-32
Balance-of-payments loans, trade arrears, IMF loans, and other liabilities of the monetary authorities	12	28	1	12	4	2
Amortization payments	-9	-9	-5	-9	-25	...
Variation in gross international reserves (minus sign signifies an increase)	-8	-9	-121	35	-35	-34
Foreign exchange reserves (— = increase)	-6	-10	-119	41	-28	-35
Gold reserves (minus sign signifies an increase)	-1	–	-2	–	-7	–
SDRs (minus sign signifies an increase)	-1	1	–	-6	–	1

Sources: 1972-1976: CEPAL, on the basis of data from IMF, *International Financial Statistics Yearbook*, vol. 28.
1977: CEPAL, on the basis of official data supplied by the Central Bank of Bolivia.

[a] Preliminary figures.

far the purchasing power of exports was strengthened by additional funds which increased external payments capacity.

The other aspect of this inflow can be seen when it is observed that in 1977 the proportion of the total exports represented by amortization payments, short-term liabilities and interest amounted to nearly 30%, whereas in the period 1972-1976 this coefficient had remained below 23%. Its growing evolution over the last three years suggests that its weight in the balance of payments is beginning to involve an appreciable sum. If this trend is not modified, the servicing of the debt will become its own substantial feedback.

The evolution of the external debt speeded up considerably in recent years, especially after 1973, from which time export prices were extremely favourable. The external boom and the rising indebtedness therefore occurred simultaneously.

Table 75 shows the evolution of the debt contracted during the present decade. The annual growth rate in the last three years has fluctuated between 27 and 30%, and was significantly higher than that of the previous three years. The increasing share of private credit in external financing should be noted here. In 1970, private sources were practically not represented, while in 1977 nearly 28% came from this type of source. This fact naturally influenced the interest rates, the periods of grace, and the terms of the debt.

Table 75

BOLIVIA: EXTERNAL DEBT CONTRACTED, BY SOURCE OF CREDIT [a]

	Sources of credit				
	Multilateral agencies and governments	*Private banks*	*Suppliers*	*Rest*	*Total*
1970					
Millions of US dollars	458.4	1.4	143.4	67.4	670.6
Percentage	68.3	0.2	21.4	10.1	100.0
1971					
Millions of US dollars	537.7	25.4	151.7	67.3	782.1
Percentage	68.8	3.2	19.4	8.6	100.0
1972					
Millions of US dollars	640.2	39.9	194.3	67.4	941.8
Percentage	67.9	4.3	20.6	7.2	100.0
1973					
Millions of US dollars	671.5	50.2	228.9	67.4	1 018.0
Percentage	66.0	4.9	22.5	6.6	100.0
1974					
Millions of US dollars	758.8	128.5	237.1	67.4	1 191.8
Percentage	63.6	10.8	19.9	5.7	100.0
1975					
Millions of US dollars	950.2	294.9	212.0	67.4	1 524.5
Percentage	62.3	19.4	13.9	4.4	100.0
1976					
Millions of US dollars	1 175.9	441.0	294.4	67.4	1 978.7
Percentage	59.4	22.3	14.9	3.4	100.0
1977 [b]					
Millions of US dollars	1 392.1	690.9	360.3	67.4	2 510.7
Percentage	55.4	27.5	14.4	2.7	100.0

Source: Ministry of Finance.

[a] End-year figures.
[b] Preliminary figures.

With regard to interest rates, the situation has changed considerably compared with the early years of the decade. Up to 1974, more than 50°/o of the debt was subject to annual interest of not more than 3°/o, while in 1977 only one-third of the debt was on these terms. Furthermore, in 1971 only 16°/o of the debt was at interest rates of more than 6°/o while the proportion increased to 55°/o in 1977. On the one hand, the increasing cost of credit in the international financial markets must be taken into consideration, but on the other there can be no doubt that the structure of the sources of credit and the type of loans obtained were also of influence (see table 76).

Table 76

BOLIVIA: EXTERNAL DEBT CONTRACTED, BY INTEREST RATE GROUPS [a]

	Interest rate groups [b]					
	Up to 3°/o	*Over 3°/o and up to 6°/o*	*Over 6°/o and up to 9°/o*	*Over 9°/o*	*Unspecified*	*Total*
1971						
Millions of US dollars	429.1	226.4	124.6	–	2.0	782.1
Percentage	54.9	28.9	16.0	–	0.2	100.0
1972						
Millions of US dollars	499.8	240.8	197.9	1.3	2.0	941.8
Percentage	53.1	25.6	21.0	0.1	0.2	100.0
1973						
Millions of US dollars	530.8	248.3	233.0	3.9	2.0	1 018.0
Percentage	52,1	24,2	23,0	0,2	0,2	100,0
1974						
Millions of US dollars	637.8	236.1	311.0	4.9	2.0	1 191.8
Percentage	53.5	19.8	26.1	0.4	0.2	100.0
1975						
Millions of US dollars	672.3	268.3	567.1	10.7	6.1	1 524.5
Percentage	44.1	17.6	37.2	0.7	0.4	100.0
1976						
Millions of US dollars	787.5	273.1	882.5	29.7	5.9	1 978.7
Percentage	39.8	13.8	44.6	1.5	0.3	100.0
1977 [c]						
Millions of US dollars	852.6	279.1	1 314.9	45.9	18.2	2 510.7
Percentage	34.0	11.1	52.4	1.8	0.7	100.0

Source: Prepared by the Instituto de Financiamiento Externo (INDEF) on the basis of data supplied by the Central Bank of Bolivia.

[a] End-year figures. The calculation criteria used in this table relatively underestimate the amounts contracted in the first two interest rate groups particularly in 1976 and 1977.

[b] Weighted average of the interest rate for all loans contracted up to and including 1976= 4.9°/o.

[c] Preliminary figures.

A substantial modification in the terms of external loans was observed between the beginning of the decade and 1977. In 1971, only 11°/o of the debt contracted had to be paid within a period of less than 10 years, but in 1977 more than 37°/o of the debt was subject to this obligation. In the first year of the decade, 58°/o of the debt had expiry periods of more than 20 years whereas this proportion dropped to 43°/o in 1977 (see table 77).

Table 77

BOLIVIA: EXTERNAL DEBT CONTRACTED, BY AMORTIZATION PERIOD GROUPS [a]

	Amortization period groups [b]								
	Up to 5 years	*Over 5 and up to 10 years*	*Over 10 and up to 15 years*	*Over 15 and up to 20 years*	*Over 20 and up to 30 years*	*Over 30 and up to 40 years*	*Over 40 years*	*Unspecified*	*Total*
1971									
Millions of US dollars	16.4	71.9	60.2	179.4	124.0	137.5	96.4	96.3	782.1
Percentage	2.1	9.2	7.7	22.9	15.8	17.6	12.4	12.3	100.0
1972									
Millions of US dollars	30.1	126.6	72.0	187.7	124.9	199.8	104.4	96.3	941.8
Percentage	3.2	13.4	7.6	19.9	13.3	21.3	11.1	10.2	100.0
1973									
Millions of US dollars	37.2	135.1	84.5	194.5	130.6	219.4	113.3	103.4	1 018.0
Percentage	3.7	13.3	8.3	19.1	12.8	21.5	11.1	10.2	100.0
1974									
Millions of US dollars	57.7	207.3	49.3	190.7	162.9	283.3	120.2	120.4	1 191.8
Percentage	4.8	17.4	4.1	16.0	13.6	23.8	10.1	10.2	100.0
1975									
Millions of US dollars	91.5	242.4	95.3	191.6	291.7	308.7	127.0	176.3	1 524.5
Percentage	6.0	15.9	6.2	12.6	19.1	20.3	8.3	11.6	100.0
1976									
Millions of US dollars	306.2	318.9	202.7	189.3	360.6	393.0	119.5	88.5	1 978.7
Percentage	15.5	16.1	10.2	9.6	18.2	19.9	6.0	4.5	100.0
1977 [c]									
Millions of US dollars	355.7	576.8	230.4	273.9	370.9	384.1	177.2	141.7	2 510.7
Percentage	14.2	23.0	9.2	10.9	14.7	15.3	7.2	5.5	100.0

Source: Prepared by the Instituto de Financiamiento Externo (INDEF) on the basis of data supplied by the Central Bank of Bolivia.

[a] End-year figures. The calculation criteria used in this table relatively underestimate the amounts contracted for groups of less than 20 years, particularly in 1976 and 1977.

[b] Weighted average of the amortization period for all the loans contracted up to and including 1976= 22.7 years.

[c] Preliminary figures.

In 1977 the debt contracted amounted to 2,510 million dollars, i.e., 3.5 times the value of exports of goods and services. The level of the real debt in that year, amounted to 1,426 million dollars (twice the value of exports) but 1,000 million dollars must be added to this sum to take into account the estimated real debt of the private sector as at 31 December 1977.[18]

4 *Economic policy*

During 1977, economic policy decisions centred on the objectives of price and exchange rate stability. From this point of view it may be concluded that the short-term policy did succeed in controlling the inflationary pressures which were creeping in at the beginning of the year, while the policy of external indebtedness supported the stability of the exchange rate. The achievement of these aims, however, adversely affected the growth rate, prolonged the external imbalance and postponed the application of measures to favour a more even distribution of income, all of which meant a departure from the central lines of the Development Plan.

There can be no doubt that although the developments of 1977 were a reflection of its most deeply rooted trends, these are capable of being reoriented, and this will give a very particular and distinctive stamp to Bolivia's economic policy in the future.

(a) *Evolution of prices*

In 1977 domestic prices, rose more than in the previous year. The annual variation in the consumer price index was practically double that observed in 1976, while the wholesale price index also showed a slightly larger variation. Both indicators reflected some intensification of inflationary pressures, although the levels remained fairly moderate (between 10 and 13°/o annually)[19] (see table 78).

The liquidity observed at the end of 1976 gave grounds for anticipating some resurgence of inflation, thus calling for special attention from the economic policy.[20] Various measures were drawn up for this purpose, including those relating to the system of fiscal incentives for non-traditional exports; the withholding of 100°/o of the royalties on the production of petroleum and gas; the abolition of the prior deposit of 25°/o on imports by construction enterprises; and the intervention of the Central Bank in the control and supervision of the enterprises acting as intermediaries between money supply and demand. Of special importance was the decree regulating the structure of the holdings of banks as a function of loan periods and the constitution of a legal reserve of 10°/o on external loans. The Central Bank was also placed in charge of modifying the legal reserves, the selective portfolio holdings and rates of interest, and it was made responsible for determining the structure of assets and liabilities of the banks in the financial system[21]

In view of existing liquidity and the bigger rise in import prices, the increase in inflation would have exceeded the rates noted if it had not been for the economic policy measures indicated, the freezing of wages, and finally the maintenance of the exchange rate. Exchange stability contributed significantly to the control of inflation, although at the cost of sharply increased external indebtedness. Higher import prices and the rise in export prices (11 and 14°/o respectively) in 1977 once again helped to make up the typical picture of imported inflation. Consequently, the economic policy had to combat the inflationary process on two fronts.

[18] Information published in *Presencia* of 1 March 1978. It should be noted that this is a preliminary evaluation and the following main sources of credit are identified: Banco de Brasil, 150 million dollars; First National City Bank, 140 million; Bank of America, 130 million; Bank of Boston, 100 million; Banco de la Nación Argentina, 50 million; Banco Popular del Perú, 40 million.

[19] The deficiencies of the consumer price index generally lead to systematic underestimation of the level of inflation.

[20] See CEPAL, *Economic Survey of Latin America, 1976, op. cit.*

[21] Legislative decree 14677 of 17 June 1977.

Table 78

BOLIVIA: EVOLUTION OF DOMESTIC PRICES

(Growth rates)

	1972	*1973*	*1974*	*1975*	*1976*	*1977*
	Variation from December to December					
Consumer price index	23.6	34.8	39.0	6.0	5.5	10.5
Food	24.2	44.8	44.7	3.6	5.3	10.3
Wholesale price index [a]					12.0	13.2
Imported products					12.1	17.1
Domestic products						
Agricultural products					17.0	21.9
Manufactures					9.3	7.6
Building materials					19.9	5.1
	Variation between annual averages					
Consumer price index	6.5	31.5	62.8	8.0	4.5	8.1
Food	6.3	33.2	81.7	5.3	2.4	8.2
Wholesale price index					6.6	12.2
Imported products					7.0	15.2
Domestic products						
Agricultural products					7.4	20.5
Manufactures					6.1	6.7
Building materials					14.9	7.0

[a] The figures given for the wholesale price index are subject to revision and have not been officially confirmed by the Central Bank of Bolivia.

(b) *The fiscal situation*

Fiscal earnings suffered a decline in real terms during the financial year 1977. Their current value increased by nearly 7%, but domestic prices rose faster (see table 79). The determining factor in this low rate of increase in earnings was the drop in the royalties on petroleum and gas and the taxes on exports. The decline of around 44% in petroleum exports was directly paralleled by the 42% in royalties.

Heavy dependence on the external sector persists in the structure of fiscal earnings in Bolivia. Tax on domestic income proper did not amount to a third of total earnings in 1977. The prices and volumes of exports and imports therefore have a decisive influence on fiscal earnings. As the favourable conditions which external trade has experienced deteriorate, the fiscal situation may be seriously affected by the fact that expenditure is acquiring momentum and trends which it will be difficult to modify in keeping with the fluctuations of the external sector.

Current spending grew by slightly over 5% in 1977; of this, wages increased by 12% and the rest dropped by nearly 4%. A surplus on current account was thus generated amounting to more than one billion Bolivian pesos, i.e., 19% more than in 1976.

Capital expenditure increased by around 27% which was a higher rate than the previous year; real investment increased by 21% and other capital expenditures (basically capital transfers and contributions) grew by around 47%.

Table 79

BOLIVIA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of pesos				*Growth rates*		
	1974	*1975*	*1976*	*1977* [a]	*1975*	*1976*	*1977* [a]
Current income	5 070	5 689	6 841	7 312	12.2	20.3	6.9
Tax revenue	4 877	5 588	6 735	7 195	14.6	20.5	6.8
Domestic income	1 299	1 479	2 100	2 375	13.9	42.0	13.1
Customs income	947	1 660	1 400	1 694	75.3	-15.6	21.0
Mining royalties	903	425	798	1 086	-53.0	87.8	36.1
Petroleum and gas royalties	883	820	1 289	748	-7.1	57.2	-42.0
Export taxes	801	693	663	535	-13.5	-4.3	-19.3
Other income	44	511	485	757	1 061.4	-5.1	56.1
Current expenditure	4 090	4 642	5 989	6 296	13.5	29.0	5.1
Wages and salaries	2 314	2 686	3 389	3 795	16.1	26.2	12.0
Other current expenditure	1 776	1 956	2 600	2 501	10.1	32.9	-3.8
Current saving	979	1 047	852	1 015	6.9	-18.6	19.2
Capital expenditure	1 133	1 651	2 007	2 544	45.7	21.5	26.8
Real investment	102	231	238	289	127.4	3.2	21.3
Amortization of the debt	563	844	833	882	50.0	-1.4	5.9
Other capital expenditure	468	576	936	1 373	22.9	62.5	46.7
Total expenditure	5 223	6 293	7 996	8 840	20.5	27.1	10.6
Fiscal deficit (or surplus)	-153	-604	-1 155	-1 529	293.7	91.1	32.4
Financing of deficit							
Domestic financing							
Central Bank	34	559	730	941	1 520.9	30.5	28.9
Counterpart funds	101	118	427	449	16.3	262.4	5.3
Variation in cash balance	18	-73	-2	139	–	–	–

Sources: Ministry of Finance and Central Bank of Bolivia.

[a] Preliminary figures.

The movement of income and expenditure produced a deficit of more than 1,500 million dollars in 1977, representing a further increase of 32% over the deficit of the previous year. The fiscal deficit was mainly financed with loans from the Central Bank. What are known as counterpart funds[22] helped to finance 30% of this deficit.

(c) *Prices and wages policy*

During 1977 there were no innovations in wages and prices. The prices of basic products remained subject to control, but the official price lists, specially for foodstuffs, were frequently ignored in the market. The market itself regulated the prices of most other products, leading to the 1977 price increases already noted. If the coverage of the consumer price index were extended, real prices established, and the weight, measure and quality of the products sold more accurately controlled, the price increases which the index does not succeed in reflecting would be absorbed.

However this may be, the fact that Bolivia's import coefficient was more than 27% meant that maintenance of the exchange rate prevented the prices of imported products, from rising faster. Even

[22] The counterpart funds correspond to Public Statute 480, an agreement on agricultural surpluses with the Government of the United States.

so, the wholesale price index for imported products rose by 17% in 1977, which was far more than the general index or the consumer price index. The increase in contraband, already very pronounced in previous years, acted as a kind of counterbalance to the increases in the legally-established commerce. Although it is harmful to industrial activity, it represents tax evasion and in some cases promotes the flight of currency, contraband's role as a price regulator in the country's economy cannot be ignored. As time goes by, this activity and imports in general receive increasingly large subsidies through the fixed exchange rate and the unrestricted sale of foreign currency.

Wages continued to be legally frozen during 1977. In the fiscal sector, increases corresponded mainly to promotions and to the expansion of employment; in the rest of the public sector, depending on the institution, there were slight readjustments but in no case were they a general rule. In the private sector, although no overall measure was applied, the entrepreneurs granted wage readjustments. The growth of the commerce and finance sectors, construction and some line of industrial production expanded the demand for skilled personnel, which, caused some competition among employers and resulted in an increase in the wages of certain key professionals, specialized personnel and skilled labour.

For the majority of the working sector, there was therefore no increase in their money earnings or only a very small increase. If this fact is set against the price increases during 1977, it seems legitimate to conclude that the deterioration in income distribution persisted. If the slow rate of growth of the agricultural product and the consequent rise in prices are also taken into consideration, a decline in the purchasing power of essential goods in the fixed income groups may be deduced, as well as a drop in the level of living of rural dwellers.

(d) *Monetary policy*

The performance of the main monetary variables was very different in 1977 from that of the previous year but fairly similar to that of 1975. This indicates the atypical nature of 1977, and on the other hand the important role of the economic policy in rectifying some alarming trends.[23]

Table 80

BOLIVIA: MONETARY POSITION

	Balance at end of each year (in millions of pesos)				*Growth rates*		
	1974	*1975*	*1976*	*1977* [a]	*1975*	*1976*	*1977* [a]
Money	*4 257*	*4 759*	*6 497*	*7 099*	*11.8*	*36.5*	*9.3*
Current outside banks	2 746	3 054	3 968	4 261	11.2	29.9	7.4
Current account deposits	1 511	1 705	2 529	2 838	12.8	48.3	12.2
Factors of expansion	*6 451*	*7 331*	*11 112*	*12 840*	*13.6*	*51.6*	*15.6*
Net international reserves	2 333	1 629	2 880	1 111	-30.2	76.8	-61.4
Domestic credit	4 118	5 702	8 232	11 729	38.5	44.4	42.5
Government (net)	465	1 328	2 123	3 083	185.6	59.9	45.2
Private sector	3 653	4 374	6 110	8 646	19.7	39.7	41.5
Factors of absorption	*2 194*	*2 573*	*4 615*	*5 741*	*17.3*	*79.4*	*24.4*
Quasi-money (savings and time deposits)	1 192	1 956	3 420	4 688	64.1	74.9	37.1
Bonds	318	138	108	91	-56.6	-21.7	-15.7
Other items (net)	684	479	1 087	962	-30.0	126.9	-11.5

Source: International Monetary Fund, *International Financial Statistics,* November 1977.

[a] Figures at the end of November.

[23] See CEPAL, *Economic Survey of Latin America, 1976, op. cit.*

Taking the variations in money resources, it may be seen that the liquidity of the economy expanded in 1977 much more slowly than the previous year. The money supply, which in 1976 increased by nearly 37%, increased in 1977 at a rate of slightly over 9%, while cash in the hands of the public reduced its rate of growth from 30% in 1976 to 7% in 1977 and current account deposits increased at only a quarter of their growth rate of the previous year (see table 80).

Similarly, quasi-money reduced its growth rate from 75% in 1976 to 37% in 1977. Monetary resources as a whole therefore grew by nearly 16% in 1977, i.e., only one-third of the growth of the previous year.

With regard to the factors of expansion, their components showed contradictory movements in 1977. Net international reserves fell by more than 61%,[24] which in fact meant an abosrption of liquidity, while credit grew by around 43%.

The evolution of credit benefited the public and private sectors to a similar extent; however, from the absolute amounts which both sectors attracted it may be deduced that the private sector continued to receive decided financial support, since more than 73% of the total credit went to private enterprise.

Observation of the changes in the monetary variables in 1977 compared with events of the previous year, shows the effort made to discipline inflationary tendencies. The situation at the end of 1976, gave grounds for anticipating a greater resurgence of price increases than in fact took place. If there had not been a determined attack on the excess of liquidity, the level of prices might have got a little out of control.

BRAZIL

1. *Main recent trends: Introduction and summary*

In 1977 the official economic policy in Brazil was aimed at slowing down growth in order to achieve two basic objectives: to contain inflation and to secure greater equilibrium in the external sector.

The Government's strategy was successful inasmuch as 1977 was the year of least economic growth since 1965. Thus, the gross domestic product rose by 4.7% –a rate equal to only about half that of the previous year, and the lowest growth rate of the decade– since the exceptional expansion of almost 10% in the agricultural sector was counterbalanced by the low output of industry, which grew little more than 2%, compared with the rate of nearly 11% recorded the year before. Commercial activity grew at a rate of 3.5%, compared with practically 9% in 1976, while transport and communications expanded by somewhat more than 4%, also considerably less than the previous year. Even so, the terms of trade evolved favourably once again and rose by almost 18%, with the result that gross income grew by 5% (see tables 81, 82 and 83).

Total supply expanded less than the gross domestic product, as a result of the drop in the volume of imports, while the growth of slightly over 4% in domestic demand was due exclusively to consumption, since capital formation registered a rate of -1%.

The coefficient of investment fell for the third year running, although its absolute level remained fairly high at around 25%. This unfavourable evolution was not unexpected, since already towards the end of 1976 the Government had announced a reduction of 40 billion cruzeiros –equivalent to 15% of the gross capital formation in that year– in the public investments envisaged for 1977. This measure formed part of the strategy to slow down economic growth and thus achieve the two basic objectives of official policy.

According to Government sources the Brazilian public sector is responsible for more than 60% of gross capital formation in the economy and about 30% of total consumption, from which it would

[24] It should be borne in mind that the monetary balance contains information up to November 1977. The movements of reserves usually undergo sharp modifications during the month of December.

Table 81

BRAZIL: MAIN ECONOMIC INDICATORS

	1972	*1973*	*1974*	*1975*	*1976*	*1977* [a]
A. *Basic economic indicators*						
Gross domestic product at factor cost (millions of US dollars at 1970 prices)	54 294	61 842	67 888	71 748	78 352	82 035
Population (millions)	101	104	107	110	113	116
Per capita gross domestic product (US dollars at 1970 prices)	539	597	637	654	694	706
	Growth rates					
B. *Short-run economic indicators*						
Gross domestic product	11.7	13.9	9.8	5.7	9.2	4.7
Per capita gross domestic product	8.6	10.7	6.7	2.7	6.1	1.8
Gross income [b]	12.5	14.7	8.9	5.4	9.6	5.1
Terms of trade	11.9	9.4	-15.0	-7.4	13.3	17.7
Current value of exports of goods and services	33.4	53.4	28.9	9.5	17.3	21.5
Current value of imports of goods and services	27.8	45.5	91.8	-4.0	1.9	-2.3
General price index [c]						
December to December	15.5	15.5	34.5	29.4	46.3	38.8
Variation between annual averages	17.0	15.1	28.7	27.7	41.3	42.7
Money	38.3	47.0	33.5	42.8	37.2	37.6
Current income of government	39.9	40.1	45.3	24.3	74.2	46.1
Total expenditure of government	20.3	37.4	38.8	30.8	73.8	45.8
Fiscal surplus/total expenditure of government [d]	1.4	5.6	5.3	0.1	0.2	0.5
	Millions of US dollars					
C. *External sector*						
Trade balance (goods and services)	-974	-1 072	-6 278	-5 053	-4 074	-1 585
Balance on current account	-1 592	-1 862	-7 286	-6 838	-6 317	-4285
Variation in net international reserves	2 513	2 393	-984	-897	2 437	712
Consolidated external debt	10 170	12 600	17 200	21 200	25 968	31 200

[a] Preliminary figures.
[b] Gross domestic product plus terms-of-trade effect.
[c] Domestic availability.
[d] Percentage.
[e] Figures supplied by the Central Bank of Brazil.

follow that it absorbs about 40% of the domestic demand. Consequently, a steep reduction in public expenditure should produce, as was indeed the case, an abrupt downturn in the rate of economic growth.

The Government's measures for moderating growth also affected the external sector. For the third year running it was possible to maintain imports of goods in the region of 12 billion dollars, while exports, stimulated by favourable prices and the effective promotion policy applied by the

Table 82

BRAZIL: TOTAL SUPPLY AND DEMAND

	Millions of cruzeiros at 1970 prices			*Percentage breakdown*		*Growth rates*		
	1975	*1976*	*1977* [a]	*1970*	*1977* [a]	*1975*	*1976*	*1977* [a]
Total supply	*377 707*	*409 470*	*425 060*	*106.9*	*106.7*	*4.2*	*8.4*	*3.8*
Gross domestic product at market prices	348 487	380 566	398 451	100.0	100.0	5.7	9.2	4.7
Imports of goods and services [b]	29 220	28 904	26 609	6.9	6.7	-10.3	-1.1	-7.9
Total demand	*377 707*	*409 470*	*425 060*	*106.9*	*106.7*	*4.2*	*8.4*	*3.8*
Domestic demand	355 770	387 989	404 294	100.3	101.5	4.0	9.1	4.2
Gross domestic investment	...	...	...	23.5	...	...	...	...
Gross fixed investment	94 250	99 434	98 439	22.3	24.7	9.3	5.5	-1.0
Changes in stocks	...	...	...	1.2	...			
Total consuption [c]	261 520	288 550	305 855	76.9	76.8	2.3	10.3	6.0
General government	34 307	...	...	10.2	...	14.4	...	...
Private [c]	227 213	...	...	66.7	...	0.7	...	...
Exports of goods and services [b]	21 937	21 481	20 766	6.6	5.2	7.6	-2.1	-3.3

Sources: 1970-1976: CEPAL calculations on the basis of figures of the National Accounts Centre of the Getulio Vargas Foundation;
1977: CEPAL estimates on the basis of data supplied by the Getulio Vargas Foundation.

[a] Preliminary figures.

[b] 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 CEPAL for the purpose.

[c] Includes changes in stocks.

Government, amounted to 12,100 million dollars, thus helping to produce a small trade surplus. In this way it was possible once again to reduce the deficit on current transactions, which fell to 4,285 million dollars, or approximately 40% less than that recorded for 1976. The capital account showed a decrease in the volume of medium- and long-term loans but nonetheless reached the considerable sum of 8,300 million dollars. In December 1977 the consolidated external debt rose to 31,200 million dollars, showing an increase of 20% over its level of the previous year, while net international reserves increased by slightly over 700 million dollars to approximately 7,200 million dollars, a higher level than that of 1973 (see table 81).

The second basic objective of official policy was, as mentioned above, to combat inflation. The results obtained in this respect were much less satisfactory than those achieved in the attempt to secure greater equilibrium in the external sector, for in spite of every effort the growth rate of the general price index dropped only from a little over 46% to a little under 39%, thus remaining at quite a high absolute level. The expansion of the means of payment envisaged by the Government, which had a ceiling of 25%, actually amounted to almost 38%. If to this is added the expansion of quasi-money, the liquidity of the private sector registered a growth of practically 49%, which is a figure incompatible with the maintenance of moderate inflation rates. Loans to the private sector also went beyond the expected limits, recording increases of almost 49% for the Banco do Brasil, 52% for the commercial banks and over 54% for total loans, including the non-monetary sector.

Table 83

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

	Millions of cruzeiros at 1970 prices			*Percentage breakdown*		*Growth rates*		
	1975	*1976*	*1977* [a]	*1970*	*1977* [a]	*1975*	*1976*	*1977* [a]
Agriculture	23 900	24 893	27 283	10.0	8.1	3.4	4.2	9.6
Mining	2 943	3 126	2 978	0.8	0.9	6.6	6.2	-4.7
Manufacturing	87 468	96 687	98 912	28.4	29.4	4.5	10.5	2.3
Construction	18 282	20 619	22 470	5.8	6.7	13.3	12.8	9.0
Subtotal goods	*132 593*	*145 325*	*151 642*	*45.0*	*45.1*	*5.4*	*9.6*	*4.4*
Electricity, gas and water	7 614	8 384	9 464	2.4	2.8	10.2	10.1	12.9
Transport, storage and communications	17 987	19 325	20 117	5.7	6.0	11.8	7.4	4.1
Subtotal basic services	*25 601*	*27 709*	*29 581*	*8.1*	*8.8*	*11.3*	*8.2*	*6.8*
Commerce, financial institutions and insurance	61 266	66 589	68 921	20.7	20.5	3.5	8.7	3.5
Real estate [b]	...	...	...	8.4	...	...	...	...
Community, social and personal services [c]	...	...	...	17.8	...	...	...	...
Subtotal other services	*136 524*	*148 795*	*154 985*	*46.9*	*46.1*	*5.9*	*9.0*	*4.2*
Total gross domestic product [d]	*297 037*	*324 378*	*339 624*	*100.0*	*100.0*	*5.7*	*9.2*	*4.7*

Sources: 1970-1976: CEPAL calculations on the basis of figures supplied by the National Accounts Centre of the Getulio Vargas Foundation;
1977: CEPAL estimates on the basis of data from the same source.

[a] Preliminary figures.
[b] Refers to ownership of dwellings only.
[c] Also includes restaurants, hotels, and services provided to enterprises.
[d] As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

Thus, broadly speaking, the performance of the economy was in keeping with the official policy objective of "cooling down" the economy with a view to exercising greater control over certain basic variables. Nevertheless, the difficulties which some industrial sectors are currently experiencing seem to go beyond the desired effect of a temporary slowdown. Thus, there is widespread idle capacity in the manufacturing sector, especially in the production of capital goods, paper and pulp, furniture, metallurgy, petrochemical products and textiles, which might involve the risk of a more prolonged crisis, with repercussions on capital formation and the growth rates of the product.

2. *Sectoral trends*

The sectoral trends of the economy in 1977 reflected, in general, a slackening in rates of growth except in agriculture, which achieved a remarkable upturn in its output. This produced a reversal of the traditional pattern characterized by more rapid expansion in manufacturing than in the agricultural sector (see table 83).

The agricultural sector grew by almost 10°/o and recorded its highest rate since 1971, mainly because of the notable growth in crop-farming production, which amounted to a little less than 12°/o.

Manufacturing, on the other hand, grew by little more than 2°/o, the lowest expansion rate in over a decade. Only in 1965, when the fight against inflation was at its peak, was the growth of the sector lower (in that year it actually recorded a negative rate).

Construction, which grew by 9°/o compared with 13°/o in the previous year, registered a growth rate lower than its average expansion in the past.

In basic services the performance was uneven. While electricity, gas and water services increased their growth rate in relation to that of 1976 from slightly over 10°/o to practically 13°/o, transport, storage and communications services expanded by little more than 4°/o, a much lower rate than in the preceding years.

The commerce, financial institutions and insurance sector followed the widespread economic trend towards loss of dynamism, its 3.5°/o growth rate being less than half that of 1976.

(a) *Agriculture*

After growing at relatively moderate rates for two years, agriculture expanded in 1977 by almost 10°/o, the highest rate in the last 30 years except for 1965 (when it was almost 14°/o) and 1971 (when it exceeded 11°/o) (see table 84).

There were marked changes in the evolution of the components of the sector. In 1975 and 1976 livestock production had recorded exceptionally high growth rates (in the region of 15°/o and 12°/o respectively), whereas crop-farming recorded negative or practically zero growth rates (-2°/o and

Table 84

BRAZIL: AGRICULTURAL PRODUCTION

	Thousands of tons					*Growth rates*			
	1973	*1974*	*1975*	*1976*	*1977*	*1974*	*1975*	*1976*	*1977*
Cotton	2 238	1 959	1 751	1 279	1 897	-2.5	-10.6	-27.0	48.3
Peanuts	563	439	441	514	324	-22.0	0.5	16.6	-37.0
Rice	6700	6 483	7 538	9 560	8 941	-3.3	16.3	26.8	-6.5
Bananas [a]	370	349	354	384	412	-5.7	1.4	8.5	7.3
Potatoes	1 557	1 673	1 669	1 816	1 900	7.4	0.1	8.8	4.6
Cocoa	184	165	282	232	223	-10.3	7.1	-17.7	-3.9
Sugar cane	99 746	96 412	91 386	103 282	120 095	-3.5	-5.2	13.0	16.3
Coffee	...	3 220	2 526	708	1 915	...	-21.5	72.0	170.5
Beans	2 096	2 238	2 271	1 842	2 327	6.8	1.5	-18.9	26.3
Oranges [b]	25 538	31 161	31 672	36 670	35 905	22.0	1.6	15.8	-2.1
Maize	14 948	16 285	16 354	17 845	19 122	8.9	0.4	9.1	7.2
Soya	5 135	7 876	9 892	11 227	12 567	53.4	25.6	13.5	11.9
Wheat	2 011	2 859	1 788	3 215	2 066	42.2	-37.5	79.8	-35.7
Crop-farming production						*12.4*	*-2.0*	*0.4*	*11.7*
Livestock production						–	*14.9*	*12.2*	*5.3*
Crop-farming and livestock production						*8.5*	*3.4*	*4.2*	*9.6*

Source: Fundaçao Instituto Brasileiro de Geografia e Estatistica (IBGE).

[a] Millions of hands.

[b] Millions of units.

0.4°/o respectively). In 1977 these trends were reversed, however, and while livestock production grew by little more than 5°/o, the crop-farming output increased by almost 12°/o.

It is important to note in these results that the expansion in crop-farming was particularly influenced by the recovery of coffee, production of which expanded by 170°/o after two years of marked decline (-22°/o and -72°/o in 1975 and 1976 respectively). Nonetheless, even if coffee is excluded from the estimate of crop-farming output, the rate of growth in the sector would still be in the region of 7°/o –quite a favourable result in relation to the past– for an increase in area harvested of a little over 6°/o.

The notable increases in the output of cotton (48°/o), beans (26°/o), sugar cane (16°/o), soya (12°/o) and maize (7°/o) were chiefly responsible for the satisfactory performance of the crop-farming sector. On the other hand, there were decreases in the production of peanuts (-37°/o), rice (-6°/o) and cocoa (-4°/o). The wheat harvest, after its notable recovery in 1976, when it increased by 80°/o, dropped steeply again in 1977 and registered a negative rate of 36°/o, through the combined effect of the reduction in area sown to wheat, especially in Rio Grande do Sul, and the unfavourable weather conditions, with drought in the sowing season and excessive rain in the period of growth.

In general, the good crop-farming results of 1977 were due to the favourable weather conditions for most of the products and to the powerful stimulus of the prices, particularly export prices. Thus, for example, the dollar prices of coffee beans rose by around 67°/o, of soya beans by 26°/o, of soya cake by 18°/o and of cocoa beans by 138°/o.

The growth rate of livestock production, although it increased only moderately compared with previous years, was considered satisfactory at 5°/o. The slaughtering of beef cattle increased by almost 12°/o and that of poultry by almost 20°/o, while that of pigs declined by around 7°/o. Dairy production for its part, grew by only 3.5°/o, quite a low rate in relation to the growth rate of the potential demand for milk in the country, which is estimated at around 7°/o per year. It was therefore necessary to increase imports of dried milk.

(b) *Mining*

The mineral mining industry, whose growth rate was somewhat more than 6°/o in 1976, reduced its output in 1977 and registered a negative rate of 4.7°/o, owing to the drop in production of iron ore and manganese and the reduction in petroleum output.

As a result of the recession in the world iron and steel industry since 1974, some of the main producers of steel throughout the world have reduced their purchases of raw materials. The difficulties in exporting iron ore and manganese therefore became more acute in 1977 with a consequent effect on output.

Exports of iron ore amounted to 46 million metric tons, almost 14°/o less than that exported in 1976, resulting in a reduction in their value of some 100 million dollars. The output of granulated, refined and concentrated iron ore also decreased by 16°/o and that of pellets by 31°/o compared with 1976.

Exports of manganese ore fell in volume by more than 50°/o compared with the previous year, while output dropped to about 650,000 metric tons, almost 38°/o less than that of 1976.

Petroleum production, for its part, declined for the third year running, reaching in 1977 a volume of 8,300 million cubic metres of crude, 4°/o lower than in 1976.

(c) *Manufacturing*

Manufacturing production increased in 1977 at a rate barely 2°/o higher than that of almost 13°/o recorded the previous year. This fall reflected the weakening of demand produced by the application of a series of measures designed to achieve the basic government policy objectives of economic stability and equilibrium in the external sector[25]. In this respect, the reduction of public sector investment, the restrictive monetary policy, the greater restraints placed on consumption financing, the rigid pay policy and the obstacles to imports had a powerful effect on the slackening of growth in the industrial sector, which had not recorded such a weak performance for more than a decade.

[25] See the section on Brazil in CEPAL, *Economic Survey of Latin America, 1976*, United Nations publication, Sales N°: E.78.II.G.1.

In the context of this contraction in industrial output, the performance of the different industrial subsectors is worthy of note (see table 85). If the analysis is made by categories of use of industrial goods it is noted that the performance of the sector was not as even as in previous years. Thus, while the subsectors producing capital and consumer goods reduced their production, that producing intermediate goods increased its output at a rate which, although markedly lower than in previous years, was enough to offset the fall in the other subsectors, with the result that moderate growth was recorded for the sector as a whole.

Table 85

BRAZIL: GROWTH OF MANUFACTURING OUTPUT
(Growth rates)

	1976	*1977* [a]
Non-durable consumer goods	11.5	-0.6
Durable consumer goods	14.9	-0.1
Intermediate goods	13.4	6.4
Capital goods	12.0	-5.2
Manufacturing production	*12.9*	*2.3*

Source: CEPAL, on the basis of data supplied by the Fundaçao Instituto Brasileiro de Geografia y Estatistica (IBGE).

[a] Preliminary figures.

The output of capital goods was undoubtedly the most affected by government policy, as can be seen from its negative growth rate of over 5°/o compared with expansion of 12°/o in the previous year. The main cause of this fall was the reduction in the rate of capital formation in the economy. This was due, on the one hand, to the sharp drop in public investment, which represents more than 50°/o of the total domestic demand for capital goods, and on the other to the smaller capital formation of the private sector, which also weakened in the face of the unfavourable outlook for expansion of demand and the greater restraints placed on financing through credit restrictions. In fact, the drop in production would have been even greater if the performance of capital goods exports had not been so favourable. The growth rate of these exports was over 45°/o compared with 1976, and their value amounted to 1,400 million dollars.

Within this group, the greatest contraction took place in the mechanical engineering industry, where production declined by more than 7°/o (see table 86). This fall was due in part to the restrictions placed on imports of machinery and equipment[26] and also to the fall in demand for certain goods, such as tractors, which caused a drop of around 20°/o in the production of this item.

In the transport equipment branch there was also a decline in output, which fell by over 2°/o, the main cause being the steep drop in motor-vehicle production of almost 7°/o in relation to 1976 (see table 87). Within this branch there were particularly sharp drops in the manufacture of utility vehicles (-67°/o), medium trucks (around -45°/o) and automobiles (-12°/o), mainly owing to changes in consumption financing a reduction of the maximum financing period from 36 to 24 months for new or used vehicles and an increase in the minimum down payment from 20°/o to 30°/o, to the various price adjustments which took place in 1977 (the Interministerial Price Council freed the prices of vehicles from May onwards) and to the high rates of interest –around 5°/o per month– prevailing in the market. On the other hand, the production of heavy trucks and buses grew by 20°/o

[26] At the beginning of the year the Government announced that the only enterprises exempt from payment of the prior deposit for one year of the equivalent of 100°/o of the value of the imported equipment would be firms which were receiving fiscal incentives from the Industrial Development Council. In this way an attempt was made to extend the coverage of the measure.

Table 86

BRAZIL: GROWTH OF MANUFACTURING, BY GROUPS OF INDUSTRIES

(Growth rates)

Groups of industries	*1973*	*1974*	*1975*	*1976*	*1977* [a]
Food products	9.6	5.5	-0.1	11.3	5.6
Beverages	17.8	8.3	5.5	13.4	13.6
Tobacco	6.4	12.8	7.9	9.1	5.3
Textiles	6.9	-3.5	2.3	6.2	0.5
Clothing, footwear, woven articles	13.2	2.1	7.2	8.3	-5.2
Plastic articles	28.3	23.2	5.1	17.8	-0.6
Perfumery articles, soaps and candles	6.6	11.5	3.7	19.2	9.3
Rubber	22.3	18.2	4.7	11.2	-2.0
Paper and cardboard	9.4	4.3	-14.8	20.8	2.5
Chemical products	23.4	5.4	2.5	17.8	6.5
Processing of non-metallic minerals	16.3	14.8	9.0	12.0	8.3
Metallurgy	8.9	5.2	9.2	13.5	7.2
Machinery	28.5	11.7	15.1	14.7	-7.2
Electrical equipment	27.9	10.3	0.5	18.4	1.4
Transport equipment	27.6	18.9	0.5	7.2	-2.6
Other branches	20.9	5.3	5.3	14.1	-2.2
Total [b]	*17.0*	*7.8*	*3.8*	*12.9*	*2.3*

Source: Fundaçao: Instituto Brasileiro de Geografia e Estatistica (IBGE).

[a] Preliminary figures.

[b] The figures do not necessarily coincide with the corresponding figures in table 83, since different methods of calculation and different original sources were used.

in response to the stimulus provided by the Government's policy of favouring public transport vehicles as a means of reducing fuel consumption.[27]

In spite of the fall in automobile production, the consumer durables subsector recorded no change in its overall level of output in relation to 1976. From a general standpoint, there was an

Table 87

BRAZIL: MOTOR-VEHICLE PRODUCTION

Product	*Thousands of units*					*Growth rates*			
	1973	*1974*	*1975*	*1976*	*1977*	*1974*	*1975*	*1976*	*1977*
Automobiles	456	516	502	527	464	13.2	-2.7	5.0	-12.0
Multi-purpose light trucks	150	200	236	306	310	33.3	18.0	29.7	1.3
Medium trucks	52	60	59	56	31	15.4	-1.7	-5.1	-44.6
Buses and heavy trucks	67	78	85	96	115	16.4	9.0	12.9	19.8
Total	*725*	*854*	*882*	*985*	*920*	*17.8*	*3.3*	*11.7*	*-6.6*

Source: Fundaçao: Getulio Vargas, *Conjuntura Econômica.*

[27] See the section on Brazil in CEPAL, *Economic Survey of Latin America, 1976, op. cit.*

increase in industrial sales of electrical household appliances, while exports of electrical machinery and equipment expanded by almost 50°/o over the levels of 1976, thus compensating for the lower output in the automobile industry.

In the case of non-durable consumer goods, there was a slight drop in output of 0.6°/o. Even so however, since the value of exports of these products rose by almost 42°/o over former levels to the figure of 4,600 million dollars it seems that the fall in consumption was greater than that in production, a significant fact in view of the virtually essential nature of these products. There can be no doubt that the chief causes of this situation were the standstill in real wages and salaries owing to the rigidity of the pay policy and the inadequate growth of employment as a result of the slackening of the economy.

Among the subsectors showing the weakest growth were those producing clothing and footwear (-5.2°/o), plastic articles (-0.6°/o), and textiles (0.5°/o). The other subsectors recorded relatively high rates of growth, as for example in the case of beverages (13.6°/o), perfumery items, soaps and candles (9.3°/o), foodstuffs (5.6°/o) and tobacco (5.3°/o). This favourable evolution, however, was mainly due to the high levels attained by exports, in which the sales of foodstuffs, perfumery items, soaps and candles and tobacco rose by 55°/o, 24°/o and 16°/o respectively.

Intermediate goods, in contrast with the other industrial branches, achieved an expansion rate of 6.4°/o, which can be largely explained by the advantage taken of the import-substitution opportunities strongly supported by the programmes and financing of the public sector[28] Exports of these goods remained high, with a growth of 26°/o over the levels of 1976, and reached a total of 1,100 million dollars. With the exception of the rubber industry, where expansion was 2°/o less than in 1976 owing to the decline of the automobile industry, all the other producers of inputs achieved a good record, with growth of over 8°/o for non-metallic minerals, more than 7°/o for metallurgy and of 6.5°/o for the chemical industry.

With reference to specific industries, mention should be made of the notable growth of the iron and steel industry, where production reached 11,100 million tons of steel ingots, surpassing by 21.5°/o the output of the previous year and supplying 96°/o of domestic demand as against 79°/o in 1976 (see table 88). In other branches, the aluminium industry achieved an output of 203,000 tons, exceeding by 21°/o the level reached in 1976; the production of tin rose by 18°/o to 7,700 tons; the zinc industry, with an output of 56,000 tons, exceeded by 12°/o the volume of the previous year, and the cement industry, with 21,100 million tons of output, grew by over 10°/o.

Table 88

BRAZIL: IRON AND STEEL PRODUCTION

Product	*Thousands of tons*					*Growth rates*			
	1973	*1974*	*1975*	*1976*	*1977*	*1974*	*1975*	*1976*	*1977*
Pig iron	5 320	5 848	7 053	8 170	9 357	9.9	20.6	15.8	14.5
Steel ingots	7 149	7 503	8 307	9 169	11 139	5.0	10.7	10.4	21.5
Rolled products	5 980	6 087	6 738	7 525	8 768	1.8	10.7	11.7	16.5
Sheet	2 825	2 630	3 166	3 487	4 519	-6.9	20.4	10.1	29.6
Sections	3 155	3 457	3 572	4 038	4 249	9.6	3.3	13.1	5.2

Source: Fundaçao: Getulio Vargas, *Conjuntura Econômica,* vol. 32, N° 2, February 1978.

In general, although the different branches showed varying growth trends compared with previous years, the manufacturing sector evolved as a whole in accordance with the spirit of government policy, both in the slackening of growth in the capital and consumer goods branches and in the receptive response of intermediate goods to the policy of official incentives. In this connexion, it should be noted that the Special Industrial Financing Agency (FINAME) earmarked 47°/o of its total allocations for the metallurgical sector. In addition, it can be seen from table 89 that, of the total

[28] *Op. cit.*

fixed investments in projects approved by the Industrial Development Council, over 70°/o went to projects connected with the production of intermediate goods and especially with the furtherance of the iron and steel plan and the establishment of petrochemical poles.

Table 89

BRAZIL: FIXED INVESTMENT IN PROJECTS APPROVED BY THE INDUSTRIAL DEVELOPMENT COUNCIL, 1977

Sectoral group	*Fixed investment (millions of cruzeiros)* [a]	*Percentage share*
Capital goods industries	7 157	18.3
Industries producing basic metallurgical and metallic intermediate goods	10 699	27.4
Chemical, petrochemical and pharmaceutical industries	10 806	27.6
Industries producing non-metallic intermediate goods and cement, paper and pulp	6 239	15.9
Motor-vehicle industry and its components	2 000	5.1
Consumer goods industries	2 217	5.7
Total	*39 118*	*100.0*

Source: *Conjuntura Econômica*, vol. 32, N° 2, February 1978.
[a] Average exchange rate for 1977: US$ 1 = Cr. 14.138.

3. *The external sector*

(a) *The balance-of-payments current account*

(i) *The main trends.* The profound imbalance which developed in Brazil's foreign trade from 1974, as a result of the oil crisis, seems to have reached a turning point in 1977, according to the figures of the current account. Thus, the deficit on current account, which in 1974 had exceeded 7 billion dollars, dropped only slowly during the next two years, in spite of the efforts to contain imports and stimulate exports, to 6,800 million in 1975 and 6,300 million in 1976. In 1977, however, it fell by more than 30°/o compared with the previous year to approximately 4,300 million dollars, a figure which signified an absolute decrease of 2 billion dollars (see table 90).

The evolution of the trade balance was the decisive factor in this favourable development. Thus, the value of exports of goods rose by more than 20°/o to over 12 billion dollars, while the value of imports remained stable for the third year running in the region of 12 billion dollars. The result was a trade surplus of 140 million dollars, the first since 1970. These figures are in marked contrast with those of 1974, when exports were only 7,800 million dollars while imports amounted to 12,600 million, causing a merchandise trade deficit of 4,800 million dollars.

The rise in the value of exports of goods stemmed from the exceptionally favourable evolution of external prices, since there was an increase of 26°/o in the unit value of exports and a drop of 3.5°/o in their volume. Imports of goods, for their part, fell by almost 9°/o in volume and somewhat more than 2°/o in price, while their unit value increased by 7°/o. Owing to the more favourable trend in the prices of exports the terms of trade improved by almost 18°/o, reaching their highest level in the current decade (see table 91).

Table 90

BRAZIL: BALANCE OF PAYMENTS

(Millions of US dollars)

	1972	*1973*	*1974*	*1975*	*1976*	*1977*	
Current account							
Exports of goods and services	4 374	6 711	8 652	9 478	10 881	13 114	
Goods FOB	3 941	6 093	7 813	8 513	9 988	12 139	
Services	433	618	839	965	893	975	
Transport	182	249	318	367	364	375	
Travel	38	58	66	72	57	100	
Imports of goods and services	5 348	7 783	14 930	14 531	14 956	14 699	
Goods FOB	4 193	6 154	12 560	12 052	12 282	11 999	
Services	1 155	1 629	2 370	2 479	2 674	2 700	
Transport	510	863	1 385	1 276	1 301	1 300	
Travel	216	265	315	401	359	350	
Net payments of profits and interest on foreign capital	-619	-812	-1 011	-1 795	-2 248	-2 700	
Profits	-206	-230	-281	-334	-488	-500	
Interest	-413	-582	-730	-1 461	-1 760	-2 200	
Net private transfer payments	1	23	4	10	6	–	
Balance on current account	-1 592	-1 862	-7 286	-6 838	-6 317	-4 285	
Capital account							
Net external financing (a+ b+ c+ d+ e)	1 592	1 862	7 286	6 838	6 317	4 285	
(a) Net external non-compensatory capital	3 944	4 331	6 778	6 192	8 874		
Direct investment	415	883	1 053	1 007	1 093		
Long and medium-term loans	4 621	4 754	7 057	6 851	8 318		
Amortization payments	-1 217	-1 724	-1 893	-2 119	-2 875	4 745	
Short-term liabilities	122	413	563	463	2 340		
Official transfer payments	4	5	-2	-10	-4		
(b) Domestic non-compensatory capital or assets	-328	-430	-412	52	-670		
(c) Errors and omissions	438	354	-64	-370	425		
(d) Allocation of SDRs	51	–	–	–	–		
(e) Net compensatory financing (— = increase)	-2 513	-2 393	984	964	-2 312	-460	
Balance-of-payments loans, trade arrears, IMF loans, and other liabilities of the monetary authorities	55	–	1	5	439	–	
Amortization payments	-54	-49	-65	-45	-46	–	
Variation in gross international reserves (minus sign signifies an increase)	-2 514	-2 344	1 048	1 004	-2 705	-460	
Foreign exchange reserves (— = increase)	-2 463	-2 344	1 055	1 005	-2 643	...	
Gold reserves (minus sign signifies an increase)	–	–	–	–	-53	...	
SDRs (minus sign signifies an increase)	-51	–	-7	-1	-9	...	

Sources: Central Bank of Brazil and CEPAL estimates.

The clearly positive situation of the trade balance was more than offset, however, by the payment of profits and interest on foreign capital, which amounted to 2,700 million dollars, a figure 20°/o higher than that of 1976. Of that total, payments of interest represented about 80°/o and amounted to the net figure of 2,200 million dollars –more than three times as much as the interest paid in 1974 and 25°/o higher than that recorded for 1976. The increase in these payments was due not only to the growth of the country's external debt but also to the raising of the interest rate in the

Table 91

BRAZIL: MAIN INDICATORS OF FOREIGN TRADE

	1972	1973	1974	1975	1976	1977 [a]
	Growth rates					
Exports of goods						
Value	36.7	54.6	28.2	9.0	17.3	21.5
Volume	13.5	19.5	-1.4	7.9	-0.4	-3.5
Unit value	20.5	29.4	30.0	1.0	17.7	26.0
Imports of goods						
Value	29.2	46.8	104.1	-4.0	1.9	-2.3
Volume	20.0	24.1	33.5	-12.0	-2.0	-8.7
Unit value	7.7	18.3	52.9	9.0	4.0	7.0
Terms of trade	11.9	9.4	-15.0	-7.4	13.3	17.7
	Indexes (1970=100)					
Terms of trade	97.7	106.9	90.9	84.2	95.4	112.3
Purchasing power of exports of goods	122.3	160.8	134.8	134.7	151.5	169.7
Purchasing power of exports of goods and services	122.2	163.0	144.6	148.9	164.9	187.6

Source: CEPAL, on the basis of official figures.

[a] Preliminary figures.

international market and the increase in the spread paid by Brazil in recent years in excess of the London Inter-Bank Offer Rate (LIBOR).

Finally, the services account (transport and travel) showed a deficit of 1,700 million dollars, 3°/o lower than that of the previous year.

(ii) *Exports.* In 1977 external sales increased by approximately 2 billion dollars, representing a growth of almost 20°/o in relation to that of 1976 (see table 92). Of this total, 1,300 million, or about 65°/o, stemmed from the marked expansion of exports of industrial products, especially manufactured goods, which grew by 38.5°/o over the level of 1976. Basic commodities, on the other hand, grew at the more moderate rate of around 14°/o, compared with 22°/o the year before.

As regards the composition of exports, a comparison between the years 1973 and 1977 reveals a steep drop in the share of basic commodities (from 66°/o to slightly over 57°/o in those four years). Among the chief basic commodities only iron ore and soya flour and cake increased their relative share. On the other hand, industrial products came to represent more than 40°/o of total exports (compared with 31°/o in 1973). Of these, manufactured goods increased their share from approximately 24°/o to around 32°/o. Practically all these goods increased their share between 1973 and 1977, with the sole exception, among the main products, of footwear exports, which are subject to high customs protection in the central countries.[29]

A study of the performance of exports of the main products shows that the ten major primary commodities produced revenue of 6,200 million dollars, representing a little over 50°/o of total exports. Of these, only soya beans, iron ore and maize showed a decrease in their external sales. Exports of soya flour and cake, however, continued to expand and rose by almost 45°/o in 1977.

[29] See the section on Brazil in CEPAL, *Economic Survey for Latin America, 1976, op. cit.*

Table 92

BRAZIL: VALUE AND BREAKDOWN OF EXPORTS OF GOODS (FOB)

	Millions of dollars					*Percentage breakdown*		*Growth rates*			
	1973	*1974*	*1975*	*1976*	*1977*	*1973*	*1977*	*1974*	*1975*	*1976*	*1977*
Commodities	*4 096*	*4 810*	*5 027*	*6 130*	*6 973*	*66.0*	*57.4*	*17.4*	*4.7*	*21.9*	*13.7*
Coffee beans	1 224	877	855	2 173	2 315	20.1	19.1	-28.4	-1.1	154.2	6.5
Iron ore	363	571	920	995	907	5.9	7.5	57.3	61.1	8.2	-8.8
Soya flour and cake	423	303	466	795	1 150	6.8	9.5	-28.4	53.8	70.6	44.6
Soya beans	494	585	685	788	708	8.0	5.8	18.4	16.9	15.0	-10.1
Unrefined sugar	455	976	770	153	277	7.3	2.3	114.5	-27.9	-80.0	81.0
Others	1 137	1 498	1 331	1 226	1 616	17.9	13.3	31.7	-17.5	-7.9	31.8
Industrial products	*1 942*	*2 963*	*3 434*	*3 618*	*4 889*	*31.3*	*40.3*	*52.6*	*16.2*	*5.4*	*35.1*
Semimanufactures	476	631	849	842	1 044	7.7	8.6	32.6	33.9	-0.8	24.0
Manufactures	1 465	2 332	2 585	2 776	3 845	23.6	31.7	59.2	11.4	7.4	38.5
Transport equipment	76	186	317	373	492	1.2	4.0	144.7	69.5	17.7	31.9
Machinery, boilers, and mechanical apparatus	72	150	260	266	427	1.2	3.5	108.3	72.2	2.3	60.5
Processed coffee	100	125	80	226	327	1.6	2.7	25.0	-31.0	182.5	44.7
Elecrical machinery and equipment	84	183	161	189	281	1.4	2.3	117.9	-12.0	17.4	48.7
Footwear	94	120	165	175	175	1.5	1.4	27.7	37.5	6.1	–
Orange juice	...	55	82	101	177	1.1	1.5	–	37.7	23.2	75.2
Others	1 039	1 513	1 520	1 446	1 966	15.6	16.2	45.6	2.4	-4.9	36.0
Other products	*161*	*195*	*208*	*381*	*278*	*2.6*	*2.3*	*21.1*	*6.7*	*83.2*	*-27.1*
Total [a]	*6 199*	*7 968*	*8 669*	*10 128*	*12 139*	*100.0*	*100.0*	*28.5*	*9.0*	*16.8*	*19.9*

Source: Carteira de Comercio Exterior, Banco do Brasil.

[a] The totals do not coincide exactly with the figures of the balance of payments as with those given in table 91.

Exports of cocoa beans grew by 216 million dollars and those of raw sugar by over 120 million, while coffee exports, although recording only moderate growth, maintained the absolute level of income generated, which in 1977 exceeded 2,300 million dollars.

Exports of semi-processed industrial goods showed general expansion in the principal lines, with overall growth of 24°/o and an increment in the value exported of over 200 million dollars, of which 100 million came from unrefined soya oil.

External sales of manufactured products registered markedly high expansion rates, with the sole exception of footwear exports, which remained at the same level as the previous year. Prominent in this group were exports of transport equipment, with a growth of almost 32°/o and an absolute volume of sales of the order of 500 million dollars, and exports of machinery, boilers and mechanical equipment, with a growth rate of 60.5°/o and an absolute value of 427 million dollars. Exports of processed coffee and orange juice also achieved very high growth rates of almost 45°/o and over 75°/o respectively.

Nonetheless, almost 50°/o of Brazil's exports continue to consist of four agricultural products which are exported in their natural state or with different degrees of processing. Thus, coffee beans and processed coffee represented sales of over 2,600 million dollars; soya beans, soya flour and cake and unrefined soya oil represented 2,100 million; cocoa beans and cocoa butter, 530 million; while raw, refined and granulated sugar recorded sales of 460 million. Thus, the total value of the exports of these four products amounted to 5,800 million dollars, equal to almost 48°/o of the overall value of exports.

The favourable evolution of exports was due in part to the vigorous export promotion policy pursued by the Government. In January 1977 the Economic Development Council (CDE) approved a resolution assigning highest priority to exports, and earmarking for their promotion financial support of the order of 35 billion cruzeiros (aproximately 2,700 million dollars). In line with this policy, in addition to the already established fiscal incentives various new measures were introduced, the most important being the participation of national enterprises in 75 industrial shows and exhibitions; the inauguration in May of a Brazilian platform in the French port of Le Havre for the storage of products to be marketed in Europe; the signing of the protocol for the construction of the Brazilian Trade Center-Europe, which represents and investment of 15 million dollars aimed at supporting national exporters in transactions with Europe and North Africa; and the creation of the programme of Entrepreneurial Co-ordination for the Support of Exports (PROCEX), with a view to organizing the marketing abroad of national products.

The policy in respect of the exchange rate remained the same as in the previous year in that there was no real devaluation of the cruzeiro. Table 93 shows that in 1977 the exchange rate rose by somewhat more than 30°/o, while the inflation rate of the economy, measured, by the general price index, recorded and increase of 38.8°/o. If external inflation, as represented by the wholesale price index of the United States, is taken into account, the relation between the official exchange rate and the parity rate was 97°/o at the end of December 1977, practically the same level as that recorded at the end of the previous year.

In this respect, there was a continuation of the policy of periodic devaluations which maintain the national currency slightly overvalued. A real devaluation of the cruzeiro would be incompatible with the anti-inflationary measures in force and would also be unsuitable in view of the present volume of the external debt, particularly since the greater part of this debt consists of financial commitments of the private sector.

(iii) *Imports* As noted earlier, the level of imports which decreased by about 280 million or 2.2°/o was held at approximately 12 billion dollars for the third year running.

Although no figures on the structure of imports are available for the whole year, the data for the period January-October show that the performance of imports in the different branches was decidedly uneven (see table 94). The decrease in imports as a whole was attributable to drops in cereals, machinery and equipment and organic chemicals. In the first case, there was a sharp contraction both in the average price and in the volume imported which resulted in a fall of over 48°/o in value, representing a reduction in expenditure of the order of 240 million dollars. In the import of capital goods, there was an absolute decrease of some 300 million dollars, equivalent to a drop of approximately 10°/o in their value and almost 23°/o in their volume. This contraction occurred as a result of

Table 93

BRAZIL: EVOLUTION OF EXCHANGE RATE AND PRICES

At end of:	Official exchange rate		General price index of Brazil	Wholesale price index of the United States	Parity exchange rate	Ratio between official and parity exchange rates
	Cruzeiros per dollar (1)	Index (2)	(3)	(4)	(5) = 3 805 x (3)/(4)	(6) = (1)/(5)
1968	3 805	100.0	100.0	100.0	3 805	100.0
1969	4 325	113.7	120.3	103.9	4 406	98.1
1970	4 920	129.3	143.4	107.7	5 066	97.1
1971	5 600	147.2	171.3	111.1	5 867	95.4
1972	6 218	163.4	198.0	116.1	6 489	95.8
1973	6 218	163.4	229.0	131.4	6 631	93.7
1974	7 368	193.6	308.0	156.3	7 498	98.3
1975	8 988	236.2	398.4	170.7	8 881	101.2
1976	12 149	319.3	585.2	178.6	12 467	97.4
1977	15 845	371.5	811.7	189.1	16 333	97.0

Source: Columns (1) to (3), Fundação Getulio Vargas, *Conjuntura Econômica* vol. 32, Nº February 1978.

the policy of slowing down the economy, which caused a corresponding decrease in capital formation in the system.

Counterbalancing these trends, imports of fertilizers, fuels and non-ferrous metals rose in value by a total of approximately 340 million dollars. The first of these items expanded by 46º/o as a result of and increase of almost 31º/o in volume and around 12º/o in average price.

External purchases of non-ferrous metals rose by over 35º/o in total value and more than 36º/o in volume, owing mainly to the rise in the value of purchases of copper and aluminium by 31º/o and 73º/o respectively. Indeed, Brazilian imports of these metals are bound to remain high as long as the national industry remains unable to supply the domestic market, despite the effort which is being made to build new plants. In this respect, the Council of Non-Ferrous Metals and Iron and Steel

Table 94

BRAZIL: VARIATIONS IN THE VALUE, PRICE AND VOLUME OF IMPORTS OF GOODS, 1977
(January-October)

Product	Value	Volume	Average price
Machinery and equipment	-10.3	-22.9	10.4
Fuels and lubricants	4.5	-0.1	5.0
Fertilizers	46.1	30.9	12.3
Organic chemicals	-7.5	-17.1	12.3
Cereals	-48.4	-24.1	-31.3
Cast iron and steel	8.7	1.4	14.3
Non-ferrous metals	35.4	36.2	-0.9
Inorganic chemicals	9.7	21.2	-9.9
Paper and cardboard	3.4	20.7	-13.2

Source: Fundação Getulio Vargas, *Conjuntura Econômica*, vol. 32 Nº 2, February 1978.

Industries (CONSIDER) approved investments in 1977 of 2,800 million dollars for new projects, of which 54°/o was assigned to the aluminium industry and 36°/o to the copper industry. The output of aluminium in 1977 was able to supply only 63°/o of consumption, while that of copper was non-existent.

Imports of fuels and lubricants totalled 3,300 million dollars (4.5°/o more than the previous year), the rise being due to the increase in international prices, since the volume imported remained the same. The national output of petroleum continued to decline, as in the previous year (-2.8°/o in 1976 and -3.8°/o in 1977), but at the same time a reduction was achieved in the consumption levels (-3.5°/o), owing mainly to the steep rise in domestic prices in the last five years. Thus for example, the real price of regular gasoline rose by 400°/o between January 1973 and September 1977.

As a result of the aforementioned changes the composition of imports continued to alter. During the period 1970-1973 the main group of products consisted of machinery and equipment, which represented 25°/o of the total import value. This percentage rose to 33°/o in 1975, but subsequently fell to 29°/o in 1976 and 25°/o in 1977. On the other hand, fuels and lubricants, which represented somewhat less than 12°/o of the total in the period 1970-1973, increased their share to 16°/o in 1974, 25°/o in 1975, 31°/o in 1976 and 34°/o in 1977. Imports of steel and pig iron, which represented little more than 7°/o in 1970-1973, rose in their turn to 12°/o in 1974 but subsequently fell to 10°/o in 1975, 5°/o in 1976 and a little less than 5°/o in 1977.

Finally, in order to keep the overall level of imports in the region of 12 billion dollars it was necessary to apply a series of economic policy measures in the last two years,[30] in addition to those connected with the slowing down of growth. Thus, the institution of the prior deposit of 100°/o of the value of merchandise imported, with retention of the deposit for a year, continued to affect a wide range of goods; in December 1976 the Carteira de Comercio Exterior drew up a long list of goods, (later reduced in August 1977) which were not allowed to be imported until the end of 1977; in March of the same year the Economic Development Council ruled that imports of equipment and components for industrial projects in receipt of incentives could not exceed a maximum of 1,400 million dollars; and the imports of State enterprises remained subject to a Government-imposed maximum equal to 80°/o of their 1976 imports. These important measures for containing external purchases remained in force in 1978, with their absolute levels practically unchanged.

(b) *The capital account*

The capital account for 1977 registered a net inflow of almost 5 billion dollars, practically 40°/o lower than that of the previous year. This marked reduction was the result of two main factors. On the one hand, the intake of long- and medium-term loans and financing decreased from a little over 10 billion dollars in 1976 to 8,300 million in 1977 –a level which is still decidedly high. On the other hand, amortization payments reached the high figure of 4,100 million dollar, 40°/o higher than that of the previous two years and practically double that of 1974. Direct net investment decreased by 20°/o, falling from 1 billion dollars to 800 million.

As a result of these trends, the net inflow of capital barely exceeded the amount of the deficit on current transactions and the "errors and omissions" item producing a small balance-of-payments surplus of 460 million dollars, equivalent to only about a fifth of the 1976 surplus.

Nonetheless, there was a favourable variation in international reserves, which rose by 712 million dollars, representing a growth rate of 11°/o compared with the previous year. The reserves thus expanded for the second year running, to a level 13°/o higher than that at the end of 1973. At the end of 1977 they amounted to 7,256 million dollars, equivalent to about seven months of imports.

The increased volume of reserves exceeded the official targets, which sought to maintain the 1976 level of approximately 6,500 million dollars. In view of this situation the Central Bank was obliged to retain the counterpart in cruzeiros of the external resources which entered Brazil from November 1977, because of the inflationary impact caused by this expansion. In addition, it must be remembered that this growth means an increase in the external debt and the need to finance a high volume of reserves, which in its turn implies a loss because of the difference between the rates of interest paid on external loans and those received on the possible placement of these reserves.

[30] See the section on Brazil in CEPAL, *Economic Survey of Latin America, 1976, op. cit.*

Nevertheless, the availability of so much foreign currency means greater security for the country and greater confidence in the negotiation of new loans.

(c) *The external debt*[31]

In December 1977, according to official estimates, the total amount of the external debt –including public, private and State-guaranteed debts– was 31,200 million dollars, a sum without precedent in Brazilian economic history and 5,300 million dollars higher than the figure announced by the Central Bank for December 1976. Even so, it should be noted that there was a slight decrease in the growth rate of the debt: 37°/o in 1974, 23°/o in 1975, 23°/o in 1976 and 21°/o in 1977 (see table 95).

Table 95

BRAZIL: PRIVATE, PUBLIC AND STATE-GUARANTEED EXTERNAL DEBT

(Millions of US dollars)

	1970	*1971*	*1972*	*1973*	*1974*	*1975*	*1976*	*1977 (June)*
Total	*5 295*	*6 622*	*9 521*	*12 572*	*17 166*	*21 171*	*25 968*	*28 709*
Compensatory loans	382	301	241	203	169	137	106	168
United States Government	314	269	231	200	169	137	106	106
Others	68	32	10	3	–	–	–	62
Bonds	–	–	60	142	172	161	289	430
International agencies	456	576	762	972	1 388	1 655	1 993	2 125
World Bank [a]	275	370	518	695	1 076	1 239	1 447	1 563
Inter-American Development Bank	181	206	244	277	312	416	546	562
Official bilateral agencies	1 246	1 403	1 504	1 688	2 151	2 430	2 739	2 820
United States Agency for International Development (AID)	870	931	960	1 008	1 054	1 092	1 121	1 119
Programme loans	604	623	618	615	610	601	586	578
Project loans	266	308	342	393	444	491	535	541
United States wheat credits (PL 480)	103	115	108	103	97	92	87	86
United States Export-Import Bank	190	239	278	320	543	685	817	863
Others [b]	83	118	158	257	457	561	714	752
Suppliers' credits	611	845	1 136	1 442	1 812	1 980	2 414	3 187
Financial credits	2 284	3 193	5 528	7 849	11 211	14 561	18 194	19 750
Other credits	316	304	290	276	263	248	233	229

Source: *Boletim do Banco Central do Brasil*, February 1978.

[a] Includes the International Finance Corporation.
[b] Includes the Canadian Wheat Board, the Export-Import Bank of Japan and the Kreditanstalt für Wiederaufbau.

As regards the composition of the debt, the data supplied by the Central Bank up to June 1977 confirm the trend which had been emerging. Financial credits, which represent the procurement of resources on strictly commercial terms, fluctuated during the last three years around 70°/o of the total debt. The other main sources of financing were supplier credits, whose share increased from 9°/o to 11°/o between 1976 and 1977, the official bilateral agencies (especially those of the United

[31] See the section on Brazil in CEPAL, *Economic Survey of Latin America, 1976, op. cit.*

States), with a decreasing share in the course of the decade (23.5°/o in 1970 but only 10°/o in 1977), and the international agencies, basically the World Bank, with a slightly smaller share of a little over 7°/o.

The level reached by the Brazilian external debt implies correspondingly high outflows of resources, so that the net contribution of new financing is quite low. Thus, in 1977 Brazil paid 2,200 million dollars in interest, i.e., approximately 450 million dollars more than in 1976 and almost four times the amount paid in 1973, which gives an idea of the steep increase in these outlays (see table 96). In addition, the amortization of the principal of the debt amounted to 4,100 million dollars in 1977, 42°/o higher than the amount paid in the previous year. With these two payments, debt servicing amounted to 6,300 million dollars, which is an exorbitant sum in relation to the inflow of 8,300 million in medium- and short-term loans.

Table 96

BRAZIL: CAPITAL ACCOUNT [a]

(Millions of US dollars)

	1976	*1977*
Capital account	8 066	4 945
Foreign investments	1 145	900
Brazilian investments	-135	-100
Loans and financing	10 094	8 345
Amortization	-2 888	-4 100
Others	-149	-100

Source: Fundaçâo Getulio Vargas, *Conjuntura Económica,* vol. 32, N° 2 February 1978.

[a] The estimates of the Fundaçâo Getulio Vargas, do not coincide with those of table 90 (Balance of Payments) owing to the different methods of classification of external transactions.

The scheme of amortization of the existing debt in September 1977, published by the Central Bank, estimates payments of 4,700 million dollars for 1978, 5,100 million for 1979 and 4,900 million for 1980.

To the foregoing should be added a projection of the amount of interest to be paid during those three years. According to a study[32] which appeared in the middle of the year, interest payments should reach 2,900 million dollars in 1978, 3,700 million in 1979 and 4,500 million in 1980. On the basis of this hypothesis, the economy would have to pay in respect of debt servicing 7,600 million dollars in 1978, 8,800 million in 1979 and 9,400 million in 1980. In consequence, debt servicing would amount to the substantial sum of 25,800 million dollars in the next three years.

Table 97 gives some indicators which illustrate the burden represented by the servicing of the external debt. As can be seen, the coefficients indicate that this burden has increased in the course of the decade and especially during the last year.

The first coefficient shows the weight of debt servicing on income from exports of goods and services and reveals a steep increase from 1975 onwards, when the indebtedness of the economy began to accelerate, reaching its peak in 1977, when debt servicing represented 48°/o of the export earnings.

[32] See Sebastião Marcos Vital, "Previsões económicas para 1985" in *Rumos do Desenvolvimento,* July/August 1977.

Table 97

BRAZIL: COEFFICIENT OF THE EXTERNAL DEBT

	1970	*1971*	*1972*	*1973*	*1974*	*1975*	*1976*	*1977* [a]
				Millions of US dollars				
Gross disbursements [a]	1 494	2 109	4 621	4 754	7 057	7 242	10 093	8 345
Debt service	1 072	1 217	1 630	2 306	2 606	4 050	4 648	6 300
Amortization	830	887	1 217	1 724	1 893	2 610	2 888	4 100
Interest (net)	242	330	413	582	713	1 440	1 760	2 200
				Coefficient of the debt (percentages)				
$\frac{DS}{X}$	37.2	39.4	37.3	34.4	30.1	42.1	42.7	48.0
$\frac{DS}{X+SR}$	39.5	37.6	35.6	23.5	19.5	31.8	31.7	37.7
$\frac{DS}{DIS}$	71.8	57.7	35.3	48.5	36.9	55.9	46.0	75.5
$\frac{D}{GDP}$	11.5	12.8	15.8	16.1	17.5	18.7	20.8	21.9

Source: CEPAL, on the basis of official data.

Note: DS = Debt service.
X = Exports of goods and services
SR = Surplus of reserves = Total reserves at the beginning of the period less import needs for three months
DIS = Disbursements
D = Total debt outstanding, public and private
GDP = Gross domestic product

[a] Preliminary figures.

[b] Medium- and long-term credits.

If the same coefficient is calculated in the light of the total international reserves in excess of those required to cover three months of imports, it will be seen that its value rises to nearly 38°/o compared with approximately 32°/o in the previous year.

Another indicator of the burden of debt servicing is its relation to the amount of the new medium- and long-term loans entering the economy. In 1977 debt servicing represented 75.5°/o of the total of these credits, compared with 46°/o in the previous year.

Lastly, comparison of the gross debt with the gross domestic product shows the rapid growth of external indebtedness throughout the decade, from 11.5°/o of the product in 1970 to almost 22°/o in 1977.

4. *Prices, wages and salaries and monetary fiscal policies*

(a) *Prices*

After reaching in 1976 its highest point in the decade, inflation in Brazil dropped by 7.5°/o in 1977. The general price index, expressed in terms of domestic availability, which is the index commonly used in the country as a measure of price increases, rose by 38.8°/o in the last year, compared with 46.3°/o in the previous year (see table 98). This slowdown can be regarded as only moderate in

Table 98

BRAZIL: EVOLUTION OF DOMESTIC PRICES

(Percentage variations)

	1973	*1974*	*1975*	*1976*	*1977*
			December to December		
General price index [a]					
Total supply	16.2	33.8	30.1	48.2	38.6
Domestic availability	15.5	34.5	29.4	46.3	38.8
Wholesale price index					
Total supply	16.7	34.1	30.6	48.1	35.3
Agricultural products	16.7	31.2	33.7	67.0	34.2
Industrial products	16.6	35.6	39.2	40.3	35.5
Domestic availability	15.5	35.4	29.3	44.9	35.5
Raw materials	20.4	44.2	25.4	38.0	28.4
Food products	12.4	37.4	33.0	50.1	37.5
Consumer price index					
Rio de Janeiro	13.7	33.8	31.2	44.8	43.1
Food	16.4	41.4	26.2	47.1	43.9
Clothing	7.1	17.0	14.6	40.8	29.5
Housing	7.6	28.2	52.8	50.8	42.5
Articles for the home	14.7	29.8	18.9	47.4	38.8
Health and hygiene	11.5	28.5	34.7	39.7	44.9
Personal services	14.6	33.2	33.1	43.7	50.4
Public services	10.7	27.1	41.3	28.5	38.6
Construction costs					
Rio de Janeiro	21.1	31.8	24.1	58.6	44.7
			Annual average variation		
General price index					
Total supply	15.5	28.9	27.8	42.8	43.7
Domestic availability	15.1	28.7	27.7	41.3	42.7
Wholesale price index					
Total supply	14.7	29.3	29.4	36.6	39.3
Domestic availability	15.4	29.1	37.8	40.4	40.6
Consumer price index					
Rio de Janeiro	12.6	27.7	29.0	41.9	43.7
Construction costs					
Rio de Janeiro	19.0	29.5	25.1	44.2	51.0

Source: Fundação Getulio Vargas, *Conjuntura Econômica*, vol. 32, Nº 2 February 1978.

[a] The general price index is a weighted average of the wholesale price index (60%), the cost of living index for Rio de Janeiro (30 %), and the cost of construction in that city (10%).

view of the fact that combating inflation, together with the effort to achieve equilibrium in the external sector, was the chief aim of economic policy. Thus, in the face of measures which have provoked a fall in overall production and which maintain rigid criteria in the application of monetary policy, a level of inflation in the region of 40°/o must be regarded as high.

Table 99 shows the evolution of the principal price indexes throughout the year. It records high annual rates up to May, when it was already possible to foresee an inflation rate of 50°/o to 60°/o for the year as a whole. This prospect led the Government to concentrate its efforts on the battle against inflation and to centralize all the decision-making on the subject in the Ministry of Finance. From then onwards until September there was a marked slackening in inflation rates, which dropped to less than half those of the first six months of the year. In the last quarter, however, they tended to increase again, although more slowly than in the first part of the year.

Table 99

BRAZIL: ACCUMULATED MONTHLY EVOLUTION OF PRICES, 1977

(Percentage variations)

Period	*General price index (domestic availability)*		*Wholesale price index (domestic availability)*		*Consumer price index (Rio de Janeiro)*	
	Monthly variation	*Accumulated variation last 12 months*	*Monthly variation*	*Accumulated variation last 12 months*	*Monthly variation*	*Accumulated variation last 12 months*
January	3.7	47.1	3.1	45.4	5.1	46.1
February	3.2	45.9	2.8	44.3	3.2	43.3
March	4.2	46.3	4.3	45.0	4.2	44.7
April	4.1	46.9	4.3	46.2	3.3	44.4
May	3.6	47.0	3.4	46.6	3.5	44.3
June	2.0	46.1	1.6	45.8	2.6	44.2
July	2.1	43.7	1.9	42.5	2.4	44.2
August	1.3	39.8	0.9	37.0	1.9	43.1
September	1.8	37.6	1.5	34.4	2.2	41.9
October	2.7	38.0	2.3	34.4	2.9	42.3
November	2.6	39.0	2.6	35.6	2.8	43.7
December	2.1	38.7	2.1	35.4	2.3	43.1

Source: Fundação Getulio Vargas, *Conjuntura Econômica*, vol. 32, Nº 2 February 1978.

In 1977 the variation between relative prices was appreciably more even than in previous years. The wholesale price index registered smaller variations than those of the general index, and was in the region of 35°/o. The prices of agricultural products and those of industrial goods showed only slight differences and the disparities between the price indexes of raw materials and food products were fairly moderate compared with those of 1975 and 1976.

The consumer price index for Rio de Janeiro, despite the modification in the method of its calculation,[33] rose more than 4°/o higher than the general price index, increasing by somewhat more than 43°/o compared with a rate of almost 45°/o in 1976. The importance of this fact should be noted, since the consumer price index carries more weight in public opinion as a measure of inflation and represents the impact of the increases on the end-consumer. Among its components, those which registered the greatest variations in price were, in order of importance, personal services, health and hygiene, and food products.

Finally, the index of construction costs in Rio de Janeiro, the last of the components of the general price index, recorded a growth rate of almost 45°/o, decidedly higher than that of the general index but, even so, considerably lower than the 1976 growth rate of almost 59°/o.

[33] The modification consisted of calculating the index on the basis of a substitution in the basic shopping basket of goods which registered steep temporary rises in their price.

(b) *The factors affecting prices*

The magnitude of inflation in Brazil, which runs at approximately 40% annually and is one of the highest in Latin America, would be hard to explain on the basis of the examination of isolated events as trends in the short term. In an economy chronically subject to price increases, such an analysis would inevitably have to be conducted against a wider time horizon and in a context which took account of the characteristic imbalances, disproportions and disparities in the expansion rates of a rapidly growing economic system such as that of Brazil in the last decade.

The aim of the present analysis is not to investigate the causes of the magnitude of the inflation but rather the reasons for the variations observed in the growth rate of prices in the short term. It is natural, therefore, that the investigation should focus on the factors connected with the monetary management of the economy rather than those factors –although perhaps of greater impact and suitable for long-term analysis, which have a bearing on the changes occurring in the actual material situation.

Traditionally, primary concern centres around changes in the monetary base. In 1977 Brazil increased its international reserves by 712 million dollars, thus exceeding the limit set by official policy. This expansion helped to increase the monetary base and should therefore be considered inflationary in the context of economic development in the last year. Table 100 shows the absolute variations in the factors of expansion and contraction of the paper money issued. It shows the expansionary effect of the increase in the reserves through the exchange accounts, which rose by almost 20 million cruzeiros above the level of the previous year.

Table 100

BRAZIL: FACTORS OF EXPANSION AND CONTRACTION OF PAPER MONEY ISSUED

(Absolute variations in millions of cruzeiros)

	1975	*1976*	*1977*
Factors of expansion	*81.8*	*164.4*	*149.0*
Loans from the Banco do Brasil	52.0	85.1	110.3
Credits to financial institutions	26.6	38.6	49.8
Exchange accounts (net balance)	-4.4	37.8	19.7
Other accounts (net balance)	7.6	2.9	-30.8
Factors of contraction	*71.3*	*148.4*	*129.0*
Purchases (–) or sales (+) of federal bonds	16.2	20.0	-1.4
National Treasury cash deficit or suplus	–	-1.4	0.4
Returnable deposits [a]	7.0	33.7	7.3
Compulsory deposits of the commercial banks	-0.4	12.4	23.0
Own resources (Banco do Brasil and Central Bank)	22.1	34.3	49.9
Other accounts	26.4	49.4	49.8
Paper money issued	*10.5*	*16.0*	*20.0*

Source: Central Bank of Brazil.

[a] On imports, travel abroad and fuel oil.

Another factor which also traditionally contributes to the increase in liquidity of the system, and thus compels expansion of the money supply is the increase in loans granted by the Banco do Brasil. In 1977 this factor became the chief element of expansion in the money supply, because even though the loans to the private sector grew at lower rates than in the preceding years (almost 49°/o in 1977, 61°/o in 1976 and 64.5°/o in 1975), they were still very much above the growth rate of prices. Lastly, also among the main factors of expansion are the credits of the monetary authorities to financial institutions (rediscounts, loans and advances, operations using the resources of financing funds and various programmes, etc.), which increased by almost 50 million cruzeiros in 1977.

Continuing with the changes produced in the monetary base, it can also be seen from table 100 that the main factors of contraction were the rise of almost 50 million cruzeiros in the resources of the Banco do Brasil and the Central Bank and the increase in the compulsory deposits of the commercial banks in the Central Bank. In this respect, in September 1977 the Central Bank decreed a rise from 35°/o to 40°/o in the coefficient of retention of the sight deposits of commercial banks in the Central Bank.

As a result of the aforesaid changes in the monetary base the means of payment of the economy (monetary base plus sight deposits in the monetary system) rose by 37.6°/o in 1977, a growth rate almost equal to that of 1976, although the growth of economic activity had declined substantially from one year to the other. The monetary budget announced by the government authorities at the beginning of the year envisaged a maximum expansion of 25°/o as sufficient to maintain a liquidity level in line with the expected slowdown in growth and prices. The growth actually recorded therefore clearly represented an inflationary factor.

Nevertheless, the assessment of the liquidity of the economy demands a broadening of the concept of means of payment by the inclusion of different forms of quasi-money. Table 101 demonstrates this broader concept. In three of the four years recorded the growth of the money balances plus quasi-money was much greater than the growth of the means of payment (M_1). This fact suggests that the real degree of liquidity of the economy largely escapes the control of the monetary budget which only takes account of the concept of means of payment (M_1). In 1977, while M_1 recorded growth of around 38°/o, the degree of liquidity in the system increased at a rate of almost 49°/o thus satisfactorily explaining from a monetary standpoint the increased inflation.

Table 101

BRAZIL: LIQUIDITY OF THE PRIVATE SECTOR

(Percentage variations between end-of-december balances)

Period	M_1	M_2	M_3
1974	33.5	30.2	32.8
1975	42.8	44.8	47.4
1976	37.2	51.4	50.5
1977	37.6	45.9	48.8

Source : Fundação Getulio Vargas, *Conjuntura Econômica*, vol. 32, Nº 2, February 1978; Central Bank of Brazil.

Note: M_1 = Paper money outside banks + sight deposits in the monetary system = means of payment.

M_2 = M_1 + sight deposits in the public savings banks + National Treasury Bonds outside the monetary system.

M_3 = M_2 + 50°/o of time deposits, savings deposits, bills of exchange and real estate bonds.

$M_3 - M_1$ = Quasi-money.

From another angle, loans to the private sector registered a total growth of 54°/o compared with that of 57°/o in the previous year, which also acted as a factor of inflationary expansion. The loans of the monetary system of the economy (the Banco do Brasil and commercial banks) showed increases which, although lower than those of the previous year, as in the case of the Banco do Brasil, nevertheless greatly exceeded the goals fixed in the monetary budget - 33°/o for the Banco do Brasil (compared with the 49°/o actually recorded) and 35°/o for the commercial banks (compared with the 52°/o actually recorded). In the non-monetary system the rates recorded were in general even higher the most outstanding being the increases in loans made by the savings and loan associations (75°/o), the real estate credit companies (70°/o) and also agencies nearer to official control such as the Federal Savings Bank (60°/o) and the National Economic Development Bank (58°/o). To offset this, there was only a moderate increase in the loans of the financial institutions specializing in consumer credit, which has been subject to severe official restrictions since 1976[34] (see table 102).

Table 102

BRAZIL: LOANS TO THE PRIVATE SECTOR

(Percentage variations)

	1973	*1974*	*1975*	*1976*	*1977*[a]
Banco do Brasil	50.0	77.5	64.5	61.3	48.7
Commercial banks	44.1	47.5	50.9	50.7	52.2
Financial institutions	81.6	25.1	33.6	28.9	30.1
Investment banks	56.6	34.2	50.2	37.8	48.1
Real estate credit companies	68.5	60.5	40.2	68.4	69.7
Savings and loan associations	84.5	82.5	62.9	99.1	75.3
Federal Savings bank	60.9	77.3	89.0	70.6	60.2
State savings banks	78.0	66.1	68.2	114.1	52.9
Banco Nacional de Desenvolvimiento Economico	45.4	223.2	100.9	82.1	58.2
Total	*65.9*	*52.1*	*56.3*	*57.3*	*54.4*

Source: Central Bank of Brazil.

[a] Preliminary figures.

In respect of the cost pressures remaining in the system, reference must of course be made to the maintenance of high rates of interest, which were left free in September 1976[34] in an attempt to discourage the demand for domestic credit and to mitigate the pressures which developed in the last three months of the year. In table 103 an example is given of the evolution of interest rates in the economy through an analysis of the rates charged by the financial institutions which specialize in consumer credit. Between December 1975 and December 1977, the annual interest rate for credits with a 24-month time-limit rose from 2.95°/o to 5.10°/o. It goes without saying that the progressive rise in credit costs became an inflationary factor which increased costs and therefore prices in the economy.

In contrast, the remarkable evolution of the agricultural sector, which resulted in a smaller price rise for agricultural products than that of the general price index, had a deflationary effect. Although in the first six months certain rigidities were observable in the supply of various products, mainly vegetables and poultry, the evolution during the rest of the year was decidedly favourable to the maintenance of moderate monthly rates of price variation.

Lastly, it must be emphasized that the policy of generalized indexing of the economy, with the alterations introduced in 1976 in the calculation of the coefficients of monetary correction,[35] together with the fixing of the exchange rate, had a largely neutral effect on price variation.

[34] See the section on Brazil in CEPAL, *Economic Survey of Latin America, 1976, op. cit.*

[35] See the section on Brazil in CEPAL, *Economic survey of Latin America, 1976, op. cit.*, pp. 105-106.

Table 103

BRAZIL: INTEREST RATES OF FINANCIAL INSTITUTIONS
(RIO DE JANEIRO)

(Monthly percentages)

Years and months	*Rates charged in consumer-credit operations* [a]
1975 – December	2.95
1976 – March	3.13
June	4.03
September	4.43
December	4.74
1977 – March	5.24
June	5.30
September	5.10
December	5.10

Source: *Boletim do Banco Central do Brasil*, February 1978.

[a] Financing for 24 months.

(c) *Monetary policy*

The accelerated growth of the economy in the last ten years and the profound changes made in the national financial system in 1968 led to the application of a monetary policy radically different from that of the preceding years.

In 1964, monetary assets –a concept practically identical with that of means of payment– represented 92°/o of the total amount of financial assets. From that year until 1977, these assets gradually lost importance until they came to represent only slightly over a third of the total (see table 104). Since in Brazil the monetary policy regards the means of payment as an endogenous variable, this policy has lost a large part of its effectiveness, inasmuch as two thirds of the financial assets of the economy elude its strictest control.

Moreover, the concept of means of payment used operationally by the Central Bank as an indicator of the degree of liquidity of the economy is at present very limited. If the balances for December 1977 are calculated on the basis of the concepts of means of payment (M_1) and quasi-money ($M_3 - M_1$), detailed in table 101, it will be seen that the means of payment represented only half the total liquidity generated in the economy.

In these circumstances, it is difficult to exercise effective control over the expansion of credit and the levels of liquidity in the monetary system. The monetary authority can use the monetary base as an instrument of policy but cannot control the total supply of financial resources. This would explain why the high rates of inflation react so sluggishly to the monetary policy, despite the various measures adopted year after year.

In 1977, the authorities found it necessary to adopt certain measures to prevent the rapid expansion of the monetary base, particularly in the second half of the year. As from October, the Central Bank raised from 35°/o to 40°/o the coefficient of retention on the sight deposits of the banking system which must necessarily remain in the Central Bank. Concurrently, the rates charged by the Central Bank for liquidity loans to the banking system were raised from 28°/o to 30°/o for normal time-limits, and from 30°/o to 32°/o for periods exceeding those limits. At the same time it was agreed to cut back the credits of the Banco do Brasil until the end of the year by 5 billion cruzeiros (approximately 300 million dollars). In November, in view of the growth of the growth of

Table 104

BRAZIL: MAIN FINANCIAL ASSETS

(Relative shares)

	1964	*1970*	*1973*	*1977*
Monetary assets [a]	*92.0*	*55.5*	*43.1*	*33.7*
Paper money outside banks	21.0	10.5	7.9	6.4
Sight deposits	71.0	45.0	35.2	27.3
Non-monetary assets	*8.0*	*44.5*	*56.9*	*66.3*
Savings deposits	...	3.3	6.7	17.4
Fixed-term deposits	2.5	6.9	12.6	12.8
Without monetary correction	2.5	0.2	–	–
With monetary correction	–	6.7	12.6	12.8
Bills of exchange	4.2	15.3	16.9	8.4
Housing bonds	–	3.1	3.0	1.0
Public debt bonds	1.3	15.8	17.7	26.7
Total	*100.0*	*100.0*	*100.0*	*100.0*

Source: Central Bank of Brazil.

the international reserves and their inflationary impact on the economy, the Central Bank decided to retain in the Bank the equivalent in cruzeiros of any external loan entering the country between 17 November 1977 and 20 January 1978.

The open-market operations with federal public debt bonds, an important instrument of liquidity control, recorded a net deficit of 1,400 million cruzeiros, compared with the surpluses of 16,200 million in 1975 and 20 billion in 1976.

There were difficulties, in fact, in disposing of these bonds in the market because of their lower yield compared with other financial assets. The Government had decided to reduce the yield on public debt bonds by 4 percentage point per year in an attempt to induce a general decrease in the interest rates paid on other assets and it was thought that, in view of the high degree of liquidity of these bonds, they would remain in demand despite their lower yield but this was not the case, and in the last quarter of the year the volume of bonds redeemed was markedly greater than that of sales, thus causing an expansion of the monetary base.

Furthermore, in order to mitigate the feedback effects of inflation through the generalized indexing of the economy, in June the monetary authorities fixed a coeffcient of monetary correction of 30.1%o for 1977, much lower than the observed inflation rate of 38.8%o.

Some price control measures were also adopted. The Government naturally fixed various prices considered critical for the inflationary process, such as those for fuels, soya and soya products, and coffee. In addition, the charges for public services were also fixed, a rise of up to 25%o being permitted for the whole year.

As regards the potentially inflationary role of agricultural prices,the Government imported certain products, such as beans and milk, which were in short supply in the country, in order to contain the pressure on their prices.

(d) *Wages and salaries policy*

Traditionally, for more than a decade, Brazil has pursued a restrictive policy on wages and salaries. The monthly pay adjustments announced by the Government as a basis for labour agreements and pay claims reveal a drop in real remuneration between 1976 and 1977 if the annual average pay

adjustment is compared with the the annual average variation in the cost-of-living index. The slight increase in real remuneration achieved in 1976 was more than offset by the loss of 2.6°/o recorded in 1977. The official justification for this policy is the need to contain the pressures which would presumably be exerted on costs if adjustments were granted which kept the real remuneration unchanged.

For Federal Government and state officials the adjustment was even lower, since an increment of 30°/o was granted at the beginning of the year compared with cost-of-living increases which came to well over 40°/o by the end of the year.

Table 105

BRAZIL: INDEXES OF THE REAL MINIMUM WAGE

(Base: annual average 1975 = 100)

Years and months		*Indexes of real minimum wage (Rio de Janeiro)*
1975 –	March	85
	May	116
	July	111
	November	101
Annual average, 1975		*100*
1976 –	March	87
	May	117
	July	111
	November	101
Annual average, 1976		*101*
1977 –	March	87
	May	117
	July	111
	November	101
Annual average, 1977		*101*

Source: Original data extracted from the *Boletim do Banco Central do Brasil*, February 1978.

Official policy was more flexible, however, in fixing the minimum wage which is decreed on 1 May each year, and an adjustment of 44°/o was granted on that date. Thanks to this, the average real minimum remuneration remained unchanged from 1976 to 1977, at a level 1°/o higher than that of 1975 (see table 105). Apart from this, the Government decreed a bonus of an extra fourteenth month of pay to those workers whose income does not exceed five minimum wage units. If this fourteenth month is taken into account, the adjustment for this wage group was 57°/o in May 1977, thus bringing about an increase in real remuneration.

(e) *Fiscal policy*

The financial year's accounts of the National Treasury recorded a further surplus in 1977. Table 106 shows that the surplus was more than double that of the previous year, representing 0.5°/o of the total expenditure. At first sight this result would appear to be in line with a policy of decelerating growth and fighting inflation.

Table 106

BRAZIL: NATIONAL TREASURY BALANCE SHEET

(Billions of cruzeiros)

	1973	*1974*	*1975*	*1976*	*1977*
Income	52.9	76.8	95.4	166.2	242.9
Expenditure	52.5	72.9	95.4	165.8	241.8
Surplus	0.4	3.9	–	0.4	1.1

Source: Fundação Getulio Vargas, *Conjuntura Econômica*, vol. 32, Nº 2, February 1978.

Nonetheless, the fact that the budget Union shows a surplus does not indicate that the public finances have really played a contractive role in the economy. In the first place, the present accounting system for the financial year's transactions of the National Treasury may lead to errors. This supposition is based on the fact that the items of expenditure authorized but not used in a financial year remain as sight deposits of the Federal Government in the Banco do Brasil and in the Federal Savings Bank, showing an apparently favourable cash situation. Moreover, the financial costs of the public debt operations are not included in the budget but are recorded in a separate account which is absorbed by the movement of the debt itself. Thus, the cash situation of the National Treasury often fails to reflect the real situation of the fiscal budget.

Still more important is the fact that the fiscal budget is not representative of the impact of the government sector on the economic system. In fact, the financial resources which make up the National Treasury account amount to barely 50% of the total administered by the Government, since this account does not include the accounts of public enterprises and autonomous public bodies. In view of the growing importance and autonomous expansion of these institutions, which are frequently not subject to the requirements of economic policy, it will be readily understood that the real effects of the government's activities on the economy may be radically different from those suggested by the financial year's accounts of the National Treasury.

Table 107

BRAZIL: FINANCIAL OPERATIONS OF THE NATIONAL TREASURY [a]

(Millions of cruzeiros at the end each period)

	1975	*1976*	*1977*
With the monetary authorities	-16 356	-18 594	3 466
Banco do Brasil	-398	-2 615	-808
Central Bank of Brazil	-15 958	-15 979	4 274
With the Federal Economic Fund	–	-1 808	-1 064
With the public	16 283	19 979	-3 445
Movable debt	16 254	19 955	-3 479
Deposits by taxpayers	29	24	34
Cash position	*-73*	*-423*	*-1 043*

Sources: Fundação Getulio Vargas, *Conjuntura Econômica*, vol. 32, Nº 2, February 1978.

[a] Positive figures indicate debits of the National Treasury.

The situation of the National Treasury is shown from a different viewpoint in table 107. In 1977, as in previous years, there was a National Treasury credit but with radically different effects. Thus, the operations of the National Treasury with the monetary authorities showed an absorption of resources of approximately 3,500 million cruzeiros, compared with substantial deficits in the preceding years. On the other hand, the results of operations with the public, consisting of public debt bonds –mainly National Treasury bonds and Readjustable National Treasury Debentures– recorded a deficit. This means that government action in the open market had expansionary effects on the liquidity of the economy in contrast with the results in previous years, when it made an important contribution to the absorption of the liquidity.

COLOMBIA

1. *Main recent trends: Introduction and summary*

The evolution of the Colombian economy in 1977 was characterized by the significant and opposite effects of the coffee boom that began in the middle of 1975 as a result of the frosts in the Brazilian coffee plantations and the prolonged and intense drought which affected vast regions of Colombia during the last months of 1976 and the first half of 1977.

For the second year running the scarcity of coffee in the world market led to an abnormal increase in its international prices. Thus, in 1977 the average quotation for Colombian coffee was 2.40 dollars a pound, more than 50o/o higher than the already high price of 1.58 dollars in the previous year and more than three times the average price of 0.72 dollars for the period 1972-1974.

Thanks to this exceptional rise, the value of coffee exports rose by 57o/o in 1977, despite a 15o/o fall in volume. This contributed to the large surplus for the second year running on the balance-of-payments current account and to an increase, as in 1976, of more than 600 millions dollars in international reserves, which by the end of the year reached the record level of 1,835 million dollars (see table 108).

At the same time, the higher price of coffee and the steep rises in the international prices of a number of non-traditional export products brought about a marked improvement in the terms of trade, which in 1977 reached their highest level in half a century. As a result, gross income grew by more than 8o/o for the second year running, although there was apparently only a moderate expansion, as in 1976, in the gross domestic product[36] (see table 108).

The coffee boom, however, also created problems for the economic policy, especially the anti-inflationary policy. The exceptional and sustained growth of the international reserves tended to intensify the expansion of the monetary base, while the high levels attained both by coffee prices and the coffee crop led to a considerable expansion in the demand for goods, services and labour in the rural areas. The most direct consequence of these changes was the stregthening of the inflationary pressures which had already begun to appear in 1976.

During the first half of 1977 these pressures were intensified by the effects of the droguht, which caused a sharp drop in agricultural production, making it necessary to impose strict rationing of electricity in some of the most important industrial centres. The shortage of agricultural products and the small stocks held by the Agricutural Marketing Institute (IDEMA) at the beginning of the year contributed to the exceptional rise in the prices of foodstuffs. These went up with increasing momentum until June, when their annual variation had reached the abnormal level of 58o/o. The consumer price index also rose by the unusually large amount of 29o/o over the same period.

[36]At the time of writing, the Banco de la República had not issued an estimate of the growth ot the gross domestic product in 1977 and the only figures available were those of the revised, but still provisional, national accounts calculated by the Bank for 1976. In these circumstances the growth rates of the total gross domestic product and of the main productive sectors recorded for 1977 in this article are only very preliminary estimates which are subject to a higher than usual margin of error.

Table 108

COLOMBIA: MAIN ECONOMIC INDICATORS

	1972	*1973*	*1974*	*1975*	*1976*	*1977* [a]
A. *Basic economic indicators*						
Gross domestic product at factor cost (millions of US dollars at 1970 prices)	12 804	13 781	14 673	15 304	15 931	16 648
Population (millions)	22.3	22.8	23.3	23.8	24.4	25.0
Per capita gross domestic product (US dollars at 1970 prices)	575	605	630	642	653	666
	Growth rates					
B. *Short-run economic indicators*						
Gross domestic product	7.9	7.6	6.5	4.3	4.1	4.5
Per capita gross domestic product	5.5	5.3	4.1	1.9	1.7	2.0
Gross income [b]	8.6	9.0	5.1	2.4	8.9	8.2
Terms of trade	7.9	14.1	-9.6	-9.4	43.0	44.1
Current value of exports of goods and services	24.0	28.1	20.4	16.3	32.8	18.0
Current value of imports of goods and services	-3.6	15.2	45.5	-2.1	13.8	17.9
Consumer price index [c]						
December to December	14.4	25.0	26.9	17.9	25.9	29.3
Annual average variation	7.5	15.1	15.2	12.3	14.3	22.3
Money	27.1	29.3	19.6	27.8	35.0	30.1
Wages and salaries [d]	...	...	...	-2.2	2.4	-5.7
Rate of unemployment [e f]	...	...	...	...	8.7	7.6
Current income of government	11.6	24.8	29.4	46.5	27.0	29.9
Total expenditure of government	26.3	13.6	25.8	35.6	12.6	29.7
Fiscal dedifit/total expenditure of government [e]	18.6	12.1	9.5	2.3	10.2 [g]	10.3 [g]
	Millions of US dollars					
C. *External sector*						
Trade balance (goods and services)	-28	125	-211	139	573	679
Balance on current account	-214	-78	-383	-97	331	420
Variation in net international reserves	154	146	-112	113	609	663
External debt [h]	...	...	1 552	1 891	1 769	1 853

a Preliminary figures.
b Gross domestic product plus terms-of-trade effect.
c National index for manual workers.
d Real wages in manufacturing.
e Percentage.
f Annual average rate in Bogotá.
g Surplus.
h Public and State-guaranteed external debt (disbursed).

In face of the abnormal increase in the rate of inflation, the Government gave priority to the slowing down of price increases and adopted concurrent measures to increase the short-term supply of food, control the rise in costs and restrict the expansion of demand.

With a view to achieving the first of these objectives, IDEMA was authorized to import massive quantities of agricultural products, while the exports of certain foodstuffs was prohibited and credits with low interest rates were offered to producers of agricultural goods for domestic consumption.

At the same time, with a view to moderating cost increases, the price of fuels was frozen and the rate of devaluation of the currency was drastically reduced. Moreover, a procedure was introduced in April whereby the foreing currency deriving from coffee exports and services could only be change through special exchange certificates, which were subject to a deduction of 10°/o if exchanged for national currency within the first month of issue. This mechanism, designed to reduce and postpone the monetization of the larger amounts of foreign currency deriving from the coffee boom, was extended in May to the exchange of foreign currency coming from the export of cotton, flowers, cattle, meat, metals and precious stones. At the same time the discount on the certificates was raised from 10 to 15°/o and the period during which the cashing of the certificates was subject to a discount was extended to three months. In this way a dual system of exchange was established and the peso was partially revalued, with the result that imports were encouraged and their cost in national currency was reduced.

Thanks to the introduction of the exchange certificates and other measures adopted by the economic authorities to limit the secondary expansion of money through the commercial banking system, the growth rate of the money supply –which up to the middle of the year had been accelerating– was finally lower in 1977 than in the previous year. This result was also attributable to the fiscal policy which, as in 1976, had restrictive aim and produced for the second year running a considerable surplus equivalent to approximately 10°/o of total government expenditure (see table 108).

This set of measures and the substantial increase in the harvests during the second half of the year produced a remarkable turnaround in the evolution of price levels. Thus, after a very slight increase in July, food prices declined continuously during the following five months, so that the consumer price index became almost completely stable during the second half of the year. By the end of the year, inflation was therefore somewhat lower than 30°/o: a rate which, although higher than in 1976, was appreciably lower than that of the first six months of the year and, above all, much lower than could have been predicted at that time.

The fall in the price of food, the increase in the minimum legal remuneration in August and November and the adoption of new labour agreements in some sectors brought about a partial recovery in real industrial wages in the second half of the year. Nonetheless, as a result of their sharp fall during the first six months owing to the increasing rate of inflation, their average level was still around 6°/o lower than during the previous year. On the other hand, in consequence of the rise in income from coffee and the substantial improvement in the relative prices of agricultural products, the real wages paid in the agricultural sector increased considerably, thereby reducing to some extent the differences between income levels in the rural areas and the urban centres.

During 1977 there was an improvement in the employment situation. In the four biggest cities of the country, employment in December was over 8°/o higher than that recorded a year before and the unemployment rate had declined steadily throughout the year. The reduction in unemployment was especially noteworthy in Bogotá, where the proportion of the labour force which was unemployed dropped from an average of 8.7°/o in 1976 to 7.6°/o in 1977, reaching 6.5°/o in December (see table 108).

2. *Economic trends*

(a) *Total supply and demand*

As already noted, the gross domestic product is estimated to have risen by around 4.5°/o in 1977, slightly higher rate than that of the two preceding years but a good deal lower than the average 6.9°/o recorded for the five-year period 1970-1974.

Total supply also grew more vigorously than in 1976, particularly because of the more rapid expansion of the volume of imports. In addition, as a result of a new and sharp fall in the export quantum, the domestic availability of goods and services grew at a rate of about 8°/o which was much higher than that of the two preceding years (see table 109).

Table 109

COLOMBIA: TOTAL SUPPLY AND DEMAND

	Billions of pesos at 1970 prices			*Percentage breakdown*		*Growth rates*		
	1975	*1976*	*1977*	*1970*	*1977*	*1975*	*1976*	*1977* [a]
Total supply	*197.9*	*206.4*	*216.6*	*115.8*	*113.1*	*1.7*	*4.3*	*4.9*
Gross domestic product at market prices	176.1	183.2	191.5	100.0	100.0	4.3	4.1	4.5
Imports of goods and services [b]	21.8	23.2	25.0	15.8	13.1	-9.8	6.2	7.8
Total demand	*197.9*	*206.4*	*216.3*	*115.8*	*113.1*	*1.7*	*4.3*	*4.9*
Domestic demand	173.2	184.6	198.8	101.6	103.8	0.7	6.6	7.7
Gross domestic investment	29.5	35.5	...	22.0	...	-17.4	20.5	...
Gross fixed investment	31.8	31.3	...	20.3	...	0.5	-1.8	...
Construction	18.8	17.6	...	10.6	...	-7.1	6.6	...
Machinery and equipment	13.0	13.7	...	9.7	...	13.9	5.0	...
Changes in stocks	-2.4	4.2	...	1.7	...			
Total consumption	143.8	149.1	...	79.6	...	5.4	3.7	...
General government	12.7	12.9	...	7.6	...	6.1	1.4	...
Private	131.1	136.2	...	72.0	...	5.3	3.9	...
Exports of goods and services [b]	24.6	21.8	17.7	14.2	9.2	29.9	-11.4	-19.1

Sources: 1970-1976: CEPAL, on the basis of figures supplied by the Banco de la República;
1977: CEPAL estimates.

[a] Preliminary figures.

[b] 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 CEPAL for the purpose.

Unfortunately no data are available on the distribution of this increased supply of goods and services between consumption and investment. It is probable, however, that there has been a fairly substancial increase in the latter, since in 1977 there was a relatively pronounced upswing (6°/o) in construction and a new and notable rise in the value of registered imports of capital goods. These, which rose by 31°/o in 1976, went up by more than 16°/o in 1977. For this reason, and because of the normal time-lag between the date of registration and the moment when the goods actually enter the country, the quantity of capital goods imported should have increased substantially in 1977.

(b) *Sectoral trends*

Only very preliminary estimates are available for the evolution of the main productive sectors in 1977. According to these, the growth of the total product originated mainly in the service sectors, in construction, and in transport, storage and communications. Manufacturing, on the other hand, appears to have expanded less than in 1976, while agricultural production grew at much the same rate as the population (see table 110).

Table 110

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

	Billions of pesos at 1970 prices			*Percentage breakdown*		*Growth rates*		
	1975	*1976* [a]	*1977* [b]	*1970*	*1977*	*1975*	*1976* [a]	*1977* [b]
Agriculture	44.1	44.7	45.8	28.6	25.8	6.1	1.5	2.5
Mining	2.2	2.1	2.0	2.1	1.1	-6.8	-5.9	-5.0
Manufacturing	30.0	32.0	33.3	17.5	18.8	1.3	6.7	4.0
Construction	7.8	7.1	7.5	5.5	4.2	-4.3	-9.0	6.0
Subtotal goods	*84.1*	*86.0*	*88.7*	*53.7*	*50.0*	*3.0*	*2.2*	*3.2*
Electricity, gas and water	2.8	3.1	3.2	1.5	1.8	5.3	11.6	4.0
Transport, storage and communications	14.1	15.0	15.7	7.4	9.0	8.8	6.9	6.0
Subtotal basic services	*16.8*	*18.1*	*19.2*	*8.9*	*10.8*	*8.2*	*7.7*	*5.7*
Commerce	21.5	22.6	...	17.3		1.3	5.2	...
Financial institutions, insurance and real estate	17.2	18.5	...	5.6	...	10.5	7.7	...
Community, social and personal services [c]	23.7	24.8	...	14.5	...	4.8	4.5	...
Subtotal other services	*62.4*	*65.9*	*69.6*	*37.5*	*39.2*	*5.1*	*5.6*	*5.5*
Total gross domestic product [d]	*163.4*	*170.0*	*177.7*	*100.0*	*100.0*	*4.3*	*4.1*	*4.5*

Sources: 1970-1976: CEPAL calculations on the basis of figures supplied by the Banco de la República de Colombia.
1977: CEPAL estimates.

[a] Provisional figures.
[b] Preliminary figures.
[c] Also includes restaurants, hotels and services provided to enterprises.
[d] As the individual activities and the totals were calculated independently the sum of the former does not correspond exactly with the latter.

(i) *The agricultural sector.* In 1977 agricultural production increased by 2.2%: slightly less than in 1976 and considerably below the rate of over 7% achieved during the two-year period 1974-1975 (see table 111).

A decisive factor in the weak growth of agricultural production was the long and severe drought which affected numerous regions of the country during the second half of 1976 and the first four months of 1977. The lack of rain caused delay in the sowing of semi-annual crops during the second part of 1976, negatively affected their subsequent development and caused drastic reductions in the yield and volume of the harvests during the first half of 1977.

The decreases were especially marked in the production of rice, maize, sorghum and wheat, which, taken together, dropped in volume by more than half a million tons. The potato crop, another important product in the Colombian diet, also suffered a sharp drop, as did that of sugar (see table 111).

The drought also reduced the yield of the cotton crop, even though there was a marked increase in production which came to practically half a million tons. This increase, however, was obtained by means of an intense and costly battle against the blights and pests induced by the lack of rain. Among the oilseeds, both the African palm and soya increased their yield by around 28%. In the case of

Table 111

COLOMBIA: INDICATORS OF AGRICULTURAL PRODUCTION

	1974	*1975*	*1976*	*1977* [a]	*Growth rates*			
					1974	*1975*	*1976*	*1977* [a]
Index of agricultural production (1970 = 100)	*121.4*	*130.4*	*133.8*	*136.7*	*6.9*	*7.3*	*2.5*	*2.2*
Crop farming	122.5	130.5	131.0	...	6.1	6.5	0.3	...
Stock-raising	119.5	130.3	142.0	...	7.1	9.0	9.0	...
Production of some important crops [b] (thousands of tons)								
Rice	1 540	1 614	1 560	1 297	33.7	4.8	-3.3	-16.9
Maize	792	723	884	737	7.2	-8.7	22.3	-16.6
Sorghum	337	335	428	325	20.3	-0.6	27.7	-24.0
Wheat	59	39	45	41	-18.0	-44.0	16.5	-8.9
Raw cotton	420	401	409	494	25.4	-4.6	1.9	20.8
Sesame	17	21	20	21	-5.6	23.5	-4.8	5.0
Soya	114	169	75	96	17.5	48.2	-55.5	28.0
African palm [c]	...	39	38	49	...	...	-2.6	28.9
Common benas	52	62	64	69	8.3	19.2	2.7	7.8
Kidney beans	16	28	4	1	77.8	75.0	-87.3	-75.0
Potatoes	1 012	1 320	1 516	1 431	-1.8	30.4	14.8	-5.6
Cassava	2 126	2 021	1 927	2 113	6.4	-4.9	-4.6	9.7
Sugar cane [d]	895	970	936	872	10.5	8.4	-3.5	-6.8
Coffee [e]	468	510	480	558	-11.4	9.0	-5.9	16.3
Bananas	470	559	636	667	56.0	18.9	13.8	4.9
Tobacco	...	58	39	73	...	...	32.8	87.2
Stock-raising production (thousands of head of cattle)								
Number of livestock [f]	27 045	28 056	28 871	...	3.7	3.7	2.9	...
Number of animals slaughtered	2 176	2 286	2 557	...	9.6	5.1	11.9	...
Total production [g]	3 823	4 197	4 486	...	7.0	9.8	6.9	...

Source: CEPAL, on the basis of data provided by the Banco de la República, the Ministry of Agriculture and the National Federation of Coffee-Growers.

a Preliminary figures.
b Agricultural year.
c Production of oil.
d Calendar year.
e Coffee-growing year, 1 September to 31 August.
f Stock at the beginning of the year, plus calves born during the year.
g Includes slaughtering, registered live exports, deaths, and non-registered slaughtering, including contraband.

soya, however, this increase did not offset the drastic fall of the previous year, so that production was still more than 40o/o below the 1975 figures.

In contrast, the drought favoured the flowering of the coffee plantations and this, together with good management, produced an increase of 16o/o in the coffee crop, wich represents approximately 40o/o of the total value of agricultural output.

In the livestock sector, the lack of rain caused a considerable fall in the calving rate and increased the mortality index and the maintenance costs of the heards. This and the shortage of natural grass, silage and fodder seeds produced a drop in the market weight of cattle. The resulting restriction in supply and the greater demand for meat arising from the higher incomes in the coffee zones caused a considerable rise in the price of meat.

(ii) *Mining.* In mining –a relatively unimportant sector in Colombia– production fell by approximately 5°/o in 1977. This contraction, as in previous years, resulted basically from the drop in the production of crude oil, which fell by 6°/o, thus continuing its uninterrupted decline begun in 1972 (see table 112). Owing to this further fall in production and also to the growing demand for petroleum products, the volume of imports of crude oil and its derivatives had to be increased by about 40°/o. Thus imports of oil and fuels, which were still negligible in 1974, rose to a total of 250 million dollars in 1977 (see table 120).

In 1977 there were also decreases in gold and silver production of 12°/o and 14°/o respectively, and in iron ore of about 8°/o (see table 112).

Table 112

COLOMBIA: INDICATORS OF MINING PRODUCTION

	1973	*1974*	*1975*	*1976*	*1977*	*Growth rates*			
						1974	*1975*	*1976*	*1977*
Petroleum [a]	67.1	61.4	57.3	53.4	50.2	-8.5	-6.7	-6.8	-6.0
Iron ore [b]	439.0	444.2	537.4	498.3	459.9	1.2	21.0	-7.4	-7.7
Gold [c]	6 736	8 332	9 682	9 340	8 193	23.7	16.2	-3.5	-12.3
Silver [d]	2 356	2 478	2 723	3 322	2 843	5.2	9.9	22.0	-14.4
Platinum [d]	...	...	688	522	538	...	...	-24.1	3.1

Source: Ministry of Mining and Energy, Banco de la República and Acerías Paz de Río.

[a] Millions of barrels of 42 gallons.
[b] Thousands of tons.
[c] Purchases from producers by the Banco de la República.
[d] Kilogrammes.

(iii) *Manufacturing.* According to the incomplete data available, the product of the industrial sector appears to have increased by approximately 4°/o in 1977, a lower rate than in 1976. This reduced dynamism in industry occurred in spite of the increased demand generated by the coffee boom and the greater facilities provided for the import of raw materials and capital goods. Apparently these favourable influences were to a large extent nullified by other factors tending to limit the increase of production in various industrial branches.

Among these negative factors mention should be made, in the first place, of the rationing of electricity made necessary by the drought. The lack of rain produced a sharp drop in the flow of water to the various hydroelectric dams and also hampered the transport along the River Magdalena of the fuels used in the thermal power plants of the system on the Atlantic coast. Although the authorities tried to ensure that the reduction in electricity had the least possible effect on the industrial sector, industrial consumption of electricity was scarcely 1.8°/o higher than in 1976.[37] The second factor which had a negative impact on production was the series of restrictions placed by some industrial countries on their imports of certain manufactures, causing a decline in the produc-

[37] It is interesting to note that in the fourteen major cities of the country, where the greater part of industry is situated, industrial electricity consumption fell by 0.2°/o. This drop, and the fact that in the country as a whole consumption rose by only 1.8°/o, imply an extraordinarily rapid growth of industrial electricity consumption in the rest of the country, which suggests, in its turn, that in 1977 there might have been a certain spatial deconcentration of economic activity.

tion of some industrial goods destined for export. Thirdly, some labour crises and conflicts arose in 1977 which reduced or restricted the production of some industries, as in the case of cement (which fell by somewhat more than 5%) and the refining of hydrocarbons (which increased by only 2%). Finally, industrial production was also affected adversely by the general repairs carried out in the iron and steel and oil refinery plants, the diminished yield of sucrose in the sugar cane, and the closing of the electrolytic caustic soda plant for reasons of protection of the environment, causing a drop in chlorine and caustic soda production of over 35% (see table 113).

Table 113

COLOMBIA: INDICATORS OF MANUFACTURING PRODUCTION

	Thousands of tons					*Growth rates*			
	1973	*1974*	*1975*	*1976*	*1977*[a]	*1974*	*1975*	*1976*	*1977*[a]
Sugar	810	895	970	936	872	10.5	8.4	-3.5	-6.8
Cement	3 221	3 432	3 091	3 612	3 393	6.6	-9.9	16.9	-6.1
Steel ingots	263	244	266	252	209	-7.2	9.0	-5.3	-17.1
Caustic soda	70	60	58	56	36	-14.3	-3.3	-3.4	-35.7
Carbonates	173	167	176	149	141	-3.5	5.4	-15.3	-5.4
Petroleum products [b]	59.7	60.6	57.7	59.1	60.4	1.5	-4.8	2.4	2.2

Sources: Colombian Sugar-cane Growers' Association; National Bureau of statistics; Acerías Paz de Río; Compañía Colombiana de Alcalis; Ministry of Mining and Energy.

[a] Preliminary figures.
[b] Millions of barrels of 42 gallons.

(iv) *Construction.* After declining for two successive years, the construction product appears to have increased by 6% in 1977. This more favourable development was essentially due to the strengthening of the recovery of private construction which began halfway through 1976. The area corresponding to construction permits issued in the 56 cities for which information is available increased by over 24%: four times as high as the growth rate of the previous year. Even so, as a result of the sharp fall in private construction during 1975, the construction area authorized was still 5% less than in 1974 (see table 114).

The acceleration in the growth rate of private construction was especially marked in the 49 cities next in importance after the seven biggest cities, where the construction area authorized was about 47% more than in 1976. This rate was practically three times as high as that for the seven biggest cities. This marked difference, added to the fact that in 1976 the expansion rate in the seven main cities was also less than in the 49 other cities, and that moreover the fall in 1975 was much less in the latter than in the former, seems to indicate that the policy of economic decentralization applied by the government in 1975 is beginning to bear fruit.

As was to be expected, the evolution of the floor area of housing construction was very similar to that of private construction as a whole. In the seven major cities, the new housing area grew by almost 16%, though this rate was still much lower than in 1974. The relatively greatest expansion took place in Manizales, which is situated in the heart of the most important coffee zone and which benefited in consequence from the boom caused by the extraordinary rise in coffee prices. The increase in housing construction was also very high in Medellín –the industrial centre nearest and most closely linked to the coffee-producing districts– and somewhat less, but also considerable, in Bogotá and Bucaramanga (see table 114).

(v) *Electricity.* The generation of electrical energy increased by a little over 5% in 1977. This increse was confined to the final months of the year because, as mentioned earlier, the drought made

Table 114

COLOMBIA: PRIVATE CONSTRUCTION PERMITS APPROVED

	Thousands of square metres				*Growth rates*			
	1974	*1975*	*1976*	*1977*	*1974*	*1975*	*1976*	*1977*
Total area	*6 726*	*4 843*	*5 128*	*6 372*	*10.7*	*-28.0*	*5.9*	*24.2*
Seven principal cities	5 377	3 572	3 755	4 365	11.3	-33.6	5.1	16.2
Bogotá	3 043	2 103	1 944	2 422	20.2	-30.9	-7.6	24.6
Medellín	796	359	511	640	17.1	-54.9	42.3	25.4
Cali	718	460	605	522	-2.3	-35.9	31.5	-13.7
Barranquilla	304	236	326	332	-7.3	-22.3	38.1	1.8
Bucaramanga	216	244	171	203	8.0	13.0	-29.9	18.7
Cartagena	155	61	100	101	-24.8	-60.6	63.9	1.0
Manizales	123	110	98	146	-19.1	-10.6	-10.9	49.0
49 other cities	1 349	1 271	1 369	2 007	8.4	-5.8	7.7	46.6
Area of housing								
Seven principal cities	*4 039*	*2 666*	*2 911*	*3 369*	...	*-34.0*	*9.2*	*15.7*
Bogotá	2 324	1 616	1 547	1 852	7.5	-30.5	-4.3	19.7
Medellín	582	243	376	492	4.5	-58.2	54.7	30.9
Cali	546	324	463	427	-11.8	-40.6	42.9	-7.8
Barranquilla	212	128	241	229	32.5	-39.6	88.2	-5.0
Bucaramanga	188	223	145	173	27.0	18.6	-35.0	19.3
Cartagena	89	33	48	59	...	-62.9	45.5	22.9
Manizales	98	98	92	138	...	–	-6.1	50.0

Source: CEPAL, on the basis of statistics supplied by the National Bureau of Statistics (DANE).

necessary severe rationing of the electricity supply. During that period rationing reached an average of 12°/o of the national consumption, and in some areas of the Cauca Valley, Medellín, Tolima and Huila it rose to levels of 17°/o and 20°/o.

In 1977, on the other hand, there was a very pronounced increase (23°/o) in the installed capacity of the national electric system, which rose from 3,230 MW at the end of 1976 to 3,975 MW at the end of 1977. Work also continued on electricity generation projects which will come into service during the period 1978 to 1983 and which will increase the installed capacity by 3,520 MW. Finally, 1977 saw the successful outcome of negotiations with the Soviet Union for credits amounting to 420 million dollars and the technical assitance needed to build the URRA I and II hydroelectric power stations in the River Sinú basin with a potential of 1,050 MW. These will enter into service in 1983 and 1984, bringing the installed capacity by that date to over 8,500 MW, i.e., 125°/o more than at the end of 1977.

(c) *The employment situation*

In the course of 1977 there was a notable improvement in the urban employment situation.[38]

[38] Since the official data on the employment situation come from the household surveys conducted by DANE in Bogotá, Medellín, Cali and Barranquilla every three months and in Bucaramanga, Manizales and Pasto every 6 months, the analysis does not include the employment situation in the rural areas. It is probable, however, that this has improved as a result of the greater demand for labour deriving from the higher prices and increased production of coffee.

According to figures supplied by the National Bureau of Statistics (DANE), employment in the four main cities of the country was 8°/o higher at the end of 1977 than at the end of 1976, while the expansion was even higher (13°/o) between September 1976 and September 1977 in the group formed by those four cities plus Bucaramanga, Manizales and Pasto. Moreover unemployment rates declined steadily throughout the year in Bogotá, Barranquilla and Cali, with the result that by December they had reached their lowest level since comparable statistics became available[39] (see table 115).

The drop in unemployment was particulary marked and sustained in Barranquilla, where it fell from an average of 10.9°/o in 1976 to 8.8°/o in 1977, and in Bogotá, where the corresponding figures were 8.7°/o in 1976 and 7.6°/o in 1977. The improved employment situation was also reflected in the drop in rates of underemployment and in the slight increase in the coefficient of participation.

The improvement in employment in 1977 is particularly significant –and also more difficult to reconcile with the data on production– if the progress made in 1976 is taken into account. According to official data, employment in the seven main cities rose by 11°/o between October 1975 and September 1976 and expanded even more vigorously in the following 12 months, when it increased by 13°/o (see table 115).

During these two years, employment in manufacturing rose by 34°/o through the net creation of almost 165,000 new jobs, while commerce found employment for another 134,000 persons, increasing employment in this sector by 31°/o. The growth rate may have been even greater (45°/o) in the financial sector, where some 51,500 new posts were created.[40]

It is evident that neither the overall growth in urban employment –25.6°/o in the two years– nor the sectoral increases in employment recorded in the statistics are compatible with the expansion rates of production in the kind of activities typical of the cities. Thus, for example, according to the preliminary estimates given in table 110, the industrial product increased by approximately 11°/o in the period 1976-1977: a very much lower rate than the 34°/o increase in industrial employment indicated by the DANE surveys. Similary, according to the figures in the national accounts, in 1976 the value added in the commercial sector increased by little more than 5°/o, while that of financial activities rose by around 8°/o. Even if exceptionally high growth rates were assumed for 1977, the accumulated expansion of the product in those sectors during the two years under review would be considerably less than the respective increases of 31°/o and 45°/o in employment, which, according to the DANE figures, occurred in these two sectors during the same period.

These discrepancies suggest that the statistics given in the national accounts possibly underestimated the real growth of the product during recent years, especially through underestimation of the expansion during this period in the activities of the so-called "informal" sector of the economy.[41] Nonetheless, if account is taken of the extent of the difference between the growth rates of the product and of employment and also of the extraordinarily high level of the latter, it is not possible to discount either the theory that this latter rate overstates the actual expansion of urban employment.

[39] In Medellín, on the other hand, the unemployment rate followed an uneven course, increasing sharply in the second quarter and dropping subsequently. The increase in unemployment in June was partly due to the fire in Colombia's second largest textile factory, which is situated in that city.

[40] For a more detailed analysis of the sectoral figures, see the note "Aumenta empleo y bajan salarios" in *Estrategia económica y financiera,* Nº 11, May 1978, pp. 8 - 11.

[41] The importance of the growth of the "informal" sector or of "unregistered" activities as a factor explaining the increase in employment is highlighted in the article already mentioned in *Estrategia económica y financiera* and also in the analysis of urban unemployment carried out by Fedesarrollo in *Coyuntura económica,* vol. VIII, Nº 1 April 1978, pp. 59-64. In this respect it should be remembered that according to the industrial survey of Fedesarrollo, which is especially representative of large enterprises, employment in manufacturing appears to have risen by only 3.6°/o in 1977.

Table 115

COLOMBIA: EVOLUTION OF EMPLOYMENT AND UNEMPLOYMENT IN SEVEN CITIES

	1974	1975	1976				1977			
	October	October	March	June	September	December	March	June	September	December
Rates of unemployment	*10.4*	*10.6*	*11.1*	*10.4*	*10.4*	*9.2*	*10.2*	*9.8*	*9.4*	*8.0*
Bogotá	10.0	8.5	9.4	8.4	8.8	8.1	8.9	7.8	7.2	6.5
Barranquilla	16.2	15.3	12.3	11.4	10.7	9.1	10.6	8.8	8.3	7.3
Medellín	12.9	13.8	13.9	13.1	13.3	12.9	12.7	15.5	13.7	11.4
Cali	16.3	14.4	13.8	11.0	12.6	8.7	11.5	10.0	11.9	8.4
Bucaramanga	9.5	7.4	9.0	...	8.0	...	8.2	...	6.4	...
Manizales	16.3	14.4	12.5	...	11.5	...	12.5	...	11.4	...
Pasto	9.4	9.7	7.0	...	9.9	...	10.8	...	9.8	...
Rates of underemployment	...	*17.4*	*17.6*	*17.6*	*14.4*	*14.7*	*13.9*	*15.5*	*14.4*	*12.2*
Population employed (thousands of persons)		*2 014*	*2 173*	*2 016*	*2 239*	*2 129*	*2 325*	*2 144*	*2 530*	*2 308*
Rates of participation [a]	*33.2*	*34.8*	*35.9*	*35.9*	*35.8*	*36.4*	*36.1*	*36.5*	*36.8*	*36.2*
Bogotá	36.3	35.4	36.7	37.0	36.0	37.2	36.8	36.7	36.7	36.2
Barranquilla	34.3	33.6	33.5	34.1	34.6	35.7	32.0	33.2	32.8	31.7
Medellín	34.2	33.4	33.8	33.2	35.6	35.9	34.9	36.1	37.6	35.9
Cali	35.9	35.2	38.0	36.9	37.1	36.9	37.5	38.3	38.9	36.9
Bucaramanga	35.8	32.3	34.3	...	37.1	...	36.9	...	36.2	...
Manizales	33.8	30.6	35.6	...	31.6	...	34.3	...	36.3	...
Pasto	39.2	36.9	35.2	...	34.4	...	39.5	...	39.2	...

Source: CEPAL, on the basis of statistics supplied by DANE.

[a] Economically active population as a percentage of total population.

3. *The external sector*

(a) *External trade*

(i) *Exports of goods.* In 1977 the value of exports of goods grew by 17°/o.[42] This increase, like that of 37°/o recorded in 1976, was exclusively due to the exceptional rise in unit value, which, after already rising 50°/o the previous years, increased by a further 59°/o in 1977, thus more than compensating for the new and sharp reduction in the volume of exports (see table 116).

As in 1976, the essential factor in these changes was the evolution of coffee sales and, in particular, of their prices. These sales, after increasing by 46°/o in 1976, rose by a further 57°/o in 1977 on account of a big new increase in international coffee prices to an average of 2.40 dollars per pound: over 50°/o higher than the 1976 price,which in its turn was practically double that of the previous year. Thanks to this continuous and striking increase in price, the value of coffee exports in 1977 was more than double that of 1975, despite tha fact that during this period the volume exported fell by 35°/o (see table 117).

The notable expansion in the value of coffee exports for the third year running raised their share in the value of total exports to over 65°/o, which was very much higher than the 44°/o recorded in 1974, the year before the beginning of the coffee boom (see table 118).

Table 116

COLOMBIA: MAIN INDICATORS OF FOREIGN TRADE

	1972	*1973*	*1974*	*1975*	*1976*	*1977*[a]
	Growth rates					
Exports of goods						
Value	30.2	28.9	18.4	16.8	36.9	17.0
Volume	15.8	0.7	-1.3	24.0	-8.8	-26.2
Unit value	12.5	28.0	19.9	-5.8	50.1	58.5
Imports of goods						
Value	-5.7	15.7	53.8	-5.7	17.7	22.2
Volume	-9.4	3.1	16.0	-9.4	12.2	11.0
Unit value	4.1	12.2	32.6	4.1	4.9	10.1
Terms of trade	7.9	14.1	-9.6	-9.4	43.0	44.1
	Indexes (1970= 100)					
Terms of trade	97.9	111.7	101.0	91.5	130.8	188.5
Purchasing power of exports of goods	117.3	134.8	120.4	135.2	176.3	210.9
Purchasing power of exports of goods and services	112.8	131.1	123.7	137.3	170.5	198.7

Source: CEPAL, on the basis of official data.

[a] Preliminary figures.

[42] It is probable, however, that this rate underestimates the real growth in exports of goods. According to the figures from the export registers kept by the Colombian Institute of Foreign Trade (INCOMEX), the increase appears to have been more like 30°/o, while according to the preliminary balance-of-payments estimates of the Banco de la República, exports of goods seem to have risen by 24°/o. The rate of 17°/o which appears in table 116 was calculated on the basis of the figures for exports of goods given in the 1976 balance of payments for Colombia estimated by the International Monetary Fund and the figures appearing in the preliminary estimates of the balance of payments for 1977 prepared by the Banco de la República.

Table 117

COLOMBIA: INDICATORS OF COFFEE EXPORTS

		Average price (US dollars per pound)	*Volume exported (thousands of bags of 60 kilos)*	*Export receipts (millions of US dollars)*
1972		0.57	6 528	434
1973		0.73	6 766	535
1974		0.78	6 906	543
1975		0.82	8 175	635
1976		1.58	6 290	918
1977		2.40	5 324	1 447
1977	*January*	2.21	598	121
	February	2 47	565	136
	March	3.13	555	193
	April	3.21	436	189
	May	2.92	484	101
	June	2 69	298	50
	July	2 29	98	65
	August	2.05	205	85
	September	1.93	604	79
	October	1.82	338	84
	November	2.04	272	142
	December	2.08	871	202

Source: Banco de la República.

Although basically caused by the exceptional increase in coffee sales, the relatively grater share of these in the total external sales of goods also reflected the slackening in expansion of the other exports from 1974 onwards. After increasing vigorously and uninterruptedly until that year, exports other than coffee declined in 1975 and recovered only partially in 1976, while in 1977 their value rose by less than 3°/o to a level barely exceeding that of 1974. Moreover, since most of the principal export products benefited in 1977 from increases in their international prices, this increase in value implied a decrease in the volume exported.

Especially significant were the falls in exports of the principal types of industrial goods, the combined value of which declined by 23°/o. The decisive factors in this deterioration were the drop of about 50°/o in sales of cotton textiles –which were subject to restrictions in the markets of the industrial countries– and the decline in sugar exports, which after a sharp drop in 1976 ceased entirely in 1977 owing to the prohibition imposed in order to ensure the domestic supply (see table 118).

In contrast, the chief agricultural exports increased moderately in value, since the upswing in sales of cotton, bananas, flowers and beans offset the serious drop in exports of cattle and tobacco and the suspension of exports of rice, which were also prohibited.

The slow rise in the value of exports of products other than coffee and the decline in the export volume of many of these was partly due to the steep drop in the real exchange rate which occurred in 1977. Even though the wholesale price index rose on average by 26.7°/o in 1977, the official exchange rate was only 6°/o higher. Consequently, the real exchange rate –which already in 1976 had been 9°/o lower than in the year before– fell by 16.3°/o in 1977 to a level almost 24°/o lower than in 1975 (see table 119).

Naturally, the drop in the exchange rate applicable to exports of coffee, services, cotton, flowers, cattle, meat, metals and precious stones was even greater because of the discount on the exchange certificates with which from May onwards the Banco de la Repúlbica obtained the foreing currency deriving from these exports. Indeed, in 1977 there was no devaluation of the peso for these exports

Table 118

COLOMBIA: VALUE AND BREAKDOWN OF EXPORTS OF GOODS (FOB) [a]

	Millions of US dollars				*Percentage breakdown*			*Growth rates*		
	1974	*1975*	*1976*	*1977* [b]	*1970*	*1975*	*1977*	*1975*	*1976*	*1977*
Total	*1 416*	*1 443*	*1 774*	*2 312*	*100.0*	*100.0*	*100.0*	*1.9*	*22.9*	*30.3*
Coffee	623	681	996	1 513	69.4	47.2	65.4	9.3	46.3	56.6
Remainder	793	762	778	800	30.6	52.8	34.6	-3.9	2.1	2.8
Agricultural	*222*	*346*	*315*	*325*	*12.6*	*22.5*	*13.2*	*55.9*	*-9.0*	*3.2*
Beef	37	36	26	34	1.5	2.3	1.4	-2.7	-27.8	30.8
Live cattle	5	52	39	22	2.4	3.4	0.9	940.0	-25.0	-43.6
Frozen shrimps	11	10	16	13	–	0.7	0.5	-9.1	60.0	-18.7
Tobacco	23	18	27	24	1.0	1.2	1.0	-21.7	50.0	-11.1
Flowers	16	19	27	39	–	1.2	1.6	18.8	42.1	44.4
Beans	15	15	6	19	–	1.0	0.8	–	-60.0	216.7
Uncarded cotton	87	82	91	117	5.2	5.3	4.8	-5.7	11.0	28.6
Milled rice	–	75	42	–	–	4.9	–	–	-44.0	-100.0
Bananas	28	39	41	57	2.5	2.5	2.3	39.3	5.1	39.0
Industrial	*171*	*195*	*181*	*139*	*5.4*	*12.7*	*5.4*	*14.0*	*-7.2*	*-23.2*
Crude sugar	88	82	22	–	2.1	5.3	–	-6.8	-73.2	-100.0
Cement	10	22	35	27	0.6	1.4	1.1	120.0	59.1	-22.9
Undyed cotton yarn	19	22	31	29	0.4	1.4	1.2	15.8	40.9	-6.5
Corrugated cardboard boxes	12	18	26	29	0.9	1.2	1.2	50.0	44.4	11.5
Cotton textiles	28	31	42	22	1.3	2.0	0.9	10.7	35.5	-47.6
Cotton outerwear	14	7	8	9	–	0.5	0.4	-50.0	14.3	12.5
Leather goods	–	8	9	17	–	0.5	–	–	12.5	88.9
Medicaments	–	5	8	6	0.1	0.3	0.7	–	60.0	-25.0
Others	*399*	*221*	*282*	*342*	*12.6*	*17.6*	*16.0*	*-44.6*	*27.6*	*21.3*

Source: CEPAL, on the basis of statistics supplied by the Colombian Foreign Trade Institute (INCOMEX).

[a] Data taken from export registers.
[b] Preliminary figures.

Table 119

COLOMBIA: EVOLUTION OF EXCHANGE RATE AND PRICES

Period	Exchange rate (pesos per dollar) (1)	Indexes: (December 1974 = 100) Index of nominal exchange rate (2)	Wholesale price index (3)	Index of real exchange rate (4) = (2)/(3)
1975	30.92	109.6	110.8	98.9
1976	34.69	123.0	136.2	90.4
1977	36.77	130.4	172.6	75.5
January	36.37	128.9	153.6	83.9
February	36.37	128.9	157.8	81.7
March	36.46	129.3	161.2	80.2
April	36.50	129.4	170.4	75.9
May	36.50	129.4	175.2	73.9
June	36.50	129.4	178.3	72.6
July	36.51	129.5	179.4	72.2
August	36.67	130.0	177.1	73.4
September	36.97	131.1	177.5	73.9
October	37.23	132.0	179.1	73.7
November	37.45	132.8	180.1	73.7
December	37.71	133.7	181.4	73.7

Source: CEPAL, on the basis of data supplied by the Banco de la República.

but rather a revaluation, since the price of the exchange certificate on the stock exchange was lower during the whole of the second half of the year than the exchange rate in force at the end of 1976.

The negative effects of the exchange policy on exports were partially compensated by the greater support given to the export sector by the Export Promotion Fund (PROEXPO). The amount of credits granted by the Fund increased by about 80% , while the interest rate charged was reduced from 18 to 13%.

(ii) *Imports of goods.* Throughout 1977 there was a continuation of the rapid expansion of merchandise imports which began in 1973 but was interrupted in 1975 owing to the restrictive economic policy applied that year in order to reduce the rate of inflation and mitigate the repercussions of the international economic crisis. The value of imports of goods was 22% higher than in 1976 and easily double that recorded only four years previously. The 1977 increase stemmed from similar rises in both volume and unit value and was due to the threefold stimulus of the steep rise in income, the sharp drop in the real exchange rate and the marked fall in agricultural production (see table 116).

Although there was an increase during the year in the value of all types of imports, there was particularly vigorous growth in respect of consumer goods.[43] Purchases of these goods abroad increased by 71%, and their value in 1977 was twice that recorded on average during the period 1974-1975 (see table 120). This remarkable expansion was due to increased purchases of both non-durable and durable consumer goods, which rose at very high and remarkably equal rates.

In the case of non-durables, the increase was mainly due to the massive imports of foodstuffs and agricultural products made by IDEMA in order to compensate for the fall in agricultural production and thus neutralize a possible rise in food prices. In 1977 these imports amounted to over 126 million dollars,[44] of which 45 million represented wheat, 12 million maize, another 12 million sorghum, 23

[43] Because of the type of statistical information available, the analysis of the breakdown of imports made below is based on the data provided by the import registers, which differ from the figures for imports actually given in other tables in this section.

[44] This figure includes both imports of goods –such as sugar and rice– which figure in the import registers as consumer goods, and imports of other goods –such as wheat and sorghum– which are classified among raw materials for industry.

Table 120

COLOMBIA: VALUE AND BREAKDOWN OF IMPORTS OF GOODS (FOB)

	Millions of dollars				*Percentage breakdown*			*Growth rates*		
	1974	*1975*	*1976*	*1977* [a]	*1970*	*1975*	*1977*	*1975*	*1976*	*1977*
Consumer goods	*191*	*173*	*221*	*380*	*10.6*	*11.5*	*14.2*	*-9.4*	*27.9*	*71.4*
Non-durable	58	97	125	214	4.9	6.5	8.0	-27.1	28.4	71.3
Durable	133	76	96	165	5.7	5.0	6.2	31.0	27.4	71.6
Intermediate goods	*991*	*726*	*985*	*1 369*	*41.2*	*48.3*	*51.4*	*26.7*	*35.7*	*39.1*
Petroleum and fuels	7	30	156	251	0.4	2.0	9.4	328.5	425.0	61.4
For agriculture	112	22	24	99	1.2	1.5	3.7	-81.4	8.5	306.3
For industry	872	674	804	1 019	39.6	44.8	38.3	-22.7	19.4	26.7
Capital goods	*586*	*599*	*785*	*912*	*47.4*	*39.9*	*34.2*	*2.2*	*31.0*	*16.2*
Building materials	27	28	40	36	3.0	1.9	1.3	3.7	45.1	-11.6
For agriculture	47	33	30	58	1.2	2.2	2.2	-29.8	-9.4	94.3
For industry	294	305	419	539	25.7	20.3	20.2	4.1	37.3	28.6
Transport equipment	218	233	296	279	15.3	15.5	10.5	6.4	26.9	-5.5
Total [b]	*1 788*	*1 498*	*1 991*	*2 666*	*100.0*	*100.0*	*100.0*	*-16.0*	*32.6*	*33.9*

Source: CEPAL, on the basis of data supplied by the Colombian Foreign Trade Institute (INCOMEX).

[a] Preliminary figures.
[b] Includes in addition small amounts of miscellaneous goods imported in 1974, 1976 and 1977. These figures do not correspond with the balance of payments, because of the adjustments normally made in the latter, or with the growth rates shown in table 116.

million sugar and 16 million rice. The import of these last two products are a striking reflection of the detrimental effect of the fall in agricultural production, since in 1976 production of these items had not only satisfied domestic demand but also left exportable surpluses amounting to 22 and 42 million dollars respectively.

The notable rise in the value of imports of durable consumer goods was mainly due to the increased purchases of jeeps, motor vehicles, motor cycles and bicycles, the total value of which was approximately 100 million dollars double the 1976 figure.

In 1977, as in the two preceding years, the rapid rise in imports of intermediate goods continued. Among these, petroleum and fuel imports rose once again by approximately 100 million dollars owing to lower domestic production and greater demand. Their share in the total of imports, which was negligible in 1970, rose in consequence to about 10°/o in 1977. Imports of intermediate goods for industry also reached the record value of over a billion dollars, while those for agriculture quadrupled after two years in which they reached only very low levels (see table 120).

Lastly, in 1977 the value of imports of capital goods went up by 16°/o. This was due to the rise of about 29°/o in purchases of machinery and equipment for industry and especially to the remarkable increase in purchases of capital goods for agriculture, the value of which almost doubled as a result of the exceptional rise in imports of tractors.[45] Import of transport equipment declined, in contrast, by around 6°/o, a drop which is largely explained by the fact that the 1976 figures included the purchase of warships for the armed forces and the Jumbo Jet for Avianca. Even so, imports of these goods were much higher in 1977 than in any year before 1976.

(iii) *Terms of trade.* Owing to the spectacular rise in coffee prices and the increase in the prices of many other export products,[46] the terms of trade, which had already improved in 1976 at the exceptional rate of 43°/o, rose once again by a similar amount in 1977. Thus in 1977 the terms-of-trade index was easily double that of only two years before, reaching a value unequalled in the last half century.[47] Thanks to this spectacular increase, the purchasing power of exports rose markedly again, even though their volume dropped sharply for the second successive year (see table 116).

(b) *The balance of payments*

In 1977 the merchandise trade achieved a considerable surplus for the third year running. After more than doubling in 1976, the surplus on trade in goods rose from 715 million dollars in that year to practically 750 million in 1977. At the same time, the deficit on trade in services was reduced to half, dropping from 140 to 70 million dollars, while payments of profits and interest on foreign capital remained at a figure close to 300 million dollars (see table 121).

As a result of these changes and a net inflow of private transfer payments amounting to 40 millon dollars, the balance-of-payments current account, which already in 1976 had shown a considerable surplus of 330 million dollars, produced an even greater surplus of 420 million in 1977. Since this favourable balance was increased by a net inflow of non-compensatory capital estimated at about 240 million dollars, the final balance-of-payments surplus was somewhat more than 660 million dollars, slightly higher than that recorded in 1976 and five time as high as that of 1975 (see table 121).

In consequence, the gross international reserves rose considerably for the second year running and by the end of the year reached the record value of 1,836 million dollars, enough to finance eight months of imports (see table 122).

[45] Between January and November 1977 the import permits issued for the purchase of tractors reached a value of somewhat more than 40 million dollars: more than double the figure of almost 20 million dollars recorded for the same period in the previous year.

[46] Among others, there was a steep rise in the average price of exports of clothing (63°/o), leather travel goods (32°/o), meat (29°/o), cotton (19°/o), cotton textiles (17°/o) and flowers (15°/o).

[47] The terms-of-trade index was 31°/o higher in 1977 than in 1954, the peak year of the previous coffee boom. In contrast, it was only slightly higher than the value recorded in 1928, the year preceding the beginning of the great depression of the 1930s. In this connexion, see CEPAL, *Latin America: terms of trade, 1928-1976*, mimeographed document, August 1977.

Table 121

COLOMBIA: BALANCE OF PAYMENTS
(Millions of US dollars)

	1972	*1973*	*1974*	*1975*	*1976*	*1977* [a]
Current account						
Exports of goods and services	1 219	1 562	1 880	2 187	2 904	3 427
Goods FOB	979	1 263	1 494	1 746	2 390	2 796
Services	240	299	386	441	514	631
Transport	104	135	177	175	189	250
Travel	72	86	128	164	208	241
Imports of goods and services	1 247	1 437	2 091	2 048	2 331	2 748
Goods FOB	849	982	1 510	1 424	1 675	2 047
Services	398	454	581	624	654	701
Transport	188	222	260	277	286	330
Travel	80	99	148	154	171	179
Net payments of profits and interest on foreign capital	-197	-215	-191	-262	-293	-299
Profits	-70	-70	-55	-68	-73	-114
Interest	-127	-144	-136	-194	-221	-185
Net private transfer payments	11	12	19	27	51	40
Balance on current account	-214	-78	-383	-97	331	420
Capital account						
Net external financing (a+ b+ c+ d+ e)	214	78	383	97	-331	-420
(a) Net external non-compensatory capital	299	222	542	192	213	
Direct investment	19	24	41	40	59	
Long- and medium-term loans	410	455	450	465	305	
Amortization payments	-164	-168	-259	-222	-245	
Short-term liabilities	10	-112	277	-108	73	243
Official transfer payments	24	23	33	17	21	
(b) Domestic non-compensatory capital or assets	-52	-68	-254	8	-26	
(c) Errors and omissions	103	70	-17	10	91	
(d) Allocation of SDRs	18	–	–	–	–	
(e) Net compensatory financing (– = increase)	-154	-146	112	-113	-609	-663
Balance-of-payments loans, trade arrears, IMF loans, and other liabilities of the monetary authorities	32	13	17	27	24	. . .
Amortization payments	-60	-2	-4	-12	–	. . .
Variation in gross international reserves (minus sign signifies an increase)	-126	-156	99	-127	-634	. . .
Foreign exchange reserves (– = increase)	-115	-102	100	-103	-611	. . .
Gold reserves (minus sign signifies an increase)	-1	-47	–	-29	-18	. . .
SDRs (minus sign signifies an increase)	-10	-7	-1	5	-5	. . .

Sources: 1972-1976: CEPAL, on the basis of data from the International Monetary Fund;
1977: CEPAL, on the basis of data from the Banco de la República.

[a] Preliminary figures.

Table 122

COLOMBIA: GROSS INTERNATIONAL RESERVES
(Millions of US dollars)

	1973	*1974*	*1975*	*1976*	*1977* [a]
January	425	547	418	602	1 262
February	452	599	391	634	1 347
March	480	590	386	627	1 468
April	453	572	351	689	1 606
May	498	538	350	722	1 675
June	510	537	396	813	1 583
July	511	508	378	831	1 707
August	518	479	413	873	1 739
September	488	436	405	857	1 736
October	428	428	411	918	1 735
November	464	423	489	1 040	1 783
December	524	448	553	1 172	1 836

Source: CEPAL, on the basis of data supplied by the Banco de la República.

[a] Provisional figures.

(c) *The external debt*

Despite the efforts of the economic authorities to limit external indebtedness in order to restrict the excessive accumulation of reserves and the consequent monetary expansion, the disbursed public and State-guaranteed external debt increased by almost 5o/o during the first nine months of 1977. In the same period, the servicing of the debt amounted to almost 190 million dollars. If projected for the whole year, this figure gives a sum of approximately 250 million dollars, which is equivalent to only a little more than 7o/o of the value of exports of goods and services in 1977 (see table 123).

Table 123

COLOMBIA: INDICATORS OF EXTERNAL INDEBTEDNESS [a]
(Millions of dollars)

	1974	*1975*	*1976*	*1977* [b]
Public and State-guaranteed debt	*1 552*	*1 891*	*1 769*	*1 853*
Total debt	2 262	2 540	2 600	2 796
Balance available	710	649	831	943
Servicing of debt	320	279	237	189
Amortization payments	219	169	124	103
Interest payments	101	118	113	86
Servicing as a percentage of exports of goods and services	17.0	12.8	8.2	7.3

Source: CEPAL, on the basis of data supplied by the Banco de la República.

[a] Balances at end of year.
[b] Balances at 30 September.

4. *Prices and wages*

(a) *Prices*

During 1977 the increase in consumer prices was almost unprecedented in Colombian history.[48] The average annual variation in the consumer price index for manual workers was 22.3%, a rate 50% higher than that recorded in each of the four previous years and twice as high as that for 1972. The increase in consumer prices between December and December was even higher (29.3%), although in this case the difference from the rates observed in previous years was less marked (see table 124).

The wholesale price index, on the other hand, showed a considerably smaller December to December variation than in 1976, while the index of building material costs was much the same as that of the previous years.

Table 124

COLOMBIA: EVOLUTION OF DOMESTIC PRICES
(Percentages)

	1972	*1973*	*1974*	*1975*	*1976*	*1977*
	Variation from December to December					
Consumer price index [a]						
Total, manual workers	*14.0*	*25.0*	*26.9*	*17.9*	*25.9*	*29.3*
Food	16.0	31.5	30.8	19.7	27.9	35.0
Housing	10.2	19.0	18.1	15.2	22.6	18.9
Clothing	17.7	24.8	24.0	12.9	22.5	22.8
Miscellaneous	10.1	12.6	25.4	16.8	25.1	22.5
Total, non-manual workers	*14.1*	*22.1*	*25.2*	*17.5*	*25.4*	*27.5*
Food	16.2	30.6	30.3	19.3	38.0	34.4
Housing	13.3	15.9	17.6	16.1	22.3	18.5
Clothing	15.9	22.5	23.2	13.3	22.6	23.7
Miscellaneous	10.1	12.1	22.6	16.5	24.2	20.2
Wholesale price index	*21.0*	*32.9*	*36.2*	*19.6*	*27.3*	*19.7*
Imported products	24.6	37.9	37.9	20.2	14.2	11.7
Domestic products	22.3	28.1	36.8	21.1	35.6	21.8
Agricultural products	14.2	30.3	45.5	25.5	37.8	26.4
Manufactures	17.5	31.9	36.5	17.0	24.0	18.2
Building materials cost index	*10.4*	*37.1*	*24.2*	*16.2*	*27.3*	*25.6*
	Average annual variation					
Consumer price index						
Total manual workers [a]	7.5	15.1	15.2	12.3	14.3	22.3
Food, manual workers	8.3	20.3	18.2	15.0	15.4	29.3
Total manual workers [b]	14.3	22.7	24.5	25.7	17.4	17.0
Food, manual workers	19.2	31.9	27.1	31.0	16.9	20.0

Source: CEPAL, on the basis of data supplied by the National Bureau of Statistics (DANE) and the Banco de la República.

[a] National average.
[b] Bogotá.

[48] Since reliable data on the evolution of consumer prices became available, the only year in which these rose more rapidly than in 1977 was 1963, when the variation in the consumer price index between December and December was 29.9%.

A decisive influence in the differing evolution of these indicators was the exceptional rise in food prices in 1977. These prices, which have a weighting of over 49°/o in the consumer price index for manual workers, rose by 35°/o between December 1976 and December 1977, and thus, account for the rise of 62°/o in the index. Additionally, the rise in food prices was the sole cause of the faster growth rate of consumer prices in 1977, since the other two chief components of the index increased less that year than in 1976, while the sub-index relating to clothing (which has a weighting of less than 10°/o) rose in 1977 at practically the same rate as the year before (see table 124).

Apart from its unevenness as regards the relative increase of different prices, inflation was also very uneven as regards different times in the year. As mentioned earlier, the annual rate of inflation accelerated rapidly and continuously during the first six months from less than 26°/o in January to 43.5°/o in June, but this rising trend was suddenly cut short in July when consumer prices rose by only 1°/o, and more particularly in the next three months, during which consumer prices fell slightly in absolute terms. Thanks to these falls and to the minimal increases recorded during the last two months of the year, the consumer price level showed practically no variation in the second half of the year and the annual inflation rate fell steadily between June and December (see table 125).

Table 125

COLOMBIA: EVOLUTION OF CONSUMER PRICES FOR FAMILIES OF MANUAL WORKERS, 1977

	Total index			*Food*		
	Monthly variation	*Accumulated variation*	*Variation in12 months*	*Monthly variation*	*Acumulated variation*	*Variation in 12 months*
January	2.3	2.3	25.9	3.1	3.1	27.7
February	4.0	6.4	28.0	4.0	7.2	29.3
March	4.0	10.7	30.6	5.1	12.7	34.0
April	7.7	19.2	38.0	12.1	26.3	47.0
May	4.6	24.7	42.5	6.9	35.0	54.9
June	3.4	28.9	43.5	4.5	41.1	58.1
July	1.0	30.2	41.4	0.9	42.3	56.0
August	-0.6	29.4	38.6	-1.8	39.8	50.9
September	-0.1	29.3	36.1	-1.3	38.0	46.1
October	-0.5	28.7	33.3	-1.4	36.0	41.4
November	0.1	28.8	29.9	-0.5	35.3	36.1
December	0.4	29.3	29.3	-0.2	35.0	35.0

Source: CEPAL, on the basis of data supplied by the National Bureau of Statistics (DANE).

The main cause of this striking asymmetry in the inflationary process between the two halves of the year was the even more uneven behaviour of food prices, during the course of 1977. In the first six months there were abnormal increases in these prices, culminating in April, when they rose by more than 12°/o. Thus, the sub-index of foodstuffs rose by 41°/o in the first half of the year and its annual rate of variation more than doubled in that period, rising from somewhat less than 28°/o at the end of 1976 to a little over 58°/o in June 1977.

After remaining almost constant in July, however, food prices declined in absolute terms in each of the following five months, thus helping to stabilize the consumer price index for manual workers during that period.

(b) *Wages and salaries*

In 1977 the evolution of wages and salaries was characterized by two outstanding features. One was the contrast between the real increase in the minimum legal wage and in daily rates in the

agricultural sector and the real drop in those of manufacturing while the other was the very different trend followed by real wages in the two halves of the year: whereas in the first half they suffered a marked fall because of the vigorous acceleration of inflation, in the second they rose owing to the almost total stabilization of prices and the increase in the nominal remuneration brought about by the legal adjustments and the signing of new collective agreements.

As may be seen from table 126, the purchasing power of the minimum wage, which scarcely rose at all in 1976, increased on average more than 12% in 1977. This rise occurred, however, exclusively during the last four months of the year, since up to August its real value declined continuously, the legal adjustment of around 14% which was granted in January having been quickly absorbed by the increase of about 30% in consumer prices during the first half of the year. Nevertheless, the stabilization of these prices from July onwards and the pay adjustments of between 5 and 6% in August and approximately 26% in November allowed a rapid recovery of the purchasing power of the minimum wage which more than compensated for its fall during the first half of the year.

Table 126

COLOMBIA: AVERAGE DAILY MINIMUM LEGAL WAGES

	Pesos			*Growth rates*			
				Nominal		*Real*	
	1975	*1976*	*1977*	*1975*	*1976*	*1975*	*1976*
Rural sector [a]	34	39	54	14.7	38.5	0.3	13.2
Urban sector [b]							
High [c]	40	46	63	15.0	37.0	0.6	12.0
Low [d]	37	43	59	16.2	37.2	1.7	12.2

Source: Banco de la República.

[a] Crop farming, stock-raising, forestry, hunting and fishing.
[b] The remaining economic activities.
[c] Consisting of the 62 biggets and most densely populated municipalities in the country.
[d] Consisting of the remaining municipalities.

In 1977 there was also a considerable rise in the average real daily rates paid in the agricultural sector (see table 127). The decisive factors in this increase were the increased coffee crop, the exceptional rise in coffee prices and the marked improvement in other agricultural prices: all elements which helped to redistribute income from urban centres to rural areas and to boost the demand for labour in those areas. In view of the larger proportion of agricultural workers receiving the minimum wage, it is probable that another cause of the increase was the series of legal adjustments mentioned above.

On the other hand, in 1977 there was a drop of about 6% in the real wages paid in manufacturing (see table 128). The main causes of this were the abnormal upswing in inflation during the first half of the year and the procedure of linking the pay increases stipulated in the collective agreements with the inflation rate of the period *before* the adoption of the new agreement.[49] Through the combined effect of these two factors, the real wages of non-manual workers declined by somewhat more than 8% in the first six months, while the wages of manual workers dropped by around 11%.

However, a recovery from this sharp drop began in the third quarter, during which real wages increased slightly, and above all in the last three months of the year, when they rose for both manual and non-manual workers alike by approximately 8%. Contributory factors in this rise, although with the opposite effect, were the same elements which had caused the decline during the first six months

[49] This procedure for fixing adjustments to nominal wages results in a drop in real terms during a period of rising inflation and to real increase when the rate of inflation slackens.

Table 127

COLOMBIA: AVERAGE DAILY WAGES IN AGRICULTURE

	Pesos		*Growth rates* [b]	
	1976	*1977* [a]	*Nominal*	*Real* [c]
Cold climate				
With food	35.3	54.3	58.8	16.7
Without food	57.8	83.3	48.2	8.9
Hot climate				
With food	41.8	63.7	60.0	17.6
Without food	66.0	95.0	50.8	10.8

Source: National Bureau of Statistics (DANE).

[a] Average for January to September.

[b] Between the average January to September 1977 and the average for the same period in 1976.

[c] Nominal variation, deflated by the average variation of the consumer price index for manual workers between January-September 1976 and the same period in 1977.

Table 128

COLOMBIA: EVOLUTION OF WAGES AND SALARIES IN MANUFACTURING

	Growth rates		
	1975	*1976*	*1977*
Nominal wages/salaries			
Non-manual workers	19.4	20.1	23.0
Manual workers	21.1	22.8	27.0
Real wages/salaries			
Non-manual workers	-2.4	-0.2	-6.0
Manual workers	-2.2	2.4	-5.7

Source: CEPAL, on the basis of data supplied by the National Bureau of Statistics (DANE).

of the year. In accordance with the above mentioned procedure of the collective labour agreements, the basis for determining the percentages of pay increases was a period of very high inflation and therefore the nominal increments were also high. Since there was practically no variation in the level of prices during the second half of the year, these nominal pay increases represented to a large extent a real improvement. Even so, this failed to offset the sharp decline in industrial wages and salaries during the first half year, with the result that they suffered a further reduction in real terms in the year as a whole. The average real wage for manual workers, therefore, was 5.5o/o lower in 1977 than in 1974, while the salaries of non-manual workers fell by 8.5o/o during the same period (see table 128).

5. *Monetary and fiscal policy*

(a) *Monetary policy*

In 1977 the authorities maintained the line of monetary policy adopted in the previous year, the chief aim of which was to control the expansion of the means of payment stimulated by the rapid accumulation of international reserves resulting from the coffee boom. To this end they adopted numerous measures designed to limit both the growth of the moneraty base and the secondary expansion of money through the commercial banks.

Among the first type of measures, those which had the greatest limiting effect were the issue of exchange certificates and the increase in prior import deposits. The growth of the monetary base was also restrained by the strict fiscal policy applied by the Ministry of Finance, which reduced the net credit of the Banco de la República to the Government, and by a series of measures designed to contain external indebtedness and to speed up payments to other countries.

As already noted, the exchange certificates were introduced at the beginning of April to moderate and delay the issue of money in connexion with the acquisition by the Banco de la República of the abnormal supply of foreign currency produced by the coffee boom. As also mentioned above, the certificates were issued in the first place to obtain the foreign currency deriving from the coffee exports and that produced by tourism, services and other similar activities, and could be exchanged for national currency without a 10°/o discount only 30 days or more after their date of issue. These measures, however, were very short-lived, since from May onwards they were modified with a view to strengthening their restrictive effect on the money supply. Thus, the minimum waiting period for the conversion of the certificates without a discount was extended to 90 days, the discount rate was increased to 15°/o, and the procedure of issuing certificates in place of foreign currency was extended to foreign currency receipts from exports of cotton, flowers, live cattle, beef, metals and precious stones.

Despite the fact that in November the discount applied to certificates redeemed within the period of 90 days was reduced to 10°/o, the value of exchange certificates in public hands rose by the end of the year to more than 14 billion pesos, equivalent to approximately 370 million dollars and to 55°/o of the increment in international reserves during 1977 (see table 129).

The marked contractive effect of this measure becomes clear when it is realized that, if this sum had been monetized —as would have happened if the exchange certificates had not been introduced— the increase in the monetary base would have been over 60°/o, much higher than the 40°/o of 1977.

Another major factor limiting the expansion of the monetary base was the accumulation in the Banco de la República of the frozen funds deriving from prior import deposits. The growth of these funds was due to the establishment of prior deposits in national currency equivalent to 40°/o of the value of imports of raw materials and consumer goods, 60°/o of the value of imports of capital goods and 80°/o of remittances for freight. Moreover, the prior deposit payable when bringing in the merchandise was increased to 35°/o. As a result of all these measures, the amount of prior deposits in the Banco de la República rose from a little over 900 million pesos at the end of 1976 to 5,100 million pesos at the end of 1977 (see table 129).

The economic authorities also endeavoured to limit the excessive expansion of the monetary base by means of a series of decisions designed to control external indebtedness and facilitate payments abroad. This policy, which had been initiated the previous year with the gradual reduction and ultimate elimination of advances in respect of exports, included in 1977, among other measures, the centralization in the Monetary Board of responsibility for assessing the external indebtedness needs of the decentralized public agencies, the extension of the periods for cashing income derived from exports, the establishment of standards for verifying the authenticity, origin and magnitude of exchange operations involving inflows of foreign currency through donations and transfer payments of all types, the introduction of maximum periods for making payments abroad in respect of imports of consumer goods and raw materials (5 months) and capital goods (3 years), and the exemption from prior deposits of applications for exchange licenses for advance drafts.

The aforementioned measures for restricting the monetary base were accompanied by others designed to limit the secondary expansion of money. Thus, in February the marginal reserve of 100°/o was reintroduced on increases in sight and time deposits over the level recorded on 31

Table 129

COLOMBIA: MONETARY POSITION OF THE BANCO DE LA REPUBLICA

	End-year balance in millions of pesos				*Growth rates*		
	1974	*1975*	*1976*	*1977* [a]	*1975*	*1976*	*1977* [a]
1. *Assets of the Banco de la República*	*44 800*	*56 944*	*78 532*	*125 047*	*27.1*	*37.9*	*59.2*
Net international reserves	11 167[b]	14 229[b]	44 322[c]	69 612[c]	27.4	...	57.1
Net credit to government	7 111	18 886	6 562	4 379	25.0	-26.1	-33.3
Special exchange account[d]	198	2 662	-4 219	3 217	...	...	23.7
Credit to the public	26 324	31 177	31 080	52 968	18.4	-3.1	62.9
Commercial banks	7 980	7 608	7 755	14 052	-4.7	1.9	81.2
Development institutions	16 179	19 173	20 686	35 275	18.5	7.9	70.5
Private sector	1 771	3 333	2 639	3 641	88.2	-20.8	38.0
Other unclassified credits and assets	394	1 063	787	1 305	169.8	-26.0	65.8
2. *Non-monetary liabilities of the Banco de la República*	*16 478*	*19 651*	*25 689*	*50 977*	*19.3*	*30.7*	*98.4*
Commercial banks	589	331	330	445	-43.8	-0.3	34.8
Development institutions	7 235	10 005	11 883	18 602	38.3	18.8	56.5
Private sector	6 070	5 091	3 155	8 711	-16.1	-38.0	176.1
Advance deposits	...	...	912	5 101	...	...	459.3
Swaps and other liabilities	...	...	2 243	3 610	...	...	60.9
Open market operations	143	1 431	5 118	17 034	...	257.6	232.8
Participation bonds	143	500	840	–	249.6	68.0	-100.0
Bonds exchangeable for exchange certificates	...	931	3 982	2 917	...	327.7	-26.7
Exchange certificates	...	...	296	14 117	...	...	...
Other liabilities and holdings in the banks	2 441	2 793	5 203	6 185	14.4	86.3	18.9
3. *Treasury money in circulation*	*349*	*454*	*571*	*747*	*30.1*	*25.7*	*30.8*
4. *Monetary base (1 +2 +3)*	28 671	37 747	53 414	74 817	31.7	41.7	40.1
Cash	16 174	21 090	28 670	40 744	30.4	35.9	42.1
Bank reserves	12 497	16 657	24 744	34 073	33.6	48.6	37.7

Source: CEPAL, on the basis of information supplied by the Banco de la República.

[a] Preliminary figures.
[b] Computed at $ 26.0 per dollar.
[c] Computed at $ 38.0 per dollar.
[d] Stabilizing account made up of the interest on the international reserves and the difference between the exchange rate and the rate at which the aforesaid reserves are computed.

January. At the same time there was an increase from 12% to 18% in the reserve on the foreign currency liabilities of the banking system and the financial corporations. In the middle of the year there was an increase of one percentage point per month in the normal reserve which the banks must maintain in the Banco de la República, so that the reserve coefficient rose from 43.5% in July to 46.5% in August. In this latter month, in addition, a reserve of 20% was established for deposits backed by time-deposit certificates. Furthermore, at the end of the first quarter an order was made for the transfer to the Banco de la República of all the sight and time deposits held by public institutions in the banking system.

As a result of these measures, the proportion of reserves to deposits at the end of the year was 11°/o higher than in December 1976. This increase and the marked rise in the relation between cash and deposits on current account helped to lower the monetary multiplier, which was almost 8°/o lower in 1977 than during the previous year.

The expansion of the money supply was therefore considerably less than that of the monetary base. While the latter increased by 40°/o, the former rose by only 30°/o. Thus the growth rate of the means of payment was finally less intense in 1977 than in 1976, even though the increase in the monetary base was practically the same in the two years (see tables 129 and 130).

Table 130

COLOMBIA: EVOLUTION OF THE MEANS OF PAYMENT AND THE MONEY SUPPLY

	End-year balance in billions of pesos				*Growth rates*			
	1974	*1975*	*1976*	*1977*[a]	*1974*	*1975*	*1976*	*1977*[a]
Means of payment (M_1)	46.1	58.9	79.5	103.4	19.6	27.8	35.0	30.1
Quasi-money (M_2)	20.6	31.2	45.8	61.1	63.0	51.7	46.8	33.3
Extended money supply ($M_1 + M_2$)	66.7	90.1	125.4	164.5	30.0	35.1	39.1	31.3
Units of constant purchasing power for housing (UPAC)	8.3	13.7	19.9	24.2	78.9	64.7	45.4	21.6
Savings deposits	9.6	12.3	16.7	24.1	20.7	27.7	35.8	44.4
Time deposit certificates	2.6	5.2	9.2	12.8	194.3	97.8	75.8	38.4

Source: CEPAL, on the basis of data supplied by the Banco de la República.

[a] Preliminary figures.

The effects of the restrictive monetary policy adopted in view of the abnormal flare up of inflation at the beginning of the year were also reflected in the standstill of the real money supply and the sharp fall, from the middle of the year, in the growth rate of the means of payment. This declined from 44°/o in the second quarter to the aforementioned figure of 30°/o in December, thus contributing to the rapid stabilization of price levels during the last six months of 1977.

(b) *Fiscal policy*

Pursuing the same line as in 1976, the basic aim of fiscal policy in 1977 was to facilitate the attainment of the stabilizing goals of economic policy. Thus, for the second year running there was a considerable fiscal surplus equal to 10°/o of the total expenditure of the national government, which was used to bring about a steep reduction in fiscal indebtedness to the Banco de la República. The application of fiscal policy as a mechanism to offset the infaltionary pressures released by the accumulation of international reserves deriving from the coffee boom was likewise reflected in the very gradual disbursement of the budgeted investment expenditure during the first ten months of the year.

Even so, the administration of the public finances was rather less restrictive in 1977 than in 1976. Whereas in 1976 the growth rate of current income was more than double that of total expenditure, in 1977 the two rates were practically the same and slightly exceeded the average rise in prices (see table 131).

The rise of 30°/o in tax revenue, although somewhat higher than in 1976, was appreciably less than the 48°/o increase recorded in 1975, the year in which the full impact of the tax reforms adopted in 1974 was felt. Moreover, in 1977 the increase in revenue from the various taxes was very

Table 131

COLOMBIA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of pesos				*Growth rate*		
	1974	*1975*	*1976*	*1977*[a]	*1975*	*1976*	*1977*
Current income	26 247	38 442	48 832	63 417	46.5	27.0	29.9
Tax revenue	25 316	37 466	47 742	62 172	48.0	27.4	30.2
Income and complementary taxes	10 851	18 063	20 631	24 058	66.5	14.2	16.6
Sales taxes	3 945	7 757	10 169	13 451	96.6	30.3	32.3
Customs duties and surcharges	4 851	5 409	6 806	8 892	10.5	25.8	30.6
Coffee taxes	1 982	2 369	4 257	6 604	19.5	79.7	55.1
Others	3 687	3 868	5 879	9 167	4.9	52.0	55.9
Non-tax revenue	931	976	1 090	1 245	4.8	11.7	14.2
Current expenditure	19 214	26 183	32 012	41 251	36.3	22.3	28.9
Saving on current account	7 033	12 259	16 819	22 167	74.3	37.2	31.8
Investment	9 801	13 168	12 315	16 223	34.4	-6.5	31.7
Total expenditure	29 015	39 351	44 327	57 474	35.6	12.6	29.7
Fiscal surplus (or deficit)	-2 767	-909	4 505	5 943			
Financing of deficit							
External credit	314	-549	-1 196	-1 630			
Domestic credit	2 469	1 337	-3 320	-4 313			
Other	-16	121	11	...			
Deficit/total expenditure[b]	9.5	2.3	-10.2	-10.3			

Source: CEPAL, on the basis of data supplied by the Banco de la República.

[a] Preliminary figures.
[b] Percentage.

uneven. Thus, while the amount received from income tax increased by only 17%, the yield from sales taxes and customs duties grew by over 30%. This meant that income tax –which between 1974 and 1976 represented almost 45% of the total tax revenue– increased for the second year running at a lower rate than that of prices and at a considerably lower rate than that of the product at current prices. In contrast, as was to be expected, the yield from the *ad valorem* tax on coffee rose, also for the second year running, at the very high rate of about 60% (see table 131).

Among expenditures current disbursements increased at a somewhat more rapid rate than in 1976, though this, in view of the greater intensity of inflation, implied a slight drop in their real rate of growth. On the other hand, fiscal investment, which in 1976 dropped by around 25% in constant values, increased slightly in real terms in 1977, although its real level still remained well below that of 1975.

COSTA RICA

1. Main recent trends: Introduction and summary

(a) *Main trends and changes*

(i) *Overall and sectoral growth.* The Costa Rican economy again increased its rate of growth and resumed its expansionary trend of the early years of the decade, which had been interrupted during the world recession in 1974 and 1975. Thus, after an increase of only 2.1°/o in 1975, the gross domestic product grew by 4.3°/o in 1976 and by an estimated 6.9°/o in 1977. Consequently, the per capita product rose by 4.4°/o in that year (see table 132).

These results were due to the combined effect of the Government policy of expanding public expenditure and to the excellent world price of coffee, which is one of the two main export commodities, the other being bananas. Thanks to the high price of coffee and the considerable rise in the average price of exports, the terms of trade improved significantly. Consequently, gross income, after rising 3°/o in 1975 and 7°/o in 1976, increased by 12°/o in 1977 (see table 132).

The growth of the product was, however, insufficient to meet the even more dynamic demand, due both to the effect of the 9°/o expansion of consumption and to the even faster growth of total gross investment (12°/o). The pressure of demand gave rise to a real increase of over 16°/o in imports of goods and services, which helped to curb domestic inflationary pressures.

The boom situation in the economy was not evenly reflected in the various economic activities. In the goods sectors, the dynamism of the production of manufactures and probably also of construction activity contrasted with the slow rate of growth of the agricultural sector.

Manufacturing rose by 11°/o –which is higher than the cumulative rate of the preceding two years– in response to the general growth of both domestic and external demand. The latter was particularly stimulated by Central American demand, although in 1977 some non-traditional products algo began to be sold on other markets. During 1977 advantage continued to be taken of the idle capacity existing in the manufacturing sector, and economic policy continued to provide support in the form of credit for the development of specific branches of industry such as export agro-industries.

The construction sector grew by 5.4.°/o in 1977. Its expansion, particularly in the construction of housing, was stimulated by the bigger earnings from coffee exports.

In contrast with manufacturing and construction, the agricultural sector practically stagnated in real terms, although coffee exports made a very special contribution to the overall economic boom. In fact, during the last four years the agricultural product increased at an average annual rate of barely 0.8°/o, and in 1977 it rose by only 1.7, which is lower than the population growth rate.

In 1977 the production of basic grains in general dropped as the result of a prolonged drought. In previous years Costa Rica had production surpluses of these crops, but owing to the fall in world price it was decided to reduce production to satisfy only domestic needs.

Generally speaking, factors of a structural and of a conjunctural nature –such as the low world prices of certain commodities– have limited the expansion of the cultivated areas, thus hindering the sector's development possibilities. Furthermore, the profits obtained from foreign trade have only partially been reinvested in agriculture, a large proportion being transferred to other sectors such as construction. In recent years, however, economic policy has placed more emphasis on agriculture through agricultural zoning, crop insurance, credit and support prices.

(ii) *The external sector.* The favourable conditions as regards world coffee prices led to a sharp acceleration in the growth rate of the value of exports of goods: 12°/o, 20°/o and 40°/o in 1975, 1976 and 1977, respectively.

The increase in the value of external sales, the improvement in household income and the growth of the total product led in their turn to an accelerated growth of imports,[50] favoured by relatively liberal conditions for external purchases of inputs and capital goods and by the reduction in taxes on certain non-essential articles.[51] It should be noted that the highest rate of growth was recorded by durable consumer goods, although there was also a substantial increase in raw materials, whose share

[50] In the last two years the value of current imports of goods and services grew by 11 and 29°/o, respectively.

[51] This change in taxation was introduced partly with the intention of reducing contraband.

Table 132

COSTA RICA: MAIN ECONOMIC INDICATORS

	1972	*1973*	*1974*	*1975*	*1976*	*1977*[a]
A. *Basic economic indicators*						
Gross domestic product at factor cost (millions of US dollars at 1970 prices)	1 316	1 418	1 496	1 528	1 593	1 703
Population (millions)	1.83	1.87	1.92	1.97	2.01	2.06
Per capita gross domestic product (US dollars at 1970 prices)	721	757	780	777	792	827
	Growth rates					
B. *Short-run economic indicators*						
Gross domestic product	8.2	7.7	5.5	2.1	4.3	6.9
Per capita gross domestic product	5.5	5.0	3.0	-0.3	1.8	4.4
Gross income [b]	7.1	9.0	1.2	2.8	6.5	11.6
Terms of trade	-3.1	3.3	-15.4	0.6	10.4	20.4
Current value of exports of goods and services	22.1	21.1	28.9	11.3	18.5	36.4
Current value of imports of goods and services	7.0	19.6	55.4	-1.3	11.2	29.0
Consumer price index						
December to December	6.9	15.9	30.6	20.5	4.4	5.2
Variation between annual averages	4.7	15.3	30.1	17.4	3.5	4.2
Money	15.6	25.3	17.7	23.4	30.5	23.0
Wages and salaries[c]	...	...	22.8	20.6	14.1	12.9[d]
Rate of unemployment [e f]	...	7.4	...	...	6.2	4.6
Current income of government	14.5	33.2	39.6	17.7	18.1	26.7
Total expenditure of government	...	...	23.1	23.2	37.3	46.7
Fiscal deficit/total expenditure of government [e]	...	26.7	16.9	20.6	31.7	29.4
	Millions of US dollars					
C. *External sector*						
Trade balance (goods and services)	-72	-81	-237	-166	-141	-129
Balance on current account	-103	-112	-267	-218	-206	-205
Variation in net international reserves	–	21	-63	-1	36	96
Public external debt	237	296	379	511	64	798

a Preliminary figures.
b Gross domestic product plus terms-of-trade effect.
c Nominal wages and salaries.
d October 1976 to October 1977.
e Percentage.
f 1973: estimates at 30 June; 1976 and 1977: July of each year.

in total imports rose from 43o/o in 1970 to 52o/o in 1977. Capital goods also increased considerably (see table 139). As Costa Rica becomes increasingly dependent on imported goods, difficulties are likely to arise, particularly if there is a decline in coffee prices.

The trade deficit on goods and services was nearly 130 million dollars, or 8.5°/o lower than in the previous year. However, the increasing factor payments brought the deficit on current account to 205 million dollars, which is practically the same figure as in 1974 (see table 141).

(iii) *Inflation and wages.* Following a period of inflation in which consumer prices rose sharply –30.6°/o in 1976 and 20.5°/o in 1975– they increased by only 4.4°/o in 1976 and 5.2°/o in 1977.[52] This marked slowing-down of the inflationary process was influenced by the stabilization policies adopted in the last few years and the declining rate of increase in import prices.

Concurrently, a measured and selective policy continued to be applied in readjusting real wages, which, after their loss in purchasing power from 1972 to 1975, recovered in the last two years with increases of 9.4°/o in 1976 and 7.9°/o in 1977. It should be noted, however, that the improvement may actually have been slightly less in 1977 because food prices rose more than the general price average.

(b) *Factors determining recent economic trends*

(i) *The external situation.* In 1977 the external situation had an important influence on the country's economic results. In particular, the high world prices of coffee[53] played a predominant role in counteracting the opposite price trends of other commodities or the difficulties encountered in exporting them.

The 1977 export earnings exceeded the expectations of a year earlier. The sharp increase in imports of goods and services, however, contributed to a deficit on the current account of the balance of payments. For this reason, despite the increasing volume of reserves, additional external financing was obtained in order to maintain a manageable balance-of-payments position. Gross reserves at the end of the year were thus nearly 233 million dollars, which was equivalent to the value of imports for a period of three months. This situation contrasted with that prevailing in 1974 when reserves were barely equal to 19 days of imports.

(ii) *Economic policy.* The present economic strategy began to be implemented after the world recession in 1974. In view of the serious repercussions of the recession in 1975, however, the strategy only started to take concrete form in 1976 and was consolidated in 1977 as the external situation improved.

The basic objetive of the medium-term strategy, which continued in force in 1977, was to promote economic growth without affecting the stability of prices. With this purpose, and in view of the fact that fiscal policy was of an expansionary nature, a more moderate monetary and credit policy was adopted.

The acceleration of growth was partly attributable to the increase in liquidity as a result of the excellent coffee prices and the expansion of public expenditure along redistributive lines, by means of an intensive social policy. This policy was supplemented by differential and selective wage increases which encouraged the global propensity to consume and tended to increase imports considerably. The pressures which these policies brought to bear on prices and the balance of payments were offset by relatively restrictive monetary and credit measures. Thus, the stabilizing measures adopted were complementary to the developmentalism based on increasing public expenditure.

The outstanding features of these policies were, in the first place, the strengthening of domestic production with a view to the diversification of some industrial activities and the creation of employment by means of selective credit support. This objective was successfully achieved in agro-industry, the textile industry and the building materials industry, where advantage was also taken of underutilized installed capacity. The agricultural sector, in contrast, once again had to face the adverse effects of the drought.[54]

[52] On the basis of data supplied by the Central Bank, however, the variation in the implicit price deflator of the gross domestic product and of private consumption in 1977 was 14.1°/o and 7.8°/o, respectively.

[53] The FOB export price of a quintal of coffee averaged 58 dollars in 1975, 110 dollars in 1976 and 220 dollars in 1977. It is interesting to note the quarterly variations in the past year: first quarter, 192 dollars; second quarter, 272 dollars; third quarter, 233 dollars; and fourth quarter, 181 dollars; the average for June reached a peak of 299 dollars.

[54] Although a start has been made on some irrigation and drainage projects, their effects will not be felt until later.

There is no doubt that the boom in the production sectors was due, among other reasons, to a domestic demand sustained mainly by wage increases, the rise in global income, the liquidity deriving from the high external trade income and, basically, a form of public expenditure that has continued to stimulate the economic system.

In the second place, the stabilization policy applied by the Government managed to moderate the rate of inflation as a result of price restrictions in the case of some essential products, a moderate policy of expanding credit and the means of payment, and the issue of coffee bonds with the purpose of absorbing domestic liquidity.

In the third place, the Government applied a social policy designed to improve the level of living of the population. Among its main components are the policy of extending health insurance to the whole population (in 1977 it covered 85%); the programmes financed by the system of family allowances; and the policy of differential wage increases by levels and economic sectors which slightly exceeded the rises in consumer prices.

Finally attention may be drawn to the stimulus given to non-traditional exports by means of tax rebate certificates (tax reductions in return for increasing exports to third countries).

The growth of these exports was also promoted by the general reactivation of the Central American economies in 1977, thanks to which trade with the neighbouring countries increased.

In spite of the economic expansion in the period 1976-1977 it has not as yet been possible to lay solid bases for medium- and long-term development. Thus, the intensive recourse to external borrowing and deficit public spending –partially covered by such borrowing– suggests severe limitations in the future should the external variables become unfavourable. This is particulary important since the external debt has grown in the last five years at an average annual rate of 21% and the share of private credit has increased.

The central government deficit has remained at around 30% of public expenditure. Moreover, in view of the actual conditions and social levels prevailing in the country, public spending is becoming increasingly rigid and there is very little room for manoeuvre in order to restrict it selectively.

2. Recent economic trends

(a) *Total supply and demand*

As noted earlier, 1977 witnessed a consolidation of the trend towards economic reactivation initiated the year before, with a rise in the growth rate of the gross domestic product to 6.9%. As a result of this and of an exceptional growth of 16% in the volume of imports of goods and services, total supply increased by 9%, thus doubling the previous year's rate of expansion (see table 133).

The exceptionally large increase in imports was due in part to the greater availability of foreign exchange receipts from the coffee sector. Since two-thirds of its production is concentrated in the hands of a comparatively few producers, the rise in coffee prices not only led to substantial transfers to other sectors of the economy such as construction, but a high demand was created for imports, especially of durable consumer goods, which was easily met owing to the relatively free import system in force.

The bigger receipts generated by the coffee boom and the policy of revaluing real wages also stimulated a marked expansion of private consumption, which, after remaining stagnant in 1976, rose by 10% in 1977.

Government consumption, for its part, while diminishing its real growth rate from 7% in 1976 to a little under 6% in 1977, nevertheless again rose faster than population growth. This increase is accounted for by the increase in the number of central government officials[55] and also by the extended coverage of services, which led to bigger purchases of goods and non-personal services.

Gross investment increased even more rapidly (12%), although this rate was lower than in 1976 (19%). The decrease in the rate was exclusively due, however, to the more moderate rise in stocks, since gross fixed investment increased more vigorously than in the previous year. The investment

[55] According to data supplied by the Ministry of Labour, based on information from the Costa Rican Social Security Fund, the number of central government officials rose 8% between December 1976 and October 1977.

Table 133

COSTA RICA: TOTAL SUPPLY AND DEMAND

	Millions of colones at 1970 prices			*Percentage breakdown*		*Growth rates*		
	1975	*1976*	*1977[a]*	*1970*	*1977[a]*	*1975*	*1976*	*1977[a]*
Total supply	*11 401*	*11 908*	*12 989*	*135.0*	*133.2*	*-1.5*	*4.5*	*9.1*
Gross domestic product at market prices	8 748	9 124	9 753	100.0	100.0	2.1	4.3	6.9
Imports of goods and services [b]	2 653	2 784	3 236	35.0	33.2	-12.0	4.9	16.2
Total demand	*11 401*	*11 908*	*12 989*	*135.0*	*133.2*	*-1.5*	*4.5*	*9.1*
Domestic demand	8 810	9 229	10 153	106.8	104.1	-1.6	4.8	10.0
Gross domestic investment	1 812	2 153	2 415	20.5	24.8	-9.3	18.8	12.0
Gross fixed investment	1 819	2 050	2 380	19.5	24.4	-1.2	12.7	16.1
Public	...	...	...	4.5	...	...	...	...
Private	...	...	...	15.0	...	...	...	...
Changes in stocks	-7	103	35	1.0	0.4			
Total consumption	6 998	7 076	7 738	86.3	79.3	0.6	1.1	9.3
General government	...	1 277	1 351	12.6	13.9	...	7.3	5.7
Private	...	5 799	6 387	73.7	65.4	...	-0.1	10.1
Exports of goods and services [b]	2 591	2 679	2 836	28.2	29.1	-1.5	3.4	5.9

Sources: 1970-1976: CEPAL calculations on the basis of figures supplied by the Central Bank of Costa Rica;
1977: CEPAL estimates on the basis of official data.

[a] Preliminary figures.

[b] 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 CEPAL for the purpose.

coefficient was thus nearly 25%, a slightly higher figure than in 1976 and much higher than in 1970 (see table 133).

Although no detailed data on capital formation corresponding to private and public investment are yet available, there is no doubt about the significant role played by the State in continuing to expand the road, energy and communications system.[56]

According to data supplied by the National Planning and Economic Policy Office on public investment, in 1977 21% of this was assigned to the energy sector (mainly for the continuation of the Arenal project), 18% to road construction, 6% to agro-industry, 7% to port infrastructure and 4% to drinking water and sewerage services.

Private investment maintained its growth at a moderate (and probably slower) rate and allocated more resources to housing than to machinery and equipment. Partly for this reason, the construction of dwellings continued to show a rising trend despite the reduction in output of cement.

Exports of goods also stepped up their rate of growth in 1977. Their volume increased by nearly 4%, in spite of the fact that while both exports of coffee and those of livestock and meat expanded in real terms, the volume of banana exports remained virtually static.

Among the export commodities of lesser importance there was a significant increase in cocoa, while the export volume of sugar and fertilizers diminished. On the other hand, exports of non-traditional manufactures, especially to other Central American countries, increased considerably.

[56] In the period January-November 1977 the current value of central government capital expenditure was nearly double that of the same period in 1976 (see table 146).

(b) *Sectoral developments*

Among the goods-producing sectors, the growing dynamism of manufacturing –which increased by 11°/o in 1977– contrasted with the slow growth of the agricultural sector (2°/o). Owing to this disparity and also to the difference in the growth rates of the two sectors in previous years, the share of the agricultural sector in the gross domestic product fell from 25°/o in 1970 to 20°/o in 1977, while that of manufacturing rose from 15°/o to a little over 18°/o between those two years (see table 134).

Table 134

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

	Millions of colones at 1970 prices			*Percentage breakdown*		*Growth rates*		
	1975	*1976*	*1977*[a]	*1970*	*1977*[a]	*1975*	*1976*	*1977*[a]
Agriculture	1 714	1 704	1 732	25.0	20.0	3.0	-0.6	1.7
Manufacturing [b]	1 345	1 432	1 588	15.1	18.3	3.2	6.4	11.0
Construction	462	464	488	4.7	5.6	5.7	0.3	5.4
Subtotal goods	*3 520*	*3 597*	*3 808*	*44.9*	*44.0*	*3.4*	*2.2*	*5.9*
Electricity, gas and water	168	182	...	2.0	...	2.3	8.5	...
Transport, storage and communications	483	515	...	4.8	...	6.2	6.6	...
Subtotal basic services	*651*	*697*	...	*6.8*	...	*5.2*	*7.1*	...
Commerce, restaurants and hotels	1 158	1 241	1 395	17.2	16.1	-1.7	7.2	10.6
Financial institutions, insurance and real estate	1 046	1 153	...	13.6	...	3.4	5.2	...
Community, social and personal services	1 360	1 415	1 481	17.5	17.2	1.7	4.0	4.7
Subtotal other services	*3 614*	*3 809*	...	*48.3*	...	*0.4*	*5.4*	...
Subtotal services	*4 265*	*4 506*	*4 854*	*55.1*	*56.0*	*1.1*	*5.7*	*7.7*
Total gross domestic product [c]	*7 775*	*8 110*	*8 670*	*100.0*	*100.0*	*2.1*	*4.3*	*6.9*

Sources: 1970-1976: CEPAL calculations on the basis of figures supplied by the Central Bank of Costa Rica;
1977: CEPAL estimates on the basis of provisional official data.

[a] Preliminary figures.
[b] Including mining.
[c] As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

Trade activities expanded sharply in 1977 owing to the bigger volume of imports and the growth of domestic production. Lastly, community, social and personal services increased moderately (5°/o). Among these, general government maintained the 12°/o share of the gross domestic product that it has recorded so far during the present decade.

(i) *The agricultural sector.* The slow growth of the agricultural sector is basically attributable to two factors, one conjunctural and the other of a structural nature. As regards the former the drought which had affected the whole of Central America since the previous year was prolonged and intensified, with a consequent decline in the production of basic grains, already at a low level in 1976. As regards the structural factor, Costa Rica has certain limitations as regards expanding the arable area, since the agricultural frontier already covers most of the land that is partially suitable for

utilization. Hence, crops for domestic consumption have gradually been replaced by export crops, such as cotton, while the area sown to some basic grains has been increasingly set aside for sorghum, which is a more drought-resistant crop. Rice, the production of which dropped by 25°/o in 1976 and 5°/o in 1977, was one of the crops most seriously affected by this trend (see table 135). With the aim of achieving self-sufficiency in this commodity and in basic grains in general, however, some development policies have been initiated to raise their production. These include crop insurance, the granting of credit, fixed prices, technical assistance, specific research and the demarcation of priority regions.

The shortfalls in beans –which was covered by imports from Nicaragua– and especially maize persisted in 1977. In contrast, the production of sorghum increased for the third consecutive year, although more slowly than the very high rates recorded in the previous two years (see table 135). This product is expected to compensate for the lack of maize in the medium term, if it is oriented towards human as well as animal consumption.

Production of the main exportable agricultural commodities –coffee, bananas and cocoa– remained at the same level as in 1976. As regards coffee, taking into account the difficulties faced in expanding the area cultivated and the fact that productivity per unit of area is among the highest in the world, there are no great possibilities of expansion so long as the traditional system of cultivation is maintained. A programme of close planting, renewal and improvement of coffee plantations is being initiated, however, and once it is completed (by 1980) production will increase substantially.

Production of bananas for its part, declined slightly (3°/o) largely owing to the fact that the main producing company replaced bananas by the African oil palm in the production areas on the Pacific seaboard. This diversification is likely to continue in the future under a combined programme with ASBANA, a Government institution which provides national producers with technical, administrative and financial assistance.

Finally, production of cocoa –which has a much smaller share than coffee and bananas in total exports– remained at a low level despite the price increases. The yield per hectare is very low because of the age of the plantations, but the possibility is envisaged of renewing the plantations over the long term, which would enable production to be trebled within 10 years.

After two years of moderate growth, in 1977 the livestock development plans conceived earlier began to produce results, with production up 21°/o. Exports to the United States continued to be significant, but taking into account that this sector has the highest production potential in Central America, marketing channels have also been established with South American countries, particularly Venezuela. In addition, through the Livestock Producers' Association, a publicity and information campaing is being carried on in possible new markets.

There are also good prospects for the production of cotton, a hitherto somewhat unimportant crop. In 1977 a production diversification programme was launched in the Pacific areas not suitable for growing basic grains, with the purpose of obtaining raw material for the production of oils. This project, promoted by CODESA, jointly with private capital started with the sowing of 13,800 hectares.

(ii) *Manufacturing.* Preliminary estimates indicate that the manufacturing product grew by 11°/o over 1976.[57] The process of recovery initiated in 1976 thus continued, as shown by the increase in the level of production and the fuller utilization made of existing capacity. The expansion of domestic demand in some sectors (such as food, beverages, tobacco, paper and printing) and the increase in external demand in others (such as textiles and clothing, chemicals, metal manufactures and machinery) were largely responsible for the manufacturing sector's high rate of growth.

In 1977 the investment in new manufacturing production capacity increased appreciably as part of the general expansion of capital formation. Such investment made it possible to complete several plants and bring them into operation that same year,[58] to make some progress in the construction of

[57] Although it is true that manufacturing showed a high rate of growth in 1977, an examination of partial indicators such as the manufacturing production index (see table 136) would seem to indicate that the preliminary figure of 11°/o, is an over-estimation as a value-added rate.

[58] The plants in question were for dairy products, raw materials obtained from cocoa, soups in solid or powder form proteinized maize flour, soya preparations, tobacco, clothing, wood products, sulphuric acid, ammonium nitrosulphate, electrical circuits and accessories, metal spare parts and moulds, and a cotton gin.

Table 135

COSTA RICA: INDICATORS OF AGRICULTURAL PRODUCTION

	Thousands of tons					*Growth rates*				
	1973	*1974*	*1975*	*1976*	*1977*[a]	*1973*	*1974*	*1975*	*1976*	*1977*[a]
Coffee [b]	96	85	79	78	78	21.5	-11.9	-6.1	-1.6	–
Bananas	1 178	1 038	1 105	1 209	1 175	9.3	-12.0	6.5	9.4	-2.8
Sugar [b]	166	179	173	175	...	-5.6	7.5	-3.4	1.3	...
Cocoa	6.6	6.8	5.6	7.9	7.9	42.1	3.0	-17.5	39.1	–
Hulled rice [c]	79	86	133	102	96	20.0	8.4	54.3	-23.5	-5.2
Beans	5	15	18	15	16	-7.7	190.4	16.9	-13.3	1.0
Maize	95	46	100	97	86	34.9	-52.3	118.2	-3.1	-11.5
Sorghum	18	15	22	34	36	18.8	-16.0	40.1	56.1	6.4
Meat [d]	...	278	290	307	372	...	...	4.4	5.8	21.2

Source: CEPAL, on the basis of data supplied by the Central Bank of Costa Rica and the National Production Council.

[a] Preliminary figures.
[b] For the period 1 October to 30 September.
[c] Crop year 1 June/31 May.
[d] Number of animals slaughtered (thousands).

Table 136

COSTA RICA: INDICATORS OF MANUFACTURING PRODUCTION

	1973	1974	1975	1976	1977	Growth rates			
						1974	1975	1976	1977
Index of manufacturing production (1966=100)	187.8	206.4	211.7	230.2	243.7[a]	8.7	2.6	8.7	7.0
Index of industrial employment (1968=100)	161.3	173.5	168.9	177.5	184.9[a]	7.6	-2.6	5.1	4.9[a]
Consumption of electricity by industry (millions of KWH)	122.0	142.3	157.4	181.5	164.7[b]	16.6	10.6	15.3	10.1[b]

Source: CEPAL, on the basis of official data supplied by the Central Bank of Costa Rica.

[a] Average January-September; growth rate calculated with respect to same period in 1976.
[b] January-October; growth rate calculated with respect to same period in 1976.

others, most of which will start operating in 1978,[59] and to adopt concrete decisions to invest in several other projects.[60]

The commitments to make new investments in machinery and equipment contained in the industrial contracts concluded under the Industrial Protection and Development Law were higher than those agreed on in 1976.[61]

Exports of non-traditional industrial products (excluding sugar, coffee, chilled meat and shrimps) continued to grow, although at a lower rate (29%) than in the preceding year (34%), and represented approximately 30% of total exports. Furthermore, the figures indicate on the one hand that the manufacturing sector had the capacity to finance through its exports a considerable percentage of the expenditure of foreign exchange required by imports of industrial raw materials, and on the other hand, that a process of diversification of industrial exports is taking place. The Central American Common Market was once again the most important export market for Costa Rica's products.

The main industrial policy measures were concerned with promoting agro-industry,[62] providing credit and fiscal incentives to industrial activities in general and small-scale industry in particular, promoting exports of manufactures and supporting the opening up of new markets.

CODESA continued its industrial promotion work aimed at the establishment and strengthening of several public or semi-public industrial enterprises and the identification and formulation of investment projects in the sector. The promotion activities were oriented towards branches of industry producing raw materials (sugar, cocoa processing, cement, cotton, sulphur, hydrated lime), metal manufactures and machinery (aluminium products and metal spare parts and moulds) and other supplementary activities. Moreover, in 1976 it set up an enterprise to organize and co-ordinate the production of cement and regulate its prices, in view of the fact that three plants will be operating in Costa Rica in the near future.

[59] Two new cement plants, a polyester fibre plant, a sugar refinery, the salt project, and others.

[60] Among these should be noted, for their magnitude and potentially favourable impact on the diversification of the sector's production structure, those related to plants for the production of aluminium products, tiles, plain fabrics and banana flour, a sugar refinery, and a distillery for the production of alcohol.

[61] Up to October 1977 the amount recorded was 307 million colones, which was already 18% higher than the 260 million for the whole of 1976. The specific branches in which the effect of this investment is likely to be most noticeable are the production of raw sugar and molasses, wrapping paper, packing materials and paperboard, mechanical pulp and absorbents, and cement products for the construction industry.

[62] With the help of a Netherlands-Israeli mission, some progress was made during the year in the first stage of the agro-industrial programme outlined in the 1978-1982 National Development Plan. The objectives and priorities of agro-industry were specified, together with the obstacles to its development and an organizational and operational structure was put forward, the centre of which would be the Agro-Industrial Technical Committee (COTAI).

Attention may also be drawn to the increase in the activities of the National Training Institute and the Cartago Technological Institute aimed at training intermediate cadres and skilled workers, of whom there is still a critical shortage.

Although the country still has under-utilized industrial capacity, the dynamism noted in 1977 gave rise to some limitations which may hamper the future growth of industry, since the dependence on imports and the insufficient local production of raw materials and other intermediate goods caused bottlenecks in some cases owing to supply shortages. This happened, for example, in the tanning, food and beverages and motor-vehicle assembly industries, which are dependent upon the external supply of products such as tanning materials, glass containers, and components and parts, respectively.

(iii) *Construction activity.* Although no complete quantitative estimates are as yet available on the evolution of construction activity in 1977, it is estimated on the basis of some indirect indicators that the rate of growth increased considerably, in terms of both the construction of dwellings and basic infrastructure projects. Thus, the consumption of cement rose by 10°/o and imports of building materials by 26°/o at current prices. Finally, the impression is that the bigger volume of income in the economy, especially from the coffee sector, was largely channelled into construction activity.

(c) *The employment situation*

The economic expansion led to a reduction in the rate of unemployment from 6.2°/o in July 1976 to 4.6°/o in July 1977 (see table 137): one of the lowest rates in Latin America. This was the result of the greater dynamism of manufacturing and construction, the reactivation of trade and other services, and the agricultural sector's capacity to absorb a large part of the labour force. At the same time, as always happens in Costa Rica, the demand for manpower fluctuated according to the requirements for the harvesting of crops such as coffee and cotton.[63]

Table 137

COSTA RICA: EVOLUTION OF EMPLOYMENT AND UNEMPLOYMENT

	1973 [a]	1976		1977	
		July	November	March	July
Rates of unemployment					
Total	7.4	6.2	2.8	5.2	4.6
Urban	6.5	6.8	4.0	5.2	5.2
Rural	8.0	5.8	1.9	5.2	4.1
Urban areas of Central Valley [b]	6.6	6.0	3.8	4.7	5.1
Indexes [c]					
Labour force	128.8	144.0	153.4	146.0	149.5
Employment	124.2	140.7	155.3	144.1	149.0
Unemployment	237.1	224.4	108.1	190.3	172.3

Sources: Ministry of Labour and Social Security, and Ministry of Economic Affairs, Industry and Commerce; population census 1973; household surveys on employment and unemployment, July and November 1976 and March and July 1977.

[a] Figures estimated at 30 June.

[b] Insludes the main cities in Costa Rica (San José, Cartago and Heredia).

[c] Base June 1967; data from the First Household Survey.

[63] Manpower from Nicaragua has often been used in the cotton harvest in view of the seasonal labour shortage. The global rates of unemployment given by the surveys carried out in July and November 1976 and March and July 1977 were 6.2°/o, 2.8°/o, 5.2°/o and 4.6°/o, respectively. The sharp decline observed in November 1976 was due to the seasonal situation described.

3. *The external sector*

(a) *Trade in goods*

(i) *Exports.* In 1977, exports of goods increased at the exceptionally high rate of 48%. This rise was decisively influenced by the unusual increase in coffee sales, which more than doubled after having grown by 60% in 1976 (see table 138). The expansion was mainly due to the unprecedented rise in world coffee prices, since the volume of coffee exports increased only moderately. As a result of the notable increase in income from this commodity, coffee was, as in 1976, the main export item, accounting for over 40% of the total foreign exchange receipts from exports of goods.

Table 138

COSTA RICA: VALUE AND BREAKDOWN OF EXPORTS OF GOODS (FOB)

	Millions of dollars				*Percentage breakdown*		*Growth rates*		
	1974	*1975*	*1976*	*1977*[a]	*1970*	*1977*[a]	*1975*	*1976*	*1977*[b]
Main export products	*300.5*	*350.6*	*396.4*	*456.5*	*74.5*	*67.9*	*16.7*	*13.1*	*55.0*
Coffee	124.7	96.9	153.9	275.4	31.6	40.9	-22.3	58.8	119.3
Bananas	98.4	144.1	148.7	95.3	28.9	14.2	46.4	3.2	–
Livestock and meat	34.2	37.8	45.5	41.9	7.8	6.2	10.5	20.4	17.4
Sugar	24.4	48.2	24.7	17.2	4.4	2.6	97.5	-48.8	-9.9
Cocoa	5.9	5.3	6.9	14.2	0.8	2.1	-10.2	30.2	246.3
Fertilizers	12.9	18.3	16.7	12.5	1.0	1.9	41.9	41.7	39.6
Other products	*139.8*	*142.7*	*196.6*	*216.3*	*25.5*	*32.1*	*2.1*	*37.8*	*35.1*
Agricultural	20.5	24.4	29.0	25.5	3.4	3.8	19.0	18.9	9.0
Industrial (excluding fertilizers)	119.3	118.3	167.6	190.8	22.1	28.3	-0.8	-8.7	-15.5
Total	*440.3*	*493.3*	*593.0*	*672.8*	*100.0*	*100.0*	*12.0*	*20.2*	*48.0*

Sources: Central Bank of Costa Rica and Statistics and Census Office.

[a] January-October.

[b] Growth rate for the period January-October 1977 compared with that for the same period in 1976.

Exports of bananas, on the other hand, were completely static since both the export volume and unit prices remained constant. Accordingly, their share in total exports of goods once again declined, so that in 1977 it was only half that recorded at the beginning of the decade (see table 138).

Since there was no problem of excessive rainfall on the Atlantic coast, which in 1976 had reduced the production of cocoa, this commodity tripled its export value in 1977. Other factors were the increase in volume and the higher world price.

Fresh meat continued to be sold to the United States in 1977, but these exports grew only slightly in spite of Costa Rica's high production potential. On the other hand, exports of live animals to Venezuela and other Latin American countries increased significantly.[64]

[64] Up to September, exports to Venezuela amounted to nearly 16 million dollars, thus slightly exceeding the exports to the United States, which is the other principal market for this commodity.

External sales of fertilizers dropped in both volume and value, while the rest of Costa Rica's exports of manufactures continued to make progress and to display increasing diversification.[65]

(ii) *Imports.* The plentiful availability of foreign exchange, the country's economic expansion which required substantial imports of industrial and agricultural raw material, the renewal of a large part of its transport equipment, the increase in private consumption, the reduction in some taxes on consumption and the few restrictions in force on external purchases all contributed to the 31% increase in imports of goods (see table 139).

Although there was a particularly large increase in imports of consumer goods, especially consumer durables, their share in total imports was a good deal smaller than in 1970.

Among the country's imports of capital goods –which also expanded considerably– there was a marked increase in purchases of transport equipment and agricultural machinery and equipment. Among purchases of intermediate goods, in contrast, those of fuels and lubricants rose by only 21% at current prices, which is much lower than the rate of growth of total imports.

(iii) *The terms of trade.* As a result of the exceptional rise in the price of coffee, the unit value of exports increased by 35%, thus easily surpassing the increase in the average price of imports. Consequently, the terms of trade improved considerably for the second year in succession. This improvement, however, merely offset the sharp deterioration they experienced in the early years of the decade and particularly in 1974 with the rise in the world price of oil. The terms of trade index for 1977 was thus only slightly above the 1970 index (see table 140). The rise of over 50% in the purchasing power of exports of goods between those two years was therefore exclusively due to the increase in volume of external sales.

(b) *The balance of payments*

In spite of the fact that exports grew more rapidly than imports, the visible trade balance was unfavourable, although less so than in 1976. Services operations also reflected a deficit, this time considerably bigger than in 1976. One of the contributing factors was the increase in spending by Costa Rican tourists abroad (see table 141).

The final result of these operations was a current account deficit of 205 million dollars, i.e., almost the same as in 1976. Compared with the critical year 1974, however, the negative balance on current account was appreciably reduced, although it should be noted that world coffee prices were particularly favourable in 1977.

Net payments of profits and interest increased by 10 million dollars, more than double the level of only two years earlier.

(c) *The external debt*

In the face of the shortage of domestic saving, much of the reactivation of Costa Rica's economy after the world energy crisis was accompanied by the intensive use of official external credit and capital, especially in 1975. In 1976, comparatively more use was made of private credit –which is granted under harder commercial conditions as regards maturity periods and interest– but in 1977 this trend fell off considerably. Even so, the balance of the total external debt at the end of 1977 was more than double that at the end of 1973, when the world price of petroleum rose sharply.

In view of the growth of the external debt in the last few years, it is estimated that outflows in the form of amortization payments and interest will increase greatly in the inmediate future. In 1977, external debt servicing was equal to about 11% of total exports of goods and services (see table 142).

[65] The main industrial exports were manufactured fertilizers; medicinal and pharmaceutical products; clothing; insecticides and fungicides; synthetic fabrics and glass fibre; corrugated and flat galvanized sheets, plastic articles; refrigerators and freezers; concentrates for the preparation of non-alcoholic beverages; tyres and inner tubes; and dressed leather.

Table 139

COSTA RICA: VALUE AND BRAKDOWN OF IMPORTS OF GOODS (CIF)

	Millions of dollars				*Percentage breakdown*		*Growth rates*			
	1974	*1975*	*1976*	*1977* [a]	*1970*	*1977* [a]	*1974*	*1975*	*1976*	*1977* [b]
Consumer goods	*169.5*	*157.7*	*164.7*	*169.0*	*32.5*	*22.5*	*46.8*	*-7.0*	*4.4*	*44.4*
Durable	...	80.9	88.3	93.9	...	12.5	...	...	9.1	50.5
Non-durable	...	76.8	76.4	75.1	...	10.0	...	...	-0.5	37.5
Intermediate goods	*386.0*	*389.4*	*408.7*	*392.1*	*42.6*	*52.4*	*79.0*	*0.9*	*4.9*	*25.6*
Raw materials for industry	...	229.6	240.8	232.4	...	31.0	...	...	4.9	28.4
Raw materials for agriculture	...	62.6	52.2	52.9	...	7.1	...	...	-16.6	19.4
Building materials	...	41.1	44.1	39.4	...	5.3	...	...	7.3	26.3
Fuels and lubricants	...	56.1	71.6	67.4	...	9.0	...	...	27.6	21.0
Capital goods	*164.2*	*154.6*	*198.8*	*188.4*	*24.9*	*25.1*	*32.1*	*-5.8*	*28.6*	*32.8*
For industry, construction and telecommunications	...	93.7	124.3	109.8	...	14.6	...	...	32.7	25.9
For agriculture	...	23.6	30.4	30.9	...	4.1	...	...	28.8	41.7
For transport	...	37.3	44.1	47.7	...	6.3	...	...	18.2	45.0
Total	*719.7*	*701.7*	*772.2*	*749.5*	*100.0*	*100.0*	*58.1*	*-2.5*	*10.0*	*31.2*

Sources: Central Bank of Costa Rica and Statistic Office.

[a] Juanuary-September.

[b] January-September 1977 compared with the same period in 1976.

Table 140

COSTA RICA: MAIN INDICATORS OF FOREINGN TRADE

	1972	1973	1974	1975	1976	1977
	Growth rates					
Exports of goods						
Value	24.1	23.7	27.6	12.0	19.4	39.8
Volume	19.0	2.9	11.0	-1.7	2.0	3.7
Unit value	4.3	20.3	15.0	14.0	17.0	34.9
Imports of goods						
Value	6.6	22.3	57.5	-3.3	11.0	29.3
Volume	-1.0	5.1	15.8	-14.7	4.7	15.3
Unit value	7.6	16.4	35.9	13.3	6.0	12.1
Terms of trade	-3.1	3.3	-15.4	0.6	10.4	20.4
	Indexes (1970= 100)					
Terms of trade	87.5	90.5	76.6	77.1	85.0	102.3
Purchasing power of exports of goods	109.6	116.7	109.5	108.4	122.0	152.1
Purchasing power of exports of goods and services	112.0	118.7	114.6	114.7	128.3	157.8

Source: CEPAL, on the basis of official data.

4. *Prices and wages*

(a) *Prices and anti-inflationary policy*

Costa Rica managed to maintain a moderate rate of increase in prices for the second consecutive year, following a period of intensive inflation from 1973 to 1975 (see table 143). Although the variations in the consumer price index from December to December showed a silght upward trend (4.4°/o in 1976 and 5.2°/o in 1977), which was also observable in the changes in annual averages (3.5°/o and 4.2°/o respectively), at all events the favourable results of the stabilization policy adopted were visible.[66] The slowing-down of inflation was achieved, moreover, without sacrificing the growth of the various economic activities and even with an increase in real wages.

The situation observed in the previous year, with the December to December variations exceeding the changes in the annual averages, was repeated in 1977. As in 1976, the greatest inflationary pressures occurred in the first half of the year.[67] The reason is that wage adjustments are generally granted in the early months of the year and that the adjustment of some service rates is also effected in that initial period. In addition, the crops are usually harvested between July and December of each year, and storage and distribution prices go up in the following six months.

Food prices, which had dropped slightly in 1976, rose more than consumer prices as a whole in 1977 (8.6°/o compared with 5.2°/o). The rise must have mainly affected the low-income population sectors, in view of the larger share of food in the structure of their consumption.

[66] Although the policy of containing the prices of some essential products or services, particularly in urban areas, initiated the easing of inflationary pressures, it is useful to compare the results of the consumer price index with the figures of the implicit price deflator of the gross domestic product and of household consumption referred to above.

[67] The consumer price index rose by 4.2°/o in the first half of 1976 and by 0.3°/o in the second, while the variations in the same periods of 1977 were 4.5°/o and 0.7°/o, respectively.

Table 141

COSTA RICA: BALANCE OF PAYMENTS
(millions of colones)

	1972	*1973*	*1974*	*1975*	*1976*	*1977*
Current account						
Exports of goods and services	346	419	540	601	712	971
Goods FOB	279	345	440	493	589	823
Services	67	74	100	108	123	148
Transport	21	21	28	31	39	43
Travel	30	36	49	52	52	60
Imports of goods and services	418	500	777	767	853	1 100
Goods FOB	337	412	649	627	696	900
Services	81	88	128	140	157	200
Transport	47	54	84	84	96	120
Travel	19	21	27	35	39	45
Net payments of profits and interest on foreign capital	-35	-38	-39	-61	-76	-87
Profits	-21	-21	-14	-24	-26	-30
Interest	-14	-17	-25	-37	-50	-57
Net private transfer payments	4	7	9	9	11	11
Balance on current account	-103	-112	-267	-218	-206	-205
Capital account						
Net external financing (a+b+c+d+e)	103	112	267	218	206	205
(a) Net external non-compensatory capital	106	113	184	196	282	
Direct investment	26	38	46	69	62	
Long- and medium-term loans	95	122	143	240	275	
Amortization payments	-39	-59	-64	-89	-118	
Short-term liabilities	22	12	58	-25	61	301
Official transfer payments	2	–	1	–	2	
(b) Domestic non-compensatory capital or assets	-46	-20	-31	-12	-24	
(c) Errors and omissions	39	40	51	33	-16	
(d) Allocation of SDRs	4	–	–	–	–	
(e) Net compensatory financing (– = increase)	– –	-21	63	1	-36	-96
Balance-of-payments loans, trade arrears, IMF loans, and other liabilities of the monetary authorities	17	–	63	49	18	...
Amortization payments	-9	-11	-6	-37	-9	...
Variation in gross international reserves (minus sign signifies an increase)	-8	-10	6	-11	-45	...
Foreign exchange reserves (– = increase)	-4	-10	3	-9	-48	...
Gold reserves (minus sign signifies an increase)	–	–	–	–	–	...
SDRs (minus sign signifies an increase)	-4	–	2	-2	3	...

Sources: 1972-1976: CEPAL, on the basis of data supplied by the International Monetary Fund;
1977: CEPAL, on the basis of data supplied by the Central Bank of Costa Rica.

Table 142

COSTA RICA: INDICATORS OF EXTERNAL INDEBTEDNESS
(Millions of dollars)

	1972	*1973*	*1974*	*1975*	*1976*	*1977* [a]
Balance of public external debt	237	296	379	511	644	798
Servicing of public external debt	...	...	...	78	77	104
Servicing of public external debt as a percentage of exports of goods and services	...	...	...	14.0	11.3	10.5

Source: CEPAL, on the basis of data supplied by the Planning and Economic Policy Office and the Central Bank of Costa Rica.

[a] Estimates.

Table143

COSTA RICA: EVOLUTION OF DOMESTIC PRICES
(Percentages)

	1972	*1973*	*1974*	*1975*	*1976*	*1977*
	Variation from December to December					
Consumer price index	*6.9*	*15.9*	*30.6*	*20.5*	*4.4*	*5.2*
Food	4.1	21.6	29.1	20.0	-1.3	8.6
Wholesale price index	*7.8*	*26.4*	*38.2*	*14.0*	*7.2*	*7.5*
Foodstuffs of animal origin	4.3	19.3	22.6	16.0	3.3	8.9
Foodstuffs of vegetable origin	11.4	27.9	43.7	28.5	0.8	14.6
	Variation between annual averages					
Consumer price index	*4.7*	*15.3*	*30.1*	*17.4*	*3.5*	*4.2*
Food	3.7	...	...	...	-0.1	4.9
Wholesale price index	*5.5*	*16.3*	*39.8*	*21.6*	*9.3*	*7.5*
Foodstuffs of animal origin	3.4	14.6	24.0	17.5	6.3	6.4
Foodstuffs of vegetable origin	11.0	16.4	36.9	40.8	9.9	9.5
Beverages and other foodstuffs	1.7	14.3	41.1	15.1	13.0	6.8
Fuels, ice and electricity	5.4	10.4	81.6	21.5	8.0	6.4
Textiles and leather products	7.0	24.2	40.7	16.4	18.5	11.2
Building materials	2.2	21.4	41.4	12.9	4.0	5.4
Chemical and pharmaceutical products	4.5	13.6	42.3	25.8	2.2	4.3
Manufactured goods and other products	9.0	16.0	27.6	20.5	13.1	10.3

Source: Central Bank of Costa Rica.

Wholesale prices rose more than consumer prices, as may be seen both in the variations from December to December and in the differences between the annual average (see table 143). This has happened every year except in 1975.[68] If the evolution of the main components of this index is examined it will be seen that there were marked increases in textiles and leather products, foodstuffs of vegetable origin, and beverages and other foodstuffs.

Among the factors determining the rise in the level of prices –which was slightly higher in 1977 than in 1976– mention should be made of the pressure exerted by the excessive liquidity in the economy, brought about by the unprecedented increases in coffee prices, the rise in import prices (12%), the expansion of public credit and the general improvement in real wages for a population with a low rate of unemployment.

In opposition to these inflationary factors there was another set of variables favouring the general economic objective of stabilization. Among them may be mentioned the expansion of the supply of manufactured products and building materials which satisfactorily covered demand; the big increase in imports, particularly of raw materials for industrial development and machinery and equipment; the cautious, but not restrictive, wage policy; the issue and sale of coffee savings bonds; and the increase in bank reserves.

(b) *Wages*

While consumer prices rose 57%/o between 1973 and 1975, the nominal wage index increased by only 48%/o, leading to a deterioration of 6%/o in real wages. After the recession came to an end in 1975, a policy of gradual recovery of the former levels was implemented in the last two years. These levels were exceeded in 1976, and in October 1977 the index of real wages stood at 108.7%/o, or almost 8%/o higher than in the previous year (see table 144).

These results should be examined with great caution because of the differences observed in the wholesale and consumer price indexes not only in 1977 but also in the previous three or four years, and the greater influence of the increases in foodstuffs.[69]

The wage policy adopted was consistent with the redistribution objectives laid down in the development plans. In the first place, the biggest increases were granted to the agricultural sector, where the average wage per worker was lower than in the rest of the economic activities. Secondly in each individual economic activity the biggest increases were assigned to the lower income strata. In other words, a policy oriented towards progressive redistribution was adopted in an attempt to reduce the existing differences, while an effort was also made to ensure that the wage increases were consistent with improvements in productivity.

Differences are observable between the evolution of real wages in the private sector and the public sector. In 1977 the former rose 10.5%/o and the latter 7.2%/o, wich reversed and partly compensated for the situation in the previous year when the respective increases were 6.6%/o and 16.5%/o.

5. *Monetary and fiscal policy*

(a) *Monetary policy*

As a result of the high liquidity deriving from the exceptional rise in the price of coffee, a stabilization policy was adopted which, as noted earlier, achieved considerable success in relatively curbing the rise in prices.

One factor contributing to this achievement was the accelerated expansion of imports, which made it possible to face up to the inflationary pressures that might otherwise have caused excess liquidity in the economy. In order to absorb this liquidity the Government put into effect a number of measures the most important of which were:

[68] From December 1972 to December 1975 the consumer price index doubled (100.3%/o), while wholesale prices rose 129.5%/o. Over the same period, foodstuffs of vegetable origin increased by 170.7%/o.

[69] If the prices of foodstuffs of vegetable origin in particular, or wholesale prices in general –which rose 9.5%/o and 7.5%/o, respectively, in 1977– were a true reflection of the price fluctuations affecting wage-earners, the conclusions regarding the evolution of real wages would be somewhat different.

Table 144

COSTA RICA: EVOLUTION OF WAGES AND SALARIES
(December 1973 = 100)

	Indexes					*Growth rates*			
	December			*October*					
	1974	*1975*	*1976*	*1976*	*1977*	*1974*	*1975*	*1976*	*1977* [a]
Nominal wages and salaries									
Total	*122.8*	*148.1*	*169.0*	*164.2*	*185.4*	*22.8*	*20.6*	*14.1*	*12.9*
Economic sectors									
Agriculture	123.4	150.9	179.4	174.3	207.6	23.4	22.3	18.9	19.1
Manufacturing	125.0	149.0	177.6	174.3	184.8	25.0	19.2	19.2	6.0
Construction	127.4	155.8	190.6	177.8	201.8	27.4	22.3	22.3	13.5
Services	121.2	142.8	162.7	160.3	181.2	21.2	17.8	13.9	13.0
Institutional sectors									
Private	124.2	147.3	163.9	153.6	177.5	24.2	18.6	11.3	15.6
Public	121.5	144.7	176.1	177.6	199.3	21.5	19.1	21.7	12.2
Real wages and salaries [b]									
Total	*94.0*	*94.1*	*102.9*	*100.7*	*108.7*	*-6.0*	*0.1*	*9.4*	*7.9*
Economic sectors									
Agriculture	94.5	95.9	109.2	106.9	121.8	-5.5	1.5	13.9	13.9
Manufacturing	95.7	94.7	108.1	106.9	108.4	-4.3	-1.0	14.1	1.4
Construction	97.6	99.0	116.0	109.1	118.4	-2.4	1.4	17.2	8.5
Services	92.8	90.7	99.0	98.3	106.3	-7.3	-2.3	9.2	8.1
Institutional sectors									
Private	95.1	93.6	99.8	94.2	104.1	-4.9	-1.6	6.6	10.5
Public	93.0	92.0	107.2	109.0	116.9	-7.0	-1.0	16.5	7.2

Source: CEPAL, on the basis of official data supplied by the Ministry of Labour and Social Security, based on tabulations of the Costa Rica Social Security Fund.

[a] Between October 1976 and October 1977.
[b] Deflated by the consumer price index for the metropolitan area.

– A gradual increase in bank reserves as from January 1977 aimed at raising those for demand deposits from 20% to 30% and time deposits from 10% to 15%, at a monthly rate of increase of 1%.

– A selective credit policy, with greater utilization of the resources tapped by bank finance companies, in support of preferential lines envisaged in the credit programme;[70]

– Smaller rediscounting margins for commercial banks, with the aim of diverting credit to the coffee sector;

– The issue and sale of coffee savings bonds to a value of 500 million colones at 12% interest, and an additional issue of monetary stabilization bonds.[71]

Furthermore, the rates of interest paid by financial institutions on investment certificates and time deposits in banks were reduced so as to bring them into line with those prevailing in the international markets. This prevented the inflow of short-term capital and at the same time made other bonds and securities more competitive.[72]

[70] Among the credit lines of a priority nature was that associated with the basic grains programmes. The Export Promotion Fund established in 1976 started to operate in the manufacturing sector, and in addition increased assistance was given to small-scale and artisan-type industry.

[71] Of a total of 658 million of different kinds of bonds issued in 1977, only 225 million were actually sold.

[72] It was stipulated that the banks should earmark 46% of the increase in their reserves for the purchase of public bonds, with the twofold intention of helping to finance the budget deficit and avoiding the need to cause the banks losses by having to freeze their resources.

These measures in the monetary and credit field were consistent with the cautious wage policy which, notwithstanding its redistributive character, was relatively moderate.

As a result of the stabilization measures adopted, the domestic credit granted by the Costa Rican banking system rose by 26°/o in 1977, or at much the same rate as the previous year (see table 145). The increase in credit to the public sector was considerable, i.e., 63°/o to the central government and 51°/o to other public institutions. In contrast, that granted to the private sector, which was more severely affected by the policy of curtailing the expansion of credit, rose by only 18°/o. Net international reserves rose sharply for the second year in succession, thus contributing to the 33°/o growth of the factors of expansion of the money supply. Since the factors of absorption (quasi--money, external loans, bonds and other items) grew more rapidly, however, the money supply rose by 26°/o, i.e., at a lower rate than in 1976.

Table 145

COSTA RICA: MONETARY POSITION

	End-year balance (millions of colones)					*Growth rates*			
	1973	*1974*	*1975*	*1976*	*1977*[a]	*1974*	*1975*	*1976*	*1977*[a]
Money	*1 940*	*2 283*	*2 816*	*3 674*	*4 625*	*17.7*	*23.4*	*30.5*	*25.9*
Currency outside banks	643	734	853	1 116	1 409	14.2	16.2	30.8	26.3
Demand deposits	1 297	1 549	1 963	2 558	3 216	19.4	26.7	30.3	25.7
Factors of expansion	*3 591*	*4 792*	*6 673*	*8 645*	*11 507*	*33.4*	*39.3*	*29.6*	*33.1*
Foreign assets (net)	483	333	512	1 065	1 986	68.9	53.8	108.0	86.5
Domestic credit	3 108	4 459	6 161	7 580	9 521	43.5	38.2	23.0	25.6
Government (net)	312	369	549	607	988	18.3	48.8	10.6	62.8
Official entities	153	343	600	920	1 391	24.2	74.9	53.3	51.2
Private sector	2 643	3 747	5 012	6 053	7 142	41.8	33.8	20.8	18.0
Factors of absorption	*1 651*	*2 509*	*3 857*	*4 970*	*6 882*	*52.0*	*53.7*	*28.9*	*38.5*
Quasi-money (savings and time deposits)	1 168	1 747	2 727	3 736	5 053	49.6	56.1	37.0	35.3
Long-term foreign borrowing	495	901	1 559	2 095	2 754	82.0	73.0	34.4	31.5
Other items (net)	-12	-139	-429	-861	-925	...	...	...	...

Source: Central Bank of Costa Rica.

[a] Preliminary figures.

(b) *Fiscal policy*

As in 1976, and in spite of the fact that export earnings from coffee surpassed all expectations, the public finances continued to go through a difficult stage. First, the important role traditionally played by the Government as a redistributive agent continued to require that more attention be paid to the services provided by the public sector. In addition, the expenditure on wages, salaries, materials and inputs for education, health, transport and other services shows a certain rigidity and tends to force increased public spending. Secondly, in accordance with Government strategy, public sector

disbursements for economic functions such as the supply of energy, the manufacture of cement, agro-industry, telecommunications and infrastructure projects in general continued to increase. Moreover, once the critical years 1974 and 1975 were over the basic objetive that emerged was the cautious restoration of real wage levels.

In the face of these requirements of official policy, the performance of the tax structure has not been sufficiently flexible to cover the growing needs in terms of expenditure, as was confirmed once again in 1977.

In view of the size of the fiscal deficit in 1977, the Government was forced to moderate some of the expenditure goals it had established. Thanks to this measure and the rapid increase in current income, the fiscal deficit dropped by 10°/o after marked increases in the previous two years.

Up to November 1977, total expenditure was 47°/o higher than in the period January-November 1976, the expansion of capital expenditure being much faster than that of current expenditure (see table 146).[73] Since the rise in the level of domestic prices was around 5°/o, this meant that there was a considerable increase in real public expenditure, particularly on capital goods.

Table 146

COSTA RICA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of colones				*Growth rates*			
	1974	*1975*	*1976*	*1977*[a]	*1974*	*1975*	*1976*	*1977*[b]
Current income	1 936	2 279	2 692	2 853	39.6	17.7	18.1	26.7
Tax revenue	1 795	2 090	2 499	2 654	43.1	16.4	19.6	27.5
Direct taxes	395	447	613	439	27.8	13.2	37.1	15.2
Indirect taxes	838	970	1 104	1 225	25.5	15.8	13.8	21.8
Taxes on foreign trade	562	673	782	990	102.8	19.8	16.2	42.7
Non-tax revenue	141	183	188	194	6.0	29.8	2.7	17.6
Transfers	...	6	5	5	...	...	-17.7	–
Current expenditure	1 608	2 354	2 671	2 912	28.9	46.4	13.5	34.4
Saving on current account	328	-75	-66	-59	134.3	...	-11.5	...
Capital expenditure	721	515	1 269	1 127	11.8	-28.6	146.4	91.7[c]
Total expenditure	2 329	2 869	3 940	4 039	23.1	23.2	37.3	46.7
Fiscal deficit (or surplus)	-393	-590	-1 248	-1 186	-22.2	50.1	111.5	135.8
Financing of deficit								
Domestic financing	213	343	893	751	-30.6	61.0	160.3	84.1
External financing	180	147	355	435	-10.1	37.2	43.7	357.9

Sources: Ministry of Finance and Central Bank of Costa Rica.

a Up to November.

b Variation between January-November 1976 and the same period in 1977.

c On the basis of official data it is estimated that the annual variation is less than that for the period January-November, since deferred payments made in December 1976 were much higher than those made in December 1977.

In 1977 recourse was had to borrowing as a means of maintaining the high rate of public spending. Coffee bonds were issued in an attempt to tap resources for stabilizing purposes.

Current income rose 29°/o during the year, partly owing to the first effects of the changes introduced in 1975 and 1976 in the tax system (more progressive income tax, the establishment of a transfer tax on real estate, and other taxes specifically designed to provide more resources for the educational system).

[73] It is estimated, however, that the annual variation was less than that for the period January-November, since deferred payments made in December 1976 were much higher than those made in December 1977.

In tax revenue the biggest increase was in the yield from taxes on foreign trade (43%), compared with only 22% for other indirect taxes and 15% for direct taxes.[74]

The effect of the use of tax rebate certificates, which represent a subsidy for non-traditional exports, was significant. Moreover, the period of the fiscal incentives for established industry included in the Second Protocol to the Central American Agreement on Fiscal Incentives to Industrial Development was extended by means of a Third Protocol to the Agreement whereby the incentives are to be subject to the real expansion of existing capacity and the integration of production processes. The reduction in coverage involved was partially compensated for by the extension of the period covered by the San José Protocol, which, as a measure for mitigating balance-of-payments disequilibria and strengthening fiscal income, established a special import tax on items regarded as non-essential consumer goods.

In order to rationalize the administration of the tax system, programmes for the reorganization of customs-houses were undertaken with a view to improving the management and control of goods and therefore raising revenue. As a complementary measure, personnel training programmes were instituted with a view to securing more efficient control.

CHILE

1. *Main recent trends: Introduction and summary*

During 1977, the Chilean economy recovered from the serious decline which affected it in 1975 as a result of the international recession and the very restrictive policy applied by the Government. At the same time, the rate of inflation continued to drop sharply and a considerable deficit was generated in the current account of the balance of payments (see table 147).

After dropping more than 11% in 1975 and increasing by 4.5% the next year, the gross domestic product grew by 8.6% in 1977, thus regaining the level achieved three years previously. However, because of the growth of the population during this period, the per capita product was nearly 5% less than in 1974 and barely reached its 1969 level.

The sharp increase in the total product was mainly caused by the very marked expansion of agriculture and of commercial and financial activities. A contributory factor was the considerable increase in industrial production, achieved mainly through the more intensive use of existing installed capacity.

The investment coefficient, however, remained very low. Although gross fixed capital formation increased by 18%, its share in the product continued to be around 10% – a good deal less than what was usual before the 1975 depression, and equal to less than half of the Latin American average.

During the year, the adverse situation in employment continued. The rate of open unemployment in Greater Santiago, which dropped from a maximum of 19.8% in March 1976 to 13.6% in December of the same year, became almost completely stabilized in 1977 at slightly over 13%. As a result, the absolute number of unemployed persons was approximately the same at the end of the year as in December 1976. The seriousness of the situation was accentuated by the fact that the average period of unemployment increased for the fourth consecutive year. It is probable, however, that underemployment dropped in 1977, since the number of workers employed in the Minimum Employment Plan dropped by nearly 30% in Santiago and 14% in the rest of the country. This was partly due to the increase in the opportunities for more stable, productive and better paid jobs generated by the recovery of economic activity and reflected in the considerable increase in employment. According to data supplied by the Department of Economics of the University of Chile, in Greater Santiago employment was on average 8.5% higher than in 1976, while according to the estimates of the National Planning Office it increased by slightly over 6% in the country as a whole.

[74] These rates refer to the increase between the periods January-November 1976 and January-November 1977.

Table 147

CHILE: MAIN ECONOMIC INDICATORS

	1972	*1973*	*1974*	*1975*	*1976*	*1977*[a]
A. *Basic economic indicators*						
Gross domestic product at factor cost (millions of US dollars at 1970 prices)	8 566	8 256	8 724	7 739	8 089	8 785
Population (millions)	9.7	9.9	10.0	10.2	10.4	10.6
Per capita gross domestic product (US dollars at 1970 prices)	883	837	870	759	780	833
	Growth rates					
B. *Short-run economic indicators*						
Gross domestic product	-0.1	-3.6	5.7	-11.3	4.5	8.6
Per capita gross domestic product	-1.8	-5.2	3.9	-12.8	2.8	6.8
Gross income[b]	-0.4	-3.4	7.3	-16.7	4.8	7.1
Terms of trade	-7.9	15.7	5.6	-33.3	7.3	-9.5
Current value of exports of goods and services	-11.9	46.5	66.3	-26.8	31.2	10.4
Current value of imports of goods and services	14.5	23.5	42.5	-11.4	-6.7	40.7
Consumer price index						
December to December	163.4	508.1	375.9	340.7	174.3	63.5
Variation between annual averages	77.8	352.8	504.7	374.7	211.9	92.0
Money	172.8	413.3	247.0	277.0	224.5	151.6
Wages and salaries	66.8	191.3	647.3	365.7	253.8	146.8
Rate of unemployment[c]	3.8	4.6	9.7	16.2	16.8	13.2
Current income of government	64.8	378.5	812.5	344.0	242.9	119.2
Total expenditure government	77.0	447.5	749.5	238.5	236.6	114.8
Fiscal deficit/total expenditure of government[d]	41.9	55.1	32.6	11.6	10.0	8.1
	Millions of US dollars					
C. *External sector*						
Trade balance (goods and services)	-331	-184	78	-295	387	-150
Balance on current account	-473	-289	-186	-578	24	-493
Variation in net international reserves	-229	-112	-45	-276	456	18
General external debt	3 602	4 048	4 774	5 263	5 195	5 311

a Preliminary figures.
b Gross domestic product plus terms-of-trade effect.
c Average percentage in Greater Santiago.
d Percentage.

In 1977 there was new and significant progress in the fight against inflation. The rate of increase of prices dropped for the fourth consecutive year and followed a systematic downward trend throughout the year. The consumer price index thus increased by 63.5%: slightly over a third of the 174% recorded the previous year and one-sixth of the level reached in 1975 (see table 147).

As in 1976, the diminution of the inflationary process was accompanied by an increase in the real earnings of wage earners. The decreasing rate of inflation, in conjunction with the system of periodic automatic adjustments of wages and salaries and several special increases in wages decreed in the course of the year, resulted in an increase of around 30°/o in real terms in the 1977 wages and salaries index. Because of the huge drop in real wages in both 1973 and 1974, however real wages and salaries still did not succeed in completely recovering in 1977 the level they had reached in 1970.

During 1977 some substantial changes also took place in the external sector. After decreasing for two years running, imports of goods and services increased by nearly 41°/o under the triple stimulus of the recovery of economic activity, the decline in the real exchange rate and the drop in tariffs. The rate of growth of the value of exports, however, decreased from 31°/o in 1976 to slightly over 10°/o in 1977, mainly as the result of the drop in the price of copper and the decline in other traditional exports. Non-traditional exports, however, continued to increase vigorously for the fourth year running.

As a result of the very unequal growth rates of exports and imports of goods and services, the trade balance declined sharply a surplus of nearly 390 million dollars in 1976 to a deficit of 150 million dollars in 1977. This brought with it a similar change in the current account which, after recording a surplus of 24 million dollars in 1976, showed a deficit of nearly 500 million in 1977.

However, an exceptional inflow of non-compensatory capital to the value of 1,360 million dollars made it possible to cover both the deficit on current account and amortization payments on the external debt to the value of 850 million dollars. The balance of payments thus finally generated a small surplus, and net international reserves increased as a result by nearly 20 million dollars (see table 147).

The generally more favourable results recorded in 1977 coincided with some change in the relative emphasis of the short-term economic policy followed since the beginning of 1975. During that year, as also in 1976, the economic authorities gave almost exclusive priority to reducing the very high rate of inflation and to the equilibrium of the balance of payments. The progress achieved in both areas in 1976 led the economic authorities to give greater attention in 1977 to increasing the levels of production and employment, which, after dropping sharply during the 1975 depression, only partially recovered in 1976.

In order to attain this objective, the monetary fiscal and wages policies employed in 1977 were clearly more expansionary than in the two previous years. The Central Bank attempted to satisfy the larger demand for money generated by the decline in inflationary expectations and the increase in economic activity by increasing the money supply through the gradual and progressive reduction of the legal reserve coefficients. As a result of this policy, the real amount of money increased by 54°/o and the current value of credit to the private sector increased nearly four times.

During the first months of the year several special wage increases were granted, especially to public employees, while exemptions were extended and the rates of income tax, contributions to the Family Allowances Fund and other taxes were reduced. In this way a reduction was achieved in the volume of the budgetary surplus in national currency which tended to be generated as a result of the recovery of the economy and of stricter control over tax evasion, while the disposable income of enterprises and consumers was increased.

The immediate result of this was the expansion of domestic demand which, in view of the abundance of under-utilized labour and capital, caused a sharp and rapid increase in production and employment levels.

In addition to these conjunctural economic policies, the Government continued to implement its long-term strategy aimed at creating an economy which would be more open to opportunities and competition in the international markets, which would have a smaller public sector, and in which private enterprise and the price system would have much more important roles than in the past.

As part of this strategy, which was introduced in 1974 and involves a radical change in the type of development which had characterized the Chilean economy since the Great Depression at the beginning of the 1930s, the policy of cutting down tariffs and reducing the selective controls on imports pursued with increasing rapidity.

Thus the goal of achieving a tax system in which the maximum tariff would be 35°/o and the minimum 10°/o, which was to have been achieved at the beginning of 1978, had been reached already in August 1977. Furthermore, only four months later, the beginning of a second stage in the

tariff reduction process was announced, in accordance with which tariffs would continue to be reduced monthly so that in June 1979 they would all be at a standard level of 10%.

Also in keeping with the idea of substantially opening up the economy to trade and financial flows with the exterior, a new statute was decreed in mid-March to regulate foreign investment. This statute grants foreign investors the right to remit their capital and profits without restrictions and for indefinite periods and guarantees them that the tax system applicable to their income will remain unchanged for a specified period. The new statute also officially lays down the principle of non-discrimination between national and foreign investors, and reduces to the minimum the possibilities for negotiation between foreign investors and the competent national authorities.

The policy of financial openness to the exterior could also be seen in the high level of credit obtained abroad –which reached an overall sum of 1,300 million dollars– and the contracting in 1977 of large loans from consortia of international banks.

Internally, the new economic orientation was manifested in the continuation of the policies of liberalizing the price system, consisting on self-financing of the enterprises belonging to the Development Corporation (CORFO), and selling to the private sector State enterprises which in the opinion of the authorities were not strategic.

In accordance with the first of these policies, the Government fixed official prices for only three agricultural products (wheat, rape and sugar beet), cut down the number of agricultural products purchased at a fixed price by the State from eight to two, and in October freed bread prices, thus putting an end to a practice which had been uninterrupted for more than 40 years.

The policy of strict financial control over the State enterprises meant that eleven of the thirteen basic enterprises belonging to CORFO were self-financing in 1977, while the enterprises as a whole generated 26 million dollars' worth of profits. Only the Sociedad Química y Minera de Chile, responsible for the nitrates industry, and the Empresa Nacional del Carbón (coal-mining) continued to receive State subsidies.

Lastly, during 1977 the private sector was offered seventeen enterprises which were owned by the State, and purchase contracts involving around 140 million dollars were signed. This reduced to thirty the number of enterprises which CORFO still has to sell to the private sector in accordance with the economic policy in force.

2. *Evolution of the economy*

(a) *Trends in total supply and demand*

In 1977 total supply increased by approximately 11% as a result of the intensive growth of the product and an increase of nearly 29% in real imports of goods and services. However, as a result of the sharp drops of the two previous years, the volume of imports was less in 1977 than in 1974 and the import coefficient in 1977 was practically the same as that of 1970 (see table 148).

As far as demand was concerned, the increase in the product was in response to the pressures created by the marked growth of private consumption and investment and the sustained growth of the volume of exports.

The increase of 10% in private consumption was a natural consequence of the increase in disposable income both of the wage-earning and the entrepreneurial sector generated by the increase in employment, the rise in productivity and the reduction of income tax. The increased consumption was satisfied by a larger production of industrial consumer goods, a considerable growth in agricultural output and an extraordinary increase in imports of consumer goods other than food, the value of which increased from 95 million dollars in 1976 to nearly 330 million in 1977.

The growth of investment was basically the result of larger expenditure on machinery and equipment and to a much lesser extent an increase in construction activity. Thus while the latter grew very moderately (3.5%) following the enormous decreases of the two previous years, investment in machinery and equipment increased by 31%. This increase was mainly a result of the sharp rise in imports of capital goods, the current value of which increased by over 45%.

Even the high growth rates of private consumption and fixed investment recorded in 1977 were not sufficient for either to recover the levels achieved before the 1975 decline. This was particularly

Table 148

CHILE: TOTAL SUPPLY AND DEMAND

	Thousands of chilean pesos at 1970 prices				*Percentage breakdown*		*Growth rates*		
	1974	*1975*	*1976*	*1977*[a]	*1970*	*1977*[a]	*1975*	*1976*	*1977*[a]
Total supply	*122 528*	*107 478*	*110 575*	*122 478*	*114.3*	*114.5*	*-12.3*	*2.9*	*10.8*
Gross domestic product	106 252	94 258	98 523	106 996	100.0	100.0	-11.3	4.5	8.6
Imports of goods and services[b]	16 276	13 220	12 052	15 482	14.3	14.5	-18.8	-8.8	28.5
Total demand	*122 528*	*107 478*	*110 575*	*122 478*	*114.3*	*114.5*	*-12.3*	*2.9*	*10.8*
Domestic demand	103 778	88 645	88 454	98 330	99.3	91.9	-14.6	-0.2	11.2
Gross domestic investment	13 260	7 155	6 566	...	15.6	...	-46.0	-8.2	...
Gross fixed investment	12 265	8 945	8 531	10 084	13.7	9.4	-27.1	-4.6	18.2
Construction	7 641	4 993	3 935	4 073	7.7	3.8	-34.7	-21.2	3.5
Machinery	4 624	3 951	4 596	6 011	6.0	5.6	-14.5	16.3	30.8
Changes in stocks	995	-1 790	-1 965	c	1.8	c			
Total consumption	90 518	81 490	81 888	88 246	83.8	82.5	-10.0	0.5	7.8
General government	15 837	14 737	15 616	15 414	13.0	14.4	-6.9	6.0	-1.3
Private	74 681	66 753	66 272	72 832	70.8	68.1	-10.6	-0.7	9.9
Exports of goods and services[b]	18 750	18 833	22 121	24 148	15.0	22.6	0.4	17.5	9.2

Source: 1970 - 1977: CEPAL calculations on the basis of figures supplied by ODEPLAN.

[a] Preliminary figures.

[b] 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 CEPAL for the purpose.

[c] Changes in stocks are included in private consumption.

noteworthy in the case of investment, whose share of the product was around 10°/o for the third year running. Domestic savings also continued to be very low.

However, the increase of 9°/o in the volume of exports meant that in 1977 as in 1976 they accounted for more than a fifth of the total product: a much higher proportion than in 1974 and at the beginning of the decade, and 50°/o higher than the 1977 import coefficient (see table 148).

(b) *Sectoral trends*

From the sectoral point of view, the increase in the product was mainly due to the considerable expansion of the agricultural sector and of commercial and financial activity, the large increase in the manufacturing production and the significant growth in basic services. Community, social and personal services, however, only maintained the activity level of the previous year, while mining reduced its rate of growth sharply (see table 149).

(i) *The agricultural sector.* Following its recovery in 1974 and its moderate growth in the next two years, the agricultural product showed an increase of over 14°/o in 1977.

The substantial increase in harvests of eleven of the fourteen main crops contributed decisively to this increase, as did to a lesser extent increased production of fruit and vegetables, part of which continued to be stimulated by the rapid growth of exports. Livestock production, however, remained nearly stationary for the second year running.

Table 149

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

	Thousands of chilean pesos at 1970 prices				*Percentage breakdown*		*Growth rates*		
	1974	*1975*	*1976*	*1977*[a]	*1970*	*1977*[a]	*1970*	*1976*	*1977*[a]
Agriculture	6 993	7 259	7 445	8 499	7.9	9.0	3.8	2.6	14.2
Mining	11 886	11 299	12 936	13 194	11.7	13.9	-4.9	14.5	2.0
Manufacturing	25 524	18 533	19 774	22 187	27.2	23.4	-27.4	6.7	12.2
Construction	3 863	2 664	2 215	2 293	4.2	2.4	-31.0	-16.8	3.5
Subtotal goods	*48 266*	*39 756*	*42 370*	*46 173*	*51.0*	*48.7*	*-17.6*	*6.6*	*9.0*
Electricity, gas and water	1 864	1 889	1 958	2 052	1.4	2.2	1.4	3.7	4.8
Transport and communications	5 155	4 615	4 881	5 305	5.7	5.6	-10.5	5.8	8.7
Subtotal basic services	*7 019*	*6 504*	*6 839*	*7 357*	*7.1*	*7.8*	*-7.3*	*5.1*	*7.6*
Commerce, financial institutions insurance	16 125	14 676	14 987	17 226	17.2	18.2	-9.0	2.1	14.9
Real estate[b]	5 673	5 701	5 793	5 886	6.0	6.2	0.5	1.6	1.6
Community, social and personal services[c]	17 832	17 099	18 113	18 246	18.7	19.2	-4.1	5.9	0.7
Subtotal other services	*39 630*	*37 476*	*38 893*	*41 358*	*41.9*	*43.5*	*-5.4*	*3.8*	*6.3*
Total gross domestic product[d]	*94 824*	*84 120*	*87 926*	*95 488*	*100.0*	*100.0*	*-11.3*	*4.5*	*8.6*

Source: 1970-1977: CEPAL calculations on the basis of figures supplied by ODEPLAN.

[a] Preliminary figures.
[b] Ownership of dwellings only.
[c] Also includes restaurants, hotels and business services.
[d] As the individual activities and the total were calculated independently, the sum of the former does not correspond exactly with the latter.

Of the main crops, output only dropped among the three industrial crops – sunflower, rape and sugar beet. Harvests of grain and above all of potatoes and root crops, however, increased substantially. As a result of this, the production of the fourteen main crops at constant prices exceeded that of 1976 by 30o/o (see table 150).

This growth had its origins exclusively in the generalized increase in yields. These increased notably for all crops, except rape, as a result of especially favourable climatic conditions during the agricultural year and a substantial increase in the use of fertilizers in 1976. The total area sown decreased slightly, however, as a result of the combined effect of the reduction of the land under industrial crops, wheat and oats, and the increase in the area sown with other grains, potatoes and particularly pulses.

Livestock production increased slightly as a result of the uneven trends which could be seen both in the production of eggs, poultry meat and pork and in beef production. While beef –which accounted for around two-thirds of the domestic supply of meat– dropped sharply for the second consecutive year, poultry and pork production recovered partially from their sharp drop of the two previous years. As a result of this drop, however, both the production of poultry meat and of eggs was still around 20o/o lower than in 1974, while pork production was 42o/o lower than in that year.

Table 150

CHILE: INDICATORS OF AGRICULTURAL PRODUCTIONS

	Production						*Growth rates*			
	1970	*1973*	*1974*	*1975*	*1976*	*1977* [a]	*1974*	*1975*	*1976*	*1977* [a]
Production of 14 main crops (thousands of metric quintals)										
Wheat	13 069	7 467	9 390	10 024	8 665	12 193	25.8	6.8	-13.6	40.7
Oats	1 105	1 091	1 499	1 311	959	1 237	37.1	-12.5	-26.8	28.9
Barley	974	1 074	1 496	1 206	890	1 431	39.3	-19.4	-26.2	60.8
Rye	107	85	146	111	93	164	71.8	-24.0	-16.6	77.3
Rice	762	550	344	763	856	1 200	-37.5	121.8	12.2	40.2
Maize	2 391	2 940	3 663	3 290	2 480	3 553	24.6	-10.2	-24.6	43.3
Potatoes	6 838	6 236	10 120	7 379	5 390	9 284	62.3	-27.1	-27.0	72.2
Beans	656	650	748	741	703	1 124	15.1	-0.9	-5.1	59.8
Lentils	112	98	128	121	135	238	30.6	-5.5	11.9	75.6
Peas	74	88	125	63	71	137	42.0	-49.6	13.0	92.6
Chickpeas	54	41	50	49	27	50	22.0	-2.0	-44.1	82.1
Sugar beet	16 551	9 659	10 253	16 667	22 762	22 084	6.1	57.7	36.6	-3.0
Rape	699	400	348	614	1 048	827	-13.0	76.4	70.8	-21.1
Sunflower	282	135	104	178	270	153	-23.0	71.2	51.5	-43.2
Value in millions of pesos of 1974	148.6	102.9	126.2	136.1	132.3	171.4	22.6	7.9	-2.8	29.5
Production of main livestock items (thousands of tons)										
Beef	176.1	89.2	175.2	215.5	198.2	173.3	96.4	23.0	-8.0	-12.5
Poultry meat	61.6	50.8	55.8	43.8	38.0	44.2	9.8	-21.5	-13.2	16.3
Pork	44.4	49.2	49.9	30.0	24.9	28.9	1.4	-39.9	-17.0	16.1
Mutton	22.4	12.3	16.2	18.1	16.2	16.3	31.7	11.7	-10.5	0.6
Milk [b]	895.1	855.0	905.8	956.1	977.7	1 003.0	5.9	5.6	2.3	2.6
Eggs [c]	1 205.8	1 394.2	1 396.4	1 196.8	1 049.3	1 137.9	0.2	-14.3	-12.3	0.4
Greasy wool	20.2	17.7	18.3	18.8	18.7	19.0	3.4	2.7	-0.5	1.6

Sources: 14 main crops and beef, poultry meat and pork: National Institute of Statistics; other livestock terms: Agricultural Planning Office.

a Preliminary figures.
b Millions of litres.
c Millions of units.

However, milk production continued increasing, as in the three previous years, and for the first time exceeded one billion litres (see table 150).

Lastly, there was a continuation in 1977 of the intensive reafforestation begun in 1974 as a result of the subsidy granted to this activity and the extension of the work of the Corporación Nacional Forestal. Although the area planted was less than in 1976, it was still three times the average area afforested between 1970 and 1973 (see table 151).

Table 151

CHILE: REAFFORESTED AREA
(Thousands of hectares)

	1970	*1971*	*1972*	*1973*	*1974*	*1975*	*1976*	*1977*
CONAF	6.9	16.6	24.8	27.4	35.2	44.1	54.1	44.6
Private enterprises	16.5	11.4	6.3	2.9	21.1	38.5	53.6	48.6
Total	*23.4*	*28.0*	*31.0*	*30.3*	*56.2*	*82.6*	*107.7*	*93.2*

Source: Corporación Nacional Forestal (CONAP).

(ii) *Mining.* In contrast with 1976, when mining was the most dynamic activity of the economy, in 1977 it was the sector which grew most slowly. Between these years, the growth rate dropped from 14.5% to 2% as a result of the much slower expansion recorded in 1977 by copper production and the substantial decreases in the production of iron ore, petroleum and nitrates (see tables 149 and 152).

Cuadro 152

CHILE: INDICATORS OF MINING PRODUCTION

	1973	*1974*	*1975*	*1976*	*1977*[a]	*Growth rates*			
						1974	*1975*	*1976*	*1977*[a]
Copper (thousands of tons)	735	902	828	1 012	1 048	22.7	-6.3	22.2	3.6
Large-scale mining	615	763	683	854	893	24.1	-10.5	25.0	4.6
Medium- and small-scale mining	120	139	146	158	155	15.8	5.0	8.2	-1.9
Iron ore (thousands of tons)	9 416	10 296	10 882	9 816	7 649	9.4	7.3	-9.8	-22.1
Coal (thousands of net tons)	1 293	1 437	1 460	1 245	1 300	11.1	1.6	-14.7	4.4
Nitrates (thousands of gross tons)	696	739	726	619	565	6.0	-1.6	-14.8	-8.7
Iodine (tons)	168	2 273	1 962	1 259	1 852	4.8	-13.8	-35.8	47.1
Petroleum (thousands of m^3)	1 817	1 599	1 423	1 331	1 132	-12.0	-11.0	-6.5	-15.0

Sources: Copper: Corporación del Cobre; Servicio de Minas del Estado.
Iron: Compañía de Acero del Pacífico.
Coal: Empresa Nacional del Carbón.
Nitrates and Iodine: Sociedad Química de Chile.
Petroleum: Empresa Nacional del Petróleo.

[a] Preliminary figures.

The slower growth of production in the large-scale copper-mining industry was mainly due to the restrictions imposed by the present production capacity of its installation, which had been used almost to the full in 1976. The slight drop in the production of small-scale and medium-scale mining reflected the adverse effect on their activity of the simultaneous drop in the price of copper and the real exchange rate.

As in 1976, investment in copper mining was very low. However, in the course of the year three foreign investment projects involving a possible total of 950 million dollars were approved for the exploration and production of copper, and if these materialized, they will substantially increase production in the next decade.

Iron ore production, which had dropped by 10°/o in 1976, experienced a new and sharper drop in 1977. This was decisively influenced by the decline in exports caused by the crisis in the Japanese steel industry, which imports around 80°/o of Chile's iron ore production.

During 1977, the production capacity of iron ore mining increased substantially with the completion of the pelleting plant owned by the Compañía de Aceros del Pacífico (CAP), located in the valley of the river Huasco. The plant, with a total cost of 250 million dollars, represented the sole public investment of any size in mining during the last four years.[75] It will make it possible to produce 3.5 million tons of concentrates using low quality ore with a higher content of impurities which would otherwise be unmarketable, and will mean that the useful life of the El Algarrobo mine will be extended and the economically exploitable iron ore reserves will be increased. The entire pellet production for the decade 1978 to 1987 has been contracted by a group of five major Japanese iron and steel enterprises, which during this period will acquire a total of 33 million tons expected to provide annual foreign corrency earnings of over one hundred million dollars.

In 1977, the production of crude oil continued to decrease as a result of the progressive exhaustion of the oil fields of Tierra del Fuego. Domestic petroleum thus came to represent only slightly over one-fifth of the total refined in the country. In October, however, the Empresa Nacional de Petróleo (ENAP) discovered an important field in the Strait of Magellan which it is hoped will come into production in the last quarter of 1978. If it does it is estimated that total petroleum production will double in 1979 and save approximately one hundred million dollars per year in imports of crude oil. In order to make the investments required, ENAP obtained at the end of the year a loan of 42 million dollars from a consortium of fifteen United States, Canadian, European and Japanese banks headed by Citycorps International. In December, it also signed the first contract with a group of oil enterprises from the United States for the exploration and production of petroleum on the Pacific continental shelf over an area stretching from around 100 kilometres to the North of the Chacao Channel to the Gulf of Penas.[76]

In 1977 nitrates production also dropped for the third consecutive year, although the volume exported increased by 16°/o. Iodine production increased substantially, however, although it did not succeed in recovering the level achieved in the first half of the decade. The same was true of coal mining, where production, after a sharp drop in 1976, increased by more than 4°/o. This increase was in response to the larger demand generated by the different industries which began to use coal instead of oil so as to reduce their fuel costs.

(iii) *Manufacturing.* In 1977 industrial activity made a notable comeback. The value added in the manufacturing sector increased by more than 12°/o, and industrial output rose by more than 9°/o according to the index of the Sociedad de Fomento Fabril (SOFOFA), or by nearly 10°/o according to that of the National Institute of Statistics (INE) while industrial employment in Greater Santiago was on average 8.3°/o higher than in 1976 (see table 153).

[75] The investment was financed with 109 million dollars contributed by CAP, 141 million dollars in long-term credits granted by Mitsubishi Corporation of Japan, 55 million dollars granted by a consortium of twelve United States, Canadian and European banks, headed by the Bankers Trust of New York, and 10 million dollars from Lazard Brothers of London.

[76] The total period covered by the agreement is 35 years, divided into a period of 5 years for the exploration phase and 30 years for the production phase. In accordance with this, the Atlantic Richfield Company and Ameradas Hess Corporation have undertaken to invest a minimum of 11 million dollars during the exploration phase. If oil is discovered, the investment would be a minimum of 240 million dollars and could reach some 1,500 million dollars, depending on the size of the field. The profit from the business will be distributed on the basis of 60°/o for the State and 40°/o for the enterprises.

Table 153

CHILE: INDICATORS OF MANUFACTURING
(Indexes 1969 = 100)

	1972	*1973*	*1974*	*1975*	*1976*	*1977*	*Growth rates*					
							1972	*1973*	*1974*	*1975*	*1976*	*1977*
1. Industrial product	118.4	110.7	109.7	79.7	85.0	95.4	2.8	-6.5	-0.9	-27.4	6.7	12.2
2. Industrial output												
INE	117.5	112.5	108.2	77.9	81.7	90.0	2.8	-4.3	-3.7	-28.1	4.9	9.9
SOFOFA	117.6	109.9	111.1	85.0	95.4	104.2	2.5	-6.5	1.1	-23.5	12.2	9.2
Regular consumer goods	116.6	110.0	104.3	84.6	96.2	101.6	-1.0	-5.7	-5.2	-18.9	13.7	5.6
Consumer durables	128.3	111.2	123.9	88.1	75.9	82.5	-9.1	-13.3	11.4	-28.9	-13.8	8.7
Transport material	105.9	71.6	72.8	53.6	49.6	61.5	15.9	-32.4	1.7	-26.4	-7.5	24.5
Intermediate products for industry	115.5	113.8	132.9	113.1	130.5	139.0	4.0	-1.5	16.8	-14.9	15.4	6.5
Intermediate goods for construction	123.5	117.8	113.4	65.1	77.5	93.4	9.1	-4.6	-3.7	-42.6	19.0	20.5
Miscellaneous manufactures	120.5	114.4	105.6	67.4	81.8	96.4	13.8	-5.1	-7.7	-36.2	21.4	17.8
3. Industrial sales	116.7	105.9	107.9	85.9	91.9	101.0	2.3	-9.3	1.9	-20.4	7.0	9.9
4. Employment in industry in Greater Santiago (thousands of persons)	288.7	319.2	316.9	281.3	292.0	316.3	4.6	10.6	-0.7	-11.2	3.8	8.3

Sources: Industrial product: Oficina Nacional de Planificación; industrial output: National Institute of Statistics and Sociedad de Fomento Fabril; employment: Department of Economics of the University of Chile; Industrial sales: Sociedad de Fomento Fabril.

Because of the big drop suffered in 1975, however, the value added in the industrial sector was still 13°/o lower than in 1974, and nearly one-fifth lower than in 1972, when manufacturing achieved its maximum output.[77]

Although all branches of industry increased their production in 1977, their growth rates and degrees of recovery compared with the levels before the 1975 depression varied greatly. The growth rates were particularly high in the industries producing transport equipment (25°/o), intermediate goods for construction (21°/o) and miscellaneous manufactures (18°/o), the three subsectors which, together with that of consumer durables, were most affected by the decline in domestic demand in 1975 and the tariff reductions decreed in the last 3 years. Despite this significant recovery, however, none of these four subsectors succeeded in regaining in 1977 the production levels of 1969 (the base year of the indexes), 1972 (the year of highest industrial output), or 1974 (the year before the decline). The production of consumer durables was, for example, one-third less than in 1974, while the decreases in the case of intermediate goods for construction and transport equipment were 18°/o and 16°/o respectively (see table 153).

Growth rates were also high, although a good deal less, in the branches producing goods for everyday consumption and intermediate goods for industry, both of which subsectors were less affected by the 1975 depression, while at the beginning of 1977 they had idle capacity margins far smaller than those prevailing in the rest of the manufacturing sector. Of the industries producing goods for everyday consumption some –clothing, textiles, footwear and leather articles, for example– had an output between 20 and 30°/o lower in 1977 than 1969, and they still suffered from an appreciable degree of under-utilization of their installed capacity.[78]

(iv) *Construction.* Following its very substantial drops in the previous two years, construction activity increased moderately in 1977. According to ODEPLAN estimates, the sectoral product increased by 3.5°/o, a rate which possibly underestimates its true growth in view of the far higher rates of growth recorded both for real sales of intermediate goods for construction and domestic deliveries of cement and reinforcing rods and the rise in employment in the construction sector in Greater Santiago.[79] (See table 154.)

The very low level of construction in 1977 and the considerable margin of idle capacity existing in it are obvious when it is observed that during that year deliveries of reinforcing rods on the domestic market were 45°/o lower, cement sales 30°/o lower, and employment in construction in Greater Santiago 27°/o lower than in 1974, when the construction product achieved a maximum level nearly 70°/o higher than in 1977 (see table 154).

In 1977 construction in general and housing construction in particular continued to show the erratic trends which have traditionally been typical of them. Following the sharp increase of more than 50°/o seen in 1976, the projected building area decreased 16°/o in 1977.[80] The drop was particularly noticeable in the construction of dwellings, where the area projected for 1977 was nearly 35°/o less than the previous year. This drop was decisively influenced by the lower rate of activity once again recorded by the Sistema Nacional de Ahorro y Préstamo and the lack of definition of the Government's housing policy, the main features of which were only clarified towards the end of the year.

[77] The values of these decreases in the industrial product, calculated on the basis of the Chilean National Accounts prepared by ODEPLAN, lie between those recorded for the same period in the INE production index (16.8°/o and 23.4°/o respectively) and those shown by the SOFOFA production index (6.2 and 11.4°/o).

[78] However, in view of the brusque changes in relative prices produced by the trade liberalization policy and the reduction of tariffs during the period 1974-1977 it is probable that the full utilization of some of the installed capacity available in these and other industrial groups is no longer financially profitable under the existing economic policy system.

[79] A possible complementary explanation of the difference between the growth rates of the product and some of the other indicators of construction activity may be the larger concentration of construction on houses, which use relatively more iron and cement.

[80] Since building statistics refer to construction actually started by the public sector and to the building permits approved for the private sector, they do not necessarily constitute an adequate indicator of the building actually carried out in the year in question. For example, it is probable that in view of the average time which the construction of buildings and houses takes and the far greater area built by the public sector as from 1976, there was more actual building by this sector in 1977 than in 1976.

Table 154

CHILE: MAIN INDICATORS OF CONSTRUCTION

	1974	1975	1976	1977 [a]	Growth rates 1974	1975	1976	1977 [a]
Construction product (thousands of chilean pesos at 1970 prices)	3 855	2 664	2 215	2 293	20.0	-31.0	-16.9	3.5
Index of construction activity (1968=100)	139.9	99.1	68.2	80.0	...	-29.2	-31.2	17.3
Building materials								
Dispatches of cement for the domestic market	33.5	23.1	21.4	23.6	3.4	-31.0	-7.4	10.3
Dispatches of round bars for construction (thousands of tons)	100.2	53.9	46.4	55.2	38.6	-46.2	-13.9	19.0
Index of real sales of intermediate goods for construction (1969= 100)	112.3	67.8	77.5	93.4	-3.7	-39.6	13.0	20.5
Employment in construction in Greater Santiago (thousands of persons)	86.8	66.9	60.7	63.8	58.4	-22.9	-6.3	5.1
Building								
Total area (thousands of m^2)	1 904	1 717	2 598	2 180	-26.7	-9.8	51.3	-16.1
Public sector	285	363	1 355	936	-77.2	27.4	273.3	-30.9
Private sector [bd]	1 619	1 354	1 243	1 244	19.8	-16.4	-8.2	–
Total number of dwellings	20 381	16 498	35 541	23 266	-42.2	-19.0	115.4	-34.5
Public sector [c]	3 297	3 758	24 022	13 810	-84.2	14.0	539.2	-42.5
Private sector [bd]	17 084	12 740	11 519	9 456	18.0	-25.4	-9.6	-17.9

Sources: Construction product: National Planning Office; Index of construction activity: Cámara Chilena de la Construcción; building Materials: Instituto Chileno del Cemento, Instituto Chileno del Acero, Sociedad de Fomento Fabril; employment in construction: Department of Economics of the University of Chile; buildings: National Institute of Statistics.

[a] Preliminary figures.

[b] From January 1975 onwards the figures for the private sector cover 80 *comunas* up to 1974 they covered only 60 *comunas.*

[c] Dwellings on which construction work had been started.

[d] Permits approved.

(v) *Services.* In 1977 the value added by the services sector increased for the second year running slower than the goods-producing sector. As in 1976 the growth of basic services was more intensive than that of the rest of the sector (see table 149).

The growth rates of the production of the different services were very diverse, however. They were particularly high in commerce (18%), and in transport, storage and communications (9%), all of which benefited from the rapid growth of the production of goods (9%) and the still larger increase in imports of goods (whose volume expanded by more than 30%). Financial and insurance services and the supply of electricity, gas and water also increased at relatively high rates of around 5%. The growth rate of community, social and personal services as a whole, however, dropped sharply from 6% in 1976 to less than 1% in 1977, mainly as a result of the drop of 4% in the value added in the civil service sector.

(c) *The evolution of the employment situation*[81]

In 1977 the employment situation was characterized by two apparently contradictory features: the rapid increase in employment and the relatively slow decline in the rate of unemployment.

The latter, which during the previous year dropped steadily from nearly 20°/o in March to less than 14°/o in December, settled down almost completely in 1977 at slightly over 13°/o, and at the end of the year was only slightly lower than a year earlier. The unemployment percentages in industry and construction also remained practically stationary throughout the year and were nearly identical in December 1977 with those of the end of the year before (see table 155).

As a result of the downward trend in unemployment percentages in 1976 and their stability in 1977, however, the average rate of unemployment was lower in 1977 than in 1976. According to data from the Department of Economics of the University of Chile, this rate dropped from 16.8°/o in 1976 to 13.2°/o in 1977, while according to the estimates of the National Institute of Statistics it dropped from 17 to 13.8°/o.

This drop in the average rate of unemployment was linked, in its turn, to the considerable increase in employment. In Greater Santiago this increased on average by 8.5°/o as a result of the more rapid growth of employment in the services sector (9.4°/o), a likewise very marked expansion in manufacturing (8.3°/o), and a moderate increase in the number of workers employed in construction (5.1°/o). In absolute terms, this meant the net creation of nearly 92,500 new jobs which made it possible to absorb the increase of 4°/o of the labour force and reduce the rate of open unemployment by 3 1/2 points.

During 1977 the importance of the Minimum Employment Plan (PEM) also declined. As may be seen from table 156, between December 1976 and the end of 1977 the number of workers employed in the PEM dropped by 12,400 persons in the metropolitan area and by 23,000 in the rest of the country. This drop was influenced by the increase in employment opportunities generated by the recovery of economic activity and by the drop in the real wages paid in the PEM, of nearly 23°/o compared with 1976, since the cash subsidy paid to PEM workers remained constant in nominal terms from March to December 1977. Naturally, the transfer of 35,000 workers from the PEM to better-remunerated and more productive employment meant a substantial drop in one of the more ostensible forms of underemployment. However, since statistically speaking they were already recorded as being employed, their incorporation into more normal and stable jobs did not bring with it any reduction in the unemployment rate.

3. *The external sector*

In 1977 the evolution of the external sector was less favourable than during the previous year. As a result of the drop in the price of copper and the decline in exports of iron ore and wood pulp, the value of traditional exports decreased by more than 4°/o, and although this decline was more than offset by the notable increase in non-traditional exports, the growth rate of the total volume of exports of goods dropped from over 34°/o in 1976 to 4.5°/o in 1977.

The value of imports of goods, however, increased by 45°/o, especially as the result of the exceptional increase of 244°/o in imports of consumer goods other than food. Because of this notable increase in imports, the surplus on visible trade dropped from 665 million dollars in 1976 to 150 million in 1977, and this caused a substantial turnabout in the balance of the current account which, after generating a small surplus of 24 million dollars in 1976, showed a deficit of nearly 500 million dollars in 1977. A considerable inflow of non-compensatory capital, however, made it possible not only to finance the deficit on current account but also to cover amortization payments to a value of 850 million dollars and marginally increase the net international reserves.

With regard to the policies relating to the external sector, the lines of action defined in 1974 continued to be applied in 1977. As a result, the basic orientation of the economic policy continued to be to open up the economy to the exterior with the three-fold aim of exposing national producers

[81] The lack of reliable statistical series on employment and unemployment in the rest of the country makes it necessary to restrict the analysis of the employment situation to Greater Santiago, for which quarterly surveys by the Department of Economics of the University of Chile and the National Institute of Statistics exist.

Table 155

CHILE: UNEMPLOYMENT IN GREATER SANTIAGO

	1975				1976				1977			
	March	*June*	*September*	*December*	*March*	*June*	*September*	*December*	*March*	*June*	*September*	*December*
Global rate of unemployment (%)												
Department of Economics University of Chile	13.3	16.1	16.6	18.7	19.8	18.0	15.7	13.6	13.9	13.0	12.8	13.2
National Institute of Statistics	12.8	15.0	16.8	15.6	17.6	19.1	17.8	13.6	15.8	14.9	13.2	11.5
Total unemployment rate (%)	9.1	12.0	12.6	13.8	14.8	13.4	12.2	10.0	9.5	10.2	10.0	9.9
Manufacturing	10.9	15.3	17.2	15.9	18.1	17.0	14.2	12.5	11.5	11.5	11.8	12.3
Construction	23.7	31.5	31.7	39.6	39.8	35.7	35.3	25.5	25.9	31.3	32.0	25.7
Commerce	7.8	7.5	9.9	11.1	12.5	10.3	8.4	7.5	8.9	8.1	6.4	6.2
Non-Manual workers	4.8	7.1	7.8	10.0	10.4	9.1	7.5	6.2	7.4	6.0	6.0	7.5
Manual workers	16.8	21.6	22.0	21.9	23.0	23.3	19.2	17.1	15.3	17.1	17.2	15.7
Own-account workers	6.3	8.0	9.3	9.9	13.0	7.6	8.7	4.7	4.9	6.2	5.8	5.9
Indexes (1973 = 100)												
Employment	98.6	95.3	94.5	96.6	95.8	100.6	100.2	104.8	106.0	109.6	110.1	109.9
Unemployment	305.5	367.3	380.0	447.3	484.2	452.1	380.3	336.9	348.2	335.4	330.5	340.1
Labour force	108.5	108.3	108.1	113.2	114.0	117.0	113.3	115.6	117.2	120.1	120.3	120.7

Sources: Department fo Economics of the University of Chile; National Institute of Statistics.

Table 156

CHILE: MINIMUM EMPLOYMENT PLAN

	Thousands of workers employed		
	Metropolitan Santiago	*Whole of Chile*	*Total*
1975			
July	4.6	71.1	75.7
September	...	...	100.0
December	28.7	98.1	126.8
1976			
March	28.5	111.1	139.8
June	37.3	133.3	170.6
September	39.0	163.3	202.3
December	43.1	165.5	208.6
1977			
March	39.8	149.0	188.8
June	36.4	150.7	187.1
September	35.1	154.9	190.0
December	30.7	142.5	173.2

Source: National Institute of Statistics.

to external competition, diversifying the supply of goods, and taking advantage of the opportunities provided by the international market for the growth of activities with comparative advantages.

With these aims, tariffs continued to be reduced, and the goals the authorities had set in this respect were achieved ahead of schedule. Furthermore, at the beginning of December the authorities announced a new stage in the tariff reduction process whereby tariffs would be reduced monthly so as to reach a single level of 10% in June 1979.[82] However, the policy of increasing the exchange rate in real terms with the aim of facilitating the reallocation of resources to the export sector and maintaining the equilibrium of the balance of payments during the rapid drop in the level of tariff protection was carried out only partially.

Thus, in the face of the tendency to generate a surplus which the balance of payments continued to show at the beginning of the year, the economic authorities revalued the peso by 10% at the beginning of March. This decision helped to accentuate the decline in the real rate of exchange which had begun in the second quarter of 1976 and had been aggravated by the first 10% revaluation of the peso at the end of June that year. Because of this, the real level of exchange parity was 30% lower in mid-1977 than during the first quarter of the previous year (see table 157).

For this reason, and also because of the pronounced rate of recovery of the economy, the demand for imports continued to increase rapidly. At the same time, the downward trend in the international price of copper noted since April was accentuated. In these circumstances, the authorities decided to devalue the peso by 6.1% in August and again by 4.3% in December.

As a result of these devaluations, the real exchange rate recovered slightly in the third quarter more definitely in the last quarter. Even so, the increases did not succeed in offsetting the drop of the first half of the year and consequently the average level of the real rate of exchange was lower in 1977 than during the previous year, when it had in turn been lower than that of 1975. The evolution

[82] This standard tariff is to have two exceptions. The first is the existence, in some qualified and exceptional cases, of a temporary tariff of 15%. The second is the tariff protecting the motor-vehicle industry, which will be reduced from 115% in 1978 to 105% in 1979, 80% in 1980 and 55% in 1983.

Table 157

CHILE: EVOLUTION OF EXCHANGE RATE AND PRICES

Period	Exchange rate (pesos per US dollar)	Index of exchange rate	Index of wholesale prices of domestic products	Consumer price index	Index of real exchange rate		United States wholesale price index	Indexes of real exchange rate multiplied by United States wholesale price index	
					(2)/(3)	(2)/(4)		(5) (7) / 100	(6) (7) / 100
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1974 (average)	*0.83*	*60*	*59*	*62*	*102*	*97*	*94*	*96*	*91*
First quarter	0.42	31	27	31	115	100	87	100	87
Second quarter	0.63	46	43	48	107	96	90	96	86
Third quarter	0.90	65	68	69	96	94	97	93	91
Fourth quarter	1.38	100	100	100	100	100	100	100	100
1975 (average)	*4.91*	*357*	*348*	*295*	*103*	*121*	*102*	*105*	*123*
First quarter	2.31	168	154	146	109	115	100	109	115
Second quarter	4.05	294	267	247	110	119	101	111	120
Third quarter	5.78	420	411	346	102	121	103	105	125
Fourth quarter	7.49	544	558	441	97	123	104	101	128
1976 (average)	13.05	948	1 133	*920*	*84*	*103*	*107*	*90*	*110*
First quarter	10.02	727	722	584	101	124	105	96	130
Second quarter	12.54	910	1 015	812	90	112	106	95	119
Third quarter	13.55	984	1 337	1 044	74	94	108	80	102
Fourth quarter	16.11	1 170	1 460	1 240	80	94	109	81	102
1977 (average)	*21.53*	*1 564*	*2 073*	*1 766*	*75*	*89*	*114*	*86*	*101*
First quarter	18.43	1 338	1 711	1 457	78	92	111	87	102
Second quarter	19.44	1 412	2 001	1 676	71	84	114	81	96
Third quarter	22.26	1 617	2 209	1 865	73	87	114	83	99
Fourth quarter	25.99	1 877	2 372	2 064	79	91	115	91	105

Sources: Central Bank of Chile and National Institute of Statistics.

of the real rate of exchange, readjusted according to the wholesale price index of the United States, was similar although les market (see table 157).[83]

(a) *External trade*

(i) *Exports.* After expanding vigorously in 1976, exports of goods increased by 5°/o in 1977 (see tables 158, 159 and 160).

Table 158

CHILE: MAIN INDICATORS OF FOREIGN TRADE

	1972	*1973*	*1974*	*1975*	*1976*	*1977*[a]
	Growth rates					
Exports of goods						
Value	-14.6	54.8	70.5	-30.0	32.3	5.0
Volume	-12.9	9.2	21.8	-3.7	20.8	5.5
Unit value	-2.0	41.8	40.0	-27.3	9.5	-0.5
Imports of goods						
Value	12.6	32.6	37.3	-13.4	-10.5	43.8
Volume	-5.8	8.2	3.7	-20.5	-12.3	30.6
Unit value	6.4	22.6	32.5	8.9	2.0	10.1
Terms of trade	-7.9	15.7	5.6	-33.3	7.3	-9.5
	Indexes (1970 = 100)					
Terms of trade	72.0	83.3	88.0	58.7	63.0	57.0
Purchasing power of exports of goods	62.9	73.7	112.2	69.0	84.5	80.0
Purchasing power of exports of goods and services	71.2	88.0	114.8	77.4	99.2	100.1

Source: CEPAL, on the basis of official statistics.

[a] Preliminary figures.

This rise was exclusively due to the increase in the volume exported since the unit price of exports dropped slightly. This reduction was markedly influenced by the drop in the average price of copper from 63.6 US cents per pound in 1976 to 59.3 cents in 1977. In real terms, the price thus remained at a very depressed level for the third year running, and in 1977 it reached its lowest levels since 1961 (see table 159). As a result of this drop in price, the value of copper exports decreased by 6.5°/o.

In 1977 exports of wood pulp and iron ore also decreased, these being the two products which, after copper, have generated most foreign currency since 1974 (see table 160). In the case of wood pulp, the decline in the value exported was due to a further decrease in the international price, which in the previous two years had dropped by more than 20°/o. The lower iron ore exports, however, were the result of a drop of nearly 15°/o in the volume exported.

The value of exports of fish meal rose markedly for the second year running, and nearly trebled that achieved only two years previously. In 1977 exports of nitrates also increased, despite yet another sharp drop in its price.

[83] However, since in 1977 the dollar was devalued in relation to the German mark, the yen, the Swiss franc and other European currencies, the revaluation of the peso with respect to these currencies was quite small.

Table 159

CHILE: PRICE OF COPPER ON THE LONDON METAL EXCHANGE
(US cents per pound)

	Nominal price (US cents)	*Index of United States wholesale prices (1976 = 100)*	*Real price (US cents at 1976 prices*
1960	30.8	51.9	59.3
1961	28.7	51.6	55.6
1962	29.3	51.9	56.4
1963	29.3	51.7	56.7
1964	44.0	51.8	84.9
1965	58.6	52.5	111.0
1966	69.5	54.3	127.3
1967	51.1	54.4	93.5
1968	56.1	55.7	100.1
1969	66.5	57.9	114.3
1970	64.1	60.0	106.2
1971	49.3	62.0	79.1
1972	48.6	64.7	74.6
1973	80.8	73.2	109.7
1974	93.3	87.1	106.5
1975	55.9	95.1	58.5
1976	63.6	100.0	63.6
1977	59.3	106.1	55.9
First quarter	65.6	103.8	63.2
Second quarter	62.2	106.3	58.5
Third quarter	54.5	106.5	51.1
Fourth quarter	55.0	107.7	51.0

Source: Central Bank of Chile.

These increases did not succeed in offsetting the decreases in exports of copper, iron ore, wood pulp and molybdenum, however, and the total value of traditional exports consequently dropped by somewhat over 4%.

Non-traditional exports, however, continued to increase rapidly for the fourth consecutive year and in 1977 reached a total of more than 600 million dollars (see table 160).

The notable increase in exports of non-traditional products in 1977 was achieved despite the sharp recovery of domestic demand and a drop in the real exchange rate.

Although non-traditional mining, agricultural and industrial exports increased in 1977 at rates which were not only high but also very similar, the growth of some exports was particulary marked. This was the case of wood, agricultural products and food and beverages. The first mentioned, the value of which was more than double that of the previous year, was stimulated by the initiation of exports of round logs and by the winning of new markets for sawn wood. The increase in agricultural exports was mainly a result of the sustained growth of sales of fresh fruit (which reached a total of nearly 64 million dollars), onions and garlic (which increased from 8 million dollars in 1976 to 18 million dollars in 1977) and beans and lentils (the value of which increased from 10 to 22 million dollars).

As a result of the high rate of growth of non-traditional exports and the absolute drop in the value of copper exports, the structure of exports again changed substantially. While the share of non-traditional exports increased to 28%, the share of copper sales dropped to 53%, which was far below the usual percentage.

Table 160

CHILE: VALUE AND BREAKDOWN OF EXPORTS OF GOODS (FOB)

	Value (millions of US dollars)					*Percentage breakdown*			*Growth rates*		
	1973	*1974*	*1975*	*1976*	*1977* [a]	*1970*	*1973*	*1977*	*1975*	*1976*	*1977* [a]
Total exports of goods	*1 247*	*2 153*	*1 552*	*2 086*	*2 180*	*100.0*	*100.0*	*100.0*	*-27.9*	*34.4*	*4.5*
Traditional	*1 183*	*1 970*	*1 222*	*1 644*	*1 572*	*92.0*	*94.9*	*72.1*	*-38.0*	*34.5*	*-4.4*
Copper	1 026	1 653	890	1 238	1 158	78.0	82.3	53.1	-46.2	39.1	-6.5
Iron ore	62	73	91	89	82	6.5	5.0	3.8	24.7	-2.2	-7.9
Nitrates and iodine	34	61	55	37	43	2.3	2.7	2.0	-9.8	-32.7	16.2
Molybdenum	10	19	30	32	29	1.0	0.8	1.3	57.9	6.7	-9.4
Fish meal	12	31	29	61	84	1.4	1.0	3.9	-6.5	110.3	37.7
Pulp	22	80	58	90	86	1.6	1.7	3.9	-27.5	55.2	-4.4
Paper and paperboard	11	34	33	46	40	1.4	0.9	1.8	-2.9	39.4	-13.0
Processed copper	3	7	33	20	22	0.4	0.2	1.0	371.4	-39.4	10.0
Non-processed copper	3	12	3	31	28	0.1	0.2	1.3	-75.0	933.3	-9.7
Non-traditional	*64*	*183*	*329*	*442*	*608*	*7.3*	*5.1*	*27.9*	*79.8*	*34.3*	*37.6*
Mining products	*1*	*1*	*9*	*29*	*40*	*0.2*	*0.1*	*1.8*	*800.0*	*222.2*	*37.9*
Agricultural and marine products	*25*	*55*	*86*	*119*	*160*	*2.9*	*2.0*	*7.3*	*56.4*	*38.4*	*34.5*
Crops	21	43	60	86	124	2.0	1.7	5.8	39.5	43.3	47.7
Livestock products	1	4	17	25	23	0.7	0.1	1.1	325.0	47.1	-8.0
Forestry products	2	3	4	1	1	0.1	0.2	–	33.3	-75.0	–
Fishery products	2	5	6	7	9	0.1	0.2	0.4	20.0	16.7	28.6
Manufactured products	*38*	*127*	*234*	*294*	*408*	*4.2*	*3.0*	*18.7*	*84.3*	*25.6*	*38.8*
Food and beverages	12	22	77	56	91	1.3	2.0	4.2	250.0	-27.3	62.5
Wood	4	13	25	29	70	0.8	0.3	3.2	92.3	16.0	141.4
Chemical and others	7	42	46	65	78	0.5	0.6	3.6	9.5	41.3	20.0
Basic metals	4	18	56	76	98	0.2	0.3	4.5	211.1	35.7	28.9
Metal products and others	1	3	9	36	37	0.1	0.1	1.7	200.0	300.0	2.8
Transport material	3	5	7	5	11	0.9	0.2	0.5	40.0	-28.6	120.0
Others	7	24	14	27	23	0.4	0.6	1.1	-41.7	92.9	-14.8

Source: Central Bank of Chile.

[a] Preliminary figures.

The diversification of the export trade begun in 1974 was also manifested in the marked increase in the number of products exported (which increased from 413 in 1973 to nearly 1,100 in 1977) and in the fact that the number of countries in which they were sold doubled, increasing from 46 in 1973 to 93 in 1977.

(ii) *Imports.* After two years in which imports of goods dropped markedly, they increased by 45% in 1977 to the unprecendented total of 2,300 million dollars (see table 161).

As already noted, this exceptional increase was influenced both by the recovery of economic activity –which got off to a weak start in mid-1976 and acquired impetus in 1977– and by the drop in the real exchange rate and the reduction of tariffs.

Although the demand for almost all imports increased sharply as a result of these three processes, the relative growth of the different types of goods imported was very varied. The maximum growth was recorded in imports of consumer goods and the lowest growth in imports of intermediate goods.

The former increased as a result of the exceptional increase in imports of consumer goods other than food, whose value was more than three times that of the previous year. This increase was also due to the tenfold increase in purchases of automobiles –which increased from 11 to 110 million dollars– and the extraordinary growth of imports of consumer goods other than food, the value of which in 1977 was 2.5 times that of the previous year (see table 161).

The notable increase in imports of automobiles basically reflected the effects of the free import policy adopted as from 1976,[84] and took place although the corresponding tariff remained at 115% and although during 1977 domestic output of automobiles nearly doubled after three years when it had remained at a very low level. To a certain extent, the vehicles imported in 1977 were merely satisfying the accumulated demand put off from earlier periods, but their exceptional increase also reveals the growth in the purchasing power of the moneyed groups.

In contrast to the rapid growth of imports of consumer goods other than food, purchases of food increased only marginally. However, their relative stability concealed the very uneven evolution of the acquisition of different types of food.

As a result of the large increases in harvests at the beginning of 1977, imports of foodstuffs which had traditionally been made in order to complement domestic output declined markedly.[85] This decrease was more than offset, however, by the extraordinary increase in the purchases of a large variety of food and beverages –many of them non-essential– whose importation had been severely restricted in the past owing to very high levels of tariffs or direct prohibitions. The magnitude of the increase in imports of these goods can be estimated approximately by deducting from the total value of imports of foodstuffs in 1976 and 1977 the imports of wheat, maize, rice, meat, oil, sugar, coffee, tea and bananas made in each of these years. These products, which have been imported for many years, in 1976 amounted to 89% of the total value of imports of foodstuffs, while the remaining imports of foodstuffs for that year accounted for a value of 25 million dollars. In 1977, however, the value of this "remainder" was 90 million dollars, i.e., it increased by 260%.

Imports of capital goods also increased vigorously in 1977. This was despite the reduction in imports of machinery and equipment for copper mining, which had already been very low the previous year. Among other imports of capital goods transport equipment (at a cost of 140 million dollars), equipment for the electrical and communications industries (75 million dollars) and imports for the textile sector and agroindustry (36 million dollars each) were noteworthy.

Lastly, the recovery of domestic economic activity meant that in 1976 there was also a considerable increase in imports of intermediate goods. These had declined in the previous two years, but recovered the high level achieved in 1974, and in 1977 accounted for half of total exports.

(iii) *The terms of trade.* The slight decrease in the average price of exports and a further increase in the unit value of imports meant that the terms of trade suffered a decrease of more than 9%. As a result of this drop, the index of the terms of trade was the lowest for the last 20 years and was 43% less than in 1970. This substantial decline could only be partially offset by the growth of the volume

[84] This policy favours the acquisition of automobiles with an ex-works price of not more than 2,750 dollars, which, once the cost of transport and insurance, the 115% tax and other expenses are paid, gives a price of not more than 11,000 dollars in Chile. Over this sum, there is an additional tax of 100% which makes it virtually prohibitive to import vehicles with higher ex-cars prices.

[85] The most conspicuous case was that of imports of wheat, the value of which dropped from 185 million dollars in 1976 to 70 million in 1977.

Table 161

CHILE: VALUE AND BREAKDOWN OF IMPORTS OF GOODS (CIF)

	Millions of US dollars					*Percentage breakdown*			*Growth rates*		
	1973	*1974*	*1975*	*1976*	*1977* [a]	*1970*	*1973*	*1977* [a]	*1975*	*1976*	*1977* [a]
Total	*1 147*	*2 013*	*1 776*	*1 581*	*2 297*	*100.0*	*100.0*	*100.0*	*-11.8*	*-11.0*	*45.3*
Consumer goods	*651*	*692*	*454*	*414*	*654*	*24.6*	*45.0*	*28.5*	*-29.3*	*-8.8*	*58.0*
Consumer goods other than food	134	196	93	95	327	10.4	9.3	14.2	-52.6	2.2	244.2
Motor-vehicles	...	...	...	11	110	...	...	4.8	...	...	900.0
Goods of industrial origin	...	...	...	84	217	...	...	9.4	...	...	158.3
Food	517	445	361	319	327	14.2	35.7	14.2	-19.0	-11.6	2.5
Intermediate goods	*553*	*1 093*	*1 041*	*823*	*1 141*	*46.5*	*38.2*	*49.7*	*-4.8*	*-20.9*	*36.8*
Fuels and lubricants	112	414	252	338	417	6.1	7.7	18.2	-39.2	34.1	23.4
Raw material	...	...	363	209	319	...	...	13.9	...	-42.4	52.6
Spares and intermediate products	...	...	314	210	340	...	...	14.8	...	-33.1	61.9
Large-scale copper mining	...	...	112	66	65	...	...	2.8	...	-41.1	-1.5
Capital goods	*243*	*279*	*281*	*344*	*502*	*28.9*	*16.8*	*21.8*	*0.8*	*22.4*	*45.9*
For copper	...	...	...	38	32	...	...	1.4	...	...	-15.8
For the rest	...	...	...	306	470	...	...	20.4	...	...	53.6

Source: Central Bank of Chile.

[a] Preliminary figures.

of exports of goods, and consequently their purchasing power was 20°/o lower than in 1970 (see table 167).

Table 162

CHILE: BALANCE OF PAYMENTS
(Millions of US dollars)

	1972	*1973*	*1974*	*1975*	*1976*	*1977* [a]
Current account						
Exports of goods and services	979	1 434	2 385	1 747	2 292	2 530
Goods FOB	850	1 316	2 244	1 570	2 077	2 180
Services	129	118	141	177	215	350
Transport	57	43	30	38	53	100
Travel	38	37	76	83	95	150
Imports of goods and services	1 310	1 618	2 307	2 042	1 905	2 680
Goods FOB	1 000	1 326	1 821	1 577	1 412	2 030
Services	310	292	486	465	493	650
Transport	180	182	310	294	284	400
Travel	92	73	101	128	129	170
Net payments of profits and interest on foreign capital	-147	-110	-270	-284	-357	-359
Profits	-25	–	-8	-7	-24	-23
Interest	-122	-110	-262	-277	-333	-336
Net private transfer payments	5	5	6	1	-6	16
Balance on current account	-473	-289	-186	-578	24	-493
Capital account						
Net external financing (a + b + c + d + e)	473	289	186	578	-24	493
a) Net external non-compensatory capital	230	321	346	127	537	
Direct investment	1	-5	-557	50	-5	
Long- and medium- term loans [b]	464	532	1 550	497	1 306	
Amortization payment	-267	-408	-617	-523	-752	
Short-term liabilities	30	192	-39	68	-31	511
Official transfer payments	2	10	8	13	19	
b) Domestic non-compensatory capital or assets	-2	-58	-87	182	-33	
c) Errors and omissions	-2	-86	-118	-8	-72	
d) Allocation of SDRs	18	–	–	–	–	–
e) Net compensatory financing (minus sign signifies an increase)	229	112	45	276	-456	-18
Balance-of-payments loans, trade arrears IMF loans, and other liabilities of the monetary authorities	160	212	51	207	-44	...
Variation in gross international reserves (minus sign signifies an increase)	69	-100	-6	69	-412	...
Foreign exchange reserves (– = increase)	30	-101	13	72	-379	...
Gold reserves (minus sign signifies an increase)		-1	-4	6	-2	...
SDRs (minus sign signifies an increase)	39	2	-15	-9	-31	...

Sources: 1972-1976: CEPAL, on the basis of data from the International Monetary Fund;
1977: CEPAL, on the basis of official data supplied by the Central Bank of Chile.

[a] Preliminary figures.

[b] Includes renegotiation of the external debt with countries members of the Paris Club.

(b) *The current account deficit and its financing*

As a result of the far more rapid growth of imports than of exports, the surplus on trade in goods dropped drastically, from 665 million dollars in 1976 to 150 million in 1977. This change, plus a small increase in the deficit,on the trade in services produced a sharp turnabout in the balance for goods and services, which went from a surplus of 390 million dollars to a deficit of 150 million. Since the high interest payments and the small remittances of profits maintained their 1976 levels, the balance on current account experienced a very similar absolute change, finally showing a substantial deficit of close on 500 million dollars.

A large increase in the inflow of non-compensatory capital, however, made it possible to finance the current account deficit,make amortization payments on the external debt to a value of around 850 million dollars, and marginally increase the net international reserves of the monetary system (see table 162).

(c) *The external debt*

According to Central Bank estimates, the general disbursed external debt reached a total of somewhat over 5,300 million dollars at the end of 1977, which was 2% more than the amount recorded a year previously (see table 163).[86] This increase was entirely the result of the rise in the financial credits owed by the private sector, which increased by 200 million dollars, and the short-term lines of credit granted to the monetary system which increased by 100 million dollars.

Table 163

CHILE: EXTERNAL DEBT AT 31 DECEMBER OF EACH YEAR [a]
(Millions of US dollars)

	1970	*1971*	*1972*	*1973*	*1974*	*1975*	*1976*	*1977* [b]
1. Medium-and long-term external debt	2 662	2 793	3 073	3 361	4 113	4 362	4 339	4 142
Public and private debt with State guarantee	2 533 [c]	2 640	2 880	3 159	3 779	3 787	3 654	3 550
Central Bank with the International Monetary Fund	41	79	129	143	243	434	513	412
Direct private sector deferred cover	88 [d]	74	64	59	91	141	172	180
2. Financial credit to the private sector (Decree 1272, articles 14, 15 and 16)	413	320	310	306	322	500 [e]	600 [f]	800
3. Short-term lines of credit to the monetary system	48	83	219	381	339	401	256	369
4. General external debt (1+2+3)	3 123	3 196	3 602	4 048	4 774	5 263	5 195	5 311

Source: Central Bank of Chile.

[a] Excluding balances as yet unused.

[b] Preliminary figures.

[c] Including credit balances of enterprises considered private which come to be included in the public sector (CAP, mining enterprises and others).

[d] Excluding credit balances of entreprises transferred to the public sector.

[e] Excluding 25 million dollars of public sector credits included in 1.

[f] Excluding 38 million dollars of public sector credits included in 1.

[86] The general external debt does not include the credits for less than one year, the net amount of which was 270 million dollars in 1977. This fact and probable underestimates of the direct debt of the private sector for deferred cover and of financial credit to the private sector under article 15 of decree 1272 explain the difference between the net inflow of credits for 442 million dollars recorded in the balance-of-payments statistics of the Central Bank in 1977 and the net increase in the general external debt amounting to 116 million dollars which can be seen in the Bank's statistics of external indebtedness for the same year.

The medium– and long-term external debt, however, decreased by nearly 200 million dollars as a result of the large amortization payments made for the third year running, which increased from 680 million dollars in 1976 to 850 million in 1977, when 336 million dollars' worth of interest was also paid. The servicing of the debt came to nearly 1,200 million dollars and was equivalent to 47°/o of the total value of exports of goods and services, slightly more than the percentage recorded the previous year (43°/o).

4. *Prices and wages*

(a) *Prices*

In 1977 inflation dropped sharply for the second consecutive year. The rate of growth of consumer prices dropped from 341°/o in 1975 to 174°/o in 1976 and to 63.5°/o in 1977, while the growth rate of wholesale prices dropped during the same period from 411°/o to 65°/o. The increase in prices were therefore equivalent in the case of both indexes to around one-sixth of those recorded two years previously (see table 164).

However, the reduction in inflation was accompanied by changes in relative prices which were different from those of the two previous years. Despite the drop in the real exchange rate and the reduction in tariffs, the average variation in the prices of imported product in 1977 was substantially greater than for domestic products, thus reversing the trend of the period 1975-1976. The same thing

Table 164

CHILE: EVOLUTION OF DOMESTIC PRICES
(Percentages)

	1971	*1972*	*1973*	*1974*	*1975*	*1976*	*1977*
	Variation from December to December						
Consumer price index	*22.1*	*163.4*	*508.1*	*375.9*	*340.7*	*174.3*	*63.5*
Food	28.5	243.3	474.2	392.0	321.3	167.4	59.4
Wholesale price index	*21.4*	*143.3*	*1 147.1*	*570.6*	*410.9*	*151.5*	*65.0*
Imported products	18.4	98.8	1 692.2	714.5	363.8	130.1	79.2
Domestic products	22.3	156.6	1 021.2	517.5	424.9	157.1	61.7
Agricultural products	27.4	337.7	512.9	381.0	565.2	148.6	53.0
Mining products	44.2	96.5	1 503.1	823.3	381.8	147.7	46.6
Manufactures	19.9	116.3	1 244.2	527.4	350.7	165.7	70.8
Index of building costs	*33.1*	*236.4*	*681.9*	*315.4*	*328.1*	*195.1*	*78.1*
	Variation between annual arevages						
Consumer price index	*20.1*	*77.8*	*352.8*	*504.7*	*374.7*	*211.9*	*92.0*
Food	23.8	115.2	376.5	513.7	359.6	212.8	86.2
Wholesale price index	*17.9*	*70.0*	*511.4*	*1 029.0*	*482.0*	*221.1*	*86.0*
Imported products	22.1	56.2	580.4	1 349.8	445.9	201.6	99.8
Domestic products	16.7	74.3	492.2	926.9	486.0	226.1	82.8
Agricultural products	25.5	108.8	448.2	640.1	567.2	245.9	79.3
Mining products	32.7	71.9	499.4	1 503.5	478.8	191.7	73.2
Manufactures	13.9	66.2	505.1	969.1	420.7	215.5	87.4

Sources: National Institute of Statistics and Cámara Chilena de la Construcción.

occurred with the prices of agricultural goods which, after increasing for two years at a higher rate than industrial prices, increased in 1977 at a much lower rate than these (see table 164).

Although the annual rate of inflation continued to drop steadily and uniformaly during 1977, the evolution of prices throughout the year, as may be seen from Figure 2, showed changes that reflected the effect both of the economic policy and of seasonal type factors. The effect of the latter was particularly noteworthy during the first quarter, when prices increased with greater intensity than during the previous three months, thus repeating the evolution recorded in the equivalent periods of the previous two years (see table 165).

Figure 2

CHILE: CONSUMER AND WHOLESALE PRICE INDEX
1975, 1976 and 1977

(Percentage variation in 12 months)

Natural scale

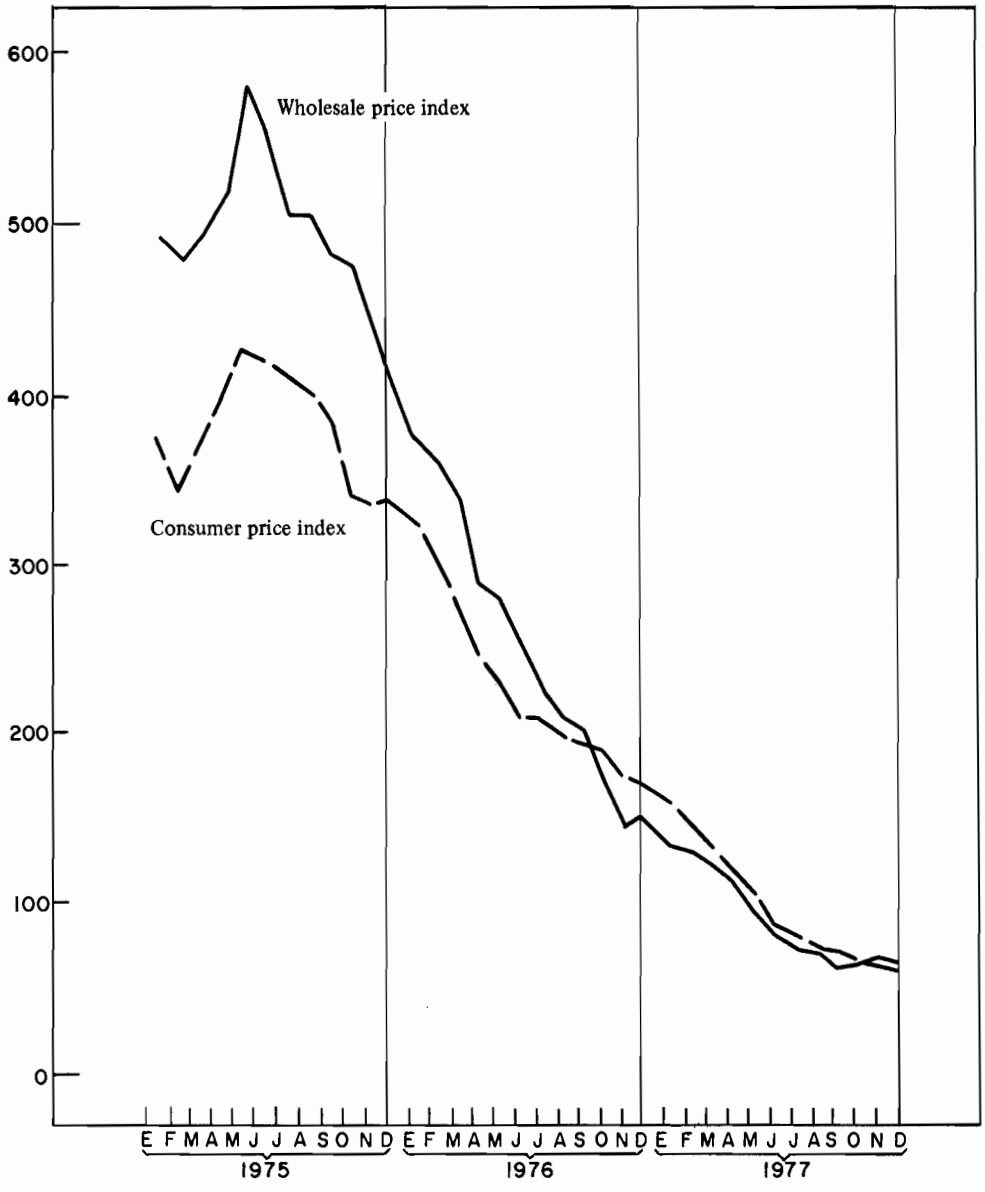


Table 165

CHILE: QUARTERLY VARIATIONS IN PRICES

	Consumer prices	*Wholesale prices*	*Building costs*
1974			
First quarter	62.2	79.3	69.1
Second quarter	51.4	61.2	36.4
Third quarter	39.5	56.6	38.4
Fourth quarter	38.9	48.1	39.5
1975			
First quarter	60.9	59.6	49.0
Second quarter	67.7	76.5	65.9
Third quarter	30.0	39.9	30.4
Fourth quarter	25.6	29.6	32.8
1976			
First quarter	38.0	38.8	40.9
Second quarter	38.1	40.5	39.4
Third quarter	23.6	20.9	21.7
Fourth quarter	16.5	6.7	23.5
1977			
First quarter	18.9	25.7	18.4
Second quarter	12.3	13.1	12.8
Third quarter	11.4	8.9	16.7
Fourth quarter	9.8	6.7	14.3

Sources: National Institute of Statistics; and Cámara Chilena de la Construcción.

This tendency, however, which both in 1975 and 1976 lasted until the middle of the year, was interrupted from April 1977 onwards, when inflation dropped appreciably as a result of the 10% revaluation at the beginning of March. In effect, as occurred after the similar revaluation at the end of June of the previous year, the reduction of the exchange rate in March helped to restrict the rate of inflation through its influence on the price of internationally saleable goods and on expectations as to the future course of inflation. As a result of this and of the spacing of the automatic adjustments of wages and salaries,[87] the rates of increase of both consumer and wholesale prices dropped notably in the second quarter and more slowly in the third quarter (see table 165).

The downward progress of inflation did not change with the devaluations of 6.1% at the end of August and 4.4% at the beginning of December. This was influenced by the fact that in both cases tariffs were reduced simultaneously, thus helping to offset the upward pressure of the increased exchange rate on the domestic prices of imported products. As a result of this, of the more restrictive monetary policy applied in the second half of the year, and of the reduction of some prices towards the end of the year, owing to seasonal factors, the quarterly rate of inflation once again dropped in September and December.

(b) *Wages and salaries*

In 1977 real average earnings increased markedly for the second year running. After increasing by more than 11% in 1976, the wages and salaries index of the National Institute of Statistics increased by approximately 30% in real terms during 1977 (see table 166).

[87] In 1976 the automatic adjustments of wages and salaries were quarterly (in March, June, September and December). In 1977, however, there were only three adjustments, which took place in March, July and December.

Table166

CHILE: INDEX OF REAL WAGES AND SALARIES
(January 1975= 100)

	Index				*Growth rates*		
	1974	*1975*	*1976*	*1977*	*1975*	*1976*	*1977*
Quarter							
First	89.0	85.5	87.4	114.1	-3.9	2.2	30.6
Second	76.6	76.3	87.5	120.4	-0.4	14.7	37.6
Third	92.3	87.5	96.0	132.0	-5.2	9.7	37.5
Fourth	88.9	87.6	105.5	123.4	-1.5	20.5	17.0
Year	*86.7*	*84.3*	*94.1*	*122.5*	*-2.8*	*11.6*	*30.2*

Source: CEPAL, on the basis of data supplied by the National Institute of Statistics.

Because of the sharp drop suffered in 1973 and 1974, however, real average earnings nevertheless did not entirely succeed in 1977 in returning to the level they had had in 1970 and were around 20°/o lower than during the period 1971-1972.[88]

Unlike developments in 1976, when the real increase in wages was mainly a result of the application of the general policy of automatic adjustments of wages and salaries, the increase in the purchasing power of wages and salaries in 1977 was due to the recovery of economic activity, and especially to the introduction of a series of increases and special adjustments.

[88]These comparisons with the early years of the decade should, however, be interpreted with caution for three main reasons. The first and most basic reason is the complication introduced in the calculation of the real wages and salaries index because of the underestimation of the 1973 inflation by the official consumer price index of the National Institute of Statistics for that year. This underestimation –as a result of the linking up in October of that year of the consumer price index of the National Institute of Statistics and that calculated by the Deparment of Economics of the University of Chile– is substantial and may be seen from a comparison of the official increase in the consumer price index for 1973 (508°/o) with the "real" increase in prices calculated by various researchers such as Ramos (616°/o), Cortázar (794°/o) and Sanfuentes (751°/o), and with the much higher increase in wholesale prices for the same year (1,147°/o). In the comparisons made in this text the Sanfuentes estimate has been used to deflate the index of real wages and salaries.

A second difficulty arises out of the overestimation of real wages in 1971 and especially in 1972 and the first eight months of 1973. This is a result of the underestimation of inflation during this period by the index of the National Institute of Statistics, which only used information referring to prices charged in commercial establishments and therefore completely ignored the far higher prices paid on the black market, which was of substantial and increasing importance during those years.

Lastly, the comparison of real wages is hindered by the fact that the wages and salaries index of the National Institute of Statistics is only calculated for the months of January, April, July and October. The estimate of the real average levels of wages for the whole year consequently depends partly on the methodology used to estimate real wages and salaries during the other months. The use of different methodologies does not generate large-scale differences in the result during periods when inflation is low and the wage policy applied is stable. These differences, however, may be fairly significant in periods when inflation reaches levels as exceptional as those recorded in Chile during the six-year period between 1972 and 1977, when very varied wages policies were also applied.

Despite these difficulties, there is a fairly broad-based consensus among researchers that if the index of real wages and salaries is deflated by a price index which corrects the underestimation of inflation in 1973 as a result of the link-up, real wages in 1977 are seen to be slightly lower than those of 1970. In this respect see "Perspectivas económicas de Chile" by Andrés Sanfuentes and Política de remuneraciones" by Juan Foxley, published in *Comentarios sobre la situación económica* (second half of 1977),, Department of Economics, University of Chile, Santiago, January 1978, and the essay by José Piñera "1978: Año clave" in *Análisis: Economía y sociedad,* N°1, March 1978. On the problem of the link-up see the pioneer paper by Joseph Ramos "El costo social: hechos e interpretaciones", in *Estudios de economía,* N° 6, second half of 1975 and the study by René Cortázar, *Indice de precios al consumidor y estructura del consumo,* CIEPLAN, Notas técnicas N° 3, Santiago, August 1977.

The increase in real wages which takes place when they are adjusted on the basis of the price rises recorded in an earlier period, at a time when the rate of inflation is declining, was neutralized in 1977 by the small number and progressive spacing-out of the general adjustments. These had been quarterly in the previous year, but in 1977 they were granted only in March, July and December. As a result of this, the general adjustments served to maintain –but not increase– the purchasing power of wages and salaries with respect to 1976.[89]

However numerous special adjustments were granted in 1977, in addition to the general adjustments in earning, and these contributed to substantial increases in wages and salaries, especially in the civil service.

Thus, at the beginning of the year three new grades were added to the upper end of the single scale of earnings of the civil service and the three lowest grades were abolished, while a new minimum wage of 1,000 pesos was established.

Simultaneously, a bonus was established for officials in the lower grades of the salary scale in order to offset the adverse effect on the purchasing power of their earnings caused by the abolition of the exemptions from the value added tax from which various mass-consumption goods had benefited up till then.

As a result of these special measures, the nominal earnings of officials at the seventeen lowest levels of the 37 making up the salary scale were between 59 and 10°/o higher in January than in December.[90] At the same time, the percentages of the professional allowance paid at the 22 top levels of the scale were substantially increased.[91]

On 1 January the minimum wage in the private sector was also raised by 8.5°/o, and minimum and assistance pensions paid by the Social Security Service increased by slightly over 12°/o. The effect of these measures on the cash income of the workers was increased by the simultaneous extension of the exemption from income tax from one to two tax units.

Four months later, new special rises were decreed, aimed at increasing the earnings of civil servants and particulary technical and upper cadres. As from 1 May, therefore, in addition to the increase of 4°/o in wages at all levels in the salary scale, Social Security Service pensions and the private sector minimum wage, professional allowance percentages once again increased, the seniority allowance rose, and a new "responsibility allowance" was established, equivalent to 40°/o of the base wage, for officials at the top nine grades of the salary scale, employed in posts in the exclusive confidence of the President of the Republic.

These measures were aimed at increasing the relative levels of civil service wages and salaries in comparison with those prevailing in the private sector, and were complemented by the establishment of a flexible earnings system for full-time academic staff in the universities which enabled some of them to increase their salaries substantially.

At the same time the minimum income tax exemption was again increased by one tax unit and the tax rates in the lower, middle and upper middle levels were sharply reduced. As a result of this, the absolute amount of the tax which had to be paid dropped by between 50 and 100°/o for all workers

[89] As from December 1976, the percentage increases in earnings in accordance with the general policy of adjustments tended to coincide almost exactly with those of the average increase in prices during the respective periods. The percentages in each case were as follows:

Periods	*Legal adjustment*	*Average increase in consumer prices*
December 1976 to February 1977	18	16.7
March to June 1977	19	19.4
July to November 1977	18	17.7

[90] In December all wages and salaries had been adjusted by 18°/o.

[91] The professional allowance was increased from 35 to 70°/o of base salary at grades A to 6; from 30 to 50°/o at grades 7 to 12, and from 25 to 40°/o at grades 13 to 17.

with a taxable monthly income of up to 35,000 pesos (approximately 1,800 dollars).[92]

Lastly, both in November and December all employees and workers were paid a flat bonus of 100 pesos per worker and per dependent.

As a result of this series of special increases granted in January and May and the general adjustments granted in March, July and December, the real gross income of government employees at the end of 1977 was considerably higher than one year previously.

However, the amount of this increase differed considerably at the different levels of the salary scale. In relative terms, the increases were greatest at the upper and lower ends of the scale and much smaller at the intermediate levels.

The gross income of officials at the top nine grades of the civil service[93] nearly tripled in nominal terms as a result of the substantial increase in the percentage of the professional allowance (which increased from 35 to 80o/o of the base salary) and the establishment of the responsibility allowances. In real terms, the gross income paid in these grades increased between 94 and 75o/o (see table 167).

The real increase in gross income was also very high (67o/o) at the lower end of the salary scale as the result of the abolition of the bottom three grades and the bonus paid to offset the effects of the abolition of the exemptions from the value added tax.[94]

Starting from the two ends of the scale, relative real increases in gross earnings decreased to minimum values of between 12 and 19o/o in the intermediate categories (see table 167). The fact that these significant increases were the lowest, however, helps to underline the large-scale increase in real civil service earnings in 1977.[95]

5. *Fiscal and monetary policy*

(a) *Monetary policy*

The monetary policy in 1977 simultaneously succeeded in moderating the rate of growth of the quantity of money and increasing the real liquidity of the economy. The former contributed to restricting inflation; the latter helped to stimulate the growth of economic activity.

The growth of the money supply declined from 225o/o in 1976 to slightly over 150o/o in 1977, and the drop in the rate of increase of the quantity of money in the private sector was even more pronounced (see table 168).

These increases were larger, however, than those in prices and the domestic product at current prices. As a result, in 1977 both the real supply of money and the liquidity coefficient increased. The latter, which had been declining steadily since 1972 as a result of the exceptional intensity of the inflationary process, increased from 4o/o in 1976 to nearly 5o/o in 1977, although this was well below the level of 8o/o reached on average during the period 1960-1970.

Liquidity in the private sector increased in 1977 owing to the notable expansion of quasi-money, whose growth rate, as during the previous three years, amply exceeded that of money in the private sector. As a result of this, quasi-money in the private sector, which in 1973 was equivalent to slightly over one-third of money in the sector, was 50o/o more in 1977 (see table 168).

[92] Although this measure meant that the reductions in the tax were relatively less in the case of persons with an average to high income, their *absolute* disposable income increased relatively more because of the progressive nature of the rates of the tax. For example, for a person with a taxable income of 2,000 pesos, the amount of the tax to be paid was reduced from 70 to 5.4 pesos, i.e., 92o/o, while for a person with a taxable income of 50,000 pesos, the tax dropped from 19,825 pesos to 12,537 pesos, i.e., by 37o/o. However, because of the significant difference in the absolute amounts of the tax paid in both cases, the disposable income of the person with the lower taxable income increased to a much smaller extent (3.3o/o) than the 24o/o increase in the disposable income of a person with a taxable income of 50,000 pesos.

[93] Categories A, B, C, 1a, 1b, 1c, 2, 3 and 4.

[94] With the reductions in income tax, the rates of increase in disposable income must have been still greater at all levels.

[95] As a result of these changes, the ratio of maximum to minimum gross income in the scale increased from 12 to nearly 19. It should, however, be pointed out that the maximum income is relatively low in absolute terms and at the end of 1977 was the equivalent of 1,270 dollars before tax.

Table 167

CHILE: GROSS MONTHLY INCOME IN SELECTED GRADES OF THE SINGLE SCALE OF REMUNERATION OF THE CIVIL SERVICE

(Pesos)

Grade	December 1976				December 1977							Percentage increase in gross income	
	Gross salary	Professional allowance		Gross income	Gross salary	Professional allowance		Responsibility allowance		Bonus DL 1607	Gross income	Nominal	Real
		Percentage	Amount			Percentage	Amount	Percentage	Amount				
	(1)	(2)	(3=2+1)	(4=1+3)	(5)	(6)	(7=5+6)	(8)	(9=5+8)	(10)	(11=5+7+9+10)		
Maximum[a]	8 170	35	2 860	11 030	15 919	80	12 735	40	6 368		35 022.0	217.5	94.2
4	7 149	35	2 502	9 651	12 581	80	10 065	40	5 032.		27 678.0	186.8	75.4
7	5 797	30	1 739	7 536	10 320	70	7 224				17 544.0	132.8	42.4
13	3 652	25	913	4 565	6 503	60	3 902				10 405.0	127.9	39.4
18	2 416	25	604	3 020	4 425	25	1 106				5 531.0	83.1	12.0
20	2 009	25	502	2 511	3 865	25	966			49.7	4 880.7	94.4	18.9
24	1 443			1 443	2 948					66.3	3 014.3	108.9	27.8
27	1 105			1 105	2 406					82.9	2 488.9	125.3	37.8
29	928			928	2 102					99.4	2 201.4	137.2	45.1
32	792			792	1 723					124.3	1 847.3	133.2	42.6
Minimum[b]	678			678	1 723					124.3	1 847.3	172.5	66.7

Source: Tesorería General de la República.

[a] For grade 1A in December 1976 and grade A in December 1977.

[b] For grade 35 in December 1976 and grade 32 in December 1977.

Table 168

CHILE: MONETARY POSITION

	Balance at end of year in millions of Chilean pesos					*Growth rates*			
	1973	*1974*	*1975*	*1976*	*1977*	*1974*	*1975*	*1976*	*1977*
Money	*362*	*1 256*	*4 735*	*15 363*	*38 662*	*247*	*277*	*224*	*152*
Private sector	281	830	2 963	8 575	18 305	195	257	189	113
Public sector	81	426	1 772	6 788	20 357	426	316	283	200
Factors of expansion	*640*	*3 130*	*12 572*	*45 737*	*121 814*	*389*	*302*	*264*	*166*
Foreign assets (net)	-277	-1 533	9 591	-12 948	-22 178	–	–	–	
Domestic credit	917	4 663	22 163	58 685	143 992	409	375	165	145
Government (net)	547	3 551	16 772	36 358	71 895	549	372	117	98
Official entities	311	529	2 318	9 216	22 444	70	338	298	144
Private sector	59	583	3 073	13 111	49 653	888	427	327	279
Factors of absorption	*278*	*1 874*	*7 837*	*30 374*	*83 152*	*574*	*318*	*288*	*174*
Quasi-money	136	670	2 962	12 200	32 591	393	342	311	167
Private	98	442	2 221	10 435	27 308	351	403	370	161
Public	38	228	741	1 765	5 283	500	225	138	199
Other items (net)	142	1 204	4 875	18 174	50 561	748	305	273	178

Source: Central Bank of Chile.

Unlike developments in 1976, when the growth of money supply was entirely due to increased issue, money in 1977 originated both in this and in the growth of the money multiplier. Although it had declined steadily in previous years, it now increased by nearly 17°/o in 1977 as a result of the reduction in the legal reserve requirements, which decreased progressively from 83 to 59°/o for sight deposits and from 47 to 20°/o for 30 to 90 days deposits.

During the year the increase in the rate of issue also declined slowly, so that growth at the end of 1977 (92°/o) was only one-third of that of the year before (272°/o). At the same time, there was a significant change in the relative importance of the factors which generated it. As a result of a better equilibrium in the balance of payments, the importance of exchange operations declined. In 1976 they accounted for 87°/o of the issue, but generated only 44°/o in 1977. However, the part of the issue explained by the increase in domestic credit nearly doubled –from 30 to 59°/o. The improvement in the fiscal situation meant that Treasury operations played an absorption role for the third consecutive year.

As a result of an improved financial equilibrium achieved in 1977 by the Treasury, public institutions and State enterprises required relatively fewer resources from the monetary system. The credit they received from the latter thus increased at far lower rates than in the previous year, and above all at rates very much lower than those of investment in the private sector which nearly quadrupled in real terms, as may be seen in table 168. Its real growth was thus over 130°/o and more than doubled the equally high increase (55°/o) in investment in 1976.

During 1977 there was a substantial change in the structure of bank credit. This was due to the marked reduction, in keeping with the liberal orientation of the economic policy, in the percentage of credit linked to the Central Bank's refinancing lines and thus ultimately subject to selective treatment by the issuing institution. This percentage in fact dropped from 70°/o in 1975 to 55°/o in 1976 and only 12°/o in 1977.

Although less than that of credit, the growth of money in the private sector was also very large in real terms (37°/o). It was, however, generated, very unevenly during the year; more than half the growth took place in the first quarter, when the economic authorities allowed the money supply to increase sharply so as to bring down the very high interest rates in force at the end of 1976 and

satisfy the greater demand for means of payment generated by the rapid increase in economic activity and expectations of lower inflation (see table 169).

Table 169

CHILE: VARIATIONS IN PRIVATE SECTOR MONEY AND PRICES
(Percentages)

	Private sector money			*Consumer prices*		
	Month	*Year*	*12 months*	*Month*	*year*	*12 months*
1977						
January	14.5	14.5	192.2	5.9	5.9	163.0
February	10.1	26.0	208.6	5.8	12.1	152.9
March	8.5	36.7	208.6	6.1	18.9	136.3
April	9.4	49.5	208.1	4.7	24.5	121.1
May	3.0	54.0	205.8	3.8	29.3	109.0
June	4.0	60.2	199.9	3.3	33.6	92.3
July	4.6	67.5	170.3	3.9	38.8	83.5
August	3.8	73.9	159.9	3.4	43.5	79.9
September	8.7	89.0	148.1	3.7	48.9	73.4
October	-5.4	78.8	129.9	4.2	55.1	69.3
November	6.5	90.5	131.9	2.2	58.5	66.7
December	17.6	123.9	123.9	3.1	63.5	63.5

Sources: Central Bank and National Institute of Statistics.

This period of steep increase in money on the private sector in real terms was followed by four months in which its growth was particularly nil. Faced with the fear that the notable growth of the first three months would lead to a new speeding up of the inflationary process, the monetary authorities, as from May, stabilized the monthly rate of growth of money in the private sector at a level of slightly under 4%, which was nearly identical to the increase in prices in that period.

This equilibrium was shattered in September –when private sector money increased by nearly 9%– and again in October –when in their attempt to offset the exceptional growth of the previous month the monetary authorities caused an absolute reduction of money in the private sector of more than 5%, which produced a drop of nearly 10% in real terms.

The most immediate and visible consequence of this reduction was the rise in nominal short-term interest rates, which, after declining steadily between January and September, made a sharp upturn in October (see table 170). They continued to rise over the next two months, although the quantity of money in the private sector increased by more than 25%. Since during these months the rate of inflation declined, the rise in real interest rates was still more marked in relative terms, thus repeating the pattern of the end of 1976, although less intensively.

(b) *Fiscal policy*

In 1977 the trend towards a better balancing of the fiscal accounts begun in 1974 continued. As a result, the deficit, which in 1973 had reached an exceptional size amounting to 55% of fiscal expenditure, dropped steadily in the next few years and in 1977 accounted for only 8% of total government spending. Since at the same time the government's share in economic activity also decreased, the drop in the deficit as a percentage of the gross domestic product was still more accentuated, from nearly 24% in 1973 to slightly over 2% in 1977 (see table 171).

Table 170

CHILE: MONTHLY INTEREST RATES PAID AND CHARGED ON SHORT-TERM OPERATIONS

	Nominal rates of interest				*Real rates of interest*			
	Bank		*Finance companies*		*Bank*		*Finance companies*	
	Paid	*Charged*	*Paid*	*Charged*	*Paid*	*Charged*	*Paid*	*Charged*
				1 9 7 6				
January	10.1	14.6	11.5	15.5	-0.4	3.7	0.9	4.5
February	10.2	14.5	11.2	15.3	0.1	3.9	1.0	4.7
March	10.0	14.6	10.8	15.3	-3.2	1.0	-2.4	1.6
April	10.4	14.8	11.6	15.3	-1.3	2.6	-0.3	3.0
May	12.3	15.1	12.6	15.8	2.3	4.8	2.6	5.5
June	11.6	14.1	12.2	15.4	-0.6	1.6	-0.1	2.8
July	7.9	11.8	8.9	12.2	-0.9	2.7	0.0	3.0
August	8.2	11.9	8.7	11.8	2.6	6.0	3.0	5.9
September	7.9	11.6	8.1	11.3	0.3	3.7	0.5	3.4
October	8.1	11.8	8.5	11.8	1.3	4.8	1.7	4.8
November	8.6	12.5	8.9	12.9	4.6	8.4	4.9	8.8
December	9.1	13.2	9.5	13.5	3.8	7.7	4.2	8.0
				1 9 7 7				
January	7.9	12.4	8.6	13.1	1.9	6.2	2.5	6.8
February	6.9	11.5	7.6	11.9	1.0	5.4	1.7	5.8
March	6.2	10.1	6.8	10.5	0.1	3.8	0.7	4.1
April	5.7	8.8	6.0	8.2	0.9	3.9	1.2	4.3
May	5.2	7.8	5.6	8.3	1.4	3.8	1.8	4.3
June	4.7	6.9	5.1	7.1	1.4	3.5	1.8	3.7
July	4.5	6.4	5.1	6.8	0.6	2.4	1.2	2.8
August	4.5	6.3	5.0	6.8	1.0	2.8	1.6	3.3
September	4.7	6.2	5.1	6.6	1.0	2.4	1.4	2.8
October	5.6	6.9	5.9	7.4	1.3	2.6	1.6	3.1
November	5.9	7.4	6.2	7.8	3.6	5.1	3.9	5.5
December	6.0	7.3	6.2	7.8	2.8	4.1	3.0	4.6

Source: Central Bank of Chile.

As in the previous two years, the overall deficit was entirely a result of the deficit in the foreign currency budget, since the peso budget once again generated a surplus. However, it was much smaller than in 1976 and was almost entirely accumulated during the first half of the year. Later, the increase in wages as the result of the adjustments and special increases decreed in May and the reduction in the rates of income tax, contributed to balancing total expenditure and current income in national currency.

Current income continued to increase rapidly in 1977, and rose by more than 14% in real terms. The tax burden increased for the fourth consecutive year. At the same time, the structure of fiscal revenue was modified regressively, since as in 1975 and 1976 indirect taxation increased more intensively than direct taxation.

Of these taxes, the growth rate of income from transfer taxes was particularly high. Stemming almost entirely from the value added tax (VAT), it increased by nearly 45% in real terms as result of the growth of economic activity, the abolition of the last exemptions from VAT as from 1 January, the incorporation in this tax of the former tax on services and the stricter control by the Internal

Table 171

CHILE: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	1973	*1974*	*1975*	*1976*	*1977* [a]
	Income and expenditure in national currency (millions of chilean pesos)				
Current income	*227*	*1 775*	*7 902*	*25 204*	*57 601*
Direct tax revenue	60	512	2 425	6 538	14 374
Indirect tax revenue	123	1 034	5 114	17 947	41 587
Non-tax revenue	44	229	362	719	1 639
Total expenditure	*487*	*2 298*	*7 449*	*24 102*	*57 025*
Servicing of public debt	2	35	88	289	1 055
Other expenditure	485	2 263	7 361	23 813	55 970
Deficit	-260	-523	453 [b]	1 103 [b]	576 [b]
Deficit/total expenditure (percentage)	53.4	22.8	6.1 [b]	4.6 [b]	1.0 [b]
	Income and expenditure in foreign currency (millions of US dollars)				
Current income	*29*	*216*	*219*	*383*	*374*
Copper	19	191	177	352	353
Other	10	25	42	31	21
Total expenditure	*169*	*619*	*556*	*695*	*624*
Servicing of public debt	79	338	388	544	445
Other expenditure	90	281	168	151	179
Deficit	-140	-402	-337	-312	-250
Deficit/total expenditure (percentage)	83.1	64.9	60.6	44.9	40.1
	Consolidated income and expenditure (millions of US dollars at 1976 prices)				
Current income	1 764	2 043	1 933	2 126	2 430
Total expenditure	3 931	3 032	2 188	2 362	2 645
Deficit	2 167	989	255	236	215
Deficit/total expenditure (percentage)	55.1	32.6	11.6	10.0	8.1
Deficit/GDP (percentage)	23.6	10.3	3.1	2.7	2.3

Source: Budget Office, Ministry of Finance.

[a] Preliminary figures.

[b] Surplus.

Taxation Service of tax evasion. As a result of their substantial growth, transfer taxes generated nearly 45°/o of domestic tax receipts.

Other taxes whose yield increased substantially were those on external trade and property. The former increased by more than a fifth in real terms as a result of the boom in imports and despite the reduction of tariffs. The real value of the receipts from property taxes increased by 35°/o, mainly

due to the increase in the real estate valuations, and to a lesser extent to the exceptional growth in the number of cars imported.[96]

The real yield of income tax increased by less than 2%, however, because of the numerous large-scale reductions in rates introduced in January and May.

The evolution of fiscal revenue from copper was still more unfavourable: as a result of the drop in the copper prices it remained unchanged (see table 171).

With regard to expenditure, the two most significant changes in 1977 were the appreciable drop of 100 million dollars in debt servicing on foreign currency and the substantial increase of 23% in real terms in expenditure in pesos. For this reason, despite the reduction of 10% in expenditure in foreign currency, total fiscal spending increased by 12% in real terms, i.e., at a much higher rate than in 1976, and also higher than the growth of the gross domestic product in 1977.

However, as a result of the new method of presenting treasury figures introduced in 1977,[97] it is not possible to identify the evolution of the different components of fiscal expenditure. In the light of the large-scale increase in civil service wages and salaries, however, it may be assumed that the increase in earnings contributed decisively to the growth of total fiscal expenditure.

ECUADOR[98]

1. *Main recent trends: Introduction and summary*

In 1977 Ecuador registered overall and per capita growth rates of the product of 5.3% and 2.3% respectively, lower than those recorded in the two preceding years. The rise in gross income was similar to that of the domestic product, since there was only a slight increase in the terms of trade. At the same time, there was some slackening of inflation, and a marked increase in the deficit on the balance-of-payments current account (see table 172).

The slowdown in growth was due to a drop in petroleum production and a slower expansion in agriculture and construction. Concurrently, manufacturing and practically all the service sectors achieved growth rates in production equal or superior to those of 1976.

Exports fell in volume and rose moderately in current value, while imports recorded major increases in both respects. In face of these uneven trends, the deficit on the balance-of-payments current account rose from 130 million dollars in 1976 to over 400 million in 1977. Even so, since there was also a substantial increase in the net inflow of capital, the international reserves of the country rose by more than 150 million dollars.

Consumer prices, which had risen by 13% in 1976, went up by 10% in 1977. This slackening of inflation was largely due to internal factors, chiefly the standstill in the minimum living wage and the application of a relatively more restrictive monetary policy than in the previous year.

[96] There was a surcharge of 100% on registration plates.

[97] According to this method, a distinction is made between debt servicing and operating costs. More than half of the latter correspond to the central government transfers which in global terms includes direct and indirect fiscal investment and the purchase of consumer goods and services, and part of the expenditures for personnel of the decentralized institutions. Operating costs include expenditures for the personnel of the centralized services –which account for around one-third– and subsidies.

[98] A study entitled "Ecuador: Challenges and achievements of economic policy in the expansionary phase of the petroleum industry" was published in the mimeographed version of this *Survey* and as N° 25 in the *Cuadernos de la CEPAL* series. In view of the subjects dealt with in that study, this section on the evolution of the Ecuadorian economy in 1977 is shorter than on previous occasions. It should be noted that there may be some discrepancies between the figures quoted in this section and in the special study, since in some cases different sources of information were used.

Table 172

ECUADOR: MAIN ECONOMIC INDICATORS

	1972	1973	1974	1975	1976	1977[a]
A. *Basic economic indicators*						
Gross domestic product at factor cost (millions of US dollars at 1970 prices)	2 459	2 899	3 015	3 241	3 503	3 689
Population (millions)	6.31	6.50	6.69	6.89	7.10	7.31
Per capita gross domestic product (US dollars at 1970 prices)	390	446	451	470	493	505
	Growth rates					
B. *Short-run economic indicators*						
Gross domestic product	8.0	17.9	4.0	7.5	8.0	5.3
Per capita gross domestic product	4.9	14.5	1.0	4.4	4.9	2.3
Gross income[b]	6.1	20.4	19.1	-0.3	10.8	5.2
Terms of trade	11.0	1.5	75.9	-24.0	11.9	2.1
Current value of exports of goods and services	38.2	71.4	109.0	-15.1	25.6	7.2
Current value of imports of goods and services	-2.0	29.8	116.1	17.7	3.6	25.4
Consumer price index[c]						
December to December	6.9	20.6	21.2	13.2	13.1	9.7
Variation in annual average	7.8	13.0	23.3	15.3	10.7	13.0
Money	24.7	34.9	50.8	10.8	31.1	21.3
Current income of government	19.7	42.6	64.1	2.6	23.2	6.4
Total expenditure of government	14.1	43.6	71.1	10.5	31.4	14.7
Fiscal deficit/total expenditure of government[d]	2.5	3.0	3.2	1.2	10.3	16.8
	Millions of US dollars					
C. *External sector*						
Trade balance (goods and services)	-27	117	208	-185	53	-187
Balance on current account	-85	-13	23	-334	-133	-408
Variation in net international reserves	103	89	112	-93	186	156

a Preliminary figures.
b Gross domestic product plus terms-of-trade effect.
c In Quito.
d Percentage.

2. *Recent economic trends*

(a) *Total supply and demand*

In 1977, as mentioned above, there was a considerable decline in economic growth; the increase in the gross domestic product was 5.3°/o compared with the rates of 7.5 and 8°/o recorded in 1975

and 1976 respectively. Total supply, however, expanded by over 7°/o in 1977 –more rapidly than in the two preceding years– owing to the steep increase of 15°/o in imports of goods and services (see table 173).

Table 173

ECUADOR: TOTAL SUPPLY AND DEMAND

	Millions of sucres at 1970 prices			*Percentage breakdown*		*Growth rates*		
	1975	*1976*	*1977* [a]	*1970*	*1977* [a]	*1975*	*1976*	*1977* [a]
Total Supply	*64 671*	*68 478*	*73 364*	*119.2*	*125.8*	*6.7*	*5.9*	*7.1*
Gross domestic product at market prices	51 259	55 402	58 338	100.0	100.0	7.5	8.0	5.3
Imports of goods and services[b]	13 412	13 076	15 026	19.2	25.8	3.7	-2.5	14.9
Total demand	*64 671*	*68 478*	*73 364*	*119.2*	*125.8*	*6.7*	*5.9*	*7.1*
Domestic demand	54 930	58 133	63 449	104.4	108.8	8.9	5.8	9.1
Gross domestic investment	12 461	12 506	14 907	19.7	25.6	20.1	0.4	19.2
Gross fixed investment	11 033	10 850	12 998	15.6	22.3	22.1	-1.7	19.8
Construction	6 099	6 973	...	8.8	...	28.3	14.3	...
Machinery and equipment	4 934	3 877	...	6.8	...	15.1	-21.4	...
Public	4 459	4 917	...	5.2	...	42.6	10.3	...
Private	6 574	5 933	...	10.4	...	11.3	-9.8	...
Changes in stocks	1 428	1 656	1 909	4.1	3.3			
Total consumption	42 469	45 627	48 542	84.7	83.2	6.0	7.4	6.4
General government	5 714	5 787	5 665	12.0	9.7	4.1	12.8	-2.1
Private	36 755	39 840	42 877	72.7	73.5	6.3	8.4	7.6
Exports of goods and services[b]	9 741	10 345	9 915	14.8	17.0	-4.3	6.2	-4.2

Source: CEPAL estimates on the basis of figures supplied by the Central Bank of Ecuador.

[a] Preliminary figures.

[b] 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 CEPAL for the purpose.

As regards total demand, the dynamic factor was the expansion of domestic demand (9°/o), whereas exports of goods and services, which fell by somewhat more than 4°/o, had a restrictive effect.

The steep increase in gross fixed investment (20°/o) was closely associated with the rise in imports of capital goods, since available data show, as will be seen below, that there was only a modest increase in construction activity.

Total consumption, according to a preliminary estimate, rose by over 6°/o, a growth similar to the average for 1975 and 1976. While private consumption rose by around 8°/o, general government consumption is estimated to have dropped by 2°/o.

(b) *Sectoral trends*

The product of the goods-producing sectors grew by 4.6°/o, a rate equal to only half that of the two preceding years, so that its effect on the weakening of the overall growth rate was decisive (see table 174).

Table 174

ECUADOR: GROSS DEMESTIC PRODUCT, BY KIND OF ECONOMIC ACTIVITY, AT FACTOR COST

	Millions of sucres at 1970 prices			*Percentage breakdown*		*Growth rates*		
	1975	*1976*	*1977* [a]	*1970*	*1977* [a]	*1975*	*1976*	*1977* [a]
Agriculture	12 103	12 906	13 087	30.4	24.9	6.5	6.6	1.4
Mining	515	502	3 281	0.8	6.2	28.1	-2.5	-7.4
Petroleum [b]	2 613	3 041		0.1		-9.5	16.4	
Manufacturing	8 308	9 114	10 390	17.1	19.8	15.1	9.7	14.0
Construction	2 850	3 259	3 393	4.5	6.5	29.8	14.4	4.1
Subtotal goods	*26 389*	*28 822*	*30 151*	*52.9*	*57.4*	*9.6*	*9.2*	*4.6*
Electricity, gas and water	670	783	920	1.3	1.7	11.9	16.9	17.5
Transport, storage and communications	2 458	2 621	2 872	7.3	5.5	2.6	6.6	9.6
Subtotal basic services	*3 128*	*3 404*	*3 792*	*8.6*	*7.2*	*4.5*	*8.8*	*11.4*
Commerce, restaurants and hotels	4 470	4 684	5 195	11.4	9.9	3.2	4.8	10.9
Financial institutions, insurance and real estate	4 361	4 940	5 434	8.7	10.3	7.5	13.3	10.0
Community, social and personal services	7 763	8 117	7 951	18.3	15.2	6.1	4.6	-2.0
Subtotal other services	*16 594*	*17 741*	*18 580*	*38.4*	*35.4*	*5.7*	*6.9*	*4.7*
Total gross domestic product [c]	*45 375*	*49 043*	*51 642*	*100.0*	*100.0*	*7.5*	*8.0*	*5.3*

Source: CEPAL, estimates on the basis of figures supplied by the Central Bank of Ecuador.

[a] Preliminary figures.

[b] Includes the extraction of crude oil and natural gas, transport by oil pipeline and marketing of petroleum. The original figure for the marketing of petroleum has been extrapolated from 1972 onwards on the basis of the trend of petroleum extraction.

[c] As the individual activities and the totals were calculated independently the sum of the former does not correspond exactly with the latter.

Only manufacturing recorded a satisfactory expansion (14%), superior to that of 1976, and similar to the speed of growth achieved in the early years of the petroleum phase (1973-1975). Concurrently, construction recorded a growth of 4%, much lower than the high rates reached in 1975 and 1976.

Agricultural production increased by barely 1.4%, thereby interrupting the acceptable growth trend of the period 1973-1976. The adverse weather conditions prevailing in 1977, especially the drought, were the cause of the poor results obtained in the crop-farming subsector in respect of numerous products for domestic consumption and also for export. It is estimated that the total crop-farming output could have fallen by over 2%. In the livestock subsector, according to available data, production continued expanding at the customary rate of approximately 5%.

In mining, including petroleum, there has been an estimated drop in output of somewhat more than 7%. In 1977 petroleum production dropped by around 4%, reaching a level of slightly over 66 million barrels. This contraction was due to the continuing policy of limiting petroleum extraction to 210 thousand barrels a day, and also to the problems which arose at the end of the year in the international marketing of Ecuadorian crude.

In the non-goods-producing sectors, basic services rose by more than 11%, a higher rate than that of the previous years, while production in the other service sectors grew more slowly than in 1975 and 1976, mainly owing to the fall which took place, in real terms, in the current expenditure of the Government.

3. *The external sector*

(a) *Trade in goods and the balance on current account*

The current value of exports of goods rose by 7% in 1977, reaching a total of 1,385 million dollars. There was an increase of 12% in unit value and, in contrast, a drop of around 5% in volume exported (see table 175).

Table 175

ECUADOR: MAIN INDICATORS OF FOREIGN TRADE

	1972	*1973*	*1974*	*1975*	*1976*	*1977* [a]
	Growth rates					
Exports of goods						
Value	36.2	80.5	110.1	-17.3	27.9	6.9
Volume	40.2	43.5	-8.0	-5.3	7.9	-4.8
Unit value	-2.8	25.7	128.3	-12.7	18.6	12.3
Imports of goods						
Value	-7.1	39.8	120.2	15.0	5.4	23.1
Volume	-13.9	25.3	69.7	0.1	-0.6	11.9
Unit value	7.9	11.6	29.7	14.9	6.0	10.0
Terms of trade	11.0	1.5	75.9	-24.0	11.9	2.1
	Indexes (1970 = 100)					
Terms of trade	93.6	95.0	167.1	127.0	142.1	145.1
Purchasing power of exports of goods	138.1	201.3	325.7	234.4	282.9	275.0

Source: CEPAL, on the basis of official data.

[a] Preliminary figures.

Petroleum exports fell in volume, as did other principal exports, such as bananas, coffee and cocoa. On the other hand, the rise in the world prices of coffee and cocoa, and to a lesser degree of petroleum, was responsible for the increase in the average unit value.

In 1977 imports of goods rose to 1,305 million dollars, exceeding by 23% the total for the year before. While the volume rose by 12%, the increment in unit value was 10%, this latter rate being similar to the increase in the average price of the exports of the industrial countries.

The growth in the volume of imports, after two years of stability, was due to two main factors: first, the relaxation of certain measures for stabilizing the balance of payments, which had applied in the two preceding years; and, second, the widespread use of external credits, which financed and also encouraged a greater flow of imports, especially of capital goods and certain intermediate products.

Table 176

ECUADOR: BALANCE OF PAYMENTS
(Millions of US dollars)

	1972	*1973*	*1974*	*1975*	*1976*	*1977*
Current account						
Exports of goods and services	365	626	1 308	1 110	1 394	1 495
Goods FOB	323	583	1 225	1 013	1 296	1 385
Services	42	43	83	97	98	110
Transport	6	11	35	40	45	48
Travel	10	13	21	29	32	36
Imports of goods and services	392	509	1 100	1 295	1 341	1 682
Goods FOB	284	397	875	1 006	1 060	1 305
Services	108	112	225	289	281	377
Transport	51	46	131	161	160	226
Travel	14	19	23	36	42	50
Net payments of profits and interest on foreign capital	-66	-138	-201	-161	-200	-231
Profits	-55	-125	-203	-151	-168	-180
Interest	-11	-13	2	-10	-32	-51
Net private transfer payments	8	8	16	13	14	10
Balance on current account	-85	-13	23	-334	-133	-408
Capital account						
Net external financing (a +b +c +d +e)	85	13	-23	334	133	408
a) Net external non-compensatory capital	176	104	123	383	426	
Direct investment	81	52	77	189	185	
Long- and medium-term loans	113	61	125	149	268	
Amortization payments	-30	-33	-96	-44	-51	
Short-term liabilities	5	5	2	69	-3	564
Official transfer payments	8	19	15	20	27	
b) Domestic non-compensatory capital or assets	-6	-8	-5	-95	-160	
c) Errors and omissions	13	6	-29	-47	53	
d) Allocation of SDRs	4	–	–	–	–	
e) Net compensatory financing (– = increase)	-103	-89	-112	93	-186	-156
Balance-of-payments loans, trade arrears, IMF loans, and other liabilities of the monetary authorities	11	15	1	32	40	...
Amortization payments	-35	-20	–	-1	–	...
Variation in gross international reserves (– = increase)	-79	-84	-112	62	-226	-156
Foreign exchange reserves (– = increase)	-82	-77	-107	67	-241	-152
Gold reserves (– = increase)	7	-8	-4	-5	15	-1
SDRs (– = increase)	-4	1	-1	–	–	-3

Sources: International Monetary Fund, *Balance of Payments Yearbook,* vol. 28, and the Central Bank of Ecuador.

The increases in the unit value of exports and imports were not very different, so that the terms of trade showed only a moderate increase (2%). According to a terms-of-trade index based on 1970 = 100, the level reached in 1977 was 145.

In view of the export and import trends already noted, the surplus on the trade in goods declined from 236 million dollars in 1976 to 80 million in the following year (see table 176). Concurrently, the deficit on the trade in services rose from one year to the other, reaching almost 270 million dollars in 1977.

The result was a negative balance on the trade in goods and services of approximately 190 million dollars. After adding to this figure 230 million in respect of payments of profits and interest on foreign capital and deducting the income from private transfer payments, the final deficit on current account in 1977 exceeded 400 million dollars.

(b) *Current-deficit financing and the balance of payments*

In contrast with what occurred in 1976 and, more particularly, in 1975, the relative magnitude of the current account deficit in 1977 did not lead to the adoption of compensatory measures to stabilize the balance of payments. Instead, an increase in external financing was sought and obtained.

It is estimated that the country received a net inflow of non-compensatory capital of over 560 million dollars. This completely financed the deficit on current account and also added over 150 million to the international reserves, which rose from an absolute level of 515 million dollars at the end of 1976 to 670 million at the end of 1977.

Table 177

ECUADOR: EVOLUTION OF DOMESTIC PRICES

	1972	*1973*	*1974*	*1975*	*1976*	*1977*
1. *Indexes* (1970 = 100)						
Consumer price index[a]	117.9	132.0	162.0	185.3	204.1	230.6
Food[a]	118.8	139.3	182.7	212.8	233.2	267.4
Consumer price index[b]	117.0	132.1	163.0	188.0	208.1	235.2
2. *Variation from December to December*						
Consumer price index[a]	...	...	...	11.0	13.0	12.3
Food[a]	...	...	...	11.5	14.8	11.2
Consumer price index[b]	6.9	20.6	21.2	13.2	13.1	9.7
3. *Variation between annual averages*						
Consumer price index[a]	7.7	12.0	22.7	14.4	10.2	13.0
Food[a]	10.2	17.3	31.2	16.5	9.6	14.7
Consumer price index[b]	7.8	13.0	23.3	15.3	10.7	13.0

Source: Central Bank of Ecuador, *Indicadores Financieros* No 43, December 1977.

[a] In Quito, Guayaquil and Cuenca.
[b] In Quito.

4. *Prices and monetary and fiscal trends*

The consumer price index, measured in terms of annual averages in the city of Quito, increased by 13°/o in 1977, a higher rate than in the previous year. In contrast, for the months of December of each year, the increase of 9.7°/o in 1977 was lower than that of 1976, which amounted to 13.1°/o (see table 177).[99] These apparently contradictory trends indicate on the whole that inflationary pressures were contained and that there was some slackening in the rate of price increases, an impression supported by the trend in food prices, which was similar to that of the general index.

The trend of world inflation and its impact on the country did not have a stabilizing effect on the performance of domestic prices, in contrast with what happened in the previous year, since the rise in the unit value of imports was higher (10°/o in 1977 and 6°/o in 1976). Even so, the official exchange rate remained at 25 sucres to the dollar, a rate which has not varied since August 1970.[100]

Accordingly, the relatively lower rate of inflation was largely due to domestic factors.

In the first place, in 1977 there were no legal adjustments to the minimum living wage, as there had been in each of the three preceding years. Although changes were made in the nominal wages agreed between enterprises and workers, it is thought that, in the absence of legal adjustments, there could have been a drop in real average wages and salaries.

In the second place, in respect of monetary policy and its action against inflation, the growth of the money supply recorded a drop from 31°/o in 1976 to 21°/o in 1977; concurrently, the growth rate of domestic credit to the private sector fell from 30°/o to 18°/o (see table 178). Other salient features of the monetary position in 1977 were the new increase in net international reserves and the part they played as a factor of expansion, together with the relatively small growth in quasi-money.

Table 178

ECUADOR: MONETARY POSITION

	End year balance (millions of Sucres)				*Growth rates*		
	1974	*1975*	*1976*	*1977*	*1975*	*1976*	*1977*
Money	*17 036*	*18 881*	*24 757*	*30 026*	*10.8*	*31.1*	*21.3*
Currency outside banks	4 776	5 386	7 570	9 132	12.8	40.5	20.6
Demand deposits	12 260	13 495	17 187	20 894	10.1	27.4	21.6
Factors of expansion	*23 820*	*26 222*	*35 069*	*41 589*	*10.1*	*33.7*	*18.6*
Foreign assets (net)	7 261	5 872	9 424	13 866	-19.1	60.5	47.1
Domestic credit	16 559	20 350	25 645	27 723	22.9	26.0	8.1
Government (net)	3 137	2 086	1 968	-124	-33.5	-5.7	–
Private sector	13 422	18 264	23 677	27 847	36.1	29.6	17.6
Factors of absorption	*6 785*	*7 338*	*10 313*	*11 563*	*8.2*	*40.5*	*12.1*
Quasi-money (savings and time deposits)	3 997	4 202	5 226	5 512	5.1	24.4	5.5
Bonds	2 751	3 699	4 577	6 388	34.5	23.7	39.6
Other items (net)	37	-563	510	-337	–	–	–

Source: International Monetary Fund, *International Financial Statistics,* April 1977.

[99] For the cities of Quito, Guayaquil and Cuenca, taken together, this decrease was less marked.

[100] In *"Ecuador: Challenges and achievements of economic policy in the expansionary phase of the petroleum industry",*, published as N° 25 in *Cuadernos de la CEPAL* series, the real exchange rate is calculated to have fallen by about 5°/o in 1976 and 7°/o in 1977.

Finally, the available data on government finances indicate that the fiscal deficit as a percentage of total government expenditure rose from 10°/o in 1976 to around 17°/o in 1977, a deterioration which was mainly due to the small increase in current Government income, only slightly over 6°/o in nominal terms (see table 172).

Nevertheless, this greater fiscal deficit did not imply greater pressure on monetary expansion than in 1976, since it was financed to a large extent by the sale of government "stabilization bonds".

EL SALVADOR

1. *Main recent trends: Introduction and summary*

In the last few years the economy in general has shown a sustained upward trend, although in the 1970s it has had to face serious problems, both external (the energy crisis and world inflation) and internal (abnormal weather and political developments), which tended to limit the growth of production. From 1970 to 1976 the gross domestic product rose at an average annual rate of 5.1°/o, which in every year exceeded the population growth rate. In 1977, the growth of general economic activity was slightly higher, as reflected in a 5.5°/o increase in the gross domestic product. Since moreover the terms of trade improved significantly for the second consecutive year, the increase in gross income was much greater (see table 179).

During the period 1970-1977 some structural changes occurred in the production system. One was the economy's greater openness to the exterior, which was manifest in the rise in the import coefficient from less than 25°/o in 1970 to 34°/o in 1977. Another change was the increase in the investment coefficient from 13°/o to 20°/o between those two years, basically as result of capital formation by the public sector. A third change was the rise in the tax coefficient from 10.3°/o to 17.1°/o. Lastly, at the sectoral level a slight increase was observed in the industrialization coefficient, and a drop in that of the agricultural sector.

A number of more deep-seated structural problems obstructing or conditioning the country's economic development continued, however, and possibly tended to worsen. Thus, it is quite likely that the growth model based on export agriculture itself caused the process of income concentration to persist with the result that its benefits were not equitably distributed. In addition, the inadequate agrarian structure remained unaltered and, broadly speaking the production system was unable to generate the employment required by the rapidly expanding population.

It should also be borne in mind that recent development has no permanent basis whatsover, and that domestic economic activity continues to depend increasingly on prevailing world market conditions for its main export commodity.

In particular, the satisfactory results shown by the economy in 1977 were due to a number of positive factors, among which the most important were the favourable conditions in the external sector and the continued policy of higher public spending.

The beginning of the economic upturn in the industrialized countries increased demand for raw materials, which was combined with a reduced world supply of coffee, El Salvador's chief export commodity. Therefore, the rising trends in world coffee prices continued until the end of the first half of 1977. This was the salient trend in the external sector in 1977, which stimulated production especially because of the considerable rise in export prices. At the beginning of 1977 this situation gave rise, moreover, to a spirit of optimism in the private sector, which encouraged the execution of some investment projects, mainly for increased installed capacity, and enabled satisfactory production plans to be formulated.

At the end of the year the high prices of export commodities led to a considerable increase in most of the macroeconomic variables, including public sector income.

Furthermore, the expansion of Central American demand, also influenced by the performance of the external sector, was an additional incentive, primarily to manufacturing.

Table 179

EL SALVADOR: MAIN ECONOMIC INDICATORS

	1972	*1973*	*1974*	*1975*	*1976*	*1977*[a]
A. *Basic economic indicators*						
Gross domestic product at factor cost (millions of US dollars at 1970 prices)	1 544	1 622	1 727	1 799	1 884	1 987
Population (millions)	3.80	3.91	4.03	4.14	4.27	4.39
Per capita gross domestic product (US dollars at 1970 prices)	406	415	429	434	442	452
	Growth rates					
B. *Short-run economic indicators*						
Gross domestic product	5.7	5.1	6.4	4.2	4.7	5.5
Per capita gross domestic product	2.6	2.1	3.5	1.2	1.7	2.4
Gross income[b]	6.2	7.0	3.7	2.5	12.8	11.0
Terms of trade	3.2	6.5	-12.5	-7.0	37.0	20.5
Current value of exports of goods and services	25.8	18.5	29.0	15.5	39.7	28.0
Current value of imports of goods and services	12.7	36.3	45.8	6.2	16.2	33.5
Consumer price index[c]	1.6	6.4	16.9	19.1	7.0	11.8
Money	23.5	19.6	19.4	16.4	41.4	7.8
Current income of government	10.3	23.1	18.9	19.3	40.2	45.7
Total expenditure of government	14.2	19.4	26.8	17.7	34.4	35.1
Fiscal deficit/total expenditure of government[d]	9.9	0.3[e]	4.9	3.6	0.6[e]	8.5[e]
	Millions of US dollars					
C. *External sector*						
Trade balance (goods and services)	11	-45	-131	-91	33	-1
Balance on current account	9	-46	-135	-95	19	-21
Variation in net international reserves	22	-2	16	14	81	27
External debt[e]	281	332	439	606	708	803

[a] Preliminary figures.
[b] Gross domestic product plus terms-of-trade effect.
[c] Variation between annual averages.
[d] Percentage.
[e] Surplus.

The public sector also continued to provide a significant stimulus to production by following an expansionary spending policy, principally for investment. This policy was possible thanks to the large increase in income, deriving basically from taxes on foreign trade. Public expenditure increased steadily over the last seven years, with the result that the public investment coefficient rose from less than 3%/o in 1970 to nearly 8%/o in 1977.

Among the factors limiting economic development in 1977 was, in the first place, a new irregularity in the rainfall cycle which directly affected the agricultural sector and indirectly nearly all

production activities because of that sector's importance in the national economy. To begin with, a prolonged drought in the northern and north-eastern part of the country adversely affected the crop of basic grains and, on a lesser scale, the cotton crop; and towards the end of the year the late rains seriously damaged the coffee crop of which there had been high expectations.

Moreover, the reactivation of inflationary pressures affected the real income of the wage-earning group, which only at the end of the year obtained adjustments in some sectors. This fact probably helped to slow down the growth of domestic demand, but was partially offset by an increase in employment.

Economic activity was also affected by political events in the country. It should be remembered, first, that 1977 was an election year with a change of government, which in itself introduced a "wait and see" element in the private sector. Secondly, the degree of political instability and unrest created by the above events encouraged a certain amount of caution in specific production sectors, which although only temporary, gradually undermined the optimism deriving from the external sector. Added to this was a series of claims and demands of the labour sector which led to strikes and stoppages which in some cases became widespread within certain branches of activity.

Generally speaking, the main economic policy goals were to continue to implement the National Development Plan, bring down inflation and actively support the private sector. The first goal was partially attained thanks to the financial boom generated by the external sector and the progress made in the main investment projects.

As regards the second goal, in spite of the fact that wage stabilization and reduced domestic financing for the public sector were pursued as basic factors in lessening inflationary pressures, in the end these pressures were renewed owing to difficulties arising in the supply of basic grains and the impact of a further rise in the prices of imported raw materials and inputs. The average increase in consumer prices was thus 11.8%, a good deal higher than the previous year's rate (see table 179).

Finally, the public sector continued to allocate increasing funds to strengthen the public institutions responsible for supporting the private sector. Outstanding among these was the Salvadorian Industrial Development Institute (INSAFI) because of its broad activity in the study, preparation and financing of various investment projects. The State has also set up an Economic Development Fund, administered by the Central Reserve Bank of El Salvador through the banking system, the main purpose of which is to promote agricultural and manufacturing activities. This Fund became particularly active in 1977. In addition, impetus continued to be given to the programme of industrial parks and the free zone, thereby facilitating the development of new industries. In 1977 too, the Salvadorian Foreign Trade Institute pursued its activities in connexion with the search for markets and the identification of new export products, particularly of industrial origin.

2. *Recent economic trends*

(a) *Total supply and demand*

The economy grew at a relatively satisfactory rate in 1977. The gross domestic product rose by 5.5%, a rate which was only exceeded during the present decade in 1972 (5.7%) and 1974 (6.4%), and which meant a significant rise in per capita income (see table 179).

Real imports of goods and services also increased at an accelerated pace (21%), so that total supply was more than 9% above the 1976 level. The economy's requirements in terms of imported goods have grown at an increasing rate during the 1970s, their share in the total product rising from just under 25% in 1970 to 34% in 1977 (see table 180).

On the demand side, all components also showed a dynamic trend, with the exception of the volume of sales abroad.

Domestic demand increased by over 12%. The most active element was gross domestic investment, which rose by one-third. This performance was strongly influenced by changes in stocks, and for this reason the growth of gross fixed investment was slower, although in any case considerable (15%).

The public sector continued to exercise an expansionary influence on demand, mainly through investment, which the implementation of the programmes included in the National Economic and

Table 180

EL SALVADOR: TOTAL SUPPLY AND DEMAND

	Millions of colones at 1970 prices			*Percentage breakdown*		*Growth rates*		
	1975	*1976*	*1977*[a]	*1970*	*1977*[a]	*1975*	*1976*	*1977*[a]
Total supply	*4 216*	*4 497*	*4 905*	*124.6*	*134.1*	*2.3*	*6.7*	*9.1*
Gross domestic product at market prices	3 311	3 467	3 658	100.0	100.0	4.2	4.7	5.5
Imports of goods and services[b]	905	1 030	1 247	24.6	34.1	-3.9	13.9	21.0
Total demand	*4 216*	*4 497*	*4 905*	*124.6*	*134.1*	*2.3*	*6.7*	*9.1*
Domestic demand	3 320	3 562	4 001	99.8	109.4	0.3	7.3	12.3
Gross domestic investment	565	562	743	13.2	20.3	-9.8	-0.6	32.2
Gross fixed investment	584	617	710	12.0	19.4	22.7	5.7	15.0
Public	221	223	284	2.8	7.8	60.9	0.8	27.7
Private	363	394	426	9.2	11.6	7.3	8.6	7.8
Changes in stocks	-19	55	33	1.2	0.9			
Total consumption	2 755	3 000	3 258	86.4	89.1	2.6	8.9	8.6
General government	344	374	396	10.7	10.8	5.5	8.7	5.7
Private	2 411	2 626	2 862	75.7	78.3	2.2	8.9	9.0
Exports of goods and services[b]	896	935	904	24.8	24.7	10.8	4.4	-3.4

Sources: 1970-1976: CEPAL calculations on the basis of figures supplied by the Banco Central de Reserva de El Salvador;
1977: CEPAL estimates on the basis of official data.

[a] Preliminary figures.

[b] 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 CEPAL for the purpose.

Social Deveopment Plan caused this to rise by nearly 28°/o over the previous year (see table 180). Thus in 1977 the State continued the efforts it had been making to stimulate the economy, as a result of which public investment expanded over the past seven years at an average annual rate of 22°/o and increased its share in the domestic product from less than 3°/o to nearly 8°/o over that period.

Moreover, private investment continued to grow at a higher rate than the product in response to the incentives provided by the public sector. Since 1974 the economic policy aim has been to support the entrepreneurial sector through the installation of industrial parks and the establishment of a free zone, and to strengthen the public financing institutions, all of which has led to an upswing in the rate of execution of investment projects.

The most important items of private gross fixed investment were absorbed by construction (basically of urban housing and office buildings), manufacturing (especially the expansion of existing plants and the construction of new ones in the free zone) and, to a lesser degree, the agricultural sector associated with export crops.

In addition, it is estimated that stocks rose by 33 million colones at 1970 prices as a result of the combination of two contrary factors: the stockpiling of exportable coffee in line with the country's policy of holding back the sale of this commodity, and a considerable reduction in stocks of basic grains due to the poor harvest of these crops.

On the other hand, the volume of exports contracted by 3°/o, thus interrupting the dynamic trend observed during the present decade with an average annual growth of 7.6°/o in external sales between 1970 and 1976.

In spite of the contraction in the volume of exports, the external sector transmitted a considerable stimulus to the domestic production through the widespread rise in the prices of the main

export commodities, which was not cancelled out by the exceptional drop in sugar prices. The general price index of exports rose by 36°/o and that of imports by 11°/o; there was therefore a notable improvement in the terms of trade and for the third year in succession the purchasing power of exports increased.

(b) *Sectoral developments*

The production sectors responded favourably to the stimulus provided by the external sector and the public sector.

The encouraging outlook prevailing at the beginning of the year, however, was subsequently weakened, first, by the effects of the political situation typical of an election period (which grew stronger towards the middle of the year and continued to make themselves felt, although on a lesser scale, during the second half of the year); secondly, by the decline in the price of the main export commodity (whose impact on the economy goes beyond the mere value of its sales); and, thirdly, by the weather pattern that affected the agricultural product, which accounts for over 25°/o of the gross domestic product. Notwithstanding the above, the dynamism of the beginning of the year was not completely lost, with the final result that production activity was, generally speaking, satisfactory.

(i) *Agriculture.* For the second year running the agricultural sector grew at a fairly slow rate. In 1977 its value added practically did not increase over the 1976 level when it fell by nearly 3°/o (see table 181). Several factors may account for this performance, but the most important were the abnormal weather conditions in the last three agricultural cycles and the private sector's "wait and see" attitude to the changes introduced by the Government in its land policy.

In the middle of 1976 the Government decided to embark upon the restructuring of agriculture through the establishment of the First Land Reform Project for the eastern zone of El Salvador, which caused temporary political tension and gave rise to extensive speculation regarding its scope. At the end of the year, as a result of the heavy pressure exercised by certain sectors some changes were introduced in the regulations which reduced the scope of the policy in a climate of some uncertainty. This state of affairs continued in 1977, and the project remained practically without effect. New tensions arose in the first half of the year, however, following the occupation of land for the first time in 30 years.

The general index of agricultural production shows that the sector's contraction was due to the drop in crop farming, which was partly offset by the renewed growth of livestock production, basically because of the growth in poultry farming (see table 182).

A notable feature in the performance of agricultural commodities was the drop in the coffee harvest for the second year in succession, as a result of the unseasonal rains which damaged the crops in the flowering stage. The drop might have been much bigger if producers had not striven to increase the productivity of the 1977/1978 crop through the use of inputs and insecticides and the introduction of new cultivation methods. These efforts should have led to a high level of production, but a sharp increase in costs adversely affected the producers' financial position. This situation was aggravated as world prices dropped and coffee sales remained at a standstill, to the extent that the monetary authorities granted an extension for the repayment of farmers' bank debts.

Cotton production declined in 1975 and 1976, basically owing to reductions in cultivated area. In 1977, however, it rose slightly due to increase of 8.5°/o in cultivated area. Nevertheless, average productivity fell as a result of the prolonged drought that affected crops in the eastern zone of El Salvador. Here too it is estimated that results might have been even more unfavourable if producers, encouraged by the rise in world prices up to the first half of the year, had not decided to increase the area under cultivation.

The most serious effects of the lack of rainfall were reflected in the drops in the production of some basic grains (16°/o in the output of beans and 11°/o in that of rice). In the case of these commodities, the Institute for the Regulation of Supply was compelled to carry out an active marketing programme in order to moderate the immediate effects of their shortage on prices and promote their future recovery.

In contrast, maize, the population's basic foodstuff, reached a production level of 413,000 tons, which represents a growth of 12°/o over the low volume of 1976, but failed to regain the 1975 level. Output of millet, which is replacing maize as animal feed, increased by 10°/o, thus compensating for

Table 181

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

	Millions of colones at 1970 prices			*Percentage breakdown*		*Growth rates*		
	1975	*1976*	*1977*[a]	*1970*	*1977*[a]	*1975*	*1976*	*1977*[a]
Agriculture	915	890	892	30.6	26.5	6.5	-2.7	0.2
Mining	6	8	7	0.2	0.2	8.3	23.1	-9.4
Manufacturing	540	582	614	17.6	18.3	2.4	7.8	5.6
Construction	139	143	153	3.0	4.5	42.6	2.9	7.0
Subtotal goods	*1 600*	*1 623*	*1 666*	*51.4*	*49.5*	*7.4*	*1.4*	*2.7*
Electricity, gas and water	61	67	77	1.6	2.3	9.9	9.8	15.4
Transport, storage and communications	171	182	200	5.3	5.9	5.4	6.4	9.9
Subtotal basic services	*232*	*249*	*277*	*7.0*	*8.2*	*6.5*	*7.3*	*11.4*
Commerce, financial institutions and insurance	596	657	719	20.3	21.4	0.6	10.2	9.4
Real estate[b]	116	118	123	4.0	3.7	3.6	2.3	3.4
Community, social and personal services[c]	522	543	578	17.2	17.2	0.4	4.0	6.4
Subtotal other services	*1 234*	*1 318*	*1 420*	*41.6*	*42.3*	*0.8*	*6.8*	*2.7*
Total gross domestic product[d]	*3 058*	*3 202*	*3 378*	*100.0*	*100.0*	*4.2*	*4.7*	*5.5*

Sources: 1970-1976: CEPAL calculations on the basis of figures supplied by the Banco Central de Reserva de El Salvador;

1977: CEPAL estimates on the basis of data from the same source.

[a] Preliminary figures.
[b] Refers to ownership of dwellings only.
[c] Also includes restaurants, hotels and business services.
[d] As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

the drop in 1976 and freeing more supplies of maize for human consumption.

In the face of the uncertainty in the international sugar market, cane production remained practically at a standstill. This situation, combined with an increase in the volume exported, caused problems in the supply of the domestic market even though the quota fixed for the purpose was close to 150,000 tons, i.e., 10,000 tons more than national consumption in 1976.

(ii) *Manufactures.* Manufacturing production grew by about 6%, a rate very similar to that of the whole economy. In the present decade the sector has followed a dynamic trend, growing at an average annual rate of 7.5%; nevertheless, its share in the product rose only slightly (see table 181). Among the factors determining its performance are higher Central American demand, since during the last five years exports to the region grew at an average annual rate of 12% in terms of current prices, and the growth of sales of manufactures to third countries.[101] This increase, however, occurred without alteration of the industrial structure of 1970, with very slight changes in the share of each of its branches, the chief ones being the increases in the share of the chemicals and petroleum industries, and the basic metals and machinery (except electrical) industries (see table 183).

[101] Non-traditional exports to third countries grew at an average rate of roughly 30% at current values during the last four years.

Table 182

EL SALVADOR: INDICATORS OF AGRICULTURAL PRODUCTION

	1973	1974	1975	1976[a]	1977[a]	Growth rates			
						1974	1975	1976[a]	1977[a]
General agricultural production index (1968 = 100)	119.0	134.7	145.3	130.9	131.8	13.1	7.9	-9.9	0.7
Crop farming	117.7	131.1	142.2	122.4	120.6	11.4	8.5	-13.9	-1.5
Stock-raising	123.6	147.1	156.1	160.1	170.1	19.0	6.1	2.6	6.3
Production of some important crops (thousands of tons)									
Coffee	138	173	179	155	147	26.0	3.5	-13.6	-5.2
Ginned cotton	77	81	81	70	71	5.2	-0.5	-13.2	1.1
Maize	444	382	478	370	413	-14.0	25.3	-22.7	11.9
Beans	41	38	42	44	37	-5.7	9.3	3.8	-16.1
Milled rice	26	22	41	25	22	-15.1	88.9	-38.4	-10.9
Millet	170	143	190	170	187	-16.2	33.3	-10.6	9.9
Sugar cane	2 440	2 953	3 166	3 177	3 188	21.0	7.2	0.3	0.3
Index of stock-raising production (1968 = 100)									
Cattle	114.1	121.1	146.1	146.1	146.9	6.2	20.6	–	0.5
Pigs	129.2	111.7	83.9	102.2	109.5	-13.6	-24.8	21.7	7.1
Milk	109.4	153.7	155.3	158.5	171.4	40.5	10.0	2.1	8.1
Eggs	172.0	178.8	205.4	209.5	224.7	4.0	14.8	2.0	7.2
Number of animals slaughtered									
Cattle	101.3	120.1	153.1	184.3	...	18.6	27.5	20.4	...
Pigs	177.2	155.2	119.0	123.7	...	-12.4	-23.3	3.9	...

Sources: Statistics and Census Office and Central Reserve Bank of El Salvador.

[a] Estimates.

Table 183

EL SALVADOR: INDICATORS OF MANUFACTURING PRODUCTION

	1973	1974	1975[a]	1976[a]	1977[a]	Growth rates			
						1974	1975	1976	1977
Product of the manufacturing sector (millions of colones)	*610.5*	*706.6*	*793.8*	*882.0*	*996.2*	*15.7*	*12.3*	*11.1*	*12.9*
Food	169.7	186.1	202.0	218.6	250.1	9.7	8.5	8.2	14.4
Beverages	65.4	80.2	82.9	91.6	103.3	22.6	3.4	10.5	12.8
Tobacco	22.9	26.9	29.3	32.8	36.8	17.5	8.9	11.9	12.2
Textiles	76.8	87.7	93.5	101.2	115.9	14.2	6.6	8.2	14.5
Footwear and clothing	58.1	62.1	70.7	75.0	86.5	6.9	13.8	6.1	15.3
Wood	4.6	5.4	7.3	9.4	9.8	17.4	35.2	28.8	4.2
Furniture	8.6	11.3	16.2	17.3	19.9	31.4	43.4	6.8	15.0
Paper and paperboard	9.0	10.3	12.2	13.4	15.3	14.4	18.4	9.8	14.2
Printing	10.7	13.7	17.2	20.0	22.2	28.0	25.5	16.3	11.0
Leather	4.8	6.3	11.1	11.8	13.6	31.2	76.2	6.3	15.2
Rubber	3.7	4.8	9.1	9.3	11.0	29.7	89.6	2.2	18.3
Chemicals	51.2	60.5	67.4	75.9	85.2	18.2	11.4	12.6	12.2
Petroleum	30.7	43.9	40.6	51.1	54.5	43.0	-7.5	25.9	6.6
Non-metallic products	26.4	31.5	33.3	38.4	42.7	19.3	5.7	15.3	11.2
Basic metals	8.4	11.0	18.2	24.1	25.1	31.0	65.4	32.4	4.1
Metal products	8.3	9.5	14.1	16.3	18.1	14.4	48.4	15.6	11.0
Machinery, except electrical	5.4	6.5	12.4	13.3	15.3	20.3	90.8	7.2	15.0
Electrical machinery	18.4	20.3	24.3	25.8	29.9	10.3	19.7	6.2	15.9
Transport equipment	9.1	10.3	15.2	16.2	18.7	13.2	47.6	6.6	15.4
Others	18.3	18.3	16.8	20.5	22.3	–	-8.2	22.0	8.8
Industrial consumption of electricity (millions of KWH)	352.7	387.3	405.9	452.3	421.6[b]	9.8	4.8	11.4	14.4[c]

Source: Central Reserve Bank of El Salvador.

[a] Preliminary figures.

[b] January-October.

[c] January-October 1977, compared with the same period in 1976.

The growth in 1977 was partly due to some new industries which started operating in that year, mainly in the following sectors: food –the most important being the Jiboa plant–, beverages, textiles and clothing, building materials (cement factory) and chemical products (PVC and expansion of fertilizer plants).

The National Council for Small-Scale Industry was established recently for the purposes of studying general policies, promoting the rapid development of the sector and analysing problems connected with financing, technical assistance, purchase of inputs, marketing of products, exports, and other problems obstructing the development of the sector.

Nevertheless, the manufacturing sector was in some degree affected by the political developments which seem to have led to movements of capital to other countries and delayed the execution of some projects. For this reason, investment was directed toward only a limited amount of expansion so that the sector's growth was largely due to an increase in utilized capacity. There was also a certain amount of unrest among the workers who requested higher wages and allowances in the face of the rise in the general level of prices and even brought some industries to a halt through strikes.

(iii) *Construction.* The construction sector expanded considerably in 1977. The causes of such growth may be found in important projects executed by the public sector and also in the vigorous activity of private enterprise, especially in housing construction. The latter was stimulated by the consolidation and strengthening of the financial institutions responsible for looking after this area of social interest. The results could have been even more favourable, but during the first half of the year there were also labour strikes in this sector because of demands for increased wages and allowances.

It should be noted, moreover, that in the last five years building costs have risen considerably owing, in particular, to the higher cost of imported materials. Information for the first half of 1977 already indicated an 18% increase over the average cost for 1976, and in the second half a greater increase will probably be recorded because of the reduction in the working day (see table 184).

Table 184

EL SALVADOR: INDICATORS OF CONSTRUCTION ACTIVITY

	1973	*1974*	*1975*	*1976*	*1977*[a]
Building permits (thousands of m^2)	1 005	1 552	943	1 818	417
Housing	690	930	585	718	343
Industrial and commercial	316	622	358	1 100	74
Area constructed (thousands of m^2)	834	648	590	418	366
Housing	767	607	554	395	344
Industrial and commercial	67	41	36	23	21
Average value per square metre built (colones)	138	168	199	206	242
Production of certain building materials (thousands of tons)					
Iron	21	32	25	20	...
Cement	235	291	336	323	171

Source: Statistics and Census Office.

[a] January-June.

(iv) *Energy.* The energy sector continued to show the dynamism that has characterized it during the present decade, recording the highest growth rate of the whole economy. This was merely the result of the notable effort to expand the energy sector made in the past by the public sector, which has led to the growth of generating capacity and also to structural changes in the sources of energy

consistent with the replacement of petroleum by hydro and geothermal energy, with the consequent reduction in production costs. The 1977 expansion was the direct consequence of the start of operations of the Los Ausoles goethermal plant. In 1977, the net generation of electric energy amounted to 1,186 million KWH, which represents a 13°/o increase over the previous year, of which geothermal energy accounted for 32°/o (375 million KWH). In the course of the year, work also proceeded on the second phase of the Los Ausoles plant, whose generating capacity will be expanded by 35,000 KWH.

(v) *Other sectors.* The rest of the sectors followed a satisfactory trend with an average growth of nearly 8°/o. Particularly intensive was the expansion of financial activities which, despite their fairly modest share (3.7°/o) in economic activity, grew at a rate of 14°/o as a result of the boom in activities connected with the external sector and the emergence of new financial institutions. Government services also increased at a faster rate than the national average, influenced by the availability of resources generated by the external sector. Lastly, commerce and transport also showed a satisfactory trend, despite the fact that both activities suffered the effects of the above mentioned labour problems.

3. *The external sector*

The beginning of the world economic recovery, the stabilization of the rate of increase in the prices of manufactured products and the notable rise in major export commodity prices constituted favourable conditions in the external sector, whose growth provided the most important stimulus to production in 1977. In fact, owing to the high degree of openness of the Salvadorian economy, this situation was reflected in the behaviour of most of the macroeconomic variables. Furthermore, similar conditions prevailed in the other Central American economies, which strengthened the expansionary trends.

The final results might have been even better, but world prices of coffee, the main export commodity, tended to decline during the second half of the year.

A noteworthy feature as regards external policy was the effort made by the Salvadorian External Trade Institute to find new markets for non-traditional products and provide internal support for the corresponding production activities. As a result of this activity, initiated some years ago, significant advances were achieved in respect of some industrial products easily adaptable for export, such as textiles and clothing. Furthermore, in keeping with this effort the State has promoted the establishment of free zones and industrial parks with the main object of producing exportable goods.

(a) *Trade in goods*

(i) *Exports.* The value of exports of goods amounted to some 980 million dollars, representing a growth of 31°/o over 1976 (see table 185). This increase was due to the sharp rise in prices (35°/o) since the volume of exports declined by about 4°/o (see table 186).

The basic factor underlying the rise in the value of exports was the increase in coffee sales, which rose 59°/o through the combined effect of an 80°/o increase in average price and an 11.5°/o reduction in quantum. As a result of the decline in world coffee prices in the second half of the year, the authorities responsible for coffee policy decided on a temporary suspension of sales pending a recovery in prices. This measure, together with the poor 1977/1978 harvest, were largely responsible for the decrease in the volume exported.

Exports of cotton –the commodity ranking second in importance although well below coffee– also grew significantly (31°/o) as a result of the 29°/o rise in unit price and the 2°/o increase in the volume of sales.

An increment of 18°/o in the volume of sugar exports failed to offset the decline for the second consecutive year in the world price. Consequently, the current value of sales, which had halved in 1976, dropped again by about one-fifth in 1977.

Sales to the Central American Common Market, consisting for the most part of manufactured products, rose by 12.5°/o, which was lower than the rate prevailing up to 1974 (see table 185). Thus the share of sales to Central America in El Salvador's total exports continued to lose ground falling

Table 185

EL SALVADOR: VALUE AND BREAKDOWN OF EXPORTS OF GOODS (FOB)

	Millions of dollars					*Percentage breakdown*		*Growth rates*			
	1973	*1974*	*1975*	*1976*[a]	*1977*[b]	*1973*	*1977*	*1974*	*1975*	*1976*	*1977*
Main export products	223	291	341	501	738	61.7	75.6	30.5	17.3	46.9	47.5
Coffee	159	195	172	384	612	44.2	62.7	22.1	-11.7	123.4	59.3
Cotton	36	48	76	64	84	10.1	8.6	32.1	58.8	-16.1	31.2
Sugar	18	40	82	41	33	4.9	3.4	122.5	107.3	-50.7	-18.3
Shrimps	9	8	10	12	9	2.5	0.9	-10.0	28.4	14.4	-24.4
Other exports	138	173	192	246	238	38.3	24.4	25.1	11.1	28.1	-3.2
Total	*361*	*463*	*533*	*746*	*976*	*100.0*	*100.0*	*28.4*	*15.0*	*40.1*	*30.8*
To the Central American Common Market	113	150	142	176	198	31.4	20.3	32.4	-5.4	24.2	12.5
To the rest of the world	247	313	391	570	778	68.6	79.7	26.6	24.8	45.9	36.4

Sources: Statistics and Census Office and Central Reserve Bank of El Salvador.

[a] Preliminary figures.
[b] Estimates.

Table186

EL SALVADOR: MAIN INDICATORS OF FOREIGN TRADE

	1972	1973	1974	1975	1976	1977[a]
	Growth rates					
Exports of goods						
Value	24.1	18.8	29.6	14.7	40.9	30.0
Volume	13.7	-4.2	4.2	11.6	2.4	-3.7
Unit value	9.2	24.0	24.3	2.8	37.6	35.0
Imports of goods						
Value	10.8	36.1	53.7	5.4	17.4	28.4
Volume	4.8	16.9	8.1	-4.6	16.9	14.7
Unit value	5.8	16.4	42.1	10.5	0.5	12.0
Terms of trade	3.2	6.5	-12.5	-7.0	37.0	20.5
	Indexes (1970 = 100)					
Terms of trade	98.1	103.6	90.5	84.3	115.4	139.1
Purchasing power of exports of goods	119.6	121.1	110.2	114.6	160.8	186.5
Purchasing power of exports of goods and services	120.3	125.0	117.5	122.8	168.5	195.7

Source: CEPAL, on the basis of official data.

[a] Preliminary figures.

steadily from over 31°/o in 1973 to 20°/o in the past year. This situation reveals the great dynamism of traditional exports, the success in channelling non-traditional exports to third countries, and the problems affecting the Central American Common Market.

(ii) *Imports.* Imports of goods were also very dynamic, although their rate of growth of around 30°/o was slightly lower than that of exports. Their expansion was the result of the combined effect of increases of 15°/o in volume and approximately 12°/o in unit price (see tables 186 and 187).

Imports of intermediate and capital goods increased at very high rates in line with domestic production and investment requirements, while imports of consumer goods rose at an even higher rate. This shows once again the high propensity to import of the Salvadorian economy and the concentration of the effects of the export sector in the high-income groups, which import non-essential goods.

(iii) *The terms of trade.* As a result of the exceptional increase in the price of coffee and notwithstanding a 12°/o rise in the unit value of imports, the terms of trade improved considerably for the second year in succession, 1977 marking the highest level in the past 20 years (see table 186).

(b) *Services*

In 1977 the services account recorded a deficit of 147 million dollars, which is almost identical to the surplus on trade in goods (see table 188).

One of the factors determining the adverse result in the services account was the deficit on tourism transactions. This rose from less than 10 million dollars in 1976 to 34 million in 1977, mainly as a result of the appreciable increase in spending by Salvadorian nationals abroad. This is a further sign of the concentration of the effects of the boom in the export sector.

Table 187

EL SALVADOR: VALUE AND BREAKDOWN OF IMPORTS OF GOODS (CIF)

	Millions of dollars					*Percentage breakdown*			*Growth rates*			
	1973	*1974*	*1975*	*1976*[a]	*1977*[b]	*1973*	*1976*[a]	*1977*[b]	*1974*	*1975*	*1976*[a]	*1977*[c]
Consumer goods	101	124	141	174	184	27.1	23.4	23.8	22.2	14.1	22.8	37.6
Intermediate goods	198	339	304	371	398	53.0	50.2	51.5	71.0	-10.5	22.4	34.7
Crude Petroleum	19	48	46	52	67	5.0	7.0	8.7	157.8	-4.4	12.4	34.6
Others	180	291	257	320	330	48.0	43.2	42.8	61.9	-11.5	24.1	34.8
Capital goods	71	94	154	191	191	19.0	25.7	24.7	32.2	64.2	24.0	26.6
Total[d]	*374*	*564*	*599*	*741*	*772*	*100.0*	*100.0*	*100.0*	*50.8*	*6.2*	*23.7*	*30.8*
From the Central American Common Market,	92	118	137	170	167	24.7	23.7	21.6	27.2	16.4	24.6	29.6
From the rest of the world	282	446	462	570	605	75.3	76.3	78.4	52.5	3.5	23.5	31.2

Source: Central Reserve Bank of El Salvador.

[a] Preliminary figures.
[b] January-October.
[c] January-October 1977, compared with the same period in 1976.
[d] Also includes small quantities of goods not elsewhere classified.

Table 188

EL SALVADOR: BALANCE OF PAYMENTS
(Millions of US dolars)

	1972	*1973*	*1974*	*1975*	*1976*	*1977*
Current account						
Exports of goods and services	337	399	515	595	830	1 063
Goods FOB	302	358	465	533	751	976
Services	35	41	50	62	79	87
Transport	9	11	12	13	19	21
Travel	11	11	16	19	27	22
Imports of goods and services	326	444	646	686	797	1 064
Goods FOB	250	340	522	550	646	830
Services	76	104	124	136	151	234
Transport	36	43	53	61	73	118
Travel	20	35	37	34	36	56
Net payments of profits and interest on foreign capital	-11	-13	-21	-29	-41	-50
Profits	-7	-9	-11	-11	-16	-22
Interest	-4	-4	-10	-18	-25	-28
Net private transfer payments	9	12	17	25	27	30
Balance on current account	9	-46	-135	-95	19	-21
Capital account						
Net external financing (a + b + c + d + e)	-9	46	135	95	-19	21
a) Net external non-compensatory capital	19	52	163	97	36	
Direct investment	7	6	20	13	10	
Long- and medium- term loans	33	35	82	135	69	
Amortization payments	-14	-20	-21	-33	-28	
Short-term liabilities	-10	29	81	-20	-18	48
Official transfer payments	3	2	1	2	3	
b) Domestic non-compensatory capital or assets	-12	-12	-7	2	1	
c) Errors and omissions	2	4	-5	10	25	
d) Allocation of SDRs	4	–	–	–	–	
e) Net compensatory financing (minus sign signifies an increase)	-22	2	-16	-14	-81	-27
Balance-of-payments loans, trade arrears, IMF loans, and other liabilities of the monetary authorities	10	3	33	25	3	...
Amortization payments	-14	-22	-13	-9	-6	...
Variation in gross international reserves (minus sign signifies an increase)	-18	21	-36	-30	-78	...
Foreing exchange reserves (– = increase)	-16	21	-36	-30	-78	...
Gold reserves (minus sign signifies an increase)	–	–	–	–	–	...
SDRs (minus sign signifies an increase)	-2	–	–	-1	–	...

Sources: 1972-1976: CEPAL, on the basis of data from the International Monetary Fund;
1977: CEPAL, on the basis of data supplied by the Central Reserve Bank of El Salvador.

In 1977 there was also a continuing increase in payments of profits and interest, which nearly doubled the average amount recorded in the period 1974-1975.

The final result of the above operations was a current account deficit of a little over 20 million dollars (see table 188).

(c) *Movements of capital and the external debt*

This effect was entirely financed by the inflow of non-compensatory capital, which also permitted an increase in the monetary system's international reserves for the fourth consecutive year. The inflow of funds stemmed from the movements of official and banking capital, while private capital recorded a negative balance of 24 million dollars, which contrasted with the high levels of external financing used by this sector in previous years. This item probably includes most of the capital outflows which, in the general view, reached considerable proportions in the first half of the year.

The public sector, on the other hand, continued to play an important role in financing the balance of payments, using a similar proportion of external funds as in the previous year for the execution of investment projects under the National Development Plan. Generally speaking, a sound policy of external borrowing was maintained, which avoided the contracting of short-term loans whose effects on the balance of payments and public finances are more onerous than those of credits granted by international financing institutions with longer maturity and grace periods. As a result, the burden of the external public debt as a percentage of exports, which is one of the lowest in Latin America, was reduced again in 1977 (see table 189).

Table 189

EL SALVADOR: INDICATORS OF EXTERNAL INDEBTEDNESS
(Millions of colones)

	1972	*1973*	*1974*	*1975*	*1976*	*1977*[a]
Balance of public and State guaranteed debt	281	332	439	606	708	803
Servicing of external debt	22	26	32	66	49	54
Amortization payments	13	16	19	53	20	30
Interest payments	9	10	13	13	29	24
Servicing of external debt, as a percentage of total exports of goods and services	2.6	2.6	2.3	4.4	2.3	2.0

Source: Central Reserve Bank of El Salvador.

[a] Estimates.

4. *Prices and wages*

After significant increases in the two-year period 1974-1975 and a 7% rise in 1976, the consumer price index rose by 11.8% in 1977 (see table 190). The resurgence of inflationary pressures is even more significant since throughout the year there was a steady monthly increase which reached its peak at the end of the third quarter. The rise in the cost of housing and services was the basic factor determining this performance; in contrast, food price rose moderately, although at a higher rate than in 1976.

Various reasons account for the renewed upsurge of inflation. Weather problems affecting the crop of basic grains and the rise in the prices of some widely-used imports were perhaps the most important.

Table 190

EL SALVADOR: CONSUMER PRICE INDEX
(Variation between annual averages)

	1973	*1974*	*1975*	*1976*	*1977*
General Index					
Food	*6.4*	*16.9*	*19.1*	*7.0*	*11.8*
Housing	7.5	17.3	20.5	7.0	8.7
Clothing	7.6	18.8	18.7	7.4	15.4
Miscellaneous	3.0	9.1	29.0	11.6	9.1
Expenditure	3.8	18.0	9.5	2.8	22.2

Sources: Ministry of Economic and Social Development Planning and Co-ordination, Statistic and Census Office; and Central Reserve Bank of El Salvador.

In the face of the rise in prices, the labour sector put forward a series of demands which, upon being rejected by the entrepreneurs, culminated in a succession of strikes. Not until the end of the year, however, did the Government grant an increase in the minimum wage in some branches of activity, which will enter into force next year. On 15 November a wage increase was granted to workers engaged in the coffee harvest, and on 23 December to workers in manufacturing and services (see table 191).

Nevertheless, some of the better organized labour sectors succeeded in obtaining certain allowances in the annual review of collective contracts, and construction workers persuaded the Legislative Assembly in June to adopt the reforms to the Labour Code, reducing the working day from 8 to 7 hours. No wage increases appear to have been granted in this sector, however. In addition, the State approved wage increases for public sector workers from the beginning of the year, but these only partly offset the deterioration in real income suffered by this sector in 1976.

In short, in view of the accelerated rise in prices and the stagnation of the level of wages, the wage-earners' real income deteriorated in 1977.

No information is available on the level of employment. It is, however, estimated to have grown considerably owing to the new enterprises installed by the private sector in the industrial parks and the free zone, in addition to the employment created by the greater attention paid to export crops. Employment was also generated by the major investment projects –new airport, motorways, urban development, etc.– and production projects (Jiboa plant) undertaken by the public sector. All this probably helped in part to offset the weakening of demand due to the deterioration in incomes.

5. *Fiscal and monetary policy*

(a) *Fiscal policy*

The central Government adopted a budget for 1977 with a level of expenditure 26%o higher than that for the previous year, the mark of an expansionary budget which would continue to stimulate global demand just as the fiscal sector had been doing for five years.

The satisfactory behaviour of income in the course of the year made a considerable increase possible in both current and investment expenditure, but even so the Government closed with a record fiscal surplus (see table 192).

Tax revenue rose by approximately 48%o, maintaining the high rate of growth observed in 1976. This considerably raised the central Government tax load, from 12%o in 1975 to 14%o in 1976 and 17%o in 1977.

The increase in tax receipts derived basically from taxes on foreign trade. These in their turn rose, in the first place, owing to the rapid growth of the value of exports and, secondly, because of the sharp increase in imports. These taxes showed an elasticity of 1.31 in relation to external trade

Table 191

EL SALVADOR: EVOLUTION OF WAGES[a]

	Colones					*Growth rates*			
	1973[b]	*1974*[c]	*1975*[d]	*1976*[e]	*1977*[f]	*1974*	*1975*	*1976*	*1977*
Agricultural workers									
General rate	2.75	3.10	...	3.75	...	12.7	...	21.0	...
Women minors under 16 years of age, and partially incapacitated persons	2.25	2.50	...	3.15	...	11.1	...	26.0	...
Harvesting									
Coffee									
Per arroba	0.81	0.85	1.10	1.68	1.85	4.9	29.4	52.7	10.1
Per day	4.05	4.25	5.50	8.40	9.25	4.9	29.4	52.7	10.1
Sugar cane									
Per ton	2.05	2.30	2.75	2.75	...	12.2	19.6	...	...
Per day	4.10	4.60	5.50	5.50	...	12.2	19.6	...	...
Cotton									
Per pound	0.033	0.036	0.045	0.060	...	9.1	25.0	33.3	...
Per day	3.30	3.60	4.50	6.00	...	9.1	25.0	33.3	...
Seasonal agro-industrial work									
General rate	3.20	4.00	5.50	...	...	25.0	37.5	...	...
Manufacturing and services									
Metropolitan area of San Salvador[g]	4.10	5.15	6.20	...	7.00	25.6	20.4	...	12.9
Other municipal areas	3.60	4.50	5.50	...	6.10	25.0	22.2	...	10.9
Commerce									
Metropolitan area of San Salvador[g]	4.50	5.50	6.50	...	7.20	22.2	18.2	...	10.8
Other municipal areas	3.80	4.60	5.60	...	6.20	21.0	21.7	...	10.7

Source: Ministry of Labour and Social Security.

[a] These wages refer to ordinary 8-hours working days and 44-hours weeks, including the seventh day of rest each week.

[b] Decrees 55 of 16 July and 80 of 6 November.

[c] Decrees 66 of 16 July, 73 of 22 August and 96 of 21 October.

[d] Decrees 66 of 9 October and 88 of 19 December.

[e] Decrees 38 of 1 April and 77 of 6 October.

[f] Decrees of 15 November and 23 December 1977.

[g] Includes the municipal areas of San Salvador, Mejicanos, Ayatuxtepeque, Cuscatancingo, Delgado, Soyapango, Ilopango, San Marcos, Antiguo Cuscatlán, Nueva San Salvador (Santa Tecla) and Apopa.

transactions, which confirms the considerable extent to which the economy depends on the external sector and the important role of this sector in the Government's financial capacity to promote development.

Outstanding among the direct taxes because of its volume was the tax on income; however, it is estimated that it grew by less than 16%, which reflects the inelasticity of this tax and the unprogressive nature of the tax system.

Central Government current expenditure also increased considerably over the already high 1976 level, in keeping with the above-mentioned expansionary policy. Of total current expenditure, 48% was assigned to social services such as education and health, 17% to economic services and the remaining 35% to administrative and financial services.

Table 192

EL SALVADOR: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of colones				*Growth rates*		
	1974	*1975*	*1976*[a]	*1977*[b]	*1975*	*1976*	*1977*[b]
Current income	484	578	811	1 181	19.3	40.2	45.7
Tax revenue	453	541	768	1 134	19.4	41.8	47.7
Direct	110	154	187	241	40.7	21.3	28.9
On consumption	98	115	141	141	18.0	22.4	–
On imports	93	93	115	134	–	24.2	16.5
On exports	93	112	240	524	20.0	114.7	118.3
Other	59	67	85	94	12.5	24.9	11.9
Non-tax revenue	31	37	43	47	18.1	17.2	10.0
Current expenditure	376	445	547	741	18.3	23.0	35.4
Wages and salaries	202	229	299	426	13.2	30.6	42.5
Other current expenditure	174	217	249	316	24.4	14.9	26.9
Saving on current account	108	133	263	440	22.8	98.3	67.2
Capital expenditure	133	154	259	347	16.0	67.6	34.3
Real investment	47	62	102	167	30.5	66.1	63.2
Amortization of the debt	16	20	24	30	23.3	16.9	28.9
Other capital expenditure	70	73	133	150	4.5	82.9	13.0
Total expenditure	509	600	806	1 089	17.7	34.4	35.1
Fiscal deficit (or surplus)	-25	-22	5	93			
Financing of deficit							
Domestic financing[c]	-30	-62	-83	-168			
External financing	55	83	78	75			

Source: Central Bank, on the basis of figures supplied by the Ministry of Finance.

[a] Preliminary figures.

[b] Estimates.

[c] Includes financing provided by the Central Reserve Bank of El Salvador, sale of securities, changes in Treasury position, use of balances remaining from previous financial years, etc.

In spite of the sharp rise in current expenditure, the increase in income generated a saving on current which was 67% over that recorded in 1976 and quadruple the level reached three years previously. The strengthening of the public sector's financial capacity permitted an increase of 34% in capital expenditure, among which real investament grew particularly strongly (see table 192).

The most important investment projects continued to be linked with:

(i) the energy sector, in which those making most rapid progress were the construction of the Cerro Grande Dam, the Ahuachapán geothermal plant, the work being done by the Río Lempa Hydroelectric Executive Commission to extent the distribution network, and the initial work on the San Lorenzo River Project, whose estimated total cost will be 560 million colones;

(ii) the transport and communications sector, where the main projects were the work of expansion, mechanization and other improvements in the country's main port, the construction of the new Cuscatlán airport, the construction and expansion of the highway network and an important enlargement of the telecommunications system;

(iii) the health sector (a regional hospital and health centres); and

(iv) the education sector (secondary education institutes and sports centres).

In all, current and capital expenditure amounted to nearly 1,100 million colones, which raised the Government's share in the gross domestic product, at current prices, to a little over 16°/o compared with only 12°/o in 1974.

The high level of public spending was, however, lower than current income, so that the financial year closed with an estimated fiscal surplus of a little over 90 million colones, to which must be added the external financing previously obtained for the execution of public works. Thus, at the end of the period the central Government had considerable cash reserves and was able to reduce its indebtedness to domestic creditors.

(b) *Monetary policy*

In 1977 the money supply increased moderately (8°/o) compared with the high rates and steep upward trend of the previous three years. Nevertheless, other private savings and time deposits continued to grow vigorously (see table 193). This performance was the result of the banking system's credit activity towards the private sector, and of a considerable increase in loans from both the Central Bank and private banks to autonomous official institutions. This expansion, however, was partially offset by the contraction of net credit to the central Government, which, owing to the financial situation described above, reduced its internal public debt with the Central Bank and only slightly increased its indebtedness with the rest of the banking system.

Table 193

EL SALVADOR: MONETARY POSITION

	End-year balance (millions of colones)				*Growth rates*			
	1974	*1975*	*1976*	*1977*	*1974*	*1975*	*1976*	*1977*
Money	*557*	*648*	*917*	*988*	*19.4*	*16.4*	*41.4*	*7.8*
Currency outside banks	241	253	380	432	19.6	5.1	50.2	13.8
Demand deposits	316	395	537	556	19.3	25.1	35.9	3.6
Factors of expansion	*1 597*	*1 860*	*2 270*	*2 603*	*31.5*	*16.5*	*22.0*	*14.7*
Foreign assets (net)	205	325	514	514	55.4	58.8	58.0	0.1
Domestic credit	1 392	1 535	1 756	2 089	28.6	10.3	14.4	19.0
Government (net)	-5	31	-21	-127				
Official entities	196	182	195	294	225.7	-7.4	7.3	50.9
Private sector	1 200	1 323	1 582	1 922	20.2	10.2	19.6	21.5
Factors of absorption	*1 041*	*1 212*	*1 353*	*1 616*	*39.1*	*16.5*	*11.6*	*19.4*
Quasi-money (savings and time deposits)	560	705	854	1 015	13.9	25.9	21.1	18.9
Mortgages, share certificates and capitalization deeds	135	117	123	221	11.2	-13.3	5.6	78.8
Long-term foreign borrowing[a]	280	291	268	232	263.6	4.1	-8.0	-23.6
Other items (net)	66	99	108	148	13.1	50.5	8.9	37.2

Source: Central Reserve Bank of El Salvador.

[a] Includes the allocation of special drawing rights on the International Monetary Fund for 31.6 million colones in 1972 and 35.2 million in 1973-1977. Also includes service payments on petroleum amounting to 54 million colones in 1974 and 1975, and 51.5 million in 1976.

According to the balances available up to October, commercial and mortgage bank credit went mainly to agriculture (the cumulative credit at that date was twice the amount for the same period in the previous year), commerce (an increase of 94%), and the services, manufacturing and transport sectors (an increment of over 70%). The determining factor in this performance was the activity of the Economic Development Fund, which is operated by the Banco Central de Reserva, through the banking system, to meet the financial requirements of the agricultural, manufacturing and tourism sectors. Consequently, resources of the banking system were freed and channelled into the commercial sector, and this in turn contributed to the accelerated growth of imports of consumer goods, an appreciable proportion of which consisted of non-essential goods.

El Salvador's generally expansionary credit policy was counteracted by the external factors which did not contribute to expanding the money supply, despite the excellent world market conditions for the main export commodities. This, in its turn, was the effect of speculative movements of capital to other countries which occurred in the course of the year, facilitated by the exchange liberalization granted by the monetary authorities.

GRENADA

1. *Main recent trends: Introduction and summary*

Official estimates of national income only extend up to 1975, when the gross domestic product at current factor cost was calculated at around 81 million East Caribbean dollars.[102] Estimates of the gross domestic product indicate that the expansion was of the order of 15% at current prices in 1976, and is believed to have been around 7% in 1977, likewise at current prices.

Although there is no official information on the movements of domestic prices, it is estimated that these increased by 18% in 1976 and between 11 and 14% in 1977, thus indicating that the gross domestic product diminished in real terms in the last two years.

Agriculture, which is normally the sector that contributes most to the overall growth of the economy, showed less dynamism in 1977, as reflected in appreciable drops in production of some crops. Construction and manufacturing also recorded little growth, but tourism, in spite of its small contribution to the total product, continued to recover from the marked setbacks of 1973 and 1974.

As regards external trade, exports increased by 13% and imports by 28%, thus giving rise to a considerably larger trade deficit than in 1976. Although generally speaking the prices of exports improved in 1977, there were appreciable drops in the sales volumes of some important products. The fiscal accounts, for their part, showed a budget surplus of around 2 million East Caribbean dollars. This was due to higher tax collection as a result of improvements in collection systems, new taxes, increased import duties, improvements in budget control systems, and a general recovery of economic activity.

2. *Sectoral trends*[103]

(a) *Agriculture*

The overall performance of agriculture was not very satisfactory in 1977, but it continued to be the main activity in the economy both as regards its potential for generating revenue from domestic and export sales and as the main source of employment and income.

[102] As of July 1976, a parity of 2.70 East Caribbean dollars per United States dollar was established. Up to that date, the official exchange rate was 4.80 East Caribbean dollars per pound sterling.

[103] There are no recent official data on the gross domestic product by economic sectors. For such information corresponding to the period 1970-1975, see the report on Grenada in the *Economic Survey of Latin America, 1976.*

The last official estimates of the gross domestic product of the sector correspond to 1975, when the figure was 23 million East Caribbean dollars at current prices. Preliminary data on the main factors determining the product of the sector in 1977 indicate a figure of around 27 million East Caribbean dollars. This means that there was scarcely any improvement over the estimate for the year before. Unlike 1976, when the dynamism of the export agriculture of the country was uniform over the whole sector, the data for the period under consideration show that there was a drop in production of two of the three main export products and that the higher prices were not enough to offset this drop.

Preliminary data on production in 1977 show declines of 93°/o for cocoa beans and 6°/o for bananas, in contrast with rises of 13°/o and 19°/o for these products the year before (see table 194). Indeed, the 1977 output of cocoa beans was 13°/o below that of 1975. These unfavourable results were influenced both by climatic conditions and administrative problems.

Another important crop, nutmegs, showed and increase of 2°/o, and although this increase was considerably below that of the year before, it did provide an unprecedented level of production. A record level of production of mace which is similar to nutmeg, was also achieved.

Table 194

GRENADA: INDICATORS OF AGRICULTURAL PRODUCTION
(Tons)

	1974	*1975*	*1976*	*1977* [a]	*Growth rates*		
					1975	*1976*	*1977*[a]
Nutmeg	1 978	1 816	2 398	2 495	-8.2	31.1	2.3
Mace	286	136	320	331	-52.3	135.1	3.3
Cocoa beans	2 433	2 405	2 713	2 080	1.2	12.8	-23.0
Bananas	8 783	13 441	15 964	15 000	53.0	18.8	-6.0
Copra	135	203	215	275	51.1	5.7	27.8
Sugar cane	2 889	5 961	10 372	14 000	106.4	74.0	35.0

Source: Figures supplied by the Ministry of Agriculture.

[a] Preliminary figures.

Domestic agriculture lacked the dynamism of the previous year. Although production rose in some lines during the year, the overall level was below that of 1976. The information available in respect of some important crops such as roots, fruit and vegetables reveals notable declines. Copra production, however, increased for the third year running, even though its volume continued to be relatively small. The growth rate of the sugar cane harvest was lower, but it nevertheless continued to be fairly high (see table 194). A target of 23,000 tons of cane has been fixed for 1978.

Generally speaking, the prices of agricultural products were higher on both the domestic and external markets, and increases were recorded in the unit value of almost all the main export products. The main reason for the rise in prices of products for domestic consumption was the shortage of supply.

The programme for growing non-traditional vegetables and root crops has not succeeded as hoped for, since it has run into various financial and administrative problems.

(b) *Tourism*

Tourism has recovered steadily since the end of the period of open social unrest in 1975. The gross domestic product generated by this activity has increased from 1.9 million East Caribbean dollars in 1975 to 2.3 million dollars in 1976 and approximately 3.1 million in 1977.

In 1977 the number of tourists increased by 16%, but the 29,000 tourists recorded in that year represented only 75% of the number who arrived in 1972, the record year for tourist arrivals.

It is estimated that tourists spent 17% more than the year before, reflecting both the larger number of visitors and the increase in the number of days stayed by them. Indeed, its is possible that these estimates may be below the real figures (see table 195).

The low rate of hotel occupancy continues to be a serious problem. In 1976 the average occupancy rate in the summer and winter seasons was only 20% and 40%, respectively. It is believed that these percentages improved significantly in 1977, however.

Table 195

GRENADA: TOURISM INDICATORS

	1974	*1975*	*1976*	*1977*[a]	*Growth rates*		
					1975	*1976*	*1977*[a]
Number of visitors (thousands)	73	107	132	...	47.2	23.4	...
Ordinary visitors	15	21	25	29	43.0	16.6	16.2
Cruise-ship visitors	58	86	107	78[b]	48.3	25.1	...
Cruise-ship calls	117	153	137	138[b]	30.8	10.5	...
Average stay of ordinary visitors (days)	17	14	12	14	-22.0	-10.4	19.0
Hotel rooms	1 800	1 800	1 800	1 500[c]	–	–	-16.7
Estimated expenditure by visitors (millions of East Caribbean dollars)	12.6	15.6	16.6	19.4	23.6	6.4	17.0

Source: Figures supplied by the Grenada Tourist Board.

[a] Preliminary figures.

[b] January-September.

[c] The drop reflects the assignment of 300 rooms to students of the University of St. George's.

Since 1974, the number of visitors from the Caribbean has been greater than the number of tourists from the United States, which was until then the main source outside the region. The proportion of tourists from the Caribbean, however, dropped from 33% in 1976 to a little over 28% in 1977.

In 1977 there was an increase in the number of tourists from the United States, and their share of the total rose to 28%. The share of Canadian tourists went down slightly, although their number increased by about 12%.

The data also show that the tourism promotion campaign which the Government has been carrying out is giving good results. Thus, the number of tourists from the Federal Republic of Germany has increased to the point where in 1977 they represented around 9% of the total. In contrast, the proportion of tourists from the United Kingdom went down by 11%.

(c) *Manufacturing*

Although the need to diversify the output of manufactures has been recognized, the establishment of new industries has been quite slow. Faster expansion has not proved possible on account of a number of factors, including the lack of mineral resources suitable for commercial exploitation, the small scale of the domestic market, the lack of local investment capital, the shortage of entrepreneurial and management skills, the low level of development of the infrastructure, and social and political problems.

The manufacturing sector has remained relatively small, and it was estimated that in 1973 its contribution to the gross domestic product was around 4 million East Caribbean dollars. Manufacturing output is not estimated to have increased significantly in 1977. The most significant event was

no doubt the increase in sugar production to approximately 513 tons. Although no official information is available, it is believed that there was also an increase during the year in the production of syrup and molasses for rum manufacture. Beer and stout production also improved for the third year running, but other products showed appreciable declines (see table 196).

During the year under consideration two new enterprises came into operation: a tyre retreading plant and a small-capacity new foam rubber plant. Concessions were also granted for the assembly of electrical equipment, including transistor radios, television stes and electrical fans, and the manufacture of automobile radiators. It is hoped that these activities will be in operation in the course of 1978.

Table 196

GRENADA: INDICATORS OF MANUFACTURING PRODUCTION

	1974	*1975*	*1976*	*1977*[a]	*Growth rates*		
					1975	*1976*	*1977*[a]
Sugar (tons)	–	–	8	513	–	–	6 233.3
Rum (thousands of gallons)	84	92	95	88	9.5	3.3	-7.8
Beer (thousands of gallons)	47	88	135	249	88.1	52.9	84.4
Malt (thousands of gallons)	6	25	50	60	352.7	102.0	19.1
Cigarettes (thousands of cartons)	161	186	178	143	15.8	-4.5	-19.6
Edible oils (thousands of gallons)	26	39	71	54	53.3	82.4	-24.8
Coconut meal (thousands of pounds)	89	201	297	234	126.1	48.0	-21.3
Laundry soap (thousands of pounds)	45	34	72	54	-23.9	108.5	-24.2

Source: Statiscal Office and Customs Department.

[a] Preliminary figures.

(d) *Construction*

Activity in the construction sector was only slight, in contrast with the marked recovery recorded in 1975 and the increase in 1976.

Government construction work, which traditionally provides an impulse for the overall activity of the sector, was at a low level. The public sector building programme has been hindered by financial restrictions which have prevented the execution of various maintenance programmes and new projects.

At the end of 1976, the Caribbean Development Bank, which had been financing a programme for the construction of 30 miles of secondary roads during the period 1975-1977, suspended execution of the project. Only 7 miles of road had been completed by the latter year, at a cost equivalent to almost 50% of the total budget. It is hoped to resume the project in 1978.

Financial assistance has been obtained from the United Kingdom for the execution of various projects, and assistance has also been sought from foreign organizations for financing new projects such as the construction of airfields and the improvement of the sewage system in the south-western sector of the country.

Private construction showed little dynamism during the year. After the setbacks experienced by the hotel industry at the beginning of the 1970s, private construction activity has been limited to the building of dwellings and the rehabilitation of existing buildings.

At present, Grenada imports most construction materials, including cement, bricks and blocks, steel and metal accessories; the only national inputs are wood, sand and stones.

(e) *Other sectors*

The commercial sector probably underwent some real growth in 1977, since its results must have improved with the increase in imports and exports. The further improvement of the tourism sector, with which commercial activity is closely linked, must also have had some influence on its growth.

It is estimated that banking and financial activity in general probably grew somewhat during the year. Liabilities of commercial banks increased by 12°/o as against 7°/o in 1976, while bank deposits rose by 9°/o, compared with 15°/o the year before. The main increase was in savings deposits (18°/o): current account deposits only increased by 9°/o, which was a good deal less than in 1976. Time deposits, for their part, went down for the second year running (see table 197).

Table 197

GRENADA: INDICATORS OF BANKING ACTIVITY
(Thousands of East Caribbean dollars)

	Balances at end of				*Growth rates*		
	1974	*1975*	*1976*	*1977*[a]	*1975*	*1976*	*1977*[a]
Cash in hand	2 203	2 274	3 048	3 207	3.2	34.0	5.2
Total deposits	50 851	66 917	76 941	83 647	31.6	15.0	8.7
Demand deposits	6 833	8 084	12 700	13 780	18.3	57.1	8.5
Time deposits	17 646	30 269	29 102	28 519	71.5	-3.9	-2.0
Saving deposits	26 373	28 564	35 139	41 348	8.3	23.0	17.7
Balances due by foreign banks	8 136	13 395	928	144	64.6	-93.1	-84.5
Balances owing to foreign banks	20 525	14 985	2 525	2 437	-27.0	-83.1	-3.5
Total liabilities	80 100	91 535	97 516	108 789	114.3	6.5	11.6

Source: Research Department, East Caribbean Currency Authority, St. Kitts.

[a] Preliminary figures.

Loans and advances granted by commercial banks recovered markedly in 1977, when they increased by 25°/o after the drop of 6°/o recorded in 1976. A large part of this increase took the form of personal loans and loans to the commerce and transport sectors (see table 198).

3. *The external sector*

Total exports only increased by 13°/o, in contrast with the increases of 27 and 40°/o recorded in 1976 and 1975, whereas imports rose by 28°/o (25°/o in 1976).

Consequently, the trade deficit increased by 44°/o to 46 million East Caribbean dollars, which is more than the total value of exports (see table 199).

Nutmegs, mace, bananas and cocoa beans make up 95°/o of the value of the country's exports. This lack of diversification makes Grenada's export trade and indeed the whole economy very vulnerable (see table 200).

The increase in exports in 1977 was due basically to higher prices, since the volume exported went down. Thus, the volume of exports of bananas, cocoa beans and mace went down by 9°/o, 22°/o and 47°/o respectively. Only exports of nutmegs increased (11°/o). The rise in the price of

Table 198

GRENADA: LOANS AND ADVANCES OF COMMERCIAL BANKS
(Thousands of East Caribbean dollars)

	Balance at end of				*Percentage composition*		*Growth rates*		
	1974	*1975*	*1976*	*1977*[a]	*1973*	*1977*[a]	*1975*	*1976*	*1977*[ab]
Agriculture	2 484	4 789	3 369	3 836	3.7	7.2	92.8	-29.7	-6.8
Manufacturing	2 570	2 165	1 608	1 981	4.4	3.7	-15.8	-25.7	58.5
Distributive trade	17 251	14 991	13 821	16 129	32.5	30.2	-13.1	-7.8	52.9
Tourism	4 128	3 611	3 946	3 827	7.5	7.2	-12.5	9.3	14.6
Transportation	1 132	1 554	1 509	1 368	2.7	2.6	37.3	-2.9	49.0
Public utilities	872	919	1 235	891	1.9	1.7	5.4	34.4	-7.7
Building and construction	3 233	3 201	3 088	3 337	3.7	6.2	-1.0	-3.5	20.7
Personal loans	7 258	6 784	8 156	10 596	15.2	19.8	-6.5	20.2	54.1
Other advances	12 609	13 804	12 101	11 463	28.4	21.5	9.5	-12.3	-5.2
Total	*51 537*	*51 818*	*48 833*	*53 428*	*100.0*	*100.0*	*0.5*	*-5.8*	*24.6*
Long-term loans as percentage of total	41.8	40.5	34.2	33.0					

Source: Research Department, East Caribbean Currency Authority, St. Kitts.

[a] Preliminary figures.
[b] June 1977 compared to June 1976.

Table 199

GRENADA: EXPORTS, IMPORTS AND TRADE BALANCE
(Millions of East Caribbean dollars)

	1974	1975[a]	1976[a]	1977[a]	Growth rates		
					1975	1976	1977
Total exports	19.3	26.9	34.1	38.5	39.7	26.8	12.7
Total imports	37.1	52.8	66.2	84.8	42.4	25.4	28.0
Trade balance	17.8	25.9	32.1	46.3	45.4	23.9	44.3

Source: Statistical Office, Grenada.

[a] Preliminary figures.

Table 200

GRENADA: DOMESTIC EXPORTS OF GOODS (FOB)

	Thousands of East Caribbean dollars				Percentage breakdown		Growth rates		
	1974	1975	1976	1977[a]	1973	1977[a]	1975	1976	1977[a]
Nutmeg	6 028	9 943	12 482	16 007	38.1	43.2	65.0	25.5	28.2
Mace	1 408	1 424	2 766	1 628	12.5	4.4	1.2	94.2	-41.1
Bananas	3 277	6 526	7 665	8 639	14.4	23.3	99.2	17.5	12.7
Cocoa	5 423	6 763	8 577	8 891	26.2	24.0	24.7	26.8	3.7
Others	1 514	1 232	631	1 867	8.2	5.0	-18.6	-48.9	195.9
Total [b]	*17 650*	*25 888*	*32 121*	*37 032*	*100.0*	*100.0*	*46.7*	*24.1*	*15.3*

Source: Statistical Office, Grenada.

[a] Preliminary figures.
[b] Excluding reexports.

banana and cocoa exports more than made up for the drop in their volume, but this was not the case with mace, the total value of which went down by 41o/o in spite of the fact that its price went up by 11o/o.

All the country's banana exports went to the United Kingdom, while its exports of nutmegs, mace and cocoa beans went mainly to the United Kingdom, the Federal Republic of Germany, the Netherlands and Belgium. Imports come from a broader range of countries, but in recent years the other members of CARICOM have been acquiring increasing importance as suppliers.

Grenada does not have much credit capacity in international circles, and this situation has been aggravated by the precarious fiscal position of the Government. Since independence, the flow of capital in the form of transfer payments, principally from the United Kingdom, has greatly diminished. Moreover, in 1977 Grenada had to face the problem of redeeming its external debt debentures. In view of the financial difficulties facing the country, some financial institutions and intergovernmental organizations offered assistance, among them the International Monetary Fund, the East Caribbean Monetary Authority, the European Development Fund, organizations in the United Kingdom and Canada, and the Organization of Petroleum Exporting Countries.

4. *Fiscal developments*

In 1977 renewed efforts were made to improve the budgetary situation. These efforts centered around the expansion of the tax basis and other measures designed to increase revenue, together with better control of expenditure. These measures and controls resulted in a budgetary surplus estimated at 2 million East Caribbean dollars at the end of the year.

In 1976, government expenditure came to almost 36 million East Caribbean dollars, 95°/o of which was made up of current expenditure. Budgeted expenditure for 1977 came to 58 million East Caribbean dollars, 61°/o of it for current expenditure. Preliminary data, however, showed total expenditure of 27 million dollars as at October 1977, 93°/o of this figure corresponding to current expenditure (see table 201). It is assumed that in 1977 current expenditure was less than in 1976.

Table 201

GRENADA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE
(Millions of East Caribbean dollars)

	1974	*1975*	*1976*	*1977*[a]	*Growth rates*		
					1975	*1976*	*1977*[b]
Current income	*15.2*	*18.8*	*28.6*	*27.2*	*23.5*	*51.9*	*17.4*
Income tax	3.3	3.5	5.1	4.9	5.1	44.7	24.6
External trade	5.6	8.0	9.8	10.0	41.4	22.9	29.9
Others	6.3	7.3	13.7	12.3	17.3	86.7	6.6
Current expenditure	*20.2*	*24.1*	*34.6*	*24.9*	*19.0*	*43.7*	*-4.3*
Social[c]	8.3	9.1	12.7	10.9	8.9	39.7	12.6
Administration	7.3	8.4	12.2	7.5	15.1	45.1	7.6
Others	4.6	6.6	9.7	6.5	43.3	47.3	-30.9
Saving on current account	*-5.0*	*-5.3*	*-6.0*	*2.3*			
Capital expenditure	*2.6*	*1.2*	*1.4*	*1.7*	*-53.8*	*15.1*	*139.0*
Total expenditure	*22.8*	*25.3*	*36.0*	*26.7*	*10.7*	*42.3*	*-0.5*
Fiscal deficit	*-7.6*	*-6.5*	*-7.4*	*0.5*			
Financing of the deficit							
Official transfer payments	–	0.1	0.5	0.2			
Others	7.6	6.4	6.9	-0.7			

Source: Ministry of Finance, External Trade and Industry.

[a] Preliminary figures, January - October.

[b] Variation between January and October 1977 and the same period in 1975.

[c] Including expenditure on education, health and community services.

Current income is estimated at 37 million East Caribbean dollars. In the first ten months of 1977, revenue came to 27 million dollars, i.e., 76°/o of the budgeted figure. The increase in revenue is attributable to bigger collection of import duties and income tax. Among the fiscal measures adopted in 1977, mention may be made of a tax of 2.5°/o on the purchase of foreing currency, a tax of 20°/o on interest paid by commercial banks, and the introduction of a single tariff (or the elimination of the preferential tariff for the European Economic Community set up in connexion with the Lomé Convention).

The above measures were designed to balance income and expenditure, since this was very necessary in order to improve the country's international credit rating and thus increase the possibility of obtaining credit from domestic and external sources.

GUATEMALA

1. *Main recent trends: Introduction and Summary*

In 1977 the Guatemalan economy expanded at an exceptional rate in consequence of the extraordinary boom in the export sector –especially in coffee and cotton– and the high level of fixed capital formation, both public and private. This investment was partly connected with the reconstruction process undertaken by the country after the devastating earthquake of February 1976.[104] The gross domestic product therefore grew at a real rate of about 8.5%, the highest recorded in the present decade. Moreover, as a result of the improvement in the terms of trade, the real growth rate of the gross domestic income was a little over 13% (see table 202).

All the activities which make up global demand showed vigorous growth. On the supply side, as indicated later, there was a positive response –though naturally of varying intensity– from practically all the sectors of the national economy, while imports recorded a marked increase.

The boom in the export sector was due to the growth in the volume of exports of goods –7% for the total, and almost 11% for the five main traditional export products– and to a notable increase in the unit value of external sales. This last was due to the rise in the international prices of coffee and cotton, which more than offset the effects of the drop in the world price of sugar.

In an economy so dependent on external factors the situation which favoured the main export products was naturally reflected in all the macro-economic variables. For example, despite the unprecedented level of imports, the balance-of-payments goods account showed a surplus and there was only a moderate deficit on current account. As a result of this and the considerable net inflow of capital, the international monetary reserves grew by approximately 200 million dollars, achieving an all-time record level by the end of the year.

At the same time, the direct and indirect repercussions of the boom in the export sector brought about a notable increase in the tax coefficient of taxation –which rose from 8.5% in 1976 to 9.7% in 1977– and helped to place the central government in a relatively favourable financial situation for the first time in many years. This made feasible to a large extent the Government's declared policy of pursuing its Development Programme for the period 1975-1979 in conjunction with the reconstruction programme, all within the framework of policies of indebtedness compatible with economic stability.

The impetus generated by the export sector was strengthened by a further increase in the level of fixed capital formation, above all in private investment, which became the second dynamic factor in the economy. This was reflected in the high rates of growth in all the activities associated with construction, which undoubtedly helped to create new job openings. Even so, and notwithstanding the beneficial short-term effects of the initial impact of investment on the global level of demand, part of this investment played no part in raising the productive capacity of the economy, since it was destined rather to replace the considerable losses caused by the earthquake, especially in housing, highways, bridges, schools and hospitals.

The vigorous expansion in exports of goods and in public and private investment also brought about a marked rise in both public and private consumption, which confirms the impression that alongside these developments there was an increase in productive employment.

It should also be noted that towards the end of the year there were some indications that the vigorous economic boom was declining in face of the relative weakening of the international markets for coffee and cotton, and as a result of non-economic factors associated with the electoral process which will culminate towards the end of the first quarter of 1978.

The intense economic activity described above was not free from difficulties. Once again there was a flare-up of inflationary pressures –of both domestic and external origin– which, although showing a clear declining trend in the second half of the year, generated a rise of about 14% in the consumer price index during the year. These pressures helped in their turn to pose two problems of differing type which will require urgent attention en 1978. In the first place, they affected the operating costs of most of the public services, while proportional adjustments to charges were

[104] See: *Daños causados por el terremoto de Guatemala y sus repercusiones sobre el desarrollo económico y social del país* (CEPAL/MEX/76/Guat. 1), February 1976.

Table 202

GUATEMALA: MAIN ECONOMIC INDICATORS

	1972	*1973*	*1974*	*1975*	*1976*	*1977*[a]
A. *Basic economic indicators*						
Gross domestic product at factor cost (millions of US dollars at 1970 prices)	2 489	2 658	2 827	2 883	3 102	3 366
Population (millions)	5.69	5.87	6.05	6.24	6.44	6.64
Per capita gross domestic product (US dollars at 1970 prices)	437	453	467	462	482	507
	Growth rates					
B. *Short-run economic indicators*						
Gross domestic product	7.3	6.8	6.4	2.0	7.6	8.5
Per capita gross domestic product	4.1	3.6	3.1	-1.1	4.4	5.3
Gross income[b]	5.9	6.8	3.7	1.9	7.7	13.4
Terms of trade	-7.7	-1.4	-15.4	-1.6	8.1	23.5
Current value of exports of goods and and services	16.7	35.0	32.0	11.5	26.8	34.0
Current value of imports of goods and services	5.3	33.6	56.0	5.9	32.2	24.2
Consumer price index[c]	0.5	14.4	15.9	13.1	10.7	13.7
Money	18.6	23.2	15.0	16.5	38.6	23.4
Wages and salaries[d]	...	...	...	10.8	9.6	...
Current income of government	6.7	15.1	31.1	18.0	23.3	38.3
Total expenditure of government	24.6	9.0	23.6	10.7	60.2	14.5
Fiscal deficit/total expenditure of government[e]	21.9	17.7	20.9	10.9	56.4	21.9
	Millions of US dollars					
C. *External sector*						
Trade balance (goods and services)	4	11	-110	-78	-145	-83
Balance on current account	-11	9	-102	-65	-5	-67
Variation in net international reserves	45	85	-14	106	211	205
External debt[f]	140	163	174	198	246	207

a Preliminary figures.
b Gross domestic product plus terms-of-trade effect.
c Variation of annual averages.
d Average wages paid to Social Security contributors.
e Percentage.
f Balance of public debt plus State-guaranteed private debt.

neglected in recent months. This seems to have contributed to a fall in the quality of the services concerned and a marked deterioration in the financial situation of a group of semi-State enterprises. In the second place, the Government policy –whether explicit or implicit– of not authorizing price adjustments for a group of products of basic necessity or strategic importance –milk, sugar, oil, construction materials– and of discouraging pay rises as part of a wider stabilizing policy, has caused distortions in the productive system. Both measures were reflected in the growing number of labour conflicts towards the end of the year and in certain disinvestments such as occurred, for example, in the case of dairy herds.

Additionally, the reconstruction programmes which the Government had outlined did not advance with the desired speed, especially in the case of popular housing and social infrastructure (hospitals, health centres and schools). This was partly attributable to management and organization problems and especially to the fact that some activities associated with the construction industry were operating at full capacity, creating occasional bottlenecks in the supply of materials and in the availability of labour and other services.

The inflationary process and the slowness in repairing the damage caused by the earthquake –which affected chiefly the lower-income strata of the population– together with the apparent delay in the adjustment of wages and salaries, indicate a probable deterioration in the distribution of income and wealth during the year, even though this was partially offset by a higher level of employment.

In brief, the study of the evolution of the Guatemalan economy in 1977 gives the impression that the Government was relatively successful in the application of a deliberate economic policy through the implementation of a programme of increased public expenditure (to meet the needs of the Development Plan and reconstruction) while maintaining overall economic stability. The ample surpluses observed in central government finances and the balance of payments at the end of the year suggest, however, that full advantage was not taken of the economic boom to make a bolder attack on some of the many obstacles to the development of the country –which were increased in 1976 by the damage caused by the earthquake– and to enlarge and diversify the foundations of the productive system.

2. *Recent economic trends*

(a) *Total supply and demand*

As mentioned earlier, all the activities which make up global demand displayed great dynamism, mainly through the effect of the export sector and total investment (see table 203). The gross domestic product grew at a real rate of around 8.5°/o compared with 7.6°/o in 1976 and a cumulative annual rate of 5.6°/o during the period 1971-1976.

External sales of goods and services grew at a real rate of 2°/o. This percentage was due to a reduction in exports of services –measured at constant prices– of 2.5°/o, attributable mainly to the relative stagnation of tourism. In contrast, exports of goods increased at a real rate of 7°/o, and the sale of the main export commodities (coffee, cotton, sugar, meat and bananas), which are those which provide the greatest employment, increased in real terms by almost 11°/o.

Gross domestic investment recorded major growth rates for the second year running, so that the investment coefficient rose from 12.3°/o in 1975 to 17.3°/o in 1977. The effort required of the public sector to increase its capital expenditure by almost 10°/o should be judged in relation to the record level reached by this investment the previous year; thus, the fixed capital formation of the central government doubled in four years. This result reflected the deliberate policy of meeting simultaneously the investments envisaged in the Development Plan and those reserved for the reconstruction programme, notwithstanding the slowness in implementing the latter. A high proportion of this investment –around 40°/o– was assigned to works of electrification; 20°/o was earmarked for the construction or reconstruction of schools, health centres and other public buildings; some 15°/o was allotted to highways and telecommunications, and the remaining 25°/o was distributed among a wide range of economic and social projects.

Private investment was once again associated with the reconstruction expenditure resulting from the earthquake of 1976. There was also continued investment in mining activities. In 1977, after three years of construction, work was completed on a nickel-processing plant, the total cost of which exceeded 240 million dollars; there was an intensification of oil prospecting, as shown by the granting of a license to build an oil-pipeline, and there is evidence of investments in the agricultural and also the manufacturing sectors. These last were mainly intended for the enlargement of existing plants, as for example that of cement, although it should be emphasized that 103 new industrial enterprises requested their provisional inclusion in the Mercantile Registry, some of them encouraged by the National Financial Corporation. Finally, a high proportion of investment continued to be channelled

Table 203

GUATEMALA: TOTAL SUPPLY AND DEMAND

	Millions of quetzales at 1970 prices			*Percentage breakdown*		*Growth rates*		
	1975	*1976*	*1977[a]*	*1970*	*1977[a]*	*1975*	*1976*	*1977[a]*
Total supply	*2 918*	*3 205*	*3 504*	*117.8*	*120.1*	*0.8*	*9.8*	*9.3*
Gross domestic product at market prices	2 498	2 689	2 917	100.0	100.0	2.0	7.6	8.5
Imports of goods and services[b]	420	516	587	17.8	20.1	-5.5	22.9	13.7
Total demand	*2 918*	*3 205*	*3 504*	*117.8*	*120.1*	*0.8*	*9.8*	*9.3*
Domestic demand	2 399	2 631	2 919	99.2	100.1	0.9	9.7	10.9
Gross domestic investment	319	413	504	12.8	17.3	-16.1	29.5	22.0
Gross fixed investment	308	423	472	12.5	16.2	9.5	37.3	11.6
Construction	95	156	184	3.7	6.3	10.8	64.8	17.8
Machinery and equipment	213	267	288	8.8	9.9	8.9	25.1	8.0
Public	70	111	122	2.4	4.2	14.2	58.6	9.9
Private	238	312	350	10.2	12.0	8.0	31.0	12.2
Changes in stocks	11	-10	32	0.3	1.1			
Total consumption	2 080	2 218	2 415	86.4	82.8	4.2	6.6	8.9
General government	179	190	204	8.0	7.0	10.1	6.2	7.0
Private	1 901	2 028	2 211	78.4	75.8	3.7	6.7	9.0
Exports of goods and services[b]	519	574	585	18.6	20.0	0.2	10.5	2.0

Sources: 1970-1976: CEPAL calculations on the basis of figures provided by the Central Bank of Guatemala.
1977: CEPAL estimates on the basis of official figures.

[a] Preliminary figures.

[b] 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 CEPAL for the purpose.

towards activities of relatively low social productivity, and especially towards urban building.[105]

It is also noteworthy that in 1977 there was an appreciable increase in stocks, which was attributable to two factors. In the first place, in response to a deliberate policy within the framework of international commitments, coffee shipments began to be held back towards the end of the year, while cotton reserves were built up by producers, who were hoping for an increase in prices. This accumulation of some basic products more than offset the reduction in sugar stocks during the year. In the second place, judging from the high growth rates of imports, it seems probable that there was an increase in the stocks of some items, especially raw materials and some durable consumer goods.

Public consumption expenditure increased by over 7% in real terms, which is an indication, among other things, of the expansion in the supply of services, mainly education and health, as envisaged in the Development Plan. The dynamic forces already referred to fomented at the same time, for the second year running, a considerable expansion in private consumption. The increase of approximately 6% in per capita consumption –the highest rate recorded for many years –is the reflection of rising levels of employment and an increase in luxury consumption, to which reference is made below.

On the supply side, the productive system responded favourably to the notable expansion of demand. In agriculture this reflected the increase of productivity in the cultivation of various export commodities –stimulated in turn by the highly remunerative prices in the international market for

[105] See *Economic Survey of Latin America, 1976*, (E/CEPAL/1026/Rev. 1) of 18 August 1977, page 423.

coffee and cotton, which encouraged the producers to use more inputs and to employ better production techniques. In the manufacturing sector the expansion of supply originated in a more efficient use of installed capacity, in the apparently higher level of employment of previously redundant labour and in the enlargement of productive capacity deriving from the high level of investment recorded in the two years 1976-1977. Even so, the expansion of demand had to be met to a greater extent than in previous years by imports. The product-imports elasticity of 1.92 and the import coefficient of 20% –compared with 17% in 1975, a relatively "normal" year before the earthquake– are the highest in the present decade.[106] The high growth rate of imports indicates once again the exceptional demands of reconstruction and the foreseeable requirements of a rapidly developing economy, combined with the growing propensity to consume durable consumer goods.

(b) *Sectoral trends*

In contrast with what occurred in previous years, when one or two industries displayed a dynamism clearly superior to the rest, in 1977 all the productive branches and services recorded relatively uniform rates of growth (see table 204).

Table 204

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

	Millions of quetzales at 1970 prices			*Percentage breakdown*		*Annual growth rates*		
	1975	*1976*	*1977[a]*	*1970*	*1977[a]*	*1975*	*1976*	*1977[a]*
Agriculture	722	757	795	30.1	29.1	2.5	5.9	5.0
Mining	2	3	3	0.1	0.1	5.2	30.0	14.8
Manufacturing	327	362	400	14.6	14.6	-1.5	10.5	10.5
Construction	60	113	133	2.2	4.8	15.3	88.4	7.8
Subtotal goods	*1 111*	*1 235*	*1 331*	*47.0*	*48.6*	*1.9*	*11.1*	*7.8*
Electricity, gas and water	24	26	30	0.9	1.1	8.1	7.8	15.4
Transport, storage and communications	96	106	118	3.5	4.3	2.2	10.6	10.9
Subtotal basic services	*120*	*132*	*148*	*4.4*	*5.4*	*3.3*	*10.0*	*11.8*
Commerce, financial institutions, insurance	618	670	729	27.5	26.6	-0.7	8.4	8.8
Real estate[b]	153	124	134	7.8	4.9	2.9	-19.2	7.9
Community, social and personal services[c]	342	367	395	13.3	14.4	13.6	7.3	7.7
Subtotal other services	*1 113*	*1 161*	*1 258*	*48.6*	*46.0*	*3.8*	*4.3*	*8.4*
Total gross domestic product[d]	*2 335*	*2 513*	*2 726*	*100.0*	*100.0*	*2.0*	*7.6*	*8.5*

Sources: 1970-1976: CEPAL calculations on the basis of figures supplied by the Central Bank of Guatemala;
1977: CEPAL estimates on the basis of data from the same source.

[a] Preliminary figures.
[b] Refers to ownership of dwellings only.
[c] Also includes restaurants, hotels, and business services.
[d] As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

[106] The product-imports elasticity in 1976 was 3.1 if the import of construction materials donated by the international community is taken into account, but 1.5 if these exceptional imports are excluded.

(i) *Agriculture.* Even the increment in the value added in the agricultural sector –the lowest of those recorded for all the economic sectors– was the most significant for the last three years, mainly due to the increase in production of certain export crops, especially cotton. The extension of the area sown to this last crop and the particularly high yields –among the highest in the world– produced a record level of output, approximately 30°/o higher than that of the previous year. At the same time, and in spite of adverse weather conditions, there was a recovery of 2°/o in the volume of coffee production, which was partly due to the effort made by the National Coffee Association to improve production techniques and increase the yields. Other export products which increased in output were bananas, cardamom and, to a lesser degree, meat. In contrast, in consequence of the declining trend of sugar prices in the international market, there was a considerable drop in sugar cane production.[107]

As regards the main crops for domestic consumption, although the area sown to basic grains was larger than in the previous year, a drought –particularly prolonged in the east of the country– affected the harvests, especially that of beans. For this reason it is estimated that the volume of the total production of grains remained constant in relation to that achieved the previous year. It should also be noted that the minimum support price established in Guatemala for maize, beans and rice was relatively low –at all events, lower than that of other countries within the Central American Common Market– so that possibly production was discouraged. Moreover, since part of the crop was exported to the rest of the region, precisely because of the better prices there, the remainder was not enough to supply the domestic market. Thus, towards the end of the year, the Instituto Nacional de Comercialización Agrícola (INDECA), which had secured very little of the domestic crop, found itself compelled to import maize and beans.

(ii) *Manufacturing.* The notable expansion of the manufacturing sector (11°/o) was stimulated by the aforementioned growth of the global domestic demand, by a new upturn in the exports of manufactures to the Central American Common Market and by the continuing increase in exports of manufactures to third countries. Although precise data are not available, some indicators suggest that there was a special boom in construction materials; the cement industry, for example, operated at full capacity and for the second year running it was necessary to import large amounts of this product. According to the few indicators available, there was also a marked growth in the output of the main consumer goods processed in the country, namely, textiles, clothing, footwear and processed foods. An interesting indication of the size of this expansion is that the only industry making glass containers in Guatemala –which is also the only one in Central America–, for the first time in its history, and in spite of the continued enlargement of its installed capacity, found it impossible to satisfy the regional demand, which led to supply problems in this branch and imports of some volume.[108]

(iii) *Mining.* In the case of mining, which still has little weighting in the gross domestic product, it is noteworthy that in the last quarter of the year the nickel-processing company began experimental operations, and it is estimated that in the second half of 1978 the plant will be operating at full capacity, producing 25 million pounds of dull nickel per year. The mining of copper on a reduced scale also began during this period, while a start was made on the extraction of very small amounts of hydrocarbons for domestic consumption, though it is hoped that output will grow substantially after 1978, when the oil-pipeline comes into operation.

(iv) *Construction.* For the second year running, the construction sector expanded at exceptional rates as a result of public works and building of every type (although, as noted earlier, with hold-ups in the popular-housing programmes), a situation which also caused supply problems in certain materials, a scarcity of skilled labour and a shortage of some services. The permits for new buildings issued

[107] Since the agricultural cycle of most export crops does not coincide with the period under review, and since there are often marked variations in the size of stocks, the trends described here do not necessarily agree with those observed in the export of the same products. Thus, for example, in 1977 the volume of external sales of sugar exceeded that of the previous year by 5.6°/o, while the volume of output decreased considerably. A similar situation arose in the case of coffee.

[108] In consequence of this expansion in demand, the enterprise which operates the plant in Guatemala began the construction in 1977 of a second plant in Costa Rica.

in Guatemala City –a very partial indicator of the activity level in this branch–[109] showed an increase of 13% over those authorized in 1976.

(v) *Services.* The tertiary services –public services, transport, commerce and finance–, which are closely linked with the expansion of the primary activities, grew at rates consonant with the level of economic activity prevailing during the year. There was also an appreciable recovery in the value added by home ownership after the fall in 1976 caused by the earthquake, which reflected the high though still inadequate levels of reconstruction achieved in rural and urban housing. Lastly, the value added by public administration indicates a rising level of employment through the supply of public services.

3. *The external sector*

(a) *Introduction*

The international situation was, on balance, highly favourable to Guatemala during 1977, in comparison with the adverse effects stemming from the external sector which it suffered in previous years as a result of the recession in the industrialized countries, changes in international financial and monetary arrangements, the marked increase in oil prices, and the supply problems in certain strategic raw materials. The economic upturn and the lessening of inflationary pressures in the developed countries had favourable repercussions on the whole of Central America. Very special factors governing the supply of coffee in the world market led to unprecedented increases in its price, and cotton prices also behaved favourably.

At the same time, the rising demand in the other Central American countries –stimulated by some of the above factors– gave a fresh boost to regional trade, in which Guatemala has traditionally achieved a surplus.[110] All these circumstances offset to a large extent various negative factors, such as the drop in the international price of sugar and a new increase in the price of oil decided on by the Organization of Petroleum Exporting Countries (OPEC) at the beginning of the year. Moreover, the bargaining power of Guatemala –and of Central America as a whole– remained slight in the context of a very unstable trade and financing situation at the world level.

External economic policy aimed at exploiting the favourable conditions described above. The associations of producers of the principal export commodities advised their members to take all possible advantage of the prevailing high prices –although it seems that this was not entirely achieved– and, in conjunction with the Government, participated in various international fora in attempts to attain greater stability in the prices of these products in world markets. At the same time, the Guatemalan Export Promotion Centre (GUATEXPRO) continued to stimulate the sale of non-traditional products to third countries. As regards finance, the central government maintained its policy of contracting long-term official loans and avoiding short-term loans or supplier credits, all with a view to preserving the satisfactory structure of the existing external debt.

The result of all this was a further surplus on the balance of payments and an increase of 205 million in the international monetary reserves. In absolute terms, these rose to 705 million dollars by the end of the year, the highest level ever recorded, and sufficient to finance eight months of imports at the growth rate observed in 1977.

(b) *Trade in goods*

The value of exports of goods exceeded that of 1976 by 44%, reflecting a growth in the quantum of around 7% and a very considerable increase (35%) in the unit value of exports (see table 205). This was mainly attributable to the spectacular rise in coffee prices, which pushed up the unit value of coffee exports to double that of 1976.[111] Thus the relative share of coffee exports in

[109] The indicator is partial because as a result of the erthquake much small-scale home building and especially rebuilding was carried out without the formality of a permit.

[110] What is more, for two years Guatemala has been the only country with a surplus in regional trade, a circumstance which might affect the balanced development of this market in the future.

[111] As already mentioned, a comparison of the real average prices of coffee exported with the daily average prices in New York indicates that the Guatemalan exporters did not always take full advantage of market conditions.

Table 205

GUATEMALA: MAIN INDICATORS OF FOREIGN TRADE

	1972	1973	1974	1975	1976	1977[a]
	Growth rates					
Exports of goods						
Value	17.5	31.6	31.7	10.1	23.9	44.2
Volume	15.3	10.0	9.1	-0.9	6.8	6.8
Unit value	1.8	19.6	20.7	11.1	16.0	34.9
Imports of goods						
Value	2.0	32.8	61.3	6.5	34.5	26.1
Volume	-7.7	9.5	13.1	-5.7	25.3	15.4
Unit value	10.5	21.2	42.7	12.9	7.3	9.3
Terms of trade	-7.7	-1.4	-15.4	-1.6	8.1	23.5
	Indexes (1970 = 100)					
Terms of trade	83.0	81.8	69.2	68.1	73.6	90.9
Purchasing power of exports of goods	101.7	110.5	101.7	98.7	112.3	150.5
Purchasing power of exports of goods and services	99.1	114.0	108.8	108.1	121.0	156.4

Source: CEPAL, on the basis of official data.

[a] Preliminary figures.

total external sales increased from 26°/o in 1975 to 45°/o in 1977.

A similar result occurred in the case of cotton, since the combination of major increases in quantum and in unit prices caused the value of cotton exports to rise by 74°/o compared with the previous year.

Sugar, on the other hand, followed an opposite trend, since the sharp fall in its international price caused the export value to decline by 28°/o, despite the increase in the volume exported. Most of the other primary export products recorded a rising trend in value within rates which might be regarded as normal (see table 206).

Guatemala's exports to the rest of the Common Market increased again, although at a lower rate than that of the main commodities, which accounts for the fact that the relative share of intra-regional trade in total exports shrank from 27°/o in 1976 to somewhat less than 22°/o in 1977, while the import coefficient remained constant in the region of 13.5°/o. Even so, Guatemala's surplus in intra-regional trade increased again in absolute terms, rising from 85 million dollars in 1976 to 99 million in 1977.

Concurrently, the value of imports of goods increased by 26°/o, as a result of a real expansion of over 15°/o and a rise in the unit value of 9°/o (see table 205). The rise in unit value reflected not only inflationary pressures in the main countries supplying the imported goods but also the recent revaluation of most of the European currencies and of the Japanese yen in relation to the dollar, to which the parity of the quetzal is pegged.

The high level of imports in 1977 was largely the result of the general economic boom which brought about a growing demand for all types of goods (see table 207). It should be noted that the import of durable consumer goods increased by 126°/o over the previous year, indicating that the economic expansion in 1977 was more to the advantage of the high- and middle-income groups, which are those which acquire goods of this kind. The unusual increase in the import of many luxury –or at least non-essential– articles means that part of the boom in the export sector was wasted on projects not relevant to the economic development of the country, and that a unique opportunity for

Table 206

GUATEMALA: VALUE AND BREAKDOWN OF EXPORTS OF GOODS (FOB)

	Millions of dollars				*Percentage breakdown*		*Annual growth rates*		
	1974	*1975*	*1976*	*1977*[a]	*1970*	*1977*	*1975*	*1976*	*1977*
Main export products	*351.6*	*415.2*	*497.8*	*820.4*	*58.4*	*71.6*	*18.1*	*19.9*	*64.8*
Green coffee	172.9	164.1	243.5	518.6	33.9	45.3	-5.1	48.4	113.0
Raw coffee	68.3	74.0	83.7	145.9	8.9	12.7	8.3	13.1	74.3
Bananas	31.5	34.5	21.8	24.4	6.9	2.1	9.5	-36.8	11.9
Meat	21.5	16.9	20.8	25.4	4.3	2.2	-21.4	23.1	22.1
Sugar	49.6	115.6	111.0	80.0	3.1	7.0	133.1	-4.0	-27.9
Cardamom	7.8	10.1	17.0	26.1	1.3	2.3	29.5	68.3	53.5
Others	*230.4*	*225.7*	*277.3*	*324.2*	*41.6*	*28.4*	*-2.0*	*22.9*	*16.9*
Total	*582.0*	*640.9*	*775.1*	*1 144.6*	*100.0*	*100.0*	*10.1*	*20.9*	*47.7*

Source: Central Bank of Guatemala.

[a] Preliminary figures.

Table 207

GUATEMALA: VALUE AND BREAKDOWN OF IMPORTS OF GOODS (CIF)

	Millions of dollars			*Percentage breakdown*		*Growth rates*			
	1975	*1976*[a]	*1977*[b]	*1973*	*1977*	*1974*	*1975*	*1976*	*1977*
Consumer goods	165	197	272	26.9	21.8	39.2	1.4	19.3	38.2
Non-durable	111	121	102	18.3	8.1	33.9	4.3	9.2	-16.2
Durable	54	76	170	8.6	13.7	50.5	-4.0	40.1	125.8
Intermediate goods	253	267	428	37.6	34.2	65.1	-5.8	5.5	59.9
Fuels and lubricants	103	110	135	7.6	10.8	179.2	12.2	6.5	22.7
Construction materials	37	69	87	5.7	7.0	86.2	-19.2	83.6	26.2
Capital goods	172	256	296	21.4	23.7	42.7	29.5	49.0	15.7
Miscellaneous	5	8	31	0.8	2.5	-18.0	64.7	72.4	307.1
Total	*735*	*906*	*1 249*	*100.0*	*100.0*	*62.6*	*4.3*	*23.3*	*37.7*

Source: Central Bank of Guatemala, *Estudio económico* and *Memoria de labores.*

[a] Preliminary figures.
[b] Estimates.

promoting some changes in the productive apparatus was not fully exploited. The Government, however, made no attempt to curb this type of import and rather encouraged it by reducing the charges on the import of automobiles,[112] and by authorizing a series of facilities for importing products of this type.

[112] Under Decree 37-77 of 21 July the import charge was greatly reduced "...in order to rationalize the import of motor vehicles and to place these within reach of a greater number of Guatemalans..."

The imports of raw materials and construction materials also rose at accelerated rates (60°/o and 26°/o respectively), in response to the rapid growth of the manufacturing and construction sectors. Moreover, although the relative share of fuels in imports declined, in absolute values it reached the figure of 135 million dollars, four times the amount recorded in 1973.

Finally, the terms of trade improved for the second year running, although remaining at a lower level than that which prevailed at the beginning of the decade (see table 205). The favourable trend of the unit values of exports in relation to imports also helped to raise the purchasing power of exports by 29°/o.

As a result, a surplus was obtained on trade in goods for the first time since 1973.

(c) *Trade in services and factor payments*

There was a negative balance, however, on the services account, which showed an unprecedented deficit stemming mainly from three activities: (i) the deficit on the transport account, which showed a marked increase, since almost the whole of the rise in expenditure linked with the higher level of foreign trade went to foreign enterprises, in view of the apparent inability of the national shipping companies and the Guatemalan airline to enlarge their services in the short term; (ii) factor payment; and (iii) the balance on the tourism and travel account, which showed on the one hand a standstill in the revenues derived from tourism and on the other an increase in the expenditure incurred abroad for this concept (an expense comparable to the consumption of durable goods described above). Lastly, payments on insurance claims returned to a level bordering on the normal, which means that most of the claims for damage caused by the earthquake were settled the previous year.

In sum, the overall services account thus showed a deficit of the order of 170 million dollars, which was partially counterbalanced by the surpluses on the trade account and on that of transfers received from abroad. Accordingly, the deficit on the balance-of-payments current account rose to 67 million dollars in 1977 (see table 208).

(d) *The current account deficit and its financing*

This deficit was more than covered by net inflows of capital of over 270 million dollars. The surplus is explained in part by the disbursements of long-term official and banking capital, which reached levels exceeding those of 1976 but very much lower than those foreseen in view of the rate of public investment and the external loans already agreed. The bulk of the surplus came, as in 1976, from two sources: (i) continued high levels of direct foreign investment (80 million and 96 million dollars in 1976 and 1977 respectively), allocated, among other activities, to the exploration and exploitation of hydrocarbons and minerals, especially nickel, and (ii) the rising level of short-term trade commitments associated with the increased value of current operations (import and export) carried out during the year. It should also be pointed out that the contracting of short-term currency loans rose from 18 to 37 million dollars. The high propensity of the Guatemalan private sector to contract suppliers' credit and also direct short-term currency loans is partly explained by the fact that interest rates on loans in Guatemala were equal to and even higher than those prevailing for the greater part of the year in the main international financial centres, and partly by the fact that the monetary authorities of the country did not adopt measures to curb this type of external credit.

It is also noteworthy that amortization and interest payments on long-term official and banking capital (20 million dollars in absolute figures) are still very low. The servicing of the external public debt thus came to represent only 1.5°/o of the total value of exports of goods and services, the lowest coefficient in the whole of Latin America (see table 209). This relation will probably increase in the next few years, since the grace periods for the official loans contracted at the beginning of the present decade will soon expire, and the public sector has increased the contracting of new debt, especially since the earthquake of 1976.[113] Despite this last circumstance, it would seem that the

[113] Since that date agreements have been signed for approximately 235 million dollars in long-term official loans. Of this sum, more than half (144 million dollars) will be assigned to hydroelectric projects, another 50 million to reconstruction work –half for highways and the rest for schools and health centres– and the balance to various projects included in the Development Plan.

Table 208

GUATEMALA: BALANCE OF PAYMENTS
(Millions of US dollars)

	1972	*1973*	*1974*	*1975*	*1976*	*1977*[a]
Current account						
Exports of goods and services	394	532	702	783	992	1 330
Goods FOB	336	442	582	641	794	1 145
Services	58	90	120	142	198	185
Transport	12	17	19	22	26	35
Travel	17	37	57	78	66	66
Imports of goods and services	390	520	812	860	1 137	1 413
Goods FOB	295	391	631	672	904	1 141
Services	95	129	181	188	233	272
Transport	45	56	91	86	101	122
Travel	24	38	52	55	82	98
Net payments of profits and interest on foreign capital	-46	-46	-48	-66	-66	-81
Profits	-32	-37	-46	-51	-50	-71
Interest	-14	-9	-2	-15	-16	-10
Net private transfer payments	31	43	57	78	206	97
Balance on current account	-11	9	-102	-65	-5	-67
Capital account						
Net external financing (a +b +c +d +e)	11	-9	102	65	5	67
(a) Net external non-compensatory capital	48	87	95	172	189	272
Direct investment	16	35	47	80	96	
Long- and medium-term loans	69	61	71	113	113	
Amortization payments	-53	-32	-48	-32	-43	
Short-term liabilities	17	24	26	12	26	272
Official transfer payments	-1	-1	-1	-1	-3	
(b) Domestic non-compensatory capital or assets	4	-10	-7	9	43	
(c) Errors and omissions	-1	-1	–	-10	-17	
(d) Allocation of SDRs	4	–	–	–	–	
(e) Net compensatory financing (– = increase)	-45	-85	14	-106	-211	-205
Balance-of-payments loans, trade arrears, IMF loans, and other liabilities of the monetary authorities	–	–	–	–	2	...
Amortization payments	-3	-5	-2	-2	-1	...
Variation in gross international reserves (minus sign signifies an increase)	-42	-79	15	-104	-212	...
Foreign exchange reserves (– = increase)	-36	-74	15	-104	-208	...
Gold reserves (minus sign signifies an increase)	-6	–	–	–	-4	...
SDRs (minus sign signifies an increase)	–	-5	–	–	–	...

Sources: 1972-1976: CEPAL, on the basis of data from the International Monetary Fund;
1977: CEPAL, on the basis of data from the Central Bank of Guatemala.

[a] Preliminary figures.

Government still possesses an ample margin of indebtedness if the conventional yardsticks are applied, which is attributable, at least in part, to the deliberate policy of preserving a sound external debt structure, with emphasis on long-term concessionary loans, and at present without any suppliers' credit at all.

Table 209

GUATEMALA: INDICATORS OF EXTERNAL INDEBTEDNESS[a]
(Millions of dollars)

	1972	*1973*	*1974*	*1975*	*1976*	*1977*[b]
Balance of public and State-guaranteed debt	140	163	174	198	246	207
Servicing of external debt	41	21	31	19	19	20
Amortization payments	33	12	23	11	13	10
Interest payments	8	9	8	8	6	10
Servicing of external debt, as a percentage of exports of goods and services	10.3	2.8	4.3	2.4	2.0	1.5

Source: National Economic Planning Council.

[a] Debt outstanding at the end of the year falling due in more than one year's time.
[b] Preliminary figures.

4. *Prices and wages*

(a) *Prices and anti-inflation policy*

After a long period of virtual price stability, Guatemala suffered inflationary pressures of some severity during the period between 1972 and 1976 (see table 210). At first this phenomenon was due in great part to external factors, but by 1975 these had appreciably diminished. In 1976, however, some domestic factors made their appearance, closely associated with the earthquake of February in that year.[114]

Thus, in 1977 the inflationary pressures observed in the preceding year not only continued but increased; the variation in the general consumer price index was 10.7 and 13.7 in 1976 and 1977 respectively. In this connexion, the following factors should be borne in mind. In the first place, the inflationary trend, although partly seasonal in character, began to slacken in 1977. A comparison of the general consumer price index for April with that of the same month in the preceding year reveals a variation of 15%, which rises to 16.2% in May and drops thereafter, month by month, until it reaches 13.7% in October, the last month for which data are available. Secondly, the behaviour of the prices of the items included in the index was decidedly uneven; the fluctuation in foodstuffs was lower (about 11%) than the growth rate of the general index, whereas that for housing was much higher (19.6%). Lastly, the variations were slightly less in the metropolitan area of Guatemala City than in the rural areas (see table 210).

The interpretation of these price trends is perhaps more complex than in preceding years. There can be no doubt that they were partly due to the inflationary effects of 1976, while the aforementioned increase in the unit costs of imported goods was also reflected in the imported component of domestic goods and services. Three further factors should be taken into account: (i) a cost inflation –of undetermined size– stemming from the increase in the price of labour and materials in the

[114] For an analysis of this phenomenon in previous years, see the 1974, 1975 and 1976 editions of the *Economic Survey of Latin America.*

Table 210

GUATEMALA: CONSUMER PRICE INDEX
(Average annual variation) [a]

	1973	*1974*	*1975*	*1976*	*1977* [b]
Urban total	*14.4*	*15.9*	*13.1*	*10.7*	*13.7*
Food	19.3	15.9	14.6	9.6	12.2
Housing, fuel and services	10.8[c]	53.8[c]	2.9[c]	9.7	21.5
Clothing and footwear	15.9[d]	11.2[d]	24.6[d]	24.7	19.6
Household goods	...	...	...	11.8	10.7
Transport expenses	...	...	...	3.5	4.1
Miscellaneous expenses	4.1	17.2	12.5	6.7	11.3
Rural area					
Food	...	...	...	4.7	17.7

Source: Central Bank of Guatemala.

[a] 1973-1975: calculated from consumer price index on base 1946 = 100.
1976-1977: calculated from new consumer price index on base 1975 = 100.
[b] Variation of January-October 1977 compared with January-October 1976.
[c] Includes fuel only.
[d] Includes clothing only.

construction sector, as a direct result of its high activity level since February 1976; (ii) a marked increase towards the end of the year, in consequence of the drought and the tardy action of INDECA in the marketing of grains, in the price of some basic grains, especially beans, and (iii) the great liquidity produced by the widespread boom, leading to a major expansion in global demand which in turn not only stimulated production and a considerable increase in imports, but also pushed up the prices of certain goods. The public debt made no significant contribution to the excess of liquidity, since, as mentioned later, the public sector was a net creditor of the Central Bank during the greater part of the year.

In face of these inflationary pressures, the Government pursued a deliberate policy of price stabilization, as evidenced by the monetary and fiscal policies and administrative decisions adopted. During the whole year, for example, ceiling prices were maintained for an important group of consumer goods, chief among which were construction materials, in virtue of the declaration of a "state of public disaster" after the earthquake, which was only lifted in December 1977. Although the ceiling prices helped to avoid excessive increases in certain articles, they discouraged the production of some lines –milk, for example– and gave rise to a "parallel" market in construction materials, specially cement. At the same time, the policy was continued of supporting the production of basic grains through official credit and assistance (although the guaranteed prices established by INDECA could have been fixed at more remunerative levels). Foreseeing a deficit in some grains owing to the lack of rain, INDECA imported maize and beans in order to stabilize prices; nevertheless, the time-lag in delivery helped to produce the temporary price rises mentioned above. Lastly, a very selective subsidy policy was continued chiefly with a view to avoiding increases in the fares of urban public transport.[115]

[115] In the interest of stabilization, however, the Government showed itself very reluctant to increase the charges of public servies, which in itself constitutes a sort of indirect subsidy. As indicated in the next paragraph, various semi-State enterprises are facing financial problems.

(b) *Wages and salaries*

The information available on wages and salaries is unfortunately very limited, so that it is impossible to be precise about their evolution. Nonetheless, the vigorous economic activity, and the rise in the level of employment which this must have caused, undoubtedly helped to bring about selective pay rises, especially in the case of skilled labour and workers in the construction industry. General assessments, however, based on very partial surveys and interviews, suggest that these adjustments were insufficient to maintain the purchasing power of the average wage-earner.[116]

The Government pursued a cautious wage policy during the year, its chief feature being pay adjustments –called "emergency bonuses"– for government employees. It is thought that these adjustments represented an average increase of around 8%.[117] Throughout the whole of the year, there were adjustments to the minimum wage in only four branches of activity and no additional increase was established. The Ministry of Labour intervened in the conciliation of a small number of labour conflicts, which affected the wages of less than 2,000 workers.

The only firm additional fact available is that the number of contributors to the social security system grew by slightly over 5% during the year, while the global amount of wages paid grew by only 0.1%. This means that the average wage, assessed at current prices, dropped by somewhat more than 4% (see table 211).[118]

Table 211

GUATEMALA: EVOLUTION OF EMPLOYMENT AND WAGES AND SALARIES

	1974	*1975*	*1976*[a]	*1977*[a]	*Growth rates*		
					1975	*1976*	*1977*[a]
Number of workers contributing to social security (thousands)	499	550	655	690	10.2	19.1	5.3
Guatemala City	166	204	...	...	22.8	...	...
Remainder of the country	334	346	...	...	3.9	...	...
Average wage or salary paid to contributors to social security	870	937	979	938	7.6	4.5	-4.2
Guatemala City	1 536	1 511	...	...	-1.6	...	...
Remainder of the country	539	600	...	...	11.3	...	...

Source: CEPAL, on the basis of official figures.

[a] Estimates on the basis of data for the period January-October.

At the same time, the number of persons registered in the Ministry of Labour as unemployed in Guatemala City –a very incomplete indicator– dropped from an average of 60,000 in 1975 and 56,000 in 1976 to only 30,000 towards the end of 1977.

[116] A survey carried out among 370 industrial enterprises by the General Secretariat of the National Economic Planning Council compares the first half of 1977 with the same period in the previous year. According to this survey, the average wage for both periods rose by 6.6%, a percentage very much below the variation of the general consumer price index for the same period. The survey also reveals an increase of 11.8% in the number of workers employed.

[117] All workers were granted an increase of 22 quetzales a month, irrespective of their income level. This meant a major increase for workers receiving less than 200 quetzales a month, and a small one for those earning 600 quetzales or more. Professionals were granted a salary increase of 50 quetzales a month.

[118] These figures, however, are preliminary and incomplete and should be treated with reserve. They refer to the situation in January and June of 1977 compared with the same months in the preceding year.

5. *Fiscal and monetary policy*

(a) *Financial trends and fiscal policy*

In 1977 the government technical offices succeeded in reconciling the financial consequences of the earthquake with the Development Plan for 1975-1979 as previously conceived. The policy adopted was to proceed with rehabilitation and reconstruction with as little interference as possible in the development programmes and projects originally planned for the period. As a result, the level of public expenditure actually attained in 1976 and projected for 1977 and following years was much higher than the rising trend observed before the earthquake.[119]

Thus in 1977 the central government made unprecedented outlays both of credit and capital (see table 212). The magnitude of the planned expenditure and the ensuing pressures on the performance of the construction industries –added to problems of organization in the public sector– caused the coefficient of capital expenditure to approach 80°/o of what had been programmed (that of credit expenditure reached 95°/o). A good part of this time-lag was connected with social reconstruction works such as dwellings, schools, hospitals and to a lesser degree health centres.

Table 212

GUATEMALA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of quetzales				*Growth rates*		
	1974	*1975*	*1976*	*1977*[a]	*1975*	*1976*	*1977*
Current income	279	330	407	563	18.0	23.3	38.3
Current expenditure	219	269	336	395	22.5	25.2	17.6
Saving on current account	60	61	71	168	1.5	15.4	137.3
Capital income	3	22	21	3	730.8	-1.9	-88.2
Capital expenditure	137	126	296	328	-8.2	134.8	11.0
Real investment	77	85	191	218	9.7	125.1	13.9
Financial investment	26	10	48	52	-61.5	371.3	9.0
Amortization of the debt	34	31	57	59	-8.0	84.5	3.0
Total expenditure	357	395	632	724	10.7	60.2	14.5
Fiscal deficit	74	43	204	158	-41.9	372.5	-22.4
Financing of deficit							
Domestic financing[b]	72	52	228	170	-27.1	336.6	-25.4
External financing	25	19	22	40	-23.7	18.7	80.2
Variation of deposits (– = increase)	-22	-28	-46	-52	27.6	66.1	12.0

Source: CEPAL, on the basis of official figures.

[a] Preliminary figures.
[b] Includes the floating debt.

Because of the size of the housing deficit problem, this point requires further clarification. Through the National Reconstruction Committee, and with the help of various national and international sources, strenuous efforts were made in 1976 and in the first half of 1977 to build all types of temporary housing to meet the needs of approximately 100,000 families. At the same time, between May 1976 and October 1977 credits totalling 51 million quetzales were channelled through the Fondo de Fideicomiso, established in the Central Bank for this purpose, for the benefit of some

[119] The total budgetary estimate of central government expenditure rose from 397 million quetzales in 1975 to 744 million in 1976 and to 813 million in 1977, and it is expected to reach 943 million in 1978. It should be noted, however, that the coefficient of public expenditure in Guatemala –which rose from 10.8°/o in 1975 to 14.5°/o in 1976 and then dropped to 13.2°/o in 1977– is still among the lowest in Latin America.

35,000 families. However, the most ambitious programmes of the National Housing Bank (BANVI) for the building of 30,000 housing units of different types were postponed until 1978, since in the preceding year the Bank devoted all its efforts to the acquisition of building sites –11 million quetzales were invested for the purpose–, the preparation of projects and the processing of the external financing required.

As regards taxation, one of the most important factors was that, after many years of virtual stagnation, the tax coefficient –which is among the lowest in Latin America– rose from 8.5°/o to 9.7°/o between 1976 and 1977, an increase mainly due to the rise in the taxes payable on commodity exports, especially coffee. The duty payable on the export of the five products concerned (coffee, cotton, sugar, meat and bananas) rose from 6.2°/o in 1974 –the year before the adoption of a new progressive scale– to 7.7°/o in 1975, 10.3°/o in 1976 and 15.4°/o in 1977. Other very buoyant taxes were income tax and the charge on transactions (stamp duty and stamped paper), as was to be expected in a period of rapid economic expansion (see table 213). On the other hand, the average incidence of tariffs fell slightly –from 8.2°/o in 1975 to 7.9°/o in 1976 and 7.8°/o in 1977– in consequence, among other factors, of the large amount of construction materials which entered the country exempt from import duty. In brief, the taxation system reacted satisfactorily to the general economic boom which was a feature of 1977; actual tax receipts even exceeded the budgetary estimate by over 50 million quetzales (almost 10°/o of total revenue), which meant in its turn that the central government had less recourse than was expected to the public debt.

Table 213

GUATEMALA: CENTRAL GOVERNEMT CURRENT INCOME
(Millions of quetzales)

	1970	*1971*	*1972*	*1973*	*1974*	*1975*	*1976*	*1977*[a]
Tax revenue	*147.8*	*154.4*	*163.6*	*191.9*	*254.8*	*300.8*	*370.4*	*531.6*
Direct	*24.1*	*25.7*	*29.0*	*32.2*	*39.4*	*62.7*	*67.6*	*81.9*
Income tax	18.6	20.5	22.4	25.3	32.0	54.8	59.2	72.8
Territorial tax	5.1	4.9	6.2	6.5	6.9	7.6	8.1	8.7
Estate and gift duties	0.4	0.3	0.4	0.4	0.5	0.3	0.3	0.4
Indirect	*123.7*	*128.7*	*134.6*	*159.7*	*215.4*	*238.0*	*302.8*	*449.7*
Imports	36.5	38.5	37.4	41.6	58.8	60.2	69.9	97.2
Exports	9.6	9.0	9.7	15.6	21.2	31.3	49.2	122.2
Alcohol	15.9	17.4	17.9	19.9	23.8	25.6	31.1	33.9
Tobacco	6.7	7.1	7.0	7.2	8.5	10.2	12.4	13.1
Stamp duty and stamped paper	35.6	36.9	40.6	49.6	74.1	78.5	104.7	143.5
Petroleum products	11.5	12.0	13.2	14.5	16.5	18.1	19.3	19.7
Others	7.9	7.8	8.8	11.3	12.5	14.1	16.2	20.0
Non–tax income	*17.4*	*19.0*	*21.5*	*21.4*	*24.8*	*29.0*	*36.4*	*31.2*
Total	*165.2*	*173.4*	*185.1*	*213.2*	*279.6*	*329.8*	*406.8*	*562.8*

Source: Central Bank of Guatemala.

[a] Preliminary figures.

In effect, the central government ended the year with a fiscal deficit of 158 million quetzales, a lower figure than that of the previous year (204 million) and very much lower than had been estimated (377 million). The fact that the level of indebtedness –and especially external indebted-

ness– has been so much lower than was anticipated is due on the one hand to the increase in tax revenue mentioned above and on the other hand, as was also mentioned, to the fact that the programme of budgeted expenditure was not fully implemented.

The trend of internal indebtedness, moreover, did not provoke inflation; on the contrary, the public sector as a whole helped to absorb liquidity from the economy. This was attributable to the following two factors. In the first place, a high proportion of the debt was placed in the financial intermediation system and in public hands in the form of government bonds. In line with this policy, the obligation established in 1976 to acquire reconstruction bonds caused the public to invest 53 million quetzales in these bonds between October 1976 and October 1977, while the holding of bonds by the intermediation system increased by 24 million during the same period. In the second place, in view of the financial situation of the central government, and the backlog in its expenditure programme, its deposits in the Central Bank throughout the year were generally in excess of its liabilities. Thus, at the end of October 1977, while the gross debt of the whole public sector with the Bank of Guatemala amounted to 230 million quetzales, its deposits amounted to almost 250 million.

In brief, a comparison of the fiscal deficit with the sum of the public debt contracted by the central government shows that the financial exercise closed with a cash surplus of over 50 million quetzales (see table 212).

Nevertheless, the relatively favourable financial position of the central government conceals a much less satisfactory situation in the financing of the rest of the public sector, to which the Government transfers an increasing volume of resources every year. Although the information is incomplete, the partial data available for the Municipality of Guatemala and for five of the main semi-State enterprises[120] suggest that if measures are not taken to raise their income levels in the short term –through municipal taxes and charges in the public enterprises– these will need to have increasing recourse to the central government to cover their expansion programmes and also, in some cases, part of their operating costs. This would occur at a time when the financial situation of the Government itself began to worsen, in view of the great dependence of the taxation system on foreign trade and recent trends in the world prices of coffee and cotton.

Finally, it should be noted that the only reform introduced in the taxation system in 1977 was the reduction of certain import duties already referred to. For the rest, the Government continued to apply the programme of administrative improvements initiated years before to reduce the level of tax evasion. On the expenditure side, in 1977 a programme of administrative reform was started, sponsored by the Ministry of Finance and the Secretariat of the National Economic Planning Council, with a view to rationalizing public expenditure and improving efficiency of the public sector in the provision of services and the promotion of development.

(b) *Monetary policy*

The monetary authorities made practically no change in the regulations in force in 1976 relating to interest rates (with one exception which will be referred to later), reserve and rediscount policies, and support for priority reconstruction and investment programmes of the public sector. Lastly, in 1977 there was a continuation of a relatively conservative policy as far as can be gauged from the expansion of the means of payment, partly because, as already mentioned, the public sector did not use the amount of credit originally envisaged, and partly because a proportion of the pressure on credit was diverted from the national intermediation system towards sources of external financing.

Accordingly, while the credits of the banking system to the private sector rose by 24% during the year –less than the growth rate of the gross domestic product at current prices– the contracting of short-term foreign loans more than doubled. This phenomenon is partly accounted for by the differential of the rates of interest on loans, which during most of the year were higher in Guatemala (around 11% annually) than those prevailing in the main international capital markets. At the same time, the banks of the system reduced the rate of interest on deposits by 1%, arguing that the excess of liquidity in public hands, generated by the factors already mentioned, resulted in greater deposits which, through the restrictions imposed by the reserve requirement or the minimum capital require-

[120] The Instituto Nacional de Electrificación (INDE), the Instituto Nacional de Telecomunicaciones (GUATEL), the Empresa Municipal de Aguas, the Empresa Eléctrica de Guatemala and the Empresa Portuaria de Matías de Galvéz.

ment, could not be channelled into credit activity. This resulted in an increased margin between the two interest rates. On average, towards the end of the year the former was approaching 10°/o and the latter 4°/o, a drop which certainly contributed to the slower rate of growth of quasi-money (18.5°/o) than in recent years, and the fact that it came to a standstill during the second half of the year.

If to the foregoing is added the fact that the currency in circulation increased at the relatively modest rate of 23°/o –once again lower than the growth rate of the nominal gross domestic product– it will be seen that 90°/o of the growth of liquidity was due to the growth of international monetary reserves (see table 214). It should be mentioned, however, that, owing to the external monetization, the expansion of liquidity reached its peak in the middle of the year, when the monetary reserves were approaching 770 million dollars, and that in the second half of the year there was a slackening in its growth.

Table 214

GUATEMALA: MONETARY POSITION

	End-year balance (millions of quetzales)				*Growth rates*		
	1974	*1975*	*1976*	*1977*[a]	*1975*	*1976*	*1977*[a]
Money	*299*	*349*	*483*	*596*	*16.5*	*38.6*	*23.4*
Currency outside banks	157	174	235	290	10.7	34.9	23.3
Demand deposits	142	174	248	306	22.8	42.3	23.5
Factors of expansion	*747*	*913*	*1 224*	*1 518*	*22.2*	*34.0*	*24.0*
Foreign assets (net)	185	262	454	622	41.4	73.3	37.1
Domestic credit	562	652	770	896	15.9	18.2	16.3
Official entities	124	141	169	151	13.0	20.6	-10.9
Private sector	438	511	601	745	16.7	17.6	24.0
Factors of absorption	*448*	*565*	*741*	*921*	*26.1*	*31.1*	*24.4*
Quasi-money (savings and time deposits)	402	504	642	760	25.5	27.2	18.5
Other items (net)	46	60	99	161	31.1	64.0	62.9

Source: Central Bank of Guatemala.

[a] Preliminary figures.

The excess reserves existing in the intermediation system since 1975 have been diminishing. On applying the legal reserve in force for monetary and savings deposits at the end of 1976, it is observed that this amounted to an average 22°/o, while the effective reserve coefficient amounted to 32.8°/o. In 1977 the legal and actual reserves tended to converge; while the former rose to 22.2°/o owing to the displacement of quasi-money into monetary deposits (the legal reserves are greater than these), the real reserve coefficient dropped slightly from the level observed at the end of the previous year, reaching 32.1°/o.

Finally, the public continued to show a marked preference for highly liquid assets, the relative share of which in the means of payment increased from less than 41°/o in 1975 to 44°/o in 1977.

GUYANA

1. *Main recent trends: Introduction and summary*

According to official estimates, the 1977 gross domestic product, measured at current factor costs, came to 1 billion Guyana dollars.[121] This represents a drop of 3°/o compared with 1976, and as the rate of inflation for this period was 10°/o, the real gross domestic product underwent a considerable decline.

This drop in the real gross domestic product was due mainly to a decline in income from the agricultural sector and the scanty growth of mining, which are the two main sectors providing foreign currency for the country. The drop in production of Guyana's main commodities and the very slight rises in their international prices caused the persistence of the serious balance of payments problems which began in 1976. As a result there was a shortage of basic and intermediate goods which adversely affected domestic economic activity.

In the second half of the year, a serious strike in the sugar industry further aggravated the economic situation by its effects on the other industries. The labour unrest also resulted in a deterioration in trade relations with the neighbouring CARICOM countries.

Furthermore, domestic capital formation was insignificant, and in the course of the year the proportion of idle installed capacity increased. In an attempt to fill the vacuum produced by the low level of private sector investments, the Government increased its direct participation in the economy and took several control measures. Although its efforts were limited because of the severe budgetary restrictions due to the unsatisfactory performance of the external sector, priority was given to improving the agricultural infraestructure and expanding the fishery and forestry industries. Direct control measures were also adopted to try to reduce to the minimum the effects of the unfavourable circumstances referred to. Subsidies on the production of basic goods were maintained, although at lower levels than the year before, and the limits on imports were tightened.

As regards sectoral production, the current value of agricultural production went down by 11°/o, due mainly to the marked new reduction in sugar cane production, which fell by 33°/o after a similar drop in 1976. Rice production, however (representing about 2°/o of the agricultural product), almost doubled its contribution.

The mining product grew by around 8°/o in the course of the year, due entirely to the higher income received for exports of alumina and bauxite.

Manufacturing sector activities were affected by the shortage of intermediate imports and labour unrest. The social disturbances were particularly serious in the sugar and flour industries, and as a result production dropped below that of 1976. Construction and commercial activities were also affected; service activities in general declined significantly.

Partly because of the controls imposed by the Government and the revaluation of the exchange rate with respect to the currencies of most of the countries with which Guyana trades, the inflation process only increased slightly (10°/o, compared with 9°/o in 1976). This increase, however, does not reflect the inflationary pressures which were building up, such as the increase in the money supply, which grew by 32°/o.

During the year there was a drop in the value of international transactions, and especially imports. The decline in exports was due to the difficulties encountered in domestic production and the drop in the international prices of most of Guyana's basic export products. The reduction in imports, for its part, is attributable rather to Government control than to any absence of variation in demand or prices. The final result was that the current account deficit dropped from 136 million dollars in 1976 to 106 million dollars in 1977 (see table 215).

In spite of this improvement, the international reserves remained at a very low level because of the difficulties which the external sector had had to face for two years running. The Government had recourse to International Monetary Fund assistance on two occasions in an attempt to strengthen its reserves.

[121] In 1977, the official exchange rate was 2.55 Guyana dollars per United States dollar.

Table 215

GUYANA: MAIN ECONOMIC INDICATORS

	1972	*1973*	*1974*	*1975*	*1976*	*1977*[a]
A. *Basic economic indicators*						
Gross domestic product at factor cost (millions of Guyana dollars at current prices)	529	577	865	1 098	1 030	1 001
Population (thousands)	740	756	774	791	809	827
Per capita gross domestic product (Guyana dollars at current prices)	715	763	1 118	1 388	1 273	1 210
	Growth rates					
B. *Short-run economic indicators*						
Gross domestic product at current prices	5.4	9.1	49.9	26.9	-6.2	-2.8
Per capita gross domestic product at current prices	3.2	6.7	46.5	24.2	-8.3	-4.9
Terms of trade	8.0	-10.3	19.1	15.3	-8.8	2.2
Current value of exports of goods and services	0.1	-3.9	85.4	26.6	-17.9	-4.0
Current value of imports of goods and services	10.2	23.4	34.1	31.9	13.1	-9.9
Consumer price index Annual average variation	5.0	7.5	19.7	6.0	8.7	9.7
Money	22.7	14.5	31.3	60.6	7.8	32.4
	Millions of US dollars					
C. *External sector*						
Trade balance (goods and services)	-4	-51	13	2	-114	-84
Balance on current account	-14	-64	-8	-21	-136	-106
Variation in net international reserves	10	-26	46	50	-104	-4

[a] Preliminary figures.
[b] Percentage.

2. *Sectoral trends*

(a) *Agriculture*

The agricultural product showed a decline for the second year running: -30°/o in 1976 and -11°/o in 1977, at current prices (see table 216). Its contribution to the overall gross domestic product thus fell from 30°/o in 1975 to 21°/o in 1977. Even so, agriculture continues to be the most important sector of the economy, together with the government sector.

The main crops are sugar and rice. In 1977, a prolonged strike of sugar mill workers, lasting from August 1977 to January 1978, reduced the quantity harvested and the sugar yield by 20°/o (see table 217). Normally, 12-14 tons of cane are required to produce one ton of sugar, but the use of inexperienced workers as a result of the strike caused this figure to rise to 18-25. Furthermore, it is possible that the use of bad techniques may have produced more lasting damage, since unskilled forms of cutting off the cane can damage the plant or reduce the sucrose content, which is already very low in the case of Guyana's sugar cane.

Table 216

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

	Millions of Guyana dollars at current prices			*Percentage breakdown* [a]		*Growth rates*		
	1975	*1976*	*1977*[b]	*1970*	*1977*	*1975*	*1976*	*1977*[b]
Agriculture	341	238	212	18.4	21.2	31.6	-30.3	-11.0
Sugar cane	246	142	81	8.6	8.1	32.9	-42.4	-42.9
Rice	36	27	51	2.2	5.1	51.5	-25.6	93.9
Mining, quarrying	141	145	156	14.0	15.6	20.5	2.8	7.5
Manufacturing	162	131	124	11.2	12.4	33.8	-19.0	-5.4
Construction	74	85	71	8.2	7.1	37.8	14.3	-16.8
Subtotal goods	*718*	*599*	*563*	*51.8*	*56.3*	*30.3*	*-16.6*	*-6.1*
Transport, communications	50	55	58	6.4	5.8	12.7	11.0	5.5
Commerce	94	105	96	11.2	9.6	22.3	11.5	-8.9
Rent, financial and other services	75	81	86	9.7	8.6	18.2	7.6	6.2
Government	160	190	198	21.0	19.8	23.9	18.9	4.5
Subtotal services	*379*	*431*	*438*	*48.3*	*43.8*	*20.8*	*13.8*	*1.7*
Total gross domestic product	*1 097*	*1 030*	*1 001*	*100.0*	*100.0*	*26.9*	*-6.2*	*-2.9*

Source: Information supplied by the Statistical Bureau, Guyana.

[a] Totals may not agree because of rounding.
[b] Preliminary figures.

Rice, in contrast, gave a record crop in 1977 which was 91°/o more than the year before, partly compensating for the drop in sugar production. The bigger rice production was due both to an increase in the area cultivated and to the improvement of cultivation techniques. Thus, the increase in area, together with improved cultivation techniques, mechanization, better water use and monetary incentives, gave rise to notably better results.

In view of the very abundant supply, the Guyana Rice Board renewed its efforts to open up new markets for the production surplus.

These efforts, together with the appearance of a black market in rice sales as a result of the difference between the subsidised prices paid by the State and the higher prices in some neighbouring countries, led to an acute domestic shortage of rice at the end of 1977.

Agricultural production for domestic consumption also showed marked increases, outstanding among these being the increases in the production of tomatoes (22°/o), root crops, maize, and bananas and plantains (13°/o,31°/o and 38°/o respectively) and citrus fruits (16°/o).

Livestock production, in contrast, fell sharply. Both beef and poultry production went down by 22°/o, although pigmeat production rose by 4°/o due to the larger availability of credit on favourable terms and the improvement in sales contracts with the pork products factory of the Guyana Marketing Corporation. Poultry production, for its part, experienced difficulties because of a shortage of eggs for hatching and of poultry foods, probably because of the import restrictions. The slaughtering of cattle in the Rupunwni area was restricted with a view to improving and increasing the stock of females.

Further progress was made in the plans for diversifying rice and sugar production, and efforts continued with a view to increasing the production of cotton, cattle and peas. In the longer term, it is

Table 217

GUYANA: INDICATORS OF ACRICULTURAL PRODUCTION

	1974	1975	1976	1977	Growth rates		
					1975	1976	1977
Sugar cane[a]	4.2	3.4	4.0	3.2	-19.0	17.6	-20.0
Rice (milled)[b]	154	175	110	210	13.6	-37.1	90.9
Coconuts[c]	26.4	31.3	32.4	25.2	18.6	3.5	-22.2
Root crops[d]	49.0	51.5	48.0	54.0	5.1	-6.8	12.5
Plantains[d]	22.0	32.5	31.0	43.0	47.7	-4.6	38.7
Citrus fruit[d]	22.0	22.5	22.5	26.0	2.3	–	15.6
Bananas[d]	10.2	10.0	8.0	11.0	-2.0	-20.0	37.5
Coffee[d]	1.5	1.5	1.5	...	–	–	...
Corn[d]	6.0	12.8	5.5	7.2	113.3	-57.0	30.9
Tomatoes[d]	3.7	3.7	4.1	5.0	–	10.8	22.0
Pineapples[d]	3.0	3.0	4.0	4.2	–	33.3	5.0
Beef[d]	8.3	8.5	8.8	6.9	2.4	3.5	-21.6
Pigs, sheep and goats[d]	2.6	3.6	5.0	5.1	38.5	38.9	2.0
Poultry[d]	12.5	17.0	20.9	16.3	36.0	22.9	-22.0

Source: Ministry ofAgriculture.

[a] Millions of tons.
[b] Thousands of tons.
[c] Millions
[d] Millions of lb.

hoped to improve food production through the execution of two large drainage, irrigation and flood control projects which will make possible, among other things, a significant expansion in the area of agricultural land.

(b) *Mining and quarring*

The bauxite and alumina industry predominates in this sector. In 1977, production of these minerals increased only slightly, but their high prices on the world market caused the total value of mining production to increase by 8o/o in comparison with the 3o/o recorded in 1976 (see table 216).

Alumina production increased by 5o/o, that of calcined bauxite dropped by 3o/o, and that of dried bauxite increased by 2o/o (see table 218). The smaller output of calcined bauxite and the slow rate of increase of dried bauxite production were due to the lack of external demand caused by the economic recession, but the situation on the world alumina market improved slightly. Although the increase in world aluminium consumption was slower than in 1976, producers' stocks had dropped to a very low level, thus leading to greater demand. In 1977, income from exports of alumina rose by 36o/o, while income from bauxite exports dropped by 4o/o.

The future of the bauxite and alumina industry is threatened by the financial problems faced by the enormous hydroelectric and industrial project on the Upper Mazaruni. This project included the construction of a dam for hydroelectric power generation, a 255,000 ton aluminium smelter, and a 500,000 ton alumina plant. A large part of the financing was to come from bilateral and multilateral sources, and it was hoped, in particular, that Jamaica and Trinidad and Tobago would between them subscribe 48o/o of the share capital. The economic difficulties of Jamaica and the project for building a more modern 75,000 ton smelter in Trinidad, however, have raised serious doubts about the viability of the Guyana project.

Table 218

GUYANA: INDICATORS OF MINING PRODUCTION

	1974	1975	1976	1977	Growth rates		
					1975	1976	1977
Dried bauxite[a]	1 383	1 379	859	878	-0.3	-37.7	2.2
Calcined bauxite[a]	726	778	731	709	7.2	-6.0	-3.0
Alumina[a]	311	294	247	259	-5.5	-16.0	4.9
Alumina hydrate[a]	9	20	19	18	122.2	-5.0	-5.3
Gold[b]	12.2	18.0	15.6	14[d]	47.5	-13.3	-10.9
Diamonds[c]	29	21	14	14[d]	-27.6	-33.3	–

Sources: Statistical Bureau, Guyana; and CEPAL, on the basis of official data.

a Thousands of long tons.
b Thousands of oz.
c Thousands of carats.
d Estimates based on figures of six months.

In spite of these factors, there are signs that bauxite and alumina prices may improve. The International Bauxite Association has decided to fix a minimum price for low-content bauxite.[122]

Gold production has gone down since 1975, and in the first half of 1977 it was 11°/o lower than in the same period of the year before. There was no variation in diamond production between these periods.

(c) *Manufacturing*

Provisional data show a general decline in manufacturing production (see table 219). The activity in this sector was adversely affected by labour unrest in the factories, price instability and the restriction of imports. Thus, it is estimated that the manufacturing product went down by a little over 5°/o in 1977, representing a further decline after the drop of 19°/o suffered in 1976 (see table 216).

Sugar production registered a decline which seriously affected the growth of the manufacturing sector as whole. In 1977 rice and sugar milling generated approximately 31°/o of the sectoral product.

Labour unrest affected many firms, especially the sugar and flour mills, whose production went down considerably. It is estimated that sugar production fell by 27°/o while in the first six months of 1977 flour had gone down 12°/o in comparison with the same period of 1976.

The restrictions on imports made it difficult to secure supplies of some basic raw materials. Furthermore, there was some difficulty in obtaining domestic financing for the acquisition of machinery.

(d) *Other sectors*

Generally speaking, the results of the other productive sectors were not very good either. The scanty expansion of government expenditure was a factor in keeping down domestic demand, and only transport and financial activities showed increases of around 6°/o in current terms (see table 216). The government sector which makes the biggest contribution to the gross domestic product, grew by 5°/o. The construction and commerce sectors, for their part, registered appreciable declines of around 17°/o and 9°/o respectively.

Unlike 1976, a policy of restricting public expenditure was followed in 1977, and this affected both capital and current expenditure.

[122] This contains 45°/o of aluminium oxide, which is the powder from which the metal is obtained.

Table 219

GUYANA: INDICATORS OF MANUFACTURING PRODUCTION

	1974	1975	1976	1977[a]	Growth rates 1975	1976	1977[b]
Sugar[c]	341	300	332	104	-12.0	10.7	-30.2
Edible oil[d]	335	634	757	188	89.3	19.4	-59.0
Margarine[e]	2.7	4.2	4.7	2.3	55.5	11.9	-8.0
Flour[e]	81.7	90.3	88.4	39.7	10.5	-2.1	-12.0
Molasses[f]	21.5	18.2	23.8	8.5	-15.3	30.8	1.2
Stock feeds[e]	58.2	80.4	93.0	32.4	38.1	15.7	-26.4
Rum[d]	6.0	5.5	4.6	1.6	-8.3	-16.4	-30.4
Cigarettes[g]	491.1	531.6	558.6	291.4	8.2	5.1	3.6
Soap[e]	3.9	5.0	4.5	2.4	28.2	-10.0	–
Paints[d]	329	450	447	213	36.8	-0.7	-14.1
Timber[h]	8.8	7.9	8.9	3.2	-10.3	12.7	-11.1

Sources: Statistical Bureau, Guyana; and CEPAL, on the basis of official data.

a January-June.
b January-June 1977 compared to the same period in 1978.
c Thousands of long tons.
d Thousands of gallons.
e Millions of lb.
f Millions of gallons.
g Millions.
h Millions of cubic feet.

Public works and construction in general experienced difficulties in obtaining external financing. The work being carried out on several infrastructure projects connected whith the hydroelectric power station was suspended, but construction work on the bridge over the River Demarara continued.

3. *The external sector*

(a) *The trade balance*

Guyana continued to face balance-of-payments problems, which are particularly significant for the economy in such a case because of the country's great dependence on external transactions. Preliminary estimates of the balance of payments for 1977, however, indicate a reduction in the trade deficit on goods and services from 113 million dollars in 1976 to 84 million.

There was an appreciable drop in transactions of goods in 1977. Exports are estimated to have gone down by 7%, while imports went down 14% (see table 220). One of the main factors in this drop in imports was probably the strict control over the sale of foreign currency exercised by the Central Bank. In 1977 there was a big reduction in the volume of exports (-15%), due mainly to the lower sales of sugar which were only partly offset by the 8% increase in unit values. The unit value of imports also went up, but only by 6%, and the terms of trade thus improved by 2% (see table 220).

Four products –bauxite, alumina, sugar and rice– accounted for 85% total exports in 1977 (see table 221).

Table 220

GUYANA: MAIN INDICATORS OF FOREIGN TRADE

	1972	1973	1974	1975	1976	1977
	Growth rates					
Exports of goods						
Value	-1.3	-5.5	99.0	30.1	-22.5	-7.4
Volume	-12.8	-7.0	19.4	-7.1	-16.7	-14.6
Unit value	13.2	1.6	66.7	40.0	-7.0	8.4
Imports of goods						
Value	7.4	23.7	44.5	32.8	8.0	-14.3
Volume	2.5	9.1	3.2	9.3	5.9	-19.2
Unit value	4.8	13.3	40.0	21.5	2.0	6.0
Terms of trade	8.0	-10.3	19.1	15.3	-8.8	2.2
	Indexes (1970 = 100)					
Terms of trade	112.6	101.0	120.2	138.6	126.4	129.2
Purchasing power of exports of goods	102.1	85.1	121.0	129.7	98.6	86.0
Purchasing power of exports of goods and services	101.6	87.5	120.6	128.1	102.8	93.9

Source: CEPAL, on the basis of official data.

Table 221

GUYANA: MAIN EXPORTS (FOB)

	Millions of US dollars				*Percentage breakdown*		*Growth rates*		
	1974	1975	1976	1977[a]	1974	1977	1975	1976	1977
Bauxite[b]	68.5	86.6	88.0	84.1	25.4	33.4	26.4	1.6	-4.4
Alumina[c]	21.3	28.7	25.1	34.2	7.9	13.6	34.7	-12.5	36.3
Sugar	127.7	175.0	106.8	69.8	47.3	27.7	37.0	-39.0	-34.6
Rum	6.5	7.1	5.1	3.5	2.4	1.4	9.2	-28.2	-31.4
Molasses	4.4	2.4	2.3	2.7	1.6	1.1	-45.5	-4.2	17.4
Rice	22.0	35.9	28.9	26.2	8.1	10.4	63.2	-19.5	-9.3
Shrimp	3.7	4.4	5.1	7.0	1.4	2.8	18.9	15.9	37.3
Other	16.1	22.4	23.0	24.3	6.0	9.7	39.1	2.7	5.7
Total[d]	*270.2*	*362.5*	*284.3*	*251.8*	*100.0*	*100.0*	*34.2*	*-21.6*	*-11.4*

Source: CEPAL, on the basis of official data.

a Estimation based on partial data.
b Dried and calcined bauxite.
c Includes alumina hydrate.
d The totals do not necessarily coincide with the balance-of-payments figures.

The value of sugar exports went down by 35°/o in spite of the higher price obtained for Guyana's exports to the European Economic Community (EEC). Although the world price of sugar fell by 31°/o in 1977, the EEC subsidy provided for in the Lomé Convention was raised by 2°/o. In addition, a special system of automatic compensatory allowances was set up which provides for compensatory payments to refiners for sugar kept in storage, thus bringing the increase in the real price received to more than 2°/o. It is estimated that over half the sugar produced was used to make up Guyana's 167,000 ton sugar quota for export to the EEC.

As already noted, the value of exports of bauxite and alumina varied in opposite directions, since bauxite exports dropped by 4°/o, while alumina sales increased by 36°/o. This divergence is attributable to the restoration of stocks, which took place in spite of the low world consumption of aluminium.

Another important export product was rice. Although there was and extraordinary increase in rice production, it is estimated that exports of it dropped by around 10°/o. This was due to a number of reasons, among them the fact that the export figures do not register the big increase in sales abroad which took place at the end of the year in order to take advantage of the harvest surpluses. The Guyana Rice Board, which buys the entire rice crop from farmers at a subsidised price and then exports it, had administrative and liquidity problems which may have adversely affected exports. Thus, although payment to the farmers is usually deferred until payment is received for the exports, in 1977 the Guyana Rice Board experienced problems in carrying out these operations. Furthermore, there is said to have been smuggling of rice to neighbouring countries where the price was over 85°/o higher than in Guyana. Although the extent of the influence of these factors is hard to determine, the fact remains that in spite of the abundant harvest there was a shortage of rice in the last quarter of the year.

Just as the situation on the external commodity markets and labour relations at the domestic level were determining factors for the country's export performance, the serious foreing currency crises through which the country was passing made it necessary to reduce imports drastically. Thus, in the period under consideration the total imports of goods went down by 19°/o and the only increase of any importance was in imports of raw materials and intermediate goods, especially mineral fuels. Imports of animal and vegetable oils also increased somewhat, but those of all the other intermediate products went down (see table 222). As regards imports of capital goods, these went down by 27°/o in contrast with the appreciable increase of 74°/o which they had recorded in 1975 and their moderate rate of growth in 1976. There was a decline in imports of construction materials, reflecting in part the financial difficulties encountered by the Upper Mazaruni hydroelectric and industrial project.

The external trade problems faced by the country in 1977 influenced the direction of its trade. Information for the first eight months of the year indicates a noteworthy decline in the proportion of exports going to the CARICOM countries, the biggest deterioration being in trade relations with Trinidad and Tobago, which reduced its purchases in Guyana (see table 223).

Instead of using exchange rate variations to influence trade, the Government preferred to bring in direct controls on the use of foreign currency and to greatly restrict the availability of the latter.

The weighted exchange rate index reveals that in both 1976 and 1977 the Guyana dollar underwent revaluations in real terms, although some caution is called for in interpreting these revaluations because of the predominance of basic commodities in the country's exports and also the subsidised price received for sugar exports. There were nominal revaluations with respect to the United Kingdom, Canada, Barbados and Jamaica, while parity with the United States dollar remained unchanged. Variations in the real exchange rate show a similar pattern.

(b) *The balance of payments*

The current account deficit went down from 136 million dollars in 1976 to 106 million in 1977. This is attributable almost entirely to a reduction in the trade deficit, since the services deficit only went down slightly (-4°/o), while net payments of profits and interest remained unchanged (see table 224).

The effects of the current account deficit were offset by a significant increase in the net inflow of non-compensatory capital from 62 million dollars to 102 million dollars, but there was nevertheless a

Table 222

GUYANA: IMPORTS OF GOODS (CIF)

	Millions of US dollars				*Percentage breakdown*		*Growth rates*		
	1974	*1975*	*1976*	*1977*[a]	*1974*	*1977*	*1975*	*1976*	*1977*[b]
Consumer goods	47.8	55.1	64.8	39.1	18.8	17.7	15.3	17.6	-28.9
Food	19.8	20.4	22.3	30.1	7.8	13.6	3.0	9.3	-8.9
Raw materials and intermediate goods	140.9	174.3	175.8	118.5	55.4	53.6	23.7	0.8	3.1
Capital goods	65.5	114.0	123.2	63.3	25.8	28.7	74.0	8.1	-26.7
Building equipment	19.6	30.6	36.0	15.2	7.7	6.9	56.1	17.6	-33.3
Total goods imports	*254.3*	*343.5*	*363.7*	*228.7*	*100.0*	*100.0*	*35.1*	*5.9*	*-3.5*

Source: CEPAL, on the basis of official data.

[a] January-August.
[b] Variation in the first eight months of 1977 compared to the same period in 1976.

Table 223

GUYANA: MAIN EXTERNAL TRADE FLOWS

	Millions of US dollars				*Growth rates*		
	1974	*1975*	*1976*	*1977*[a]	*1975*	*1976*	*1977*[b]
			Exports				
United Kingdom	55.7	101.9	70.5	41.5	82.9	-30.8	16.2
United States	73.8	83.1	52.5	32.2	12.6	-36.8	-4.5
Canada	14.0	12.8	6.8	8.6	-8.6	-46.9	120.5
Latin America	11.5	7.0	9.3	6.3	-39.1	32.9	34.0
CARICOM	30.4	43.9	41.9	26.4	44.4	-4.6	-12.0
			Imports				
United Kingdom	52.0	73.7	83.7	45.1	41.7	13.6	...
United States	65.4	100.7	103.5	61.6	53.9	2.8	-12.5
Canada	12.6	14.9	15.2	8.8	18.3	2.0	-20.0
Latin America	4.4	9.7	4.9	2.7	120.5	-49.5	-30.8
CARICOM	67.3	73.4	81.7	61.5	9.1	11.3	26.8

Sources: Statistical Bureau, Guyana, *Monthly Bulletin of External Trade*, January-August 1975, and *Monthly Account Relating to External Trade*, December 1975 and August 1976; and CEPAL, on the basis of official data.

[a] January-August.
[b] Variation in the first eight months of 1977 compared to the same period in 1976.

slight drop of 4 million dollars in the net international reserves. Although detailed information is not available, it is probable that most of the greater inflow of capital came from private commercial banks. Direct foreign investment has gone down steadily since 1973, and in 1976 it was actually

Table 224

GUYANA: BALANCE OF PAYMENTS
(Millions of US dollars)

	1972	*1973*	*1974*	*1975*	*1976*	*1977*[a]
Current account						
Exports of goods and services	165	159	294	373	306	294
Goods FOB	144	136	270	352	272	252
Services	21	23	24	21	34	42
Transport	3	3	3	3	5	6
Travel	3	4	4	3	5	7
Imports of goods and services	169	210	281	371	419	378
Goods FOB	129	160	230	306	330	283
Services	40	50	51	65	89	95
Transport	18	20	27	36	41	40
Travel	5	8	3	5	7	8
Net payments of profits and interest on foreign capital	-10	-12	-19	-19	-21	-20
Profits	-7	-5	-14	-8	-7	-7
Interest	-3	-7	-5	-11	-14	-13
Net private transfer payments	–	-1	-2	-4	-2	-2
Balance on current account	-14	-64	-8	-21	-136	-106
Capital account						
Net external financing (a +b +c +d +e)	14	64	8	21	136	106
(a) Net external non-compensatory capital	13	18	46	67	30	
Direct investment	2	8	1	1	-1	
Long- and medium-term loans	12	20	47	72	43	
Amortization payments	-1	-4	-5	-8	-6	
Short-term liabilities	1	-6	4	4	-2	102
Official transfer payments	-1	–	-1	-2	-4	
(b) Domestic non-compensatory capital or assets	1	10	1	-4	8	
(c) Errors and omissions	8	10	7	8	-6	
(d) Allocation of SDRs	2	–	–	–	–	
(e) Net compensatory financing (– = increase)	-10	26	-46	-50	104	4
Balance-of-payments loans, trade arrears, IMF loans, and other liabilities of the monetary authorities	–	5	6	–	34	–
Amortization payments	-2	–	-5	-6	–	–
Variation in gross international reserves (minus sign signifies an increase)	-8	21	-48	-44	70	4
Foreign exchange reserves (– = increase)	-5	20	-46	-40	64	4
Gold reserves (minus sign signifies an increase)	-1	1	-2	-4	6	–
SDRs (minus sign signifies an increase)	-2	–	–	–	–	–

Sources: 1972-1976: CEPAL, on the basis of data from the International Monetary Fund;
1977: CEPAL, on the basis of official data.

[a] Preliminary figures.

negative. There is no indication that there was any change in this tendency in 1977, nor was there any major variation in bilateral assistance.

In spite of the larger inflow of capital recorded in 1977, Guyana had to face up to an acute shortage of foreign currency. At the end of the year the international reserves were only 23 million dollars, which was not enough to cover one month's imports. In view of this situation, the Government had recourse to the International Monetary Fund, from which it had already sought aid on two

occasions, first of all drawing on the first credit tranche and next on the compensatory financing facilities. Guyana's debt service burden in 1977 was close to 16°/o of its exports, which is much higher than the figures for 1976 (10°/o) and 1975 (4°/o).

4. *Domestic price trends*

Preliminary estimates of the consumer price index indicate that the overall index (rural and urban) rose by 10°/o. Within this index, prices for the urban consumer are estimated to have risen by around 8°/o, while retail prices for the rural sector went up by 11°/o (see table 225).

Table 225

GUYANA: EVOLUTION OF INTERNAL PRICES

	Growth rates			
	1974	*1975*	*1976*	*1977*[a]
Index of consumer prices	*19.7*	*6.0*	*8.7*	*9.7*
Food, beverages and tobacco	27.2	5.9	12.3	9.6
Clothing	19.6	11.9	8.3	14.0
Housing	8.2	3.1	1.2	1.7
Miscellaneous	10.0	4.9	4.9	14.7

Source: Ministry of Economic Development, Statistical Bureau, Guyana.

[a] Average for the first three quarters of the year.

All the categories in the price index showed price rises, the most significant of these being those corresponding to clothing and miscellaneous items. The food, beverages and tobacco group increased by 10°/o. As imports are an important source of food supplies, the revaluation of the Guyana dollar helped to keep this increase from being greater. The Government reduced the payment of subsidies in respect of certain basic commodities, and this must have been reflected in their prices, but it did exercise effective control over the prices of a number of essential foods.

5. *Labour relations*

There was some deterioration in labour relations in 1977. One of the most important factors in this was the sugar industry strike which lasted 4 1/2 months from the end of August and was called by the Guyana Agricultural and General Workers' Union in support of its demands that the Government should distribute among the sugar workers part of the profits earned by the industry in the period 1974-1975. The Government refused to do this, however, on the grounds that nationalization of the industry had not been completed until 1976. The initial problem was soon aggravated by the Government's attempt to use public sector employees, including civil servants and school teachers, to harvest the cane before it could be spoiled by rain. The State sugar enterprise (GUISUCO) employed large number of these workers, estimated to have amounted to 40°/o of the labour force of the sector. Both the trade union and the union federation insisted that all these workers should be dismissed as a prior condition for opening negotiations.

This conflict had repercussions abroad, since the Oil Workers' Union of Trinidad and Tobago refused to handle oil products consigned to Guyana, as a mark of protest against the use of non-union labour.

In December the Government proposed a readjustement of 52%, retroactive to January 1977, in the minimum salary of the public sector, from which most of the non-union sugar workers had come, and this contributed to a further deterioration in labour relations. Furthermore, in an attempt to displace workers to the sectors where they were most needed, the Government decided to move public sector employees, of whom there was a superabundance, to other activities. The first information received indicated that many of them would be moved to the agricultural sector in an attempt to stimulate production of vegetables. It was also reported that priority would be given to various projects, including one for the expansion of the country's irrigation installations, with the aim of absorbing the labour surplus.

6. *Monetary and fiscal policy*

Preliminary information seems to indicate a contraction in government income and expenditure, thus representing a continuation of the restricted activities recorded the year before. The unsatisfactory behaviour of the external sector and low tax yields reduced the availability of funds for financing government activities in 1977, and as a consequence of this, total government expenditure is estimated to have gone down by 12%. In spite of this decline, however, the government sector still had a deficit of 77 million Guyana dollars, which had to be covered mainly through the purchase of Treasury bonds and other securities by the Bank of Guyana.

The effects of this decline were felt in the whole economy, particularly because of the increasing importance of the Government in overall economic activities. The execution of a number of investment projects –the most important of which were the industrial and infrastructure projects in connexion with the future hydroelectric dam on the Upper Mazaruni– was slowed down or postponed, and another restriction attributable to the budget crisis was the drop of 55% in the funds used for the extensive programme of subsidies designed to keep down the prices of basic foods.

Table 226

GUYANA: MONETARY POSITION
(Millions of Guyana dollars)

	Balance at end of				*Growth rates*		
	1974	*1975*	*1976*	*1977*	*1975*	*1976*	*1977*
1. *Money*	123	198	214	283	60.6	7.8	32.4
Currency outside banks	64	92	106	143	43.6	14.8	35.2
Demand deposits	59	106	108	140	79.0	1.7	29.7
2. *Factors of expansion*	375	569	602	750	51.6	5.9	24.6
Foreign assets (net)	124	264	24	1	117.4	-90.0	-95.8
Domestic credit	251	305	578	749	21.8	89.4	29.6
Claims on government (net)	84	126	375	516	50.5	197.1	37.7
Claims on official entities	60	60	82	120	1.3	36.0	45.9
Claims on private sector	107	119	121	113	10.7	-2.5	6.6
3. *Factors of absorption*	252	371	388	467	47.3	4.9	20.3
Quasi-money (savings and time deposits)	184	231	265	314	25.3	15.3	18.1
Other items (net)	68	140	123	153	107.1	-12.2	25.0

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

Among the various projects, special priority was given to flood control and irrigation –reflecting the Government's intention of increasing the productivity of agricultural sector– and to the purchase of fishing trawlers and the installation of a new forest industry complex. The decision taken in December to raise the minimum salaries of the public sector and make the readjustment retroactive to January 1977 added a considerable extraburden to the budget.

The difficulties of the external sector were reflected in a drop in the country's net international reserves for the second year running (see table 226), and in order to finance its expenditure the Government had to have increasing recourse to credit. In 1976, credit to the Government had trebled, and in 1977 it increased a further 38°/o. Credit to the private sector, in contrast, went up by only 7°/o in the latter year.

The expansion in credit was the main contributory factor in the 32°/o increase in the means of payment (see table 226). The increases in the money supply have been irregular in recent years: it grew by 61°/o in 1975, but only by 8°/o in 1976. Since 1974 the means of payment have increased at an average rate of 23°/o per year, while the gross domestic product has only grown by 4°/o per year, thus giving rise to domestic inflationary pressures and to greater demand for imports.

It is possible that the extraordinarily rapid growth of the money supply in 1975 may have moved towards the external sector the following year, thus explaining the relatively large deficit on the external current account in 1976. The increase of 32°/o in the money supply recorded in 1977, however, took place largely in December, thus reducing the impact which it could have had on domestic prices. It should also be borne in mind that the Government established price controls, subsidies and import restrictions which reduced the effects of the monetary expansion.

HAITI

1. *Main recent trends: Introduction and summary*

In 1977[1 2 3] there was a general decline in the growth rate of economic activity. It is estimated that the gross domestic product, which increased by 4°/o in the first half of the current decade and by over 5°/o in 1976, grew by little more than 1°/o in 1977 (see table 227).

The trend of the product in the last four or five years, however, does not reflect the rapid development of major productive activities, public investment and trade with other countries, mainly because of the slow and erratic evolution of agriculture. The national economy continued to depend to a large extent on the fortuitous results of agriculture, on the conditions of foreign markets for Haitian products and on foreign economic co-operation.

In contrast with the slow growth of domestic production in 1977, there was once again a notable rise in the value of exports, thanks to the exceptionally high price achieved by coffee. In consequence, the terms of trade improved enormously (30°/o in 1976 and 52°/o in 1977) and the gross domestic income of the country was thus able to increase much more than the product.

In the first half of 1977 a large part of the national territory, in particular the northern region, was once again affected by drought. This, in addition to undermining agricultural output, reduced the generation of hydroelectricity which supplies energy to the zone of Port-au-Prince, where the commercial and industrial activity of the country is concentrated.

The partial information available for 1977 indicates a slight drop in agricultural production and a greater drop in mining production. Manufacturing, in contrast to its recent dynamic trend, grew hardly at all in 1977, owing to the shortage of electrical energy and an apparent loss of dynamism in the export industries which had boosted the growth of the sector in previous years.

[1 2 3] All the information and comments which appear in this report on Haiti refer to fiscal years, which run from October in one year to September in the next. The year which is mentioned in the text or in the tables corresponds to that ending in September.

Table 227

HAITI: MAIN ECONOMIC INDICATORS[a]

	1972	1973	1974	1975	1976	1977[b]
A. *Basic economic indicators*						
Gross domestic product at factor cost (millions of US dollars at 1970 prices)	567	592	618	632	665	674
Population (millions)	4.82	4.93	5.04	5.16	5.28	5.41
Per capita gross domestic product (US dollars at 1970 prices)	118	120	123	123	126	125
	Growth rates					
B. *Short-run economic indicators*						
Gross domestic product	3.6	4.5	4.4	2.2	5.3	1.3
Per capita gross domestic product	1.3	2.2	2.0	-0.1	2.9	-1.1
Gross income[c]	3.2	4.6	3.5	2.9	8.7	5.1
Terms of trade	-3.6	-2.5	4.4	6.4	29.9	51.9
Current value of exports of goods and services	-2.8	22.0	17.7	14.7	32.8	25.7
Current value of imports of goods and services	9.1	22.0	33.5	20.8	31.2	43.3
Consumer price index						
September to September	1.9	20.0	17.1	18.5	3.3	5.0
Variation between annual averages	3.4	20.0	14.3	17.4	10.6	7.4
Money	19.1	19.1	12.6	7.4	28.8	15.0
Total income of government	6.1	9.0	10.2	33.4	48.4	37.0
Total expenditure of government	9.0	1.3	28.4	49.6	38.3	34.6
Fiscal deficit/total expenditure of government (percentage)	7.9	1.7[d]	27.6	35.4	30.7	29.5
	Millions of US dollars					
C. *External sector*						
Trade balance (goods and services)	-18	-22	-42	-56	-72	-128
Balance on current account	-2	-11	-36	-43	-48	-96
Variation in net international reserves	9	1	-10	-13	12	9
Public external debt disbursed	44	41	46	57	77	126

a All figures relate to fiscal years (October to September).
b Preliminary figures.
c Gross domestic product plus terms-of-trade effect.
d Surplus.

Construction was one of the few activities which succeeded in maintaining a high growth rate in 1977, sustained by substantial and increasing public investment.

Some service sectors also weakened with the general slackening of economic activity. Others, however, such as those connected with tourism and the construction of public works, maintained their normal growth.

The favourable evolution of export prices caused an increase of 26% in the value of external sales of goods and services, despite the steep drop in their quantum (23%), owing mainly to the reduced volume of coffee sales.

On the other hand, the value of imports of goods and services rose by 43°/o, partly as a result of the vast inflow of foodstuffs into the country during the year. The difference between the growth of exports and that of imports increased the trade deficit from 72 to 128 million dollars and that on current account from 48 to 96 million. Nonetheless, since at the same time there was a substantial inflow of capital in the form of loans, transfer payments, and repatriation of capital, the net international reserves rose by 9 million dollars (20 million in the last two years) (see table 227).

It is interesting to note the rapid increase in the volume of external transactions between 1973 and 1977. Exports of goods and services rose from 78 to 176 million dollars in that period and imports from 100 to 304 million; the deficit on current account grew in the meantime from 11 to 96 million. Even so, this development reflects a serious situation. The extraordinary increase in exports has stemmed exclusively from the favourable trend of their prices and not from their quantum, which has declined steadily, above all in 1977.

The scant growth of domestic production in 1977 was accompanied by a substantial volume of imports of goods and services (an increase of 32°/o), with which global supply increased by 6°/o. Domestic demand for goods and services grew even more (8°/o) with the marked reduction of the quantum of exports (see table 228).

The increase in the domestic availability of goods in recent years has largely depended on the rapid expansion of imports and the gradual decrease in the volume of exports. This situation has allowed ever larger resources to be devoted to investment without detriment to the growth of domestic consumption.

The coefficient of investment, which in 1970 was scarcely 7.6°/o of the gross domestic product, had risen to 14.6°/o by 1977, a change which took place mainly in recent years as a result of the rapid expansion of public investment.

Table 228

HAITI: TOTAL SUPPLY AND DEMAND

	Millions of gourdes at 1970 prices			*Percentage breakdown*		*Growth rates*		
	1975	*1976*	*1977*[a]	*1970*	*1977*[a]	*1975*	*1976*	*1977*[a]
Total supply	*3 224*	*3 472*	*3 689*	*115.4*	*124.8*	*2.9*	*7.7*	*6.2*
Gross domestic product at market prices	2 773	2 918	2 956	100.0	100.0	2.2	5.3	1.3
Imports of goods and services[b]	451	554	733	15.4	24.8	7.4	22.9	32.3
Total demand	*3 224*	*3 472*	*3 689*	*115.4*	*124.8*	*2.9*	*7.7*	*6.2*
Domestic demand	2 927	3 171	3 432	103.6	116.1	3.6	8.3	8.4
Gross domestic investment	344	392	432	7.6	14.6	8.5	14.0	10.0
Total consumption	2 583	...	...	96.0	...	2.9	...	...
General government	243	...	...	8.3	...	8.0	...	...
Private	2 340	...	...	87.7	...	2.4	...	...
Exports of goods and services[b]	297	301	257	11.8	8.7	-3.3	1.4	-14.7

Sources: 1970-1976: CEPAL calculation on the basis of figures provided by the Haitian Statistical Institute.
1977: CEPAL estimates on the basis of official data.

a Preliminary figures.

b 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 CEPAL for the purpose.

Since 1973 public investment, considered in the Development Budget and allocated in accordance with the guidelines of the annual programmes, has increased from 100 million current gourdes to 675 million in 1977. Of the investment made in those four years, 39°/o was devoted to highway construction and 18°/o to energy and telecommunications. Agriculture received 14°/o and manufacturing 4°/o. The remaining 25°/o was allotted mainly to health, education and community improvement (see table 229).

Table 229

HAITI: DISTRIBUTION OF PUBLIC INVESMENT BY ACTIVITY
(Millions of gourdes)

	1972	*1973*	*1974*	*1975*	*1976*	*1977*[a]
Agriculture	8.0	12.1	22.4	26.7	40.7	122.4
Industry	4.8	1.5	4.4	10.2	10.2	36.6
Energy	17.2	16.9	16.0	16.2	26.2	100.3
Transport	13.6	8.1	40.2	138.8	203.8	222.3
Telecommunications	6.9	13.4	30.3	29.3	32.5	36.7
Tourism	0.6	0.9	1.2	1.8	0.9	0.9
Health	13.1	17.3	12.9	17.0	13.4	41.1
Drinking water	2.0	1.1	1.7	4.5	33.4	11.0
Education	2.3	9.2	6.8	21.3	16.3	28.7
Community development	9.7	9.2	20.0	10.0	45.3	40.4
Urban development and housing	–	–	–	2.1	0.9	–
Preinvestment and research	7.7	11.5	9.5	12.5	13.6	33.7
Total	*85.9*	*101.2*	*166.5*	*290.1*	*437.2*	*674.7*

Sources: CONADEP, Annual development plan and budget; *Fiscal exercise 1977-1978*, October 1977.

[a] Public investment programmed in the Development Budget.

Sixty-three per cent of this public investment was financed with foreign resources. The Development Fund of the National Planning and Development Council (CONADEP) contributed 9°/o and the remaining 28°/o came from the funds of ministries and independent agencies.

As regards the trend of domestic prices, there was an evident slackening of inflation in 1977. The price index went up by an average 7.4°/o in the year, a lower figure than that of 1976 (10.6°/o) and much less than that of the three years 1973-1975 (see table 227). This slowdown in the rate of inflation occurred despite the fact that the shortage of basic consumer goods caused by the drought resulted in a marked rise in prices which lasted until May. After supply was normalized with the help of imports, the trend turned downwards once again.

Monetary trends were much the same as that of prices throughout the year. At the end of September the money supply had risen by 15°/o compared with a year before, an increment which was less than that of 1976 (29°/o) and which undoubtedly helped to reduce the rise in domestic prices.

2. *Sectoral trends*

All the productive activities contributed, although in very different degrees, to the fall in overall production in 1977. In most of the sectors there was a decline in growth rates compared with the previous year and in the remaining sectors growth was negative (see table 230).

The chief factors responsible for these results, however, were the slight fall in agricultural output and the virtual stagnation of manufacturing production.

Table 230

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

	Millions of gourdes at 1970 prices			*Percentage breakdown*		*Growth rates*		
	1975	*1976*	*1977*[a]	*1970*	*1977*[a]	*1975*	*1976*	*1977*[a]
Agriculture	1 135	1 171	1 166	50.8	43.8	0.3	3.2	-0.4
Mining and quarrying	32	43	40	1.7	1.5	-33.5	34.2	-7.0
Manufacturing	295	320	322	9.8	12.1	4.8	8.5	0.6
Construction	101	110	119	2.3	4.1	10.0	9.7	7.8
Subtotal goods	*1 563*	*1 644*	*1 647*	*64.6*	*61.5*	*0.7*	*5.2*	*0.2*
Electricity, gas and water	44	46	47	1.3	1.8	9.9	6.6	1.5
Transport, storage and communications	66	70	70	2.4	2.6	4.6	6.0	0.1
Subtotal basic services	*110*	*116*	*117*	*3.7*	*4.4*	*6.6*	*6.2*	*0.7*
Commerce, financial institutions, insurance	301	319	328	10.9	12.3	3.0	6.0	2.9
Real estate[b]	224	228	233	9.9	8.7	1.6	1.8	2.0
Community, social and personal services[c]	295	328	347	10.9	13.0	4.1	11.0	6.0
Subtotal other services	*820*	*875*	*908*	*31.7*	*34.2*	*3.0*	*6.7*	*3.8*
Total gross domestic product[d]	*2 521*	*2 654*	*2 689*	*100.0*	*100.0*	*2.2*	*5.3*	*1.3*

Sources: 1970-1975: CEPAL calculations on the basis of figures supplied by the Haitian Statistical Institute;
1976-1977: CEPAL estimates on the basis of data from the same source.

a Preliminary figures.

b Refers to ownership of dwellings only.

c Includes restaurants, hotels and services provided to enterprises.

d As the individual activities and the totals were calculated independently the sum of the former does not correspond exactly with the latter.

Acute problems of land shortage, technological backwardness, overpopulation, low productivity and many others, account for the traditional stagnation of agricultural production and its inability to feed and provide work for the population –which increases by 2.4o/o per year– and to raise the volume of agricultural exports, which represent more than half of total exports.

A standstill in agricultural activity, or a drop in its output, such as occurred in 1977, has major repercussions not only on the sector itself, but also on other industrial and commercial activities, and on the volume of exports.

From the beginning of the 1970s, however, the scant growth of agriculture was offset by the vigorous expansion of the manufacturing and construction sectors, which had a stimulating effect on other activities, so that a certain growth rate was maintained in the economy as a whole. For this reason, the meagre increase in manufacturing output in 1977 had negative side-effects, whose importance is belied by the relatively small share of the industrial sector, in the total product.

There was also a decrease in the growth rate of construction compared with the previous year, though in this case a reasonably high level was maintained. With regard to mining, its relative importance is too small for the fall in its output significantly to affect the total product. On the other

hand, the performance of bauxite production is a serious matter for exports, since it is the second most important export product.

Among basic services, there was a fall, already mentioned, in hydroelectric generation, which affected manufacturing production, while transport, along with other service-producing sectors, suffered from the contraction in the production of goods.

(a) *Agriculture*

In the seven years which have elapsed in the present decade agricultural production has risen by 10°/o and the total population by 17°/o. The shortfall in foods has therefore been intensified and has been covered by higher imports. Nonetheless, the economy continues to depend basically on agriculture, as can be seen from the fact that this activity generates 44°/o of the total product and provides the livelihood of more than 75°/o of the population. In addition, it supplies the inputs for a large part of industry and more than half of exports consist of products, processed or not, of agricultural origin.

Reference has already been made to the serious structural problems which confront agricultural production and impede greater growth. To these must be added the lack of rain in recent years, which acquired the dimensions of a serious drought in the last months of 1976 and the early months of 1977.

The drought affected the whole country, although it was more serious in the northern region. Rice, maize, millet and sorghum are staple foods in Haiti. An estimate of the damage caused by the drought[124] mentions decreases of the order of 5°/o in the production of rice, 20°/o for maize and 15°/o for millet. No data are available for other products of domestic consumption.

The food crisis which developed and which reached alarming levels in the north of the country intensified foreign aid and the dispatch of foodstuffs. In 1977, 50,000 tons of rice were imported, equivalent to 60°/o of the normal output, and 20,000 tons of maize, in addition to 125,000 tons of wheat, which is not produced in the country and which is normally imported in smaller quantities, and other foodstuffs which also have to be imported to complement domestic production.

In consequence, the value of food imports rose from 24 to 59 million dollars between 1974 and 1976. In the first of these years purchases of rice and maize barely exceeded 1,000 tons and in 1972 the purchase of wheat was in the region of 50,000 tons.

The volumes of exports suggest that the drought must have also had a serious effect on other important agricultural products. In 1977 the volume of coffee exported declined by 40°/o,[125] that of cocoa by 45°/o and that of essential oils by 20°/o, while sugar was not exported at all.

The production of sugar cane has stagnated for a long time and in recent years has recorded a drop, owing to falls in the yields of sacarose and the unrewarding price levels for sugar.

(b) *Mining*

For many years mining production, which has a minimal share in the total gross domestic product (less than 2°/o), has maintained more or less the same level. The output of bauxite, which constitutes two-thirds of the product of the sector, has remained in the region of 700,000 tons since the end of the 1960s. In 1977 the export volume of this mineral declined by 5°/o.

During 1977 the National Institute of Mining Resources (INAREM) continued its prospecting for deposits of copper (up to 1972 copper-mining existed on a small scale), gold, zinc, molybdenum and nickel in the northern zone and started similar operations in the south of the country. It also continued, with foreign co-operation, the search for new bauxite deposits.

In addition, two foreign enterprises continued their search for petroleum without success. One of them has drilled three wells in the sea near the western coast, and the other is pursuing geophysical operations on the central plateau.

[124] CONADEP, *Annual plan and development budget. Fiscal year 1977-1978,* October 1977.

[125] The volumes of coffee and cocoa exported in 1976 were exceptionally high, possibly owing to the sale of stocks. This would partly account for the steep drop in these sales in 1977.

(c) *Manufacturing*

The manufacturing industry and construction have been the sectors whose rapid growth has counteracted the virtual stagnation of agricultural and mining production and has stimulated the main service activities.

Between 1972 and 1976 industrial production grew at a fairly steady annual rate of 8.4%. In 1977, however, this trend was cut short and production increased by less than 1% owing to the reduction in the electricity supply and the slackening of growth in the production of the export industries (see table 230).

The rapid growth of manufacturing between 1972 and 1976 was mainly due to the installation of small-scale industries by foreign capital which were attracted to the country by the facilities granted for the purpose, a free exchange rate and the low cost of local labour (around 1.80 dollars per day on average). These industries produce a wide variety of articles for export (mainly clothing, sports goods, electronic equipment, toys and leather articles), using for the most part imported raw materials or imported parts which are assembled in the country. There are at present about 180 of these enterprises in the country and they employ approximately 22,000 persons.

The value of the exports of the small-scale industries, including those financed by national capital, has increased from 13 to 44 million dollars since the beginning of the decade.[126] In the last three years, however, these exports have recorded a slower growth.

The growth in output of the industries producing for the domestic market has been more sluggish and uneven. The production of sugar and woven cotton goods, for example, has declined since 1974; in contrast, the output of other goods such as cement, cigarettes, wheat flour and detergents has increased appreciably, in some cases particularly in 1977.

(d) *Electricity*

The insufficiency of installed electrical capacity in the country (92 MW) became more acute in 1977 through the reduced generation of the 47 MW hydroelectric power station at Peligre, which serves the Port-au-Prince area.

Electricity output fell from 173 to 160 GWh in 1977, despite the fact that two new diesel plants, Soudan and Delmas, each of 10 MW, were brought into service.

Between 1972 and 1976 the generation of electricity increased at an annual rate of 12%, but this growth was insufficient to meet accumulated demand and that generated by industrial expansion. This deficiency was remedied by the installation of generating equipment in the consumption areas themselves, while at the same time fuel imports were considerably increased.

During 1977 work continued on the installation of the Varreaux power station, of 21 MW, at Port-au-Prince, which will come into service in 1978, and the hydroelectric power station at Drouet (2.5 MW) which will supply energy to St. Marc and Gonaives. Moreover, work was completed on the construction of the thermoelectric plant at Hinche with a capacity of 0.26 MW.

(e) *Construction*

Between 1970 and 1977 the value added by the construction industry increased 2.7 times in real terms –that is, at an annual rate of 15%– thanks to the impetus provided by investment in public works and the construction of industries, hotels and dwellings. This high growth rate helped to promote various other activities and to create new jobs. It is estimated that in 1977 the product of the sector increased by around 8% (see table 230).

The building of infrastructure in highways, electric power stations, dams and irrigation works, etc., has received priority in the Government investment programmes and has benefited from the co-operation of international agencies and some foreign governments.

Forty per cent of this investment was assigned to the building of roads and a major part of the investment allotted to other sectors was also earmarked for various building works.

By the end of 1977 the northern highway from Port-au-Prince to Cap Haitien was practically completed. The road from Port-au-Prince to Jacmel in the south had also been finished, and progress

[126] These values are greater than those provided by the Customs (Administration Générale des Douanes), which discounts the value of imported inputs and parts.

had been made on the building of the southern highway linking Port-au-Prince with Les Cayes.

In addition to these main highways an appreciable extension of country roads and many other works are in process, such as the enlargement and improvement of the port installations at Port-au-Prince or those of the airport at Cap Haitien.

There has also been an increase in the building of houses. An inventory of new buildings in Port-au-Prince and Pétionville shows that their number has increased from an annual average of 175 in the period 1967-1971 to 417 in the period 1972-1975. In accordance with the programme of the National Housing Office, by the end of 1977 a start should have been made on the building of 5,500 dwellings, at a rate of 1,000 a year, in Port-au-Prince and other main cities.

3. *The external sector*

(a) *External trade*

Since 1972 there has been a notable increase in the volume of foreign transactions. While the value of exports of goods increased by a factor of 3.3, that of imports quadrupled in those 5 years.

This rapid expansion of foreign trade increased the trade deficit, which in 1977 reached 95 million dollars, which meant that the value of the goods exported represented in that year only 60% of the corresponding imports.

The difference in value between exports and imports is now a familiar phenomenon, which is normally covered by transfer payments and loans. Even so, there is cause for concern in the amount of the present trade deficit and the level it might reach in the near future, if imports continue to increase as in recent years and if the international prices of Haitian products cease to be so favourable.

The growth in exports during the last five years was entirely due to the notable increases in the external prices of some few important export products, especially coffee. The index of the unit value of exports quadrupled between 1972 and 1977 and the terms of trade rose by 114% in that period, a truly extraordinary improvement. The volume of exports, on the other hand, declined steadily, reaching 22% in 1977 (see table 231).

(i) *Exports of goods.* Owing to the exceptional levels reached by the price of coffee, exports once again rose sharply in 1977; otherwise, they would have dropped by about 10%.

Exports of goods increased by 45% in 1976 and 23% in 1977. Their value rose from 81 to 144 million dollars[127] at the end of two years, 45 million of this increase being attributable to coffee (see table 232).

The rise in the value of exports in 1977 was due to an increase of 64% in unit values and a drop of 22% in quantum. Among the main products, coffee and cocoa fell by 40% in volume of sales and essential oils by 20%, being affected by a drop in output and also, in the case of coffee and cocoa, by the exceptionally high volumes exported in 1976.

The average price of coffee sales rose by 58% in 1976 and 144% in 1977, the highest price being reached towards the middle of 1977. Thus, coffee exports amounted to 64 million dollars, some 44% of total exports (see table 232). Unfortunately, this abnormal situation was not exploited as in 1976, when 447 thousand sacks of coffee were exported compared with only 265 thousand sacks in 1977.

The volume of cocoa exported also dropped by almost a half, after likewise achieving a very high level (2,900 tons) in 1976; fluctuations are frequent, however, in the exports of this product.

As noted earlier, there were various reasons for the reduction in sugar output and its disappearance as an export product in 1977. Two years before, in 1975, 25,000 tons of sugar were exported to take advantage of the high price, recalling the sales levels of 10 years earlier. There was also a drop in the export volume of molasses, which fell from 31,000 to 15,000 tons between 1975 and 1977.

Sales of sisal have declined since 1974, whereas since then those of essential oils have remained at a useful level (around 6 million dollars), despite the fall in 1977 (see table 232).

In 1975 and 1976 exports of bauxite increased to 11 and 18 million dollars, although their volume fell from 800,000 tons in the years 1973-1974 to 520 and 730 thousand tons in 1975 and 1976. In 1977, 700,000 tons of bauxite were exported for a value of 17 million dollars.

[127] These figures differ from those of table 231, which were taken from the balance of payments.

Table 231

HAITI: MAIN INDICATORS OF FOREIGN TRADE

	1971	1972	1973	1974	1975	1976	1977[a]
	Growth rates						
Exports of goods							
Value	16.2	-5.1	30.0	25.6	14.0	39.3	28.4
Volume	23.6	-6.0	13.7	-7.4	-4.4	0.2	-21.9
Unit value	-6.0	1.1	14.2	35.8	19.1	38.9	64.1
Imports of goods							
Value	11.5	9.6	17.0	41.4	25.9	30.6	50.2
Volume	8.4	4.5	-0.2	8.8	12.5	22.0	39.2
Unit value	3.0	4.9	17.1	30.0	12.0	7.0	8.0
	Indexes (1970 = 100)						
Export quantum	124	116	132	122	117	117	92
Import quantum	108	113	113	123	138	169	235
Terms of trade	91	88	86	90	95	124	188
Purchasing power of exports of goods	113	102	113	110	111	145	172

Source: CEPAL, on the basis of official data. The basic information was taken from balance-of-payments data.

[a] Preliminary figures.

The results recently obtained in agriculture and the difficulties encountered in maintaining the export volume of the main agricultural products emphasize the importance of stimulating the sales of products not subject to such contingencies. In this connexion, at the end of 1974 the Government stipulated with the Reynolds Metals Co., the enterprise developing the bauxite deposits, that a minimum volume of bauxite exports should be maintained.

Separate mention must be made of the exports of the manufactures of small-scale industry, which includes both the handicraft industry and the foreign enterprises which assemble imported parts for subsequent export.

The value of these exports has more than trebled since 1973, but their annual growth rate has been diminishing since then and in the last two years there have been reductions in the volume of exports. In 1977 a wide variety of manufactures was sold to the value of 36 million dollars, representing 25% of total exports.

(ii) *Imports of goods.* The shortfall in domestic food production, which in recent years has reached critical levels owing to the drought, resulted in an increasing inflow of imported foodstuffs, which in 1976 amounted to some 60 million dollars, representing 30% of total imports of goods, and which must have risen even higher in 1977, when the value of total imports rose by 50%.

During the two years 1975-1976 the value of imports of goods grew by 90 million dollars,[128] 38% of which represented foodstuffs, 5% fuels, 9% chemical products and raw materials, 19% machinery and transport equipment and 24% various manufactured articles. This has been the recent trend of import composition (see table 233).

The acute shortage of food in 1977 intensified the food aid normally received from abroad and led to an enormous increase in the import of cereals. It is estimated that 50,000 tons of rice were imported as against 11,500 in 1976, 200,000 tons of maize (3,600 in 1976) and 125,000 tons of wheat (96,000 in 1976).

[128] Figure provided by the Customs. It does not coincide with the balance-of-payments data.

Table 232

HAITI: VALUE AND BREAKDWON OF EXPORTS OF GOODS (FOB)

	Millions of dollars				*Percentage breakdown*		*Growth rates*		
	1974	*1975*	*1976*	*1977*	*1974*	*1977*	*1975*	*1976*	*1977*
Main products									
Coffee	24.0	18.5	44.0	63.7	33.7	44.2	-22.9	137.8	44.8
Cocoa	1.2	0.3	2.3	4.1	1.7	2.8	-75.0	666.7	78.3
Sugar[a]	2.9	11.0	2.0	0.4	4.1	0.3	279.3	-81.8	-80.0
Sisal	4.6	3.2	1.4	1.0	6.4	0.7	-30.4	-56.2	-28.6
Essential oils	6.5	4.9	8.2	6.4	9.1	4.5	-24.6	67.3	-22.0
Bauxite	6.9	10.5	18.3	17.3	9.7	12.0	52.2	74.3	-5.5
Cement	–	0.1	2,4	3.1	–	2.2	–	2 300.0	29.2
Light industry[b]	18.4	25.8	31.1	36.0	25.8	25.0	40.2	20.5	15.8
Other products	6.8	6.9	7.8	12.0	9.5	8.3	1.5	13.0	53.8
Total [c]	*71.3*	*81.2*	*117.5*	*144.0*	*100.0*	*100.0*	*13.9*	*44.7*	*22.6*

Source: Administration Générale des Douanes.

[a] Includes molasses.

[b] Comprises handicrafts, small-scale industry and the net exports of the assembly industries, the value of the imported inputs having been deducted.

[c] The totals do not agree with the corresponding balance-of-payments figures owing to the adjustments which are normally made to the values of the latter.

T able 233

HAITI: VALUE AND BREAKDOWN OF IMPORTS OF GOOD (FOB)

	Millions of dollars			*Percentage breakdown*		*Growth rates*		
	1974	*1975*	*1976*	*1972*	*1976*	*1974*	*1975*	*1976*
Food products	15.8	30.3	43.5	15.5	21.6	15.5	91.8	43.6
Oils and fats	8.3	7.9	15.0	8.1	7.5	105.1	-4.8	89.9
Beverages and tobacco	2.6	2.6	3.6	2.0	1.8	92.3	–	38.5
Raw materials	4.3	5.4	7.5	2.2	3.7	56.4	25.6	38.9
Fuels	12.4	12.9	17.1	6.0	8.5	184.7	4.0	32.6
Chemical products	9.7	11.9	14.8	9.8	7.4	26.0	22.7	24.4
Manufactured articles	25.8	27.6	40.6	26.8	20.2	27.1	7.0	47.1
Machinery and transport equipment	18.1	28.2	35.0	17.4	17.4	29.5	55.8	24.1
Miscellaneous manufactures	10.0	10.1	16.7	8.6	8.3	52.5	1.0	65.3
Other	4.4	5.6	7.2	3.7	3.6	122.5	27.3	28.6
Total	*111.4*	*142.5*	*201.0*	*100.0*	*100.0*	*45.2*	*27.9*	*41.1*

Source: Administration Générale des Douanes.

Note: The totals do not agree with the corresponding balance-of-payments figures owing to the adjustments which are normally made to the values of the latter.

(b) *The balance of payments*

In 1977 there was an appreciable increase in the trade deficit, with the growth in imports twice that of exports and the balance of goods rising from 47 to 95 million dollars, or to 128 million if the services account is included (see table 234).

Table 234

HAITI: BALANCE OF PAYMENTS
(Millions of US dollars)

	1972	*1973*	*1974*	*1975*	*1976*	*1977*
Current account						
Exports of goods and services	64.0	78.1	91.9	105.4	140.0	176.0
Goods FOB	43.0	55.9	70.2	80.0	111.4	143.0
Services	21.0	22.2	21.7	25.4	28.6	33.0
Transport	1.0	0.6	0.7	0.5	0.6	1.0
Travel	14.3	18.4	18.5	21.9	24.6	28.0
Imports of goods and services	82.2	100.3	133.9	161.7	212.2	304.0
Goods FOB	58.3	68.2	96.4	121.4	158.5	238.0
Services	23.9	32.1	37.5	40.3	53.7	66.0
Transport	13.6	16.9	21.7	26.0	36.7	48.0
Travel	5.1	6.6	5.4	4.1	4.7	6.0
Net payments of profits and interest on foreign capital	-4.4	-4.4	-5.9	-7.0	-7.1	-9.0
Profits	-4.0	-3.4	-4.8	-6.2	-6.2	-8.0
Interest	-0.4	-1.0	-1.1	-0.8	-0.9	-1.0
Net private transfer payments	21.1	15.8	12.2	20.6	31.4	41.0
Balance on current account	-1.5	-10.8	-35.7	-42.7	-47.9	-96.0
Capital account						
Net external financing (a + b + c + d + e)	1.5	10.8	35.7	42.7	47.9	96.0
(a) Net external non-compensatory capital	20.2	21.8	42.2	52.5	66.9	
Direct investment	4.0	7.2	7.9	2.7	5.0	
Long- and medium-term loans	10.0	4.1	8.5	26.3	33.2	
Amortization payments	-2.9	-4.2	-4.1	-3.9	-4.4	
Short-term liabilities	1.1	4.9	16.0	11.1	-2.2	105.5
Official transfer payments	8.0	9.8	13.9	16.3	35.3	
(b) Domestic non-compensatory capital or assets	-2.8	-5.2	-8.5	-15.6	-7.9	
(c) Errors and omissions	-9.0	-5.2	-8.3	-7.3	0.5	
(d) Allocation of SDRs	2.2	–	–	–	–	
(e) Net compensatory financing (minus sign signifies an increase)	-9.1	-0.6	10.3	13.1	-11.6	-8.5
Balance-of-payments loans, trade arrears, IMF loans, and other liabilities of the monetary authorities	0.3	0.4	4.1	10.3	5.7	...
Amortization payments	-1.3	–	-0.8	-0.2	-4.6	...
Variation in gross international reserves (minus sign signifies an increase)	-8.1	-1.0	7.0	3.0	-12.7	...
Foreign exchange reserves (– = increase)	-5.3	-1.7	4.0	2.8	-13.6	...
Gold reserves (minus sign signifies an increase)	-0.7	0.6	2.4	–	0.1	...
SDRs (minus sign signifies an increase)	-2.1	0.1	0.6	0.2	0.8	...

Sources: 1972-1976: CEPAL, on the basis of data from the International Monetary Fund;
1977: CEPAL, on the basis of data provided by the National Bank of the Republic of Haiti.

The trade balance of goods and services includes the net expenditure on transport, very unfavourable for the country, estimated at 47 million dollars for 1977, and net revenue from tourism, which was in the region of 22 million dollars in the last year.

Since 1972 the revenue from tourism has doubled, rising from 14 million dollars in that year to 28 million in 1977. In recent years there has been a notable expansion in all activities concerned with tourism, in particular the building of large hotels, the opening of restaurants, etc. It is calculated that some 250 thousand persons currently visit the country, the majority as cruise-ship passengers. In 1977 some 60,000 visitors stayed in hotels, for an average period of 5 days.

As regards the movement of other items on current account, the remittance of profits and interest payments reached 9 million dollars in 1977 and there was a considerable increase once again in private transfer payments received from abroad. The balance on current account was seriously affected by the size of the trade deficit in 1977, which led to a deficit of 96 million dollars on current account, double that of 1976.

Despite the size of this deficit, the net international reserves increased for the second year running, 12 million dollars in 1976 and 8.5 million more in 1977, this being due to a considerable inflow of capital amounting to 106 million dollars, 45 million more than in 1976.

In consequence of the damage caused by the drought and the ensuing lack of foodstuffs an enormous amount of international economic assistance has poured into the country. Official transfer payments show a rapid increase, an inflow of 35 million dollars being recorded for 1976, while in 1977 the figure must have been much higher.

Additionally there has been a noticeable decrease in the negative movement of national capital since 1976, which indicates a reversion from outflow to inflow of capital in the country.

In recent years there has been a marked increase in external economic co-operation on the part of international agencies and foreign governments, which are planning to finance various economic and social development projects. In 1977 the value of this co-operation was estimated at 104 million dollars.

4. *Fiscal trends*

The rapid expansion of capital inflows into the country since 1974, as a result of the broadening of the programmes of external economic co-operation, gave a great boost to public investment, which rose from 100 million gourdes in 1973 to 675 million in 1977, with all the economic and social implications, especially for employment, which this has meant for the country (see table 235).

The expansion of current expenditure has been slower, especially that of budgetary expenditure, owing to the inelasticity of its traditional sources of financing. In contrast, extra-budgetary current expenditure, more closely linked with development expenditure and external financial assistance, has maintained since 1974 a vigorous rate of growth. Already in 1975 the sum of these outlays exceeded that of budgetary expenditure, with the result that budgeted income and expenditure have lost importance in the total amount.

The performance of investment and extra-budgetary current expenditure in the last two years led to increases of the order of 36°/o annually in total central Government expenditure in 1976 and 1977. The increase in total revenue, however, was greater, although not enough to have reduced the fiscal deficit, which according to available estimates might have reached 400 million gourdes in 1977, some 30°/o of expenditure.

Forty per cent of Government financial resources derive from tax sources and other current budgetary revenues, 22°/o from funds supplied by CONADEP and by ministries and independent agencies, and 38°/o from external resources (the proportion in 1976). These last two sources of revenue are not recorded in the General Budget and are destined to finance the development programmes.

Approximately two-thirds of investment expenditure are financed with foreign resources. This source has expanded more rapidly than the amount of the investments; in 1974 it accounted for only 44°/o of investment.

Table 235

HAITI: CENTRAL GOVERNMENT INCOME AND EXPENDITURE
(Fiscal years, October to September)

	Millions of gourdes				*Percentage variations*		
	1974	*1975*	*1976*[a]	*1977*[a]	*1975*	*1976*[a]	*1977*[a]
Total income	*359*	*479*	*711*	*974*	*33.4*	*48.4*	*37.0*
Budgetary	206	225	285	322	9.2	26.7	13.0
Tax revenue	189	216	274	310	14.3	26.9	13.1
Extra-budgetary[b]	153	254	426	652	66.0	67.7	53.1
Total expenditure	*496*	*742*	*1 026*	*1 381*	*49.6*	*38.3*	*34.6*
Current	329	452	589	706	37.4	30.3	19.8
Budgetary	177	204	...	...	15.3	...	...
Extra-budgetary	152	248	...	...	63.2	...	...
Public investment[c]	167	290	437	675	73.7	50.7	54.5
Deficit	*137*	*263*	*315*	*407*	*92.0*	*19.8*	*29.2*

Source: CEPAL calculations on the basis of various publications.

a Estimate on the basis of CONADEP, *Annual development plan and budget, Fiscal exercise 1977-1978.*
b Includes external contributions.
c Investment channelled through the Development Budget.

In 1977, 104 million dollars entered the country for the financing of development programmes. The national counterpart funds earmarked for these plans amounted to another 17 million dollars.

Tax receipts have increased by an annual 18o/o since 1975, a rate much higher than that of the first half of the decade due to a large revenue from the tax on foreign trade, which accounts for half the total income from taxes. In 1976 the revenue received from taxes on imports increased by 29o/o and that on exports by 65o/o, the latter evidently attributable to the high volume of coffee sales achieved that year. The duties on exports are largely of a specific character, while those on imports are *ad valorem*.

Taxes on income, moreover, particularly those on company profits, have greatly increased since 1973. In 1975 and 1976 the revenue from these taxes rose by 35o/o each year, their share in the total revenue having risen to 22o/o.

The remaining wide variety of internal taxes, mainly indirect, have expanded at the slower rate of 4o/o per year.

Extra-budgetary income, destined mainly to finance development costs, both current and invested, has increased seven-fold since 1973, which indicates the present magnitude of foreing economic co-operation.

5. *Price trends and the means of payment*

Despite the distortions which occurred during the year in the production of foodstuffs and other goods for domestic consumption, prices –according to the consumer price index of Port-au-Prince– increased less than in 1976 and much less than during the years 1973-1975, when the rises were of the order of 17o/o per year. In other words, there was an evident slackening of the inflationary process. Measured by annual averages, the index rose by 7.4o/o in 1977, a percentage which drops to 5o/o if the comparison is made from September to September. Moreover, in December 1977 prices –according to the indicator– were 1.4o/o lower than in the previous December. These very uneven variations can only be accounted for by the contrary trends followed by prices in the two halves of the year.

Normally, through its predominant effect on the consumer shopping basket, the price of foodstuffs governs the trend of the general index (see table 236). Its rise was parallel to that of this index, although its fluctuations were much more marked.

It often happens that the price of many foods for domestic consumption or export, or both, undergoes radical fluctuations during the year owing to seasonal factors, profound changes in the weather, or major variations in external demand or international prices for some important export product, which at the same time is in great domestic demand.

Table 236

HAITI: CONSUMER PRICE INDEX
(Annual growth rates)

	1972	*1973*	*1974*	*1975*	*1976*	*1977*
			Variations from September to September			
General	1.9	20.0	17.5	18.5	3.3	5.0
Food	7.1	25.5	11.9	22.5	-0.1	8.1
			Average variations (fiscal years)			
General	3.4	20.0	14.3	17.4	10.6	7.4
Food	8.0	26.1	13.6	16.7	12.3	7.4

Source: Secretariat of Trade and Industry, *Quarterly Bulletin,* various numbers.

Table 237

HAITI: MONETARY POSITION

	September balances (millions of gourdes)				*Growth rates*		
	1974	*1975*	*1976*	*1977*[a]	*1975*	*1976*	*1977*[a]
Money	*323*	*347*	*447*	*514*	*7.4*	*28.8*	*15.0*
Currency outside banks	166	153	187	212	-7.8	22.2	13.4
Demand deposits	157	194	260	302	23.6	34.0	16.2
Factors of expansion	661	826	1 120	1 370	25.0	35.6	23.3
Foreign assets (net)	-3	-118	-25	31			
Domestic credit	664	944	1 145	1 339	42.2	21.3	16.9
Government (net)	281	300	345	354	6.8	15.0	2.6
Official entities	57	178	268	329	212.3	50.6	22.8
Private sector	326	466	532	656	42.9	14.2	23.3
Factors of absorption	*338*	*479*	*673*	*856*	*41.7*	*40.5*	*27.2*
Quasi-money (savings and time deposits)	222	301	427	556	35.6	41.9	30.2
Long-term foreign borrowing	31	105	178	249	238.7	69.5	39.9
Other items (net)	85	73	68	51	-14.1	-6.8	-25.0

Source: International Monetary Fund, *International Financial Statistics,* March 1978.

[a] Preliminary information.

In June 1976, the price indexes, both the general index and that for food, began a marked rise which continued until May 1977. Between September 1976 and May 1977 the general index rose by 16°/o and the food index by 24°/o, in consequence of the contraction of supply. In this respect it should be remembered that the period of greatest drought continued until the beginning of April 1977, affecting not only agriculture but, indirectly, industrial production as well.

As the supply situation returned to normal with the help of imports, prices began to fall and by September 1977 the food index had dropped by 13°/o compared with May and in December had fallen by 20°/o.

The two opposite trends in the evolution of consumer prices observed since the middle of 1976 and reaching their peak in May 1977 are closely related to the course followed by the means of payment, with a time-lag of two months.

The amount of money in circulation rose by 25°/o between August 1976 and April 1977. From May onwards it began to decrease and in September its level was 15°/o higher than that of a year before, so that its expansion in 1977 was only half that recorded in 1976 (see table 237).

Financial activity and the principal monetary aggregates have expanded rapidly in the last four or five years, concurrently with the development of many production activities, services and foreign trade.

Among the factors of expansion of the money supply, the increase in net international reserves made no great impact in 1977, while the expansion of credit to the public sector was much less than in 1976. In contrast, the credit granted to the private sector rose by 23°/o, more than in 1976, despite the fact that the monetary authorities had recommended that the private banking system should limit the opening of external credits, a measure which should have had an internal effect.

HONDURAS

1. *Main recent trends: Introduction and summary*

Following two years of recession as a result of the damage caused by hurricane Fifi and the unfavourable world economic situation, the economy of Honduras recovered satisfactorily in 1976 and continued to grow at almost the same rate during 1977. The growth rate of the gross domestic product at factor cost was 8°/o in 1976 and 7.5°/o in 1977. The improvement in the terms of trade caused by the spectacular rise in coffee prices meant that in both years the growth rate of gross income was even higher (see table 238).

Growth in 1977 stemmed from a significant rise in agricultural and industrial production, and from the vigorous performance of the electricity generating sector and of various service activities, such as transport and communications, financial intermediation and, to a lesser extent, commerce. At the same time government activity continued to follow a rising trend. The income received from the high prices of exports of the main agricultural products and the policy of high public spending stimulated domestic production. In addition, increased trade with the other countries of Central America provided an additional boost to production in the country, and primarily to manufacturing industry.

One of the most dynamic sectors was agriculture, which benefited from the rise in the prices of export products. The agricultural sector grew by 8°/o in 1977 thanks to the rise in banana production, as a result of the policy of restoring some of the plantations damaged by the 1974 hurricane which had formerly belonged to transnational companies and also of the technical and financial support given by the Honduran Banana Corporation (COHBANA) to independent producers. The upward trend in the production of cotton and sugar cane also contributed to the rise in agricultural production. Finally, the high world prices of coffee had a great impact on the Honduran economy, despite the fact that they dropped towards the end of the year.

Table 238

HONDURAS: MAIN ECONOMIC INDICATORS

	1972	1973	1974	1975	1976	1977[a]
Basic economic indicators						
Gross domestic product at factor cost (millions of US dollars at 1970 prices)	813	847	846	845	913	982
Population (millions)	2.81	2.90	2.99	3.09	3.20	3.32
Per capita gross domestic product (US dollars at 1970 prices)	290	293	283	273	285	296
	Growth rates					
Short-run economic indicators						
Gross domestic product	4.2	4.2	-0.2	-0.1	8.0	7.5
Per capita gross domestic product	1.1	1.0	-3.4	-3.4	4.4	3.8
Gross income[b]	3.4	4.8	1.0	-0.3	9.5	10.2
Terms of trade	-3.2	0.2	2.4	-5.2	8.3	12.6
Current value of exports of goods and services	8.2	25.0	12.8	3.7	29.0	25.2
Current value of imports of goods and services	0.6	33.2	51.0	-0.8	12.5	25.5
Consumer price index						
December to December	...	...	...	7.8	5.6	7.7
Variation between annual averages	3.4	4.7	12.9	8.1	5.0	8.6
Money	14.2	23.6	1.1	8.6	35.2	16.9[c]
Current income of government	8.2	12.0	15.0	12.1	25.7	29.1
Total expenditure of government	20.3	-3.2	18.2	32.4	19.7	23.9
Fiscal deficit/total expenditure of government[d]	26.7	21.3	23.6	35.3	32.1	29.3
	Millions of US dollars					
External sector						
Trade balance (goods and services)	8	-8	-125	-109	-66	-84
Balance on current account	-16	-38	-124	-132	-118	-138
Variation in net international reserves	15	8	-17	54	39	32

[a] Preliminary figures.
[b] Gross domestic product plus terms-of-trade effect.
[c] October 1977 over October 1976.
[d] Percentage.

Nevertheless, the agricultural sector was partially affected by unfavourable weather conditions. The drought which began in 1976 continued during 1977 with the result that the rainy season was uneven and came at the wrong time, which affected primarily the production of basic grains and, particulary, sorghum and rice. The decline in the harvest of basic grains had serious social effects, since it reduced the income of part of the rural population. Moreover, some imports had to be made to offset the shortfall in domestic production.

The industrial sector grew by almost 12%, a rate similar to that of the previous year. Various projects were undertaken in the food, textiles, non-metallic minerals and metal-engineering industries and, above all, in the wood industry.

Although coffee prices began to fall towards the end of the year and, consequently, exporters refrained from selling in the hope that prices would rise again, the inflow of foreign exchange was considerable since, on average, coffee bean prices were double those of the previous year. Their impact was so great that, although the volume of coffee exports remained constant, their high unit value brought them to the top of the list of exports for the first time, overtaking bananas. Imports rose markedly, because of the liberal import policy, and part of the higher earnings of foreign exchange was spent on luxury goods.

After rising sharply in 1974, inflation dropped in the following two years. However, despite a number of stabilization measures in monetary policy, inflation rose again in 1977. Consumer prices climbed by more than 8%, a rate well above what has traditionally been considered normal in the country, although it cannot be called serious. Underlying this rise were the growth of public spending, the continued effects of imported inflation and, to a lesser extent, some wage rises in the public and private sectors.

Public spending continued to stimulate the economic system and remained important in the social sectors. The higher revenues stemming from the tax reforms carried out in previous years contributed to this. The high prices of coffee and the real growth of banana exports also helped to swell tax receipts.

On the other hand, real investment by the Government only increased slightly. In contrast, State enterprises carried out some large-scale investment, but the major effects of the biggest projects, in which much of the loans obtained abroad was invested, will not begin to be felt before 1978.[129] Investment was more flexible in the decentralized public sectors, as in the case, *inter alia*, of the construction of the port in the Fonseca gulf. In the course of the year the Government also invested in the Aguán Valley project, whose effects will only be felt in the medium term, however.

Against this situation of relative continuity in economic policy and the favourable circumstances of 1977, various factors stood in the way of further growth which would have made up for the contraction which occurred in 1974 and 1975. The most important of these were, firstly, the fact that a number of projects were not carried out, particularly in the agricultural sector, because of a lack of executive capacity, and secondly, the slow progress made in the process of land reform, which, after beginning quite strongly in 1975, slowed down in 1976 and came to a standstill in 1977. This might signify a change in the redistributive effect forecast in the present plan,[130] which attaches great importance to land reform, since almost 70% of the country's population live in rural areas. Since at the same time wage rises were slight and only benefited a limited section of the labour force, it seems probable that the economic boom of 1977 did not reach the entire population as would have been desirable.

2. *Recent economic trends*

In 1977 total supply rose by 8.5% as a result of the rise of over 7% in the gross domestic product and of 13.5% in the volume of imports of goods and services (see table 239).

The growth rate of the gross domestic product was only slightly lower than in 1976, the year in which the stagnation of 1974-1975 was overcome and an economic upturn set in as a result of the favourable behaviour of external variables, particularly the renewal growth of banana production and high coffee prices. This situation not only continued but even improved during 1977 thanks to a further and even higher rise in the price of coffee.

The rise in export prices was so great in 1977 that the terms of trade improved considerably for the second year running. On the other hand, the volume of exports barely increased since the temporary halt in coffee sales towards the end of the year offset the high real growth of banana exports.

[129] One of the most significant projects is being executed by the Corporación Forestal Industrial de Olancho (CORFINO). This project lies at the heart of the development of the wood industry and will have a great effect on the country's economy once the pulp and paper plant is installed.

[130] National Development Plan 1974-1978. See CEPAL, *Economic Survey for Latin America 1974*, Part II, "The economic situation by countries", "Honduras", United Nations publication, Sales No. E.76.II.G.1.

Table 239

HONDURAS: TOTAL SUPPLY AND DEMAND

	Millions of lempiras at 1970 prices			*Percentage breakdown*		*Growth rates*		
	1975	*1976*	*1977*[a]	*1970*	*1977*	*1975*	*1976*	*1977*
Total supply	*2 162*	*2 305*	*2 501*	*133.9*	*130.9*	*-2.6*	*6.6*	*8.5*
Gross domestic product	1 662	1 784	1 910	100.0	100.0	0.5	7.3	7.1
Imports of goods and services[b]	500	521	591	33.9	30.9	-11.7	4.3	13.5
Total demand	*2 162*	*2 305*	*2 501*	*133.9*	*130.9*	*-2.6*	*6.6*	*8.5*
Domestic demand	1 764	1 863	2 054	107.0	107.5	-2.4	5.6	10.3
Gross domestic investment	300	297	411	21.9	21.5	-23.9	-0.9	38.4
Gross fixed investment	310	350	388	19.1	20.3	5.8	13.2	10.7
Public	104	118	138	12.5	13.1	8.2	14.1	17.2
Private	206	232	250	6.6	7.2	4.7	12.7	7.4
Changes in stocks	-10	-53	23	2.8	1.2			
Total consumption	1 464	1 564	1 643	85.1	86.0	3.6	6.8	5.1
General government	202	241	278	11.6	14.5	8.4	19.5	15.1
Private	1 262	1 323	1 365	73.5	71.5	2.9	4.8	3.1
Exports of goods and services[b]	398	442	447	26.9	23.4	-3.3	11.3	1.1

Sources: 1970-1975: CEPAL calculations on the basis of data of the Central Bank of Honduras;
1977: CEPAL estimates on the basis of official data.

[a] Preliminary figures.

[b] 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 CEPAL for the purpose.

In contrast, imports of goods and services grew strongly after falling in 1975 and growing moderately in 1976.

This growth was partly due to the increased need for raw materials and capital goods stemming from the industrial upturn in the country and from the execution of investment projects. In addition, the great availability of foreign exchange, excess internal liquidity and relatively low tariffs also led to a rise in the purchase of consumer durables.

After falling sharply for two years, gross domestic investment soared in 1977. The rise of almost 39% was caused partly by the 11% growth in fixed capital investment and partly by the sharp rise in stocks. The latter was fundamentally due to the drop in coffee prices in the second half of the year which caused sellers to hold back their product in the hope that prices would rise.

Capital formation in the public sector again rose at a very high rate, demonstrating the great effort made by the Government to stimulate the economy and expand basic infrastructure.

Private sector capital formation continued to grow and virtually fulfilled the most important targets imposed by the reconstruction of the damage caused by the natural disaster of November 1974. Private sector investment grew by more than 7% (see again table 239).

During the year some financial institutions which supported the execution of private sector investment projects were strengthened. Thus the Corporación Nacional de Desarrollo Industrial (CONADI) promoted and financed to a significant extent a number of important projects, such as three sugar refineries which will increase substantially the capacity of that industrial branch and will

have a great effect on the agricultural sector. In addition, the construction of a new cement works was begun in 1977, which will facilitate the growth of the construction sector.

Consumption expenditure rose by 5°/o as the result of a 3°/o increase in private consumption –somewhat lower than the population growth rate– and a much higher rise in Government consumption, which followed the same high trend as in the previous three years.

(a) *Sectoral developments*

The production system responded well to the stimuli provided by domestic demand and the external sector. Growth in the manufacturing sector (11.5°/o) and agriculture (8°/o) was particulary high, and between them they accounted for more than 50°/o of the growth of the total product (see table 240).

Table 240

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

	Millions of lempiras at 1970 prices			*Percentage breakdown*		*Growth rates*		
	1975	*1976*	*1977*[a]	*1970*	*1977*	*1975*	*1976*	*1977*
Agriculture	428	480	519	33.4	30.1	-6.1	12.2	8.0
Mining	37	31	33	2.3	1.9	-26.7	-15.5	7.1
Manufacturing	207	231	258	14.1	15.0	2.6	11.8	11.5
Construction	91	96	99	5.0	5.8	5.6	5.3	3.9
Subtotal goods	*763*	*839*	*909*	*54.8*	*52.8*	*-3.9*	*9.9*	*8.4*
Electricity, gas an water	23	24	27	1.4	1.6	6.7	5.6	11.3
Transport, storage and communications	102	109	117	6.7	6.8	...	7.1	7.7
Subtotal basic services	*125*	*133*	*144*	*8.1*	*8.4*	*1.2*	*6.9*	*8.4*
Commerce, financial institutions and insurance	248	266	284	16.2	16.5	1.5	7.4	6.9
Real estate[b]	119	126	132	7.3	7.6	4.9	5.8	4.4
Community, social and personal services[c]	230	238	252	13.5	14.6	10.2	3.7	5.8
Subtotal other services	*597*	*630*	*668*	*37.1*	*38.8*	*5.4*	*5.6*	*6.0*
Total gross domestic product[d]	*1 479*	*1 598*	*1 718*	*100.0*	*100.0*	...	*8.0*	*7.5*

Sources: 1970-1976: CEPAL calculations on the basis of figures supplied by the Central Bank of Honduras;
1977: CEPAL estimates on the basis of official data.

a Preliminary figures.
b Ownership of dwellings only.
c Includes restaurants, hotels and business services.
d As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly to the latter.

Electricity, gas and water services rose at a rate of over 11°/o, which is much higher than the rates of the previous two years. This progress was due partly to the continued rise in the generation of electrical energy, and also to the extension of the coverage provided by the electricity network throughout the country.

Transport, storage and communications services, together with commerce and financial services, were similarly vigorous. Mining too, the only sector whose value added dropped in 1976, picked up in 1977.

The construction sector, on the other hand, grew more slowly, barely exceeding the population growth rate, despite the high rate of growth of public investment which was mainly directed towards the purchase of equipment. Limitations again arose in meeting the demand for cement, the production of which is barely 300,000 tons per year.[131] This explains in part why the price of this key product doubled in 1977.

(i) *The agricultural sector.* For the second year running, the agricultural sector, grew at a faster rate than the total product (see again table 240). The growth rate in the crop-farming subsector was very high (8%) and was once again above that of the livestock subsector (see table 241). The growth

Table 241

HONDURAS: INDICATORS OF AGRICULTURAL PRODUCTION

	1974	*1975*	*1976*	*1977*[a]	*Growth rates*			
					1974	*1975*	*1976*	*1977*
Value added (millions of lempiras at 1966 prices)								
Crop farming	...	264.9	309.7	335.1	...	...	16.9	8.2
Stock-raising	...	104.2	109.5	117.2	...	...	5.3	7.0
Production of some important crops (thousands of tons)								
Maize	306.3	343.7	357.2	379.4	-20.7	12.2	3.9	6.2
Rice	19.2	46.1	33.2	29.3	-15.4	140.0	-28.0	-11.7
Millet	38.9	60.3	63.4	48.7	-41.9	55.0	5.1	-23.2
Beans	29.6	34.1	32.5	35.5	-35.9	15.2	-4.7	9.2
Plantains	125.1	125.1	104.6	132.1	11.0	–	-16.4	26.3
Bananas	1 140.1	774.1	1 056.7	1 169.8	-24.2	-32.1	36.5	10.7
African palm	40.0	49.3	61.2	62.2	-28.7	23.3	24.1	1.6
Green coffee	50.5	54.4	58.2	64.4	-9.2	7.7	7.0	10.7
Leaf tobacco	7.7	6.0	6.9	6.7	92.5	-22.1	15.0	-2.9
Raw cotton	7.7	5.2	6.0	9.9	-42.5	-32.5	15.4	65.0
Sugar-cane	1 336.2	1 364.0	1 468.2	1 751.5	-0.5	2.1	7.6	19.3
Oranges	28.4	24.1	24.3	23.4	...	-15.1	0.8	-3.7
Grapefruit	...	42.6	45.7	48.9	...	...	7.3	7.0
Pineapple	...	16.6	30.7	45.2	...	...	84.9	47.2
Indicators of stock-raising production (thousands of tons)								
Cattle	35.9	38.0	39.7	41.4	-11.4	5.9	4.5	4.3
Pigs	10.9	6.6	6.6	8.6	-0.9	-39.4	–	30.9
Poultry	6.8	6.5	6.8	7.1	1.5	-4.4	4.6	4.4
Milk (millions of litres)	223.1	190.6	203.7	218.0	...	-14.6	6.9	7.0
Eggs (millions of units)	16.2	16.2	17.1	17.9	...	–	5.6	4.7

Source: CEPAL, on the basis of official data of the Secretaría Técnica del Consejo Superior de Planificación Económica (CONSUPLANE), Honduras.

[a] Preliminary figures.

[131] The new plant which will come on stream in 1978 will double the present production capacity.

of the agricultural sector over the last two years offset the decline which had taken place previously and for the first time raised value added above the 1973 level. Per capita agricultural production, however, was 10°/o lower than four years previously.

The higher growth in agriculture was accounted for by the export products, while production of basic grains remained practically at a standstill; among these, however, the production of maize and beans rose satisfactorily and made good the drop in the previous year, but rice and maize production declined substantially as a result of the drought. Imports were then necessary to satisfy the demand for these two products.

The higher growth rate in agriculture for export than for domestic consumption was due, *inter alia*, to the following factors:

– Coffee production exceeded the targets established in the Development Plan aimed at increasing both the area under cultivation and yields. Sugar cane too expanded considerably; the sugar industry was stimulated by the high prices in the world market until 1976 which encouraged CONADI to finance the installation of three refineries. The financial support of the Banco Nacional de Fomento (BONAFOM) was of particular importance for both coffee and sugar cane, particularly the financing provided for coffee, which quadrupled in 1977.

– Through its policy to revive banana production the Government pursued its efforts to reach the levels preceding the natural disaster in 1974, although 1973 levels were still not attained. Banana production was supported by the Corporación Hondureña del Banano, whose principal activities consisted in providing financial, administrative and technical assistance to local producers, regulatory activities and increasing the areas under cultivation within its sphere of influence.[132] As a result, banana production and exports and also fiscal revenue increased.

– Changes were made in the country's credit policy; the loans of the Banco Nacional de Fomento were aimed to a greater extent at export products rather than basic grains.[133]

–The 1976 drought continued. In the last two years it had a major effect on the production of basic grains, particularly rice, which requires large quantities of water. Due to the drought, rice production dropped by 28°/o in 1976 and 12°/o in 1977. The fall in the production of maize was also very sharp in 1977. Although the drought affected basic grains more than the export products, the latter too, particulary bananas and plantains, were damaged by the hurricane winds which entered the area during the year, and by pests, such as "sigatoka" in the case of plantains on the North coast and "broca" in the coffee plantations.

–The production of basic grains has not yet been affected by irrigation infrastructure projects which have been underway for some years, largely because of organizational problems.

During 1977 the process of land reform –which is probably the most congruent and resolute programme in this field in Central America–[134] continued to be severely limited by a shortage of financial resources. Attention was therefore concentrated on colonization of the Bajo Aguán Valley, which will benefit more than 11,000 families through an integrated development programme. It is worth mentioning that the process has thus been somewhat changed; the National Development Plan originally gave priority to the central zone of the country, whereas present efforts are directed primarily towards the coastal zone and particularly the Aguán project.

Again, the strategy set forth in the Development Plan postulated a policy of income redistribution as a result of the process of land reform. Since more than two-thirds of the population live in rural areas, the great majority of whom have a subsistence economy, the change in priorities of the rural development policy and the limitation of the process of land reform has delayed progress towards the planned distributive goals.

[132] Out of a total banana production of 35 million boxes, the "associative enterprise" promoted and advised by COHBANA produced 4.2 million boxes, which was well above the established targets.

[133] The decision was taken in 1977 to set up an institution to encourage production of basic grains, but it has not yet begun its activities; the Banco Nacional de Fomento will in the future specialize in financing activities connected with export products.

[134] The Report of the President of the Republic, General Juan Alberto Melgar Castro, stated that in the course of 1977 land was granted to 7,500 families in 87 new settlements, and at the same time a high amount of economic resources and technical assistance were allocated to continue helping 46,000 families settled on 223,000 *manzanas* in previous years.

In the livestock subsector, the production of pork rose by more than 30°/o but 1974 levels were not regained; beef rose slightly for the third year running and milk production returned to the aggregate level of 1974 (see again table 241).

(ii) *Manufacturing industry.* Manufacturing industry was the activity with the highest growth in 1977, with a rate of almost 12°/o, which was very similar to that of the previous year. Despite the boom in the last two years, over the present decade the level of industrialization has remained more or less constant at about 15°/o (see again table 240).

Textile production recorded the highest growth, as in 1976, with a rate of 19°/o (see table 242). The production of leather footwear also increased considerably, and the accumulated growth over the last three years was more than 50°/o. The production of chemical and non-metallic mineral products also grew at very high rates.

Table 242

HONDURAS: INDICATORS OF MANUFACTURING PRODUCTION

	Millions of lempiras at 1976 prices				*Growth rates*		
	1974	*1975*	*1976*	*1977*[a]	*1975*	*1976*	*1977*[a]
Gross value of production	*655.5*	*714.3*	*779.4*	*858.0*	*8.9*	*9.1*	*10.1*
Traditional industries	*488.4*	*512.6*	*559.8*	*614.0*	*0.4*	*9.2*	*9.7*
Food	244.1	245.1	265.2	288.3	0.4	8.2	8.7
Beverages	86.5	91.1	96.0	101.2	5.3	5.4	5.4
Tobacco	15.2	18.6	19.6	20.7	22.4	5.4	5.6
Textiles	38.6	39.5	46.9	55.7	2.3	18.7	18.8
Clothing	21.9	23.8	25.7	27.8	8.7	8.0	8.2
Leather	3.9	4.2	4.5	4.8	7.7	7.1	6.7
Leather footwear	15.8	17.6	20.6	24.2	11.4	17.0	17.5
Wood	40.1	43.8	49.8	56.7	9.2	13.7	13.9
Wooden furniture	8.5	8.9	9.4	9.9	4.7	5.6	5.3
Printing and publications	11.5	16.0	17.8	19.9	39.1	11.3	11.8
Miscellaneous	2.3	4.0	4.3	4.8	73.9	7.5	11.6
Intermediate industries	*141.6*	*165.5*	*180.2*	*200.1*	*16.9*	*8.9*	*11.0*
Paper	25.3	29.8	32.0	34.7	17.8	7.4	8.4
Rubber	5.3	5.9	6.3	6.7	11.3	6.8	6.3
Chemicals	44.9	51.0	56.2	63.7	13.6	10.2	13.3
Petroleum derivatives	41.1	44.9	47.8	50.9	9.2	6.5	6.5
Non-metallic minerals	25.0	33.9	37.9	43.8	35.6	11.8	15.6
Basic metal products	...	...	...	0.3	...	...	...
Machinery and metal-working industries	*25.5*	*36.2*	*39.4*	*43.9*	*42.0*	*8.8*	*11.4*

Source: CEPAL, on the basis of data of the Secretaría Técnica del Consejo Superior de Planificación Económica (CONSUPLANE), Honduras.

[a] Preliminary figures.

According to official estimates, this dynamic growth in the industry was reflected in a growth of a 6.7°/o in employment.

This rapid industrial growth was largely due to the support received from the government sector. It was also influenced by the upturn in domestic demand in 1976 and 1977 and by higher sales to Central America as a result of the bilateral agreements entered into with Guatemala, Nicaragua, Costa Rica and Panama.[135]

[135] Between 1976 and 1977 non-traditional exports by Honduras to Central America rose by 36°/o.

Boosted by Central American demand, manufacturing exports grew by 9°/o. This rate, however, was inferior to the 17°/o growth rate in imports of industrial products, with a particularly important rise in the purchase of chemical products which accounted for almost one-quarter of industrial imports in 1977.

Besides a greater relative use of installed capacity in some branches and the growth of credit[136] which encouraged the expansion and installation of plants, the activities carried out since 1975 by the Corporación Nacional de Desarrollo Industrial (CONADI), which finances industrial studies and projects, has been of particular importance. This institution has extended its operations considerably. In 1977 its investments were directed primarily to financing projects in the food industry, including projects for three large plants with a cost of about 100 million lempiras (50 million dollars).[137] Seventy per cent of CONADI investment went to agribusiness projects. Some investment was directed to the industrial phase of forestry. Finally, CONADI backed the installation of a cement works, a steel foundry and a paper mill in San Pedro de Sula.

(iii) *The forestry sector.* In 1977 the positive effects were felt of the forestry policy begun by COHDEFOR some years previously with the fundamental aim of protecting and conserving the forests by means of rational exploitation and thus maintaining supply at a suitable level so as to be able to meet the future needs stemming from the development of the timber industry. In accordance with the forestry policy guidelines, which were gradually revised, the decision was taken to reduce the physical targets for the production and export of timber contained in the medium-term plan. This was due in part to the difficulties which arose in establishing a large-scale enterprise. Under this forestry policy, the Corporación Forestal Industrial de Olancho S.A., (CORFINO), was set up, with the participation of COHDEFOR, private entrepreneurs and regional bodies. This enterprise was to be responsible for the development of the timber industry, in various stages culminating in the manufacture of pulp and paper.[138] This project complements the rural development project in the Aguán Valley and implies the transformation of the north-eastern region of the country which hitherto had remained unproductive.

When CORFINO begins operations, probably towards the end of 1978, it will be possible to return to 1973 timber production levels, since two sawmills will come on stream,[139] which will be able to meet the growing external demand without infringing the policy of regulating cutting.

COHDEFOR has been particularly effective in the centralization of external marketing. It has cut out intermediaries and thus obtained higher foreign exchange earnings. In addition, technical assistance and financing to local sawmills has been increased.[140] This policy has been so effective that while the volume of exports was lower than in 1973, the value received by the country was higher, not only because international prices were higher but also because the marketing margins which previously remained abroad were now retained in the national economy.[141]

[136] According to estimates of CONSUPLAN, between January and September 1977 accumulated industrial credit was equivalent to the total for the previous year.

[137] Although the investment of 50 million dollars in the three plants does not correspond strictly to the annual period, its size can best be appreciated by comparing it with the sum of gross fixed investment which in 1977 amounted to 388 million lempiras.

[138] This project covers an area of 30,000 km^2 and is expected to call for investment of 400 million dollars over seven years; it will constitute an important focus of development, providing employment for a total of 6,000 people; the forestry sector as a whole employs 15,000 people.

[139] In 1977 production was approximately 240 million feet and it is expected to rise by 40°/o in 1978. In addition, between 1978 and 1979 CORFINO is expected to bring into operation another sawmill with a production capacity of 100 million feet.

[140] The State is currently responsible for all forestry production in Honduras. Before the policy currently applied by COHDEFOR was begun, there were 28 foreign mills.

[141] In 1973 exports amounted to 350 million feet and in 1977 to only 200 million. Foreign exchange earnings, however, amounted to the equivalent of 60 and 86 million lempiras, respectively.

3. *External sector*

(a) *Trade in goods*

(i) *Exports.* The total value of goods sold rose by 28°/o in 1977, reaching the record level of 500 million dollars (see table 243).

This growth was due to the rise in the prices of the main traditional export products, particularly coffee. Coffee prices doubled in 1976 and again in 1977, despite the drop which occurred in the second half of the year and which encouraged producers and intermediaries to hold back their product, with the result that the physical volume of coffee sales dropped by 16°/o in 1977. Nevertheless, because of the high price, coffee became the main export product and accounted for one-third of total exports, thus more than doubling its share of total exports at the beginning of the decade (see table 243).

Table 243

HONDURAS: VALUE AND BREAKDOWN OF EXPORTS OF GOODS (FOB)

	Millions of dollars				*Percentage breakdown*		*Growth rates*		
	1974	*1975*	*1976*	*1977*[a]	*1970*	*1977*[a]	*1975*	*1976*	*1977*[a]
Main traditional export products									
Including coffee	222.7	226.9	325.0	424.4	81.4	84.9	1.9	43.2	30.6
Excluding coffee	178.7	170.0	224.7	256.4	66.9	51.3	-4.9	32.2	14.1
Bananas	79.7	61.5	106.7	125.4	42.0	25.1	-22.9	73.6	17.5
Coffee	44.0	56.9	100.3	168.0	14.5	33.6	29.3	76.3	67.5
Wood	40.8	38.8	38.1	42.5	9.1	8.5	-4.8	-1.9	11.7
Chilled meat	16.7	18.3	25.6	22.4	5.4	4.5	9.3	1.4	-12.5
Silver	13.1	11.1	13.6	12.0	3.1	2.4	-15.6	22.6	-11.8
Zinc	10.5	16.1	11.9	13.2	2.4	2.6	53.3	-26.1	10.5
Lead	6.5	4.0	6.4	5.9	2.2	1.2	-38.0	58.8	-7.9
Tobacco	4.3	5.6	5.9	8.5	1.3	1.7	30.6	6.3	44.1
Grinned cotton	3.2	4.5	4.4	11.1	0.6	2.2	42.9	-3.3	155.2
Shrimps and lobsters	4.1	10.3	12.3	15.6	0.8	3.1	154.3	18.9	26.9
Rest	65.0	66.4	66.9	75.4	18.6	15.1	2.2	0.8	12.7
Total	*287.8*	*293.3*	*391.9*	*499.8*	*100.0*	*100.0*	*1.9*	*33.6*	*27.5*

Source: CEPAL, on the basis of data of the Banco Central de Honduras.

[a] Preliminary figures.

This change had important redistributive implications since, unlike bananas, coffee is mainly grown by medium and small local producers. Consequently, a foreign trade boom based on coffee helps to even out inequalities in income distribution.

Banana sales grew by 18°/o at current prices, but their relative importance in total exports decreased, mainly as a result of the rise in coffee prices.

After falling for two years, timber exports grew rapidly in 1977, chiefly because of an 8°/o growth in volume.

Exports of cotton and of shrimp and lobster grew unusually fast but remained rather insignificant. On the other hand, the value of exports of chilled meat, fourth in order of importance, declined by 12°/o.

The growth of exports to the rest of Central America was particularly great in 1977, reaching 36°/o and accounting to a value of 45 million dollars. The growth of this trade, essentially covered by bilateral treaties, is explained in part by the fact that international prices broadly benefited all the other countries of Central America, thus stimulating their demand, irrespective of the progress, or lack of it, in the institutional agreements involved in the integration process of the region.

(ii) *Imports.* The current value of imports of goods rose to almost 580 million dollars in 1977, 28°/o above the level for 1976. This growth was the result of an 11°/o rise in the unit value of imports and a 14°/o growth in their volume. The import coefficient thus rose considerably.

The growth of imports of fuels and lubricants was particularly steep (43°/o) although it did not exceed the level of imports in 1975 (see table 244).

Chemical products likewise grew considerably (36°/o) due to the need for inputs for agriculture (insecticides and fertilizers) and for the pharmaceutical industry. There was also a significant rise in imports of transport machinery and equipment (28°/o), but this was partly due to imports of private vehicles.

Imports of food products grew by 6°/o, partly because some basic grains had to be imported to meet a shortfall in production. Finally, imports of miscellaneous manufactures rose by 24°/o. This rise was partly due to the fact that some of the foreign exchange obtained from high coffee prices was used to import luxury goods.

(iii) *The terms of trade.* As a result of the rise in the prices of the main export products, the terms of trade improved markedly for the second year running. Due to this and to the rise in the volume of exports of goods both in 1976 and in 1977, the purchasing power of exports was 42°/o higher than in 1975 and 30°/o above the 1970 level (see table 245).

Table 244

HONDURAS: VALUE AND BREAKDOWN OF IMPORTS OF GOODS (FOB)

	Millions of dollars			*Percentage breakdown*		*Growth rates*	
	1975	*1976*	*1977*[a]	*1975*	*1977*	*1976*	*1977*
Food	45.2	37.3	39.5	11.3	6.8	-18.5	5.8
Beverages and tobacco	1.4	2.3	4.5	0.4	0.8	1.6	95.7
Inedible crude materials	6.2	8.5	8.7	1.6	1.5	37.1	2.4
Fuels and oils	68.5	48.2	69.0	17.1	11.9	-29.4	43.2
Animal and vegetable oils and fats	4.5	5.6	7.5	1.1	1.3	24.4	33.9
Chemicals	58.2	74.0	100.7	14.5	17.4	27.1	36.1
Machinery and transport equipment	106.8	130.8	166.8	26.7	28.9	22.5	27.5
Miscellaneous manufactured articles	108.0	145.3	179.7	27.0	31.1	34.5	23.7
Others	1.2	1.2	1.5	0.3	0.3	...	25.0
Total	*400.0*	*453.1*	*577.9*	*100.0*	*100.0*	*13.3*	*27.5*

Source: CEPAL, on the basis of data of the Banco Central de Honduras.

[a] Preliminary figures.

(b) *The balance of payments*

Despite the boom in exports of goods and services, the high growth of imports and the negative impact of net factor payments caused a deficit on current account of 138 million dollars, 20 million dollars more than the 1976 deficit (see table 246). The net flow of non-compensatory capital, however, not only covered the deficit on current account but led to an accumulation of reserves of a little over 30 million dollars.

Table 245

HONDURAS: MAIN INDICATORS OF FOREIGN TRADE

	1972	1973	1974	1975	1976	1977[a]
	Growth rates					
Exports of goods						
Value	9.3	25.7	12.1	3.1	31.1	27.6
Volume	4.8	8.5	-14.5	-3.9	11.9	2.1
Unit value	4.3	15.8	31.1	7.2	17.1	25.0
Imports of goods						
Value	-0.6	37.9	59.3	-2.6	13.1	27.6
Volume	-7.8	19.4	24.4	-13.9	4.6	15.1
Unit value	7.8	15.5	28.1	13.0	8.1	10.9
Terms of trade	-3.2	0.2	2.4	-5.2	8.3	12.6
	Indexes (1970 = 100)					
Terms of trade	96.1	96.3	98.6	93.5	101.3	114.2
Purchasing power of exports of goods	104.1	116.9	101.2	91.6	113.4	130.4
Purchasing power of exports of goods and services	108.2	119.5	105.2	98.2	118.5	134.0

Source: CEPAL, on the basis of official figures.

[a] Preliminary figures.

Long-term external financing increased, while short-term external credits decreased. This was due to a deliberate policy of structuring a longer-term external debt, thus moderating its possible effects on the balance of payments.

Net long-term private sector credits rose by 25%, a somewhat lower rate than that of net loans to the public sector, which rose by 32%.

4. *Prices and wages*

(a) *Prices*

The price stability enjoyed by the country until the beginning of the present decade came to an end in 1974, when external inflationary effects were combined with the impact of the situation of scarcity caused by hurricane Fifí. Thus in 1974 a rate of inflation of 12.9% was recorded (see table 247). Subsequently, the growth of consumer prices slowed and the annual rise dropped to 8.1% in 1975 and to 5% in 1976. Thus towards the end of 1976 it appeared that price stability was gradually returning. However, in 1977 consumer prices again began to rise more quickly, with a growth rate of 8.6%, comparing yearly averages, and of 7.7% from December 1976 to December 1977. This occurred despite the adoption of price controls for some essential products and despite the fact that the government allowed imports of certain basic commodities to increase.

The biggest rise in prices took place in the first four months, thus continuing the trend which had begun in the second half of 1976. On the other hand, from May onwards inflation began to slacken, so that after rising by 5% in the first half of the year the general price level only rose by 2% in the second half of 1977. These differences were partly due to the fact that the stabilization policy was applied more strictly in the second half of the year.

Table 246

HONDURAS: BALANCE OF PAYMENTS
(Millions of US dollars)

	1972	*1973*	*1974*	*1975*	*1976*	*1977*
Current account						
Exports of goods and services	235	294	331	344	443	555
Goods FOB	212	267	299	308	403	515
Services	23	27	32	36	40	40
Transport	7	8	10	10	12	12
Travel	5	8	10	11	12	12
Imports of goods and services	227	302	456	453	509	639
Goods FOB	177	243	388	378	427	545
Services	50	59	68	75	82	94
Transport	21	26	33	35	40	50
Travel	14	15	15	15	16	17
Net payments of profits and interest on foreign capital	-27	-33	-13	-28	-56	-60
Profits	-22	-25	1	-10	-32	-40
Interest	-5	-8	-14	-18	-24	-20
Net private transfer payments	3	3	14	5	4	6
Balance on current account	-16	-38	-124	-132	-118	-138
Capital account						
Net external financing (a +b +c +d +e)	16	38	124	132	118	138
(a) Net external non-compensatory capital	39	56	115	193	161	
Direct investment	3	7	-1	10	8	
Long- and medium-term loans	35	48	85	155	140	
Amortization payments	-10	-18	-19	-26	-38	
Short-term liabilities	8	16	31	42	42	170
Official transfer payments	3	3	19	12	9	
(b) Domestic non-compensatory capital or assets	15	-10	-6	-8	-2	
(c) Errors and omissions	4	–	-2	1	-2	
(d) Allocation of SDRs	3	–	–	–	–	
(e) Net compensatory financing (– = increase)	-15	-8	17	-54	-39	-32
Balance-of-payments loans, trade arrears, IMF loans, and other liabilities of the monetary authorities	–	1	20	–	–	...
Amortization payments	-1	–	–	-1	–2	...
Variation in gross international reserves (– = increase)	-14	-9	-3	-53	-37	-32
Foreign exchange reserves (– = increase)	-11	-2	-11	-55	-38	...
Gold reserves (minus sign signifies an increase)	–	-7	8	–	–	...
SDRs (minus sign signifies an increase)	-3	–	–	2	2	...

Sources: 1972-1976: CEPAL, on the basis of data from the International Monetary Fund;
1977: CEPAL, on the basis of official data.

The data on different cities indicate that prices rose less in the larger urban centres (Tegucigalpa and San Pedro Sula) and more particularly in the case of food, in the smaller cities.

One factor underlying the upsurge of inflation was the prolonged drought which began in 1976. Due to the reduction in the supply of certain agricultural products caused by the drought, the rise in food prices was much higher than the increase in the general price level. Between December 1976 and

Table 247

HONDURAS: CONSUMER PRICE INDEX

	1972	1973	1974	1975	1976	1977
	Indexes (1966 = 100)					
General index	*115.4*	*120.8*	*136.4*	*147.4*	*154.7*	*168.0*
Food	119.1	125.3	146.8	160.5	166.8	185.7
	Variation between annual averages (percentage)					
General index	*3.4*	*4.7*	*12.9*	*8.1*	*5.0*	*8.6*
Food	4.8	5.2	17.2	9.3	3.9	11.3
	Variation from December to December (percentage)					
General index	...	...	...	*7.8*	*5.6*	*7.7*
Food	...	...	...	9.5	4.6	10.5

December 1977, food prices rose by 11.3%, while the consumer prices as a whole grew by 8.6%. This was a repetition of what has happened in the case of food prices during the last six years, with the exception of 1975.

Another cause of the growth of prices in 1977 was imported inflation, in the form of a higher rise in the unit value of imports than in domestic prices.

(b) *Wages*

The minimun wage has not been raised since 1974. Since that date the only changes that have been made have been due to collective agreements advocated by the unions of some private or autonomous enterprises.

The central government granted a wage increase of 10% in 1976, and in 1977 for the first time half a month's wages were granted as a year's end bonus, which represented a rise of 4.2% in terms of total wages paid in the year.

In view of this rise in prices and the slight increase in nominal wages, which in any case only benefited a small percentage of the labour force, the conclusion may be drawn that during 1977 the real purchasing power of wages declined.

5. *Fiscal and monetary policy*

(a) *Fiscal policy*

The central government pursued its policy of higher spending during 1977 in order to continue to stimulate the productive system. This policy was possible because the State was in an easy financial position as a result of the higher revenue stemming from the foreign trade boom. The high tax income received from foreign trade duties, together with the revenue generated by the rise in exports in the two previous years, meant that cash reserves were being accumulated to an increasing extent. Budgetary expenditure could thus be covered without any major borrowing in the domestic credit sector.[142]

[142] However, given the present structure of the taxation system, this situation of plenty in the public sector may change in the future and cause serious damage to the economy if the prices of export products continue to follow a downward trend.

Table 248

HONDURAS: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of lempiras				*Growth rates*		
	1974	*1975*	*1976*	*1977*[a]	*1975*	*1976*	*1977*[a]
Current income	253	283	356	460	12.1	25.7	29.1
Tax revenue	228	247	311	420	8.3	25.9	35.0
Direct	...	...	76	94	...	...	23.5
Indirect	...	...	235	326	...	...	38.8
Non-tax revenue	25	36	45	40	47.2	24.6	-11.5
Current expenditure	213	254	327	398	19.6	28.5	21.7
Wages and salaries	131	160	174	218	22.3	8.8	25.0
Other current expenditure	82	94	153	180	15.3	61.9	18.0
Saving on current account	40	29	29	62			
Capital expenditure	118	184	198	252	55.3	7.6	27.5
Real investment	56	76	88	91	35.5	15.7	4.1
Amortization of the debt	31	37	42	69	17.7	14.0	64.9
Other capital expenditure	31	71	68	92	28.6	-4.2	34.8
Total expenditure	331	438	524	650	32.4	19.7	23.9
Fiscal deficit (or surplus)	-78	-155	-168	-190			
Financing of deficit							
Domestic financing	24	60	86	64	150.0	45.0	-25.3
External financing	54	95	82	126	75.1	-13.9	53.2

Source: CEPAL, on the basis of data from the Banco Central de Honduras.

[a] Estimates.

Tax receipts rose by 35°/o in 1977 as a result of the general economic upturn and the effects of reforms made in earlier years (see table 248). The central government's tax burden rose to 14.4°/o, a higher level than the 12.8°/o of 1976.

As mentioned above, duties on external trade was primarily responsible for this increase, not only due to the high prices of the main export products but also because the duty on banana exports was raised. The growth of taxation on foreign trade was 25°/o higher than that of the combined value of imports and exports.

As concerns expenditure, the central government continued to stimulate the productive system by an expansionary budget. Current expenditures once again rose rapidly, particularly because of the 25°/o rise in the total value of wages, mainly due to the rise in the number of government officials.

The sharp rise in revenue meant that saving on current account grew significantly: it more than doubled, thus strengthening the financial capacity of the public sector to execute its capital budget. Thus, whereas in 1976 the government's current saving could only finance 15°/o of capital expenditure, in 1977 this proportion rose to 25°/o.

On the other hand, real investment carried out directly by the central government only rose by 4°/o at current values, which would indicate that it declined in real terms. Nevertheless, transfers for the programmes carried out by the decentralized institutions and public enterprises –which generally have a more immediate impact on the productive system– rose by 35°/o. Finally, amortization payments also rose rapidly (65°/o), because of the expiry of some grace periods in the external debt.

As a result of all the above, the fiscal deficit rose to 190 million lempiras, which was 13°/o higher than in 1976, but represented a drop in its ratio to the gross domestic product.[143]

[143] The ratio of the fiscal deficit to the gross domestic product was 7.3°/o in 1975, 6.9°/o in 1976 and 6.5°/o in 1977.

The deficit was mainly financed by external credit, which rose by more than 50°/o. At the same time, the government used 64 million lempiras of domestic financing, a level 25°/o below that of 1976. This drop reflected the policy aimed at moderating inflationary pressures of domestic origin.

(b) *Monetary trends*

By the end of October the means of payment had grown by almost 17°/o with respect to the same month in 1976 (see table 249). This growth mainly took place in the first part of the year, despite the fact that the Central Bank raised the cash ratio, in order to absorb means of payment, primarily from the export sector. Nevertheless, this measure had to be revised subsequently in order to prevent the economy from contracting too much.

Table 249

HONDURAS: MONETARY POSITION

	Year-end balance (millions of lempiras)				*Growth rates*		
	1974	*1975*	*1976*	*1977*[a]	*1975*	*1976*	*1977*[b]
Money	*245*	*266*	*359*	*341*	8.6	35.2	16.9
Currency outside banks	107	113	169	155	6.3	49.4	15.1
Demand deposits	138	153	190	186	10.4	24.6	18.5
Factors of expansion	*722*	*874*	*1 061*	*1 292*	21.1	21.5	31.2
Foreign assets (net)	64	98	143	206	53.1	47.0	54.1
Domestic credit	658	776	918	1 086	18.0	18.3	27.6
Government (net)	73	93	109	107	26.5	17.3	20.7
Official entities	5	-14	-29	-16	...	...	...
Private sector	580	697	839	994	16.3	20.3	26.2
Factors of absorption	*477*	*608*	*702*	*951*	27.5	15.5	37.2
Quasi-money (savings and time deposits)	201	227	285	363	13.1	25.2	30.4
Bonds	22	30	32	48	35.3	7.4	50.2
Long-term foreign borrowing	127	250	285	334	96.7	14.1	24.0
Other items (net)	127	101	100	206	-20.5	-0.3	81.7

Source: CEPAL, on the basis of data from the Banco Central de Honduras.

a Data to October.

b Growth between October 1976 and October 1977.

In view of the high growth of tax receipts, the financial support provided by the Central Bank to the government was small. Monetary policy was rather designed to supply financial resources to the private sector, and to mitigate the factors of expansion by reducing the public debt.

Among the expansionary factors, the role of credit to the private sector was particularly important, growing by 26°/o and generating two-thirds of total credit in the assets of the monetary system. International reserves also rose sharply (54°/o), as a result of the favourable market conditions for the export products.

On the other hand, as was pointed out above, the public sector reduced its net borrowing from the monetary system by 15°/o, thus helping to reduce monetary expansion.

JAMAICA

1. *Main recent trends: introduction and summary*

In 1977, economic activity continued to be subject to serious restrictions. Preliminary calculations of the gross domestic product at current prices indicate that there was an increase of 11%, but since the rise in domestic prices was of approximately the same amount, there was therefore no real growth of the product during the year. Indeed, except for some agricultural products and mining activities and government, there was a generalized contraction of production.

This situation was due mainly to the continued balance-of-payments difficulties and the lack of response by the private sector to government policies. The balance-of-payments situation did, however, show some improvement from the serious deterioration which took place in 1976 (see table 250). For the first time in the decade, there was no trade deficit and the current account deficit was appreciably smaller. Income from exports has not risen substantially, however, from the levels achieved in1974, and the situation has got worse because of the continued decline in income from tourism. There was also a marked drop during the last three years in the inflow of foreign capital, both for direct investments and portfolio investments. The net international reserves increased by 16 million US dollars as a result of the reduced current account deficit and the inflow of capital, but this only restored a small part of the big drop in reserves in 1976, which was the main cause of the reductions in imports in the last 2 years, and which gave rise to serious domestic shortages.

The situation got worse owing to the growing lack of confidence of the private sector regarding the Government's development objectives, especially with regard to the eventual nationalization of mining activities, exports, banking and the main industrial production units.

Other objectives of the Government are the diversification of the economy, greater absorption of labour, and a change in the consumption patterns of the private sector, which are at present oriented towards imports. Uncertainty about the way these changes would be made affected the activities of the private sector and militated against its expansion.

The general domestic situation was also influenced by the permanent presence of serious social problems. This affected the flow of tourists and the levels of production and also partly determined the structure of government expenditure.

The economic recession experienced in 1976 thus got worse during 1977. The Government responded to this with a series of measures designed to improve the balance-of-payments situation, while trying at the same time to minimize the social cost of these measures and to stimulate activities in the private sector. At the beginning of January, controls on the use of foreing currency were stepped up, key industries were subsidised, wage and price controls were extended and taxes were raised on the highest incomes. Generally speaking, an attempt was made to favour the sectors which make intensive use of labour, bring in foreign currency or are considered essential for stimulating the private sector. An attempt was also made to channel direct commercial loans towards key sectors.

Towards the middle of the year, these measures were strengthened through the establishment of a dual exchange rate system and the application of an emergency plan for production. The change made in the exchange rate system was mainly aimed at improving the competitiveness of exports of manufactures, while the emergency plan for production specified basic manufactured goods which were to receive special support. In addition to these measures, the Government took steps to increase the money supply and public expenditure. Thus, the money supply increased by 38% during the year, while government expenditure, which was directed mainly towards employment and social programmes, grew by 10%. In its negotiations with the International Monetary Fund with a view to obtaining financial support for the balance of payments, the Government insisted on maintaining a level of expenditure capable of stimulating economic recovery with minimun social cost.

Unfortunately, however, despite these programmes the unfavourable balance-of-payments situation and the uncertainty on the part of the private sector persisted. Domestic capital formation was affected, and the outflow of capital continued. In addition, there was a marked reduction of stocks and a notable increase in idle capacity.

As regards the activities of the various sectors, it is estimated that manufacturing production went down, although it may not have varied at current prices. It is also estimated that construction and commercial activities, which are important sources of employement, both diminished.

Table 250

JAMAICA: MAIN ECONOMIC INDICATORS

	1972	1973	1974	1975	1976	1977[a]
A. *Basic economic indicators*						
Gross domestic product (millions of Jamaican dollars at 1974 prices)	...	2 298	2 252	2 230	2 076	...
Population (thousands)	1.93	1.97	2.01	2.04	2.06	2.09
Per capita gross domestic product (US dollars at 1974 prices)	...	1 166	1 120	1 093	1 008	...
	Growth rates					
B. *Short-run economic indicators*						
Gross domestic product at constant prices	...	...	-2.0	-1.0	-6.9	...
Per capita gross domestic product	...	...	-3.9	-2.4	-7.8	...
Terms of trade	3.1	-10.2	29.6	18.2	-12.6	–
Current value of exports of goods and services	13.5	2.6	63.3	6.7	-15.1	15.4
Current value of imports of goods and services	13.1	8.1	39.6	21.1	-13.8	-4.5
Consumer price index						
December to December	...	...	20.6	15.7	8.1	14.1
Annual average variation	5.4	17.6	27.2	17.4	9.8	11.1
Money	10.3	20.8	27.1	20.2	2.8	37.7
Current income of government[b]	13.1	19.0	40.0	19.2	2.2	9.6
Total expenditure of government[b]	16.6	25.4	49.4	34.6	34.1	10.4
Fiscal deficit/total expenditure of government[c]	...	...	40.8	47.1	59.7	55.9
	Millions of US dollars					
C. *External sector*						
Trade balance (goods and services)	-100	-142	-49	-208	-193	1
Balance on current account	-190	-240	-83	-288	-307	-128
Variation in net international reserves	-25	-30	70	-74	-261	16
External debt	177	306	475	661	855	...

Source: CEPAL, on the basis of official statistics.

[a] November to November change.

[b] Rates refer to fiscal year beginnig in April of year under which figure is shown; thus 1975-1976 is shown under 1975.

[c] The figures for 1977 relate to April-November 1977 over the same period of 1976.
Percentage.

The increase in the money supply, the reduced productive activity and the control of imports resulted in an enormous increase in the liquidity of the banking sector. As well as creating some inflationary pressures, which were partly alleviated by price controls, this caused the banking sector to suffer heavy losses. The Government issued Treasury bonds bearing rates of interest higher than those offered in the financial market.

2. Sectoral trends

(a) *Agriculture*

Although the agricultural sector generates only a small proportion of the gross domestic product it has been assigned a fundamental role within the Government's economic recovery plan. Efforts are being made to increase its overall productivity, diversify its production and increase its utilization of labour. It is thus hoped to overcome the balance-of-payments crisis by reducing dependence on imported food while at the same time reducing the growing pressures of urban unemployment.

In recent years, the sector has shown some growth. At current prices the agricultural product increased by 25°/o in 1975 and 13°/o in 1976, and it is estimated that it grew by around 14°/o in 1977 (see table 251). In order to appreciate the real significance of these increases, it should be borne in mind that the consumer price index increased by 17°/o, 10°/o and 11°/o respectively in these three years.

Table 251

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

	Millions of Jamaican dollars at current prices			*Percentage breakdown*		*Growth rates*		
	1975	*1976*	*1977*	*1971*	*1976*	*1975*	*1976*	*1977*
Agriculture	202.1	229.0	...	7.6	8.3	24.7	13.3	...
Mining[a]	271.4	240.1	...	10.5	8.7	-8.8	-11.5	...
Manufacturing[a]	455.3	539.1	...	15.8	19.5	20.2	18.4	...
Construction	304.6	257.8	...	14.3	9.2	17.1	-15.3	...
Subtotal goods	*1 233.4*	*1 266.0*	...	*48.2*	*45.7*	*12.3*	*2.6*	...
Electricity and water	36.1	57.0	...	1.0	2.1	62.6	57.9	...
Transport, storage and comunications	157.0	170.9	...	6.2	6.2	14.9	8.9	...
Subtotal basic services	*193.1*	*227.9*	...	*7.2*	*8.3*	*21.6*	*18.0*	...
Commerce, restaurants and hotels	506.8	439.3	...	21.0	15.7	22.9	-14.1	...
Financial institutions, insurance and real estate	321.8	382.7	...	11.7	13.0	17.4	18.9	...
Community, social and personal services[b]	403.7	456.1	...	11.9	16.5	31.2	13.0	...
Subtotal other services	*1 232.3*	*1 274.1*	...	*44.6*	*46.0*	*23.9*	*3.4*	...
Total gross domestic product	*2 658.8*	*2 768.0*	*3 081.0*	*100.0*	*100.0*	*18.1*	*4.1*	*11.3*

Source: Department of Statistics, *National Income and Product*, 1976.

[a] Alumina precessing included in mining instead of manufacturing.

[b] Less imputed service charges.

In spite of these results, imports of agricultural products still run at a high level and the process of diversification of domestic production is advancing only slowly. In the face of the economic recession experienced in 1976, the Government set in motion in April 1977 an emergency plan for the productive sectors, in which an important part was to be played by agricultural activities. As well as other policy objectives, the plan aimed to reach suitable levels of nutrition and maximize the use of the available agricultural land. The agricultural programme for the fiscal year April 1977/March 1978

provided for the incorporation of 11,000 hectares for growing cereals, root crops, and vegetables. It also provided for the expansion of stock raising, forestry and fishing. Equal importance was attached by the Government to the restructuring of rural society. Thus, the "Land-Lease" project was put into effect, whereby government land was rented to farmers for a period of six years in order to increase the cultivated area, and construction work continued on small dams, for irrigation and for reducing the effects of possible droughts. Six of these had already been built in 1976.

In spite of these efforts, production of the main export crops –sugar cane, bananas, spices, coffee and cocoa– either went down or showed only slight increases. It is estimated that production of processed sugar cane went down by 17°/o (see table 252). This reduction was due partly to the heavy rains in April which, although they ended a drought lasting several years and were of benefit to most crops, nevertheless reduced the sugar content of the cane. Production of bananas, which are the second export product of the country, went up by only 3°/o. Since 1974, production of this item has been considerably lower than at the end of the 1960s and the beginning of the present decade. It is estimated that production of coffee and cocoa improved in 1977, but that of spices must have gone down somewhat.

Table 252

JAMAICA: INDICATORS OF AGRICULTURAL PRODUCTION[a]

	1974	1975	1976	1977	Growth rates		
					1975	1976	1977
Sugar cane (millions of long tons)	3.8	3.5	3.6	3.0[b]	-7.9	2.9	-16.6[b]
Bananas[c] (thousands of tons)	72.0	68.0	77.0	75.0[b]	-5.6	13.2	3.0[b]
Citrus fruit[d] (thousands of boxes)	1 007	1 028	946	...	2.0	-7.8	...
Pimento (thousands of tons)	3.8	2.3	4.0	...	-39.5	73.9	...
Cocoa (thousands of tons)	1.6	1.8	1.6	...	12.5	-11.1	...
Coffee[e] (thousands of boxes)	240.0	381.0	230.0	...	58.8	-39.6	...
Cattle slaughtered (thousands)	67.0	90.0	66.0	...	34.3	-26.7	...
Hogs slaughtered (thousands)	100.0	88.0	125.0	...	-12.0	42.0	...
Poultry (thousands of tons)	25.5	30.0	29.5	...	17.6	-1.7	...

Source: National Planning Agency, *Economic and Social Survey*, 1976; Department of Statistics, *Production Statistics*, 1976; and CEPAL, on the basis of official data.

a Crop year ending in year shown.
b January to November.
c Export only.
d Deliveries to packing and processing plants.
e Deliveries to Coffee Industry Board.

In spite of these unsatisfactory results as regard volumes of agricultural production, the current value of this production represented a substantial contribution to the gross domestic product, because of the favourable prices of some agricultural products on the world market. The price of sugar continued to decline from the peak reached in 1974, but most of Jamaica's sugar is sold to the European Economic Community (EEC) at subsidised prices which were somewhat increased, so that sugar exports increased by around 15°/o. Likewise the international price of bananas rose considerably, especially during the first half of the year, and this helped to increase the value of banana exports by around 30°/o. Jamaica also benefited from the higher prices for coffee and cocoa.

The total value of agricultural production for domestic consumption is much greater than that of export crops, although the latter provide an important source of foreign currency. The scanty and incomplete information available on this part of agricultural production indicates that results for

vegetables and root crops were quite favourable, while they were not so good in the case of fruit, which is attributable to the unsatisfactory distribution of rain during the year. Production of onions, peas and beans increased, while that of rice and maize fell, so that it was necessary to import larger amounts of them. Production of black-eyed peas was only one-third of the expected level. This product is of high nutritional value, and it is hoped that it will take the place of imported peas.

To sum up, then, the effects of the plan were not as expected, since out of the twelve main crops only four reached the hoped-for production figures.

Stocks-raising, beef and pork production and dairying were the most dynamic activities in 1977, since the rainy season favoured the growth of the pastures. The results in poultry-keeping were not as favourable, however, while fishing does not seem to have advanced at all.

The agricultural sector, too, suffered from the balance-of-payments problems which affected the country. There was a shortage of imported inputs such as agricultural implements and fertilizers, while both bilateral and multilateral international aid came too late to create good conditions for planting and harvesting, and the government loans to the sector which were designed to increase productivity were below the levels scheduled in the plan.

(b) *Mining*

It is estimated that mining production increased by around 7%, thus reflecting a partial recovery from the drops of 9 and 12% suffered in 1975 and 1976. With the estimated increases of 8% in bauxite and alumina production in 1977, much higher levels of output than those recorded in 1974 were registered (30% more in the case of bauxite and 40% in that of alumina). Gypsum production is estimated to have gone down by 17%, however (see table 253).

Table 253

JAMAICA: INDICATORS OF MINING PRODUCTION

	Millions of long tons				*Growth rates*		
	1974	*1975*	*1976*	*1977*	*1975*	*1976*	*1977*[a]
Bauxite	15.0	11.1	10.1	9.0[b]	-26.0	-9.0	8.4
Alumina	2.7	2.2	1.6	1.4[c]	-18.5	-27.3	7.7
Gypsum (thousands)	230.0	236.0	245.0	152.0[d]	2.6	3.8	-16.9

Source: Department of Statistics, *Production Statistics*, 1976; and CEPAL, on the basis of official data.

[a] Variations in the indicated period compared to the same period in 1976.
[b] January to October.
[c] January to November.
[d] January to September.

In 1976 the reduction in mining activity was due both to the insufficient external demand caused by the economic recession in the industrialized countries and to labour conflicts and the explosion of a section of one of the main alumina plants.

Demand for alumina on the international market grew during 1977. Although aluminium consumption in the United States only increased by 4% (in 1976 it had gone up by 30%), producers' stocks remained low, and prices increased by around 10% during the year. Furthermore, Jamaica increased the tax on exports of alumina by 12%, from 15.92 dollars to 17.79 dollars per ton. Both the volume and the value of bauxite exports, however, went down slightly.

In 1977 new measures were taken to improve control of mining activities. Agreements were signed with the three main aluminium companies for the purchase of all mining land at its book value.

The Government agreed to acquire 51o/o of the assets belonging to the Reynolds and Kaiser companies, and 6o/o of Alcoa's refining operations. Among the provisions of the agreement is a guarantee that ore will be supplied to the companies for 40 years and that there will be participation by Jamaican interests in the transport of bauxite from Jamaica to foreign ports. The Government also agreed to fix the tax on the production of unworked aluminium at 7.5o/o for a period of 8 years, on the bases of the average effective export price.

The Jamaica Bauxite Institute was set up for the purpose of carrying out research, supervising proposals, preparing plans and seeking new markets for bauxite and alumina. In this latter connexion, moves have been made to export these products to Algeria, Mexico, Trinidad and Tobago and Venezuela.

(c) *Manufacturing*

In general, the partial indicators show a marked drop in manufacturing production (see table 254). This decline comes on top of the reduction of 9o/o which took place in 1976. Only five products registered increases during 1977: animal feeds, flour production, cigarettes, soap and paints. It is also estimated that textile output improved appreciably in the second half of the year.

The problems which had limited production in 1976 persisted in 1977 also. Thus, the shortage and rationing of foreign currency continued to disrupt the supply of imported raw materials and capital goods, and there was also a bigger rise in the prices of imported goods than in 1976. This trend became more marked with the application in April 1977 of a dual exchange rate system which raised the price of non-essential imports by 37.5o/o.

Table 254

JAMAICA: INDICATORS OF MANUFACTURING PRODUCTION

	1974	*1975*	*1976*	*1977*[a]	*Growth rates*		
					1975	*1976*	*1977*[b]
Sugar[c]	367	355	363	281[d]	-3.3	2.3	-21.9
Edible oil[e]	2.3	2.6	3.3	1.4	13.0	26.9	-6.7
Condensed milk[f]	63.8	63.4	68.1	47.1[d]	-0.6	7.4	-12.0
Flour[f]	83.2	86.5	111.3	89.4[d]	4.0	28.7	6.9
Animal feed[f]	301	381	443	230	26.7	16.0	4.3
Rum[e]	4.1	4.1	3.2	3.3[d]	–	-22.0	–
Cigarettes[g]	1.55	1.63	1.54	0.83	5.2	5.5	5.1
Soap[f]	11.8	13.2	14.2	5.8	11.9	7.6	3.3
Paint[e]	1.31	1.56	1.22	0.56	19.1	-21.8	1.8
Fertilizer[h]	55.5	46.8	38.2	8.8	-15.7	-18.4	-41.7
Textile fabric[i]	9.2	7.8	6.5	2.8	-15.2	-16.7	-20.0
Cement[h]	393	399	359	248[d]	1.5	-10.0	-9.2
Steel[h]	16.4	20.8	13.6	...	26.8	34.6	...

Source: Department of Statistics, *Production Statistics,* 1976; and CEPAL, on the basis of official data.

a Data for six months.
b Variation in the indicated period compared with the same period in 1976.
c Thousands of long tons.
d Data for nine months.
e Millions of gallons.
f Millions of lb.
g Billions.
h Thousands of tons.
i Millions of yards.

Labour conflicts also continued to affect manufacturing activity. The seriousness of industrial conflicts was underlined at the beginning of 1978 by the strengthening of the labour disputes court. The quarterly survey of large enterprises revealed that employment went down by 11°/o in the first quarter of 1977 compared with the same period of the year before. There were signs of a deterioration in the employment situation in industry throughout the year, however.

The effects of the smaller supply of inputs and the difficult conditions on the labour market were aggravated by the continuing distrust on the part of the private sector. Stocks appear to have gone down, and there was little investment.

The emergency production plan proposed by the Government attempted in 1977 and 1978 to revitalize the manufacturing sector and to turn it into an important source of foreign exchange and job opportunites. Great attention was therefore paid to small-scale industry and handicrafts. Although information on production levels is not available, employment in the sector went down by over 5,000 jobs, whereas a drop of no more than 700 had been forecast.

(d) *Construction*

According to partial information, it is estimated that construction activity also went down in 1977. It was hoped that this sector would do most to help to reduce the growing unemployment problem, but in practice it was the sector which was farthest from reaching the goals fixed by the emergency production plan. Only 40°/o of the dwellings which were supposed to be begun were actually started, and this had repercussions on the production of the main building materials and undoubtedly led to a reduction of employment. The value of imports of construction materials showed a slight increase, but this must be attributable to higher prices, since it is evident that the volume of such imports must have gone down.

Financing for the construction sector was also reduced. Loans and advances for construction purposes by the commercial banks at the end of September 1977 were 14°/o lower than at the same time the year before, while they were 12°/o lower than those for December 1976. In the first six months of the year, new mortgage loans by building societies were 38°/o lower than the figures for the same period the year before, and total loans and advances likewise went down for the second year running.

The downward trend in construction activity goes back to 1973, although it was only in 1977 that the trend became serious. There are three factors which seem to have brought about this situation in 1977. First, there was the smaller growth rate of public capital expenditure, which affected the execution of public works, and especially road construction. Secondly, there was the decline in tourism, which discouraged expansion of the existing installations. Finally, there was the general deterioration of the economic and social situation, which has discouraged private investment and the expansion of industrial installations.

(e) *Tourism*

In 1976 tourism suffered a serious setback: for the first time in nine years there was a drop in the total number of visitors (see table 255). The reduction of 15°/o recorded in that year had been foreseeable for some time. There had been an increase in the total number of visitors in 1975, but it had been due to a considerable rise in the number of cruise-ship tourists, who contribute much less to the economy of the country in terms of money.

Partial data for 1977 indicate that the reduction in the number of visitors may have been even greater than the year before, for in the first ten months of the year the total number of visitors went down by 21°/o. A certain recovery was observed in August 1977, however, and this continued in September and October. Visitors staying three nights or more in the country showed the greatest relative increase, whereas the opposite was the case with cruise-ship tourists. In spite of the lower hotel occupation rates in the first ten months, there was a notable increase in the last part of the year.

As might be expected, the estimated spending by tourists has gone down since 1974, the drop being particularly severe in 1976. Although the available data for 1977 only cover the first three months of the year, they suggest that the rapid trend towards a drop in total income from tourism

Table 255

JAMAICA: SELECTED TOURISM STATISTICS

	1974	1975	1976	1977[a]	Growth rates 1975	1976	1977
Number of visitors (thousands)	530.7	553.3	470.7	319.7	4.2	-14.9	-21.3
Estimated expenditure (J$ millions)	121.2	116.8	96.1	28.3[b]	-3.6	-17.7	-32.8[b]
Average tourist expenditure (J$)	228.4	211.1	204.2	209.3	2.0	-7.6	-8.1
Hotel room occupancy rate (percentages)	43.8	43.5	33.2	27.7	-0.7	-23.7	-10.4
Average length of stay (nights)	8.4	8.8	8.6	8.8	4.8	-2.3	1.1
Employment (thousands)[c]	10.7	9.7	8.5	...	-9.9	-12.3	...

Source: National Planning Agency, *Economic and Social Survey*, 1976; and CEPAL, on the basis of official data.

[a] January to October.

[b] January to March. Rate calculated in comparison with the same period in 1976.

[c] Includes employment by hotels, guest-houses and cottages.

and in the average spending by tourists continued, reflecting, as it does in the other Caribbean countries too, the tendency of tourists to seek cheaper hotel rooms.

In 1976 and 1977 there was a notable decline in foreign currency income from tourism.

3. *The external sector*

(a) *The trade balance*

The Government's efforts to overcome the balance-of-payments crisis had a certain measure of success, for while exports of goods and services went up by 15%, imports went down by about 5%. Consequently, for the first time in this decade the trade balance showed a surplus, although this was barely 1 million dollars.

Exports of goods increased by 21% in this period (see table 256).[144] This growth is attributable both to the favourable evolution of world commodity prices, which resulted in a rise of 14% in the unit values of the country's exports, and to the 14% increase in the volume exported. Bauxite, alumina, sugar and bananas are the main export products of Jamaica, accounting for around 80% of its total exports. The available information on these products indicates that there were increases in the volume of alumina and bananas exported, while the volume of sugar exported does not seem to have varied substantially compared with 1976, and bauxite exports appear to have gone down slightly. The price of alumina rose in response to bigger demand caused by the building up of stocks in the industrialized countries, while most of the sugar exports were favoured by a significant rise in the subsidised price paid by the EEC, in contrast with world sugar price trends. In the case of bauxite sales, their unit value dropped by approximately 10% during the year.

It was the Government's aim to give a strong impulse to non-traditional exports. Preliminary information indicates that exports of manufactures more than doubled in 1977 (116%), although

[144] The export and import data given in tables 256 and 257 may not correspond exactly with those of tables 259 and 260 because of the adjustments normally made in the balance of payments.

Table 256

JAMAICA: EXPORTS OF GOODS (FOB)

	Millions of US dollars				*Percentage breakdown*		*Growth rates*		
	1974	*1975*	*1976*	*1977*[a]	*1974*	*1977*	*1975*	*1976*	*1977*[a]
Bauxite	130.1	108.6	123.9	108.1	18.4	16.6	-16.6	14.1	-13.0
Alumina	386.0	421.2	304.5	328.6	54.7	50.4	9.1	-27.7	24.9
Bananas	12.1	16.2	13.1	17.5	1.7	2.7	33.6	-19.4	29.3
Sugar, unrefined	81.8	153.7	61.5	71.7	11.6	11.0	87.8	-60.0	14.6
Manufactured goods	71.7	78.0	90.2	68.1	10.2	10.4	8.7	15.7	115.7
Total[b]	*705.8*	*800.0*	*617.8*	*652.0*	*100.0*	*100.0*	*13.4*	*-22.8*	*21.0*

Source: National Planning Agency, *Economic and Social Survey*, 1976; and CEPAL, on the basis of official data.

[a] January to November. Variation calculated in comparison to the same period in 1976.

[b] The totals do not coincide with those of the balance of payments and of table 259.

this actually only represents a recovery to the level which they already had as long ago as 1974. The expansion in sales of manufactures was the result of an intense promotional campaign both inside and outside the Caribbean market, and also of the establishment of a dual exchange rate.

The expansion of exports might have been greater if it had not been for some contraction in the demand for goods coming from Jamaica observed towards the end of the year in some Caribbean countries as a result of the import restriction policy adopted by Jamaica with a view to correcting its growing trade imbalance with the CARICOM countries.

While income from exports went up, imports of goods were reduced to the minimum. It is estimated that they came to some 840 million dollars, which means a drop of around 8°/o (see table 257). This decline came on top of the big reduction recorded the year before, when imports dropped by 25°/o compared with 1975.

The reduction of imports in the last two years has led to greater utilization of installed capacity rather than greater capital formation. Imports of capital goods dropped markedly by 32°/o in 1976 and by around 20°/o in 1977. Only imports of construction materials seem to have maintained a similar level to 1976. Imports of raw materials, for their part, remained at approximately the same level as the year before, while already by November imports of fuels were larger than the year before. These imports were considered essential for any possible reactivation of the economy. The biggest reduction seems to have been in imports of consumer goods. Both imports of food and those of consumer durables showed big declines.

A dual exchange rate system was one of the means used for limiting imports, and it is estimated to have given rise to a global devaluation of 20°/o. The percentage devaluation varied considerably from one foreign currency to another (see table 258), the biggest devaluation being with respect to the Trinidad and Tobago dollar (16°/o) and the smallest with respect to the Canadian dollar (6°/o). The Jamaica dollar was devalued with respect to these currencies both as regards the nominal rate and the real rate. This devaluation represented a reversal of the tendency towards revaluation recorded in 1976, and no doubt had some influence on the growth rate of imports.

In order to limit the growth of imports, strict control of all foreign exchange transactions was also applied. Thus, the commercial banks were prohibited from buying and selling foreign currency on their own account and have to do so only as agents of the Bank of Jamaica, which established a foreign currency budget and maintained constant vigilance over the use of such currency.

The deficit on the services account persisted in 1977. The income on this account comes mainly from tourism, which has fallen off in recent years as noted earlier. Income under the "travel" account of the balance of payments has been going down since 1974.

Table 257

JAMAICA: IMPORTS OF GOODS (CIF)

	Millions of dollars				*Percentage breakdown*		*Growth rates*	
	1974	*1975*	*1976*	*1977*[a]	*1974*	*1977*	*1975*	*1976*
Consumer goods	*200.5*	*233.9*	*164.5*	*99.6*	*22.0*	*13.0*	*16.6*	*-29.7*
Food	122.3	129.9	88.0	55.3	13.0	7.0	6.2	-32.3
Other non-durables	36.3	48.2	35.8	23.5	4.0	3.0	32.7	25.8
Durables	41.9	55.7	40.7	20.7	5.0	3.0	31.1	-27.0
Raw materials	*483.3*	*543.7*	*514.4*	*496.0*	*51.0*	*65.0*	*12.5*	*-5.4*
Petroleum and fuels	195.1	215.1	203.5	210.4	20.0	23.0	10.2	5.4
Others	288.2	328.7	310.9	285.6	31.0	37.0	14.0	-5.4
Capital goods	*252.0*	*346.0*	*233.9*	*169.5*	*27.0*	*22.0*	*37.3*	*-32.4*
Construction materials	97.8	98.1	71.7	67.5	11.0	9.0	0.3	-26.9
Transport equipment	37.6	86.6	26.6	15.4	4.0	2.0	130.1	-69.3
Machinery and equipment	108.1	151.0	119.8	72.2	12.0	9.0	39.7	-20.7
Other capital goods	8.5	10.2	15.7	14.4	–	2.0	20.8	155.8
Total	*935.9*	*1 123.5*	*912.8*	*765.1*	*100.0*	*100.0*	*20.1*	*-18.8*

Source: Natural Planning Agency, *Economic and Social Survey*, 1976; and CEPAL, on the basis of official data.

[a] January to November.

Table 258

JAMAICA: EVOLUTION OF EXCHANGE RATES

	Jamaican dollars per foreign currency unit						*Growth rates*			
	Nominal			*Real*[a]			*Nominal*		*Real*	
	1975	*1976*	*1977*	*1975*	*1976*	*1977*	*1976*	*1977*	*1976*	*1977*
United States	0.90	0.90	1.02[b]	0.65	0.63	0.68	–	13.3	-3.1	7.9
United Kingdom	2.00	1.64	1.79	1.93	1.68	1.91	-18.0	9.1	-13.0	13.7
Canada	0.88	0.91	0.96	0.66	0.66	0.68	3.4	5.5	–	3.0
Barbados	0.45	0.45	0.51	0.55	0.53	0.59	–	13.3	-3.6	11.3
Guyana	0.38	0.35	0.40	0.29	0.26	0.30	-7.9	14.3	-10.3	15.4
Trinidad and Tobago	0.41	0.37	0.43	0.40	0.36	0.42	-9.8	16.2	-10.0	16.7

Source: CEPAL, on the basis of official data.

[a] $\frac{(r \cdot p^f)}{p^d}$: Where r is exchange rate; p^f the foreign country's consumer price index, and p^d the home country's consumer price index.

[b] In April a two-tiered exchange rate system was adopted. The previous rate of J$.90 to US$ 1 was maintained for basic imports and the special rate of J$ 1.25 to US$ 1 was applied to all other transactions including foreign exchange, which represented an estimated 20 per cent overall devaluation.

In contrast, the outflow of foreign currency for travel purposes has practically trebled since 1974. The stricter control of the sale of the foreign currency exercised in 1977 prevented expenditure on foreign travel from increasing still more.

Payments in respect of freight and insurance did not undergo any change, because of the smaller amount of imports.

The terms of trade in respect of goods did not show any variation with respect to 1976, since the unit values of both exports and imports increased by 6%/o (see table 259). The purchasing power of exports of goods increased by 14%/o, however, owing to the larger volume exported during the year. When services are added, however, the increase in the purchasing power of exports drops to 9%/o, which was only to be expected in view of the decline in tourism.

Table 259

JAMAICA: MAIN INDICATORS OF FOREIGN TRADE

	1972	*1973*	*1974*	*1975*	*1976*	*1977*
	Growth rates					
Exports of goods						
Value	10.0	11.1	91.8	7.5	-18.4	21.0
Volume	5.6	7.0	6.3	-19.6	-9.2	14.1
Unit value	4.1	-2.8	80.5	33.7	-10.1	6.0
Imports of goods						
Value	11.5	7.9	42.2	19.5	-18.4	-7.8
Volume	10.4	-0.4	2.2	5.8	-20.7	-13.0
Unit value	1.0	8.4	39.2	13.0	2.9	6.0
Terms of trade	3.1	-10.2	29.6	18.2	-12.6	–
	Indexes (1970 = 100)					
Terms of trade	97.7	87.7	113.7	134.4	117.4	117.4
Purchasing power of exports of goods	106.1	102.0	140.5	133.6	105.9	120.8
Purchasing power of exports of goods and services	110.9	105.2	128.1	122.6	101.0	109.0

Source: CEPAL, on the basis of official data.

(b) *Balance of payments*

The small surplus shown by the trade balance helped in the notable reduction of the current account deficit. Payments abroad in respect of profits and interest, however, increased by 20%/o (see table 260). The current account deficit dropped from 307 million dollars in 1976 to 128 million in 1977, this latter figure being the lowest since 1974. As already noted, however, this was achieved at the cost of a drastic reduction in imports which affected domestic production.

In 1976 there were serious external financing problems. The net inflow of non-compensatory capital fell sharply, making it necessary to use the international reserves, which fell by the end of that year to only a quarter of their December 1975 level. In 1977, however, there was a net inflow of non-compensatory capital of 144 million dollars, which made it possible to cover the current deficit and also increase the reserves by 16 million dollars: something which had not taken place since 1974. Unfortunately, no information is available regarding the nature of this capital (see table 260).

Table 260

JAMAICA: BALANCE OF PAYMENTS
(Millions of US dollars)

	1972	*1973*	*1974*	*1975*	*1976*	*1977*[a]
Current account						
Exports of goods and services	615	631	1 030	1 100	933	1 077
Goods FOB	377	392	752	809	660	798
Services	238	239	278	291	273	279
Transport	34	36	60	74	77	79
Travel	135	127	133	129	106	100
Imports of goods and services	715	773	1 079	1 308	1 126	1 076
Goods FOB	528	570	811	970	791	730
Services	187	203	268	338	335	346
Transport	102	111	162	194	171	171
Travel	21	20	21	52	59	60
Net payments of profit and interest on foreign capital	-126	-133	-68	-103	-116	-139
Profits	-124	-125	-47	-59	-50	-58
Interest	-2	-8	-21	-44	-66	-81
Net private transfer payments	36	35	34	23	2	10
Balance on current account	-190	-240	-83	-288	-307	-128
Capital account						
Net external financing (a +b +c +d +e)	190	240	83	288	307	128
(a) Net external non-compensatory capital	160	241	261	210	38	
Direct investment	97	73	31	-2	-1	
Long- and medium-term loans	42	154	246	252	158	
Amortization payments	-7	-14	-21	-42	-71	
Short-term liabilities	35	35	14	-3	-52	144
Official transfer payments	-7	-7	-9	5	4	
(b) Domestic non-compensatory capital or assets	4	-35	-93	71	17	
(c) Errors and omissions	-5	4	-15	-67	-9	
(d) Allocation of SDRs	6	–	–	–	–	
(e) Net compensatory financing	25	30	-70	74	261	-16
Balance-of-payments loans, trade arrears, IMF loans, and other liabilities of the monetary authorities	–	22	16	31	141	–
Amortization payments	–	-7	-16	–	–	–
Variation in gross international reserves (minus sign signifies an increase)	25	15	-70	43	120	-16
Foreign exchange reserves (– = increase)	4	14	-72	42	116	1
Gold reserves (minus sign signifies an increase)	14	–	–	–	–	–
SDRs (minus sign signifies an increase)	7	1	2	1	4	-17

Sources: 1972-1976: CEPAL, on the basis of data from the International Monetary Fund;
1977: CEPAL, on the basis of official data.

[a] Preliminary figures.

During the year, lengthy negotiations were held with the International Monetary Fund and these concluded in June with the signing of an agreement for a credit of 79 million dollars. Only 50 million dollars were granted for the fiscal year 1977/1978, however. According to the terms of the agreement

the first installment of the credit could be drawn in August and the second and third in December and March, although these latter two installments were subject to the fulfilment of certain requirements.

(c) *External debt*

Full information on the external debt situation in 1977 is not available, but as may be seen from table 261, the external debt increased by 40°/o in 1975 and almost 30°/o in 1976, while preliminary figures for 1977 indicate a further slight increase. The country's credit rating has been affected by the economic difficulties suffered in this decade and by the serious social problems which it has been necessary to face up to. As already noted, the agreement signed in July with the International Monetary Fund should have opened up the possibility of reaching new agreements with private international banks, but this possibility obviously diminished when the conditions demanded by the Fund as a requirement for the economic analyses scheduled for the third quarter were not completely fulfilled.

Table 261

JAMAICA: INDICATORS OF EXTERNAL FINANCE

	Millions of US dollars			*Growth rates*	
	1974	*1975*	*1976*	*1975*	*1976*
Total external debt	*475.2*	*660.8*	*854.5*	*39.1*	*29.3*
Suppliers credits	21.7	20.9	17.6	-3.7	-15.8
Private bank credits	261.2	402.0	396.1	53.9	-1.5
Bonds	50.4	44.3	47.1	-12.1	6.3
Multilateral loans	*41.4*	*52.5*	*71.2*	*26.8*	*35.6*
IBRD	37.2	44.1	58.7		
IDB	3.5	8.4	12.5		
Bilateral loans	*100.5*	*136.3*	*257.6*	*35.6*	*89.0*
United States	63.2	84.0	89.1		
Venezuela	–	12.5	37.5		
Trinidad and Tobago	–	–	77.0		
Debt servicing	*64.3*	*77.1*	*105.4*	*19.9*	*36.7*
Amortization	31.6	28.1	51.4	-11.1	82.9
Interest	32.7	49.0	54.0	49.8	10.2
Servicing coefficients					
Percentage of exports of goods	8.5	9.5	16.0		
Percentage of exports of goods and services	6.2	7.0	11.3		
Percentage of GDP	2.9	2.9	3.8		

Source: CEPAL, on the basis of official data.

The Government made big efforts to secure more bilateral loans. This change of policy is an implicit recognition of the increasing difficulties in obtaining capital from the private sector. In 1975 and 1976 bilateral loans increased by 36 and 90°/o, which was much more than multilateral loans. In

1976, bilateral aid included substantial assistance from Venezuela, Trinidad and Tobago and the United States, which together provided 80% of Jamaica's such aid (see table 261). There was therefore a proportional reduction in the relative share of the private banking sector. In 1975, private sources had supplied 60% of the total external assistance, but this figure dropped to 46% in 1976. Preliminary figures indicate that the commercial banking sector continued to provide around 45% of total credit in 1977, but some debts were renegotiated at the end of the year because of a lack of foreign currency.

Debt servicing increased by 37% in 1976, when it was equivalent to 16% of exports of goods and to almost 4% of the gross domestic product.

4. *Prices*

The rise in consumer prices became more rapid during the year (see table 262). Thus, the general index rose by 11%, in comparison with less than 10% in 1976 and 17% in 1975. Prices rose faster during the first nine months but somewhat slower in the last quarter.

Table 262

JAMAICA: EVOLUTION OF INTERNAL PRICES

	1973	*1974*	*1975*	*1976*	*1977*
	Annual average variation				
Consumer price index	17.6	27.2	17.4	9.8	11.1
Food	24.6	29.0	17.8	8.9	9.5
	Variation from December to December				
Consumer price index	...	20.6	15.7	8.1	14.1
Food	...	19.8	15.5	7.7	12.3

Sources: National Planning Agency, *Economic and Social Survey,* 1976; Department of Statistics, *Consumer Price Indexes,* December 1977; and CEPAL, on the basis of official data.

The rise in the important food and beverages category was 10%, which was below the general index. Within this category, the price rises for meat and poultry, milk products and oils and fats were no more than 5%. Fuel, housing and clothing also rose relatively slowly compared with the overall index.

In view of the extremely open nature of the economy, the prices of imported goods usually have considerable influence on domestic price levels. These inflationary pressures played a considerable part in the rise in consumer prices during 1973 and 1974, but the situation changed in 1975 and 1976, when the prices of domestically produced goods rose faster than those of imported goods.

In July 1977 price controls were extended with a view to minimizing the effect of the Government's emergency economic measures on the prices of essential consumer goods. Various food items, together with petroleum derivates, were included in the list of goods subject to controlled prices. The number of articles in respect of which price rises must be approved in each case by the Prices Commission was also increased and now amounts to several hundred items.

The incomes policy applied in mid-1977 laid down patterns for wages and salaries, dividends and profits and also froze rentals and professional fees. In accordance with these guidelines, which are basically a continuation of those applied in 1976, a maximum wage increase of 10 Jamaica dollars per week was laid down.

A national trading enterprise called the State Trading Corporation was established during the year and was scheduled to come into operation in mid-1978. Various existing organizations such as Jamaica Nutrition Holdings, Ltd. (set up in 1974), were to form the nucleus of the new enterprise. It was also planned to form new companies for goods essential to various sectors of the economy, and a start was also made on the establishment of co-operation machinery between official organizations and private commercial entities.

The main objective of the State Trading Corporation is to maintain an adequate supply of essential consumer goods at the lowest possible price. Jamaica Nutrition Holdings, Ltd. also set up a price stabilization fund financed from its operating surplus. This fund has been used to finance subsidies on essential foods, thus slowing down the rate of price rises.

5. *Monetary and fiscal policy*

The Government applied monetary and fiscal policy of an expansionary nature as a way of overcoming the general stagnation of the private sector. The money supply rose rapidly, subsidies were granted to key sectors of the economy, and policies designed to alleviate the effects of the recession on the banking sector were applied. In applying these measures, the authorities were aware of their potential effect both on inflation and on the already critical balance-of-payments situation. Consequently, these expansionary policies were accompanied in many cases by the previously established direct control measures.

(a) *Monetary policy*

As part of the measures designed to stimulate the economy, the money supply was increased by 38°/o (see table 263). The large size of this increase is partly attributable, however, to an attempt to restore the normal level of the money supply, which had grown by less than 3°/o in 1976.

The biggest increase in 1977 took place in the last quarter, when the money supply increased by 18°/o, but even so this did not exceed the levels of previous years (the increase in the last quarter of 1976 was 25°/o and in the last quarter of 1975 it was 20°/o).

Credit to the Government and public institutions was the most important factor of expansion of the means of payment. These two headings accounted for 60°/o of the total domestic credit and, in view of the reduction of international reserves, 70°/o of the factors of expansion.

Parallel with the expansion of the money supply, there was a rapid increase in liquidity within the banking system, and there was an extraordinary rise in the excess liquidity, i.e., the amount by which the reserves exceed the statutory cash holdings and the liabilities with the Central Bank (see table 264). In an apparent effort to limit inflationary pressures, the minimum cash holdings were therefore raised from 25°/o to 30°/o.

The data up to September 1977 showed a clear reduction in loans by commercial banks to the private sector. Indeed, total amortization payments exceeded total new loans during the year. Apart from the State sector, only loans to agriculture and to a limited extent personal loans showed any increase over 1976. Loans to construction and the commerce sector went down sharply.

The reduction in loans to the private sector was accompanied by an increase of 46°/o in sight deposits (see table 263). Savings deposits barely increased by 2°/o, while time deposits went down by approximately 37°/o. The restrictions on imports and the domestic shortages may have had some influence on the accumulation of money in current accounts. The State maintained the interest rates on savings deposits at 7°/o (below the increase of domestic prices), but this figure exceeded the 4 or 5°/o offered by the commercial banking system on time deposits. The greater liquidity of the banking system caused interest rates on time deposits to fall, thus contributing to the transfer of money to other kinds of accounts.

Table 263

JAMAICA: MONETARY POSITION

	Balance at end of (millions of Jamaican dollars)				*Growth rates*		
	1974	*1975*	*1976*	*1977*	*1975*	*1976*	*1977*
Money	*291.2*	*350.1*	*360.0*	*495.8*	*20.2*	*2.8*	*37.7*
Currency outside banks	102.1	127.4	138.2	182.1	27.8	8.5	31.8
Demand deposits	156.0	194.9	200.2	292.3	24.9	2.7	46.0
Factors of expansion	*779.6*	*966.2*	*1 014.0*	*1 127.2*	*23.9*	*4.9*	*11.2*
Foreign assets (net)	79.6	-11.2	-213.0	-242.0			
Domestic credit	700.0	977.4	1·227.0	1 369.2	39.6	25.5	11.6
Claims on government (net)	98.5	248.5	499.5	690.6	52.3	101.0	38.3
Claims on official entities	35.0	72.3	74.5	118.5	106.6	3.0	59.2
Claims on private sector	557.8	649.5	630.3	551.9	16.4	-3.0	-12.4
Factors of absorption	*488.5*	*616.2*	*654.1*	*631.5*	*26.1*	*6.2*	*-3.5*
Quasi-money (savings and time deposits)	428.5	505.6	558.5	569.9	18.0	10.5	2.0
Other items (net)	60.0	110.6	95.6	61.6	84.3	-13.6	-35.6

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

A feature symptomatic of the situation prevailing in the commercial banking system is that six of the nine main banks showed losses during the latter part of the year. This is connected with the low level of loans and also with the fact that, unlike the situation in most other Latin American countries, sight deposits do not form the main part of the banking system deposits. During 1977, current account deposits formed one-third of total deposits, whereas the corresponding figures for Brazil, Mexico and Venezuela were 82, 72 and 48% respectively. Because of the need to pay interest on time and savings deposits promptly and the low revenue in respect of placements, the banks suffered considerable losses. In order to bring about a rise in interest rates on savings accounts and to minimize the effect of the above situation on the banking sector, the State issued Treasury bonds offering a higher yield and other instruments bearing higher interest rates than that paid by the private sector on savings deposits. As a result, State securities –mainly medium and long term– in possession of the commercial banks increased by 138%.

In spite of the efforts to stimulate private production, the preferential interest rate on loans remained at 11%, which was similar to the rate of increase in prices: i.e., the real cost of money for the main borrowers was nil.

(b) *Fiscal policy*

The difficult economic situation caused the Government to reduce its 1977 deficit by 22% compared with the year before (see table 265). This reduction was achieved largely through the recovery plan designed on the basis of the contingency agreement with the International Monetary Fund. Initially, the Fund insisted that there should not be any deficit on the government budget, the aim being to counteract the effect of the heavy budget deficits of previous years, but the final agreement permitted a level of expenditure capable of maintaining the special employment programme and other social programmes, while also providing a minimum of support for key sectors, so as to stimulate economic recovery. In its fiscal activity, the Government placed more emphasis on incomes policy and reviewed the tax scales, while it also agreed to limit deficit financing of domestic

Table 264

JAMAICA: LOANS AND OTHER MONETARY INDICATORS

	End-year balances (Millions of Jamaican dollars)				*Growth rates*		
	1974	*1975*	*1976*	*1977*[a]	*1975*	*1976*	*1977*[b]
Commercial banks							
Loans:	581.1	695.4	702.1	646.1	19.7	1.0	-8.4
Agriculture	26.6	71.1	82.4	80.5	167.3	15.9	3.9
Manufacturing	112.8	117.7	123.1	114.3	4.3	4.6	-4.7
Construction	125.4	141.0	126.8	111.4	12.4	-10.1	-14.4
Government	8.4	16.9	16.1	19.3	94.3	-4.7	34.0
Personal	106.9	131.9	114.7	119.0	23.4	-13.0	1.2
Distribution	85.6	97.5	107.6	74.4	13.9	10.4	-33.5
Others	115.4	119.3	131.4	127.2	3.4	10.1	-3.2
Excess liquidity[c]	12.1	-2.7	18.4	88.4[d]			
Holdings of government securities	68.9	82.0	97.5	238.8[d]	19.0	18.9	138.3
Central Bank							
Holdings of government securities	36.5	52.0	95.9	414.0[d]	42.5	84.4	645.9
Consumer credit [e]	107.0	113.5	118.5	102.3[d]	6.1	4.4	-12.9

Source: Bank of Jamaica, *Statistical Digest,* January 1978.

[a] January to September.
[b] Variation between the indicated period in 1977 and the same period in 1976.
[c] Holdings over the legal reserve and liabilities with the Central Bank.
[d] Balances at November.
[e] Commercial Bank loans account for over 70 %.

origin to a figure not more than 45 million dollars higher than the amount of foreign loans obtained to support the balance of payments.

The agreement with the International Monetary Fund strengthened, in effect, the lines of fiscal policy laid down at the beginning of 1977, since the fiscal deficit envisaged in the April plan (i.e., before the agreement with the Fund, which was signed in July) was 23%o less than that of 1976. It was hoped to finance 80%o of the deficit from domestic sources: 42%o through the Central Bank, 32%o through loans from the private sector, and the rest through the issue of Treasury bonds. The remaining 20%o would be financed from the Capital Development Fund, formed with income from bauxite taxes and used for development projects. In practice, more use was made of this Fund, so that tax income lost some relative importance in current income, declining from 92%o to 81%o of the latter.

There was also the expected reduction in revenue from direct taxes and taxes on external trade, due of course to the shrinking of imports.

Preliminary data on the first eight months of the fiscal year 1977/1978 indicate that, compared with the same period of the previous year, current income grew by 10%o while current expenditure increased by nearly 5%o. At the same time, capital expenditure suffered a sharp drop of 32%o which was reflected in a drop of 10%o in total government expenditure and a significant decline of 22%o in the fiscal deficit.

When the above data for a period of eight months are compared with the estimates for the full fiscal year 1977/1978, it is noted that both income and expenditure were well below the levels budgeted. The projections included a forecast of lower capital expenditure, but they did not envisage

Table 265

JAMAICA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE
(Millions of Jamaican dollars)

	Fiscal years [a]					*Growth rates*			
	1974	*1975*	*1976*	*1977*[b]	*1977*[c]	*1975*	*1976*	*1977*[d]	*1977*[c]
Current income	*432.5*	*515.7*	*526.8*	*669.4*	*317.7*	*19.2*	*2.2*	*27.1*	*9.6*
Tax revenue	394.4	477.5	484.8	543.5	306.0	21.1	1.5	12.1	10.1
Direct	185.0	194.8	219.0	240.7	114.0	5.3	12.4	9.9	-0.9
Indirect	55.9	97.5	135.0	165.9	110.0	74.4	38.5	22.9	34.1
From taxes on external trade	57.9	83.9	39.0	25.4	15.0	44.9	-53.5	-34.9	-45.5
Current expenditure	*501.1*	*614.1*	*782.0*	*837.1*	*494.4*	*22.6*	*27.3*	*7.0*	*4.5*
Current Saving	*-68.6*	*-98.4*	*-255.2*	*-167.7*	*-176.7*	*43.4*	*159.3*	*-34.3*	*-3.6*
Capital expenditure	*223.1*	*360.6*	*524.8*	*436.7*	*225.5*	*61.6*	*45.5*	*-16.8*	*-31.6*
Total expenditure	*724.2*	*974.7*	*1 306.8*	*1 273.8*	*719.9*	*34.6*	*34.1*	*-2.5*	*-10.4*
Fiscal deficit	*-291.7*	*-459.0*	*-780.0*	*-604.4*	*-402.2*	*57.4*	*69.9*	*-22.5*	*-21.6*
Financing of deficit									
Domestic financing	114.5	191.3	333.1	478.0		67.1	74.1	43.5	...
External financing	68.0	123.5	85.6	...		81.6	-30.7	...	...
Capital development fund [e]	85.0	125.0	80.0	126.6		47.1	-36.0	58.3	74.1

Sources: National Planning Agency, *Economic and Social Survey*, 1974, 1975 and 1976; Bank of Jamaica, *Statistical Digest*, January 1978.

[a] Fiscal years run from April of the indicated year to March of the following year.
[b] Estimated figures.
[c] April-November 1977. Variation calculated in comparison with the same period in 1976.
[d] Estimated increase for FY 1977-1978 over FY 1976-1977.
[e] All transfers to current account.

such a big drop as actually occurred. The reduction in the fiscal deficit was very similar in both cases, relatively speaking.

A feature of the financing of the deficit was the large part played by domestic sources. In November almost 75°/o of the funds provided for in the budget had been used. Furthermore, the agreement with the International Monetary Fund helped to reduce the level. This heavy dependence on domestic credit was the reason why the Fund did not allow Jamaica to draw the second installment of the credit, scheduled for 15 December, since the amount of money in circulation was 9.1 million dollars more than the figure proposed by IMF.

As part of its agreement with the International Monetary Fund, the Government took some measures at the beginning of July to increase its tax revenue. Substantial changes were made in the income tax law, and the tax rate was increased to 70°/o for incomes of between 20,000 and 30,000 dollars and 80°/o for incomes over the latter figure. In spite of these changes, however, the total revenue received from direct taxes up to November was only similar, in real terms, to the figure for the same period of 1976, possibly because of the normal time lag between the application of new tax laws and the actual receipt of revenue.

MEXICO

1. *The overall picture*

The Mexican economy in 1977 went through a critical period in the reorganization of a growth strategy whose potential had apparently become exhausted between the end of the 1960s and the beginning of the present decade.

The development model adopted in the post-war period gave good results in giving the country a diversified structure of production, based on the speeding up of the industrialization process and on the dynamic growth of manufacturing and all the series of services related with it. However, this development did not sufficiently increase the capacity for generating employment and reinforced a tendency to concentrate income in social and regional groups. Lastly, it produced increasing disequilibria in the balance of payments.

During the 1970s, the crisis in the development model, in addition to the crisis of the industrialized countries, resulted in the stagnation of private investment and external demand. Mexico faced up to the situation by resorting to a policy of economic reactivation, which meant large increases in investment and in public consumption, and to activities aimed at maintaining the purchasing power of the wage-earners. All this took the form of a notable growth of the external debt and of increasing deficits in the balance of payments and the budget which, with the rise in domestic prices which was higher than that recorded in the industrialized economies, led to the devaluation of 1976. The ever-increasing complexity of the problems which arose during the 1970s, aggravated by the flight of capital which took place before and after the devaluation, and the level of external indebtedness, produced in 1977 a dilemma of whether to adopt a policy of economic reactivation based on sustained public spending, or to decide on a policy of readjustment aimed at re-establishing the monetary and financial equilibria.

The prospects opened up by the confirmed existence of large oil fields, permitting the build-up in the long term of a group of projects which would operate significant changes in the country's structure of production, also brought up the need of access to external financial resources in order to implement these projects. This helped the second option to gain ground, while the implementation of other development projects, including the second stage of the "Las Truchas" steel factory, was suspended or postponed.

During 1977, the existence of highly depressive factors of different kinds could be observed, especially the slow growth of the majority of activities, the relatively pronounced drop in investment, the increasingly serious situation of employment problems, the deterioration in real wages and the low rate of dynamism of external demand.

The economy was therefore in a phase of transition in which government action tended in the long term to lay the bases for a new stage of development, and in the short term to check the spread of the disequilibria which had blocked the course of external financing.

The product in 1977 grew at a moderate rate (2.8%), slightly higher than that of the previous year (see table 266). This increase was basically due to the growth of oil activity and to a lesser extent to the reactivation of the agricultural export sector. The remaining productive activities grew at very similar or even lower rates than the previous year. The slow rate of economic growth, the low levels of investment –both public and private and especially the latter– and the relative increase in the prices of imported goods because of the devaluation, meant that there was a sharp drop of 13% in the volume of imports of goods and services (see table 267).

In the analysis of demand, the sharp decrease in gross fixed investment and the slow growth of consumption were not able to offset the increase in exports, based to a large extent on the growth of exports of petroleum. The performance of domestic demand was basically influenced by the constraints on public investment –aimed at reducing the budgetary disequilibria and the balance-of-payments deficit– the increase in the rates of under-employment and open unemployment, and the restrictive wage policy. The latter phenomena also had a decisive influence on the drop in private per capita consumption.

Private investment, accentuating the tendency of the last two years, dropped sharply (13%) as a result of the low levels of activity and the consequent reduction in earnings and actual demand.

Table 266

MEXICO: MAIN ECONOMIC INDICATORS

	1972	*1973*	*1974*	*1975*	*1976*	*1977*[a]
A. *Basic economic indicators*						
Gross domestic product at factor cost (millions of US dollars at 1970 prices)	49.9	53.6	56.8	59.1	60.2	61.9
Population (millions)	53.7	55.5	57.3	59.2	61.1	63.1
Per capita gross domestic product (US dollars at 1970 prices)	929	968	992	998	983	978
	Growth rates					
B. *Short-run economic indicators*						
Gross domestic product	7.3	7.5	5.9	4.0	1.9	2.8
Per capita gross domestic product	3.9	4.2	2.5	0.6		-0.6
Gross income[b]	7.3	7.9	6.6	3.9	1.9	2.5
Terms of trade	0.5	3.1	9.4	-5.2	8.7	6.8
Current value of exports of goods and services	20.6	27.0	31.2	0.4	11.4	13.7
Current value of imports of goods and services	23.5	30.4	48.3	11.1	-3.2	-8.2
Consumer price index						
December to December	5.6	21.3	20.6	11.3	27.2	20.7
Annual average variation	5.0	12.0	23.7	15.0	15.8	29.1
Money	21.2	24.2	22.0	21.3	30.9	26.2
Wages and salaries[c]						
December to December	...	...	...	...	16.3	-10.2
Annual average variation	...	...	13.1	0.7	8.7	-1.0
Rate of unemployment[d e]	...	...	7.7	7.3	6.7	8.0[f]
Current income of government	16.6	25.3	37.9	42.5	30.7	40.4
Total expenditure of government	44.0	36.4	29.6	40.1	31.4	28.5
Fiscal deficit/total expenditure of government[e]	28.6	34.4	30.3	29.1	29.5	22.9
	Millions of US dollars					
C. *External sector*						
Trade balance (goods and services)	-280	-492	-1 543	-2 377	-1 386	250
Balance on current account	-926	-1 423	-2 890	-4 081	-3 423	-1 786
Variation in net international reserves	220	141	38	177	-986	470
External public debt	5 065	7 070	9 975	14 449	19 600	22 912

a Preliminary figures.
b Gross domestic product plus effect of terms of trade.
c Refers to variations in minimum general wage.
d Metropolitan area of Mexico City.
e Percentage.
f Estimate for first half of the year.

Government consumption, although 4% higher than in 1976, lost to an appreciable extent the dynamism it had shown in the last six years, when the annual rate of growth had increased by 12%. The 1977 performance was due both to the constraints on the purchase of non-personal goods and services and to a more rational use of human resources.

Table 267

MEXICO: TOTAL SUPPLY AND DEMAND

	Millions of Mexican pesos at 1970 prices			*Percentage breakdown*		*Growth rates*		
	1975	*1976*	*1977*[a]	*1970*	*1977*[a]	*1975*	*1976*	*1977*[a]
Total supply	*613 979*	*619 798*	*628 353*	*109.8*	*109.0*	*3.7*	*0.9*	*1.4*
Gross domestic product at market prices	550 290	560 807	576 432	100.0	100.0	4.0	1.9	2.8
Imports of goods and services[b]	63 689	58 991	51 921	9.8	9.0	1.7	-7.4	-12.0
Total demand	*613 974*	*619 798*	*628 353*	*109.8*	*109.0*	*3.7*	*0.9*	*1.4*
Domestic demand	573 053	575 793	578 790	101.6	100.4	4.7	0.5	0.5
Gross domestic investment	156 273	147 209	142 204	22.6	24.7	5.7	-6.8	-3.4
Gross fixed investment	129 119	120 209	109 391	19.6	19.0	8.8	-6.9	-9.0
Public	63 418	58 979	55 971	7.5	9.7	24.1	-7.0	-5.1
Private	65 701	61 230	53 420	12.2	9.3	-2.8	-6.8	-12.8
Changes in stocks	27 154	27 000	32 813	3.0	5.7			
Total consuption	416 780	428 584	436 586	89.1	75.8	4.3	2.8	1.9
General government	58 349	67 218	70 041	7.8	12.2	17.9	15.2	4.2
Private	358 431	361 366	366 545	71.3	63.6	2.4	0.8	1.4
Exports of goods and services[b]	40 926	44 005	49 563	8.2	8.6	-8.5	7.5	12.6

Source: CEPAL, calculations on the basis of figures supplied by the Banco de México.

[a] Preliminary figures.

[b] 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 CEPAL for the purpose.

During the year there was recourse to a broad range of economic policy decisions aimed basically at countering the more critical short-term trends. In addition, others were adopted in connexion with institutional organization, including the modification of the financial structure and State administration in order to adapt them to the characteristics or modes of new phases of development. The conjunctural policy was essentially aimed at attacking inflationary and balance-of-payments problems, especially with regard to such propagation machinery as the fiscal imbalance and bank credit.

One of the most important aspects of the anti-inflation programme was the policy to contain wages. In terms of annual averages, the minimum real wage was slightly less than in 1976. However, a decreasing trend continued throughout the year, so that at the end of 1977 it was 10o/o lower than in December 1976.

In its turn, the policy to contain public expenditure, and especially expenditure on investment, made it possible to slow the growth of the budgetary deficit, which at current prices remained nearly at the same levels as the previous year (around 56,000 million pesos). On the other hand, the reduction of public investment had secondary effects on the balance of payments, since imports were reduced and therefore less external financing was required, with the consequent contribution to the improvement of the external accounts.

The combination of all these measures made it possible to achieve the government's economic policy objectives of reducing the deficit on current account, restricting the increase of the external debt to approximately 3,000 million dollars, avoiding an increase in the imbalance of the budget and

slowing down the inflationary process. However, the application of the stabilization policy in a situation of economic stagnation not only reinforced this tendency but aggravated other disequilibria, especially in employment and income distribution.

With regard to monetary and credit aspects, measures were taken to increase the preference of savers for financial instruments in local currency. Mechanisms were therefore introduced and improved and were expected in the medium term to permit a larger flow of funds and a clearer differentiation between the money and capital markets. Interest rates were thus raised and the numerous possibilities for investing funds were amplified so as to increase savings. Towards the end of the year, the issue of treasury certificates was also adopted as a monetary policy instrument; they can be used to carry out operations in the open market and complement the functions of the legal reserve.

Other short-term measures were aimed at increasing the capacity for financing by means of a reduction in the legal reserve rate and the concession of facilities to the credit institutions to cover over longer periods the liabilities arising out of the extraordinary support which the Central Bank gave them the previous year, and at inducing the banks to increase financing for small and medium industries, the construction of medium-level dwellings and the production of basic articles.

As a result of the application of these credit measures, and of the peso's stability during the year (the exchange rate varied between 22.17 and 22.99 per dollar), domestic savings increased, especially during the second half of the year. Since these resources were not used by the private sector to accumulate real assets, because the drop in domestic demand discouraged investment, the public sector tapped them to some extent in order to cover part of its expenditure.

In industrial policy two activities were joined up. A policy was drawn up to liberalize domestic prices –its most important effects will be seen in 1978– leaving 77% of the products which were subject to this restriction in 1976 outside State control. At the same time, a gradual reduction was made in the industrial protection which had predominated during the industrialization process with the abolition of import permits and the stressing of tariffs as an instrument of protection, so as to achieve more competition. Also so as to improve the position of manufactures abroad the indirect tax refund certificates (CEDIS) were reintroduced, although with new features, including a reduction in the degree of national integration required and the annual increase of exports as a basis for granting these returns.

The most important event of the year in production, however, was certainly the confirmation of the new discoveries of petroleum in the south of the country, which increased confirmed reserves to 14,600 million barrels (this figure is 27% higher than the estimate of the previous year). Petroleum production also made it possible to increase exports of crude oil considerably, thus contributing decisively to the increase of overall exports since other exports grew slowly. In the medium term, it is hoped that petroleum production, to which a huge investment programme has been allocated, will make it possible not only to reduce the deficit on current account, but to generate a surplus of some size which will contribute vital resources for stimulating key sectors of development.

2. *Sectoral trends*

(a) *The agricultural sector*

In 1977, the agricultural sector grew by slightly over 3%, in contrast to the decrease of 4% of the previous year (see table 268). Despite this increase, the sectoral trend in the medium term is rather one of stagnation, which began in the mid-1960s.

The increase over the last financial year basically had its origins in the recovery of agriculture, which grew nearly 4% following a drop of nearly 9% in 1976. The rate of growth of livestock production, however, showed a slight decrease when it dropped from 3% in 1976 to 2.7% in 1977. The sub-sectors of less influence –forestry and fisheries– showed a similar performance; the former grew by 4% while the latter increased at a slightly slower rate (see table 269).

(i) *Crop-raising.* The effects of the devaluation of the peso in 1976 on the relation between domestic and external prices, the increase in the prices of some agricultural products in the international markets and the delay in increasing the guaranteed prices of products for domestic consumption,

Table 268

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

	Millions of Mexican pesos at 1970 prices			*Percentage breakdown*		*Growth rates*		
	1975	*1976*	*1977*[a]	*1970*	*1977*[a]	*1975*	*1976*	*1977*[a]
Agriculture	51 228	49 286	50 974	11.8	9.3	0.9	-4.0	3.4
Mining and petroleum extraction	21 418	23 151	25 835	4.1	4.7	3.6	8.1	11.6
Mining	6 676	6 876	6 842	1.3	1.3	-5.6	3.0	-0.5
Petroleum extraction	14 742	16 275	18 993	2.8	3.4	8.4	10.4	16.7
Manufacturing	**125 269**	**128 689**	**132 500**	**23.4**	**24.2**	**3.6**	**2.6**	**3.0**
Construction	31 759	31 158	30 223	5.4	5.5	5.7	-1.9	-3.0
Subtotal goods	*229 674*	*232 284*	*239 532*	*44.7*	*43.7*	*3.4*	*1.1*	*3.1*
Electricity, gas and water	8 223	8 841	9 637	1.4	1.8	5.7	7.5	9.0
Transport, storage and communications	16 643	16 924	...	2.6	...	9.2	1.7	...
Subtotal basic services	*24 866*	*25 765*	...	*4.0*	...	*8.0*	*3.6*	...
Commerce, financial institutions and insurance	148 726	150 363	...	28.9	...	3.3	1.1	...
Real estate[b]	35 794	36 510	...	7.6	...	2.6	2.0	...
Community, social and personal services[c]	84 707	89 004	...	14.9	...	6.5	5.1	...
Subtotal other services	*269 277*	*275 876*	...	*51.4*	...	*4.2*	*2.5*	...
Subtotal services	*294 093*	*301 642*	*308 851*	*55.3*	*56.3*	*4.5*	*2.6*	*2.4*
Total gross domestic product[d]	*524 438*	*534 462*	*549 353*	*100.0*	*100.0*	*4.0*	*1.9*	*2.8*

Source: CEPAL calculations on the basis of figures supplied by the Banco de Mexico.

[a] Preliminary figures.
[b] Refers to ownership of dwellings only.
[c] Also includes restaurants, hotels and services provided to enterprises.
[d] As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

in addition to a production structure where the incorporation of new land for crops is restricted, meant that during 1977 production for the exterior increased at the expense of some products for internal consumption. A detrimental period of rain in some wet areas –generally speaking devoted to production for internal consumption– reinforced this tendency. As a result, the production of maize, and especially wheat, was less than internal cereal consumption requirements.

The excellent prices which prevailed during the first half of 1977 for some export products (coffee, cotton, cocoa, tomatoes and vegetables), in addition to the effects of the new exchange rate, influenced the growth of production for the external market. For some crops, this did not take the form of an immediate increase in the volume exported, but will very probably have repercussions on the shipments and the amount of foreign exchange which the sector will generate in 1978.

Cotton production showed an exceptional growth of 46% (see table 269). This was due both to the larger area sown –especially on irrigated land– and to the better yields, which reached averages of

Table 269

MEXICO: INDICATORS OF AGRICULTURAL PRODUCTION

	1974	1975	1976	1977	Growth rates		
					1975	1976	1977
Index of the agricultural product (1970 = 100)	*107.6*	*108.5*	*104.1*	*108.0*	*0.8*	*-4.0*	*3.4*
Crop-farming	104.4	103.7	94.7	98.5	-0.7	-8.7	4.0
Stock-raising	112.2	116.2	119.6	122.5	3.5	3.0	2.7
Forestry	115.9	116.4	120.9	128.2	0.4	3.9	4.0
Fisheries	117.3	120.9	125.1	125.1	3.0	3.6	3.7
Production of main products (thousands of tons)							
Agriculture for domestic consumption							
Sugar cane	33 499	34 366	31 387	31 500	2.6	-8.7	0.4
Green alfalfa	13 206	14 260	13 483	13 150	8.0	-5.4	-2.5
Maize	7 847	8 459	8 017	8 349	7.8	-5.2	4.1
Sorghum (grain)	3 494	5 589	4 027	4 105	59.9	-27.9	1.9
Wheat	2 789	2 798	3 363	2 451	0.3	20.2	-27.1
Oranges	1 420	1 615	1 787	2 345	13.7	10.6	31.2
Bananas (various types)	1 011	1 088	911	1 530	7.6	-16.3	67.9
Beans	971	1 027	740	870	5.8	-27.9	17.6
Soya beans	491	699	302	565	42.4	-56.8	87.1
Export agriculture							
Tomatoes	1 121	1 056	807	856	-5.8	-23.6	6.1
Cotton	513	206	224	327	-59.8	8.7	46.0
Coffee (processed)	221	228	212	228	3.2	-7.0	7.5
Strawberries	102	69	89	88	-32.3	29.0	-1.1
Cocoa	35	34	31	34	-2.8	-8.8	9.7
Stock-raising							
Beef	517	509	527	542	-1.5	3.5	2.8
Pork	376	386	389	451	2.6	0.8	15.9
Eggs[a]	7 849	8 043	8 301	8 620	2.5	3.2	3.8
Milk[b]	4 387	4 380	5 183	5 558	10.1	7.3	0.7

Source: CEPAL, on the basis of official data.

[a] Millions of units.
[b] Millions of litres.

more than four bales per hectare. This increase was not followed by an expansion of exports, because of the low level of international demand for cotton in 1977. Because of this, exports dropped both in volume (8%) and in value (24%). The evolution of domestic demand for cotton as an industrial input was not favourable either because of the decrease in the manufacture of cotton yarns and fibres. For this reason, stocks nearly tripled.

The production of coffee, the prices of which were extremely high in the first months of the year, increased by 7.5%. In this case too the volume exported decreased (36%), but the value increased (27%). As in other coffee-producing countries, when the international price began to drop in the last part of the year stocks were accumulated in the expectation of a possible new increase in prices.

The harvest of tomatoes –the third agricultural export product– increased by 6%, stimulated by larger external demand, which increased as a result of the decrease in North American production due to the frosts which affected the crops in Florida. The same thing occurred in the case of fruit and vegetables, whose markets became diversified with the vigorous growth of exports to Canada.

Production for domestic consumption increased, generally speaking, reversing the drop of 1976; however, it was insufficient to deal with domestic demand for some of the basic food products of the majority of the population, such as maize, wheat and oilseeds for the manufacture of edible oil.

Although maize production increased by 4%, it was inadequate to supply increasing domestic demand, and it was necessary to import approximately 1,700,000 tons: nearly twice the imports in 1976. The small increase in the domestic supply of this crop was the result of the drought in the rainy zones of Bajío and Pacífico Sur and the replacement of maize by export crops in irrigated areas.

In the case of wheat, the drop in production was due to the competition from cotton-growing (which was favoured by the increase in external prices) in the use of some inputs such as water.

The production of beans, after dropping nearly 30% in 1976, increased by nearly 18% in 1977, which meant that it was possible to export approximately 7% of domestic output.

Oilseeds, safflower and soya beans doubled their production compared with 1976. This growth, especially in safflower production, was the result of the increase in cotton sowing; since its cycle is shorter, safflower can be sown after the cotton has been harvested. Stocks of oilseeds were, however, inadequate to cover domestic demand, and it was necessary to increase the volume of imports by nearly 30%.

Cane sugar production remained stagnant at the low levels of the previous year, and this prevented sugar from being exported. During this period, the State began to take control of most of national production of this article, by purchasing the mills belonging to a private group.

(ii) *Livestock production.* The livestock product grew at a rate of 2.7%, slightly less than that of the previous year, which was 3%. The sector's performance was influenced by the reduction in domestic demand which was only partly offset by a reactivation of external demand, as a result of which exports of live cattle (1.5%) and meat (66%) increased. This stimulus to external demand was influenced by the decrease in North American stocks.

Milk production increased by less than 1% following two years of rapid growth (see table 269). Naturally, the small increase recorded in 1977 was inadequate to cope with the needs of an increasing demand for basic foods such as milk products.

(iii) *General features of the agricultural policy.* Unlike previous years, when stress was laid on expanding and improving the infrastructure, agricultural policy in 1977 was directed rather towards institutional reorganization and towards programming new development activities. In order to make a better attempt at harmonizing agricultural programmes, the two ministries most directly connected with the problems of agricultural development –the Ministry of Agriculture and Stockbreeding, and the Ministry of Water Resources– were amalgamated while the Ministry for Agrarian Reform remained separate. At the beginning of the year the National Agricultural Plan was set going as a part of the Alliance for Production –a means of collaboration and joint action between the Government and private entrepreneurs aimed at reversing the unfavourable trends of investment and employment in recent years– with a view to developing agricultural, stockbreeding and forestry production, giving priority to the growing of maize, beans, wheat, rice, soya beans, oilseeds and sorghum. In its first year of operation, the Plan was blocked by the traditional inflexibilities of the country's structure[145] and in addition faced the problem of adverse rainfall in some areas.

However, as already noted, the activity aimed at increasing the basic social capital in agriculture was less marked. As an example of this, it may be mentioned that nearly 60% of the irrigation work planned earlier was brought to a standstill in order to wait for the conclusion of the studies undertaken to reassign priorities in this area. At the same time, analyses were made to link this work with other activities connected with primary production.

The revision of the legal infrastructure was begun with a view to reorganizing the units of production, both in the case of small-holders and companies, strengthening owners' associations and favouring collective land development. It is hoped by this means to increase production and productivity and speed up the capital formation process by making the operation of agro-industries possible.

[145] See the notes on Mexico in CEPAL, *Economic Survey of Latin America,* 1974 and 1976 issues.

With regard to the agrarian problem which arose at the end of 1976, where by a presidential resolution 37,600 hectares of irrigated land were expropriated in the Valle del Yaqui, in Sonora, for distribution among a group of peasants –an event which produced a serious clash between the State and the former owners, supported by the private sector– in May the Government ratified the ownership of the property for the new owners but promised compensation for only 17,600 hectares. After some months of bargaining over the price which should be paid for this land, the conflict came to an end in August with the payment of nearly 680 million pesos.

Lastly, in February 1977 the Department of Fisheries was set up, under the State centralization policy. Among the other units depending on this new institution are Productos Pesqueros Mexicanos and the Fondo Nacional de Fomento de Sociedades Cooperativas Pesqueras. The National Fisheries Development Plan, presented in August, proposes a policy to intensify stimuli to national production, in the expectation that this will triple around 1982 and make it possible to increase exports.

(b) *Mining*

The reduction in external demand, except in the case of copper and lead, meant that the output of the mining sector dropped more than 2%/o in 1977, whereas in 1976 mining production had increased by more than 6%/o (see table 270).[146]

Table 270

MEXICO: INDICATORS OF MINING PRODUCTION

	Indexes (1970 = 100)				*Growth rates*			
	1974	*1975*	*1976*	*1977*[a]	*1974*	*1975*	*1976*	*1977*[a]
Total mining production	*115.3*	*110.3*	*117.3*	*114.5*	*-9.1*	*-4.3*	*6.3*	*-2.4*
Precious metals	*86.0*	*87.4*	*98.0*	*109.4*	*-2.4*	*1.6*	*12.1*	*11.6*
Gold	67.8	73.0	82.1	106.3	1.3	7.6	12.5	29.5
Silver	87.6	88.8	99.5	109.7	-3.2	1.4	12.0	10.2
Non-ferrous industrial metals [b]	*107.2*	*97.2*	*108.2*	*104.3*	*7.1*	*-9.3*	*11.3*	*-3.6*
Zinc	89.7	85.9	97.3	98.9	-3.2	-4.2	13.3	1.6
Lead	123.4	101.1	113.3	91.4	21.6	-18.1	12.1	-19.3
Copper	135.5	128.2	145.8	146.7	2.7	-5.4	13.7	0.6
Metals and minerals for the steel industry [c]	*137.8*	*140.0*	*148.9*	*154.5*	*7.7*	*1.6*	*6.4*	*3.8*
Coke	152.1	153.5	160.9	178.6	7.0	0.9	4.8	11.0
Iron	127.9	129.0	139.5	136.8	7.2	0.9	8.1	-1.9
Non-metallic minerals [d]	*140.5*	*138.0*	*128.5*	*110.4*	*23.0*	*-1.8*	*-6.8*	*-14.1*
Sulphur	168.1	156.7	155.7	131.9	44.4	-6.8	-0.6	-15.2
Fluorite	113.9	111.3	91.6	67.4	2.4	-2.3	-17.7	-26.4

Source: CEPAL, on the basis of official statistics.

[a] Preliminary figures.
[b] Also includes arsenic, antimony, cadmium, mercury, bismuth, molybdenum, tungsten, selenium and tin.
[c] Also includes coal and manganese.
[d] Also includes barite, graphite, dolomite, kaolin, silica, gypsum, phosphorite, limestone, sodium sulphate, feldspar and magnesite.

[146] The value added by mining in 1976 increased by 3%/o, while it decreased in 1977 by 0.5%/o (see table 268).

With regard to the precious metals, the coming to fruition of important mining and metallurgical projects made possible a substantial increase in the output of gold (30°/o) and silver (10°/o). In the case of silver a considerable increase in domestic consumption was recorded in 1977 owing to large-scale minting of silver coins. For this reason, despite the tendencies for international prices to increase, the volume exported decreased by 13°/o.

Among the non-ferrous metals, there was a considerable increase in exports of copper concentrates, as well as electrolytic copper –a product which is normally destined for domestic demand– because of the reduction in domestic consumption.

Zinc production increased by less than 2°/o in response to lower external demand both for zinc concentrates and for the metal itself. The prospects of this metal, however, improved in the medium term as a result of the start made on the construction of the second electrolytic refinery and the expansion of the existing plant by 20,000 tons. It will thus be possible to double production around 1981 and cut out exports of concentrates altogether.

Lead production dropped by slightly over 19°/o, although improved international prices made it possible to increase exports by nearly 30°/o.

Iron and coke, the most important iron and steel products, evolved differently. Iron production dropped by 2°/o when the production programmes to give an outlet to the accumulation of stocks were cut back, while coke production continued to increase (11°/o) owing to the opening-up of the new mines of Fundidora Monterrey, Altos Hornos de México and Industrial Minera México, in Coahuila.

Production of sulphur and fluorite, the main export products among non-metallic minerals, continued to drop sharply (see table 270). The drop in external demand and the stabilization of prices as from 1975 explains the situation. An important aspect of the evolution of mining was the beginning of the programme of investment in extensions and in new outputs, which will make it possible to double production of the mining industry in the medium term, with important effects on employment. The investment programmed by private enterprises and by semi-public enterprises with a minority proportion of State capital for the period 1977-1982 amounts to 50,000 million pesos and involves, *inter alia,* projects covering copper, zinc metal, minerals for the iron and steel industry, bauxite and phosphoric rock.

Lastly, because of its importance mention should be made of the adoption of a new law on taxation and development of mining, where a readjustment has been made to the legal system in order to stimulate the development of the sector.

This provision restructures the fiscal régime applicable to mining, by eliminating the general and specific taxes on exports and the first-hand sales of mining and metallurgical products, and only maintains the taxes on mining concessions and on the production of gold, silver and sulphur (9°/o), iron, coal and manganese (4°/o), and other products (7°/o). A series of special fiscal procedures are also being set up for mining activities, including the reimbursement of 75°/o of the federal tax on imports of machinery and equipment not manufactured in the country, and the accelerated depreciation of the new investment and intangible assets, provided that the amount depreciated is reinvested in the sector; a tax-deductible subsidy of 2°/o on the value of the minerals aimed at offsetting the expenses of prospection, exploration and development is also granted.

(c) *Petroleum and petrochemicals*

During 1977 the gross domestic product of petroleum activity increased by nearly 17°/o, the highest rate recorded since 1974, when production began in the new oil-bearing areas in the southeast of the country, marking a very important change in the progress of the industry (see table 268).

The rate of growth of production of crude oil was 22°/o, the big rise in production for export (53°/o) comparing with a more moderate increase in production for domestic consumption (17°/o). As a result of this, oil exports as a percentage of total production increased by 15°/o in 1976 and nearly 19°/o in 1977 (see table 271).

The growth of refining (13°/o) exceeded that of the previous year (10°/o), since the activity of the new refinery at Tula, Hidalgo, which began to operate in 1976, continued throughout the year. The increase in crude oil refining capacity represented by this made possible the suspension of earlier shipments of petroleum for refining abroad, with the consequent saving of foreign exchange.

Table 271

MEXICO: PRODUCTION AND REFINING OF PETROLEUM

	Millions of tons					*Growth rates*			
	1973	*1974*	*1975*	*1976*	*1977*	*1974*	*1975*	*1976*	*1977*
Production of crude petroleum	165	210	265	293	358	26.9	26.2	10.7	22.1
Domestic consumption	...	175	226	249	291	...	29.0	10.4	16.7
Export	...	35	39	44	67	...	12.3	12.2	53.2
Refining[a]	211	236	250	274	309	11.7	5.9	9.7	12.7

Source: CEPAL, on the basis of official figures supplied by Petróleos Mexicanos and the Banco de Mexico S.A.

[a] Includes crude petroleum and processed and reprocessed natural gas in liquid form.

The growth of oil exports, as a result of the excellent prices which prevailed during the year in international markets, allowed the share of fuels and lubricants in total exports of goods to increase from 16o/o in 1976 to 22o/o in 1977 (see table 274).

During the year the existence of very large reserves was confirmed, opening up very favourable prospects for the country's economy. Up to the month of July, confirmed oil reserves amounted to 14,600 million barrels –27o/o over the previous year's estimate– which brought the relation between reserves and the present level of consumption up from 24.9 to 33.3 years. In addition to the area of Reforma, important discoveries were made in the north of the country –Monclova and Baja California– where production in the older oil fields was in decline.

So as to rationalize petroleum production, Petróleos Mexicanos (PEMEX) prepared an investment programme for 1977-1982 for a sum of close to 394,000 million pesos (approximately 17,000 million dollars). The objective of this investment programmed is to increase the production of oil and condensates from 292 million barrels in 1976 to 818 million in 1982, to double refining capacity from 270 million barrels in 1976 to 577 million in 1982, to increase the capacity for producing petrochemical products, and to export natural gas at a rate of 2,000 million cubic feet per day in 1982. Part of this investment programme includes the construction of a pipeline from the Cactus fields in Chiapas to San Fernando in Nuevo León, with a sideline to Reynosa, Tamaulipas, and a total length of 1,344 kilometres. The aim of the work is to provide gas to the north area of the country and export surpluses to the United States,[147] thus avoiding wasting gas, since it is calculated that there will be surplus of nearly 2,000 million cubic feet daily in 1982. This surplus will be obtained not only as a result of continuallly-increasing petroleum production, but also because the crude oil in the new fields being developed contains a higher proportion of gas which is combined with the oil and thus inevitably obtained at the same time as it.[148] Despite the polemics which have arisen around the advantages of this undertaking,[149] and some uncertainty as to the possibility of reaching an agreement with the purchasers of the gas, construction was begun and at the end of October 426 kilometres of pipeline had already been laid.

The product of the petrochemicals industry dropped by around 4o/o in 1977. The performance of this branch of industry over the last three years (with an average growth of 2.4o/o) contrasts with the dynamism it had been showing since the mid-1960s, which had allowed the average growth rate to be maintained at nearly 20o/o during the period 1965-1974.

[147] The total cost would be 23,000 million pesos (1,000 million dollars) of which approximately 50o/o would serve to lay the pipeline Cactus-San Fernando-China, while the rest would be allocated to the San Fernando-Reynosa section (including the compressor stations and others).

[148] The wells of the southeast developed up to 1977 have a gas/oil ratio of 1,500 to 1,800 cubic feet per barrel, while that of some wells in the new areas being developed is around 5,000 to 7,000 cubic feet per barrel.

[149] Two currents of opinion were basically manifested: one saw in this a way out from the economic crisis, while the other pointed out the danger of exhausting the reserves and increasing links with the United States.

The slowness of the development of the petrochemicals sector was related to the weak growth of investment, which affected the process of substitution of this type of product, and to a drop in domestic demand, as a result of the economic situation of recent years.

Under the PEMEX investment plan for 1977-1982, 16°/o of the total goes to the petrochemicals industry. This represents an investment of around 56,000 million pesos and shows the importance given to the development of an activity so closely linked to this basic resource. The complexes which will receive most support are those of Cangrejera and Allende, situated in the southeast. It is expected that this investment programme will not only lead to self-sufficiency in petrochemical products, but to the creation of surpluses for export, and that this will naturally allow rational use to be made of the new oil production units.

(d) *Manufacturing*

During 1977, the manufacturing product increased by 3°/o compared with the figure of 2.6°/o for the previous year. However, these rates were far below those achieved between 1972 and 1975. Stagnation in this sector originated in a reduction in real demand, which basically affected the branches producing consumer durables, where there was a drop of 5°/o, the decrease in investment which influenced the production of capital goods, which dropped around 10°/o, and the standstill in productive activity which took the form of an increase of only slightly over 2°/o in the production of processed raw materials (see table 272).

Manufacturing activity developed unequally during the year, since in the first few months production dropped, while as from the second quarter it revived.

Among the sectors producing non-durable consumer goods which reflected the deterioration in domestic demand was the foodstuffs, beverages and tobacco sector, which generates around 32°/o of manufacturing output but whose growth rate did not reach 3°/o. As far as consumer durables are concerned, the most notable decreases occurred in the manufacture of motor vehicles (7°/o), domestic appliances –except for stoves– and electrical apparatus. In motor vehicles, the largest decrease was in popular-type cars (24°/o), which could be a symptom of a loss of purchasing power on the part of the middle strata of the population. Production of compact, sports and luxury models, on the contrary, increased by 4.1, 12 and 7°/o, respectively.

Among investment goods, the items most affected were the production of agricultural machinery (except tractors), which dropped to almost half, the construction and repair of railway equipment, which dropped by 29°/o, and the manufacture of trucks, which dropped by more than 13°/o.

The iron and steel industry, whose installed capacity had been expanded considerably in 1976 when the Lázaro Cárdenas-Las Truchas plant came into operation, grew by nearly 7°/o, a higher rate than that of the previous year (5°/o). The relative lack of dynamism in this strategic sector was related to the contraction of the market due to the paralyzation of the construction sector, and to a low level of activity in the sectors producing metal articles and the motor-vehicle industry. The labour conflicts which affected the activity of some enterprises were also of influence. The low level of domestic demand for iron and steel products took the form of an increase in the volume exported and was also manifested in the smaller use made of the installed capacity.

During the year the three public enterprises producing iron and steel underwent administrative reorganization and were merged into a single company called SIDERMEX.

It is considered that manufacturing was not affected by shortfalls in the supply of inputs, nor by the lack of financing, which increased during the year by nearly 40°/o. Medium and small industry and the enterprises producing basic articles received special attention in terms of credit.

In compliance with industrial policy, a series of important measures was adopted in 1977, outstanding among which was the liberalization of external trade by means of the gradual aboliton of the advance permits required for the importation of a considerable number of products. The decision to replace the quantitative controls by tariffs is in keeping with the economic policy, which aims at reforming the protectionist structure of the industrial sector with a view to activating more efficient development.

The use of import permits and to a lesser extent of tariffs as instruments to safeguard domestic manufacturing output *vis-à-vis* external competition came to occupy an important place in the course of three decades. However, the over-protection of industry, which was necessary in a first phase of

Table 272

MEXICO: INDEXES OF MANUFACTURING PRODUCTION

	Indexes (1970 = 100)					*Growth rates*			
	1973	*1974*	*1975*	*1976*	*1977*[a]	*1974*	*1975*	*1976*	*1977*[a]
General	*122.4*	*129.9*	*135.2*	*139.0*	*143.2*	*6.1*	*4.1*	*2.8*	*3.0*
By branches of activity									
Food, beverages and tobacco	111.6	115.0	121.7	125.0	128.5	3.0	5.8	2.7	3.0
Textiles	131.1	134.1	138.9	142.1	151.5	2.3	3.6	2.3	6.6
Footwear and clothing	128.0	131.3	136.9	140.3	152.9	2.6	4.3	2.5	9.0
Wood	107.2	117.7	124.4	126.3	138.3	9.8	5.7	1.5	9.5
Paper and paper products	114.7	128.7	121.4	136.2	143.2	12.2	-5.7	12.2	5.1
Printing and publishing	112.6	120.1	128.0	136.1	125.6	6.7	6.6	6.3	-7.7
Rubber products	126.0	127.9	143.2	162.0	142.9	1.5	12.0	13.1	-11.8
Chemical products	136.3	143.1	147.2	156.9	168.5	5.0	2.9	6.6	7.4
Non-metallic minerals	140.7	148.6	162.3	174.5	189.7	5.6	9.2	7.5	8.7
Basic metal industries	118.4	130.9	132.0	134.8	144.2	10.5	0.8	2.1	7.0
Machinery	121.7	129.0	136.3	148.7	151.2	6.0	5.7	9.1	1.7
Transport equipment	140.5	169.4	178.1	157.1	135.4	20.6	5.1	-11.8	-13.8
By type of goods									
Consumer goods	120.0	125.1	130.5	133.6	141.2	4.3	4.3	2.4	5.7
Non-durable	118.1	121.1	125.8	129.3	139.3	2.5	3.9	2.8	7.7
Durable	132.6	151.9	162.0	163.0	154.4	14.6	6.6	0.6	-5.3
Raw materials	124.9	133.7	138.0	144.5	148.0	7.0	3.2	4.7	2.4
Capital goods	136.1	162.7	176.4	166.9	151.0	19.5	8.4	-5.4	-9.5
Selected goods [b]									
Sugar	115.4	119.3	109.8	115.0	120.0	3.4	-8.0	4.7	4.3
Beer	119.9	135.4	136.0	132.7	148.9	12.9	0.4	-2.4	12.2
Soft drinks	104.9	102.0	122.6	106.0	119.8	-2.8	20.2	-13.5	13.0
Cigarettes and cigars	94.9	105.2	103.3	102.9	114.4	10.8	-1.8	-0.4	11.2
Yarns and fabrics of artificial fibres	205.2	215.7	237.5	238.7	269.4	5.1	10.1	0.5	12.9
Tyres and tubes	130.8	136.5	151.2	179.7	162.0	4.3	10.8	18.8	-9.8
Manures and fertilizers	147.8	151.5	155.9	160.6	172.8	2.5	2.9	3.0	7.6
Basic chemical products	127.8	142.4	134.7	141.9	147.2	11.4	-5.4	5.3	3.7
Artificial fibres	184.3	194.7	222.9	242.3	261.6	5.6	14.5	8.7	8.0
Cement	136.3	147.5	161.7	175.2	184.2	8.2	9.6	8.3	5.1
Automobiles	140.3	172.0	166.1	150.7	139.8	22.6	-3.4	-9.3	-7.2
Trucks	151.0	187.2	231.3	193.1	158.3	24.0	23.5	-16.5	-18.0

Source: CEPAL, on the basis of data supplied by the Banco de México S.A. and other official figures.

[a] Preliminary figures.

[b] These goods accounted for around 20% of the total value of manufacturing production in 1970.

development, proved in the long run to be an unsuitable instrument, particularly as the economic system became more complex. In the first stage of industrialization, protection stimulated capital formation by ensuring high profit levels for the entrepreneurs, but with the persistence of excessive and indiscriminate protection, once certain industries were consolidated, distorsions appeared in the structure of production when the horizontal spread of the apparatus of production was encouraged and high costs and prices existed alongside limited international competition.

The measures to liberalize external trade adopted in 1977, together with the revision of the tariff system and the setting up of the Comisión de Aranceles y Controles al Comercio Exterior, may be considered the first steps towards modifying the protectionist machinery and opening up the domestic market to some degree of competition, thus giving rise to a more efficient industrial sector.

Consequently nearly half the 5,300 import items which were subject to control by the system of permits at the end of 1976 were exempted by this measure. Other points of interest in the policy connected with the industrial sector were the re-establishment in selective form of fiscal stimuli to exporters of industrial products, by means of the indirect tax refund certificates (CEDIS), which had been suspended on 8 September 1976 as a result of the devaluation of the peso; the granting of fiscal aid to small enterprises producing socially and nationally necessary goods, by means of a subsidy of up to 40°/o of the general tax on imports of machinery and equipment; and the granting of income tax rebates to a value of 10°/o of the investment in new machinery for industrial enterprises engaged in nationally or socially necessary activity.

Mention should also be made of the creation of the Comité Especial de Precios y Tarifas del Sector Público, which will seek to programme the development of the output of State enterprises and will make recommendations on the prices and tariffs of the goods and services provided by them so as to avoid distorsions in their financial structure.

(e) *Construction*

Following its decrease of 2°/o during 1976, the product of the construction industry again fell by 3°/o. The poor performance of the sector was linked to the restriction on public expenditure –which was reflected in a decrease in investment[150]– and to the reduction in the formation of private capital, which was affected by the smaller real demand and by the lack of adequate financing by banks.

The drop in construction activity affected the industries producing inputs (iron and steel and non-metallic minerals). However, these in part offset the weakening of domestic demand by increasing their exports, especially of cement, which over the last year increased by slightly more than 400,000 tons to nearly 1,300,000 tons. On the other hand, since construction is a typically labour-intensive activity, its decline had strong adverse repercussions on levels of employment.

3. *The external sector*

During 1977 the external sector substantially modified the performance which had characterized it in recent years. The deficit on current account –which reached its highest level in 1975, when it accounted for 65°/o of foreign exchange earnings for exports, and which during 1976 decreased by 16°/o– dropped in 1977 to slightly over half. Because of this, the current account deficit for that year was only equivalent to 23°/o of exports of goods and services (see table 273). The flow of short- and long-term capital, which increased vigorously during the present decade and in 1976 reached its highest level, dropped in 1977 to less than half. Gross international reserves, after decreasing by 315 million dollars in 1976, increased by 470 million in 1977.

These more favourable features of the balance of payments in 1977 were a result of the economic policy adopted during the year, the slow growth of economic activity, the increase in oil exports and the restrictions on the external market, and the devaluation of the peso which took place during 1976.

The reduction of the deficit on current account was in fact related to the increase in exports as well as to the reduction in imports. The latter was due largely to the slow rate of growth of the overall product, the reduction of private investment, and the policy of restricting public expenditure.

The rate of growth of the quantum of exports (9°/o) was basically due to the increase in exports of petroleum products (53°/o), since the increase in the volume of the remaining products was very small (2°/o). This weak response by exports, following a change in parity of nearly 80°/o and an additional improvement in the earnings of the exporting sector as a result of the reintroduction of the

[150] The public sector is responsible for more than 50°/o of investment in construction.

Table 273

MEXICO: BALANCE OF PAYMENTS
(Millions of US dollars)

	1972	*1973*	*1974*	*1975*	*1976*	*1977*[a]
Current account						
Exports of goods and services	3 736	4 744	6 222	6 248	6 963	7 916
Goods FOB	1 881	2 419	3 443	3 464	3 979	4 781
Services	1 855	2 325	2 779	2 784	2 984	3 135
Transport	79	135	182	181	201	270
Travel	1 493	1 792	2 056	2 171	2 192	2 240
Imports of goods and services	4 016	5 236	7 765	8 625	8 349	7 666
Goods FOB	2 643	3 656	5 790	6 292	5 859	5 326
Services	1 373	1 580	1 975	2 333	2 490	2 340
Transport	179	292	439	527	532	490
Travel	870	953	1 154	1 359	1 441	1 330
Net payments of profits and interest on foreign capital	-700	-997	-1 447	-1 818	-2 173	-2 186
Profits	-435	-581	-794	-840	-916	-736
Interest	-265	-416	-653	-978	-1 257	-1 450
Net private transfer payments	54	66	100	114	136	150
Balance on current account	-926	-1 423	-2 890	-4 081	-3 423	-1 786
Capital account						
Net external financing (a + b + c + d + e)	926	1 423	2 890	4 081	3 423	1 786
(a) Net external non-compensatory capital	1 214	2 184	3 687	5 571	5 724	
Direct investment	301	457	678	609	573	
Long- and medium-term loans	1 208	2 383	3 092	4 993	5 685	
Amortization payments	-609	-924	-640	-874	-1 179	
Short-term liabilities	304	260	544	816	623	2 256
Official transfer payments	10	8	13	27	22	
(b) Domestic non-compensatory capital or assets	-274	-666	-378	-62	-1 100	
(c) Errors and omissions	164	46	-381	-1 251	-2 187	
(d) Allocation of SDRs	42	–	–	–	–	
(e) Net compensatory financing (– = increase)	-220	-141	-38	-177	986	-470
Balance-of-payments loans, trade arrears, IMF loans, and other liabilities of the monetary authorities	–	–	–	–	671	...
Amortization payments	–	–	–	–	–	...
Variation in gross international reserves (minus sign signifies an increase)	-220	-141	-39	-177	315	...
Foreign exchange reserves (– = increase)	-190	-154	-78	-229	17	...
Gold reserves (minus sign signifies an increase)	12	13	41	–	200	...
SDRs (minus sign signifies an increase)	-42	–	-1	52	96	...

Sources: 1972-1976: CEPAL, on the basis of data from the International Monetary Fund;
1977: CEPAL, on the basis of official data.

[a] Preliminary figures.

indirect tax refund certificates, was affected by the decrease in the rate of economic activity of the industrialized countries and the increase of protectionist practices in them.

The devaluation of the peso had an adverse effect on the earnings generated by the sub-contracting enterprises and frontier transactions. In the first of these cases, the increase in minimum wages in national currency following the devaluation on the main points of the northern frontier –35°/o between August 1976 and December 1977– because of the sharp rise in exchange rate became a decrease in wages in dollar terms of around 26°/o. This in turn contributed to a reduction of 3.5°/o in earnings in foreign currency by the sub-contracting industries, although there was an increase of 12°/o in the personnel employed in them. With regard to frontier transactions although it is a fact that the devaluation slowed the constant increase in outflows of currency, it is also true that in view of the low price-elasticity of external demand for national goods and services, the income generated by them was reduced, despite the drop in their prices expressed in dollars.

The reduction in the net inflow of capital from abroad –of which the public sector absorbs the greater part– was the result of an increase in amortization payments, which nearly doubled compared with 1976, and the payment of the short-term capital which had to be resorted to in order to cover the large outflow of capital which took place in the last months of the year.

(a) *The current account*

As already noted the current account situation improved appreciably in 1977 with the reduction of 48°/o in the deficit of the previous year. This favourable performance was the result of an increase of 20°/o in the value of exports of goods and a reduction in imports of around 9°/o. However, net earnings from the sub-contracting industries and frontier transactions dropped compared with the previous year (by 3°/o and 10°/o respectively) and income from tourism increased hardly at all. The rapid growth of payments of external capital in recent years slowed down, both because of the reduction of the growth rate of payments of interest on official debts –which was 22°/o in 1977 compared with an average of nearly 50°/o during the period 1973-1976– and because of the drop in the reimbursement of dividends abroad.

(i) *Exports of goods.* The 20°/o increase in the current value of exports of goods was due to increases of more than 9°/o in both their volume and their prices (see table 274).

If exports of crude oil are discounted, however, the growth rate of the quantum exported is considerably smaller. As already noted, this very weak response to the modification of the exchange rate of the previous year may have been influenced notably by the restriction on external demand caused by the reduction in the rate of economic activity in the industrialized countries.

Exports of fuels and lubricants, which had been acquiring momentum since 1974, increased by 67°/o in value and 53°/o in physical volume. As a result of this their relative share in the total value of exports increased from less than 14°/o in 1975 to a little over 19°/o in 1977, and they became the main export products (see table 275).

A great many agricultural producers benefited from excellent international prices, which was why, despite the drop of 3°/o in the volume exported, the value in dollars generated by exports increased by around 14°/o. Sales of coffee beans increased by 27°/o, although their volume dropped by 36°/o. During 1977, both the volume (30°/o) and the value of exports of tomatoes increased sharply, while their markets were diversified, mainly because of the growth of exports to Canada.

Coffee and tomatoes thus came to occupy the second and third places respectively among the main export products; coffee generates 11°/o and tomatoes 6°/o of the total value of exports of goods. Exports of cotton decreased, however, both in volume and in value, because of a price drop in the second half of the year. Lastly, fruit, pulses and vegetables which in recent years had gained ground in external trade, once more increased both the volume and the value of their exports.

Although the limited external demand generally kept down the volume of minerals exported, their perfomance in 1977 was uneven. Although during 1977 the export volumes of sulphur, fluorite and zinc decreased, the value of exports decreased only in the case of the last-mentioned product. Copper, lead and salt, on the contrary, increased both the volume and the value of their exports. This meant that the overall value of exports of minerals nearly remained constant in current prices while the quantum decreased by around 16°/o (see table 275).

Despite the improvement in the relation between domestic and external prices owing to the

Table 274

MEXICO: MAIN INDICATORS OF FOREIGN TRADE

	1972	1973	1974	1975	1976	1977[a]
	Growth rates					
Exports of goods						
Value	24.9	28.6	42.3	0.6	14.9	20.2
Volume	20.6	6.8	–	-2.6	1.6	9.3
Unit value	3.6	20.4	42.3	3.3	13.0	9.9
Imports of goods						
Value	21.3	38.4	58.4	8.7	-6,9	-9.1
Volume	17.8	18.5	21.7	-0.4	-10.4	-11.8
Unit value	3.0	16.8	30.1	9.0	4.0	3.0
Terms of trade	0.5	3.1	9.4	-5.2	8.7	6.8
	Indexes (1970 = 100)					
Terms of trade, goods	99.0	102.0	111.6	105.7	114.9	122.7
Purchasing power of exports of goods	124.1	136.5	149.3	137.7	152.1	177.5
Purchasing power of exports of goods and services	120.7	135.8	143.4	131.8	140.3	152.0

Source: CEPAL, on the basis of official data.

[a] Preliminary figures.

Table 275

MEXICO: VALUE AND BREAKDOWN OF EXPORTS OF GOODS (FOB)

	Millions of dollars			*Percentage breakdown*		*Growth rates*	
	1975	1976	1977[a]	1975	1977	1976	1977[a]
Total	*3 464*	*3 979*	*4 781*	*100.0*	*100.0*	*14.9*	*20.2*
Agricultural and forestry products	673	951	1 081	19.4	22.6	41.3	13.7
Stock-raising and fisheries	215	283	342	6.2	7.2	31.6	20.8
Fuels and lubricants	467	553	922	13.5	19.3	18.4	66.7
Minerals	450	426	423	13.0	8.8	-5.3	-0.7
Manufactures	1 186	1 218	1 499	34.2	31.4	2.7	14.9
Unclassified	473	548	514	13.7	10.7	15.9	-6.2

Source: CEPAL, on the basis of official figures.

[a] Preliminary figures.

effect of the devaluation of the peso and the reintroduction of the CEDIS, exports of manufactures showed only moderate growth of slightly over 7°/o in terms of quantum. The reduction in the domestic demand for some products, such as construction materials and cement, made larger exports possible, while the decrease in domestic sales of motor-vehicles led to a slight drop in exports of vehicles and parts with the reduction in the export requirements to which the assembly plants are subject under the industrial integration policy.

Among manufactures with increased exports were food industry products (frozen strawberries, pineapples in syrup and processed pulses, vegetables and fruits), while among the manufactures whose exports decreased most were garments, cotton fabrics and manufactures of henequen.

(ii) *Imports of goods.* The value of imports of goods dropped by 9°/o and their quantum decreased by nearly 12°/o (see tables 274 and 276). This took place despite the large increase in the value of imports of consumer goods (mainly as a result of purchases of wheat and maize to offset the shortfall in national supply), which accounted for 56°/o of external purchases of consumer goods in 1977 compared with 35°/o the previous year.

Table 276

MEXICO: VALUE AND BREAKDOWN OF IMPORTS OF GOODS (CIF)

	Millions of dollars				*Percentage breakdown*		*Growth rates*		
	1974	*1975*	*1976*	*1977*[a]	*1974*	*1977*	*1975*	*1976*	*1977*[a]
Consumer goods	802	921	291	508	13.2	9.3	14.8	-68.4	74.6
Intermediate goods		2 367	2 756	2 528	47.6	46.0		16.4	-8.3
Capital goods	5 255	2 892	2 555	2 092	28.2	38.1	7.7	-11.7	-18.1
Others		400	428	360	11.0	6.6		8.2	-14.4
Total	*6 057*	*6 580*	*6 030*	*5 488*	100.0	100.0	8.6	-8.4	-9.0
Public sector	2 202	2 498	2 155	2 065	36.4	37.6	13.4	-13.8	-4.2
Private sector	3 855	4 082	3 875	3 423	63.6	62.4	5.9	-5.1	-11.7

Source: CEPAL, on the basis of official figures.

[a] Preliminary figures.

The quantum of imports of intermediate goods, for its part dropped by 10°/o and imports of capital goods by 25°/o, mainly because of the slow growth rate of economic activity and the reduction in levels of investment.

As a result of the restrictive policy applied imports by the public sector dropped by 4°/o and those of the private sector dropped even more sharply (12°/o) (see table 276).

(iii) *Tourism.* The net surplus on tourism increased by 18°/o as a result of a sharp drop in outflow of currency (15°/o). This was mainly due to the modification of the exchange rate and to a lesser extent to the low level of economic activity. Earnings increased by slightly over 2°/o, far below the 19°/o achieved on average during the period 1970-1974. Furthermore, in 1977 tourists showed a tendency to cut down their average stay to 10.4 days, compared with 11.3 days in 1976. However, average daily spending increased by nearly 8°/o compared with the latter year reaching 25.6 dollars per person per day, although the number of tourists only increased by 4°/o. This slowing down in tourist activities, despite the lowering of costs implied in the devaluation, was explained in part by the economic situation in the United States. It is considered, however, that the investment of 5,400 million pesos in tourism planned over the next two years will make it possible to stimulate this activity.

(b) *The capital account*

During 1977, the characteristics of the capital account varied compared with those of 1976. Net inflows of capital in the short and long term, which during the decade had been increasing to varying degrees, dropped sharply (by 54%) for the first time, while the outflow of capital not specified in the balance of payments, which had begun in the last months of 1975 and had acquired considerable impetus in 1976 when it reached more than 2,500 million dollars, stopped and reached only slightly over 200 million dollars. Gross international reserves, which in 1976 had dropped by 315 million dollars, increased in 1977 by 470 million.

The public sector, which had become the main user of short- and long- term foreign credit, reduced its demand in 1977 in accordance with the policy of containing the expansion of the fiscal deficit and reducing external indebtedness.[151] External long-term financing of the public sector therefore decreased by 8% because amortization payments doubled and exceeded the moderate increase (15%) in net new loans. Owing to the high rate of amortization and the interest due the servicing of the debt increased by 60% compared with the previous year, amounting to nearly 3,900 million dollars. Servicing of the debt accounted for 50% of the income on current account –the highest proportion in the present decade, since it had been only 18% in 1974 (see table 277).

Table 277

MEXICO: INDICATORS OF EXTERNAL INDEBTEDNESS
(Millions of dollars)

	1972	*1973*	*1974*	*1975*	*1976*	*1977*[a]
Balance of external public debt	*5 065*	*7 070*	*9 975*	*14 449*	*19 600*	*22 912*
Medium- and long-term	*4 322*	*5 732*	*7 981*	*11 612*	*15 923*	*20 185*
Agricultural activities	6	101	190	704	1 418	1 888
Energy	1 688	2 064	2 918	4 223	5 091	6 685
Industry	556	764	1 055	1 839	2 711	3 174
Transport and communications	495	995	1 225	1 479	1 721	1 909
Construction	33	124	216	317	496	692
Other activities	320	473	602	1 039	1 102	1 701
Federal government	824	1 211	1775	2 011	3 384	4 137
Short-term	*742*	*1 339*	*1 994*	*2 837*	*3 677*	*2 727*
Agricultural activities	389	521	852	521	756	684
Energy	14	157	65	291	394	87
Industry	216	274	456	606	1 638	684
Construction	21	22	29	6	126	173
Other activities	103	365	592	1 413	1 363	1 099
Servicing of external debt	*767*	*1 224*	*1 150*	*1 657*	*2 419*	*3 837*
Interest payments	262	379	589	851	1 266	1 542
Amortization payments	505	845	561	806	1 153	2 295
Servicing of external debt as a percentage of exports of goods and services	*21*	*26*	*18*	*27*	*35*	*48*

Source: CEPAL, on the basis of figures supplied by the Ministry of Finance and Public Credit and the Banco de México.

[a] Preliminary figures.

[151] It should be borne in mind that during the year the pressures which had obliged the private sector to have recourse to external credit on a large scale before and after the modification of the exchange rate ceased.

As a result of the restructuring of the public debt, short-term liabilities –which had increased by 840 million dollars in 1976– decreased by 950 million in 1977, thus modifying the structure of the external private debt, of which they came to account for 12°/o compared with 19°/o the previous year.

As a result of the slow growth of economic activity and the reduction in the speculation stemming from the modification of the exchange rate, external financing for the private sector decreased by nearly 360 million dollars, whereas in 1976 it had increased by 800 million. Direct foreign investment decreased by nearly 15°/o; the long-term credit of enterprises with foreign investment decreased by slightly over 60°/o, and in the case of other enterprises the capital outflow more than doubled. With regard to short-term capital, the change was drastic since after increasing by 580 million dollars in 1976 liabilities dropped by 280 million in 1977.[152]

(c) *External trade policy*

During 1977, the external trade policy had basically two objectives: to promote exports, giving special importance to exports of manufactures, and to reduce the control of imports with a view to liberalizing external trade in the medium term.

Among the methods aimed at strengthening exports of manufactures was the reintroduction, as from 1 April, of the direct tax refund certificates (CEDIS), which had been suspended when the exchange rate of 12.50 per dollar was abandoned. The new rules for granting these certificates included some important changes, among which was the reduction from 40°/o to 30°/o of the content of national origin required to obtain this incentive and the annual increase in exports as a basis for granting the refund.

With regard to imports, measures were adopted in connexion with a large number of tariff items of the general import tariff, which were freed from the requirement of a prior import permit.[153]

Among the most important trade agreements was that with the United States towards the end of the year, covering trade to a value of around 100 million dollars and including preferential tariff treatment with scaled tax reductions in six stages for Mexican products. Mexico will mainly sell fruit and pulses, and import precision instruments, engines, proteins, vegetable products and tools. Unlike what usually happens with the Generalized System of Preferences of the United States, the concessions obtained cannot be suspended unilaterally.

4. *Prices and wages*

(a) *Prices and the anti-inflation policy*

During 1977, an average price increase larger than that of the previous year was recorded. On average the national consumer price index rose by 29.1°/o compared with 15.8°/o in 1976, while the wholesale price index in Mexico City practically doubled its annual average variation from 22°/o in 1976 to 41.2°/o in 1977 (see table 278). This trend may be attributed in part to the devaluation of the Mexican peso, which became a mechanism for propagating the increase in prices initiated years before. Although the main repercussions of the devaluation were felt in the last four months of 1976, they continued until after the first half of 1977, although with less intensity.

The evolution of prices between December 1976 and December 1977, however, showed a tendency to slow down. During this period consumer prices increased by 20.7°/o compared with the 27.2°/o recorded in 1976, and wholesale prices reduced their growth rate from 45.9°/o in 1976 to 18.1°/o in 1977.[154]

[152] On the basis of data from the *Informe Anual 1977* of the Banco de México S.A.

[153] The Comisión de Aranceles y Controles al Comercio Exterior came into operation as from 25 May, in order to study, project and propose general criteria and specific measures in connexion with tariffs and recommend the relevant modifications in controls on the import and export of goods.

[154] This difference in performance may be explained by the fact that in 1976 the most important price increases took place in the last months of the year, so that they only moderately affected the average increase in prices. However, since 1977 began with a high index level, and since during the entire year there were continuing increases in prices –although less intensive than in the last months of the previous year– the annual variation exceeded that of 1976.

Table 278

MEXICO: EVOLUTION OF PRICES AND WAGES

	1973	1974	1975	1976	1977
	Indexes (1970 = 100) [a]				
Wholesale price index in Mexico City	123.4	151.2	167.1	204.3	288.4
Consumer articles	123.9	152.8	170.6	208.0	295.0
Food	124.6	155.3	174.7	208.2	292.6
Non-food	122.0	146.7	158.0	207.4	300.2
Manufactured goods	122.7	148.4	162.1	198.2	277.8
National consumer price index	124.0	153.4	176.4	204.3	263.8
Food, beverages and tobaccos	126.1	163.8	184.4	207.9	267.3
Clothing, footwear and accessories	132.3	155.9	178.1	214.5	287.9
Gross rents, fuels and electricity	120.7	134.1	153.3	180.7	219.1
Real minimum wage index	99.8	112.9	113.7	123.6	122.4
	Annual average variation				
Wholesale price index in Mexico City	15.7	22.5	10.5	22.2	41.2
Consumer articles	14.8	23.3	11.4	22.2	41.8
Food	15.5	24.6	12.5	19.2	40.5
Non-food	13.1	20.2	8.2	30.6	44.7
Manufactured goods	17.9	20.9	9.2	22.3	40.2
National consumer price index	12.0	23.7	15.0	15.8	29.1
Food, beverages and tobaccos	15.8	29.9	12.6	12.7	28.6
Clothing, footwear and accessories	...	17.8	14.2	20.4	34.2
Gross rents, fuels and electricity	...	11.1	14.3	17.9	21.2
Real minimum wage index	...	13.1	0.7	8.7	-1.0
	Variation December to December				
Wholesale price index in Mexico City	25.2	13.3	13.4	45.9	18.1
Consumer articles	23.8	15.3	14.2	41.5	23.5
Food	26.3	15.6	15.3	36.8	25.4
Non-food	17.9	12.2	11.3	38.3	21.0
Manufactured goods	27.6	10.1	12.0	53.3	9.7
National consumer price index	21.3	20.6	11.3	27.2	20.7
Food, beverages and tobaccos	27.5	23.1	10.1	22.2	21.6
Clothing, footwear and accessories	...	16.4	12.4	37.1	24.5
Gross rents, fuels and electricity	...	9.5	15.0	20.0	25.0
Real mimimum wage index	...	...	...	16.3	-10.2

Source: CEPAL, on the basis of data supplied by the Banco de México, S.A. and the National Commission on Minimum Wages.

[a] Original base year: consumer prices, 1968; wholesale prices, 1954 and minimum wages, 1970.

The smaller increase in prices during 1977 may be attributed basically to the progressive disappearance of the direct effects of the modification of the exchange rate, the decrease in domestic demand as a result of the low rate of dynamism seen in a great part of economic activity, and especially the restrictive nature of the wage policy and public expenditure. The freezing of prices of goods and services of public enterprises with a large multiplier effect (electrical energy and petroleum

products) also had its effect. Lastly, the moderate increase in the guaranteed prices of the main basic agricultural products for domestic consumption also helped to contain the growth of prices, although it had adverse effects on the supply of these goods.

The items of the national consumer price index which grew more than the general average were: foodstuffs, beverages and tobacco (21.6%); clothing, footwear and accessories (24.5%), and rents, fuels and electricity (25%). With regard to foodstuffs, the most notable price increases were in soft drinks, fruit, coffee, and especially milk, bread and eggs, which are of great importance in consumption. The index was also affected by the price rises in cigarettes, sugar and tortillas, authorized at the end of 1976, which thus affected prices in 1977.

With regard to rents –which in 1976 increased less than the general index– their sharper increase during 1977 was the effect of the delay in their response to the impact of inflation, caused by the need to await the expiry of fixed-term contracts in order to change them. The increases in the land tax also affected this item.

Telephone bills, federal road and bridge tariffs and the price of liquid gas also increased considerably; however, gasoline continued to be sold at a price below the international one.

In consumer prices, the most important increases occurred during the first quarter of the year (when more than one-third of the annual increase in these prices took place); they then slowed down during the second quarter before undergoing a further rise during the third quarter with, lastly, a loss of dynamism during the fourth quarter despite the traditional end-of-year increases.

In wholesale prices, the most important increases were in consumer articles, especially non-processed foodstuffs (28.9%) and household articles (36%). Manufactures, however, increased only moderately (9.7%) in contrast to their sharp increase the previous year (53.3%).

During 1977 there was an important turnabout in price policy, tending towards liberalization. In the middle of the year, as a first attempt, Government control over prices and production quotas in the motor-vehicle industry was abolished.

In October, the Decree which provided for the creation of the Comisión Nacional de Precios [155] revoked the decrees of 1974 and 1976; these had constituted the backbone of the national system of price control and set maximum limits for the prices of 273 articles and three services. Once this ceiling was abolished, only 64 lines of products for industrial consumption remained under control; the rest were liberalized as from 1 February 1978. These measures, and others which affect the industrial sector (reduction in tariff protection and abolition of the requirements for import permits), were inspired by the aim of restoring the free play of supply and demand within specific limits and reducing State intervention in some areas.

Among the short-term measures aimed at slowing down inflation, the Government tightened up its contacts with the entrepreneurial sector.[156]

(b) *Wages and employment*

In 1977 two circumstances came into play which affected broad sectors of the population: the stagnation in economic activity led to a reduction in employment, and the wage policy was reflected in a decrease in wages in real terms.

The drop in employment led to both an increase in the rate of open unemployment –which preliminary estimates give as more than 9%, compared with the rate of nearly 7% recorded the previous year– and an increase in underemployment –which according to partial indicators affected 46% of the economically active population in 1977.[157]

[155] A body whose basic function will be to study and propose maximum prices for articles of general comsumption.

[156] A decree of January 1977 established a series of stimuli for the production and distribution of 90 basic consumer products. Although, despite the stimuli offered, the reduction in the prices of the basic commodities would affect the profit margins of producers and distributors, this drawback could be obviated by increasing the prices of non-basic commodities. Of the 90 basic articles, the measure affected 37, the prices of which dropped by 10%.

[157] Data obtained from an interview in the Ministry of Labour and Social Security, Department of the Public Employment Service.

Manufacturing, which could have been a key sector for absorbing surplus manpower from the agricultural sector, had its capacity to generate employment reduced by a 1.6% cut in the personnel employed.

The industries in which this phenomenon was most in evidence were the manufacture and repair of motor vehicles (-15.6%), the construction and repair of railway equipment (-13.6%), the manufacture of tyres and tubes (-4.1%), and yarns and fabrics (-3.6%). Unemployment was also influenced by the crisis in the construction sector.

With regard to wages, the policy followed in 1977 was different from that observed in previous years –when the objective was to bring the purchasing power of the workers up to the level of the price increase– and instead it became an instrument to contain inflation by restricting wage readjustments and weakening real demand. The application of this type of policy was possible owing to the structure and mode of operation of the trade union apparatus, and also because the increase in the rate of underemployment and unemployment became more pronounced during the year and resulted in an increase in the supply of labour.

In keeping with the above, in January 1977 minimum wages rose 10% in the strata where remunerations were less than 100 pesos per day and 9% in those receiving a larger sum. The increases in the wages of unionized workers[158] fluctuated around these percentages and in no case exceeded 15%.

Since the increase in prices between December 1976 and December 1977 was much more pronounced, real wages decreased by 10%. On the basis of annual averages, however, the reduction in real minimum wages was only 1% (see table 278).

5. *Fiscal policy*

(a) *Monetary policy*

The subordination of the exchange policy to the process of creating and consolidating new growth patterns was reflected –in the present circumstances when there were still tensions and adjustments of forces resulting from the abandonment of fixed exchange rate– in the maintenance of the regulated floating system of the exchange rate and the gradual removal of inflexibilities in other economic orientations, machinery and instruments, such as interest rates and the traditional methods of controlling the money supply.

As result of the course chosen and the attitude of mistrust with regard to the peso in the first months of 1977, and in view of the implications which a traditional tendency for liquidity to expand would have had in this seriously unstable situation in the country in the last months of 1976 and the early months of 1977, monetary policy occupied a noteworthy place in the implementation of Government programmes. It should also be pointed out that from another standpoint its role was reinforced by the establishment of closer co-ordination with fiscal policy.

In the light of the cautious increase in money wages and in view of the persistent lack of reaction of private investment, an endeavour was made to reduce the inflationary repercussions of the 1976 devaluation by attempting to discourage transfers of income which might have adverse effects on the strata with least resources and which could affect the system of wages agreed upon with the labour sector.

It is, however, probable that there was an underestimation of the capacity of domestic credit to expand the supply of jobs or promote production by means of monetary support to enterprises which in many sectors had been affected by fairly considerable problems of liquidity. The figures mentioned below confirm that during the first half of the year the financial block became extremely substantial in some cases, although it should be recalled that it was not easy to encourage a very flexible supply of credit in view of the fact that the system of financial intermediation lost importance and the public tended to reduce their investments in national currency.

In a broader perspective, the monetary policy system tried out in 1977 should be described as an

[158] That part of the economically active population which receives minimum wages (around 2 million persons) is made up of free workers or workers who do not belong to any workers' organization. The wages of the unionized workers are governed largely by the collective work contracts negotiated in the course of the year.

endeavour to reach a closer link between the process of real investment and the availability of resources from the real savings of the population or external investors, by simultaneously building-up the capacity of the financial intermediation apparatus on a large scale.

During 1977, various measures were put into practice, aimed in particular at conserving stability –particularly by reducing the pressure of public expenditure on the expansion of primary money– and also achieving a more efficient performance of the typical functions of intermediation by the banking system; an endeavour was also made to establish a clear differentiation between the money and capital markets and to encourage the largest possible inflow of capital to the banking system, simultaneously attempting to steer towards national currency the domestic savings which had been tending towards assets in foreign currency. Although these priorities were a constant feature of the policy followed throughout the year, they combined with other more expansionary types of financing activities which only emerged in the last quarter, as progress was made in narrowing the difference created between the community's saving potential and the availability of resources in banking circles.

Important among the first type of measures was the issue of petro bonds and silver coins[159] and the arrangements made regarding the cash reserves of the banking system in the first four months. These measures were not simply a means of regulating the financing of the Government's overall deficit on the basis of pre-existing monetary resources and with the aim of reducing potential inflationary tensions; as the marginal rates were simplified and the average rate reduced, the adjustments made tended above all to make this procedure of regulating the money supply more flexible and to give rise to some extent to more immediately available credit in the economy.

Although they did not come into operation in 1977, mention should be made of the creation of treasury certificates, an instrument which is now (1978) making it possible to carry out open market operations and provide non-inflationary resources to the Federal Government, while also acting as an indicator of the level of the discount rate in the market.

With regard to the strengthening of the financial system, the measures adopted should be considered in conjunction with other parallel objectives which, generally speaking, tend to increase bank savings (especially in national currency) and to strengthen the inflow of loanable funds to the system. During the month of May the system of interest rates was revised as a form of repairing the damage caused by inflation in investors' earnings, and a procedure was laid down for converting money and mortgage bonds in circulation into term deposits with interest rates which varied according to the period of duration of the deposit. Ceilings were established for the interest rates, making it possible for the conditions of supply and demand to determine the real levels in such operations. Similarly, in the measures designed to increase savings in pesos, and specifically with regard to the gradual elimination of the finance and mortgage bonds, the aim pursued was to rectifiy the lack of adequate differentiation in the financial system between the money and capital markets, which made it difficult for the authorities to channel savings towards long-term financing. The measure of limiting the reception of dollars on deposit to finance departments only may also be included among these general objectives.

The ideas adopted to stimulate the inflow of external funds –apart from those tapped by means of foreign bank credits– and to reduce as far as possible speculation in the exchange market, basically consisted in linking the interest rate on term deposits to that of the London eurodollar market –but paying 1% above the rate established in that market– and transferring to the Banco de México the exchange risk implicit in loans in national currency effected from deposits made by the borrower himself in foreign currency. This latter mechanism tended to reduce the scarcity of credit in national currency.

Although it is true that the progressive expansion of credit reflected the recovery taking place in the liabilities of the banking system, it is equally true that some measures taken by the Banco de México speeded up this process in part as the priority aim was achieved. In addition to the instruments mentioned, the Banco de México granted facilities to the banks of the system for the repayment of the special loans which had had to be made to deal with the severe crisis of the withdrawals at the end of 1976; reduced the cash reserves corresponding to deposits in national currency –jointly with increasing the reserves in respect of foreign currency– with a view to liberating funds to take

[159] Which also should be considered as a means of tapping the resources available in foreign currency.

care of the needs of medium and small industry; and created a line to deal with the demand for credit for basic commodities.

The total resources tapped by the banking system increased during 1977 at the rate of 27°/o, discounting the effect of the revaluation of the exchange rate. This increase, which was an improvement on that of 24°/o recorded in 1976, was due to the noteworthy increase in procurements achieved by private and semi-public institutions (35.5°/o), which account for around 50°/o of the system's total procurement and which in 1976 had only achieved an increase of 6°/o (see table 279).

Table 279

MEXICO: PROCUREMENT OF RESOURCES AND FINANCING OF THE BANK SYSTEM[a]

	Balance at the end of each year (billions of pesos)					*Growth rates*			
	1973	*1974*	*1975*	*1976*[b]	*1977*[bc]	*1974*	*1975*	*1976*	*1977*
Total									
Procurement[d]	317	380	480	595	758	20.0	26.1	23.9	27.4
Financing	302	373	477	596	753	23.5	27.7	24.8	26.3
Other assets and liabilities	15	7	3	-1	5				
National institutions									
Procurement[d]	86	110	143	198	246	28.1	29.8	38.0	24.5
Financing	89	114	150	199	262	27.3	31.4	32.7	31.5
Other assets and liabilities	-3	-4	-7	-1	-16				
Banco de México									
Procurement[d]	37	45	55	98	107	21.7	22.0	78.0	8.9
Financing	87	118	160	209	255	37.0	35.3	30.2	22.2
Other assets and liabilities	-50	-73	-105	-111	-148				
Private and semi-public institutions									
Procurement[d]	194	225	282	299	405	16.0	25.1	6.1	35.5
Financing	126	141	167	188	236	11.7	18.3	12.7	25.4
Other assets and liabilities	68	84	115	111	169				

Source: CEPAL, on the basis of figures supplied by the Banco de México, S.A.

[a] Excluding inter-bank operations.
[b] These figures exclude the effect of modifications to the exchange rate.
[c] Preliminary figures.
[d] Excludes results, reserves and other liabilities.

If this procurement is analysed by type of currency, it may be seen that in national currency it increased in 1977 at a rate of 27°/o, while in foreign currency, still discounting the effect of the revaluation of the exchange rate, it increased at a rate of 29°/o.

The situation changes if instead of taking into account the total liabilities in national currency, only non-monetary procurement in pesos is considered (factors of absorption of the monetary balance), and if the loans by foreign banks to credit institutions are deducted from the procurements in foreign currency in order to study more clearly the behaviour of the public. With these data it may be seen that non-monetary procurement in pesos increased by 27°/o in 1977, while in dollars it increased by slightly over 71°/o (see table 280). There was thus a change (from 16°/o to 20.5°/o between 1976 and 1977) in the share of foreign currency in the total resources tapped by the banking system.

Table 280

MEXICO: MONETARY BALANCE

	Balances at end of each year (billions of dollars)					*Growth rates*			
	1973	*1974*	*1975*	*1976*[a]	*1977*[ab]	*1974*	*1975*	*1976*	*1977*[b]
Money	80	97	118	155	195	22.0	21.3	30.9	26.2
Currency outside banks	34	43	52	80	88	24.9	22.4	52.8	10.2
Deposits on current account	46	54	66	75	107	19.9	20.5	13.5	43.3
Factors of expansion	275	329	412	478	627	19.6	25.1	16.1	31.1
Domestic credit	303	374	477	596	753	23.5	27.7	24.8	26.3
Government	109	143	191	249	323	31.0	33.5	30.6	29.6
Enterprises and individuals	194	231	286	346	430	19.4	24.1	21.0	24.0
International reserves	17	17	19	18	29	3.0	9.9	-5.9	59.3
Less: Bank loans from the exterior to credit institutions[c]	14	62	84	136	155	40.5	36.3	60.3	13.9
Factors of absorption	193	221	277	304	408	14.4	25.3	9.8	34.1
National currency	177	204	254	255	324	15.1	25.1	0.3	27.0
Savings deposits	17	20	24	25	35	20.4	19.6	5.5	40.6
Fixed interest instruments	118	141	186	166	188	18.8	32.0	-10.8	13.7
Other non-monetary liabilities	42	43	45	65	101	2.3	5.2	43.2	55.7
Foreign currency	17	18	23	19	84	7.2	27.0	117.4	71.3
Checking and savings accounts	6	5	6	13	17	-11.0	10.9	128.2	35.4
Bonds and debentures	4	3	7	24	43	-3.9	104.0	242.5	82.6
Other non-monetary liabilities	7	9	10	12	24	26.7	7.8	25.4	86.6
Other assets and liabilities (net)	-2	-10	-16	-19	-24				

Source: CEPAL, on the basis of figures supplied by the Banco de México, S.A.

[a] Excluding the effect of the modification of the exchange rate in 1976 and 1977.

[b] Preliminary figures.

[c] These loans are considered as a factor of negative expansion, since they are resources which for the most part directly finance credit to the government.

It should, however, be made clear that although the process of increasing the importance of dollars in the economy continued in 1977, it is also true that this process lost impetus in the last months of the year, while it was considerably less than in 1976, when the factors of absorption in dollars increased nearly 120o/o while those in national currency increased by barely 0.3o/o compared with the balance of the previous year.

If the total tapping of resources throughout 1977 is analysed, it may be seen that during the first quarter the inflow of funds increased at monthly rates of nearly 3o/o, while the inflow in national currency showed a slightly downward trend. These increases, combined with the lack of dynamism of the financing made available by the banking system during the quarter, would explain in part the reduction in the money supply, and must have contributed to slowing down the increase in consumer prices. The national consumer price index did indeed undergo a reduction in growth from 3.2o/o in January to 1.7o/o in March, partly because pressure on the supply of goods and services had been reduced with the channelling of the purchasing power of private persons towards the acquisition of assets in foreign currency and to a lesser extent in pesos.

The downward trend in the procurement of national currency lasted until April and May, after which there was a fairly regular increase for the rest of the year. This process was considerably influenced by the series of monetary and credit policy measures adopted by the Central Bank, the main objective of which was to increase procurement and avoid flooding the system with dollars.

Despite this, liabilities in dollars continued to increase rapidly until the month of August, after which their growth rate dropped off during the rest of the year, as can be seen from the fact that around 90°/o of the total of dollars for the year were tapped between January and August.

This development in the tapping of national and foreign currency meant that total procurements increased as from the month of June, coinciding with the increase in financing channelled through the banking system –80°/o of the annual total of which was accounted for between June and December– and with the attenuation of the inflationary process which could be observed as from May, except in the months of August and September.

Total financing increased in 1977 by 26°/o (discounting the revaluation due to the modification of the exchange rate) (see table 279). Of this increase, around 40°/o corresponded to the Government which, as in the two previous years, showed a higher growth rate than that for financing received by enterprises and private persons. As may be seen from table 280, the financing received by the Government increased by 30°/o, while that received by enterprises and private persons increased by 24°/o.

Although the increase in financing in 1977 was greater than in 1976, its importance over the year was fairly irregular, since there was a sharp drop in the first half of the year, a moderate reduction in the following three months, and a notable expansion in the last quarter.

During the first half of the year, financing increased around 8°/o compared with the balance at the end of 1976, while wholesale prices increased by 12.5°/o and consumer prices by 11.2°/o. At the end of the third quarter, credit already showed a dynamism which reduced the disparity between its growth and that of prices (up to September credit increased by nearly 15°/o, while prices rose by nearly 17°/o), and in the last quarter financing grew notably, with the result that its increase (26.3°/o) was ultimately larger than that of wholesale and consumer prices, which increased by 18.1°/o and 20.7°/o respectively.

It may be said, however, that the financing made available in 1977 was restrictive, if the annual averages both of financing and of prices are considered, since while the annual increase in financing was 23.2°/o, wholesale prices increased on average by 41.2°/o, and when this is added to the real growth of the product (2.5°/o) the result is a nominal increase of the order of 44°/o, i.e., nearly double the increase in financing already referred to.[160]

With regard to international reserves and loans by foreign banks to credit institutions, the former increased by nearly 60°/o in 1977 in contrast to the reduction of 6°/o of the previous year, while loans by foreign banks to credit institutions –which are considered as a negative factor of expansion since most of these resources directly finance Government credit– only increased by 14.1°/o, whereas in 1976 they had grown by 60°/o, to say nothing of the effect of the revaluation of the exchange rate (see table 280).

In view of the above, during 1977 the factors of monetary expansion increased by 31°/o as a result of the increase in banking credit (26°/o), the recovery of the international reserves (59°/o) and the limited growth of loans by foreign banks to credit institution (14°/o). The factors of monetary expansion thus increased less than the factors of contraction (34°/o), giving an increase of 26°/o in the money supply. This increase in its turn, was less than the 31°/o rise recorded in 1976, and this must have contributed to the drop in the growth of the price indexes between December 1976 and December 1977.

According to the fragmentary information available, among the economic activities which most benefited from bank financing during 1977 were commerce, agricultural activities and processing industries. The credit received by these sectors between December 1976 and December 1977 increased by 43°/o for commerce, 42°/o for agricultural activities, and 39°/o for processing industries (all of these far above the increases of the previous periods) (see table 281).

[160]This disparity is less drastic if the calculations are made on the basis of consumer prices, since the combined increase of consumer prices and the product is 31.6°/o.

Table 281

MEXICO: BANK CREDIT RECEIVED BY ENTERPRISES AND INDIVIDUALS[a]

	Balance at end of each year (billions of pesos)				*Growth rates*			
	1974	*1975*	*1976*[b]	*1977*[b]	*1974*	*1975*	*1976*	*1977*
Total	*203*	*246*	*295*	*385*	*21.6*	*21.6*	*19.6*	*30.5*
Primary activities	37	42	49	95	30.4	14.3	16.7	40.4
Agricultural	34	38	44	63	29.6	12.6	16.5	42.4
Mining and others	3	4	5	6	41.4	34.9	19.6	20.6
Industry	93	115	132	171	18.4	23.5	15.0	29.4
Energy	16	16	17	17	-7.5	-2.4	5.8	-0.6
Manufacturing	56	71	88	122	30.2	28.3	23.5	38.9
Construction	21	28	27	32	16.0	31.1	-1.4	17.5
Public housing	6	7	9	9	8.7	20.2	20.2	-0.4
Services and other activities	31	40	59	70	17.6	29.0	47.3	19.9
Commerce	36	42	46	66	28.4	17.9	8.4	43.1

Source: CEPAL, on the basis of official figures.

[a] Includes enterprises owned by the public and private sectors.
[b] Excludes the effect of the modifications to the exchange rate.

(b) *Fiscal policy*

Public expenditure slowed down notably in 1977, and with the increase in current earnings this meant that the budgetary deficit of the Federal Government stabilized at the same absolute level as the year before.

Excluding debt amortization, the total expenditure of the Federal Government increased by 29°/o at current prices, which represented a drop in real terms if the effect of the price increases is subtracted (see table 282).

Current expenditure, for its part, increased by 39°/o, especially as a result of the growing importance of interest payments (owing to the accumulated effect of indebtedness and the revaluation resulting from the new exchange rate) and of transfers, which increased by 44°/o and 55°/o respectively. Expenditure on administration increased by only 23°/o, however, which meant a reduction in real terms if the effect of price increases is subtracted.

The heaviest constraint on expenditure was seen in net capital expenditure, which barely increased by 9°/o at current prices.

Current income showed a notable increase (40°/o), mainly because of the automatic expansion of assessable income owing to the increase in prices and to a lesser extent the growth of economic activity and the changes made in some direct and indirect taxes.

Among the most important fiscal changes were the establishment of an additional tax on the extraordinary gross profits of commercial and industrial enterprises and the heavier taxation on luxury consumption.[161] The tax régime of PEMEX as regards the production of petroleum and petroleum products was also modified. The modifications on the system of income tax on physical persons include exemption from taxes on incomes of less than 7 thousand pesos.

The rise in income from external trade (64°/o) as a result of the higher levels achieved by exports as a consequence of the new exchange parity and the improved international prices of some products also contributed to increase current income.

[161] This was done by increasing the rates of taxation on such goods as cars and accessories, motorcycles, precious stones, fur clothing, cut glass, beer and other alcoholic beverages.

Table 282

MEXICO: ACTUAL BUDGET INCOME AND EXPENDITURE OF THE FEDERAL GOVERNMENT

	Billions of pesos					*Growth rates*			
	1973	*1974*	*1975*	*1976*	*1977*[a]	*1974*	*1975*	*1976*	*1977*[a]
Current income	52.2	72.0	102.6	134.1	188.2	37.9	42.5	30.7	40.4
Tax	48.0	67.2	96.2	125.0	177.3	40.1	43.1	29.9	41.9
Direct[b]	27.0	36.8	49.8	66.3	93.1	36.4	35.2	33.1	40.6
Indirect	17.1	25.4	37.5	46.2	63.7	47.9	48.1	23.0	37.9
Foreign trade	3.9	5.0	8.9	12.5	20.5	31.1	75.8	41.1	64.3
Non tax	4.2	4.8	6.4	9.1	10.9	12.6	33.6	43.0	19.1
Current expenditure	48.0	68.2	92.6	125.5	173.9	42.1	35.7	35.6	38.5
Administration	21.7	28.4	43.6	57.0	70.0	30.9	53.4	30.7	22.8
Interest[c]	7.3	10.7	13.0	22.7	32.8	46.2	21.7	74.9	43.8
Transfers and other	19.0	29.1	36.0	45.8	71.1	53.3	23.5	27.4	55.5
Current saving	4.2	3.8	10.0	8.6	14.3	-10.2	166.3	-14.8	67.9
Net capital expenditure[d]	31.6	35.0	52.1	64.5	70.6	10.7	48.8	23.9	8.9
Real investment	20.8	22.0	34.3	39.7	...	5.7	56.0	15.7	...
Financial investment	4.2	5.5	7.3	13.7	...	29.5	32.7	87.8	...
Liquidation of previous debts	8.0	8.1	10.8	12.5	12.4	2.4	32.7	15.9	-0.7
Other capital expenditure (net)	-1.4	-0.6	-0.3	-1.4	...				
Total expenditure[d]	79.6	103.2	144.7	190.0	244.1	29.6	40.1	31.4	28.5
Actual budgetary deficit[d]	27.4	31.2	42.1	55.9	55.9	13.9	34.6	33.1	-0.1

Source: CEPAL, on the basis of figures supplied by Banco de México, S.A.

a Preliminary figures.
b Includes payment for work.
c Includes expenditure in connexion with the debt.
d Excludes debt amortization but includes the liquidation of fiscal debts from previous years.

Direct tax income increased by 41°/o (whereas in 1976 it had increased by only 33°/o), and indirect taxes recorded an increase of 38°/o (far higher than the 23°/o recorded in 1976).

The results of the income and expenditure policy adopted reflect the considerable increase in current saving, which rose by 68°/o in contrast with the decrease of 15°/o in the previous year.

Furthermore, in contrast with the rapid increase which the real budgetary deficit of the Federal Government had shown over the previous five years, in 1977 it settled down at around 56 thousand million pesos, and the deficit dropped to 3.5°/o of the gross domestic product after reaching 4.2°/o in 1975 and 4.6°/o in 1976.

According to preliminary data available,[162] the public sector –which includes the Federal Government, State enterprises and agencies, regardless of whether they are controlled or not through the budget and the State financial intermediaries– resorted in 1977 to internal and external financing amounting to nearly 125,000 million pesos, of which 55°/o came from abroad.

The use of net external financial resources thus came to nearly 3,300 million dollars. This represents an increase of 15°/o compared with the balance of the debt at the end of 1976, and is within the programmed margins of indebtedness with the exterior. The structure of debt was also notably modified, the debt contracted for periods of less than a year being reduced by slightly over a quarter, and this meant a relative alleviation of the pressure from the short-term liabilities. Consequently, while on 31 December 1976 total debts for periods of less than a year accounted for 19°/o of the total indebtedness, at the end of 1977 this proportion had dropped to 12°/o.

[162] Data supplied by the Banco de México, S.A.

With regard to the structure of the debt, the energy sector accounted for 29°/o of the total –which indicates the growing need for financial resources on the part of Petróleos Mexicanos– and was followed in decreasing order by the Federal Government, with a share of 18°/o, and the industrial sector with a share of 14.9°/o.

Within the framework of a five-year economic and social development strategy whose main objectives in the medium term are to achieve a sustained growth in production through the mobilization of real resources which will make it possible to cut down high existing unemployment and strengthen the role of the State in the development process, the expenditure budget of the Federation for 1978 was published in December 1977.

The immediate aims of the public sector's spending programmes for 1978 were to reactivate the economy and create sources of employment through specific programmes, on the basis of establishing an order of priority and keeping the process of inflation and the monetary and financial disequilibria under control.

In accordance with the criteria of equilibrium, the expenditure budgeted for 1978 amounts to rather more than 912,000 million pesos; this represents an increase of nearly 24°/o in current prices compared with 1977. If it is considered that the rate of inflation has been dropping, reaching an annual growth rate of 18°/o in 1977, it may be assumed that the expenditure programmed implies a real increase in public spending. Under current expenditure, only the increase in resources which is absolutely necessary for the adequate functioning of the different public bodies and para-State enterprises is considered. However, an increase of 31°/o is anticipated for public investment, basically aimed at the sectors considered strategic –agriculture and forestry, fisheries, petroleum and basic petrochemicals, electricity and capital goods– of which the energy sectors have top priority both in 1978 and throughout the five-year period. After deduction of the liabilities stemming from the debt and the shares of states and municipalities, the industrial sector as a whole will absorb 57°/o of public investment resources, while 18°/o of expenditure will be channelled towards the agricultural sector.

The statute on the income of the Federation for the financial year 1978 programmes approximate public sector current and capital income of around 621,000 million pesos. As regards tax revenue, income tax –the most important item– is expected to yield around 113,000 million pesos, this increase being the result of the improvement of systems of tax collection, administration and control, rather than the reform of methods of taxation, which it has been considered prudent to postpone until the economic and social situation improves.

NICARAGUA

1. *The overall picture*

In 1977 Nicaragua's economy showed a growth rate of 5.5°/o or slightly over the 1976 rate (see table 283).

The greatest dynamic impulse stemmed from external demand, particularly owing to the marked improvement in the terms of trade, since the volume of external sales declined. This decline was basically due to adverse weather conditions and the appearance of pests which affected coffee and cotton, the main export crops.

Another factor which to a certain extent influenced the overall growth of the economy was the expansion of public expenditure, on both fixed investment and consumption, and the significant increase in fixed investment in the private sector. Furthermore, there was a considerable increase in stocks of goods which, like the increase in fixed investment, was reflected in imports. In addition, an appreciable proportion of total investment, largely of the public sector, increased the country's external indebtedness, the servicing of which will have an impact on the balance of payments in the near future.

Table 283

NICARAGUA: MAIN ECONOMIC INDICATORS

	1972	*1973*	*1974*	*1975*	*1976*	*1977*[a]
A. *Basic economic indicators*						
Gross domestic product at factor cost (millions of US dollars at 1970 prices)	841	883	997	1 016	1 069	1 128
Population (millions)	2.10	2.17	2.24	2.32	2.40	2.48
Per capita gross domestic product (US dollars at 1970 prices)	400	407	445	438	446	455
	Growth rates					
B. *Short-run economic indicators*						
Gross domestic product	3.2	5.1	12.9	1.9	5.2	5.5
Per capita gross domestic product	-0.1	1.7	9.2	-1.4	1.8	2.1
Gross income[b]	5.6	4.3	12.2	-2.8	12.2	9.8
Terms of trade	10.4	-4.6	-4.3	-19.2	31.7	17.0
Current value of exports of goods and services	42.2	9.6	29.1	1.1	37.3	18.8
Current value of imports of goods and services	10.8	58.9	56.2	-9.3	4.2	29.4
Consumer price index						
December to December	...	...	...	1.9	6.2	10.2
Variation between annual averages	...	...	...	1.8	2.8	11.4
Money	24.2	54.6	11.8	-3.5	25.5	5.0
Current income of government	0.2	43.7	45.7	-3.1	15.4	15.3
Total expenditure of government	11.9	27.0	70.3	3.9	4.3	34.0
Fiscal deficit/total expenditure of government[c]	30.4	21.3	32.6	37.2	30.5	40.2
	Millions of dollars					
C. *External sector*						
Trade balance (goods and services)	51	-77	-214	-148	-3	-67
Balance on current account	19	-83	-266	-195	-72	-154
Variation in net international reserves	24	60	-28	38	23	-26
External debt	255	347	503	644	691	836

[a] Preliminary figures.
[b] Gross domestic product plus terms-of-trade effect.
[c] Percentage.

Owing to the favourable world prices in the early months of 1977, the shortfall in the domestic supply of export commodities –mainly coffee and sugar– did not affect the current value of external sales of goods which went up by 114 million dollars. The rise in imports, however, increased the current account deficit on the balance of payments to more than twice the previous year's figure, i.e., from 72 million to 154 million dollars. This plunged the country once again into the deficit situations that had characterized it during the most intensive stage of reconstruction following the 1972 earthquake in Managua. Another factor contributing to the external deficit was the net outflow of private capital. This began in the second half of the year as the result of rumours of a possible devaluation of the córdoba for political reasons.

In order to lessen the external deficit, recourse was had to greater external borrowing and to international reserves, which dropped in net terms by 26 million dollars.

A particular feature of the public finances was the marked growth of the fiscal deficit which doubled the 1976 figure.

It amounted to about 8°/o of the gross domestic product and 40°/o of central government expenditure. This evolution was the result of a 34°/o increment in public spending, which easily exceeded the 15°/o increase in current income (see table 283).

The lower rate of expansion of income was due to the stagnation of revenue from direct taxes on income. Furthermore, indirect taxes on imports grew by a smaller volume than the tax on purchases since most of these were made by the public sector.

Central government capital expenditure increased by 45°/o. To finance this, recourse was had to external loans, partly through international commercial banks, which accentuated the trend observable for some years towards a bigger share of private loans. In its turn, the total external public debt guaranteed by the State rose by nearly 21°/o to around 840 million dollars at the end of the year.

In the monetary field, the Central Bank was able to reduce the growth rate of the money supply from 25°/o in 1976 to 5°/o in 1977 by measures such as restrictions on rediscount operations and a more active sale of stabilizing bonds at rates similar to those paid on the world market. The purpose of these measures was to contain the upsurge of inflation that might result from the expectations of a year of favourable export prices and the considerable increase in public spending.

With the repeal of the Emergency Economic Law in February 1977, prices were freed and this measure contributed to a price increase of 10.2°/o, thus exceeding the previous year's rise of 6.2°/o. In contrast, the Government adopted a policy of wage restrictions which, in part, led to a deterioration in the real income of wage-earners. Thus, 20°/o of the economically active population affiliated to the Nicaraguan Social Security Institute and consisting mainly of urban workers experienced a drop of 1.5°/o in their real average wage.

Moreover, in the agricultural sector where there is considered to be a high level of underemployment, the rural workers had to face problems caused by the drought and pests affecting mainly subsistence agriculture. In short, in spite of the fact that the rate of economic growth exceeded the population growth rate, its effects do not seem to have benefited the bulk of the population.[163]

2. *Recent economic trends*

(a) *Total supply and demand*

In 1977 the volume of imports of goods and services increased at an exceptional rate (21°/o). As a result, the rate of growth of total supply was also very high and easily exceeded that of the gross domestic product (see table 284). The rapid expansion of imports also helped to raise the import coefficient (35°/o) to one of the highest levels in Latin America in 1977.

On the demand side, the main dynamic factor was investment which increased at the exceptionally rapid rate of 46°/o. This increase was largely due to the notable expansion of public investment which after a very significant increase in 1976 rose, according to official figures, by 54°/o in 1977. A large part of this investment, however, was used for the purchase of road-building and maintenance machinery and equipment, and a high proportion has not yet been utilized so that its effects on the expansion of production capacity have probably not yet been felt. Another part of public investment was channelled into the construction of public buildings to replace those destroyed by the earthquake in 1972.

Total investment by the private sector also grew at a high rate (40°/o). Nevertheless, two thirds of this increase was due to the accumulation of stocks, the changes in which were 10 times those recorded in 1976. Productive investment in machinery and equipment absorbed only one fifth of this increase and the rest was assigned to construction (see table 285).

[163] It is estimated that 90°/o of rural households have an average monthly income of about 100 dollars, and for 82°/o of urban households it is less than 200 dollars. In contrast, 8,500 Nicaraguan households (2.4°/o of the total) have a monthly income of over 700 dollars. (Unpublished survey carried out by the Statistics and Census Office of Nicaragua.)

Table 284

NICARAGUA: TOTAL SUPPLY AND DEMAND

	Millions of córdobas at 1970 prices			*Percentage breakdown*		*Growth rates*		
	1975	*1976*	*1977*[a]	*1970*	*1977*[a]	*1975*	*1976*	*1977*[a]
Total supply	*9 399*	*9 780*	*10 665*	*129.2*	*135.1*	*-4.6*	*4.0*	*9.0*
Gross domestic product at market prices	7 111	7 483	7 894	100.0	100.0	1.8	5.2	5.5
Imports of goods and services[b]	2 288	2 297	2 771	29.2	35.1	-20.3	0.4	20.6
Total demand	*9 399*	*9 780*	*10 665*	*129.2*	*135.1*	*-4.6*	*4.0*	*9.0*
Domestic demand	7 353	7 612	8 567	102.5	108.5	-7.0	3.5	12.5
Gross domestic investment	1 131	1 301	1 898	18.6	24.0	-39.9	15.1	45.8
Gross fixed investment	1 256	1 272	1 660	16.4	21.0	-6.9	1.1	30.2
Construction	645	682	757	6.5	9.6	2.2	5.9	10.9
Machinery and equipment	611	590	903	9.9	11.4	-14.9	-3.3	53.1
Public	420	506	780	4.1	9.9	4.0	20.5	54.2
Private	837	768	880	12.3	11.1	-11.3	-8.2	14.6
Changes in stocks	-125	29	238	2.2	3.1			
Total consumption	6 219	6 311	6 669	83.9	84.5	3.2	1.5	5.7
General government	723	712	869	9.6	11.0	14.7	-1.5	21.9
Private	5 499	5 599	5 800	74.3	73.5	2.0	1.8	3.6
Exports of goods and services[b]	2 046	2 168	2 098	26.7	26.6	5.2	5.9	-3.2

Sources: 1970-1976: CEPAL calculations on the basis of figures supplied by the Central Bank of Nicaragua;
1977: CEPAL estimates on the basis of official data.

[a] Preliminary figures.

[b] 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 CEPAL for the purpose.

Thus the appreciable expansion of investment, both public and private, failed to reflect a comparable increase in production capacity in the short term.

Total consumption grew by 5.7%, a higher rate than in the previous year, decisively stimulated by the considerable increase in government consumption. This grew by 22% owing to the larger volume of purchases of goods and services, since expenditure on personal services remained practically at the 1976 levels. The growth rate of private consumption also exceeded the 1976 rate. This expansion was partly due to the higher rate of spending by the high-income strata, as is borne out by and analysis of the structure of imports of consumer goods, in which purchases of consumer durables predominated.

In contrast, the volume of exports of goods and services which in previous years had grown at a higher rate than domestic demand, declined by a little over 3% in 1977 (see table 284).

(b) *Sectoral development*

The relatively favourable evolution of the gross domestic product was basically due to the growth of manufacturing (6%), construction (11%), electricity, gas and water (12%) and commerce and finance (5%) (see table 286).

(i) *Agriculture.* The agricultural sector expanded at an annual rate of nearly 3% in 1977, which was less than the rate recorded in the previous year (4%). This lower rate of growth was basically due to the slowing down of crop farming, whose growth rate dropped from 3.5% in 1976 to 1.4%

Table 285

NICARAGUA: TOTAL GROSS INVESTMENT

	Millions of córdobas at 1970 prices								*Growth rates*						
	1970	*1971*	*1972*	*1973*	*1974*	*1975*	*1976*	*1977*[a]	*1971*	*1972*	*1973*	*1974*	*1975*	*1976*	*1977*[a]
Total gross investment	*1 012*	*1 045*	*703*	*1 401*	*1 882*	*1 131*	*1 301*	*1 898*	3.4	-32.8	99.4	34.3	-39.9	15.1	45.8
Construction	355	371	402	467	631	645	682	757	4.6	8.4	16.1	35.2	2.2	5.9	10.9
Machinery and equipment	537	550	417	656	717	611	590	903	2.5	-24.3	57.4	9.4	-14.8	-3.5	53.0
Changes in stocks	120	124	-116	279	534	-125	29	238							
Private investment	*785*	*748*	*413*	*1 046*	*1 478*	*711*	*796*	*1 118*	-4.8	-44.8	153.3	41.3	-51.9	11.9	40.5
Construction	135	127	128	191	320	293	281	320	-5.9	0.8	49.6	67.6	-8.4	-4.2	14.0
Machinery and equipment	531	497	401	576	624	544	487	560	-6.4	-19.2	43.6	8.4	-13.0	-10.5	15.2
Changes in stocks	120	124	-116	279	534	-125	29	238							
Public investment	*226*	*298*	*290*	*356*	*404*	*420*	*506*	*780*	31.6	-2.6	22.6	13.6	3.9	20.5	54.3
Construction	215	239	270	269	300	341	392	426	11.2	12.7	-0.3	11.5	13.8	14.8	8.6
Machinery and equipment	11	58	20	86	104	78	114	354	435.0	-65.4	328.0	20.0	-24.7	45.3	211.9

Source: CEPAL, on the basis of figures supplied by the Central Bank of Nicaragua.

[a] Preliminary figures.

Table 286

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

	Millions of córdobas at 1970 prices			*Percentage breakdown*		*Growth rates*		
	1975	*1976*	*1977*[a]	*1970*	*1977*[a]	*1975*	*1976*	*1977*[a]
Agriculture	1 798	1 871	1 922	27.0	26.6	3.4	4.1	2.7
Mining	27	20	18	0.7	0.2	-20.7	-25.0	-11.9
Manufacturing	1 270	1 304	1 379	19.2	19.1	2.4	2.6	5.8
Construction	339	359	397	3.5	5.5	2.2	5.9	10.7
Subtotal goods	*3 434*	*3 554*	*3 716*	*50.4*	*51.4*	*2.6*	*3.5*	*4.6*
Electricity, gas and water	121	151	169	1.7	2.3	16.0	24.6	12.2
Transport, storage and communications	376	400	416	5.8	5.8	-1.4	6.4	4.1
Subtotal basic services	*479*	*551*	*585*	*7.5*	*8.1*	*2.0*	*4.7*	*6.5*
Commerce, financial institutions and insurance	1 337	1 448	1 524	20.5	21.1	-2.3	8.3	5.2
Real estate[b]	328	347	370	7.1	5.1	6.0	5.7	6.7
Community, social and personal services[c]	946	980	1 030	14.6	14.2	10.6	3.6	5.1
Subtotal other services	*2 611*	*2 775*	*2 924*	*42.2*	*40.4*	*1.5*	*6.3*	*5.3*
Total gross domestic product[d]	*6 511*	*6 851*	*7 227*	*100.0*	*100.0*	*1.8*	*5.2*	*5.5*

Sources: 1970-1976: CEPAL calculations on the basis of figures supplied by the Central Bank of Nicaragua;
1977: CEPAL estimates on the basis of data from the same source.

[a] Preliminary figures.
[b] Ownership of dwellings only.
[c] Also includes restaurants, hotels and business services.
[d] As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

in 1977, while the sectors carrying less weight in the total (livestock production and forestry) expanded very slightly over 1976.

The performance of agriculture was influenced by weather factors (mainly drought) and the pests which affected the coffee and cotton crops in particular and did not permit full advantage to be taken of the favourable world market situation for these commodities that prevailed at the beginning of the year.

The attractive world prices of cotton during the sowing period and at the end of 1976 (about 80 US cents per pound) led to a 7% increase in cultivated area. Nevertheless, the drought that affected the northern part of the country reduced the harvested area and at the same time caused a great incidence of pests. This kept the yield per manzana at 10 quintals of ginned cotton, whereas in normal periods it fluctuates around 12 quintals. The harvested output (some 3 million quintals of ginned cotton) was considered to have been 4% less than expected.

The production of coffee was slightly below the 1976 level owing to strong winds which lashed the plantations during the flowering stage and despite the policy of renewal and improved management of plantations initiated in earlier years. The high prices encouraged producers –with financing from the Special Development Fund (FED)– to introduce new techniques in coffee-growing in the

form of improved fertilization and control of pests, such as the red blight which infested the Pacific region. This outbreak –the first of its kind in Central America– was combated vigorously. The cost of the eradication campaign in 1977 was 11 million dollars, of which 5 million were financed with a loan from the Central American Bank for Economic Integration. This programme arrested the spread of the disease, although it is too early to know whether it has been completely eradicated.

The production of sugar cane decreased slightly compared with the high levels reached in 1976, even though the area sown was similar to that cultivated in 1976. The explanation of this trend lies both in the decline in world prices which induced farmers to harvest only part of the area sown, and in the drought which damaged the unirrigated plantations. Furthermore, the projects for the expansion of sugar refineries were suspended pending the stabilization of prices which is expected to result from the ratification of the International Sugar Agreement negotiated in October 1977.[164]

On the other hand, the programme of diversification of agricultural commodities for export permitted an increase in the area under cultivation, the principal crops being bananas and Havana tobacco.

Among the basic grains for domestic consumption, the crops showed contrasting trends. While the production of rice rose by about 20%, that of beans fell by nearly 27% and that of maize and sorghum remained at the same level, affected by the drought which was responsible for low yields in the spring harvest and significant declines during the subsequent sowings. Added to this were the low prices paid to producers and the increase in the area sown to cotton at the expense of that used for basic grains.

Livestock production grew more rapidly (6%) than crop farming, but the steady decline in world beef prices during the major part of the year discouraged the rate of slaughtering for export. With the slight upturn in world prices at the end of 1977, however, slaughtering was reactivated in order to fill the United States export quota of 50.7 million pounds.

Forestry, in its turn, remained practically at a standstill owing to the indiscriminate exploitation of commercial forests, which are clearly being depleted, and to the fact that the new concessions are in areas of difficult access by land.

Lastly, fishing activity grew at a low rate (1.3%), similar to that of the preceding year. The shrimp and lobster catches were destined almost exclusively for export (80%) and their volume represented about one third of all fishing activity.

Government policy in 1977 was to design and equip a network of agencies which, once in full operation, would make it possible to increase the productivity and income of small- and medium-scale farmers and to diversify production for export. These include the Nicaraguan Institute of Agrarian Technology (INTA) whose main goals are the extension and spread of staple crops and the generalized use of improved coffee seeds. Six model farms have already been established under this programme. Added to this was the emphasis placed in 1977 on combating the red blight affecting coffee.

The Peasants' Welfare Institute continued its policy of granting municipal credit to small population centres for development purposes (sewerage, drinking water supply and provision of materials for the construction of roofed-in markets, etc.), loans to small-scale producers and technical assistance for diversifying production, supplying inputs and facilitating marketing jointly with the National Institute of Foreign and Domestic Trade (INCEI). In 1977 this institution doubled its volume of operations in relation to the previous year, reaching the sum of 20 million córdobas.

The National Agrarian Institute (IAN) proceeded with the Rigoberto Cabezas land settlement project (Phase I) in the south-central region of Nicaragua. The first stage placed particular emphasis on maize, beans and rice crops and pasture for livestock. At present, in Phase II, the cultivation of pineapples and yuca is being introduced. Moreover, it is planned to increase the land settlement area by further clearing, opening up roads and providing facilities for the construction of dwellings.

In 1977 the financing programmes were also extended to cover the cotton and coffee crops. In the former case, the Banco Nacional continued to finance nearly all the sowings; in the second case, the Special Development Fund provided support for part of the improvement programmes in co-operation with coffee-growers through the reinvestment of profits in order to reach a future yield of

[164] At the end of December 1977 Nicaragua had not yet ratified the International Sugar Agreement as envisaged but expressed its intention of implementing it provisionally.

15 quintals of coffee per cultivated manzana. In turn, the amount of credit disbursed by the public sector and specifically assigned to short-term agricultural production was 42o/o higher than in the previous year; 70o/o of this credit was allocated to cotton, coffee and sugar cane, and only 30o/o to basic grains for domestic consumption.

(ii) *Manufacturing.* The value added in the manufacturing sector grew at a rate of nearly 6o/o (see table 287). This expansion was due to the growth of domestic demand and was basically the result of the greater use of installed capacity, since no major investment was made in new industries in 1977. Under the head of beverages, however, a new brewery entered into operation; in the metal products branch the plant of the INCA enterprise for manufacturing wire rod was expanded and the production of chemicals was stimulated both by the expansion of the PVC plant and by the greater demand for fertilizers and insecticides as a result of the increased area sown to cotton.

Table 287

NICARAGUA: INDICATORS OF MANUFACTURING PRODUCTION

	Millions of cordobas at 1958 prices				*Percentage breakdown* [a]		*Growth rates* [a]		
	1974	*1975*	*1976*	*1977*	*1970*	*1977*	*1975*	*1976*	*1977*
Food	463	536	547	567	40.2	36.2	15.8	2.0	3.8
Beverages	109	117	133	150	7.7	9.5	8.0	13.5	12.6
Tobacco	65	66	81	87	4.8	5.5	1.4	22.6	6.4
Textiles	90	92	97	92	5.8	5.9	2.8	5.5	-5.2
Footwear and clothing	43	41	47	46	4.9	2.9	-4.4	14.4	-2.1
Wood and cork	78	69	66	70	3.6	4.5	-12.1	-4.6	6.7
Furniture	13	13	14	15	1.3	0.9	-3.0	7.0	8.8
Pulp and paper	23	23	26	30	1.1	1.9	0.9	13.4	13.7
Printing and publishing	28	29	30	34	2.6	2.2	2.5	4.5	14.0
Leather products	8	10	9	9	1.1	0.6	15.5	-7.2	4.4
Rubber products	5	5	6	6	0.5	0.4	5.9	5.6	10.5
Chemical products	155	141	147	156	8.0	9.9	-9.1	4.0	6.4
Petroleum products	44	50	54	60	3.1	3.8	14.3	7.6	11.6
Non-metallic mineral products	104	88	99	106	5.0	6.7	-15.3	12.5	6.9
Metal products	103	81	63	76	5.3	4.8	-21.8	-21.4	18.9
Machinery and electrical and non-electrical articles	24	29	28	28	1.5	1.8	21.6	-3.5	0.7
Transport equipment	4	6	7	6	0.3	0.4	27.9	20.0	-7.6
Miscellaneous	34	31	31	33	3.2	2.1	-8.6	1.3	6.1
Total	*1 393*	*1 427*	*1 485*	*1 571*	*100.0*	*100.0*	*2.4*	*4.1*	*5.8*

Source: Central Bank of Nicaragua.

[a] The structure and rates were calculated on the basis of unrounded figures.

Food processing, which represents over 34o/o of the manufacturing value added, recorded a lower growth rate (3.8o/o) than the average for the whole manufacturing sector. The dynamism of the manufacture of dairy products was due to the increased installed capacity of the milk powder processing plant. Other items in process of expansion were animal feed, edible oils and fats, canned fish and processed vegetables. These increases however, were partially counteracted by the decline in sugar output.

Textiles and clothing and footwear, whose production diminished, were affected by the deterioration in the real income of wage-earners and by specific problems of the main producing companies, a situation which was partly neutralized by the greater dynamism of sales to Central America, particularly of textiles, which increased by nearly 23o/o from slightly under 10 million dollars in 1976 to 12 million in 1977.

The limited domestic supply of manufactures made it necessary to satisfy the increased domestic demand for industrial goods by means of purchases abroad; this raised the value of imports of manufactures by 32°/o. The imported supply coefficient of industrial demand thus rose from 40°/o to 44°/o between 1976 and 1977.

On the other hand, the share of exports of manufactured products in the gross value of production declined from 28°/o to 25°/o owing to a contraction of external demand, mainly for sugar. In contrast, sales to the Central American Common Market, which represent nearly half of the total exports of manufactures, expanded by 18°/o in current values, which shows the increasing industrial interrelationships between the Central American countries. This expansion was, however, counteracted by a drop of 12°/o (about 18 million dollars) in sales to third countries.

In 1977 the National Development Institute (INFONAC) pursued its policy of providing financial support for the development of industrial estates through the construction of buildings and the installation of basic services. These estates have not been as well received as had been expected, for want of an integrated development programme and the necessary technical and financial assistance. Among the main projects promoted by the Institute are a 12,000-spindle spinning mill for processing about 8,000 bales of cotton annually, and a project at Chinandaga for the production of Turkish towelling from 12,000 bales of cotton. The total investment in both these projects would amount to 18 million dollars, a large part of which would be obtained from external sources. INFONAC also promoted other small agro-industrial projects using domestic inputs, such as a plant for the production of salami and meat preparations and a pig slaughter-house. Lastly, in 1978 two more enterprises will be installed in the Las Mercedes free zone where radio and television sets will be assembled for export, in addition to the four existing plants manufacturing clothing, mainly jeans and shirts. Furthermore, the Banco Nacional de Nicaragua is promoting small-scale enterprises in areas far from the industrial centres. On the whole, industrial policy continued to place emphasis on the use of local raw materials, not only in agro-industrial projects but also in the processing of intermediate goods to meet both domestic demand and that of the Central American Common Market, which led to an increase in non-traditional exports. Nevertheless, the apparent lack of co-ordination of the industrial policy mechanisms used by several public sector bodies, the commercial sector's pressure against the ratification of the Third Protocol to the Central American Agreement on Fiscal Incentives to Industrial Development[165] –notwithstanding manufactures' support– and other recent factors of a temporary nature have created an atmosphere of uncertainty as regards undertaking certain large-scale projects.

(iii) *Construction.* The value of construction distinctly recovered with a real increase of about 11°/o over the 1976 level. The public sector maintained its rising trend and took the place of private enterprise as the principal driving force of construction, its share in 1977 being 58°/o of the projects compared with 48°/o in 1974. This government policy was reflected in higher investment in community and infrastructure works (road network, ports, etc.) and partly in the construction of public buildings for the health and education sectors (see table 288).

The building of dwellings, on the other hand, reversed its trend with the rise in unit value per dwelling built. While the area constructed increased by 20°/o, the absolute number of dwellings declined sharply. The expansion of the construction of dwellings may be ascribed mainly to private enterprise, since the Banco Nacional de la Vivienda, which had programmed investment of about 210 million córdobas, actually invested only 57°/o of this sum. There were several reasons of a financial nature for this decline; in particular the fact that only 30°/o of the external loans requested were obtained, and the Bank's growing local indebtedness. Moreover, the real value of private construction of commercial, industrial and agricultural buildings continued to decrease (see table 288).

The plan for the reconstruction of Managua was somewhat slow in starting, among other reasons because there were still problems to solve concerning the payment of indemnity for land in the destroyed area, because the urban planning process was never really put into effect by the group of public bodies in the Managua area and, lastly, because public sector bodies and private enterprises are carrying out new projects not included in the plan and sometimes even in distinct opposition to

[165] By means of this Protocol, the Governments of Costa Rica , El Salvador, Guatemala and Nicaragua extend for a further five years the period in force of the fiscal incentives and surcharges in respect of imports and consumption established as emergency measures in defence of the balance of payments by the San José Protocol of 1968.

Table 288

NICARAGUA: INDICATORS OF CONSTRUCTION ACTIVITY

	Millions of córdobas at 1970 prices				*Growth rates*		
	1974	*1975*	*1976*	*1977*[a]	*1975*	*1976*	*1977*[a]
Total value of construction	*630*	*631*	*652*	*722*	0.2	3.3	10.7
Private	*330*	*302*	*290*	*306*	-8.3	-4.3	5.7
Dwellings	251	230	233	258	-8.4	1.3	10.8
Commercial	27	29	18	12	7.5	-37.5	-34.4
Industrial	8	10	10	7	32.5	-5.9	-29.2
Agricultural	20	12	12	12	-40.0	3.3	-4.8
Other	24	21	17	17	-11.2	-23.4	5.5
Public	*300*	*329*	*362*	*416*	9.5	10.3	14.8
Buildings	106	127	165	180	19.6	29.5	9.6
Roads and community projects	97	141	133	161	45.6	-6.2	21.4
Other	97	61	64	75	-37.9	8.8	14.5
Area constructed (thousands of m^2)							
Total	323	270	252	277	-16.2	-6.9	10.2
Dwellings	134	171	133	160	27.7	-22.3	20.5
Number of buildings							
Total	1 472	1 789	2 337	1 551	21.5	30.6	-33.6
Dwellings	708	1 636	2 170	1 412	131.0	32.6	-34.9
Employment (thousands of persons)	24.2	27.8	29.6	30.3	14.9	6.5	2.4

Sources: Total value of construction: CEPAL, on the basis of data supplied by the National Planning Office; Area constructed: Survey and Census Office (OEDUC).

[a] Preliminary estimates.

it.[166] Furthermore, a high percentage of the dwellings destroyed have not been rebuilt in permanent form. In addition, the new city is being constructed in the form of nuclei of buildings and still lacks adequate basic and transport services.

3. *The external sector*

(a) *The current account*

In spite of the appreciable growth of the value of exports of goods, the accelerated expansion of imports and the increased service payments caused the deficit on current account to rise from 72 million to 154 million dollars. This adverse balance was equal to about 20% of the current foreign exchange receipts. It was influenced by the increase in the chronic deficit in the services account, which was not compensated for by the surplus recorded by trade in goods which, owing to the accelerated growth of imports, fell from 44 million to 1 million dollars (see table 289).

(i) *Exports.* The increase in the total value of exports of goods (21%) was due to the rise in world prices which, although not as steep as in 1976 –the unit value grew 24% compared with

[166] See UNDP, *Planificación de la reconstrucción de Managua* (DP/UN/NIC-73-018-7), March 1977.

Table 289

NICARAGUA: BALANCE OF PAYMENTS
(Millions of US dollars)

	1972	*1973*	*1974*	*1975*	*1976*	*1977*
Current account						
Exports of goods and services	319	350	451	456	626	743
Goods FOB	249	278	380	375	542	655
Services	70	72	71	81	84	88
Transport	10	10	16	25	27	30
Travel	14	12	23	26	27	28
Imports of goods and services	268	426	665	604	629	810
Goods FOB	205	327	540	482	498	654
Services	63	99	125	122	131	156
Transport	25	37	58	56	58	76
Travel	17	17	33	32	36	39
Net payments of profits and interest on foreign capital	-37	-47	-58	-54	-73	-95
Profits	-25	-31	-37	-24	-41	-52
Interest	-12	-16	-21	-30	-32	-43
Net private transfer payments	4	40	6	7	4	8
Balance on current account	19	-83	-266	-195	-72	-154
Capital account						
Net external financing (a + b+ c + d+ e)	-19	83	266	195	72	154
(a) Net external non-compensatory capital	46	162	275	194	63	
Direct investment	10	13	14	11	12	
Long- and medium-term loans	62	122	181	168	101	
Amortization payments	-19	-16	-21	-26	-45	
Short-term liabilities	-10	26	92	31	-11	128
Official transfer payments	3	17	9	10	6	
(b) Domestic non-compensatory capital or assets	-38	-18	-25	41	-2	
(c) Errors and omissions	-6	-2	-12	-2	34	
(d) Allocation of SDRs	3	–	–	–	–	
(e) Net compensatory financing (– = increase)	-24	-60	28	-38	-23	26
Balance-of-payments loans, trade arrears, IMF loans, and other liabilities of the monetary authorities	4	18	4	15	7	...
Amortization payments	-8	-10	-7	-9	-8	...
Variation in gross international reserves (minus sign signifies an increase)	-20	-68	31	-43	-22	...
Foreign exchange reserves (– = increase)	-18	-69	31	-45	-23	...
Gold reserves (minus sign signifies an increase)	–	-	–	–	-	...
SDRs (minus sign signifies an increase)	-3	1	–	2	1	...

Sources: 1970-1976: CEPAL, on the basis of data supplied by the International Monetary Fund;
1977: CEPAL, on the basis of data supplied by the Central Bank of Nicaragua.

36% in the previous year– was still substantial. The volume exported declined, in contrast, by around 3% (see table 290).

Table 290

NICARAGUA: MAIN INDICATORS OF FOREIGN TRADE

	1972	1973	1974	1975	1976	1977[a]
	Growth rates					
Exports of goods						
Value	33.6	11.9	36.6	-1.2	44.5	21.0
Volume	17.8	-1.0	8.3	6.3	6.1	-2.7
Unit value	13.5	13.0	26.1	-7.1	36.3	24.3
Imports of goods						
Value	8.5	59.5	65.3	-10.8	3.2	31.5
Volume	5.6	34.8	25.3	-22.4	-0.2	23.7
Unit value	2.8	18.4	31.8	15.0	3.4	6.3
Terms of trade	10.4	-4.6	-4.3	-19.2	31.7	17.0
	Indexes (1970 = 100)					
Terms of trade	107.6	102.6	98.2	79.4	104.6	122.4
Purchasing power of exports of goods	134.3	126.3	131.4	112.6	157.2	178.9
Purchasing power of exports of goods and services	139.5	132.8	133.7	119.1	157.6	175.0

Sources: CEPAL, on the basis of official data.

[a] Preliminary figures.

The principal source of exports continued to be the agricultural sector which accounted for nearly two thirds of total external sales. Thanks to an increase of 73%, coffee took the place of cotton as the main export commodity, despite the fact that the volume exported fell by 3.3%. As a result of the high prices prevailing in the first quarter of 1977, coffee sales reached a current value of around 210 million dollars and represented about one third of total exports of goods (see table 291).

The value, volume and unit value of exports of cotton rose by 17.5%, 4.0% and 11%, respectively, owing on the one hand to the decline in world stocks of this fibre and on the other to an increase in consumption. As in the case of coffee, however, with the recent drop in coffee futures, combined with the increase in production and world stocks, it may be expected that prices will be lower in 1978 than in 1977. In addition, the area sown for the 1978/79 harvest has decreased and a rise in current value will only be possible by improving the yields.

Sugar exports amounted to 33 million dollars compared with 53 million dollars in the preceding year. The deterioration was due to a drop in production resulting from the declining trend in world prices over the past 18 months. The United States is the principal market for Nicaragua's sugar sales, but until the International Sugar Agreement has been ratified by all the member countries, the protectionist measures decreed by the Government of that country at the end of 1977, guaranteeing a price of 13.5 US cents per pound for domestic producers, will limit Nicaragua's exports.

The exportable volume of meat contracted by 9%, its value by nearly 13% and the price by 5%. The low prices prevailing during a major part of the year reduced deliveries, but it is estimated that the export quota of 50.7 million pounds for the United States was filled, although the exportable balance to third countries declined.

Table 291

NICARAGUA: VALUE AND BREAKDOWN OF EXPORTS OF GOODS (FOB)

	Millions of dollars				*Percentage breakdown*		*Growth rates*		
	1974	*1975*	*1976*	*1977*[a]	*1970*	*1977*	*1975*	*1976*	*1977*[a]
Main traditional export products	*225.9*	*228.2*	*360.1*	*447.4*	*60.8*	*68.3*	*1.0*	*57.8*	*24.2*
Cotton	135.9	95.6	130.6	153.4	19.1	23.4	-29.7	36.6	17.5
Coffee	46.1	48.1	119.4	206.6	18.0	31.5	4.3	148.2	73.0
Meat	21.9	27.0	37.6	32.8	14.9	5.0	23.3	39.3	-12.8
Sugar	12.3	42.6	52.8	32.5	5.5	5.0	246.3	23.9	-38.4
Shrimps and lobsters	9.7	14.9	19.7	22.1	3.3	3.4	53.6	32.2	12.2
Main non-traditional export products	*59.8*	*57.6*	*73.4*	*87.5*	*9.5*	*13.4*	*-3.7*	*27.4*	*19.2*
Bananas	5.3	4.9	4.6	4.5	0.2	0.7	-7.5	-6.1	-2.2
Unmanufactured tobacco	3.9	4.1	4.7	4.8	1.1	0.7	5.1	14.6	2.1
Pigs	2.3	2.2	3.3	4.5	0.3	0.7	-4.3	50.0	36.4
Chemical products	36.1	30.3	41.6	54.2	5.3	8.3	-16.1	37.3	30.3
Textiles	8.0	9.3	11.8	12.3	2.5	1.9	16.3	26.9	4.2
Dairy products	4.2	6.8	7.4	7.2	1.1	1.1	61.9	8.8	-2.7
Other export products	*95.2*	*89.4*	*108.4*	*120.6*	*29.7*	*18.3*	*-6.1*	*21.3*	*11.3*
Total	*380.9*	*375.2*	*541.9*	*655.5*	*100.0*	*100.0*	*-1.5*	*44.4*	*21.0*

Source: Central Bank of Nicaragua.

[a] Preliminary figures.

It should be noted that sales of chemical products to a value of 54 million dollars occupied third place in the structure of exports, displacing sugar; 90% of these sales went to the Central American area; they consisted mainly of caustic soda, chlorinated camphene for the manufacture of insecticides and, in particular, polyvinyl chloride and manufactured insecticides.

In contrast, the rest of the non-traditional export products, except pigs, showed little increase (see table 291).

(ii) *Imports.* Imports of goods experienced growth of 32% and reached a value of a little over 700 million dollars. The following among other factors account for this upsurge:

– The high export earnings, which were used partly for imports of consumer goods;

– The bigger area sown to cotton and the coffee-growing improvement programme which involved almost doubling the purchases of raw materials and intermediate products for agriculture (mainly fertilizers and insecticides), and increasing imports of agricultural machinery;

– The rise in imports of crude petroleum and petroleum products which was due not so much to the price increase –which was only 5%– as to the effects of electricity rationing at the beginning of 1977, owing to the drop in the water level in Lake Apanás, which compelled industrial entrepreneurs to import diesel engines to make good the shortage of public energy, and the National Light and Energy Enterprise (ENALUF) to put the second 50 MW turbine into operation;

– The increase in imports of heavy road building and maintenance equipment; and

– The high level recorded by fixed capital formation, with a considerable imported component.

Raw materials and intermediate goods continued to predominate, representing nearly 50% of the total value of imports. Those for industry (25% of the total) and fuels (12.5%) accounted for

the largest share. Consumer goods and capital goods represented just over 25°/o each (see table 292). The income effect of the export boom in the last two years was reflected in the high growth rates of imports of consumer durables and capital goods.

Table 292

NICARAGUA: VALUE AND BREAKDOWN OF IMPORTS OF GOODS (CIF)

	Millions of dollars				*Percentage breakdown*		*Growth rates*		
	1974	*1975*	*1976*	*1977*[a]	*1970*	*1977*	*1975*	*1976*	*1977*[a]
Consumer goods	126	123	145	187	29.2	26.6	-2.8	18.6	28.6
Non-durable	80	78	95	118	19.0	16.8	-2.0	21.7	24.6
Durable	50	45	51	69	10.2	9.8	-11.0	13.2	36.0
Intermediate goods	318	275	274	333	47.6	47.5	-13.4	-0.5	21.6
Petroleum and fuels	59	73	68	88	5.7	12.5	23.1	-7.1	29.4
For:									
Agriculture	42	32	19	36	4.0	5.1	-23.1	-40.9	88.5
Manufacturing	189	142	156	175	30.7	24.9	-24.6	9.8	11.6
Construction	28	28	31	35	7.2	5.0	–	10.8	14.0
Capital goods	115	119	113	182	23.2	25.9	3.5	-5.2	61.2
Agriculture	13	13	13	19	1.8	2.7	-6.7	5.6	43.9
Manufacturing	74	85	76	87	17.0	12.4	15.6	-10.8	14.7
Transport	28	21	24	76	4.4	10.8	-23.7	10.8	221.3
Total	*562*	*517*	*532*	*702*	*100.0*	*100.0*	-8.0	2.9	31.9

Source: Central Bank of Nicaragua.

[a] Preliminary figures.

(iii) *The terms of trade.* As a result of the bigger rise in the unit price of exports (24°/o) than in average import prices (6°/o), the terms of trade experienced a further substantial increase. Their level in 1977 was thus 50°/o higher than in 1975 and the highest for 15 years. Thanks to this the purchasing power of exports increased vigorously for the second consecutive year and its index reached an unprecedented level (see table 290).

(iv) *Intraregional trade.* Of Nicaragua's total exports, some 136 million dollars' worth were placed in Central America. Nevertheless, the CACM's share in total sales diminished from nearly 25°/o in 1976 to a little less than 21°/o in 1977, mainly owing to the fact that the main dynamic element in sales to this area had been exports of coffee and cotton. Over 90°/o of trade with Central America was based on manufactured products. Chemical products accounted for over one third of the total, followed by textiles and dairy products.

Imports from the subregion in their turn represented 24°/o of total purchases, which was slightly lower than in 1976 (26°/o) owing to the fact that the increased purchases were concentrated on items and sectors of which the rest of the Central American countries are also in short supply or are net importers. The main import items in decreasing order of importance were textiles (including clothing), footwear, chemical products, foodstuffs (raw and processed) and pharmaceutical products.

The value of imports from the Central American area finally amounted to 166 million dollars, giving rise to a trade deficit of approximately 30 million dollars.

(b) *Movements of capital*

Although the current account deficit on the balance of payments more than doubled that of the previous year, it was below that recorded in 1974 and 1975. Net inflows of private capital continued to decrease, amounting to only 19 million dollars compared with 26 million in 1976 and 44 million dollars in 1975. This drop occurred with the further reduction of private commercial credit and an outflow of foreign exchange for speculative purposes. The errors and ommissions account –in which these movements are generally reflected– showed a negative balance of 33 million dollars compared with a positive balance of 7 million dollars in the previous year. In contrast, inflows of official capital doubled, reaching a total of 143 million dollars. In these circumstances, the external deficit increased and it was necessary to have recourse to international reserves and borrowing (see table 289).

(c) *The external debt*

The balance of the public debt guaranteed by the State was 836 million dollars at the end of 1977 and servicing represented a little less than 16°/o of total exports of goods and services (see table 293). From 1978 onwards the amortization of the public external debt will be a good deal more onerous. It is expected to amount to some 80 million dollars, compared with a little over 50 million dollars in 1977, when Nicaragua has to start repaying the soft credits and other commercial loans contracted to carry out the reconstruction programme. Lastly, in the structure of public external indebtedness there may be observed an increasing share of credit from private international banks obtained on commercial terms, to which recourse was had as being of easier access and having more flexible and expeditious procedures than the loans granted by public international agencies.

Table 293

NICARAGUA: INDICATORS OF EXTERNAL INDEBTEDNESS
(Millions of dollars)

	1972	*1973*	*1974*	*1975*	*1976*	*1977*[a]
Total external debt guaranteed by the State	255	347	503	644	691	836
Servicing of external debt	35	71	49	56	88	104
Amortization payments	23	52	20	20	41	51
Interest payments	12	19	28	36	48	53
Servicing of external debt, as a percentage of total exports	13.9	25.4	12.8	15.0	16.2	15.8

Source: Central Bank of Nicaragua.

[a] Preliminary figures.

4. *Prices and wages*

The rise in domestic prices accelerated in 1977. Consumer prices are estimated to have increased by 10.2°/o over December 1976, compared with a rise of 6.2°/o in the previous year (see table 294). This trend was influenced by a number of factors: the repeal of the Economic Emergency Law in February; some shortages in domestic supply, basically of foodstuffs; and the increase in transport rates due to the rise in the price of fuels.

Repealing the above Law was partly due to the Government's desire to liberalize the economy in the hope that the rise in prices would act as a stimulus to greater agricultural production for domestic

Table 294

NICARAGUA: EVOLUTION OF CONSUMER PRICES
(Percentages)

	1975	*1976*	*1977*
	Variation between annual averages		
Consumer price index	*1.8*	*2.8*	*11.4*
Food	0.7	1.2	14.8
Clothing	2.8	0.6	2.8
Dwellings	2.8	4.1	6.9
Miscellaneous	2.5	5.1	12.3
Price index by origin			
Domestic products			
Exports	0.3	1.3	12.9[a]
Domestic consumption	2.3	3.3	11.9[a]
Imported products	3.1	4.6	6.5[a]
	Variation from December to December		
Consumer price index	*1.9*	*6.2*	*10.2*
Food	-2.2	8.0	10.7
Clothing	2.3	2.5	2.6
Dwellings	3.5	5.0	8.9
Miscellaneous	4.6	5.2	12.6
Price index by origin			
Domestic products			
Exports	-1.8	8.2	11.1[b]
Domestic consumption	3.0	5.8	10.3[b]
Imported products	6.0	3.5	8.0[b]

Source: Central Bank of Nicaragua.

[a] Variation from January to November 1977 compared with the same period in 1976.
[b] Variation between November 1977 and December 1976.

consumption. As regards food, which accounts for a considerable share of the total index (44%), there were significant increases in the partial indexes as from February –basically in pulses, pork and pork preparations, coffee, maize, beans and non-alcoholic beverages– which contributed to a global expansion of 10.7% in this sector. The rise in the "miscellaneous expenditure" sub-index (12.6%) was mainly due to the increase in transport costs. In contrast, in spite of liberalizing rents of dwellings, the full effect of this measure was not felt, since the index concerned showed a growth of only 8.9%.

Finally, partial indexes of wages and salaries –which include only those of workers protected by the social security system who represent less than 20% of the economically active population– show a nominal increase of 8.6% in the average wages and salaries. This increase was less than the rise in prices, so that in real terms wages and salaries deteriorated by 1.5%. Since in 1976 the real purchasing power of these same workers had also decreased (2%), the real increase of 2.8% recorded in 1975 was practically cancelled out. Thus, real wages and salaries in 1977 remained at approximately the same level as in 1974 (see table 295).

Table 295

NICARAGUA: EVOLUTION OF WAGES AND SALARIES[a]

	1975	1976	1977
	Indexes (1974 = 100)		
Wages and salaries			
Nominal	105.8	110.1	119.6
Real	103.8	101.7	100.2
	Growth rates		
Wages and salaries			
Nominal	5.8	4.1	8.6
Real	3.8	-2.0	-1.5

Source: Central Bank of Nicaragua.

[a] These data cover a sample of 20°/o of the economically active population which groups wage-earners covered by the Nicaraguan Social Security Institute. The coverage by sectors in relation to the total economically active population in the same sector is as follows: agriculture: 0.8°/o; manufacturing: 28.8°/o; construction: 41.3°/o; mining, electricity, gas and water: 100°/o; transport: 31.7°/o and services: 32.3°/o.

5. *Fiscal and monetary trends*

(a) *Fiscal trends*

The central government fiscal deficit rose significantly (76°/o) in 1977 to around 1,200 million córdobas, the highest level in the present decade. This increase in the deficit was due to a considerable increment in capital expenditure, particularly real investment which, according to official figures, rose by 133°/o. Another contributing factor, however, was current expenditure under the head of purchases of goods and services and transfers. To cover this deficit the State resorted almost entirely to external credit, only 5°/o being financed with domestic resources (see table 296).

Current income of the central government grew by 15°/o, mainly as the result of an increase in indirect taxes, revenue from which rose 23°/o and represented almost half of the total tax receipts. Chief among them were the taxes on production and consumption, which showed a trend towards a bigger share in government income. The reactivation of the economy, particularly the industrial sector, also led to an increase in revenue from taxes on imports (17°/o). In view of the public sector's substantial external purchases, however, this represented less than 9°/o of the total CIF value of imports, compared with 10°/o in 1976. Moreover, although export taxes increased sixfold, their absolute value (45 million córdobas) is still very low and represented only 1°/o of the total value of exports of goods and 3°/o of total tax revenue.

The fiscal reform of 1975, the purpose of which was to redistribute income by means of a progressive tax on income and encourage gross capital formation, has not had the successful results expected. Thus in 1977 direct taxes barely increased, and the splitting up of enterprises in order to present lower bases for taxation was accelerated and became the general rule, which accounts for the drop in income tax revenue. In contrast, the receipts from property taxes, with a good deal less relative importance, increased by 15°/o.

Table 296

NICARAGUA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of córdobas				*Growth rates*		
	1974	*1975*	*1976*	*1977*[a]	*1975*	*1976*	*1977*[a]
Current income	1 365	1 323	1 527	1 761	-3.1	15.4	15.3
Tax revenue	1 137	1 151	1 353	1 596	1.2	17.5	18.0
Direct	180	265	350	351	47.2	32.1	0.3
Indirect	474	535	628	769	12.9	17.4	22.5
From taxes on external trade	484	352	374	476	-27.3	6.3	27.3
Non-tax revenue	228	172	174	165	-24.6	1.2	-5.2
Current expenditure	995	1 121	1 209	1 505	12.7	7.9	24.5
Wages and salaries	388	444	547	548	14.4	23.2	0.2
Other current expenditure	607	677	662	957[b]	11.5	-2.2	44.6
Current savings	370	202	318	256	-45.4	57.4	-19.5
Capital expenditure	1 032	985	988	1 438	-4.6	0.3	45.5
Real investment	290	291	319	745	0.3	9.6	133.5
Amortization of the debt	81	144	157	204	77.8	9.0	29.9
Other capital expenditure	661	550	511	489	-16.8	-7.1	-4.3
Total expenditure	2 027	2 106	2 197	2 943	3.9	4.3	34.0
Fiscal deficit	-662	-783	-670	-1 182	18.3	-14.4	76.4
Financing of the deficit							
Domestic financing (net)	30	49	51	57	63.3	4.1	11.8
External financing	682	596	612	1 195	-12.6	2.3	95.3

Source: Central Bank of Nicaragua.

[a] Estimates.

[b] Includes an undetermined proportion of wages and salaries.

Furthermore, domestic public credit rose 12%, while external financing almost doubled, from which it may be expected that in the next few years debt servicing and the consequent pressures in connexion with its financing are bound to increase significantly (see table 296).

Total expenditure increased by 34% with the rise of 25% in current spending and 46% in capital expenditure. Of the former, transfers to the rest of the public sector rose by 84% and consumption expenditure by 13%, although public sector wages and salaries remained virtually at a standstill. In view of the increase in consumer prices, this meant a net loss in the purchasing power of the income of this group of workers.

Approximately half of the capital expenditure was assigned to real investment, which more than doubled and was concentrated in machinery and equipment, port infrastructure works in Corinto and the reconstruction of public buildings for the health and education services.

The purchase of the necessary machinery and equipment was financed with external credit, and its object was the construction of access roads to the Atlantic and the upkeep of the existing road network. Owing to the size of this operation –which according to official sources amounted to 50 million dollars– it noticeably affected the main macroeconomic indicators: total supply and demand, the public sector finances and the balance of payments. Up to the end of the year, however, the major part of the machinery had not yet been utilized.

Capital transfers to the rest of the public sector and amortization of the debt also increased sharply, while financial investment declined for the third consecutive year.

(b) *Monetary trends*

After permitting greater liquidity in 1976, the monetary authorities adopted a policy in 1977 designed to lessen the balance-of-payments disequilibrium and also to curb the possible inflationary effect of the rise in world prices of export commodities or the sharp increase envisaged in public investment. As a result of the measures adopted, the money supply increased by only 5%, that is, at a much lower rate than in 1976 (26%). On the other hand, quasi-money increased at a fairly high rate for the third year running (see table 297).

Table 297

NICARAGUA: MONETARY POSITION

	End-year balance (millions of córdobas)					*Growth rates*		
	1974	*1975*	*1976*	*1976*[a]	*1977*[a]	*1975*	*1976*	*1977*[b]
Money	1 427	1 377	1 728	1 453	1 526	-3.5	25.5	5.0
Currency outside banks	452	445	436	501	565	-1.5	42.9	12.8
Demand deposits	964	913	1 064	926	931	-5.3	16.5	0.5
Factors of expansion	2 895	3 076	3 828	3 601	3 797	6.3	24.5	5.4
Foreign assets (net)	353	248	626	546	249	-29.7	152.4	-54.4
Domestic credit	2 542	2 828	3 202	3 055	3 548	11.3	13.2	16.1
Government (net)	-156	115	162	177	194	–	40.9	9.4
Official entities	44	53	69	63	80	20.5	30.2	27.0
Private sector	2 654	2 661	2 971	2 815	3 275	0.3	11.7	16.3
Factors of absorption	1 468	1 699	2 100	2 148	2 271	15.7	23.6	5.7
Quasi-money (savings and time deposits)	703	774	1 083	1 053	1 223	10.1	39.9	16.1
Bonds								
Long-term foreign borrowing	459	550	566	606	406	19.8	2.9	-33.0
Other items (net)	306	375	451	489	642	22.6	20.3	31.3

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

[a] January-October.

[b] October 1977 in relation to October 1976.

Credit to the private sector continued to be the predominant factor of expansion of domestic bank assets, growing by over 16% in the 12-month period ending in October 1977. The major part of this credit consisted of loans for importing raw materials, building up stocks, investing in rapidly negotiable assets and building dwellings.

In March 1977, Congress approved legislation for establishing a "financial free zone" in Nicaragua. This law authorizes the operation of banks, investment societies and other similar institutions that undertake international financial operations in foreign currency. Any banks established in Nicaragua under this legislation may not receive deposits, but may extend credit. They would be subject to an annual inspection by the Superintendency of Banks but not to the provisions of the Central Bank's monetary policy applicable to the country's banking system.

PANAMA

1. *The overall picture*

Between 1973 and 1976 the economy of Panama experienced a continuous decline in its rate of growth, contrasting with the rapid expansion of the previous decade. In 1977, however, a degree of reactivation was to be observed in some economic activities which contributed to increasing the gross domestic product by 2.5%. This rate was, however, somewhat less than population growth which meant that the per capita product decreased for the fourth consecutive year (see table 298).

The reactivation of the economy in 1977 was the result of fairly promising growth in the agricultural sector and the food industry, and of increases in oil refining, energy generation and government activities.

Generally speaking, the recovery was not stimulated by domestic private demand, which decreased in absolute terms. While personal consumption was at a standstill, private investment dropped for the third year running. This performance is to be explained partly by the uncertainty which has existed for some years with regard to the result of the Panama Canal negotiations.

Public spending, particularly expenditure on investment, showed some dynamism with increased expenditure on basic infrastructure (communications and hydroelectric and port works), industrial projects and the extension of social services.

External demand increased slightly (1% in real terms), as a result of a moderate increase in sales of refined petroleum products, which more than offset the decrease in the volume of exports of bananas and sugar, two of the traditional products of greatest importance.

The passivity of domestic demand, and especially the drop in private investment, continued to influence imports, which decreased by 5% in volume.

The high level of external dependence and increases in the prices of imports were elements which contributed to speeding up domestic inflation. Despite the price control policy which governed some basic products, the consumer price index increased by 9.4%. There are no indicators for the evolution of real wages for 1977; it is, however, probable that the inflationary process has restricted the redistribution policies which the government has been applying, as may be inferrred from the stagnation of private consumption.

With regard to employment, only very partial data are available. However, household surveys show that the unemployment coefficient of the metropolitan area remained at 7.8% in March 1977, and was similar to that of the same month of the previous year.

In 1977 the central Government continued to expand its activities. As in previous years, its current income increased appreciably, and allowed it to continue its policy of relative expansion through public spending, which increased by 16%. This figure, however, does not include expenditure by enterprises, and consequently does not reflect all the effort made by the public sector to give impetus to the country's economic system. The fiscal deficit, which in 1974 amounted to slightly over 50% of total expenditure, has come to represent around a third of total expenditure in the last three years (see table 298).

The balance on external current account, which dropped by slightly over 200 million dollars in 1976, decreased by 141 million dollars, while the balance of the public sector external debt continued to grow more than doubling over the last four years, to nearly 615 million dollars in 1977.

Lastly, mention should be made of a political event with great repercussions not only in the country but also internationally: the virtual culmination of the long process of negotiations between the Government of Panama and the Government of the United States on the sovereignty of the Canal Zone and its control. The treaties regulating the gradual transfer of the administration of the Canal, at present in the process of being ratified,[167] will not only make changes in the structure of ownership of the Canal, but also have very positive repercussions on economic activity in the country[168] with the strengthening of the Government's development policy.

[167] On 7 September 1977, the documents which had already been ratified by Panama and which the United States Senate ratified in April 1978 were signed in Washington, D.C.

[168] The ratification of the new agreements means that new prospects are opening up for Panama's economy. During the 23 years in which the Canal Treaty and other related agreements will be in force, the country will receive nearly 2,400 million dollars.

Table 298

PANAMA: MAIN ECONOMIC INDICATORS

	1972	*1973*	*1974*	*1975*	*1976*	*1977*[a]
A. *Basic economic indicators*						
Gross domestic product at factor cost (millions of US dollars at 1970 prices)	1 441	1 529	1 569	1 578	1 578	1 618
Population (millions)	1.54	1.59	1.63	1.68	1.72	1.77
Per capita gross domestic product (US dollars at 1970 prices)	935	965	963	942	916	913
	Growth rates					
B. *Short-run economic indicators*						
Gross domestic product	5.3	6.1	2.6	0.6	–	2.5
Per capita gross domestic product	2.4	3.2	-0.2	-2.2	-2.8	-0.3
Gross income[b]	6.9	4.1	-0.8	-1.7	-0.8	3.3
Terms of trade	4.4	-4.3	-8.1	-4.5	-3.5	-1.9
Current value of exports of goods and services	8.7	13.9	44.6	13.3	-5.6	7.9
Current value of imports of goods and services	12.2	11.4	56.7	8.5	-3.2	-0.6
Consumer price index						
December to December	6.7	9.7	16.6	1.8	3.3	9.2
Variation between annual averages	5.3	6.9	16.8	5.5	2.3	9.4
Wages and salaries	...	18.4	19.3	3.4	...	...
Rate of unemployment[c d]	...	...	7.1	8.5	8.4	7.8
Current income of government	9.2	13.7	20.6	9.5	8.6	17.3
Total expenditure of government	26.6	11.3	29.0	10.4	6.8	16.2
Fiscal deficit/total expenditure of government[c]	...	28.9	50.6	33.7	32.6	32.0
	Millions of US dollars					
C. *External sector*						
Trade balance (goods and services)	-68	-64	-163	-141	-156	-87
Balance on current account	-107	-120	-234	-175	-203	-141
Variation in net international reserves	22	-3	-12	-23	17	...
External debt[e]	215	297	359	427	510	614

[a] Preliminary figures.
[b] Gross domestic product plus terms-of-trade effect.
[c] Percentage.
[d] Annual average in the metropolitan area, in 1977 corresponds to March.
[e] Balance of the disbursed external public debt guaranteed by the State.

During 1977, there were clear indications that, together with the political strategy which for some years now has been taking shape in the Canal negotiations, economic measures had been adopted in keeping with medium- and long-term objectives. The most outstanding of these included continued investment in energy infrastructure, ports, highways and sugar mills, the copper mining and refining project –which will have great repercussions at the beginning of the next decade– and

some other industrial projects. Furthermore, government policy is continuing to grant priority attention to social problems. More widespread involvement of the population in economic activities is being sought, and the public housing programmes and the interest in bringing health services and further education to the whole population are being continued.

2. *Sectoral trends*

(a) *Global trends*

Following a period characterized by a very rapid annual growth, the rate of growth of the gross domestic product began to lose dynamism in 1974, when it increased (2.6%) less than the population. This trend was accentuated in 1975 and 1976 but reverted slightly in 1977, when global economic activity increased at a rate which barely allowed the per capita level of the product to be maintained (see table 298).

This slight recovery of domestic production activity was not the result of generalized stimuli arising out of global demand, but rather of the clearing of some bottle-necks –in energy and other public services, for example– together with increased output, falls in which in earlier years had made it necessary to complement domestic supply with imports, particularly of some agricultural and food products.

The expansion of some fairly substantial import substitution projects in the industrial sector also helped to give a boost to economic activity.

Imports again decreased considerably at constant prices (5% in the year), and reaffirmed the downward trend begun in 1974. This shows that it had still not been possible to overcome the impact of world inflation, apart from the repercussions of the drop in private investment on the volume of imports (see table 299).

In demand, a slight recovery in the volume of exports of goods and services was observed, in response to an increase in exports of petroleum products, from an industry which processes imports of crude oil and sells the processed product.

With regard to investment, the levels of capital formation in the private sector fell further, by nearly 10% compared with 1976 and 28% compared with 1970. The factors which influenced this downward trend included the unhibiting effect on investment decisions produced by uncertainty as to the outcome of the Panama Canal negotiations, and the relative exhaustion of the possibilities offered by the traditional model of development (based on exports of bananas, sales of services to the Canal Zone, activities in the Colón Free Zone, tourism, etc.), although the country has continued to consolidate its position as an international financial centre. In this situation, the government is promoting investment in new fields of activity (natural and energy resources and some industrial projects) and new sources of development are emerging.

The reduction in private investment was partly offset by a continued though moderate rise in public sector investment (4%).

The government endeavoured by this means to reach the targets of the 1976-1980 National Development Plan, which is designed to create new sources of growth by channelling external financing towards economic private investment which will allow better use to be made of Panama's geographical situation.[169]

As the result of the different trends in public and private investment, the structure of total investment changed substantially. While in 1970 public investment accounted for 27% of total investment and private investment for 73%, in 1977 the share of public investment increased to 58%, while that of private investment dropped to 42%.

Investment in construction dropped by 3% compared with the previous year, following a decline in house-building by the private sector. This decrease was also influenced by government policy, which, in order to deal with increases in the prices of imported construction material, reduced bank credit for the construction of luxury dwellings so as to devote greater resources to more economical housing.

[169] In this respect particular mention should be made of the new airport of Tocumen, the container port, the fishing port and the oil pipeline.

Table 299

PANAMA: TOTAL SUPPLY AND DEMAND

	Millions of balboas at 1970 prices			*Percentage breakdown*		*Growth rates*		
	1975	*1976*	*1977*[a]	*1970*	*1977*[a]	*1975*	*1976*	*1977*[a]
Total supply	*1 815*	*1 776*	*1 784*	*140.6*	*130.9*	*-0.8*	*-2.1*	*0.5*
Gross domestic product at market prices	1 330	1 330	1 363	100.0	100.0	0.6	–	2.5
Imports of goods and services[b]	485	446	421	40.6	30.9	-4.9	-8.1	-5.3
Total demand	*1 815*	*1 776*	*1 784*	*140.6*	*130.9*	*-0.8*	*-2.1*	*0.5*
Domestic demand	1 290	1 284	1 286	103.3	94.4	-2.9	-0.4	0.2
Gross domestic investment	353	314	313	26.4	23.0	11.3	-11.1	-0.1
Gross fixed investment	339	327	320	24.4	23.5	24.5	-3.6	-2.0
Construction	186	193	188	12.2	13.8	30.0	3.7	-2.8
Machinery	153	134	132	12.2	9.7	18.3	-12.5	-0.9
Public	169	178	186	6.5	13.6	88.2	5.6	4.3
Private	170	149	134	18.0	9.9	-6.8	-12.7	-9.6
Changes in stocks	14	-13	-7	2.0	0.5			
Total consumption	937	970	973	76.9	71.4	-7.4	3.6	0.3
General Government	216	221	225	14.3	16.5	8.0	1.9	2.1
Private	721	749	748	62.6	54.9	-11.2	4.1	-0.1
Exports of goods and services[b]	525	492	498	37.3	36.5	4.4	-6.3	1.1

Source: 1970-1976: CEPAL calculations on the basis of data supplied by the Statistics and Census Office;
1977: CEPAL estimates on the basis of data from the same source.

[a] Preliminary figures.

[b] 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 CEPAL for the purpose.

Although total consumption was almost identical to the previous year's, the balance between private and government consumption changed. While the former decreased slightly, following a revival in 1976, government consumption once again increased (2%). Since value added by the government increased by 5.5%, the smaller rise in government consumption implied a considerable fall in the purchases of non-personal goods an services, as the result of a policy to reduce such expenditure.

(b) *Sectoral developments*

In 1977 the evolution of the different sectors was rather uneven. The generation of energy, the agricultural sector, the central Government sector and manufacturing were the most dynamic sectors. Construction, however, declined in absolute terms, despite the increase in public investment, and trade, transport and financial activities experienced moderate growth (see table 300).

(i) *The agricultural sector.* The perfomance of the agricultural sector was different from that of 1976: following a year of stagnation, crop production recovered very well with growth of 10%. Livestock production increased for the second year running, although at a rather lower rate than in 1976 (see table 301).

The favourable results in crop production were influenced by a good harvest of grain crops; of these, rice increased by 23%, following a drop in 1976, and thus recovered the levels of the period 1974-1975. Maize production improved still more, with an increase of 24% to levels well above

Table 300

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

	Millions of balboas at 1970 prices			*Percentage breakdown*		*Growth rates*		
	1975	*1976*	*1977*[a]	*1970*	*1977*[a]	*1975*	*1976*	*1977*[a]
Agriculture	226	225	238	20.7	19.7	4.8	-0.5	6.0
Mining	4	4	4	0.3	0.3	-5.7	6.1	-5.7
Manufacturing	171	168	175	15.8	14.5	-0.9	-1.7	4.5
Construction	76	79	76	6.3	6.3	20.4	3.4	-3.1
Subtotal goods	*477*	*476*	*493*	*43.1*	*40.8*	*4.7*	*-0.3*	*3.7*
Electricity, gas and water	32	34	36	2.0	3.0	9.4	5.7	7.3
Transport, storage and communications	86	89	90	5.6	7.4	2.2	3.7	1.4
Subtotal basic services	*118*	*123*	*126*	*7.6*	*10.4*	*4.0*	*4.2*	*3.0*
Commerce, financial institutions and insurance	174	173	177	14.0	14.6	–	0.6	2.5
Real estate[b]	81	81	83	5.9	6.9	3.2	0.4	2.3
Public administration and defence	42	43	46	3.1	3.8	10.0	3.9	5.5
Services to the Canal Zone	81	79	79	8.2	6.5	4.4	-2.2	-0.4
Other services[c]	219	205	205	18.1	17.0	-11.1	-6.3	-0.3
Subtotal other services	*597*	*581*	*590*	*49.3*	*48.8*	*-2.7*	*-2.5*	*1.3*
Total gross domestic product[d]	*1 200*	*1 200*	*1 230*	*100.0*	*100.0*	*0.6*	–	*2.5*

Sources: 1970-1976: CEPAL calculations on the basis of figures supplied by the Statistics and Census Office;
1977: CEPAL estimates on the basis of data from the same source.

[a] Preliminary figures.
[b] Refers to ownership of dwellings only.
[c] Also includes restaurants, hotels and business services.
[d] As the individual activities and the total were calculated independently, the sum of the former does not correspond exactly with the latter.

those of previous years. One reason for this increase was the effort made in supplying equipment, which made it possible to triple the harvest in the areas which had been mechanized.

The increases for beans, coffee and bananas were less significant. Favourable results began to be obtained with the programme for the replanting of 4,600 hectares of previously unproductive coffee plantations with higher-yield varieties. It has been estimated that coffee production increased by nearly 4% over the 1976 harvest, making it possible to fill the export quota and satisfy domestic consumption.

Banana production performed well during the first nine months of the year, but a decline in the last quarter led to an increase of only slightly over 2%, similar to that of the previous year.

In contrast, the most recent estimates show that production of sugar cane decreased because a drop in prices in the international market made it unprofitable to cut the cane. For cocoa, a traditional export product, excellent prospects on the international market led to the introduction of a promotion programme aimed at small-scale and medium-scale farmers, the results of which will be visible in a few years time. At present production has stabilized at around 700 tons annually.

In the livestock sector, stocks of cattle have continued to increase moderately, poultry stocks more rapidly and pigs at a very high rate (13%) (see table 301).

Table 301

PANAMA: INDICATORS OF AGRICULTURAL PRODUCTION

	1974	1975	1976	1977	Growth rates 1975	1976	1977[a]
Index of agricultural production							
Crop farming	190.2	203.0	194.7	214.0	6.7	-4.1	9.9
Stock-raising	169.5	164.4	176.2	183.1	-3.0	7.2	3.8
Production of some important crops (thousands of quintals)							
Paddy rice[b]	3 932	4 075	3 185	3 900	3.6	-21.8	22.5
Unmilled maize[b]	1 309	1 438	1 410	1 750	9.9	-1.9	24.1
Dried beans	89	93	73	75	3.5	-21.4	3.2
Coffee	99	106	103	107	6.5	-2.9	3.7
Dried tobacco	18	25	28	...	38.4	15.5	...
Sugar cane (thousands of short tons)	1 899	2 122	2 642	2 500	11.7	24.5	-5.4
Bananas (thousands of pounds)[b]	1 575	1 749	1 779	1 812	11.1	1.7	1.8
Stock-raising production (thousand head)							
Stock							
Cattle	1 333	1 348	1 361	1 374	1.1	1.0	0.9
Pigs	175	166	179	202	-5.1	7.8	12.7
Poultry	3 802	3 704	4 277	4 422	-2.6	15.5	3.4

Source: CEPAL, on the basis of official figures.

[a] Preliminary figures.
[b] 1974/75, 1975/76, 1976/77 and 1977/78 crop years.

(ii) *Mining.* The mining sector continued to have little importance in the generation of value added. In 1977, it declined by nearly 6%, losing the impetus it had shown in 1976.

Although production is insignificant, mining in Panama is expected to undergo a radical change in importance during the next five years as a result of the investment which is being allocated for the sound development of copper resources. This will have substantial impact on the generation of foreign currency from exports, while also providing a basic raw material for developing the mining-industrial complex, the feasibility study for which is almost complete. The study is based on the mining and processing of 33 million tons of ore per year, which will produce annual output of 190,000 metric tons of blister copper. [170]

(iii) *Manufactures.* The manufacturing sector grew by nearly 5% in 1977 (see table 302). This growth, however, was not evenly distributed between the different branches of the sector: although oil-refining nearly recovered the level reached at the beginning of the decade, and food production increased by nearly 8%, the remaining activities remained at a standstill or declined, which in many cases meant decreases in production for the second or third year running. The growth of the food industry was particularly influenced by higher output of sugar, milk products and fishmeal. Despite a drop in the production of sugar cane, sugar output was higher because new mills came into operation. The processing plants for fishmeal, which in 1976 had increased their production by 85%, achieved a further increase of 34% in 1977.

Following a year in which the petroleum products industry was seriously affected by the crisis in prices which almost completely paralysed it, it made a come-back in 1977. The cause of this was the

[170] The Cerro Colorado copper mining project is very important at the world level, and its implementation is linked with that of other related industries such as the sulphuric acid plant (with a daily capacity of 2,500 tons) and the phosphoric acid plant (300,000 tons annually), although in the latter case annual imports of 900 tons of phosphate rock will be required.

Table 302

PANAMA: INDICES OF THE VALUE ADDED OF MANUFACTURING
(1970=100)

	1974	*1975*	*1976*	*1977*[a]	*Growth rates*		
					1975	*1976*	*1977*
Total	*114.8*	*113.9*	*112.0*	*117.1*	*-0.8*	*-1.7*	*4.6*
Foodstuffs	131.2	148.6	152.9	164.8	13.3	2.9	7.8
Beverages	115.0	119.4	132.2	129.4	3.8	10.7	-2.1
Tobacco	107.7	105.1	110.3	97.4	-2.4	5.0	-11.7
Footwear and clothing	100.0	100.0	84.3	69.7	–	-15.7	-17.3
Sawmills and other wood products	119.2	88.5	115.4	96.2	-25.8	30.4	-16.6
Furniture and accessories	107.7	118.7	109.9	104.4	10.2	-7.4	-5.0
Paper and paper products	123.6	131.9	98.6	84.7	6.7	-25.2	-14.1
Printing and related industries	60.6	39.4	36.7	34.9	-35.0	-6.8	-4.9
Leather and skin industries and products	160.0	140.0	200.0	160.0	-12.5	142.9	-20.0
Rubber products	133.3	166.7	133.3	133.3	25.1	-20.0	–
Chemical substances and products	108.6	174.3	171.4	185.7	60.5	-1.7	8.3
Petroleum products	...	...	...	...	...	...	...
Non-metallic mineral products other than petroleum products	145.5	117.9	114.9	113.4	-19.0	-2.5	-1.3
Basic metal industries	66.7	33.3	66.7	66.7	-50.1	100.3	–
Metal products, other than machinery and transport equipment	137.7	113.8	97.0	86.8	-17.4	-14.8	-10.5
Other manufacturing industries	131.7	154.0	138.1	130.2	16.9	-10.3	-5.7

Source: CEPAL, on the basis of data supplied by the Office of the Controller-General of Panama.

[a] Preliminary figures.

opening up of new export possibilities, as a result of which production increased to something like the high levels achieved in the years 1972 and 1973.

The manufacture of beverages, second in importance in the structure of industry, dropped slightly, while the manufacture of non-metallic mineral products, metal products, paper, footwear and clothing showed downward movements compared with the already depressed levels of the previous year.

Industrial activities involving construction materials also showed signs of recovery, owing to the intensive social housing programme in the public sector, which mitigated the effect of the drop in investment in private construction.

The government endeavoured to stimulate private investment by implementing projects with the joint participation of enterprises in the private sector. It is estimated that the enterprises which engaged in contracts with the public sector during the year programmed investment of 18.5 million dollars for extensions and the establishment of new industries. This investment was possibly influenced both by the fiscal incentives policy which the government continued to apply, and by the effects of the new stimuli announced at the end of 1976, which came into force in 1977. The main projects to which encouragement was given were the manufacture of glass bottles (which absorbed a large part of the investment), cement production, assembly of agricultural equipment, production of petroleum products, steel, explosives, cardboard containers and printing and lithography.

Lastly, with a view to using timber resources to promote industrialization, an enterprise was set up with a mixed capital of 40 million dollars to develop the forests of Quipo, its output will be used in manufacturing pressed wood veneers.

(iv) *Construction.* In 1977, the construction product dropped by 3%, following increases of 20% and 3% during the two previous years. This drop showed that despite the government's efforts to promote and reactivate programmes for the construction of social housing at a rate similar to that of 1976, the private sector continued to be confronted with seriously limited resources for this purpose. Partial indicators show that there were very significant decreases in the area constructed and in employment, but the effort made in the construction of basic infrastructure continued to be substantial.

(v) *Electricity, gas and water.* The dynamism which has characterized the electricity, gas and water sector in recent years continued in 1977. An increase of 7% reflected the intensive policy to use the country's hydroelectric potential, which is resulting in rapid growth in energy generation, and which has made it possible to reduce the share of thermal plants in the total generation of energy from 93% to 63% in a few years.[171]

The construction programme which is being carried out is aimed at meeting energy demand with annual growth of 11%. This will be achieved through the provision of nationwide coverage which has already made great strides.[172] The planning of sectoral activities was strengthened by the restructuring of the electrification plan, which aimed at rationalizing the investment programme, the management of resources and the spending policy.

The financial situation of the Instituto de Recursos Hidráulicos y Electrificación (IRHE) was consolidated with the establishment of a 21.5% increase in tariffs in 1977, consisting of a general adjustment of 10.5% plus a monthly adjustment of 1% as from February of that year. This increase in tariffs no doubt affected the general increase in consumer prices.

(vi) *Other activities.* In 1977 the moderate expansion of the transport, storage and communications sector continued.

Trade and finance grew at a rate of 2.5%, very similar to the rate of growth of the population. This increase was affected by the reactivation of agriculture. Lastly, the value added of the government sector increased at a rate of 5.5%, which was partly to be explained by the increase in staff (see table 300).

(c) *Evolution of the employment situation*

The scanty information available suggests that in 1977 there were no major changes in the employment situation. In the metropolitan area, where unemployment has traditionally been higher than in the rest of the country, the rate of unemployment in March was 7.8%, the same rate as that recorded a year previously (see table 303).

3. *The external sector*

(a) *Trade in goods*

(i) *Exports.* In 1977, exports of goods increased by only slightly over 1% (see table 304). This very small increase was mainly due to larger exports of petroleum products, although they did not recover from the drop of nearly 60% recorded in 1976.

The volume of exports of bananas slightly exceeded that of 1976, but with the opening up of the European market it is expected that the country will make a better use of some opportunities for

[171] During 1977, the construction of the 60 MW Bayano dam was completed, thus bringing up the capacity to 330 MW. Construction continued on the hydroelectric power stations of La Estrella and Los Valles, which are expected to be completed in 1978. Their cost is estimated at 76 million dollars and they are expected to generate a further 80 MW. IBRD and IDB will provide 140 million dollars for the La Fortuna hydroelectric power station, which will have a capacity of 255 MW. The access road to this project was also completed in 1977, and tenders have been requested for the construction of the main project.

[172] Work on the transmission line of the Chorrera-Divisa section was terminated thus completing the system of the central provinces: Herrera, Coclé, Los Santos and Veraguas. The Divisa-David section was begun, and will be completed in 1979, at a cost of 5.2 million dollars; the construction of the control centre was completed and improvements were made in the distribution system at a cost of 7.5 million dollars.

Table 303

PANAMA: EVOLUTION OF EMPLOYMENT AND UNEMPLOYMENT

	1974		1975		1976		1977[a]
	March	October	March	November	March	August	March
Rates of unemployment							
National	5.6	5.8	6.5	6.4	7.2	6.5	...
Main cities							
Metropolitan Area	7.1	7.2	8.2	8.7	7.8	8.9	7.8
Rest of country	3.8	4.0	4.2	3.6	4.2	3.6	...
Indexes							
National							
Labour force	100.0		100.3		99.7		...
Employment	100.0		99.3		98.7		...
Unemployment	100.0		117.4		116.0		...

Sources: Household sample survey, Statistics and Census Office, *Panamá en cifras 1972 a 1976*, and other data supplied by that Office.

[a] The March 1977 survey was restricted to the metropolitan area, excluding the Canal Zone and the districts of Chepo and Santa Isabel.

Table 304

PANAMA: VALUE AND BREAKDOWN OF EXPORTS OF GOODS (FOB)

	Millions of dollars				Percentage breakdown		Growth rates		
	1974	1975	1976	1977[a]	1973	1977	1975	1976	1977
Main export products	*171*	*246*	*199*	...	*78.7*	...	*44.0*	*-19.2*	...
Bananas	50	60	62	62	46.6	22.9	20.2	3.4	0.8
Petroleum	53	94	39	43	13.7	16.0	78.2	-59.1	12.5
Sugar	28	49	26	21	3.8	7.6	79.6	-46.8	-21.7
Shrimps	15	19	34	35	7.8	12.9	25.0	76.3	4.5
Other	26	24	39	...	6.8	...	-7.7	62.5	...
Petroleum products to the Canal Zone	*34*	*34*	*28*	*25*	*2.8*	*9.2*	2.1	-18.7	-10.4
Other exports and re-export to the Canal Zone	*29*	*29*	*22*	...	*17.0*	...	0.3	-25.5	...
Adjustments and other items	*17*	*21*	*19*	...	*1.5*	...			
Total	*251*	*331*	*268*	*271*	*100.0*	*100.0*	31.9	-19.1	1.3

Source: CEPAL, on the basis of data supplied by the Office of the Controller-General of Panama.

[a] Preliminary figures.

expansion in the near future. These exports, expressed in current prices, increased by less than 1% in 1977 owing to the drop in prices in the international market.

The decline in prices affected exports of sugar even more, since despite a large increase in the volume exported (28%) their value dropped by 22%. At the end of the year there was also a surplus of 90,000 tons of sugar for which it had not been possible to find a market owing to the weak position of the international market.

Exports of shrimps, growth in which was very dynamic in the previous two years, increased by only 5% in 1977, partly owing to the fact that the fishing fleet did not have the capacity to embark on fishing for deep-sea species.

Coffee exports continued to be of little importance owing to the restrictions imposed by inadequate and inflexible supply. A programme to renew the coffee plantations is, however, being carried out, and could change the situation in the medium term.

Exports of petroleum products outside the Canal Zone increased by 12.5% at current values, but their volume remained stationary for the same reasons as caused the drastic decrease recorded in 1976.[173] It is estimated that with the creation of the "Petroterminal" in Puerto Armuelles,[174] re-exports of petroleum will increase considerably, with an appreciable margin arising from services remaining in the country. Petroleum will be carried in super-tankers from Alaska to Puerto Armuelles for trans-shipment to smaller tankers which will transport it to the Atlantic coast of the United States through the Panama Canal; while the Puerto Armuelles installations are being completed, trans-shipment of the petroleum will take place in the open sea.

Exports of petroleum products to the Canal Zone once again dropped sharply (see table 304). At present, their volume accounts for slightly less than half of exports in 1974. This decrease is partly due to the reduction in traffic through the Canal, which began in 1974 and has been becoming more accentuated in recent years.

In the course of the year the Instituto Panameño de Comercio Exterior was created; this is an autonomous institution in charge of the promotion, development and diversification of exports. It centralizes functions which were previously carried out by the Centro de Investigación y Promoción de Inversiones y Exportaciones (CIEPIEX) and the Department of International Trade of the Ministry of Trade and Industry.[175]

(ii) *Imports.* During the first half of the year, compared with the same period of the previous year, the value of imports of goods increased by nearly 16%, with relatively similar growth rates for imports of consumer goods (20%), intermediate goods (15%) and machinery and equipment (17%) (see table 305). This trend appears to have been reversed in the second half of the year, as a result of a decline in purchases of crude oil.

The substantial recovery of imports of consumer goods, following a drop in the previous two years, was perhaps due to the increase in purchases of consumer durables, since no problems occurred in the domestic supply of current products which might explain the increases in imports of these goods.[176] The increase in imports of capital goods was in keeping with the evolution of public spending already described.

(iii) *The terms of trade.* The terms of trade have been deteriorating since 1973 with the result that the index in 1977 was 20% lower than in 1972. The purchasing power of exports of goods during this period underwent a similar decrease (see table 306).

[173] The prices of crude oil acquired by the Panama refinery in the international market increased more than those of the petroleum refined in the Caribbean area and the United States, where Panama sells a large part of its exports. This means that when the price of exported refined oil is compared with that of imported crude oil, it can be seen that the margin of 3.24 dollars per barrel in 1973 dropped to 0.01 in 1974, 0.50 in 1975 and 1.30 in 1976, while the situation appears to have worsened in 1977.

[174] A joint investment by COFINA and Dorthville, a North American enterprise which will contribute 75% of the 40 million dollar investment.

[175] CIEPIEX made a start on research to establish the export capacity of Panamanian industry, through surveys of enterprises and products, with emphasis on possible non-traditional exports. The industries with export potential include tomatoe concentrates, dairy products, yeasts, tinned sardines, medicines, biscuits, meat products, wood veneers, etc.

[176] Agricultural output increased by 10%, livestock by 4% and the product of the food industry by 8%.

Table 305

PANAMA: VALUE AND BREAKDOWN OF IMPORTS OF GOODS (CIF)

	Millions of dollars				*Percentage breakdown*		*Growth rates*		
	1974	*1975*	*1976*	*1977*[a]	*1973*	*1977*[a]	*1975*	*1976*	*1977*[b]
Consumer goods	64	64	61	31	9.7	7.2	-1.4	-3.9	20.1
Intermediate goods	648	685	632	327	69.9	77.9	5.8	-7.7	14.9
Crude petroleum	286	347	246	148	19.4	35.2	21.6	-29.3	36.1
Others	362	338	387	179	50.5	42.6	-6.7	14.4	1.8
Capital goods	110	129	147	62	20.4	14.8	16.8	14.2	17.2
Total	*822*	*878*	*840*	*420*	*100.0*	*100.0*	*6.7*	*-4.3*	*15.6*

Source: CEPAL, on the basis of data supplied by the Office of the Controller-General of Panama.

[a] First half of the year.

[b] First half of 1977 compared with the first half of 1976.

Table 306

PANAMA: MAIN INDICATORS OF FOREIGN TRADE

	1972	*1973*	*1974*	*1975*	*1976*	*1977*[a]
	Growth rates					
Exports of goods						
Value	6.3	10.8	54.9	31.9	-19.2	1.3
Volume	-3.1	0.9	10.3	20.2	-21.0	-1.6
Unit value	9.7	9.9	40.3	9.8	2.4	3.0
Imports of goods						
Value	12.6	12.1	66.0	8.2	-4.7	-3.1
Volume	7.2	-2.4	8.7	-5.9	-10.2	-7.7
Unit value	5.1	14.9	52.8	15.0	6.1	5.0
Terms of trade	4.4	-4.3	-8.1	-4.5	-3.5	-1.9
	Indexes (1970 = 100)					
Terms of trade in goods	105.3	100.8	92.6	88.4	85.3	83.7
Purchasing power of exports of goods	104.7	101.0	102.4	117.5	89.6	86.5
Purchasing power of exports of goods and services	109.7	110.8	111.4	109.4	98.3	101.4

Source: CEPAL, on the basis of official data.

[a] Preliminary figures.

The decline in the terms of trade may be explained first of all by the increasing share of crude oil in the value of imports (from less than 20o/o in 1972 to 35o/o in 1977), which is higher than that of sales of oil and petroleum products in total exports (17o/o in 1970 and 25o/o in 1977). Secondly,

the terms of trade were also affected by the decrease in the prices of bananas, sugar and shrimps, whose unit export values as a whole dropped by 3.5%.

Table 307

PANAMA: BALANCE OF PAYMENTS
(Millions of US dollars)

	1972	*1973*	*1974*	*1975*	*1976*	*1977*
Current account						
Exports of goods and services	455	519	760	850	803	866
Goods FOB	146	162	251	331	268	271
Services	309	357	499	519	535	595
Transport	61	68	163	156	145	165
Travel	83	103	122	133	149	164
Imports of goods and services	523	583	913	991	959	953
Goods FOB	408	458	760	823	784	760
Services	115	125	153	168	175	193
Transport	59	68	90	100	95	102
Travel	26	27	31	32	36	46
Net payments of profits and interest on foreign capital	-36	-43	-57	-23	-34	-39
Profits	-14	-14	10	3	2	–
Interest	-22	-29	-67	-26	-36	-39
Net private transfer payments	-4	-13	-14	-11	-13	-15
Balance on current account	-107	-120	-234	-175	-203	-141
Capital account						
Net external financing (a +b +c +d +e)	107	120	234	175	203	141
(a) Net external non-compensatory capital	429	992	1 157	475	1 285	
Direct investment	14	35	34	10	7	
Long- and medium -term loans	146	174	189	201	773	
Amortization payments	-32	-60	-108	-46	-61	
Short-term liabilities	292	834	1 032	303	558	...
Official transfer payments	9	9	10	7	8	
(b) Domestic non-compensatory capital or assets	-241	-769	-811	-226	-932	
(c) Errors and omissions	-63	-106	-124	-97	-133	
(d) Allocation of SDRs	4	–	–	–	–	
(e) Net compensatory financing (– = increase)	-22	3	12	23	-17	...
Balance-of-payments loans, trade arrears, IMF loans, and other liabilities of the monetary authorities	–	–	9	12	29	
Amortization payments	–	–	–	–	–	...
Variation in gross international reserves (minus sign signifies an increase)	-22	3	3	10	-46	...
Foreign exchange reserves (– = increase)	-18	3	-7	15	-47	...
Gold reserves (minus sign signifies an increase)	-4	–	10	–	–	...
SDRs (minus sign signifies an increase)	–	–	–	-5	1	...

Sources: 1972-1976: CEPAL, on the basis of data from the International Monetary Fund;
1977: CEPAL, on the basis of dafa supplied by the Office of the Controller-Gereral of Panamá, Statistics and Census Office.

(b) *Balance of payments*

The external situation improved slightly in 1977, owing to a small reduction in the deficit of visible trade and an increase in the surplus on the services account. As a result, the deficit on current account dropped by slightly over 60 million dollars (see table 307). The balance of the servicing of external capital increased slightly but did not exceed the levels achieved in 1973 and 1974, and both outflows of external investment income and income from interest on loans to residents abroad increased to the same extent.

(c) *The external debt*

In 1977, the government's external debt reached the figure of 640 million dollars, which was 20°/o higher than in 1976. The new level was nearly three times the accumulated debt at the end of 1972. The value of amortization and interest payments was 29°/o higher than in 1976, and for the second consecutive year increased more than the debt (see table 308).

Table 308

PANAMA: INDICATORS OF EXTERNAL INDEBTEDNESS
(Millions of dollars)

	1972	*1973*	*1974*	*1975*	*1976*	*1977*[a]
Public debt and debts guaranteed by the State[b]	214.9	296.9	358.9	427.4	510.2	614.0
Servicing of external debt	23.8	28.2	41.8	38.2	53.4	69.1
Amortization payments	10.1	11.4	8.7	9.3	17.0	27.8
Interest payments	13.7	16.8	33.1	28.9	36.4	41.3
Servicing of external debt as a percentage of total exports	5.2	5.4	5.6	4.5	6.7	8.0

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

[a] Preliminary figures.
[b] Disbursed.

Although resources used for servicing the external debt still remained at low levels compared with exports, the ratio between them has increased rapidly over the last three years, from 4.5°/o in 1975 to 8°/o in 1977.

4. *Prices*

The annual average variations in prices, which reached their maximum in 1974 (16.8°/o), dropped over the next two years to 5.5°/o and 2.3°/o respectively. In 1977, however, there was a revival of inflation when consumer prices increased by 9.4°/o as the result of the effects of higher import prices.

The Government's concern to improve the level of living of the lowest income level of the population by controlling the prices of the most basic foodstuffs contributed to the fact that the relative increase in this item was less (6.3°/o) (see table 309).

Table 309

PANAMA: EVOLUTION OF DOMESTIC PRICES
(Percentages)

	1972	1973	1974	1975	1976	1977
	Variation from December to December					
Consumer price index	6.7	9.7	16.6	1.8	3.3	9.2
Food	4.4	17.8	21.1	-0.4	4.0	6.2
Wholesale price index	6.2	18.7	27.0	12.3	3.8	7.7[a]
Imported products	4.6	20.2	25.1	9.7	3.5	9.0[a]
Agricultural products	4.5	12.7	28.9	10.8	6.5	5.4[a]
Manufactures	8.3	19.6	27.9	15.1	3.2	7.6[a]
	Variation between annual averages					
Consumer price index	5.3	6.9	16.8	5.5	2.3	9.4
Food	4.6	9.8	22.8	6.8	1.2	6.3
Wholesale price index	8.5	10.5	30.2	14.0	7.8	6.5[b]
Imported products	6.7	11.6	28.8	12.5	5.8	8.7[b]
Agricultural products	4.0	9.1	23.8	20.3	6.4	4.7[b]
Manufactures	11.9	10.1	33.7	13.3	9.9	5.5[b]

Sources: Statistics and Census Office, *Panamá en cifras 1972-1976* and *Estadísticas panameñas, Indicadores económicos y sociales,* Bulletins 749 and 761.

[a] Variation between September 1976 and September 1977.
[b] Variation between the average for January, June and September 1976 and the average for the same months in 1977.

With regard to wholesale prices –although data for the whole year are not available– if the September levels for the last two years are compared, it may be observed that while agricultural products increased by 5.4o/o, manufactures increased by 7.6o/o, also as the result of the greater effect on them of increases in imported inputs.

5. *Monetary trends*

The strengthening of the international financial centre which resulted from the banking law of 1970,[177] has continued rapidly in recent years. Sight deposits and particularly time deposits in the banking system grew considerably, encouraged by this law which, in addition to other incentives, gives great freedom of movement to capital based in Panama. Total deposits increased from 740 million dollars in 1970 to 8,900 million dollars in 1976 and 11,500 million dollars in 1977 – a more than fifteenfold increase in the present decade to date and a 30o/o increase in the last year. One of the main causes was the increase in external deposits, which grew from 400 million dollars in 1970 to 10,350 million dollars in the last year (some twenty-eight times) and increased by 31o/o 1977 (see table 310).

As a result of these trends the variables of the banking system grew strongly and the growth of money supply probably tends to accentuate, or at least maintain, the inflationary pressures of external origin with which the Panamanian economy has been faced.

[177] See the notes on Panama in CEPAL, *Economic Survey of Latin America,* issues of 1971 and 1976.

Table 310

PANAMA: CONSOLIDATED BALANCE OF THE BANKING SYSTEM

(Millions of balboas)

	Balance at end of year			
	1974	*1975*	*1976*	*1977*[a]
Assets	*6 475*	*8 433*	*9 865*	*12 408*
Liquidity	*1 800*	*2 156*	*3 132*	*3 695*
Cash holdings	38	45	39	47
Sight deposits in banks and agencies	197	203	127	286
By foreign banks[b]	191	164	81	162
By local banks[c]	6	39	46	124
Time deposits in banks and agencies	1 437	1 532	2 405	4 873
By foreign banks	162	1 198	1 937	2 444
By local banks	75	163	188	296
By agencies	200	170	280	133
Deposits in IMF	14	20	18	17
Other assets	121	355	542	472
Investment	*4 423*	*6 067*	*6 490*	*8 238*
Loans and discounts	4 333	5 987	6 371	8 135
Securities	90	81	119	103
Others	*243*	*210*	*243*	*475*
Liabilities and capital	*6 475*	*8 433*	*9 865*	*12 408*
Sight deposits	*451*	*406*	*644*	*582*
By the private sector	191	170	186	240
By the public sector	68	46	42	76
By foreigners	62	96	129	121
By foreign banks[b]	129	68	250	108
By local banks		24	37	37
Time and limited-access deposits	*5 572*	*7 495*	*8 236*	*10 967*
By the private sector	415	465	498	588
By the public sector				
By foreigners	549	1 046	1 179	1 283
By foreign banks[b]	4 508	5 839	6 327	8 841
By local banks	100	145	232	255
Liabilities in respect of banks and international agencies	*78*	*108*	*582*	*174*
Other liabilities, capital and reserves	*374*	*425*	*404*	*685*

Source: CEPAL, on the basis of figures supplied by the Statistics and Census Office, Office of the Controller-General of Panama.

[a] Preliminary figures.

[b] Including banks and agencies in the Panama Canal Zone.

[c] Including deductions from liabilities.

It is, however, considered that this did not have any significant effect on the internal situation since the great majority of deposits were channelled systematically and increasingly towards financing the activities of residents abroad; the sums used for financing domestic development were very small. In 1970, of the total credit granted by the banking system, nearly 60°/o was earmarked for domestic activities, while in 1976 this percentage was only 19°/o (see table 311). Despite this, a comparison of the first half of 1976 with the first half of 1977 shows a slight increase in this share (17°/o and 22°/o respectively), which could indicate a reversal of this trend.

Table 311

PANAMA: ALLOCATION OF LOANS GRANTED BY THE BANKING SYSTEM

(Millions of balboas)

	1970	*1971*	*1972*	*1973*	*1974*	*1975*	*1976*	*At end of June*	
								1976	*1977*
Total	*942*	*1 512*	*2 233*	*3 686*	*8 995*	*8 846*	*10 498*	*5 635*	*4 338*
Loans to residents abroad	392	647	1 228	2 293	6 942	6 936	8 516	4 696	3 379
Personal consumption	66	94	121	195	307	141	114	54	35
Production	431	628	756	976	1 382	1 174	1 235	601	586
Agriculture	37	59	78	101	127	151	133	75	88
Manufacturing	40	85	93	92	166	205	205	97	106
Commerce	354	484	584	783	1 089	818	897	429	392
Housing and other construction	44	81	91	157	267	331	245	124	138
Others	8	62	37	65	97	262	388	160	199

Sources: Statistics and Census Office, *Hacienda pública y finanzas,* serie E, N° 1, 1974, and other data prepared by that Office.

The combination of rapid growth in deposits and more moderate but still dynamic growth in lending activity resulted in an expansion of the liquidity of the banking system (18°/o), which again was mainly channelled towards the exterior in the form of sight deposits and time deposits in banks and agencies (see table 311).

In lending activity, the credit balance in the banking system showed an increase of 27°/o, which could be attributed to loans and discounts, the majority of which, as has already been observed, are invested abroad. Investment in securities dropped by 13°/o.

From another point of view, new loans granted at June 1977, compared with the same period of the previous year, showed a drop of 23°/o, which is explained by the decrease in lending to residents abroad. Within the country, the sector most affected by the reduction in credit was the trade sector, the financing of which dropped by 9°/o compared with figures for the same period of the previous year.

6. *Fiscal policy*

The State has followed a strategy of containing the growth of current expenditure by concentrating expansion on capital expenditure through the implementation of large-scale investment projects. This policy indicates the basis on which the future development of Panama will rest. It is estimated

that when the projects discussed below are completed, the structure of the apparatus of production will change, since there will be more diversification and better possibilities for sustained stable growth.

In 1977, the government maintained consumption expenditure at levels in keeping with the growth of current income. This increased by 17%, while expenditure grew by 11%, with the result that current savings more than doubled (see table 312).

Table 312

PANAMA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of balboas				*Growth rates*		
	1974	*1975*	*1976*	*1977*[a]	*1975*	*1976*	*1977*[a]
Current income	*271*	*297*	*323*	*379*	*9.5*	*8.6*	*17.3*
Tax revenue	210	227	224	281	8.1	-1.3	25.4
Direct	100	114	108	130	14.0	-5.3	20.4
Indirect	110	113	115	151	2.7	1.8	31.3
Non-tax revenue	54	64	58	62	18.5	-9.4	6.9
Other current income	7	6	41	36	-14.3	583.3	-12.2
Current expenditure	*254*	*280*	*308*	*341*	*10.2*	*10.0*	*10.7*
Wages and salaries	152	170	178	195	11.8	4.7	9.6
Other current expenditure	102	110	130	146	7.8	18.2	12.3
Current savings	*17*	*17*	*15*	*38*	–	*11.8*	*153.3*
Capital expenditure	*153*	*168*	*171*	*216*	*9.8*	*1.8*	*26.3*
Fixed capital, financial investment and transfers	133	145	143	180	9.0	-1.4	25.9
Amortization of the debt	20	23	28	36	15.0	21.7	28.6
Total expenditure	*407*	*448*	*479*	*557*	*10.4*	*6.8*	*16.2*
Fiscal deficit	*-206*	*-151*	*-156*	*-178*			
Financing of the deficit							
Domestic financing	133	78	66	57	-41.4	-15.4	-13.6
External financing	73	73	90	121	–	23.3	34.4

Source: CEPAL, on the basis of data supplied by the Office of the Controller-General of Panama.

[a] Preliminary figures.

The increase in current income was mainly due to the increase in tax revenue, both direct and indirect, since non-tax revenue grew more moderately. The increase in indirect taxes partly originated in the introduction of a new tax on real estate transactions and a 5% tax on imports and domestic value added.

During 1977, means continued to be sought of improving administrative efficiency and the provision of public services. The process of integration of the health systems, which were the responsibility of the Ministry of Health and the Social Security Fund is well advanced, under joint management. At the same time, decentralization by provinces has started, and increased the operational, capacity and efficiency of both drinking water and sewerage services and nutrition programmes. In educational matters, important changes also took place; the educational reform begun in 1971 aimed at introducing a compulsory basic cycle of nine grades instead of six, continued.[178]

[178] The reform also includes the extension of the Veraguas teacher training college and the creation of four professional and technical institutes. Regional university centres are also being set up.

Capital spending increased by 26°/o. Mention should be made here of the impetus given to important projects connected with production activities such as the sugar mills and the cement plant. Continued progress was made with other projects already started, such as the new airport which will come into service in early 1978 and which represents investment of 72 million dollars. This will be complemented by and air-freight terminal to be financed by the airlines operating in Panama. Work was carried out on the fishing port of Vacamonte, with investment of 14 million dollars. The work which had been taking place on the container port in the Bahía de las Minas was, however, suspended, since Cocosolo –the most appropriate site for locating the port– is to come under Panamanian jurisdiction as the result of the ratification of the Canal Zone treaties.

The construction of the Pan American Highway continued on the Isthmus of Darién, and nearly two thirds of it have now been completed; in the rural development roads programme 250 kilometres were completed with a loan of 43 million dollars.

Lastly, considerable progress was made on studies for the copper project, which have absorbed a great quantity of financial resources. In electrical energy, as has already been said, notable efforts were also made, both in raising installed capacity and in changing from thermal to hydroelectric sources of energy.

Despite the increase in current savings the expansion of capital expenditure contributed to increasing the deficit on public account by 14°/o; financing this deficit depended more heavily on external savings –mainly of private origin– while internal credit again declined (see table 312). Mention should be made of the continuing growth of the resources earmarked for amortizing the public debt, which increased by 22°/o in 1976 and 29°/o in 1977.

PARAGUAY

1. *The overall picture*

There was a marked increase in the rate of growth of the Paraguayan economy in 1977, even though expansion had been strong and continuous since 1973. In 1977 overall growth reached almost 12°/o and the per capita product rose by 8.5°/o. In addition, a substantial improvement in the terms of trade produced a much higher rise (15°/o) in gross income than in the domestic product (see table 313).

In sectoral terms, the greater expansion of the economy was due to rapid growth in the goods-producing sectors (14°/o), particulary manufacturing and construction. Agriculture also expanded at a very rapid rate, especially as a result of the rises in some export crops such as cotton and soya beans. The service sectors, for their part, continued to grow at the moderate rates of the preceding year.

At current values exports increased by the unprecedented amount of almost 50°/o, due to a considerable rise in volume and a marked increase in unit values. Chief among products with substantial increases in sales abroad were cotton and soya beans, which accounted for 50°/o of the total value of exports, as against only 18°/o in 1973.

Imports increased at a rate similar to that of exports in value terms, stimulated by strong growth in domestic consumption and an even greater increase in investment.

Prices rose faster than in the preceding year, growing by more than 9°/o compared with 4°/o in 1976. The means of payment increased by more than 31°/o, and a favourable trend in government income produced a fiscal surplus which contrasted with the large deficit of the previous year.

The marked rise in imports of goods and services led to a substantial increase in the deficit on current account. Nevertheless, as a result of a large inflow of non-compensatory capital the balance of payments recorded a surplus, which in turn produced a new rise in international reserves of the order of 110 million dollars. The disbursed foreign debt rose from 456 million dollars to 518 million dollars between the end of 1976 and December 1977.

Table 313

PARAGUAY: MAIN ECONOMIC INDICATORS

	1972	1973	1974	1975	1976	1977[a]
A. *Basic economic indicators*						
Gross domestic product at factor cost (millions of US dollars at 1970 prices)	892	962	1 042	1 094	1 177	1 314
Population (millions)	2.43	2.50	2.57	2.65	2.73	2.81
Gross per capita domestic product (US dollars at 1970 prices)	367	385	405	413	432	468
	Growth rates					
B. *Short-run economic indicators*						
Gross domestic product	5.1	7.8	8.3	5.0	7.5	11.7
Gross per capita domestic product	2.3	4.9	5.3	2.1	4.4	8.5
Gross income[b]	5.7	11.5	6.8	3.5	7.7	14.9
Terms of trade	3.1	28.4	-11.8	-10.8	4.0	26.2
Current value of exports of goods and services	18.8	40.6	38.9	1.4	0.5	49.3
Current value of imports of goods and services	-2.6	52.0	55.9	19.5	-0.7	48.3
Consumer price index						
December to December	9.5	14.1	22.0	8.7	3.4	9.4
Annual average variation	9.2	12.8	25.2	6.7	4.5	9.4
Money	20.0	32.6	21.0	17.9	21.1	31.6
Current income of government	6.4	22.3	40.0	10.0	7.5	37.3
Total government expenditure	11.8	9.7	30.4	24.6	22.6	13.1
Fiscal deficit/total government expenditure[c]	9.3	-1.2	-8.9	3.8	15.4	-2.4
	Millions of US dollars					
C. *External sector*						
Trade balance, goods and services	-1	-12	-44	-90	-87	-127
Balance on current account	-9	-20	-57	-94	-98	-141
Variation in net international reserves	9	21	30	29	40	111
Disbursed foreign debt	192	219	272	332	456	518

a Preliminary figures.
b Gross domestic product plus terms-of-trade effect.
c Percentage.

2. *Recent economic trends*

(a) *Total supply and demand*

As already noted, the economy expanded strongly in 1977. The gross domestic product rose by 11.7%, almost double the rate recorded between 1971 and 1975 and well above both the substantial increase of 7.5% in the previous year and the average annual increase, also of 7.5%, envisaged in the Development Plan for 1977-1981.

Total supply expanded by over 15°/o, i.e., more than the gross domestic product, as a result of a substantial rise (about 40°/o) in the volume of imports, in marked contrast to their stagnation the previous year. As a result of this trend, the import ratio was considerably higher in 1977 than in 1970 (see table 314).

Table 314

PARAGUAY: TOTAL SUPPLY AND DEMAND

	Millions of guaraníes at 1970 prices			*Percentage breakdown*		*Growth rates*		
	1975	*1976*	*1977*[a]	*1970*	*1977*[a]	*1975*	*1976*	*1977*[a]
Total supply	*119 385*	*126 976*	*146 830*	*116.1*	*121.2*	*5.5*	*6.4*	*15.3*
Gross domestic product at market prices	100 844	108 423	121 109	100.0	100.0	5.0	7.5	11.7
Imports of goods and services[b]	18 541	18 553	25 721	16.1	21.2	8.0	0.1	38.6
Total demand	*119 385*	*126 976*	*146 830*	*116.1*	*121.2*	*5.5*	*6.4*	*15.3*
Domestic demand	106 970	114 599	132 726	101.2	109.6	6.2	7.1	15.8
Gross domestic investment	25 231	31 440	38 576	14.7	31.9	22.8	24.6	22.7
Gross fixed investment	22 643	29 533	37 862	14.5	31.3	19.3	20.4	28.2
Construction	10 171	12 157	...	7.3	...	21.4	19.5	...
Machinery and equipment	12 472	17 376	...	7.2	...	17.6	39.3	...
Changes in stocks	2 588	1 906	714	0.2	0.6	65.9	-26.4	-62.5
Total consumption	81 739	83 159	94 150	86.5	77.7	1.9	1.7	13.2
General government	7 701	7 843	8 870	9.0	7.3	22.4	1.8	13.1
Private	74 038	75 316	85 280	77.5	70.4	0.2	1.7	13.2
Exports of goods and services[b]	12 415	12 377	14 104	14.9	11.6	-0.3	-0.3	14.0

Source: CEPAL calculations on the basis of figures supplied by the Central Bank of Paraguay.

[a] Preliminary figures.

[b] 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 CEPAL for the purpose.

Significant in total demand was the 14°/o rise in the volume of exports, which contrasted with the stagnation of previous years. The export coefficient, however, dropped from 15°/o in 1970 to less than 12°/o in 1977.

Despite the distinctly favourable trend of external demand, the strongest element in total demand was again domestic demand, basically as a result of the trend of investment. Gross fixed investment rose by more than 28°/o, thus continuing its sustained growth of recent years. This expansionary trend is closely linked with the large-scale hydroelectric schemes embarked upon by Paraguay in conjunction with Brazil and Argentina, and has led to a marked upward trend in the ratio of fixed investment to the gross domestic product from less than 15°/o in 1970 to more than 31°/o in 1977 (see table 314).

Total consumption also rose very fast in 1977, increasing by more than 13°/o in contrast with the rise of less than 2°/o recorded in 1976. Both government and private consumption recorded high rates of increase.

(b) *Growth of the main sectors*

In 1977 total activity in the goods-producing sectors improved considerably over the previous year, the 1977 rate of 14°/o being more than twice the 1976 rate (6°/o). The basic services and other

service sectors also recorded substantial rises, though these were very similar to the 1976 rates (see table 315).

Table 315

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

	Millions of guaraníes at 1970 prices			*Percentage breakdown*		*Growth rates*		
	1975	*1976*	*1977*[a]	*1970*	*1977*[a]	*1975*	*1976*	*1977*[a]
Agriculture	31 599	33 167	36 286	34.3	32.0	3.9	5.0	9.4
Mining	286	404	502	0.1	0.4	26.5	41.4	24.1
Manufacturing	15 559	16 407	19 197	17.3	16.9	-2.0	5.5	17.0
Construction	3 918	4 608	6 067	3.0	5.3	21.1	17.6	31.7
Subtotal goods	*51 362*	*54 586*	*62 052*	*54.7*	*54.7*	*3.2*	*6.3*	*13.7*
Electricity, gas and water	1 801	2 224	2 668	1.2	2.4	17.9	23.4	20.0
Transport, storage and communications	4 719	5 071	5 477	4.2	4.8	13.8	7.5	8.0
Subtotal basic services	*6 520*	*7 295*	*8 145*	*5.4*	*7.2*	*14.9*	*11.9*	*11.7*
Commerce, financial institutions and insurance	18 296	20 120	21 930	19.5	19.3	4.4	10.1	9.0
Real estate[b]	2 913	3 149	3 325	3.3	2.9	7.2	8.1	5.6
Community, social and personal services[c]	15 371	16 404	17 955	17.1	15.8	8.5	6.7	9.5
Subtotal other services	*36 553*	*39 673*	*43 210*	*39.9*	*38.1*	*6.3*	*8.5*	*8.9*
Total gross domestic product[d]	*93 461*	*100 485*	*112 242*	*100.0*	*100.0*	*5.0*	*7.5*	*11.7*

Sources: 1970-1976: CEPAL calculations on the basis of figures supplied by the Central Bank of Paraguay.
1977: CEPAL estimates on the basis of data from the same source.

[a] Preliminary figures.
[b] Refers to ownership of dwellings only.
[c] Also includes restaurants, hotels and business services.
[d] As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

The agricultural sector showed greater dynamism than in previous years, expanding by more than 9%. Agricultural production, stimulated by external demand and by policies designed to promote certain export crops, improved by 14%, basically as a result of big rises in the volume of cotton and soya-bean output, which increased by 112% and 25% respectively (see table 316). The stock-raising sector grew by more than 5% as against a rise of less than 4% the previous year.

Manufacturing, stimulated by a substantial rise in domestic and external demand, raised production in 1977 by 17%. The basic stimulus was strong growth in the output of the textiles, clothing and leather branch (39%), the outstanding feature within that branch being the higher output of cotton fibres (more than 115%). Substantial increases were also recorded in the output of tinned meat (40%), sugar (37%), cement (29%), tung oil (22%) and wheat flour (19%) (see table 317).

Construction made further substantial progress in 1977, as is indicated by its rate of increase of 32%.

Table 316

PARAGUAY: INDICATORS OF AGRICULTURAL PRODUCTION

	1974	1975	1976	1977[a]	Growth rates		
					1975	1976	1977[a]
Index of agricultural production (1972 = 100)	124.1	126.9	134.5	147.1	3.9	5.0	9.4
Crop-farming	122.5	126.5	133.8	151.8	3.3	5.7	14.0
Stock-raising	108.8	112.9	117.0	123.2	3.7	3.6	5.3
Production of some important crops (thousands of tons)							
Cotton	85.0	100.0	105.0	222.5	17.6	5.0	111.9
Rice	35.0	50.0	52.0	36.4	42.9	4.0	-30.0
Sweet potatoes	183.7	178.2	187.1	196.5	-3.0	5.0	5.0
Cassava	814.2	862.6	867.5	876.2	-3.5	0.6	1.0
Maize	281.5	337.8	344.2	372.2	20.0	1.9	8.1
Soya beans	190.0	220.0	280.0	350.0	15.8	27.3	25.0
Indicators of stock-raising production (thousands of heads)							
Number of livetock	5 871	6 018	6 108	6 181	2.5	1.5	1.2
Number of animals slaughtered	578	498	537	635	-13.8	7.8	18.2

Source: Central Bank of Paraguay, División de Cuentas Nacionales, División de Producción, Precios y Mercado Interno.

[a] Preliminary figures.

3. *The external sector*

(a) *Foreign trade*

In value terms, exports rose by almost 54°/o in 1977. This was in marked contrast with the relative stagnation of 1975 and 1976, and was well above the substantial growth rate recorded between 1972 and 1974. There was a significant increase in volume (14°/o), but the greatest improvement was in unit values, which rose by about 35°/o (see table 318).

This marked improvement in exports in 1977 was basically due to bigger sales of cotton and soya beans (133°/o and 75°/o higher, respectively), and also to substantial rises for certain traditional export products such as timber and vegetable oils (see table 319).

As a result of the exceptional growth in exports of soya beans, and still more of cotton, and the sharp drops in sales of meat recorded in 1975 and 1976, the structure of exports has altered radically in recent years. Sales of meat, which even as recently as 1973 made up a third of the value of exports of goods, accounted for only 8°/o in 1977. The combined share of sales of soya beans and cotton in total exports, in contrast, rose over the same period from a fifth to almost half (see table 319).

There was also a rapid rise in imports in 1977. Global preliminary estimates indicate an increase of over 50°/o in value, due to rises of 42°/o in volume and 7°/o in unit value.

The changes in unit values of both exports and imports of goods led to a significant improvement in the terms of trade. In 1977 the terms of trade index (1970 = 100) rose above the very favourable level of 1973, easily offsetting the falls of 1974 and 1975 (see table 318).

Table 317

PARAGUAY: INDICATORS OF MANUFACTURING PRODUCTION

	1974	1975	1976	1977[a]	Growth rates		
					1975	1976	1977[a]
Index of manufacturing production (1972 = 100)	117.0	114.7	120.9	141.5	-2.0	5.5	17.0
Food, beverages and tobacco	104.5	96.0	100.7	116.0	-8.2	4.9	15.3
Textiles, clothing and leather	121.2	119.1	122.2	169.4	-1.7	2.6	38.6
Wood and furniture	147.4	163.5	144.8	179.0	11.0	-11.4	23.6
Paper and printing	109.5	126.2	123.8	144.3	15.2	-2.0	16.7
Chemicals	106.8	115.1	135.9	152.8	7.8	18.1	12.4
Non-metallic minerals other than oil and coal	124.9	152.2	175.9	206.8	21.8	15.6	17.6
Basic metals	98.4	106.8	146.0	151.3	8.5	37.7	3.6
Metal products, machinery and equipment	113.4	114.2	177.5	142.2	0.7	55.4	-19.9
Production of some important manufactures (thousands of tons)							
Cotton fibres	24.1	32.2	33.8	72.8	33.5	5.1	115.5
Tannin	6.3	14.1	17.9	13.1	124.8	27.0	-26.7
Tung oil	12.5	12.9	15.7	19.1	3.3	21.6	21.7
Cement	102.8	137.7	154.8	199.7	34.4	12.4	29.0
Sugar	70.4	51.9	56.5	77.2	-26.3	8.9	36.7
Wheat flour	50.0	37.7	50.0	59.1	-24.6	32.2	18.8
Hides and skins	14.4	12.5	13.3	14.7	-13.8	6.6	10.4
Tinned meat	13.6	8.9	8.5	12.0	-34.8	-4.1	40.2

Sources: Central Bank of Paraguay, División de Cuentas Nacionales and División de Producción, Precios y Mercado Interno; Ministry of Finance, Dirección General de Estadísticas y Censos, *Anuario Estadístico.*

[a] Preliminary figures.

(b) *Balance of payments*

In 1977 there was a deficit of about 70 million dollars on trade in goods (about 20 million dollars higher than the figures for 1975 and 1976) which, together with the sharp rise in imports of services, led to a deficit on the goods and services account of the order of 130 million dollars. Taking into account the effects of changes in net payments of profits and interest on foreign capital and income from net private transfer payments, there was a current account deficit of about 140 million dollars, which was more than in 1975 and 1976 and much higher than the figures for the period 1972-1974 (see table 320).

Despite this trend in the current account, the substantial rise in inflows of non-compensatory capital, which exceeded 250 million dollars, gave a final surplus in the balance of payments of the order of 111 million dollars, producing a similar increase in net international reserves.

(c) *Foreign debt*

During 1977 the foreign debt rose by about 14%, so that at the end of the year the total debt was almost double that of only three years earlier. Debt servicing grew even faster (about 34%).

Table318

PARAGUAY: MAIN FOREIGN TRADE INDICATORS

	1972	1973	1974	1975	1976	1977[a]
	Growth rates					
Exports of goods						
Value	29.1	49.5	35.1	2.0	2.8	53.9
Volume	15.8	3.8	3.8	1.8	3.1	14.3
Unit value	11.5	44.0	30.1	0.2	-0.4	34.8
Imports of goods						
Value	-4.8	61.8	55.8	14.6	1.2	51.3
Volume	-12.1	44.1	5.6	1.8	5.8	41.6
Unit value	8.2	12.2	47.6	12.5	-4.4	6.9
Terms of trade	3.1	28.4	-11.8	-10.8	4.0	26.2
	Indexes (1970 = 100)					
Terms of trade	105.2	135.1	119.1	106.2	110.5	139.4
Purchasing power of exports of goods	118.8	157.0	143.8	130.4	139.9	201.7
Purchasing power of exports of goods and services	106.2	135.5	134.1	122.0	124.2	172.7

Source: CEPAL, on the basis of official data.

[a] Preliminary figures.

Table 319

PARAGUAY: VALUE AND BREAKDOWN OF EXPORTS OF GOODS (FOB)

	Millions of dollars				*Percentage breakdown*		*Growth rates*		
	1974	1975	1976	1977[a]	1973	1977[a]	1975	1976	1977[a]
Main traditional export products	84.6	82.7	65.1	85.1	52.3	30.5	-2.3	-21.3	30.7
Meat products	35.2	32.2	21.0	22.1	31.9	7.9	-8.5	-34.8	5.2
Timber	24.7	27.9	12.1	19.9	9.3	7.1	13.0	-56.6	64.5
Vegetable oils[a]	13.3	10.6	17.3	29.4	5.2	10.5	-20.3	63.2	69.9
Tobacco	11.4	12.0	14.7	13.7	5.9	4.9	5.3	22.5	6.8
New exports	45.5	53.0	75.6	146.8	20.3	52.6	16.5	42.6	94.2
Soya beans	15.0	17.5	32.2	56.2	8.2	20.2	16.7	84.0	74.5
Cotton	16.5	20.1	34.6	80.5	9.1	28.8	21.8	72.1	132.7
Sugar	10.0	6.7	1.0	–	0.9	–	-33.0	-85.1	-100.0
Coffee	4.0	8.7	7.8	10.1	2.1	3.6	117.5	-10.3	29.5
Other exports	39.7	41.0	41.1	47.0	27.4	16.9	3.3	0.2	14.4
Total	*169.8*	*176.7*	*181.8*	*278.9*	*100.0*	*100.0*	*4.1*	*2.9*	*53.4*

Source: Central Bank of Paraguay.

[a] Preliminary figures.

Table 320

PARAGUAY: BALANCE OF PAYMENTS

(Millions of US dollars)

	1972	*1973*	*1974*	*1975*	*1976*	*1977*
Current account						
Exports of goods and services	106	149	207	210	211	315
Goods FOB	86	128	173	176	181	279
Services	20	21	34	34	30	36
Transport	1	1	2	2	2	2
Travel	11	11	12	10	14	18
Imports of goods and services	106	161	251	300	298	442
Goods FOB	79	127	198	227	230	348
Services	27	34	53	73	68	94
Transport	10	15	27	32	34	45
Travel	8	10	10	12	13	13
Net payments of profits and interest on foreign capital	-11	-10	-13	-13	-12	-16
Profits	-2	-2	-2	-1	-1	-2
Interest	-9	-8	-11	-12	-11	-4
Net private transfer payments	2	2	–	9	1	2
Balance on current account	-9	-20	-57	-94	-98	-141
Capital account						
Net external financing (a +b +c +d +e)	9	20	57	94	98	141
(a) Net external non-compensatory capital	24	51	103	114	206	
Direct investment	3	9	21	14	18	
Long- and medium-term loans	26	35	49	123	217	
Amortization payments	-11	-11	-21	-18	-26	
Short-term liabilities	2	14	51	-10	-7	252
Official transfer payments	4	4	3	5	4	
(b) Domestic non-compensatory capital or assets	-4	-4	-14	-3	-54	
(c) Errors and omissions	-4	-6	-2	12	-14	
(d) Allocation of SDRs	2	–	–	–	–	
(e) Net compensatory financing (– = increase)	-9	-21	-30	-29	-40	-111
Balance-of-payments loans, trade arrears, IMF loans and other liabilities of the monetary authorities	–	3	–	1	3	–
Amortization payments	–	–	–	-1	–	–
Variation in gross international reserves (– = increase)	-9	-24	-30	-29	-42	-111
Foreign exchange reserves (– = increase)	-7	-24	-30	-29	-41	
Gold reserves (– = increase)	–	–	–	–	-1	–
SDRs (– = increase)	-2	–	–	–	–	–

Sources: 1972-1976: CEPAL, on the basis of data from the International Monetary Fund;
1977: CEPAL, on the basis of data supplied by the Central Bank of Paraguay.

Nevertheless, as a result of the extraordinary growth in the value of exports of goods and services, amortization and interest payments represented a smaller proportion of exports of goods and services in 1977 than in the two previous years (see table 321).

Table 321

PARAGUAY: INDICATORS OF EXTERNAL INDEBTEDNESS

(Millions of US dollars)

	1972	*1973*	*1974*	*1975*	*1976*	*1977*
Total disbursed external debt	192.4	219.0	271.7	332.0	455.5	518.1
Servicing of external debt	20.0	22.4	28.5	35.6	37.6	50.3
Amortization payments	12.5	15.1	19.6	24.0	24.8	33.7
Interest payments	7.5	7.3	8.9	11.6	12.8	16.6
Servicing of external debt as a percentage of exports of goods and services	19.0	15.0	13.8	17.0	17.8	16.0

Source: Central Bank of Paraguay.

4. *Prices and monetary and fiscal development*

(a) *Prices*

The pace of inflation accelerated in 1977. Annual changes in the consumer price index had slowed down sharply in 1975 and 1976 compared with 1973 and 1974, but the index rose 9.4% in 1977, more than double the rate of increase in 1976 (see table 322). The emergence of new upward pressures on prices was closely linked to the rise in unit values of imports and exports, and also to greater domestic demand resulting from an appreciable increase in private consumption.

Table 322

PARAGUAY: EVOLUTION OF DOMESTIC PRICES

(Percentages)

	1972	*1973*	*1974*	*1975*	*1976*	*1977*
	Variation from December to December					
Consumer price index	9.5	14.1	22.0	8.7	3.4	9.4
Food	...	18.4	18.4	11.4	2.0	9.9
	Variation between annual averages					
Consumer price index	9.2	12.8	25.2	6.7	4.5	9.4
Food	...	21.7	24.8	4.6	4.2	11.3

Source: Central Bank of Paraguay.

(b) *Monetary and fiscal expansion*

Between December 1976 and December 1977 there was an increase of 32% in the means of payment, a faster growth rate than in 1975 and 1976.

As in previous years, the rise in net international reserves was again the main factor of expansion. These reserves increased by 66%, i.e., even higher than the high rates of 1975 and 1976. Domestic credit rose by 10%, reflecting the relatively high growth of credit to the private sector (22%) and more than making up for the decline in credit to the government and to public institutions. Monetary absorption factors increased by 32%, which was somewhat more than in the previous year (see table 323).

Table 323

PARAGUAY: MONETARY POSITION

	End-year balance (millions of guaraníes)				*Growth rates*		
	1974	*1975*	*1976*	*1977*[a]	*1975*	*1976*	*1977*[a]
Money	*15 120*	*17 829*	*21 590*	*28 403*	*17.9*	*21.1*	*31.6*
Factors of expansion	*33 816*	*41 535*	*51 991*	*68 590*	*22.8*	*25.2*	*31.9*
Foreign assets (net)	10 058	13 986	20 494	33 933	39.1	46.5	65.6
Domestic credit	23 758	27 549	31 497	34 657	16.0	14.3	10.0
Government (net)	1 250	791	422	-1 995	-36.7	-46.6	...
Official entities	3 024	3 634	3 119	2 687	20.2	-14.2	-13.9
Private sector	19 484	23 124	27 956	33 965	18.7	20.9	21.5
Factors of absorption	*18 696*	*23 706*	*30 401*	*40 187*	*26.8*	*28.2*	*32.2*
Quasi-money (savings and time deposits)	14 260	19 258	24 159	31 576	35.0	25.4	30.7
Long-term foreign borrowing	463	252	189	551	-45.6	-25.0	191.5
Other items (net)	3 973	4 196	6 053	8 060	5.6	44.3	33.2

Source: International Monetary Fund, *International Financial Statistics*, May 1978.

[a] Preliminary figures.

In the field of government finance, savings on current account were more than double the 1976 level as a result of a marked rise of the order of 37% in current income, compared with a 15% increase in current expenditure. Meanwhile the growth of government investment, which had been increasing strongly and steadily since 1975, subsided to only 9% in 1977 (see table 324).

Table 324

PARAGUAY: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of guaraníes				*Growth rates*		
	1974	*1975*	*1976*	*1977*	*1975*	*1976*	*1977*
Current income	*16 262*	*17 894*	*19 244*	*26 429*	*10.0*	*7.5*	*37.3*
Tax revenue	...	15 877	16 871	23 570	...	6.3	39.7
From taxes on external trade	...	...	6 517	7 024	...	...	7.8
From taxes on income and property	...	...	3 644	4 530	...	...	24.3
From taxes on production and transactions	...	...	6 710	12 016	...	...	79.1
Non-tax revenue	...	2 017	2 373	2 859	...	17.7	20.5
Current expenditure	*12 054*	*14 412*	*16 157*	*18 553*	*19.6*	*12.1*	*14.8*
Wages and salaries	...	6 126	7 325	8 529	...	19.6	16.4
Other current expenditure	...	8 286	8 832	10 024	...	6.6	13.5
Saving on current account	*4 208*	*3 482*	*3 087*	*7 875*	*-17.3*	*-11.4*	*155.1*
Capital expenditure	*2 877*	*4 198*	*6 659*	*7 246*	*45.9*	*58.9*	*8.8*
Real investment	1 964	3 471	5 872	6 051	76.7	69.2	3.1
Other capital expenditure[a]	913	727	787	1 195	-20.4	8.2	52.0
Total expenditure	*14 931*	*18 610*	*22 816*	*25 799*	*24.6*	*22.6*	*13.1*
Fiscal deficit (or surplus)	*1 331*	*-714*	*-3 570*	*629*			
Financing of deficit							
Domestic financing	-1 633	-649	208	-3 155			
Banking system	...	91	-84	340			
Net issue of securities		-217	-189	-190			
Other		-774	-66	-3 005			
External financing	302	1 363	3 362	2 526			

Source: Office of the President of the Republic, Technical Planning Secretariat.

[a] Excluding amortization of the public debt.

PERU

1 *The overall picture*

The gross domestic product fell by 1% and the per capita product by 3.7% in 1977. Thus, the downward trend that started in 1975 was intensified and as a result the per capita produce was almost equal to that recorded in 1973. At the same time, the rate of inflation slowed and the balance-of-payments deficit on current account diminished (see table 325).

The drop in the domestic product was mainly due to a contraction of manufacturing and significant decreases in construction activity and fishing. Only the mining sector considerably increased its output, while agriculture remained at a standstill. In line with these production trends, the rate of unemployment rose from 5.2% in 1976 to 5.8% in 1977.

Table 325

PERU: MAIN ECONOMIC INDICATORS

	1973	*1974*	*1975*	*1976*	*1977*[a]
A. *Basic economic indicators*					
Gross domestic product at factor cost (millions of US dollars at 1970 prices)	8 408	8 984	9 281	9 559	9 463
Population (millions)	14.7	15.1	15.5	15.9	16.4
Per capita gross domestic product (US dollars at 1970 prices)	573	596	599	601	578
	Growth rates				
B. *Short-run economic indicators*					
Gross domestic product	6.2	6.9	3.3	3.0	-1.0
Per capita gross domestic product	3.3	4.0	0.5	0.2	-3.7
Gross income[b]	9.6	8.8	1.5	2.5	-1.2
Terms of trade	24.8	18.3	-15.1	-3.5	2.3
Current value of exports of goods and services	16.6	36.9	-8.3	3.4	25.3
Current value of imports of goods and services	34.5	64.5	24.4	-13.5	4.5
Consumer price index					
December to December	13.8	19.2	24.0	44.7	32.4
Annual average variation	9.5	16.9	23.6	33.5	38.1
Money	27.4	41.6	17.3	25.3	20.9
Wages and salaries[c]	-12.1	4.6	-4.9	-12.2	-9.4
Rate of unemployment[d]	4.2	4.0	4.9	5.2	5.8
Current income of government	16.9	28.5	28.2	26.7	38.3
Total expenditure of government	27.1	18.6	33.1	33.9	51.8
Fiscal deficit/total expenditure of government[d]	35.9	30.5	33.1	36.7	42.3
	Millions of US dollars				
C. *External sector*					
Trade balance (goods and services)	-139	-601	-1 349	-881	-557
Balance on current account	-299	-752	-1 574	-1 233	-964
Variation in net international reserves	13	282	-577	-868	-297
External debt[e]	1 814	2 563	3 474	4 074	4 700

a Preliminary figures.
b Gross domestic product plus term-of-trade effect.
c Annual variation in real minimum wage.
d Percentage.
e Total disbursed, public and private.

The main recessive element was the decline of over 3°/o in domestic demand, which had already fallen by 1°/o in 1976, as a result of the nature of the short-term economic policy adopted to counteract the disequilibria in both the external and the public sectors. Thus, gross fixed investment dropped by 28°/o, while private consumption fell less than 1°/o. Thanks to the vigorous growth of exports of goods and services (20°/o) the decline in total demand was reduced to 1°/o.

The external sector showed some improvement, with the deficit on current account in the balance of payments dropping from 1,230 million dollars in 1976 to 960 million in 1977 as a result of the upturn in exports, particularly of mining products, and the stagnation of imports. The position of net international reserves deteriorated, however, although more moderately than in 1975 and 1976, because the net inflow of long- and medium-term capital was not enough to cover the current account deficit.

The rate of inflation dropped from 45°/o in 1976 to 32°/o in 1977, in particular owing to the combined effect of a reduction in real liquidity and a contraction of domestic demand. The fiscal position, on the other hand, continued to worsen, since the relationship between the Government's total fiscal deficit and its total expenditure rose from 37°/o in 1976 to 42°/o in 1977. The real minimum wage for its part, fell by 9°/o, added to the decreases already recorded in 1975 and 1976.

2. *Recent economic trends*

(a) *Total supply and demand*

The recessive trend affecting economic activity since 1975 was accentuated in 1977. The gross domestic product fell by 1°/o following two consecutive years in which it had kept pace with population growth (see table 326).

Table 326

PERU: TOTAL SUPPLY AND DEMAND

	Millions of soles at 1970 prices			*Percentage breakdown*		*Growth rates*		
	1975	*1976*	*1977*[a]	*1970*	*1977*	*1975*	*1976*	*1977*
Total supply	382 412	380 904	376 647	115.7	117.6	4.7	-0.4	-1.1
Gross domestic product at market prices	314 029	323 559	320 323	100.0	100.0	3.3	3.0	-1.0
Imports of goods and services[b]	68 383	57 345	56 324	15.7	17.6	11.4	-16.1	-1.8
Total demand	*382 412*	*380 904*	*376 647*	*115.7*	*117.6*	*4.7*	*-0.4*	*-1.1*
Domestic demand	346 340	343 061	331 347	96.0	103.5	6.1	-0.9	-3.4
Gross domestic investment	65 254	57 942	41 892	13.0	13.1	10.0	-11.2	-27.7
Gross fixed investment	58 254	53 942	41 481	12.4	12.9	20.2	-7.4	-23.1
Public	28 355	26 740	19 475	2.6	6.1	11.9	-5.7	-27.2
Private	29 899	27 202	22 006	9.8	6.9	29.3	-9.0	-19.1
Changes in stocks	7 000	4 000	411	0.6	0.2			
Total consumption	281 086	285 119	289 455	83.0	90.4	5.2	1.4	1.5
General government	41 423	42 837	48 578	10.1	15.2	13.5	3.4	13.4
Private	239 663	242 282	240 877	72.9	75.2	3.9	1.0	-0.6
Exports of goods and services[b]	36 072	37 843	45 300	19.7	14.1	-6.9	4.9	19.7

Sources: 1970-1976: CEPAL calculations on the basis of figures supplied by the Banco Central de Reserva del Perú and the National Institute of Statistics (INE);
1977: CEPAL estimates on the basis of data supplied by the National Institute of Statistics.

[a] Preliminary figures.

[b] 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 CEPAL for the purpose.

The drop of around 2°/o in the volume of imports followed the previous year's decline of 16°/o. Thus the situation in 1976-1977 was very different from that prevailing in 1973-1975, a period in which the high growth rates of imports determined a significantly higher growth rate of total supply than of the domestic product.

An analysis of total demand shows a decrease of 23°/o in gross fixed investment, following a 7°/o drop in 1976 which brought to an end a period of rapid growth of capital formation. The deterioration in 1977 was due to a reduction in both public (27°/o) and private (19°/o) investment.

The slow growth of total consumption and the contraction in per capita consumption were other indicators of the recession in economic activity in general and domestic demand in particular. A notable factor was the stagnation of private consumption, which meant an appreciable fall in per capita consumption for the second year running. Meanwhile, government consumption rose by 13°/o.

The growth of nearly 20°/o in the volume of exports was the only important dynamic factor in economic activity and was closely related with the performance of the mining sector, which is examined later in this section. This increase followed that recorded in the previous year, after seven years of persistent decline, i.e., a 24°/o reduction between 1968 and 1975. It is interesting to note that during this same period the volume of imports rose by 88°/o, which led to a marked disequilibrium in the external sector and other problems deriving from periodic export and import price fluctuations.

(b) *Sectoral trends*

The contraction of the economy in 1977 was the result of defects in its production structure and the intensification of some restrictive trends that had existed since 1975, all of which was reflected in the evolution of sectoral activity.

The drops in the manufacturing (4°/o) and construction (14°/o) products were largely due to an economic policy aimed at restricting domestic demand as a means of correcting the existing financial disequilibria. In contrast, the stagnation of the agricultural sector was rather the result of the structural limitation of the Peruvian economy, which was the cause of a steady decline in the per capita agricultural product. The decrease in fishing (6°/o) was due to the scarcity of anchoveta, a natural resource whose behaviour in recent years has led to this sector's fluctuating performance, which shows no signs of recovering from the collapse experienced in the period 1969-1973. The mining sector prevented a greater fall in total production of goods, attaining a growth rate of over 25°/o which was mainly the result of fuller exploitation of the new Cuajone copper mine (see table 327).

(i) *Agriculture.* Agricultural production in 1977 was practically the same as in the previous year owing to the decrease in crop farming (0.5°/o) and the small increase in livestock production (1°/o) (see table 328). The sector has maintained its age-old slow-growth trend: in the last two decades its production increased at an average annual rate of approximately 2°/o.

In 1977 the lack of rainfall and the frosts in the central and southern sierra of Peru affected the production of some crops, particularly potatoes, yuca and wheat. Moreover, problems continued to arise in connexion with scarce technical and credit assistance and the limited availability of agricultural machinery, improved seeds and other inputs. An illustration of this was coffee-growing, in which the scarcity of pesticides was responsible for the failure to control the disease caused by the coffee berry beetle (*broca*), with the consequent stagnation of production.

Cotton followed a different trend; the sowing period was advanced, especially on the north coast, in order to take advantage of the availability of water and obtain a second crop. Thus, production grew by about 7°/o in spite of the premature appearance of pests and diseases which prevented higher yields. There were also significant increases in the production of rice, maize and sorghum, but at lower rates than in 1975 and 1976.

The slow growth of livestock activity was influenced by the stagnation of beef and pork production and the low rate of growth of the production of fresh milk and poultry meat. This trend was largely due to the drop in private consumption.

(ii) *Fishing.* On the whole, the evolution of the fisheries sector was unfavourable in 1977, basically because the lack of anchoveta greatly affected the catch intended for the manufacture of fish meal and oil. This situation could have been even more critical if there had not been and abundance of other species such as jurel and sardines, which are traditionally used for direct human

Table 327

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

	Millions of soles at 1970 prices			*Percentage breakdown*		*Growth rates*		
	1975	*1976*	*1977*[a]	*1970*	*1977*	*1975*	*1976*	*1977*
Agriculture	42 386	44 227	44 013	18.8	15.2	1.8	4.3	-0.5
Crop farming and stock-raising	38 967	40 127	40 167	15.9	13.9	0.9	3.0	0.1
Fishing	3 419	4 100	3 846	2.9	1.3	-15.2	19.9	-6.2
Mining	17 712	19 289	24 188	8.6	8.4	-10.9	8.9	25.4
Manufacturing	63 457	66 122	63 477	20.6	22.0	4.7	4.2	-4.0
Construction	18 233	17 722	15 241	4.5	5.3	16.8	-2.8	-14.0
Subtotal goods	*141 788*	*147 360*	*146 919*	*52.5*	*50.9*	*2.9*	*3.9*	*-0.3*
Electricity, gas and water	3 440	3 478	...	1.2	...	2.9	1.1	...
Transport, storage and communications	14 321	14 608	...	4.5	...	4.3	2.0	...
Subtotal basic services	*17 761*	*18 086*	...	*5.7*	...	*4.0*	*1.8*	...
Commerce, financial institutions and insurance	48 466	49 241	...	16.1	...	3.6	1.6	...
Real estate[b]	12 300	12 669	...	4.5	...	3.0	3.0	...
Community, social and personal services[c]	63 007	64 267	...	21.3	...	4.4	2.0	...
Subtotal other services	*123 774*	*126 178*	...	*41.8*	...	*3.9*	*1.9*	...
Subtotal services	*141 535*	*144 264*	*141 956*	*47.5*	*49.1*	*3.9*	*1.9*	*-1.6*
Total gross domestic product[d]	*285 100*	*293 653*	*290 716*	*100.0*	*100.0*	*3.3*	*3.0*	*-1.0*

Sources: 1970-1976: CEPAL calculations on the basis of figures supplied by the Banco Central de Reserva del Perú and the National Institute of Statistics (INE).
1977: CEPAL estimates on the basis of data supplied by the National Planning Institute (IPN).

a Preliminary figures.
b Refers to ownership of dwellings only.
c Also includes restaurants, hotels and business services.
d As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

consumption but large quantities of which have also been used for the production of fish meal and oil (see table 329).

As regards fishing for direct human consumption 448,000 tons were caught in 1977, which surpassed predictions for that year by over 20°/o and represented a growth of more than 34°/o over 1976. This performance was in keeping with oceanographic phenomena connected with the Corriente del Niño (from the north), which favoured the increased supply of some species such as sardine, jurel, hake and a type of sierra (*caballa*). In this sub-sector fishing for canning purpose showed the fastest growth (46°/o), followed by that for freezing (34°/o) and fresh consumption (28°/o). Nevertheless, the fishing industry was faced with some difficulties due to the poor quality of the raw material, attributable to fishing with inadequate vessels and gear, inefficient handling and shortcomings in the freezing and landing infrastructure.

Table 328

PERU: INDICATORS OF AGRICULTURAL PRODUCTION

	1974	1975	1976	1977[a]	Growth rates		
					1975	1976	1977[a]
Index of agricultural production (1973 = 100)	102.3	103.3	106.7	106.8	1.0	3.3	0.1
Crop farming	100.2	97.6	100.2	97.7	-2.6	2.7	-0.5
Stock-raising	106.8	115.9	121.0	122.2	8.5	4.4	1.0
Production of some important crops (thousands of metric tons)							
Rice	494	537	570	587	8.7	6.1	3.0
Cotton	256	226	165	176	-11.7	-27.0	6.7
Coffee	70	65	65	65	-7.1	–	–
Sugar cane	9 184	8 958	8 792	8 816	-2.5	-1.9	0.3
Potatoes	1 722	1 640	1 667	1 580	-4.8	1.6	-5.2
Maize	606	635	726	749	4.8	14.3	3.2
Yuca	469	400	403	395	-14.7	0.8	-2.0
Wheat	127	126	128	120	-0.8	1.6	-6.3
Sorghum	22	29	46	51	31.8	58.6	10.9
Production of some important livestock products (thousands of metric tons)							
Poultry meat	106	130	140	143	22.6	7.7	2.1
Beef	85	86	87	87	1.2	1.2	–
Milk	813	813	821	828	–	1.0	0.9
Pork	...	...	55	54	...	...	-1.8

Source: National Institute of Statistics (INE).

[a] Preliminary figures.

Fishing for direct human consumption amounted to a little over 2 million tons, representing a 50% drop compared with the previous year. Anchoveta fishing has been limited to the southern coast by virtue of the measures aimed at protecting the species. There is some concern, however, that the available biomass will not recover owing to a combination of oceanographic factors and overfishing during the years of greatest activity in the fish meal and fish oil industry. Thanks to the utilization of other species (sardine, jurel and *samaza*) the production of fish oil did not decline, but the same cannot be said of the production of fish meal in view of the larger fat content of the species used as raw material.

(iii) *Mining.* For the second year in succession mining (including petroleum) showed a favourable performance, growing by more than 28% after the 1976 increase of about 7% (see table 330). This brought to an end a 15-year period of sluggish growth in mining production, the average rate of expansion being around 2%.

The factor determining the evolution of mining was the increase in copper production in the Cuajone copper mine of the Southern Peru Copper Company. This mine began to be developed in 1976 when production reached almost 45,000 metric tons of fine content, rising in 1977 to 160,000 tons. Another factor worth noting is the start of production activities in Cerro Verde I - Oxides owned by the State enterprise MINEROPERU.

Table 329

PERU: INDICATORS OF FISHERY PRODUCTION

	1974	1975	1976	1977[a]	Growth rates		
					1975	1976	1977[a]
Index of fishery output[b] (1973 = 100)	135.9	115.2	138.1	129.5	-15.2	19.9	-6.2
Fishery output (thousands of metric tons)	4 120	3 409	4 338	2 469	-17.3	27.2	-43.1
Direct human consumption[b]	319	292	334	448	-8.3	14.2	34.3
Industrial consumption[c]	3 801	3 117	4 004	2 021	-18.0	28.5	-49.5

Source: National Institute of Statistics. (INE).

a Preliminary figures.
b Products consumed fresh or processed (frozen, tinned, salted, etc.).
c Anchoveta and other species, mainly for the production of fish meal and oil.

Table 330

PERU: INDICATORS OF MINING PRODUCTION

	1974	1975	1976[a]	1977[b]	Growth rates		
					1975	1976[a]	1977[b]
Index of mining production[c] (1973 = 100)	103.8	93.8	100.0	128.4	-9.6	6.6	28.4
Production of some important minerals (thousands of tons of recoverable content)							
Copper	212	166	201	300	-21.6	21.4	49.3
Lead	166	154	160	167	-7.0	3.6	4.3
Zinc	378	365	421	447	-3.5	15.5	6.0
Iron	6 219	5 067	3 089	4 021	-18.5	-39.0	30.2
Silver (tons)	1 085	1 058	1 107	1 187	-2.5	4.6	7.2
Gold (kilograms)	3 123	3 135	2 511	...	0.4	-19.9	...
Crude petroleum (millions of barrels)	28.1	26.3	28.0	33.3	-6.6	6.4	19.9

Source: National Institute of Statistics (INE).

a Preliminary figures.
b Estimates.
c Index of physical volume, including petroleum.

In spite of the notable recovery of iron production, it proved impossible to attain 1974 levels and even less to make full use of the installed capacity which is estimated at 10 million tons. This shows that some problems still persist in marketing the large stocks of the Marcona mine, nationalized in mid-1975.

Production of silver, lead and zinc maintained the previous year's rising trend.

Small- and medium-scale mining faced serious economic and financial problems, mainly because of the fall in world prices of copper and, to a certain extent, zinc in 1977. In view of this situation, the Government exempted medium-scale copper mining from the tax on traditional exports established in the middle of 1976 with the object of obtaining for the State a portion of the larger profits generated by devaluation.

Production of crude petroleum reached a volume of 33 million barrels, or 19% more than in 1976. This growth was mainly due to the large volume produced by the State entreprise PETROPERU (nearly 19 million barrels in 1977 compared with 13.5 million in 1976) and also, on a lesser scale, by the contracting company Occidental Petroleum. On the other hand, the contracting company BELCO's production fell by 10% in volume because of its unsuccessful efforts to develop wells drilled in deeper waters on the continental shelf. A certain delay in the entry into operation of the North Peruvian oil pipeline, some inland water transport problems due to variations in the flow of the Tigre river in the northern jungle and a lower production than expected on the continental shelf prevented the attainment of the proposed Development Plan target for 1977, i.e., 44 million barrels.

(iv) *Manufacturing.* Manufacturing output declined by about 5%; in the last four months the downward trend was accentuated, since in the period January-August the decrease was 2% with respect to the same period in 1976. This trend, which began at the end of 1976, contrasted with the sector's performance in the year 1960-1974 during which it grew at an average annual rate of about 7%; the rate rose to nearly 8% between 1970 and 1974 (see table 331).

The causes of this evolution were closely linked with the restrictions imposed on domestic demand in line with the objectives of the economic policy in force. Added to this were certain difficulties in the supply of raw materials, particularly those imported.

With a 7% decline in output the industries producing consumer goods[179] were the most seriously affected by the contraction, particularly textiles (10%), clothing (approximately 15%) and footwear (35%), which together represent more than one-third of this group. A 4% decline was also recorded in the production of food, beverages and tobacco (excluding fish meal and oil), which account for over half the group of consumer industries.

The group of industries producing intermediate goods,[180] excluding fish meal, grew by 8%. The performance of this group, which represents 37% of the manufacturing stratum is primarily accounted for by the sharp increase (42%) in the basic metals industries, particularly non-ferrous metals. Paper, production also increased, while the output of other intermediate goods declined.

The industries producing capital goods,[181] which are considered to include consumer durables,[182] recorded a decrease of about 6%. There was a particulary significant drop in the manufacture of transport equipment (27%), which represents nearly 40% of this group of industries.

The evolution of the production of fish meal and oil was closely linked with the trend followed by fishing for indirect human consumption. The combined output of fish meal and oil fell by 42%, the main factor being the drop in the production of fish meal (44%), while the production of fish oil increased slightly (1%).

(v) *Construction activity.* This sector's contribution to the gross domestic product is estimated to have fallen by 14%, following a 3% drop in 1976 (see table 327). These declines differ from the trend in the period 1969-1973 when the sector attained an average rate of expansion of 10% annually, while in the years 1974-1975 the rate rose to 19%. In official reports, the following comments have been made on the significance of the fluctuations occurring in construction: "It is observed that the slowing-down of construction activity precedes a general recession in the country's economic activity by approximately a year, and that negative growth rates for construction coincide with low rates of economic growth in general..."[183]

[179] Including food, beverages and tobacco, except fish meal, textiles, clothing and footwear; furniture; printing and publishing; and miscellaneous industries (see table 331).

[180] Including leather and leather substitutes; wood, except furniture; paper; chemicals; non-metallic minerals, and basic metals.

[181] Including the metal industries, machinery and equipment.

[182] See, in this respect, National Planning Institute, *Patrón de crecimiento de la economía peruana, Informe Nº 041-76/INP-OIP*, Lima, July 1976. It is stated in this document that the share of capital goods in this group is only 25% and that of consumer durables is about 60%.

[183] See, *Patrón de crecimiento de la economía peruana, op. cit.*, p. 39.

Table 331

PERU: INDEX OF MANUFACTURING PRODUCTION
(1973= 100)

	1974	1975	1976	1977[a]	Growth rates 1974	1975	1976	1977[a]
Index of manufacturing production[b]								
Manufacturing sector	108.7	113.8	118.9	113.3	8.7	4.7	4.5	-4.7
Manufacturing sector (excluding fish meal)	107.4	112.9	117.9	113.1	7.4	5.2	4.3	-4.0
Consumer goods	106.4	109.5	111.9	103.8	6.4	2.8	2.3	-7.2
Intermediate goods	112.5	115.3	127.3	135.1	12.5	2.5	10.4	6.1
Intermediate goods (excluding fish meal)	109.1	113.1	124.7	135.2	9.1	3.6	10.3	8.4
Capital goods	111.2	128.2	126.0	118.9	11.2	15.3	-1.7	-5.6
Manufactures of fish meal	*242.0*	*200.6*	*225.1*	*131.2*	*142.0*	*-17.1*	*12.2*	*-41.7*
Food, beverages and tobacco	*110.6*	*114.3*	*116.8*	*112.3*	*10.6*	*3.4*	*2.2*	*-3.9*
Food	108.4	110.5	110.4	109.2	8.4	1.9	-0.1	-1.1
Beverages	116.0	125.9	137.9	130.2	16.0	8.6	9.5	-5.6
Tobacco	116.5	117.0	116.1	...	16.5	0.4	-0.8	...
Textile, clothing and leather industries	*109.1*	*109.8*	*115.3*	*97.6*	*9.1*	*-0.7*	*5.0*	*-15.4*
Textiles	110.2	110.5	118.9	106.8	10.2	0.3	7.5	-10.1
Clothing	111.7	110.8	92.0	...	11.7	-0.8	-17.0	...
Leather and substitutes, except footwear	101.2	110.2	106.2	...	1.2	8.9	-3.6	...
Footwear	100.4	101.4	127.0	82.5	0.4	1.0	25.2	-35.0
Wood and furniture industries	*103.1*	*120.1*	*140.9*	...	*3.1*	*16.5*	*17.3*	...
Wood, except furniture	101.9	113.0	161.5	...	1.9	10.9	42.9	...
Furniture	104.7	129.7	112.6	...	4.7	23.9	-13.2	...
Paper, printing and publishing industries	*105.6*	*101.3*	*103.2*	*105.2*	*5.6*	*-4.1*	*1.8*	*2.0*
Paper	113.3	120.0	123.1	131.4	13.3	5.9	2.6	6.7
Printing, publishing and related industries	97.1	80.5	80.9	76.9	-2.9	-17.1	0.4	-4.9
Manufactures of chemical substances and chemical products	*111.4*	*122.1*	*138.6*	*132.1*	*11.4*	*9.6*	*13.5*	*-4.7*
Industrial chemical substances	122.7	127.8	130.0	131.3	22.7	4.1	1.7	1.0
Chemical products	109.1	127.0	163.7	144.2	9.1	16.4	28.9	-11.9
Petroleum refineries	108.4	114.9	112.9	116.6	8.4	6.0	-1.7	3.3
Miscellaneous products	112.9	58.7	57.7	...	12.9	-48.0	-1.7	...
Rubber products	102.2	112.4	158.5	149.1	2.2	10.0	41.0	-5.9
Plastic products	113.5	123.3	124.4	...	13.5	8.6	0.9	...
Non-metallic mineral industries	*108.3*	*112.8*	*123.3*	*118.3*	*8.3*	*4.1*	*9.3*	*-4.0*
Clay, china and porcelain objects	110.8	116.7	136.0	...	10.8	5.3	16.5	...
Glass and glass products	105.0	121.8	134.0	93.7	5.0	16.0	10.0	-30.1
Other non-metallic mineral products	108.9	109.8	118.6	118.9	8.9	0.8	8.0	0.3
Basic metal industries	*106.7*	*99.6*	*104.1*	*147.3*	*6.7*	*-6.7*	*4.5*	*41.5*
Iron and steel	139.5	127.5	116.5	130.8	39.5	-8.6	-8.6	12.3
Non-ferrous metals	98.7	92.8	101.0	161.1	-1.3	-6.0	8.9	59.4
Metal, machinery and equipment industries	*111.2*	*128.2*	*126.0*	*118.9*	*11.2*	*15.3*	*-1.7*	*-5.6*
Simple, metal products	108.2	116.2	106.6	105.2	8.2	7.4	-8.3	-1.3
Machinery, except electrical	115.9	144.1	154.1	173.7	15.9	24.3	6.9	12.7
Electrical machinery	121.9	145.1	156.3	151.6	21.9	19.0	7.7	-3.0
Transport equipment	105.1	119.1	108.5	78.8	5.1	13.3	-8.9	-27.4
Mcasuring equipment, intruments, etc.	108.7	142.6	152.4	...	8.7	31.2	6.9	...
Other manufacturing industries	*102.7*	*114.4*	*104.5*	...	*2.7*	*11.3*	*-8.6*	...

Source: National Institute of Statistics (INE).

a Preliminary figures.
b Index of physical volume.

Production and consumption of some building materials reflected the impact of the sector's contraction. Steel production for construction fell by 8%, but the decrease in its consumption is estimated at 11%; cement output remained at almost the same level, although about 60,000 tons were exported during 1977; the manufacture of flat glass dropped by 13% (see table 332).

Table 332

PERU: INDICATORS OF CONSTRUCTION ACTIVITY

	1974	1975	1976	1977[a]	Growth rates 1975	1976	1977
Production of certain building materials (thousands of tons)							
Structural steel	148.0	131.0	134.0	123.4	-11.5	2.3	-7.9
Cement	1 914.0	1 939.8	1 966.2	1 962.0	1.3	1.4	-0.2
Flat glass[b]	...	7.5	13.2	11.5	...	76.0	-12.9

Source: Ministry of Housing and Construction; National Planning Institute (INP).

[a] Preliminary figures.
[b] Empresa Vidrios Planos del Perú S.A.

The contraction of construction activity was mainly due to the restricted domestic demand in 1976 and 1977. The situation was also affected by other negative factors of a more specific nature, however. Noteworthy among them was the drop in public investment after several years of sustained expansion and, specifically, the conclusion of the work on the Cuajone project and the oil pipeline. The higher cost of building materials in the last two years was another factor that helped to discourage this activity (see table 342).

(c) *Employment and unemployment trends*

In 1977 the total rate of open unemployment rose to 5.8% of the economically active population, thus accentuating the unfavourable trend which started in 1975, the under-employment coefficient is estimated to have risen to 48%. These two indicators represent the lowest levels of manpower absorption thus far attained in the present decade (see table 333). The deterioration has been most acute in the non-agricultural sectors where rates of open unemployment and under-employment of 9.4% and 39% respectively were observed. These figures are in distinct contrast with those recorded in 1973 and 1974.

The levels of agricultural unemployment were very low and similar to those attained in the previous year; under-employment persisted at an estimated rate of 62%. The evolution of these indicators is not very sensitive to the conjunctural fluctuations of economic activity and mainly responds to more deep-seated and lasting characteristics, i.e., the process of rural-urban migration among others. Thus, while the active population in the non-agricultural sector has been growing at an annual rate of 4.2%, that employed in the agricultural sector has been increasing by approximately 1.5% annually.

A study of the course of employment by sectors in Lima shows that the number of workers employed in manufacturing decreased, a trend which was accentuated in the second half of 1977. This situation coincided with a significant increase in the number of applications by manufacturing enterprises to close down or stop work and reduce their staff (from 82 to 222 between January-September 1976 and the same period of 1977).

Table 333

PERU: EVOLUTION OF EMPLOYMENT AND UNEMPLOYMENT

	Percentage of economically active population							
	1970	*1971*	*1972*	*1973*	*1974*	*1975*	*1976*	*1977*[a]
I. The whole country								
Unemployment	4.7	4.4	4.2	4.2	4.0	4.9	5.2	5.8
Agricultural	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Non-agricultural	8.3	7.3	7.3	7.1	6.7	8.1	8.4	9.4
Under-employment	46.0	44.4	44.2	41.3	41.9	42.4	44.3	48.0
Agricultural	64.3	63.6	67.0	65.4	65.4	68.2	61.8	61.7
Non-agricultural	30.9	29.0	26.5	23.3	25.0	24.8	32.7	39.2
Adequately employed	49.3	51.2	51.6	54.5	54.1	52.7	50.5	46.2
Total	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*

	Employment index[b]				*Annual growth rates*			
	1974	*1975*	*1976*	*1977*[a]	*1970-1974*	*1975*	*1976*	*1977*
II. Lima, metropolitan area								
Manufacturing	126.4	135.5	139.9	138.0	6.0	7.2	3.2	-1.4
Commerce	124.7	128.1	132.9	133.2	5.7	2.7	3.7	0.2
Services	117.7	121.0	122.5	125.0	4.2	2.8	1.2	2.0

Sources: I. Ministry of Labour, Employment Department;
II. National Institute of Statistics, *Informe estadístico*, January-December 1977.

[a] Preliminary figures.
[b] To December; base year: 1970 = 100.

Concurrently, the employment index rose in the commerce and services sectors. This fact indicated that activities such as those of travelling salesmen and unorganized services absorbed, mainly in the form of under-employment, part of the difference existing between job creation and the growth of the active population.

3. *The external sector*

(a) *Main trends*

The most critical element of the present disequilibria of the Peruvian economy is the serious external bottleneck which started in the early 1970s and has been visible among other aspects, in increasing deficits on the current account of the balance of payments and in a considerable decrease in net international reserves since the beginning of 1975 (see tables 339 and 340).

A salient feature in this respect was the deterioration in foreign trade in goods, which recorded a sharply declining trend with the initial surpluses becoming deficits from 1974 onwards. It should be noted that this trend was influenced be the expansionary economic policy adopted since the early 1970s, which was not accompanied by any measures to prevent real and financial maladjustments or

parallel steps to promote the export sector and which, moreover, brought out the limitations and lack of integration of the domestic production apparatus, which was heavily dependent on imported supplies. Added to this was the adverse impact of world inflation and subsequently, of the recession in the industrialized countries.

The large net inflow of non-compensatory capital and the improvement in the terms of trade in 1973 and 1974 kept the disequilibria that were being generated from coming into the open until 1975, when the accentuation of internal maladjustments coincided with the world recession and with the growing burden of service payments on the foreign capital which entered the country in preceding years. This situation reached its most critical point in 1975 and 1976, when the current account deficit was 1,570 and 1,230 million dollars, respectively, while net international reserves dropped by 1,450 million dollars, recording a negative balance of 750 million dollars in December 1976.

These developments led to the formulation of a stabilization programme in June 1976, by virtue of which the exchange rate was altered from 45 to 65 soles to the dollar and a restrictive fiscal and monetary policy was established, with an increase in some taxes and a reduction in public expenditure, particularly investment, while the expansion of credit to both the public and the private sector was restricted.

The implementation of the stabilization programme coincided with an increase in exports as a result of the start of production activity in the new copper mines and the rise in world prices of lead, zinc, coffee and cotton, and with a certain decline in imports. Thus the trade deficit in goods decreased from 1,100 million dollars in 1975 to 740 million in 1976. This recovery was, however, insufficient, and at the same time the inflow of non-compensatory capital was relatively restricted so that net international reserves continued to decline in 1976.

Concurrently, price rises triggered in the ensuing months by the stabilization programme itself caused a rapid deterioration in the exchange rate in real terms, and this, together with other considerations, led to the establishment in September 1976 of a policy of mini-devaluations which remained in force until July 1977.

(b) *The situation in 1977: some salient features*

In the first nine months of the year there was a further drop of 360 million dollars in net reserves. The authorities then adopted emergency measures such as the use of very short-term swaps, a reduction in the programmed allocations of foreign exchange for imports and the extension to 180 days of the period for the compulsory financing of practically all imports.[184]

The nominal rate of exchange rose periodically between September 1976 and July 1977 and remained steady between the latter date and September, so that the index of the real exchange rate (base June 1976 = 100) dropped to 70 in September 1977 (see table 334).

These developments were important factors leading to the adoption in October 1977 of a new stabilization programme which modified the previous foreign exchange system,[185] established the "single exchange market" and stipulated that the exchange rate would be determined by the free play of supply and demand. At the same time, the quantitative controls on imports and the use of foreign exchange were lifted and the system of import programming was eliminated. In accordance with the new exchange system, the Central Bank would retain a variable percentage of export receipts –35o/o in December 1977– for service payments on balance-of-payments loans and the public external debt, while the rest of the banking system would take care of the demand for foreign exchange from the various economic agents.

Since the entry into operation of the unified market and the liberalization of exchange and trade policy, the rate of exchange started to float daily and by the end of 1977 had reached 130.4 soles to the dollar. With this devaluation of over 60o/o in a period of three months, the index of the real rate of exchange rose rapidly and in December 1977 it stood at a slightly higher value (5o/o) than in June 1976.

[184] Formerly, this period was 90 and 120 days, depending on the type of import, and the measure excluded imports of food and pharmaceutical products.

[185] Under that system there were two different markets (for certificates and drawings) in which the Banco Central de Reserva and the Banco de la Nación were compelled to sell all the foreign currency required by the various economic agents at an exchange rate directly established by the monetary authority.

Table 334

PERU: EVOLUTION OF EXCHANGE RATE AND PRICES

	Exchange rate[a] (soles per dollar) (1)	*Index of exchange rate[b]* (2)	*Wholesale price index[b]* (3)	*Index of real exchange rate[b]* (4) = (2) / (3)
1975				
December	45.00	69.2	81.2	85.2
1976				
January	45.00	69.2	94.2	73.5
February	45.00	69.2	95.5	72.5
March	45.00	69.2	97.5	70.9
April	45.00	69.2	97.5	70.9
May	45.00	69.2	98.6	70.2
June	65.00	100.0	100.0	100.0
July	65.00	100.0	116.6	85.8
August	65.00	100.0	125.2	79.9
September	65.56	100.9	127.2	79.3
October	66.52	102.3	130.7	78.3
November	67.73	104.2	132.8	78.5
December	69.37	106.7	133.7	79.8
1977				
January	71.05	109.3	140.0	78.1
February	72.64	111.8	144.6	77.3
March	74.24	114.2	149.8	76.2
April	76.00	116.9	151.1	77.4
May	78.04	120.1	153.4	78.3
June	79.89	122.9	162.3	75.7
July	80.88	124.4	168.1	74.0
August	80.88	124.4	173.2	71.8
September	80.88	124.4	177.5	70.1
October	102.08	157.0	180.3	87.1
November	116.88	179.8	184.8	97.3
December	130.38	200.6	191.5	104.8

Sources: National Institute of Statistics (INE) and Banco Central de Reserva del Perú.

a At end of period; from October 1977 onwards the purchase and sales average is considered.

b Base: June 1976 = 100. An "equilibrium" rate was established that month, according to the special broadcast on radio and television by the Minstry of Economic Affairs and Finance on 30 June 1976.

In 1977 the performance of the balance of payments resulted in an overall loss of international reserves of approximately 300 million dollars, which represented a relative improvement compared with the above-mentioned results in 1975 and 1976.

(c) *Trade in goods*

The reduction in the deficit in foreign trade in goods from 740 million dollars in 1976 to 440 million in 1977 was possible owing to a significant increase in the volume exported (16°/o), which in terms of value amounted to 27°/o because of the rise in the unit value of Peru's external sales (9°/o) (see table 335). Imports grew by only 3°/o despite the 3°/o contraction in volume, given the 6°/o increase in the unit value of imports.

Table 335

PERU: MAIN INDICATORS OF FOREIGN TRADE

	1973	1974	1975	1976[a]	1977[a]
	Growth rates				
Exports of goods					
Value	17.9	35.2	-14.3	5.5	26.9
Volume	-17.5	-7.9	-9.8	7.2	16.4
Unit value	43.0	46.7	-4.9	-1.6	9.0
Imports of goods					
Value	35.1	74.0	25.2	-12.1	3.0
Volume	17.9	40.3	11.8	-13.8	-3.3
Unit value	14.6	24.1	12.0	2.0	6.5
Terms of trade	24.8	18.3	-15.1	-3.5	2.3
	Indexes (1970 = 100)				
Terms of trade	104.7	123.7	105.1	101.4	103.8
Purchasing power of exports of goods	79.7	93.0	70.7	72.9	86.9
Purchasing power of exports of goods and services	88.7	98.3	80.9	81.3	95.7

Source: CEPAL estimates on the basis of information supplied by the Banco Central de Reserva del Perú.

[a] Preliminary figures.

(i) *Exports.* The growth of exports of goods was mainly due to the increase observed in mining exports, in particular the expansion in copper sales from 227 million dollars in 1976 to 392 million in 1977 (see table 336).

This growth, due to the more intensive operation of new copper mines, could have been even greater had it not been for the declining trend in the world price of copper during the year (see table 337). Other mining products (iron, silver, lead) also showed significant increases, and therefore mining exports increased their share in the total for the country. The higher values obtained for iron and silver were due to increases in volume and an improvement in prices, while in the case of lead it was due only to improved prices. Exports of zinc, for their part, were adversely affected by a 15% drop in the average price, and in the case of petroleum the decrease in volume was not offset by the price increase.

As regards agricultural exports, an important feature was the rise in coffee sales, with an increase of about 94% in the average sales price. On the contrary, sugar was affected by a considerable reduction in the world price.

Non-traditional exports rose by 74%, as opposed to 43% in 1976. Among the most dynamic products were fishing vesels, fish preserves, cotton yarn and fabrics, and a whole group of unidentified items included under the head of other non-traditional exports in table 336. The evolution of non-traditional exports is largely attributable to the incentives provided by the foreign exchange and prices policy adopted in the last two years.

(ii) *Imports.* Imports of goods rose by only 64 million dollars over the preceding year (3%), for reasons, as noted earlier, connected with the general recession in economic activity and, in particular, with the exchange and monetary measures adopted to curb the demand for imports. The unit value of imports is estimated to have risen by 6% in 1977 and, therefore, the corresponding volume declined by a little over 3%.

Imports of consumer goods fell 2%, added to the 11% drop recorded in the previous year. Imports of capital goods declined by 31%, after a fall of about 14% in 1976, this trend being

Table 336

PERU: VALUE AND BREAKDOWN OF EXPORTS OF GOODS (FOB)

	Millions of dollars				*Percentage breakdown*		*Growth rates*[a]		
	1974	*1975*	*1976*	*1977*[b]	*1970*	*1977*	*1975*	*1976*	*1977*
Main traditional exports	*1 287*	*1 133*	*1 203*	*1 468*	*88.5*	*85.1*	*-11.9*	*6.2*	*22.0*
Copper	301	156	227	392	16.7	22.7	-48.3	45.8	72.8
Zinc	150	152	192	164	14.1	9.5	0.7	26.4	-14.6
Fish meal	202	156	178	179	13.1	10.4	-22.8	13.9	0.8
Silver	141	146	145	173	10.7	10.0	3.8	-0.8	18.9
Coffee	35	53	101	196	7.4	11.4	52.9	89.8	94.4
Sugar	194	269	91	74	6.7	4.3	38.8	-66.1	-18.6
Cotton	97	53	71	48	5.2	2.8	-45.1	33.8	-32.3
Iron	75	52	64	91	4.7	5.2	-30.8	22.3	42.5
Lead	58	42	64	82	4.7	4.7	27.1	51.8	28.5
Petroleum and petroleum products	28	44	53	52	3.9	3.0	54.6	22.2	-2.1
Main non-traditional exports	*150*	*96*	*137*	*238*	*10.1*	*13.8*	*-36.3*	*42.7*	*74.0*
Fishing vessels	6	12	12	31	0.9	1.8	71.6	7.8	150.0
Frozen hake	10	9	17	13	1.3	0.8	-16.7	104.7	-23.6
Fish preserves	5	4	7	18	0.5	1.0	-6.4	56.8	156.5
Cotton yarn and fabrics	2	1	5	24	0.4	1.4	-80.0	1 250.0	344.4
Synthetic textile fibre	2	1	4	7	0.3	0.4	-35.3	263.6	62.5
Others	125	70	91	145	6.7	8.4	-44.3	29.6	60.5
Rest	68	61	21	19	1.4	1.1	-9.6	-65.5	-6.6
Total	*1 506*	*1 290*	*1 360*	*1 725*	*100.0*	*100.0*	*-14.3*	*5.5*	*26.9*

Source: Banco Central de Reserva del Perú.

[a] Growth rates calculated using absolute unrounded figures.
[b] Preliminary figures.

consistent with that noted in gross fixed investment. The value of intermediate goods imported in 1977 was somewhat higher (2%) than in the previous year (see table 338).

(iii) *Terms of trade.* With the 9% increase in the unit value of exports and the proportionally smaller rise in import prices, the terms of trade improved by a little over 2%, following the decline recorded in the previous two years. The terms-of-trade index (base 1970 = 100) showed a value of about 104 in 1977 (see table 335).

(d) *Trade in services and factor payments*

In 1977 the deficit in trade in services was reduced to 119 million dollars, while in 1976 it had reached 142 million. This was mainly due to a smaller negative balance under the head of freight and insurance, in line with the evolution of exports and imports of goods, and with a bigger positive balance for the country under the head of tourism (see table 339).

The negative balance for external factor payments grew rapidly in the last four years, mainly owing to the large increase in interest payments. These remittances rose from 130 million dollars in 1974 to 370 million in 1977.

Table 337

PERU: VALUE, VOLUME AND PRICES OF MAIN EXPORT PRODUCTS[a]

	1974	1975	1976	1977[b]
Fish meal				
Value	201.8	155.8	177.5	179.0
Volume	629.0	746.0	625.0	430.0
Price	321.0	208.8	284.0	416.3
Cotton				
Value	96.5	53.0	70.9	48.0
Volume (thousands of quintals)	1 034.0	737.0	776.0	462.0
Price (dollars per quintal)	93.3	71.9	91.4	104.0
Sugar				
Value	193.9	269.1	91.2	74.2
Volume	462.2	421.8	296.1	389.5
Price (dollars per quintal)	19.3	29.3	14.2	8.8
Coffee				
Value	34.8	53.2	101.0	196.3
Volume	27.0	43.2	42.8	43.0
Price (dollars per quintal)	59.3	56.6	108.0	210.0
Wool				
Value	7.1	11.4	18.7	18.1
Volume	2.1	3.5	7.5	3.1
Price	3 460.0	3 260.0	2 490.0	5 749.0
Copper				
Value	301.1	155.7	227.0	392.3
Volume	183.6	151.9	181.9	331.3
Price (US cents per pound)	74.4	46.5	56.6	53.7
Iron				
Value	75.0	51.9	63.5	90.5
Volume (thousands of net legal tons)	9 731.0	4 975.0	4 470.0	6 122.0
Price (dollars per net legal ton)	7.7	10.4	14.2	14.8
Silver				
Value	140.9	146.3	145.1	172.5
Volume (fine tons)	1 099.0	1 086.0	1 175.0	1 241.0
Price (US cents per Troy ounce)	398.5	419.1	384.2	432.3
Lead				
Value	57.5	41.9	63.6	81.7
Volume	148.2	128.1	179.8	171.6
Price (US cents per pound)	17.6	14.8	16.0	21.6
Zinc				
Value	150.4	151.5	191.5	163.5
Volume	422.1	405.9	432.3	433.9
Price (US cents per pound)	16.2	16.9	20.1	17.1
Petroleum and petroleum products				
Value	28.2	43.6	53.3	52.2
Volume (thousands of barrels)	2 198.0	4 069.0	4 742.0	4 104.0
Price (dollars per barrel)	12.8	10.7	11.3	12.7

Source: Banco Central de Reserva del Perú.

[a] Value in millions of dollars, volume in thousands of tons, and price in dollars per metric ton, except where otherwise indicated.

[b] Preliminary figures.

Table 338

PERU: VALUE AND BREAKDOWN OF IMPORTS OF GOODS (FOB)

	Millions of dollars				*Percentage breakdown*		*Growth rates*		
	1974	*1975*	*1976*[a]	*1977*[a]	*1970*	*1977*[a]	*1975*	*1976*[a]	*1977*[a]
Consumer goods	*155*	*199*	*176*	*173*	*12.6*	*8.0*	*28.4*	*-11.3*	*-2.2*
Non-durable	103	103	...	...	10.3	...	0.8	...	...
Durable	52	96	...	...	2.3	...	82.4	...	...
Intermediate goods	*920*	*1 172*	*1 032*	*1 050*	*44.2*	*48.5*	*27.4*	*-11.9*	*1.7*
Petroleum and fuels	187	256	...	...	1.7	...	41.5	...	...
Others	733	907	...	...	42.5	...	23.8	...	...
Capital goods	*611*	*781*	*675*	*469*	*32.1*	*21.7*	*27.8*	*-13.5*	*-30.6*
Total[b]	*1 908*	*2 389*	*2 100*	*2 164*	*100.0*	*100.0*	*25.2*	*-12.1*	*3.0*

Source: Banco Central de Reserva del Perú.

[a] Preliminary figures.

[b] Includes adjustments, non-monetary gold, and other imports not elsewhere classified.

(e) *Current-account balance and financing*

In 1975 the current account deficit reached its highest level –1,570 million dollars– about 280 million dollars more than total exports of goods. Mainly in line with the trend in exports and imports of goods, the deficit dropped to 1,230 million dollars in 1976 and 960 million in 1977.

In order to finance the negative balance in 1977, recourse was had to net external non-compensatory capital amounting to 650 million dollars. Direct investment was only a little over 50 million dollars, which reflected a sharp reduction in the mining investment undertaken during the period 1974-1976, and an increase in remittances of capital of foreign enterprises already established in Peru (see table 339).

Disbursements of long- and medium-term loans amounted to around 1,120 million dollars, or 160 million more than in 1976. Since amortization payments on this type of loan totalled 500 million dollars, the net inflow was 620 million, which determined the course followed by total external non-compensatory capital.

The insufficient inflow of non-compensatory capital compared with the size of the current account deficit resulted, as noted earlier, in a loss of net international reserves to a value of 300 million dollars, a relatively high figure but only one-third and half of the losses observed in 1976, and 1975, respectively (see table 340).

(f) *External indebtedness*

One of the most important points of analysis in understanding the present disequilibria in the Peruvian economy is external indebtedness and the role it has played in the 1970s in offsetting the disequilibria both in the external sector and in government finance. In this respect, since the early years of the decade a rapid increase was noted in the balance of the external debt and a hardening of the conditions under which the country obtained new external credit. The more stringent the foreign loans requirements, the less access there was to official resources with some concessionary element, and the greater on the other hand was the contracting of credit from private sources, with shorter repayment periods and higher costs.

Table 339

PERU: BALANCE OF PAYMENTS

(Millions of US dollars)

	1974	*1975*	*1976*	*1977*[a]
Current account				
Exports of goods and services	1 841	1 689	1 746	2 188
Goods FOB	1 506	1 291	1 361	1 726
Services	335	398	385	462
Transport	133	153	157	170
Travel	96	91	99	112
Imports of goods and services	2 442	3 038	2 627	2 745
Goods FOB	1 908	2 389	2 100	2 164
Services	534	649	527	581
Transport	292	351	308	320
Travel	64	86	57	36
Net payments of profits and interest on foreign capital	-172	-242	-371	-426
Profits	-42	-15	-44	-54
Interest	-130	-227	-327	-372
Net private transfer payments	21	17	19	19
Balance on current account	-752	-1 574	-1 233	-964
Capital account				
Net external financing (a +b +c + d + e)	752	1 574	1 233	964
(a) Net external non-compensatory capital	1 182	990	335	651
Direct investment	144	316	171	54
Long- and medium-term loans	1 211	1 181	956	1 117
Amortization payments	-444	-390	-451	497
Short-term liabilities	244	150	-388	-61
Official transfer payments	27	33	47	38
(b) Domestic non-compensatory capital or assets	...	...	...	...
(c) Errors and omissions	-148	7	31	17
(d) Allocation of SDRs	–	–	–	–
(e) Net compensatory financing (– = increase)	-282	577	867	296
Balance-of-payments loans, trade arrears, IMF loans, and other liabilities of the monetary authorities	100	80	769	...
Variation in gross international reserves (– = increase)	-382	497	98	...
Foreign exchange reserves (– = increase)	-382	497	62	...
Gold reserves (– = increase)	–	–	36	...
SDRs (– = increase)	–	–	–	...

Sources: 1974-1976: CEPAL calculations on the basis of figures from International Monetary Fund, *Balance of Payments Yearbook*, vol. 28;
1977: CEPAL, on the basis of data supplied by the Banco Central de Reserva del Perú.

[a] Preliminary figures.

Table 340

PERU: NET INTERNATIONAL RESERVES
(Millions of dollars)

1974	
March	237
June	276
September	490
December	693
1975	
March	699
June	131
September	178
December	116
1976	
March	-94
June	-553
September	-615
December	-752
1977	
March	-907
June	-1 046
September	-1 110
October	-1 132
November	-1 157
December	-1 048

Source: Banco Central de Reserva del Perú.

Between 1972 and 1977 Peru's total external debt more than tripled, and in the latter year it reached 4,700 million dollars. The rate of external borrowing was particulary intense from 1973 to 1975, diminishing in 1976 and 1977 (see table 341). In any case, the total external debt amounted to 150°/o of exports of goods in 1972, and 270°/o in 1975, this coefficient remaining constant in 1977.

Thus, debt servicing has accounted for a considerable proportion of Peru's exports. As regards public debt servicing, the proportion was over 35°/o during the period 1975-1977.

4. *Prices and wages and salaries*

(a) *Prices and anti-inflationary policy*

The inflationary process which began in 1973 and was particulary accentuated up to 1976 was the result of a group of factors. Chief among these were, on the one hand, the limitations of the country's production structure, especially as regards the inelasticity of the supply of food and products that might have reinforced the export base and, on the other hand, the sustained growth of domestic demand since the beginning of the 1970s. This was caused by the income and property redistribution policy in favour of the poorest social groups and by an expansive fiscal policy with precarious financing.

Added to the basic disequilibrium between domestic supply and demand were the effects of inflation in the industrialized countries after the end of 1973, which were imported mainly via a sharp rise in the unit value of imports. Concurrently, imports grew rapidly in 1973-1975, fostered by

Table 341

PERU: INDICATORS OF EXTERNAL INDEBTEDNESS
(Millions of dollars)

	1972	*1973*	*1974*	*1975*	*1976*	*1977*
Total external debt[a]	*1 424*	*1 814*	*2 563*	*3 474*	*4 074*	*4 700*
Public debt	1 121	1 491	2 182	3 066	3 641	4 252
Private debt[b]	303	323	381	408	433	448
Servicing of external public debt	*219*	*433*	*456*	*474*	*533*	*618*
Amortization payments	164	352	338	284	299	396
Interest payments	55	80	118	190	234	222
Servicing of external public debt as a percentage of total exports	*23.2*	*38.9*	*30.3*	*36.7*	*39.2*	*35.8*

Source: Banco Central de Reserva del Perú.

[a] Disbursed.

[b] Both guaranteed and not guaranteed by the State.

the increment in domestic demand, the increasing under-valuation of the dollar and a clearly rising external indebtedness.

Up to the middle of 1975, anti-inflationary policy attempted to achieve the definitive stability of domestic prices and to that end it was based on the implementation of measures for controlling prices, providing subsidies for a group of essential products and maintaining the nominal exchange parity. Nevertheless, consumer prices which had increased 4o/o in 1972 rose 14o/o in 1973 and 19o/o in 1974 (see table 342).

As time went on, the growing number of government subsidies aggravated the problems of fiscal financing and their consequent impact on the monetary system. At the same time, the evolution of the domestic economy and the effects of the world recession accentuated the existing maladjustments, so that in 1975 the need for external saving was greater in value than exports of goods in that year.

From 1975 onwards, and especially since the middle of 1976, economic policy became oriented towards the suppression of subsidies and more flexibility as regards the exchange rate and price controls, while steps were taken to moderate the inflationary effects of the fiscal and financial variables. This led to the emergence of price pressures that had previously been contained, and imported inflation was more easily internalized. The consumer price index accelerated its rate of growth in 1975 and 1976, recording variations of 24o/o and 45o/o, dropping to 32o/o in 1977. Food prices continued to rise more rapidly than other prices, as had occurred in 1973-1974.

The wholesale price index rose by 43o/o in 1977, imported products by 71o/o and domestic products by 31o/o, which reflects the impact of the exchange policy pursued on the evolution of the price system (see table 342).

(b) *Wages and salaries*

According to available data for metropolitan Lima,[186] real wages deteriorated by over 30o/o in the period between September 1973 and June 1977 [187] a trend which was accentuated as from April

[186] Data supplied by the Ministry of Labour, Employment Department, on the basis of the household survey.

[187] This estimate is the result of comparing the increase in the index of nominal income with the respective increase in the consumer price index; it is therefore subject to the limitations inherent in this method of calculation.

Table 342

PERU: EVOLUTION OF DOMESTIC PRICES

	1972	1973	1974	1975	1976	1977
	Variation from December to December					
Consumer price index	4.3	13.8	19.2	24.0	44.7	32.4
Food	2.2	14.8	24.1	31.2	44.5	33.0
Wholesale price index	...	...	...	...	...	43.3
Imported products	...	...	...	...	...	70.6
Domestic products	...	...	...	...	...	30.5
Agricultural products	...	...	...	...	...	27.3
Manufactures	...	...	...	...	...	39.1
Building materials	2.9	6.7	10.5	18.1	99.3	19.4
	Annual average variation					
Consumer price index	7.2	9.5	16.9	23.6	33.5	38.1
Food	7.4	10.1	18.8	32.8	32.5	40.3
Wholesale price index	...	...	16.8	23.8	38.5	46.5
Imported products	...	...	27.4	26.8	36.7	61.1
Domestic products	...	...	14.0	23.0	39.1	42.0
Agricultural products	...	...	14.0	26.3	35.6	40.6
Manufactures	...	...	14.1	21.1	41.4	43.1
Building materials	3.5	3.9	10.6	14.5	63.9	44.1

Source: National Institute of Statistics (INE).

1976. At the same time, the proportion of national income represented by wages and salaries dropped from 51% in 1972 to 46% in 1976, which is the lowest percentage recorded in the last 16 years.[188]

In 1977, with the purpose of compensating for the workers' loss of purchasing power due to inflation, the Government decreed successive wage increases (in January, June and August) for both the public and the private sector, which mainly favoured the income group earning less than 18,000 soles a month.[189] In addition, collective labour agreements were made more flexible, with the elimination of ceilings and minimum wages were raised throughout the country. However, although the nominal minimum wage rose by 20% in 1977, it decreased in real terms by 9%, over and above the 12% and 5% recorded in 1976 and 1975, respectively (see table 343).

Real wages and salaries of public workers continued to decline in 1977, despite the adjustments granted from 1975 onwards, which were proportionately higher for the lower categories than for the upper categories of the public administration. Thus at the lowest level (Grade VI-7) the reductions were approximately 4% in 1977 and 15% in 1976 In contrast, at the other end of the scale, for the highest level (I-1) the comparable drops were 21% and 26% in the two years considered.

5. *Monetary and fiscal policy*

From 1975 onwards the real liquidity of the economy began to decline and during the whole period 1975-1977 the proportional variations in the means of payment were smaller than the changes in domestic prices. The loss of net international reserves had a strong contractive effect, while

[188] See Banco Central de Reserva del Perú, *Cuentas nacionales 1960-1974* and *Memoria 1976*.

[189] On average, equal to about 200 dollars a month in 1977.

Table 343

PERU: EVOLUTION OF WAGES AND SALARIES

	At end of year, in soles				*Growth rates*			
	1974	*1975*	*1976*	*1977*	*1974*	*1975*	*1976*	*1977*
Nominal wages and salaries								
Minimum wage[a]	3 000	3 540	4 500	5 400	25.0	18.0	27.1	20.0
General government[b]								
Level I - 1	30 000	31 600	33 940	35 570	—	5.3	7.4	4.8
Level VI - 7	5 900	7 500	9 166	11 606	—	27.1	22.2	26.6
Real wages and salaries[c]								
Minimum wage[a]	2 518	2 395	2 104	1 906	4.6	-4.9	-12.2	-9.4
General government[b]								
Level I - 1	25 188	21 380	15 874	12 560	-16.0	-15.0	-25.8	-20.9
Level VI - 7	4 953	5 074	4 287	4 098	-16.0	2.4	-15.5	-4.4

Sources: National Institute of Statistics (INE), and Minstry of Labour.

[a] For the private sector in Lima province.

[b] Top (level I - 1), and bottom categories (level VI - 7).

[c] Deflated by the general consumer price index in the metropolitan Lima area (base: December 1973 = 100).

government credit expanded very rapidly to cover the growing fiscal deficit. Domestic credit to the private sector increased more slowly than prices, and the expansion of quasi-money was also fairly limited, except in 1977.

Since the beginning of the 1970s, government finances have shown a fundamental contraction which is the basic explanation for the fiscal disequilibria. In the first place, a sharp expansion of public expenditure, both current and capital, was promoted in consonance with the State's role as an active leader in the national economy. Secondly, the factors determining the slow and insufficient growth of current Government income not only persisted but were accentuated. Thus the tax burden shrank from 14°/o in 1970 to 13°/o in 1977,[190] owing to the low degree of progressiveness and elasticity of the tax system, and also to the proliferation of exemptions and of tax evasion and fraud. This led to a growing inability to use current resources to finance part of public investment, and increasing recourse had to be made to internal and external borrowing.

(a) *Monetary policy*

In 1977 the monetary situation continued to show the trends observed since 1975 and especially since the middle of 1976. The deterioration in real liquidity continued to restrict the financing of the working capital of production units, which also had an urgent need for increasing financial resources to cover imports at a time when the rate of exchange was experiencing sharp devaluations. This affected production activity, particularly of small- and medium-sized national enterprises owing to their limited financial backing.

In 1977 the means of payment increased by 21°/o, while consumer prices rose by 32°/o. A similar situation occurred in 1976 although the difference was greater since money grew by 25°/o and the rise in prices was 45°/o (see tables 342 and 344). Quasi-money, which grew slowly in 1975 and 1976, increased by 39°/o in 1977, probably owing to the rise in nominal interest rates. Thus,

[190] Calculated as the ratio of tax income (net of tax refunds) to the gross domestic product. (Source: Banco Central de Reserva del Perú.)

total liquidity in relation to the gross domestic product continued to decline, and is estimated to have reached 21°/o in 1977 and 32°/o in 1974 [191]

Table 344

PERU: MONETARY POSITION

	Balance at end of each year in billions of soles[a]				*Growth rates*		
	1974	*1975*	*1976*	*1977*[b]	*1975*	*1976*	*1977*[b]
Money	*101.4*	*118.9*	*149.0*	*180.2*	*17.3*	*25.3*	*20.9*
Currency outside banks	33.5	42.6	49.5	60.4	27.2	16.2	22.0
Demand deposits	67.9	76.3	99.5	119.8	12.4	30.4	20.4
Factors of expansion	*141.3*	*166.7*	*185.0*	*221.6*	*18.0*	*11.0*	*19.8*
Foreign assets (net)	26.8	5.1	-64.6	-115.5			
Domestic credit	114.5	161.6	249.6	337.1	41.1	54.5	35.1
Government (net)	24.5	37.9	81.4	121.1	54.7	114.8	48.8
Official entities	27.1	41.6	60.3	77.7	53.5	45.0	28.9
Private sector	47.9	62.6	79.0	95.3	30.7	26.2	20.6
Credit to development banks	15.0	19.5	28.9	43.0	30.0	48.2	48.8
Factors of absorption	*39.9*	*47.8*	*36.0*	*41.4*	*19.8*	*-24.7*	*15.0*
Quasi-money (savings and time deposits)	21.2	23.3	26.9	37.3	9.9	15.5	38.7
Long-term foreign borrowing	5.3	9.3	11.6	14.3	75.5	24.7	23.3
Other items (net)	13.4	15.2	-2.5	-10.2			

Sources: 1974-1976: International Monetary Fund, *International Financial Statistics*, December 1977; 1977: Banco Central de Reserva del Perú, *Cuentas monetarias.*

a Exchange rate used (soles per US dollar): 1974: 38.70; 1975: 45.00; 1976: 65.00; 1977: 110.00.
b Preliminary figures.

A study of the behaviour of the factors of expansion shows that total domestic credit grew by 35°/o, i.e., at a lower rate than in 1976, basically owing to the slowing down of the growth of credit to the Government and public institutions, and also to the private sector. In 1977, as in previous years, the external sector acted as an element of absorption, reflecting the balance-of-payments situation and the consequent reduction in net international reserves of the monetary authorities by the equivalent of 51 billion soles, a figure equal to 60°/o of the absolute variation in total domestic credit.

The flow of credit from banks to the public sector was basically channelled through the Banco de la Nación, which in 1977 financed 80°/o of such credit. Nevertheless, because of the heavy pressures of the public sector on its financing, this bank had increasing recourse to credit from the Banco Central de Reserva, in view of the more limited possibilities of increasing its external liabilities, and its own limitations as regards tapping resources of the private sector. This meant an increasingly close relationship between credit to the public sector and primary issue.

(b) *Fiscal policy*

From the start of implementation of the 1977 fiscal budget it was foreseeable that there would be a marked rise in the total budgetary gap which would have to be financed with substantial

[191] Estimates on the basis of data from the Banco Central de Reserva del Perú.

resources from the national banking system. A growing proportion of total expenditure was represented by service payments on the public debt while at the same time the tax burden continued at its customary level despite the tax measures adopted in 1976. (A new *ad valorem* tax of 15%o on traditional exports and increases in the rates for cigarettes, transport and imports of capital goods, and in the tax on goods and services from 17 to 20%o.)

In the face of these prospects, the Government adopted a number of additional measures in the second half of 1977. With the purpose of increasing the fiscal resources, the rates for taxes on passports, transport, wages and salaries, alcohol and alcoholic beverages were raised; a new tax was levied on petroleum products (except gasoline); an exceptional net-worth tax was imposed on enterprises; and the payment of taxes on goods and services for January 1978 was advanced. At the same time, prices and rates of goods and services produced or sold by public enterprises were raised, as had occurred in 1976. In addition, the fiscal budget approved at the beginning of the year was reduced by 8%o, and a further reduction of 4 billion soles was made in August, while spending on wages and salaries and purchases of goods and services was strictly controlled.

In any case, at the end of the financial year a deterioration was observed in the position on current account, the deficit of 11 billion soles in 1976 rising to 39 billion in 1977. The total fiscal deficit increased to a level of 113 billion soles, or the high coefficient of 42%o of total expenditure (see table 345).

Table 345

PERU: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Billions of soles at current prices				*Growth rates*		
	1974	*1975*	*1976*	*1977*[a]	*1975*	*1976*	*1977*[a]
Current income	68.6	87.9	111.4	154.1	28.2	26.7	38.3
Tax revenue	60.7	80.6	101.0	145.6	32.9	25.3	44.2
Tax on income and property	24.1	24.6	30.2	43.0	2.3	22.9	52.4
Tax on production and consumption	24.1	32.2	46.9	66.8	33.5	45.4	42.5
Tax on foreign trade	12.5	23.8	23.9	35.8	90.4	0.4	49.8
Non-tax revenue [b]	7.9	7.3	10.4	8.5	7.6	42.5	-18.3
Current expenditure	62.4	90.5	122.7	193.1	44.9	35.6	57.3
Wages and salaries	29.1	38.8	51.5	70.3	33.5	32.7	36.5
Interest	7.7	9.4	13.2	29.2	22.5	39.9	121.4
Internal debt	4.2	4.5	5.5	13.6	5.3	23.2	146.4
External debt	3.5	4.9	7.7	15.6	43.7	54.9	103.4
Other current expenditure	25.6	42.3	58.0	93.6	65.2	37.1	61.4
Current saving	6.2	-2.6	-11.3	-39.0	157.3	433.6	244.9
Capital expenditure	36.3	40.9	53.2	74.0	12.7	30.1	39.1
Gross capital formation	12.9	15.9	19.8	27.1	22.5	25.1	36.6
Other capital expenditure	7.3	12.1	17.3	13.0	65.8	43.0	-24.9
Amortization payments	16.1	12.9	16.1	33.9	-19.9	24.8	110.6
Internal debt	6.2	6.9	7.8	10.9	11.3	13.0	39.7
External debt	9.9	6.0	8.3	23.0	-39.4	38.3	177.1
Total expenditure	98.7	131.4	175.9	267.1	33.1	33.9	51.8
Fiscal deficit (or surplus)	-30.1	-43.5	-64.5	-113.0	44.5	48.3	75.2
Financing of deficit							
Domestic financing	9.5	20.7	40.6	55.4	117.9	96.1	36.5
External financing	20.6	22.8	23.9	57.6	10.7	4.8	141.0

Source: Banco Central de Reserva del Perú.

[a] Preliminary figures.

[b] Including wage and salary discounts for pension fund and tax refund certificates for export promotion.

Current income rose by 38°/o, the same rate as inflation. The increase in tax revenue was 44°/o, the main increments being in receipts from taxes on income and property (52°/o) and exports (103°/o). In the former case, the increase was basically due to the measure referred to above, and in the latter to the greater dynamism of exports and the tax and exchange measures adopted in 1976 and 1977.

In 1977, current fiscal expenditure grew by 57°/o, with a particularly sharp rise in interest on the public debt (121°/o) and other current expenditure (61°/o) which includes government transfers. On the capital expenditures side, although central government gross capital formation grew by 37°/o, capital transfers to public enterprises dropped by 25°/o, which together resulted in a decline of over 20°/o in real terms in public sector investment. Amortization payments rose by 111°/o, mainly owing to the increase in the external debt.

In the financing of the total fiscal deficit there was a considerable increase in the part played by external resources, including certain items covering the refinancing of external debt servicing. Domestic financing meanwhile rose 37°/o (see table 345).

DOMINICAN REPUBLIC

1. *The overall picture*

During 1977 the growth of the economy continued to falter. There was a rise of only 3.3°/o in the gross domestic product, so that the per capita product remained unchanged. The increase was the smallest recorded for ten years: in the first three years of the 1970s the GDP grew by 11°/o a year, while between 1974 and 1976 the rate was slightly under 6°/o (see table 346).

However, in contrast to 1976, when the fall in sugar prices led to a profound deterioration in the terms of trade, which in turn caused a drop in gross income, income in 1977 rose slightly more (3.5°/o) than GDP, as a result of exceptionally high prices for coffee and cocoa, which offset a further fall in the price of sugar and helped to improve the terms of trade.

Analysis of the evolution of the GDP since 1974 shows that, with a few exceptions, all sectors were involved in this loss of impetus, including manufacturing and –to a lesser extent, because of its large fluctuations– construction. These two sectors have in the past distinguished themselves by rapid, sustained growth, which to some degree was passed on to other sectors.

Manufacturing output continued to grow in 1977 within the same range of low rates (3 to 4°/o) recorded since 1975, despite an appreciable improvement in the supply of electricity, shortages of which had previously hampered the growth of the sector. Construction, meanwhile, recovered from its meagre growth in 1976 and expanded by 10°/o in 1977. A major cause of this was greater public investment.

Nevertheless, the sector which played the most important role in the evolution of the economy was agriculture, which is the dominant contributor both to total output and to exports. Drought, though not as severe as in 1975, affected agricultural production, especially for domestic consumption, and led to a new burst of domestic price rises and higher food imports .

In 1976, as a result of adquate rainfall, agricultural output increased at the exceptional rate of over 9°/o. In constrast, the rise was only 1.4°/o in 1977, despite the fact that livestock production did not suffer greatly from the drought and that sugar cane, coffee and rice output increased.

The mining sector performed poorly in 1977, in contrast to the previous year. The service sectors continued the downward trend which began in 1973, reflecting the slow down in the goods-producing sectors.

While levels of output were low in 1977, foreign trade made a strong recovery. The value of exports of goods and services, which had dropped by 17°/o in 1976 as a result of plummeting sugar prices, rose by 9°/o in 1977 thanks to a sharp increase in the prices of coffee (70°/o in each of the last two years) and cocoa (which doubled in 1977), making up for lower revenues from sugar sales.

Table 346

DOMINICAN REPUBLIC: MAIN ECONOMIC INDICATORS

	1972	1973	1974	1975	1976	1977[a]
A. *Basic economic indicators*						
Gross domestic product at factor cost (millions of US dollars at 1970 prices)	1 865	2 105	2 231	2 343	2 480	2 562
Population (millions)	4.64	4.79	4.95	5.12	5.29	5.47
Per capita gross domestic product (US dollars at 1970 prices)	402	439	451	458	469	468
	Growth rates					
B. *Short-run economic indicators*						
Gross domestic product	10.4	12.9	6.0	5.0	5.9	3.3
Per capita gross domestic product	6.9	9.3	2.6	1.6	2.4	-0.1
Gross income[b]	11.2	12.7	8.4	11.3	-1.6	3.5
Terms of trade	4.8	-3.6	13.3	40.3	-32.9	4.0
Current value of exports of goods and services	41.0	24.8	42.3	37.4	-17.2	8.8
Current value of imports of goods and services	8.2	27.8	62.3	9.8	-0.8	10.6
Consumer price index[c]						
December to December	8.0	17.2	10.5	16.5	7.0	8.5
Variation between annual averages	7.9	15.1	13.2	14.5	7.9	12.8
Money	16.2	18.6	38.2	5.8	0.8	17.9
Current income of government	12.7	14.0	32.3	37.7	-11.3	9.9
Total expenditure of government	9.5	15.9	32.5	27.3	-12.9	8.8
Fiscal surplus/total expenditure of government[d]	0.6	–	1.6	0.6	2.6	1.6
	Millions of US dollars					
C. *External sector*						
Trade balance (goods and services)	-31	-52	-187	-4	-168	-201
Balance on current account	-49	-100	-244	-64	-221	-283
Variation in net international reserves	19	21	10	28	-11	58
Disbursed external debt	472	505	595	677	808	915

a Preliminary figures.

b Gross domestic product plus terms-of-trade effect.

c General index of consumer prices in Santo Domingo.

d Percentage.

At the same time, imports of goods and services grew by 11% in 1977, the rise being largely due to the bigger purchases of food products which were necessary to supplement lower domestic production.

The widening gap between import and export trends further worsened the trade balance, and the current account deficit rose to 280 million dollars, equivalent to almost a third of total income from exports of goods and services. Nevertheless, as a result of a substantial inflow of capital during the year, international reserves increased by about 60 million dollars.

The collapse of world sugar prices in 1976, together with stagnation in imports, led to a substantial fall in revenue from taxes on external trade and a decline of about 12°/o in government income and expenditure. The most seriously affected expenditure heading was investment.

The fiscal situation improved in 1977, when income arising from external trade recovered and taxes on domestic transactions maintained a high rate of growth. This permitted some increase in expenditure, especially current expenditure, which increased by about 13°/o: a similar rate to that of domestic prices.

There was a significant rise in domestic prices in 1977, although not to the extent observed between 1973 and 1975. The consumer price index, measured in terms of annual averages, rose by 12.8°/o in 1977 as compared with 7.9°/o in 1976.

The same factors which in 1976 caused a fall in food prices and limited the increase in the general index produced the opposite effect in 1977.

Firstly, it was not possible to ensure normal supplies of staple foodstuffs until September. In addition, there was considerable growth in the money supply (18°/o between December 1976 and December 1977), principally as a result of freer domestic credit. It may be noted that, in comparative terms, the means of payment increased by less than 1°/o between December 1975 and December 1976 (see table 346).

2. *Sectoral trends*

(a) *Developments in overall supply and demand*

In the past three years the overall supply of goods and services has expanded at the low rate of roughly 3.5°/o a year. Imports, making up about a sixth of total supply, have offset fluctuations in domestic production. In 1975 and 1976 the volume of imports fell despite the substantial purchases of food which were necessary in 1975 to make up the deficit resulting from the drought. In 1977, in contrast, the rise in imports in real terms was somewhat higher than the rise in the GDP (see table 347).

The evolution of domestic demand in the past three years, however, has not been so smooth, as a result of considerable fluctuations in external demand. After declining by more than 9°/o in 1975. the volume of exports of goods and services made a strong recovery in 1976, but fell back by about 2°/o in 1977.

On the other hand, domestic demand rose by more (4.3°/o) in 1977 than in 1976, when the fall in capital formation led to a rise of only 2.4°/o.

Gross fixed capital investment, which had expanded at an annual rate of 18°/o during the first half of the decade, dropped by about 7°/o in 1976, reflecting lower imports of machinery and equipment in that year and reduced activity in construction.

The ratio of fixed investment to the GDP, which had risen from 17 to 25°/o between 1970 and 1975, fell as a result to 22°/o in 1976

In the first five years of the decade public investment increased at an annual rate of 23°/o, i.e., faster than private investment. In 1975 the public sector was responsible for 42°/o of fixed investment. Public sector investment fell in 1976 by 12°/o, and while information available for 1977 indicates a nominal rise of 7°/o, in view of rises in prices investment by the Government clearly dropped in real terms.

(b) *Growth in the principal sectors*

Rapid industrialization based on import substitution, the new importance of mining following the initiation of exploitation of ferro-nickel, and hectic activity in construction of housing, hotels, public works in the towns and infrastructure in general were the fundamental causes of the significant increase in GDP in the first three years of the decade. At the same time agriculture was maintaining a satisfactory growth rate of 6°/o a year. This trend began to tail off in 1974 in all sectors, including industry and construction, culminating in an increase in GDP in 1977 of barely 3.3°/o (see table 348).

Table 347

DOMINICAN REPUBLIC: TOTAL SUPPLY AND DEMAND

	Millions of pesos at 1970 prices			*Percentage breakdown*		*Growth rates*		
	1975	*1976*	*1977*[a]	*1970*	*1977*[a]	*1975*	*1976*	*1977*[a]
Total supply	*2 843*	*2 944*	*3 045*	*124.5*	*121.9*	*3.5*	*3.6*	*3.4*
Gross domestic product at market prices	2 285	2 418	2 498	100.0	100.0	5.0	5.8	3.3
Imports of goods and services[b]	558	526	547	24.5	21.9	-2.4	-5.7	4.0
Total demand	*2 843*	*2 944*	*3 045*	*124.5*	*121.9*	*3.5*	*3.6*	*3.4*
Domestic demand	2 458	2 516	2 624	107.3	104.2	5.8	2.4	4.3
Gross domestic investment	624	599	...	19.1	...	10.3	-4.1	...
Gross fixed investment	579	540	...	16.6	...	13.7	-6.8	...
Construction	322	329	...	9.9	...	13.0	2.2	...
Machinery and equipment	257	211	...	6.7	...	14.7	-18.0	...
Public	244	215	...	5.1	...	39.3	-11.8	...
Private	335	325	...	11.4	...	0.3	-3.1	...
Changes in stocks	45	59	...	2.5	...			
Total consumption	1 834	1 917	...	88.2	...	4.4	4.5	...
General government	162	178	...	11.6	...	-27.5	10.3	...
Private	1 672	1 739	...	76.6	...	9.0	4.0	...
Exports of goods and services[b]	385	428	421	17.2	17.7	-9.3	11.2	-1.6

Sources: 1970-1976: CEPAL calculations on the basis of figures supplied by the Central Bank of the Dominican Republic;
1977: CEPAL estimates on the basis of preliminary data.

[a] Preliminary figures.
[b] 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 CEPAL for the prupose.

In 1977 agriculture, the sector on which all others depend, grew by barely 1%, after the extraordinary results of 1976. To this must be added the decline in mining output and the persistently low levels of manufacturing output in recent years (see table 349). Production of rice, which is an important element of the daily diet, increased by little over 5% and production of tomatoes by somewhat over 10%.

The sugar harvest hit record levels of 10.9 million and 11.1 million tons in 1976 and 1977. Sugar-cane plantations cover 26% of the cultivated area of the country, and sugar-cane production represents about 14% of the agricultural product at 1970 prices.

There were also rises in 1977 in the output of coffee and cocoa (5.6 and 4.2% respectively), whereas leaf tobacco, another product important among exports and also as an input for domestic industry, dropped by 23%. As a result of the performance recorded for these and other products, the volume of agricultural exports rose by 6% in 1977. In this group particular mention should be made of the export of 40,000 tons of coffee, the biggest foreign sale of the decade, and the near-record sale of 1.1 million tons of sugar.

Livestock raising, which contributes about 30% of the product of the agricultural sector, has experienced three fairly mediocre years, with a growth rate of the order of 4%. This rate might have been higher but for a decline in output from poultry raising following lower consumption of poultry in 1976, which appears to have continued in 1977.

Table 348

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

	Millions of pesos at 1970 prices			*Percentage breakdown*		*Growth rates*[a]		
	1975	*1976*	*1977*[b]	*1970*	*1977*[b]	*1975*	*1976*	*1977*[b]
Agriculture	396	433	439	25.8	19.8	-2.5	9.4	1.4
Mining	118	143	139	1.7	6.3	7.4	21.7	-3.1
Manufacturing	332	342	355	16.7	16.0	3.6	3.1	3.7
Construction	159	163	179	5.5	8.1	13.0	2.3	9.9
Subtotal goods	*1 005*	*1 081*	*1 112*	*49.7*	*50.2*	*2.9*	*7.6*	*2.8*
Electricity, gas and water	30	31	38	1.3	1.7	6.8	3.2	22.3
Transport, storage and communications	180	186	191	8.5	8.6	4.5	3.2	2.5
Subtotal basic services	*210*	*217*	*229*	*9.8*	*10.3*	*4.8*	*3.2*	*5.3*
Commerce, financial institutions and insurance	277	294	302	12.7	13.6	6.3	5.9	3.0
Real estate[c]	149	159	175	7.6	7.9	5.7	6.6	9.9
Public administration	182	187	180	11.5	8.1	7.9	3.0	-4.0
Miscellaneous services[d]	206	213	219	8.7	9.9	11.4	2.9	3.2
Subtotal other services	*814*	*853*	*875*	*40.5*	*39.5*	*7.8*	*4.6*	*2.8*
Total gross domestic product[e]	*2 039*	*2 151*	*2 229*	*100.0*	*100.0*	*5.0*	*5.9*	*3.3*

Sources: 1970-1976: CEPAL calculations on the basis of figures supplied by the Central Bank of the Dominican Republic;
1977: CEPAL estimates on the basis of data from the same source.

[a] Rates calculated on the basis of unrounded figures.
[b] Preliminary figures.
[c] Ownership of dwellings only.
[d] Including restaurants, hotels and business services.
[e] As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

Since 1973 there has been a marked increase in the volume of food imported in order to make up shortfalls in domestic production, with substantial quantities of rice and maize added to the traditional imports of wheat and oils. The principal importer of these products is the National Price Stabilization Institute (INESPRE), except in the case of wheat, which the State company Molinos Dominicanos is responsible for importing.

The recovery in construction was insufficient to alter the general trend. Apart from a few rare exceptions, the service sectors also experienced this general loss of impetus.

(i) *Agricultural production.* The very favourable rainfall during the 1975/1976 season lead to a 9.4% increase in production from the agricultural sector, and 12% from crop farming. In 1977, however, the situation changed radically because of a drought in the first half of the season, which fortunately was not as serious as in 1975.

Except in 1976, slow growth in agriculture has held back the remainder of the economy. The share of agriculture in the GDP, which at the beginning of the decade was more than 25%, fell to a fifth by 1977. However, this figure does not reflect the full extent of the influence of agriculture on industry, commerce, exports and employment.

Table 349

DOMINICAN REPUBLIC: INDICATORS OF AGRICULTURAL PRODUCTION

	Breakdown in 1976[a] (percentage)	*1974*	*1975*	*1976*	*1977[b]*	*Growth rates*		
						1975	*1976*	*1977[b]*
Index of agricultural production (1970 = 100)	100.0	118.8	115.9	126.7	128.5	-2.4	9.3	1.4
Crop farming	67.4	119.9	112.9	126.7	127.7	-5.8	12.2	0.8
Sugar-cane	(14.2)	117.0	107.9	126.3	128.7	-7.8	17.1	1.9
Stock-raising	29.9	115.2	121.7	126.7	130.3	5.6	4.1	2.8
Forestry and fishing	2.7	133.0	125.6	127.7		-5.6	1.7	
Production of some crops (thousands of tons)								
Sugar-cane		10 130.6	9 337.0	10 932.2	11 139.8	-7.8	17.1	1.9
Paddy rice		259.4	218.6	294.3	310.0	-15.7	34.6	5.3
Coffee cherries		108.6	103.7	114.0	120.4	-4.5	9.9	5.6
Cocoa beans		38.3	30.9	33.1	34.5	-19.3	7.1	4.2
Leaf tobacco		33.7	34.6	45.4	34.9	2.9	31.1	-23.1
Tomatoes		121.8	132.8	123.0	135.8	9.0	-7.4	10.4
Guineo bananas[c]		13 313.0	13 467.0	13 998.0	14 190.0	1.2	3.9	1.4

Sources: Central Bank of the Dominican Republic, *Cuentas Nacionales 1970-1976;* CEPAL, on the basis of preliminary information obtained directly from official sources.

a Calculated on the basis of aggregate values at 1970 prices.

b Preliminary figures.

c Thousands of hands.

It is calculated that about half the active population is engaged in agriculture, though much of it is underemployed. Annual exports of sugar and other products from the agricultural sector total some 550 million pesos, representing about 70% of total exports of goods.

In 1977, the lack of rain until the beginning of April principally affected products destined for the domestic market. According to the meagre information available for 1977, agricultural production would appear to have increased by less than 1%, despite the good results for sugar and other major export crops.

In 1976 120,000 tons of wheat, 56,000 tons of rice (equivalent to 29% of domestic production), 60,000 tons of maize (23% more than domestic production), 9,000 tons of beans (25% of production) and more than 32,000 tons of edible oils were imported. In 1977 the value of imports of cereals rose by 30% and that of edible oils 60%.

The process of agrarian reform has faltered in the past four years. The number of beneficiaries settled under this process dropped from an annual average of 6,160 between 1971 and 1973 to 2,400 between 1974 and 1976, and the area transferred fell from 32,000 to 12,000 hectares. Allocation of land was much reduced in 1977. During the first six months, the Dominican Agrarian Institute, which is responsible for the reform is reported to have allocated only 200 hectares to 49 beneficiaries. Undoubtedly this is connected with the Institute's new policy of granting in the future only land which has not been worked before.

(ii) *Mining.* Between 1972 and 1973 mining gained some importance, when a start was made on mining and exporting ferro-nickel. Between 1975 and 1976 a similar step forward was taken with the mining of gold and silver by the foreign company Rosario Dominicana. This company has thus joined the Alcoa Exploration Company, which has been operating the bauxite deposits for many years, and

Falconbridge, which holds the concession for the ferro-nickel deposits. As a result, the contribution of mining to the total GDP rose from 1.3°/o in 1971 to 6.3°/o in 1977, while over the same period the value of mining exports increased from 18 million dollars to 170 million dollars.

Though higher prices were obtained for sales of bauxite and ferro-nickel in 1975 and 1976, there was a decline in external demand for the two products, which was one cause of the drop in production in 1976. The rise of 22°/o recorded in mining output in that year was wholly attributable to the beginning of production of gold and silver alloy (see table 350).

Table 350

DOMINICAN REPUBLIC: MINING PRODUCTION

	1973	*1974*	*1975*	*1976*	*1977*[a]	*Growth rates*			
						1974	*1975*	*1976*	*1977*[a]
Production of some important minerals									
Bauxite (thousands of tons)	1 086	1 196	785	621	575	10.1	-34.4	-20.9	-7.3
Ferro-nickel (thousands of tons)	28	30	75	64	66	7.8	144.7	-14.0	2.2
Gold (kilograms)	–	–	5 613	12 842	10 660	–	–	128.8	-17.0
Silver (kilograms)	–	–	2 782	27 714	57 609	–	–	896.2	107.9
Gypsum (thousands of tons)	267	384	196	185	175	43.8	-49.0	-5.6	-5.4

Source: ONAPLAN, *Indicadores Básicos*, 1977.

[a] Preliminary information.

For 1977 preliminary figures indicate a 3°/o fall in output from mining. The amount of ferro-nickel extracted increased by just over 2°/o, while there was a fall of 7°/o for bauxite. Gold production also dropped (by 17°/o), whereas silver output more than doubled.

Exports of mining products performed rather better. The volume of ferro-nickel exported fell from 68,000 tons to 61,000 tons but bauxite exports rose from 627,000 tons to 774,000 tons and exports of doré (gold and silver alloy) increased from 41 to 51 tons.

At the end of 1976 negotiations with the Rosario Dominicana Company were concluded. Among the points agreed were that the Central Bank's share in the Company's capital should be raised to 46°/o, and that the Government's share in its gross profits should also be increased.

As a result of negotiations with the Alcoa Company the Government also secured a greater share in the profits from bauxite exploitation.

Further contracts were signed with various foreign firms for oil and natural gas exploration and exploitation in different areas of the country, but no concrete results have yet been achieved.

(iii) *Manufacturing.* Since 1975 manufacturing output has recorded relatively low increases of 3 to 4°/o a year, which are in contrast with those of the order of 12°/o achieved at the beginning of the decade; some slowing down in this sector began to occur as early as 1974.

In examining the evolution of industrial output, special attention should be paid to the sugar industry, which differs from other industries both in its size and its behaviour. Although since the beginning of the decade the contribution of the sugar industry to the manufacturing product has fallen from a high of 27°/o in 1970, it continues to be significant at about 20°/o.

The average price of sugar exports dropped from 590 dollars a ton in 1975 to 262 dollars in 1976 and 199 dollars in 1977. Nevertheless, production rose by 10°/o in 1976 and 12°/o in 1977, when it

reached 1,415,000 tons, the highest level ever attained. These figures indicate that in both 1976 and 1977 growth in the product of industrial activities other than sugar must have been below 2°/o a year.

Thus, according to the indicators of manufacturing output given in table 351 (which do not necessarily coincide with the changes in the manufacturing product) production apart from sugar increased by 7°/o in 1975, fell slightly in 1976 and appears to have risen by just over 1°/o in 1977. The performance in 1975 was influenced principally by the food, tobacco, oil refining, basic metals and machinery and equipment industries. The poor results of the past two years were generally shared by all areas of manufacturing, with a few exceptions in 1977 (see table 351).

Table 351

DOMINICAN REPUBLIC: INDICES OF MANUFACTURING PRODUCTION

	Breakdown in 1976[a] *(percentage)*	*Index (1970 = 100)*				*Growth rates*		
		1974	*1975*	*1976*	*1977*[b]	*1975*	*1976*	*1977*
Index of manufacturing production[c]	100.0	154.5	160.7	162.5	167.7	4.0	1.1	3.2
Index of manufacturing production excluding sugar	53.4	166.4	178.4	176.7	178.8	7.2	-1.0	1.2
Sugar production and refining	46.6	123.4	114.2	125.2	139.6	-7.5	9.6	11.5
Food products	12.2	145.6	157.1	151.8	153.0	7.9	-3.4	0.8
Beverages	10.7	144.4	147.7	149.6	157.0	2.3	1.3	4.9
Tobacco	5.3	129.7	141.4	142.8	135.7	9.0	1.0	-5.0
Textiles	1.8	152.2	158.1	160.0	...	3.9	1.2	...
Clothing	1.5	207.4	213.2	215.2	...	2.8	0.9	...
Chemical products	4.9	157.5	166.9	168.8	...	6.0	1.1	...
Oil refining	1.9	116.0	139.3	140.7	...	20.1	1.0	...
Rubber and plastics products	1.7	196.5	199.0	201.9	...	1.3	1.5	...
Non-metallic mineral products	4.2	241.6	218.5	221.2	238.0	-9.6	1.2	7.6
Basic metal industries	1.8	129.5	157.3	160.1	...	21.5	1.8	...
Metal products, machinery and equipment	2.6	244.2	301.9	304.6	320.0	23.6	0.9	5.1
Others	4.8	174.7	149.7	150.9	...	-14.3	0.8	...

Source: Central Bank of the Dominican Republic, *Cuentas Nacionales 1970-1976.*

a Calculated on the basis of aggregate value at current market prices.

b Estimate based on partial information obtained directly from official sources.

c Changes in the index do not necessarily coincide with changes in the product of manufacturing industry, as a result of the different methodologies used in the calculations.

The inadequate supply of electricity, which has worsened in recent years, and –more important– the frequent power cuts which bring manufacturing to a halt, have been an important cause of the slow expansion of manufacturing output. In 1975 and 1976, 616 generators with total capacity of 88,000 KW were installed in industrial and commercial establishments in order to prevent power cuts. The problem was much alleviated in 1977 by this step, and by the measures taken by the Dominican Electricity Corporation, which by mid-1977 had secured a 25°/o rise in supplies to industry.[192]

Other causes of the slackening in industrial growth were the scant increase in demand and the fact that the easier import substitution projects, on which industrialization has been based, have now been completed.

[192] Installed electrical capacity increased by 25°/o in 1976 (solely through an increase in thermal plants), and by barely over 3°/o in 1977. The amount of electricity generated, on the other hand, expanded by 6°/o in 1976 and 25°/o in 1977. Production of hydroelectricity in 1977 suffered a decline of 28°/o as a result of the drought.

The industrial policy and the tax exemptions and other incentives provided for in law N° 299 of 1968, have remained unchanged, and the period of their application has recently been extended.

Under the law on industrial protection and incentives, about 160 new enterprises were set up between 1973 and 1976, creating some 15,000 new jobs.

In 1976 there were 44 enterprises in the three free zones (La Romana, Santiago de los Caballeros and San Pedro de Macoris) producing goods solely for export and employing some 6,000 staff. These companies, which are exempt from all taxes, produce a wide variety of articles and use a high proportion of imported raw materials and components.

In addition to sugar and other agricultural and mining products which have undergone only a small amount of processing, manufactured products worth 33 million pesos were exported in 1977, including 17 million pesos' worth of furfural, a chemical product obtained from the distillation of bagasse. In 1977, however, the volume of furfural exported was 18°/o lower than the year before, while exports of the remaining manufactured products were just under 3°/o lower.

(iv) *Construction.* Construction activity is very sentitive to changes in investment, especially public investment, which to a large extent is channelled towards public works in the spheres of economic infrastructure, urban development, tourism and housing.

The drop in investment in 1976 (12°/o in public investment and 3°/o in private) had immediate repercussions on construction, and the 17°/o annual growth rate which had been recorded between 1971 and 1975 fell to a little over 2°/o in 1976. In the same year there was a sharp reduction in investment for the construction of irrigation dams (the Valdesia dam was completed) and hydroelectric installations (see table 358).

The higher revenues from exports in 1977, together with the slight growth in public income and expenditure and the expansion of credit, improved the liquidity of the economy, and as a result there was a revival in construction activity, which increased by 10°/o in 1977. Priority was given in that year to works for tourism development, in particular the Puerto Plata project on the north coast and the Samaná project. It is also estimated that hotel capacity rose by 11°/o in 1977.

A tourist complex in Bayahibe, to be built by Gulf and Western, is still in the planning stage. The Club Méditerranée is considering another project of the same type at Punta Cana, and the Government is hoping to develop a third at Boca Chica.

Construction of new dams by the National Institute of Water Resources is under consideration, as is the building of a four-lane highway between Santo Domingo and Santiago.

3. *The external sector*

(a) *External trade*

The trend of external trade in 1977 took the form of a 9°/o rise in the value of exports of goods, attributable to excellent sales of coffee and cocoa, and to a smaller extent bauxite, and an 11°/o increase in imports.

The principal feature of external trade in recent years has been the near-doubling of the value of exports in 1974 and 1975, followed by a fall of 20°/o in 1976, both movements being caused solely by changes in sugar prices. However, even in 1976 the fall in the price of sugar was partially offset by rises in the prices of coffee and cocoa. In 1976 these rises prevented a larger decline in total exports, while in 1977 they contributed to an increase of 9°/o. Exports of goods in 1977 totalled 780 million dollars, compared with the figure of about 900 million dollars attained in 1975.

The decisive influence of prices on the value of exports since 1974 can ben seen from table 352. The volume of exports was almost identical in 1973 and 1977, although the figure fluctuated markedly in the intervening years.

The volume of imports increased considerably in 1973 and 1974, reflecting the higher prices paid for fuels. The increase was smaller in 1975, and there was actually a slight fall in 1976, as a result of the introduction of restrictions, lower food imports and a reduction in expenditure on investment. In 1977, however, imports rose more than exports.

The sharp increases in prices of imports between 1973 and 1975 have levelled off in the past two years. The evolution of the terms of trade was broadly in line with the price of sugar up to 1976 and

Table 352

DOMINICAN REPUBLIC: MAIN INDICATORS OF FOREIGN TRADE

	1972	1973	1974	1975	1976	1977[a]
	Growth rates					
Exports of goods						
Value	43.5	27.2	44.0	40.4	-19.8	8.9
Volume	30.5	11.4	-0.6	-11.4	13.4	-1.1
Unit value	9.9	14.2	44.8	58.5	-29.6	10.2
Imports of goods						
Value	8.9	24.9	59.5	14.8	-1.2	11.0
Volume	3.9	5.6	24.7	1.6	-5.9	4.7
Unit value	4.8	18.4	27.9	13.0	5.0	6.0
Terms of trade	4.8	-3.6	13.3	40.3	-32.9	4.0
	Indexes (1970 = 100)					
Terms of trade	97.5	94.0	106.5	149.4	100.2	104.2
Purchasing power of exports of goods	149.2	160.5	180.6	224.4	171.2	176.1
Purchasing power of exports of goods and services	146.2	159.1	179.8	219.7	172.5	177.1

Source: CEPAL, on the basis of official data.

[a] Preliminary figures.

with the prices of coffee and cocoa in 1977. However, in 1977 the terms-of-trade index was 30°/o below the 1975 level and the purchasing power of exports 22°/o lower (see table 352).

(i) *Exports of goods.* A rise totalling 130 million dollars in exports of coffee and cocoa made up for the further fall in sales of sugar and contributed to an increase of 9°/o in total export revenue in 1977, contrasting with the marked decline in 1976 (see table 353).

Total revenue from exports continued to depend fundamentally on the vagaries of prices of sugar, coffee and, to a lesser degree, two or three other products.

Between 1975 and 1976 the average price of sugar exports fell from 27 to 12 US cents a pound, representing a loss of 340 million dollars. In contrast, coffee prices rose by 72°/o and cocoa prices 61°/o in 1976, while exports of gold and silver, which had only just begun, doubled in value. Nevertheless, the total value of exports of goods declined by 20°/o in 1976.

The price of sugar continued its decline in 1977, with the average price per pound falling to 9 US cents. However, the average price of coffee rose sharply from 2.38 dollars to 4.01 dollars per kilogram, while the price of cocoa doubled. As a result the value of exports of these products almost doubled, raising the value of total exports as mentioned above. The other important export products generally performed poorly, except for bauxite, where a recovery in volume led to an increase of 38°/o in value.

The recent evolution of exports can largely be attributed to price changes, but volume also played a significant role. Thus, the lower export volumes in 1974 and 1975 meant that full benefit was not drawn from the excellent prices in those years, while the rise in volume in 1976 made it possible to lessen the effects of the drop in sugar prices. In 1977 the volume of sales abroad fell back again, though only slightly. However, volumes of exports of coffee and cocoa –the two products whose prices showed the biggest increases– rose by 10°/o and 4°/o respectively (see table 352).

Table 353

DOMINICAN REPUBLIC: VALUE AND BREAKDOWN OF EXPORTS OF GOODS (FOB)

	Millions of dollars				*Percentage breakdown*		*Growth rates*		
	1974	*1975*	*1976*	*1977*	*1974*	*1977*	*1975*	*1976*	*1977*
Main export products [a]	*592*	*847*	*662*	*727*	*92.9*	*93.2*	*43.1*	*-21.8*	*9.8*
Sugar	340	577	269	232	53.4	29.7	69.7	-53.4	-13.7
Coffee	46	43	101	185	7.2	23.7	-6.5	134.9	83.2
Cocoa	48	29	50	96	7.5	12.3	-39.6	72.4	92.0
Tobacco	39	35	39	29	6.1	3.7	-10.3	11.4	-25.6
Bauxite	18	17	16	22	2.8	2.8	-5.6	-5.9	37.5
Ferro-nickel	93	102	111	91	14.6	11.7	9.7	8.8	-18.0
Gold and silver	–	27	55	55	–	7.1	–	103.7	–
Furfural	8	17	21	17	1.3	2.2	112.5	23.5	-19.0
Other products	*45*	*47*	*54*	*53*	*7.1*	*6.8*	*4.4*	*14.9*	*-1.8*
Total	*637*	*894*	*716*	*780*	*100.0*	*100.0*	*40.4*	*-19.9*	*8.9*

Source: Central Bank of the Dominican Republic.

[a] Sugar exports include exports of molasses and syrups; coffee exports also include exports of roast and ground coffee; cocoa exports include exports of cocoa products.

In 1977 exports of coffee reached the record level of 40,000 tons, but there were clear falls in the volume of ferro-nickel and bauxite exported. Only 61,000 tons of ferro-nickel were exported (24°/o of the volume sold between 1973 and 1974), while the volume of bauxite exported reached only half the 1,474,000 tons exported in 1975. There was also a drop in 1977 in the volume of tobacco exported. In contrast, the rise in exports of doré (gold and silver alloy) was appreciable for such a new export product. Sugar exports have remained around the 1 million ton mark since the beginning of the decade.

As far as the structure of exports is concerned, sugar declined substantially in importance, but that was compensated for by rises for coffee and cocoa. The total for the remaining exports remained between 25 and 30°/o. There were a few changes, however: ferro-nickel and tobacco declined in 1977, while gold, silver and furfural took a larger share (see table 353).

Non-traditional exports, which are not of great importance, have shown no change. Indeed, there has been a slight drop recently in exports of manufactures.

In October 1977 the sugar-exporting countries concluded a new agreement to replace the 1973 agreement. The new agreement lays down maximum export quotas for each country –1,100,000 tons for the Dominican Republic– in order to prevent increases in supply and further falls in prices.

(ii) *Imports of goods.* Imports resumed their upward trend in 1977 after an interruption in 1976.

Between 1972 and 1975 imports more than doubled in value, rising from 338 million dollars to 773 million dollars. This rapid expansion was due to three factors: the almost fourfold rise in prices of fuels, the share of which in total imports increased from 11 to 22°/o; rapid growth in food imports, as a result of inadequate increases in domestic production, aggravated by drought; and the inertia in the import of a wide range of non-essential consumer articles and inputs for domestic industry. Since the middle of the 1960s the share of imports among the raw materials used by manufacturing industry has been rising continuously.

In 1976 there was a slight drop in the value of imports, while the volume fell by 6°/o. The reasons for the drop in value included smaller purchases of food, restrictions imposed with a view to containing the rapid growth of imports, and less demand for imported inputs by domestic industry, reflecting its low level of activity. In 1977 additions were made to the list of articles which it is forbidden to import with foreign currency obtained from the Central Bank.

In 1977 the growth of imports revived, though the rate of 11°/o was significantly lower than in the period 1973-1975. Five per cent of the increase was attributable to rises in volume and the remaining 6°/o to prices (see table 352).

Imports of food totalled 140 million dollars in 1977, 30°/o more than in 1976. There was an appreciable increase in imports of cars (18°/o), and much smaller rises for raw materials (9°/o), capital goods (6°/o) and fuels (5°/o) (see table 354).

Table 354

DOMINICAN REPUBLIC: PRINCIPAL IMPORTS (FOB)

(Millions of pesos)

	1976	*1977*	*Percentage of total*	*Percentage change*[a]
Fish, crustacea and molluscs	8.3	9.8	1.2	18.7
Dairy products, eggs and honey	6.1	6.1	0.7	0.2
Cereals	37.1	48.3	5.7	30.0
Products of the milling industry	11.2	8.0	0.9	-28.4
Oil-seeds and similar	4.5	11.5	1.4	152.1
Oils and fats	18.1	29.1	3.4	61.3
Mineral fuels	169.5	177.0	20.9	4.5
Chemical products	14.6	15.4	1.8	5.5
Pharmaceutical products	27.7	26.1	3.1	-5.8
Fertilizers	14.3	15.7	1.9	9.8
Plastics, resins and products thereof	20.6	24.2	2.8	17.8
Natural or synthetic rubber	12.7	15.5	1.8	22.0
Wood and wood products	16.8	16.3	1.9	2.9
Paper and cardboard and products thereof	24.1	23.6	2.8	2.4
Synthetic textiles	11.1	11.7	1.4	5.2
Cotton	8.1	6.0	0.7	-25.4
Ceramic products, glass and glass manufactures	11.3	12.4	1.5	9.2
Cast iron and steel	47.7	48.2	5.7	0.9
Machinery and mechanical articles	85.5	95.6	11.3	11.8
Electrical machinery, articles and equipment	37.1	35.0	4.1	-5.7
Vehicles, automobiles, tractors, etc.	63.1	74.5	8.8	18.1
Other imports	113.9	137.6	16.2	20.8
Total	*763.4*	*847.6*	*100.0*	*11.0*

Source: Figures obtained directly from the National Statistical Office.

[a] Changes calculated on the basis of unrounded figures.

(iii) *Tourism.* Since the start of the present decade tourism has acquired great momentum, with resolute and direct support from the Government. The Tourism Promotion Act of 1971 and the tax and import concessions granted for investment in the construction and fitting-out of hotels led to a rapid rise in hotel capacity and other tourist facilities. Mention should also be made of the large hotels and tourist complexes whose construction has been undertaken or financed by the State.

Hotel capacity rose from 2,200 rooms in 1975 to 3,580 in 1976 and 3,960 in 1977. Sixty-two per cent of these rooms are in Santo Domingo, which in 1977 had nine major hotels each with an average of 200 rooms. There are other large hotels in La Romana and Samaná.

Between 1973 and 1977 the number of visitors rose from 227,000 to 387,000, despite a fall in 1975. In 1977 the increase was just over 7%.

Of the 387,000 visitors in 1977, 240,000 were foreigners who stayed on average 7 or 8 days in the country. A further 110,000 arrived in cruise ships for a visit of no more than 24 hours, while the remaining 37,000 were Dominican visitors resident abroad. Numbers in this last group have declined since 1974.

It is estimated that the country received 67 million dollars from tourism in 1977, equivalent to 9% of the revenue from exports of goods. Tourist income rose substantially in 1974 and 1975 (by 42 and 13%, respectively), but the increases were below 7% in 1976 and only 3% in 1977. Furthermore, foreign currency spent by the country on travel continued to exceed revenue: the 1977 figure for this item was 83 million dollars.

(b) *The balance of payments*

Divergent growth rates in 1977 for imports and exports led to an increase in the deficit in the trade of goods to 67 million dollars. If services are added, the trade deficit totals 200 million dollars, which is substantially higher than in the past (see table 355).

In 1977 there was also an increase of 23% in remittances abroad of profits on foreign capital and a rise of 54% in payments of interest on foreign debt. Net income from private transfers rose to a lesser extent.

These changes produced a large current account deficit of slightly more than 280 million dollars, the highest yet recorded.

While the current account deficit has expanded however, there has been a growing inflow of non-compensatory capital, which during the present decade has permitted continuous growth in international reserves, except in 1976.

In 1977 the net inflow of non-compensatory capital totalled about 340 million dollars (130 million dollars more than in 1976). There has been a considerable rise since 1974, principally in the form of medium- and long-term loans, which in 1976 led to a tripling in the inflow from direct investment.

As a result of these changes in the current and capital accounts, net international reserves rose by 58 million dollars.

(c) *External debt*

By the end of 1976 the disbursed external debt amounted to 808 million dollars, of which 550 million dollars had been incurred by the public sector. Between 1973 and 1976 the total external debt increased by 60%, i.e., faster than the public debt.

It is estimated that in 1977 the external debt reached some 915 million dollars as a result of the appreciable inflow of capital during the year. Worthy of mention among the credit allocated since the end of 1976 was 60 million dollars for the Central Bank from the Venezuelan Investment Fund for purchases of petroleum, and 48 million dollars for the Dominican Electricity Corporation for purchases of equipment.

4. *The evolution of domestic prices*

In 1977 there was a clear resurgence of domestic price rises, though not at the rates experienced in the three years 1973-1975.

If the changes are measured from December to December, the increase of 8.5% does not appear much higher than the rise in 1976, when the inflation rate of the previous two years was halved. However, the variation between annual averages was rather higher –12.8%– and much higher than

Table 355

DOMINICAN REPUBLIC: BALANCE OF PAYMENTS
(Millions of US dollars)

	1972	*1973*	*1974*	*1975*	*1976*	*1977*
Current account						
Exports of goods and services	411	513	730	1 003	831	904
Goods FOB	348	442	637	894	716	781
Services	63	71	93	109	115	123
Transport	12	14	15	16	15	19
Travel	33	38	54	61	65	67
Imports of goods and services	442	565	917	1 007	999	1 105
Goods FOB	338	422	673	773	764	848
Services	104	143	244	234	235	257
Transport	55	71	142	125	124	135
Travel	38	52	76	78	80	83
Net payments of profits and interest on foreign capital	-47	-77	-90	-93	-88	-123
Profits	-35	-54	-47	-49	-40	-49
Interest	-12	-23	-43	-44	-48	-74
Net private transfer payments	29	29	33	33	35	41
Balance on current account	-49	-100	-244	-64	-221	-283
Capital account						
Net external financing (a +b +c +d+ e)	49	100	244	64	221	283
(a) Net external non-compensatory capital	126	76	241	117	252	
Direct investment	68	35	54	51	69	
Long- and medium-term loans	60	40	103	119	206	
Amortization payments	-16	-19	-45	-36	-77	341
Short-term liabilities	12	18	128	-20	45	
Official transfer payments	2	2	1	3	9	
(b) Domestic non-compensatory capital or assets	21	37	48	22	-4	
(c) Errors and omissions	-84	8	-35	-47	-38	
(d) Allocation of SDRs	5	–	–	–	–	
(e) Net compensatory financing (– = increase)	-19	-21	-10	-28	11	-58
Balance-of-payments loans, trade arrears, IMF loans and other liabilities of the monetary authorities	–	15	–	13	25	...
Amortization payments	-16	-13	-6	-13	–	...
Variation in gross international reserves (– = increase)	-3	-23	-4	-28	-14	-57
Foreign exchange reserves (– = increase)	5	-10	-16	-29	-14	-57
Gold reserves (– = increase)	–	-13	13	–	-1	-1
SDRs (minus sign signifies an increase)	-8	–	-1	1	1	1

Sources: 1972-1976: CEPAL, on the basis of data from the International Monetary Fund;
1977: CEPAL, on the basis of data from the Central Bank of the Dominican Republic.

the change of 7.9o/o in 1976. It was in fact fairly close to the rates recorded in the middle of the anti-inflation period[193] (see table 356).

In the past two years the wholesale price index has moved along the same lines as the consumer price index, although with greater contrasts. Following a period of increases of 20o/o or more (1974 and 1975), the index fell by 4.7o/o in 1976 but rose again by 13.6o/o in 1977.

Table 356

DOMINICAN REPUBLIC: CHANGES IN DOMESTIC PRICES
(Growth rates)

	1972	*1973*	*1974*	*1975*	*1976*	*1977*
	Variation from December to December					
Consumer prices[a]	8.0	17.2	10.5	16.5	7.0	8.5
Food	7.2	30.0	11.8	16.0	-6.1	5.7
	Variation between annual averages					
Consumer prices[a]	7.9	15.1	13.2	14.5	7.9	12.8
Food	6.0	18.4	17.7	17.7	-2.8	9.4
Wholesale prices	3.1	13.6	21.0	24.7	-4.7	13.6
Index of 22 food products from the agricultural sector						
Domestic supply (volume)					4.1	-3.3
Prices					-1.3	6.3

Sources: Central Bank of the Dominican Republic, *Boletín Mensual,* various issues, plus information obtained directly; United Nations, *Monthly Bulletin of Statistics,* various issues.

[a] Corresponding to the general consumer price index in Santo Domingo.

Among the causes of the inflationary process in the three years 1973-1975, external factors predominated –in particular the higher prices of imported products, which worked through to internal costs and thence to wholesale and consumer prices. In the past two years, on the other hand, prices of imports have risen much less, and domestic prices have tended to change in line with the domestic availability of basic consumer goods and with the money supply.

In contrast to what happened in the period 1973-1975, food prices (measured between annual averages) fell in 1976, while in 1977 they rose less than other consumer products. Their behaviour is closely linked with the availability of food products on the domestic market. Thus, in 1976 the domestic availability (apparent consumption) of 22 food products increased by 4.1o/o, and the average price to the consumer fell by 1.3o/o - that is, less than the index of food products. In 1977, in contrast, the domestic supply of food products dropped by 3.3o/o, and the result was a rise of 6.3o/o in prices.[194]

[193] The difference arising from the two methods of calculation in 1977 is due to the sharp rise in the price index in December 1976.

[194] Indices calculated by CEPAL on the basis of information supplied by the Subsecretaría Técnica de Planificación Agropecuaria (SEAPLAN).

5. *Fiscal and monetary trends*

(a) *Fiscal trends*

Levels of revenue, and consequently of government expenditure, have in recent years been closely linked to revenue from sugar.

The exceptionally high revenue produced by the high price of sugar in 1974 and 1975 was the main cause of the 82°/o increase in current government income in those two years. Two-thirds of the rise of 290 million pesos in current income in that period was provided by the sugar industry through taxes on exports, domestic sales, company profits or simply through transfers to the Government from the State Sugar Council.

In addition, the surpluses produced by the sugar boom were used in 1975 to set up the Budget Reserve, which accumulated 60 million pesos in its first year and 15 million more in 1976.

The sharp fall in sugar prices and the drop in revenue from sugar exports in 1976 led to a reduction of almost three quarters in revenue from export taxes and a decline of 11°/o in government income (see table 357).

Table 357

DOMINICAN REPUBLIC: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of pesos				*Growth rates*		
	1974	*1975*	*1976*	*1977*	*1975*	*1976*	*1977*
Total income	*521*	*657*	*584*	*629*	*26.1*	*-11.0*	*7.7*
Current income	462	636	564	620	37.7	-11.3	9.9
Tax revenue	435	591	538	589	35.9	-9.0	9.5
Direct	112	142	140	126	26.8	-1.4	-10.0
Goods and services	70	95	119	141	35.7	25.3	18.5
From taxes on external trade	230	332	255	296	44.3	-23.2	16.1
Others	23	22	24	26	-4.3	9.1	8.3
Non-tax revenue	27	45	26	31	66.7	-42.2	19.2
Extraordinary income	59	21	20	9	-64.4	-4.8	-55.0
Total expenditure	*513*	*653*	*569*	*619*	*27.3*	*-12.9*	*8.8*
Current expenditure	301	353	326	367	17.3	-7.6	12.6
Capital expenditure	212	300	243	252	41.5	-19.0	3.7
Real investment	183	249	165	175	36.1	-34.5	7.4
Amortization of the debt	9	8	14	16	-11.1	75.0	14.3
Transfers	20	43	66	61	115.0	53.5	-7.6
Fiscal surplus	8	4	15	10			

Sources: Central Bank of the Dominican Republic, *Boletín mensual*, and information obtained directly; Academy of Sciences of the Dominican Republic, *Economía Dominicana 1976*.

In 1977 current government income increased by 10°/o as a result of improved exports of coffee and cocoa, which made up for the drop in sugar exports. In addition, a progressive tax on exports of coffee and cocoa had been introduced in August 1975, and this enabled the Government to secure a larger proportion of the revenue from sales.

Between 1975 and 1977 taxes on external trade provided half of all tax revenue, taxes on domestic transactions involving goods and services 20°/o, and taxes on income and wealth the remaining 30°/o.

During the period 1973-1977 current expenditure increased by an average of 12.6°/o a year, despite a sharp drop in 1976. Expenditure on wages and salaries rose by 9°/o a year, i.e., less than domestic prices, which went up by 12°/o a year.

In contrast to what happened to current expenditure, capital expenditure has undergone considerable fluctuations in the past three years, so that by 1977 it was 16°/o lower than in 1975.

About 55°/o of public investment in fixed capital is effected by the central government, the remainder by autonomous bodies and public enterprises. The public sector is responsible for about 40°/o of total gross fixed investment.

Table 358 indicates the aims of investment by the central government in recent years, the size of the allocations for construction of infrastructure and of housing and other buildings being noteworthy.

Table 358

DOMINICAN REPUBLIC: MAIN ALLOCATIONS OF CAPITAL BY THE CENTRAL GOVERNMENT[a]

(Millions of pesos)

	1971-1973	*1974*	*1975*	*1976*	*1977*[b]
Agriculture	10.9	28.8	33.4	28.9	24.9
Irrigation facilities	12.5	47.8	71.8	21.0	...
Transport and communications	37.3	29.1	0.4	38.6	13.4
Housing	13.6	19.5	38.2	40.0	21.9
Town planning and building	25.2	32.1	32.6	24.5	18.0
Supply of drinking water	10.5	13.4	20.3	22.6	...
Energy	5.1	17.3	3.9	2.8	...
Education	8.5	12.1	8.7	13.4	5.3
Health	1.4	1.2	2.4	8.4	10.6
Total	*125.0*	*201.3*	*211.7*	*200.2*	...

Source: Compiled from data in various publications.

[a] Including direct investment by the central government and certain allocations through autonomous bodies. The totals are partial totals and consequently do not coincide with investment and capital transfers by the central government in the years concerned.

[b] Six months.

Each year the Government transfers part of its resources to autonomous institutions, which invest in specific sectors. In the past three years there has been a marked increase in these transfers of capital.

The Government's capital expenditure has principally been financed in recent years from its own current and extraordinary resources derived from transfers from State enterprises and autonomous bodies, and from domestic credit. Since 1974 much less use has been made of foreign credit. However, the same cannot be said of the decentralized public institutions, as may be seen from the rapid rise in the external public debt.

(b) *Monetary trends*

In 1977 there was substantial growth –of the order of 18°/o– in the money supply, which contrasted with a very small increase of less than 1°/o in 1976 (see table 359).

Because the growth of the means of payment was beginning to soar –it reached 38°/o in 1974– and because of its influence in raising domestic prices, a restrictive monetary policy was introduced in mid-1975 and controls were imposed on the money supply in keeping with the essential needs of the

Table 359

DOMINICAN REPUBLIC: MONETARY POSITION

	End-year balance (in millions of pesos)				*Growth rates*		
	1974	*1975*	*1976*	*1977*	*1975*	*1976*	*1977*
Money	*378*	*400*	*403*	*475*	*5.8*	*0.8*	*17.9*
Currency outside banks	141	158	172	203	12.1	8.9	18.0
Demand deposits	237	242	231	272	2.1	-4.5	17.8
Factors of expansion	*1 009*	*1 142*	*1 179*	*1 378*	*13.2*	*3.2*	*16.9*
Foreign assets (net)	9	32	-11	51	255.6	–	–
Domestic credit	1 000	1 110	1 190	1 327	11.0	7.2	11.5
Government (net)	258	242	215	234	-6.2	-11.2	8.8
Official entities	68	68	62	100	–	-8.8	61.3
Agricultural bank	93	115	124	142	23.7	7.8	14.5
Private sector	581	685	789	851	17.9	15.2	7.9
Factors of absorption	*631*	*742*	*776*	*903*	*17.6*	*4.6*	*16.4*
Quasi-money (savings and time deposits)	361	467	484	545	29.4	3.6	12.6
Other items (net)	270	275	292	358	1.9	6.2	22.6

Source: International Monetary Fund, *International Financial Statistics,* May 1978.

economy. The results of these steps were felt in the same year: the rise in the money supply dropped to 6% in 1975 and 1% in 1976, and in the latter year it was already possible to observe the effect of lower liquidity, combined with greater availability of goods, in the form of the slow-down in domestic price rises.

There was a return to substantial expansion in the means of payment in 1977 as a result of a rise in the international reserves (after a decline in 1976) and an increase in domestic credit, principally that granted to public institutions.

In 1975 and 1976 there was a notable reduction in credit granted to the central government and public institutions. The substantial sums granted each year to the Agricultural Bank, on the other hand, have continued to increase appreciably.

Credit to the private sector also continued to rise rapidly in 1975 and 1976 (by 18 and 15%), demonstrating that the monetary restrictions applied in those years did not affect the financing of productive activities very much. In 1977, in contrast, credit to the private sector increased by only 8% –much more slowly than in the previous two years.

Finally, one of the effects of the growth in the money supply and in credit in 1977 was a renewed rise in domestic prices, although the important influence of irregularities in domestic supply –especially of food products– should not be ignored in this connexion.

SURINAME

1. *The overall picture*

The 1976 gross domestic product (GDP), measured at current factor cost, is estimated to have risen by 12% over the 1975 level in nominal terms, thanks to the performance of the distribution, agricultural and government sectors.

Initial indications suggest that, in 1977, reductions in the output and earnings of the mining sector had adverse effects on the growth of the GDP, but these are believed to have been largely cancelled out by increases in the agricultural and government sectors.

External sector activity in 1976 was marked by an increased merchandise trade surplus, mainly due to lower imports and increased earnings from alumina exports, a lower deficit on balance-of-payments current account, and a surplus on the capital account, the final result being a further increase of 19 million dollars in the net international reserves. The scanty data available for 1977, on the other hand, suggest that the results were less favourable during that year and that there was a drop of 16 million dollars in the international reserves (see table 360).

As regards internal price movements, the rate of inflation in 1977 is estimated to have been similar to that of the year before, at about 10%. This was aided by a smaller increase in food prices due to better supply.

The decline in the size of the labour force as a result of emigration continued in 1977, and the shortage of labour became worse. In addition, the large disparity continued between the high wages in the mining sector compared with the general level of wages in other sectors, thus helping to explain the level of emigration.

Economic development policy has been increasingly directed towards industrialization, with special emphasis on geographical decentralization, creation of more employment opportunities, narrowing the disparity in wages, and establishment of further links with neighbouring Caribbean countries. The programme for stimulating geographical decentralization began with the identification of eight major rural areas. Western Suriname, the largest of these areas, contains the main activities which include bauxite mining and processing and general agricultural projects. The construction of a number of infrastructure projects, including a railroad linking the area with the more populated parts of the country, is already under way. The railroad will be used for the transport of raw materials and finished products. The decentralization plan envisages the development of the areas into self-sufficient communities.

The development programmes also provide for the exploitation of other natural resources such as nickel, uranium, iron ore and some oil, as well as the encouragement of investment in industry and an increase in the production of food.

2. *Sectoral trends*

(a) *Agriculture*

After mining, it is the agricultural sector which makes the biggest contribution to the GDP (see table 361). Preliminary data for 1976 and 1977 indicate that there was an increase in production for domestic consumption as well as in the area devoted to commercial agriculture. Rice and bananas, the major crops produced in the country, experienced very favourable production conditions throughout the year (see table 362). The rice crop increased by 15% in 1977, due both to the expansion of the area under cultivation and to higher yields. The area planted grew by 3% in 1977, and there are indications that the acreage will continue to increase over the next few years at the expense of bananas. It is also hoped to increase the number of rice mills.

Both the production of bananas and the area planted with them went down by 5% because of replacement with more profitable crops. The production of plantains went up by 6% and the area planted by 24%, but the plantain harvest is much less important than that of bananas.

Table 360

SURINAME: MAIN ECONOMIC INDICATORS

	1972	1973	1974	1975	1976	1977[a]
A. *Basic economic indicators*						
Gross domestic product at factor cost (millions of Suriname guilders at current prices)	555	609	644	738	825	...
Population (thousands)	390	400	410	422	434	447
Per capita gross domestic product (Suriname guilders at current prices)	1 423	1 523	1 571	1 749	1 901	...
Growth rates						
B. *Short-run economic indicators*						
Gross domestic product (at current prices)	3.2	9.7	5.7	14.6	11.8	...
Per capita gross domestic product (at current prices)	0.3	7.0	3.2	11.3	8.9	...
Current value of exports of goods and services	3.7	-1.7	53.2	3.0	-2.1	...
Current value of imports of goods and services	8.6	9.0	45.8	14.7	-5.1	...
Consumer price index[b]	3.3	13.0	16.9	8.3	10.2	9.7
Money	5.0	28.9	5.2	20.5	17.5	6.4
Current income of government	7.1	-3.6	28.3	47.7	-4.2	9.9
Total expenditure of government	5.3	13.6	14.2	40.3	21.7	21.4
Fiscal deficit/total expenditure of government[c]	16.7	29.3	20.6	16.1	34.0	40.3
Millions of US dollars						
C. *External sector*						
Trade balance (goods and services)	32.8	14.0	14.6	-23.8	15.6	...
Balance on current account	-16.9	-27.6	-23.3	-45.8	-34.8	...
Variation in net international reserves	4.6	15.7	11.2	23.6	18.7	-15.9

[a] Preliminary figures.
[b] Variation between annual averages.
[c] Percentage.

The palm-oil industry, which is highly mechanized and concentrated on large estates, has been growing since 1974, both in acreage and production. It is estimated that output increased by 46% in 1977, while the area under cultivation increased by 10%.

The indicators show that there was a substantial decrease –10%– in the area devoted to sugar cane, one of the country's traditional crops, and since 1974 this area has shrunk by 24%. If this trend continues it might not prove possible to attain levels of production sufficient to meet the needs of local consumption and exports to the European Economic Community (EEC) countries. It is estimated that the output of sugar in 1977 grew by 15%, however, despite the smaller area planted.

The shortage of unskilled labour has adversely affected the cultivation of all traditional crops, including cocoa, coffee and the sugar industry, despite the importation of workers from Haiti, Guyana and other Caribbean countries. Unfortunately, no information is available on the production of cocoa and coffee, but the preliminary data for domestic food crops show substantial increases in output, reflecting favourable production conditions in 1977 and increases of acreage under commercial production during the last few years.

Table 361

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

	Millions of Suriname guilders			*Percentage breakdown*		*Growth rates*	
	1973	*1974*	*1975*[a]	*1970*	*1975*	*1974*	*1975*
Agriculture, stock breeding, fisheries	51	62	72	7.7	9.8	21.6	16.1
Forestry and forest industries	11	11	12	2.8	1.6	–	9.1
Mining	198	182	179	33.1	24.3	-8.1	-1.6
Manufacturing	44	34	45	7.8	6.1	-22.7	32.4
Construction	12	13	15	1.4	2.0	8.3	15.4
Subtotal goods	*316*	*302*	*323*	*52.8*	*43.8*	*-4.4*	*7.0*
Gas, water, electricity	16	15	18	2.6	2.4	-6.3	20.0
Transport, communications	20	21	32	2.4	4.3	5.0	52.4
Subtotal basic services	*36*	*36*	*50*	*5.0*	*6.8*	–	*38.9*
Commerce, hotels, financial institutions	101	123	154	17.6	20.9	21.8	25.2
Housing	...	32	34	...	4.6	...	6.3
Government	117	136	159	19.2	21.5	16.2	16.9
Miscellaneous	39	15	18	5.4	2.4	-61.5	20.0
Subtotal other services	*218*	*291*	*347*	*36.8*	*47.0*	*33.5*	*19.2*
Total	*609*	*644*	*738*	*100.0*	*100.0*	*5.7*	*14.6*

Source: CEPAL, on the basis of official data.

[a] Preliminary figures.

In addition, there was a notable increase in the livestock population during 1977, with poultry rising by 75%. These developments reflect the policy of diversification of the agricultural sector, improved production of domestic food crops, and a movement away from dependency on the traditional export crops.

In 1977, the Government increased its capital and current expenditure on agriculture with the object of creating more jobs and providing better physical amenities in the rural agricultural areas. A further aspect of this policy has been the establishment of minimum wage levels, for agricultural workers.

(b) *Forestry*

Although Suriname has an abundant supply of high quality commercial timber, the production of timber and other forest products has so far played a minor role in the economy. In 1975, such products contributed only 2% of the GDP (see table 361). There is extensive and increasing use of timber for fuelwood and charcoal, and in 1976 there was an increase in the production of sawnwood, sleepers and plywood by joint enterprises belonging to the Government and private companies (see table 363).

Table 362

SURINAME: INDICATORS OF AGRICULTURAL PRODUCTION

(Thousands of tons)

Production	*1974*	*1975*	*1976*	*1977*	*Growth rates*		
					1975	*1976*	*1977*
Paddy rice	162.4	174.8	172.5	198.8	7.6	-1.3	15.2
Maize (tons)	193.0	365.0	132.0	...	89.1	-63.8	...
Peanuts	1.0	2.3	1.7	...	130.0	-26.1	...
Green vegetables	2.0	2.2	1.1	...	10.0	-50.0	...
Plantain	0.8	1.0	1.6	1.7	25.0	60.0	6.3
Bananas	39.6	43.1	41.4	41.0	8.8	-3.9	-1.0
Citrus fruit	23.2	21.1	...	...	-2.1	...	...
Sugar	9.0	9.0	8.7	10.0	–	-3.3	14.9
Coconuts	6.0	5.5	5.5	5.5	-8.3	–	–
Cocoa (tons)	54.0	55.0	43.0	...	1.9	-21.8	...
Coffee (tons)	91.0	88.0	76.0	...	-3.3	-13.6	...
Palm oil	0.1	0.6	1.3	1.9	500.0	116.7	46.2

Source: CEPAL, on the basis of official data.

Table 363

SURINAME: OUTPUT OF SELECTED WOOD PRODUCTS

	M^3 roundwood equivalent			*Growth rates*		
	1974	*1975*	*1976*	*1974*	*1975*	*1976*
Sawnwood	48 536	77 295	...	...	59.3	...
Sleepers	1 480	2 881	5 384	...	94.7	86.9
Plywood	17 415	14 066	16 006	-9.0	-19.2	13.8
Particle board	14 251	23 306	14 822	-18.6	63.5	-36.4

Source: CEPAL, on the basis of official data.

(c) *Mining*

The mining sector is dominated by the extraction of bauxite and its processing into alumina and aluminium. There is also some mining of gold. The sector's growth rate in current terms was negative in both 1974 and 1975 (see table 361), and as a result its contribution to the GDP declined during both these years.

The falling contribution of the sector was due to reductions in both the volume of production and world price of bauxite. Bauxite production has dropped by half since 1974 while that of alumina has fallen by 25% (see table 364), and preliminary data for the first three quarters of 1977 would seem to indicate a further decline for bauxite. It is estimated, however, that the growth rate of the production of alumina and aluminium maintained the levels achieved in 1976.

Table 364

SURINAME: INDICATORS OF MINING PRODUCTION

	Millions of tons				*Growth rates*	
	1974	*1975*	*1976*	*1977*[a]	*1975*	*1976*
Bauxite	6.9	4.7	4.6	3.5	-31.9	-2.1
Alumina	1.2	1.1	1.2	0.9	-8.3	9.1
Aluminium[b]	57.0	34.7	45.9	37.0	-39.1	32.3

Source: CEPAL, on the basis of official data.

[a] January-September.
[b] Thousands of tons.

Since the processing of bauxite into alumina and aluminium began in 1966 there has been a steady reduction in the annual level of bauxite exports. Approximately 51% of the total production of bauxite is now exported, the remainder being retained for processing. Up to 1976 less than 10% of the annual output of alumina, a product derived from bauxite, was retained for smelting into aluminium, and only 6% of the aluminium was retained for use in local industries. There is however a trend towards the retention of larger proportions of alumina and aluminium for local use.

Mining, already the leading sector in the economy, is being further expanded by government action to accelerate development in Western Suriname, where there are large deposits of bauxite and other minerals. Additional infrastructure being provided includes a second hydroelectric power plant and a 200-mile railroad for linking the mining and smelting industries to Apoera, from where the finished and semi-finished products are to be exported.

(d) *Manufacturing, construction and energy*

Available data on manufacturing for the first three quarters of 1977 show higher output levels for most manufactured products (see table 365). Cement production improved considerably in the first three quarters of 1977, and it is estimated that there were also considerable increases in the output of shoes and soap powder (5%), while most other items showed marginal improvements. Similarly, there are signs too of higher production in the agro-industries, such as those producing flour and cattle feed.

As regards the construction sector, overall expansion has been hampered by the limited capacity of the cement and construction materials industries and shortage of manpower. There is a growing need for expansion to meet the demand for housing and construction work on development projects.

A relatively large proportion of the country's energy comes from hydroelectric sources, the main supplies for domestic, commercial and industrial use being electricity and gas.

Between 1974 and 1976 the supply of gas to urban areas fell by half (see table 365). However, the preliminary figures for the first three quarters of 1977 indicate a sharp increase.

Over the same nine-month period there was a substantial increase in the supply of electricity, mainly by the public sector although this sector accounts for only quite a small part of the total. Private electricity supplied by the end of the first three quarters of 1977 was 10% higher than the supply during the whole of 1976.

Table 365

SURINAME: INDICATORS OF INDUSTRIAL PRODUCTION

	1974	1975	1976	1977[a]	Growth rates		
					1975	1976	1977
Footwear[b]	233	292	...	285	26.3	...	21.3[c]
Cardboard boxes[d]	2.6	2.2	2.8	2.7	-15.4	27.3	...
Matches[d]	7.4	5.1	1.6	...	31.1	-68.6	...
Soap powder[e]	805	895	738	1 006	11.2	-17.5	...
Methylated spirits[f]	200	178	154	208	-11.0	-13.5	...
Cement[g]	33.8	34.7	51.0	48.6	2.7	47.0	...
Gold[e]	...	4.8	1.2	...	...	-75.0	...
Gas[h]	3 612	2 878	1 789	2 601	-20.3	-37.8	...
Electricity[i]	1 588	1 201	1 271	1 454	-24.4	5.8	...

Source: CEPAL, on the basis of official data.

a Preliminary figures, corresponding to period January-September.
b Thousands of pairs.
c January-June.
d Millions of boxes.
e Tons.
f Thousands of litres.
g Thousands of tons.
h Thousands of m^3.
i Millions of kWh.

3. *The external sector*

A reduction in the deficit on current account, favoured by a bigger surplus in trade in goods and a net inflow of capital which, although slightly less than in 1975, was still significant, determined a further increase in international reserves in 1976. The scanty information available on external trade in 1977, however, indicates that the results were unfavourable and were reflected in a decline of 16 million dollars in international reserves, a trend which was recorded for the first time in the 1970s.

(a) *Current account*

In 1976 the value of exports of goods and services fell by 2°/o and that of imports by 5°/o, resulting in a rise of 14 to 22 million dollars in the trade surplus. In the same year, sales of aluminium and alumina, which represented about 80°/o of total exports, increased considerably (18°/o) while sales of bauxite declined. Total exports dropped, however, owing to the decrease in agricultural exports, particularly rice, and other less important exports which, although they represented barely 7°/o of the total fell by 57°/o, a drop which was not counteracted by the bigger sales of timber (see table 366).

In 1976 net remittances of profits on direct investment and interest tripled with respect to the previous year (see table 367). Added to the deficit recorded in government transfers, which normally showed a surplus, they partly offset the bigger trade balance; otherwise the current account deficit would have been much smaller.

Table 366

SURINAME: MAIN EXPORTS OF GOODS (FOB)

	Millions of dollars			*Percentage breakdown*		*Growth rates*	
	1974	*1975*	*1976*	*1970*	*1976*[a]	*1975*	*1976*[a]
Aluminium and minerals	*203.9*	*189.4*	*212.9*	*86.9*	*79.0*	*-7.1*	*12.4*
Bauxite	71.1	49.5	47.2	25.7	17.5	-30.4	-4.6
Alumina	95.1	118.0	129.6	46.3	48.1	24.1	9.8
Aluminium	37.7	21.9	36.1	14.9	13.4	-41.9	64.8
Agricultural products	*21.7*	*31.3*	*28.6*	*4.1*	*10.6*	*44.2*	*-8.6*
Rice	11.9	18.3	15.0	2.7	5.6	53.7	-18.0
Bananas, plantains	2.6	3.4	3.6	1.4	1.3	30.8	5.9
Shrimp	7.2	9.6	10.0	–	3.7	33.3	4.2
Wood and wood products	*6.7*	*6.5*	*7.1*	*2.7*	*2.6*	*-3.0*	*9.2*
Others	*34.8*	*48.0*	*20.8*	*6.3*	*7.7*	*37.9*	*-56.7*
Total	*267.3*	*275.2*	*269.4*	*100.0*	*100.0*	*3.0*	*-2.1*

Source: CEPAL, on the basis official data.

[a] Preliminary figures.

(b) *Capital account*

The net inflow of non-compensatory capital in 1976 was 23% lower than that recorded in 1975; however, it was maintained at a sufficiently high level to cover the current account deficit and thus permit the accumulation of international reserves, which did not occur in 1977.

Transfer payments to the government, which mainly cover bilateral assistance provided by the Government of the Netherlands to Suriname, were the only consistently positive flow in the capital account. In 1976, however, this flow was halved, owing primarily to a disagreement with the Netherlands regarding the assignment of those funds in government investment programmes.

The use of 16 million dollars' worth of international reserves in 1977 has been attributed to the smaller flow of transfer payments to the government and a bigger deficit on current account due to the decrease in export earnings.

4. *Prices, labour supply and wages*

The consumer price index in 1977 showed an increase of just under 10%, compared with the 10.2% rise recorded in 1976 (see table 368). The pattern and annual rate of change for most categories of items were not much different from the previous year.

Clothing and footwear prices rose 21% in 1977, but food and beverages, as well as housing, had more moderate increases.

An active policy of price controls on food items has been maintained by the Government, and this accounts for their relative stability. The mechanism of setting maximum prices for a wide range of commodities is combined with measures to ensure a regular supply of a number of staple commodities, including rice. The Central Import Office of Suriname (CIS) ensures the supply of imported products at controlled prices.

Table 367

SURINAME: BALANCE OF PAYMENTS

(Millions of dollars)

	1972	*1973*	*1974*	*1975*	*1976*
Current account					
Merchandise trade balance	40.6	26.4	40.1	14.1	21.7
Transport and insurance	-0.5	-1.7	-4.9	-11.3	-0.8
Foreign travel	-7.3	-10.7	-20.6	-26.6	-5.3
Salaries and pensions	-1.9	-2.1	-2.6	-4.4	1.7
Other private remittances	-4.6	-4.9	-18.0	-10.9	-5.1
Government transfers	4.6	5.2	8.3	5.8	-10.8
Net remittances of profits and interest	-47.2	-39.2	-24.6	-11.8	-35.4
Non-monetary gold	-0.7	-0.6	-0.8	-0.8	-0.8
Balance on current account	-16.9	-27.6	-23.3	-45.8	-34.8
Capital account					
Private capital	4.4	27.6	0.4	39.3	-31.1
Migration and private grants	-1.0	-0.8	-1.5	-1.9	–
Government grants	12.9	13.6	22.9	179.0	89.1
Government loans received	18.5	8.6	12.5	13.9	–
Repayment of government loans	-1.3	-3.1	-3.3	-151.4	-1.0
Errors and omissions	-12.0	-2.6	3.5	-9.5	-3.5
Balance on capital account	21.5	43.3	34.5	69.4	53.5
Variation in internacional reserves (– = increase)	-4.6	-15.7	-11.2	-23.6	-18.7
Gold (– = increase)	–	3.1	–	0.2	0.1
Foreign exchange (– = increase)	-4.6	-18.8	-11.2	-23.8	-18.8

Source: CEPAL, on the basis of official data.

Table 368

SURINAME: EVOLUTION OF DOMESTIC PRICES

	1972	*1973*	*1974*	*1975*	*1976*	*1977*[a]
Consumer price index	3.3	13.0	16.9	8.3	10.2	9.7
Food, beverages	4.0	22.5	16.8	7.4	9.9	7.3
Housing	3.4	3.5	23.9	8.8	6.8	7.5
Clothing	0.4	10.9	12.5	12.9	18.0	21.0
Other	3.8	6.8	12.7	8.3	10.2	10.5

Source: CEPAL, on the basis of official data.

[a] Preliminary figures.

Recent employment data are not readily available, but the indicators reflect a steady decline in the level of the labour force, estimates of which for 1975 and 1976 show decreases of 1°/o and 8°/o respectively, reflecting continued emigration, mainly to the Netherlands.

The acute shortage of unskilled labour in the agricultural sector is particularly marked. In recent years this need has been partially met by the importation of labour from Haiti, Guyana and other small countries of the Caribbean in order to harvest sugar cane and bananas. The fall in the labour supply in the agricultural sector is due not only to emigration, but also to migration to urban areas, the expansion of recruitment of workers by the Government, and the more lucrative employment offered by the mining and manufacturing sectors.

The available information suggests that the lag in the rise of wages as against the rise in prices has narrowed somewhat, particularly for skilled workers. Furthermore, the level of wages in the bauxite industry, which has traditionally been significantly higher than in the other broad economic sectors, has continued to rise, thus increasing the gap between wages in the mining sector and in the other economic sectors. Wages in all other sectors are higher than those in agriculture, and this prompted the Government to establish minimum wage levels for agriculture.

5. *Monetary and fiscal policy*

(a) *Monetary policy*

Statistics show that the increase in the money supply during 1977 (6°/o) was more moderate than in 1976 and still more moderate than in 1975 (see table 369). There was a considerable fall in net international reserves, but domestic credit rose by 50°/o in 1977: faster than in any other year of the 1970s. A considerable proportion of this credit went to the private sector, the government sector absorbing only 22°/o, even though this represented a huge increase compared with the past. This

Table 369

SURINAME: MONETARY POSITION

	Balance at end of				*Growth rates*		
	1974	*1975*	*1976*	*1977*[a]	*1975*	*1976*	*1977*[a]
Money	*140.0*	*168.7*	*198.3*	*211.0*	*20.5*	*17.5*	*6.4*
Currency outside banks	78.8	88.6	110.1	116.8	12.4	24.3	6.1
Demand deposits	59.8	77.7	87.5	92.0	29.9	12.6	5.1
Factors of expansion	*312.0*	*376.7*	*464.1*	*536.8*	*20.7*	*23.2*	*15.7*
Foreign assets (net)	143.6	205.2	242.2	203.9	42.9	18.0	-15.8
Domestic credit	168.4	171.5	221.9	332.9	1.8	29.4	50.0
Claims on government (net)	13.9	8.7	2.5	64.9	-37.4	-71.3	2.496.0
Claims on official entities	4.8	5.4	10.8	11.3	12.5	100.0	4.6
Claims on private sector	149.8	157.4	208.7	256.7	5.1	32.6	23.0
Factors of absorption	*171.9*	*208.1*	*265.8*	*305.8*	*21.1*	*27.7*	*15.0*
Quasi-money (savings and time deposits)	107.1	124.5	173.2	223.5	16.2	39.1	29.0
Long-term foreign borrowing	7.4	7.4	8.9	6.3	–	20.3	-29.2
Other items (net)	57.4	76.2	83.7	76.0	32.8	9.8	14.7

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

[a] Preliminary figures.

jump may be explained by the disagreement between the Netherlands and the Suriname Government over the possibility of the development of the Western Suriname bauxite fields, which caused the Dutch Government to impose strings on its aid contribution and may have forced the Government of Suriname to turn to domestic financing sources.

Loans and advances of commercial banks went up by 19°/o in 1977, with the major portion going to commerce and services (including construction). There was a 20°/o increase in the level of loans to the productive sectors.

The manufacturing sector received about 10°/o of the total loans. The rest went to mining and agriculture, the share of the latter coming to about 52°/o.

Commerce absorbs nearly one-third of the loans and advances of the commercial banks. Services (including construction) received 24°/o, and another 30°/o was shared between agriculture, manufacturing and mining.

During 1977 interest rates showed only moderate increases and the banks continued to maintain a situation of relative liquidity.

(b) *Fiscal policy*

The officially estimated government revenue for 1977 increased by 10°/o over 1976 levels. This was mainly due to increases in income taxes and import duties. It is estimated that there was an increase of 16°/o in the total tax revenues (see table 370). There was a considerable decline in the revenue from the bauxite levy however, due to the reduction in exports. Also, the level of non-tax revenue fell by 18°/o, in contrast with the 40°/o increase experienced in 1976.

Table 370

SURINAME: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	1974	*1975*	*1976*	*1977*	*Growth rates*		
					1975	*1976*	*1977*
Current income	*204.1*	*301.5*	*288.9*	*317.4*	*47.7*	*-4.2*	*9.9*
Tax revenue	166.9	268.4	241.0	278.4	60.8	-10.2	15.5
Current expenditure	*198.7*	*249.8*	*285.3*	*363.4*	*25.7*	*14.2*	*27.4*
Wages and salaries	113.3	142.4	154.0	218.0	25.7	8.1	45.6
Others	36.9	41.4	43.0	27.0	12.2	3.9	-37.2
Saving on current account	*5.4*	*51.7*	*3.6*	*-46.0*			
Capital expenditure	*57.6*	*109.9*	*152.5*	*168.0*	*90.8*	*38.8*	*10.2*
Investment	49.7	86.2	119.0	135.0	73.4	38.1	13.4
Total expenditure	*256.3*	*359.7*	*437.8*	*531.4*	*40.3*	*21.7*	*21.4*
Fiscal deficit	*-52.2*	*-58.2*	*-148.9*	*-214.0*			

Source: CEPAL, on the basis of official data.

Most of the capital expenditure was financed with development funds provided by the Netherlands Government, which has agreed to supply over Sf 1.5 billion in financial aid over the next 15 years. Suriname has had problems in making up its counterpart funds, however. Not only has revenue been foregone as the result of fiscal incentives which provide for exemption from taxes and duties, but the growth of revenue in respect of the main export products has also been slow. This led to the introduction of the Bauxite Levy in 1974, but it has been showing lower rates of return than anticipated. [195]

[195] A 6°/o tax is levied on exports of bauxite as a function of the international price of aluminium (provided this does not go below 95 US cents per pound) and the aluminum content of the bauxite exported.

The public debt continues to decline from its 1974 level, and in the period under review there was a moderate drop of 7°/o compared with 1976. Since 1975 domestic sources of debt financing have become more important than external financing. In 1974 the external debt was 87°/o of the total public debt, but in 1977 this proportion fell to only 25°/o and both external and internal debts decreased by 10°/o and 6°/o respectively in that year. The substantial decline in the external debt from 1975 to 1977 was the result of the cancellation of debts owing to the Netherlands Government.

Estimated total expenditures grew by 22°/o in 1976 and 21°/o in 1977. Wages and salaries account for about 60°/o of the total current expenditure, with official estimates for 1977 showing an increase of 46°/o over 1976 levels. There was a considerable reduction in the current expenditure on transfer payments.

Fixed investment continues to account for a large portion of capital expenditure, having increased its share from 78°/o in 1976 to 80°/o in 1977. This represents an increase of 13°/o in absolute terms. Expenditures on studies and research, and on financial investments, rose substantially during the period (by approximately 12°/o and 75°/o respectively). The latter type of investment has been assuming increasing importance, while the expenditure on capital transfers fell by 54°/o.

As regards the functional classification of this expenditure, 38°/o of total government spending went on public services and infrastructure, while 26°/o was absorbed by the social services. This represents increases of 15 and 19°/o from 1976 in fiscal expenditure in these two fields in 1977.

TRINIDAD AND TOBAGO

1. *The overall picture*

Preliminary estimates of the gross domestic product show a nominal rise of 17°/o in 1977. Given that prices rose on average by slightly less than 12°/o during the year, real growth appears to have approximated the 5°/o rate achieved in 1976 (see table 371).

The petroleum industry continued to be the principal source of growth and prosperity. Crude production more than recovered from the damage generated by last year's fire at some offshore wells. Other growth sectors in 1977 were finance, insurance and real estate. Manufacturing, while very active at the beginning of the year, later showed signs of slackening, in part because exports were limited by import restrictions imposed by externally weak partners in the Caribbean Community and Common Market (CARICOM). Expansion of construction activity continued to be handicapped by shortages of inputs and high cost. The performance of the agricultural sector was mixed; output of coffee and cocoa and of some domestic crops increased significantly, but production of sugar, the principal export crop, underwent a sharp decline.

While Trinidad has enjoyed unprecedented economic growth since 1974 it appears that gains have been concentrated in sectors which do not easily absorb labour. This may be one reason why Trinidad's chronically high rate of unemployment has shown little improvement; 1977 marked the first year since the "oil" bonanza in which the rate of unemployment actually declined, albeit marginally (from 15°/o to 14°/o).

The impact of high world petroleum prices on the economy is most clearly manifest in the balance of payments. As seen in table 371, large current account surpluses have been recorded, as export earnings have been far in excess of import requirements. In 1977 the current account surplus rose by 66°/o, which is counter to trends for other petroleum exporters of the region.

Underlying the enlargement of the surplus was an 8°/o decline in the value of imports, brought on by reduced purchases of crude oil for processing in local refineries, and stable exports, with lower volume almost offset by higher unit prices. Focusing exclusively on petroleum exports, which account for 90°/o of the total, shipments of crude were 11°/o higher than the year before, while the volume of refined products exported fell by about 15°/o; on the other hand, average export prices for all petroleum products were about 9°/o higher.

Table 371

TRINIDAD AND TOBAGO: MAIN ECONOMIC INDICATORS

	1972	1973	1974	1975	1976	1977[a]
A. *Basic economic indicators*						
Gross domestic product at factor cost (millions of US dollars at 1970 prices)[a]	893	963	1 198	1 336	1 400	...
Population (millions)	0.98	0.99	1.00	1.01	1.02	1.03
Per capita gross domestic product[a] (US dollars at 1970 prices)	914	976	1 200	1 324	1 373	...
	Growth rates					
B. *Short-run economic indicators*						
Gross domestic product[a]	5.2	7.9	24.3	11.5	4.8	...
Per capita gross domestic product[a]	...	6.8	23.0	10.3	3.7	...
Terms of trade	-9.6	16.2	34.5	-1.6	1.0	-0.9
Current value of exports of goods and services	12.8	26.1	159.8	-11.9	22.0	-0.9
Current value of imports of goods and services	14.0	4.5	123.6	-17.5	32.6	-8.0
Consumer price index						
December - December	8.0	24.4	18.6	13.4	12.0	11.4
Variation between annual averages	9.3	14.8	22.0	17.0	10.5	11.8
Money	17.8	1.4	29.0	48.4	46.5	25.3
Wages and salaries[b]	12.9	10.4	11.9	28.5	21.7	11.7
Rate of unemployment	...	15.0	15.0	16.0	15.0	14.1
Current income of government	15.1	18.2	136.5	16.5	19.0	43.5
Total expenditure of government	19.0	3.7	57.0	31.4	31.0	4.6
Fiscal surplus/total expenditure of government	9.7[c]	3.0	55.2	37.5	24.9	71.3
	Millions of US dollars					
C. *External sector*						
Trade balance (goods and services)	-89	70	500	551	499	646
Balance on current account	-155	-19	280	313	223	370
Variation in net international reserves	-13	-7	333	509	261	469
External debt[d]	114	141	155	150	99	...

[a] Preliminary figures.
[b] Nominal minimum wage for manual workers in all industries.
[c] Deficit.
[d] Disbursed public and publicly-guaranteed debt at end of period.

Since 1974 current account surpluses have been supplemented by significant net inflows of capital, largely connected with private transactions. Thus the overall balance of payments has shown even larger surpluses; in 1977 the surplus was almost 470 million dollars, 80% higher than in 1976. The accumulated surplus for 1974-1977 is 1,600 million dollars (see table 371).

This accumulation of foreign resources is all the more impressive when one considers that the nation's total population barely exceeds 1 million. Indeed, the country's stock of 1.5 billion dollars in gross international reserves at the end of 1977 represented the highest reserves balance in per capita terms in the whole of Latin America.

The Government managed to keep the lid on consumer prices in 1977, as the average increase of 12°/o was about in line with stated objectives and only slightly higher than the price rise in 1976. Holding the line on prices is no small achievement given the fast rate of growth of the means of payment in recent years. In 1977, the Government expressed particular concern about the amount of liquidity in the monetary system and focused attention on control of domestic financial resources, with emphasis on the supply of money. The policy had some effect as the rate of expansion of money, although still high at 25°/o, was roughly half that experienced in 1975-1976. Other measures employed to hold down the rise in prices have been a relative degree of fiscal restraint, extensive use of price controls and subsidies, incentives to boost domestic output and easier access to imports.

Partial data on workers' remuneration suggest that wage adjustments in 1977 were roughly on a par with the rate of price increases, unlike what happened in previous years when there were significant real gains for workers.

As far as the fiscal accounts are concerned, while revenues increased by 44°/o in 1977, the Government held down the growth of expenditure to 5°/o, i.e., less than the rate of inflation. In preceding years the budget was clearly inflationary, notwithstanding efforts at restraint and the large fiscal surpluses recorded in 1974-1976. The expenditure restraint in 1977, coupled with the notable growth in revenue, caused the fiscal surplus to swell to record proportions and reach the equivalent of over 70°/o of expenditure (see table 371).

Since the rise in oil prices in late 1973 the authorities have had to cope with the totally unaccustomed phenomenon of a massive influx of foreign exchange receipts. In order to make the best possible use of these resources, policy has focused on three basic objetives: immediate enhancement of employment opportunities and social well-being; minimizing inflation; and ensuring that an adequate amount of resources is channelled into productive investment that will diversify the economy and provide long-term growth in income and employment. Clear strategies have evolved to accomplish these goals.

A significant amount of the receipts from petroleum has been channelled, primarily through the central government, towards domestic economic activity, which has presumably stimulated employment. However, the rate of unemployment has remained very high, partly because growth has been concentrated in capital-intensive sectors, and also because employment bottlenecks have developed owing to the low skill level of the labour force. To tackle the latter problem, the Government has made efforts to increase the skill level of the work force through the sponsorship of vocational schools, youth training camps, and apprenticeship programmes.

In an effort to improve the quality of life, the Government has also placed considerable emphasis on expanding and improving social services, health facilities, education, etc. Of particular interest are the school building programmes at the secondary level, and programmes for road extension and increased access to water. Also worthy of note are reductions in personal income taxes for individuals in lower income brackets and increased allowances for medical expenses.

While providing immediate benefits to its citizens, the Government has attempted to minimize inflation by withholding a large part of its petroleum wealth from the economy through the generation of fiscal surpluses. Besides limiting its expenditure much more in 1977, the Government managed to hold down domestic prices through the use of direct controls and/or subsidies as well as incentives designed to increase the local supply of goods and services.

The Government plans to invest its surplus income in an ambitious industrial development programme based on the exploitation of Trinidad's natural resource base. Energy-intensive projects in steel, aluminium, fertilizers and petrochemicals are in the planning or implementation stage, often in co-operation with foreign transnational corporations. Much of the output is destined for export. There has also been some discussion of development of a local capital goods sector.

The country's investment plans appear to make good use of available energy resources, but it remains to be seen whether this essentially capital-intensive programme will be sufficient to eliminate the country's chronic unemployment problem. If unemployment is to be eradicated, similarly intensive planning and investment may also be needed for more labour-intensive activities such as agriculture.

2. *Sectoral trends*

For a number of years Trinidad has been developing a new national accounts system. The results of this work appeared in 1977, as preliminary GDP estimates were published for the period 1966-1976.[196]

Estimates reveal that most of the recent growth in real terms has been attributable to the petroleum sector and that the domestic economy as a whole has yet to display the dynamism that one might expect from an oil wealthy country. Overall growth of the economy during 1973-1976 averaged nearly 12% per annum; however, excluding the petroleum sector, real growth averaged less than 1% per annum (see table 372).

During 1973-1974, the only non-oil sectors to show any dynamism were finance, insurance, and real estate, which expanded on average by roughly 10% per annum (probably on the strength of the growing financial liquidity generated by the petroleum sector) and miscellaneous activities which increased by 7.1% per annum. The remaining activities, in real terms, tended to either decline or show marginal growth.

Despite the relatively modest overall growth in the non-oil economy in 1974-1975, there was some evidence of increased dynamism. Agricultural output had an average growth of 10% per annum, manufacturing output grew by 9%,the electricity sector by 17%,and the growth of finance was accelerated.

These gains, while significant, were offset to a large degree by declines in important sectors such as construction, transport and communications and distribution (see table 372).

As noted earlier, preliminary information suggests that overall real growth of the GDP in 1977 approximated the 5% rate achieved in 1976. However, once again petroleum was the principal source of dynamism. A setback appears to have taken place in agriculture, and manufacturing appeared to lose some of its buoyancy. Construction remained hampered by shortages of skilled labour and materials. Meanwhile, financial activities continued to grow. Thus, although petroleum wealth has generated a degree of prosperity in Trinidad, it has yet to become the catalyst for a sustained, rapid and broad-based expansion of the domestic economy.

(a) *Agriculture*

This sector, which is composed of export agriculture, domestic agriculture, and the sugar industry, makes up about 3 1/2% of the total product. Preliminary estimates show that in 1977 the sector's product declined by 9% in current terms, which means an even more severe fall in real value. This decline was generalized, affecting output for domestic and external markets and the sugar industry since 1973 the volume of output has declined; in 1976 the sector's product at constant prices was similar to that recorded in 1973 (see table 372).

Output of sugar, the country's principal agricultural export, declined by 14% to 173,000 tons, thus putting a halt to the brief upturn achieved in 1976 when production showed signs of recovering from the rather dismal performance of the 1970s (see table 373). The problems of the industry are highlighted by recalling that in 1968 production of sugar was equivalent to 240,000 tons.

There are a number of complex reasons for the fall in the volume of sugar, ranging from the burning of cane fields to reduce the amount of work needed to cut cane during harvest, which also reduces sugar yield, to industrial unrest among sugar workers and operational disruptions associated with the implementation of a capital rehabilitation programme for the industry.

Another problem in 1977 was the very low price offered on world markets for sugar. The average world price (New York) in 1977 was 8 US cents per pound; compared with 12 US cents in 1976 and nearly 30 US cents during the cyclical boom of 1974. The price situation could improve somewhat for Trinidad as a result of the conclusion in 1977 of the International Sugar Agreement. Also providing some relief is the fact that Trinidad, along with other English-speaking countries of the Caribbean, can expect to benefit from favourable support prices associated with the Sugar Protocol of the Lomé Convention. In 1977 support prices under this latter programme rose by 2%.

[196] It should be noted that the preliminary estimates for petroleum are currently under revision because they have been found to overstate the sector's contribution to the product.

Table 372

TRINIDAD AND TOBAGO: GROSS DOMESTIC PRODUCT, BY KIND OF ECONOMIC ACTIVITY, AT FACTOR COST [a]

	Millions of Trinidad and Tobago dollars at 1970 prices					*Percentage breakdown*		*Growth rates*			
	1972	*1973*	*1974*	*1975*	*1976*[a]	*1970*	*1976*	*1973*	*1974*	*1975*	*1976*
Export agriculture	11	8	8	12	8	0.8	0.3	-27.7	3.7	40.5	-33.1
Domestic agriculture	39	49	44	48	47	2.2	1.7	25.8	-10.5	9.6	-1.5
Sugar[b]	67	38	26	24	41	2.9	1.5	-43.0	-31.1	-11.0	72.8
Subtotal	*117*	*95*	*78*	*84*	*96*	*5.9*	*3.5*	*-18.8*	*-17.6*	*6.0*	*15.0*
Petroleum[c d]	374	543	1 044	1 268	1 353	22.3	48.3	44.9	92.4	21.4	6.8
Manufacturing[e]	177	174	177	186	209	9.3	7.5	-1.4	1.3	5.5	12.3
Construction	141	137	137	145	131	5.9	4.7	-3.0	0.1	5.2	-9.6
Subtotal goods	*810*	*949*	*1 436*	*1 683*	*1 789*	*43.4*	*64.0*	*17.2*	*51.3*	*17.1*	*6.4*
Electricity and water	41	40	31	39	43	2.0	1.5	-2.7	-20.5	25.5	8.6
Transport, storage and communications	254	243	250	215	211	14.8	7.6	-4.1	2.8	-14.0	-1.7
Subtotal basic services	*294*	*283*	*281*	*254*	*254*	*16.8*	*9.1*	*-3.9*	*-0.5*	*-9.6*	–
Finance, insurance and real estate	144	154	176	241	248	8.6	8.9	7.2	13.9	37.3	2.8
Commerce	246	225	193	173	164	15.6	5.9	-8.7	-13.9	-10.6	-5.0
Government	164	177	163	167	178	8.4	6.3	7.7	-7.5	2.4	6.2
Miscellaneous[f]	127	140	146	154	167	7.4	6.0	10.0	4.0	6.2	8.4
Subtotal other services	*681*	*695*	*678*	*735*	*757*	*40.0*	*27.1*	*2.1*	*-2.5*	*8.6*	*2.9*
Product, excluding petroleum	1 412	1 384	1 351	1 404	1 447	77.7	51.7	-1.9	-2.4	3.9	3.0
Total gross domestic product	*1 786*	*1 927*	*2 395*	*2 672*	*2 800*	*100.0*	*100.0*	*7.9*	*24.3*	*11.5*	*4.8*

Source: Central Statistical Office, *The Gross Domestic Product of the Republic of Trinidad and Tobago*, 1966-1976.

a Preliminary figures.
b Includes refining and distillation.
c Includes refining, marketing and petrochemicals.
d Official estimates of petroleum's contribution to GDP are overstated and are currently being revised.
e Includes quarrying.
f Includes hotel, education and personal services.

Table 373

TRINIDAD AND TOBAGO: INDICATORS OF AGRICULTURAL PRODUCTION

	1974	1975	1976	1977[a]	Growth rates		
					1975	1976	1977[b]
Millions of units							
Sugar cane (tons)	1.9	1.7	1.2	1.9	-10.5	-28.1	-16.6
Sugar (tons)	183	160	200	173[c]	-12.6	25.3	-13.5[c]
Cocoa beans (pounds)[d]	9.2	11.6	7.2	9.3[c]	26.1	-38.0	29.2[c]
Coffee beans (pounds)[d]	4.3	8.9	5.9	7.4[c]	107.0	-33.7	25.4[c]
Oranges (pounds)	24.7	6.6	14.8	1.6	-73.3	125.6	-87.9
Grapefruits (pounds)	39.0	13.8	19.4	5.5	-64.6	40.1	-69.0
Citric juices (gallons)	2.1	0.6	1.2	3.4	-71.4	89.6	142.9
Beef and veal (pounds)	3.2	2.7	2.9	2.0	-16.4	-5.6	-7.1
Pork (pounds)	4.4	3.5	5.3	4.1	-20.6	51.7	14.6
Mutton (pounds)	0.1	0.1	0.1	0.1	–	47.0	-21.6
Poultry (pounds)[e]	43.1	59.6	59.7	57.4	38.4	0.2	39.5
Eggs (dozen)[f]	3.6	4.1	2.9	3.5	13.9	-28.7	28.8
Fish (pounds)[g]	6.0	6.6	6.0	3.1	10.7	-9.5	8.4
Milk (gallons)[h]	1.6	1.7	1.4	1.0	6.4	-18.4	-8.7
Tobacco (pounds)[i]	0.7	0.6	0.3	0.2	-8.4	-48.3	-35.8
Thousands of tons							
Copra[j]	6.6	8.8	9.0	6.9	33.3	2.3	4.5

Sources: Central Statistical Office, *Quarterly Economic Report* (several issues); *Quarterly Agricultural Report*, July-September 1977; *Statistical Digest*, vol. X, N°II, Central Bank of Trinidad and Tobago; Ministry of Industry and Commerce; Co-operative Citrus Growers Association of Trinidad and Tobago Ltd.; Sugar Manufactures Association; and data supplied to CEPAL.

a Preliminary figures for January-September.
b January-September 1977 compared with corresponding period of 1976.
c Preliminary data for the full year.
d Deliveries to principal exporters.
e Line weight poultry.
f Commercial production.
g Fish delivered to principal markets.
h Principal producers only.
i "Flue-cured" tobacco purchased by West Indian Tobacco Company from contract farmers.
j Delivered to manufacturers of copra products.

As for other major export crops, volume data indicate that in 1977 cocoa and coffee production responded to good weather conditions by showing substantial gains in 1977 (see table 373). While output still remained below levels achieved in 1975, the partial recovery enabled the country to take better advantage of favourable world prices, which increased by 83°/o and 67°/o for cocoa and coffee, respectively.

Production of citrus fruit as of September 1977 was 77°/o below that achieved in the corresponding period of 1976,, itself a year when production was far below normal. Factors behind the notable deterioration of output were unfavourable weather, tree disease, labour shortages, and a general reduction in acreage under cultivation.

The performance of domestic agriculture in 1977 was very mixed. Available data show gains in the production of vegetables, but reduced output for root crops. Meat products did well, but tobacco production continued to fall and copra output remained well below the nearly 12,000 tons recorded in 1973.

In 1977 Government agricultural policy placed emphasis on subsidies and guaranteed prices for the purpose of stimulating production, primarily of food. The Government is also promoting greater utilization of natural gas in the dehydration of onions and vegetables. As for sugar cane, there has been more employment of irrigation and mechanical cutting in order to enhance profitability. There has also been some discussion of expansion of sugar refinery capacity.

(b) *Petroleum*

Petroleum dominates the Trinidadian economy. It accounts for 48o/o of total product in real terms, 90o/o of total exports, 48o/o of imports and contributes to bulk of government revenue. Preliminary data show that in 1977 in current terms, the sector's product showed growth of 35o/o over 1976 and that considerable real expansion took place as well. Looking to the recent past, in 1975 the sector grew by 21o/o in real terms, while in 1976 real growth was held down to 7o/o, in part because of damage to offshore facilities from a major fire (see table 372).

Crude petroleum produced in 1977 amounted to 84 million barrels, an increase of 8o/o over the 1976 production figure. Approximately 80o/o of total production was derived from offshore operations.

Trinidad imports large amounts of crude which are processed in refineries and then re-exported. Local refinery capacity exceeds the production of indigenous crude and because these refineries are designed for heavy oils, while the national product is largely of a lighter variety and therefore must be processed abroad. In 1977 crude imports declined by 22o/o, while exports rose by 11o/o to 50 million barrels (equivalent to 60o/o of national output).

As for refinery activity, both throughput and output declined by 15o/o in 1977 owing to reduced crude production from deteriorating national land wells, which is refined in the country, and the notable drop in crude imports, as well as cutbacks in local refinery capacity.

First-quarter data on natural gas production in 1977 show an increase of 5o/o over the amount produced during the same period of 1976, while data for January-August indicate a marginal increase of 1.4o/o in sales of natural gas (see table 374). However, this situation changed radically with the coming-on-stream of the Tringen Ammonia Plant in late 1977, as well as the Trinidad and Tobago Electricity Commission's new generator plant at Point Lisas, and in the last quarter there would appear to be substantial increases in natural gas production and sales.

Proven and potential reserves are estimated to be 416 billion cubic metres. This does not include promising gas sites in the Gulf of Paria off the west coast of the island; neither does it include gas associated with current oil extraction, 50o/o of which is burnt off. The Government plans to deploy its gas resources to support new energy-intensive industries at Point Lisas; these include the aforementioned ammonia and electricity plants as well as a fertilizer plant, iron and steel complex, aluminium smelter and petrochemical facilities. Even with the development of local industries that will feed on natural gas, Trinidad will still have a large available surplus which could possibly be exported as liquefied natural gas, principally to the United States.

Tax incentives have been introduced to encourage secondary and tertiary recovery methods at land wells, the output of which has shown a declining trend since 1971. These incentives are expected not only to boost oil production, but also to benefit employment since land wells absorb considerably more labour than offshore operations.

Other recent developments within the sector include the purchase by the Government of all petroleum marketing operations and the completion of the 24" pipeline that will transport natural gas from Texaco's Beach Field to Picton.

(c) *Manufacturing*

Manufacturing accounts for about 8o/o of total GDP in real terms. Between 1972 and 1976 output grew by 33o/o in real terms, or an average rate of growth of 6o/o per annum. Fast-growing

Table 374

TRINIDAD AND TOBAGO: PETROLEUM AND NATURAL GAS PRODUCTION
(Millions of barrels)

	1974	1975	1976	1977[a]	Growth rates		
					1975	1976	1977[a]
Crude production	68.1	78.6	77.7	83.6	15.4	-1.2	7.6
Crude imports	195.5	158.1	84.8	65.8	-39.2	46.0	-22.4
Crude exports	31.8	48.8	44.4	49.4	53.5	-9.0	11.3
Refinery throughput	130.8	85.7	117.6	99.5	-34.4	37.2	-15.4
Refinery output	127.1	82.9	114.3	96.8	-34.8	-37.9	-15.3
Natural gas production (millions of cubic metres)	3 849	3 795	4 139	1 073[b]	-14.1	9.1	4.6[b]
Natural gas sales (millions of cubic metres)	899	946	1 008	649[c]	5.2	6.6	1.4[c]

Source: Minstry of Finance, *Review of the Economy* 1977; and data supplied to CEPAL.

[a] Preliminary figures.
[b] January - March. Growth rate calculated over similar period in 1976.
[c] January - August. Growth rate calculated over similar period in 1976.

activities include metal products, food processing, miscellaneous items, beverages and tobacco and assembly-type industries. Slower-growing activities have included textiles, knitted garments, footwear and wood products.

The manufacturing index rose by 13% in the first six months of 1977. If this trend continued for the remainder of the year, growth in output would be roughly equivalent to 1976. However, preliminary information suggests that a slowdown occurred in the second half of the year. Table 375 shows that by September production of some important products was considerably below output for the similar period a year earlier; indeed, only production of bricks and blocks –stimulated by construction activity– and the highly income-elastic products of the assembly industries were clearly ahead of activity in 1976. One cause of the slowdown was a loss of export markets due to import restrictions imposed by some trading partners in the Caribbean.

During 1977 the Government continued to provide support for the development of the industrial sector.

During January-September 1977 the Trinidad & Tobago Development Finance Company Ltd., committed TT$ 22 million[197] to 51 industrial enterprises. These enterprises are expected to generate some 1,400 direct jobs. Most of the enterprises financed were medium-sized, producing light manufactured goods, and involved new entrepreneurs who could not obtain adequate or appropriate finance from the commercial banking system.

Meanwhile, the Industrial Development Corporation has maintained its programme of promoting industrial development, using as its principal instrument fiscal concessions to industrial enterprises.

Based on its own resources, and in collaboration with other agencies, local and foreign, the Industrial Development Corporation has also carried out a number of market and feasibility studies on new industrial projects. These include an aluminium smelter, a polyester fiber-fabric plant, a petrochemical complex, a methanol plant, a granular fertilizer plant, a refractories plant, a pulp and paper industry, fermentation industries based on molasses, a cement plant extension, metal and plastic projects and assembly of small agricultural tractors. Additionally, a number of sectoral studies and investigations have been undertaken for programmed development of production in cosmetics, detergents, insecticide, paint, and footwear.

[197] TT$ 2.40 = US$ 1.00.

Table 375

TRINIDAD AND TOBAGO: INDICATORS OF MANUFACTURING PRODUCTION [a]

	1974	1975	1976[b]	1977[c]	Growth rates 1975	Growth rates 1976[b]	Growth rates 1977[c]
Index of manufacturing production	115.6	119.0	135.5	141.8	2.9	13.9	12.7
Food processing	130.6	146.9	152.4	152.6	12.5	3.7	0.8
Drink and tobacco	133.2	134.5	145.3	138.0	1.0	8.0	–
Textiles	78.9	77.6	86.0	80.0	-1.6	10.8	-6.9
Printing and publishing	145.0	118.3	113.2	131.0	-18.4	-4.3	28.6
Wood products	75.7	76.9	99.3	86.5	1.6	29.1	-3.2
Chemical products	88.6	93.9	104.7	89.8	6.0	11.5	-8.3
Building materials	101.2	98.7	102.4	115.1	-2.5	3.8	15.0
Assembly industries	112.6	119.3	140.0	173.0	6.0	17.4	31.4
Metal products	138.9	158.6	276.1	327.9	14.2	74.1	59.4
Miscellaneous	117.7	140.1	148.2	112.0	19.0	5.9	-25.9
Production of some manufactured goods							
In millions of units							
Rum (gallons)	4.3	3.8	4.1	3.2	-11.6	6.8	2.1
Beer and stout (gallons)	4.5	5.4	6.6	4.6	19.4	22.5	-5.5
Tobacco and cigarettes (pounds)	1.8	2.1	2.3	1.3	18.5	8.3	-23.5
Edible oil (gallons)	1.3	1.8	2.1	1.3	33.7	14.3	-21.3
Margarine, kard (pounds)	16.4	14.6	16.8	11.1	-11.0	15.1	-12.1
Soap (pounds)	11.8	14.1	13.3	7.6	19.0	-5.2	-27.6
Bricks and blocks (units)	25.0	20.1	20.9	19.6	-19.7	3.9	23.3
In thousands of units							
Cement (tons)	238.0	255.0	238.0	162.0	7.1	-6.7	-9.2
Fertilizer (short tons)	411.0	381.0	373.0	256.0	-7.3	-2.3	-6.7
Motor vehicles	6.0	8.0	11.6	10.9	33.4	45.0	36.4
Radios and television sets	25.1	27.2	30.4	21.3	8.2	11.9	12.6
Gas stoves	...	15.0	18.6	18.5	...	23.9	26.9
Refrigerators	...	24.1	27.8	17.1	...	15.3	-17.2

Sources: Ministry of Finance, *Review of the Economy* 1977; Central Statistical Office, *Economic indicators*, April-June 1977; and *Quarterly Economic Report*, July-September 1977; Central Bank, *Statistical Digest*, vol. X, Nº 11, November 1977; and data supplied to CEPAL.

[a] The data exclude petroleum, sugar and shipbuilding.

[b] Preliminary figures.

[c] January-June in the case of services and January-September 1977 in the case of some manufactures. The corresponding rates are calculated over similar periods of 1976.

Most of the planned new industries are energy-intensive and will rely on Trinidad's abundant petroleum and natural gas supplies. The thrust towards a deepening of the industrialization process reflects a general desire to diversify the country's industrial structure away from assembly-type industries. The major vehicle used in the diversification strategy has been joint venture enterprise involving the Government on the one hand, and other Caribbean governments or large foreign private enterprises on the other. In this context the main achievements have been the completion and coming-on-stream of the fertilizer-ammonia plant, the acquisition and preparation of a site for the iron and steel complex, and the putting into service of an 88-MW power plant.

(d) *Construction*

In the first six months of 1977 there was a 32°/o increase in the number of building plans approved over the comparable period of 1976, while the amount of planned floorspace was 64°/o larger (see table 376).

Table 376

TRINIDAD AND TOBAGO: INDICATORS OF CONSTRUCTION ACTIVITY

	1974	*1975*	*1976*	*1977*[a]	*Growth rates*		
					1975	*1976*	*1977*[a]
Approved building plans							
Dwellings[b]							
Number	2 995	2 322	2 813	1 625	-22.5	21.1	33.3
Floor space (thousands of sq. ft.)	3 652	3 104	3 961	2 243	-15.0	27.6	34.1
Commercial and industrial							
Number	57	49	61	36	-14.0	24.5	44.0
Floor space (thousands of sq. ft.)	238	330	439	268	38.7	33.0	21.5
Other buildings[c]							
Number	105	85	113	53	-19.2	32.9	1.9
Floor space (thousands of sq. ft.)	332	311	346	656	-6.3	11.3	365.2
Total number of plans	*3 157*	*2 456*	*2 987*	*1 714*	*-22.2*	*21.6*	*32.2*
Floor space (thousands of sq. ft.)	*4 222*	*3 744*	*4 747*	*3 166*	*-11.3*	*26.8*	*63.6*

Sources: Central Statistical Office, *Quarterly Economic Report,* April-June 1977; and CEPAL, on the basis of official data.

a January-June. Rates calculated over the corresponding period of 1976.
b Includes private dwelling combined with commercial and industrial buildings.
c Churches, schools, hotels, cinemas and blocks of flats.

Although these data suggest a considerable rise in construction activity, the sector has been plagued by numerous problems that have seriously affected its growth. The rise in oil income has generated a strong stimulus to industrial construction, infrastructure development, housing construction and improvement of social amenities. But construction has been hampered by critical shortages of domestic and foreign building materials, a scarcity of trained personnel and high costs of land for development, materials and labour. During the first eight months of the year, the index of retail prices for building materials was up by nearly 18°/o.

In an attempt to relieve bottlenecks, the Government has established tax incentives and financing to stimulate domestic production of building materials. A result of this policy is the expansion of the local cement plant. Where domestic production cannot satisfy demand, imports of some materials have been encouraged; indeed, in order to overcome congestion at the national docks, a special port has even been assigned for imports of building materials.

Another measure employed is the granting of contracts to foreign construction firms, and, in the longer term, plans are under way for the University of the West Indies and other training institutions to absorb additional trainees for courses that will prepare them for top and middle-level management positions.

Finally, in an effort to correct the large housing deficit, the Government raised lending limits for land acquisition, purchase of houses and land, improvement and repairs, as well as mortgage guarantees, using the National Housing Authority as agent. The authorities have also released publically-owned land for purposes of construction. These steps should enable individuals, particularly in lower- and middle-income groups, to acquire homes with low-cost financing.

3. *Employment*

Trinidad has long suffered from chronically high rates of unemployment. In 1977, unemployment was 14%, down slightly from the 15-16% of recent years (see table 371). Unemployment is disproportionally concentrated among the nation's youth: while the 15-24 age group makes up 30% of the labour force, it accounts for nearly 60% of the unemployed.

Unemployment appears to a large extent to be a structural phenomenon. The country's most dynamic sector, petroleum, employs only about 2% of the work force. Adding manufacturing, another dynamic sector of recent years, total absorption of labour is still less than 20% of the work force.[198] Meanwhile, agriculture, employing 15% of the work force (22% in 1970), has been stagnant, and construction, transport and communications, employing another 22% of the work force, have not undergone any real growth in recent years.

The Government has tackled the problem in numerous ways. A new emphasis has been placed on agricultural expansion, which has included a "back to the land" campaign. Construction, another labour-intensive activity, has been the beneficiary of the Government's building programme. There has been wider use of training camps, vocational schools, and apprenticeship programmes in order to help channel national manpower into the numerous opportunities for skilled labour. Finally, the Government itself has significantly expanded the public work force.

While all these measures should have some impact on employment, it must be remembered that the major thrust of the Government's petroleum-financed development programme remains in the expansion of energy- and capital-intensive industries. Thus, Trinidad may continue to have relatively high rates of growth juxtaposed with considerable rates of unemployment.

4. *The external sector*

Balance-of-payments difficulties existed until 1973, but with the record rise in petroleum prices towards the end of that year, the situation changed radically, and the country has since consistently been running large current and overall surpluses. In 1977 this general trend continued (see table 377).

(a) *The current account*

Looking first at trade in goods, it can be seen that since 1974 Trinidad has registered large and progressively expanding surpluses. In 1977 the surplus rose by 24% to a level of 654 million dollars, reflecting the effects of a 1% decline in the current value of exports, coupled with a 9% fall in the value of imports.

It is worth noting that if oil trade is excluded from consideration, Trinidad's surplus turns into a deficit, which has been steadily increasing. Reflecting rising foreign purchases, the non-oil deficit rose from about 320 million dollars in 1974 to 560 million dollars in January-September 1977.

The slight drop in exported goods in 1977 was due to a 7% fall in volume, largely offset by a rise in average unit prices of 6% (see table 378).

[198] It should be remembered the sub-sectors that would normally be considered relatively more labour-intensive such as textiles, knitted garments, and footwear have not been the fast growing activities in manufacturing.

Table 377

TRINIDAD AND TOBAGO: BALANCE OF PAYMENTS
(Millions of US dollars)

	1972	*1973*	*1974*	*1975*	*1976*	*1977*[a]
Current account						
Exports of goods and services	754	950	2 468	2 174	2 652	2 627
Goods FOB	595	720	2 180	1 899	2 370	2 337
Services	159	230	288	275	282	290
Transport	93	98	174	150	157	161
Travel	51	59	66	75	76	79
Imports of goods and services	842	880	1 968	1 623	2 153	1 981
Goods FOB	701	718	1 716	1 413	1 844	1 683
Services	141	162	252	210	309	298
Transport	107	97	161	115	209	192
Travel	27	24	26	33	37	41
Net payments of profits and interest on foreign capital	-69	-87	-213	-227	-266	-265
Profits	-67	-80	-213	-253	-311	-310
Interest	-2	-7	–	26	45	45
Net private transfer payments	2	-2	-7	-11	-10	-11
Balance on current account	-155	-19	280	313	223	370
Capital account						
Net external financing (a +b +c +d+e)	155	19	-280	-313	-223	-370
(a) Net external non-compensatory capital	100	65	35	156	-16	
Direct investment	87	66	85	191	82	
Long- and medium-term loans	24	34	46	7	5	
Amortization payments	-5	-39	-41	-26	-72	99
Short-term liabilities	–	11	-46	-6	-12	
Official transfer payments	-6	-7	-9	-10	-19	
(b) Domestic non-compensatory capital or assets	8	4	-24	7	30	
(c) Errors and omissions	27	-56	42	33	24	
(d) Allocation of SDRs	7	–	–	–	–	
(e) Net compensatory financing (– = increase)	13	7	-333	-509	-261	-469
Balance of payment loans, trade arrears, IMF loans, and other liabilities of the monetary authorities	–	–	–	–	–	...
Amortization payments	–	–	–	–	–	...
Variation in gross international reserves (– = increase)	13	7	-333	-509	-261	...
Foreign exchange reserves (– = increase)	13	-1	-326	-492	-250	...
Gold reserves (minus sign signifies an increase)	–	8	-6	-17	-11	...
SDRs (minus sign signifies an increase)	–		-1	–	–	...

Sources: 1972-1976: CEPAL, on the basis of data from International Monetary Fund;
1977: CEPAL, on the basis of official data.

[a] Preliminary figures.

Table 378

TRINIDAD AND TOBAGO: MAIN INDICATORS OF FOREIGN TRADE

	1972	1973	1974	1975	1976	1977[a]
	Growth rates					
Exports of goods						
Value	12.2	20.9	202.9	-12.9	24.8	-1.4
Volume	16.5	-7.4	1.4	-20.4	17.7	-7.0
Unit value	-3.7	30.6	198.5	9.5	6.0	6.0
Imports of goods						
Value	15.3	2.4	139.1	-17.7	30.5	-8.7
Volume	8.2	-8.8	7.8	-26.1	24.3	-14.7
Unit value	6.6	12.3	121.9	11.3	5.0	6.9
Terms of trade	-9.6	16.2	34.5	-1.6	1.0	-0.9
	Indexes (1970 = 100)					
Terms of trade	97.4	113.2	152.3	149.8	151.3	149.9
Purchasing power of exports of goods	95.3	106.9	133.6	106.7	130.6	120.4
Purchasing power of exports of goods and services	106.9	121.1	170.4	139.2	159.3	149.4

Source: CEPAL, on the basis of official data.

[a] Preliminary figures.

The major factor behind the behaviour of exports was pretroleum products, which account for over 90°/o of the total (see table 379). In 1977, average prices for petroleum products rose by approximately 9°/o. However, volume was lower: while crude exports rose by 11°/o, this was more than offset by a sharp fall in exports of refined products, reflecting the 15°/o reduction in refinery output (see table 374).

According to the information available for nine months, non-oil exports registered a drop of 8°/o, which affected most major products. In the case of agricultural products, the quantum and unit values of cocoa and coffee exports were significantly higher, while the dominant agricultural export, sugar, experienced a sharp fall in the quantity exported as well as unit value.

The lower value of imports in 1977 reflects a 15°/o decline in volume and a 7°/o rise in unit value. This behaviour again stems largely from events in the petroleum industry, because crude imports under processing agreements account for roughly 50°/o of the total value. As already noted, crude prices were higher in 1977, but volume imported declined because of reduced refining activity.

Non-petroleum imports showed less dynamism in 1977 than in previous years. In the period January-September they rose by about 12°/o, compared with the 29°/o and 51°/o rates of increase recorded in 1976 and 1975, respectively (see table 380). Although no precise information is available on the volume of non-oil imports, on the light of international price increases it may be estimated that sharp volume gains in 1975-1976 were followed by only a modest rise in 1977.

With regard to non-factor services, Trinidad has traditionally maintained a surplus on the strength of income from tourism. In 1976, a combination of a stagnant tourist trade –reflecting the recession in the industrial countries– coupled with higher transport costs, created a 27 million dollars deficit on services (see table 377). This deficit was reduced in 1977 to 8 million dollars, because of the lower transport costs associated with the lower import volume. Net travel receipts declined slightly as growth in revenue from tourism was only modest and offset by a rise in the costs of travel abroad.

Table 379

TRINIDAD AND TOBAGO: EXPORTS OF GOODS (FOB)

	Millions of Trinidad and Tobago dollars				*Percentage breakdown*		*Growth rates*		
	1974	*1975*	*1976*	*1977*[a]	*1970*	*1977*	*1975*	*1976*	*1977*[a]
Mineral fuels and lubricants	3 760	3 376	4 891	3 688	77.3	91.1	-10.2	44.9	1.2
Non-petroleum exports	406	502	502	362	22.7	8.9	23.4	–	-7.9
Food, beverages and tobacco	171	248	207	163	8.8	4.0	44.8	-16.3	-12.2
Chemicals	141	137	152	115	7.9	2.8	-2.8	10.7	-4.7
Manufactured materials	28	36	35	26	2.0	1.0	26.9	-1.4	–
Machinery and transport	19	28	55	21	1.0	1.0	44.3	96.1	-11.1
Miscellaneous manufactured articles	34	42	41	24	1.9	1.0	22.4	-1.7	-12.4
Others	13	11	12	7	1.0	0.4	-8.4	-3.3	47.2
Total	*4 166*	*3 878*	*5 393*	*4 049*	*100.0*	*100.0*	*-6.9*	*39.1*	*0.2*

Sources: Central Statistical Office, *Quarterly Economic Report,* July-September 1977; and CEPAL, on the basis of official data.

[a] January-September. Rates calculated over similar period in 1976.

Table 380

TRINIDAD AND TOBAGO: IMPORTS OF GOODS (CIF)

	Millions of Trinidad and Tobago dollars				*Percentage breakdown*		*Growth rates*		
	1974	*1975*	*1976*	*1977*[a]	*1970*	*1977*	*1975*	*1976*	*1977*[a]
Petroleum and fuels	2 716	1 640	2 763	1 673	53.2	49.5	-39.6	68.5	-19.4
Non-petroleum imports	1 062	1 604	2 604	1 709	46.8	50.5	51.1	28.7	11.8
Food and tobacco	263	302	342	299	10.3	8.8	15.0	13.1	16.3
Chemicals	117	150	183	159	4.4	4.7	28.8	21.8	15.3
Manufactured materials	313	457	483	441	12.8	13.0	45.9	5.7	23.5
Machinery and transport	240	535	829	596	12.5	17.6	122.5	55.1	-3.9
Miscellaneous manufactured articles	76	104	150	129	4.3	3.8	37.0	45.1	29.2
Others	53	56	77	85	2.5	2.6	5.6	36.5	48.6
Total	*3 778*	*3 244*	*4 827*	*3 381*	*100.0*	*100.0*	*-14.1*	*48.9*	*-6.1*

Sources: Central Statistical Office, *Quarterly Economic Report,* July-September 1977; and CEPAL, on the basis of official data.

[a] January-September. Rates calculated over corresponding period of 1976.

Remittances of foreign income and interest payments were about the same in 1977 as the year before. The notably higher payments since 1974 largely reflect the effects of higher profits for foreign petroleum companies due to the high prices of hydrocarbons.

The net effect of the above components of the current account in 1977 was a surplus of 370 million dollars, 66% greater than the surplus in 1976 and considerably larger than any positive balance previously recorded.

(b) *The capital account*

In 1977 there was a net inflow of capital of roughly 100 million dollars, or more than double the inflow registered in 1976.

Judging by recent trends, most of the capital inflow is likely to have stemmed from movement of private capital, particularly direct investment reflecting to a large extent the participation of foreign companies in the oil sector or in joint ventures with the Government.

The Government has not been a net taker of capital since 1975 (when there was a marginal positive balance); indeed, it lent 87 million dollars in 1976 to fellow Caribbean States to assist them with their balance-of-payments problems, and funds have also been lent to international agencies such as the International Monetary Fund (for its Oil Facility).

The net inflow on the capital account in 1977 together with the current account surplus generated an overall balance-of-payments surplus of almost 470 million dollars, nearly double the overall surplus of 1976. The accumulated surplus since 1974 has been 1,600 million dollars, or 1,555 dollars on a per capita basis.[199]

The balance-of-payments performance caused gross international reserves to rise from only 47 million dollars in 1973 –equivalent to less than one month's domestic imports– to 1,500 million dollars at the end of 1977, roughly equivalent to 18 months' worth of domestic imports. Trinidad's reserve balance is the fifth largest in Latin America in absolute terms, but if viewed on a per capita basis, it has by far the largest accumulation of reserves in the region, more than double that of the next highest, Venezuela.

(c) *CARICOM trade*

With regard to trade with other members of CARICOM, in the first nine months of 1977, exports were 2% higher than in the corresponding period of 1976, while imports were 5% higher. The overall trade surplus amounted to TT$ 188 million (see table 381).

The slowdown in the growth of Trinidad's CARICOM exports reflects the effects of import restrictions introduced by Jamaica and Guyana, two trading partners suffering from balance-of-payments problems. Exports to Jamaica fell by 45 and 13% in 1976 and 1977 (first nine months), respectively. The rise in protectionist spirit among CARICOM members is lamentable and could represent a severe setback to the progress of the regional integration movement.

Imports from CARICOM members represent a mere 3% of the country's total imports. Exports to that market on the other hand accounted for 7% of total exports. Imports are composed mainly of manufactured items (43%), food and live animals (28%) and chemicals (15%). Exports to CARICOM are dominated by petroleum products, which account for 62% of the total. Other important exports are chemicals (10%), manufactured items (9%) and food (8%).

(d) *External debt*

Trinidad's disbursed external public and publicly-guaranteed debt at the end of 1976 was 99 million dollars, or 34% less than the balance recorded at the beginning of the previous year. The burden of the external public debt is relatively light, being the equivalent of only about 4% of GDP; meanwhile, the ratio of debt service to total exports was 3% at the end of 1976 (see table 382).

Interestingly, in contrast to some other countries in Latin America, private commercial banks hold only a small portion of the country's public debt. At the beginning of 1977, banks held 12%,[200] while multilateral and bilateral official agencies held 82%.

[199] Per capita product in dollars at current prices was roughly 2,700 dollars in 1977.

[200] Actually, Trinidad is a net creditor with international banks: at the end of September 1977, net deposits totalled 550 million dollars (including short-term obligations) (Bank for International Settlements, table 7 of *Press Review*, N° 27, 8 February 1978).

Table 381

TRINIDAD AND TOBAGO: TRADE WITH CARICOM PARTNERS

	Millions of Trinidad and Tobago dollars				*Percentage breakdown*		*Growth rates*		
	1974	*1975*	*1976*	*1977*[a]	*1970*	*1977*	*1975*	*1976*	*1977*[a]
				Imports					
Jamaica	25	36	51	40	33.8	41.8	43.6	40.6	18.7
Guyana	23	36	45	28	42.5	28.8	59.6	24.5	-19.1
Barbados	10	13	21	16	9.8	16.5	37.7	56.7	18.8
Belize	...	1	3	3	...	2.9	...	212.5	75.0
Others	4[b]	5	11	9	13.9[b]	9.9	15.2	130.2	11.8
Total	*62*	*91*	*131*	*96*	*100.0*	*100.0*	*47.9*	*43.3*	*4.5*
				Exports					
Jamaica	92	119	66	40	11.9	14.2	28.5	-44.5	-13.4
Guyana	99	120	169	129	32.5	45.6	21.1	40.4	6.3
Barbados	46	46	57	46	17.8	16.4	–	24.9	6.4
Belize	...	1	1	–	...	–	...	-44.4	-25.0
Others	102[b]	60	91	68	37.8[b]	23.8	-40.3	51.5	0.9
Total	*339*	*346*	*384*	*284*	*100.0*	*100.0*	*2.2*	*11.0*	*1.7*

Sources: Central Statistical Office: *Quarterly Economic Report*, July-September 1977; and CEPAL, on the basis of official data.

[a] January-September 1977. Growth rates calculated over the corresponding period of 1976.
[b] Includes Belize.

5. *Prices and wages*

(a) *Prices*

The average rise in prices in 1977 was 11.8%, a little more than one percentage point above the average rate of inflation experienced in 1976. Thus inflation, as officially measured, remained relatively contained and considerably below rates recorded during 1973-1975 (see table 371).

The main rises were in transportation, education, housing, and clothing. Unlike previous years, the highly-weighted food group had a restraining influence. According to the data sources, the housing index appears to have been understated. The rises have been estimated at 150-200%.

An important factor behind inflationary trends has been supply bottlenecks in the face of the demand generated by an oil-rich economy. Demand in turn has been fuelled by a high degree of monetary liquidity, growing fiscal outlays and wage settlements generated by a very organized labour market. But perhaps the most pervasive pressure on domestic prices in recent years has come from the external sector. Trinidad, with exports and imports equivalent to 96% and 86% of GDP, respectively, is clearly very vulnerable to imported inflation. On the one hand, much of the foreign exchange generated by record petroleum prices has inevitably been monetized, notwithstanding the safeguards adopted by the Government, which is the major recipient of such revenue. On the other hand, increases in import prices are quickly incorporated in the domestic price structure. As may be seen from figure 3, over the last few years consumer prices have paralleled movements in foreign trade prices.

Table 382

TRINIDAD AND TOBAGO: INDICATORS OF PUBLIC INDEBTEDNESS[a]
(Millions of Trinidad and Tobago dollars)

	1972	*1973*	*1974*	*1975*	*1976*[b]
Total external indebtedness[c]	114	141	155	150	99
Servicing of external debt[d]	11.6	17.0	55.6	27.0	71.8
Amortization payments	5.3	8.8	40.6	15.1	61.7
Interest payments	6.3	8.2	15.0	12.0	10.1
Servicing of external debt, as a percentage of total exports less foreign investment income remitted abroad	1.7	2.0	2.5	1.4	3.1
Debt outstanding as a percentage of gross domestic product	10.8	11.2	8.4	6.6	4.3

Sources: Government Printery, *Estimates of Expenditures*, 1976 and 1977; Ministry of Finance, *Review of the Economy*, 1977; and CEPAL, on the basis of official data.

a Excludes short-term debt.
b Preliminary figures.
c Public debt and State-guaranteed private debt. End of period.
d During the period.

The Government has employed various anti-inflationary measures. As a short-term expendient, an extensive net of price controls and subsidies (at an estimated cost of TT$ 100 million) has been introduced, with special attention given to the cost of food and petroleum products. Also in an attempt to hold down prices, sales tax reductions have been effected, personal income taxes lowered, and tax allowances increased. Of course it is difficult to assess the final impact of the tax measures, since in freeing income they may, in the end, put more pressures on prices.

Efforts have also been made to increase the local supply of basic goods, particularly in agriculture. Additionally, an increased volume of imports has been facilitated through manipulation of tariffs.

Since the pegging of the Trinidad dollar to the US dollar at the rate of 2.40:1 in May 1976, the exchange rate has not been an active policy instrument in the fight against inflation.[201] However, while the nominal rate has not been adjusted, there has been a passive adjustment due to the differential rates of inflation in Trinidad and the United States. The real value of the exchange rate declined by 14% between the second quarter of 1976 and the end of 1977, thereby lowering the effective cost of foreign goods and presumably stimulating a larger import volume. A more active policy involving outright appreciation of the nominal rate has been avoided probably in deference to exporters and official objectives to diversify the base of the country's foreign exchange earnings (see table 383).

(b) *Wages*

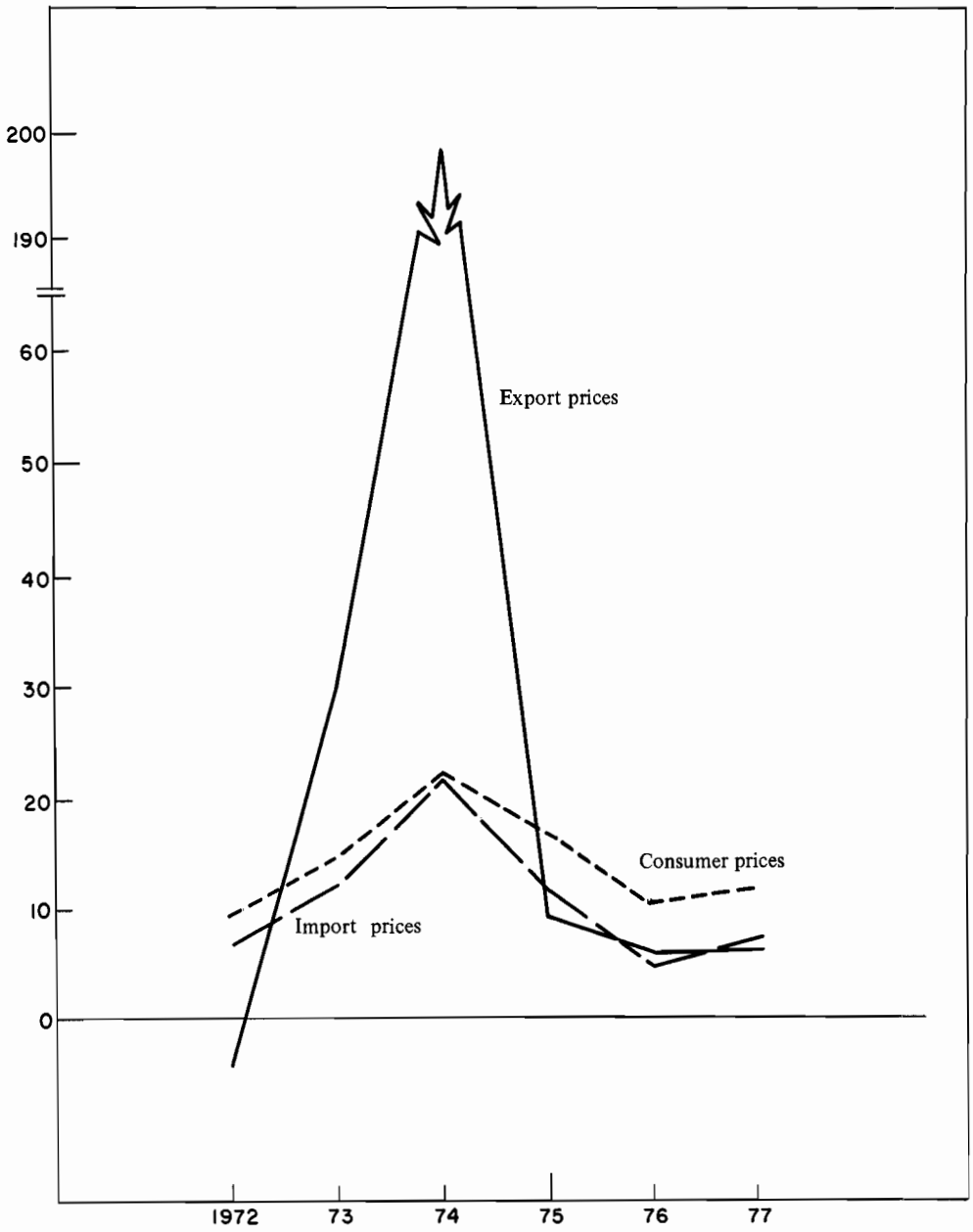
With regard to the evolution of wages, index for the minimum wage rose by nearly 12% in 1977, roughly on a par with the average rate of inflation for the year, and considerably below that for the two previous years.

[201] Prior to the pegging of the local currency to the US dollar, the pound sterling was the benchmark currency. In 1975, when sterling began to depreciate heavily against the dollar of the United States –Trinidad's principal trading partner– it dragged the Trinidad dollar down with it. This proved to be highly inflationary not only because of increased import costs, but also because more local currency had to be issued for dollar-denominated petroleum exports. Thus, the authorities felt obliged to break their link with sterling.

Figure 3

TRINIDAD AND TOBAGO: ANNUAL AVERAGE VARIATION IN CONSUMER PRICES, EXPORT AND IMPORT PRICES

(Per cent)



The minimum wage in industry rose by 96°/o during the period 1974-1977, with bigger increases in some sectors: 142°/o for construction, 113°/o for sugar manufacturing, 111°/o for petroleum, 98°/o for manufacturing and 97°/o for Government. When viewed against the average rise in consumer prices of 76°/o for the same period, these data suggest subtantial gains in real wages.

A wage agreement was concluded between the Public Service Association and the Government in mid-1977. Under the agreement there has been a significant departure from previous practice in that the time frame covers 4 years.

Table 383

TRINIDAD AND TOBAGO: EVOLUTION OF EXCHANGE RATE AND PRICES

Period (averages)	Trinidad and Tobago dollars per US dollar	Indexes				
		Exchange rate	Retail price in Trinidad and Tobago	Wholesale prices in the United States	Relative prices	Real exchange rate
	(1)	(2)	(3)	(4)	(5) = (3)/(4)	(6) = (1)/(5)
1970	2.00	100.0	100.0	100.0	100.0	100.0
1971	1.96	98.0	103.5	103.3	100.0	98.0
1972	1.92	96.0	113.1	107.9	104.8	91.6
1973	1.96	98.0	129.8	122.0	106.4	92.1
1974	2.05	102.5	158.5	145.0	109.3	93.8
1975	2.17	108.5	185.4	158.4	117.1	92.7
1976	2.44	122.0	204.7	165.8	123.5	98.9
1977	2.40	120.0	228.8	175.9	130.1	92.2

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

6. *Monetary and fiscal policy*

(a) *Monetary policy*

Trinidad has experienced a rather robust expansion of its domestic money supply since the advent of high petroleum prices. At the end of 1977 the means of payment were 250% higher than at the end of 1973; even discounting the effects of inflation, the supply of money doubled over the above period.

In 1977 the nominal rate of money expansion was restrained in comparison with recent years (see table 384). There has been a progressive deceleration in the rate of growth since mid-1976. As may be seen in figure 4, the rate of change in the domestic money supply over 12 months declined from a high of over 60% in mid-1976, to a low of 14% by October 1977. In the last two months of the year, there was a noticeable acceleration of growth, but expansion nevertheless remained well below rates recorded in 1975-1976.

A principal source of monetary expansion has been a very high rate of accumulation of foreign assets in the monetary system as a result of the country's strong balance-of-payments position. Between the end of 1973 and 1975 net foreign assets increased more than thirty-fold; this was followed by increases of 40% and 46% in 1976 and 1977, respectively. In the first half of 1977 the rate of growth of the stock of foreign assets continued the progressive deceleration that had been taking place since 1975; however, in the second half of the year the trend was reversed by a sustained rise in the rate of growth, which had a corresponding influence on money supply.

As may be seen in table 384, the expansionary effects of a growing stock of foreign assets have been assuaged somewhat by the behaviour of domestic credit. The restraining influence stems directly from Government credit policy.

The public sector is the country's principal recipient of foreign exchange because of taxes on petroleum operations. Since 1974 the authorities have attempted to "sterilize" foreign exchange income by maintaining a large part of its earnings on deposit with the Central Bank.[202] Thus, the

[202] The Central Bank, in turn, places these funds abroad, mostly in the form of foreign bank deposits and foreign Government securities.

Table 384

TRINIDAD AND TOBAGO: MONETARY POSITION

	Balance at end of				*Growth rates*		
	1974	*1975*	*1976*	*1977*[a]	*1975*	*1976*	*1977*[a]
Money	*290*	*430*	*630*	*790*	*48.4*	*46.5*	*25.3*
Currency outside banks	99	138	177	231	40.3	28.2	30.3
Demand deposits	191	287	450	540	49.8	50.2	25.4
Factors of expansion	*1 167*	*1 599*	*2 168*	*2 623*	*37.0*	*35.6*	*21.0*
International reserves (net)	765	1 733	2 426	3 536	126.5	40.0	45.8
Domestic credit	402	-134	-258	-913			
Government (net)	-330	-1 084	-1 549	-2 711			
Official entities	65	63	44	38	-2.9	-29.9	-14.3
Private sector	665	888	1 245	1 760	33.6	40.5	41.2
Factors of absorption	*878*	*1 169*	*1 537*	*1 834*	*33.2*	*31.5*	*19.2*
Quasi-money (saving and time deposits)	817	1 021	1 314	1 661	24.5	28.7	26.4
Others items (net)	61	148	223	173	44.2	51.0	-22.6

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

[a] Preliminary figures.

Government has temporarily withheld a certain portion of Trinidad's foreign income from the domestic financial stream, thereby mitigating inflationary pressures.

A precise analysis of the sterilization process is not possible because of the unavailability of data on the foreign currency accounts of the central Government. However, a broad idea of the impact of the programme can be acquired by viewing the relationship between net foreign assets of the monetary system and net credit to the Government, in this case negative (i.e., net deposits). In 1974-1976 the negative claims on the public sector were equivalent to between 40 and 60% of net foreign assets, and in 1977 to over 75%, reflecting the authorities' growing concern about the level of domestic liquidity in the economy.

The restraining effects of Government credit operations have been offset somewhat by private credit. By the end of 1977, the commercial banking system's claims on business and individuals were over 200% larger than claims outstanding at the end of 1973; in real terms the increase in credit was about 70%. Looking at 1977 alone, the nominal increase in bank claims on the private sector rose by 41%, roughly on a par with the rate of expansion in 1976 (see table 384).

With regard to the distribution of private credit since the oil boom, construction has increased its share, as has petroleum. Agriculture's share on the other hand, has shown little change, while the share allocated to manufacturing and distribution has fallen. Partial data for 1977 suggest vigorous lending to the manufacturing sector and more lending to distributive trade. The share of the construction sector showed a decline with respect to the similar period of 1976, reflecting an absolute reduction in commercial banks' claims on the sector.

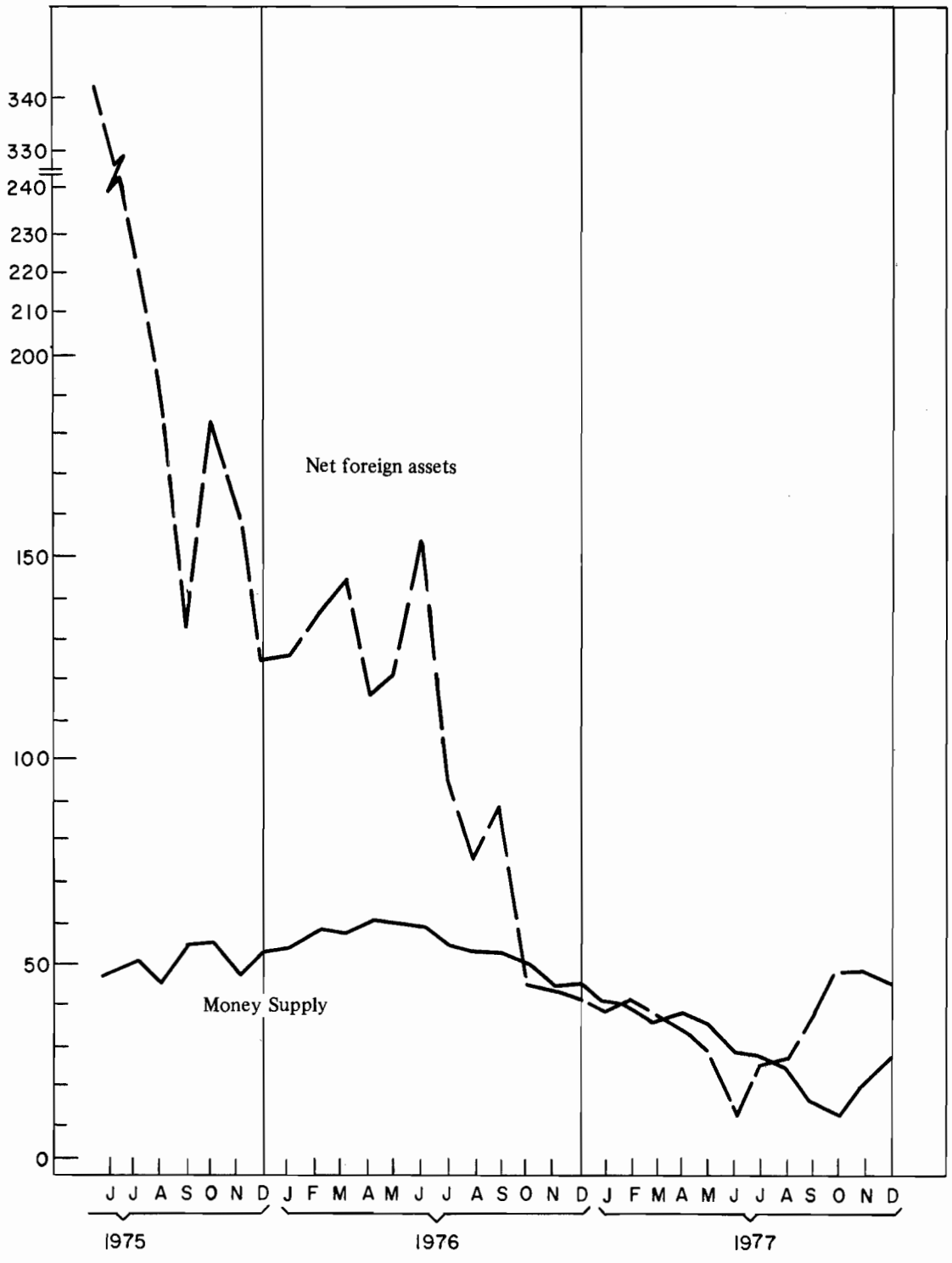
(b) *Fiscal policy*

With regard to the fiscal accounts, in 1977 there was greater restraint in spending on the part of the Government: while revenues expanded by 44%, expenditures rose by only 5%, i.e., less than the rise in domestic prices. This contrasts with trends in 1974-1976, when average revenue gains of nearly 50 % per annum underpinned expenditure increases of roughly 40% per annum.

Figure 4

TRINIDAD AND TOBAGO: 12-MONTH CHANGES IN MONEY SUPPLY AND NET FOREIGN ASSETS

(Per cent)



As appears in table 385, the bulk of the restraint was borne by the capital account, which recorded a 4°/o decline in outlays compared with an average increase of 60°/o per annum in 1974-1976. The fall in capital outlays was due to reduced public debt charges. But there also was a noticeable slowdown in the growth of real investment, possibly reflecting delays in the implementation of industrial projects. Current expenditures rose by only 10°/o, one-third of the average annual growth rate recorded for 1974-1976. Taking into account inflation, there was no real rise in current outlays in 1977.

Table 385

TRINIDAD AND TOBAGO: CENTRAL GOVERNMENT INCOME AND EXPENDITURE
(Millions of Trinidad and Tobago dollars)

	1974	1975	1976	1977[a]	Growth rates		
					1975	1976	1977[a]
Current income	*1 398*	*1 628*	*1 937*	*2 780*	*16.5*	*19.0*	*43.5*
Income tax	987	1 182	1 374	1 772	19.8	16.2	29.0
Other taxes	411	363	473	543	...	30.3	14.8
Interest and income	...	83	90	465	...	8.4	416.7
Current expenditure	*624*	*780*	*952*	*1 049*	*25.0*	*22.1*	*10.2*
General services	150	216	219	264	44.0	1.4	20.5
Community services	33	44	52	57	33.3	18.2	9.6
Social services	236	285	385	425	20.8	35.1	10.4
Education	119	130	179	205	9.2	37.7	14.5
Health	66	81	105	112	22.7	29.6	6.7
Housing	2	3	4	7	50.0	33.3	75.0
Economic services	96	110	148	161	14.6	34.5	8.8
Agricultural	36	38	45	53	5.6	18.4	17.8
Transport and communications	19	20	27	29	5.3	35.0	7.4
Other	109	125	148	142	14.7	18.4	-4.1
Current savings	*774*	*848*	*985*	*1 731*	*9.6*	*16.2*	*75.7*
Capital expenditure	*277*	*404*	*599*	*574*	*45.8*	*48.3*	*-4.2*
Real investment	154	368	504	557	139.0	37.0	10.5
Public debt charges	123	36	95	17	-70.7	63.9	-82.1
Total expenditure	*901*	*1 184*	*1 551*	*1 623*	*31.4*	*31.0*	*4.6*
Surplus	*497*	*444*	*386*	*1 157*	*-10.7*	*-13.1*	*199.7*
Financing							
Fiscal development funds	402	701	518	890			
Other	95	-257	-132	267			

Sources: Ministry of Finance, *Budget speech,* 1977, and *Review of Fiscal Measures,* 1977.

[a] Preliminary figures.

In an effort to insulate the economy from the full impact of high petroleum prices, as well as save resources for the national development programme, the Government has, since 1974, been running sizable fiscal surpluses. In 1977 there was a record surplus of TT$ 1,200 million, equivalent to 71°/o of total fiscal expenditures.

URUGUAY

1. *The overall picture*

In 1977 the Uruguayan economy continued to expand for the fifth year running, recording an overall growth rate of 3.5% and a per capita rate of approximately 3%. The increase in gross income was much the same as that of the domestic product, since the terms of trade remained stable from 1976 to 1977. At the same time, more rapid inflation, particularly in the first half of the year, led to an increase in the deficit on the balance-of-payments current account (see table 386).

Table 386

URUGUAY: MAIN ECONOMIC INDICATORS

	1972	*1973*	*1974*	*1975*	*1976*	*1977*[a]
A. *Basic economic indicators*						
Gross domestic product at factor cost (millions of US dollars at 1970 prices)	2 562	2 581	2 663	2 781	2 854	2 953
Population (millions)	2.84	2.84	2.84	2.84	2.85	2.87
Per capita gross domestic product (US dollars at 1970 prices)	903	910	939	979	1 000	1 029
	Growth rates					
B. *Short-run economic indicators*						
Gross domestic product	-3.3	0.8	3.2	4.4	2.6	3.5
Per capita gross domestic product	-3.4	0.8	3.2	4.4	2.2	2.9
Gross income[b]	-2.6	4.0	-1.9	2.2	0.9	3.6
Terms of trade	17.0	31.4	-47.2	-19.6	-4.5	0.3
Current value of exports of goods and services	23.0	31.8	15.9	4.6	40.0	10.2
Current value of imports of goods and services	-7.8	31.1	60.0	9.4	9.8	16.3
Consumer price index						
December to December	94.7	77.5	107.2	66.8	39.9	57.3
Annual average variation	76.5	96.0	77.2	81.4	50.6	58.2
Money	57.0	75.6	62.9	53.5	61.2	40.4
Wages and salaries[c]	44.3	96.0	74.6	66.4	42.0	39.0
Current income of government	62.5	121.0	58.8	67.6	74.7	70.6
Total expenditure of government	37.7	103.9	94.2	70.8	51.8	55.2
Fiscal defict/total expenditure of government[d]	16.0	8.9	25.5	26.7	15.9	7.6
	Millions of US dollars					
C. *External sector*						
Trade balance (goods and services)	31	43	-112	-145	-9	-53
Balance on current account	7	18	-155	-217	-82	-121
Variation in net international reserves	13	26	-77	-72	108	120

a Preliminary figures.
b Gross domestic product plus terms-of-trade effect.
c Variation of average nominal wage between annual averages.
d Percentage.

Factors contributing to the higher growth rate were the faster growth of manufacturing industry, stimulated by the development of some branches producing non-traditional exports, and the notable recovery of public and private construction. Agricultural production, on the other hand, declined owing to a decrease in several important crops. The service sectors as a whole expanded at a rate comparable with that of the previous year.

The evolution of total exports did not contribute to the growth, since the drop in volume of traditional exports, especially meat, offset the growth of sales abroad of non-traditional products. There was an appreciable increase, however, in gross fixed investment, which helped to stimulate domestic demand.

The growth of imports was more rapid than that of exports, with the result that from 1976 to 1977 the balance-of-payments current account deficit rose by 50°/o. The net inflow of capital also rose appreciably, increasing the country's net international reserves by an amount similar to that of the previous year (120 million dollars).

Consumer prices, which had risen by 40°/o during 1976, went up by 57°/o in 1977. In the second half of the year, however, the monthly inflation rate decreased with the solution of certain food supply problems which had arisen during the first six months, and the slowing down of the expansion of the means of payments, a task which was eased for the monetary authority by the reduction of the fiscal deficit. At the same time, there was a drop of around 12°/o in the average real wage between 1976 and 1977.

2. *Recent economic trends*

(a) *Total supply and demand*

As noted above, the Uruguayan economy maintained a fairly satisfactory growth rate (3.5°/o) in 1977 in line with the average recorded in the period 1974-1976. In contrast to what occurred in 1976, the chief factor in the growth of total demand was the expansion of domestic demand, which rose by over 4°/o (see table 387). On the other hand, exports of goods and services, which had risen considerably in the years 1974-1976, declined slightly, for the reasons already stated.

The growth of gross fixed income (13°/o) was chiefly responsible for the rise in domestic demand. Capital formation in construction and in machinery and equipment rose equally. A positive influence in the first case was the execution of some public infrastructure projects, mainly in the energy sector, and increased activity in private construction in the international tourist zone, while in the second case, a major factor was the import of machinery by the non-traditional exporting industries, the inclusion of fishing vessels, the purchase of a giant oil tanker and the acquisition of equipment for the State railway and energy enterprises.

The preliminary estimate for total consumption indicates a growth of 2.6°/o in 1977, which should have enabled it to recover its absolute level of 1975, after the contraction recorded in 1976. It is not easy, however, to reconcile this trend with the data on the decline in average real wages to which reference will be made further on.

In the case of total supply, its expansion was slightly higher than that of the gross domestic product, owing to the fact that as in 1976, imports of goods and services increased by around 5°/o.

(b) *Sectoral trends*

The product of the goods-producing sectors grew by 5.3°/o, while in the service sectors as a whole the growth is estimated at 2.3°/o. In 1976 the comparable variations were 2.4°/o and 2.5°/o respectively (see table 388).

The chief factors influencing the performance of the goods-producing sectors were the increased growth rate in manufacturing industry and the notable recovery of construction. In the former case, the growing sales abroad of non-traditional products continued to have a positive effect. As regards construction, its growth of almost 15°/o resulted from greater activity in the public sector (22°/o), and especially the favourable impact of the Salto Grande and Palmar projects, and also in the private

Table 387

URUGUAY: TOTAL SUPPLY AND DEMAND

	Millions of pesos at 1970 prices			*Percentage breakdown*		*Growth rates*		
	1975	*1976*	*1977*[a]	*1970*	*1977*[a]	*1975*	*1976*	*1977*[a]
Total supply	*705 963*	*725 284*	*751 686*	*112.5*	*111.5*	*3.9*	*2.7*	*3.6*
Gross domestic product at market prices	634 839	651 333	674 142	100.0	100.0	4.4	2.6	3.5
Imports of goods and services[b]	71 124	73 951	77 544	12.5	11.5	–	4.0	4.9
Total demand	*705 963*	*725 284*	*751 686*	*112.5*	*111.5*	*3.9*	*2.7*	*3.6*
Domestic demand	627 237	616 718	643 787	100.8	95.5	2.4	-1.7	4.4
Gross domestic investment	74 796	79 127	92 168	11.4	13.7	24.7	5.8	16.5
Gross fixed investment	72 818	79 594	89 719	11.2	13.3	36.8	9.3	12.7
Construction	50 200	47 149	53 410	6.6	7.9	23.3	-6.1	13.3
Machinery and equipment	22 618	32 445	36 309	4.6	5.4	80.5	43.4	11.9
Changes in stocks	1 978	-467	2 448	0.2	0.4			
Total consumption	552 441	537 591	551 619	89.3	81.8	...	-2.7	2.6
General government	90 990	94 897	...	15.0	...	3.0	4.3	...
Private	461 451	442 694	...	74.3	...	-0.6	-4.1	...
Exports of goods and services[b]	78 726	108 566	107 899	11.7	16.0	17.9	37.9	-0.6

Sources: 1970-1976: CEPAL calculations on the basis of figures supplied by teh Central BAnk of Uruguay;
1977: CEPAL estimates on the basis of official data.

[a] Preliminary figures.

[b] 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 calcualated by CEPAL for the purpose.

sector (10%). In contrast, there was a decline in agricultural production after two years of satisfactory growth.

In the case of the different service sectors, it is estimated that there was some growth in basic services, especially transport, storage and communications, whereas expansion was slower than in the previous year in the sector of commerce, financial establishments and insurance.

(i) *Agriculture.* In 1977 agricultural production dropped by almost 2%, in consequence of a fall of 6.5% in the crop-farming subsector, whereas livestock production increased by 1.7% (see table 389).

Adverse weather conditions, especially the excess of rain, had a negative effect on the production of various crops, causing a drastic fall in maize (43%), linseed (25%), sunflower (55%) and sugar beet (28%). This occurred despite the increase in the area sown to these crops, so that the decrease in yields per hectare was even greater than that observed in production. At the same time, there was a moderate increase in the production of wheat and rice and a greater increase in barley, soya and sorghum.

Among the more important livestock products, such as beef and wool, production rose by 7% and 3% respectively. In both cases, the good grazing conditions had a favourable effect on the yields of cattle and wool production.

(ii) *Manufacturing.* Manufacturing output rose by 6.4%, a markedly higher rate than that of the previous year but much the same as that of 1975. A detailed study of the evolution of the

Table 388

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

	Millions of pesos at 1970 prices			*Percentage breakdown*		*Growth rates*		
	1975	*1976*	*1977*[a]	*1970*	*1977*[a]	*1975*	*1976*	*1977*[a]
Agriculture	64 299	66 504	65 639	12.6	11.2	3.1	3.4	-1.3
Mining	8 573	7 301	8 238	1.2	1.4	-10.0	-14.8	12.8
Manufacturing	131 104	137 339	146 142	23.0	25.0	7.5	4.8	6.4
Construction	25 521	23 855	27 338	3.8	4.7	31.6	-6.5	14.6
Subtotal goods	*229 497*	*234 999*	*247 357*	*40.6*	*42.3*	*7.6*	*2.4*	*5.3*
Electricity, gas and water	8 829	9 310	9 818	1.5	1.7	11.1	5.4	5.5
Transport, storage and communications	50 660	52 520	54 707	8.6	9.3	4.1	3.7	4.2
Subtotal basic services	*59 488*	*61 831*	*64 525*	*10.1*	*11.0*	*5.1*	*3.9*	*4.4*
Commerce, financial institutions and insurance	92 535	98 254	103 266	17.2	17.6	7.3	6.2	5.1
Real estate[b]	27 914	27 914	27 914	5.2	4.8	-0.3	–	–
Community, social and personal services[c]	142 674	142 527	142 527	26.9	24.3	-3.0	-0.1	–
Subtotal other services	*263 123*	*268 695*	*273 708*	*49.3*	*46.7*	*0.7*	*2.1*	*1.9*
Total gross domestic product[d]	*526 246*	*567 033*	*586 766*	*100.0*	*100.0*	*4.4*	*2.6*	*3.5*

Sources: 1970-1976: CEPAL calculations on the basis of figures supplied by the Central Bank of Uruguay;
1977: CEPAL estimates on the basis of data from the same source.

[a] Preliminary figures.
[b] Refers to ownership of dwellings only.
[c] Also includes restaurants, hotels and business services.
[d] As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

production index indicates that in 1977, as in 1975-1976, there was a steady and increasingly rapid growth in the export industries (see table 390).

In the food industries activity declined (3.5%), owing to a drop in the production of frozen goods, edible oils, coffee and milk products, which was not made up by increases in the other sections of the industry. This performance was influenced by a reduction in supply of certain agricultural inputs and also the scant demand for these products. Although the production of beverages rose by 6%, it did not fully recover from its decline in 1976, while tobacco production dropped by 12%.

Textile output increased by 14%, owing to expansion in the spinning and weaving of wool, cotton and synthetic fibres. In 1977 conditions were favourable in the external demand for these products, especially through the strengthening of exports of combed woollen yarns and woollen clothing to the United States market and through the renewed fashion for wearing woollen garments.

In footwear and clothing the growth rate reached 9%, an achievement largely due to the manufacture of woven clothing and leather garments. The leather-garment subsector continued to expand as a result of external demand, but, as the installed capacity of the factories had now reached its limit, it was not possible to supply the total demand. At the same time, the tanneries and leather

Table 389

URUGUAY: INDICATORS OF AGRICULTURAL PRODUCTION

	1974	1975	1976	1977[a]	Growth rates 1975	1976	1977[a]
Index of agricultural production							
(1961 – 100)	106.3	108.3	111.8	109.7	1.9	3.2	-1.9
Crop farming[b]	134.3	140.2	150.0	140.3	4.4	7.0	-6.5
Stock-raising	93.4	93.7	94.3	95.9	0.3	0.7	1.7
Production of some important crops							
(thousands of tons)[c]							
Wheat	297	527	456	505	77.4	-13.5	10.8
Maize	225	157	210	121	-30.2	33.9	-42.5
Rice	158	189	217	228	19.4	14.8	5.5
Linseed	26	39	62	46	49.4	57.0	-24.8
Sunflower	48	51	77	34	6.2	49.9	-55.4
Sugar beet	429	573	833	597	33.6	45.3	-28.4
Indicators of stock-raising production							
Number of cattle (thousands of heads)[d]	10 961	11 362	10 635	10 364	3.7	-6.4	-2.5
Number of animals slaughtered (thousands of heads)	1 573	1 755	2 129	1 709	11.6	21.3	-19.7
Slaughtering coefficient (percentage)	14.4	15.4	20.0	16.5	–	–	–

Source: Central Bank of Uruguay, on the basis of data supplied by the Ministry of Agriculture and Fisheries.

a. Preliminary figures.
b. Including plantations and permanent pastures.
c. Crop year.
d. At 30 June of each year.

industries increased their activity by 28%, basically as a result of the increment in sales to the factories exporting processed goods (stamped leather work, footwear and leather garments).

The paper and paper-products industry grew by 14%, mainly owing to the recovery of domestic demand and, indirectly, to the growing volume of non-traditional exports which produced an increased demand for cardboard containers. Expansion in the rubber industry reached 17%, as a result of increased exports of rubber products to Argentina and Brazil.

There was also a marked growth in the manufacture of machinery and electrical appliances owing to higher sales abroad. A similar growth was achieved in the production of plastic articles, in consequence of the large volume of exports to the Argentine and Brazilian markets.

Finally, the expansion of the non-metallic industries was due to the increase in construction, while the increment of 27% in transport equipment was basically due to the greater financing facilities which were becoming available for the marketing of vehicles.

3. *The external sector*

(a) *Introduction*

The greater increase in imports of goods compared with exports gave rise to a deficit in the balance of goods of 43 million dollars in 1977 and at the same time increased the negative balance on the current account from 82 million in 1976 to 121 million in 1977. It is estimated, however, that in

Table 390

URUGUAY: INDICATORS OF MANUFACTURING PRODUCTION
(1961= 100)

	1974	*1975*	*1976*	*1977*[a]	*Growth rates*		
					1975	*1976*	*1977*[a]
Total	*120.7*	*128.8*	*134.0*	*142.6*	*6.7*	*4.0*	*6.4*
Food	131.4	142.0	157.6	152.1	8.0	11.0	-3.5
Beverages	134.2	134.2	121.2	128.6	–	-9.7	6.1
Tobacco	146.7	148.2	148.2	130.9	1.0	–	-11.7
Textiles	88.8	108.9	107.1	122.1	22.6	-1.6	14.0
Footwear and clothing	90.4	82.6	86.7	94.2	-8.8	5.1	8.7
Paper and paper products	216.7	200.0	210.6	239.7	-7.6	5.3	13.8
Printing and publishing	108.9	108.9	109.8	122.9	-0.2	0.5	11.9
Tanneries and leather industries	...	...	...	...	22.5	30.0	28.4
Rubber products	104.6	110.2	87.9	102.9	5.0	-20.5	17.1
Chemical products	144.6	128.0	128.8	138.2	-11.5	0.5	7.3
Petroleum products	118.4	130.0	124.2	117.1	9.8	-4.5	-5.7
Non-metallic mineral products	209.1	205.6	212.7	240.8	4.7	15.7	13.2
Metal products	61.3	58.0	65.5	80.2	-5.1	12.7	22.5
Electrical machinery	50.5	53.2	64.4	74.3	5.4	20.6	15.3
Transport equipment	...	...	...	...	-0.9	1.1	27.4
Other manufacturing industries	...	...	...	...	10.1	1.5	15.0

Source: Central Bank of Uruguay.

[a] Preliminary figures.

the last year the position of the country's net international reserves improved by 120 million dollars, since the net inflow of non-compensatory capital greatly exceeded the deficit on current account (see table 391).

The exchange policy continued operating on the basis of a system of periodic adjustments of the nominal value of foreign currency. Between the end of 1976 and the end of 1977, the value of the dollar in local currency rose by 35%, that is, appreciably less than wholesale prices (45%)[203] with the result that the real exchange index dropped by approximately 7% (see table 392).

Consequently, there were no exchange incentives to export, in addition to which, in the second quarter of the year, there was a further reduction in the rates of reimbursement for non-traditional exports (20%). This type of export increased less than in 1976, while traditional exports remained static owing to a sharp fall in the volume of meat sold abroad.

In constrast, import growth was stimulated by the exchange policy itself –within a framework of greater economic activity– and by the adoption of certain complementary measures which intensified the trend, observable for some years, towards a gradual liberalization of imports and reduction of protection. The two most important of these measures were, on the one hand, that which reduced the customs surcharges and, on the other, that which regulated the common customs duty, which will be applied from 1978 to merchandise imports in place of the various customs duties and additional taxes currently in force.[204]

[203] The difference was even greater in respect of consumer price increases (57%).

[204] Customs surcharges were cut from 75%, 120%, 150% and 200% to 65%, 90%, 120% and 150% respectively. At the same time a minimum of 10% was introduced and the existing exceptions cancelled.

Table 391

URUGUAY: BALANCE OF PAYMENTS
(Millions of US dollars)

	1972	1973	1974	1975	1976	1977[a]
Current account						
Exports of goods and services	311	410	475	497	696	767
Goods FOB	242	328	381	385	565	607
Services	69	82	94	112	131	160
Transport	9	12	19	21	28	35
Travel	45	43	45	57	68	80
Imports of goods and services	280	367	587	642	705	820
Goods FOB	179	249	437	496	537	650
Services	101	118	150	146	168	170
Transport	42	47	76	65	78	85
Travel	40	44	44	48	60	55
Net payments of profits and interest on foreign capital	-24	-25	-43	-71	-72	-67
Profits	–	–	-4	-4	-5	-6
Interest	-24	-25	-39	-67	-67	-61
Net private transfer payments	–	–	-1	-1	-1	-1
Balance on current account	7	18	-155	-217	-82	-121
Capital account						
Net external financing (a +b +c +d +e)	-7	-18	155	217	82	121
(a) Net external non-compensatory capital	64	4	121	123	113	
Direct investment						
Long- and medium-term loans	48	28	45	185	130	
Amortization payments	-15	-43	-21	-38	-48	
Short-term liabilities	19	–	75	-38	22	241
Official transfer payments	12	19	22	14	9	
(b) Domestic non-compensatory capital or assets	-6	34	24	28	88	
(c) Errors and omissions	-60	-30	-67	-6	-10	
(d) Allocation of SDRs	8					
(e) Net compensatory financing (– = increase)	-13	-26	77	72	-109	-120
Balance-of-payments loans, trade arrears, IMF loans, and other liabilities of the monetary authorities	62	68	136	142	77	...
Amortization payments	-56	-63	-57	-90	-85	...
Variation in gross international reserves (minus sign signifies an increase)	-20	-31	-2	20	-101	...
Foreign exchange reserves (– = increase)	-37	-27	–	7	-99	...
Gold reserves (minus sign signifies an increase)	26				–	...
SDRs (minus sign signifies an increase)	-9	-4	-2	13	-2	...

Sources: 1972-1976: CEPAL, on the basis of data from the International Monetary Fund, *Balance of Payments Yearbook*, Vol. 28;
1977: CEPAL, on the basis of data supplied by the Central Bank of Uruguay.

[a] Preliminary figures.

Table 392

URUGUAY: EVOLUTION OF EXCHANGE RATE AND PRICES

Period	Exchange rate[a] (pesos per US dollar) (1)	Index of exchange rate (2)	Wholesale price index (3)	Index of real exchange rate (4) = (2)/(3)
1973	0.87	100.0	100.0	100.0
1974	1.20	136.2	178.7	76.2
1975				
Average	2.26	261.0	308.0	84.4
December	2.66	307.5	388.2	79.2
1976				
Average	3.34	385.7	463.8	83.2
June	3.23	373.0	424.4	87.9
December	3.98	459.7	563.3	81.6
1977				
Average	4.68	540.5	697.2	77.5
June	4.62	533.6	674.9	79.1
December	5.39	622.5	815.8	76.3

Source: Central Bank of Uruguay

[a] Annual or monthly average of commercial exchange rate.

(b) *Trade in goods*

The current value of exports of goods increased by 7°/o in 1977, reaching a total of 607 million dollars. There was an increment of 10°/o in unit value and, in contrast, a drop of around 3°/o in the volume exported, thus interrupting the rapid growth sustained during 1974-1976 (see table 393).

Non-traditional exports rose by 13°/o as a result of a similar increase in their volume; it is estimated that their average price remained relatively stable. Although a large number of products shared in the expansion, the chief increases, around 30°/o or more, were in leather manufactures, textile articles and tyres. According to available data, international price trends for these products were not favourable. The rapid and sustained growth of non-traditional exports during the period 1974-1977 increased their share in total exports from 25°/o in 1973 to 57°/o in 1977, their value in this last year amounting to 345 million dollars (see table 394).

On the other hand, the value of traditional exports showed practically no change from 1976 to 1977, remaining in the region of 260 million dollars. It is estimated, however, that in physical volume there was an average fall of over 15°/o, since exports of carcase meat dropped 35°/o in the face of difficulties of access to international markets and the requirement of domestic supply during some months of the year. In 1976 the record figure of 185 thousand tons had been exported. In the meantime, the average unit value of traditional products increased by around 20°/o, owing to the rises in international prices for meat and wool of 28°/o and 18°/o respectively.

The value of imports of goods rose by 21°/o in 1977 as a result of equal increases (10°/o) in prices and physical volume. In dollars at current prices, the country's imports rose from 180 million dollars in 1972 to 650 million in 1977, largely reflecting the heavy impact of world inflation on Uruguay.

An analysis of the breakdown of imports reveals that the major increase was in capital goods (40°/o), thus confirming the trend observed in 1975 and 1976. The share of these goods in total imports rose to 17°/o in 1977, a coefficient somewhat more than double that of 1973 (see table 395). This growth was partly attributable to some major investment projects in the public sector and the purchase of foreign machinery for the manufacture of non-traditional export products.

Table 393

URUGUAY: MAIN INDICATORS OF FOREIGN TRADE

	1972	1973	1974	1975	1976	1977[a]
	Growth rates					
Exports of goods (FOB)						
Value	23.3	35.4	16.4	0.9	46.8	7.4
Volume	-5.3	-3.9	19.0	16.8	45.0	-2.7
Unit value	30.2	40.9	-2.2	-13.6	1.2	10.4
Imports of goods (FOB)						
Value	-11.7	39.1	75.7	13.5	8.2	21.1
Volume	-20.7	29.8	-5.6	5.6	2.1	10.1
Unit value	11.4	7.2	85.3	7.5	6.0	10.0
Terms of trade	17.0	31.4	-47.2	-19.6	-4.5	0.3
	Indexes (1970 = 100)					
Terms of trade	116.5	153.1	80.8	65.0	62.1	62.3
Purchasing power of exports of goods	81.6	114.2	73.4	68.6	92.1	96.5

Source: CEPAL, on the basis of official data.

[a] Preliminary figures.

Table 394

URUGUAY: VALUE AND BREAKDOWN OF EXPORTS OF GOODS (FOB)

	Millions of dollars				*Percentage breakdown*		*Growth rates*		
	1974	1975	1976	1977[a]	1973	1977[a]	1975	1976	1977[a]
Main traditional export products									
Meat, hides and wool	237	195	260	262	75.3	43.2	-17.7	33.3	1.0
Other exports									
Mainly non-traditional	144	190	305	345	24.7	56.8	31.9	60.5	13.1
Total	*381*	*385*	*565*	*607*	*100.0*	*100.0*	*0.9*	*46.8*	*7.4*

Source: Central Bank of Uruguay.

[a] Preliminary figures.

Imports of consumer goods and intermediate goods showed a similar increase (21%). Excluding petroleum and fuels, the increase in purchases of intermediate goods was around 28%, largely owing to the supply of inputs to certain manufacturing branches whose production increased sharply. Thus,

Table 395

URUGUAY: VALUE AND BREAKDOWN OF EXPORTS OF GOODS (CIF)

	Millions of dollars				*Percentage breakdown*		*Growth rates*		
	1974	*1975*	*1976*	*1977*[a]	*1973*	*1977*[a]	*1975*	*1976*	*1977*[a]
Consumer goods	37	28	19	23	9.2	3.3	24.4	-32.1	21.1
Intermediate goods	418	456	478	579	83.0	79.8	9.3	0.5	21.1
Petroleum and fuels	161	183	180	199	19.2	27.4	13.9	-1.8	10.6
Others	257	273	298	380	63.8	52.4	6.4	1.9	27.5
Capital goods	32	73	88	123	7.8	16.9	128.1	20.5	39.8
Total	*487*	*556*	*587*	*726*	*100.0*	*100.0*	*14.6*	*5.6*	*23.7*

Source: Central Bank of Uruguay.

[a] Preliminary figures.

for example, there was a notably rapid expansion in imports of common metals and their manufactures (50%) and of plastic materials, rubber and rubber products (40%).

The was a parallel rise in the unit value of imports and exports and consequently no change in the terms of trade from 1976 to 1977. As an index of the relationship, on the basis of 1970 = 100, the level recorded in the last two years reached 62, confirming the clearly negative effect on the country's economy of the world economic situation in 1974 and 1975 (see table 393).

(c) *The balance of payments*

While trade in goods shifted from a surplus in 1976 to a deficit in 1977, the service sector reduced its negative balance from 37 to 10 million dollars. This improvement was almost exclusively due to higher revenue from tourism, which exceeded by more than 10 million the revenue earned in the previous year (see table 391).

In sum, the deficit on trade in goods and services together rose from 9 million dollars in 1976 to 53 million in 1977. To this last figure must be added 67 million representing payments on profits and interest on foreign capital and a small negative balance in respect of private transfer payments, with the result that the total deficit on current account rose to 121 million dollars.

To finance this deficit, the country received a net inflow of non-compensatory capital amounting to 241 million dollars, a much higher figure than in 1976, the greater part of which entered the commercial banking system in the form of foreign currency deposits.

4. *Prices and wages*

(a) *Prices and anti-inflationary policy*

During 1977 the rate of inflation increased, with a variation of 57% in the consumer price index compared with 40% in 1976. The average variation for the year (58%) was similar to that recorded from December to December. Nevertheless, the rate of inflation slowed down in the second half of the year, registering 22% in the second half and somewhat more than 6% in the fourth quarter, compared with 29% in the first six months (see table 396).

Table 396

URUGUAY: EVOLUTION OF DOMESTIC PRICES
(Percentages)

	Variation in the period indicated					*Variation between annual averages*		
		1977						
	1976[a]	*December to June*	*June to December*	*September to December*	*December to December*	*1975*	*1976*	*1977*
Consumer price index	*39.9*	*29.1*	*21.9*	*6.4*	*57.3*	*81.4*	*50.6*	*58.2*
Food	38.5	34.3	18.8	5.5	59.5	70.8	47.7	64.0
Meat and sausages	63.1	19.7	12.1	...	34.2	32.8	54.2	55.3
Clothing	36.4	21.8	20.4	10.1	46.6	67.3	47.7	46.8
Housing	43.5	25.3	32.8	6.8	66.5	97.9	56.8	59.3
Other	41.1	26.4	18.8	6.6	50.1	93.7	52.0	52.4
Wholesale price index (domestic)	*45.1*	*19.8*	*20.9*	*8.6*	*44.8*	*72.4*	*50.6*	*50.3*
Agricultural products	45.4	12.7	38.3	20.8	55.8	47.4	37.8	52.1
Crop-farming products	10.8	14.3	32.1	11.6	51.0	76.0	24.7	35.5
Livestock products	84.1	11.5	42.6	27.6	59.1	26.5	51.2	65.9
Cattle	95.4	13.1	64.2	...	85.7	6.9	28.6	98.2
Non-agricultural products	45.0	21.9	16.2	5.2	41.7	82.1	54.6	49.8
Petroleum products	32.9	23.5	8.9	...	34.4	109.7	52.4	46.6
Electricity	51.1	27.1	7.8	...	37.0	76.1	55.2	58.0

Sources: Central Bank of Uruguay and Statistics and Census Office.

[a] December to December.

The items in the consumer price index which rose most rapidly were housing (66%), owing to the legal adjustments authorized during the year, and food (59%). This was partly due to the shortage of fruit and vegetables in the first six months and limitations in dairy and poultry production. Clothing, on the other hand, rose by 47%.

The wholesale prices of domestic goods rose less (45%) than consumer prices, the decisive factor being the reduced weighting of agricultural products in the wholesale price index, since the increase in those products reached 56%. Thus there was a reversal of the trend towards a relative drop in agricultural prices observed in the period 1974-1976.

At the same time, wholesale prices of non-agricultural products rose by 42% –that is, less than almost all the consumer price items– and their growth rate was much slower in the second half of the year. Notable within this group of products was the relatively lower increase in the prices and charges of certain public services.

Anti-inflation policy continued to be applied mainly through monetary and fiscal measures.

During the first six months of 1977 the shortage, already mentioned, of certain basic foodstuffs and the considerable monetary expansion at the end of 1976 helped to accelerate the growth rate of prices. In view of this development and in order to avoid a new flare-up of inflation, an attempt was made to maintain the percentage increase of the means of payment at a lower level than that of the previous year. This task was made easier by the fact that the financial requirements of the public sector were relatively less, as a result of the reduction achieved in the overall deficit of the central government.

At the same time, the monetary policy succeeded in partially offsetting the vigorous expansion of domestic credit to the private sector, through the application of specific measures to reinforce the impact of the so-called absorption factors, which will be referred to below.

(b) *Wages and salaries*

In the course of the year there were four general adjustments in the wages and salaries of workers in the public and private sectors. These adjustments were made in February (10%), June (10% for the private sector and up to 12% for the public sector), September (as for June), and December (7%). The wage increases for the private sector were minimum, whereas for the public sector both minimum and maximum increases were established.

These increases, added to certain minor adjustments in the wages of some labour categories and in social benefits, were reflected in the average wage index, which registered in the year a nominal increase of 39% (41% for the public sector and 38% for the private sector). Taking into account the evolution of the consumer price index,, the average real wage dropped by almost 12% (11% for wage-earners in the public sector and 13% for those in the private sector receiving only the official minimum increases) (see table 397).

Table 397

URUGUAY: EVOLUTION OF AVERAGE WAGE
(Variation between annual averages)

	1975	*1976*	*1977*[a]
Nominal			
All wage-earners	66.4	42.0	39.0
Wage-earners in public sector	65.5	45.1	40.6
Wage-earners in private sector	67.1	39.4	37.6
Real[b]			
All wage-earners	-8.8	-5.8	-11.9
Wage-earners in public sector	-8.9	-4.0	-10.9
Wage-earners in private sector	-8.8	-7.4	-12.9

Source: Statistics and Census Office.

[a] Preliminary figures.

[b] Deflated by the consumer price index.

As regards private wages and salaries, a survey carried out among 560 industrial and commercial enterprises revealed that the variations in average salaries actually received during the first nine months of the year might have been greater than the minimum fixed by the Government. In view of this, the drop in real wages during the period in question might be a third less than the figure calculated on the basis of the authorized legal adjustments.

5. *Monetary and fiscal policy*

(a) *Monetary policy*

The supply of money –in its restricted version (M_1)– rose by 40% during 1977 compared with 61% in the previous year (see table 398). Using a broader concept, which includes time deposits in local currency, the expansion of the means of payment was 44% in 1977.[205] This means that the increase in nominal liquidity was markedly lower than the rise in consumer prices, but parallel to that registered for national wholesale prices.

[205] Included among the time deposits in local currency are N$ 300 million corresponding to financial swaps; it is assumed, therefore, that these swaps replaced time-deposits in local currency.

Table 398

URUGUAY: MONETARY POSITION

	End year balance (millions of pesos)			*Growth rates*		
	1975	*1976*	*1977*[a]	*1975*	*1976*	*1977*[a]
Money	*822*	*1 325*	*1 860*	*53.9*	*61.2*	*40.4*
Currency outside banks	470	782	1 115	48.8	66.5	42.5
Demand deposits	352	543	745	61.5	54.3	37.3
Factors of expansion	*2 545*	*4 096*	*6 410*	*31.5*	*60.9*	*56.5*
Foreign assets (net)	365	918	1 355	-34.9	151.5	47.6
Domestic credit	2 180	3 178	5 055	58.5	45.8	59.1
Government (net)	383	640	1 022	63.7	67.1	59.7
Official entities	31	-168	-437			
Private sector	1 766	2 706	4 470	57.3	53.2	65.2
Factors of absorption	*1 723*	*2 771*	*4 550*	*22.8*	*60.8*	*64.2*
Quasi-money	267	673	1 017	602.6	152.1	51.0
Deposits in foreign currency	581	1 093	2 092	29.1	88.1	91.4
Long-term foreign borrowing	-78	-137	-153	4.7	75.6	11.7
Other items (net)	953	1 142	1 594	-3.1	19.8	39.6

Source: Central Bank of Uruguay.

[a] Preliminary figures.

In 1977 net domestic credit, which increased by 59%, was the major factor of expansion. In the field of domestic credit, in its turn, the greatest increase related to placements in the private sector (65%), while credit to the Government rose by 60% and that to public institutions declined. Moreover, there was an increase in net international reserves of 48%.

Among the factors of absorption, which together increased by 64%, there was a notable rise in deposits in foreign currency (91%). At the end of 1977 the sum of these deposits amounted to double the item described as quasi-money, which mainly includes time deposits in local currency.

One of the elements of monetary policy affecting the growth of domestic credit to the private sector and causing it to increase beyond the limits of prudence was the operation of the mechanism of advances to exporters in local currency as a counterpart to the foreign currency they generate. In order to moderate the expansionary effects of this system of exports prefinancing, certain restrictive measures were adopted during the year, above all in October.

Among the chief measures adopted in this field were the following: (i) an increase in the commission rates charged for the provision of funds in local currency; (ii) a reduction and unification of the counterpart in pesos paid for the foreign currency; and (iii) the introduction of disincentives for the use, within the system, of foreign currency not directly deriving from exports, by means of an increase in the compulsory reserve rates on foreign currency deposits and by changes in the authorized interest rates for loans and deposit operations in foreign currency.

Other important aspects of the monetary policy applied during the year were the following:

(i) The maximum interest rate allowed for non-adjustable local currency operations was raised to 90% accrued over one year. This measure increased the flexibility of the real interest rate schemes operating in the financial market;

(ii) The use of open market operations was intensified, resulting in a greater fluidity in the buying and selling of Treasury Bonds, which were excluded from the existing system of compulsory holding of public securities. At the same time, as a compensatory measure, interest was temporarily established on deposits for reserve purposes held by the banks in national currency;

(iii) The reserve rates were fixed at 50°/o for sight deposits, 35°/o for time deposits for less than a year and 12°/o for time deposits for a year or more. Towards the end of the year the rates for the two latter types of deposit were reduced to 30°/o and 6°/o respectively but at the same time certain operations such as bank acceptances which were previously not subject to this obligation were included in the reserves system.

(b) *Fiscal trends*

In 1977 the cash deficit of the central government represented about 8°/o of total expenditure, a figure considerably lower than that of previous years (26°/o in 1974, 27°/o in 1975 and 16°/o in 1976) (see table 399).

Table 399

URUGUAY: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of pesos					*Growth rates*			
	1973	*1974*	*1975*	*1976*	*1977*[a]	*1974*	*1975*	*1976*	*1977*[a]
Current income	370	588	986	1 722	2 938	58.8	67.6	74.7	70.6
Tax revenue	351	555	929	1 633	2 771	58.1	67.4	75.7	69.7
Non-tax revenue	19	33	57	89	167	72.6	72.3	57.7	87.5
Current expenditure	372	709	1 204	1 808	2 796	90.6	69.7	50.2	54.6
Wages and salaries and social security contributions	256	499	871	1 264	1 826	95.2	74.4	45.2	44.4
Other current expenditure	116	210	333	544	970	80.5	58.5	63.1	78.5
Saving on current account	-2	-121	-218	-86	142	...	...	...	...
Real investment[b]	34	80	145	239	382	133.5	81.0	65.2	59.6
Total expenditure	406	790	1 349	2 047	3 178	94.2	70.8	51.8	55.2
Fiscal deficit (or surplus)	-36	-202	-363	-326	-241	455.3	80.2	-10.3	-26.1
Financing of deficit									
Domestic financing	28	201	363	307	226	611.3	80.8	-15.3	83.2
Central Bank and Banco de la República	21	94	95	173	287	348.8	1.5	81.7	65.7
Issue of securities (net of amortization payments)	10	114	263	127	29	1 016.1	131.4	-52.0	-77.0
Other	-3	-7	4	8	-90	...	...	...	...
External financing[b]	8	1	1	18	15	-87.6	-30.0	...	-19.6
Fiscal deficit as a percentage of total expenditure	–	–	–	–	–	25.5	26.9	15.9	7.6

Source: Office of the comptroller.

a Preliminary figures.

b Excluding investment with external resources in the Salto Grande and Palmar projects.

This reduction is accounted for by the growth in real terms –considering the variation in consumer prices – of current income (8°/o) and a slight drop in total spending (2°/o). This last took place despite the introduction in 1977 of a policy of reducing the periods of payment to suppliers.

The increase in current income was partly attributable to the measures adopted to speed up tax collection and improve the control of tax evasion. Specifically, fines and additional charges for tax

arrears were introduced and restrictions were placed on the facilities for payment usually given to late payers. There were no major changes in the structure of tax collection. Taxes on foreign trade, on value added and on liquid fuels continued to represent about two-thirds of total taxation.

The increase incurrent expenditure was 55%, but there were important differences in the evolution of its components. Whereas expenditure on wages and social security rose by 44%, in line with the development in average wages mentioned earlier, "other current expenditure" increased by 78%. Thus, the purchase of goods and services increased its share in current expenditure from 14% in 1976 to 20% in 1977.

Public investment in constant currency rose slightly (1%). Nevertheless, as in previous years, the investment figures are not very representative, since they exclude expenditure on the Salto Grande and Palmar hydroelectric projects financed with foreign resources.

In 1977, in order to finance the deficit, recourse was had primarily to domestic resources deriving from loans from the Central Bank and the Bank of the Republic. This procedure was adopted owing to the relative restriction on the net sale of public securities, in contrast to what had happened in the period 1974-1976. With reference to external financing the amounts recorded were negligible, since the payments made in connexion with the Salto Grande and Palmar projects were not taken into account.

VENEZUELA

1. *The overall picture*

In 1977 the economy achieved a high rate of growth for the fifth year in succession. In line with the general trend of recent years, the expansion was due to intensive growth in the domestic sectors of the economy, which more than made up for the fall in production of petroleum and iron ore –the two traditional export products– due to poor external demand and to the Government's policy of conserving basic natural resources.

Economic growth was accompanied by a moderate rise in prices and by changes in rates of growth in certain productive activities. Perhaps the most significant feature of the year was the end of the process of absorption of the surplus arising from high oil prices, as indicated by a deficit on the current account of the balance of payments and an overall fiscal deficit.

The gross domestic product increased by 8% in 1977 (somewhat more than in 1976), while the per capita product rose by almost 5%. A small rise in the terms-of-trade index led to a 6% increase in the country's gross income. The progress made since 1973 can be seen from the fact that in 1977 real GDP, per capita GDP and gross income were respectively 38, 17 and 56% higher than in 1972 (see table 400).

As far as sectoral developments were concerned, activity in petroleum dropped by 1% in 1977, while there was a rise of 9% in the other sectors. In the previous year the pattern had been slightly different, with rises of 1% in petroleum and 8% in the rest of the economy. One of the most notable aspects of sectoral activity in 1977 was the growth of a little over 10% in the agriculture and livestock sector, after a decline of almost 4% in 1976. In addition, manufacturing continued the exceptional growth rate it has been achieving since 1974, while for the third year running there was an extraordinarily high level of activity in the construction sector, especially in the interior.

Real growth in the economy was also accompanied by important progress in the social field. The national unemployment rate dropped from 6% in 1976 to 5% in the first half of 1977, while real wages rose considerably (see table 400). Other indicators of social welfare also improved, including the rates of general and infant mortality and the number of hospital beds.

In the external sector deficits emerged in 1977 on the trade account, the current account and the final balance of payments. The deficit on the trade and current accounts followed a progressive reduction in 1975 and 1976 in the surpluses arising from the high oil prices. The main cause was a veritable explosion of imports, together with stagnation in exports since 1974 (see table 400).

Table 400

VENEZUELA: MAIN ECONOMIC INDICATORS

	1972	1973	1974	1975	1976	1977[a]
A. *Basic economic indicators*						
Gross domestic product at factor cost (millions of US dollars at 1970 prices)	13 261	14 149	14 976	15 754	16 923	18 294
Population (millions)	11.5	11.8	12.3	12.7	13.1	13.5
Per capita gross domestic product (US dollars at 1970 prices)	1 158	1 195	1 223	1 244	1 292	1 352
	Growth rates					
B. *Short-run economic indicators*						
Gross domestic product	3.0	6.7	5.9	5.2	7.4	8.1
Per capita gross domestic product	-0.4	3.2	2.3	1.7	3.9	4.6
Gross income[b]	3.1	12.5	31.6	-5.6	5.3	6.2
Terms of trade	1.1	20.8	114.7	-8.0	-2.7	1.5
Current value of exports of goods and services	2.9	49.0	129.6	-19.0	6.1	6.4
Current value of imports of goods and services	16.3	16.9	54.8	35.6	19.5	31.8
Consumer price index						
December to December	3.5	5.1	11.6	8.0	6.9	8.1
Variation between annual averages	2.9	4.1	8.3	10.2	7.7	7.8
Money	21.1	20.1	43.2	52.4	14.5	24.4[c]
Wages and salaries	...	...	17.8	13.4	10.2	9.3
Rate of unemployment[d]	...	...	...	7.2	6.0	5.0
Current income of government	4.8	31.7	165.1	-3.9	-6.8	6.2
Total expenditure of government	5.6	10.3	98.5	9.6	30.1	22.9
Fiscal deficit/total expenditure of government	9.5	8.0[e]	44.2[e]	26.4[e]	9.4	21.6
	Millions of US dollars					
C. *External sector*						
Trade balance (goods and services)	538	1 731	6 499	2 406	1 606	-444
Balance on current account	-24	793	5 729	2 237	1 519	-594
Variation in net international reserves	211	612	4 463	2 711	69	-79
External debt[f]	1 419	1 539	1 497	1 272	2 970	...

a Preliminary figures.
b Gross domestic product plus terms-of-trade effect.
c Over 12 months to September.
d Percentage.
e Surplus.
f Public debt guaranteed by the State, excluding short-term debt.

Faced with a current account deficit and the need to release a substantial sum in dollars to fulfil the commitments laid down in the official programme of financial assistance to other developing countries, the Government decided to borrow heavily on external private markets, thus minimizing the use of its international reserves. As a result the final balance-of-payments deficit –the first since

1966– totalled only 79 million dollars. At the end of the year net international reserves, though slightly below the 1976 level, still stood at the extraordinary figure of over 8 billion dollars, enough to cover almost nine months' imports.

Venezuela considerably increased its external public debt in 1977, as a result of the fact that during the year the Government borrowed more than 2 billion dollars on private markets: twice as much as was borrowed from the same sources in 1976 and equivalent to two-thirds of the total external public debt at the end of 1976.

Consumer prices increased by 7.8o/o in 1977, a rate similar to that of 1976. Inflation, though high compared with historical rates, is surprisingly low bearing in mind the extraordinary growth in the money supply in recent years (see table 400). The difference between the growth in the money supply and the rise in prices is largely due to the extensive system of retail price controls and subsidies and to the huge volume of imports, which caused a substantial increase in the domestic supply of goods.

Data on fiscal performance also show that Venezuela has effectively absorbed the surplus arising from high oil prices. In 1977 there was a fiscal deficit equivalent to 22o/o of total expenditure, more than double the previous year's deficit (see table 400). The deficit, a large part of which was covered by means of the external loans mentioned above, occurred because there has been a continuous, intensive growth in current expenditure and real investment since 1974, while income has declined slightly since that year.

Further evidence of the change in the public finances was provided by the fact that in 1977 the Government made no transfers to the Venezuelan Investment Fund (FIV), which between 1974 and 1976 received 23 million bolívares of fiscal surpluses. Nevertheless, the Fund has continued to be very active: during the year it authorized loans or capital participation for domestic investments totalling 2.4 billion bolívares and disbursed 5.7 billion for the same purposes. While no new commitments were made under the programmes of international financial co-operation, it disbursed the equivalent of almost 220 million dollars in fulfilment of commitments made in previous years.

2. *Evolution of economic activity*

(a) *Trends in overall supply and demand*

As already noted, the economy experienced vigorous growth in 1977 for the fifth consecutive year. In line with the trend observed in recent years, growth in GDP was accompanied by considerable expansion in imports of goods and services, which rose 20o/o in real terms compared with the previous year. Greater imports, together with expanding domestic production of goods and services, meant that growth in total supply was also extraordinarily high (see table 401).

Since 1974 imports have been increasing in importance in total supply. In 1977 they represented more than 23o/o of it, as against somewhat less than 17o/o in 1973. The much greater role of imports in total supply can be appreciated even more clearly if it is remembered that in the period 1974-1977 the real increase in imports of goods and services was equivalent to two-thirds of the rise in GDP, while the corresponding figure for 1970-1973 was only 14o/o.

The sharp increase in the marginal import coefficient in the past four years is due in part to the high foreign content of the ambitious programme of public investment and to the inability of the domestic productive sector to cope fully with the growing domestic consumption of goods and services, especially those with high income elasticity.

Among the components of total demand, the growth rate of capital formation, although lower than in the period 1975-1976, remained at a very high level (18o/o) in 1977. Rapid expansion in gross fixed investment in recent years has led to an exceptionally high investment ratio of 40o/o, nearly double the 1970 figure. The principal stimulus to investment was the strong dynamic effect of the public sector on the economy as a whole through the implementation of projects in the fields of basic industries, agriculture, electricity, road and port infrastructure and urban development. Furthermore, construction in both the public and private sectors achieved very high levels, as in the two preceding years. In 1977 construction activity was concentrated in the interior.

Table 401

VENEZUELA: TOTAL SUPPLY AND DEMAND

	Millions of bolívares at 1970 prices			*Percentage breakdown*		*Growth rates*		
	1975	*1976*	*1977*[a]	*1970*	*1977*	*1975*	*1976*	*1977*
Total supply	*82 532*	*89 114*	*98 620*	*119.5*	*130.5*	*7.7*	*8.0*	*10.7*
Gross domestic product at market prices	65 056	69 885	75 546	100.0	100.0	5.2	7.4	8.1
Imports of goods and services[b]	17 476	19 229	23 074	19.5	30.5	18.2	10.0	20.0
Total demand	*82 532*	*89 114*	*98 620*	*119.5*	*130.5*	*7.7*	*8.0*	*10.7*
Domestic demand	72 881	79 452	89 184	94.0	118.0	13.4	9.0	12.2
Gross domestic investment	23 695	25 891	...	27.0	...	15.3	9.3	...
Gross fixed investment	20 720	25 818	30 465	22.0	40.3	25.6	24.6	18.0
Public	10 023	12 227	...	7.0	...	58.5	22.0	...
Private	10 697	13 591	...	15.0	...	5.1	27.1	...
Changes in stocks	2 975	73	...	5.0	...			
Total consumption	49 686	53 561	58 719[c]	67.0	77.7[c]	13.6	7.8	9.6[c]
General government	10 986	12 559	13 563	13.4	18.0	14.5	14.3	8.0
Private	38 200	41 002	45 156	53.6	59.7[c]	11.9	7.3	10.1[c]
Exports of goods and services[b]	9 651	9 662	9 436	25.5	12.5	-22.0	0.1	-2.3

Sources: 1970-1976: CEPAL calculations on the basis of figures from the Central Bank of Venezuela;
1977: CEPAL estimates on the basis of official data.

a Preliminary figures.

b 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 indexes calculated by CEPAL for the purpose.

c Including changes in stocks.

Domestic consumption in the private sector continue the upward trend which began in 1974. It increased by over 10o/o in real terms in 1977, compared with an annual average of 11o/o from 1974 to 1976 and only 3o/o between 1970 and 1973. Government consumption also showed a high growth rate (8o/o), although this was a good deal lower than between 1974 and 1976, when the average annual rate was almost 16o/o. Overall consumption has grown at an annual average rate of 11o/o since 1974, while average growth in per capita consumption has been at the high rate of nearly 8o/o.

In contrast with the expansion of the domestic sector, real levels of activity in the external sector have continued to decline. In 1977 the volume of exports dropped by 2o/o after an annual average fall of 10o/o from 1974 to 1976. The performance of exports reflects a fall in the volume of output from the national oil industry, as a result of which the share of exports in total demand was only 10o/o in 1977, compared with 20o/o in 1970.

Table 401 also shows the impact of high oil prices on the Venezuelan economy. While the relation between volume of exports and GDP fell by half between 1970 and 1977, the volume of imports rose from 20 to 31o/o over the same period.

(b) *Sectoral developments*

(i) *Petroleum.* The product of the petroleum sector dropped by 1o/o in real terms in 1977, thus continuing the decline which has been observed since 1971 and which has led to a fall in the

contribution of the sector to real GDP from 22°/o in 1970 to only 10°/o in 1977 (see table 402). The concentraction is largely a result of the Government's policy of conserving basic resources, but reduced world demand for oil since 1974 has also been a contributing factor.

Table 402

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

	Millions of bolívares at 1970 prices			*Percentage breakdown*		*Growth rates*		
	1975	*1976*	*1977*[a]	*1970*	*1977*	*1975*	*1976*	*1977*
Agriculture	4 469	4 298	4 745	7.5	6.5	7.0	-3.8	10.4
Petroleum	7 118	7 186	7 095	22.2	9.7	-22.0	1.0	-1.3
Extraction	5 691	5 608	5 457	18.5	7.5	-21.0	-1.5	-2.7
Refining	1 427	1 578	1 638	3.7	2.2	-25.8	10.6	3.8
Mining (excluding petroleum)	874	764	691	1.4	0.9	-4.1	-12.6	-9.6
Manufacturing	7 988	8 877	9 720	11.3	13.3	11.4	11.1	9.5
Construction	3 746	4 402	5 150	3.8	7.1	18.0	17.5	17.0
Subtotal goods	*24 195*	*25 527*	*27 401*	*46.2*	*37.5*	*-1.5*	*5.5*	*7.3*
Electricity, gas and water	1 428	1 571	1 713	1.7	2.3	17.1	10.0	9.0
Transport, storage and communications	7 911	8 766	9 818	10.9	13.5	10.1	10.8	12.0
Subtotal basic services	*9 339*	*10 337*	*11 531*	*12.6*	*15.8*	*11.1*	*10.7*	*11.5*
Commerce, restaurants and hotels	7 507	8 049	8 653	11.0	11.8	12.9	7.2	7.5
Financial institutions, insurance and real estate	8 718	9 328	10 431	12.9	14.3	5.6	7.0	11.8
Community, social and personal services	12 914	13 998	15 114	17.3	20.7	9.7	8.4	8.0
Subtotal other services	*29 139*	*31 375*	*34 198*	*41.2*	*46.7*	*9.3*	*7.7*	*9.0*
Total gross domestic product[b]	*62 384*	*67 014*	*72 443*	*100.0*	*100.0*	*5.2*	*7.4*	*8.1*

Sources: 1970-1976: CEPAL calculations on the basis of figures supplied by the Central Bank of Venezuela;
1977: CEPAL estimates on the basis of official information.

a Preliminary figures.

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

In 1977 extraction of crude petroleum fell by almost 3°/o, with a drop in the daily average from 2.3 million barrels in 1976 to 2.2 million, while oil refining fell by 1°/o [206] to about 968,000 barrels a day. Venezuela's refining capacity is 1.6 million barrels a day (first-stage separation).

The total volume of petroleum products exported dropped by 6°/o in 1977. Exports of crude, which fell by 3°/o, included 33°/o of heavy crude, compared with 27°/o in 1976. This higher proportion of heavy crude was the result of a national policy for conservation of medium and light crudes, which are relatively scarce in Venezuela and command a higher price internationally.

[206] The discrepancy between this figure and that given in table 402 is due to the fact that different sources were used.

It should be noted that the reduction in the volume of refined petroleum exported is substantially larger than the drop in production, partly because of rising domestic consumption of petroleum products (see table 403). The rise in consumption of medium-octane and high-octane gasoline was especially marked in 1977, with growth rates of 17 and 21°/o respectively. In order to meet increasing domestic demand for gasoline while ensuring that the country will not become obliged to import it in coming years, it was decided to change the pattern of refining in the oil industry, and during 1977 projects were initiated which will expand refining capacity by 53,000 barrels by 1980.

Table 403

VENEZUELA: SOME INDICATORS RELATING TO PETROLEUM AND IRON ORE

	1974	*1975*	*1976*	*1977*[a]	*Growth rates*		
					1975	*1976*	*1977*[a]
1. Petroleum (millions of barrels)							
Production	*1 516*	*1 172*	*1 198*	*1 170*	-22.7	2.2	-2.3
Crude petroleum	1 080	856	840	817	-20.7	-1.9	-2.7
Refined petroleum	436	316	358	353	-27.6	13.4	-1.4
Exports	*1 022*	*761*	*788*	*738*	-25.5	3.6	-6.4
Crude petroleum	645	537	502	486	-16.7	-6.7	-3.2
Refined petroleum	377	224	286	252	-40.5	27.8	-12.2
Domestic consumption of refined petroleum	91	89	94	101	-2.2	5.7	7.2
Reserves	18 568	18 395	18 229	17 995	-1.1	-1.1	-1.1
Theoretical life of the reserves[b] (years)	17.1	21.5	21.7	22.1	25.7	0.9	1.8
2. Natural gas							
Production (millions of cubic metres)	46 426	38 008	37 135	37 512	-18.1	-2.4	1.1
Utilized (°/o)	79.0	89.0	92.0	93.0	12.6	3.5	0.8
Wasted (°/o)	21.0	11.0	8.0	8.0	-46.7	-27.4	-8.5
3. Iron ore (millions of metric tons)							
Production	27.0	25.0	18.0	13.0	-7.5	-29.0	-27.3
Exports	26.0	21.0	17.0	12.0	-18.9	-17.6	-31.2

Source: President of Venezuela, *Mensaje al Congreso de la República,* March 1978.

a Preliminary figures.

b Reserves divided by production in the corresponding year.

Production of natural gas reached 37.5 billion cubic metres – a rise of 1°/o over 1976. In pursuance of official measures for the conservation of resources, only 8°/o of total production was flared off, compared with 21°/o in 1976. In order to make even better use of the gas resources, in 1977 the Government approved four projects for gas compression and transport facilities with a capacity of 6 million cubic metres a day. In addition, work continued on studies with a view to the establishment of two plants for extracting liquid hydrocarbons from natural gas, each with an approximate production capacity of 3,700 cubic metres a day.

As a result of investment in the petroleum industry in 1977, 430 wells were drilled. Of the total, 405 proved to contain petroleum and 1 gas; 11 were dry, while 13 were used for injection of fluids. Drilling of wells increased by 25°/o over 1976, which in turn had shown a rise of 28°/o over the previous year.

Taking into account the volume extracted and the new discoveries made during the year, remaining reserves of petroleum were estimated at 17,995 million barrels at the end of 1977, reflecting a drop of 1% compared with 1976. Since the drop was smaller than the drop in production of crude, the theoretical life of the reserves increased a little, to just over 22 years. The effect of the Government's conservation measures can be gauged if it is remembered that in 1970 the theoretical life of the reserves was estimated at only just over 10 years.

The financial balance of the petroleum industry was satisfactory in 1977, despite an increase of over 7% in operating costs. The increase was due to rises of more than 11% in wages and salaries under the new collective contract, about 8% in payments to foreign companies for technological assistance,[207] almost 5% in statutory payments to the co-ordinating enterprise, Petróleos de Venezuela S.A. (PETROVEN), and more than 11% for various other aspects of operations. As a result of an improvement in sales prices and lower payments of income tax, the net profit of the domestic subsidiary enterprises rose from just over 1,050 million bolívares in 1976 to 5,450 million in 1977. These profits will enable them to invest heavily in the coming years in exploration, raising capacity, changing the pattern of refining, and modernizing the industry.

(ii) *Mining.* The real product of mining, excluding petroleum, fell by almost 10% in 1977. This third successive year of contraction in this sector (see table 402) was basically due to an appreciable fall in production of iron ore, from 27 million metric tons in 1974 to 13 million in 1977. The latter figure represents a decline of 27% compared with 1976 (see table 403). The reason for the contraction was lower levels of activity in the world iron and steel industry from the second half of 1975 onwards.

Exports of iron ore fell by 31% in 1977. However, domestic sales increased substantially (50%) as a result of the initiation of production by a briquette plant and a pellet plant. Nevertheless, less than 3% of the production of iron ore is destined for the domestic market.

(iii) *Agriculture.* According to preliminary estimates, the agricultural product rose by more than 10% in 1977, thus amply compensating for the fall of nearly 4% in 1976. Since 1974 output from the sector has grown at an annual average rate of about 5%, with per capita growth slightly above 1%.

While livestock raising and fishing expanded at fairly high rates in 1977, greatest growth was recorded in the crop farming subsector (see table 404). This performance was due to a substantial increase in the area cultivated (15%) and a rise in productivity (5%), linked to favourable climatic conditions and the policy followed by both public and private agencies of providing substantial finance to the sector. It should be added that much of the publicly provided finance was granted on very favourable terms.

Some crops, such as rice, maize, beans, sesame, potatoes and cocoa, production of which had fallen in 1976, showed substantial rises. Others, including sorghum and yuca, which have been gaining in importance as raw materials for domestic industry, enjoyed continued expansion. There were falls in the output of cotton, coffee, sugar cane, peanuts and some green vegetables.

The intense onset of summer in the first few months of the year, which had a favourable effect on agricultural crops, seriously harmed output of meat and milk. Cattle slaughtering was down almost 10%, and it was necessary to resort to imports from Colombia and various Central American countries to meet growing domestic demand. Production of pigs and goats rose markedly in 1977, while poultry production increased only moderately (see table 404).

During the first half of 1977 difficulties arose in the supply of food and agricultural raw materials for industry, because of the low output of many items in 1976. In view of this situation, in April 1977 the Government lifted restrictions on imports of food and exempted them from taxes and from fees for customs services. As production levels recovered, supply to the domestic market began to return to normal during the last few months of the year.

The fact that domestic production was inadequate to meet the increased demand had a great influence on price levels for domestically produced agricultural products and imported foodstuffs.

Producer prices for agricultural goods rose considerably compared with 1976, with an estimated increase of just over 16%. This was basically due to rises in the prices of products not subject to controls, such as fruit (41%), roots and tubers (25%) and green vegetables (16%). Minimum

[207] Payments to foreign oil companies by domestic industry amounted to 0.83 bolívares per barrel.

Table 404

VENEZUELA: INDICATORS OF AGRICULTURAL PRODUCTION

	1974	1975	1976	1977[a]	Growth rates 1975	1976	1977[a]
Crop farming production (thousands of tons)							
Cereals	885	1 087	933	1 633	22.9	-14.1	75.0
Leguminous grains	38	42	45	56	11.2	8.1	23.0
Roots and tubers	583	601	630	703	3.0	5.0	11.5
Textiles and oil-seeds	341	343	312	360	0.5	-9.1	15.4
Fruit	1 523	1 465	1 559	1 773	-3.8	6.4	13.8
Green vegetables	205	223	259	237	8.6	16.5	-8.6
Coffee, cocoa and others	6 355	5 952	6 219	5 606	-6.3	4.5	-9.9
Stock-raising production							
Milk (millions of litres)	1 100	1 187	1 157	1 206	7.9	-2.5	4.3
Cattle (thousand heads)	1 345	1 475	1 434	1 510	9.7	-2.8	5.3
Slaughtering	1 099	1 160	1 005	907	5.5	-13.4	-9.7
Increase in numbers	246	316	429	603	28.3	36.0	40.5
Pigs (thousand heads)	1 248	1 253	1 372	1 484	0.4	9.5	8.2
Slaughtering	1 023	1 168	1 276	1 336	14.1	9.3	4.7
Increase in numbers	225	84	96	148	-62.6	14.1	54.4
Poultry (millions)	97	109	119	121	11.7	9.6	1.8
Eggs (millions)	1 627	1 743	1 822	1 866	7.2	4.5	2.4
Goats (thousand heads)	377	417	450	491	10.8	7.7	9.1

Source: President of Venezuela, *Mensaje al Congreso de la República,* March 1978.

[a] Preliminary figures.

prices in the "coffee, cocoa and others" group increased by 36%. Prices of livestock products also rose, by 8%.

During 1977, under the programme for the importation of products of agricultural origin, 1.6 million metric tons of products worth 440 million dollars were purchased. The main products imported were maize, sugar, milk powder and sorghum. The total value of these imports, which represented an increase of 16% over 1976, was equivalent to 33 dollars per head.

Agricultural finance by the official agricultural banks increased in 1977. Allocations by the Instituto de Crédito Agrícola and the Banco de Desarrollo Agropecuario totalled 3.8 billion bolívares, an increase of 100% over 1976 (see table 405). The Fondo de Crédito Agropecuario approved allocations to a value of 344 million bolívares in 1977, 39% more than in the previous year.

New economic policy measures were approved in 1977 to stimulate growth in the sector. Special mention should be made of the approval of a law authorizing the Fondo de Crédito Agropecuario to borrow from the public up to 1.5 billion bolívares in order to prevent exhaustion of its resources and consequent cuts in its activities. It was also decided that this fund should channel its resources as follows: 40% to the crop farming subsector, 40% to livestock raising, and 20% to special programmes, with priority for fishery and forestry activities.

(iv) *Manufacturing.* This sector, which contributes 13% of the GDP, has shown a high rate of growth since 1974. Preliminary estimates indicate that growth in 1977 was a little above 9%, i.e., slightly lower than the 1976 and 1975 rates of 11% (see table 402).

Various factors were responsible for this slowdown, including lack of growth in the supply of domestically produced raw materials, especially from agriculture, as a result of the drop in domestic

Table 405

VENEZUELA: ALLOCATIONS BY THE OFFICIAL AGRICULTURAL BANKING SYSTEM

	Millions of bolívares				*Growth rates*		
	1974	*1975*	*1976*	*1977*[a]	*1975*	*1976*	*1977*[a]
Instituto de Crédito Agrícola	*581*	*951*	*1 085*	*1 212*	*63.7*	*14.1*	*11.7*
Own resources	483	804	983	1 149	66.5	22.3	16.9
Other resources[b]	98	147	102	63	50.0	-30.6	-38.2
Banco de Desarrollo Agropecuario	*657*	*1 325*	*796*	*2 549*	*101.7*	*-39.9*	*220.2*
Own resources	559	745	696	1 135	33.1	-6.6	63.1
Other resources[b]	98	580	100	1 414	491.8	-82.8	1 314.0
Total	*1 238*	*2 276*	*1 881*	*3 761*	*83.8*	*-17.4*	*99.9*

Source: President of Venezuela, *Mensaje al Congreso de la República,* March 1978.

[a] Preliminary figures.
[b] Including credits from the Fondo de Crédito Agropecuario.

output in 1976; the shortage of skilled labour; and a reduction in the level of credits allocated to industry by the public financial institutions. The activities most affected by this situation were agro-industries and some producers of intermediate goods.

The consumer goods industries continued to grow strongly. Among intermediate goods substantial growth rates were recorded for inputs for the manufacture of capital goods, such as basic metals, iron and steel, metal products, non-metallic minerals and chemical products.

In the basic metal industries group an iron ore briquette plant, a pellet plant and a ferro-alloy plant began operations, offsetting the lower output of cast iron and steel from Siderúrgica del Orinoco S.A. (SIDOR). This company temporarily closed down some of its plants because of expansion work being carried out to raise its installed capacity from 1 million to 5 million tons.

The Aluminio del Caroní S.A. (ALCASA) plant also recorded a drop in output, of just over 13%, for the same reason: it is raising its annual capacity to 120,000 tons of primary aluminium. Meanwhile, satisfactory progress is being made on work to establish the C.A. Venezolana de Aluminio (VENALUM) plant, which was scheduled for completion during 1978. The capacity of the new plant will be 280,000 metric tons of primary aluminium.

In the chemical branch, the State enterprise NITROVEN raised output by more than 40%, but Petroquímica Venezolana S.A. suffered a reduction of almost half compared with 1976, especially in the fertilizers branch, and was obliged to resort to imports.

There was moderate growth in the capital goods industries: production of motor vehicles, the most important such industry, increased slightly, but much less than in the previous two years. One reason was that imports of motor cars and commercial vehicles reached very high levels in 1977.

In 1977 a number of important organizational decisions were taken affecting the manufacturing sector.

With regard to the State enterprises, mention should be made of the conversion of the Instituto Venezolano de Petroquímica into a limited company, Petroquímica Venezolana S.A., which will be closely linked to PETROVEN in the supervision and execution of its strategic production functions. In addition, the firms Ferrominera del Orinoco and SIDOR were authorized to set up an enterprise called C.V.G. International to market their output internationally.

In the motor industry various measures were introduced to overcome the delay in the motor vehicle parts and components integration programme and to stimulate the industries supplying motor

industry inputs, especially engines and castings. Negotiations were also begun to establish two plants to produce six-cylinder gasoline engines. The policy in this field has been directed towards production of four-cylinder and six-cylinder (instead of eight-cylinder) motor vehicles in order to achieve lower fuel consumption. A particularly important event was the signature of Decision 120 of the Commission of the Cartagena Agreement, initiating an ambitious programme for the development of the motor industry which includes allocations for the manufacture of vehicles and spare parts, a common external tariff, trade liberalization and a broad range of agreements for assembly, joint production arrangements and complementation.[208]

The principal features of finance for manufacturing were a fall of about 16°/o in the resources allocated by the principal State credit agencies[209] for medium-term and long-term investment, and the small share of the private financial sector in the total. The marked decline in credit allocated by the State during the year was largely a result of the exhaustion of the financial allocations of the special agencies such as the Fondo de Crédito Industrial and insufficient inflows of money from repayments of capital and interest. The branches which absorbed the bulk of the credit available were traditional industries, especially food, textiles, non-metallic minerals, basic iron and steel, and industrial chemicals.

During 1977 the Venezuelan Investment Fund (FIV) disbursed industrial credits or grants totalling 3.7 billion bolívares, 47°/o more than in the previous year. Almost 50°/o of the funds approved were destined for the SIDOR expansion and modernization programme, and a further 20°/o for VENALUM; the remainder went to ALCASA and various projects for the production of gold, cement, high-quality steel, merchant vessels, salt, pulp and paper.

Finally, various industrial enterprises were set up in 1977 to carry out important basic projects. Special mention should be made of the Interalumina firm with capital of 750 million bolívares, 85°/o contributed by the State and 15°/o by the Swiss company which is to supply the technology. The alumina production capacity will be 1 million tons a year, to supply the ALCASA and VENALUM primary aluminium plants, and the surplus (amounting to 15°/o of production) will be exported. It was initially planned to import bauxite from certain Caribbean countries, but in the middle of the year a large deposit was discovered in Bolívar State with high bauxite content and low levels of impurities. According to preliminary estimates, the reserves exceed 500 million tons, with an alumina content of over 50°/o. The facilities required to mine the deposit and transport the bauxite to Ciudad Guayana, where the alumina plant is to be located, should be ready by 1980.

(v) *Construction.* In 1977 construction expanded at a high rate (17°/o) for the third year in succession (see table 402). The continued growth was basically due to the increasing number of public sector infrastructure and industrial projects provided for in the Fifth National Plan. Most of the expansion was in the interior of the country.

The strong growth in the sector in 1977 led, as it had done in the previous two years, to a shortage of materials and skilled labour. In order to cope with this situation it was necessary to import cement, consumption of which rose by 20°/o during the year, and other materials such as parquet and flooring tiles. Imports of prefabricated houses and other buildings also increased. In 1977 imported cement represented 29°/o of apparent consumption, whereas up to 1974 there had been practically no cement imports.

The shortage of skilled labour was partly remedied by importing large quantities of machinery and equipment. In addition, an agreement was signed with the Intergovernmental Committee for European Migrations (CIME) for the immigration of 2,000 highly skilled workers from Spain, Italy and Portugal to Venezuela.

Construction of housing by the private sector has greatly expanded in recent years. In 1977 the number of units built rose by 10°/o, while there was an increase in value of nearly 19°/o. The corresponding figures for 1976 were 39 and 58°/o (see table 406).

[208]The projects allotted to Venezuela were: one A3 model, with four cylinders; two A4 models, with six cylinders; one utility-type model; one B3 truck model, between 9 1/2 and 17 tons GVW; one B4 truck model of over 17 tons GVW; and tractors. Venezuela is to co-operate with Bolivia in assembling B1 trucks of up to 5 tons, with Ecuador in producing B1 trucks of between 3 and 4 1/2 tons, and with Peru and Colombia in producing motorcycles, medium-sized diesel engines and axles for heavy and medium trucks.

[209]The Corporación de la Pequeña y Mediana Industria, the Fondo de Crédito Industrial and the Corporación Venezolana de Fomento. No figures were available for the Banco Industrial de Venezuela.

Table 406

VENEZUELA: INDICATORS OF CONSTRUCTION ACTIVITY

	1974	*1975*	*1976*	*1977*[a]	*Growth rates*		
					1975	*1976*	*1977*[a]
Construction of dwellings (units)	*55 778*	*61 383*	*67 696*	*65 119*	*10.1*	*10.3*	*-3.8*
Public sector	31 405	35 380	31 491	25 210	12.7	-11.0	-19.8
Private sector	24 373	26 003	36 205	39 909	6.7	39.2	10.2
Value of construction of dwellings by the private sector (millions of bolívares)	1 970	2 990	4 715	5 589	51.8	57.7	18.5

Source: President of Venezuela, *Mensaje al Congreso de la República,* March 1978.

[a] Preliminary figures.

Various steps were taken in 1977 to redirect the loan policies of the Banco Hipotecario and the finance companies in favour of low-cost housing, in an effort to reduce the speculation which had become widespread in this sector in recent years, with housing becoming so expensive that prices sometimes reached 1,500 dollars a square metre, while the prices of offices were even higher.

Under the new arrangements, 25% of the credit for housing must be set aside for low-cost housing with a unit price of not more than 150,000 bolívares (just over 31,000 dollars) and for educational and social welfare establishments. A further 25% must be reserved for housing costing not more than 250,000 bolívares, and 25% for housing costing 500,000 bolívares or less. In addition, the rate of profit on sales of dwellings, commercial premises and offices for which mortgages have been granted must not exceed 30% of the valuation at the time of the initial sale.

(c) *Employment*

The vigorous growth of the Venezuelan economy has brought with it a marked improvement in employment. In 1977 employment levels rose by 5%, a rate roughly equal to that of 1976, while unemployment dropped from 6% in 1976 to 5%.

Employment grew most in construction, transport and finance. It continued to fall in electricity, gas and water, and remained constant in the agricultrual sector (see table 407). Employment in agriculture has been showing a long-term downward tendency despite a relatively large increase in output. This is because greater mechanization and more intensive use of better farming techniques have displaced part of the labour force to other activities.

The unemployment rate dropped in 1977 in all economic sectors except electricity, gas and water, where there was a small increase. Unemployment was highest in the construction sector (10%), as has traditionally been the case. In regional terms, the highest rates of unemployment occurred in the Zulia and North-eastern regions (6.1 and 6.9% respectively). In contrast, unemployment in the metropolitan area was very low, at 4.7%.

In addition to the sharp increase in employment, there has been a marked improvement in recent years in certain demographic and health indicators. The mortality and infant mortality rates fell from 6.8 and 53 per thousand in 1973 to 6 and 42 per thousand respectively in 1977. Over the same period there was an appreciable increase in the number of hospital beds and vaccinations (see table 408).

3. *The external sector*

(a) *External trade*

(i) *Trade in goods.* In 1977 the surplus on trade in goods continued its decline from the peak attained in 1974 as a result of the extraordinary change in world oil prices. In 1977 the surplus was

Table 407

VENEZUELA: EVOLUTION OF EMPLOYMENT AND UNEMPLOYMENT

	Employment					*Unemployment*					
	Thousands			*Growth rates*		*Thousands*			*Percentage of the labour force*		
	1975	*1976*	*1977*	*1976*	*1977*	*1975*	*1976*	*1977*	*1975*	*1976*	*1977*
1. Production of goods	*1 517*	*1 595*	*1 677*	*5.1*	*5.2*	*90*	*98*	*84*	*5.6*	*5.8*	*4.8*
Agriculture	682	695	695	1.9	–	19	18	14	2.7	2.5	2.0
Mining	45	43	46	4.9	7.5	2	2	2	4.8	4.6	4.2
Manufacturing	537	577	607	7.3	5.2	31	40	32	5.4	6.8	5.0
Construction	254	280	329	10.3	17.6	38	38	36	13.0	11.8	9.9
2. Basic services	*240*	*252*	*271*	*5.0*	*7.4*	*14*	*12*	*10*	*5.7*	*4.7*	*3.6*
Electricity, gas, water	43	41	38	-6.0	-6.7	2	2	2	5.3	3.6	4.0
Transport and communications	197	211	233	7.5	10.1	12	11	8	5.7	4.9	3.5
3. Other services	*1 701*	*1 798*	*1 881*	*5.7*	*4.6*	*128*	*94*	*82*	*7.0*	*5.0*	*4.2*
Commerce	646	673	699	4.2	3.8	38	34	30	5.6	4.8	4.1
Finance	123	136	150	10.8	9.8	8	7	7	5.7	5.0	4.5
Other services	927	985	1 029	6.2	4.5	39	40	36	4.1	3.9	3.7
Unspecified	5	3	4	-30.0	6.1	43	13	9	90.1	80.1	71.1
4. Persons seeking work for first time	...	...	...	...	...	*35*	*30*	*24*	...	...	...
Total	*3 459*	*3 645*	*3 829*	*5.4*	*5.0*	*270*	*234*	*200*	*7.2*	*6.0*	*5.0*

Source: Ministry of Development.

Table 408

VENEZUELA: SOME DEMOGRAPHIC AND HEALTH INDICATORS

	1973	*1974*	*1975*	*1976*	*1977*[a]
Mortality rate (per thousand)	6.8	6.3	6.2	6.2	6.0
Infant mortality rate (per thousand)	53.0	45.7	43.7	44.5	42.0
Number of hospital beds[b]	36 427	36 207	38 026	38 322	41 967
Vaccinations (millions)	7.8	8.0	6.9	8.6	8.5
Polio vaccinations	3.6	2.7	2.8	2.8	2.7

Source: President of Venezuela, *Mensaje al Congreso de la República,* March 1978.

[a] Preliminary figures.
[b] Maximum capacity.

1,115 million dollars, 61%/o less than in 1976 and 84%/o less than in 1974. The fall in the surplus in 1977 was due, as in the previous year, to relatively slow growth in exports together with a veritable explosion of imports (see table 409).

Table 409

VENEZUELA: BALANCE OF PAYMENTS
(Millions of US dollars)

	1972	*1973*	*1974*	*1975*	*1976*	*1977*	
Current account							
Exports of goods and services	3 425	5 105	11 721	9 489	10 071	10 713	
Goods FOB	3 153	4 701	11 085	8 832	9 419	9 902	
Services	272	404	636	657	652	811	
Transport	105	163	310	274	132	250	
Travel	73	119	174	180	219	240	
Imports of goods and services	2 887	3 374	5 222	7 083	8 465	11 157	
Goods FOB	2 223	2 626	4 100	5 461	6 544	8 787	
Services	664	748	1 122	1 622	1 921	2 370	
Transport	317	342	468	776	1 030	1 380	
Travel	182	198	289	420	560	590	
Net payments of profits and interest on foreign capital	-473	-833	-640	-23	105	65	
Profits	-456	-831	-819	-448	-279	-275	
Interest	-17	-2	179	425	384	340	
Net private transfer payments	-89	-105	-130	-146	-192	-215	
Balance on current account	-24	793	5 729	2 237	1 519	-594	
Capital account							
Net external financing (a +b +c +d +e)	24	-793	-5 729	-2 237	-1 519	594	
(a) Net external non-compensatory capital	-132	212	-560	714	313		
Direct investment	-376	-85	-343	355	-828		
Long- and medium-term loans	236	212	140	314	1 504		
Amortization payments	-111	-132	-311	-323	-605		515
Short-term liabilities	124	223	18	398	303		
Official transfer payments	-5	-6	-64	-30	-61		
(b) Domestic non-compensatory capital or assets	-126	-38	-446	-632	-3 282		
(c) Errors and omissions	455	-355	-260	392	1 519		
(d) Allocation of SDRs	38	–	–	–	–		
(e) Net compensatory financing (— = increase)	-211	-612	-4 463	-2 711	-69	79	
Balance-of-payments loans, trade arrears, IMF loans, and other liabilities of the monetary authorities	–	–	8	4	8	...	
Amortization payments	-3	-2	–	–	–	...	
Variation in gross international reserves (minus sign signifies an increase)	-207	-609	-4 471	-2 715	-77	...	
Foreign exchange reserves (— = increase)	-169	-609	-4 120	-2 221	64	...	
Gold reserves (minus sign signifies an increase)	–	–	-349	-490	-139	...	
SDRs (minus sign signifies an increase)	-38	–	-2	-4	-2	...	

Sources: 1972-1976: International Monetary Fund, *Balance of Payments Yearbook,* vol. 28, December 1977;
1977: CEPAL, on the basis of official statistics.

The value of exports in 1977, at 9.9 billion dollars, was 5°/o higher than in 1976. This figure, though below that of 1974, is more than double that of 1973. Growth in exports in 1977 was accounted for wholly by a 12°/o rise in the unit value of sales, since volume fell by 6°/o (see table 410).

Table 410

VENEZUELA: MAIN FOREIGN TRADE INDICATORS

	1972	1973	1974	1975	1976	1977
	Growth rates					
Exports of goods						
Value	2.0	49.1	135.8	-20.3	6.6	5.1
Volume	-4.7	4.5	-11.6	-25.4	0.6	-6.1
Unit value	7.0	42.7	166.7	6.8	6.0	11.9
Imports of goods						
Value	17.6	18.2	56.1	33.2	19.8	34.3
Volume	11.1	0.1	25.7	14.8	9.9	21.8
Unit value	5.9	18.1	24.2	16.1	9.0	10.2
Terms of trade	1.1	20.8	114.7	-8.0	-2.7	1.5
	Indexes (1970 = 100)					
Terms of trade	118.7	143.3	307.7	283.2	275.5	279.7
Purchasing power of exports of goods	109.2	143.3	268.3	185.7	181.0	175.4
Purchasing power of exports of goods and services	108.0	136.3	258.8	177.6	173.8	165.9

Source: CEPAL, on the basis of official figures.

The value of exports of petroleum, which make up 95°/o of total income from exports, increased by almost 6°/o in 1977, compared with 4°/o in 1976. The moderate increase in sales was the result of a rise of about 11°/o in the average sales price, which more than offset a drop of 6°/o in the volume exported. Iron ore, the second most important export product, fell 29°/o in value, principally because of a lower volume of sales abroad.

Non-traditional exports have shown a definite tendency to expand since 1972. In value terms they increased by 13°/o in 1977, and average annual growth for the period 1972-1977 was almost 19°/o. Nevertheless, their share in total exports has remained small, reaching only a little over 3°/o in 1977, which is more or less the same share as in 1970 (see table 411).

Growth in non-traditional exports has been influenced by the policy of incentives applied by the Government during the present decade, especially as regards financing. The year 1970 saw the promulgation of the Export Incentives Act and the Act establishing the Export Financing Fund, which functions as part of the Central Bank.[210]

According to Central Bank figures, the value of goods exported under the incentives scheme in the first half of 1977 was 97 million dollars, while the value of the incentives was 19 million dollars. The non-traditional exports which have shown greatest growth in the past few years are petrochemicals (explosives, ammonia, carbon black, urea), metal manufactures and machinery (aluminium and steel tubes) and food products (shellfish, fish and vegetables), which together make up about half of all non-traditional exports.

Imports of goods, for their part, recorded an exceptional increase for the fourth consecutive year. In 1977 a rise of 34°/o brought their value to more than three times the 1973 level. The greater part of the increase was due to higher volume, since the unit value rose by 10°/o. The rise in the

[210]The first of these Acts instituted a single incentive system for exports of non-traditional goods based on value added to the export product. The second Act set up a fund to carry out short-term, medium-term and long-term financing operations, to effect fixed investment in exporting enterprises and to provide them with working capital and finance to cover exporting costs (freight, insurance, etc.).

Table 411

VENEZUELA: VALUE AND BREAKDOWN OF EXPORTS OF GOODS (FOB)

	Millions of dollars				*Percentage breakdown*		*Growth rates*		
	1974	*1975*	*1976*	*1977*	*1970*	*1977*	*1975*	*1976*	*1977*
Principal exports	*11 035*	*8 718*	*9 117*	*9 563*	*96.8*	*96.6*	*-21.0*	*4.6*	*4.9*
Petroleum and petroleum products[a]	10 762	8 493	8 861	9 381	94.1	94.7	-21.1	4.3	5.9
Iron ore	273	225	256	182	2.7	1.9	-17.6	13.8	-28.9
Others products	*214*	*255*	*301*	*339*	*3.2*	*3.4*	*19.2*	*18.0*	*12.6*
Total	*11 249*	*8 973*	*9 418*	*9 902*	*100.0*	*100.0*	*20.2*	*5.0*	*5.1*

Sources: Central Bank of Venezuela and Instituto de Comercio Exterior.

[a] Calculated on the basis of the sale price of petroleum.

volume of imports in 1977 was much higher than in any other year of the present decade except 1974 (see table 410).

In 1977, as in the previous year, the large volume of external trade led to serious congestion in all the country's ports, which lessened only at the end of the year when various projects to expand the principal ports were completed.

The extraordinary increase in the value and volume of imports was a result of growing overall domestic demand. This, in turn, was stimulated by requirements of equipment and machinery for the implementation of the Government's ambitious programmes in industry and basic infrastructure. Moreover, as already noted, there were substantial imports of food products –amounting to more than 440 million dollars– to offset the fall in agricultural production in 1976. Finally, imports of luxury goods also rose considerably. For example, more than 40 million dollars' worth of whisky was imported, as well as about 10,000 luxury motor cars worth roughly 70 million dollars.

In addition 5,000 pick-up trucks, 3,000 heavy and medium trucks and 5,000 buses were imported with a total value of more than 60 million dollars. If imports of unassembled vehicles and parts and components are added to imports of assembled vehicles, the total value comes to the large sum of about 750 million dollars, or nearly 9°/o of the total value of imports.

The structure of imports also changed in 1977, with increases in the shares of capital goods and food products (see table 412). As far as origin is concerned, a very high proportion of imports (47°/o) came from the United States, which is also the main market for Venezuela's exports. Other countries of origin were the Federal Republic of Germany (8°/o), Italy (6°/o), the United Kingdom (4°/o), Canada (4°/o), France (3°/o) and Spain (3°/o).

Since the rise in the unit value of imports was slightly smaller than that for exports, the terms of trade improved by just over 1°/o in 1977. The absolute level of the terms-of-trade index was 9°/o below the 1974 figure, but more than double the figure for 1972 (see table 410). As a result, although Venezuela has experienced a deterioration in its terms of trade since 1974, its relative position continues to be very favourable.

However, a more serious deterioration in external trade is revealed by another indicator –the purchasing power of exports. In 1977 this index stood 35°/o below the high point reached in 1974 and only 60°/o above its 1972 level. The worsening since 1974 reflects both the evolution of the terms of trade and the lower volume of exports.

(ii) *Services.* Since 1974 the deficit on the services account has increased at a rapid rate. In 1977 it rose by almost 23°/o to 1,560 million dollars, more than four times as high as in 1973.

Table 412

VENEZUELA: VALUE AND BREAKDOWN OF IMPORTS OF GOODS (CIF)

	Millions of dollars				*Percentage breakdown*		*Growth rates*		
	1974	*1975*	*1976*	*1977*	*1970*	*1977*	*1975*	*1976*	*1977*
Consumer goods	442	557	713	1 010	15.4	11.5	28.0	27.1	31.1
Intermediate goods	2 570	3 474	3 795	4 921	58.0	56.0	34.8	11.0	34.0
Capital goods	864	1 431	2 035	2 856	26.6	32.5	63.4	33.8	41.8
Total	*3 876*	*5 462*	*6 543*	*8 787*	*100.0*	*100.0*	*40.1*	*19.8*	*34.3*

Sources: Central Bank of Venezuela and Instituto de Comercio Exterior.

This rapid increase is attributable to higher payments for transport, largely due to the greater volume of imports, and to increased travel abroad by Venezuelans (see table 409). The growth observed for travel in the four years 1973-1977 reflects a significant increase in expenditure per traveller: total payments trebled, while the number of travellers was only 35% higher.

If the deficit on services is subtracted from the balance on goods the total external trade deficit in 1977 comes to 444 million dollars, an unprecedented sum in the modern history of the country.

(b) *Factor payments, transfers and the current account balance*

For the second year running Venezuela recorded a surplus on factor payments. The surpluses, which are unusual for a developing country, derive from lower remittances of profits, as a result of the nationalization of the foreign oil companies, and higher income in the form of interest on financial investments abroad. However, in 1977 the surplus was 38% smaller than in 1976, following a fall in net income from payments of interest. The reasons were a rise in interest paid on the external debt and lower income from investment in assets abroad, since some of the assets belonging to FIV had to be converted into national currency to finance domestic public investment.

Traditionally Venezuela has a deficit on net private transfers, and in 1977 this increased by 12% to 215 million dollars. Together, the balances on external trade, factor payments and net private transfers thus give a large deficit of almost 600 million dollars on the current account in 1977. This deficit arose after two years of progressive diminution of the surplus generated by the high oil prices (see table 409). On only two other occasions in the present decade, 1970 and 1972, has the current account gone into deficit, although to a much smaller degree.

(c) *The capital account and the balance of payments*

There is no information available on the specific composition of flows of non-compensatory capital in 1977. However, it is known that the Government played an important role in the inflow of capital into the country. Following the strategy instituted in 1976, the Government negotiated large loans with foreign banks and successfully placed bonds on the markets of the United States, London and Japan. Table 413 gives figures on the value of the loans contracted. As can be seen, the total was more than 2 billion dollars in 1977, almost twice the 1976 figure. The extent of the borrowing in 1976 and 1977 can be appreciated more readily if it is borne in mind that in 1975 the Government's total external debt amounted to only a little over 1 billion dollars.

There were two reasons for this borrowing: the requirements of the official debt refinancing programme, and the need to finance the ambitious programme of investment in basic production sectors. In view of their policy of conserving basic resources and the slackness in the world oil market, the authorities were fully aware that income from exports would not cover all the costs of this programme.

Table 413

VENEZUELA: BORROWING IN THE INTERNATIONAL CAPITAL MARKET

(Millions of US dollars)

Year	*Bonds*	*Loans on the Eurocurrency market*[a]	*Total*
1974	2	50	52
1975	–	200	200
1976	–	1 129	1 129
1977	438	1 650	2 088

Source: World Bank, *Borrowing in International Capital Markets*, March 1978.

[a] Announced loans.

The figures given for government borrowing refer to loans contracted and not to disbursements, and therefore do not necessarily correspond to the actual inflow of capital under that heading. Furthermore, inflows from government borrowing were partially offset by amortization payments on the public debt and by investment abroad, which in some cases represented commitments under the official programme of international financial co-operation. Net flows of capital to the private sector, according to preliminary information, recorded a positive balance after the large deficit of 1976, which was largely the result of an outflow of foreign capital because of the nationalization of the petroleum industry.

According to preliminary estimates of the total net movement of non-compensatory capital (including errors and omissions), there was a positive balance of 515 million dollars in 1977, which contrasted with the deficit of over 1.4 billion dollars in 1976 (see table 409). However, the net flow of capital was insufficient to cover the current account deficit, and consequently the balance of payments showed an overall deficit of 79 million dollars for the first time in 10 years.

In addition to the deficit on the balance of payments the gross international reserves dropped 4% compared with the previous year amounting on 31 December 1977 to 8.2 billion dollars, almost all of which was in the hands of the State. The reserves amply covered imports, since they were equivalent to nearly 9 months' purchases of goods and services abroad at the 1977 rate.

(d) *International financial co-operation*

During 1977 Venezuela pursued its policy of financial co-operation with other developing countries. This policy gained particular importance as from 1974, when large surpluses began to accumulate as a result of higher oil prices on international markets. Its principal objectives are the promotion of international solidarity with other developing countries in order to form a common front to uphold the prices of raw materials; assistance for the development of the productive potential of the countries of Latin America; stimulation of Latin American integration, and promotion of trade between Venezuela and the other countries of the continent.

In accordance with this policy, Venezuela allocated 4.3 billion dollars for international financial co-operation between 1974 and 1977. This figure is equivalent to 3.6% of the GDP in the past four years, and shows that the country is granting the developing countries much more financial assistance than the industrialized countries, whose contribution barely reaches 0.7% of their GDP.

Financial co-operation is organized through various institutions, but the most important are the FIV and the Central Bank, through which more than four-fifths of the resources are channelled (see table 414).

Table 414

VENEZUELA: INTERNATIONAL FINANCIAL CO-OPERATION
(Millions of US dollars)

	Committed			*Disbursed*		
	1974-1976	*1977*	*Total*	*1974-1976*	*1977*	*Total*
Multilateral co-operation	*3 115*	*697*	*3 812*	*1 997*	*253*	*2 250*
1. *Central Bank of Venezuela*	*897*	*580*	*1 477*	*809*	*2*	*811*
International Monetary Fund[a]	787	580	1 367	782	2	784
Swap with Central America (integration)[b]	50	...	50	27	–	27
Andean Fund (integration)[b]	60	...	60	...		
2. *Venezuelan Investment Fund*	*1 690*	*5*	*1 695*	*955*	*219*	*1 174*
World Bank	500	...	500	500	...	500
Inter-American Development Bank	500	...	500	190	100	290
Caribbean Development Bank	25	...	25	8	6	14
Central American Bank for Economic Integration	40	...	40	20	10	30
Andean Development Corporation	30	...	30	...	...	...
Inter-American Savings and Loan Bank	...	5	5	...	3	3
Central America (petroleum and coffee)	592	...	592	238	100	338
Cafés Suaves Centrales S.A.	3	...	3	...	...	...
3. *Ministry of Finance*	*348*	*112*	*460*	*79*	*32*	*111*
Caribbean Development Bank	10	...	10	10	...	10
OPEC Fund	112	112	224	...	32	32
Inter-American Development Bank[c]	156	...	156	...	...	...
IDB bond issue[d]	23	...	23	23	...	23
World Bank bond issue[d]	23	...	23	23	...	23
Andean Development Corporation bond issue[d]	23	...	23	23	...	23
4. *Ministry of Foreign Affairs*	*180*	...	*180*	*153*	...	*153*
United Nations Emergency Fund	100	...	100	100	...	100
United Nations Special Account	80	...	80	53	...	53
Bilateral co-operation	*375*	*169*	*494*	*137*	*309*	*446*
1. *Central Bank of Venezuela*	*125*	–	*125*	*29*	*76*	*105*
Costa Rica	20	...	20	10	10	20
Honduras	4	...	4	4	...	4
Nicaragua	3	...	3	3	...	3
Swap with Peru	50	50	50	...	50	50
Dominican Republic (ordinary and additional)[b]	48	48	48	12	16	28
2. *Venezuelan Investment Fund*	*191*	*119*	*310*	*91*	*208*	*298*
Costa Rica	20	...	20	20	...	20
Peru (deposits and securities)	61	77	138	33	100	133
Jamaica (deposits and economic co-operation)	50	20	70	38	33	70
Dominican Republic	60	...	60	...	60	60
Portugal	...	23	23	...	15	15
3. *Ministry of Finance*	*53*	–	*53*	*11*	*25*	*36*
Bolivia	22	...	22	6	...	6
Guatemala	6	...	6	6	...	6
Ecuador (bond issue)[d]	25	...	25	...	25	25
4. *Instituto de Comercio Exterior*	*7*	...	*7*	*7*	...	*7*
Various programmes in the Caribbean	7	...	7	7	...	7
Grand total	*3 490*	*914*	*4 306*	*2 135*	*561*	*2 696*

Source: Venezuelan Investment Fund.

a Oil facility 780 million; subsidy account 7 million and supplementary credit 580 million.
b For economic integration.
c Of this, 60 millions correspond to subscription of ordinary capital.
d Through the securities market.

During 1977 financial co-operation funds committed by the various Venezuelan institutions totalled just over 900 million dollars, while disbursements amounted to 560 million dollars. The total disbursed in the period 1974-1977 came to 2.7 billion dollars.

(e) *External debt*

Figures on the external public debt are available only up to the end of 1976, when the total debt was nearly 3 billion dollars. About 40% of the debt was owed to private banks. As a result of government borrowing in 1977, there was a considerable increase both in the total debt and in the share of private banks.[211]

The apparent debt burden in 1976 was light, as is indicated by the debt servicing ratio, which was barely 4% (see table 415). However, if Venezuela continues to borrow at the same rate as in the past two years, the debt and the servicing payments could reach burdensome levels.

Table 415

VENEZUELA: EXTERNAL PUBLIC DEBT [a]
(Millions of US dollars)

	Disbursements at end of year				
	1972	*1973*	*1974*	*1975*	*1976*
External debt	1 419	1 540	1 497	1 272	2 970
Debt servicing	213	310	501	539	409
Amortization payments	149	207	379	435	287
Interest	64	103	122	104	122
Debt servicing ratio[b]	6.2	6.1	4.3	5.7	4.1

Source: CEPAL, on the basis of official figures.

[a] Medium- and long-term debt, including guaranteed debt.
[b] Debt servicing divided by export revenue in the corresponding year.

The emergence of a trade deficit in the balance of payments, taken together with the poor prospects for an immediate rise in world demand for petroleum, suggest that if Venezuela does not limit growth of its imports it could require increasing quantities of finance. This is not to say that the country is not in a position to borrow: with international reserves of 8 billion dollars and prospects of a new flow of foreign currency from some of the new projects under way, the country has a clear capacity to borrow further abroad. At the same time, the financing will have to come in large measure from the private international banks, whose credit terms are both severe and sensitive to economic changes in the world as a whole and in Venezuela. Moreover, the foreign currency yield per dollar invested in basic sector projects (and in the oil-bearing area of the Orinoco) will be substantially lower than that usually obtained in the traditional petroleum sector.

A reduction in the rate of growth of imports –which in absolute terms have reached the high level of 826 dollars per head– by means of greater control of non-essential purchases and revision of the investment programme would naturally bring with it a corresponding drop in dependence on external borrowing and foreign banks. Indeed, the Government's next task will probably be to seeek a proper balance between investment, consumption and growth, on the one hand, and external debt on the other.

[211] However, taking into account its deposits in the international banking system, Venezuela had a net balance of assets with the banking system totalling 3.5 billion dollars at the end of the first half of 1977 (including short-term transactions). See Bank for International Settlements, *Press Review*, 16 November 1977.

4. *Prices, wages and salaries*

In 1977 the level of prices rose slightly faster than in 1976. The change between annual averages for consumer prices in the metropolitan area was 7.8%, compared with 7.7% in 1976, while the change in annual averages for wholesale prices was 10.8% compared with 7.2% the previous year. In both categories the change from December to December was somewhat larger than the change in annual averages (see table 416).

Table 416

VENEZUELA: EVOLUTION OF PRICES

	1972	*1973*	*1974*	*1975*	*1976*	*1977*
	Change between annual averages					
Consumer prices[a]	2.9	4.1	8.3	10.2	7.7	7.8
Food	4.9	7.6	12.7	14.7	8.8	12.3
Clothing	2.9	7.7	20.2	17.0	16.5	10.0
Wholesale prices	3.5	6.6	16.7	13.7	7.2	10.8[b]
Domestic products	2.7	7.2	16.8	14.3	8.0	13.4
Imported products	4.5	5.7	16.7	12.8	6.1	6.9
	Change from December to December					
Consumer prices[a]	3.5	5.1	11.6	8.0	6.9	8.1
Food	7.4	8.1	18.3	8.7	8.2	14.8
Clothing	9.3	7.9	21.8	19.3	10.4	8.3
Wholesale prices	2.7	11.0	19.9	8.2	8.8	12.1[c]
Domestic products	3.7	12.1	17.0	10.3	7.6	17.0
Imported products	2.1	10.3	21.9	5.4	10.4	5.1

Sources: President of Venezuela, *Mensaje al Congreso de la República,* March 1976, 1977,1978; Central Bank of Venezuela, *Informe económico,* 1972, 1973, 1974 and 1975.

[a] Cost-of-living index for the Caracas metropolitan area.
[b] January to November.
[c] Change from November to November.

Among the items in the consumer price index, food increased substantially more than in 1976, as a result of pressures caused during the first half of the year by shortages of agricultural products. Clothing rose a good deal less than in 1976, largely because the Government froze clothing prices in July 1977.

In contrast to what happened in 1976, the wholesale price index showed that prices of domestic products increased by more than those of imports. The greatest upward pressure on the index was caused by agricultural products, which rose in price by 23.6% in the first 11 months of 1977, compared with 12.4% in the same period of 1976. The sharp increase was the result of the supply problems which arose in the first half of the year and adjustments in the minimum prices for some domestic agricultural products.

In the principal cities in the interior –Ciudad Guayana, Mérida, Maracaibo, Valencia and Puerto La Cruz-Barcelona– the cost-of-living index rose faster than in the Caracas metropolitan area. In Ciudad Guayana, in particular, the rise was more than double that recorded in Caracas.

Apart from special factors such as the shortage of food supplies in the first few months of 1977, the inflationary pressure was due to increases in monetary liquidity, lending by the banks, and public

expenditure. These increases in turn generated substantial growth in total demand, which, as in previous years, was not offset by a similar trend in domestic supply.

The Government adopted various measures to hold back price rises and improve domestic supply.

In 1977 the list of products subject to price controls was extended, and the prices of various types of products and services were frozen. The effectiveness of the price control system can be appreciated by comparing the behaviour of controlled prices with that of prices subject to market forces. For food products included in the cost-of-living index, for example, the cumulative changes for the 12 months ending in December 1977 were 9.2 and 7.9% for regulated and controlled prices respectively, and 15% for prices subject to supply and demand.

The other measures adopted in 1977 included the elimination of import taxes on various products which were in short supply, the exemption of meat and live animals from payment of customs duties and the granting of priority to unloading of agricultural products purchased abroad.

According to Central Bank figures, real wages and salaries rose by 9% in 1977. As can be seen from table 417, this change followed even larger rises in the period 1974-1976.

Table 417

VENEZUELA: EVOLUTION OF WAGES AND SALARIES

	1974	*1975*	*1976*	*1977*[a]
	Indexes (1970 = 100)			
Wages and salaries				
Nominal	174.6	219.0	260.0	306.3
Real[b]	145.7	165.8	182.7	199.7
	Growth rates			
Wages and salaries				
Nominal	12.7	25.4	18.7	17.8
Real	17.8	13.4	10.2	9.3

Source: Central Bank of Venezuela.

[a] Preliminary figures.

[b] Annual wages and salaries deflated by the consumer price index for the corresponding periods.

5. *Monetary and fiscal policy*

(a) *Monetary trends*

The money supply rose by 24% in the 12 months ending with the third quarter of 1977, and a roughly similar rate is estimated for the end of the year. These figures show a substantial acceleration compared with 1976, when the growth rate was 15%, but in 1975 the rate was 52% (see table 418).

The expansion in the money supply occurred principally in the first half of the year, as can be seen from the fact that the rate of increase in the 12 months to June was almost 29%. The source of the rise was a large increase in the net international reserves of the monetary system and a very substantial rise in domestic credit, especially to the private sector. In July the Central Bank took a

Table 418

VENEZUELA: MONETARY POSITION

	End-year balance in millions of bolívares					*Growth rates*		
	1974	*1975*	*1976*	*1976*[a]	*1977*[a]	*1975*	*1976*	*1977*[b]
Money	*16 297*	*24 835*	*28 436*	*25 264*	*31 418*	*52.4*	*14.5*	*24.4*
Currency outside banks	3 366	4 723	5 820	4 707	6 068	40.3	23.2	28.9
Demand deposits	11 908	17 503	20 848	18 745	23 810	47.0	19.1	27.0
Factors of expansion	*31 412*	*47 152*	*58 335*	*50 679*	*63 203*	*50.1*	*23.7*	*24.7*
Foreign assets (net)	27 588	38 411	37 086	34 262	34 757	39.2	-3.4	1.4
Domestic credit	3 824	8 741	21 249	16 417	28 446	128.5	143.1	73.3
Government (net)	-16 397	-20 992	-19 355	-19 225	-17 524	...	...	...
Official entities	526	555	505	512	400	5.5	-9.0	-21.9
Private sector	19 437	29 151	40 038	35 110	45 352	50.0	37.3	29.2
Factors of absorption	*15 111*	*22 313*	*29 901*	*25 412*	*31 787*	*47.7*	*34.0*	*25.1*
Quasi-money (savings and time deposits)	10 557	16 578	22 871	19 821	26 519	57.0	38.0	33.8
Other items (net)	4 554	5 735	7 030	5 591	5 268	25.9	22.6	-5.8

Source: International Monetary Fund, *International Financial Statistics*, March 1978.

[a] Balance at end of September.
[b] September 1976 - September 1977.

number of steps to deal with this situation. It raised the mandatory level of bank reserves to 75o/o of deposits of all kinds made by the State, and introduced a further mandatory reserve level equivalent to 42o/o of the increase in balances of time deposits and other non-current liabilities in foreign currency as at 30 June 1977, although the level was reduced to 35o/o in the case of demand liabilities in foreign currency or demand deposits or liabilities in national currency effected or contracted by non-resident natural or juridical persons. The purpose of these measures was to ensure that the banks' credit capacity should be more closely linked to private sources of domestic saving and to limit the expansionary effect of the inflow of external financial resources of a speculative nature.

At the end of September the money supply dropped slightly in absolute terms compared with August, and the 12-month growth rate fell a little as against the rate for the immediately preceding months. In view of the smaller net international reserves of the monetary system in the third quarter, and recognizing the need to increase liquidity in order to bring it in line with the traditional increase in economic activity in the final months of the year, the Central Bank decided at the end of October to introduce more flexibility into the rules for mandatory reserves. It therefore eliminated the additional requirements regarding demand deposits placed by public sector enterprises, and extended until February 1978 the period allowed to comply with the 75o/o reserves rule introduced in July, maintaining until the end of the year the figure of 65o/o prevailing in October.

Over the year as a whole the rise in money supply in 1977 was basically due to the growth of domestic credit. Credit to the private sector continued to increase rapidly, and there was less absorptive effect from net government borrowing. On the other hand, exchange rate operations helped to hold back the rate of growth in the money supply.

Towards the end of the year there was still a high degree of liquidity. The money supply balance of 31.4 billion bolívares in September was more than triple the balance in December 1972, and even if price rises are taken into account represents well over twice that figure in real terms.

(b) *Fiscal trends.*

A look at the fiscal situation in 1977 shows that central government current and capital expenditure, taken together, are beginning to outpace the capacity to cover them with ordinary revenue. For the second successive year continued strong growth in expenditure led to a fiscal deficit, which was almost three times the previous year's deficit and was equivalent to 22% of total expenditure (see table 419).

Table 419

VENEZUELA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of bolívares				*Growth rates*		
	1974	*1975*	*1976*	*1977*[a]	*1975*	*1976*	*1977*
Current income	*42 559*	*40 898*	*38 130*	*40 506*	*-3.9*	*-6.8*	*6.2*
Petroleum[b]	36 451	31 655	28 024	29 434	-13.2	-11.5	5.0
Direct	2 634	3 297	4 182	4 802	25.2	26.8	14.8
Indirect	2 378	3 216	3 778	4 718	35.2	17.5	24.9
Import duties	1 159	1 807	2 165	2 912	55.9	19.8	34.5
Other current income	1 096	2 730	2 146	1 552	149.2	-21.4	-27.7
Current expenditure	*14 415*	*18 244*	*20 687*	*24 643*	*26.6*	*13.4*	*19.1*
Wages and salaries	6 228	7 273	8 704	10 180	16.8	19.7	17.0
Economic subsidies	1 854	1 627	1 159	1 159	-12.2	-28.8	–
Other current expenditure	6 333	9 344	10 824	13 304	47.6	15.8	22.9
Current saving	*28 144*	*22 654*	*17 443*	*15 863*	*-19.5*	*-23.0*	*-9.1*
Capital expenditure	*10 835*	*12 330*	*13 456*	*17 848*	*13.8*	*9.1*	*32.6*
Real investment	3 461	3 487	4 234	5 778	0.8	21.4	36.5
Transfers	4 889	5 062	4 141	10 101	3.5	-18.2	144.0
Financial investment	1 995	3 774	5 069	1 929	89.2	34.3	-62.0
Other capital expenditure	490	7	12	40	-98.5	60.8	233.6
Refinancing operations	–	–	*4 292*	*3 902*	–	–	*-9.1*
Debt servicing	*4 269*	*1 771*	*3 636*	*5 301*	*-58.5*	*105.3*	*45.8*
Total expenditure	*29 519*	*32 345*	*42 071*	*51 694*	*9.6*	*30.1*	*22.9*
Fiscal deficit (or surplus)	13 040	8 553	*-3 941*	*-11 188*	*-34.4*	...	*183.9*
Financing							
External	48	77	4 372	8 519			
Domestic	193	25	641	2 153			
Venezuelan Investment Fund	-13 000	-7 532	-2 500	–			
Others	-281	-1 123	1 428	516			

Source: CEPAL, on the basis of official statistics.

[a] Preliminary figures.
[b] Including royalties.

The current revenue of the Government rose by only 6% in 1977. Although this rate represents a reversal of the downward trend which followed the extraordinary increase in revenue in 1974 as a result of the rise in oil prices, the growth was barely sufficient to compensate for the pace of domestic inflation.

The rise in revenue was due to higher tax receipts both from the petroleum sector (5%) and from other sectors (10%). The increase in income from petroleum followed two years of decline and occurred despite the continuing drop in levels of real activity in the sector. The higher revenue from other sectors represented a continuation of the upward trend which has been apparent for some time,

but still makes up only 27°/o of total tax revenue. There is considerable potential for raising taxation outside the petroleum industry, since non-petroleum taxes were equivalent to only 5.5°/o of the non-petroleum product in 1976, i.e., only slightly above the 5.2°/o recorded in the two years 1971 and 1972.

Current government expenditure rose by 19°/o, compared with rates of 13 and 27°/o in 1976 and 1975. Expenditure on wages and salaries, which made up more than 40°/o of the total, continued to grow a good deal faster than inflation: 17°/o compared with 20°/o in 1976 and 17°/o in 1975.

Capital expenditure continued to expand rapidly. Real investment by the central government grew by 37°/o in 1977, after a rise of 21°/o in 1976. There was also an extraordinary increase of 144°/o in transfers, largely as a result of investment by official entities in basic sectors. Financial investment, whose growth speeded up after 1974 because of the surplus revenue generated by petroleum, dropped by 62°/o in 1977 as a result of the relatively greater scarcity of fiscal resources.

As far as other expenditure is concerned, the Government continued the operations to refinance the public debt which it initiated on an extensive scale in 1976. Expenditure on servicing of the public debt also increased sharply in 1977 as a result of greater indebtedness on the part of the authorities and commitments resulting from the nationalization of the petroleum industry (see table 419). Payments under this last heading came to 1,358 million bolívares in 1977.

Table 420 gives an indication of the breakdown of total expenditure by economic sectors. It can be seen that since 1974 education and agriculture have enjoyed high priority. A high proportion of expenditure has also been channelled to transfers to decentralized bodies and public debt operations. In contrast to some members of the Organization of Petroleum-Exporting Countries (OPEC), Venezuela has clearly not channelled a disproportionate share of its revenues to military expenditure, which has remained moderate as compared with total expenditure and even shows a tendency to decline.

The greater part of the deficit incurred in 1977 was covered using external loans, but use was also made of domestic borrowing and Treasury reserves. No contributions were made to the FIV in 1977, as the surplus resources were absorbed in other fiscal activities (see table 419).

Table 420

VENEZUELA: BREAKDOWN OF TOTAL FISCAL EXPENDITURE

(Percentages)

	1974	*1975*	*1976*	*1977*
Basic functions of State administration	12.9	10.6	9.8	10.6
Defence	7.2	5.5	4.5	5.4
Hydrocarbons and mining	2.9	3.8	5.3	0.4
Agriculture	15.2	15.6	12.3	9.9
Industry	6.2	7.2	3.6	7.4
Education and science	15.1	17.3	15.6	16.4
Health and social security	8.9	8.7	8.7	12.7
Legal and social services	1.3	1.6	1.5	1.6
Transport	8.8	7.4	6.3	10.8
Urbanization	2.1	1.3	3.1	1.3
Information and tourism	0.3	0.5	0.7	6.5
Regional agencies	11.7	20.3	14.4	12.1
Debt servicing and refinancing	14.6	5.5	18.9	16.3
Total	*100.0*	*100.0*	*100.0*	*100.0*

Source: CEPAL, on the basis of official statistics.

Part Three

TWO STUDIES ON INTERNATIONAL ECONOMIC RELATIONS

MAJOR CHANGES AND TRENDS IN WORLD TRADE IN THE 1970s

I. THE NEW PATTERN OF WORLD EXPORTS

In the 1970s profound changes have taken place in world trade, with sharp fluctuations and a widespread upward trend in prices. The three years from 1973 to 1975 were the period of greatest dynamism, with the value of world exports rising at the extremely high rates of 60°/o in 1973 and 47°/o in 1974, but then growing by only 3°/o in 1975. In the following two years there was a return to relative normality, but trade did not resume the pattern it had at the beginning of the period.

These changes were caused fundamentally by changes in the unit values of exports. The decision of the member countries of the Organization of Petroleum-Exporting Countries (OPEC) to quintuple the price of petroleum between 1972 and 1974 signified a major modification of world trade and also affected the prices of the exports of the other economic groups, a situation which continued until 1975 and profoundly altered world trade flows.

The share of the exports of developing countries –including those belonging to OPEC– in total exports rose from an average 18°/o in 1970-1972 to 26°/o in 1974, subsequently stabilizing at around 24°/o. This increase took place at the expense of the industrialized market-economy countries, whose share dropped from 71°/o to 64°/o between 1970-1972 and 1977.

This upheaval in the pattern of growth of the value of world exports entailed the transfer of vast resources from the industrialized market economies, primarily to the OPEC countries. However, this transfer in turn led to the growth of a vigorous OPEC market for the industrialized countries and for the other developing economies, with a consequent growth of exports from those two groups to the OPEC countries. The so-called petrodollars actually had an expansionary effect on world trade, which may be attributed not only to OPEC but also to the countries which received some of those resources through international bank credits.

Reciprocal trade flows between the industrialized market economies tended to decline in this period, mainly because of the contraction of the North American market for exports from the European Economic Community (EEC) and Japan. On the other hand, European intra-regional trade remained at the same level and Japan slightly increased its exports to Europe.

The relative decline in reciprocal trade among the industrialized market economies was partially offset by the growth of their exports to the periphery, which rose from 18.5°/o of the total between 1970 and 1972 to 23°/o in 1977, largely due to the growth of imports by the OPEC countries.

The exports of the developing countries –excluding members of OPEC– to the industrialized market economies dropped from slightly over 70°/o between 1970 and 1972 to roughly 67°/o in 1977. On the other hand, their reciprocal trade remained at the same level and their trade with the OPEC countries more than doubled. Latin American intra-regional trade rose from 18°/o to 20°/o during that period.

Significant changes may also be found in trade flows. The industrialized market economies have been increasing their relative share of world exports of food and raw materials, and reducing their corresponding share of manufactures. In contrast, the developing economies are playing a smaller part in the supply of the former type of goods and an increasingly large part in that of manufactures, which reflects their rising level of industrialization. This trend is all the more important if it is considered that world exports of manufactures at constant prices grew at an annual average rate of approximately 7°/o in the period 1970-1975.

Exports of manufactures are of great importance for the periphery in sustaining their capacity to import. The relative weight of these exports increased from roughly 19°/o between 1970 and 1972 to almost 28°/o in 1975 and, according to preliminary estimates, 31°/o in 1977. This trend has become generalized, and the profound changes which have taken place in the structure of exports of the periphery have occurred equally strongly in the Latin American economies, whose exports of manufactures rose from 13°/o in 1970-1973 to 23°/o in 1975.

With regard to trade between the industrialized market economies and the developing countries, the importance of exports of manufactures is different for each of the two groups. For the first group, exports of manufactures to the developing countries grew more rapidly than those of their reciprocal trade. On the other hand, in the developing countries exports of manufactures grew more vigorously in trade among themselves than with the industrialized market economies. Two factors help to explain this trend.

Firstly, the recession which hit the central economies from 1975 onwards slowed their rate of growth and consequently their imports.

Secondly, and this point must be stressed for a sound appraisal of the possibilities open to exports from the periphery, an important role was played by the barriers raised by the central economies to protect themselves against the exports of the developing economies. During the present decade, whenever exports of specific manufactures have been successful, particularly in the case of traditional products such as textiles, food and leather manufactures, protectionist trends have made themselves felt. The central countries feared that such exports would affect some of their domestic productive sectors or worsen their unemployment or balance-payments problems.

However, the application of defensive measures and the current attempt to reach agreements whereby the developing economies would voluntarily restric the growth of some exports can represent nothing more than a short-term solution for the problems of the central economies. In fact, any immediate beneficial effect of such measures on employment and the balance of payments in the central countries will certainly be offset in the medium term by the drop in the import capacity of the developing countries.

II. WORLD EXPORTS

In the course of the 1970s an important change took place in the growth of world exports, measured in constant prices. Contrary to what occurred in the previous decade, when the growth rate of world exports was slow but steady, in the current decade the growth rate has fluctuated wildly with a series of rises which culminated in 1977, when the value of world exports was triple that of the 1970-1972 level (see table 421).

The growth rate of the current value of world exports leapt from an average 14°/o in the three-year period 1970-1972 to 60°/o in 1973 and 47°/o in 1974. The following year, however, the rate fell back and their value rose by only 3°/o. In the last two years the growth rates returned to normal and resumed the levels of the beginning of the period, with 13°/o in 1976 and 16°/o in 1977.

Within this overall pattern, there were differences in the performance of the large trade areas. Whereas the industrial market economies kept very close to the overall pattern, with big rises and falls, the centrally planned economies were able to moderate the fluctuations, and were the only trade area which did not register a sharp, widespread drop in the growth rate of exports in 1975. As a group, the developing economies underwent sharper fluctuations in the three-year period 1973-1975 than the other two trade areas. This overall result was heavily influenced by the performance of the OPEC countries, which recorded growth rates in the value of their exports of 83°/o in 1973, 211°/o in 1974 and -19°/o in 1975, with a resumption of normal levels in the final two years of the period under consideration. In the developing economies of the Latin American area, the changes followed the same pattern as for world exports and the developed market-economy countries. The exports of Asia and Africa also fluctuated sharply in the three years 1973-1975, although with a one-year lag in the case of the African economies, but did not return to normal in the last two years, unlike the other trade areas (see table 421).

These severe and occasionally abrupt fluctuations in the current value of world exports were primarily due to the considerable rise in their unit value, which almost doubled between 1970 and

Table 421

WORLD EXPORTS BY ECONOMIC GROUPS

	Billions of dollars						*Growth rates*					
	1970-1972	*1973*	*1974*	*1975*	*1976*	*1977*[a]	*1970-1972*[b]	*1973*	*1974*	*1975*	*1976*	*1977*
World	361	579	849	875	991	1 145	14	60	47	3	13	16
Industrialized market economies	258	408	544	580	645	740	16	58	33	7	11	15
Centrally planned economies	38	58	72	86	95	112[c]	11	53	24	19	10	18
Developing economies	65	112	223	210	251	280[c]	14	72	99	-6	20	12
OPEC	24	44	137	111	133	154[c]	20	83	211	-19	20	16
Latin America[d]	15	24	38	37	43	49[c]	10	60	58	–	16	14
Africa[e]	11	12	16	15	16	16[c]	12	9	33	-6	6	–
Asia[e]	18	36	55	56	63	67[c]	14	100	53	2	12	6

Sources: United Nations, *Yearbook of International Trade Statistics,* 1975 and *Monthly Bulletin of Statistics,* various issues.

a Preliminary figures.
b Annual average with respect to preceding three-year period.
c Estimated on the basis of data for the first half of the year.
d Excluding Venezuela.
e Excluding OPEC countries.

1974 (see table 422). This growth was due to the sharp rise in the price of petroleum, which quintupled in that period and continued to rise in following years, although at a slower rate of 6%/o per year (slightly below the rate of inflation in the central economies).

Table 422

UNIT VALUE INDEXES OF WORLD IMPORTS
(1970 = 100)

	1970-1972	*1973*	*1974*	*1975*	*1976*	*1977*[a]
World	107	140	193	205	211	232
Market economies	107	142	199	213	218	237
Industrialized	106	138	172	192	192	208
Developing	108	158	318	311	330	332
OPEC[b]	113	168	593	631	669	740
Excluding petroleum	102	141	192	188	189	202
Latin America	102	140	189	196	207	...
Middle East	109	148	191	198	...	...
"Other" Asia[c]	102	147	208	197	...	...
Centrally planned economies[d]	106	121	136	146	156	158

Source: United Nations, *Monthly Statistical Bulletin*, "Special Table B", January 1978.

[a] Preliminary figures.
[b] Index published by International Monetary Fund, *International Financial Statistics*, March 1978.
[c] Including Indonesia.
[d] With regard to the exactness of this index, see note to table 423.

The unit values of the exports of the non-OPEC developing countries closely followed the world pattern, with sharp rises of over 30%/o in 1973 and 1974, becoming more moderate in the following years and reaching only a little under 10%/o in 1977. Nevertheless, the final level reached by the corresponding index in these economies was lower than those of the total and of the industrial market economies. The price indices of the latter rose more slowly than those of the other countries until 1974, but thereafter their growth rate has been higher than that of the non-OPEC developing countries.

From another standpoint, world exports measured in real values as usual have not varied as sharply as the above. Apart from 1973, when their volume grew by 25%/o in relation to the average for 1970-1972, rises were moderate and there was only a drop of slightly over 2%/o in 1975 (see table 423).

This did not occur, however, in the different country groupings. The volume of exports of the OPEC countries has been very unstable and began to stagnate from 1973 onwards. In the other developing economies, the volume of exports has fluctuated between the two extremes of the period in question, with a drop of approximately 15%/o in the African economies and rises in the economies of Latin America (over 45%/o) and Asia (over 40%/o), following the widespread reversals of 1974 and 1975.

The volume of exports of the industrialized market economies rose steadily in every year except 1975, when the recession affecting them reached its peak.

With regard to the centrally planned economies, the available data, which are subject to a wide margin of error, show a steady expansionary trend.

Table 423

WORLD EXPORTS BY ECONOMIC GROUPS

	Billions of 1970 dollars						*Growth rates*					
	1970-1972	*1973*	*1974*	*1975*	*1976*	*1977*	*1970-1972*[a]	*1973*	*1974*	*1975*	*1976*	*1977*
World	332	415	439	429	473	492	...	10	6	-2	10	4
Industrialized market economies	236	295	315	302	335	344	8	12	7	-4	11	3
Centrally planned economies	36	48	53	59	61	71	...	8	10	11	8	11
Developing economies	60	72	71	68	77	77	9	11	-1	-4	13	–
OPEC	19	22	22	20	20	21	8	11	–	-9	–	5
Latin America[b]	15	17	19	19	21	22	6	15	12	–	10	5
Africa[c]	8	9	8	7	7	7	7	8	-10	-12	–	–
Asia[c]	17	23	23	24	26	24	11	13	–	4	8	-8

Sources: United Nations, *Yearbook of International Trade Statistics,* 1975 and *Monthly Bulletin of Statistics,* "Special Table B", January 1978.

Note: The constant values for the industrialized market economies and the group of developing economies were calculated using the quantum indexes by areas given in the above sources until mid-1977. The sources provide indexes by continental groups only until 1975, and consequently for 1976 and 1977 extrapolations based on partial price indexes were used. The constant values for the centrally planned economies are subject to a wide margin of error. The current values published by the above sources are deflated by an index made up as follows: 40% –unit value index of exports of the industrialized market economies; 60%– a price index increasing by 3% annually. The latter basically reflects the loss of international purchasing power of the currency used as a reference rather than the price changes which may have occurred in the reciprocal trade of the centrally planned economies. As the figures have been rounded off, the values for the developing regional groups do not coincide with the corresponding subtotal.

a Annual rate compared with the preceding three- year period.
b Excluding Venezuela.
c Excluding OPEC countries.

III. CHANGES IN THE SHARES OF THE DIFFERENT ECONOMIC GROUPS IN WORLD TRADE

Owing to the changes described above, the shares of world trade of the different economic groups changed significantly. Naturally, the size of the changes depends on the type of analysis made; if current values are used as a base, the changes are many and profound, but if constant prices are used, the changes are few and moderate.

It may be seen from the data at current prices in table 421 that the share which changed most was understandably that of the OPEC countries. The value of their exports, which represented 6.6°/o of the world total on average in the years 1970-1972, soared to a little over 16°/o in 1974, dropping in the following years to reach a little over 13°/o at the end of the period under consideration.

The counterpart to this growth in the OPEC share was the decline in that of the industrialized market economies from 71.5°/o of the world total in the two years 1970-1972 to slightly over 64°/o in 1974, a percentage which remained more or less constant until 1977. The share of the centrally planned industrial economies also declined, from 10.5°/o between 1970 and 1972 to 8.5°/o in 1974, but recovered in subsequent years to reach almost 10°/o in 1977.

The share accounted for by the world exports of the non-OPEC developing countries varied very little in the course of the seven years in question, although some changes took place within the group.

Understandably the African countries, which include many relatively backward economies, have had a declining share of world trade. Their participation dropped steadily from 3°/o in the year 1970-1972 to 1.4°/o in 1977. The developing economies of Latin America, excluding Venezuela, have accounted for percentages which fluctuated around 4°/o, and managed to maintain their share of world trade. Consequently it was the developing economies of Asia which offset the declining share of the African block: their exports rose from 5°/o of the world total in 1970-1972 to 6°/o in the following four years, and they maintained this figure with slight variations.

The bigger share of the developing economies in world trade consequently modified the structure of world imports. As may be seen from table 424, the imports of those countries accounted for a little over 18°/o of the world total as an average for the years 1970-1972, and this percentage rose from 1974 onwards to reach almost 23°/o by the end of the period.

In addition, the almost eightfold growth in the current values of imports of the OPEC countries caused an appreciable increase in their relative share of world imports, which more than doubled between 1970-1972 and 1977, rising from 3°/o to a little over 7°/o (see table 424). While it has always been an interesting market for the other economies, the present share of the OPEC group has turned it into one of the most important markets. By way of comparison, Japan's share stood at 5.6°/o in 1977, a year in which OPEC imports were also higher than those of the countries of the European Free Trade Association (EFTA).

The share of the industrialized market economies in world imports dropped slightly from a little over 70°/o in 1970-1972 to slightly over 67°/o in 1977. As in the case of world exports, this amount is similar to the growth of the share of the OPEC countries.

The individual shares of the groups of developing economies also changed. In the case of Latin America, it increased until 1974 and dropped thereafter to reach 5°/o in 1977, virtually the same figure as during the initial period 1970-1972. In the case of Africa, the percentage remained constant at about 6°/o until 1975, and then dropped sharply to a little over 2°/o in 1977. The Asian countries, on the other hand, followed a rising trend, and their share of world imports rose from 6.6°/o to 7.2°/o between 1970-1972 and 1977 (see table 424).

IV. ORIGIN AND DESTINATION OF EXPORTS

Table 425 shows the origin and destination of the exports of each economic group and the proportion accounted for by intra-group trade and by trade with the other groups during the period under consideration. It may be seen that there are two different types of situation. On the one hand, some economies achieved a higher level of linkage, directing a higher proportion of their exports to their own geographic group. This situation is examplified by the developing economies. In other

Table 424

WORLD IMPORTS BY ECONOMIC GROUPS

	Billions of dollars						*Growth rates*					
	1970-1972	*1973*	*1974*	*1975*	*1976*	*1977*[a]	*1970 1972*	*1973*	*1974*	*1975*	*1976*	*1977*
World[b]	361	579	849	875	991	1 145	49	60	47	3	13	16
Industrialized market economies	254	410	585	576	669	769	40	61	43	-2	16	15
Centrally planned economies	36	56	72	92	98	110[c]	33	56	29	28	7	12
Developing economies	66	105	172	200	217	262[c]	47	59	64	16	9	21
OPEC	11	20	36	57	64	82[c]	56	82	80	58	12	28
Latin America[d]	18	28	51	51	52	58[c]	38	56	82	–	2	12
Africa[e]	10	16	23	25	25	24[c]	43	60	44	9	–	-4
Asia[e]	24	38	58	64	73	83[c]	71	58	53	10	14	14

Sources: United Nations, *Yearbook of International Trade Statistics,* 1975 and *Monthly Bulletin of Statistics,* various issues.

a Preliminary figures.
b Equals world exports, by definition.
c Estimates based on data for 6 to 9 months.
d Excluding Venezuela.
e Excluding OPEC countries.

cases, there is a trend towards greater diversity in the destination of exports, which are directed towards different economic groups. This is the case of the industrial economies, whether market or centrally planned.

Table 425

ORIGIN AND DESTINATION OF WORLD EXPORTS, BY ECONOMIC GROUPS
(Percentages) [a]

From \ To	*Industrialized market economies*	*Centrally planned economies*	*Developing economies*		
			Total	*OPEC*	*Other*
Industrialized market economies					
1970-1972	77.1	3.8	18.5	3.7	14.8
1973	76.7	4.5	18.1	4.0	14.1
1974	73.3	5.2	20.9	5.3	15.6
1975	69.5	6.0	23.9	8.2	15.7
1976	71.1	5.5	22.9	8.3	14.6
1977	71.7	4.9	23.0	8.9	14.1
Centrally planned economies					
1970-1972	23.8	60.9	15.0	2.2	12.8
1973	26.9	57.5	15.3	2.2	13.1
1974	32.5	50.5	16.1	3.1	13.0
1975	28.1	55.6	15.6	3.7	11.9
1976	28.9	54.6	15.6	3.6	12.0
1977	27.9	55.4	16.1	3.5	12.6
Developing economies					
1970-1972	73.1	5.2	20.2	1.9	18.3
1973	73.9	4.6	20.1	2.1	18.0
1974	74.5	3.6	21.2	2.3	18.9
1975	71.3	4.7	23.0	3.2	19.8
1976	72.9	4.1	21.9	2.6	19.3
1977	72.2	4.6	22.1	3.0	19.1
OPEC					
1970-1972	78.4	1.7	17.9	0.5	17.4
1973	78.3	1.7	17.6	0.7	16.9
1974	78.5	1.3	19.4	0.4	19.0
1975	76.3	1.8	20.9	0.4	20.5
1976	77.4	1.7	20.0	0.3	19.7
1977	76.8	1.7	20.3	0.5	19.8
Other developing economies					
1970-1972	70.1	7.1	21.5	2.8	18.7
1973	71.1	7.3	21.7	2.9	18.8
1974	69.5	6.5	23.3	4.8	18.5
1975	65.7	7.8	25.5	6.4	19.1
1976	68.0	6.9	24.0	5.2	18.8
1977	67.1	4.6	24.1	5.8	18.3

Source: United Nations, *Monthly Bulletin of Statistics*, "Special Table C", various issues.

[a] The differences between the percentage data in this and in other tables stem from the inclusion or exclusion of certain export categories (such as the provisioning of ships) because their regions of destination could not be determined.

1. *The trade of the industrialized economies*

During the period under consideration, the industrialized market economies traded a declining proportion of their exports among themselves. The percentage dropped from a little over 77°/o in 1970-1972 to 69.5°/o in 1975, when they were suffering from a severe recession. In the final two years of the period, their reciprocal trade became more buoyant and its share in world trade rose to almost 71.7°/o in 1977, as a result of the relative upturn in their economies.

These fluctuations, with a trend towards a decline in reciprocal trade, did not occur symmetrically in all the economies forming the group. They were rather the result of the relatively poor performance of the trade flows between the continental groups formed by the industrial economies. Thus, for example, the North American market contracted both from the standpoint of its share in the export trade of the EEC, which dropped from a little over 8°/o in 1970-1972 to 5.8°/o in 1977, and from that of its trade with Japan, which dropped more sharply from 31.4°/o in 1970-1972 to 23.7°/o in 1977. From the standpoint of the United States, the EEC as a group and Japan reduced their share of United States exports from a little over 25°/o to almost 23°/o and from 10°/o to 8.8°/o, respectively (see table 426).

While in both cases the declines are relatively small, it should be borne in mind that they occurred despite the devaluations of the dollar against the yen and most European currencies during this period, which should have had a contrary effect on the observed trend.

In contrast, European intra-regional trade, within both the EEC and EFTA, maintained its importance, thus helping to prevent any further decline in the share of world trade accounted for by trade among the industrialized market economies. In other words, the trade relations of the European regional groups did not follow the trend which affected the trade between the different continental segments of the central countries, and primarily the trade between the United States, Japan, and Europe as a whole.

With regard to Japanese trade, the proportion of its exports to the EEC economies did not vary, while the proportion directed to EFTA rose slightly in the last two years. The exports of Australia, New Zealand and Canada to Japan also followed an upward trend (see table 426). The causes of these deviations from the overall pattern for the industrialized market economies are perfectly clear: the search for new markets or the need to secure supplies of commodities on the part of Japan.

The relative contraction of their own markets caused the industrial economies to attach increased importance to trade with the periphery, which absorbed 18.5°/o of their exports in 1970-1972 and 23°/o in 1977 (see table 425). This increase was certainly due to the growth of the share of the OPEC countries which rose from 3.7°/o to 8.9°/o over the period.

The reciprocal trade of the centrally planned economies also declined while their exports to the industrialized market economies grew from almost 24°/o in 1970-1972 to almost 28°/o in 1977. Their exports to the developing economies, basically the OPEC countries, grew too, rising from 2.2°/o in 1970-1972 to about 3.5°/o in subsequent years (see table 425).

2. *The trade of the developing economies*

The changes in the direction of the trade of the developing economies, although minor, are of interest. Leaving aside the distortions caused by the price rises in 1973 and 1974 it may be seen, on comparing 1970-1972 with 1977, that their exports to the industrialized market economies dropped from roughly 73°/o to 72°/o of the total, and exports to the centrally planned economies from 5.2°/o to 4.6°/o. In contrast, the relative importance of their reciprocal trade rose from approximately 20°/o to 22°/o (see table 425).

The share of the exports of OPEC countries directed to the industrialized market economies dropped from 78.4°/o on average during the two years 1970-1972 to 76.8°/o in 1977. This was offset, however, by the rise in sales to other developing economies from 17.4°/o to 19.8°/o in the same period. OPEC trade with the centrally planned economies remained constant at about 1.7°/o.

The non-OPEC developing countries, for their part, had to face a relative contraction of their markets in the industrialized market economies during this period. Their exports to the latter dropped from a little over 70°/o in 1970-1972 to little over 67°/o in 1977 and their exports to the centrally

Table 426

TRADE AMONG THE CHIEF INDUSTRIALIZED MARKET ECONOMIES
(Percentage of respective total exports)

From \ To	EEC	EFTA	United States	Canada	Japan	Australia/ New Zealand
EEC						
1970-1972	50.9	12.3	8.3	1.4	1.2	1.4
1973	52.6	12.2	7.4	1.1	1.3	1.1
1974	50.6	11.9	6.9	1.1	1.2	1.4
1975	49.3	11.2	5.5	1.1	0.9	1.1
1976	51.7	11.5	5.6	0.9	0.9	1.0
1977[a]	51.7	11.4	5.8	0.9	0.9	1.0
EFTA						
1970-1972	48.5	18.8	7.0	1.3	1.3	1.0
1973	48.0	18.4	6.5	1.2	1.9	0.9
1974	45.8	19.2	5.7	1.1	1.6	1.1
1975	44.4	18.7	5.2	1.2	1.2	0.9
1976	46.6	17.7	5.0	1.1	1.3	0.9
1977[a]	47.6	18.0	5.2	0.9	1.2	1.0
United States						
1970-1972	25.1	3.7	–	22.9	10.0	2.4
1973	23.3	3.2	–	21.1	11.6	2.4
1974	22.2	3.3	–	20.1	10.9	2.7
1975	21.1	3.2	–	20.1	8.9	2.1
1976	22.1	3.1	–	21.0	8.8	2.3
1977[a]	22.9	3.2	–	22.0	8.8	2.1
Canada						
1970-1972	14.2	1.6	67.9	–	4.6	1.2
1973	12.5	1.4	68.1	–	7.1	1.0
1974	12.6	1.6	66.5	–	6.9	1.2
1975	12.5	1.2	65.7	–	6.4	0.9
1976	12.0	1.1	67.6	–	6.4	1.1
1977	10.7	1.2	69.8	–	6.2	1.2
Japan						
1970-1972	10.2	3.0	31.4	3.5	–	3.4
1973	11.9	3.6	25.9	2.7	–	3.9
1974	10.7	2.8	23.3	2.9	–	4.5
1975	10.2	2.8	20.2	2.1	–	3.8
1976	10.8	3.2	23.7	2.3	–	4.0
1977[a]	10.9	3.5	23.7	2.1	–	3.6
Australia/New Zealand						
1970-1972	25.7	0.8	13.3	2.9	24.7	5.8
1973	22.2	1.1	13.0	2.7	29.1	6.3
1974	18.3	0.8	10.0	3.1	26.6	7.2
1975	17.3	1.3	10.0	2.9	27.4	6.0
1976	17.5	1.3	9.8	2.6	30.2	6.1
1977[a]	18.6	0.8	8.9	2.0	29.6	6.4

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

[a] First half.

planned economies from approximately 7°/o to 4.6°/o over the same period. On the other hand, sales to OPEC recorded a relative rise from 2.8°/o to 5.8°/o in the course of the period.

The reciprocal trade of the developing economies, excluding OPEC, showed almost no variation throughout the period, accounting for a constant proportion of 19°/o. This was fundamentally the result of the unfavourable performance of the trade of the African countries. Factors which it would be out of place to comment upon here have affected all their foreign trade, thus influencing the trade of the non-OPEC group of developing economies.

Table 427 presents data for the developing countries of the Latin American area and its principal component, the Latin American Free Trade Association (LAFTA). It may be seen that the intra-regional trade of this area has grown faster than its total exports. In 1970-1972, the former represented a little over 18°/o, rising to almost 20°/o in 1976. The reciprocal trade of LAFTA, for its part, rose from 10.8°/o to 13.5°/o in the period, and LAFTA's sales to the developing countries of the Latin American area increased their relative share from 19.5°/o to 24.1°/o between 1970-1972 and 1976.

Table 427

ORIGIN AND DESTINATION OF EXPORTS FROM DEVELOPING COUNTRIES OF LATIN AMERICA AND LAFTA
(Percentage of annual total)

From \ To	*Latin America*	*LAFTA*	*Middle East*	*Far East*	*Africa*
Latin America					
1970-1972	18.3	8.5	0.3	1.1	0.7
1973	16.9	8.5	0.8	1.7	1.1
1974	20.0	9.0	0.9	0.7	1.6
1975	19.7	9.5	1.7	0.7	2.6
1976	19.7	9.9	1.0	0.6	1.5
LAFTA					
1970-1972	19.5	10.8	0.3	1.1	0.6
1973	18.6	10.9	1.0	2.1	1.0
1974	23.7	12.0	1.2	0.8	1.7
1975	25.2	13.3	1.6	0.7	1.9
1976	24.1	13.5	1.1	0.7	1.5

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

In addition, both groups increased the proportion of their sales to the Middle East (excluding Israel) and Africa, while reducing that to the Far East.

V. CHANGES IN PARTICIPATION BY TYPE OF PRODUCTS

The shares of the economic groups show some significant differences from the point of view of the types of products, classified according to conventional methods (SITC),[212] particularly taking into account the volumes traded.

It may be seen from table 428, which was prepared on the basis of 1970 prices and contains virtually definitive data, that the global exports of the developing economies represent a slightly decreasing percentage of the world total: from 19.3°/o in 1970-1972 they sank to 18.4°/o in 1977.

[212] *Standard International Trade Classification,* United Nations publication, Sales N°: 61.XVII.6.

Table 428

SHARE OF THE DEVELOPING COUNTRIES IN WORLD TRADE, IN REAL TERMS, BY SITC SECTIONS
(Percentage of the corresponding world total)

	Total 0-9	*Food* 0-1	*Raw materials* 2-4	*Fuels* 3	*Manufactures* 5-8
1970-1972	19.3	33.1	32.6	71.9	7.5
1973	19.4	31.9	31.2	72.1	8.3
1974	18.2	28.7	31.2	73.3	8.3
1975	18.5	29.2	30.5	73.5	9.0
1976	18.8	———	28.4 ———	74.0	9.1
1977	18.4	———	26.0 ———	74.0	9.6

Sources: 1970-1975: United Nations, *Monthly Bulletin of Statistics*, "Special Table F", June 1977;
1976-1977: For the total and fuels, see the note to table 423. For manufactures the index used was prepared on the basis of a sample of the imports of selected purchasing countries.

What is interesting, however, and may perhaps become a novel feature of the 1970s, is that the central economies increased their share in world sales of food and raw materials whereas the developing countries increased their share of the total trade in manufactures.

As may be seen from table 428, the share of the periphery is falling in the first two groups (SITC sections 0-1, food, and 2-4, raw materials), more markedly than in total exports. For the first item the drop is from 33.1% in 1970-1972 to 29.2% in 1975, with a similar drop in the second group, the corresponding figure for the two groups in 1977 being only 26%. Conversely, the industrialized market economies raised their share in the trade of these goods from two-thirds to three-quarters in the course of the period.

As might be expected, during the present decade the share of the developing economies in the trade in fuels increased: from 72% in 1970-1972 to 74% in 1975, a percentage which has since remained constant. It should be noted that these figures do not take into account the price effect, which would considerably increase the corresponding percentages after 1973-1974.[213]

Exports of manufactures are shown in the last column in table 428. The share of the developing economies was only 7.5% in 1970-1972. By way of reference it may be pointed out that it was 7% in 1960 and 1970, i.e., it did not change significantly between the beginning and the end of the past decade. On the other hand, it rose slowly but steadily between 1971 and 1974 and in 1975 (the final year, as stated above, for which definitive world statistics are available) it reached 9%. The estimates for 1976 and 1977 indicate that this share has continued to rise and stood at roughly 9.6% in 1977. Although this percentage represents a considerable advance over the levels of the 1960s, it is still small.

In order to appraise this process properly, it should be borne in mind that world exports of manufactures grew at the very high rate of 7.1% annually during the period 1970-1975.

A more detailed examination of the question must take account of the importance of manufactures within the exports of the developing economies and also of Latin America, as well as the links between those economies and the industrialized market economies. These aspects will be considered in the following sections.

[213] As pointed out earlier, the percentage accounted for by OPEC exports rose from 6.6% of the world total in 1970-1972 to 16% in 1974 (see table 421).

VI. CHANGES IN THE STRUCTURE OF THE PERIPHERY'S EXPORTS

At the beginning of the 1970s the most important export class of the developing economies was fuels (SITC section 3), which in 1970-1972 accounted for 38.3°/o of their total exports at current values, and 34.6°/o at 1970 prices. Understandably, since 1973 the first figure has risen enormously, reaching 61.3°/o in 1975, the last year for which calculations at current prices can be made (see table 429). This very abrupt change naturally decreased the relative importance of the other export products. Thus raw materials (SITC sections 2-4), together with exports of non-ferrous metals, accounted for 20.6°/o of total exports in 1970-1972, but only 12.9°/o in 1975. The manufactures group, excluding the value of non-ferrous metals, dropped from 19.6°/o to 13.3°/o. Among the components of this group, machinery and equipment (SITC section 7) remained constant at 3.4°/o in both 1970-1972 and 1975.

At 1970 prices, the relative share of fuels did not change significantly, and tends to be increasingly small, in contrast to the results of the calculation at current prices (see table 430). As stated above, it was 34.6°/o in 1970-1972, but then dropped to 31.7°/o in 1975, and, by extrapolation, rose slightly to 32.4°/o in 1977. Similar changes are observed if other items are examined from the standpoint of the volume of exports.

Table 429

DEVELOPING ECONOMIES: RELATIVE BREAKDOWN OF EXPORTS

	Total *0-9*	*Food* *0-1*	*Raw materials* *2-4*[a]	*Fuels* *3*	*Manufactures* *5-8*[b]
1970-1972	100.0	21.5	20.6	38.3	19.6
1973	100.0	18.4	24.5	40.9	16.2
1974	100.0	11.6	15.1	61.4	11.9
1975	100.0	12.5	12.9	61.3	13.3

Source: United Nations, *Monthly Bulletin of Statistics*, "Special Table C", various issues.

[a] Includes SITC 68, "Non-ferrous metals".
[b] Excludes SITC 68, "Non-ferrous metals".

Table 430

DEVELOPING ECONOMIES: RELATIVE BREAKDOWN OF EXPORTS
(Percentages on the basis of 1970 prices)

	Total *0-9*	*Food* *0-1*	*Raw materials* *2-4*[a]	*Fuels* *3*	*Manufactures* *5-8*[b]
1970-1972	100.0	22.5	23.5	34.6	19.3
1973	100.0	20.7	21.3	34.4	23.2
1974	100.0	18.0	22.2	34.1	25.2
1975	100.0	20.1	20.2	31.7	27.8
1976	100.0	———	38.9 ———	31.9	29.2
1977	100.0	———	36.6 ———	32.4	31.0

Source: United Nations, *Monthly Bulletin of Statistics*, "Special Table C", various issues.

[a] Includes SITC 68, "Non-ferrous metals".
[b] Excludes SITC 68, "Non-ferrous metals".

Thus, food (SITC sections 0 and 1) dropped from 22.5°/o in 1970-1972 to 20.1°/o in 1975. Raw materials, with the addition of non-ferrous metals, also had a declining share of the total, from 23.5°/o to 20.2°/o in the course of the period. Taken together, their contribution to the exports of the developing economies continued to decline in 1976 and 1977, amounting to a mere 36.6°/o in the latter year.

The manufactures component (SITC sections 5-8, excluding division 68, non-ferrous metals) is significantly increasing its relative share in the exports of the developing economies. In 1970-1972 it represented slightly under one-fifth (19.3°/o); in each of the following years it rose by at least two points and in 1975 it was 27.8°/o. As has been stressed repeatedly, the statistics up to 1975 are completely reliable. For the following two years, information is available on some major national economies, on the basis of which it is estimated that the relative share of manufactures continued to grow and in 1977 represented 31°/o of the total exports of the developing economies.

Thus, in barely seven years the structure of exports of the periphery has changed profoundly, and this has occurred in Latin America too. As in the case of the developing economies as a whole, in Latin America some countries are more industrialized and have a larger share of exports of manufactures. These include Argentina, Brazil, Colombia and Mexico and, in Central America, El Salvador. However, most economies of the region reflect this change to varying degrees. In Haiti, for example, exports of manufactures (SITC sections 5-8) represented 40°/o of the total value of exports in the fiscal year 1975-1976;[214] while in Chile, Peru and Venezuela the percentage fluctuated in 1977 between 25°/o and 35°/o in real terms. It may therefore be assumed that the process is relatively widespread and certainly involves other areas of the Third World.

The changes which took place in Latin America up to 1975 may be seen in table 431. It is immediately apparent that the relative contribution of food exports is unstable, with a downward trend similar to that of raw materials (SITC sections 2 and 4, plus non-ferrous metals); this trend is very pronounced in the case of fuels. With regard to manufactures (SITC sections 5 to 8), excluding non-ferrous metals because of their weight in this sub-total, their share was 13.2°/o in 1970-1972 and had risen to 23.4°/o only three years later. The progress made over this period may be compared with that of the developing economies as a whole, which, however, occurred over five years (see table 430).

Table 431

LATIN AMERICA (20 COUNTRIES): BREAKDOWN OF REAL EXPORTS, BY SITC SECTIONS

	Total *0-9*	*Food* *0-1*	*Raw materials* *2-4*[a]	*Fuels* *3*	*Manufactures* *5-8*[b]
1970-1972	100.0	49.8	19.0	18.0	13.2
1973	100.0	47.5	18.0	16.6	17.8
1974	100.0	45.0	18.8	14.5	21.7
1975	100.0	48.3	17.5	10.8	23.4

Source: Specially tabulated for CEPAL by the Statistical Office of the United Nations.

[a] Includes SITC 68, "Non-ferrous metals".
[b] Excludes SITC 68, "Non-ferrous metals".

[214] Essential oils, kid leather, textiles and certain sporting goods have become relatively important in the exports of manufactures from Haiti. These goods are produced both by small workshops and by factories, working on their own account or through international subcontracting.

VII. CHANGES IN THE PATTERN OF TRADE BETWEEN THE DEVELOPING ECONOMIES AND THE INDUSTRIALIZED MARKET ECONOMIES

The transformations undergone by trade flows have naturally entailed changes of varying size and importance in the pattern of trade between the main economic groups. The available data are sufficient merely to indicate some changes which particularly affect the trade flows between the developing economies and the industrialized market economies as well as changes within those groups. It appears from the relevant figures set forth in table 432 that there are two outstanding features in the pattern of trade which has prevailed in the first half of the 1970s. These are the growing and already appreciable importance of the peripheral markets for the central economies, and the importance of exports of manufactures for the Third World and for Latin America in particular.

Table 432 presents data on the real growth of exports, by SITC sections, for the industrialized market economies and for the developing economies.[215] It also shows the proportions, likewise by SITC sections, which each of the two economic groups directs to the other and to itself, and the corresponding growth rates. By way of illustration, it also gives the growth rate of total exports under

Table 432

EXPORTS, BY SITC SECTIONS, OF THE INDUSTRIALIZED AND OF THE DEVELOPING ECONOMIES
(Percentages)

	Relative importance as market				*Annual growth rates 1970-1975*		
	Industrialized economies		*Developing economies*		*Industrialized economies*	*Developing economies*	*Total*
	1970	*1975*	*1970*	*1975*			
0-1							
Food							
Industrialized economies	81	82	19	18	5.8	4.4	5.7
Developing economies	82	73	18	27	-1.0	10.8	1.4
2-4							
Raw materials							
Industrialized economies	90	87	10	13	1.1	6.5	1.7
Developing economies	82	78	18	22	-0.3	4.5	0.4
5-8							
Manufactures							
Industrialized economies	79	74	21	26	4.7	10.7	6.7
(SITC section 7)	(77)	(70)	(23)	(30)	(5.1)	(13.0)	(7.1)
Developing economies	74	69	26	31	9.7	14.9	11.2
0-9							
Total							
Industrialized economies	80	76	20	24	4.4	9.8	5.5
Developing economies	78	74	22	26	2.8	8.4	4.0

Source: United Nations, *Monthly Bulletin of Statistics*, "Special Table D", December 1977.

[215] Regrettably no such information exists for the centrally planned economies.

these sections. Only the years 1970 and 1975 are used, for which reliable data are provided by the United Nations *Monthly Bulletin of Statistics.*

Beginning with the totals, it may be seen that the markets of the developing economies recorded the greatest growth, both in their reciprocal trade and in their trade with the industrialized economies. In the first case the annual growth rate in the period 1970-1975 was 8.4% and in the second 9.8%. On the other hand, the markets of the industrialized economies were comparatively sluggish in their reciprocal sales, as is shown by their growth rate of 4.4%, while their purchases from the developing economies grew only scantily (2.8%). Thus during this five-year period the latter increased their role as a market for the central countries (absorbing 20% of their exports in 1970 and 24% in 1975) and for themselves (22% and 26%, respectively).

These trends may be explained by looking at the type of product. The only heading in which sales between the industrialized economies grew more rapidly than sales to the developing economies is that made up of SITC sections 0 and 1 (food). The opposite occurs in all other cases. Thus for sections 2 and 4 (raw materials) the growth rate of reciprocal exports of the industrialized economies was 1.1% whereas that of their sales to the developing economies was 6.5%.

It is unnecessary to stress the importance of exports of manufactures for the industrialized economies. Suffice it to say they represent approximately three-quarters of their total sales. Exports to the developing economies grew at an annual rate of 10.7% whereas exports among themselves grew at only 4.7%. If this last rate is compared with that of total exports of manufactures, it may be seen that sales to the developing economies were 2 percentage points higher every year. The same was true of exports of equipment and machinery (SITC section 7), shown in the following line, in brackets, in table 432.

To continue with the analysis, it may be pointed out that in 1970 the developing economies absorbed 21% of the manufactures and 23% of the machinery and equipment exported by the industrialized market economies. These proportions rose to 26% and 30% respectively in 1975. In both cases the market constituted by the developing economies can no longer be described as marginal. In 1975 conditions, exports of manufactures of the industrialized economies would rise by 1% (and their total exports by 0.75%) for every rise of 3.8% in the purchase of such goods by the developing countries. This percentage would be 3.3% in the case of machinery and equipment alone. It should be added that, in the conditions prevailing in 1970, this 1% variation would have called for rises of 4.8% and 4.3%, respectively, in the purchases of the developing countries. Thus the latter have become markets whose performance is important for the industrialized market economies.

It was stated earlier that the reciprocal exports of the developing economies grew more than their exports to the central countries. It may be seen from table 430 that their total exports in 1970-1975 grew at an annual rate of 4%, whereas their reciprocal sales rose by 8.4% and sales to the industrialized economies by only 2.8% per year. This pattern is invariable for all types of goods. It should be noted that in the case of food and raw materials, the growth rate of trade with the industrialized economies was negative, or in other words, those markets contracted. In contrast, in the same export headings the developing economies become very important as markets for their own products.

This is even clearer in the case of manufactures. This component of their reciprocal trade grew by 14.9% annually over the five years. In other words, it doubled in real terms. At current prices, it rose from 3,400 million dollars in 1970 to 11,500 million in 1975. The latter figure may be broken down into 1,600 million for chemical products (SITC 5), 3,200 million for machinery and equipment (SITC 7) and 6,600 million for miscellaneous manufactures (SITC 6 and 8).

With regard to their trade with the industrialized market economies, a distinction may be made between import and export flows. Purchases of raw materials by the periphery (see table 432) grew by 6.5% annually, a rate perhaps determined by the high content of inputs for manufacturing industry. Needless to say, the largest purchases were of machinery and equipment, which is of the utmost importance for investment in those countries and constitutes a traditional component of this trade.

The same occurred in the case of exports of non-manufactured products and of fuels from the developing economies to the industrialized markets. On the other hand, as stated above, negative rates were recorded in respect of sales of food and raw materials.

The developing economies were able to increase their sales of manufactures to the central economies by 9.7% annually between 1970 and 1975. In other words, the volume exported rose by 60% between those two years. Excluding petroleum, this trade amounted to one-third of the value of their exports in 1975, which means that for the non-oil-exporting developing countries these sales have become vitally important for their current import capacity.

It should be stressed that the machinery and equipment (SITC section 7) exported to the industrialized economies by the periphery had a value of only 3,500 million dollars in 1975. This figure is little more than 5% of the trade flow in the reverse direction, and consequently suggests not so much competition as complementarity, which results from the links described above and from which an idea can be gained of the broad possibilities still open.

TRENDS AND CHANGES IN THE INVESTMENT OF TRANSNATIONAL CORPORATIONS IN THE DEVELOPING COUNTRIES AND PARTICULARLY IN LATIN AMERICA

There can be no need to stress the importance of the role played by the transnational corporations in world economic development from the standpoint both of the industrialized and of the developing countries. Few subjects have received more attention in recent years, as evidenced by the voluminous bibliography and the growing number of institutions engaged in analysing them, including, of course, the United Nations Centre on Transnational Corporations (CTC). For its part, CEPAL some years ago began research on the question and published some viewpoints in the *Economic Survey of Latin America, 1970.* [216]

CEPAL has pursued this work in recent years[217] and now feels that it would be useful to present some general remarks on the trends and changes in the direct investment of the transnational corporations in the developing world and particularly in the American region, i.e., Latin America and the Caribbean. The information is far from complete and only extends as far as 1975; but it may well contain, in summary form, most of the current knowledge about the salient aspects of the question.

Part I contains data on the evolution of the accumulated direct investment of the main supplier countries. Investment originating in the United States and investment from the other capital-exporting centres are considered separately, with an emphasis on investment in the developing countries of the American region.

Part II deals with the rate of investment and its distribution among the main groups of countries and among individual countries, concluding with a study of the distribution by economic sectors of United States investment, since comparable data is not available for the other main investor countries.

I. THE DYNAMICS OF DIRECT INVESTMENT IN THE DEVELOPING COUNTRIES AND CHANGES IN ITS ORIGIN AND DESTINATION[218]

Direct investment in the developing countries increased vigorously in the first part of the 1970s, at a higher rate than in the late 1960s. Thus its accumulated value rose from about 35 billion dollars in 1967 to over 76 billion in 1975. The annual growth rate in the period 1968-1975 was about 10%,[219] but the rate was higher in the 1970s than between 1968 and 1970 (see table 433). Broadly speaking, according to data for 1967,[220] accumulated investment in the developing countries represented 31% of total investment, and thus the bulk of investment (69%) was accumulated in the central economies. Furthermore, by 1975 this proportion had risen to 74%, with a corresponding decline in the share of the developing countries.

[216] See *Economic Survey of Latin America, 1970,* Part Four, "The expansion of international enterprises and their influence on development in Latin America".

[217] Various working documents were published in 1977 by the CEPAL/CTC Joint Unit, including: *Transnational Corporations in Export-Oriented Primary Commodities: A Study of Relative Bargaining Positions and Distribution of Gains* (this document also includes case studies on tin, bauxite and bananas); *The Transnational Corporations among the One Thousand Largest Enterprises in Brazil* and, finally, studies on transnational corporations in economic integration (Programming in the engineering and petrochemical sectors in the Andean Pact countries and complementarity agreements in the LAFTA countries).

[218] The assumption is made in this study that direct foreign investment is basically that of transnational corporations. This assumption appears reasonable since in the case of the United States more than 70% of foreign investment belongs to 250 or 300 such corporations; in the United Kingdom, over 80% is accounted for by 165 transnationals, and, in West Germany, 82 corporations carry out about 70% of such investment (see *The Multinational Corporations in World Development,* United Nations, ST/ECA/190, New York, 1973, pp. 5 and 7).

[219] Taking into account world inflation in the period and the rise in prices of capital goods in the industrialized countries, the growth rate in real terms would be roughly 5% (half the current value). This relationship is also true of the growth rates compared below in the distribution by regions and countries.

[220] United Nations Centre on Transnational Corporations, *Transnational Corporations in World Development: A Re-examination* (E/C.10/38; sales N° E.78.II.A.5), table III-33.

Table 433

DAC-OECD COUNTRIES[a]: DIRECT INVESTMENT IN THE DEVELOPING COUNTRIES

Investor country	*Accumulated value (millions of dollars)*			*Annual growth rate*			*Percentage structure*		
	1967	*1970*	*1975*	*1968-1975*	*1968-1970*	*1971-1975*	*1967*	*1970*	*1975*
United States	17 448	22 071	39 973	10.9	8.2	12.6	50.0	50.0	52.0
Canada	1 477	1 658	2 528	6.9	3.9	8.8	4.0	4.0	3.0
Western Europe	15 400	19 139	29 683	8.5	7.5	9.2	44.0	43.0	39.0
United Kingdom	6 804	7 714	10 553	5.6	4.3	6.5	19.0	17.0	14.0
Ireland	1 789	2 227	3 236	7.7	7.6	7.8	5.0	5.0	4.0
Federal Republic of Germany	1 198	1 941	5 204	20.2	17.5	21.8	3.0	4.0	7.0
France	2 980	3 832	5 033	6.8	8.7	5.6	8.0	9.0	7.0
Switzerland	695	877	1 432	9.5	8.1	10.3	2.0	2.0	2.0
Italy	879	1 245	2 235	12.4	12.3	12.4	3.0	3.0	3.0
Belgium	692	765	1 018	4.9	3.4	5.9	2.0	2.0	1.0
Other European countries[b]	363	538	972	13.1	14.0	12.5	1.0	1.0	1.0
Japan	702	1 198	3 853	23.7	19.5	26.3	2.0	3.0	5.0
Australia and New Zealand	101	305	727	28.0	44.5	19.0	–	1.0	1.0
Total	*35 128*	*44 371*	*76 764*	*10.3*	*8.1*	*11.5*	*100.0*	*100.0*	*100.0*

Sources: OECD-DAC, *Stock of private direct investments by DAC countries in developing countries* (end 1967), Paris, 1972;
OECD, *Development Cooperation*, 1977 Review.

a Development Assistance Committee - Organization for Economic Cooperation and Development.
b Austria, Denmark, Norway, Finland and Sweden.

1. *The shares of the main investors in the developing countries*

The origin of the investment did not change in the course of the decade covered by the data, although specific changes are worth mentioning. In the first place, the United States maintained its position as supplier of half the capital flow (see table 433). This share fluctuated a little during the period, however. Towards the end of the 1960s other sources of investment, such as Western Europe and Japan, began to increase significantly their capital exports, a trend which came to a peak in 1972, when the flow from Western Europe was equal to that from the United States (at about 2 billion dollars each) and the other major industrialized countries invested about 500 million dollars, compared with a little over 100 million in 1967.[221] There can be little doubt that these shifts were largely the result of the different degrees of dynamism in the development of those countries or areas during the period.

The picture began to change in the course of the first half of the 1970s, and it seems reasonable to suppose that the so-called oil crisis had a major effect, in the sense that it affected the United States less than other important central economies. Hence in 1975, for example, the United States share had risen to 52°/o of total accumulated direct investment in the developing countries, whereas Western Europe's share had dropped to 39°/o, in comparison with 43°/o in 1970.

[221] See OECD, *Development Co-operation, 1975* Review and 1976 Review. The net annual flow of direct investment corresponds roughly to the increase in accumulated investment during the period in question. (For further details, see *"La presencia de las empresas transnacionales en la industria manufacturera de América Latina"*, CEPAL, IDE. 129, November 1975, Introduction to the statistical annex, p. 77.)

These variations did not prevent countries such as the Federal Republic of Germany and Japan from continuing to increase their investment in the developing countries at a much more vigorous rate than the United States transnationals. The accumulated direct investment of the German transnational corporations grew at an annual rate of almost 22%/o in the period 1971-1975, and that of the Japanese corporations at an even higher rate of 26%/o compared with 13%/o for the United States corporations. Nevertheless, the shares of Western Germany and Japan in the total only amounted to 7%/o and 5%/o, respectively, in 1975. On the other hand, the accumulated investment from the United Kingdom grew at a rate of only 6%/o annually and thus its share declined from 17%/o in 1970 to 14%/o in 1975. The same occurred, on a lesser scale, in the case of French investment (see table 433).

2. *Origin and destination of investment in developing countries*

The distribution of investment among the geographical groups of developing countries shows some interesting changes in the period 1967-1975 (see table 434).

Looking first at origin, it may be seen that in 1975 United States investment accounted for majority shares both in the developing countries of the American area (South America and the Caribbean) and in the relatively less developed European countries.[222] In the first case it declined to some extent between 1967 and 1975, while rising in the second. On the other hand, in the case of the other groups it is significant that the majority of investment in Asia and Africa stems from other OECD countries (essentially Western Europe and Japan).

An examination of the destination of direct investment makes up the other side of the picture of investment distribution. As may be seen, the bulk of United States investment went to the developing countries of the American area, although the proportion dropped from 68 to 66%/o between 1967 and 1975. The other OECD countries have a much lower weight in the region, although it rose from 37%/o to 40%/o during the period.

As was to be expected, a significant proportion of the investment of this second group of central economies was directed towards Africa and Asia, the relative share of Africa declining and that of Asia increasing.

In sum, while the United States continued to be the main source of capital for the developing countries of the American area, the latter continued to be the main destination of United States capital. In both cases, however, there was a decline in the large share of the United States and a corresponding increase in that of the other central economies.

[222] This group includes Austria, Cyprus, Finland, Greece, Greenland, Iceland, Ireland, Malta, Portugal, Spain, Turkey and Yugoslavia.

Table 434

DAC-OECD COUNTRIES: ACCUMULATED DIRECT INVESTMENT IN THE DEVELOPING COUNTRIES, BY REGIONS

Country of destination \ Country of origin	Total OECD		United States		Other OECD	
	1967	1975	1967	1975	1967	1975
	Percentage breakdown by country of origin					
Europe	100.0	100.0	30.0[a]	55.0[a]	70.0	45.0
Africa	100.0	100.0	21.0	22.0	79.0	78.0
Asia	100.0	100.0	36.0	33.0	64.0	67.0
Middle East	100.0	...	58.0	...	42.0	...
Developing countries of the American area	100.0	100.0	64.0	59.0	36.0	41.0
Total	*100.0*	*100.0*[b]	*50.0*	*47.0*[b]	*50.0*	*53.0*[b]
	Percentage breakdown by country of destination					
Europe	6.0	9.0	3.0[a]	10.0[a]	8.0	8.0
Africa	19.0	15.0	8.0	7.0	29.0	22.0
Asia	14.0	24.0	10.0	17.0	18.0	30.0
Middle East	9.0	...	10.0	...	7.0	...
Developing countries of the American area	52.0	52.0	68.0	66.0	37.0	40.0
Total	*100.0*	*100.0*[b]	*100.0*	*100.0*[b]	*100.0*	*100.0*[b]
	Average annual growth rates, 1968-1975					
Europe		15.6		24.7[a]		9.5
Africa		6.7		7.0		6.6
Asia		16.8		15.5		17.5
Middle East		...		...		...
Developing countries of the American area		9.3		8.2		11.3
Total		*10.7*[b]		*10.1*[b]		*11.3*[b]

Sources: Calculated for the CEPAL/CTC Joint Unit on the basis of official data furnished by OECD *(Stock of private direct investment by DAC countries in developing countries,* and 1967, Paris, 1972; and *Development Cooperation,* 1977 Review) and the United States (United States Department of Commerce, *Survey of Current Business,* August 1977). The latter data differ slightly from the DAC/OECD data on the total stock of United States investment which appear in table 433.

[a] Includes Austria, Cyprus, Finland, Greece, Greenland, Iceland, Ireland, Malta, Portugal, Spain, Turkey and Yugoslavia.

[b] The total does not include the Middle East since due to major methodological changes the total for 1975 is not comparable to the total for 1967.

II. TRENDS AND DISTRIBUTION OF DIRECT INVESTMENT IN THE DEVELOPING COUNTRIES OF THE AMERICAN AREA

The sizeable share of the developing countries of the American region hides many differences among them as well as varying trends in the rate of capital flows. Table 435 presents the available data on the question.

Table 435

DAC-OECD COUNTRIES: ACCUMULATED DIRECT INVESTMENT IN THE DEVELOPING COUNTRIES OF THE AMERICAN AREA

	Millions of dollars at end of each year		*Annual growth rate*			*Percentage structure*	
	1967	*1975*	*1968-1975*	*1968-1971*	*1972-1975*	*1967*	*1975*
Argentina	1 821	2 000	1.2	5.3	-2.8	9.9	5.3
Brazil	3 728	9 100	11.8	8.1	15.6	20.2	24.2
Mexico	1 787	4 800	13.1	8.2	18.3	9.7	12.8
Total larger countries	*7 336*	*15 900*	*10.1*	*7.5*	*12.9*	*39.8*	*42.3*
Bolivia	144	100	-4.5	-16.5	9.3	0.8	0.3
Colombia	728	1 200	6.4	5.4	7.4	3.9	3.2
Chile	963	400	-10.4	-3.1	-17.2	5.2	1.1
Ecuador	82	500	25.3	38.3	13.6	0.4	1.3
Peru	782	1 700	10.2	2.1	18.9	4.2	4.5
Venezuela	3 495	4 000	1.7	1.4	2.0	18.9	10.6
Total Andean area countries	*6 194*	*7 900*	*3.1*	*1.9*	*4.3*	*33.6*	*21.0*
Paraguay	35	70	9.0	6.5	11.7	0.2	0.2
Uruguay	60	250	19.5	7.5	32.9	0.3	0.7
Total LAFTA countries	*13 625*	*24 120*	*7.4*	*5.0*	*9.8*	*73.9*	*64.2*
Costa Rica	136	250	7.9	5.7	10.1	0.7	0.7
El Salvador	77	130	6.8	5.9	7.6	0.4	0.3
Guatemala	146	260	7.5	6.1	8.9	0.8	0.7
Honduras	169	230	3.9	4.3	3.5	0.9	0.6
Nicaragua	73	90	2.6	3.9	1.4	0.4	0.2
Total CACM countries	*601*	*960*	*6.0*	*5.2*	*6.8*	*3.3*	*2.5*
Haiti	36	70	8.7	8.6	8.8	0.2	0.2
Panama	830	2 250	13.3	18.7	8.1	4.5	6.0
Dominican Republic	158	350	10.4	15.4	5.7	0.9	0.9
Total 19 countries of Latin America	*15 250*	*27 750*	*7.8*	*6.1*	*9.5*	*82.7*	*73.8*
Guyana	189	180	-0.6	-8.1	7.4	1.0	0.5
Jamaica	671	970	4.7	10.5	-0.8	3.6	2.6
Trinidad and Tobago	687	1 200	7.2	9.8	4.7	3.7	3.2
Suriname	100	330	16.1	4.7	28.8	0.5	0.8
Total 23 countries of American area	*16 897*	*30 430*	*7.6*	*6.3*	*9.0*	*91.6*	*80.9*
Belize	28	70	12.1	15.6	8.8	0.2	0.2
Netherlands Antilles	382	1 400	17.6	11.9	23.6	2.1	3.7
Bahamas	1 109	950	22.6	10.4	36.0	6.0	15.0
Barbados		160					
Bermudas		3 800					
Others[a]		740					
Guadalupe	26	50	8.5	5.3	11.8	0.1	0.1
Martinique		–					
French Guyana	7	25	17.2	9.3	25.7	–	0.1
Other developing countries and territories of the American area	*1 552*	*7 195*	*21.1*	*10.8*	*32.4*	*8.4*	*19.1*
Total developing America	*18 449*	*37 625*	*9.3*	*6.7*	*12.0*	*100.0*	*100.0*

Sources: *OECD-DAC, Stock of private direct investments by DAC countries in developing countries* (end 1967), Paris, 1972;
OECD, *Development Cooperation*, 1977 Review;
OECD-DAC, *Stock of private investment by member countries of the Development Assistance Committee in developing countries* (end 1971 and end 1972), Paris, 1973 and 1974.

[a] Includes the West Indies Associated States and other Caribbean territories.

A general view shows, in the first place, that accumulated direct investment more than doubled between 1967 and 1975, growing at an annual rate of 9%. Two very distinct phases may be distinguished in this performance, with annual growth rates of 6.7% in the first place (1968-1971) and 12% in the second (1972-1975). It should be noted that this contrast holds true for all the groups into which the region has been divided.

Notwithstanding to this overall feature, it may easily be seen that the flow rate of investment varies strikingly when the total is broken down. It might appear surprising that the group of "other territories of the developing American region", particularly the Bahamas, Barbados, and Bermuda, recorded the highest growth rates, particularly in the second period (32.4% per year), which raised their share of the total from a little over 8% in 1967 to 19% in 1975. This is mostly investment of a financial nature or designed to establish or extend the tourism infrastructure in some of these territories, as suggested by the high figures for the Netherlands Antilles, the Bahamas and Bermuda in the group.

1. *Argentina, Brazil and Mexico*

Starting with the situation of the largest countries, Argentina, Brazil and Mexico, the salient features of the group would appear to be: (a) the high growth rate in the second period under consideration, almost 13% per year; (b) the rise in their share of total investment from 40 to 42%; (c) the high and increasing share of Brazil, which alone accounted for more than 28% of the total in 1975; (d) the very slow growth of investment in Argentina.

Although it has different bases and a different source of data, covering only 23 countries of the region, table 436 provides a broader view by taking into account net annual flows of total direct investment between 1970 and 1975. From this standpoint some trends and changes singled out in the preceding paragraph become even clearer. Naturally, the difference between trends in Argentina and Brazil becomes sharper, and Mexico's more stable position, within its moderate growth, is once again apparent. The trend towards concentration in the larger countries (in this case only Brazil and Mexico) is all the clearer: they received 71% of the net investment flow in 1970-1975.

2. *Economies of the Andean Pact*[223]

The economies associated in the Andean Pact show a relatively low growth rate of accumulated direct investment and consequently a decline in their share in the regional total. The growth rate amounted to a mere 3.1% annually over the period as a whole, and their share dropped from almost 34% to 21% (see table 435).

The group is by no means uniform, however, and therefore the situation of the individual countries is worth examining. The situations of the oil exporting countries, Venezuela and Ecuador, are both very typical and at the same time dissimilar. In Venezuela, which accounted for over half the investment in the Andean region in 1967, the sum of investment between 1967 and 1975 remained practically at a standstill, which led to a decline in its share in the overall total of the developing American region from about 19% to less than 11%. On the other hand, in Ecuador investment went up sixfold, which represents growth rates of over 25% a year; and its share in the regional total rose from 0.4% in 1967 to 1.3% in 1975.

It is virtually unnecessary to recall the decisive influence of oil investment and the corresponding policies upon these different performances. Taking into account the complementary data of table 436, it may be seen that the net investment flows were generally negative for Venezuela in each of the years in question, with a reduction amounting to 216 million dollars for the period 1970-1975. The opposite occurred in Ecuador, where accumulated investment increased over this period by almost 650 million dollars.

Bolivia, another country where oil production is important, shows appreciable variations over the period. Accumulated investment declined, but there were two very different phases within the overall

[223] Including Chile, which was still a member of the group in the period under consideration.

Table 436

DEVELOPING COUNTRIES OF THE AMERICAN AREA: NET FLOWS OF TOTAL DIRECT FOREIGN INVESTMENT, BY COUNTRIES

	Millions of dollars			*Percentage structure*		
	1970	*1975*	*1970-1975*[a]	*1970*	*1975*	*1970-1975*
Argentina	11.0	–	50.9	1	–	1
Brazil	196.0	1 006.5	3 826.0	23	32	41
Mexico	323.0	609.5	2 674.0	37	20	29
Larger countries	*530.0*	*1 616.0*	*6 550.9*	*61*	*52*	*71*
Bolivia	-75.9	53.4	-0.7	-9	2	–
Colombia	43.0	40.1	209.3	5	1	2
Chile	-79.0	49.8	-657.8	-9	2	-7
Ecuador	88.6	189.3	649.4	10	6	7
Peru	-70.0	315.7	339.6	-8	10	4
Venezuela	-23.0	354.6	-261.3	-2	11	-3
Andean area countries	*-116.3*	*1 002.9*	*278.5*	*-13*	*32*	*3*
Paraguay	3.8	14.2	57.9	–	1	1
Uruguay	–	–	–	–	–	–
Total LAFTA countries	*417.5*	*2 633.1*	*6 887.3*	*48*	*85*	*75*
Costa Rica	26.4	69.0	227.2	3	2	2
El Salvador	3.7	13.1	56.5	–	–	1
Guatemala	29.4	80.0	236.0	3	3	3
Honduras	8.4	10.4	34.6	1	–	–
Nicaragua	15.0	10.9	76.2	2	–	1
Total CACM countries	*82.9*	*183.4*	*630.5*	*9*	*6*	*7*
Haiti	2.8	2.7	28.0	–	–	–
Panama	33.4	10.2	148.8	4	–	1
Dominican Republic	71.6	50.5	343.6	8	2	4
Barbados	8.6	22.9	74.0	1	1	1
Guyana	9.0	0.8	-33.8	1	–	–
Jamaica	162.1	-1.8	536.3	19	–	6
Trinidad and Tobago	83.2	191.3	614.4	10	6	6
Total 23 developing countries of the American area	*871.1*	*3 093.1*	*9 229.1*	*100*	*100*	*100*

Source: CEPAL, on the basis of data from the *Balance of Payments Yearbook*, IMF.

[a] Accumulated values.

trend; a sharp decline between 1967 and 1971, and a phase of rapid growth between 1972-1975, when the growth rate exceeded 9%.

The trend in Peru had similar fluctuations. While accumulated investment more than doubled over the period, the annual growth rates swung between 2% in the period 1968-1971 and almost 19% over the next four years. Its share in the overall total remained more or less the same at 4.3% (see table 435).

For well-known reasons, such as nationalization of the large-scale copper mining industry, the Chilean experience stands out within this group by a drop in the amount of accumulated investment and by negative growth rates over the period, even during the most dynamic period for the rest of the region (1974-1975). One striking result is the drop in its share in the total from a little over 5% in 1967 –surprisingly high in view of the size of its economy– to only 1% in 1975.

The data on Colombia display one of the most stable growth patterns, higher than that of the Andean Group but lower than that for the whole area covered in table 435, which has grown very steadily throughout the period. It may be seen from the net investment flows (see table 436) that between 1970 and 1975 Colombia had a positive balance of 200 million dollars.

To complete this overview of the LAFTA countries –which includes the two groups examined above– it should be mentioned that Uruguay and Paraguay had a very similar weight (0.2%) within total accumulated investment in 1967, although Uruguay's share rose between 1967 and 1975. Investment grew rapidly in Paraguay between 1972 and 1975, at a rate of about 12% annually, while in Uruguay there was a sizeable rise of nearly 33% over this period. From the standpoint of net flows, a dynamic trend may be seen in Paraguay in the earlier 1970s (see table 436).

3. Countries of the Central American Common Market and other countries of the Latin American area

Accumulated investment in these economies as a group rose at a lower rate than the general average, although it strengthened in almost all of them between 1971 and 1975. Costa Rica was chiefly responsible for this, with a growth rate of over 10% per year during that period (see table 435).

It appears from table 436 on net flows that growth was considerable in both Costa Rica and Guatemala between 1970 and 1975. Nicaragua and El Salvador also show sizeable flows in the course of the period.

In Panama, which does not belong to the Central American Common Market, accumulated investment grew quite rapidly, more so between 1968 and 1971 than subsequently, contrary to the general trend.

Finally, in Haiti a significant growth rate of accumulated investment (nearly 9% annually in the period 1971-1975) was combined with moderate rises in the net flow in absolute terms.

4. Some Caribbean countries

Mention was made above of some small Caribbean countries where investment had grown particularly fast. In the case of the group comprising Guyana, Jamaica, Trinidad and Tobago and Surinam, it may easily be seen that the nature of their basic export resources and the corresponding national policies has had a depressive influence on the growth of investment.

This is particularly clear in the case of Guyana, where accumulated investment remained practically at a standstill between 1967 and 1975, although with inverted trends in the two sub-periods in question. During the first it had a negative growth rate (8%); in the second it increased by over 7% annually.

Jamaica and Trinidad and Tobago followed similar trends, in terms both of amount and periods, and were characterized by a relatively rapid growth in the value of accumulated foreign investment and the pattern of the net flow in the 1970s. The same was true of Barbados, although on a more moderate scale.

III. DISTRIBUTION OF ACCUMULATED DIRECT INVESTMENT BY ORIGIN AND DESTINATION IN THE DEVELOPING COUNTRIES OF THE AMERICAN AREA

In table 437 data from the preceding series have been reorganized to present an overall view of the origin of accumulated investment, distinguishing between United States investment and that of

Table 437

LATIN AMERICA: ACCUMULATED DIRECT INVESTMENT FROM DAC/OECD COUNTRIES, BY COUNTRIES OF THE REGION

Country of origin / Country of destination	Millions of dollars						Annual growth rate (1968-1975)			Percentage structure					
	1967			1975						1967			1975		
	DAC / OECD	United States	Other DAC/ OECD	DAC / OECD	United States	Other DAC / OECD	DAC / OECD	United States	Other DAC / OECD	DAC / OECD	United States	Other DAC/ OECD	DAC / OECD	United States	Other DAC / OECD
Argentina	1 821	1 017	804	2 000	1 154	846	1.2	1.6	0.6	10	9	12	5	5	5
Brazil	3 728	1 328	2 400	9 100	4 579	4 521	11.8	16.7	8.2	20	11	36	24	21	29
Mexico	1 787	1 364	423	4 800	3 200	1 600	13.1	11.2	18.1	10	12	6	13	14	10
Colombia	728	627	101	1 200	648	552	6.4	0.4	23.6	4	5	2	3	3	4
Chile	963	879	84	400	174	226	-10.4	-18.3	13.2	5	7	1	1	1	1
Peru	782	660	122	1 700	1 221	479	10.2	8.0	18.6	4	6	2	4	6	3
Venezuela	3 495	2 555	940	4 000	1 873	2 127	1.7	-3.8	10.7	19	22	14	11	8	14
Panama	830	754	76	2 250	1 907	343	13.3	12.3	20.7	4	6	1	6	9	2
CACM countries[a]	601	501	100	960	704	256	6.0	4.3	12.5	3	4	1	3	3	2
Other Latin American countries[b]	515	379	136	1 340	934	406	12.7	11.9	14.6	3	3	2	4	4	3
Total 19 countries of Latin America	*5 250*	*10 064*	*5 186*	*27 750*	*16 394*	*11 356*	*7.8*	*6.3*	*10.3*	*83*	*85*	*78*	*74*	*74*	*73*
Other developing countries of the American area	3 199	1 713	1 486	9 875	5 707	4 168	15.1	16.2	13.8	17	15	22	26	26	27
Total developing America	*18 449*	*11 777*	*6 672*	*37 625*	*22 101*	*15 524*	*9.3*	*8.2*	*11.1*	*100*	*100*	*100*	*100*	*100*	*100*

Sources: OECD-DAC, *Stock of private direct investments by DAC countries in developing countries* (end 1967), Paris, 1972;
OECD, *Development Cooperation,* 1977 Review;
United States, Department of Commerce, *Survey of Current Business,* August 1972.

a Includes Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua.
b Includes Bolivia, Ecuador, Paraguay, Uruguay, Haiti and the Dominican Republic.

the other OECD countries, and its distribution among the developing countries of the American area.

Looking first at the origin of investment, it may be seen that with a few exceptions –such as Brazil, Argentina and the "other developing countries of the American area"– the prevailing trend was for the United States' share to decline. This trend was particularly strong in Colombia, Chile, Peru, Venezuela and the Central American countries. However, as may be seen in the second section of the table, the causes of this overall trend may be very different. In some economies, such as those of Venezuela or Chile, the principal reason was the stagnation or reduction of the stock of capital from the United States for well-known reasons. In others, such as Colombia, Peru or the countries of the Central American Common Market, it was due to sharply different rates in the growth of the two main groups of investors. Finally, in some cases, such as Brazil, the growth of investment from both sources was very dynamic, although more so in one or the other case.

Looking now at the way in which the investment was distributed among the host countries, and distinguishing between the capital exporters as mentioned in section II, it may be seen that the changes primarily affected the United States, which doubled its share in economies such as Brazil but at the same time lost ground more sharply in others such as Venezuela, Chile and Argentina. The other OECD countries, on the other hand, increased the relative importance of their investment in Mexico, Colombia, Peru and the Central American countries, while losing ground in the case of Argentina and Brazil and remaining constant in Chile and Venezuela.

IV. THE ALLOCATION OF INVESTMENT BY ECONOMIC SECTORS: THE CASE OF THE UNITED STATES CORPORATIONS

The distribution of foreign investment among different activities is of very great importance, particularly when it changes significantly in a period such as the one under consideration. Regrettably, information is not yet available covering all the main investors and is available only on the transnational corporations of the United States. It should be recalled that these account for about 40°/o of direct investment in the developing countries, and a even higher percentage in the case of the developing countries of the American area (see table 434).

1. *Sectoral investment by the United States - distribution in the world and by main areas*

At the most general level, it may be seen that accumulated foreign investment from the United States grew at an average rate of nearly 10°/o annually between 1967 and 1975. This rate is much lower in the case of the mining sector (a mere 3.6°/o) and significantly higher (14.2°/o) for the "other sectors", influenced by dynamic financial investment (see table 438).

In addition, it should be borne in mind that in 1975, 73°/o of total investment by the United States, and 81°/o of industrial investment, took place in other industrialized countries and that the proportion going to the developing countries of the American area declined in the period under consideration from 20 to 18°/o. Thus the area's relative lack of importance increased, despite the fact that in absolute terms accumulated investment almost doubled (from 11,800 to 22,100 million dollars). Naturally, this overall change involves significant differences between particular countries.

(a) *Sectoral distribution: petroleum and mining activities*

An examination of the distribution by sectors shows that petroleum and mining investment declined in relative importance.

In 1967, investment in the petroleum industry amounted to 17,400 million dollars, of which 6,600 went to the developing countries and 3,300 million to the Latin American area, i.e., 38°/o and 19°/o of the world total respectively. By the mid-1970s this investment had more than doubled in the industrialized countries (9,500 to 20,300 million dollars, respectively), remained at a standstill in the developing countries of the American area (3,300 million dollars) and dropped sharply in the

Table 438

ACCUMULATED DIRECT INVESTMENT FROM THE UNITED STATES,
BY MAIN ECONOMIC SECTORS AND AREAS OF DESTINATION

	World[a]		*Developed countries*		*Developing countries*			
					Total		*America*	
	1967	*1975*	*1967*	*1975*	*1967*	*1975*	*1967*	*1975*
Economic sectors (billions of dollars)								
Total	*59.5*	*124.2*	*39.7*	*90.9*	*17.4*	*26.2*	*11.8*	*22.1*
Petroleum	17.4	26.2	9.5	20.3	6.6	2.5[b]	3.3	3.3
Mining	4.9	6.5	2.8	4.4	2.0	2.2	1.7	1.5
Manufacturing	24.2	55.9	19.4	45.4	4.7	10.5	3.6	8.6
Commerce	5.0	12.5	3.3	9.0	1.7	3.0	1.3	2.3
Other sectors	8.0	23.1	4.6	11.8	2.4	8.0	1.8	6.4
Finance	...	14.6	...	8.0	0.2	4.9	0.1	4.6
Average annual growth rate, 1968-1975								
Total		*9.6*		*10.9*		*5.2*		*8.2*
Petroleum		5.2		9.9		-11.4		–
Mining		3.6		5.8		1.2		-1.6
Manufacturing		11.0		11.2		10.6		11.5
Commerce		12.1		13.4		7.3		7.4
Other sectors		14.2		12.5		16.2		17.2
Finance		...		...		49.1		61.4
Regions (percentage of United States total)								
Total	*100.0*	*100.0*	*67.0*	*73.0*	*29.0*	*21.0*	*20.0*	*18.0*
Petroleum	100.0	100.0	55.0	78.0	38.0	10.0	19.0	13.0
Mining	100.0	100.0	58.0	67.0	42.0	33.0	35.0	23.0
Manufacturing	100.0	100.0	80.0	81.0	20.0	19.0	15.0	15.0
Commerce	100.0	100.0	67.0	72.0	33.0	24.0	26.0	18.0
Other sectors	100.0	100.0	57.0	51.0	30.0	35.0	23.0	28.0
Finance	...	100.0	...	55.0	...	34.0	...	31.0
Sectors (percentage of area total)								
Total	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*
Petroleum	29.0	21.0	24.0	22.0	38.0	10.0	28.0	15.0
Mining	8.0	5.0	7.0	5.0	12.0	8.0	15.0	7.0
Manufacturing	41.0	45.0	49.0	50.0	27.0	40.0	31.0	39.0
Commerce	8.0	10.0	8.0	10.0	9.0	11.0	11.0	10.0
Other sectors	14.0	19.0	12.0	13.0	14.0	31.0	15.0	29.0
Finance	...	12.0	...	9.0	2.0	19.0	1.0	21.0

Sources: OECD-DAC, *Stock of private direct investments by DAC countries in developing countries* (end 1967), Paris, 1972;
United States, Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, August 1976 and 1977.

[a] The world totals also include international and non-localized investment.
[b] This figure includes a negative amount of accumulated direct investment in the Middle East.

other developing regions, due to disinvestment in the Middle East. The importance of the developing countries of the American area for the transnational oil corporations, measured in terms of their share of the world investment of the corporations, has dropped from 19°/o in 1967 to 13°/o in 1975, virtually all of which was absorbed by the share of the industrialized countries (see table 438).

An even greater change took place during this period in the investment of transnational corporations in the mining industry; in the developing countries of Latin America, this investment declined even in absolute terms (from 1,700 to 1,500 million dollars), while rising from a relatively negligible level in Africa and Asia (from 300 to 700 million dollars); and the bulk of investment was concentrated in the industrialized countries themselves (rising from 2,800 to 4,400 million dollars).

The increased concentration of petroleum and mining investment of the transnational corporations in the industrialized countries and the corresponding relative decline in its importance in the developing countries, particularly in the American region, appears to reflect two main facts: first, the tendency of the developing countries to nationalize their basic resources (or possibly set up mixed corporations); and secondly, the strategic reaction of the transnational corporations towards diversification and relocation of their investment in the processing and marketing of basic commodities, orienting themselves primarily towards the industrialized countries.

(b) *Manufacturing, commercial and financial activities*

Manufacturing and commercial activities, on the other hand, continued during this period to be a fertile area for investment by United States transnational corporations: in 1975 over half their total investment was in these two sectors. Here again, growth continued to be uneven. The investment was concentrated still further in the industrialized countries, particularly in the case of commercial activities, with the share of those countries rising from 67 to 72°/o in that sector, and from 80 to 81°/o in the case of manufacturing. The developing countries of Latin America maintained a constant share in the world investment of manufacturing transnationals (15°/o) and had a declining share in commercial investment (from 26 to 18°/o). In any event, manufacturing investment in the developing countries of the American area is increasing faster than in the other developing areas (see table 438).

Finally, an important change occurred in the so-called "other sectors" of the activities of transnational corporations, and chiefly in the financial sector. The "other sectors" group is the only one where the investment of the United States transnational corporations grew more in the developing countries, and especially Latin America, than in the industrialized countries (16.2°/o, 17.2°/o and 12.5°/o, respectively).[224]

The financial sector, which corresponds primarily to the activities of transnational banks, stands out in the period under consideration for its annual average growth of almost 50°/o in the developing countries and of 61°/o in Latin America. Consequently, this sector has become relatively the most important for United States investors[225] in comparison with other economic sectors of the developing countries and particularly of Latin America. In 1975, 34°/o of world financial investment by the corporations took place in the developing countries and primarily in the Latin American countries (31°/o of the world total). This important change is obviously linked to the growing indebtedness of the developing countries and the increasingly important role of the transnational banks in the credits granted to Latin American countries.[226]

The changes in the growth of the United States transnational corporations are reflected in the structure of their accumulated direct investment in the developing countries of the American area (see table 438). In 1967, mining activities and manufacturing and commercial activities each accounted for an equal share (5 billion dollars, or 43°/o each of the regional total) of the total direct investment of the United States in Latin America (11,800 million dollars) whereas the other sectors accounted for only 1,800 million dollars (i.e., 15°/o of the regional total), of which the financial sector had an insignificant share.

[224] For the year 1967 data is available, in the case of the industrialized countries, only on the "other sectors" and not on the financial sector in particular.

[225] It may be assumed that much of the growth of financial investment corresponds to the recycling of 'petro-dollars' bearing in mind the concentration of this investment in the open capital markets ("tax havens") of countries such as Panama, the Bahamas, and Bermuda (see below, point 2(b)).

[226] The share of private banks in the total external credits of Latin America rose from one-third to two-thirds between 1965 and 1970. The CEPAL/CTC Unit is carrying out a study on transnational banking in Peru.

This breakdown changed substantially by the mid-1970s: mining investment remained constant at 5 billion dollars and its share in the regional total declined from 43 to 22°/o. Manufacturing and commercial investment rose to the high level of almost 11 billion dollars, almost half of the total United States investment in the developing countries of the American area, and finally financial investment, previously scarce, reached almost the same level as investment in mining activities (4,600 million dollars, or 21°/o of the regional total).

This tendency for the manufacturing transnationals and the transnational banks to increase their importance in the region might well be even more pronounced if the growth of European and Japanese corporations is also taken into account, but data is not available on them. In any event, the probability of this hypothesis is substantiated by the fact that in the period under consideration those corporations were, broadly speaking, more dynamic than the United States corporations.

2. *Sectoral distribution among the countries of the region*

The sectoral distribution of the accumulated direct investment of the United States among the countries of the region is analysed in table 439. As may be seen, the regional trends discussed in the preceding section resulted from a variety of situations in the different Latin American countries.

(a) *The extractive sectors*

The United States transnational oil corporations in 1967 had three-quarters of their total investment in the region in three Latin American countries: Venezuela (54°/o), Colombia (10°/o) and Argentina (8°/o). In the period 1967-1975, heavy disinvestment occurred in each of these countries as a consequence of nationalization in the industry. The average annual growth rate was -11.3°/o in Venezuela, -18.7°/o in Colombia and -6.8°/o in Argentina, with a result that the relative importance of these three countries as a whole for the transnational oil corporations declined from 72°/o in 1967 to only 27°/o in 1975.

Turning to the question of the countries to which the transnational oil corporations shifted their investment, it may be seen that the biggest movement was to the Caribbean area (primarily "other developing countries of the American area" in table 439) where oil investment rose between 1967 and 1975 from 500 to 1,200 million dollars, or at an annual average rate of 11.7°/o. The importance of this area, measured by its share in the total, rose from 16 to 38°/o. More detailed information is not available on the different countries of the subregion.

Another global figure concerns a group of relatively less developed countries (Bolivia, Ecuador, Paraguay, Uruguay, Haiti and the Dominican Republic) whose share in the regional total of United States oil investment rose from 3 to 10°/o, occupying third place in the region (after the Caribbean area and Venezuela) with a total of about 350 million dollars. This change corresponds primarily to the growth of the oil industry in Ecuador and Bolivia.

Among the remaining countries, oil investment in Peru showed the highest growth (28°/o), reaching a total of 246 million dollars in 1975. Its importance for the United States transnational corporations rose from 1°/o to 7°/o in the period under consideration. From the Peruvian standpoint, i.e., the share of its sector in total United States investment, there was an increase from 5 to 20°/o between 1967 and 1975; in 1975 it was bigger than that of manufacturing and commercial activities toghether (19°/o).

Finally, oil investment in Brazil grew at an average annual rate of almost 18°/o, increasing the relative importance of the country for the corporations from 2 to 9°/o.

In brief, it seems clear that the oil corporations reacted to the limiting of their activities in Venezuela, Argentina, Colombia by relocating their investment, primarily in countries which offered fresh possibilities of expansion of production and with which they were able to reach suitable agreements (Ecuador, Peru and Bolivia) and towards countries with large-scale processing activities (the Caribbean, Brazil).

As was pointed out above, United States investment in the mining sector shrank in the period from 1,700 to 1,500 million dollars, while at the same time its importance for the region dropped from 15 to 7°/o of total investment. The greatest disinvestment occurred in Chile (from 516 to 12

million dollars), Venezuela (from 80 to 11) and Mexico (from 122 to 80). Thus the nationalization of copper in Chile, of iron ore in Venezuela and the promotion of mixed corporations in Mexico led to a decline in the relative importance of those three countries from 42°/o in 1967 to only 8°/o in 1975.

Meanwhile the corporations increased their investment in Peru, from 400 to700 million dollars; in Brazil, from 68 to 130 million dollars; and only slightly in the important area of the Caribbean, from 430 to 460 million dollars. The importance of these countries for the corporations increased, in the period under consideration, especially in the case of Peru, from 23 to 47°/o; of the Caribbean area, from 25 to 31°/o; and of Brazil, from 4 to 9°/o and for the three countries as a whole from 52 to 87°/o.

These recent changes in the direct investment of mining corporation are the result of complex events in the various countries of the region, such as, for example, the nationalization of the copper mines in Chile and of some of them in Peru, of the iron mines in Venezuela and of bauxite in Guyana. The process was also influenced by the development of mixed corporations in Mexico and the sectoral diversification tending towards the processing of the metals, the development of new deposits with the co-operation of the transnational corporations, etc.

Looking at extractive activities as a whole, it may be seen that their share in total direct investment by the United States dropped substantially in almost all areas and countries, with countries like Mexico, Chile, Brazil, Colombia and Argentina accounting for a share of between 3 and 21°/o in 1975. Venezuela (38°/o), the Caribbean countries (30°/o) and the Central American Common Market (21°/o) had a larger but still declining share in the same year. On the other hand, over the same period an important increase took place in Peru (from 65 to 77°/o of the country total) and in the group of relatively less developed countries of the region (from 32 to 39°/o).

(b) *The manufacturing, commercial and financial sectors*

The expansion of the manufacturing transnational corporations of the United States was concentrated in the two countries with big, dynamic markets, Brazil and Mexico. Whereas in 1967 these two countries accounted for half the manufacturing investment of the United States in the region, by the mid-1970s their share had risen to almost two-thirds (65°/o). The share of Argentina dropped from 19 to 9°/o in the same period. In 1975, these three countries, with Colombia, were characterized by the great importance of manufacturing activities in total United States investment in their economies (ranging from 59°/o for Colombia to 76°/o for Mexico). For the countries of the Central American Common Market, Chile and Venezuela the corresponding figures were 28, 28 and 35°/o, while in Peru, the relatively less developed countries, the Caribbean countries and Panama the figures varied between only 14 and 6°/o.

The transnational corporations engaged in commercial activities were concentrated primarily in Brazil, Mexico and Panama. The share of these three countries rose from 53 to 60°/o between 1967 and 1975. Looking at this investment from the standpoint of the receiving countries, it may be seen that in 1975 such investment was relatively more important in Panama, Chile, Mexico, Venezuela, Colombia and Argentina (28, 16, 15, 14, 10 and 8°/o of total United States investment in those countries, respectively).

As was indicated above, the financial sector, chiefly the transnational banks, were strikingly dynamic during this period (annual growth of 55.4°/o). This growth was concentrated primarily in the Caribbean area, where financial investment doubled almost every year, reaching 2,900 million dollars in 1975. Since there is no detailed information on what occurred in the different countries, it may only be assumed that this took place mainly in the Bahamas and Bermuda, as tax havens for financial capital. This assumption seems confirmed in the similar case of Panama, where financial investment rose from 25 to 718 million dollars between 1967 and 1975, in which year the country accounted for 16°/o of the regional total. A large increase also occurred in Brazil (from 30 to 357 million dollars in the period) although the country's share in the regional total dropped from 22 to 8°/o in the period. In the relatively less developed countries, financial investment rose from 7 to 209 million dollars and in Colombia from 2 to 95 million dollars.

From the standpoint of the receiving countries, the financial sector in 1975 was most important in the Caribbean countries (50°/o of total investment in the area), in Panama (39°/o), in the relatively less developed countries (31°/o) and in Colombia (15°/o).

ACCUMULATED DIRECT INVESTMENT FROM THE UNITED STATES IN THE DEVELOPING COUNTRIES OF THE

	Argentina		*Brazil*		*Mexico*		*Colombia*		*Chile*		*Peru*	
	1967	*1975*	*1967*	*1975*	*1967*	*1975*	*1967*	*1975*	*1967*	*1975*	*1967*	*1975*
Economic sectors (millions of dollars)												
Total	*1 017*	*1 154*	*1 328*	*4 579*	*1 364*	*3 200*	*627*	*648*	*879*	*174*	*660*	*1 221*
Petroleum	250	142	79	288	43	22	324	62	5	26[a]	35	246
Mining	20	18[a]	68	130	122	80	10	17	516	12	397	700
Manufacturing	678	764	893	3 105	920	2 442	192	381	61	49	98	166
Commerce	53	87	195	406	166	476	56	64	37	28	54	62
Other sectors	16	143[a]	93	648	113	180	45	124	260	59[a]	76	47
Finance	6	75[a]	30	357	16	58	2	95	1	4	3	10
Annual growth rate, 1968-1975												
Total		*1.6*		*16.7*		*11.2*		*0.4*		*-18.3*		*8.0*
Petroleum		-6.8		17.5		-8.0		-18.7		22.9		27.6
Mining		-1.3		8.4		-5.1		6.9		-37.5		7.3
Manufacturing		1.5		16.9		13.0		8.9		-2.7		6.8
Commerce		6.4		9.6		14.1		1.7		-3.4		1.7
Other sectors		31.5		27.5		6.0		13.5		-16.9		-5.8
Finance		37.1		36.3		17.5		62.0		18.9		16.2
Countries (percentage of developing American area)												
Total	*9*	*5*	*11*	*21*	*12*	*14*	*5*	*3*	*7*	*1*	*6*	*6*
Petroleum	8	4	2	9	1	–	10	2	–	1	1	7
Mining	1	1	4	9	7	6	1	1	30	1	23	47
Manufacturing	19	9	25	36	25	29	5	4	2	1	3	2
Commerce	4	4	15	17	13	20	4	3	3	1	4	3
Other sectors	1	2	5	10	6	3	2	2	14	1	4	1
Finance	4	2	22	8	12	1	1	2	1	–	2	–
Sectors (percentage of country total)												
Total	*100*	*100*	*100*	*100*	*100*	*100*	*100*	*100*	*100*	*100*	*100*	*100*
Petroleum	24	12	6	6	3	1	52	9	1	15	5	20
Mining	2	2	5	3	9	2	1	3	59	7	60	57
Manufacturing	67	66	67	68	67	76	30	59	7	28	15	14
Commerce	5	8	15	9	12	15	9	10	4	16	8	5
Other sectors	2	12	7	14	8	6	8	19	9	34	12	4
Finance	1	6	2	7	1	2	–	15	–	2	1	1

Sources: OECD-DAC, *Stock of private direct investment by DAC countries in developing countries* (end 1967), Paris, 1972;
United States, Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, August 1976 and 1977.

[a] Estimates of CEPAL/CTC Joint Unit.

CAN AREA, BY MAIN ECONOMIC SECTORS AND COUNTRIES OF DESTINATION

uela	*Panama*		*CACM countries*		*Other Latin American countries*		*19 Latin American countries*		*Other developing countries of the American area*		*Total developing America*	
1975	*1967*	*1975*	*1967*	*1975*	*1967*	*1975*	*1967*	*1975*	*1967*	*1975*	*1967*	*1975*
1 873	*754*	*1 907*	*501*	*704*	*379*	*934*	*10 064*	*16 394*	*1 713*	*5 707*	*11 777*	*22 101*
687	111	125	80	122	92	346[a]	2 812	2 066	518	1 258	3 330	3 324
11[a]	19	1	28	27	30	19	1 290	1 015	430	461	1 720	1 476
668	33	122	79	199	96	127	3 361	8 023	266	540	3 627	8 563
268	326	542	32	50	20	45	1 192	2 029	94	292	1 286	2 321
239[a]	265	1 117	282	306	141	397[a]	1 409	3 261	405	3 156	1 814	6 417
145	25	718	4	49	7	209[a]	124	1 720	11	2 862	135	4 582
-3.8		*12.3*		*4.3*		*11.9*		*6.3*		*16.2*		*8.2*
-11.3		1.5		5.4		18.0		-3.8		11.7		–
-22.0		-30.8		-0.4		-5.5		-2.9		0.9		-1.9
10.0		17.8		12.2		3.6		11.5		9.2		11.3
0.7		6.6		5.7		10.7		6.9		15.2		7.7
9.2		19.7		1.0		13.8		11.1		29.3		17.1
21.8		52.1		36.8		52.9		38.9		100.4		55.4
8	*6*	*9*	*4*	*3*	*2*	*4*	*85*	*74*	*15*	*26*	*100*	*100*
21	3	4	2	4	3	10	84	62	16	38	100	100
1	1	–	2	2	1	1	75	69	25	31	100	100
8	1	1	2	2	2	2	93	94	7	6	100	100
12	25	23	2	2	1	2	93	87	7	13	100	100
4	15	17	16	5	9	6	78	51	22	49	100	100
3	19	16	3	1	5	5	92	38	8	62	100	100
100	*100*	*100*	*100*	*100*	*100*	*100*	*100*	*100*	*100*	*100*	*100*	*100*
37	15	7	16	17	24	37	28	13	30	22	28	15
1	3	–	6	4	8	2	13	6	25	8	15	7
35	4	6	16	28	25	14	33	49	16	10	31	39
14	43	28	6	7	5	5	12	12	5	5	11	10
13	35	59	56	44	37	42	14	20	24	55	15	29
8	3	39	1	7	2	21	1	10	1	50	1	21

3. *The structure of industrial investment*

Table 440 presents data on the distribution by countries and by sub-sectors of United States manufacturing investment in the developing countries of the American area in 1975.

What is immediately apparent is the high share of Brazil and Mexico, although at the same time there are significant differences: whereas Brazil accounted for 45o/o of investment in the metal manufactures and machinery industries, Mexico absorbed only 27o/o of that total. Thus 72o/o of the investment in this important sub-sector was concentrated in these two countries. On the other hand, the Mexican share of investment in the food and chemicals sub-sector was bigger than that of Brazil.

From the standpoint of these three industrial groups, it may be seen that the metal manufactures and machinery branch represents a high percentage of manufacturing investment in these three major countries –40o/o in Mexico, 47o/o in Argentina and 53o/o in Brazil. Venezuela is some way behind with 31o/o.

The chemicals branch absorbed a high percentage of total United States manufacturing investment in Panama (81o/o) and in Chile (47o/o). On the other hand, its share in that of Brazil is one of the lowest, which is explained by the great weight in that sub-sector of the Brazilian economy of investment both from domestic public and private sources and by transnational corporations from other industrialized countries.

The importance of investment in the food sub-sector is particularly great in the relatively less developed economies, the Central American Common Market and the group of "other Latin American countries".

Table 440

DEVELOPING AMERICA: PERCENTAGE BREAKDOWN OF ACCUMULATED DIRECT INVESTMENT IN MANUFACTURING INDUSTRY, ORIGINATING FROM THE UNITED STATES, 1975

	By countries of destination					*By economic subsectors*				
		Products					*Products*			
	Total	*Food*	*Chemical*	*Metal manufactures and machinery*	*Other sub-sectors*	*Total*	*Food*	*Chemical*	*Metal manufactures and machinery*	*Other sub-sectors*
Argentina	9	6	8	10	9	100	5	24	47	24
Brazil	36	24	24	45	38	100	5	17	53	25
Mexico	29	31	33	27	26	100	9	29	40	22
Colombia	4	3	6	2	7	100	6	35	20	39
Chile	1	–	1[a]	–	1	100	–	47[a]	6[a]	47
Peru	2	6	1	1[a]	2[a]	100	24	17	28[a]	31[a]
Venezuela	8	9	8	6	11	100	10	25	31	34
Panama	1	1	5	–	1[a]	100	6	81	5[a]	8[a]
CACM countries	2	10	3	1[a]	2	100	35	30	15[a]	20
Other Latin American countries	2	6	1[a]	1	1[a]	100	36	21[a]	21	22[a]
Total 19 Latin American countries	*94*	*96*	*90*	*93*[a]	*98*[a]	*100*	*9*	*24*	*42*[a]	*25*[a]
Other developing countries of the American area	6	4	10	7[a]	2[a]	100	6	39	48[a]	7[a]
Total developing America	*100*	*100*	*100*	*100*	*100*	*100*	*8*	*26*	*42*	*24*

Source: United States, Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, August 1977.

[a] Estimates of the CEPAL/CTC Joint Unit.

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