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Notes and explanation of symbols

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

Three dots (. . .) indicate that data are not available or are not separately reported.
A dash (–) indicates that the amount is nil or negligible.
A blank space in a table means that the item in question is not applicable.
A minus sign (−) indicates a deficit or decrease, unless otherwise indicated.
A full stop (.) is used to indicate decimals.
A slash (/) indicates a crop year or fiscal year, e.g., 1969/1970.
Use of a hyphen (-) between years, e.g., 1960-1970, signifies an annual average for the calendar years involved, including the beginning and the end years.
References to "tons" mean metric tons, and to "dollars" United States dollars, unless otherwise stated.
Unless otherwise stated, references to annual growth rates or rates of variation mean cumulative annual rates.
Figures and percentages in tables may not necessarily add up to the corresponding totals, because of rounding.

Part One

EVOLUTION OF THE LATIN AMERICAN ECONOMY IN 1975

I. THE INTERNATIONAL CONTEXT

1. *The performance of the industrialized countries*

Before making some comments on Latin America's economic performance in 1975, it is useful to present the main facts about the evolution of the world economy in that year. It seems appropriate to start by taking account of developments in the industrialized countries, whose performance has been a decisive factor in the origin and course of the present situation.

Without exception, but to varying degrees, 1975 was a year of decline in the growth rate and external transactions of those countries. The weakening of the main central economies which was already in evidence at the end of 1973 was

Table 1

OECD: GROWTH OF THE GROSS NATIONAL PRODUCT
(Annual growth rates adjusted seasonally)

	Weighting in the total [a]	*Annual growth rates*					
		1959-1960 to 1972-1973	*1974*	*1975*			*1976* [c]
				First half [b]	*Second half* [b]	*Full year*	
Federal Republic of Germany	10.7	4.9	0.4	– 7.2	2.0	– 3.8	3.3
Canada	4.0	5.1	2.8	– 2.7	2.0	– 1.0	4.3
United States	39.6	4.2	– 2.1	– 7.7	8.0	– 3.0	5.8
France [d]	7.6	5.9	3.9	– 5.0	2.5	– 2.0	3.0
Italy [d]	4.2	5.6	3.2	– 5.8	0.8	– 4.5	3.5
Japan	12.6	10.9	– 1.8	– 0.2	2.8	1.3	4.3
United Kingdom [d]	5.2	3.3	0.1	– 5.0	– 3.8	– 2.3	0.0
Total	83.9	5.5	– 0.6	– 5.8	4.5	– 2.3	4.3
Other OECD countries	16.1	5.5	2.7	...	...	– 1.0	1.8
Total OECD countries	*100.0*	*5.5*	*– 0.1*	*– 5.1*	*3.8*	*– 2.0*	*4.0*

Source: OECD, *Economic Outlook*, December 1975, p. 13.

a Weighting calculated on the basis of figures for the gross national product and exchange rates for 1974.
b Variation with respect to immediately preceding half-year.
c Projections.
d Gross domestic product.

accentuated the following year and continued to become more widespread and serious up to mid-1975. At this point, with a greater or lesser degree of sluggishness, the most representative indicators of productive activity began to show some signs of recovery. Thus, following a 5 per cent drop in the first half of 1975, the total gross product of the member countries of the Organization for Economic Co-operation and Development (OECD) increased by about 4 per cent in the second half of the year. This recovery, however, did not fully compensate for the decline in the first half of 1975, so that for the year as a whole the product fell by 2 per cent (see table 1).

Estimates for 1976, generally speaking, augur a continuation of the significant recovery achieved in the latter half of 1975, since they assume an annual rate of expansion of somewhere between 4 and 5 per cent.[1] They are less optimistic as regards the more distant future, however.

It is useful here to note some differences in the particular evolution of the various countries. A noteworthy fact, for example, is that the United States and Japan, where the economic recession made itself most strongly felt in 1974, now seem to be leading the changing trend. On the other hand, the rate of growth in 1976 seems likely to be lower in the Federal Republic of Germany, Italy and above all, France and the United Kingdom. The importance of these contrasts for the peripheral countries varies according to their links with each central country or group. From this point of view, for example, the faster and more vigorous recovery of the United States economy is of particular interest to the northern countries of Latin America, which are traditionally more closely linked with that market.

The slowing down of development and the effect of the rise in oil prices on the balances of payments combined to produce a contraction in the foreign trade of the industrialized countries which considerably exceeded the decline in their rate of growth. While this latter rate, as noted earlier, declined to -2 per cent in 1975, the volume of imports fell by 13 per cent in the United States, 16 per cent in Japan and 7 per cent in the EEC[2]

[1]The fourth quarterly report of the Commission of the European Communities for 1975 includes this figure, although as regards the European Economic Community (EEC) itself the growth envisaged is only 3 per cent. See Commission of the European Communities, *The economic situation in the Community*, 1975 (4), p. 7.

[2]*Ibid.*

It is interesting to observe that the drop in petroleum imports by the OECD countries (−8 per cent) was slightly less than the decline in other external purchases (−9.5 per cent).[3]

In the following sections these points are examined in a broader context and also in relation to the balance of payments, but it must be added here that the lack of a concerted position in the policies pursued by the central countries seems to have led to the reduction of imports beyond the point which the situation required, or which would have been possible had their policies been more in keeping with one another. This affected not only purchases form the periphery but also trade between the industrialized centres themselves.

Inflation declined somewhat in the central economies. For the OECD countries as a whole, the rate of price increases, which had been a little over 13 per cent in 1974, dropped to 10 per cent in 1975. Some countries made considerable progress: in Japan, for example, where inflation had reached nearly 23 per cent in 1974, it fell to a little over 12 per cent in 1975. In Europe, on the other hand, there was little change between the two years, price increases remaining at around 13 per cent. However, this group showed very uneven trends, ranging from that of Germany, which succeeded in reducing a rate that was already low in relation to the average (7 per cent in 1974), to that of the United Kingdom, where the rate of inflation rose to 24 per cent from the relatively high 1974 rate of 16 per cent.

Unemployment continued to be the most serious problem in nearly all the industrialized countries. Only Japan and some Scandinavian countries (Finland, Sweden, and Norway) managed to keep their rates of unemployment down to figures comparable with those of the preceding period (about 2 per cent of the labour force). The OECD economies as a whole registered an unemployment rate of over 5 per cent, i.e., the equivalent of some 15 million workers. The slight improvement observed in the United States was counterbalanced by an opposite trend in most of Europe, and it is feared that this situation will continue in 1976 in spite of the expectations of a reactivation of economic growth.

2. *The decline in world trade*

In 1975, following spectacular increases of 43 per cent in 1974 and 38 per cent in 1973, the value of the imports of the central countries showed

[3]OECD, *Economic Outlook* (18), December 1975.

practically no growth (see table 2). This stagnation reflected a marked decrease in the volume of imports and a sharp decline in the rate of price increases.

Table 2

WORLD: EXPORTS, IMPORTS AND TRADE BALANCES

	(Billions of US$)				Percentage changes [b]			
	1972	*1973*	*1974*	*1975* [a]	*1972*	*1973*	*1974*	*1975*
			Exports (FOB)					
Developed countries	303	415	552	588	18.8	36.8	33.1	6.5
More developed [c]	276	376	503	536	18.3	36.5	33.7	6.5
Less developed [d]	27	38	49	52	24.5	40.0	26.7	6.6
Major oil producers [e]	27	43	122	113	20.3	58.2	182.9	– 7.5
Non-oil developing	45	65	89	88	20.2	45.4	37.5	– 1.6
			Imports (FOB)					
Developed countries	316	435	620	623	18.4	37.6	42.5	0.4
More developed	281	386	544	544	19.3	37.3	40.8	–
Less developed	35	49	77	79	12.1	39.9	55.7	2.7
Major oil producers	14	20	35	56	24.6	43.7	69.6	61.8
Non-oil developing	56	78	124	131	9.7	37.8	59.9	5.6
			Trade balances					
Developed countries	– 13	– 20	– 68	– 35	9.1	56.1	233.0	– 48.8
More developed	– 5	– 10	– 41	– 8	107.3	79.6	315.5	– 80.1
Less developed	– 8	– 11	– 28	– 27	17.9	39.7	157.8	– 3.9
Major oil producers	13	23	87	57	15.9	74.0	284.2	– 34.9
Non-oil developing	– 11	– 13	– 35	– 43	– 17.7	8.6	175.4	23.9

Source: International Monetary Fund, *International Financial Statistics*, April 1975.

a Estimates.

b Based on unrounded data.

c Austria, Belgium, Canada, Denmark, France, Germany, Italy, Japan, Netherlands, Norway, Sweden, Switzerland, United Kingdom and United States.

d Australia, Finland, Greece, Iceland, Ireland, Malta, New Zealand, Portugal, Romania, South Africa, Spain, Turkey and Yugoslavia.

e Algeria, Bahrain, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Oman, Saudi Arabia, United Arab Emirates and Venezuela.

The decrease of approximately 10 per cent in volume was due to the considerable reduction in oil imports, reduced domestic demand and the tendency of domestic suppliers to reduce their stocks of basic products and semi-manufactures.

The increase in the prices of imports by the central countries in 1975 was about 9 per cent, compared with a rate of 40 per cent in 1974. This trend reflected the general decreace in world inflation and the drop in the prices of many commodities other than petroleum and petroleum products.

As regards imports by the most developed countries, those of Japan and Italy dropped in value by 7 and 6 per cent, respectively, and those of the United States and the United Kingdom by 4 and 2 per cent, respectively. In contrast, there were increases in the value of imports of Norway (15 per cent), Sweden (14 per cent), the Federal Republic of Germany (8 per cent), Canada (6 per cent) and France (2 per cent).

The volume of exports by the central countries also decreased in 1975. The drop of approximately 5 per cent was, however, cushioned by the continuing and vigorous increase in demand from the main oil-exporting countries for exports from the centres. At the same time, export prices rose by approximately 11 per cent. Although this increase was considerably less than in 1974, when it was 25 per cent, it was enough to offset the decrease in the volume of exports and enabled their total value to rise by over 6 per cent. It may be recalled that the rates in 1973 and 1974 were 37 and 33 per cent, respectively.

The biggest increases in the value of exports were observed in Italy (15 per cent), France (14 per cent), the United Kingdom (13 per cent) and the United States (10 per cent). In contrast, the growth of exports was insignificant in Japan and the Federal Republic of Germany and Canada's income from its external sales declined slightly.

As a result of the increase in the value of their exports, combined with the stagnation of imports, the central countries reduced their trade deficit by nearly 50 per cent in 1975. However, this mainly benefited the most developed members of the group, whose total deficit dropped 80 per cent and in 1975 was slightly below the figure for 1973. Thus, in one year, this group of countries managed to recover all the ground lost in 1974, when its trade deficit increased by 315 per cent. The less developed central countries, on the other hand, reduced their trade deficit by only a slight margin, so that it was still nearly one-and-a-half times the 1973 figure.

Of the most developed central countries, the United States showed the most spectacular progress: its trade deficit of 9 000 million dollars in 1974 changed to a surplus of 4 000 million dollars in 1975. Therefore, this country's position was better than in 1973 when it showed a trade deficit of 2 000 million dollars. Between 1974 and 1975 the trade deficit also dropped sharply in Italy (from 11 000 to 4 000 million dollars), the United Kingdom (from 16 000 to 9 000 million), Japan and France. In contrast, the surplus of the Federal Republic of Germany shrank by 21 per cent; even so it stood at 16 000 million dollars, or 3 000 million more than in 1973.

This notable recovery in the trade position of the central countries was clearly achieved at the expense of the periphery. It was the result mainly of trade with the oil-exporting countries, since the trade deficit with them was reduced by one-third. This less unfavourable balance was due, in turn, to the smaller imports of petroleum by the central countries and a marked increase in the volume of their exports to the oil-exporting countries.

The trade balance of the centres with the non-oil-exporting countries also improved considerably in 1975. This may be ascribed more to the favourable evolution of the terms of trade, however, than to an increase in the volume exported, for the prices of exports from the central countries continued to rise during the year, while the prices of most exports from the non-oil-exporting countries dropped fairly sharply.

Thus, owing to the concentric nature of world trade, the more satisfactory trade position of the developed countries had its counterpart in the deterioration of the trade balances of the periphery. The trade surpluses of the oil-exporting countries decreased considerably, while the non-oil-exporting countries recorded even bigger deficits.

The economic recession in the centres and a certain reluctance on the part of consumers to pay the high petroleum prices caused a drop of nearly 8 per cent in the oil countries' exports in 1975. In 1974, in contrast, their export earnings had increased by 183 per cent over the previous year. On the other hand, the growth of imports by this group of countries continues to be spectacular (70 per cent in 1974 and 62 per cent in 1975), so that in a period of only three years they have increased four-fold (see table 2). Since the demand of these countries centred on more technologically complex products, most of their imports came from the centres.

Their divergent export and import trends caused the trade surplus of the oil-exporting countries to fall by 35 per cent with respect to 1974. Even so, their position remained strong, since their surplus of 57 000 million dollars was one-and-a-half times the figure for 1973 and four times that recorded in 1972.

The group of nations most weakened by the favourable evolution of the trade situation in the centres was that of non-oil-exporting developing countries. The growth of the volume of their exports became much more sluggish owing to the economic recession in the traditional central markets and the difficulty of adapting their supply to the new import needs of the oil countries. The prices of their exports also suffered, since quotations for raw materials were 45 per cent below the average for 1974.[4] As a result of all these developments, the export earnings of the non-oil-exporting developing countries fell by 2 per cent.

Moreover, while the value of their exports declined, the cost of their imports continued to rise, though more slowly than in 1974, owing to the persistent inflation in the central countries. Thus, in spite of a considerable decrease in the volume of imports —for the first time since 1958— the value of the goods imported by the non-oil-exporting developing countries rose by 6 per cent.

Since stagflation and the economic recession in the centres raised the cost of the imports of the non-oil-exporting developing countries, while at the same time reducing the growth of exports, their already substantial trade deficit increased considerably (24 per cent). In 1975 it stood at 43 000 million dollars, which was more than triple the 1973 figure and was 23 per cent higher than the trade deficit of the central countries in 1975 (see table 2).

3. *Balance-of-payments adjustments*

The current accounts of the centre and the periphery in 1975 followed the same pattern as the corresponding trade accounts.

The current account of the central countries showed a surplus of 2 000 million dollars, which represented a considerable improvement over the 25 000 million dollar deficit of 1974. However, this improvement was entirely in favour of the more developed countries of the group, whose current account as a whole passed from a deficit of 11 000 million dollars to a surplus of 16 000 million dollars. It was particularly strong for the United States, which turned a deficit of 3 000 million dollars into a surplus of 11 000 million dollars. For the less developed central countries, however, the current account deficit was practically the same as in 1974 (see table 3).

[4] *International Economic Report of the President* (United States Government Printing Office, Washington, D.C.), March 1976.

Table 3

WORLD: CURRENT ACCOUNT BALANCE [a]

(Millions of US$)

	1972	*1973*	*1974*	*1975* b
Developed countries	12	11	– 25	2
More developed [c]	10	10	– 11	16
Less developed [d]	2	1	– 14	– 14
Major oil producers [e]	3	6	68	34
Non-oil developing [f]	– 9	– 9	– 28	– 35

Source: Estimates by International Monetary Fund, *IMF Survey*, March 1, 1976.

a Goods, services and private transfers.

b Estimates.

c Same as footnote c of table 2.

d Same as footnote d of table 2.

e Same as footnote e of table 2.

f Includes a smaller number of countries than in table 2: while not perfectly comparable to that table, the data are indicative of trends.

Here again, the centre's improved situation was in sharp contrast with the marked deterioration in the periphery.

In 1975, the oil-exporting countries saw their current surplus halved to an estimated figure of 34 000 million dollars. Even so, their current account surplus was 5 times larger than in 1973, and consequently, despite the great drop in their surplus, the oil-exporting countries maintained a satisfactory current account position.

This was not the case with the non-oil-exporting developing countries, since the 25 per cent rise in their current account deficit, following upon the 215 per cent increase in 1974, placed them in a very difficult situation. For the second year running, they were obliged to resort to external financing to a much larger extent than had been necessary in earlier days.

In 1975, as in 1974, the non-oil-exporting developing countries resorted primarily to the international commercial banks to finance their larger current account deficits. Approximately 40 per cent of the financial resources they needed came from this source. Eurodollar borrowing, already sizeable in 1974, was still higher in 1975. There was also greater borrowing from United States commercial banks.

Another source of financing was foreign aid, which increased in 1975 from both bilateral and multilateral sources. The increase in the aid provided by the OPEC countries was particularly noteworthy, rising as it did from 2 500 million dollars in 1974 to approximately 5 000 million in 1975. Most of this aid, however, went to the Middle East and North Africa.

Direct foreign investment was also an appreciable source of financing, despite the fact that it apparently declined in comparison with 1974, primarily because of the slower pace of world economic activity. Finally, the non-oil-exporting countries were obliged to use their reserves in the amount of almost 3 000 million dollars.[5] This contrasted sharply with the increases in reserves recorded in 1973 and 1974.

The difficult current account position of the non-oil-exporting developing countries must be viewed with concern. Although they were able to finance their larger deficits in 1974 and 1975, it will perhaps be increasingly difficult for them to do so in the future.

The recycling of the financial surpluses of the oil-exporting countries has benefited the centres, particularly the most developed central countries. It is these countries which have derived the most advantages from the great increase in the imports of the oil-exporting countries, and they have also been the main recipients of their financial surpluses. Although the secondary recycling of resources towards the non-oil-exporting developing countries has been reasonably effective, the main channels for the recycling of funds have been the international commercial banks. Given the already heavy burden of external debt for many developing countries, the taking out of loans on commercial terms –at least on the scale of recent years– may not be a viable means of financing future current account deficits.

Since it is unlikely that there will be a pronounced rise in foreign investment, official assistance (both bilateral and multilateral) seems to be the only possible way to obtain greater financial resources. However, the prospects of such assistance increasing significantly do not appear to be promising. Even in times of prosperity it was not easy for the central countries to raise external assistance to a considerable extent, and the United Nations target figure for the granting of aid (0.7 per cent of GNP) has not been reached by the majority of the central countries. As for multilateral aid, institutional obstacles tend to hinder significantly greater financial flows of this kind in the short term.

Naturally, economic recovery by the centres in 1976 would improve the current balance of the non-oil-exporting developing countries and relieve the pressures for the reduction of imports. As stated earlier, the economic recovery of the United States and Japan in the second half of 1975 augurs a general upturn of the central economies. Nevertheless, it cannot yet be forecast how vigorous and prolonged the recovery will be. If the recent growth –which in the United States has stimulated consumption rather than investment– leads to a new round of inflationary pressures similar to those of 1974, the recovery will certainly be threatened. Furthermore, any economic reactivation is likely to be checked if the accompanying growth tends to threaten seriously the still delicate external position of the centre.

Finally, even if the recovery continues, the real rate of growth may perhaps be lower than in the past, because of the higher priority now attached in many central countries to problems connected with the "quality of life" and the protection of the environment.

[5] International Monetary Fund, *IMF Survey*, 8 March 1976.

II. AN OVERALL APPRAISAL

The consequences of the weaker dynamism of the productive activities and foreign trade of the central nations were felt belatedly, but intensely and widely, by Latin America in 1975. The various expedients and resources which had enabled the region to cut itself off from world trends in 1974 were insufficient or not fully effective in 1975, and in fact only 5 countries managed to exceed their 1974 growth rate. Three of them export oil, but even so, although that strategic resource enabled them to keep up a large flow of imports, the fact remains that they suffered declines in their volume of exports and terms of trade.

Thus, beyond individual features and levels of intensity, developments in 1975 once more revealed the sensitivity of the Latin American economies to changes in the international power and decision-making centres.

Recognition of this fact, as obvious as it is fundamental, cannot veil another equally important truth. Latin America, viewed as a whole and overlooking some conspicuous exceptions, succeeded to a far from negligible extent in controlling the abrupt turn-about from the record external boom of recent decades to a situation of almost complete interruption of the growth of world trade. Furthermore, many countries had to face another thorny problem in the form of the substantial burdens and disruptions caused by the higher price of oil. Viewing the facts from this standpoint, it should be stressed that although the rate of development declined in 1975, it declined from the high absolute levels reached by many representative variables in 1974, as a result of the extraordinary growth in previous years, particularly in foreign trade. Capital formation provides a good example, as will be seen below. Although the amount of gross investment scarcely grew in 1975, it should not be forgotten that it had grown at an annual rate of over 10 per cent in the period 1971-1973, and by 15 per cent in 1974.

The preceding remarks should not lead to excessive optimism, however, for the necessary caution is based on very clear circumstances. In the first place, there is the fragile nature of the external financing of almost the entire region. The rise in indebtedness, the severity of the repayment periods and charges, and the increasing proportion of private financing resorted to are warning signs about the conditions which have been emerging in these fields and may be foreseen in the near future. The facts given below, and the figures given in the studies on a number of the countries provide ample proof of the dangers involved.

In addition, as already noted, the signs of reactivation of the central economies, however auspicious they may appear now that the lost dynamism is being picked up again, are far from guaranteeing a return to the bouyant picture of the beginning of the decade. After having suffered, and in good measure resisted, the blows of the international economic situation, Latin America will face equally demanding and complex tasks if it is to adjust itself to the new world situation which is still taking form and to find a fit place in it.

1. *Differences within the overall picture*

As has been said repeatedly, while it is legitimate and necessary to take an overall view of Latin America, it is also necessary to break down this universe which is made up of heterogeneous parts and groupings. When this is done, very different situations may be distinguished within the region in regard to the impact of the external deterioration, its repercussions, modes and possibilities of reaction to it, and the outlook for the future.

From an initial examination, it is possible to separate the economies into a number of representative groups.

The first group is made up of the few countries which were able to weather the storm and obtain high growth rates in 1975. Apart from the three oil-exporting countries (Venezuela, Ecuador and Bolivia), it includes the Dominican Republic and Paraguay. In all of them, with the exception of Paraguay, the quantum of imports grew substantially, thus facilitating or causing a rise in available goods and services. In the case of Paraguay, excluding a possible underestimation of its imports in the preliminary calculations in this respect –it seems clear that the work on the great Itaipú dam had a major impact.

At the other extreme there is another group made up mainly of the Central American countries and Haiti. These were particularly affected by the external recession and, above all, by the rise in oil prices, although Venezuelan and international collaboration helped to palliate these effects. Drops or scanty increases in the quantum of imports were largely responsible for their low growth rates.

In an intermediate position between these two situations there is a third group of countries whose growth rates were between 3.5 and 4 per cent and which comprises Mexico, Colombia, Brazil, Uruguay and Peru. Although the impact of the external economic situation was considerable in some of them, its effects were counteracted by these economies' lower degree of openess to the exterior –in clear contrast to those of the second group– and their greater diversification of production, which gave their economic policies more room to manouver.

The two southernmost countries, Argentina and Chile, had the worst results from the point of view of growth. In both, and particularly in Chile, the effect of the external factors was clear and considerable, but it seems evident that the domestic circumstances multiplied this effect. In Argentina, the powerlessness of the economic authorities to overcome the fluctuations and instability of the general political developments seems to have been predominant; in Chile, what stands out is the dominant concern for the problems of inflation and the balance of payments, which consequently pushed far into the background any concern about the possibilities of growth.

Finally, there are the English-speaking Caribbean countries, whose growth is difficult to appraise properly due to the lack of information about the real growth of their global economic activity. The indicators available, however, suggest that among the largest countries of this group, only Guyana and Trinidad and Tobago had significant growth in real terms. Both countries, and particularly Trinidad and Tobago (an oil-producing country) had sufficiently strong external positions to enable them to increase the volume of their imports. At the other extreme were Jamaica, where real growth was very slight, and Barbados, where apparently the product fell in real terms.

2. *Economic policy options and priorities*

These last remarks lead into a more direct discussion of the tendencies and contrasts of economic policy in the recent cross-roads.

Broadly speaking, all the countries faced three problems: foreign trade, inflation and growth. The order in which they are placed does not reflect their intrinsic significance so much as the different priority attached to each of them by the economic authorities.

As may readily be understood, these problems are closely related, and the distortions and contradictions which characterize or result from action on each of them are well known. Thus –by way of example and to throw more light on the question– the emphasis placed on growth as an objective may come into conflict with the objective of achieving external equilibrium or anti-inflationary objectives, and so on, according to whether one or another goal is preferred or an attempt is made to harmonize them all at the same time in an attempt to find the most advantegeous equation.

From this standpoint it is easy to see that the oil-exporting economies of the first group distinguished above had to deal once again with an infrequent problem in the region, namely, the productive absorption of their trade surpluses. Although Ecuador and Bolivia had smaller surpluses, the task was made more difficult for them by the smallness and lack of diversification of their economies. Furthermore, the importance of the traditional agricultural sector in both countries made it more difficult to establish productive resources which could modify the picture in a short period.

The very nature of the situation meant that high priority must be given to the objective of growth. On the other hand, the pressures on the productive system threatened price stability, because of the very uneven possibilities of reaction on the supply side. Nevertheless, the moderation of external inflation, the plethora of imports, and some measures which were viable in the particular case of those countries –such as the maintenance of fixed exchange rates– succeeded in restraining the rise in prices.

Obviously, the situation of the economies worst hit by the international situation was very different. Their possibilities of action were restricted by major structural factors, such as their size, productive structure, degree of openness to the exterior and – most important of all in the recent international economic situation – their dependence in respect of oil. In these circumstances the need to weather the storm with the least possible damage seems to have prevailed. External collaboration and the moderation of imported inflation were the most positive elements in the picture. In any event, the appreciable drop in their growth rates did not lead to critical situations in 1975.

The picture presented by the third group of countries is far more complex, since for them the problem of the choice and combination of objectives was more acute. Taking Mexico, Colombia and Brazil as the most representative nations of this group, it should be pointed out from the start that –apart from many other individual features of each country, of course– the oil situation was a key element distinguishing the countries at this stage.

In this connexion there is no doubt that Brazil had to face the most serious problem of external disequilibrium although, as will be seen in the analysis of its economy, the evolution of demand for other imports was even more important.

Be that as it may, their greater strength as regards their external position seems to have enabled Mexico and Colombia (especially when the price of coffee improved) to follow a more determined policy aimed at offsetting the balance of payments upheaval. This is what is suggested, at least, by their fiscal policies, although it should also be noted that Brazil, after obtaining a significant fiscal surplus in 1974, virtually balanced its position in 1975. With regard to inflation –which will be carefully studied below– it should be recalled that the slower rise in international prices enabled domestic prices to be better controlled.

There is no point in going into detail here on what has been written about Argentina and Chile, but it may be worthwhile to view the problem under consideration in the light of the very unusual experience of Peru. The Peruvian economy suffered one of the greatest deficits in its external account. This was partly due to the performance of exports (hit by a variety of natural and social factors and also affected by a policy which perhaps failed to attach sufficient priority to them), but above all to the vigorous growth of imports due to the big investment projects underway. Rejecting an orthodox policy of restricting expenditure and investment, it was decided to run the risk of a serious drop in international reserves and an increase in inflationary pressures, all this being facilitated by considerable external financing comparable, in relative terms, to that obtained by Brazil and Mexico. Naturally, 1975 was only one link in a process which is still developing, but it is clearly an interesting example of an attempt to harmonize largely contradictory options and objectives while maintaining relative control over events.

III. ECONOMIC GROWTH

1. *The rate of growth*[6]

In 1975 Latin America's economic growth rate fell appreciably. The gross domestic product, which

[6] Because of the lack of data on the real variations of the product in the English-speaking countries of the Caribbean, the following analysis only takes into consideration the 19 countries which appear in table 4.

Table 4

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

Country	*Total*			*Per capita*				
	1971–1973	*1974*	*1975*[b]	*1970*	*1975*[b]	*1971–1973*	*1974*	*1975*[b]
	Annual growth rates			*Dollars at 1970 prices*		*Annual growth rates*		
Argentina	3.6	6.6	– 1.4	1 208	1 320	2.2	5.2	– 2.7
Bolivia	4.8	5.7	6.8	260	298	2.2	3.1	4.1
Brazil	11.0	9.6	4.0	445	603	7.9	6.5	1.1
Colombia	7.1	6.3	3.8	509	587	3.8	3.0	0.6
Costa Rica	7.7	4.3	2.6	656	764	4.8	1.5	– 0.2
Chile	1.2	4.3	– 14.7	850	717	– 0.6	2.4	– 16.2
Ecuador	8.5	6.3	8.0	357	446	5.2	2.9	4.6
El Salvador	4.8	6.4	3.4	397	430	1.5	3.2	0.2
Guatemala	6.6	5.5	2.2	415	467	3.5	2.5	– 0.7
Haiti	4.8	4.3	3.5	99	109	2.2	1.9	1.0
Honduras	4.0	0.1	–	289	275	0.7	– 3.4	– 3.4
Mexico	6.1	5.9	3.9	893	997	2.7	2.5	0.5
Nicaragua	4.0	9.2	1.0	432	453	0.7	5.6	– 2.3
Panama	6.5	2.6	3.6	868	967	3.6	– 0.2	0.5
Paraguay	5.7	8.3	8.0	353	425	2.8	5.3	4.9
Peru	6.0	6.6	4.0	526	601	3.0	3.5	1.0
Dominican Republic	11.4	8.9	6.2	351	476	7.8	5.4	2.7
Uruguay	– 1.1	1.8	3.6	905	876	– 2.1	0.8	2.5
Venezuela	4.1	4.5	6.6	1 176	1 276	1.1	1.6	3.5
Latin America	*6.6*	*6.9*	*2.6*	*640*	*742*	*3.7*	*4.0*	*– 0.1*
Latin America, excluding Argentina, Brazil and Chile	5.8	5.7	4.3	664	747	2.7	2.5	1.2
Latin America: gross income[c]	*7.5*	*10.2*	*– 0.1*	...	...	*4.5*	*7.2*	*– 2.9*

Source: ECLA, on the basis of official statistics.

[a] At factor cost.

[b] Preliminary figures.

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

had grown at an average annual rate of 6.7 per cent in the four preceding years, only grew by 2.6 per cent in 1975. Furthermore, this rate was slightly lower than the population growth rate (2.8 per cent). As a result, the per capita product dropped somewhat and thus interrupted its satisfactory growth of almost 3.8 per cent annually over the period 1971-1974 (see table 4).

Since in 1975 there was also a marked worsening of the terms of trade, the drop in the rate of growth of gross income was much more pronounced. After having grown at an average annual rate of 7.5 per cent in the three-year period 1971-1973, and by over 10 per cent in 1974, it came to a complete halt in 1975. Thus, per capita income in 1975 was almost 3 per cent lower than in 1974. Despite this decline, however, the average annual rate of growth of per capita income for the five-year period 1971-1975 continued to be quite high (3.5 per cent) because of the strong growth during the first four years of the decade.

Naturally these regional indicators merely summarize a variety of situations and conceal very different economic growth performances in the individual countries. It is obvious, of course, that the loss of dynamism of the Latin American economy in 1975 was decisively influenced by the drop of 1.4 per cent in the product of Argentina (which accounts for about 15 per cent of the total product of Latin America) and the record drop of almost 15 per cent in the gross domestic product of Chile. The region's marked loss of economic dynamism was also due, to a significant extent, to the sharp fall in the rate of growth of the Brazilian economy, from 10 per cent in 1974 to only 4 per cent in 1975.

Nonetheless, even excluding Argentina, Brazil and Chile, the rest of Latin America grew less in 1975 than in previous years. The total product of the sixteen remaining countries grew by 4.3 per cent in 1975, i.e., well below the 5.8 per cent they achieved on average during the period 1971-1974.

However, this drop affected the individual economies of the group very unevenly. It was very pronounced in the Central American countries, where the rate of economic growth was considerably lower in 1975 than in 1974, and in all of which (except El Salvador) the per capita product declined. This unfavourable situation was largely a reflection of the lesser diversification and more open character of the Central American economies, as well as of their lack of petroleum resources. These factors, and their greater dependence on the United States –the central country where the economic recession of 1974-1975 was most pronounced– increased the negative impact of external events on their growth rates. The problems which affected the Central American Common Market in 1975 also helped to reduce the area's growth rate.

The loss of economic dynamism was smaller, although still noticeable, in Mexico, Peru, and Colombia: all very diversified economies with a higher level of development which were thus in a better position to tackle the recessive effects transmitted from the industrialized countries. The growth of the product nonetheless declined in these three countries in 1975, and in Mexico it only slightly exceeded the population growth rate (see again table 4).

In the oil-exporting countries –Bolivia, Ecuador and Venezuela[7]– in contrast, total economic growth was stronger in 1975 than in the previous year. Although for them too external conditions were worse in 1975, the great accumulation of reserves which followed the rise in oil prices at the end of 1973 enabled their imports to continue to grow strongly in 1975. This, plus the equally exceptional rise in fiscal income and expenditure recorded from 1974 onwards, meant that in 1975 the rate of growth of investment amply exceeded that of the product in the three countries.

Strong economic dynamism was also shown by Paraguay and, to a lesser extent, the Dominican Republic. The high rate of growth of the Paraguayan economy was decisively influenced by the start of work on the Itaipú dam, which will be the largest hydroelectric complex in the world. The great impact of this work, undertaken jointly with Brazil, was reflected in the 30 per cent growth of the gross product of the construction sector in 1975.

The Dominican Republic's considerable economic growth in 1975 was fundamentally due to the continuation of the sustained strong growth rate of its external sector since 1970. In 1975 this was once again largely due to the boom in sugar prices, which caused the value of exports of goods to grow by about 44 per cent for the second year running.

Finally, the global economic growth rate of both Panama and Uruguay rose in 1975, although much less than in Paraguay, the Dominican

[7]Since there is a lack of information on the real economic growth rate of the fourth oil-exporting country of the region –Trinidad and Tobago– only these three countries will be considered here.

Republic and the oil-exporting countries (see table 4). Nonetheless, the 2.5 per cent growth of the per capita product in Uruguay represented a considerable improvement in relation to the stagnation of the last 20 years.

2. *Total supply and demand*

The loss of dynamism of the Latin American economy in 1975 affected all the components of demand, and particularly exports and investments (see table 5).

Table 5

LATIN AMERICA: TOTAL SUPPLY AND DEMAND

	Annual growth rates [a]		
	1971–1973	*1974*	*1975* [b]
Total supply	7.0	8.4	1.9
Imports	8.1	20.1	– 3.0
Gross domestic product [c]	6.6	6.9	2.6
Total demand	7.0	8.4	1.9
Exports	5.5	1.5	4.5
Domestic demand	7.1	9.1	2.5
Gross domestic investment	10.2	15.0	0.4
Gross fixed investment	10.5	10.0	4.5
Total consumption	6.3	7.5	3.1
General government	7.6	8.2	2.3
Private	6.1	7.4	3.2

Source: ECLA, on the basis of official statistics.

[a] Calculated on the basis of constant values at 1970 prices.
[b] Estimates.
[c] Calculated at market prices.

The volume of exports, which had grown only very slowly in 1974, dropped by over 4 per cent in 1975. At the same time, the rate of growth of total consumption fell from 7.5 per cent to 3 per cent, a rate which was only slightly higher than the population growth rate.

The fall in the rate of capital formation was even sharper. After growing at an average annual rate of over 10 per cent during 1971-1973 and expanding by an exceptional 15 per cent in 1974, gross investment was almost completely stagnant in 1975. Because of the heavy build-up of stocks in 1974 and their partial liquidation in 1975, however, the drop in the growth rate of fixed investment was much smaller (see table 5).

Moreover, the investment coefficient continued to stand at close to 24 per cent in 1975, thus easily surpassing both the 19 per cent reached in the period 1964-1966, and the rate of almost 21 per cent recorded in the three-year period 1970-1972.

The changes in demand were accompanied by a sharp fall in the growth rate of total supply, which grew by rather less than 2 per cent in 1975: far below the 8 per cent recorded in 1974 and the average rate of 7 per cent during the period 1971-1973 (see table 5).

This much slower growth of total supply was partly due to the drop in the growth rate of the product and partly to the abrupt break in the upward trend shown by the volume of imports up to 1974. During the first years of the decade, imports grew in real terms at a rate which was not only high but also well above the rate of growth of the product. This process reached a peak in 1974, when the volume of imports grew by the extraordinary amount of 20 per cent. In 1975, however, imports dropped by 3 per cent and as a result the growth of total supply was smaller than that of the product.

3. *Sectoral developments*

During 1975 all the main sectors of the economy had lower growth rates both compared with those of the previous year and in comparison with those of the period 1971-1973 (see table 6).

The loss of dynamism was particularly pronounced in industry and construction, the two activities which had spearheaded the strong economic growth of the previous years.

Industrial growth, which had already weakened in 1974, slumped in 1975 to scarcely 1.5 per cent: less than one-fifth of the average rate during the period 1971-1974. Moreover, this much smaller growth of the manufacturing sector in 1975 was a widespread phenomenon which affected all the countries of the region except the oil-exporting countries, Honduras and Uruguay. The magnitude of the drop in the growth rate was primarily due, however, to the marked loss of dynamism for the second year running in the industrial growth of Brazil and the decline, in absolute terms, of the product of the manufacturing sector in 1975 in Argentina and Chile (see again table 6).

Construction followed a somewhat similar pattern. After growing at a sustained rate of over 8 per cent annually during the period 1971-1974, the product of the construction sector grew less than 2 per cent in 1975. As in the case of industry, this much smaller growth of the construction sector was basically a reflection of the sharp fall in its rate of growth in Brazil and the large decline in construction in Argentina and Chile. It was also affected by the fall in the product of the construction sector in Colombia, Nicaragua and Panama. On the other hand, it grew very strongly in Paraguay, Uruguay, Peru, Venezuela and Bolivia (see table 6).

The mining situation was even more unfavourable. The mining product dropped by over 5 per cent in the region as a whole and declined in 10 out of the 16 countries for which data are available. These reductions were particularly sharp in Peru and Chile (which reduced their copper production as a result of the drop in the price of copper in world markets) and in Venezuela, Bolivia and Ecuador (which cut oil production for the second consecutive year).

The rate of growth of the agricultural sector

Table

LATIN AMERICA: EVOLUTION OF MAIN

(Annual

Country	*Agriculture*			*Mining and quarrying*			*Manufacturing*		
	1971–1973	*1974*	*1975* [a]	*1971–1973*	*1974*	*1975* [a]	*1971–1973*	*1974*	*1975* [a]
Argentina	0.4	7.2	– 1.2	– 7.7	2.0	– 4.3	6.5	7.2	– 3.6
Bolivia	2.9	3.5	6.7	1.0	–	– 9.2	4.9	6.0	11.3
Brazil	6.4	8.5	3.4	8.0	...	...	13.7	7.1	3.7
Colombia	4.6	4.8	4.3	0.8	– 7.3	– 5.0	9.9	6.6	3.0
Costa Rica	5.8	– 0.8	1.8	e	e	e	8.7[e]	8.7[e]	5.0[e]
Chile	– 5.5	12.7	0.4	0.9	16.7	– 8.1	3.7	– 1.4	– 27.0
Ecuador	1.7	2.0	3.7	109.5	– 9.3	– 5.5	7.9	11.6	12.6
El Salvador	2.3	10.3	– 1.9	5.4	– 14.3	4.8	5.8	6.1	3.4
Guatemala	7.3	4.4	1.0	– 2.0	4.0	11.7	6.9	4.6	1.5
Haiti	2.5	1.0	0.3	9.4	4.1	– 33.5	8.5	9.8	4.8
Honduras	4.4	– 2.8	– 6.1	10.6	20.4	4.4	7.1	– 0.4	6.2
Mexico	1.6	0.9	1.9	3.9	15.7	4.3	6.8	5.7	4.4
Nicaragua	4.6	9.3	0.8	3.8	9.4	– 4.1	6.2	39.3	– 2.2
Panama	3.3	– 1.5	6.2	17.2	– 5.0	– 2.6	5.7	– 4.4	– 1.9
Paraguay	5.2	9.8	5.2	33.9	14.9	26.4	6.7	8.9	7.0
Peru	– 1.5	4.1	– 0.5	0.8	2.5	– 10.0	7.8	8.0	6.0
Dominican Republic	5.2	3.3	– 1.5	69.4	9.9	26.5	12.2	11.2	7.2
Uruguay	– 2.6	0.8	1.3	e	e	e	– 1.0[e]	3.6[e]	6.7[e]
Venezuela	2.4	7.6	9.1	– 2.2	– 9.5	– 15.3	6.8	9.0	12.9
Total	*3.1*	*5.3*	*2.2*	*1.7*	*3.1*	*– 5.2*	*8.6*	*6.4*	*1.5*

Source: ECLA, on the basis of official statistics.

a Preliminary figures.

b Including agriculture, mining and quarrying, manufacturing and constructions.

c Including electricity, gas and water, and transport and communications.

d Including commerce, restaurants and hotels, financial institutions, insurance and real estate, and community, social and personal services.

e Mining and quarrying is included in manufacturing.

also fell in 1975. Its product only grew by 2 per cent, which was a much lower rate than the 5 per cent reached in 1974 and was also below the population growth rate. Even so, agriculture was the activity which grew fastest among the goods-producing sectors in 1975.

The fall in the growth rate was also marked, although less sharp, in the basic services sectors. Their product rose 5 per cent in 1975, compared with the annual rate of nearly 8 per cent recorded during the period 1971-1974. The main causes of this slower growth of basic services were, once again, the drops in absolute terms in Chile and Argentina and the much lower rate of growth in Brazil. On the other hand, the basic services sectors grew strongly in the oil-exporting countries and Paraguay.

The remainder of the services followed a very similar path. Their rate of growth in 1975 was less than half the rate of the four preceding years and the high level of 1974 was only maintained in the oil-exporting countries and Paraguay. In contrast the rate dropped sharply in Argentina, Brazil and above all, Chile (see table 6).

6

SECTORS OF ECONOMIC ACTIVITY

growth rates)

Construction			*Goods* [b]			*Basic services* [c]			*Other services* [d]		
1971–1973	*1974*	*1975* [a]	*1971–1973*	*1974*	*1975*	*1971–1973*	*1974*	*1975*	*1971–1973*	*1974*	*1975*
– 2.0	12.1	– 9.0	3.5	7.5	– 3.6	3.8	5.4	– 2.0	3.8	5.8	1.9
3.7	14.0	13.5	2.9	4.2	4.3	5.2	6.0	8.3	6.4	6.9	8.5
12.2	11.2	3.8	11.2	8.0	3.6	10.6	15.2	8.8	12.2	10.1	3.4
6.3	3.9	– 6.4	9.9	4.9	2.5	9.1	12.5	4.9	7.6	6.7	5.2
6.0	6.3	6.5	6.8	3.3	3.5	8.4	5.9	...	8.4	5.0	...
– 3.0	23.1	– 35.0	1.2	6.2	– 19.3	3.3	1.3	– 10.4	1.4	2.8	– 12.4
8.9	9.3	8.3	11.0	3.6	5.6	3.9	7.1	11.7	6.2	10.5	10.9
6.7	23.1	10.4	3.8	9.5	0.8	4.8	2.6	3.5	5.8	3.4	6.6
12.8	– 6.6	11.0	7.5	3.9	1.7	9.8	15.1	4.4	5.3	5.5	3.3
15.6	25.9	1.6	4.1	3.8	0.1	8.6	6.0	6.9	6.1	3.3	6.2
– 1.4	16.5	8.5	4.9	0.4	– 1.0	4.8	1.3	0.2	3.0	– 0.2	1.2
9.9	3.4	3.5	5.6	5.1	3.7	9.5	10.9	...	6.2	5.8	...
6.2	39.3	– 2.2	4.6	11.5	0.4	3.8	12.1	2.9	3.0	6.1	1.4
12.1	4.0	– 13.2	5.6	– 1.6	– 0.4	11.2	12.0	8.1	5.9	4.2	5.0
10.8	14.2	30.0	6.1	9.8	7.5	10.6	10.6	10.3	5.4	6.1	8.2
9.6	19.5	20.0	3.4	7.4	3.4	8.3	...	...	6.9	5.6	...
23.3	12.6	10.0	13.3	8.0	6.4	9.9	7.2	6.0	9.0	9.9	6.5
– 4.7	6.5	22.4	– 1.8	3.0	6.5	0.6	2.8	1.6	– 0.8	1.0	1.6
16.7	– 7.1	14.0	2.7	– 1.5	– 1.2	7.3	11.9	12.5	5.5	9.1	8.9
8.2	*8.1*	*1.9*	*6.2*	*6.0*	*1.2*	*7.2*	*9.4*	*5.0*	*7.2*	*7.0*	*3.4*

IV. THE EXTERNAL SECTOR

1. *External trade*

(a) *General trends*

The prolonged and vigorous expansion which Latin America's external trade had been experiencing since the middle of the previous decade was halted in 1975. That process, characterized by the intense and sustained increase in the rate of growth of the value of exports and imports, reached its peak in 1974, when the value of exports increased by 70 per cent, that of imports by 63 per cent, and the volume of the latter by more than a fifth[8].

In 1975, in contrast, the value, quantum and purchasing power of exports declined, the physical

[8]The terms "exports" and "imports" are used in this section as synonyms of "exports of goods" and "imports of goods", respectively. In the remainder of the study, however, they refer to exports and imports of goods and services.

Table 7

LATIN AMERICA: VARIATION IN EXPORTS AND IMPORTS OF GOODS
(Annual growth rates)

	Exports			Imports			Purchasing power of exports
	Value	Quantum	Unit value	Value	Quantum	Unit value	
				Latin America			
1961–1965	5.4	5.4	–	3.1	1.0	2.1	3.0
1966–1970	6.2	3.6	2.5	9.5	8.1	1.3	4.9
1971–1972	10.7	3.1	7.4	12.0	6.9	5.7	5.1
1973	42.4	8.0	31.9	27.6	10.9	16.6	22.3
1974	70.6	0.6	69.6	62.6	20.6	41.1	26.6
1975 [a]	– 11.2	– 4.4	– 7.2	7.0	– 2.7	10.2	– 20.2
				Oil exporting countries			
1961–1965	2.4	5.2	– 2.7	5.4	2.2	3.1	– 0.9
1966–1970	2.9	2.9	0.1	5.6	4.2	1.4	0.9
1971–1972	15.2	– 2.0	17.6	14.6	8.5	5.7	9.5
1973	46.7	6.0	38.4	14.5	– 0.7	15.2	30.7
1974	164.4	– 7.9	187.2	64.9	16.2	41.9	106.9
1975 [a]	– 24.4	– 20.3	– 5.1	24.2	12.3	10.6	– 35.1
				Non-oil exporting countries			
1961–1965	6.9	5.5	1.3	2.5	0.7	1.8	4.6
1966–1970	7.4	3.9	3.4	10.6	9.2	1.3	6.1
1971–1972	9.2	4.7	4.3	12.6	6.6	5.6	3.9
1973	40.9	8.6	29.7	32.9	13.7	16.9	19.8
1974	34.7	3.0	30.7	71.3	21.5	41.0	0.1
1975 [a]	– 1.3	– 0.3	– 1.0	3.7	– 5.8	10.1	– 10.1

Source: ECLA, on the basis of official data.
[a] Preliminary figures.

Table 8

LATIN AMERICA: TERMS OF TRADE
(1961–1965 = 100)

	Latin America		*Oil exporting countries*		*Non-oil exporting countries*	
	Index	*Annual variation*	*Index*	*Annual variation*	*Index*	*Annual variation*
1966–1970	98.1	– 1.9	83.1	– 16.9	104.6	4.6
1971–1972	103.2	5.2	96.5	16.1	106.4	1.7
1973	119.3	15.6	119.0	23.3	120.8	13.5
1974	143.4	20.2	240.9	102.4	112.1	– 7.2
1975[a]	120.8	– 15.8	206.6	– 14.2	100.8	– 10.1

Source: ECLA, on the basis of official data.
[a] Preliminary estimates.

volume of imports decreased and the terms of trade worsened sharply (see tables 7 and 8).

Nevertheless, the 1975 recession did not succeed in wiping out completely the advance recorded during the previous two years. Thus, the purchasing power of Latin American exports was 23 per cent higher in 1975 than in 1972, the year which preceded the increase in oil prices and the boom in the prices of a number of commodities. Between the same two years, the increase in the volume of exports was even greater –30 per cent– and it occurred in both the oil-exporting countries and the other countries of the region.

Nor did the worsening of the terms of trade which occurred in 1975 succeed in completely offsetting the gains made in this respect in the four previous years. Thus, for Latin America as a whole the index of the terms of trade was 22 per cent higher in 1975 than in the 1960s.

This gain was, however, very unequally distributed and reflected mainly the spectacular improvement made in 1974 by the oil-exporting countries. In fact, in spite of the fact that the index of the terms of trade of those countries declined in 1975 by a little more than 14 per cent, it was still more than double the average level of the 1960s.

This position contrasted with that of the non-oil-exporting countries, in which the terms of trade, after improving steadily between the first half of the 1960s and 1973, fell by 7 per cent in 1974 and deteriorated even further in 1975. As a result, the index of the terms of trade fell in 1975 to the same level registered in the period 1961-1965 (see table 8).

(b) *Exports*

As already noted, Latin American exports showed a steady and intense increase from the middle of the 1960s onwards. This trend was due mainly to the continuous sharp increase in prices. Thanks to this, the value of exports rose at an increasing rate, in spite of the fact that, simultaneously, the rate of growth in the volume of exports declined.

This divergence became much more marked in 1974, when the tripling of oil prices and the sharp increases in world prices for sugar, cocoa, copper, zinc and other commodities led to a record increase of more than 70 per cent in export income, in spite of the stagnation in physical volume (see table 7).

For Latin America as a whole, the upward trend in the value of exports reversed sharply in 1975. After having more than doubled in the two-year period 1973-1974, it fell by 11 per cent in 1975 as a result of the drop of more than 4 per cent in the volume of exports and a reduction of 7 per cent in their unit value.

However, the fall in the value of exports was greatest in a relatively small number of countries: the four oil-exporting ones, Argentina, Chile and Peru. In absolute terms, the decrease in the external sales of the oil-producing countries

Table 9

LATIN AMERICA: VARIATION IN EXPORTS OF GOODS
(Annual growth rates)

	Value			*Quantum*			*Unit value*			*Purchasing power of exports*		
	1973	*1974*	*1975* [a]	*1973*	*1974*	*1975* [a]	*1973*	*1974*	*1975* [a]	*1973*	*1974*	*1975* [a]
Latin America	*42.4*	*70.6*	*– 11.2*	*8.0*	*0.6*	*– 4.4*	*31.9*	*69.6*	*– 7.1*	*22.3*	*26.6*	*– 20.2*
Oil exporting countries	*46.7*	*164.4*	*– 24.4*	*6.0*	*– 7.9*	*– 20.3*	*38.4*	*187.2*	*– 5.1*	*30.7*	*106.9*	*– 35.1*
Bolivia	32.8	106.7	– 19.5	4.7	2.5	– 13.3	26.9	101.6	– 7.2	16.2	61.2	– 95.9
Ecuador	77.9	106.5	– 13.2	42.0	– 7.4	– 3.7	25.3	123.0	– 9.9	52.6	60.4	– 24.0
Trinidad and Tobago	20.9	187.3	– 15.3	– 7.4	– 3.7	– 23.0	30.6	198.5	10.0	17.4	33.8	– 21.7
Venezuela	48.8	170.2	– 26.7	3.8	– 9.8	– 23.9	43.3	199.5	– 3.7	31.9	125.8	– 37.5
Non-oil exporting countries	*40.9*	*34.7*	*– 1.3*	*8.6*	*3.0*	*– 0.3*	*29.7*	*30.7*	*– 0.9*	*19.8*	*0.1*	*– 10.1*
Argentina	68.5	21.8	– 24.7	5.2	20.9	– 20.6	41.5	24.5	– 5.2	45.0	– 2.0	– 31.6
Barbados	27.5	48.0	21.4	11.5	– 16.4	– 12.6	14.4	77.1	39.0	3.5	– 1.3	0.8
Brazil	54.6	28.8	10.3	19.5	– 1.0	9.2	29.4	30.0	1.0	33.3	– 12.0	3.9
Colombia	28.9	31.1	2.4	1.3	9.5	9.9	27.3	19.7	– 6.8	12.6	4.1	– 6.6
Costa Rica	23.7	27.8	11.6	2.9	3.5	– 1.5	20.3	23.5	13.3	6.0	– 5.3	1.7
Chile	47.2	69.2	– 28.2	3.8	20.9	– 1.2	41.8	40.0	– 27.3	17.2	26.1	– 31.9
El Salvador	18.9	31.4	11.0	– 4.1	13.9	0.2	24.0	15.4	10.7	5.4	1.9	0.5
Guatemala	31.6	33.0	10.1	6.6	7.6	4.6	23.4	23.6	5.2	15.1	– 2.6	– 2.7
Guyana	– 5.5	99.0	30.3	– 7.0	19.4	– 15.5	1.6	66.7	54.3	– 13.7	37.4	7.8
Haiti	19.4	39.9	– 3.4	1.6	4.4	– 16.7	17.4	34.3	15.9	0.5	– 10.4	– 9.1
Honduras	23.6	14.9	– 5.2	1.3	– 2.0	– 2.6	22.0	15.1	– 3.3	8.3	– 10.1	– 14.6
Jamaica	4.1	65.7	– 2.9	7.1	17.7	– 14.6	– 2.8	40.7	13.7	– 5.2	10.0	– 11.3
Mexico	28.6	42.3	0.1	10.8	–	– 3.2	16.1	42.3	3.3	10.4	7.0	– 9.9
Nicaragua	11.9	36.9	– 2.5	– 1.0	8.6	3.1	13.0	26.1	– 5.5	12.9	– 6.1	– 15.2
Panama	10.7	52.6	31.2	0.8	8.7	19.5	9.9	40.3	9.8	1.6	– 2.7	6.2
Paraguay	49.8	35.7	4.0	4.0	4.3	6.1	44.1	30.1	– 2.0	27.1	5.7	– 10.6
Peru	17.9	41.1	– 12.3	– 17.5	– 3.8	– 7.8	43.0	46.7	– 4.9	4.9	10.2	– 19.6
Dominican Republic	27.5	43.7	44.7	4.7	– 7.5	– 13.3	21.8	55.3	66.8	8.8	12.6	27.3
Uruguay	35.4	16.4	1.0	– 5.6	7.3	27.7	43.4	8.5	– 20.9	22.8	– 28.3	– 5.1

Source: ECLA, on the basis of official data.
[a] Preliminary figures.

amounted to 93 per cent of the reduction in total exports of the region, and the drop of 4 060 million dollars in Venezuela's exports alone was 70 per cent higher than the combined decrease of 2 400 million dollars in the value of exports of the remaining ten countries (see tables 9 and 11).

In the oil-exporting countries –with the exception of Ecuador– the reduction in the value of exports was due mainly to decreases in the quantum. These, in turn, reflected on the one hand a policy designed to restrict the sales of crude in order to maintain the prices fixed by OPEC, and on the other the cutback in the demand for oil in the central countries as a result of the contraction in economic activity, the rise in absolute and relative prices of oil products and, to lesser extent, the mild winter in the northern hemisphere.

Among the remaining countries of the region, the drop in the value of exports was substantial in Peru (12 per cent), very marked in Argentina (25 per cent) and even more intense in Chile (28 per cent). In each case, the factors which provoked the drop differed. Thus, the reduction in the value of Argentina's exports was due mainly to the decrease of more than 20 per cent in the volume exported[9]. In Chile, in contrast, the more decisive factor was the abrupt decline in the unit value of exports by 27 per cent as a result of the sharp fall in the price of copper. Lastly, the reduction in the volume of Peruvian exports was the result of relatively evenly matched drops in volume and unit value (see table 9).

Income from exports increased sharply, however, in three of the sugar- and bauxite-exporting countries (Barbados, Guyana and the Dominican Republic) and in Panama, while it also increased by more than 10 per cent in Brazil, Costa Rica, El Salvador and Guatemala.

Among the sugar-producing countries, the growth in external sales was particularly high in the Dominican Republic, where the value of exports increased for the second consecutive year by approximately 44 per cent. As a result of this, and of the very marked increase in value during the period 1971-1973, export income in 1975 was more than four times that of 1970.

As also in Barbados and Guyana, this favourable trend in the value of the exports of the Dominican Republic ocurred in spite of the fact that at the same time the volume exported fell considerably. This trend contrasted with that of the exporting sectors of Brazil, Colombia, Paraguay and in particular Uruguay, for in those four countries the rate of growth of the value of exports fell sharply in 1975 in spite of the fact that this was accompanied by an upsurge in the export quantum (see table 9).

[9] It is possible, however, that as a result of the size of unrecorded operations, the official figures may have underestimated the drop suffered in 1975 in terms of both the value and volume of Argentine exports.

(c) *The purchasing power of exports*

In 1975 the purchasing power of Latin American exports fell by 20 per cent. This fall broke the upward trend of the previous ten years which reached its peak in the two-year period 1973-1974, when the purchasing power of the region's exports increased by almost 55 per cent (see table 7).

In relative terms, the decline was three times higher in the oil-exporting countries than in the others. However, its impact was more serious in the latter, for while the purchasing power of the exports of the first group of countries more than doubled in 1974, in the non-oil-exporting countries it remained unchanged in that year. Thus, in spite of the sharp reduction in the purchasing power of the oil-producing countries' exports in 1975, that purchasing power continued to be 175 per cent higher than in 1972 whereas in the other countries of the region the increase was only 8 per cent.

For the non-oil-exporting countries as a whole, the reduction in the purchasing power of exports in 1975 was due exclusively to the 10 per cent deterioration in the terms of trade, since the physical volume of exports was maintained. The much more marked drop in the purchasing power of the oil-producing countries had, on the other hand, a double origin: on the one hand it was due to the considerable drop in the quantum of exports, while on the other it was affected by a sharper drop in the terms of trade (see tables 7 and 8).

(d) *Imports*

The change in the trend of the previous years was also very marked in the case of imports. The rate of growth of their value, which had been increasing steadily since the beginning of the 1960s, and which during the two-year period 1973-1974 averaged 44 per cent per year, fell in 1975 to 7 per cent. This increase was smaller than that of the unit value of imports (10 per cent), which mainly reflected the effects of inflation in the industrialized countries. As a result, the volume of imports fell by almost 3 per cent (see table 7).

This reduction offset, however, only to a very small extent the exceptional expansion in the quantum of imports in the preceding years. Thus, the volume of imports was almost 30 per cent higher in 1975 than in 1972, both in the oil-exporting and the other countries of the region, and the average annual rate of growth of the quantum of imports of Latin America as a whole during the period 1971-1975 was 8.2 per cent. Thus, during that period of time the sharp increase of the previous five-year period was maintained, and the physical volume of Latin American imports was 120 per cent higher in 1975 than in 1965.

The drop in 1975 affected most of the non-oil-exporting countries, whose volume of imports fell by 6 per cent, after having increased by the exceptional amount of 22 per cent during 1974. Among these countries, the reductions in quantum were extraordinarily high in Chile and Nicaragua and very considerable in Honduras, Brazil, Colombia, Costa Rica and Paraguay. In all these countries, however, with the exception of Chile, the drop in the physical volume of imports which occurred in 1975 came after very considerable increases recorded in the previous year. On the other hand, Peru and, to a lesser extent, Jamaica were the only non-oil-exporting countries in which the quantum of imports still increased in 1975 at quite a high rate (see table 10).

Table 10

LATIN AMERICA: VARIATION IN IMPORTS OF GOODS

(Annual growth rates)

	Value			*Quantum*			*Unit value*		
	1973	*1974*	*1975*[a]	*1973*	*1974*	*1975*[a]	*1973*	*1974*	*1975*[a]
Latin America	*27.6*	*62.6*	*7.0*	*10.9*	*20.6*	*– 2.7*	*16.6*	*41.1*	*10.2*
Oil exporting countries	*14.5*	*64.9*	*24.2*	*– 0.7*	*16.2*	*12.3*	*15.2*	*41.9*	*10.6*
Bolivia	20.4	59.2	29.2	3.6	28.1	14.3	16.2	24.3	13.0
Ecuador	54.9	65.2	29.0	38.8	27.3	12.4	11.6	29.7	14.9
Trinidad and Tobago	2.4	134.8	– 15.2	– 5.1	– 0.9	– 24.3	8.0	137.0	12.0
Venezuela	12.1	46.2	40.0	– 5.1	17.7	20.7	18.1	24.2	16.1
Non-oil exporting countries	*32.9*	*71.3*	*3.7*	*13.7*	*21.5*	*– 5.8*	*16.9*	*41.0*	*10.1*
Argentina	17.6	59.4	10.2	5.2	20.9	– 4.1	11.8	31.9	14.9
Barbados	19.8	22.0	3.3	5.3	– 8.0	– 7.8	13.7	32.7	11.9
Brazil	46.8	104.0	– 3.1	24.0	29.9	– 11.1	18.4	57.0	9.0
Colombia	15.7	36.6	– 0.1	– 2.1	10.4	– 10.8	18.2	23.8	12.0
Costa Rica	22.3	52.0	1.2	5.1	11.8	– 10.6	16.4	35.9	13.3
Chile	25.1	36.2	– 17.3	2.1	2.8	– 24.1	22.6	32.5	8.9
El Salvador	36.1	50.1	11.2	19.1	15.4	– 0.9	14.3	30.0	12.2
Guatemala	32.8	56.3	15.7	9.5	9.5	2.5	21.2	42.7	12.9
Guyana	23.0	44.5	30.3	8.6	3.2	7.3	13.3	40.0	21.5
Haiti	19.2	30.1	11.9	1.8	– 13.8	3.4	17.1	51.0	8.0
Honduras	38.0	58.1	– 2.6	19.5	23.5	– 13.9	15.5	28.1	13.0
Jamaica	8.0	42.6	18.9	– 0.6	2.4	5.2	8.7	39.2	13.0
Mexico	40.6	57.9	8.0	20.5	21.4	– 1.0	16.7	30.1	9.0
Nicaragua	59.5	65.2	– 10.0	34.8	25.3	– 21.7	18.4	31.8	15.0
Panama	12.8	59.8	7.4	– 1.8	4.6	– 6.6	14.9	52.8	15.0
Paraguay	61.9	49.1	8.6	43.1	11.2	– 9.3	13.2	34.1	19.8
Peru	27.4	93.1	24.7	11.2	55.7	11.4	14.6	24.1	12.0
Dominican Republic	14.2	59.2	14.9	– 3.5	24.5	1.6	18.4	27.9	13.0
Uruguay	39.1	75.7	11.0	29.8	– 5.2	3.3	7.2	85.3	7.5

Source: ECLA, on the basis of official data

a Preliminary figures.

Table 11

LATIN AMERICA: TRADE BALANCE

(Millions of dollars)

	Exports of goods (FOB)			Imports of goods (FOB)			Balance, goods			Net non-factor services			Trade balance		
	1973	1974	1975[a]	1973	1974	1975[a]	1973	1974	1975[a]	1973	1974	1975[a]	1973	1974	1975[a]
Latin America	*25 985*	*44 336*	*39 349*	*23 207*	*39 484*	*42 238*	*2 778*	*4 852*	*– 2 889*	*– 1 399*	*– 2 636*	*– 3 054*	*1 379*	*2 216*	*– 5 943*
Oil exporting countries	*7 193*	*19 020*	*14 380*	*4 072*	*6 715*	*8 342*	*3 121*	*12 305*	*6 038*	*– 514*	*– 901*	*– 948*	*2 607*	*11 404*	*5 090*
Bolivia	270	558	449	236	375	485	34	183	– 36	– 47	– 89	– 125	– 13	94	– 161
Ecuador	575	1 187	1 030	493	813	1 050	82	374	– 20	– 97	– 182	– 147	– 15	192	– 167
Trinidad and Tobago	720	2 068	1 751	719	1 686	1 429	1	382	322	68	49	54	70	431	376
Venezuela	5 628	15 207	11 150	2 626	3 841	5 378	3 002	11 366	5 772	– 437	– 679	– 730	2 564	10 687	5 042
Non-oil exporting countries	*18 792*	*25 316*	*24 969*	*19 135*	*32 769*	*33 896*	*– 343*	*– 7 453*	*– 8 927*	*– 886*	*– 1 735*	*– 2 106*	*– 1 229*	*– 9 188*	*– 11 033*
Argentina	3 271	3 985	3 000	1 981	3 159	3 480	1 290	826	– 480	– 190	– 339	– 410	1 100	487	– 890
Barbados	47	70	85	153	187	193	– 106	– 117	– 108	52	61	61	– 54	– 56	– 47
Brazil	6 093	7 846	8 655	6 154	12 553	12 169	– 61	– 4 707	– 3 154	– 1 012	– 1 428	– 1 604	– 1 073	– 6 135	– 5 118
Colombia	1 263	1 655	1 694	982	1 342	1 340	281	313	354	– 155	– 207	– 200	125	106	154
Costa Rica	345	441	492	412	626	634	– 67	– 185	– 142	– 14	– 32	– 43	– 81	– 217	– 185
Chile	1 262	2 136	1 533	1 363	1 856	1 535	– 101	280	– 2	– 281	– 374	– 326	– 381	– 94	– 328
El Salvador	359	471	523	340	510	567	19	– 39	– 44	– 63	– 83	– 72	– 44	– 122	– 116
Guatemala	442	588	647	391	612	708	51	– 24	– 61	– 40	– 54	– 51	11	– 78	– 112
Guyana	136	270	352	159	230	300	– 23	40	52	– 27	– 26	– 42	– 51	14	10
Haiti	51	71	69	72	94	105	– 21	– 23	– 93	– 10	– 15	– 14	– 31	– 38	– 50
Honduras	259	297	282	244	385	375	15	– 88	– 93	– 25	– 39	– 30	– 10	– 127	– 123
Jamaica	393	652	633	571	814	968	– 178	– 162	– 335	37	18	– 9	– 141	– 144	– 344
Mexico	2 419	3 443	3 445	3 691	5 826	6 290	– 1 272	– 2 383	– 2 845	857	971	808	– 415	– 1 412	– 2 037
Nicaragua	278	380	371	327	540	486	– 49	– 160	– 115	1	– 55	– 48	– 48	– 215	– 163
Panama	162	247	324	461	736	791	– 299	– 489	– 467	– 232	318	357	– 67	– 171	– 110
Paraguay	128	174	181	127	190	206	1	– 16	– 25	– 12	– 11	– 13	– 11	– 27	– 38
Peru	1 114	1 572	1 378	1 035	1 999	2 491	79	– 427	– 1 113	– 129	– 233	– 263	– 50	– 660	– 1 376
Dominican Republic	443	637	921	423	673	773	20	– 36	148	– 72	– 151	– 151	– 52	– 187	– 3
Uruguay	328	381	385	249	437	485	79	56	– 100	– 36	– 56	– 57	43	– 112	– 157

Source: ECLA, on the basis of official statistics.

[a] Preliminary figures.

In contrast, the volume of imports did not decrease in the oil-exporting countries, with the exception of Trinidad and Tobago[10]. Among them, Venezuela increased its volume of imports at an even higher rate than the already high one of 1974, and Bolivia and Ecuador continued to increase them at a rate which, although lower than the exceptional 27 per cent observed in 1974, continued to be very high.

2. *The balance of payments*

(a) *The trade balance and current account balance*

In 1975 the trade balance for the exports and imports of the Latin American countries as a whole showed a deficit of about 2 900 million dollars, in striking contrast with the surpluses of 4 850 million and approximately 2 800 million observed in 1974 and 1973, respectively. While between 1974 and 1975 the deficit of the non-oil-exporting countries rose from 7 450 million to over 8 900 million dollars, the oil-exporting countries saw the surplus for their trade in goods drop from 12 300 to around 6 000 million dollars (see table 11).

Moreover, the deficit on the net non-factor services account for Latin America as a whole increased by over 400 million dollars, of which some 350 million was accounted for by the non-oil-exporting countries. The relative magnitude of the deficit on this type of services account has increased considerably in recent years, which shows the significance that has gradually been taken on by the net disbursements effected by the countries of the region for freight, insurance and tourism. Thus, for example, it may be noted that the proportion of exports of goods represented by this deficit rose from 5.4 per cent in 1973 to almost 8 per cent in 1975.

Furthermore, only four of the Latin American economies record persistent surpluses on the non-factor services account. These are Barbados, Mexico and Trinidad and Tobago –where tourism produces a substantial net income– and Panama which receives exceptional income from the sale of services in connexion with Canal activities.

As a result of the aforementioned trends in the goods and services trade, the surplus of 2 200 million dollars in 1974, was converted into a deficit of some 6 000 million dollars in 1975. Of this change in position of over 8 000 million dollars, around 6 000 million were accounted for by the oil countries, and the rest by the non-oil-exporting economies (see table 11).

In the non-oil-exporting countries, the total net payments of profits and interest rose by 37 per cent from 4 150 million dollars in 1974 to 5 700 million in 1975 (see table 12). Remittances of profits abroad rose from 1 850 to 2 200 million (19 per cent), in spite of the fact that the value of exports of goods –a variable conceptually linked with their evolution– dropped slightly between the two years considered.

Interest payments rose from 2 300 million in 1974 to about 3 500 million in 1975 (over 50 per cent), reflecting the rapid growth of the external debt of this group of countries and, at the same time, the progressive hardening of the average terms on which this debt is contracted. The share of official development aid to Latin America has steadily decreased, while the concessionary element in the external loans used by the region has also been gradually disappearing. Logically enough, this has meant a rapid increase in the total loans contracted in the market from private sources, at higher costs and with shorter maturity periods than those of official aid.[11]

For the non-oil-exporting countries three-quarters of the net variation of over 1 500 million dollars in the total net payments of profits and interest was the result of the course followed by this item in Brazil and Mexico; the increase of 83 per cent observed in the first of these countries was particularly intense. In addition, some other non-oil-exporting countries (Argentina, Chile, Colombia, El Salvador, Guatemala, Honduras, Panama and Uruguay) also recorded considerable increases (see table 12).

In the oil-exporting countries, net payments of profits and interest dropped from 4 860 million dollars in 1974 to 2 220 million in 1975, i.e., by over 55 per cent. This sharp relative drop exceeded the 24 per cent reduction in exports of goods, and was entirely due to the fall in remittances of profits, particularly by Venezuela. Furthermore, from 1974 onwards this group of countries –influenced by the course of events in Venezuela– showed a net inflow under the head of interest which came to slightly over 400 million dollars in 1975.

[10] In this country, the drop in imports was due entirely to the reduction of imports of crude, since the value of the remaining imports rose by 44 per cent. For more details see the section on Trinidad and Tobago in Part Three of this Survey.

[11] See ECLA, *Some topics of UNCTAD IV*, E/CEPAL/L.133, 19 April 1976, pages 45 to 74.

Table 12

LATIN AMERICA: BALANCE OF PAYMENTS

(Millions of dollars)

	Trade balance			Net payments of profits and interest			Balance on current account [b]			Movement of capital			Balance of payments before compensation		
	1973	*1974*	*1975* [a]	*1973*	*1974*	*1975* [a]	*1973*	*1974*	*1975* [a]	*1973*	*1974*	*1975* [a]	*1973*	*1974*	*1975* [a]
Latin America	*1 379*	*2 216*	*– 5 943*	*– 5 160*	*– 9 017*	*– 7 899*	*– 3 564*	*– 6 607*	*– 13 626*	*7 430*	*10 376*	*13 891*	*3 866*	*3 769*	*265*
Oil exporting countries	*2 607*	*11 404*	*5 090*	*– 1 794*	*– 4 862*	*– 2 215*	*727*	*6 422*	*2 752*	*– 31*	*– 1 774*	*– 171*	*696*	*4 648*	*2 581*
Bolivia	– 13	94	– 161	– 23	– 33	– 44	– 31	66	– 199	22	58	144	– 10	124	– 55
Ecuador	– 15	192	– 167	– 99	– 183	– 96	– 97	16	– 255	198	98	191	101	114	– 64
Trinidad and Tobago	71	431	376	– 87	– 317	– 267	– 19	112	107	13	222	246	– 7	334	353
Venezuela	2 564	10 687	5 042	– 1 584	– 4 329	– 1 808	875	6 228	3 099	– 263	– 2 152	– 752	612	4 076	2 347
Non-oil exporting countries	*– 1 229*	*– 9 188*	*– 11 033*	*– 3 366*	*– 4 155*	*– 5 684*	*– 4 292*	*– 13 029*	*– 16 378*	*7 461*	*12 150*	*14 062*	*3 169*	*– 879*	*– 2 316*
Argentina	1 100	487	– 890	– 395	– 335	– 430	708	151	– 1 320	– 43	– 119	529	665	32	– 791
Barbados	– 54	– 56	– 47	– 8	– 8	– 9	– 56	– 58	– 49	62	64	51	5	6	2
Brazil	– 1 073	– 6 135	– 5 118	– 812	– 993	– 1 820	– 1 862	– 7 127	– 6 923	4 255	6 248	5 828	2 393	– 879	– 1 095
Colombia	125	106	154	– 215	– 193	– 239	– 77	– 78	– 79	223	– 30	153	146	– 108	74
Costa Rica	– 81	– 217	– 185	– 38	– 41	– 44	– 112	– 251	– 219	128	206	194	16	– 45	– 25
Chile	– 381	– 94	– 328	– 155	– 206	– 324	– 536	– 296	– 642	110	156	381	– 427	– 140	– 261
El Salvador	– 44	– 122	– 116	– 13	– 21	– 34	– 45	– 127	– 131	42	81	157	– 4	– 46	26
Guatemala	11	– 78	– 112	– 46	– 47	– 61	9	– 72	– 107	76	63	212	85	– 9	105
Guyana	– 51	14	10	– 12	– 19	– 21	– 63	– 8	– 13	37	54	98	– 26	46	85
Haiti	– 31	– 38	– 50	– 5	– 6	– 7	– 25	– 31	– 36	24	22	28	– 1	– 9	– 8
Honduras	– 10	– 127	– 123	– 33	– 13	– 38	– 39	– 126	– 146	44	108	198	5	– 18	52
Jamaica	– 141	– 144	– 344	– 134	– 165	– 159	– 241	– 275	– 467	211	338	406	– 30	63	– 61
Mexico	– 415	– 1 412	– 2 037	– 1 137	– 1 619	– 1 921	– 1 489	– 2 934	– 3 888	1 630	2 964	4 053	141	30	165
Nicaragua	– 48	– 215	– 163	– 46	– 57	– 62	– 54	– 256	– 212	79	232	200	25	– 24	– 12
Panama	– 67	– 171	– 110	– 43	– 91	– 137	– 118	– 269	– 253	118	250	240	–	– 19	– 13
Paraguay	– 11	– 27	– 38	– 10	– 11	– 12	– 20	– 38	– 50	41	67	78	21	29	28
Peru	– 50	– 660	– 1 376	– 163	– 193	– 203	– 207	– 852	– 1 568	315	1 110	1 025	107	258	– 543
Dominican Republic	– 52	– 187	– 3	– 77	– 90	– 109	– 80	– 228	– 63	101	234	93	21	6	30
Uruguay	43	– 112	– 157	– 25	– 43	– 55	18	– 154	– 212	9	102	138	27	– 52	– 74

Source: ECLA, on the basis of official statistics.

a Preliminary figures.

b Including net movements of private transfer payments.

Taking Latin America's position as a whole, it will be noted that in 1975 net outflows of profits and interest went down by 12 per cent, basically as a result of developments in the non-oil-exporting countries. Even so, the amount disbursed in 1975 was equal to one-fifth of the value of exports of goods.

To sum up, the performance of the various items in the current account –particularly trade in goods– was responsible for increasing the region's deficit from 6 600 million dollars in 1974 to 13 600 million in 1975. In other words, Latin America's requirements in terms of external saving more than doubled in the short space of one year.

On the one hand, the current account deficit of the non-oil-exporting countries rose from 13 000 million dollars in 1974 to about 16 400 million in 1975. The biggest relative increases in the negative balances were observed in Argentina, Chile, Guatemala, Jamaica, Mexico, Peru and Uruguay; in the other economies of this group the variations between the two years tended to be smaller.

On the other hand, the oil-exporting economies, which in 1974 had achieved a total current account surplus of 6 200 million dollars, recorded a surplus of only 3 100 million in 1975. It should be noted, moreover, that Bolivia and Ecuador once again showed deficits on their current accounts, after having shown surpluses in 1974.

(b) *Capital account*

In 1975 the region's net inflow of capital amounted to about 14 000 million dollars, which was slightly more than its current account deficit.[12] The result was a small overall balance-of-payments surplus of less than 300 million dollars, compared with some 3 800 million in 1974.

The non-oil-exporting countries received a net inflow of non-compensatory capital of over 14 000 million dollars. This was about 15 per cent higher than that recorded in 1974, but was insufficient to cover the external financing needs of these countries in view of the size of their current account deficit in 1975.

Brazil and Mexico absorbed 70 per cent of the capital inflows of this group of economies, and this figure rises to 85 per cent if the capital inflows of Argentina, Jamaica and Peru are also considered. It is interesting to note, however, that in 1975, unlike what happened in 1973, all the non-oil-exporting countries needed a significant inflow of non-compensatory capital to finance their balance-of-payments. This flow was in no case less than 10 per cent of total exports of goods, and in some extreme cases (Barbados, Brazil, Honduras, Jamaica, Mexico, Panama and Peru) it was over 60 per cent. On average, for the whole group of 19 non-oil-exporting economies of the region, the ratio between total inflow of capital and total exports of goods increased from 40 per cent in 1973 to 48 per cent in 1974 and 56 per cent in 1975 (see tables 11 and 12).

In 1975, taking into account their deficits on current account and their net inflows of capital, the non-oil-exporting countries showed a total balance-of-payments deficit of 2 300 million dollars, which was almost three times the previous year's deficit and in sharp contrast to the surplus of around 3 200 million recorded in 1973. In 1975 nine countries of this group showed surpluses –generally quite small– in their external accounts, while the remaining 10 reflected deficits. The biggest negative balances in relation to the individual countries' export levels were shown by Argentina, Brazil, Chile, Peru and Uruguay.

Although some non-oil-exporting countries had a fairly sizable net inflow of non-compensatory capital, their international reserves fell by roughly the amount of the balance-of-payments deficit. Thus, they declined from about 10 700 million dollars at the end of 1974 to some 8 600 million at the end of 1975 (see table 13). Between 1973 and 1975 the ratio between reserves and imports of goods dropped from 60 to 25 per cent.

The downward trend of international reserves was basically the result of their decline in Argentina, Brazil and Peru and to a lesser degree, in Jamaica, Uruguay and Haiti, all of which showed balance-of-payments deficits. There were, however, other non-oil-exporting economies with balance-of-payments deficits which did not suffer a decline in reserves. These were Chile, Costa Rica, Nicaragua and Panama.

The oil-exporting countries, for their part, registered a net outflow of capital of 170 million dollars, which is equal to one-tenth of the figure

[12] In other words, the Latin American countries –and particularly the non-oil-exporting economies– increased their total net external debt (including foreign investment but excluding compensatory loans and loans extended for less than one year) by 10 400 million dollars in 1974 and nearly 14 000 million in 1975. Unfortunately, no data are available for those years on the composition of capital inflows and amortization payments, which would otherwise have permitted a more extensive analysis.

Table 13

LATIN AMERICA: EVOLUTION OF INTERNATIONAL RESERVES
(Millions of dollars)

	1973	1974	1975	Annual growth rates (per cent) 1973	1974	1975
Latin America	*14 236*	*18 185*	*18 680*	*46.6*	*27.7*	*2.7*
Oil-exporting countries	*2 772*	*7 447*	*10 054*	*39.1*	*168.6*	*35.0*
Bolivia	72	194	156	20.9	168.3	– 19.4
Ecuador	241	350	286	68.1	45.1	– 18.4
Trinidad and Tobago	47	390	751	– 19.2	730.4	92.4
Venezuela	2 412	6 513	8 861	39.3	170.0	36.1
Non-oil exporting countries	*11 464*	*10 738*	*8 626*	*48.5*	*– 6.3*	*– 19.7*
Argentina	1 318	1 315	452	183.4	– 0.2	– 65.6
Barbados	32	39	40	14.3	21.9	2.6
Brazil	6 415	5 272	4 013	53.4	– 17.8	– 23.9
Colombia	534	449	523	64.3	– 15.9	16.5
Costa Rica	51	45	51	18.9	– 12.4	14.8
Chile	180	102	109	21.1	– 43.3	7.1
El Salvador	62	98	127	– 25.0	59.2	29.0
Guatemala	212	202	304	57.2	– 4.5	50.4
Guyana	14	60	138	– 62.0	326.4	132.4
Haiti	17	20	11 [a]	– 5.0	15.8	– 44.4
Honduras	42	44	97	18.7	6.3	118.5
Jamaica	127	190	126	– 20.2	49.5	– 34.0
Mexico	1 355	1 395	1 533	16.4	3.0	9.9
Nicaragua	117	105	122	45.3	– 9.9	16.2
Panama	43	39	39 [a]	– 2.7	– 7.7	–
Paraguay	57	87	115	81.4	52.7	31.9
Peru	568	968	544 [b]	17.5	70.3	– 43.9
Dominican Republic	88	91	116	50.0	3.3	27.9
Uruguay	232	217	166	17.2	– 6.5	– 23.5

Source: International Monetary Fund, *International Financial Statistics*, May 1976.
[a] Estimates.
[b] November.

for 1974. Venezuela transferred 750 million dollars abroad, while the other three countries included in this group had net inflows of non-compensatory capital totalling 580 million dollars.

This smaller outflow of capital provided some compensation for the sharp fall in the surplus on current account. Between 1974 and 1975 the total balance-of-payments surplus of the oil-exporting countries dropped from 4 650 million to 2 580 million dollars. It should be noted, however, that Venezuela and Trinidad and Tobago recorded surpluses, while Bolivia and Ecuador showed deficits.

Between the end of 1974 and the end of 1975 the international reserves of the oil-exporting economies increased by 35 per cent (from 7 450 million to 10 050 million dollars) which was in line with the rise in the balance-of-payments surplus of this group of countries in 1975. Venezuela and Trinidad and Tobago increased their reserves, while Bolivia and Ecuador reduced theirs.

At the end of 1975 the international reserves of the oil-exporting countries represented 54 per cent of the total for Latin America, in contrast with the share of less than 20 per cent recorded in 1973. Venezuela's reserves, considered separately, amounted to rather more than the total for the 19 non-oil-exporting countries together in 1975 (see table 13).

3. *Trade within Latin America*

In 1975, regional trade increased by a little over 3 per cent, which is substantially lower than the rate for any of the five preceding years (see table 14). This expansion in inter-Latin American trade, however, contrasted with the sharp drop of about

Table 14

LATIN AMERICA: VALUE, STRUCTURE AND GROWTH OF TRADE WITHIN THE REGION, BY INTEGRATION GROUPS
(CIF values of imports of goods)

	1970	*1971*	*1972*	*1973*	*1974* [a]	*1975* [b]
			Value (Millions of dollars)			
LAFTA	1 348	1 458	1 646	2 344	3 865	4 060
Andean Group	134	159	164	296 [c]	554 [c]	784 [c]
Rest	1 214	1 299	1 478	2 048	3 311	3 276
CACM	299	277	306	388	526	519
Total [d]	*1 853*	*2 000*	*2 275*	*3 192*	*5 280*	*5 452*
			Structure (Percentages)			
LAFTA	72.8	72.9	72.4	73.4	73.1	74.3
Andean Group	7.2	8.0	7.2	9.3	10.5	14.3
Rest	65.6	64.9	65.2	64.1	62.6	60.0
CACM	16.1	13.8	13.4	12.1	9.9	9.5
Total [d]	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*
			Growth (Annual growth rates)			
LAFTA	3.3	8.2	12.9	42.4	64.9	5.0
Andean Group	36.7	19.0	3.2	80.1	87.2	41.4
Rest	0.5	7.0	14.0	38.2	61.7	– 1.1
CACM	20.1	– 7.5	10.5	26.9	35.5	– 1.2
Total [d]	*6.1*	*8.0*	*13.7*	*40.3*	*65.4*	*3.2*

Source: ECLA, on the basis of official statistics.
a Provisional figures.
b Estimates.
c Including Venezuela.
d In addition to trade among the countries belonging to the sub-regional integration groups, the intraregional total includes trade among the groups and with Panama and the Dominican Republic. Data were not available for Cuba and Haiti. The CARIFTA countries are not included.

Table 15

LATIN AMERICA: RELATIVE IMPORTANCE OF TRADE WITHIN THE REGION IN TOTAL TRADE, BY COUNTRIES
(Percentage)

Country	Exports to Latin America / Total exports			Imports from Latin America / Total imports		
	1970	*1974*	*1975* [a]	*1970*	*1974*	*1975* [a]
LAFTA						
Argentina	20.8	24.2	26.0	22.2	22.1	25.2
Bolivia	8.8	24.7	28.1	16.6	35.1	32.6
Brazil	11.3	12.3	14.4	11.3	7.4	5.9
Colombia	12.8	19.6	18.9	9.8	12.7	10.5
Chile	12.8	16.6	23.7	20.6	33.0	39.5
Ecuador	11.1	28.0	22.8	12.9	12.6	12.0
Mexico	8.9	12.9	16.8	3.2	5.3	6.3
Paraguay	38.2	30.9	34.9	23.1	49.4	39.7
Peru	6.3	10.9	23.1	17.6	17.2	16.8
Uruguay	12.6	36.3	27.0	32.5	31.8	24.5
Venezuela	7.7	5.3	5.5	4.0	6.4	5.2
CACM						
Costa Rica	23.3	30.5	30.8	28.3	29.6	26.9
El Salvador	32.6	32.9	25.6	33.8	35.3	34.0
Guatemala	36.5	31.0	29.6	27.6	34.2	31.1
Honduras	14.7	21.8	25.1	32.0	28.3	31.2
Nicaragua	27.1	26.2	25.5	34.2	37.1	39.6
Panama	4.1	7.0	4.8	23.4	35.7	26.4
Dominican Republic	0.9	1.0	1.7	0.2	3.4	5.1
Total 18 countries	*12.5*	*12.9*	*14.8*	*13.3*	*13.4*	*12.6*

Source: ECLA, on the basis of official foreign trade statistics.
[a] Estimates.

14 per cent in the region's exports to the rest of the world. As a result, the share of exports to Latin America in the region's total exports continued to increase, reaching a proportion of around 15 per cent in 1975 (see table 15).

In 1975, the disparity in the evolution of trade of the main Latin American integration groups was also accentuated. While trade between the countries of the Central American Common Market (CACM) declined by a little over 1 per cent, and that of the countries of the Latin American Free Trade Association (LAFTA) not members of the Andean Group fell by a similar proportion, the reciprocal trade of the countries of the Andean Group rose by over 40 per cent (see table 14).

These different courses, in their turn, determined significant changes in the relative importance of the various groups in total trade within Latin America.

Thus the CACM share in the total declined steadily from nearly one-sixth in 1970 to less than one-tenth in 1975. In contrast during this period, the Andean Group doubled its share. In 1970, it represented only just over 7 per cent of all intraregional trade, which is equal to less than half of the inter-Central American trade; five years later, the relative importance of the trade of the Andean Group had risen to over 14 per cent and was 50 per cent higher than that of the CACM. This climbing trend contrasted with that of the LAFTA countries not members of the Andean

Group, whose share of intraregional trade declined from nearly two-thirds in 1970 to 60 per cent in 1975 (see table 14).

Yet, as may be seen from table 15, the importance of the Latin American market increased between those years for the 11 countries of LAFTA, except Paraguay and Venezuela. In 1970 the share of exports to Latin America in total exports was over 13 per cent only in Argentina and Paraguay; in 1975, on the other hand, this proportion was exceeded by all the LAFTA countries except Venezuela. Moreover, the Latin America market absorbed about one-quarter of the total exports of seven of those eleven countries in 1975.

The increasing importance of intraregional trade was especially marked in the countries of the Andean Group. Between 1970 and 1975 the proportion of total exports sent to other countries of the region doubled in Ecuador and Chile, more than trebled in Bolivia and almost quadrupled in Peru. The proportion also increased sharply in Mexico and Uruguay.

The growing importance of the regional market for the exports of the LAFTA countries in 1975 is also clear from a comparison of the growth rates of sales to the region and to the rest of the world (see table 16). In all these countries except Ecuador and Uruguay, exports to Latin America grew more rapidly or declined less than those to the rest of the world. Furthermore, in Bolivia, Chile, Paraguay, Peru and Mexico, the former increased while the latter declined. Regional trade thus helped to mitigate the adverse effects of the economic recession in the industrialized countries on the export sectors. The situation was much the same in Brazil –where the growth rate of exports to Latin America was nearly five times the rate for sales outside the region– and especially in Colombia, where the former rate was over 10 times the latter.

Table 16

LATIN AMERICA: GROWTH OF EXPORTS TO THE REGION AND TO THE REST OF THE WORLD, BY COUNTRIES

(Annual growth rates)

	Exports to Latin America			*Exports to the rest of the world*		
	1971-1973	*1974*	*1975*[a]	*1971-1973*	*1974*	*1975*[a]
LAFTA						
Argentina	23.7	42.3	– 18.2	20.4	21.4	– 25.5
Bolivia	80.6	97.2	8.2	0.5	91.5	9.2
Brazil	23.8	44.0	30.2	32.1	24.5	6.3
Colombia	17.0	50.0	41.9	13.9	15.3	3.9
Chile	– 2.8	183.6	5.2	– 0.1	90.0	– 38.7
Ecuador	53.8	170.3	– 19.7	32.6	92.1	5.1
Mexico	22.5	37.7	30.6	27.0	12.5	– 4.5
Paraguay	20.0	76.8	29.2	37.6	14.1	– 3.3
Peru	12.3	66.9	90.5	– 0.8	41.2	– 21.7
Uruguay	5.5	246.8	– 24.6	12.4	15.7	15.4
Venezuela	20.6	106.1	– 24.2	– 0.2	390.2	– 26.8
CACM						
Costa Rica	16.4	41.2	12.8	12.1	16.7	11.0
El Salvador	14.1	31.6	– 12.5	16.2	28.6	25.4
Guatemala	10.9	25.9	7.8	17.1	33.6	15.4
Honduras	– 8.2	114.9	9.4	13.9	– 12.5	– 9.1
Nicaragua	8.9	46.7	– 52.4	17.8	32.2	– 1.6
Panama	23.0	44.9	3.5	6.6	60.9	55.2
Dominican Republic	124.5	– 90.6	152.9	27.6	43.2	43.7
Total 18 countries	*19.9*	*65.4*	*3.2*	*15.0*	*85.4*	*– 13.6*

Source: ECLA, on the basis of official foreign trade statistics.

[a] Estimates.

Table 17

LATIN AMERICA: TRADE WITHIN THE REGION

(CIF values of imports of goods, in millions of dollars)

Importing country \ *Origin*	*Argentina*	*Bolivia*	*Brazil*	*Colombia*	*Chile*	*Ecuador*	*Mexico*	*Paraguay*	*Peru*	*Uruguay*	*Venezuela*	*Costa Rica*	*El Salvador*	*Guatemala*	*Honduras*	*Nicaragua*	*Panama*	*Dominican Republic*	*Total Latin America*
Argentina	–	91.0	296.9	19.7	179.8	10.9	46.6	42.9	46.3	14.4	40.9	–	0.2	0.3	3.5	0.4	10.3	–	*804.1*
Bolivia [a]	78.9	–	39.8	5.5	3.0	0.2	–	–	9.4	1.0	–	–	–	0.6	–	–	–	–	*138.4*
Brazil	382.4	31.1	–	18.4	146.7	3.2	91.9	34.5	21.6	97.5	180.2	–	0.4	0.1	–	–	45.9	–	*1 053.9*
Colombia	24.6	1.9	23.8	–	29.3	16.1	25.7	0.4	16.6	0.8	15.2	1.0	–	0.1	0.5	–	14.0	0.1	*170.1*
Chile	323.8	28.0	84.9	19.9	–	78.1	29.9	2.3	25.9	8.2	24.0	–	0.5	0.9	–	2.1	2.9	–	*631.4*
Ecuador	17.4	–	24.0	37.3	4.6	–	9.5	0.5	11.5	0.3	12.9	0.5	0.1	0.7	0.3	–	0.9	–	*120.5*
Mexico	44.0	0.4	64.0	7.2	19.6	2.3	–	2.1	13.1	7.7	131.1	2.6	0.2	4.3	0.2	1.2	20.4	–	*320.4*
Paraguay	46.4	5.9	30.5	0.3	0.9	0.3	0.3	–	0.1	2.1	–	–	0.1	–	–	–	0.7	–	*87.6*
Peru	34.7	5.5	43.6	30.1	14.8	70.6	18.9	1.4	–	0.9	39.0	1.6	–	–	–	0.2	2.3	–	*263.6*
Uruguay	59.6	–	67.7	0.2	5.3	0.4	4.4	3.5	2.7	–	1.3	–	–	–	0.5	–	0.1	0.6	*146.3*
Venezuela	70.7	–	80.5	35.6	10.2	0.4	43.7	0.1	8.6	0.3	–	0.7	0.3	0.1	0.1	6.3	9.1	0.9	*267.6*
Costa Rica	5.5	–	4.9	8.4	2.0	0.1	19.1	–	2.0	0.1	45.0	–	32.9	39.6	7.7	33.4	10.4	–	*211.1*
El Salvador	2.5	–	1.8	5.2	–	0.3	13.9	–	4.3	–	45.8	25.1	–	70.2	–	22.1	7.8	–	*199.0*
Guatemala	3.7	–	3.7	4.3	–	0.1	22.3	–	0.4	–	82.2	22.4	72.6	–	7.6	19.5	0.8	–	*239.6*
Honduras	1.6	–	1.1	2.6	–	–	7.4	–	0.4	0.1	51.0	10.4	–	21.3	–	10.2	1.4	–	*107.5*
Nicaragua	1.9	0.1	1.0	3.5	0.6	1.1	12.2	–	0.2	–	51.2	41.4	36.6	41.6	11.1	–	6.1	–	*208.6*
Panama	3.9	–	5.1	10.4	1.0	136.2	10.0	–	1.1	0.1	86.1	15.4	4.8	4.8	1.6	3.6	–	0.1	*284.2*
Dominican Republic [a]	1.6	–	10.0	8.0	–	–	–	–	0.4	–	–	2.0	0.1	3.2	–	0.6	0.5	–	*26.4*
Total Latin America	*1 103.2*	*163.9*	*783.3*	*216.6*	*417.8*	*320.3*	*355.8*	*87.7*	*164.6*	*133.5*	*805.9*	*123.1*	*148.8*	*187.8*	*33.1*	*99.6*	*133.6*	*1.7*	*5 280.3*

Source: ECLA, on the basis of official foreign trade statistics. Cuba, Haiti and the CARIFTA countries are excluded for want of information.

[a] Estimates on the basis of incomplete data.

Table 18

LATIN AMERICA: TRADE WITHIN THE REGION, 1975[a]

(CIF values of imports of goods, in millions of dollars)

Importing country / Origin	*Argen-tina*	*Bolivia*	*Brazil*	*Colom-bia*	*Chile*	*Ecuador*	*Mexico*	*Para-guay*	*Peru*	*Uruguay*	*Vene-zuela*	*Costa Rica*	*El Sal-vador*	*Guate-mala*	*Hondu-ras*	*Nica-ragua*	*Panama*	*Domi-nican Republic*	*Total Latin America*
Argentina	–	115.0	402.4	33.1	191.8	12.0	72.8	69.2	40.0	17.4	29.5	–	0.2	–	1.9	0.5	23.2	–	*1 009.0*
Bolivia	76.3	–	58.8	4.9	16.7	0.4	–	–	6.5	1.5	–	–	–	0.6	–	–	–	–	*165.7*
Brazil	248.5	18.2	–	13.0	108.1	6.3	114.4	30.4	44.7	67.2	115.1	–	0.2	0.3	0.9	–	39.2	2.1	*808.6*
Colombia	12.4	1.0	23.8	–	25.5	13.4	21.1	0.2	11.0	1.5	14.0	0.5	–	0.5	0.4	–	9.8	0.5	*135.6*
Chile	196.8	18.0	92.4	12.2	–	71.8	30.7	– 0.7	172.1	1.3	22.5	–	0.5	0.9	–	2.1	2.9	–	*624.9*
Ecuador	11.6	–	32.8	38.8	20.4	–	9.4	0.3	11.6	0.5	4.9	14.3	0.1	0.2	1.2	–	0.3	–	*146.4*
Mexico	210.7	8.4	110.6	6.0	12.6	7.4	–	7.7	9.5	4.7	40.5	6.0	0.1	6.7	1.5	0.7	9.6	–	*442.7*
Paraguay	36.2	0.5	40.4	0.3	1.4	0.1	1.0	–	0.1	3.8	–	–	–	–	–	–	0.6	–	*84.4*
Peru	31.5	16.2	55.5	56.1	23.6	68.5	38.1	1.0	–	1.9	37.0	0.1	–	–	–	0.2	5.6	–	*335.3*
Uruguay	34.7	–	61.2	0.4	7.1	0.3	17.3	3.6	2.1	–	4.9	–	–	–	0.3	–	0.2	0.6	*132.7*
Venezuela	34.4	–	101.9	71.8	28.7	4.8	56.1	0.2	11.3	0.6	–	0.5	0.4	0.1	0.1	0.3	12.0	1.0	*324.2*
Costa Rica	2.4	–	2.5	7.7	2.0	1.1	37.5	–	0.3	0.1	10.8	–	31.8	39.6	6.0	37.2	15.9	–	*194.9*
El Salvador	0.7	–	3.1	2.1	–	0.2	11.9	–	2.2	–	45.0	28.0	–	83.5	–	24.1	7.8	–	*208.6*
Guatemala	2.7	–	7.1	20.8	–	0.1	24.8	–	0.8	–	82.0	18.7	61.5	–	12.3	12.2	1.1	–	*244.1*
Honduras	0.7	–	4.7	3.0	–	–	8.4	–	0.4	0.1	46.1	14.2	–	23.7	–	13.8	1.6	–	*116.7*
Nicaragua	1.2	0.1	2.3	2.3	0.6	1.1	11.8	–	0.2	–	65.0	36.5	29.1	36.5	10.6	–	8.0	–	*205.3*
Panama	1.6	–	3.5	12.3	1.0	69.7	9.5	–	0.6	0.1	93.6	19.8	6.2	6.0	1.0	2.7	–	0.1	*227.7*
Dominican Republic	0.5	–	16.5	22.6	–	–	–	–	0.1	–	–	0.3	0.1	3.9	–	0.6	0.5	–	*45.1*
Total Latin America	*902.9*	*177.4*	*1 019.5*	*307.4*	*439.5*	*257.2*	*464.8*	*113.3*	*313.5*	*100.7*	*610.9*	*138.9*	*130.2*	*202.5*	*36.2*	*94.4*	*138.3*	*4.3*	*5 451.9*

Source: ECLA, on the basis of official trade statistics. Cuba, Haiti and the CARIFTA countries excluded for want of information.

[a] Estimates on the basis of incomplete data.

The situation was quite different in Central America. In the first place, except in Honduras, the proportion of total exports of the CACM countries sold within the region remained stable or declined in 1975 (see table 15). Secondly, in most of them, the performance of exports to Latin America in 1975 was more unfavourable than that of sales to the rest of the world. Only in Honduras and, to a much lesser extent, Costa Rica was the situation reversed (see table 16).

The individual countries' trade balances with the region were once again favourable to the oil-exporting countries. There were surpluses of nearly 290 million dollars in Venezuela, 111 million in Ecuador and 12 million in Bolivia. In the three oil countries, however, the favourable balances were much lower in 1975 than in the previous year when they exceeded an overall total of 760 million dollars (see tables 17 and 18).

Argentina's position also deteriorated; its traditional surplus in regional trade was converted into a negative balance of over 100 million dollars in 1975.

In contrast, Brazil, which from 1972 to 1974 showed rapidly increasing negative balances, achieved a surplus of 210 million dollars in 1975. Of the rest of the countries, only Colombia, Mexico and Paraguay showed favourable balances.

Chile, Peru, Uruguay, the Dominican Republic and the Central American countries recorded deficits, which were particularly large in the Central American countries and Chile.

For the 18 countries considered as a whole, the relation between trade balances and the volume of regional trade declined from 22 per cent in 1974 to 15 per cent in 1975, which is the lowest coefficient recorded since 1970. This sharp fall reflected the decline in unilateral trade. In other words, in 1975, those countries which had traditionally been net exporters to the region imported more from it in 1975 and, vice versa, those which usually showed a large deficit in their regional trade increased their exports.

V. INFLATION

1. *Background*

In 1975 the Latin American inflationary process experienced a marked improvement and became less severe than it had been in the two previous years.

Inflation occupies a prominent place among the economic developments which have affected the region in the last few years, both because of the high rate of price increases and because of their spread throughout Latin America. The concern felt by the governments about curbing inflation prompted many countries to assign priority to this objective over other economic policy aims.

The recent inflationary process in the region has some particular features which distinguish it from earlier processes. In 1975 ECLA embarked on an interpretation of the process covering the period 1970-1974, which coincided with the most expansive phase of the countries' external sector and with the peak of world inflation.[13] From 1974 onwards, however, there were some variations, and in many cases changes of sign, in the fluctuations of the main variables of Latin America's external trade, a fact of singular importance in the subsequent development of the inflationary processes.

Taking into account the external context, therefore, the recent Latin American inflation was divided into two clearly differentiated stages, and the inflation in 1975 belongs to the second of these. Although this is only the beginning of a new period, and for that very reason the different factors cannot as yet be properly evaluated, it is already possible to identify and weigh the outstanding features.

This new phase must, however, be interpreted as the continuation of the process which was initiated early in the present decade and which belongs to a cycle that has not yet been completed. The inflationary pressures that made themselves felt mainly in the years 1973 and 1974 and the solutions attempted in terms of economic policy have undoubtedly had their effect on the existing inflation.

Imported inflation was present in both phases of the recent inflationary process, although in differing intensity and form. It imprinted its own

[13] ECLA, *Economic Survey of Latin America, 1974*, United Nations publication, Sales Nº: 76.II.G.1, September 1975 and *Dos estudios sobre inflación*, ECLA Cuaderno series Nº 9, 1975.

stamp on the process and manifested itself throughout the region, with very few exceptions.

As stated earlier, the variations in the external trade of the majority of the Latin American economies in 1975 led to a different inflationary situation from that prevailing in the immediately preceding biennium, so that the position as regards imported inflation has undergone considerable changes. Thus, exogenous inflationary impulses continued to bring pressure to bear on domestic prices, but unlike what happened in the preceding two years, they now caused balance-of-payments disequilibria.

Table 19

LATIN AMERICA: VARIATION IN CONSUMER PRICES
(Annual growth rates, December to December) [a]

	1970–1972	*1973*	*1974*	*1975*
Countries displaying predominance of imported inflation	*4.4*	*16.9*	*18.9*	*15.5*
Ecuador	7.2	20.5	21.2	13.2
El Salvador	1.9	7.9	21.0	15.0
Guatemala	0.8	17.5	15.9	13.0
Guyana	3.6	15.2	11.6	5.5
Haiti	6.6	19.7	19.5	13.5 [b]
Honduras	3.2	5.0	11.3	5.9
Jamaica	7.3	29.6	20.8	5.9
Mexico	4.1	20.2	20.8	16.0
Panama	3.4	9.6	16.8	1.8
Paraguay	6.0	14.2	23.8	8.6
Peru	5.9	13.7	19.1	24.0
Dominican Republic	5.6	17.3	10.5	16.5
Trinidad and Tobago	5.4	24.4	18.6	13.4
Venezuela	3.3	5.7	11.6	8.0
Countries displaying combination of imported inflation and domestic factors	*15.2*	*15.7*	*33.8*	*25.8*
Barbados	9.9	26.0	36.6	12.3
Bolivia	10.2	34.9	38.9	6.0
Brazil	16.6	13.5	34.1	29.4
Colombia	11.3	21.1	31.5	15.3
Costa Rica [c]	4.1	15.4	30.8	20.4
Countries displaying predominance of domestic inflationary factors	*50.6*	*167.2*	*132.8*	*318.0*
Argentina	40.6	43.8	40.1	335.0
Chile	73.5	508.1	375.9	340.7
Uruguay	49.9	77.5	107.2	66.8
Latin America	*15.7*	*37.1*	*41.5*	*60.9*
Latin America, excluding Chile and Argentina	*10.7*	*17.0*	*27.8*	*21.6*

Sources: International Monetary Fund, *International Financial Statistics*, vol. XXIV, Nº 9; vol. XXVII, Nºs 8 and 9; vol. XXVIII, Nºs 4 and 9; vol. XXIX, Nº 1, and vol. XXIX, Nºs 3 and 7; United Nations, *Monthly Bulletin of Statistics*, vol. XXVI, Nº 5; vol. XXVIII, Nº 11; vol. XXIX, Nº 3 and vol. XXX, Nº 6.

[a] The population was used as a weighting factor in estimating the averages of the various groups.
[b] Variation October 1974 to October 1975.
[c] Wholesale price index, San José.

2. *Inflation in 1975*

In order to appraise the degree of inflation reached in Latin America in 1975 it is useful to take the immediately preceding years (1970-1974) as a reference. A comparison of the rates of price increases recorded in this five-year period (especially in 1973 and 1974), with those experienced in the region in 1975 shows the magnitude of the changes in the inflationary process.

A first fact to be noted is the reduction of the rate of inflation in the region. Thus, the average increases in the consumer price index for Latin America –excluding Argentina and Chile, whose trends were anything but typical– declined from a rate of about 28 per cent in 1974 to a little under 22 per cent in 1975 (see table 19).

The inflationary process also slowed down in the majority of the countries, and of the 22 countries considered, 19 showed reductions in the rates of price increases compared with 1974.

Of the three countries with accelerated price increases in 1975 (Argentina, Dominican Republic and Peru), the most spectacular case was Argentina, where the annual rate which was around 40 per cent in the five-year period 1970-1974 rose to 340 per cent. Peru suffered the effects of a considerable expansion of domestic credit and a currency devaluation of 14 per cent in 1975 after eight years of stable parity. The more acute inflation in the Dominican Republic was largely due to the decline in food production.

Although the slowing-down of inflation was a fairly widespread phenomenon in 1975, the rate of reduction differed from country to country. In 10 countries price increases fell off sharply; six nations (El Salvador, Guyana, Jamaica, Mexico, Trinidad and Tobago and Venezuela) showed a significant improvement, and in only three countries (Chile, Guatemala and Haiti) was little progress made.

3. *Reasons for the slowing down of inflation*

The slowing-down of the inflationary process had its own particular features in each country. Consequently, far from seeking generally valid interpretations, the aim here is merely to identify the factors which were mainly responsible for this slowing-down and which covered a wide range of countries in the region.

With the sole purpose of simplifying the analysis, the two main types of inflationary factors will be examined separately: imported inflation and the so-called domestic factors. Needless to say, these two types of factors offset one another, and certain domestic circumstances actually constituted an economic policy response to imported inflation. Therefore, it is very difficult, without having recourse to some arbitrary device, to draw a clear distinction between them.

(a) *The reduction of imported inflation*

External inflationary pressures diminished in 1975. It will be recalled that the term "imported inflation" included the direct and indirect effects of increases in the prices of both imports and exports.[14]

Import prices, following average increases for the region of 17 per cent in 1973 and 41 per cent in 1974, rose by only 10 per cent in 1975 (see table 20). Nevertheless, this significantly lower rate should not make one lose sight of the fact that the increase in import prices continued to be considerable, since it was double the annual rate for the period 1970-1972. In other words, the rise in import prices was still an important inflationary factor in 1975, although not as much as in the two previous years.

The movements of export prices also favoured the decrease in inflation, though they certainly did no help the countries' balance-of-payments position. In contrast with the high rates of increase of the regional average in previous years (32 per cent in 1973 and 70 per cent in 1974), the average fell by 7 per cent in 1975 (see table 19).[15]

The smaller increases in the prices of imports and exports acted simultaneously and directly in favour of a reduction in the rate of inflation. This synchronized behaviour refers only to the more direct and immediate relations between external pressures through the prices of international trade items and the resulting inflation in the Latin American economies however. The indirect and longer-term effects, as will be seen later, did not always act in the same direction.

With the purpose of identifying the influence and repercussions of imported inflation, the ECLA

[14] See ECLA *Economic Survey of Latin America, 1974, op. cit.*

[15] It should be noted that the correlation between export prices and domestic inflation is generally closer when the type of goods exported are also consumed locally. In contrast, exports originating in typical enclaves bear a more distant relation to domestic prices.

Table 20

LATIN AMERICA: PRICES OF IMPORTS AND EXPORTS OF GOODS

(Annual growth rates) [a]

	Imports				*Exports*			
	1970–1972	*1973*	*1974*	*1975*	*1970–1972*	*1973*	*1974*	*1975*
Countries displaying predominance of imported inflation	*3.9*	*15.6*	*37.4*	*11.1*	*8.4*	*30.8*	*111.2*	*– 5.2*
Ecuador	4.1	11.6	29.7	14.9	1.0	25.3	123.0	– 9.9
Guatemala	5.0	21.2	42.7	12.9	4.0	23.4	23.6	5.2
Guyana	3.3	13.3	39.7	21.5	12.2	1.6	66.7	54.3
Haiti	3.0	17.1	51.0	8.0	7.6	17.4	34.3	15.9
Honduras	4.0	15.5	28.1	13.0	3.9	22.0	15.1	– 3.3
Jamaica	1.9	8.7	39.2	18.9	2.3	– 2.8	40.7	13.7
Mexico	2.6	16.7	30.0	9.0	5.5	16.1	42.3	3.3
Panama	4.1	14.8	52.8	15.0	4.5	9.9	40.3	9.8
Paraguay	5.0	13.2	34.1	19.8	9.2	44.1	30.1	– 2.0
Peru	3.9	14.5	24.0	12.0	1.5	43.0	46.7	– 4.9
Dominican Republic	4.0	18.3	27.9	13.0	2.0	21.8	55.3	66.8
Trinidad and Tobago	6.8	8.0	137.0	12.0	6.5	30.6	198.5	10.0
Venezuela	5.1	18.1	24.2	16.0	15.7	43.3	199.5	– 3.7
Countries displaying combination of imported inflation and domestic inflationary factors	*6.9*	*18.0*	*46.5*	*9.3*	*8.8*	*28.2*	*31.5*	*0.1*
Barbados	3.0	13.7	32.7	11.9	4.5	14.3	77.1	39.0
Bolivia	4.0	16.2	24.3	13.0	0.7	26.9	101.6	– 7.2
Brazil	8.8	18.4	57.0	9.0	9.8	29.4	30.0	1.0
Colombia	3.0	18.2	23.8	12.0	9.4	27.3	19.7	– 6.8
Costa Rica	3.9	16.4	35.9	13.3	3.0	20.2	23.5	13.3
Countries displaying predominance of domestic inflationary factors	*6.9*	*15.0*	*36.4*	*12.5*	*5.3*	*41.7*	*29.0*	*– 16.2*
Argentina	8.2	11.8	31.9	14.9	10.9	41.5	24.5	– 5.2
Chile	5.1	22.6	32.5	8.9	– 4.8	41.8	40.0	– 27.3
Uruguay	4.6	7.2	85.3	7.5	12.4	43.4	8.5	– 20.9
Latin America	*5.3*	*16.6*	*41.1*	*10.2*	*7.9*	*31.9*	*69.6*	*– 7.1*

Source: ECLA, on the basis of official data.

[a] The values of imports and exports for the year 1970 were used as weighting factors in estimating the averages for the groups of countries.

Economic Survey[16] distinguishes three groups of countries in the region, according to the influence exercised on them by the external factors promoting inflation which were then at the peak of their activity. In the first group identified, the influence of imported inflation predominated over that of domestic factors; in the second group the inflationary processes were explained both by exogenous pressures and by essentially domestic factors, both of more or less similar importance,

[16] ECLA, *Economic Survey of Latin America, 1974, op. cit.*

and finally, in the third category, the inflation was primarily due to domestic factors, without prejudice to the fact that external factors helped to aggravate the situation.

In the light of the price increases in 1975 this classification, on the whole, is still valid. The inflationary trends of the countries in the various groups have been fairly homogeneous at least as far as the rate and incidence of imported inflation are concerned.

In the group of 14 countries in which imported inflation predominated, the average rate of increase in domestic prices declined from 19 per cent in 1974 to a little over 15 per cent in 1975. During the same period, the rate of increase in import prices fell from 37 to 11 per cent, while export prices changed from an increase of 111 per cent in 1974 to a drop of 5 per cent in 1975. Such marked declines in these rates necessarily played their part in slowing inflation (see tables 19 and 20).

The second group, which received the impact of a fairly equal combination of imported inflation and domestic factors, showed much the same relative decline in its rates of inflation. The average rate of increase in prices for this group dropped from 34 per cent in 1974 to 26 per cent in 1975. As may be seen from the above-mentioned tables, these movements were also closely linked with the prices of imports and exports. Thus, concurrently with a drop in the rate of inflation in the five countries of this group in 1975, the rate of increase in import prices fell to less than one-quarter of that recorded the previous year, and export prices, which had risen by 32 per cent in 1974, showed practically no increase in 1975.

Figure 1 illustrates the relation between external inflationary pressures and inflation in the two groups of Latin American countries referred to. If the average increase in prices in the countries of the Organization for Economic Co-operation and Development (OECD)[17] is taken as an approximate indicator of world inflation, it will be seen to what extent the rates of inflation in the various groups from 1973 onwards are linked with international inflation. Thus, in both groups of countries the rate of increase of prices rose in 1973 and again in 1974, just as the rate of inflation in the OECD countries accelerated in those two years, and conversely, when the rate of inflation went down in the central countries the inflationary process likewise slowed down markedly in the Latin American economies. Naturally, in the countries where imported inflation predominated, the above evolution generally took place at a lower level than in the countries where the rate of price increases was also influenced by domestic factors.

In figure 1, a turning-point may be identified at the end of 1974. After this the trends changed and two clearly separate phases of imported inflation emerge: the first, which showed an increasing rate of price increases, coincided with the expansion of Latin America's external sector and a significant revival of the regional economy, while in the second, the intensity of imported inflation diminished and at the same time the region suffered a general loss of dynamism.

While it is true that during this second phase the effects of imported inflation were less marked, though by no means negligible, it is also a fact that its influence on the balance-of-payments disequilibrium sparked off another type of inflationary pressure. The direct and immediate impact of the prices and volume of exports and imports was added to the indirect and longer-term impact in a kind of cummulative process. The balance-of-payments deficits, in general, affected the capacity to import and the availability of international reserves, with consequent effects on the supply of goods, the exchange rate and external indebtedness. Furthermore, the deterioration in the terms of trade and the drop in the purchasing power of exports contrasted with the expanding productive process and helped to accentuate the disequilibria in the countries' external trade.

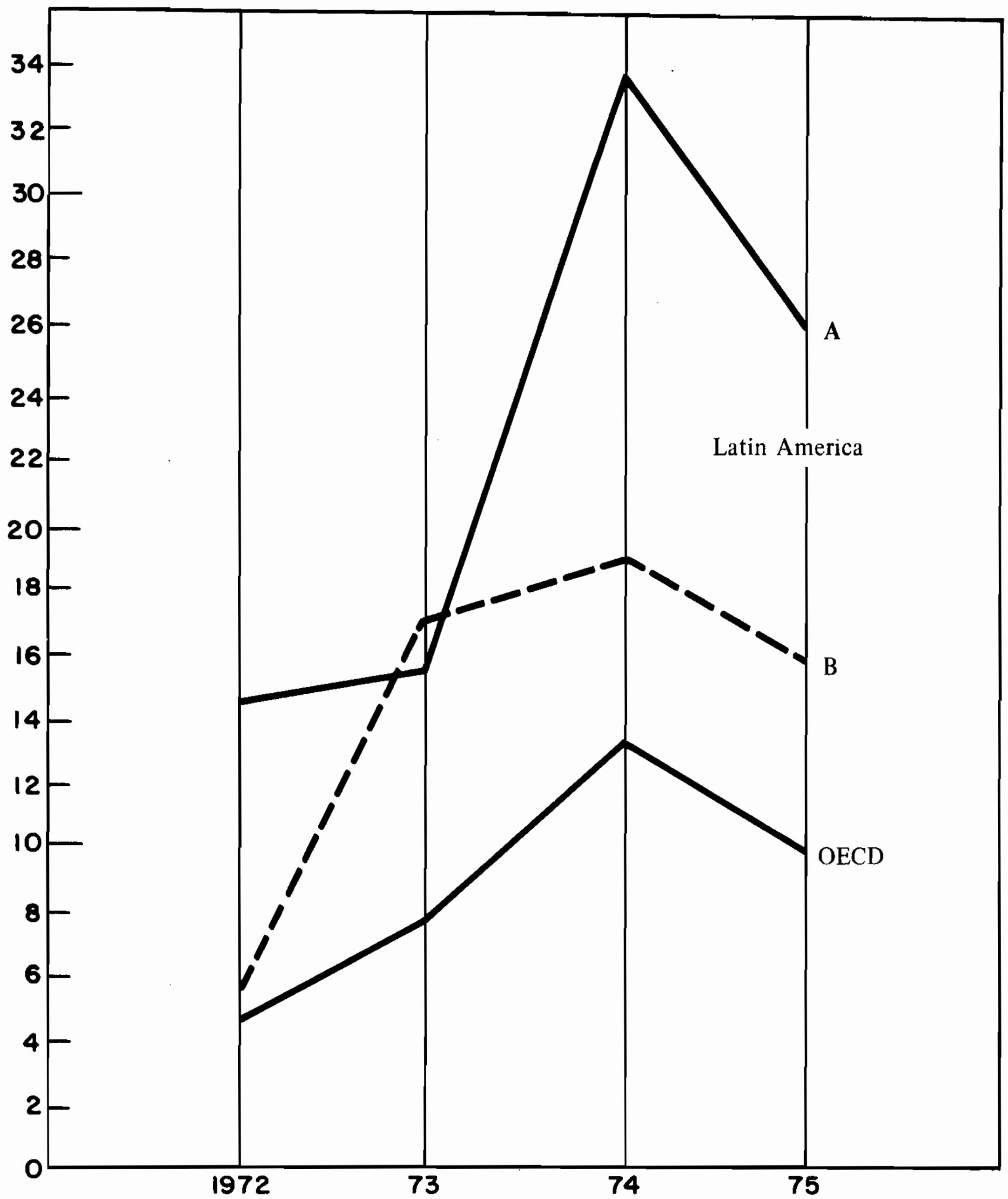
The countries of the third group, as might be expected, did not follow a homogeneous trend. In view of the predominant influence of domestic factors, the slowing down of imported inflation was not such a determining factor, and price increases reached very high levels in 1975. However, a comparison of the rates with those of the preceding year reveals that they followed different paths. Thus, in 1975 Uruguay recorded a rate which was well below the rate for 1974 (67 per cent against 107 per cent); Chile showed a slight decline in its high rate of inflation; but the inflationary process in Argentina gained unusual

[17] OECD comprises the following countries: Australia, Austria, Belgium, Canada, Denmark, the Federal Republic of Germany, Finland, France, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Switzerland, Turkey, the United Kingdom and the United States.

Figure 1

INFLATIONARY TRENDS IN GROUPS OF COUNTRIES OF LATIN AMERICA AND OF THE ORGANIZATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT (OECD)

Annual growth rates, December - December.



Note: In calculating the totals for Latin America, the indexes of the individual countries were weighted by the number of inhabitants. Private consumption was used for the OECD countries.

A: Latin America countries affected both by imported inflation and by domestic factors (see list in table 20).

B: Latin America countries in which imported inflation predominated (see list in table 20).

impetus (40 per cent in 1974 and 335 per cent in 1975).[18]

(b) *Domestic factors*

Two categories of domestic factors may be distinguished. First, those related to the productive and distributive base, known as structural factors of the Latin American inflationary processes; secondly, changes in the economic variables, together with changes in the behaviour of agents participating in the economic process which derive from policy decisions and the handling of economic policy instruments.

This is neither the time nor the place to examine the structural causes, on which there are plenty of existing studies and views which are still valid today in spite of the fact that the situations themselves are new.[19] Moreover, and analytical approach to them would exceed the limits of a conjunctural description such as that of inflation in 1975. Therefore, this analysis will deal only with those factors deriving from the use of the main instruments brought into operation to curb the inflationary processes.

(i) *Manner of handling the exchange rate.* Fairly well-differentiated policies may be identified in the region with regard to this instrument. On the one hand, there are the countries which periodically adjusted their rate of exchange in line with domestic prices; on the other hand, there are the countries which maintained a fixed exchange rate.

The exchange rate has played a decisive role in connexion with imported inflation. When this was most violent, the stable exchange rates limited its internalization, although they certainly did not arrest it completely, and throughout 1975, with the reduction of the exogenous upward pressures, fixed parities helped to internalize such exogenous deceleration in the economies.

Obviously, in order to maintain a stable exchange rate, the external sector –i.e., exports, the position of international reserves or access to external financing– must rest on a fairly sound basis. Such a strategy was not, therefore, a matter of free choice. The countries affected by bottlenecks in their external sector could hardly maintain a fixed exchange rate, except through a strict control of economic activity. Furthermore, in many cases the level of domestic inflation also limited the possibilities of following this course: it was practically impossible for countries with very high rates of inflation to keep a stable exchange rate. Thus, of the 22 countries considered, 14 chose to maintain their exchange parities and 13 of them achieved appreciable decreases in their rates of inflation.[20]

In contrast, in those countries which devalued their currencies[21] domestic inflation was stimulated not only by the prices of imports paid for in foreign currency, but also by the devaluations which made imported articles even more expensive in terms of national currency. Added to this were the pressures exerted on prices in sympathy with the rises in imported goods and devaluations even for items not remotely involved in foreign trade.

The control of global liquidity. Analysis of the behaviour of the monetary and financial variables during 1975 and the changes in them compared with the previous year reveals a rather heterogeneous picture, for the countries in the different groups displayed quite different patterns of behaviour. From this point of view, it can be clearly seen that in seeking answers to the problem of externally generated inflation the countries were limited to fairly well-defined strategies, while at the domestic level the peculiarities of each economic process prevailed, thus giving rise to a variety of ways of dealing with inflation.

Between the extremes represented, on the one

[18]The classification of Argentina is open to discussion, since it depends on the period considered in making the classification. In view of its inflationary process in 1975 it was decided to include it in the group of countries in which domestic factors predominated.

[19]See, for example, Aníbal Pinto, *Inflación: raíces estructurales,* Fondo de Cultura Económica, Mexico City, 1973, and Joseph Grunwald, "The 'structuralist' school on price stability and development: The Chilean case", *Latin American Issues: Essays and Comments,* edited by Albert O. Hirschman (New York, The Twentieth Century Fund, 1961).

[20]This should not be construed as defending the merits of a fixed exchange rate, since the positive and negative effects of this policy over varying periods are only too well known. The aim is merely to show that in this case it represented a barrier to imported inflation, without denying the fact that it also has no inconsiderable disadvantages.

[21]In addition to Peru which, as noted earlier, devalued the sol after eight years of exchange stability, the following countries adopted a policy of periodic devaluation of their currencies: Argentina, Brazil, Chile, Colombia, and Uruguay. Because of their traditional links with the pound sterling, the currency of Guyana and Trinidad and Tobago were also devalued.

hand, by policies which dictated a frontal approach and, on the other, by those which were more passive and even acquiescent in their approach to inflationary pressures, there is a wide range of "gradualist" therapies which envisage various restrictions, have their own lists of priorities of the objectives of economic policy, and use the instruments at their disposal in many different ways.

The group of countries in which imported inflation predominated experienced a decline in the upward trend of prices mainly because, as has already been pointed out, external impulses weakened. That is the main reason for the improvement recorded, and although anti-inflationary policies at the domestic level may, in some cases, have had a strong impact, in general they were not mainly responsible for curbing the inflationary process.

The groups where internal factors had considerable or predominant influence provide, of course, a wider field for the study of anti-inflationary policies at the domestic level. Nevertheless, it is not easy to identify common features in their manner of coping with inflation.[22]

[22] See in this connexion the respective country studies in Part Three of this Survey.

Table 21

LATIN AMERICAN COUNTRIES WITH MIXED INFLATION: EVOLUTION OF THE MONEY SUPPLY

Country	*Annual growth rates*	
	1974	*1975*
Barbados	17.8	16.7
Bolivia	43.4	11.8
Brazil	34.8	44.9
Colombia	26.9	11.4
Costa Rica	19.2	21.5

Source: Bolivia, Barbados, Brazil and Costa Rica: International Monetary Fund, *International Financial Statistics*, July 1976.

Table 22

LATIN AMERICAN COUNTRIES WITH MIXED INFLATION: FACTORS OF EXPANSION AND CONTRACTION OF THE MONEY SUPPLY

Country	*Credit*				*Net international reserves*			
	Amount		*Percentage variation*		*Amount*		*Percentage variation*	
	1974	*1975*	*1974*	*1975*	*1974*	*1975*	*1974*	*1975*
Barbados (millions of Barbados dollars)	296	312	21.9	5.4	7	42	174.2	500.0
Bolivia (millions of pesos)	4 118	5 702	– 2.5	38.5	2 368	1 664	934.1	– 29.7
Brazil (billions of cruzeiros)	199	302	58.5	51.7	–	–	–	–
Colombia (millions of pesos)	78 701	104 479	44.0	32.8	– 3 169	997	–	–
Costa Rica (millions of colones)	4 043	5 661	50.4	40.0	– 117	– 177	–	– 51.3

Source: IMF, *International Financial Statistics*, July 1976.

Table 23

LATIN AMERICAN COUNTRIES WITH MIXED INFLATION: INDICATORS OF FISCAL POSITION

Country	*Fiscal revenue (annual variation)*		*Fiscal expenditure (annual variation)*		*Ratio of deficit to fiscal expenditure* [a] *(per cent)*		
	1974	*1975*	*1974*	*1975*	*1971–1973*	*1974*	*1975*
Barbados	23.7	15.2	24.3	8.0	...	17.0	9.3
Bolivia	106.7	11.0	92.4	14.0	23.7	8.0	9.6
Brazil	45.3	24.3	38.7	30.8	0.2 [b]	(5.3)	(0.1)
Colombia	28.9	55.9	25.3	44.9	12.4	9.5	(6.3) [c]
Costa Rica	39.6	27.2	23.1	32.6	26.2	16.9	20.3

a The figures in brackets indicate a surplus.
b Average for 1972 and 1973.
c Period from January to September.

The countries in which the inflationary picture could be called "mixed" (i.e., where the importance of domestic factors and imported inflation was more or less equal) and in which there was a significant decline in price rises in 1975 also recorded smaller increases in the money supply than in the previous year, with the exception of Brazil and Costa Rica (see table 21). Furthermore, in all of them (except Bolivia) there was a reduction in 1975 in the growth rate of credit granted by the banking system, to public and private bodies. Moreover, except in Barbados and Colombia, international reserves dropped significantly in 1975, thus constituting a strong factor of absorption of monetary resources and hence tending to compensate for the expansion of credit (see table 22).

Generally speaking, the main source of monetary expansion in the countries of this group did not lie in Central Bank financing of the fiscal apparatus. In contrast with the situation in the period 1971-1973, when the fiscal deficit represented a high proportion of total expenditure, the budget deficits in 1974 and still more so in 1975 represented significantly smaller proportions of such expenditure (see table 23). Moreover, although Costa Rica recorded quite a high deficit/expenditure ratio, there were two countries (Brazil and Colombia) which recorded a surplus, and two more (Barbados and Bolivia) which had only relatively modest deficits.

This situation resulted from the more or less uniform behaviour of fiscal income and expenditure in each of the countries of this group. A distinction, however, must be made in the cases of Barbados and Colombia, whose income in 1975 increased much more than their expenditure. In the other three countries, it was the expenditure which increased at a higher rate, although the differences were not large.

As regards the countries of the third group (Argentina, Chile and Uruguay), the size of their rates of inflation, particularly in the case of the first two, places them in a category very different from that of the groups already studied, and it would appear that a purely economic interpretation of their inflationary processes could hardly be satisfactory.

The case of Uruguay was rather different from that of the other two countries, both because of its rate of price increases and because of the change in that rate compared with the previous year (see table 19). It should be noted, however, that during 1975 imported inflation exercised considerably less upward pressure, since the slowing down in the rate of increase of import prices was accompanied by a drop in world prices for the main Uruguayan export goods, which are also very important items of domestic consumption.

Part Two

LATIN AMERICA AND THE TRANSITION TO A NEW INTERNATIONAL ECONOMIC ORDER

The abrupt changes in the international setting in recent years, which have culminated in the present economic situation, have given rise to intense discussion both regarding their origin and nature and regarding the prospects for the near future. Approaching the matter from the Latin American standpoint, some brief remarks may usefully be made on the subject under discussion.

I. THE RESPONSIBILITY AND UNCERTAINTIES OF THE CENTRAL COUNTRIES

1. *The role of the central countries*

The matters dealt with here show once again the decisive or dominant influence of events in this group of countries, and confirm the dependent and, to a greater or lesser extent, reflex nature of the development of the periphery. The conspicuous exception of the petroleum market, although historically new and very important, does not change this rule of how the world system operates.

As may be understood, this involves the major and inescapable responsibility of the central nations in the processes through which we are living. This is a fact; not an accusation or an excuse, and much less a renunciation of the periphery's right to make its own decisions and tackle its own problems. The fact remains that the world in which we live was structured in this way by different and successive ruling powers, not in their image and likeness but rather to suit their convenience. This does not mean that all the great problems of the periphery stem from this circumstance; still less does it mean, as has been maintained on occasion, that the underdevelopment of the majority has been at once the determinant cause and effect of the progress of the fortunate nucleus. Any study of the industrial revolution would disprove this exaggeration. Nevertheless, the appropriate reservations and qualifications do not affect, in any case, the transparent truth of the subordination and of the unequal relationship between centre and periphery.

In addition, it must be freely admitted that the hesitations and doubts regarding the solidity and durability of the international order which is currently in crisis have existed for some time in the more enlightened circles of the industrialized centre. The contradictions of the opulent society, the precariousness of dynamic growth largely based on the excesses and waste of "consumerism", the denunciations of the myth of growth for growth's sake, the growing uneasiness about the degradation of the environment and the spoliation of natural resources and the common heritage, the optative emphasis on the "quality of life", are many other issues which show that the exceptional boom in the preceding period did not destroy the capacity for critical thought.

There is no need to stress the importance of this aspect, particularly for the evaluation of future prospects and action. As a consequence of it, and in contrast with other historical crises, there are very few people who advocate or favour the return or reconstruction of the world of yesterday.

If all this is evident and significant for the nations which occupy a privileged position, it is all the more so for the world of the periphery. The present crisis has dissipated the illusion that the relatively favourable trends displayed by international economic development until recently had a lasting basis and foretold uninterrupted growth. Critical thought and the anticipation of and preparation for the world of tomorrow are therefore more pressing. This point will be taken up again below.

It would be vain to attempt to make a satisfactory exhaustive study of all the elements which have formed the present situation of the industrialized economies and, by derivation, the trends and composition of the world picture. As was pointed out in the *Economic Survey for Latin America, 1974,* there is a clear crisis of diagnoses and corrective measures. The majority of economists admit that we are faced with a post-keynesian situation, but we are still far from fully understanding the fundamental features of the new picture and still further from designing the right policies to tackle it.

What appears beyond question, and should be taken as a starting point for any analysis, is that this is a crisis of a new type, which cannot be interpreted or resolved by following the examples or practices of the past.

Naturally, it has many symptoms and aspects in common with other crises of similar gravity: economic recession, unemployment, serious balance-of-payments problems, contraction of world trade, excessive inflation or deflation, etc. These are familiar ingredients in the history of such times of change.

Again, the theoretical analyses, whether of the liberal, marxist, classical, neo-classical or heterodox schools, provide many useful and fruitful approaches and concepts, but in some ways and to some extent even their most flexible and objective efforts reveal a certain inability to capture the substance of the new, emerging picture and to define suitable lines of conduct.

Rather than putting forward other hipotheses or recalling those which appear to be most valid, what is of interest at present is to draw attention to the aspects of the emerging picture which most affect the countries of the periphery and, above all those of Latin America. The factors which affect the dynamism and the modes of growth of the central economies may be dealt with first.

The combination of stagnation of productive activity and continuing inflation –the well-known and much-discussed concept of stagflation– is without doubt the most important feature. This hitherto unusual combination of circumstances has a twin impact with serious repercussions for the developing countries.

On the one hand, they have to suffer the effects which the loss of dynamism of the central economies is having on international trade and, more specifically, on the volume, value and composition of their own exports.

This is so because it is reasonable to assume that the opportunities to continue the process of diversifying the structure of exports, begun so auspiciously in recent years, will become scarcer and more difficult.

On the other hand, they suffer the effects of the inflation in the industrialized economies through the steady rise in the cost of the imports of equipment and inputs which they vitally need to support their development.

While the first factor reduces the developing countries' purchasing power abroad, the second increases the size of the payments they must make and, hence, their financing problems. The figures given earlier bring home the consequences of this phenomenon for Latin America's external relations.

2. *Prospects for the development of the centres and consequences for the periphery*

From another angle, the widespread uncertainty about the outlook for the immediate future, and the way and degree in which the progress of the developing countries will be affected, is exceedingly worrying. A number of contradictory factors have to be taken into account here.

For one thing, despite their difficulties and the great impact of the rises in oil prices –which initially led to alarming forecasts– the central economies have in fact managed to avoid sliding into a crisis similar to that of the 1930s. The high levels of unemployment and the negative or reduced growth rates do not negate the fact that they have managed to maintain a certain essential control over events. As was seen above, they have even been able to make the deficits from the higher oil prices manageable, mainly by absorbing the surpluses of the oil-producing countries and because of the latter's higher level of imports.

This fact, however, goes hand-in-hand with another: not even the most optimistic forecasts assume that there will be a return to the rates and modes of growth of the industrialized countries in the decade which ended in about 1973-1974, because there are various factors which could restrict future growth rates.

One of these is the persistence of inflationary pressures, which threaten to thwart the efforts to reactivate the productive systems. In some countries this obstacle is accompanied by the fear that the recovery may be accompanied by a worsening of precarious balance-of-payments situations.

However, the above factors are counterbalanced by others of equal importance. Unemployment levels seem to be approaching the limits of what is socially and politically tolerable, or to have passed them. This suggests that there will be more energetic and concerted reactivation policies, as is clearly borne out by the latest meetings of the top leaders of the central countries. Nevertheless, the majority opinion is that there will only be a slight recovery in the coming years, and there are many who add that it will be unstable and marked by continuous spurts of inflation.

Other serious questions for the countries of the periphery stem from the criticism of the growth model of the industrialized countries.

The growing censure of what has been called the "myth of excessive growth", "growth for growth's sake" or "growth at any price", may hinder the overall dynamism of the system. The optative emphasis on the quality of life, the defence of the environment, the protection of natural and common resources, greater equity in the distribution of well-being and other goals which are beginning to constitute the new ideology of development at the present time, could and indeed are bound to bring about significant changes in the demand for and allocation of resources.

The course this process will follow is still unclear, as are the repercussions it will have on the periphery. This is no reason, however, not to reflect on it and work out policies which can adjust the Latin American economy to the new structures and modalities which, in the opinion of many people, will require a new pattern of the international division of labour.

Another aspect of the emerging picture which has a considerable effect on the periphery, and especially on Latin America, is the reappearance of protectionist tendencies in the industrial countries and the new approach to Latin America's position in the international setting.

Although some progress has been made in opening up of international markets to the industrial exports of the developing countries, the signs of retreat from this objective on the part of the central economies are a cause for concern.

The internal and external crises of the central economies have led them to close their markets to some primary products –meat is a conspicuous example– and have created obstacles to exports of nontraditional industrial goods. Fear of foreign competition or domestic pressures are again prevalent, notwithstanding the successes –which were thought to be consolidated– of international co-operation so carefully elaborated over a long period of time.

The increasingly widely-held view of Latin America as the "middle-class" of the world community is of major significance for the future. In a world passing through a difficult economic situation, the machinery for the transfer of resources tends to contract and is oriented preferentially to the countries which are relatively less economically developed. This policy, by its very nature, excludes the countries of Latin America, although this should not be taken as a negative judgement on the measure as such. It simply means that, in the absence of parallel measures for countries which are at an intermediate stage of development, Latin America should turn towards policies which depend far more on its own capacity to tap resources in the world financial markets than on the occasional concessions and transfers of the past.

II. *THE CURRENT LATIN AMERICAN FRAMEWORK: ANALYSIS AND TASKS*

The information and reflexions contained in the preceding sections must be assessed in the light of the new dimensions of the Latin American economy and some primary aspect of its structure and operation.

The existence of acute social problems and the spate of critical remarks on the different and serious flaws in the development of the region sometimes cause the major positive changes of the post-war period to be forgotten.

What can safely be affirmed is that, even accepting all the legitimate reservations and criticisms, an impressive volume of changes in the dimension and structure of the Latin American economy can be discerned.

With reference to this, at the Sixteenth Session of the Commission, held in Port of Spain in May 1975, the Executive Secretary of CEPAL made the following statement:

"Around 1950, the total product of Latin America (measured in 1970 dollars, like the other examples given here) amounted to some 60 billion dollars. In 1974, it came to 220 billion dollars: almost four times the size of the regional economy in 1950.

"What does this mean? On the one hand, that present total production is comparable to European production in 1950, when that region was already one of the most industrialized in the world and some of its larger countries were among the major economic powers. Despite the structural differences which obviously exist between the two types of production, it must be recalled that this was the basis upon which a group of countries carried out its dynamic and fruitful experiment in integration.

"Furthermore, the biggest economies in Latin America are now similar in size to the main European economies in 1950.

"Let us also look to the future and see what can and should happen if the rate of Latin American development of recent years continues for another ten years. Given the present situation and outlook, we may calculate that by 1985 the size of the Latin America Economy will be more than seven and a half times that of 1950, and double its present size. In comparative terms, it will reach more or less the size of the European Economic Community in 1960. To evaluate the structural transformation which such changes represent, let us examine what has happened to some key factors. The value of manufacturing production, for example, in 1950 amounted to some 11 billion dollars. In 1974 it was almost five times higher. Its share of the total product rose from 18 per cent in 1950 to 24 per cent in 1974. Industrial exports in 1950 represented 6 per cent of total exports and were limited to a few specialized products. In 1974, however, they accounted for 18 per cent of export earnings and covered a wide range of manufactures.

"Looking at the situation ten years hence, it may be assumed that manufacturing production will be about eleven times greater than in 1950 and will represent 27 per cent of the total product. In other words, at current rates of growth, the *increment of a single year* at the end of the next decade will be comparable to the total production in 1950.

"Let us now look at ivestment. Its share of the total product rose to 23.5 per cent in 1974. If it continues to rise in this way until 1985, the entire capital stock of Latin America in 1950 can be created in approximately one year and a half. In other words, another economy, of a size similar to that existing in 1950, could be reproduced in that amount of time".[23]

Of course, this general view overlooks many substantial national differences. As is common knowledge, the importance of the larger countries (Brazil in particular) is decisive. What must indeed be borne in mind is that, with very few exceptions, the winds of change have made themselves felt throughout the sub-hemisphere.

Furthermore, this overall view of Latin America, of this OTHER Latin America, corresponds to a *reality* and a *need*.

A reality because, in spite of the disappointments, doubt and limitations which have strewn the path of regional integration, political, institutional, cultural, and economic conditions have evolved beyond any doubt towards a closer association and not towards a greater dispersion than that which existed some 25 years ago. And this was achieved in spite of the intensification of the differences between countries and groups of countries. Greater diversity or plurality has not, therefore, proved an obstacle to this great historic step forward.

A need, because in this world of super-powers and powerful regional blocs, the new dimensions, structure, and links which are characteristic of the region constitute the *sine qua non* for increasing its bargaining power and strengthening and expanding its development potential.

1. *Impulses and pressures in the Latin American development drive*

In order to formulate some ideas on the challenges raised by the international conjuncture and prospects commented on above, it is worthwhile briefly to go over some of the key aspects of the evolution which has opened up new and uncertain horizons. It is of interest to identify the influences or forces behind those changes, in order to attempt a subsequent analysis of the adjustments and transformations suggested by the future prospects which seem to be opening up.

[23]Enrique Iglesias, *Latin America: The new regional and world setting, Cuadernos de la CEPAL Nº 1*, Santiago, Chile, 1975, pp. 18 to 19.

The Latin American development impetus has depended mainly on a set of impulses and pressures whose main components have been domestic demand, external trade, and the regional market, the background to all this being the situation and changes as regards the level and distribution of income —a subject which will be dealt with later but which is deliberately ignored at this point.

The elements mentioned have been at work and have combined in many various ways over time. The stages which have been passed through may be classified in several categories familiar from CEPAL documents.

Little need be said about the stage known as "outward-oriented growth", which spread throughout most of Latin America up to the great crisis, and in which external demand for primary products constituted the primary (and often the only) growth determinant.

In the period which began from this time onwards there was one important feature which should be recalled: the expansion of the domestic product of Latin America was perceptibly higher than the increases registered in the purchasing power of exports. In other words, the so-called "inward-oriented development" succeeded in increasing the supply of goods and services to a greater extent than external trade flows.

However, behind that general situation several principal stages can be discerned, depending on the relations which existed between the internal and external determinants of the growth achieved. On the basis of the still valid criteria of a study prepared some time ago,[24] the following stages could be identified:

The first was the stage of *absolute* restrictions on foreign trade, which exercised pressures (particularly in the countries with relatively greater diversification and markets of sufficient size) towards industrialization, directly for the purposes of substitution on the basis of existing demand and its social composition. This stage persisted up to the early years of the post-war period.

The second stage was that of *relative* restrictions, from the end of the 1940s up to the mid-1950s; in this stage external conditions improved and combined with the continuation and diversification of the industrial effort in a substantial part of the region. The end of the Korean war brought this stage to an abrupt end, although it continued a little while longer in some countries, such as Brazil.

In the third stage, which lasted aproximately until the beginning of the second half of the 1960s, the relative restrictions of the external sector worsened and balance-of-payments and debt problems became more serious. At the same time the internal thrust towards industrialization weakened, due partly to limitations in import capacity, but mainly to the obstacles raised by the advance towards new areas of manufacturing in which the size of the market is a decisive factor. Only Brazil, and to a lesser extent Argentina and Mexico, succeeded in crossing this threshold and maintaining their industrial growth. In other words the dominant themes of this stage were stagnation and the vicissitudes of the balance of payments.

In any event, it is worth noting that it was at this stage that the first regional integration projects took shape. To a large extent they answered the need for traditional elements to promote development, while in some areas such as Central America they represented a decisive step towards the beginning of industrialization.

The fourth and last phase, which covered the last decade, reached its culmination in the period 1973-1974 and fell into a state of crisis between 1974 and 1975. It was, as some writers have pointed out, a period of "internationalization" of the Latin American economy, particularly fot the relatively more developed countries of the region.

The factors which motivated and oriented the development thus mobilized were mainly external ones. They included the combination of a vigorous demand for primary products and a clear improvement in the terms of trade between 1971 and 1973; the growing and dominant participation of transnational corporations, particularly in sectors which signified greater diversification of the industrial spectrum; the circulation of generous financial flows of various types, and the increasing participation of exports of manufactures, which came to play an important role in the expansion of specific activities.

The impulses stemming from the domestic market and regional demand also increased, although at a slower rate. It must be borne in mind in this connexion that in the period 1970-1974 Latin America absorbed almost one third (32.8 per cent) of its own industrial exports, which increased from some 850 million dollars in the first year to almost 2,300 million dollars in the

[24] See CEPAL, "The growth and decline of import substitution in Brazil", *Economic Bulletin for Latin America*, Vol. IX, Nº 1, March 1964.

last.[25] This particularly important question will be dealt with again later in this study.

If account is taken only of the external factors, it could well be argued that the stage which ended was merely equivalent to a new and more complex version of "outward-oriented growth", although it is more proper to say that it was both oriented towards and generated from the exterior.

When the other factors are considered, however, it can be seen that this fact has combined with the "inward-oriented" impulses, which now operate not only at the national level but also at the regional one. It is therefore a question of a more comprehensive and manifold form of growth in which the relative importance or weight of the dynamic elements in question has been considerably altered.

2. *Relations between industrialization and external trade*

Before examining some of the primary causes of the current crisis of the prevailing model, at least from a certain point of view, it is worthwhile reviewing the matter in the light of CEPAL's approaches, which have given rise to many discussions and some misunderstandings. We refer in particular to the relations between industrialization (or if it is preferred, substitutive industrialization and external trade.

The foregoing outline of the outstanding phases of Latin American development reveals, in our opinion, that the greater or lesser opening of the industrial diversification process depended largely on the circumstances created by the international economy and, more specifically, by the central countries. This does not mean that we should overlook the significant advances realized in the management of short-term policies, the administration of relative prices, and in particular of exchange rates, the promotion of exports, the initiative shown by certain national entrepreneurs, or the role played by the transnational corporations in the opening up of the industrial process. But, in one way or another, the performance of the international economy facilitated —when it was not directly responsible for it— the crystalization and consolidation of all these efforts.

Another basic and complementary conclusion seems to be that substitutive industrialization, even in its "closed" phases, constituted a necessary and vital forerunner of the later opening of the economies.

It is undoubtedly true, that at the beginning of the process insufficient consideration was given to the opportunities for exporting manufactures in the future, nor was any importance attached to it in the allocation of resources and selection of activities. There has been many critics of this attitude, who have frequently imputed autarkic tendencies to the promoters of substitutive industrialization.

But that is not the question. Such matters fall outside the historical and objective framework in which the problem is raised, since what was really in question was the objective of industrialization itself.

From this point of view it appears curious, or paradoxical, that those criticisms sometimes came from those who, in fact, had no confidence in the viability or desirability of the central proposal, or were opposed to it.

If some erred on the side of pessimism or underestimation when faced with the need to open an external outlet for the manufacturing effort, there is no doubt that others erred on the side of scepticism as regards the need for industrialization itself.

In fact, in spite of the mishaps and even distortions which befell it, the experience of Latin America was similar to that of the countries where industrialization got off to a late start, that is to say, those which had their start when a centred-periphery system based on the classical or nineteenth century international division of labour had already emerged. In this connexion, a well-known economist pointed out the following:

> "For example, Japan first imported manufactured products from more developed countries, later it began to produce substitutes for the domestic market, and finally it became an exporter of these very products. At the outset, Japanese exports of manufactures tended to be directed towards countries at a less advanced stage than Japan itself. Subsequently, however, it was able to export to the more advanced industrial countries, as its labour force acquired skills through experience, as the quality of its products improved, and as

[25] Total exports of manufactures increased from 2,175 million dollars in 1970 to 7,365 million in 1974. For 1975 they are estimated at approximately 9,500 million dollars. See CEPAL, *Las exportaciones de manufacturas en América Latina: informaciones estadísticas y algunas consideraciones generales,* E/CEPAL/L.128 (mimeographed document).

the commercial ability of its entrepreneurs became more sophisticated."[26]

These observations are not an *ex post facto* rationalization nor an apologetic justification of an experience as varied and controversial as the Latin American one. Still less do they claim to be an augury or an assumption of things to come. Their only objective is to place that experience in a framework which facilitates its analysis.

3. *The dilemma of the current style of development*

The foregoing is all the more obvious if it is remembered that we are referring to the end or the crisis of a period and that we must now consider what seem to have been the primary causes which led to this dilemma.

There is no need to repeat here that the decisive factor in this conjuncture was the shift in the external scene, which highlighted a less obvious aspect linked to a facet of the "structure of growth" in the recent period: the relation between global development and the external sector.

On this aspect of cardinal importance, a CEPAL study[27] pointed out the following:

> "Up to 1965 the average growth of imports was 0.4 times that of the product, in other words, an annual growth of 6 per cent in the product was accompanied by a growth rate of 2.4 per cent in imports. Between 1965 and 1973, however, the ratio between the two growth rates rose to an average of 1.3, so that the same annual growth rate of 6 per cent of the product was now accompanied by an increase of 7.8 per cent in imports."
>
> Going further into this point, the same study states:
>
> "There is an additional factor which makes the situation more serious; namely, that the elasticity coefficient of total imports to the product increases in relation to the rate of growth. In other words, not only is the elasticity coefficient higher than unity, so that imports tend to grow more rapidly than the product, but the situation also deteriorates as the rate of growth increases, since the elasticity coefficient itself increases."[28]

Clearly, then, in the last phase of Latin American development, there again emerged a contradiction which was either latent or else actually had a major effect on trends in recent years, and also was one of the main concerns of CEPAL; namely, the more or less marked asymmetry between the demand for imports generated by and characterizing the structure of a given type of growth, and the capacity of such growth to create sufficient foreign exchange to pay for the imports of goods and the rapidly increasing volume of various kinds of financial services.

Viewing the same problem from a different angle, the hypothesis may be put forward that the opening of the Latin American economy to the exterior –its "internationalization"– was carried beyond the limit permitted by its place in the system of international division of labour as an exporter of primary products. This was so in spite of the evident progress made in such significant respects as the export of manufactures by some countries.

Of course, another perfectly legitimate argument is that the basic reason for the crisis was not that the economies became excessively vulnerable because of this opening, but that a drastic change took place in the international setting.

In any case, while it is difficult to give a definite verdict on the matter, the combination of these two circumstances will make it necessary to pay more attention in future to the vulnerability of development schemes to the structure of external relations.

4. *The restructuring of the dynamic forces that have sustained the process of economic growth in the past*

The region's future prospects for economic growth will depend to a great extent on the restructuring of the dynamic forces that have sustained it in

[26] See Stefan H. Robock, "Una dicotomía falsa: industrialización a través de sustitución de importaciones o mediante industrias de exportación", *El Trimestre Económico,* Nº 155, Mexico City, July-September 1972.

[27] See CEPAL, *Integración económica y sustitución de importaciones en América Latina,* by Juan Ayza, Gerard Fichet and Norberto González, Fondo de Cultura Económica, Mexico City, 1975.

[28] The Minister of Planning of Brazil, Dr. Joao Paulo dos Reis Velloso, referring to the Brazilian experience and to the need for facing the new situation, analysed the problem with great clarity: "... The productive structure of Brazil had become excessively dependent on imports: in order to increase the GDP by 10 per cent per year, it was necessary to increase imports by 25 to 30 per cent". *(Jornal do Brasil,* 8 October 1974.)

recent years. Besides being a necessity dictated by circumstances, this is also a great opportunity for the whole region and particularly for the more develope countries.

Briefly, the problem is to give new dimensions to the role of the domestic market, without losing the dynamic momentum of exports to the rest of the world and especially to the Latin American region.

The relative weight of each of these focal points of dynamism is considerably influenced by the dimensions of the national economies. For the relatively less developed countries, the capacity for external growth, particularly towards the countries of the region, will continue to be more important than in the more diversified economies.

Accordingly, it may be stressed that in the phase now beginning the significance and importance of the Latin American market, i.e., of the integration process, will increase considerably. In the words of the Executive Secretary of CEPAL in his statement at Port of Spain:

> "The possibilities and viability of this objective are clear, in view of the larger size and greater diversification of the Latin American economic spectrum. Although in the mid-1950s –when the integration projects were launched– the productive structures perhaps lagged behind the possibilities opened up, the present situation is quite different, and the actual facilities are fully in keeping with these objectives"[29]

In an CEPAL study referred to earlier on the potential of import substitution at the regional level, attention is drawn to the volume of imports needed tu supply the region with chemical products and capital goods.[30]

In the period 1972-1973, these items represented 68 per cent of the region's total imports, with an approximate value of 16,000 million dollars.

Projections for 1985 indicate that Latin America's imports of equipment and machinery alone could in that year reach a value of some 24,000 million dollars. There would thus be a potential market for which efficient and competitive substitution processes could be carried out in the international context, with the aim of going beyond the regional market to the world market.

The new combination of dynamic forces in the development process and the greater relative importance of the domestic market also suggest other ways of inserting Latin America in the international division of labour.

The impetus sought by combining the domestic market with the external growth of the economies is not aimed –it is as well to repeat– at outdated systems of self-sufficiency or a reduction in the volume of imports. Imports are bound to continue increasing in consonance with the growth rate of the product. The real aim is to change the structure of imports and exports so that the growth process will be less vulnerable to ups-and-downs in the international situation.

The region has reached a degree of technological maturity and development in its productive processes which is enabling it to expand its exports, not only of products with a high labour content on an advantageous competitive footing with respect to international costs, but also of new products with a high technological content.

In this respect, and by way of summarizing this whole question, it is worth considering the opinions of a noted World Bank economist:

> "In a serious attempt to increase the international division of labour in manufactures through foreign trade, a more dynamic and longer-term approach than that of the existing comparative advantages must be adopted if the developed countries do not wish to be accused of a new way of neocolonialism.
>
> "While concentration on products incorporating intensive labour may be the only means whereby a developing country can enter the export market, the gains obtained with the increased earnings should be invested in changing the structure of exports. In the long run, those industries whose technological progress and future growth are likely to be more rapid should be widely distributed among all countries, developed or otherwise, parallel with the new lines of comparative advantages, just as they are currently distributed among the developed countries."[31]

To sum up, the proposed solution for Latin America would be nationally and regionally based development aimed at securing increased

[29] Enrique V. Iglesias, *Latin America: The New Regional and World Setting, op. cit.*, p. 31.

[30] *Integración económica y substitución de importaciones en América Latina, op. cit.*

[31] Hollis B. Chenery, "La división internacional de la fuerza de trabajo: el ejemplo en la industria", *El Trimestre Económico*, vol. XXXIX (3), Nº 155, Mexico City, July-September 1972.

efficiency with an appropriate scale of operations. In this way it can and must project itself vigorously towards the rest of the world in order to establish and take advantage of a new system of international division of labour.

5. *Other factors of the incipient readjustment*

Naturally, the activation and restructuring of the driving impulses of development is only one aspect of the great problem of adapting the operation of the Latin American economies to the new external circumstances. There are other equally or more important factors. If they have been relegated to second place in the above analysis it is because the outstanding feature of the present situation is the aforementioned crisis of the structure of external relations.

Perhaps the most important of these factors involve the distribution patterns and trends that have characterized the way of growth in the past five years. To avoid digressing, suffice it to repeat the words of the Executive Secretary of CEPAL at the Commission's last session:

> "Of the increase of 100 dollars in the average per capita income during the 1960s, only two dollars reached the poorest twenty per cent of the population. This is clear enough proof that we cannot be proud about what has been happening in the distribution of the benefits of progress. Today there are rather more than 300 million Latin Americans. Of that number, about 100 million live in extreme poverty, and of these, some 65 million are in rural areas, cut off from markets and lacking even the minimal culture which would enable them to glimpse the possibilities of a different way of life from that which they have followed for generations."[32]

It is not only ethical or humanitarian considerations which make it necessary to consider this outstanding facet of regional development. Highly significant and obvious economic questions are also involved.

One of these is recognition that the degree of expansion of the productive bases in most of Latin America makes it increasingly unreal to talk about the dilemma between growth and equality, between increasing production today and postponing a more equal distribution of income for a distant tomorrow, between maintaining or raising investment and increasing the share of the by-passed majority in the resources used for consumption.

The fact is that such conflicts only exist if a conventional caricature of redistribution strategy and policies is taken as a reference. But although there are examples of this in certain unsuccessful experiments which have generically been termed "populist", it is none the less true that there is no lack of others which, in different politico-institutional contexts, have succeeded in associating development of the productive system with a clearly-defined trend towards increasing the share of the broad masses in the benefits of that process.

This situation, incidentally, is increasingly influencing the allocation of international resources, and particularly those involving some element of subsidy or concession, among the periphery areas. References to Latin America as part of the world's "middle class" place on its shoulders the main burden of responsibility for solving its most serious social problems.

Moreover, there are some facts of special interest in connexion with the discussion of the need to restructure the driving impulses of the economy.

It is common knowledge that in countries with more diversified production, the activities linked with the consumption patterns of the high– and middle-income groups have played an outstanding role. Generally speaking, it is these activities which have sustained or accelerated the rates of growth.

The disparity between the dynamism of the various activities is sometimes explained by the unequal income-elasticity of demand for different goods, e.g., as incomes rise, the proportion absorbed by certain goods and services diminishes (or increases). This principle is hardly valid in economies where a large proportion –and sometimes the majority– of the population does not share those increases. In such cases, as can be readily understood, it only reflects the behaviour of the groups that monopolize them.

The concentration of income (and especially of the increases in income) and the mobilization of substantial financial resources used directly or indirectly to cover credit for privileged consumption are the instruments which have made this situation possible.

It is reasonable to think that under the new circumstances it will be more difficult to rely on these conditions. In the first place, the financial

[32] Enrique Iglesias, *Latin America: The New Regional and World Setting, op. cit.*, pp. 24 and 25.

adjustments, made necessary by the existence of inflation (even though, for reasons examined elsewhere in this study, it diminished in many countries in 1975), have reduced the credit available to consumers and producers of such goods and services. Secondly, the weakening of external impulses and the greater stringency, in the provision of external finance acted in the same direction. Lastly, the fall in overall growth rates and its varied repercussions (for example, on the level of employment) make any greater concentration of income to sustain demand for selective consumer goods a more difficult and hazardous course.

It will be understood that underlying this question there is a widely diagnosed contradiction, i.e., the attempt to reproduce consumption patterns typical of the high levels of development and income of the central economies in countries where the average income (unrepresentative as it is of the position of the broad masses) is only enough to cover basic consumption and investment needs.

Be that as it may, this problem confronts the countries with a complex dilemma, especially in the short term. On the one hand, they can attempt by every means in their power to reactivate the productive system within the parameters and relations of the prevailing development model. On the other hand, they could change this well-known context with a view to shifting the dynamic incentives, in differing degrees, ways and times, towards the basic and more generalized items of consumption (and supplementary investment and services).

These two options and their different variants pose urgent questions for economic policy. The dynamics and nature of development in the new phase that is seemingly about to begin will depend on the type of answers that are forthcoming.

Part Three

THE ECONOMIC SITUATION BY COUNTRIES

ARGENTINA

1. *The overall picture*

In 1975 the gross domestic product fell by 1.4 per cent. The drop in the level of activity was more pronounced in industry and, in particular, in construction; nevertheless, unemployment rates remained low. At the same time, the fiscal deficit reached a critical level, inflation attained a record rate of nearly 335 per cent, and the terms of trade again deteriorated considerably (see table 24).

Table 24

ARGENTINA: MAIN SHORT-RUN ECONOMIC INDICATORS

(Percentage annual growth rates)

	1971–1973	*1974*	*1975*
Gross domestic product	3.6	6.6	–1.4
Gross national income [a]	4.7	6.0	–3.0
Per capita gross domestic product	2.2	5.2	–2.7
Gross fixed investment	2.9	5.0	–6.9
Value of exports	20.2	26.5	–22.3
Value of imports	8.6	59.6	6.8
Terms of trade	13.5	–5.6	–17.5
Balance on current account [b]	34	151	–1 320
Variation in international reserves [b]	231	–23	–790
Consumer price index [c]	48.6	40.1	335.0
Money [c]	55.8	65.1	181.5
Current income of government	42.2	51.1	87.1
Total expenditure of government	72.5	52.1	251.5
Fiscal deficit/total expenditure of government [d]	35.8	49.8	73.3
Wages and salaries [c e]	53.9	44.4	269.3
Rate of unemployment [c f]	5.9	3.4	3.7

Source: CEPAL, on the basis of official statistics.

a Gross domestic product plus terms-of-trade effect.
b In millions of dollars at current prices.
c Between December 1974 and December 1975.
d Percentage.
e Nominal agreed basic wage from unskilled industrial worker.
f Simple average of results of the surveys for each year in the Federal Capital and Greater Buenos Aires.

After growing vigorously in the period 1971-1974, the value of exports dropped by 22 per cent in 1975. The main causes of this drop were the sharp fall in exports of manufactures, the restrictions imposed by the European Economic Community on meat imports, and the smaller grain surpluses available for export. The value of imports, on the other hand, rose by nearly 7 per cent due to the higher world prices, despite a fall in volume. As a result of the above, the current account of the balance of payments showed a deficit of over 1,300 million dollars. This in turn caused a large fall in reserves – which at the end of the year only covered two months of imports – and a rise in the short–term debt.

Economic trends in 1975 were not steady however. In the first period, which lasted approximately until June, the growth of economic activity was slow, prices rose at rates somewhat above 7 per cent per month, and the situation of the external sector grew markedly worse. During the second half of the year, however, the volume of production actually fell and the rates of inflation were much higher; at the same time, and despite the priority attached to external sector equilibrium, the trade balance continued to show a deficit and the reserve situation worsened.

2. *Recent economic trends*

(a) *General aspects*

During 1975 total supply fell by about 2 per cent because of the above–mentioned drop in the gross domestic product and a fall of over 6 per cent in the volume of imports (see table 25).

Table 25

ARGENTINA: TOTAL SUPPLY AND DEMAND

	Millions of pesos at 1970 prices			*Percentage breakdown*		*Annual growth rates*		
	1970	*1974*	*1975* [a]	*1970*	*1975* [a]	*1971–1973*	*1974*	*1975* [a]
Total supply	*102 327*	*121 864*	*119 681*	*107.9*	*107.9*	*3.4*	*7.7*	*– 1.8*
Gross domestic product	94 793	112 442	110 868	100.0	100.0	3.6	6.6	– 1.4
Imports	7 534	9 422	8 813	7.9	7.9	0.7	22.6	– 6.5
Total demand	102 327	121 864	119 681	107.9	107.9	3.4	7.7	– 1.8
Domestic demand	*94 316*	*113 765*	*113 207*	*99.5*	*102.1*	*3.7*	*8.1*	*– 0.5*
Gross domestic investment	19 336	24 430	21 369	20.4	19.3	4.4	10.9	– 12.5
Gross fixed investment	18 943	21 666	20 171	20.0	18.2	2.9	5.0	– 6.9
Construction	10 705	11 087	10 355	11.3	9.3	– 2.5	11.6	– 6.6
Public	4 581	4 809	3 743	4.8	3.4	– 1.4	9.5	– 22.2
Private	6 124	6 278	6 612	6.5	5.9	3.3	13.3	5.3
Machinery and equipment	8 238	10 579	9 816	8.7	8.9	9.2	– 1.2	– 7.2
Total consumption	74 980	89 335	91 838	79.1	82.8	3.5	7.4	2.8
General government	9 055	...	...	9.6	...	4.0	...	...
Private	65 925	...	...	69.5	...	3.4	...	...
Exports	*8 011*	*8 099*	*6 474*	*8.5*	*5.8*	*– 0.2*	*1.6*	*– 20.1*

Source: 1970-1974: CEPAL calculations on the basis of figures of the three-year Plan for Reconstruction and National Liberation and of the Banco Central de la República Argentina; 1975: CEPAL estimates on the basis of data of the Banco Central.

Note: 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.

[a] Preliminary figures.

Table 26

ARGENTINA: HALF-YEARLY GROWTH RATES OF DEMAND AND OF THE MAIN PRODUCTIVE SECTORS

	1974	1975		
		First half	*Second half*	*Full year*
Gross domestic product	*6.6*	*1.9*	*-4.4*	*-1.4*
Agriculture	7.2	-3.5	1.1	-1.2
Manufacturing	7.2	1.4	-7.9	-3.6
Construction	12.1	0.9	-18.2	-9.0
Total demand	*7.5*	*3.4*	*-6.3*	*-1.7*
Consumption	7.2	8.1	-1.1	3.3
Gross domestic investment	10.8	-4.5	-19.8	-12.5
Exports	2.6	-19.6	-21.1	-20.4

Source: Banco Central de la República Argentina.

The contraction of the product was the result of the small growth in the first half of the year and a drop of over 4 per cent in the second half. The change in trend in the second half of the year was very marked in manufacturing, and especially in construction, and it contrasted with the growth of those sectors in 1974 and their continued expansion, albeit to a lesser extent, in the first half of 1975 (see table 26). The growth–limiting factors in the two sectors were different in the two halves of 1975. In the first half of the year, there were problems above all of the supply of inputs, and in some branches there were trade union disputes. From June onwards, however, these problems were joined by weakening of demand.

Trends in the agricultural sector were different. The first part of the year was affected by the smaller 1974–1975 harvests – the result of unfavourable climatic conditions – while the growth in the latter half reflected the larger harvests of winter crops for 1975–1976. In addition, the supply of live cattle was large thanks to the high level of stocks, which together with the fall in the external demand for meat, helped to lower prices.

Within total demand, the biggest fall was in the volume of exports, which already dropped sharply in the first half of the year, primarily because of the fall in sales of meat and manufactures. Investment in machinery and equipment also fell significantly during this period. The slight growth in total demand was therefore due to the continuation of the official housing plan and particularly the growth of consumption.

From June onwards, total demand dropped significantly. The level of activity in construction declined appreciably, consumption remained stagnant in comparison with 1974 levels, the fall in investment in plant was accentuated and the sharp drop in the volume of exports continues (see table 26).

Thus, considering 1975 as a whole, consumption was the only growth component of total demand[33] Even so, its growth of something over 3 per cent was exclusively due to its strong expansion during the first months of the year, apparently stimulated by the tendency to make advance purchases. In particular, expectations of higher rates of inflation led families to borrow more, despite the fact that during this period the repayment periods were progressively shortened. This behaviour was probably also influenced by the confidence in the ability of the unions to obtain large wage increases through the negotiations then taking place between management and workers.

As of June this situation changed significantly. The relative prices of durable goods rose and credit facilities were restricted. At the same time there was a delay in actually obtaining the wage

[33] It may be assumed, however, that the figures for the first half of the year include part of the accumulation of stocks, due to the method of computation used.

increases negotiated, while the greater uncertainty about the maintenance of the level of employment led to a more cautious attitude on the part of consumers. As a result, the demand for consumer durables dropped sharply in the third quarter and only recovered slightly in the last quarter. Consequently, and despide the fact that non-durable-consumer goods followed a more favourable trend, total consumption fell by 1 per cent during the second half of the year.

In similar fashion, investment in machinery and equipment fell by around 7 per cent in the year (see table 25), so that in 1975 this investment was lower than in any of the three preceding years, particulary in the agricultural sector, where it fell sharply because of the drop in the relative prices of agricultural products (particularly animal products), the investment carried out in previous years, and the less fluid financing available in the agricultural sector.

As regards industry, the opinion surveys carried out at the end of 1974 forecast a rise in investment. However, this expected growth did not occur even in the first half of the year, although it may be assumed that in this period the profit margins had not yet fallen. This unfavourable performance was probably influenced by the uncertainty about the course of economic policy (particularly in respect of prices and incomes), the fall in productivity, and the situation of labour relations. These factors were compounded, in the second half of the year, by the appearance of considerable idle capacity in many branches and the accentuation of financial problems. As a result, investment in the manufacturing sector deteriorated appreciably in the course of the year, particularly in the branches producing non–durable consumer goods and capital goods. On the other hand, investment in the intermediate sectors followed a less unfavourable trend, mainly due to the growth of investment in the steel and textile industries. Purchases of machinery and equipment by public enterprises rose in the first quarter, particularly in the fuel and petrochemical enterprises, but in the second half of the year this investment dropped significantly.

Investment in construction fell by almost 7 per cent as a result of the decline of 22 per cent in public building. This drop was not wholly offset by the 5 per cent growth in private construction, which was mainly the result ot the continuation of the housing plans financed by the Government. Indeed, the rest of the housing construction branch already seems to have encountered difficulties in the supply of inputs in the first half of the year. As of June, the demand for privately–built housing dropped sharply, due to the fact that the reduced liquidity acted as a brake on speculative demand and the financing terms grew harder. As a result, the surface area for which building permission was granted declined greatly in the third quarter. At the same time, there was a significant fall in public building, attributable to budget difficulties.

Table 27

ARGENTINA: UNEMPLOYMENT TRENDS

	1973			*1974*			*1975*		
	April	*August*	*October*	*April*	*August*	*November*	*April*	*August*	*October*
Unemployment rates									
Capital	4.8	4.9	3.7	3.7	2.7	2.3	2.2	...	2.1
Greater Buenos Aires	7.0	5.9	5.0	4.4	3.7	2.6	2.4	...	3.0
Capital and Greater Buenos Aires	6.1	5.5	4.5	4.2	3.4	2.5	2.3	...	2.7
Rosario	5.3	...	5.5	4.7	...	3.8	5.5	...	5.6
Córdoba	5.3	...	6.1	7.0	...	5.4	7.2	...	7.5
Tucumán	12.5	...	11.3	10.5	...	7.5	8.6	...	6.8

Source: National Institute of Statistics and Censuses.

The lower level of activity of the productive sectors was only very partially reflected in the unemployment levels. In the metropolitan area, the unemployment rate, which has been falling continuously since the second quarter of 1973, in April 1975 reached its lowest level since compilation of figures first began (July 1973). In the main cities of the interior (Córdoba, Rosario and Tucumán), however, there was an increase in unemployment (see table 27).

As of June, the drop in industrial production, the sharp contraction in the level of activity in construction, and the strong expectations of a recession changed the situation in the labour market. A first consequence of this was the sharp drop in the demand for new workers, which remained at a low level until the end of the year. Despite this, the unemployment rates in Buenos Aires, Córdoba and Rosario were only slightly higher in October than in April, although the levels of activity in industry and construction had fallen considerably during that period. This was due both to greater employment in some services —particularly the public sector— and to trade union action and the existence of legal provisions which made it difficult to lay off staff.

(b) *Sectoral developments*

(i) *The agricultural sector.* Agricultural production fell during 1975 by rather more than 1 per cent, whereas it had grown in 1974 and 1973 by 7 per cent and 5 per cent respectively. This fall was entirely due to the drop in agricultural production, since livestock production rose by close to 4 per cent (see tables 28 and 29).

Table 28

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

	Millions of pesos at 1970 prices			*Percentage breakdown*		*Annual growth rates*		
	1970	*1974*	*1975* [a]	*1970*	*1975* [a]	*1971–1973*	*1974*	*1975* [a]
Agriculture	11 119	12 078	11 933	13.1	12.0	0.4	7.2	– 1.2
Mining	1 788	1 435	1 374	2.1	1.4	– 7.7	2.0	– 4.3
Manufacturing	25 582	33 089	31 898	30.2	32.2	6.5	7.2	– 3.6
Construction	4 865	5 136	4 674	5.7	4.7	– 2.0	12.1	– 9.0
Subtotal goods	*43 354*	*51 738*	*49 879*	*51.2*	*50.3*	*3.5*	*7.5*	*– 3.6*
Electricity, gas and water	1 819	2 495	2 640	2.2	2.7	8.7	6.8	5.8
Transport and communications	8 577	9 775	9 382	10.1	9.5	2.8	5.1	– 4.0
Subtotal basis services	*10 396*	*12 270*	*12 022*	*12.3*	*12.2*	*3.8*	*5.4*	*– 2.0*
Commerce, restaurants and hotels	11 388	14 126	13 561	13.5	13.6	4.6	8.2	– 4.0
Financial establishments, insurance and real estate	3 829	4 670	4 978	4.5	5.0	4.7	6.5	6.6
Communal, social and personal services	15 657	17 757	18 698	18.5	18.9	3.0	3.6	5.3
Subtotal other services	*30 874*	*36 553*	*37 237*	*36.5*	*37.5*	*3.8*	*5.8*	*1.9*
Total gross domestic product	*84 624*	*100 273*	*98 869*	*100.0*	*100.0*	*3.6*	*6.6*	*– 1.4*

Source: 1970-1974, CEPAL calculations on the basis of figures of the Three-Year Plan for Reconstruction and National Liberation and of the Banco Central de la República Argentina; 1975: CEPAL, estimates on the basis of data of the Banco Central.

Note: As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

[a] Preliminary figures.

Table 29

ARGENTINA: INDICATORS OF AGRICULTURAL PRODUCTION

	Production				Annual growth rates		
	1970	*1973*	*1974*	*1975*	*1971–1973*	*1974*	*1975*
1. Agricultural production (millions of 1973 pesos) [a]	46 908	47 519	50 953	50 332	0.4	7.2	– 1.2
Crop farming	24 798	25 417	27 775	26 369	0.8	9.3	– 5.1
Stock-raising	20 417	20 059	20 713	21 478	– 0.6	3.3	3.7
2. Production of some important crops (thousands of tons) [b]							
Wheat	7 020	7 900	6 560	5 970	4.0	– 17.0	– 9.0
Maize	9 360	9 700	9 900	7 700	1.2	2.1	– 22.2
Sorghum	3 820	4 960	5 900	4 830	9.1	19.0	– 18.1
3. Indicators of stock-raising production (millions of heads)							
Number of livestock [c]	48.4	54.8	57.0	58.0	4.2	4.0	1.8
Number of animals slaughtered	12.9	9.8	10.1	12.0	– 8.8	3.1	18.8

Sources: Banco Central de la República Argentina; Ministry of Agriculture and Stock-raising; National Meat Board; CEPAL, on the basis of official data.

a Includes hunting, forestry and fishing.

b In all cases the production is imputed to the year in which the harvest was completed.

c Included for reference purposes.

A major factor in the fall in agricultural production was the smaller volume of the cereal and oil-seed harvests. The drops in the production and yield of wheat were primarily due to the drought during the growing period of the crop and the excessive rains during harvest time.

The latter also harmed maize and sorghum production. In the case of the latter, the area sown was also reduced, mainly because of the low prices prevailing in the spring of 1974, when sowing decisions were made. During 1975, however, the Government fixed more remunerative prices for the 1975/1977 harvest, which led to a rise in the area sown with cereals and particularly wheat. At the same time, the National Grain Board improved the terms of payment to farmers.

During the 1974/1975 cycle there was also a drop in the production of oil-seeds. The area sown with sunflower seed declined, as did the yield, all of which led to bad harvest which in turn caused difficulties in satisfying domestic consumption and reduced the exports of oils and by-products. However, during 1975 official purchase prices were anounced which were considerably higher, with the result that the areas sown for 1975/1976 increased.

The production of industrial crops was also lower in 1975. Sugar production fell 3 per cent because of the frost which hit the sugar-cane crop, and grape production dropped 13 per cent. The over–production of grapes in recent years led the Government to take steps to improve the situation of producers. To this end, credit facilities for carrying out the harvest were expanded and differential prices were fixed according to quality and type of grape in an attempt to discourage the rustic vineyards in favour of those providing greater efficiency and better quality.

Adverse climatic conditions affected the production of the main fruits, with a consequent drop both in exportable surpluses and in the domestic supply. Cotton production, on the other hand, rose 23 per cent as a result of higher yields.

Livestock sector production grew by nearly 4 per cent in 1975. The biggest increases were in the production of milk, poultry and beef, with gains of 10 per cent, 8 per cent and 5 per cent respectively. On the other hand, wool production and the slaughtering of pigs and sheep fell by 1 per cent, 23 per cent and 10 per cent respectively.

At the beginning of 1975, cattle stocks were at a record level while prices were very low compared with those of non–agricultural goods and also with cereal prices. Cattle prices deteriorated still further in the course of the year, with the result that in the third quarter the real prices of bullocks were 53 per cent below those of 1974 and stood at extremely low levels, even by comparison with those in a year of massive slaughtering of excess cattle like 1969 (see table 30).

Table 30

ARGENTINA: INDICATORS OF THE RELATIVE PRICES OF AGRICULTURAL PRODUCTS, CATTLE SLAUGHTERING AND BEEF CONSUMPTION

	1968–1975	*1969*	*1974*	*1975*		
				January May	*June December*	*Whole year*
Price indexes (1960 = 100)						
Livestock production/ non-agricultural goods	109.8	94.0	109.0	87.6	58.2	70.5
Crop-farming production/ non-agricultural goods	102.1	105.2	101.9	100.1	96.6	98.1
Total production of agriculture/ non agricultural goods	105.9	100.1	105.4	93.7	78.3	84.7
Real prices of bullocks [a]	100.0	76.6	100.9	...	...	61.3
Slaughter indicators (percentage)						
Slaughter/stocks	21.2	28.0	16.6	...	...	20.7[b]
Females slaughtered/total slaughter [c]	38.3	40.7	33.1	...	...	40.9[b]
Slaughter of export/total slaughter	19.8	22.0	12.4	...	...	10.0[b]
Per capita beef consumption (kilos)	77.0	92.0	76.0	...	...	84.0[b]

Sources: Relative price indexes: CEPAL, on the basis of official data; indexes of real prices of bullocks and of the slaughter and consumption of beef: National Meat Board.

a Average 1968-1975 = 100: bullock prices in the Liniers market deflated by the wholesale price index for non-agricultural goods.

b Estimates.

c In establishments with the official classification system.

The drop in prices led to a considerable rise in beef consumption, with the displacement of some substitutes. Annual per capita consumption rose to 84 kilogrammes, 10 per cent above the previous year, although without reaching the average recorded in 1969. Since the growth of domestic consumption largely offset the fall in slaughtering for export resulting from the import restrictions of the European Common Market, the total number of cattle slaughtered rose 19 per cent. Despite this, and despite the sharp decline in the prices of animal products the slaughtering/stocks ratio did not indicate any large–scale liquidation of livestock (see table 30). This was due, *inter alia,* to the good climatic conditions, which increased the grazing capacity of the pastures, and the expectations of future rises in prices. Nevertheless, in the final part of the year indicators such as the proportion of females in the total of animals slaughtered apparently reached levels associated with periods of large-scale cattle liquidation.[34]

Although the prices of agricultural products fell much less than those of animal products, the fall in the relative prices of the agricultural sector as a whole was considerable. This circumstance and the drop in the volume of production considerably reduced the purchasing power of the sector, with the result that there was also a large drop in purchases of capital goods.

[34] In January 1976 there was a sharp rise in the real price of cattle which may reverse this trend towards the reduction of stocks.

(ii) *Mining*. Oil production fell by about 4.5 per cent in 1975, thus continuing the downward trend of recent years (see table 31). The cause of the drop was the lower yield of the wells in operation, which was not compensated by the entry into operation in August of the Puerto Rojas field, Mendoza.[35]

[35] It is hoped that this field will produce approximately 1.5 million cubic metres per year, which represents about 6 per cent of current oil production.

During 1975 oil prospecting was carried out in the area of the Andes. In the longer term, it is planned to exploit the sea bed and to intensify secondary recuperation and the gradual replacement of oil by other energy sources.

Table 31

ARGENTINA: INDICATORS OF MINING PRODUCTION

	Production				*Annual growth rates*		
	1970	*1973*	*1974*	*1975*	*1971–1973*	*1974*	*1975*
1. Gross mining product [a]	5 933	4 669	4 765	4 559	– 7.7	2.0	– 4.3
2. Production of some important minerals (including petroleum)							
Petroleum (thousands of m^3)	22 798	24 441	24 022	22 951	2.3	– 1.7	– 4.5
Coal (thousands of tons)	615.5	450.6	625.6	503.0	– 9.9	38.8	– 19.6
Injected natural gas [b] (thousands of m^3)	4 820	5 426	6 033	6 330	4.0	11.2	4.9

Sources: Banco Central de la República Argentina: Ministry of Energy; CEPAL, on the basis of official data.

[a] In millions of 1973 pesos, at factor cost.

[b] Net of imports.

During 1975 the consumption of crude oil was also lower, since in addition to the drop in production, imports fell significantly. This drop in consumption is mainly to be explained by the smaller use of oil in the generation of electricity. In the third quarter there was likewise a fall in gasoline consumption because of the rise in its price.

Coal mining also declined sharply, by almost 20 per cent. The collapse in one of the mines of the Rio Turbio coalfield in May caused a fall in production of approximately 45 per cent in the second half of the year.

On the other hand, the production of natural gas followed a relatively favourable trend, rising by 5 per cent, despite some technical problems which affected it in July and caused temporary supply difficulties.

The other components of the mining sector followed different paths: the production of metallic minerals fell, while that of non-metallic minerals grew moderately. As for the projects to expand activity, there were delays in the work on the iron ore deposits in Sierra Grande. In 1975, a large copper and gold deposit was found in the province of Catamarca.

(iii) *Manufacturing.* The level of activity in manufacturing fell by nearly 4 per cent in 1975, in contrast with the growth of over 6.5 per cent which it has maintained since the beginning of the decade (see table 32).

Table 32

ARGENTINA: INDICATORS OF MANUFACTURING PRODUCTION

	Value (at market prices, in millions of 1973 pesos)				*Annual growth rates*				
	1970	*1973*	*1974*	*1975*	*1971–1973*	*1974*	*1975* *First half*	*1975* *Second half*	*1975* *Whole year*
Manufacturing production	*106 328*	*128 296*	*137 564*	*132 656*	*6.5*	*7.2*	*1.4*	*– 7.9*	*– 3.6*
Food, beverages and tobacco	20 580	23 273	25 767	24 891	4.2	10.7	– 2.9	– 3.9	– 3.4
Textiles, clothing and leather industry	12 971	15 572	17 374	18 144	6.9	11.6	8.0	1.5	4.4
Wood and wood products	2 826	2 591	2 722	2 376	– 2.9	5.1	0.6	– 24.9	– 12.7
Paper and paper products, printing and publishing	4 757	4 914	5 346	5 294	1.1	8.8	5.6	– 6.8	– 1.0
Chemicals, coal and petroleum products, rubber and plastics	16 788	19 319	19 843	19 768	4.8	2.7	2.7	– 2.9	– 0.4
Non-metallic mineral, products except products of petroleum and coal	3 606	4 079	4 276	4 299	4.2	4.8	5.6	– 3.9	0.5
Basic metal industries	6 501	7 524	8 191	7 976	5.0	8.9	11.0	– 13.9	– 2.6
Metal products, machinery and equipment	31 691	46 197	49 211	45 230	13.4	5.5	– 1.2	– 14.1	– 8.1
Other manufacturing industries	6 608	4 827	4 834	4 678	– 10.0	0.1	0.7	– 6.8	– 3.2

Sources: Banco Central de la República Argentina; CEPAL, on the basis of official data.

As pointed out above, this was the result of the different trends in the industrial sector in the two halves of the year. In general terms, the demand for manufactures remained at a relatively high level during the first half of the year, probably because of stock accumulation and advance purchases of consumer durables. This offset the contraction of exports of manufactures —caused by the relative deterioration of the exchange rate— and the lower demand for equipment, particularly by the agricultural sector. In this period supply was restricted in some industrial sectors by supply difficulties and trade union disputes. As a result, in the first six months of the year there was a fall in the growth rate of the production of manufactures to a little over 1 per cent.

With the adoption of a new economic policy in June, there was a sudden change in the general situation in the industry. The demand for consumer goods fell at first because of the big rises in prices and the delay in payment of the new wages. Together with the scarcer credit, this discouraged purchases of durable goods. At the same time, there was less incentive to accumulate stocks in view of the reduction in liquidity and the expectations of small sales. Furthermore, despite the changes in the exchange rate, exports did not pick up. These demand factors and the trade union disputes in July helped to reduce production in the third quarter by 6 per cent.

During the last quarter of the year there was a slight recovery in the demand for industrial products in comparison with the very low levels for the preceding quarters. Nevertheless, although the volume of production was higher than in the period July/September it was greatly below that of the corresponding quarter in 1974.

For 1975 as a whole, the most important drops in production were in the timber industry and the industries producing metal goods, machinery and equipment; the textile industry, in contrast, was the only industry in which there was any significant growth (see table 32).

The food industry declined by over 3 per cent in 1975, and its production already fell in the first half of the year. This unfavourable trend was partly due to problems in the supply of raw materials which affected the production of some sub-sectors (flour and oil). On the other hand, the meat industry was stimulated by the growth of domestic consumption and increased its activity despite the low export demand.

The textile industry, the most dynamic in the manufacturing sector in 1974, was the only industry whose production did not decline in 1975. Its growth took place mainly in the first part of the year, when there was some accumulation of stocks and a number of textile sectors benefited from others which had been placed at the end of 1974. Apparently in this period the clothing industry also enjoyed quite steady domestic demand, which made up for the drop in exports. Both of these circumstances resulted in the textile and clothing industries, taken together, having a growth rate of 8 per cent in the first six months of the year. In the second half of the year there was a sharp drop in the rate of growth, but even so the textile and clothing industry was alone in increasing its production in that period. The decline in the rate of growth was probably linked to the lower demand on the part of wage-earners, which was not offset by the increased purchases made by tourists, who were stimulated by the under-valuation of the peso on the parallel exchange market.

Although the chemical industry had supply problems in the first half of the year and the oil refineries encountered technical and labour problems, the petrochemical, rubber and plastic industries together grew by nearly 3 per cent during this period. However, as of July there was a fall in sales, particularly in the lines supplied to the motor–vehicle and domestic appliance industries and to a lesser extent in the case of the imports used in the manufacture of durable goods. Towards the end of the year, demand picked up somewhat, partly due to the desire to increase stocks, but the plastic industry continued to have problems.

The metals industry developed very differently in the two halves of the year. In the first, despite the trade union dispute which affected the production of rolled sections in the second quarter, the basic metals industry grew significantly (see table 32). This is explained by the entry into operation of the second blast furnace of the State enterprise SOMISA and the solution of some supply problems. During this period demand was stimulated by the accumulation of stocks, the higher production of domestic appliances and the rise in housing construction, although exports declined, as did the direct and indirect purchases of the agricultural sector.

The metal manufactures and machinery industry, on the other hand, declined slightly, although there were great differences in trends between the production of consumer durables –where supply was unable to meet demand– and the production related to investment in machinery equipment, where demand was somewhat weak. Thus, during this period the production of refrigerators, washing machines and especially television sets rose, while that of commercial vehicles and tractors –and, to much lesser degree, automobiles– fell (see table 33).

During the third quarter there was a sharp drop in the demand for consumer durables and an accentuation of the fall in the sales of capital goods for agriculture, automobile and commercial vehicles. At the same time, the liquidity situation worsened and this also helped to depress sales of steel products.

In the last three months of the year, there was some recovery of demand (although this apparently did not regain the pre-June levels), but an important trade union dispute arose in the metalworking industry and these affected its production, which once again declined in comparison with the last quarter of 1974. Nevertheless, at the end of 1975 large stocks had been accumulated of some products (particularly iron and steel), and an effort was being made to orient them towards exports.

(iv) *Electricity, gas and water.* The value added in the production of electricity, gas and water grew considerably in 1975, although at a lower rate than that reached at the beginning of the decade (see table 28). A large part of the increase in electricity consumption was due to greater household use. Another significant feature was the

Table 33

ARGENTINA: SOME INDICATORS OF INDUSTRIAL PRODUCTION

	Production				*Annual growth rates*				
							1975		
	1970	*1973*	*1974*	*1975*	*1971–1973*	*1974*	*First half*	*Second half*	*Whole year*
1. Automobiles [a]	168.0	219.4	212.1	185.2	9.3	– 3.4	– 2.1	– 22.1	– 12.7
2. Commercial vehicles [a]	51.6	74.3	74.2	54.9	12.9	– 0.1	– 13.1	– 38.4	– 26.1
3. Tractors [a]	11.0	21.3	24.6	18.8	24.6	15.3	– 10.3	– 34.4	– 23.4
4. Pig iron [b]	810.0	804.0	1 070.0	1 038.0	– 0.3	33.1	27.9	– 24.7	– 3.0
5. Steel [b]	1 823.0	2 155.0	2 356.0	2 229.0	5.7	9.3	6.8	– 16.1	– 5.4
6. Rolled sheet [b]	942.0	1 387.0	1 437.0	1 465.0	13.8	3.7	12.0	– 7.5	1.9
7. Rolled sections [b]	1 164.0	1 595.0	1 503.0	1 441.0	11.1	– 5.7	– 2.1	– 6.2	– 4.2
8. Refrigerators and washing machines [c]	100.0	117.1	114.0	105.8 [d]	5.4	– 2.6	5.0	– 20.8	– 6.4
9. Television sets [c]	100.0	120.3	144.3	155.5 [d]	6.4	20.0	29.1	– 10.3	10.7
10. Flour [c]	100.0	98.8	103.2	107.8 [e]	– 0.4	4.5	– 4.4	11.7	3.0
11. Edible oils [c]	100.0	93.6	87.1	87.9 [d]	– 2.2	– 6.9	– 4.4	1.1	– 2.1
12. Cigarettes [c]	100.0	113.6	128.7	135.7	4.3	13.3	9.3	1.6	5.4
13. Cattle slaughtering [b]	2 624.0	2 152.0	2 176.0	2 400.0	– 6.4	1.1	4.8	15.8	10.3

Source: 1 and 2, Motor Manufacturers' Asociation; 3, Tractors Manufacturers' Association; 4, 5, 6 and 7, Steel Manufacturers' Association; 8, 9, 10, 11 and 12, National Institute of Statistics and Censuses; 13, National Meat Board and CEPAL estimates.

[a] Thousands of units.
[b] Thousands of tons.
[c] Index 1970 = 100, at 1970 prices.
[d] January – October.
[e] January – November.

decline in the proportion of electricity generated in thermal power stations, which fell from 75 per cent in 1974 to 70 per cent in 1975. Within this category, the share of natural gas in the generation of electricity rose at the expense of oil. Hydroelectricity accounted for a slightly smaller proportion of the total generated, while the share of nuclear energy amounted to 10 per cent, thanks to the trouble-free operation of the Atucha station.

During 1975, work and studies in connexion with the execution of large-scale energy projects continued. Progress was made on the bi-national Salto Grande Project, with the result that by the end of 1975 18 per cent of the work had been completed and it is hoped to finish a quarter of the total work by the end of 1976. Progress was also made on the construction of the Futaleufú dam, which will supply energy to the aluminium plant at Puerto Madryn, also expected to be completed in 1976. In addition, complementary work on the Chocón complex was carried out, the studies for the Yaciretá-Apipé complex were continued (in collaboration with Paraguay), and the preliminary work was done for the study of the Alicurá dam in Comahue. Finally, work continued in 1975 on the new nuclear power station in the province of Córdoba.

3. *The external sector*

After two years of favourable results, the current account of the balance of payments in 1975 had a deficit of a little over 1,300 million dollars, 900 million of which corresponded to the trade deficit.

The fundamental factor in the deterioration was the sharp drop in the export of goods, from nearly 4,000 million dollars in 1974 to 3,000 million dollars in 1975. This decline was due to a drop of 21 per cent in the physical volume of exports and a fall in their prices of somewhat more than 5 per cent. On the other hand, the value of imports of goods rose 10 per cent as a result of an increase of almost 15 per cent in their unit value and a drop of 4 per cent in their volume (see table 34).

Table 34

ARGENTINA: VARIATION IN THE TERMS OF TRADE AND IN THE VALUE, VOLUME AND UNIT VALUE OF EXPORTS AND IMPORTS
(Annual growth rates)

	1971	*1972*	*1973*	*1974*	*1975*
Exports of goods					
Value	– 1.9	11.6	68.5	21.8	– 24.7
Volume	– 13.9	– 3.4	19.1	– 2.2	– 20.6
Unit value	14.0	15.5	41.5	24.5	– 5.2
Imports of goods					
Value	10.3	1.9	17.6	59.4	10.2
Volume	5.4	–6.5	5.2	20.9	–4.1
Unit value	4.6	9.0	11.8	31.9	14.9
Terms of trade	9.0	6.0	26.6	–5.6	– 17.5

Source: CEPAL, on the basis of official statistics.

Factor payments showed a deficit of 430 million dollars. This deficit, which was larger than in previous years, was primarily due to the increase in payments of interest.

Net inflows of capital amounted to 220 million dollars. As a result of the current account deficit, however, the international reserves fell by approximately 790 million dollars in 1975, while the indebtedness of the monetary authorities rose by 310 million dollars (see table 35).

The worsening in the reserve position occurred gradually over the whole year, despite the fact that the goal of the economic policy was to contain imports and stimulate exports. With this end in mind, exchange rates were managed and imports restricted through requirements for lists of future needs, prior deposits, etc. Nevertheless, the policies followed were not sufficiently successful and the amount of imports did not drop as hoped, partly because of the incentives provided by continuous expectations of future devaluations and because of overbilling. The policies did not meet with adequate success in the case of exports either, since there was a mass of unrecorded operations.

Both the overvaluation of imports and the lack of registration and underbilling of exports were the results of the difference between the exchange rates established for real transactions and the parallel market exchange rate. In the goods market, exchange rates were fixed whose values were in line with the level of domestic costs, but the rates on the parallel market were much higher. This difference between the exchange rates was an incentive not to register operations carried out on the goods market and to hold on to foreign currency earned in its original form or to sell it on the parallel market. Furthermore, the overvaluation of the exchange rate in this market exerted an upward pressure on the exchange rate in the goods market.

(a) *Foreign trade*

(i) *Exports.* The value of exports of goods in 1975 amounted to 3,000 million dollars, which was 25 per cent less than in 1974. This drop was partly due to the drastic restriction on meat imports by the European Economic Community which had the effect of reducing Argentina's 1975 meat

Table 35

ARGENTINA: BALANCE OF PAYMENTS
(Millions of dollars)

	1970	*1972*	*1973*	*1974*	*1975* [a]
Current account					
Exports of goods and services	2 198	2 399	3 829	4 844	3 762
Goods FOB	1 773	1 941	3 271	3 985	3 000
Services	425	458	558	859	761
Transport	215	222	304	550	410
Travel	74	79	87	109	151
Imports of goods and services	2 131	2 284	2 729	4 355	4 650
Goods FOB	1 499	1 685	1 981	3 159	3 480
Services	632	599	747	1 197	1 170
Transport	327	347	440	817	831
Travel	130	78	86	103	90
Net payments of profits and interest on foreign capital	-223	-333	-395	-334	-429
Profits	-70	-61	-76	-54	-57
Interest	-153	-273	-318	-280	-372
Net private transfer payments	-1	-1	2	-2	-2
Balance on current account	-157	-219	708	151	-1 320
Capital account					
Net external financing (a+b+c+d+e)	157	219	-708	-151	1 320
(a) Net external non-compensatory capital	463	48	169	19	
Direct investment	11	10	10	10	
Long- and medium-term loans	487	463	463	635	
Amortization payments	259	344	542	-409	220
Short-term liabilities	226	-77	231	-217	
Official transfer payments	-2	-3	8	-	
(b) Domestic non-compensatory capital or assets	-91	64	-210	-254	
(c) Errors and omissions	6	8	-2	116	
(d) Allocation of SDRs	59	51	-	-	
(e) Net compensatory financing (minus sign signifies an increase)	-280	49	-665	-32	1 100
Balance-of-payments loans, trade arrears, IMF loans, and other liabilities of the monetary authorities	-	286	218	77	310
Amortization payments	-120	-25	-4	-132	
Foreign exchange reserves (minus sign signifies an increase)	-84	-261	-821	57	623
Gold reserves (minus sign signifies an increase)	-17	65	-	-13	108
SDRs (minus sign signifies an increase	-59	-16	-58	-20	60

Source: 1970-1974: International Monetary Fund, *Balance of Payments Yearbook*, vol. 27; 1975; CEPAL, on the basis of preliminary official data.
[a] Provisional figures.

exports to only two-third those of 1974 and less than one-third those of 1973 (see table 36) Viewed from another angle, the sharp drop in the value of meat exports may be explained by the substantial fall in prices (which were about 30 per cent lower than in 1974) and the decline in volume from 491,000 tons in 1973 to 244,000 in 1974 and 228,000 tons in 1975.

Table 36

ARGENTINA: VALUE AND BREAKDOWN OF EXPORTS OF GOODS

	Millions of dollars at current prices (FOB)				*Percentage breakdown*		*Annual growth rates*		
	1970	*1973*	*1974*	*1975* [a]	*1970*	*1975*	*1971–1973*	*1974*	*1975* [a]
Main export products									
Meat and offal	441	790	440	280	24.9	9.3	21.4	– 44.3	– 36.4
Cereals	509	864	1 342	1 140	28.7	38.0	19.3	55.3	– 16.3
Skins and hides	97	121	98	70	5.5	2.3	7.6	– 19.0	– 28.6
Wool, hair and horsehair	87	194	109	110	4.9	3.7	30.6	– 43.8	1.0
Other agricultural products	383	650	1 025	690	21.6	23.0	19.3	57.7	– 32.7
Non-agriculture-based industrial products	256	647	916	710	14.4	23.7	36.2	41.6	– 22.5
Total	*1 773*	*3 266*	*3 930*	*3 000*	*100.0*	*100.0*	*22.6*	*20.3*	*– 23.7*

Source: National Institute of Statistics and Censuses.
[a] Provisional figures.

Cereal exports, which in 1974 had reached a record level of 1,340 million dollars, dropped in 1975 to a little over 1,100 million dollars. This fall was entirely due to the 25 per cent drop in volume brought about by the smaller harvest of the 1974/1975 season. On the other hand, their unit value rose, mainly because of a change in composition, with a decline in the relative importance of exports of the cheaper cereals (maize and sorghum).

Wool exports rose by 45 per cent in volume, but a fall in prices of about 30 per cent caused their value to remain at the 1974 level.

Exports of other agricultural products also dropped considerably, from a little over 1,000 million dollars in 1974 to approximately 700 million dollars in 1975. This decline was mainly the result of the smaller volume of sugar exports which fell by 70 per cent, and the drops in both the volume and the price of oil exports.

Finally, exports of non-agricultural manufactures in 1975 lost a large part of the great increase of 40 per cent which they had achieved in 1974 (see table 36).

(ii) *Imports.* In 1975 the value of imports of goods rose to almost 3,500 million dollars, which was 10 per cent above the level of the previous year. All the main groups played their part in this rise, with the sole exception of petroleum imports, whose value –which had tripled in 1974– fell by 12 per cent in 1975 (see table 37).

Like the product, the average value of imports declined throughout the year. During the first half of 1975, the value of imports was similar to that in the previous six-month period, with a monthly average of 350 million dollars, but in the following six months this average fell to about 315 million dollars, particulary because of the lower value of imports of metal products and capital goods.

(b) *Financing of the balance-of-payments deficit*

The current account deficit of 1,320 million dollars was covered by net external financing of 220 million dollars, drawings on reserves in the amount of around 800 million, and compensatory movements to the value of 300 million dollars (see table 35).

The net inflow of non-compensatory capital totalling 220 million dollars stemmed primarily from short-term liabilities of the private sector, contracted through "swaps" which, with a net inflow of approximately 650 million dollars, offset the reduction in the import debt by about 350 million dollars. In addition, loans for nearly 50 million dollars were received from the Inter-American Development Bank.

Table 37

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

	Millions of dollars at current prices				*Percentage breakdown*		*Annual growth rates*		
	1970	*1973*	*1974*	*1975* [a]	*1970*	*1975*	*1971–1973*	*1974*	*1975*
Main imported products									
Petroleum and fuels	*82*	*172*	*536*	*470*	*4.8*	*11.8*	*28.0*	*211.6*	*– 12.3*
Consumer goods and Intermediate goods	*1 207*	*1 612*	*2 578*	*2 930*	*71.3*	*73.3*	*10.1*	*60.0*	*13.7*
Chemical and pharmaceutical products	137	199	453	480	8.1	12.0	13.3	127.6	6.0
Paper and cardboard	99	107	185	210	5.9	5.2	2.6	72.9	13.5
Common metals	347	539	789	960	20.5	24.0	15.8	46.4	21.7
Others	624	767	1 151	1 280	36.8	32.0	7.1	50.1	11.2
Capital goods	*405*	*452*	*521*	*600*	*23.9*	*15.0*	*3.7*	*15.3*	*15.2*
Total	*1 694*	*2 235*	*3 635*	*4 000*	*100.0*	*100.0*	*9.7*	*62.6*	*10.0*

Source: National Institute of Statistics and Censuses.
[a] Provisional figures.

As regards movements of compensatory capital, the International Monetary Fund provided 135 million dollars to compensate for export fluctuations and 90 million dollars from the oil facility. Finally, net borrowing from foreign banks came to approximately 75 million dollars.

(c) *Exchange rate policy*

The mechanisms used to adjust the exchange rates varied in the course of 1975. After remaining fixed throughout 1974 at a rate of 5.00 pesos per dollar for commercial transactions and 9.98 pesos for financial operations, the exchange rates were radically altered in March 1975, by 100 per cent for the commercial dollar and approximately 50 per cent for the financial dollar (see table 38).

This devaluation marked the beginning of the period in which the way the different policy instruments were used for the external sector was varied. Until then, the exchange rate had been kept fixed so as not to affect the prices and income policy, but at the same time fiscal machinery had been used to modify the exchange rate actually used by exporters in a attempt to keep exports in a competitive position. However, the rise in domestic costs, the situation of the international market, and the fiscal deficit undermined the usefulness of the fiscal machinery as a way of promoting exports, and moreover the maintenance of fixed exchange rates which were increasingly far from the level of domestic prices stimulated imports at a time when they should have been reduced because of the external sector difficulties.

The situation thus called for new measures. At the beginning of June there was a further considerable adjustment of the exchange rate which raised the commercial rate by 160 per cent and the financial rate by approximately 100 per cent. At the same time, a special exchange rate was fixed for tourism which was 37 per cent above the financial market rate. This was combined with the requirement of prior deposits for imports equivalent to 100 per cent of their value. However, the great impact of the new policy on the level of domestic prices and the lack of improvement in the external sector made it necessary to carry out a further devaluation in the following months, when the commercial rate was raised 8 per cent and the financial rate 18 per cent.

Table 38

ARGENTINA: EXCHANGE-RATE AND PRICE MOVEMENTS [a] 1975

Period (end of month)	Exchange rates [a] (pesos per dollar)				Deflated exchange-rate indexes [b]			
	Exports		Imports	Financial Transactions	Exports		Imports	Financial Transactions
	Traditional	Non-Traditional			Traditional	Non-Traditional		
January [c]	8.67	9.95	8.67	9.98	100.0	100.0	100.0	100.0
February	8.67	9.95	8.67	9.98	88.8	88.8	88.8	88.8
March	13.04	15.08	13.04	15.10	126.2	127.2	126.2	126.9
April	13.04	15.08	13.04	15.10	121.6	122.5	121.6	122.3
May	13.04	15.08	13.04	15.10	115.5	116.4	115.5	116.2
June	26.00	26.00	26.00	30.09	160.5	139.8	160.5	161.4
July	28.08	35.45	28.08	35.50	131.2	144.3	131.2	144.1
August	34.45	44.20	34.45	63.00	140.0	156.1	140.0	221.9
September	36.40	46.70	36.40	66.50	130.5	145.9	130.5	207.2
October	37.40	48.30	40.38	68.80	124.0	132.9	132.9	196.7
November	52.80	52.80	52.80	75.10	158.0	137.7	158.0	195.2
December	60.80	60.80	60.80	86.40	166.2	144.8	166.2	205.1

Source: Banco Central de la República Argentina; National Institute of Statistics and Censuses.
[a] Exchange rates for the negotiation of foreign currencies on the markets for commercial and financial transactions.
[b] Deflated by the wholesale price index for each month.
[c] These exchange rates remained fixed throughout 1974.

In August the exchange rate policy was again modified, and a system of periodic devaluations was adopted with a view to adjusting the exchange rates to variations in the levels of domestic prices. Between then and the end of the year there were eight devaluations about every two weeks on average, involving changes in the rates of between 3.5 per cent and 4.5 per cent each time.

Parallel with the policy of modifying the nominal exchange rates there were also variations in the exchange rates actually received by exporters and actually paid to importers. These variations were effected through fiscal machinery (modifications in the repayments and deductions in respect of exports) and through transfers of operations between the exchange markets. Thus, the imports carried out through the commercial market were gradually transferred to the financial market and the ensuing financial transactions were transferred in turn to a special financial market. In sum these measures tended to increase the cost of imports, since the average exchange rates for the negotiation of foreign currency in respect of imports rose in the course of the year by over 500 per cent. Despite this, the balance-of-payments difficulties still made it necessary to impose limits on imports, by requiring importers to present lists of their future needs.

4. *Prices, wages, money and fiscal trends*

(a) *Prices and wages*

(i) *Price movements.* In 1975 inflation reached an unprecedented level. Consumer prices rose 335 per cent between the end of 1974 and December 1975, and construction costs and wholesale prices rose even more (see table 39).

The biggest rises occurred in the last seven months of the year, although even in this period there were great variations in the monthly inflation rate. Thus, up to May wholesale prices rose 38 per cent, while during the June-August

Table 39

ARGENTINA: EVOLUTION OF DOMESTIC PRICES
(Annual growth rates)

	1971	*1972*	*1973*	*1974*	*1975*
Variations from December to December					
Consumer price index [a]	*39.1*	*64.2*	*43.8*	*40.1*	*335.0*
Food	42.3	66.2	36.1	33.3	349.4
Wholesale price index [a]	*48.6*	*76.8*	*30.8*	*36.1*	*348.7*
Imported products	50.3	89.3	47.2	41.3	545.3
Domestic product	48.4	76.3	30.0	35.9	337.5
Agricultural products	...	...	...	21.5	299.0
Non-agricultural products	...	...	...	42.9	353.5
Construction costs	...	...	...	*58.2*	*376.9*
Average annual variation					
Consumer price index	*34.7*	*58.5*	*60.3*	*24.2*	*182.8*
Food	41.7	63.2	55.1	15.1	187.7
Wholesale price index	*39.5*	*77.0*	*50.1*	*20.0*	*192.5*
Imported products	23.1	100.6	62.8	36.9	257.5
Domestic products	40.3	76.0	49.5	19.2	188.8

Source: National Institute of Statistics and Censuses.
[a] 1960 = 100.

quarter they rose 119 per cent and in the final five months of the year they rose 48 per cent. Because of this acceleration of the inflationary process, the average annual rises in the consumer price index (183 per cent) and in the wholesale price index (193 per cent) were much lower than those shown by the two indexes between December 1974 and the end of 1975.

The rise in the prices of imported products was particularly high. Due to the large successive devaluations of the peso and the rise in their unit value, imports rose 545 per cent, thus greatly exceeding the increase of rather less than 340 per cent recorded in the prices of domestic products. Within the latter, the prices of manufactures rose considerably more than those of agricultural goods (see table 39). Thus the price ratio between the agricultural and non-agricultural sectors, which had reached a maximum level of 127 in 1972, dropped to less than 85 in 1975.

(ii) *Prices policy.* The Government had been trying to influence the movement of prices through direct intervention machinery since 1973. Towards the end of 1974, some controls were made more flexible so as to regularize marketing channels and improve company profitability, but price controls were once again strengthened in March 1975, after a big devaluation of the peso and a general wage and salary increase.

Subsequently, the authorities which took over the running of the economy in June considered that there was a distortion of relative prices, the main manifestations of which were the low levels of public service tariffs and of the exchange rate. They therefore adopted a policy of drastic readjustments, including devaluation of the peso by 100 per cent, rises of between 40 per cent and 70 per cent in the tariffs for public services provided by State enterprises, and an increase of about 175 per cent in the price of gasoline. At the same time, the subsidies for some articles of mass consumption were reduced, the controls on the marketing of livestock were raised, and the nominal interest rates in the banking system were raised by approximately 50 per cent.

These increases rapidly led to rises in prices in the private sector, this process being made easier by the lifting of price controls. The new policy also led to the postponement of the final decisions in connexion with the wage negotiations which had begun in April and were to have been concluded at the beginning of June. As a result, by the time the new agreements were reached the level of prices was much higher and wage expectations were strongly inflationary. Consequently, the wage rises agreed on were between 130 and 200 per cent, whereas earlier it had been hoped that the maximum would be aboud 45 per cent.

Furthermore, the high rate of inflation in the June-August quarter quickly eroded the effect of the adjustments made in June in the exchange rate and the tariffs of the public service enterprises. Thus, already by September the new policy seemed to have ceased to have any effect. For example, the prices and tariffs of the public enterprises, which, according to studies by the Corporación de Empresas Nacionales, increased by 36 per cent in constant terms in June, fell 30 per cent in real terms in the following three months.

In September the prices policy was changed once again, with the establishment of a system of gradual adjustments, aimed at maintaining the real prices and tariffs of the public enterprises, stimulating the agricultural sector and encouraging exports. Thanks to this, in the last two months of the year the prices and tariffs of the public enterprises rose 5 per cent in real terms (or, if gasoline is excluded, by over 20 per cent). At the same time a system of periodical adjustments was established for wheat so as to maintain its real value and there were 8 small devaluations of the peso.

(iii) *Wages policy and movements.* During 1975 wages were adjusted three times. In March, a flat increase of 400 pesos was decreed for all workers in the private and public sector, which naturally tended to improve the relative position of the lowest-paid workers.[36]

In April, negotiations began in the management-union commissions in which each trade union sector negotiated with the corresponding entrepreneurial sector. As stated above, the agreed increase was between 130 per cent and 200 per cent. In many cases, however, and particularly in the public sector, payment of the raises was postponed because of lack of funds.

Finally, in November, a further increase of 1,500 pesos was decreed. This did not include public employees. In some unions there were adjustments estimated at 40 per cent above this amount.

The adjustments made do not seem to have managed to maintain the purchasing power of wages. According to preliminary estimates, in 1975 the real value of agreed basic wages dropped almost 4 per cent in the case of skilled industrial workers and nearly 6 per cent in the case of unskilled workers. Furthermore, because of the high and unstable rate of inflation and the sporadic nature of the wage adjustments, the purchasing power of wages fluctuated greatly in the course of the year (see table 40).[37]

(b) *Fiscal and monetary trends*

In 1975 there was a further accentuation of the enormous deficit shown by the fiscal accounts the year before. The proportion of total Government expenditure financed by current income –which in 1974 had only amounted to 50 per cent– fell in 1975 to 27 per cent (see table 41).

This rise in the deficit was the result of the combined effect of a drop of over one-third in real tax income and an increase of approximately 25 per cent in real public expenditure. The first of these stemmed from the lack of flexibility of the taxation system in periods of steep price rises and the lower degree of compliance with tax obligations.

Altogether, tax income rose 72 per cent, which was much less than the average rise in consumer prices (183 per cent). The trend in direct taxation was particularly unfavourable, since income from this source dropped even in current values. This was the result of the sharp drop in tax income

[36] This represented a rise of approximately 25 per cent in the wages of unskilled workers.

[37] It should be remembered, however, that the figures contained in table 40 are only a partial indicator of the movement of real wages actually received. The computation of the indexes of average wages is strongly dependent on the sample of industrial branches used, since the raises contained in the agreements in each branch were of very different sizes. Furthermore, as already pointed out, in 1975 there were additional wage increases in some cases which were not covered by the agreements. Finally, it should be taken into account that the gap between the moment when salary increases are granted and the time when they are actually received becomes extremely important when the monthly rates of inflation are as high as those recorded in Argentina in 1975.

Table 40

ARGENTINA: EVOLUTION OF WAGES AND SALARIES
(Annual growth rates)

	1971-1973	1974	1975 I	1975 II	1975 III	1975 IV	1975 Whole year
Nominal wages [a]							
Unskilled industrial worker	52.2	35.8	56.3	83.4	229.0	255.6	162.1
Skilled industrial worker	50.4	31.5	48.3	85.3	251.6	273.4	170.4
Real wages [b]							
Unskilled industrial worker	0.9	9.2	– 2.3	– 7.0	3.3	– 14.2	– 5.6
Skilled industrial worker	– 0.2	5.8	– 7.3	– 6.4	10.4	– 10.1	– 3.8

Source: CEPAL, on the basis of data of the National Institute of Statistics and Censuses.
[a] Basic wages fixed by agreement, including bonuses which were imputed to June and December.
[b] Average real monthly wages.

from wealth taxes –partly due to extension of the payment deadline– and the also very marked drop in the income from profits tax. The revenue from the regularization of tax payments also fell to 40 per cent of the previous year's amount, due to the fact that only the taxes corresponding to the deferred payments from the regularization of January 1974 were collected.

Although the revenue from indirect taxes almost doubled in current values, it fell by almost 30 per cent in real terms. The revenue from taxes on foreign trade followed a similar pattern: it rose 108 per cent in current values but fell 26 per cent in real terms.[38] On the other hand, non-tax resources stemming from the sale of goods and services by the Government increased 14 per cent in real terms, mainly because of the adjustments made in the tariffs for public services.

In contrast with the drop in current income in real terms, current expenditure rose sharply: in current values, its rate of growth was three times that of income, and in real terms it increased by 25 per cent (see table 41).

This growth was primarily due to the extraordinary increase in transfers to the provincial authorities, the Municipality of Buenos Aires and public enterprises, which grew more than five-fold. This growth reflected the growing financial difficulties faced by all these bodies as a result of the increase in their staff, the 6 per cent drop in the real income of public enterprises, and the fall in provincial and municipal tax revenues caused by the lower yield of direct taxes and the suppression of the tax on profit-making activities.[39]

As a result of the divergent paths followed by current income and expenditure, the current account deficit, which had already risen by 80 per cent in 1974, almost sextupled in 1975. This, together with a rise of 280 per cent in capital expenditure, caused an equally enormous rise in the fiscal deficit, which was equivalent to 73 per cent of total Government expenditure and 11 per cent of the gross domestic product.

Barely one-tenth of this deficit was covered by the placement of bonds, primarily Readjustable National Bonds. The greater part of the remaining deficit had to be financed through Central Bank credits, which in 1975 were almost five times bigger than in the previous year (see table 41).

[38] Because of the changes introduced in the exchange policy from the middle of 1975, the income from import duties and above all export duties was concentrated in the second half of the year, when 56 per cent of the former and 82 per cent of the latter was collected.

[39] This tax was eliminated when the national value-added tax was introduced.

Table 41

ARGENTINA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Current values (millions of pesos)				Annual growth rates		
	1970	*1973*	*1974*	*1975*	*1971–1973*	*1974*	*1975*
1. *Current income*	*7 019*	*20 183*	*30 503*	*57 071*	*42.2*	*51.1*	*87.1*
Tax revenue	6 059	16 791	27 514	47 447	40.5	63.9	72.4
Direct	2 327	4 027	7 073	6 419	20.1	75.6	– 9.2
Indirect	2 291	6 709	12 274	24 027	43.1	82.9	95.8
From taxes on external trade	1 440	6 055	8 167	17 001	61.4	34.9	108.2
Non-tax revenue	960	3 392	2 889	9 624	52.3	– 11.9	222.0
2. *Current expenditure*	*5 913*	*31 782*	*51 505*	*178 630*	*75.1*	*62.5*	*246.8*
Wages and salaries	3 153	13 067	18 501	46 645	61.1	41.6	152.1
Goods and non-personal services	581	2 479	3 389	7 643	40.6	36.7	125.5
Interest on the public debt	257	1 505	3 522	10 673	80.3	134.0	203.0
Current transfers	1 892	14 416	23 555	108 063	97.0	63.4	358.8
To the public sector	1 194	11 418	18 385	93 533	112.0	61.0	408.7
To the private sector	698	2 998	5 170	14 530	62.7	72.4	181.0
Others	30	315	2 538	5 606	118.7	705.7	120.9
3. *Saving on current account* (1 – 2)	1 105	– 11 599	– 21 002	– 121 559	– 225.3	81.1	478.8
4. *Capital expenditure*	*2 073*	*8 179*	*9 292*	*35 091*	*57.9*	*13.6*	*277.6*
Real investment	542	1 890	2 283	6 694	51.6	20.8	193.2
Other capital expenditure [a]	1 531	6 289	7 009	28 397	60.1	11.5	305.1
5. *Total expenditure* (2 + 4)	*7 986*	*39 961*	*60 797*	*213 721*	*72.5*	*52.1*	*251.5*
6. *Fiscal deficit (or surplus)* (3 – 4)	– 967	– 19 778	– 30 294	– 156 650	173.5	53.2	417.1
7. *Net placement of long-term securities*	374	634	2 887	17 458	19.2	355.4	508.0
Domestic public debt	93	1 992	2 579	18 166	177.7	29.5	604.4
External public debt	281	– 1 358	308	708	– 180.0	122.7	– 329.9
8. *Treasury gap* (6 + 7)	*– 593*	*– 19 144*	*– 27 407*	*– 139 192*	*– 218.5*	*– 43.2*	*– 407.9*
9. *Financing of deficit*	*593*	*19 144*	*27 407*	*139 192*	*218.5*	*43.2*	*407.9*
Central bank	502	14 892	24 093	119 226	209.5	61.8	394.9
Consolidated fund	161	2 788	3 670	19 500	158.7	31.6	431.3
Other	– 70	1 464	– 355	466	– 179.8	– 124.2	231.3

Source: Tesorería General de la Nación.
[a] Excluding amortization of public debt.

Largely because of this enormous growth of credit granted to the Government, and despite the damping effects generated by the great fall in international reserves, the money supply grew by 180 per cent between the end of 1974 and December 1975 (see table 42). This was almost three times the rate of the previous year, but was much lower than the rise of approximately 340 per cent in the wholesale and consumer price indexes recorded in the same period.

Table 42

ARGENTINA: MONETARY POSITION
(Millions of pesos)

	Balance at end of				Annual growth rates		
	1970	*1973*	*1974*	*1975*	*1971–1973*	*1974*	*1975*
1. *Money*	*17 958*	*67 946*	*112 198*	*315 784*	*55.8*	*65.1*	*181.5*
Currency outside banks	7 617	26 406	43 184	128 910	51.3	63.5	198.5
Demand deposits	10 341	41 540	69 014	186 874	58.9	66.1	170.8
2. *Factors of expansion*	*28 169*	*112 552*	*174 609*	*421 865*	*59.0*	*55.1*	*141.6*
Foreign assets (net)	1 297	7 961	8 326	– 4 899	83.1	4.6	– 158.8
Domestic credit	26 872	104 591	166 283	426 764	57.2	59.0	156.7
Claims on government (net)	8 137	86 215	66 636	216 601	64.5	84.0	225.1
Claims on official entities	965	5 301	8 477	17 542	76.4	59.9	106.9
Claims on private sector	17 770	63 075	91 170	192 621	52.5	44.5	111.3
3. *Factors of absorption*	*10 211*	*44 606*	*62 411*	*106 081*	*63.5*	*39.9*	*70.0*
Quasi-money (savings and time deposits)	7 991	36 550	56 914	104 891	65.0	55.7	84.3
Other items (net)	2 220	8 056	5 497	1 190	53.7	– 31.8	– 78.4

Source: Banco Central de la República Argentina.

The great rise in the speed of circulation of money reflected the public tendency to spend money rapidly as the rate of price rises accelerated and inflationary fears increased. The large drop in quasi-money in real terms, for its part, was primarily a response to the payment of very negative real interest rates on savings and time deposits. This led to a transfer of funds to securities such as Government bonds which were indexed with the wholesale price level and offered suitable protection against inflation.

BAHAMAS

1. *The overall picture*

Although there are no official figures for the gross domestic product of the Bahamas, a wide range of statistics are available which provide indicators of the trends of production in various sectors.

The economy of the Bahamas is largely based on the service sectors. The data on the structure of the economically active population obtained from the 1970 census indicate that over 70 per cent of the employed population works in these sectors, mainly in hotels and restaurants, public administration, commerce and transport and communications, all of which are closely connected with the development of tourism. In the goods-producing activities, construction takes the lead, followed by agriculture and manufacturing.

From another point of view it could be said that the main feature of the economy is that it is oriented towards the outside. External trade, which consists mainly of imports of crude petroleum and re-exports of refined petroleum products is very important to the economy. At the same time, the increase in tourism has helped to accelerate the growth in investment and construction and has generated considerable increases in government income. The Government's revenue is heavily dependent on import duties, which represented between 55 and 60 per cent of total revenue each year during the period 1970-1975.

The refining of crude petroleum is the predominant manufacturing activity, although the production of cement and hormones has also become important. Agricultural activities, including fishing and forestry, lost their predominance long ago, but special emphasis is now being placed on the development of this sector. Because of the favourable tax and banking regulations in the Bahamas, the country has become a very important international finance centre and many commercial banks of the United States and Europe use the Bahamas as a base for their operations in the Eurodollar market.

The level of external trade has increased considerably: exports rose to approximately 1,440 million dollars in 1974 and imports to 1,900 million dollars, and the indications are that these figures were surpassed in 1975. The balance-of-payments was generally favourable between 1970 and 1974 and it is estimated that the same was true in 1975.

The recent petroleum crisis and world inflation have had a big influence in the slackening of tourism and have clearly brought out the need to diversify the economy. The current economic policy has consequently accorded priority to the development of the agricultural sector. However, since the country has natural advantages for tourism, continuing efforts are being made to encourage the development of this activity. After increasing rapidly during the 1960s and the period 1970-1973, tourism expanded more slowly in the following two years, although the total expenditure by tourists at current dollar prices continued to increase. This trend had a detrimental effect on the development of the constrution sector during the period 1974-1975.

In recent years, mainly because of the application of price control measures, prices have risen less than in the other Commonwealth Caribbean countries and only a little more than in the United States.

2. *Sectoral developments*

(a) *Tourism*

As already noted, tourism is of fundamental importance to the Bahamas and has been the main catalyst of economic growth since the beginning of the 1960s. Although this sector is largely foreign owned, the national economy has derived some benefits in terms of direct and indirect employment opportunities and inflows of foreign exchange. Tourism has also stimulated the development of other sectors such as construction, transport and commerce.

In 1970, 23 per cent of the economically active population (70,000 persons) worked in wholesale and retail trade and in restaurants and hotels. Tourism also generates employment indirectly in the electricity, gas and water services and in transport and communications. In 1974 expenditure by tourists was nearly 300 million dollars, compared with total government revenue approaching 120 million dollars and national exports valued at 1 000 million dollars. The number of tourists visiting the country increased from about 368,000 in 1961 to 1.320,000 in 1975. Stopover tourists –as distinct from cruise tourists–[40] constitute the most important category from the point of view both of the number of visitors and of average expenditure. Stopover tourists represent approximately 70 per cent of arrivals and account for over 90 per cent of the total expenditure by tourists (see table 43). From 1973 onwards the number of tourists began to diminish, although this decline has been offset to some extent by the increase in tourist expenditure due to price increases and the prolongation of the average length of stay.

Tourism depends to a large extent on the flow of visitors from the United States; thus, 73 per cent of the stopover tourists came from that country in 1975. The number of United States tourists has declined in recent years, however, and arrivals from other countries have not been increasing fast enough to offset the reduction (see table 44).

The construction of hotels made rapid progress in the 1960s and the number of hotel rooms increased from 2,860 in 1961 to over 10,500 in 1970. Since then the increase has been more moderate, with an average annual addition of 250 rooms, and this figure declined even more as from 1974.

Recently, the tourism industry has been confronted with many problems. The energy crisis and the consequent rise in the prices of petroleum products have affected world travel, and these

[40] Cruise tourists are accommodated on the cruise ship during their visit.

Table 43

BAHAMAS: SELECTED DATA ON TOURISM

	1970	*1971*	*1972*	*1973*	*1974*	*1975* [a]
Total number of visitors (thousands)	1 243[b]	1 397[b]	1 443[b]	1 439	1 316	1 324
Stopover visitors	891	961	1 036	977	929	903
Cruise visitors [c]	352	436	407	462	387	421
Stopover visitors						
Average length of stay (days)	5.9	5.9	6.2	6.5	7.0	6.9
Daily expenditure (dollars)	41	45	42	44	48	...
Total expenditure (millions of dollars)	216	256	267	281	311	...
Cruise visitors						
Expenditure per visit (dollars)	48	50	45	45.0	45.0	...
Total expenditure (millions of dollars)	17	22	18	21.0	17.0	...
Total expenditure by all types of visitors (millions of dollars)	233	278	286	302	328	...
Hotel rooms available at end of year (thousands)	...	10.8	11.2	11.6	11.6	...
Average rate of occupation of hotel rooms (per cent) [d]				59	64	

Sources: Department of Statistics of the Bahamas, *Statistical Abstract,* 1972-1973; *Ministry of Tourism of the Bahamas, Annual Report on Tourism,* 1974; and CEPAL calculations.

[a] Provisional figures.
[b] Based on old series
[c] Cruise visitors and accommodated on the cruise ships.
[d] Nassau.

Table 44

BAHAMAS: NUMBERS OF STOPOVER VISITORS BY COUNTRY OF RESIDENCE
(Thousands)

Country of residence	*1972*	*1973*	*1974*	*1975*
United States of America	861	793	704	662
Canada	94	113	144	151
Europe	34	43	53	59
United Kingdom	...	...	12	15
Federal Republic of Germany	...	...	21	23
Other countries	27	28	28	31
Total	*1 015*	*977*	*929*	*903*

Source: Ministry of Tourism of the Bahamas, *Annual Report on Tourism,* 1974; CEPAL calculations.

factors, together with the monetary situation and the economic recession and inflation in the United States and Canada, have led to a decline in the number of visitors.

(b) *Construction*

The construction sector has made a very important contribution to the economy of the Bahamas, although its growth seems to have been flagging in recent years. According to the 1970 population census, about 12 per cent of the economically active population was engaged in construction at that time.

The figures in table 45 show the gross expenditure on construction, the trends in this activity, and the impact of government activities and tourism –some of the main factors which influence this sector. The value of the buildings completed in 1971 was just under 22 million dollars which was the highest annual figure during the period 1971 to 1974. It is estimated that the value of completed buildings in 1975 will be much the same as in 1974, when the figure was almost 18 million dollars.

Hotel construction was a determining factor in the activities in this sector, and its decline during the 1970s had a considerable effect on the sector. It may be noted that construction activities depend heavily on imports for the materials used (except cement which is produced in the country).

Because of the stagnation in hotel construction, the Government has made efforts to encourage the construction of private dwellings, especially for the low income group. For this purpose the Housing Ministry guarantees mortgages to those building houses and provides the infrastructure of roads, water mains and sewers in housing developments.

(c) *Agricultural activity*

Unlike most of the Caribbean economies, that of the Bahamas is not based on agriculture, although at one time this activity was very important. The growth of the agricultural sector has been restricted by the scarcity of good agricultural land, the insufficient and erratic rainfall, the lack of water for irrigation and the low level of technology. The Government provides active assistance in the form of research and training activities, subsidies for the purchase of fertilizers and other supplies, and the imposition of high customs tariffs on imports of agricultural products. This support is consistent with the plans in operation for the diversification of the economic structure of the country through the

Table 45

BAHAMAS: SELECTED DATA ON CONSTRUCTION ACTIVITY

	1971	*1972*	*1973*	*1974*	*1975* [a]
Public expenditure (millions of dollars) [b]	14.5	13.2	13.9	14.6	6.6
Number of buildings completed [c]	375	283	321	411	163
Value of buildings completed (millions of dollars) [c]	21.8	10.7	15.6	17.9	8.8
Private homes	...	...	10.6	11.3	3.8
Commercial buildings	...	...	5.0	3.5	2.9
Public buildings	...	...	–	3.2	2.1
Tourist accomodation (number of rooms completed)	325	380	334	51	...

Sources: Central Bank of the Bahamas, *Annual Report*, 1974; *Quarterly Review*, vol. 2, N° 1, September 1975; Department of Statistics of the Bahamas, *Statistical Abstract*, 1972/1973, and *Quarterly Statistical Summary*, second quarter of 1975.

[a] Data for the period from January to June.
[b] Includes expenditure on roads, public works and water supply.
[c] Data for New Providence and Freeport only.

expansion and improvement of the agricultural sector.

The size of the agricultural labours force has been declining: according to the 1970 population census, less than 4,800 persons (representing 6.9 per cent of the total labour force) were engaged in agricultural work that year, compared with 5,900 persons (11.3 per cent of the labour force) in 1963. There are two main groups of agricultural enterprises: (i) those which operate on a large scale and produce vegetables for the United States market and milk products for the domestic market, and (ii) the small farmers, engaged mainly in subsistence agriculture, who sell a limited part of their production to the markets of the main population centres of the country.

Although the sector produces a wide variety of fruit, vegetables and root crops, production in most of these categories is relatively low. The most important crops are tomatoes, citrus fruits and bananas. It is estimated that the approximate value of agricultural production was less than 2 million dollars in 1973 and in 1974. Livestock production has fluctuated somewhat since the 1960s but has maintained a slight upward trend.

Forestry production is mainly destined for export and at various times it has consisted of sawn wood, cascarilla bark and especially wood pulp, exports of which amounted to 5.2 million dollars in 1972. However, since then the value of exports by this sector has been on the decline.

Fishing activities have traditionally been carried out in shallow waters or banks; the main catch is crawfish, which are exported mainly to the United States, and scalefish and conch, which are consumed in large quantities in the islands. The fishing and export of crawfish is restricted exclusively to citizens of the Bahamas; these exports amounted to 500,000 dollars in 1970 and increased to 4.1 million in 1974, but they seem to have diminished in 1975.

(d) *Government*

Government income and expenditure increased every year during the period 1970 to 1975 except in 1971 when both fell by aproximately 5 per cent. Government operations have frequently shown a deficit which has made it necessary to resort to loans, mainly from domestic sources (see table 46).

Total Government income increased from just over 81 million dollars in 1970 to approximately 134 million in 1975. It comes largely from import duties (including the "inland taxes" on cigarettes, radio and television sets, gasoline and fuels) and from taxes on gambling and tourism. Import duties yield the highest revenue, although their share in the total revenue fell from an average of 60 per cent in 1970-1974 to an estimated 54 per cent in 1975. It is estimated that non-tax revenue, which represents less than 15 per cent of the total, increased by about 33 per cent in 1975 after having risen 52 per cent in the previous year. There is no income tax in the Bahamas.

Total Government expenditure increased from 97 million dollars in 1970 to an estimated 158 million dollars in 1975, i.e., by more than 62 per cent. Although current expenditure constitutes an overwhelming proportion of the total, its share fell to about 75 per cent in 1974 because capital expenditure increased by 162 per cent in that year. It is estimated that capital expenditure fell by more than 25 per cent in 1975, while current expenditure increased by 22 per cent. Government expenditure is concentrated on education, health, tourism and public works including the supply of drinking water. Wages account for around 55 per cent of total current expenditure.

3. *The external sector*

In the 1960s economic activity increased through the export of non-factor services, especially those linked with tourism, while during the current decade exports of goods have become more important. Other factors contributing to the preponderance of the external sector are the dependence on imports of food and manufactured goods, the need for foreign capital to finance the balance-of-payments deficit, and the importance of the Bahamas as a world financial centre, especially for the Eurodollar money market.

(a) *External trade*

Total exports rose from 90 million dollars in 1970 to 1,444 million dollars in 1974, and according to preliminary figures they reached 1,726 million dollars by the end of the third quarter of 1975. Exports of national products represent the major part of the total, although re-exports have acquired great significance since 1973. Total imports increased from almost 340 million to over 1,900 million dollars between 1970 and 1974 (see table 47).

Table 46

BAHAMAS: GOVERNMENT FINANCES
(Millions of dollars)

	1970	1973	1974	1975 [a]	Annual growth rates 1971–1973	1974	1975
Revenue	*81.3*	*108.8*	*120.6*	*133.9*	*10.2*	*10.9*	*11.0*
Tax revenue	73.1	96.2	101.5	108.4	9.6	5.5	6.8
Import duties	54.9	64.1	69.5	71.9	5.3	8.4	3.5
Non-tax revenue	8.2	12.6	19.1	25.5	15.4	51.6	33.5
Expenditure	*97.2*	*107.0*	*142.6*	*157.7*	*3.3*	*33.3*	*10.6*
Current expenditure	76.6	93.5	107.3	131.4	6.9	14.8	22.5
Capital expenditure	20.6	13.5	35.3	26.3	– 13.1	161.5	– 25.5
Net lending by the Government	1.5	– 6.1	2.9	...	...	...	...
Deficit (–) or surplus (+)	– 17.5	7.8	– 24.9	– 23.9	–	–	– 4.0
Domestic borrowing	11.5	24.0	35.3	...	27.8	47.1	–
Treasury bills	4.7	0.3	4.3	...	– 60.0	1 333.3	–
Local loans	6.8	23.7	20.0	...	51.7	– 15.6	–
Other Government securities	–	–	11.0	...	–	–	–
Foreign borrowing	0.1	8.4	5.3	...	–	– 36.9	–
Debt repayment	– 2.5	– 24.4	– 4.4	...	113.7	– 82.0	–
Domestic	– 0.6	– 22.5	– 1.5	...	235.0	– 93.3	–
Foreign	– 1.9	– 1.9	– 2.9	...	–	52.6	–
Other financing	7.3	– 9.1	– 8.6	...	–	– 5.5	–
Changes in the cash balance (decrease)	– 1.0	6.6	2.8	...	88.0	– 57.6	–

Source: Central Bank of the Bahamas, *Quarterly Review*, Vol. 2, Nº 1, September 1975.

[a] Preliminary estimates.

Table 47

BAHAMAS: BALANCE OF TRADE, 1970–1975
(Millions of dollars)

Year	Exports: Domestic products	Re-exports	Total	Total imports	Balance of trade
1970	...	...	90	337	– 248
1971	247	19	266	511	– 245
1972	316	28	344	485	– 141
1973	406	114	520	757	– 237
1974	1 008	435	1 444	1 906	– 462
1975 [a]	817	909	1 726	1 186 [b]	539 [b]

Sources: Department of Statistics of the Bahamas, *External Trade Statistics Report* (various issues) and *Summary Report of External Trade Statistics,* fourth quarter of 1974 and third quarter of 1975.

[a] January to September.

[b] Some imports of crude petroleum for the quarter June to September are excluded, so that imports are understated and the balance of trade overstated.

The deficit on the merchandise trade balance declined slightly between 1970 and 1973 and then rose markedly in 1974. The available information, which covers the period up to September 1975 does not give a clear picture of the situation over the year as a whole because it does not take into account certain imports of crude petroleum. When the data for the whole year is available it will probably show a deficit in the trade balance.

The main exports are petroleum and petroleum products, but the income obtained from the export of hormones, cement and rum is increasing. The main imports are also petroleum and petroleum products, and, because of the limited capacity of the country's agriculture and industry, a wide range of products is purchased abroad (see tables 48 and 49).

Table 48

BAHAMAS: VALUE OF PRINCIPAL DOMESTIC EXPORTS OF GOODS, 1970–1975
(Millions of dollars)

Products	*1970*	*1971*	*1972*	*1973*	*1974*	*January to September 1975*
Petroleum products	29	180	208	230	665	541
Hormones	4	16	28	22	38	19
Cement	11	13	15	17	15	5
Rum	3	5	11	16	14	9
Others	8	7	11	99	11	4
Total	*55*	*226*	*273*	*293*	*742*	*580*

Sources: Department of Statistics of the Bahamas, *External Trade Statistics Report,* 1970; *Statistical Abstract* 1972/1973, and *Summary Report of External Trade Statistics,* fourth quarter of 1974 and third quarter of 1975.

The main customer and the supplier of the Bahamas is the United States, which in 1974 received 83 per cent of the country's exports (compared with 68 per cent in 1970). The proportion of the total imports of the Bahamas supplied by the United States declined from 54 per cent in 1970 to about 12 per cent in 1974, mainly because of the rapid increase in petroleum imports from other countries (see table 50).

Imports from "Other British Commonwealth countries" and "Other countries" have been increasing, largely on account of crude petroleum imports from Nigeria in the first case and from other oil-producing countries of Africa and the Middle East in the second. In 1974, for example, the value of imports from Nigeria came to 320 million dollars and that of imports from Saudi Arabia to 490 million dollars; the combined imports from these two countries amounted to approximately 43 per cent of total imports for the year.

Trade relations with the CARICOM countries are not very close.[41] Although the value of the Bahamas' imports and exports within CARICOM increased during the period 1970-1974, its relative share declined (see table 50), while the partial figures available for 1975 show a decline in absolute terms. The main CARICOM countries with which the Bahamas trade are Antigua, Barbados, Belize, Jamaica and Trinidad and Tobago. The imports from CARICOM have ranged from crude petroleum and petroleum products from Antigua, Jamaica and Trinidad and Tobago to

[41]The Bahamas is a member of the Caribbean Community but not of the Caribbean Common Market.

Table 49

BAHAMAS: IMPORTS OF GOODS (CIF), 1970–1975
(Millions of dollars)

	1970	*1971*	*1972*	*1973*	*Rate 1971–1973*	*1974*	*Rate 1974*	*January-September 1975*
Food and live animals	48	50	51	60	7.7	66	10.2	44
Beverages and tobacco	13	14	15	14	1.6	13	– 4.8	7
Non-edible raw materials, except fuels	8	6	6	7	– 2.0	8	4.9	3
Mineral fuels and lubricants and related materials	59	288	257	463	98.6	1 592	243.8	1 022
Animal and vegetable oils and fats	1	1	1	1	16.0	1	33.2	1
Chemicals	20	23	22	28	11.5	38	35.2	26
Main manufactured goods	48	36	47	69	13.0	72	5.5	26
Machinery and transport equipment	78	51	48	73	– 2.4	69	– 5.8	31
Miscellaneous manufactured articles	61	41	36	41	– 12.8	45	10.3	24
Commodities and transactions not classified according to kind	2	2	2	2	14.1	2	– 1.9	3
Total	*337*	*511*	*485*	*757*	*30.8*	*1 906*	*151.7*	*1 186*

Source: Department of Statistics of the Bahamas, *External Trade Statistics Report*, (various issues).

Table 50

BAHAMAS: DISTRIBUTION OF TRADE
(Percentage)

	1970	*1971*	*1972*	*1973*	*1974*	*1975* [a b]
		Exports				
United States	67.5	74.2	81.7	80.4	82.7	74.9
Canada	5.9	6.3	4.4	1.9	2.0	5.6
United Kingdom	7.3	3.1	2.4	2.3	1.4	1.3
CARICOM countries	1.0	0.6	0.4	0.2	0.7	0.3
Other British Commonwealth countries	1.7	0.5	0.5	0.3	0.5	0.9
Other countries	16.6	15.2	10.6	14.9	12.6	18.0
Total	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*
		Imports				
United States	53.9	31.1	28.4	24.1	12.2	16.7
Canada	3.5	2.5	1.6	1.2	0.5	0.5
United Kingdom	13.6	8.4	12.9	7.1	2.4	1.8
CARICOM countries	1.3	1.0	1.1	1.2	1.4	0.1
Other British Commonwealth countries	4.4	15.4	16.2	16.6	16.8	20.0
Other countries	23.3	41.5	39.9	49.8	66.7	60.9
Total	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*

Sources: Department of Statistics and the Bahamas, *External Trade Statistics Report*, various issues; *Summary Report of External Trade Statistics*, fourth quarter of 1974 and third quarter of 1975.

[a] In the case of exports, the figures are for the period January-September.
[b] The figures for imports are not conclusive because they do not include petroleum imports.

wood pilings and treated lumber from Guyana and Belize. Exports have mainly consisted of re-exports of perfumes, cosmetics and toiletries.

(b) *The balance of payments*

Judging from the variations in the international reserves, it would appear that the balance of payments showed surpluses during the period 1970-1974, except in 1970 when the reserves fell by 5.0 million dollars. The average increases in the next four years amounted to 7 million dollars (see table 51), and there are indications that there was also a surplus in 1975.

Table 51

BAHAMAS: BALANCE OF PAYMENTS
(Millions of dollars)

	1970	*1971*	*1972*	*1973*	*1974*
Goods and Services	*– 42.6*	*– 1.4*	*91.9*	*– 50.2*	*– 48.1*
Petroleum	– 6.6	– 44.6	21.0	– 21.3	– 125.0
Other goods (FOB)	– 218.9	– 181.8	– 143.6	– 182.8	– 167.1
Freight and insurance	– 22.4	– 19.6	– 19.0	– 22.1	– 23.6
Travel	213.1	255.8	260.9	280.5	305.7
Transport	11.3	8.0	9.2	13.6	50.0
Interest, dividends and profits	– 27.5	– 27.7	– 46.2	– 113.2	– 74.4
Government	(– 1.5)	(– 1.4)	(– 1.4)	(– 1.7)	(– 3.4)
Banks and trusts	(– 13.0)	(– 9.0)	(– 15.6)	(– 58.2)	(19.5)
Local expenditure of offshare companies	25.0	27.0	30.9	31.0	34.6
Other Government expenditure	– 3.0	– 1.2	– 1.6	– 2.0	0.3
Insurance not corresponding to merchandise	– 1.4	– 2.4	– 2.7	– 3.4	...
Other services	– 12.2	– 14.9	– 17.0	– 30.5	– 48.6
Transfers	*– 15.7*	*– 17.1*	*– 17.5*	*– 17.6*	*– 17.1*
Private	– 18.1	– 19.6	– 19.9	– 20.0	– 19.0
Government	2.4	2.5	2.4	2.4	1.9
Capital	*78.0*	*92.8*	*78.0*	*90.6*	*118.1*
Private, long term	...	...	76.0	79.9	117.7
Property purchase	(. . .)	(. . .)	(. . .)	(33.4)	(17.6)
Loans and repayments	(. . .)	(. . .)	(9.2)	(1.9)	(7.0)
Other investment	(. . .)	(. . .)	(. . .)	(44.6)	(93.1)
Public corporation loans	5.2	6.0	3.8	4.2	– 2.0
Government loans	– 1.8	– 2.2	– 1.8	6.5	2.4
Authorized dealers (net)	...	*2.0*	*2.0*	*– 3.9*	*7.1*
Other financial institutions (net)	...	...	...	...	*6.3*
Errors and omissions	*– 24.7*	*– 69.4*	*– 147.0*	*– 11.7*	*– 59.8*
International reserves (+) = increase; (–) = decrease	*– 5.0*	*6.9*	*7.4*	*7.2*	*6.5*
Government	– 4.1	2.8	– 5.5	– 0.8	– 1.1
Central Bank	– 0.9	4.1	12.9	8.0	1.6
Reserve position in the IMF	–	–	–	–	6.0

Source: Central Bank of the Bahamas, *Quarterly Review*, vol. 1, Nº 5, 1975, and vol. 2, Nº 1, September 1975.

The current account has shown a deficit throughout the period, except in 1972. This can largely be attributed to the deficits on the merchandise trade balance and investment income outflows which are not completely offset by the inflow of resources from tourism, transport and the local expenditure of offshore companies.

The inflows on capital account have generally bee adequate to offset the deficit on current account. The net inflow of private long-term capital, which comprised the major proportion of total capital inflows, increased to nearly 120 million dollars in 1974, an increase of over 47 per cent compared with 1973.

4. *Prices*

During the last ten years the increases in domestic prices in the Bahamas have been more moderate than in most other Commonwealth Caribbean countries. During the period 1970-1975 prices rose ant an approximate annual rate of 8 per cent, although in 1974 and 1975 they increased at rates of 13 per cent and 10 per cent respectively (see table 52).

Table 52

BAHAMAS: PERCENTAGE CHANGES IN THE RETAIL PRICE INDEX
(November/December 1971 = 100)

Groups	*Weight*	*1971*	*1972*	*1973*	*1974*	*1975* [a]
All items	1.000	4.6	7.1	5.2	13.3	10.0
Food	.343	4.8	7.0	6.0	18.5	11.6
Housing	.250	4.6	10.0	2.8	8.0	6.2
Clothing and footwear	.101	3.7	11.2	4.3	12.6	12.2
Transport	.091	1.5	6.2	3.5	14.4	12.7
Health and personal care	.070	...	...	3.9	7.6	8.9
Recreation and reading	.044	...	...	11.9	10.5	10.3
Other goods and services	.101	4.7	4.7	8.1	10.6	9.6

Source: CEPAL, on the basis of official statistics.
[a] The figure for 1975 is the average for January to November.

During the period 1970-1975 the variations in the food index were a determining factor in the increases in the retail price index both because of their importance in the total (34 per cent) and because of the magnitude of the increases for such products (57 per cent over the period). The clothing and footwear index increased by about 52 per cent and the housing index by approximately 36 per cent during the same period.

The import prices have a decisive influence on domestic prices because the consumption of national products is relatively low. Thus, the lower rate of increase of prices in 1975 partly reflected the decline in the rate of inflation in the United States and other industrialized countries.

BARBADOS

1. *The overall picture*

The gross domestic product at current factor cost is provisionally estimated to have increased by 15 per cent in 1975 (see table 53). The increase appears to have been due to higher prices, however, since most of the major indicators of volume showed declines. Consequently, the GDP is estimated to have fallen in real terms for the

Table 53

BARBADOS: MAIN SHORT-RUN ECONOMIC INDICATORS

(Percentage annual growth rates)

	1971–1973	*1974*	*1975*
Gross domestic product (at current prices)	13.3	28.8	14.9
Value of exports	15.8	28.3	12.2
Value of imports	13.2	22.1	5.8
Terms of trade	3.0	33.5	24.2
Balance on current account [a]	– 44.9	– 57.9	– 49.0
Variation in international reserves [a]	4.1	6.1	2.1
Consumer price index [b]	15.5	41.2	13.4
Money	9.3	17.8	21.9
Current income of government	15.7	23.7	15.2
Total expenditure of government	17.8	24.3	8.0
Fiscal deficit/total expenditure of government [c]	...	17.0	9.0

Source: CEPAL, on the basis of official statistics.

[a] Absolute values in millions of dollars at current prices.

[b] December – December

[c] Percentage.

second year running. Indeed, real growth appears to have been marginal or negative since 1972.

Preliminary estimates indicate that a reduced volume of imports also contributed to the contraction of the total supply of goods and services in 1975. Although the level of inventories is reported to have declined, there appears to have been a cutback in domestic consumption as well. External demand showed an unfavourable trend, as reflected in an absolute decline in the volume of exports.

The country's import bill showed only a minor expansion in 1975, thus helping to improve the balance on the merchandise trade account and contributing to a significant reduction of the current account deficit. Thanks to the capital inflows, there was a small increase in reserves (see table 53). The external debt remained at around the same level as in 1974, since demand for credit was mainly met from local sources.

The economic stagnation that has prevailed since 1972 has stemmed from a variety of factors, some of the more important of which are poor agricultural output, a slower expansion of tourism, unusually high rates of inflation, deteriorating public finance, and a relatively weak external position. Adverse external conditions have aggravated these problems. Much of the inflation has been "imported" from abroad and the recession in North America and Europe has severely retarded the growth of tourism. Meanwhile, the external accounts have been weakened by the higher cost of petroleum and the blower growth of earnings from tourism, the principal source of foreign exchange.

Priorities in economic policy in 1975 centred on raising the level of economic activity and increasing employment, while at the same time keeping the general level of prices down. The rate of inflation was significantly lower than in 1974, but unemployment appears to have risen. There were lay-offs, some reduction of staff and shorter work weeks in tourism, construction and distribution. Persuasion was used to encourage commercial banks –which maintained high interest rates during the first half of the year despite excess liquidity– to provide more attractive lending rates to business and the public.

At the same time a special levy was imposed on sugar exports, part of which was allocated to mortgage financing. The effect on construction, however, was minimal in 1975. In addition, the Government pursued a more balanced budget policiy and established its currency alignment with the United Stated dollar instead of the pound sterling.

2. *Recent economic trends*

(a) *Agriculture*

Agriculture has shown poor results in recent years. The most important crop in terms of its contribution to the GDP and foreign exchange earnings is sugar. However, there has been a persistent decline in sugar production, from 200,000 tons in 1967 to 110,000 tons in 1974. In 1975 output dropped further to 97,000 tons, the lowest production level since 1948 (see table 54).

The steady decline in sugar production has been due to inadequate rainfall, cutbacks in cane acreage, labour shortages, and reduced yields as a result of burning the cane during harvesting.[42] These problems continued to plague the sugar industry in 1975. There was persistent drought in the first half of the year followed by heavy rain showers during the harvesting period. Although government restrictions substantially reduced the burning of sugar cane in 1975, the residual effects of heavy burning in previous years continued to effect cane yield. On the positive side, labour shortages were a less important factor in 1975 because of the increased mechanization of the industry and the greater supply of labour due to rising unemployment in other sectors of the economy.

While sugar production declined, Barbados received higher prices for sugar and sugar by-products. The favourable price situation caused the GDP of the sugar sector to rise in terms of current values by more than 50 per cent in 1975 (see table 55).

The general performance of agricultural products other than sugar has also been disappointing in recent years, owing in part to unstable weather conditions. In 1975 output fell below expected levels because heavy rains in the latter half of the year caused considerable damage to vegetable crops. Overall, the volume of production in this sub-sector is estimated to have exceeded that of 1974 by a small margin.

(b) *Manufacturing and mining*

The index of manufacturing production rose at an average rate of 9 per cent annually in the period 1971-1973, but fell by 5 per cent in 1974 owing to the fall in internal and external demand. Output remained sluggish through the first eight months of 1975 and the overall manufacturing index for

[42] Burning the cane is a method used to reduce the work of cutting it; it also tends to reduce the yield, however.

Table 54

BARBADOS: INDICATORS OF MANUFACTURING PRODUCTION

	1970	*1973*	*1974*	*1975*	*1974*	*1975*	*Annual growth rates (per cent)*		
							1971–1973	*1974*	*1975*
Index of manufacturing production (average 1971 = 100) a	*91.7*	*117.7*	*112.2*	...	*111.8*[b]	*113.2*[b]	*8.7*	*– 4.7*	*1.2*[c]
Food	92.4	112.6	110.8	...	110.0	130.3	6.8	– 1.6	18.4
Beverages and tobacco	90.9	113.8	97.7	...	109.5	103.3	7.8	– 14.2	– 5.7
Wearing apparel	83.9	122.6	122.1	...	124.2	117.3	13.5	– 0.5	– 5.6
Chemicals	91.9	121.2	110.0	...	95.6	115.7	9.7	– 9.3	21.0
Petroleum products	95.9	121.2	107.2	...	104.9	114.6	8.1	– 11.6	9.2
Sugar (Thousands of tons) d	154	111	110	97			– 10.3	– 1.0	– 11.8

a Central Bank of Barbados, *Economic and Financial Statistics*, January 1976.
b January to August.
c January to August 1975 with respect to the corresponding period of 1974.
d *Barbados Monthly Digest of Statistics*, December 1974, and Barbados Statistical Service.

Table 55

BARBADOS: GROSS DOMESTIC PRODUCT AT CURRENT FACTOR COST
(Millions of Barbados dollars)

	1970 [a]	*1971* [a]	*1972* [a]	*1973* [b]	*1974* [b]	*1975* [b]
Sugar	27.1	24.0	24.7 [bc]	29.8	47.2	71.0
Domestic agriculture	13.2	14.0	16.6	...	...	...
Manufacturing	31.4	37.0	43.6	...	...	...
Construction	27.5	28.2	29.0	...	...	...
Distribution	71.2	78.2	84.0	105.2	134.1	141.0
Government	42.7	47.3	54.9	70.0	89.0	100.0
Transport and public utilities	20.9	24.0	27.6	...	...	...
Rent of dwellings	11.1	12.2	13.4	...	...	...
Services	44.8	56.6	60.0	...	...	...
Total	*289.9*	*321.5*	*353.8*	*421.3* [c]	*542.8*	*624.0*

Source: Barbados Economic Planning Unit, *Economic Survey*, various issues.
[a] Provisional figures.
[b] Preliminary CEPAL estimates.

August was only marginally ahead of the index for August 1974. Available indexes show production of food, chemicals and petroleum products above the 1974 level, while output of clothing, and beverages and tobacco was lower. Indications are, however, that manufacturing output may have picked up towards the end of the year.

Exploration and drilling for crude petroleum have been proceeding for some time in Barbados. While output of small commercial quantities had been achieved in 1973, a significant volume (59,000 barrels) was first produced in 1974. By mid-1975 output was about 45,000 barrels, although hampered by the lack of domestic storage facilities. Up to the third quarter of 1975, production of natural gas associated with the extraction of crude had not yet started, because work on the installation of a gas pipeline and other distribution facilities had not been completed.

(c) *Tourism*

The tourism sub-sector had one of its worst years in 1975. The number of tourist arrivals in the first half of 1975 was down 6 per cent with respect to the corresponding period of 1974, and it is estimated that in the whole year it declined by an even greater proportion. More important, the hotel occupancy rate and the average lenght of stay of visitors also declined. The fall in tourist arrivals in 1975 marked the low point of a general declining trend. Tourist arrivals increased by an average of approximately 20 per cent annually in the period 1968-1970, but growth slowed to 12 per cent annually in the following three years (see table 56). The increase in the number of tourists dropped to 4 per cent in 1974, and in 1975 there was a drop in absolute figures.

The deterioration in tourist activity in 1974 and 1975 was largely attributable to the economic recession in North America, the principal, source of tourists. By the same token, the tourism picture could improve given the signs of economic recovery in the industrialized countries. Other factors which should give a boost to the tourist industry are the establishment late in 1975 of a non-stop air service between New York and Barbados, greater prospects of reduced air fares for small group charters, and increased promotional efforts on the part of the Government.

(d) *Other sectors*

Activity in the relatively large distribution sector declined in real terms since the growth of both

Table 56

BARBADOS: NUMBER OF TOURIST ARRIVALS

(Thousands)

	1970	*1973*	*1974*	*1974*[a]	*1975*[a]	*Annual growth rates (per cent)*		
						1971-1973	*1974*	*1975*[b]
Number of tourists from:	156.4	222.1	230.7	137.3	128.4	12.4	3.9	– 6.5
Canada	39.6	68.6	77.2	50.7	47.9	20.1	12.5	– 5.5
United States	57.1	74.8	66.2	40.9	32.5	9.4	– 11.5	– 20.5
United Kingdom	12.1	17.7	23.8	45.7	48.0	13.5	34.5	5.0
Other	47.6	61.0	63.5			8.6	4.1	

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

[a] January to June.

[b] January to June with respect to the corresponding period of 1974.

industrial production and imports was sluggish, especially in the earlier part of the year. There was also some reduction of staff in this sector. It must be noted however, that the level of inventories declined, indicating that sales did not fall as much as import and production trends suggest.

The construction sector also reflected the recessionary situation. Up to July, imports of major construction materials were far below the levels for the corresponding period of 1974, but a mild recovery took place in the latter part of the year. There was also some reduction of the labour force in this sector.

3. *The external sector*

In 1975 the balance of payments showed some improvement as the trade and current account deficits were reduced and capital inflows led to a small accumulation of reserves. This improvement obscures some difficulties in the external accounts, however inasmuch as the better performance was based on a further compression of imports, temporarily high prices for sugar exports, and inflows of speculative capital.

The merchandise trade deficit declined by 8 per cent in 1975, to 108 million dollars (see table 58). This contrasts with an average increase in the deficit of 14 per cent annually in the period 1971-1973, and an increase of 10 per cent in 1974. The improved trading position was due to the more favourable terms of trade and a significant drop in the volume of imports.

The value of exports of goods increased by 21 per cent in 1975, since a 13 per cent fall in volume was more than offset by a 39 per cent increase in unit value. However, the growth of export earnings slowed down with respect to 1974, a year in which earning increased by 48 per cent (see table 57).

The unusually sharp rises in unit prices in 1974 and 1975 (the average annual increase in 1971-1973 was 10 per cent) reflected favourable prices for sugar, the country's principal export commodity. Despite the fact that the volume of exports decreased owing to shortfalls in production, higher prices caused sugar receipts to rise by over 50 per cent in 1974, and then to double in 1975 to roughly 50 million dollars. However, it is uncertain whether sugar prices will remain as high as in recent years; indeed, market prices already showed signs of softening during the course of 1975.

Although the outlook for sugar prices may be uncertain, Barbados should benefit from an agreement on this commodity with the European Economic Community (EEC). At the beginning of 1975, a group of Commonwealth members in the Caribbean, the Pacific and Africa concluded a long-term agreement with the EEC to supply up to 1.4 million tons of sugar annually to the United Kingdom. This trade pact, which replaced the

Table 57

BARBADOS: VARIATION IN THE TERMS OF TRADE AND IN THE VALUE, VOLUME AND UNIT VALUE OF EXPORTS AND IMPORTS

(Per cent)

	1971	*1972*	*1973*	*1974*	*1975*
Exports of goods					
Value	–9.1	15.9	27.5	48.0	21.4
Volume	–16.5	9.9	11.5	–16.4	–12.6
Unit value	8.9	5.6	14.4	77.1	39.0
Imports of goods					
Value	3.9	15.9	19.8	22.0	3.3
Volume	1.8	11.6	5.3	–8.0	–7.8
Unit value	2.0	3.9	13.7	32.7	11.9
Terms of trade	6.8	1.6	0.6	33.5	24.2

Source: CEPAL, on the basis of official statistics.

expired Commonwealth Sugar Agreement, provides for a guaranteed export price which will be negotiated annually, and which was equivalent to over 350 dollars a ton in 1975.[43] Barbados' quota under the agreement is 50,000 tons.

The value of imports showed little growth in 1975 (3 per cent), after expanding by 22 and 20 per cent in 1974 and 1973, respectively. This slower growth reflects an 8 per cent fall in volume and a 12 per cent rise in the average unit price (see table 57).

The decrease in volume was approximately equal to that of 1974 and was a result of the smaller domestic demand and the fiscal and monetary measures designed to curtail imports. Cutbacks in the volume of imports have been necessary in order to strengthen a balance of payments that has been weakened by a significant increase in the value of petroleum imports and the sluggish external demand for the country's goods and services. The fall in the volume of imports, however, has undoubtedly played its part in accentuating the domestic economic recession, since productive activities, particularly investment, are highly dependent on imported goods.

The main factor underlying the small increase in the value of imports with respect to 1974 was the market slowing down of the rise in import prices. The unit price of imports rose by 12 per cent in 1975, compared with 33 per cent in 1974. While the rise in prices was more moderate than in the two previous years –reflecting a general drop in the rate of inflation in the industrialized countries– the rate increase nevertheless remained high in relation to historical trends (see trade 57).

The movement of export and import prices resulted in a 24 per cent improvement in the terms of trade, which, though lower than that recorded in 1974 (33 per cent) was much higher than the average rate of 3 per cent for the period 1971-1973. However, prices in the tourist sector, which accounts for over 40 per cent of foreign exchange earnings increased by much less than prices for exported goods in both 1974 and 1975, so that the improvement in the terms of trade for goods and non-factor services taken together was much less than in the case of goods alone. The respective increases in the terms of trade for the joint account were 12 and 13 per cent.

In Barbados, tourism receipts are traditionally relied upon to offset a large part of the country's trade deficit. The gross and net increases in earning from tourism in 1975 (7 and 5 per cent, respectively) were the lowest in recent years. The increase (gross and net) in 1974 was 20 per cent, which is the same as the average annual increase in the period 1971-1973. As noted earlier, the slower growth of these receipts reflects the decrease in the number of tourists and in their lenght of stay

[43] In 1975, the United Kingdom paid roughly 260 dollars per ton over and above the support price, bringing total payment to more than 600 dollars per ton.

Table 58

BARBADOS: BALANCE OF PAYMENTS
(Millions of United States dollars)

	1970	*1972*	*1973*	*1974*	*1975*
Current account					
Exports of goods and services	97.6	130.7	151.4	194.3	217.9
Goods FOB	35.2	37.1	47.3	70.0	85.0
Services	62.4	93.6	104.1	124.3	132.9
Transport	7.4	13.5	13.6	17.4	18.9
Travel	40.4	62.8	70.0	83.9	90.0
Imports of goods and services	141.3	172.0	205.2	250.6	265.0
Goods FOB	106.3	127.9	153.2	186.9	193.0
Services	35.0	44.1	52.0	63.7	72.0
Transport	16.3	20.4	24.3	34.2	38.0
Travel	3.5	4.7	6.2	7.5	10.0
Net payments of profits and interest on foreign capital	– 3.2	– 6.6	– 7.7	– 8.3	– 9.0
Profits	– 4.3	– 7.2	– 8.3	– 8.7	– 9.0
Interest	1.1	0.6	0.6	0.4	–
Net private transfer payments	4.4	4.7	5.1	6.7	7.1
Balance on current account	– 42.5	– 43.2	– 56.4	– 57.9	– 49.0
Capital account					
Net external financing (a + b + c + d + e)	42.5	43.2	56.4	57.9	49.0
(a) Net external non-compensatory capital	20.9	29.1	44.7	64.0	51.1
Direct investment	8.7	16.5	13.1	–	–
Long- and medium-term loans	4.6	7.7	23.0	–	–
Amortization payments	– 2.0	–	– 6.6	–	–
Short-term liabilities (net)	8.8	3.4	13.6	–	–
Official transfer payments	0.8	1.5	1.6	–	–
(b) Domestic non-compensatory capital or assets	– 11.1	– 0.7	1.6	–	–
(c) Errors and omissions	31.4	14.7	15.5	–	–
(d) Allocation of SDRs	–	1.5	–	–	–
(e) Net compensatory financing (minus sign signifies an increase)	1.3	– 1.4	– 5.4	– 6.1	– 2.1
Balance-of-payments loans, trade arrears, IMF loans, and other liabilities of the monetary authorities	–	–	–	–	–
Amortization payments	–	–	–	–	–
Foreign exchange reserves (minus sign signifies an increase)	3.3	0.1	– 5.4	– 6.1	– 2.1
Gold reserves (minus sign signifies an increase)	– 2.0	–	–	–	–
SDRs (minus sign signifies an increase)	–	– 1.5	–	–	–

Source: 1970–1974: International Monetary Fund, *Balance of Payments Yearbook*, vol. 27; 1975: CEPAL, on the basis of preliminary official data.

owing to the recession in the industrialized economies.

Payment under the head of net factor services increased by 8 per cent in 1975, which is similar to the increase of 1974. Private transfers, which increased by 31 per cent in 1974, grew by only 6 per cent in 1975. The slower growth of transfers probably reflects the adverse effects of the sluggish growth of the industrialized economies on incomes of Barbadians living abroad.

The movement of goods, services and transfers in 1975 resulted in a current account deficit of 49 million dollars, representing a 15 per cent reduction with respect to 1974 and the smallest deficit since 1972.

Capital inflows were more than sufficient to cover the current deficit and enabled Barbados to show a small balance of payments surplus for the fifth consecutive year (see table 58). However, inflows seem to have included a substantial volume of speculative funds that tend to be more volatile than other types of financing. The speculative flows were a response to indications that authorities would revalue the Barbados dollar and align it with the United States dollar.

At the end of 1975, gross foreign exchange reserves reached 40 million dollars, which meant an increase of 2 per cent with respect to 1974. The end of year reserve balance was equivalent to slightly less than two months' import requirements (at the 1975 rate).

The country's external debt at the end of 1975 was around 21 million dollars, or approximately the same figure as at the end of 1974. In both years, the entire external debt was of a long-term nature.

4. *Prices*

In 1975 there was marked decrease in the rate of inflation. The annual average increase in consumer prices was 20 per cent, or roughly half that of 1974. The improvement is even more apparent if price variations are considered over the 12-month period ending in December; on this basis the rate of increase in consumer prices fell from 41 per cent in 1974 to 13 per cent in 1975, (see table 59).

A major part of the trend in domestic prices can be explained by external events. Given the openness of the economy (the ratio of imports to GDP exceeds 80 per cent), Barbados is extremely vulnerable to imported inflation. Thus the inflationary spiral in the industrialized countries in 1973-1974 was quickly translated into higher domestic prices. Likewise, the marked slowing of inflation in these countries in 1975, and the consequent lowering of the rate of increase in import prices, played a major role in moderating the rise in domestic prices.

Another external factor contributing to inflation in recent years was the gradual decline in the value of the Barbados dollar in relation to the United States dollar (see table 60). With the prospects of a progressive devaluation of the pound sterling and in view of Barbados' growing trade with North America, the authorities decided in mid-1975 to break the traditional link with sterling and peg the national currency to the United States dollar. Undoubtedly, this change helped to hold down the rise in prices in 1975.

As for domestic factors, monetary policy has tended to contribute to inflationary pressures. After growing at a relatively moderate rate of 9 per cent annually in the period 1971-1973, the money supply increased by 18 per cent in 1974 and 17 per cent in 1975.

The marked rise in the money supply in 1974 reflected a 174 per cent increase in net international reserves of the monetary system (compared with an average annual contraction of 53 per cent in the period 1971-1973) and a 22 per cent increase in net domestic credit.

The latter increase was largely due to a sharp expansion of net credit to the governmet; the growth of credit to private sector on the other hand slackened considerably, reflecting generally sluggish economic activity.

Table 59

BARBADOS: CONSUMER PRICES

(Percentage variation)

	1970	*1971*	*1972*	*1973*	*1974*	*1975*
Annual average	7.8	7.5	11.8	16.9	39.0	20.3
December to December	9.1	10.1	10.4	26.0	41.2	13.4

Source: Central Bank of Barbados, *Economic and Financial Statistics*, January 1976.

Table 60

BARBADOS: EVOLUTION OF EXCHANGE RATE AND PRICES

Period	*Exchange rate (Barbados dollars per US dollar)*	*Consumer price index (1970 = 100)*
1974 1972 (average)	1.92	120.2
1973	1.96	140.5
I	2.11	172.7
II	2.00	191.0
III	2.04	204.3
IV	2.06	212.3
1975		
I	2.01	224.6
II	2.06	228.0
III	2.00	242.0
IV	2.00	244.3

Source: International Monetary Fund, *International Financial Statistics*, April 1976.

In 1975, the main factor of monetary expansion was the growth of net international reserves which increased sixfold during the year. Meanwhile, net credit underwent a mild contraction owing to a marked reduction of credit to the government and the increase of less than 8 per cent in credit to the private sector (see table 61).

The fiscal budget has also shown an expansionary trend, as reflected in growing budget deficits up to the 1974/1975 fiscal year[44] (see table 62). However, in 1975/1976 some improvement is expected and the overall deficit should be less than in the previous fiscal year.

There was a noticeable deterioration of the fiscal accounts between 1970/1971 and 1973/1974. Savings on the current account declined at an annual rate of 13 per cent, and the overall budget deficit rose by 33 per cent annually to 27 million Barbados dollars (17 per cent of

[44]The Barbados fiscal year runs from 1 April to 31 March.

Table 61

BARBADOS: MONETARY POSITION
(Millions of Barbados dollars)

	Balance at end of				*Annual growth rates (per cent)*		
	1970	*1973*	*1974*	*1975*	*1971–1973*	*1974*	*1975*
Money	*55.7*	*72.8*	*85.7*	*100.0*	*9.3*	*17.8*	*16.7*
Currency outside banks	21.2	26.9	34.1	41.8	8.4	26.7	22.6
Demand deposits	34.5	45.9	51.6	58.2	9.9	12.6	12.8
Factors of expansion	*177.4*	*245.2*	*302.6*	*354.2*	*11.4*	*23.4*	*17.1*
Foreign assets (net)	16.3	2.5	6.8	42.5	– 53.4	174.2	524.7
Domestic credit	161.1	242.7	295.8	311.7	14.6	21.9	5.4
Government (net)	– 4.7	– 15.7	35.2	31.2	49.2	–	– 11.5
Official entities	–	–	–	–	–	–	–
Private sector	165.8	258.4	260.5	280.6	16.0	0.8	7.7
Factors of absorption	*121.7*	*172.4*	*216.8*	*254*	*12.3*	*25.8*	*17.2*
Quasi-money (savings and time deposits)	120.8	176.8	216.0	250.4	13.5	22.2	15.9
Bonds	–	–	–	–	–	–	–
Long-term foreign borrowing	–	–	–	–	–	–	–
Other items (net)	0.9	– 4.4	0.8	3.75	–	–	357.3

Source: International Monetary Fund, *International Financial Statistics*, July 1976.

Table 62

BARBADOS: CENTRAL GOVERNMENT INCOME AND EXPENDITURE [a]

	Millions of Barbados dollars at current prices			1974/1975 (April-November)	1975/1976 (April-November)	Annual growth rates (per cent)		
	1970/1971	*1973/1974*	*1974/1975*			*1971–1973*	*1974/1975*	*1975/1976*
1. *Current income*	*87.9*	*135.9*	*168.2*	*104.7*	*120.6*	*15.7*	*23.7*	*15.2*
Tax revenue	76.9	110.3	135.8	86.0	103.6	12.8	23.1	20.4
Non-tax revenue	11.0	25.6	32.4	18.7	17.0	32.4	26.5	– 9.1
2. *Current expenditure*	*83.8*	*133.2*	*165.9*	*100.5*	*108.7*	*16.6*	*24.5*	*8.1*
3. *Saving on current account* (1 – 2)	*4.1*	*2.7*	*2.3*	*4.2*	*11.9*	*– 13.0*	*– 14.8*	*183.3*
4. *Capital expenditure*	*15.8*	*30.0*	*36.9*	*22.7*	*24.3*	*23.8*	*23.0*	*7.0*
5. *Total expenditure* (2 + 4)	*99.6*	*163.2*	*202.8*	*123.2*	*133.0*	*17.8*	*24.3*	*8.0*
6. *Fiscal deficit (or surplus)* (3 – 4)	*– 11.7*	*– 27.3*	*– 34.6*	*– 18.5*	*– 12.4*	*32.6*	*26.7*	*– 33.0*

Source: Central Bank of Barbados, *Economic and Financial Statistics*, various issues.
[a] The Barbados fiscal year runs from 1 April to 31 March.

total expenditures). Most of the deterioration took place in the 1973/1974 fiscal year when a substantial increase in civil servant's salaries and inflation pushed current expenditures up by over 35 per cent without a compensating rise in revenue. To offset increased outlays, the authorities had heavy recourse to Central Bank financing.

Despite efforts to restrain expenditure in 1974/1975, current outlays increased by 24 per cent, largely as a result of inflation. Capital outlays rose by 23 per cent, which is only slightly less than the average yearly growth for the period 1971-1973. Faced with increased expenditure, the Government took measures during the course of the fiscal year to boost revenue; these include a new levy on sugar production, increased taxes on luxury goods and gasoline, changes in the payment of corporate and personal income tax, and the introduction of a sales tax. These measures largely account for the significant rise in current revenue in 1974/1975 (see table 62). Despite these measures, however, there was further deterioration of current savings and the overall deficit increased by 27 per cent, representing 17 per cent of total expenditure. Once again the Government had to rely on Central Bank financing.

The fiscal picture is expected to improve in 1975/1976. With a more restrictive fiscal policy and the lower rate of inflation, current expenditure should grow more slowly than in previous years. Meanwhile, capital expenditure may fall short of budgeted levels because of technical difficulties and delays in receiving imports of capital goods. Revenue, on the other hand, is expected to show a healthy expansion owing to the aforementioned tax measures introduced in the previous fiscal year and to a special tax on sugar exports established early in 1975, which will enable the public sector to siphon off a significant proportion of the higher earnings from sugar. The net effect of the slower growth of expenditure and the higher revenue will be a marked reduction in the overall fiscal deficit for 1975/1976. The partial budgetary data for 1975/1976 shown in table 62 are an indication of these trends.

1. *The overall picture*

In 1975 the Bolivian economy showed clear signs of improvement in certain areas and some deterioration in others. Its recent evolution was characterized by the variations of opposite sign in both the production base and the financial sphere and external sector. Thus, to mention the most conspicuous cases, agriculture and the extractive activities (mining, petroleum and gas) recorded opposite rates of growth (6.7 per cent and –9.2 per cent, respectively), and there were also contrary movements in exports and imports. The Government's decision to adopt a new approach to development planning as from 1976 was most likely prompted by this feature of Bolivia's economic evolution in 1975.

Among the most important achievements was the high rate of economic growth (6.8 per cent) which was one of the highest in Latin America. Especially noteworthy was the reactivation of some sectors of production, such as agriculture (almost 7 per cent) and manufacturing (over 11 per cent) and the continued increase in gross investment (24 per cent) (see table 63).

Another positive feature was a decrease in the rate of inflation, since the rate of increase in prices in 1975 (6 per cent) was much lower than in the preceding year (39 per cent).[45]

The goals attained in terms of production growth and price stability were counterbalanced by a deterioration in the country's external position as reflected mainly in the large balance-of-payments deficit on current account, the increase in the external debt and the loss of international reserves.

Although no data are available on the distribution of income, it may be inferred from an analysis of economic policy and of the structure of imports that the production growth mainly benefited specific urban sectors and that price

[45]The increase in the implicit deflator of the product was 11 per cent, however, and the Ministry of Finance's official estimate of the rate onf inflation in 1975 was 12 per cent.

Table 63

BOLIVIA: MAIN SHORT-RUN ECONOMIC INDICATORS
(Percentage annual growth rates)

	1971–1973	*1974*	*1975*
Gross domestic product	4.8	5.7	6.8
Gross income	3.7	18.7	1.2
Per capita gross domestic product	2.2	3.1	4.1
Gross domestic investment	7.5	18.0	24.0
Value of exports	12.5	107.0	– 19.5
Value of imports	12.5	59.2	29.2
Terms of trade	–4.3	62.2	– 17.9
Balance on current account [a]	– 43	66	– 199
Variation in reserves [a]	6	110	– 58
Consumer price index [b]	10.5	39.0	6.0
Money	24.6	43.4	14.3
Current income of government	31.4	107.0	11.0
Total expenditure of government	32.0	92.0	14.0
Fiscal deficit/total expenditures of government [c]	23.7	8.0	9.6

Source: CEPAL, on the basis of official statistics.

[a] Absolute figures in millions of dollars at current prices.

[b] December – December.

[c] Percentages.

stability was based on greater efforts by the wage-earning sector.

The evolution of the external sector since the end of 1973 was one of the decisive features accounting for the most significant changes in economic activity in 1975. Although these trends were much less favourable than in 1974, external flows on the whole were not unfavourable and the relative deterioration in 1975 followed an exceptional boom period. Accordingly, the analysis of this sector in 1975, more than that of others, requires a broader perspective than simple comparisons with the preceding year.

In spite of this relatively favourable situation, the results of the annual flows of the most important variables in the external sector in 1975 were not wholly encouraging. The large balance-of-payments deficit on current account and the considerable drop in international reserves were due, on the one hand, to the decline in the volume of exports (−11 per cent) and the vigorous growth of imports (17 per cent) and, on the other hand, to the deterioration in the terms of trade (−18 per cent). Consequently, the current value of exports fell by 19 per cent and that of imports rose by 29 per cent (see table 63).

In most areas the economic policy implemented in 1975 reflected primary concern for the growth of production and price stability. The State's radius of action grew thanks to an external sector which was generous in providing financing and was somewhat less unfavourable in terms of imported inflation. Thus, considerable medium– and long–term credit was available and the means through which imported inflation was transferred became significantly more moderate and in certain cases even favourable.

The adoption of economic policy decisions was centred on two focal points directly linked with the objectives pursued: the exceptional increase in gross domestic investment (24 per cent in 1975 and 18 per cent the previous year) and, in particular, in public investment. This was the outstanding feature of Bolivia's growth policy, which complemented the strong incentives provided to domestic and foreign private enterprise.

Moreover, the foreign exchange policy was one of the main components of anti-inflationary policy. The maintenance of a fixed exchange rate and the system permitting the free sale of foreign exchange were its salient features. This expedient, however, while helping to slow down the rate of inflation, resulted in heavy losses of reserves and increases in the country's external debt. The freezing of wages and salaries in a large part of the public sector and the restricted wage increases in the private sector were also important factors in the strategy aimed at curbing inflation. The fall in reserves also helped significantly to limit the growth of liquidity in the economic system. As regards the supply of goods, the increase in imports and the growth of the agricultural and manufacturing sectors likewise helped to reduce the rate of inflation.

Before describing the course of the main macroeconomic variables in detail, it must be pointed out that the evolution of the economy in 1975 confirms a certain trend in the growth pattern of the economic system. The recent dynamism mainly favoured secondary activities and, in spite of the high rates recorded for the majority of the goods producing sectors in 1975, the rates for commercial activities and services were on the whole steadier in the past five years. If the importance of the two groups of sectors in 1975 is compared with that of five and ten years ago, it will be seen that the share of the production of goods has declined significantly. In 1965 its contribution to the product was 56 per cent; it dropped to 49 per cent in 1970, and in 1975 it was barely over 45 per cent.

The growth of commerce and services was particularly rapid in the three years 1973-1975, coinciding with a boom in the external sector. It only remains to determine the structure of investment in those years. There are some indications that the goods producing activities were given priority in the assignment of resources. Until such time as more information is available, however, the rapid and sustained growth of the secondary sectors continues to be particularly noteworthy. This growth is closely linked with the performance of the external sector, which, owing to the fluctuations that have characterized it in the past, is of key importance in the strategy of sustained growth pursued by the Bolivian Government.

2. *Recent economic trends*

(a) *General aspects*

The dynamism of the Bolivian economy in 1975 is reflected in the rate of growth of the product (see table 64). The 6.8 per cent recorded is the highest rate attained in the last five years and one of the highest rates in the last 15 years. Likewise, the per

Table 64

BOLIVIA: TOTAL SUPPLY AND DEMAND

	Millions of Bolivian pesos at 1970 prices			*Percentage breakdown*		*Annual growth rates*		
	1970	*1974*	*1975* [a]	*1970*	*1975* [a]	*1971–1973*	*1974*	*1975* [a]
Total supply	*14 604*	*18 539*	*20 180*	*120.9*	*128.7*	*4.9*	*9.9*	*8.9*
Gross domestic product	12 080	14 683	15 681	100.0	100.0	4.8	5.7	6.8
Imports	2 524	3 856	4 499	20.9	28.7	5.7	29.2	16.7
Total demand	*14 604*	*18 539*	*20 180*	*120.9*	*128.7*	*4.9*	*9.9*	*8.9*
Domestic demand	*12 100*	*15 254*	*17 271*	*100.2*	*110.1*	*4.0*	*12.2*	*13.2*
Gross domestic investment	1 880	2 758	3 420	15.6	21.8	7.5	18.0	24.0
Gross fixed investment	1 666	...	...	13.8	...	8.1	...	...
Public	1 053	...	...	8.7	...	...	...	...
Private	613	...	...	5.1	...	...	...	...
Total consumption	10 220	12 496	13 851	84.6	88.3	3.3	11.0	10.8
General government	1 351	1 845	1 899	11.2	12.1	7.5	10.0	2.9
Private	8 869	10 651	11 952	73.4	76.2	2.6	11.1	12.2
Exports	*2 504*	*3 285*	*2 909*	*20.7*	*18.6*	*9.4*	*0.2*	*– 11.4*

Source: CEPAL calculations on the basis of official data supplied by the Ministry of Planning and Co-ordination and the Central Bank of Bolivia.

Note: 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 purpose.

[a] Preliminary figures.

capita product grew by 4.1 per cent.[46] However, the performance of the external sector led to a significant deterioration in the terms of trade with respect to 1974. Consequently, the increase in gross income was only 1.2 per cent in 1975, compared with the exceptional rate of 19 per cent reached in 1974 (see table 63).

The growth of the supply of goods was even greater than that of the product. Total supply showed a growth rate of 9 per cent in 1975, following an increase of 10 per cent the previous year. The growth of imports was double that of total supply, while the year before it had already recorded the exceptional rate of 29 per cent.

[46] As indicated in the relevant tables, these are very preliminary estimates. The Central Bank of Bolivia, which is responsible for preparing the national accounts as from this year, has initiated a careful review of these estimates, so it is quite possible that some indicators will change.

As regards total demand, the exceptional increase in gross domestic investment contrasted with the sharp contraction in the volume of exports (see table 64).

Although complete data are not available, the vigorous growth of investment must be attributed mainly to the public sector. Through external indebtedness, in addition to the use of international reserves, public investment increased at a rate of around 30 per cent.

The decline in exports was mainly due, in the first place, to the export regulations established by the International Tin Council with the aim of defending tin prices and, secondly, to the depletion of mineral deposits and the progressively lower grade of the veins of ore.

In total demand, the high growth rate of consumption is another striking fact. For the second year running it reached a rate of 11 per cent, which is much higher than that of the product and three times higher than the rates prevailing in the three years 1971-1973.

The fastest growth was recorded by private consumption, the rate of 12 per cent reached in 1975 contrasting with the 3 per cent recorded by general government consumption (see table 64).

This vigorous growth may be ascribed partly to agriculture and the production of manufacture in general, and partly to imports.

Considering the composition of imports, in which the share of non-essential goods increased appreciably,[47] and the significant expansion of commercial activities and services in the towns, it seems perfectly legitimate to assume that the growth of consumption was concentrated in the high-income urban sectors. Moreover, manufacturing production seems to have shown greater dynamism in selective consumer items than in mass consumption items, in view of the mininal levels of income of a large proportion of the population. This also implies that 12 per cent of the increase in private consumption in 1975 was not equitably distributed.

The growth rates of the components of total supply and demand brought about significant changes in structure. In this respect, it is worth noting the appreciable rise in the import coefficient, from 21 per cent in 1970 to 29 per cent in 1975 (see table 64). Changes of this magnitude which took place mainly in 1974 and 1975 mean that the impetus of Bolivia's economic system as from 1974 was largely due to the exceptional increase in its capacity to import.

The rise in the investment coefficient followed the same course (from 16 per cent in 1970 to 22 per cent in 1975). The growth potential of the Bolivian economy therefore appears closely linked with the growth of imports, not only of capital goods and raw materials, but also of other goods which promoted substantial investment in commerce and services.

An analysis of the changes in the components of total supply and demand, and particularly of their links with the external sector, shows that their vigorous expansion was possible, as will be seen below, at the expense of external sources of financing and a sharp decline in the previously accumulated international reserves.

(b) *Sectoral developments*

The dynamism of the Bolivian economy in 1975 is the result of the significant growth of all sectors with the single exception of the extractive activities (mining, petroleum and gas) the decline in which had very special connotations (see table 65).

The growth of the agricultural sector was the most positive feature. Compared with annual rates which in the past fluctuated around 3 per cent, the 6.7 per cent reached in 1975 may be considered exceptionally good.[48] According to estimates of the Ministry of Rural Affairs, the highest growth rates were recorded by soybeans (50 per cent), rice (30 per cent), wheat (11 per cent) and sugar cane (8 per cent) which are cultivated mainly in tropical and semi-tropical areas of east Bolivia. Production on the Altiplano and in the valleys was far below the average for the whole sector, which reflects the typically heterogeneous structure of Bolivian agriculture.

Manufacturing also attained a much higher rate of growth than in previous years. Although industrialization consisted mainly of the processing and manufacture of light products with a high import content, the growth rate of over 11 per cent indicates marked industrial activity.

The reactivation of the Bolivian economy originated mainly in the construction sector. For the second year in succession the growth rate was much higher than those of the rest of the sectors. The rate of 13.5 per cent reached in 1975, coming after the previous year's rate of 14 per cent and coupled with the number of projects in course of execution and of construction permit applications, indicates a persistent trend.

The repercussions of a steady growth of construction on the rest of the economy are well known. It should be noted, however, that a considerable proportion of this activity was concerned with the construction of urban buildings in the principal cities. The high import content of this activity in Bolivia, which is even greater in the construction of luxury buildings, detracted from the favourable impact of its high growth rate.[49] In any case, the absorption of

[47] For example, it is estimated that imports of vehicles amounted to some 60 million dollars in 1975.

[48] Although there are some indications that this preliminary estimate is an overvaluation of the sector's growth, more complete data could hardly belie the marked dynamism of this activity.

[49] It should be borne in mind that Bolivia imports all the iron and part of the cement used in construction, in addition to sanitary fittings and many of the articles for finishing the buildings.

Table 65

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

	Millions of Bolivian pesos at 1970 prices			*Percentage breakdown*		*Annual growth rates*		
	1970	*1974* [a]	*1975* [a]	*1970*	*1975* [a]	*1971–1973*	*1974* [a]	*1975* [a]
Agriculture	1 901	2 146	2 290	16.9	15.8	2.9	3.5	6.7
Mining	1 670	1 718	1 560	14.9	10.8	1.0	–	– 9.2
Manufacturing	1 446	1 769	1 968	12.9	13.6	4.9	6.0	11.3
Construction	507	644	730	4.5	5.0	3.7	14.0	13.5
Subtotal goods	*5 524*	*6 276*	*6 548*	*49.2*	*45.3*	*2.9*	*4.2*	*4.3*
Electricity, gas and water	218	284	306	1.9	2.1	7.2	6.1	7.5
Transport and communications	995	1 213	1 316	8.9	9.1	4.8	6.0	8.5
Subtotal basic services	*1 213*	*1 497*	*1 622*	*10.8*	*11.2*	*5.2*	*6.0*	*8.3*
Commerce, financial establishments and insurance	1 265	1 735	1 933	11.3	13.4	7.9	9.0	11.4
Real estate [b]	978	1 130	1 206	8.7	8.3	2.9	6.0	6.7
Communal, social and personal services [c]	2 253	2 942	3 162	20.0	21.8	7.0	6.5	7.5
Subtotal other services	*4 496*	*5 807*	*6 301*	*40.0*	*43.5*	*6.4*	*6.9*	*8.5*
Total gross domestic products	*11 234*	*13 656*	*14 585*	*100.0*	*100.0*	*4.8*	*5.7*	*6.8*

Sources: 1970-1974: CEPAL calculations on the basis of official data supplied by the Ministry of Planning and Co-ordination; 1975: official estimates of the secretariat of the Consejo de Economía y Planificación (CONEPLAN).

Note: As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

[a] Preliminary figures.

[b] Refers to housing only.

[c] Also includes restaurants, hotels and business services.

manpower and the impetus given to a certain type of light industries and construction services were distinctly favourable effects.

The evolution of mining was once again different from the general performance of Bolivia's economic activity, being the only sector to show a decrease in the rate of growth (–9 per cent) in 1975. It will be seen from table 65 that it had shown no growth at all in 1974 and the annual rate for the three years 1971-1973 was barely 1 per cent.

From the standpoint of the external sector, mining –which also includes petroleum and gas– provides nearly all the means of external payments. Its stagnation in the period 1971-1974 and the sharp decline in the past year have led to an awkward situation. The high world prices of mining products in 1973 and 1974 disguised the seriousness of the problem, but the much lower prices prevailing in 1975 revealed a situation which may well become critical.

Table 66 shows that the drop in mining production affected the most important products.[50] Silver and bismuth, which are of

[50] In view of the fact that a high proportion of the output of these mining products is sold abroad, exports provide a good indicator of their respective volumes of production.

Table 66

BOLIVIA: INDICATORS OF MINING PRODUCTION

	Production				Annual growth rates		
	1970	*1973*	*1974*	*1975*	*1971–1973*	*1974*	*1975*
Index of mining production	*100.0*	*129.3*	*116.4*	*96.1*	*9.0*	*- 10.0*	*- 17.4*
Exports of some important minerals (thousands of metric tons of fines)							
Tin	27.8	28.4	28.9	26.4	0.7	1.8	- 8.6
Wolfram	2.4	2.7	2.6	2.5	4.0	- 3.7	- 3.8
Antimony	11.6	14.8	13.2	11.9	8.5	- 10.8	- 9.8
Lead	25.7	20.2	19.3	16.8	- 7.7	- 4.5	- 13.0
Zinc	46.5	49.6	48.6	48.7	2.2	- 2.0	0.2
Copper	8.8	8.2	7.9	6.0	- 2.3	- 3.7	- 24.0
Silver	0.23	0.20	0.22	0.24	- 4.5	10.0	9.1
Bismuth	0.6	0.6	0.7	0.8	–	16.7	14.3
Sulphur	16.3	56.4	41.8	21.4	51.5	- 25.9	- 48.8
Petroleum (m^3)	1 402	2 744	2 640	2 335	25.3	- 3.8	- 11.5

Source: Central Bank of Bolivia.

minor importance in the structure of exports, were the only products which showed significant growth. Thus, in 1975 the mining production index declined by 17 per cent.

The exceptional growth recorded by the other goods producing sectors was partly cancelled out by the drop in mining. In fact, the subtotal for goods rose by only a little over 4 per cent in 1975.

As regards basic services, the production of electricity, gas and water and the transport and communications sector reached higher growth rates than in the previous year, in line with the general expansion of the economy. These activities as a whole have accelerated their growth since 1971: the rate of a little over 8 per cent in 1975, compared with 6 per cent in 1974 and 5 per cent in the three years 1971-1973, shows evident progress.

The activities under the head of commerce and services in general also grew at higher rates than in the two previous years. The most dynamic activities were commerce, financial institutions and insurance, with a rate of over 11 per cent (see table 66). The high rates shown by this sector in the recent past are worthy of note: consistently higher than those of the overall economy, and in the last two years exceeded only by that of construction, they indicate a typical trend in a pattern of growth that is not easily self-sustaining.

The 8.5 per cent increase in commerce, finance and other services in 1975 must once again be attributed mainly to the exceptional growth of imports (see tables 64 and 65). In such an open economy as Bolivia's, the growth of 29 per cent in the volume of imports in 1974 and 17 per cent in 1975 inevitably gave a strong impetus to the activities associated with the import and financing of foreign goods and to the whole process of their distribution.

The other activities in this group –real estate (ownership of dwellings) and community, social and personal services– followed the generally expanding trend of the economy, with rates which were higher than in the preceding year and comparable with those of the gross domestic product.

The rates of growth of the various sectors made up a production structure in 1975 in which there were some notable differences compared with that prevailing at the beginning of the present decade (see table 65).

Among the goods producing sectors, the principal changes were in mining, whose share of the total product fell from 15 to 11 per cent, and in agriculture, with a smaller but nonetheless striking decrease.[51] These decreases brought down the share of the whole group of goods producing sectors from 49 per cent in 1970 to 45 per cent in 1975.

The share of basic services, in contrast, shows major changes. Within the services group proper, commerce, financial institutions and insurance did most to improve its relative position within the total. Over the same five-year period their share rose from 11 per cent to 13 per cent. Community, social and personal services also increased their share, reaching 22 per cent in 1975 compared with 20 per cent in 1970.

As can be seen, the basic and services sectors showed very different rates of growth. While in 1970 the production of goods was 23 per cent higher than that of services, in 1975 it was only 4 per cent higher. If it is considered that the growth of services was strongly influenced by that of imports, it will be recognized that this form of growth would be highly vulnerable if Bolovia's external sector were once again to suffer the depressions of earlier periods.

[51] It should be borne in mind that the industrialization process in Bolivia is still in its early stages. From 1965 to 1975 the share of manufacturing in the total product declined slightly. Another fact to be considered is that approximately 70 per cent of the total population obtain their livelihood from agriculture.

3. *The external sector*

In analysing this sector, two aspects must be distinguished: first, the annual export and import flows and, secondly, external financing and the availability and use of international reserves.

In spite of the sharp fall in exports, imports rose at an exceptionally rapid rate, as noted above. This was possible only through external borrowing and the use of reserves, which averted a bottleneck in the external sector.

(a) *Foreign trade*

The current value of exports of goods dropped 19 per cent in 1975 (see table 67). It will be noted that all the important products except natural gas recorded appreciable reductions. Two-thirds of the

Table 67

BOLIVIA: VALUE AND BREAKDOWN OF EXPORTS OF GOODS

	Millions of dollars at current prices (FOB) [a]				*Percentage breakdown*		*Annual growth rates*		
	1970	*1973*	*1974*	*1975*	*1970*	*1975*	*1971–1973*	*1974*	*1975*
Main export products									
Tin	101.9	130.0	202.0	149.0	44.6	28.6	8.5	55.0	– 26.0
Other mining products	102.8	95.9	184.1	154.1	45.0	29.6	– 2.4	92.0	– 16.0
Crude petroleum	13.2	48.9	163.9	114.5	5.8	22.0	54.7	235.0	– 30.0
Natural gas	–	18.1	29.2	47.5	–	9.1	–	61.0	63.0
New exports									
Agricultural:									
Cotton fibre	0.8	9.7	22.0	18.0	0.4	3.5	130.0	127.0	– 18.0
Wood	1.9	7.7	12.9	13.0	0.8	2.5	101.0	68.0	0.8
Industrial	1.0	12.4	16.9	15.0	0.4	2.9	132.0	36.0	– 11.0
Other exports	7.0	15.6	11.5	9.4	3.0	1.8	32.0	– 26.0	– 18.0
Total	*228.6*	*338.3*	*642.5*	*520.5*	*100.0*	*100.0*	*14.0*	*90.0*	*– 19.0*

Source: Central Bank of Bolivia.

[a] These figures are slightly different from the CEPAL estimates in the balance of payments and other tables, mainly because of the different ways of calculating the FOB values of exports of mining products.

Table 68

BOLIVIA: VARIATION IN THE VALUE, VOLUME AND UNIT VALUE OF EXPORTS AND IMPORTS

(Percentage)

	1971	*1972*	*1973*	*1974*	*1975*
Exports of goods					
Value	-7.1	11.7	32.8	106.7	-19.5
Volume	11.2	7.8	4.7	2.5	-13.3
Unit value	-16.4	3.6	26.9	101.6	-7.2
Imports of goods					
Value	9.2	7.9	20.4	58.9	29.2
Volume	7.2	1.7	3.6	28.1	14.3
Unit value	1.8	6.1	16.2	24.3	13.0

Source: CEPAL, on the basis of official statistics.

decline in the value of exports is accounted for by the decrease in the volume exported, while only one-third is attributable to lower prices (see table 68).

In view of the highly favourable situation with regard to world prices in 1975 and, consequently, the unusually high export values, the above-mentioned decreases may at first glance seem less significant than they actually were. However, the contraction in the volume exported was due to a decline in the volume of production, often combined with lower productivity and higher costs in the exploitation of mines.

It is interesting to note the radical change which took place in the structure of exports. In 1970, mining products accounted for 90 per cent of total exports, while in 1975 the proportion fell below 60 per cent. In contrast, the share of exports of crude petroleum and natural gas, which in 1970 was less than 6 per cent, stood at over 30 per cent in 1975. Similarly, new agricultural and industrial exports doubled their share of the total in the five-year period concerned (see table 67).

These changes were strongly influenced by the variations in prices so that the changes in the production structure of exports did not follow the same course. There is no doubt, however, that in 1975 Bolivia's external payments capacity was less vulnerable than in 1970.

As regards imports, the developments in 1975 bear no relation to the trend in export activities as a source of foreign exchange. In view of the contraction in these activities, that imports of goods and services —at least the non-essential items— might have been expected to grow less vigorously. Available data show, however, that the various categories of imports increased at exceptionally high rates.

According to different estimates, the current value of imports of goods increased in 1975 at a rate of somewhere between 29 and 35 per cent. Apart from the above considerations regarding the drop in exports, this rate is all the more striking since there had already been an extraordinary increase in imports in 1974 (see tables 69 and 70).

The fastest growth was recorded by imports of consumer durables, which increase at a rate of a little over 150 per cent in 1975 after previous year's rate of 113 per cent. In contrast, imports of non-durable consumer goods increased by only 13 per cent in 1975.

Another striking fact is the expansion of imports of capital goods: 48 per cent in 1975 after the rate of 83 per cent in 1974.

The trends described above led to important changes in the structure of imports. A comparison with 1970 shows the increasing share of capital goods (from 42 per cent to 51 per cent). The higher proportion of consumer goods, and specially the drop in the share of inmediate goods, suggests that priority in the assignment of

Table 69

BOLIVIA: VALUE AND BREAKDOWN OF IMPORTS OF GOODS

	Millions of dollars at current prices (CIF) [a]				*Percentage breakdown*		*Annual growth rates*		
	1970	*1973*	*1974* [b]	*1975* [b]	*1970*	*1975*	*1971–1973*	*1974*	*1975* [b]
Consumer goods	32.3	40.8	104.7	147.0	20.3	28.0	8.1	156.6	40.4
Non-durable	22.5	31.0	83.8	94.6	14.1	18.0	11.3	170.3	12.9
Durable	9.8	9.8	20.9	52.4	6.2	10.0	–	113.3	150.7
Intermediate goods	59.9	61.1	97.0	105.8	37.6	20.2	0.7	58.8	9.1
Capital goods	66.2	99.9	182.4	269.0	41.6	51.2	14.7	82.6	47.5
Miscellaneous	0.8	2.0	3.9	3.2	0.5	0.6	35.6	95.0	– 18.0
Total	*159.2*	*203.8*	*388.0*	*525.0*	*100.0*	*100.0*	*8.6*	*90.4*	*35.3*

Source: Central Bank of Bolivia.

[a] The total figures are slightly different from the CEPAL estimates in the balance of payments and other tables, mainly because of the different ways of calculating illegal imports.

[b] Preliminary figures.

Table 70

BOLIVIA: OTHER INDICATORS OF EXTERNAL TRADE

	1971	*1972*	*1973*	*1974*	*1975*
Terms-of-trade index (1970 = 100)	82	80	88	142	117
Terms-of-trade effect (millions of dollars at 1970 prices)	–41	–50	–36	110	42
Purchasing power of exports (millions of dollars at 1970 prices)	192	206	239	385	286

Source: CEPAL, on the basis of official statistics.

resources was not always given to the production of goods. The intensive legal and illegal inflow of luxury goods, which compelled the Government to take drastic steps to prohibit certain items, contributed to the drop in the previously accumulated reserves and, as will be seen later in this study, constituted one of the channels through which resources were transferred abroad.

Investment, including imports of capital goods, was mainly channelled towards the infrastructure and the exploitation of natural resources with a view to increasing exports.

The rise in the value of imports was the result of more or less equal increases in price and volume. In 1975, as in 1974, approximately half the rise in current value may be ascribed to increase in volume and half to price increases (see table 68).

As noted earlier, the evolution of the external sector was exceptional in terms of prices in 1974 and as a reference base it introduced a pronounced bias. Consideration of some indicators with a different base and expressed in terms of constant prices complements the above description. In this respect, it is enlightening to examine the course followed by the terms-of-trade index, the terms-of-trade effect and the purchasing power of exports (see table 70).

Observing the figures in broader perspective, it may be concluded that the external sector position in 1975, while deteriorating with respect to 1974, was more favourable than that prevailing in other years of the present decade. This is borne out by the terms-of-trade index, which is higher than that of the base year and well above the indexes for the three years 1971-1973. In consonance with this, the terms-of-trade effect was positive in the years 1974 and 1975, in contrast with the position in the above three-year period. In other words, during the last two years Bolivia received transfers from abroad of over 150 million dollars at 1970 prices through the terms of trade, while in the three years 1971-1973, through the same channel, it transferred over 120 million dollars at 1970 prices to the rest of the world.

In spite of the drop in exports in 1975, their purchasing power was significantly higher than in the three-year period 1971-1973. As indicated above, the prices of Bolivia's exports reached their peak in 1974, but this should not be allowed to obscure the fact that external conditions were still reasonably favourable in 1975 if periods prior to the export boom are taken as a reference.

(b) *Balance of payments*

The opposite trends followed by exports and imports in 1975 led to a very different situation from that of the previous year. The trade balance, which had shown an appreciable surplus in 1974, once again became a deficit (see table 71). In addition to the aforementioned factors connected with trade in goods, another factor which contributed to this deficit was the increasing amount paid for services (freight, insurance, travel). In 1970 and 1971 the deficit on the services account was only about 30 million dollars, whereas in 1974 it rose to 90 million and in 1975 to over 120 million dollars. This, coupled with the continued rise in the payments of profits and interest on foreign capital in the last two years, provides a complete picture of the factors which led to the substantial deficit on current account. Although this account has traditionally shown a negative balance for Bolivia except in 1974, the figure reached in 1975 is unprecedentedly high. The deficit of 200 million dollars (which is nearly five times the figure for the three years 1971-1973) represents 40 per cent of total exports of goods and services, compared with proportions of less than 25 per cent in the recent past (see table 71).

This deficit was financed from the following main sources. First, the country's increased medium- and long-term borrowing to a value of 191 million dollars, which was twice the amount obtained in the previous year; the net figure, less amortization payments, was 119 million dollars. Secondly, the drastic fall of some 58 million dollars in international reserves and, lastly, direct foreign investment which meant an additional inflow of 12 million dollars and short-term credit to a value of 14 million dollars (see table 71).

The amounts shown for the different items are, of course, diametrically opposed to the previous year's results. Compared with a current account surplus and a gain of 111 million dollars in international reserves in 1974, the situation in 1975 was most unfavourable. Moreover, if compared with previous periods –even those in which the external sector, particularly on the export side, was fairly adverse– developments in 1975 lead to more serious conclusions than in those years. The past year's results did not give rise to any critical situations thanks, as noted earlier, to the availability of foreign exchange and increased borrowing.

It should be taken into account that, apart from the annual inflow of external financing, the actual external debt at the end of 1975 was estimated at 930 million dollars,[52] or twice the value of exports, and that the proportion of exports represented by amortization and interest payments was 21 per cent. The former ratio enables the country to continue to obtain external financing; thus, the credit contracted but not yet drawn upon would raise the total external debt contracted at the end of 1975 to 1,620 million dollars.[53] The coefficient of amortization and interest, however, upon conclusion of the grace periods for the credit obtained previously, and owing to the very burden of Bolivia's increasing indebtedness, may suffer increases which would then involve annual amounts more difficult to contend with.

[52] Estimates of the Central Bank of Bolivia.

[53] Information from the External Financing Institute.

Table 71

BOLIVIA: BALANCE OF PAYMENTS
(Millions of dollars)

	1970	*1972*	*1973*	*1974*	*1975*[a]
Current account					
Exports of goods and services	210	225	296	593	489
Goods FOB	196	203	270	558	449
Services	15	22	27	35	40
Transport	2	3	3	5	5
Travel	3	9	12	14	15
Imports of goods and services	211	261	310	499	649
Goods FOB	166	196	236	375	485
Services	45	65	74	124	165
Transport	29	35	40	84	88
Travel	4	11	14	17	25
Net payments of profits and interest on foreign capital	– 25	– 22	– 23	– 33	– 44
Profits	– 17	– 6	– 6	– 4	– 9
Interest	– 8	– 16	– 17	– 29	– 35
Net private transfer payments	2	5	5	5	5
Balance on current account	– 24	– 53	– 31	66	– 199
Capital account					
Net external financing (a+b+c+d+e)	24	53	31	– 66	199
(a) Net external non-compensatory capital	42	104	58	79	152
Direct investment	– 76	– 11	5	2	12
Long- and medium-term loans	131	141	81	99	191
Amortization payments	– 20	– 31	– 43	– 15	– 72
Short-term liabilities	4	– 4	5	– 14	14
Official transfer payments	2	9	11	7	7
(b) Domestic non-compensatory capital or assets	– 6	– 17	– 5	– 2	– 3
(c) Errors and omissions	– 13	– 34	– 31	– 18	– 4
(d) Allocation of SDRs	5	4	–	–	–
(e) Net compensatory financing (minus sign signifies an increase)	– 4	– 5	10	– 124	55
Balance-of-payments loans, trade arrears IMF loans, and other liabilities of the monetary authorities	2	– 12	28	–	6
Amortization payments	–	– 9	– 10	– 13	– 6
Foreign exchange reserves (minus sign signifies an increase)	–	– 6	– 10	– 111	58
Gold reserves (minus sign signifies an increase)	– 3	– 1	–	–	–
SDRs (minus sign signifies an increase)	– 3	– 1	1	– 1	– 2

Source: International Monetary Fund, *Balance of Payments Yearbook*, vol. 27.
[a] Estimates based on official statistics.

4. *Price trends and anti-inflationary policy*

(a) *Price trends*

In 1975, price trends were considerably more moderate. Bolivia's inflationary process was sharply intensified in 1972 and gained greater impetus in 1973 and 1974, which was reflected in increases in the consumer price index of 35 and 39 per cent, respectively (see table 72). The 12

Table 72

BOLIVIA: PRICE INDEXES
(Percentage annual variation)

	1971	*1972*	*1973*	*1974*	*1975*
Consumer price index	*3.3*	*23.6*	*34.7*	*38.9*	*6.0*
Food	3.4	24.2	44.8	44.7	3.6
Implicit deflator of the product	*4.8*	*10.5*	*31.5*	*63.0*	*10.8*
Implicit deflator of the agricultural product	2.3	4.3	41.5	67.2	22.8
Implicit deflator of the food and beverages product	5.7	14.4	20.3	81.8	12.6

Sources: Central Bank of Bolivia and secretariat of the Consejo de Economía y Planificación (CONEPLAN).

months of greatest intensity were from June 1973 to June 1974, when the index rose by about 80 per cent.

The rates shown by this indicator in 1975 point to a distinct slowing down of inflation and, although the reliability and timeliness with which this index reflects the real movements of prices may be somewhat dubious, there is no doubt that the rate of increase in domestic prices has dropped significantly.

Attention is drawn to the greater deceleration of food prices. In contrast with previous periods when the biggest increases were recorded by this component, especially in 1973 and 1974, developments in 1975 seem to have reduced the sharp disparities in the price system caused by inflation.

The implicit deflator of the product also showed lower rates of increase in prices in 1975, although they were considerably higher than those of the previous indicator (see table 72). The general price index of the economy showed an increase of 11 per cent in 1975, agricultural prices rose by 23 per cent and food and beverages by 13 per cent. The rate of inflation in 1975 would appear to be closer to the above orders of magnitude than those suggested by the consumer price index.

The slowing down of inflation in Bolivia seems to have been due to two types of factors. First, the short-term economic policy measures and State action taken in 1975 with a distinctly anti-inflationary orientation; secondly, some factors unrelated to economic policy which also helped to reduce the rate of inflation. In this context, certain phenomena directly linked with the evolution of domestic prices may also be identified.

The performance of the external sector was undoubtedly one of the most important stabilizing factors. Imported inflation lost a good deal of its impetus, both because of the lower rate of increase in the prices of imported goods (24 per cent in 1974 and 13 per cent in 1975), and because of the fall in export prices (an increase of 102 per cent in 1974 compared with –7 per cent in 1975).

The variations in the volume of imports and exports acted in the same direction. As noted earlier, imports were the most dymanic component of the increase in the supply of goods. The external markets did not have the same attraction as in the period of soaring prices. It will be recalled that in 1973 and 1974 there were domestic supply shortages because a large proportion of domestic consumer goods were sent abroad.

To sum up, the impulses which characterized imported inflation in its most active phase became more moderate or reversed their sign at the beginning or in the middle of 1974. These changes were largely responsible for the lower rate of inflation recorded in Bolivia in 1975.

However, the stabilization of prices may also be ascribed to two other favourable circumstances: the growth of the agricultural sector which reached the highest rate ever recorded (almost 7 per cent in 1975), and the accelerated growth of manufacturing (11.3 per cent), within which the production of food and beverages grew by 12 per cent.

(b) *Anti-inflationary policy*

The stabilization of prices was a continuing and priority concern in the adoption of decisions, and largely subordinated to it were the decisions adopted in the exchange, fiscal, monetary and wages sectors.

(i) *Foreign exchange and customs tariff policy.* In 1975 and since October 1972 the exchange rate was kept at 20 Bolivian pesos to the United States dollar, while domestic prices rose steeply (88 per cent in the two years 1973-1974). Consequently, the Bolivian peso was greatly overvalued, which meant that imports were heavily subsidized.

The decision to maintain a fixed exchange rate had, on the one hand, the effect of cushioning imported inflation and preventing increases in domestic prices as a result of speculation or in consonance with the value of the dollar whenever the exchange rate is altered. On the other hand, however, it led to a drop in international reserves (58 million dollars) and greater net indebtedness (120 million dollars).

The system of the free sale of foreign exchange - which became cheaper and cheaper as time went by - was one of the most propitious means for the flight of this scarce resource. In view of the profusion of illegal foreign trade activities, it is easy to guess that its volume was by no means negligible.

These illegal activities appear to have involved substantial amounts. The importance of such leakages is indicated by the concern shown by the Government in checking the contraband and by the Central Bank estimates (45 million dollars worth of illegal imports in 1975).[54] In view of the system of the free sale of foreign exchange, national industry finds it hard to compete with legal and illegal imports which are subsidized by the exchange parity and which reduce the market for their own products. So long as the performance of the external sector continues to be favourable there will be only minor restrictions, but if the bottlenecks of earlier periods should recur the situation could become more difficult.

At the beginning of 1975 the Government decided to reduce import taxes on a number of raw materials and final goods for domestic consumption. The tariff reductions favoured both essential articles and luxury goods. The preferential system included a number of raw materials for the textile industry such as synthetic fibres, wool, horsehair, flax, etc., and final goods such as carpets, tapestries, velvets, clothing, etc. This favourable treatment also covered musical instruments, sound recording and reproduction equipment, television sets, etc. Passenger cars were also favoured by the tariff reductions, but the value of these imports was such that early in 1976 the Government prohibited them.

It may be concluded that the tariff reductions, in the same way as the maintenance of a fixed exchange rate, were aimed at curbing inflation and had the same counterpart effect: the loss of reserves and weakening of the balance of payments.

(ii) *Fiscal policy.* As might have been expected, the strengthening of the fiscal sector in 1974 with the revenue obtained from the high prices of exports did not follow the same course in 1975. The increase in fiscal renevue was only 11 per cent in 1975, compared with 107 per cent the previous year (see table 73).

The most dynamic component of income in 1975 was customs revenue, which grew by 75 per cent. In contrast, revenue from export showed substantial decreases. Both these variations were in consonance with the respective changes in imports and exports.

On the expenditure side, fiscal expansion was also much lower than in 1974, with the exception of fixed and financial assets which showed considerable growth.

It has already been stressed that the comparison with 1974, in view of its exceptional character, must be carefully weighed. In real terms, it may be affirmed that the fiscal position showed no deterioration in 1975. In spite of the increasing disequilibrium between income and expenditure, this difference, which amounted to less than 10 per cent of expenditure, represented no major problems. More than 90 per cent of the fiscal deficit was financed with direct credit from the Central Bank.

Fiscal expenditure shows the extent to which price stability and economic growth were given priority. The most important item of expenditure, i.e., remuneration of personal services, grew by 16 per cent in terms of current values. In contrast, fixed and financial assets showed an exceptional increase, and capital transfers and contributions maintained the high level reached in 1974.

[54] These estimates do not include chain export and import contraband activities which are self-financing and therefore do not require foreign exchange from the banks, but which in fact represent outflows and inflows of products.

Table 73

BOLIVIA: MOVEMENT OF NATIONAL TREASURY FUNDS

	Millions of Bolivian pesos at current prices			*Annual growth rates*	
	1973	*1974*	*1975*	*1974*	*1975*
Income	*2 470*	*5 104*	*5 689*	*107*	*11*
Internal revenue	906	1 299	1 479	43	14
Customs revenue	517	947	1 660	83	75
Mining revenue	191	903	425	374	−53
Revenue from petroleum and gas	279	883	820	217	− 7
Additional tax on exports	452	801	693	77	− 13
Other income	125	271	612	117	126
Expenditure	*2 882*	*5 545*	*6 294*	*92*	*14*
Personal services	1 332	2 314	2 685	74	16
Non-personal services, materials and supplies	387	554	745	43	34
Fixed and financial assets	120	102	227	− 15	123
Public debt	433	679	845	57	24
Transfers and contributions	550	1 575	1 626	187	3
Other expenditure	60	321	166	434	− 48
Deficit	*412*	*441*	*605*	*7*	*37*

Source: Ministry of Finance.

It should be noted that the financing of fiscal activity continues to depend heavily on Bolivia's foreign trade situation. In 1975, over 34 per cent of total income was obtained from exports, 29 per cent from imports and only 26 per cent may be considered strictly as internal renevue. It is noted in this respect that tax evasion is still one of the most serious problems of fiscal policy.

(iii) *Wages and prices policy.* In the public sector, the freezing of wages and salaries decreed at the end of 1974 was in force throughout 1975. The increase in total public wages and salaries was due to the promotions given fairly liberally with the aim of retaining the most highly skilled personnel, so that they were mainly conferred on certain levels of the public administration. The increase in public employment, which followed the natural growth of the labour force, is the other factor accounting for the increase in total wages and salaries. In any case, both these increases were maintained within the limits imposed by price stability.

In the private sector, wage increases were authorized on the basis of increases in productivity.

In a period in which the level of prices rose by slightly over 10 per cent and in which there were highly dynamic activities generating significant surpluses, the freezing of wages and salaries and the adjustment based only on increased productivity contributed to the greater concentration of income. Thus, the purchasing power accumulating by the high-income groups in the last three years reached extraordinary levels. The fact that imports of consumer durables (usually with a large proportion of luxury goods) multiplied five-fold in the last two years is sufficient indication that the spending capacity was confined to fairly small groups. Therefore, the labour force would appear to be the sector which absorbed most of the sacrifice involved in the stabilization policy.

As regards the prices policy, the machinery for the control of essential supplies continued in operation. It should be noted, however, that the market forces frequently made their influence prevail in the successive fixing of prices. In any case, with the slowing down of inflation in 1975 the price controls and adjustments ceased to be the focal point of economic policy as was the case in 1973 and 1974.

As regards public rates, however, a highly important measure adopted was the adjustment of the price of fuels. Since Bolivia is an oil and gas producing country, domestic prices of petroleum products did not increase as a result of the international price explosion. This led to wasteful domestic consumption, clandestine exports to border countries and a financial loss for the State enterprise which produces, refines and markets these products.

The following price increases were decreed in November 1975: regular gasoline 67 per cent, high-octane gasoline 82 per cent, extra-high-octane gasoline 160 per cent, diesel oil 78 per cent, fuel oil 175 per cent. The price of gas and kerosene for household use did not change. At the same time, any rise in transport rates was prohibited and to compensate for this a number of benefits were accorded to the national transport trade union organizations.

The concern shown by the Government in preventing a heavier burden on the low-income sectors and the decision to keep inflation under control were the motives for discrimination in the adjustments in the prices of fuels and the freezing of transport rates.

(iv) *Monetary policy.* The monetary authorities succeeded in sharply reducing the growth rate of the money supply in 1975. The increase was slightly less than 12 per cent which is equal to only a little over a quarter of the 1974 rate and is also a good deal lower than the average for the period 1971-1973 (see table 74).

This trend was parallel to that of the factors of expansion, whose annual rate of growth rose from 23 per cent in the three years 1971-1973 to nearly 46 per cent in 1974, and fell to 14 per cent in 1975.

The slower increase in the factors of expansion was decisively influenced by the sharp decrease in international reserves (–30 per cent) and, on a lesser scale, by the more gradual increase in credit to the private sector. This rose 20 per cent in 1975, that is, at a rate less than half that recorded in the previous year.

On the other hand, net credit to the Government and public institutions rose at the exceptionally rapid rate of 186 per cent. This situation contrasted with that existing in earlier years, in which loans to the private sector increased at an extraordinary rate, much higher than that of credit granted to the Government. As

Table 74

BOLIVIA: MONETARY POSITION
(Millions of Bolivian pesos)

	Balance at end of				*Annual growth rates*		
	1970	*1973*	*1974*	*1975*	*1971-1973*	*1974*	*1975*
Money	*1 532*	*2 969*	*4 257*	*4 759*	*24.6*	*43.4*	*11.8*
Currency outside banks	1 153	2 073	2 746	3 054	21.6	32.5	11.2
Demand deposits	365	849	1 461	1 607	32.5	72.1	10.0
Factors of expansion	*2 364*	*4 452*	*6 486*	*7 366*	*23.4*	*45.7*	*13.6*
Net international reserves	293	229	2 368	1 664	– 7.9	903.0	– 29.7
Domestic credit	2 071	4 223	4 118	5 702	27.0	– 2.5	38.5
Government (net)	1 295	1 935	465	1 328	14.3	– 76.0	185.6
Private sector	776	2 288	3 653	4 374	43.3	59.7	19.7
Factors of absorption	*831*	*1 483*	*2 229*	*2 608*	*21.4*	*50.3*	*17.0*
Quasi-money	382	807	1 192	1 956	28.3	47.7	64.1
Counterpart funds	147	95	318	138	– 13.5	235.0	– 56.6
Other items (net)	302	581	719	514	24.2	23.8	– 28.5

Source: IMF, *International Financial Statistics*, July 1976.

a result, the share of credit to the private sector in total credit increased from 37 per cent in 1970 to 84 per cent in 1974. In absolute terms, however, the latter increase was only slightly less than that of the bank credit accorded to the Government in 1975.

Lastly, another notable feature of the monetary trend in 1975 was the acceleration of the growth which had been shown for some years by quasi-money. This increased by nearly 60 per cent, almost doubling the amount reached only two years previously.

BRAZIL

1. *The overall picture*

(a) *Main tendencies and changes*

In 1975 Brazil experienced the effects of the international upheaval of 1974, with an equal time-lag and similar intensity as in Latin America as a whole. After a long period of dynamic growth beginning in 1968, during which rates of expansion approaching or exceeding 10 per cent per annum were recorded, the impetus fell considerably in 1975, when there was only a 4 per cent increase in the gross domestic product. The deterioration in the terms of trade, which was considerable in 1974 (–17) and continued in 1975 (–7), slowed down the increase in income (see table 75).

Only basic services managed to maintain a rate of growth similar to that of the recent past. The industrial sector, in contrast, which had been the main force behind the previous growth, had a growth rate of less than 4 per cent, i.e., less than a third of the average figure of 14 per cent recorded during the years 1971-1973. Frosts and floods,

Table 75

BRAZIL: MAIN SHORT-RUN ECONOMIC INDICATORS
(Percentage annual growth rates)

	1971–1973	*1974*	*1975*
Gross domestic product	11.0	9.6	4.0
Gross income [a]	11.3	8.5	3.8
Per capita gross domestic product	7.9	6.5	1.1
Gross fixed investment	17.6	14.1	5.5
Value of exports	29.8	30.2	10.2
Value of imports	33.2	91.1	– 0.8
Terms of trade	8.6	– 17.2	– 7.3
Balance on current account [b]	–1 622	–7 127	–6 923
Variation in international reserves [b]	1 798	–957	– 1 095
Consumer price index (Rio de Janeiro)[c]	12.4	34.1	30.8
Money	39.2	34.8	44.9
Current income of government		45.3	24.3
Total expenditure of government		38.7	30.8
Fiscal deficit/total expenditure of government[d]		5.3	0.1

Source: CEPAL, on the basis of official statistics.

[a] Gross domestic product plus terms-of-trade effect.

[b] In millions of dollars at current prices.

[c] December – December.

[d] Percentage.

Table 76

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

	Millions of cruzeiros at 1970 prices			*Percentage breakdown*		*Annual growth rates*		
	1970	*1974*	*1975* [a]	*1970*	*1975* [a]	*1971 1973*	*1974*	*1975* [a]
Agriculture	25 082	32 785	33 900	14.3	12.2	6.4	8.5	3.4
Mining	1 574	...	...	0.9	...	8.0	...	...
Manufacturing	43 471	68 470	71 001	24.8	25.6	13.7	7.1	3.7
Construction	10 167	15 983	16 590	5.8	6.0	12.2	11.2	3.8
Subtotal goods	*80 295*	*119 379*	*123 718*	*45.8*	*44.5*	*11.2*	*8.0*	*3.6*
Electricity, gas and water	4 106	6 405	7 058	2.3	2.5	11.7	12.0	10.2
Transport and communications	10 313	16 051	17 366	5.9	6.3	10.1	16.5	8.2
Subtotal basic services	*14 419*	*22 456*	*24 424*	*8.2*	*8.8*	*10.6*	*15.2*	*8.8*
Commerce, financial establishments, and insurance	38 232	59 740	61 652	21.8	22.2	12.1	11.0	3.2
Real estate [b]	14 968	...	...	8.5	...	12.4	...	...
Communal, social and personal services [c]	27 612	...	...	15.7	...		...	...
Subtotal other services	*80 812*	*125 443*	*129 654*	*46.0*	*46.7*	*12.2*	*10.1*	*3.4*
Total gross domestic product	*175 526*	*263 275*	*273 806*	*100.0*	*100.0*	*11.0*	*9.6*	*4.0*

Sources: 1970-1974: CEPAL calculations on the basis of estimates of the National Accounts Centre of the Getúlio Vargas Foundation; 1975: CEPAL estimates on the basis of official figures.

Note: As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

[a] Preliminary figures.

[b] Refers to residential property only.

[c] Also includes restaurants, hotels and services provided to enterprises.

together with the influence of the external situation, prevented agricultural production from offsetting the loss of vitality in manufacturing activity as in 1974. Thus, in 1975 agricultural activities increased by only a little over 3 per cent —far below that of the previous year (8.5 per cent) and well below the average rate of over 6 per cent recorded in 1971-1973 (see table 76).

The fluctuations in the external sector were equally significant, although there the acute imbalance recorded in the most representative accounts first occurred in 1974. It could be said that in 1975 the main distortions which had emerged during the previous year were repeated, although they were moderated by the efforts made to limit imports and increase exports and foreign investment. The latter remained at around the high level of 1974, but could not prevent a further fall in international reserves. Furthermore, the considerable foreign resources procured in those two years in order to rectify the state of the current account considerably modified the size and structure of the external debt (see table 79).

As in other countries, the essentially unfavourable external situation influenced the movement of prices because the increases in the unit value of exports and imports were smaller than in 1974.

This contributed to a slight reduction in the rate of inflation, from almost 34 per cent in 1974 to a little over 31 per cent in 1975. Furthermore, some significant changes were recorded in the evolution of relative prices: the increases in the food and clothing sectors were considerably less than the increase in the general index.

The importance of external factors can be better appreciated if it is recalled that the efforts to sustain economic activity included strong monetary expansion (45 per cent compared to 35 per cent in 1974), which greatly exceeded the rise in prices and was due mainly to the provision of more credit to enterprises, since the government acted with caution: in nominal terms, its current revenue and expenditure rose only at a similar rate to that of prices.

The measures aimed at promoting growth also included an easier wages policy designed to put wages in a better position to absorb the rise in prices. However the loss of dynamism in the productive activities probably restricted the opportunities for employment. Available information on the evolution of employment in Sao Paulo show that the offers of work diminished in comparison with the previous year, especially in the middle of 1975, although they showed a slight improvement in the second half of the year.[55]

Table 77 shows the main variations in the components of total supply and demand, measured in constant prices.

It will readily be observed that the increase in the gross domestic product was offset by a considerable fall in the volume of imports (–8.4 per cent), so that the growth of total supply finally amounted to only 3 per cent. In previous years, the increase in total supply exceeded that of

[55] See Fundaçao Getúlio Vargas, *Conjuntura Econômica*, vol. 29, Nº 2, page 177, February 1975.

Table 77

BRAZIL: TOTAL SUPPLY AND DEMAND

	Millions of cruzeiros at 1970 prices			*Percentage breakdown*		*Annual growth rates*		
	1970	*1974* [a]	*1975* [a]	*1970*	*1975* [a]	*1971–1973*	*1974* [a]	*1975* [a]
Total supply	*221 041*	*342 092*	*351 920*	*107.0*	*109.1*	*11.7*	*11.0*	*2.9*
Gross domestic product	206 565	309 897	322 430	100.0	100.0	11.0	9.6	4.0
Imports	14 476	32 195	29 490	7.0	9.1	20.6	26.6	– 8.4
Total demand	*221 041*	*342 092*	*351 920*	*107.0*	*109.1*	*11.7*	*11.0*	*2.9*
Domestic demand	*207 381*	*321 482*	*329 682*	*100.4*	*102.2*	*11.5*	*11.7*	*2.6*
Gross domestic investment	...	...	...	...	...	...	...	...
Gross fixed investment	43 441	80 714	85 348	21.0	26.5	17.6	15.6	5.5
Total consumption [b]	163 940	240 768	244 334	79.4	75.8	9.8	10.9	1.5
General government	20 512	30 931	31 550	9.9	9.8	11.6	8.6	2.0
Private [b]	143 428	209 837	212 784	69.5	66.0	9.6	11.2	1.4
Exports	*13 660*	*20 610*	*22 238*	*6.6*	*6.9*	*14.2*	*1.4*	*7.9*

Sources: 1970-1973: CEPAL calculations on the basis of figures published by the National Accounts Centre of the Getúlio Vargas Foundation in *Sistema de Contas Nacionais metodologia e quadros estatísticos,* September 1974; 1974 and 1975: CEPAL estimates on the basis of statistics from the same source.

Note: The figure 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.

[a] Preliminary figures.

[b] Includes variations in stocks.

the domestic product, precisely because of the high growth rates of foreign goods.

If the situation is considered from the angle of demand and its changes in 1975, the rather paradoxical fact that exports constituted the most dynamic sector stands out. Although the exceptionally high rates of the period 1971-1973 were not repeated, the increase in exports considerably exceeded that of 1974 (8 per cent compared with only a little over 1 per cent). Brazil was one of the few Latin American countries which achieved such a performance, and it testifies to the tenacity of the efforts made to overcome detrimental influence of the external situation.

The growth rates of all the other items of demand decreased substantially and it was total consumption --especially private consumption-- which contracted most. The figure corresponding to government demand (2 per cent), although slightly higher, showed the cautious approach of the fiscal authorities. Despite the stability of public finances there seems to have been no intention to use them to offset the decrease in other elements of total demand. As will be seen below in the analysis of inflationary trends, monetary policy was much more expansionist in relation to the private sector.

Furthermore, a link can be seen between the behaviour and the performance of investment, which expanded by only 5.5 per cent in 1975, although that did not prevent the coefficient of gross fixed investment from maintaining the very high level of nearly 27 per cent (see table 77).

In view of the government's desire to maintain productive activity and of the well-known rigidity of public investment expenditure, it seems reasonable to suppose that most of the relative contraction originated in the private sector and that the uncertainties caused by the new situation contributed to it. The low rate of expansion of total government expenditure also affected the situation.

(b) *The determining factors behind the recent economic trends*

In assessing the changes in the development of Brazil in 1975 it should be borne in mind that its economy did not escape from the general trends imposed by the external situation and more specifically by the central countries. The so-called "Brazilian model" was inevitable influenced by the course of events in the group of countries which provoke the fluctuations of the world system and its dependence on them. This was the main cause of the interruption of the phase of very high growth rates in the country, rather than other factors which have been adduced in various theories on the matter, often inspired by the traditional approach to crises.

This situation is not surprising in view of the fact that Brazil's economic policy was basically oriented outwards or was seeking, as had been said more than once, to pass from what was described as an "inward-looking" mode of operation to one which was declaredly "outward-looking".

Brazil may in fact be the most conspicuous case of timely and determined adaptation to the conditions of expansion which developed in the second half of the 1960s, gathered strength to an extraordinary degree, with very short lapses, in the firts part of the present decade, and were then interrupted in 1974-1975.

This propitious influence from outside constituted the main support for the Brazilian strategy, which combined three closely related elements: the energetic promotion of non-traditional exports; the procuring of an appreciable flow of foreign credit and capital, and the sustained increase of imports of intermediate and capital goods.[56]

The policy applied was based on the dynamic development of these variables and on securing and maintaining certain basic proportions between them to prevent imbalances which would jeopardize the plan.

These conditions were more or less fulfilled between 1970 and 1973, within a certain pattern of behaviour, characterized by a dynamic combination of a moderate deficit in the trade balance and current account of the balance of payments and abundant external financing which not only covered the deficit but also made it possible to increase the international reserves.

In 1974 radical changes occurred both in the rates of expansion and in the proportions of the variables involved. Without going into details on matters which will be discussed in the section on the external sector, it may be said that these changes resulted in a sudden and pronounced imbalance in the current account, which despite an unusually large inflow of foreign resources led for the first time to a fall in currency reserves. This pattern was

[56] These central objectives were of course backed by a complex and varied set of economic policy instruments. A partial study of the subject can be found in CEPAL *Economic Survey of Latin America, 1974,* chapter III.

reproduced in 1975, with some variations which slightly accentuated the overall picture. In brief, these two years represented a rectification or breakdown of the "lopsided equilibrium" of the previous phase. The years 1974 and 1975 should thus be taken together in making any analysis of the subject.

(i) *Causes of the disequilibrium.* The situation described poses various questions on the nature of the changes described and their influence on the rate and nature of Brazilian development.

In the first place it may be asked what the key element was in the breakdown of the plan. Opinions and figures seem to point to the behaviour of imports, especially in 1974, the year of the breakdown.

In that respect various causal factors are involved, singly or in combination: a trend originating in the growth model itself towards the expansion of imports at a higher rate than that of the growth of the product and of the purchasing power of exports; the unfavourable fluctuations in the prices of imports and especially of petroleum, with consequent deterioration of the terms of trade, and the considerable "preventive" increase in purchases from abroad as a protection against the consequences of the international upheaval.

The trend towards an ever-increasing share of imports in the product is analysed in general terms in Part Two of this issue of the *Economic Survey*, and it was undoubtedly particularly marked in Brazil in the period which began in about 1968. Furthermore, as already noted, this evolution constituted a primary element of the strategy which was applied.

The phenomenon can be seen more clearly from table 78, which shows the main sectors from which the demand for imports originates, the distribution of imports between those sectors, their share in the product of the economic activities referred to, and the growth rate of the product and of imports in 1971-1974.

The main demand for foreign goods came from the manufacturing industries and especially the machinery and metal products group (58 and 24 per cent respectively in 1974). Since the shares of the other productive sectors are much lower, so likewise is their participation in the demand for imported consumer goods, although it should not be overlooked that the volume of imports thus generated nevertheless showed substantial absolute increases.

The figures for the share of imports in the total product and in that of the sectors considered show clearly that that share doubled with respect to the total product and increased appreciably in the manufacturing industries, above all in the machinery and metal products industries, where it rose from 13 per cent in the period 1964-1969 to over 26 per cent in 1974 (see table 78).

It should be borne in mind that 1974 was a peak year for imports; the volume of imports –which is the relevant aspect, since the value is expressed in constant 1970 prices– increased by 30 per cent compared with 24 and 20 per cent during the previous years (see table 85). However, if the period 1970-1974 is taken as a base in order to assess the rates of growth of the product and of imports, the changes described emerge equally clearly. The rate of increase of imports was double that of the global product and was even higher in relation to the total for the manufacturing industry: in the metal products and machinery groups the rate was three times that of the growth of the product, which was nevertheless high (the product rose by an average of 15 per cent per year, but this was far behind the exceptional increase in imports of over 44 per cent a year).

The validity of the argument based on the increasing tendency to import and the effect of that trend on the upheavals of 1974-1975 complements the other theories advanced rather than contradicting them.

The deterioration in the terms of trade was clear and marked in the last two years, and especially in 1974, because of the spectacular rise in the cost of petroleum. The tremendous gap between the increase in the volume and value of imports that year (30 per cent and 104 per cent respectively) was repeated in 1975, although to a lesser degree; thus, for example, it was necessary to reduce the quantum of imports by 11 per cent in order to achieve a 3 per cent reduction in their value (see table 85).

Finally, it should be noted that in 1974 the situation was influenced by the decisions to increase imports very considerably in view of the uncertainties of the world situation and the increased costs of petroleum. Only one-third of the great increase in foreign purchases can be accounted for by the higher prices of this fuel; the balance, which amounted to over 44 billion dollars, was comparable to the total cost of the country's imports at the beginning of the 1970s. According to the Brazilian Finance Minister, this balance "corresponded to the increase in imports of steel, non-ferrous metals, chemical products, fertilizers and, above all, capital goods. The high

Table 78

BRAZIL: STRUCTURE AND GROWTH RATES OF IMPORTS AND THEIR SHARE IN THE SECTORAL GROSS DOMESTIC PRODUCT

(Percentages based on constant values at 1970 prices)

Sectors of demand	*Structure of imports*			*Imports as a percentage of the sectoral gross domestic product*			*Growth rates 1971–1974*	
	1964–1969	*1970*	*1974*	*1964–1969*	*1970*	*1974*	*Product*	*Imports*
Agriculture	3.5	3.7	5.4	1.2	1.8	3.8	6.9	34.2
Construction	3.5	4.3	2.2	3.5	5.2	3.7	12.0	3.3
Mining	0.3	0.3	0.1	2.4	1.5	1.3	8.0	– 6.0
Manufacturing	54.3	49.6	58.1	12.9	14.0	23.6	12.0	27.0
Food	11.5	5.9	5.7	15.1	10.0	16.5	9.9	21.1
Metal manufactures and machinery	17.1	17.6	23.8	13.0	15.4	26.3	15.4	44.3
Chemicals	10.5	11.1	13.0	15.1	15.3	24.1	13.3	27.0
Others	15.2	15.4	15.6	11.4	14.2	23.1	8.4	22.5
Basic services	13.5	16.0	12.2	9.8	13.6	14.7	11.7	14.1
Other services	3.5	4.9	3.6	0.4	0.7	0.8	11.6	13.0
Petroleum and fuels	9.0	6.9	7.8					25.8
Consumer goods	11.9	13.1	10.6					15.8
Durables	3.7	5.3	4.7					18.5
Non-durables	8.2	7.8	5.9					13.9
Miscellaneous	0.5	1.2	–					
Total	*100.0*	*100.0*	*100.0*	*5.5*	*7.0*	*10.4*	*10.7*	*22.1*

Source: CEPAL, on the basis of statistics from Carteira de Comercio Exterior (CACEX) *Relatorio, 1974.*

concentration of non-petroleum imports in 1974 and 1975, particularly in the capital goods sector, is the result of a phase of high investment aimed at import substitution".[57] It may be noted in passing that this "preventive demand" for imports, which occurred precisely at a time when the external situation was becoming uncertain and obscure, is strongly reminiscent of the conduct of Brazil towards the end of the Korean war. In 1951 and 1952 Brazilian purchases abroad exceeded those of the previous year by more than 50 per cent, in spite of the fact that an unfavourable international situation was expected.

The combination of factors described above largely answers the first question raised, namely the cause of the breakdown of the plan. There is no point in discussing the relative importance of each of these factors, since they are very different in nature: some are linked directly with the recent situation, and others with the characteristics and trends of the mode of growth or the "developmentalist approach" of the ruling circles.

(ii) *The external sector and global dynamism.* A second question concerns the relation between the upheavals in the external sector and the drop in the rate of development in 1975. Although the causal link between the two elements seems obvious, further study justifies some remarks which should, however, only be considered as a very preliminary exploration of this subject.

It is clear that the fall in the rate of growth cannot be attributed to a deficiency of the "imported component" which the Brazilian

[57] Statement by Minister Mario Henrique Simonsen at a seminar organized by the newspaper *Financial Times*. See *Jornal do Brasil,* 10 March 1976, page 14.

economy or its prevailing model might require. As we have already seen, even in 1975 the flow of foreign goods greatly exceeded the levels of 1971-1973, even taking into account the deterioration in the terms of trade and the higher petroleum costs. In reality, as the Finance Minister of Brazil pointed out, there must have been a significant accumulation of productive resources, both inputs and capital goods, in that year.[58]

Turning to the pattern of demand and particularly of external demand, various interesting and contradictory aspects can be perceived. Firstly, the rate of growth of the value of exports fell sharply from 30 to 10 per cent between 1974 and 1975. (See table 75). Secondly, if the exports of goods alone are considered, it can be seen there were significant reductions in the growth rate in nearly all categories, with the exception of iron ore (see table 86.)

However, if the evolution of exports is considered in terms of constant prices, a rather different picture is obtained, since exports are then seen to be the most dynamic component of total demand in 1975 (see table 77). Even though the increase that year (8 per cent) seems larger by contrast with 1974, when there was only a small increase of just over 1 per cent compared with the high average rate of the years 1971-1973, this fact is clearly significant in assessing the relative importance of the components of this demand in weakening the pace of development.

It is also necessary to refer briefly to the outside influences on the dynamism of the system and to the changes in the composition of exports. In this respect table 79 should be referred to.[59] There is no need to dwell on the marked increase in the share of manufactures between 1970 and 1974. When the relations between exports, the total product and the product of particular sectors are considered, some important facts immediately emerge. The general coefficient has not changed, and it has certainly been affected by the fall in the quantum of exports, particularly of coffee, in 1974. Nevertheless, this reservation does not contradict the limitations of the degree of openness to the exterior of exports.

[58] Unfortunately no figures are available on the evolution of stocks which would make it possible to quantify this fact. This consideration should be borne in mind, however, in any examination of the prospects for growth in the near future.

[59] See also table 86 for further details, although it is expressed in current prices.

Table 79

BRAZIL: STRUCTURE AND GROWTH RATES OF EXPORTS OF GOODS BY SECTORS OF ORIGIN AND AS PERCENTAGES OF THE SECTORAL GDP

(Percentages based on constant values at 1970 prices)

Sectors of origin	*Structure of exports*		*Exports as a percentage of the sectoral gross domestic product*		*Growth rates 1971–1974*	
	1970	*1974*	*1970*	*1974*	*Product*	*Exports*
Agriculture	49.7	30.3	22.5	15.5	6.9	– 2.4
Mining	10.2	13.9	73.6	109.6	8.0	19.3
Manufacturing	40.1	55.8	10.5	13.7	12.0	19.8
Foods	21.8	17.4	34.5	30.4	9.9	4.3
Metal manufactures and machinery	7.3	12.0	5.9	8.0	15.4	24.9
Others	11.0	26.4	5.3	13.2	10.6	37.3
Total	*100.0*	*100.0*	*6.5*	*6.3*	*10.7*	*10.3*

Source: CEPAL, on the basis of official statistics.

In individual sectors, an interesting although modest increase can be observed in the share of manufactured exports in relation to the industrial product; this is accounted for by the performance of the metal products and machinery sectors and especially of "other industries", where the textile and clothing industries predominate. In contrast, there was a decline in the proportion of foodstuffs exported.

A comparison of the average rates of growth of the product and of exports in the period 1971-1974 explains these changes and shows the accentuation of the dissimilar trends in the evolution of the two factors, particularly as regards the metal products and machinery groups and the other industries. Thus, although the global rates were almost the same (10.7 for the product and 10.3 for exports), the rates for the two sub-sectors mentioned were 15 and 25 per cent and 11 and 37 per cent, respectively.

These trends seem to suggest the tentative conclusion that there were no major changes in total exports, although considerable variations can be observed if the overall situation is broken down and sectors and activities are considered.

Despite the foregoing, any clearcut conclusion on the direct influence of the demand for exports on the reduced pace of economic growth can only be viewed with reservations in the light of the figures and ratios described above. Although this is evident from a macro-economic point of view, it is probably not so clear when considering the situation in particular activities or enterprises. Even so, no satisfactory answer can be found to the problem being discussed.

It may be noted in passing that a comparison of tables 78 and 79 clearly shows that the tendency towards "outward-looking" development is very much more marked in imports than in exports, despite the rapid expansion of the latter. The lack of synchronization described above emerges clearly and is very pronounced in certain sectors and activities.

When matters are viewed from this angle it is reasonable to suppose that, in global terms exports have had more impact in producing currency to acquire imports than in encouraging demand. In other words despite the clear outward orientation of imports, the components of domestic demand have continued to be the mainsprings in the dynamism of the system.

This gives grounds for reviewing the evolution of these categories. It has already been seen that there were marked reductions in the growth rates of both public consumption and, especially, private consumption, which accounted for about two-thirds of global demand in 1975 (see table 77). Furthermore, the growth of fixed investment slowed down. The very general nature of the available information makes it impossible to study the causal factors and the pattern of these variables in any depth and with the necessary objectivity. It is therefore only possible to assemble a few tentative views.

In the first place, it should be pointed out that the monetary and wage policies were both of an expansive nature in 1975, as noted in the section on the inflationary process. The public finances do not seem to have participated in the upward trend, since the rate of increase in their expenditure only slightly exceeded the rate of increase in prices. Nevertheless, it should be noted that, unlike the considerable surplus obtained in 1974, there was only virtual equilibrium in the fiscal accounts in 1975.

Although information is not available on the evolution of stocks, which is an aspect of undoubted importance in the recent situation, the figures for gross fixed investment clearly show that a high coefficient of capital formation was maintained although there was a marked reduction in the rate of increase gross fixed investment grew by 5.5 per cent compared with 14 per cent in the previous year and 18 per cent in 1971-1973. While in previous years investment had increased much more than the product, in 1975 it barely exceeded it (see table 77). This must undoubtedly have influenced the pace of development, although the amounts involved are less than those corresponding to total consumption. It will be necessary to await more detailed information in order to assess the behaviour of the public and private sections in this sphere. In view of the uncertainties which arose in 1974-1975 and the Government's desire to sustain the rate of growth as far as possible, it would be logical to assume that the share of private investment was smaller. If that were so, however, the main initiative would have devolved upon the paragovernmental sector and not the activities of the Government proper, as the information already mentioned suggests.

All the above seems to indicate that in 1975 there was some dissociation between the loss of dynamism of the economy and some elements —mainly external— which are normally considered decisive for growth. It is therefore appropriate to reconsider the subject from a more general angle with a view to identifying some factors which might have influenced this phenomenon.

(iii) *Policy dilemmas.* One major dilemma is the relative contradiction between the goal of maintaining a high rate of growth and the restrictions imposed by the inflationary hazard. This dilemma, which has predominated in the policies of the developed countries in recent times, assumed a particular form in Brazil and also in several other Latin American economies. The caution in the fiscal conduct of Brazil was a good example of the limitations caused by this problem which is hard to solve or allay.

Furthermore, this problem arose in the context of considerable changes in the level and system of prices, deriving mainly from imported inflation. The moderation of these upheavals in 1975 alleviated but did not eliminate the delayed effects of these changes and the need for further adaptation to the fluctuating situation.

Two outstanding related cases illustrate this subjetc. The first is connected with the increase in the price of oil. As indicated above, this increase did not prevent an unusual increase in imports of other goods, but it should not be forgotten that the domestic economy nevertheless had to "absorb" this radical increase in a basic price and adapt to the new system, just as it had to adapt to other products affected directly or indirectly by imported inflation. It should be borne in mind in respect of petroleum that the amount involved was approximately 2,600 million dollars and that the repercussions were both serious and indisputably contradictory. The increase had a major deflationary effect by reducing the demand for other goods and services, but at the same time had a marked inflationary effect on cost. The dislocation brought about by these opposing processes must not be underestimated.

Another key case is the automobile industry, one of the prime originators of the decline of the industrial sector. As indicated in another section, under the Government's economic policy the industry was not given any special treatment aimed at maintaining the demand for its products (except tractors), both because of the new circumstances in respect of petroleum and because of the possible inflationary effect of a programme designed to stimulate that demand (see the section on the industrial sector below)

From a broader angle it is clear that the new circumstances also jeopardized the plans for monetary correction which have been so significant in the Brazilian experience and made it necessary to make exceptions.

The situation described should be considered in conjunction with the changes caused by the deterioration of the external accounts, which led to a series of changes in the financial system, as will be seen later. Until 1973, the surpluses in external financing provided ample room for manoeuvre in monetary and credit management, but the situation changed considerably in 1975, when the loss of reserves increased and it was necessary to introduce various measures to attract additional resources from abroad.

Finally, the changes in the external sector – the basic point of reference for the functioning of the prevailing mode – inevitably altered the expectations of the decision-makers, especially in entrepreneurial circles. The actions and pronouncements of the Government undoubtedly helped to moderate the atmosphere of uncertainty but it was difficult to dispel it completely.

The preceding hypotheses do not provide anything like a full answer to the questions raised but they are indispensable elements for finding the answers.

To conclude these remarks, it is worth referring to another line of argument based on the unevenness in the dynamism of Brazilian development.

For some, the events of 1975 were the product of "an economy in transition trying to adapt to the reality of the new prices for the various sources of energy".[60] For others, however, "despite appearances, it is not a question of a simple albeit acute crisis or of large-scale economic readjustment. We are confronted with a real structural change in the entire world economy".[61]

Of course these views are not mutually exclusive. The conjunctural aspect of the upheaval cannot be denied or underestimated, but at the same time it is difficult to ignore the widely shared view that these years marked the end of an epoch and the beginning of a new era for the international economy. It remains to be seen how the Brazilian economy, which managed to adjust with such flexibility and originality to the situation which now seems to be on the decline, will fit into the new situation which is emerging.

[60] Fundaçao Getúlio Vargas, *Conjuntura Econômica*, vol. 30, Nº 2, February 1976 ("A Economia Brasileira em 1975. Retrospecto anual"), page 2.

[61] Speech by the President of Brazil, Mr. Ernesto Geisel, October 1975.

2. *Sectoral developments*

The slackening of the rate of economic expansion was reflected in all the productive sectors (see table 76). In 1975 only basic services maintained a rate of expansion comparable with previous years.

The most outstanding feature, as might be expected, was the loss of impetus in the industrial sector, the driving force of the system. This sector had grown at the extraordinarily rapid rate of almost 14 per cent per year during the period 1971-1973, but the change in the external situation slowed down this rate to the still by no means insignificant level of just over 7 per cent in 1974 but then finally to just under 4 per cent in 1975.

The services sector, agriculture, and above all construction, showed a similar pattern, although it may be noted that agricultural production had been very satisfactory in 1974, when its increase of 8.5 per cent exceeded even the high rate of growth of the preceding years. In 1975 agricultural production increased at a lower rate than the economy as a whole, but that was mainly due to natural causes rather than the external situation.

(a) *The industrial sector*

Although all the categories of manufacturing (except textiles and clothing and the metals industry) showed lower percentages of growth in 1975 than in the previous year there were marked and significant variations (see table 80). Thus, for example, while the paper and cardboard industry declined considerably the capital goods branches maintained satisfactory rates of expansion. Metals production also exceeded the output of the previous year, which had been considerably less than that of the preceding years.

The figures for iron and steel production and the automobile industry offer a revealing contrast (see table 81). While iron and steel production showed a considerably higher rate of increase in 1975 than in the previous year as regards cast iron and rolled products, the automobile industry, whose singular dynamism had been one of the characteristics of the pattern of growth in previous years, increased its output by barely 1.5 per cent.

With regard to the non-durable consumer goods industries, the buoyancy of the textile and clothing industries was not matched in the food,

Table 80

BRAZIL: GROWTH OF MANUFACTURING [a]

(Percentage growth rates)

Industry groups	*1972*	*1973*	*1974*	*1975*
Food, beverages, tobacco	13.6	10.6	6.5	1.2
Textiles, clothing, footwear, woven articles	4.0	8.4	– 2.3	3.2
Paper and cardboard	7.5	9.4	4.3	–14.6
Rubber	13.0	12.4	10.8	2.7
Chemical products, perfumery articles soaps and candless, plastic articles	16.3	22.1	8.4	2.8
Processing of non-metallic minerals	13.8	16.3	14.8	9.0
Metallurgy	12.3	9.4	5.2	9.4
Machinery, electrical and communications equipment	21.1	28.2	11.0	7.4
Transport equipment	22.5	27.6	18.8	0.5
Total	*14.0*	*16.3*	*7.6*	*3.8*

Source: Instituto Brasileiro de Geografía e Estatística (IBGE)

[a] On the basis of the index of real production (quantum).

Table 81

BRAZIL: IRON AND STEEL AND AUTOMOBILE PRODUCTION
(Percentage variation)

Products	*1974*	*1975*
Iron and steel production		
Castiron	5.7	20.6
Steel ingots	5.0	10.7
Rolled products	1.8	10.7
Sheet	-6.7	20.1
Sections	9.4	3.6
Automobile production	*17.7*	1.5
Automobiles	13.1	- 1.4
Multiple-purpose light trucks	28.9	12.3
Utility vehicles	8.8	- 15.5
Medium trucks }	17.6	4.4
Heavy trucks and buses }		- 0.6

Sources: Instituto Brasileiro de Siderurgia. Asociación Nacional de Fabricantes de Vehículos Automotores, and Instituto Brasileño de Geografía y Estadística (IBGE).

beverages and tobacco industries, which in 1975 recorded an increase lower than that of the population and much lower than the rates achieved in the previous years (see table 80).

The loss of dynamism in the industrial sector undoubtedly reflected a decline and changes in demand, since there do not seem to be any domestic or external obstacles which might have had a detrimental effect on the mobilization of the productive resources. Moreover, as indicated earlier, the containment of imports in 1975 came after a year in which industry had definitely been in a position to accumulate stocks beyond its normal requirements.

Economic policy responded energetically to the reduced demand for various industrial goods and a wide variety of measures were taken. This may be one of the main reasons for the very varied results mentioned earlier. The rates of taxation on industrial products were reduced several times in order to alleviate the effects of the tax surcharges on retail prices. Furthermore, and especially during the second half of the year, the more expansive monetary policy began to counteract the fall in demand. Lastly public financial institutions such as the National Economic Development Bank and the Special Agency for Industrial Financing reduced the interest rates on their loans and also fixed the adjustments for monetary correction at only 20 per cent per year, the balance being refinanced by the institutions.

In the particular case of the automobile industry, the official policy was not able to offset the adverse factors affecting the industry from the financing angle as a result of the increases in the price of gasoline.

However, as regards tractor production, the various incentives introduced within the context of the measures applied for some time past to modernize the agricultural sector led to an increase of over 23 per cent in 1975, following an increase of 20 per cent in 1974.

A partial but clear indication of the unevenness of industrial dynamism as between 1974 and 1975 and in the course of 1975 can be found in the statistics on the industrial consumption of electric power, as supplied by the "Light" company, which provides about half the electric energy consumed in the Sao Paulo-Rio de Janeiro industrial region. As may be seen from table 82, the rates in 1975 were much lower than those of the previous year, wich had already begun to decline in the second half of 1974. This decline continued during 1975, with the rates reaching their lowest point in August and September, after which they showed a slight recovery.

Table 82

BRAZIL: INDUSTRIAL CONSUMPTION OF ELECTRIC POWER PROVIDED BY THE "LIGHT" ENTERPRISE [a]
(Percentage variation – average levels over the last 12 months)

Month	*1974*	*1975*
January	14.5	10.7
February	14.6	9.2
March	15.3	7.6
April	14.7	7.1
May	15.7	5.7
June	15.7	4.6
July	14.2	4.4
August	14.2	3.2
September	14.2	2.4
October	13.4	3.3
November	12.8	3.6
December	11.3	4.3
Average	*14.2*	*5.5*

Source: LIGHT, Servicio de Electricidade S.A.

[a] This enterprise which operates in the Sao Paulo-Rio de Janeiro industrial region, supplies approximately 50 per cent of the electric power consumed by the industrial sector of the country.

(b) *Agriculture*

The agricultural sector, as already noted, experienced a significant reduction in its rate of expansion in 1975 (see table 83). The frosts and floods which affected the Centre-South and Northeast regions of the country during the second half of the year caused great damage, especially to the wheat and coffee crops. The wheat harvest, which had increased considerably in previous years, diminished by 27 per cent, and the coffee harvest was reduced by 24 per cent. Furthermore, turning to the 1975-1976 season, it is estimated that the entire wheat and coffee crop in Paraná has been lost, while in Sao Paulo the frosts have blighted over 60 per cent of the coffee plantations.

Although there were exceptions in this general situation —such as cocoa, rice and soya beans—

Table 83

BRAZIL: GROWTH RATES IN THE AGRICULTURAL SECTOR

	1970	*1973*	*1974*	*1975*
Cotton	- 7	0	- 12	- 10
Peanuts	73	-36	-22	-
Rice	18	3	- 3	16
Bananas	6	- 5	- 6	1
Sweet potatoes	5	7	7	-
Cocoa	- 7	1	- 11	36
Sugar cane	6	6	- 4	- 8
Coffee	-41	-24	45	- 24
Beans	1	0	7	1
Oranges	7	17	22	2
Millet	12	- 3	16	-
Soya beans	43	48	53	23
Wheat	34	161	36	- 27
Agricultural production	*6.3*	*3.0*	*12.4*	*-2.0*
Livestock production	*4.2*	*4.0*	-	*14.9*
Agricultural and livestock sector	*5.6*	*3.5*	*8.5*	*3.4*

Source: Fudaçao Getúlio Vargas.

crop-farming production registered a decrease of 2 per cent. This figure was partly offset by the improvement in the livestock sector, which increased production by almost 15 per cent, although it should be borne in mind that this percentage follows the stagnation in 1974.

The dynamism of the agricultural sector in Brazil is undoubtedly linked with the active policy pursued with a view to increasing the productivity of the modernized farms. The incentives designed to encourage greater use of fertilizers led to an average increase in their use of approximately 25 per cent in the 1970s, 90 per cent of the expenditure on fertilizers being concentrated in the Centre-South region of the country. It was only in 1974, as a result of the steep increase in the price of fertilizers because of the higher costs of petroleum, that expenditure on fertilizers fell (by a little over 10 per cent). From 1974 onwards, however, faced with the prospect of a slow-down in industrial activities, the Government's concern for the agricultural sector greatly increased. Improved credit supplies and facilities were combined with a subsidy of 40 per cent for the purchase of fertilizers in 1975. Furthermore, a start was made in implementing a national storage programme aimed at remedying shortcomings in this respect.

Table 84

BRAZIL: BALANCE OF PAYMENTS
(Millions of dollars)

		1970	1972	1973	1974	1975 [a]
Current account						
Exports of goods and services		3 068	4 374	6 711	8 738	9 631
Goods FOB		2 739	3 941	6 093	7 846	8 655
Services		329	433	618	892	976
Transport		167	182	249	372	448
Travel		30	38	58	66	68
Imports of goods and services		3 297	5 348	7 784	14 874	14 749
Good FOB		2 507	4 193	6 154	12 553	12 169
Services		790	1 155	1 630	2 321	2 580
Transport		349	510	863	1 288	1 310
Travel		160	216	265	314	440
Net payments of profits and interest on foreign capital		– 428	– 619	– 812	– 993	– 1 820
Profits		– 186	– 206	– 230	– 280	– 340
Interest		– 242	– 412	– 582	– 713	– 1 480
Net private transfer payments		13	1	23	1	15
Balance on current account		– 644	– 1 592	– 1 862	– 7 127	– 6 923
Capital account						
Net external financing (a +b+c+d+e)		644	1 592	1 862	7 127	6 923
(a)	Net external non-compensatory capital	1 222	3 944	4 331	6 350	–
	Direct investment	196	415	883	902	820
	Long- and medium-term loans	1 494	4 621	4 754	6 112	6 100
	Amortization payments	– 830	– 1 217	– 1 724	– 1 758	– 1 846
	Short-term liabilities	354	122	412	1 095	
	Official transfer payments	8	4	5	– 1	
(b)	Domestic non-compensatory capital or assets	– 41	– 328	– 430	– 184	754
(c)	Errors and omissions	38	437	354	82	
(d)	Allocation of SDRs	59	51	–	–	–
(e)	Net compensatory financing (minus sign signifies an increase)	– 634	– 2 513	– 2 393	879	1 095
	Balance-of-payments loans, trade arrears, IMF loans, and other liabilities of the monetary authorities	1	55	–	–	–
	Amortization payments	– 101	– 54	– 49	– 78	–
	Foreign exchange reserves (minus sign signifies an increase)	– 367	– 2 463	– 2 344	964	1 087
	Gold reserves (minus sign signifies an increase)	– 105	–	–	–	–
	SDRs (minus sign signifies an increase)	– 62	– 51	–	– 7	8

Source: CEPAL, on the basis of official figures.

[a] Estimates based on official statistics.

3. *The external sector*

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

(i) *Main trends.* It has already been noted that the behaviour of the external sector was the fundamental cause of the loss of dynamism and the tensions which plagued the Brazilian economy in 1975. From a general angle, the salient features were the interruption in the dynamic growth of transactions, the accentuation of certain imbalances which had been emerging for some time and the reflection of those imbalances in marked deteriorations in the main accounts of the balance of payments.

If we first consider the figures of the trade balance, the most significant change is to be found in imports (see table 84), for imports were stationary compared with the 1974 level, while in real terms they actually diminished, since the unit value of the foreign merchandise increased by 9 per cent. There was an increase of 10 per cent in the current value of exports which was accompanied by a rise of barely 1 per cent in their prices, so that the increase was due mainly to the expansion of the quantum of sales to the exterior (see table 85).

Table 85

BRAZIL: VARIATION IN THE TERMS OF TRADE AND IN THE VALUE, VOLUME AND UNIT VALUE OF EXPORTS AND IMPORTS
(Percentage)

	1971	*1972*	*1973*	*1974*	*1975*
Exports of goods					
Value	5.2	36.7	54.6	28.8	10.3
Volume	8.9	13.5	19.5	– 1.0	9.2
Unit value	–3.4	20.5	29.4	30.0	1.0
Imports of goods					
Value	29.5	29.2	46.8	104.0	–3.1
Volume	19.2	19.8	24.0	29.9	– 11.1
Unit value	8.6	7.8	18.4	57.0	9.0
Terms of trade	*– 11.1*	*11.8*	*9.3*	*– 17.2*	*– 7.3*

Source: CEPAL, on the basis of official figures.

These figures and general ratios must be viewed from a broader perspective than that of the annual variations in order to obtain a more balanced picture. Of course, when considering imports the exceptional increases in purchases abroad during the previous years have to be taken into account. Between 1970 and 1975 the current value of imports increased at an average rate of 35 per cent a year, while the value of imports of goods and services increased by 45 per cent in 1973 and by 91 per cent in 1974. There can be little doubt that it would be difficult to maintain such unusual rates of expansion. Even a rate close to the levels achieved in 1974 could be considered exceptional in view of the new circumstances of the international economy.

The development of exports was similar, although it took less pronounced forms. Between 1970 and 1975 exports expanded at an average rate of 25 per cent a year, reaching their highest levels in 1972 and 1973, when the respective figures were 37 and 55 per cent. Thus the increase in 1975 is by no means insignificant.

However, the dynamism and the variations in these two aspects of external trade are enough to explain the accentuation of the disequilibrium in the trade balance. The most salient aspects are the different percentages of average increases during the period 1971-1975 (just over 25 per cent for exports and nearly 35 per cent for imports). Furthermore, the acceleration in the rate of imports and especially of exports in 1973 was dramatically changed in 1974 when the current value of imports almost doubled, while that of exports increased by 29 per cent. The severe trade imbalance which developed in 1974 could not be rectified or overcome in 1975, despite the slight decrease in imports of goods and services and the increase in sales abroad.

Viewing the problem from another angle, it can be seen that the trade balance passed from virtual equilibrium in 1970 to moderate deficits in 1972 and 1973 and very large deficits in 1974 and 1975, amounting to about 6,000 million dollars in 1974 and about 5,000 million in 1975 (see table 84). It should be noted that these amounts greatly exceed the total figures for exports and imports in the year 1970, which is indicative of the dynamic development of Brazil's external trade.

The unequal tendencies in the trade flows combined with the increased payments of profits and interest on foreign capital to give a deficit on the current account of the balance of payments which reached its highest level in 1975. Between 1970 and 1973 these payments almost doubled, and between the latter year and 1975 the increase was even greater. Interest payments increased most rapidly, since payments in respect of profits rose only moderately. It seems clear that this difference derived from the greater share and cost of foreign bans capital in the last two years.

The interplay of these elements and their increasing disequilibrium gave rise to considerable variations in the current account of the balance of payments, the deficit on which increased from a little over 1,700 million dollars in the biennium 1972-1973 to a little over 7,000 million dollars in 1974-1975.

(ii) *Exports: value, volume and structure.* Between 1972 and 1974 the rate of growth of the current value of exports of goods considerably exceeded their quantum increase. Indeed, in the latter year the higher prices were accompanied by a slight reduction in the volume exported.

In 1975 these proportions changed considerably, since the increase in sales corresponded very closely to the increase in volume. The evolution of the unit value of exports shows a very clear difference between the high rates in the 1972-1974 period and the insignificant rate in 1975 (see table 85).

The above data may be compared with those which indicate the change in the unit value of imports: this value, after lagging behind the total value of exports in 1972-1973, greatly exceeded it in both 1974 and 1975, although in the latter year both levels were much lower. It is therefore not surprising that the terms of trade showed a marked deterioration in the last two years after the improvement recorded in the previous biennium. It should be noted that the deterioration of just over 7 per cent in 1975 continued and aggravated that of 1974, which had been even more pronounced.

Table 86

BRAZIL: VALUE AND BREAKDOWN OF EXPORTS OF GOODS

	Millions of dollars at current prices (FOB)				*Percentage breakdown*		*Annual growth rates*		
	1970	*1973*	*1974*	*1975* [a]	*1970*	*1975*	*1971–1973*	*1974*	*1975* [a]
Commodities	*2 049*	*4 096*	*4 801*	*5 171*	*74.8*	*57.9*	*26.0*	*17.2*	*7.7*
Raw coffee beans	939	1 244	864	852	34.3	9.8	9.8	– 30.5	– 1.3
Sugar	127	553	1 262	1 099	4.6	12.8	64.0	128.2	– 12.9
Soya beans	27	494	586	685	1.0	7.9	163.5	18.6	16.9
Iron ore	210	363	571	909	7.7	10.5	19.9	57.3	59.2
Others	746	1 422	1 518	1 626	27.2	16.9	23.9	6.7	7.1
Industrial products	*665*	*1 941*	*2 955*	*3 276*	*24.3*	*39.7*	*43.0*	*52.2*	*10.9*
Semimanufactures	249	476	634	645	9.1	9.8	24.0	33.2	1.7
Manufactures	416	1 465	2 321	2 631	15.2	29.9	52.0	58.4	13.4
Special transaction	*25*	*162*	*195*	*208*	*0.9*	*2.4*	*86.5*	*20.4*	*6.7*
Total	*2 739*	*6 199*	*7 951*	*8 655*	*100.0*	*100.0*	*31.0*	*28.3*	*8.8*

Source: CEPAL, on the basis of official statistics.

a Estimates.

Returning to the behaviour of exports, table 86 offers some relevant information on the evolution of their value and composition.

With regard to values, the table shows that the increase in revenue in 1975 corresponded mainly to industrial products and sales of iron ore. The smaller share of primary commodities was due to the low exports of coffee and sugar. However it should not be overlooked that in the very marked reduction in the rate of increase of industrial exports, the most unfavourable performance was that of semi-manufactured goods; the manufactures, for their part, increased at a rate which, although high, was considerably less than that of the preceding year.

Comparison of the structure of Brazilian exports in 1975 and 1970 reveals considerable diversification, both because of the greater volume of industrial products and because of the changes in the relative importance of the various commodity exports. The case of the sales of soya beans is best known, and it can be seen that its overall share increased despite the falls in price in 1975. Exports of iron ore developed in an even more dynamic way and increased at rate close to 60 per cent in 1974 and 1975.

Although, as has been pointed out, the overall increase in exports in 1975 was low in relation to the requirements of the external balance, it is clear that the greater volume and value of sales represented an achievement of some significance in view of the conditions prevailing in the main outside markets. In this respect reference should be made to one of the main instruments which Brazil had used to promote its exports, namely, periodic readjustments in the rate of exchange.

Table 87 provides some information on this subjetc. It shows clearly that from 1968 onwards the official rate of exchange tended to lag behind the variation in the general price index. From 1974 onwards, however, this decline was more than offset by the increase in external prices, and as a result the ratio between the official exchange rate and the parity exchange rate increased markedly during the biennium 1974-1975. This increase naturally helped to encourage exports,

Table 87

BRAZIL: EVOLUTION OF EXCHANGE RATE AND PRICES, 1968–1975

Year [a]	*Official exchange rate* Cr/US$ (1)	*Official exchange rate* Index (2)	*General price index of Brazil* (3)	*Wholesale price index of United States* (4)	*Parity exchange rate* $(5) = 3\ 805 \times \frac{(3)}{(4)}$	*Ratio between the official exchange rates and parity* $(6) = \frac{(1)}{(5)}$
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	7 395	194.3	308.0	156.3	7 498	98.6
1975	9 020	237.1	398.4	170.7	8 881	101.6

Source: Columns (1) to (3), Fundaçao Getúlio Vargas, *Conjuntura Econômica*, vol. 30, Nº 2, February 1976 ("*A Economía Brasileira en 1975, Retrospecto Anual*").

[a] End-of-December figures.

Table 88

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

	Millions of dollars at current prices				*Percentage breakdown*		*Annual growth rates*		
	1970	*1973*	*1974*	*1975*[a]	*1970*	*1975*	*1971–1973*	*1974*	*1975*[a]
Consumer goods	*336*	*769*	*1 150*	*858*	*13.4*	*7.0*	*31.5*	*49.5*	*– 25.4*
Intermediate goods	*1 191*	*3 142*	*8 167*	*6 549*	*47.5*	*53.8*	*38.0*	*159.9*	*– 19.8*
Petroleum and fuels	174	606	2 558	2 767	6.9	22.7	51.0	322.1	8.2
Others	1 017	2 536	5 609	3 782	40.6	31.1	35.5	121.2	– 32.6
Capital goods	*946*	*2 196*	*3 226*	*4 763*	*37.8*	*39.2*	*32.5*	*46.9*	*47.6*
Special transactions	*33*	*86*	*91*	–	*1.3*	–	*37.9*	*5.8*	–
Total	*2 506*	*6 193*	*12 634*	*12 170*	*100.0*	*100.0*	*35.5*	*104.0*	*– 3.7*

Source: CEPAL, on the basis of official statistics.
[a] Estimates.

which were also stimulated by tax credits and finance facilities.

(iii) *Imports.* Table 88 shows the variations which have occurred in the value and structure of imports of goods. Because of its general significance in 1975, the evolution of purchases of capital goods compared with purchases of consumer and intermediate goods should be stressed. Purchases of capital goods were the only ones which continued to increase at a rate similar to 1974 and 1975. Thus their rate of growth of almost 48 per cent in 1975 was completely different from that of total imports, which fell by over 3 per cent. As is obvious, the greater importance attached to the importation of capital goods was offset by considerable reductions in the value and share of the other two categories (–25 per cent for consumer goods and –20 per cent for intermediate goods).

Brazil was one of the Latin American countries most affected by the increases in the prices of petroleum and fuels. Table 88 shows that the current value of purchases of petroleum more than quadrupled between 1973 and 1974 and increased by a further 8 per cent in 1975. Thus, these imports, which in 1970 accounted for 7 per cent of the total, amounted to almost 23 per cent of the total in 1975.

It should however be borne in mind, as already noted, that the extraordinary increase in the value of imports in 1974 and 1975 compared with previous years can only partially be explained by the greater costs of petroleum.

The overflow in demand for imports in 1974 occurred despite the fact that already by the middle of that year the Brazilian Government was beginning to apply various measures to regulate the phenomenon. In a study on the subject,[62] five stages were distinguished in the application of measures to stem the tide of foreign goods. These lasted from June 1974 to December 1975 and involved a varied range of expedients: higher taxes on imports, the abolition of exemptions which favoured particular industries, the establishment of priorities for certain sectors, the fixing of a limit for public sector imports, the raising of the amount of prior deposits, benefits for certain activities which save foreign exchange, and so forth.

The figures mentioned earlier show that the success of the successive and complementary waves of restrictions was only relative. In reality the Government seemed to be hoping for a greater

[62] See Fundaçao Getúlio Vargas, *Conjuntura Econômica,* Vol. 30, Nº 1, Rio de Janeiro, January 1976, p. 76.

reduction of imports in 1975 and thus a lower deficit in the trade balance.

However, it is possible that the more or less unsatisfactory results were not only due to the lack of more energetic and concerted decisions when the disequilibrium began clearly to emerge. At least two other elements should also be taken into account: firstly, the disproportionate increase in imports in 1974, which represented a kind of delayed result of the possibilities and decisions of 1973, and secondly (and this applies mainly to 1975) the Government's decision to maintain the level of economic activity as high as possible, which encouraged the demand for foreign goods.

(b) *The capital account*

It was necessary to promote an environment conducive to external borrowing in both 1974 and 1975 because of the heavy reliance on foreign credits to finance the current account deficits.

Faced with a nearly 4-fold rise in the deficit in 1974, the Government decided to accelerate the country's already high rate of foreign borrowing. The net inflows of medium and long-term credit increased by 44 per cent compared with 1973, and reached a record level of 4.3 billion dollars. This inflow of capital, coupled with a 166 per cent rise in short-term capital inflows (most of which

Table 89

BRAZIL: PRIVATE, PUBLIC AND STATE-GUARANTEED EXTERNAL DEBT (DISBURSED)
(Millions of dollars)

	End of:					
	1970	*1971*	*1972*	*1973*	*1974*	*1975 (June)*
Total	*5 295*	*6 622*	*9 521*	*12 572*	*17 166*	*19 549*
Compensatory loans	382	301	241	203	169	153
United States Government	314	269	231	200	169	153
Others	68	32	10	3	–	–
Bonds	–	–	60	142	172	171
International agencies	456	576	762	972	1 388	1 558
World Bank [a]	275	370	518	695	1 076	1 207
Inter-American Development Bank	181	206	244	277	312	351
Official bilateral agencies	1 246	1 403	1 504	1 688	2 151	2 370
United States Agency for International Development (AID)	870	931	960	1 008	1 054	1 081
Programme loans	604	623	618	615	610	606
Project loans	266	308	342	393	444	475
US wheat credits (PL 480)	103	115	108	103	97	96
United States Export-Import Bank	190	239	278	320	543	659
Others [b]	83	118	158	257	457	534
Suppliers' credits	611	845	1 136	1 442	1 812	2 002
Financial credits	2 284	3 193	5 528	7 849	11 211	13 038
Other credits	316	304	290	276	263	257

Source: Boletín do Banco Central do Brasil, February 1976.
[a] Includes the International Finance Corporation.
[b] Includes the Canadian Wheat Board, the Export-Import Bank of Japan and the *Kreditanstalt für Wiederaufbau.*

represented foreign loans) and a marginal rise in net direct investment, was sufficient to cover nearly 90 per cent of the deficit (see table 84). Financing was completed with a 960 million dollar drawdown in reserves, which was notable both for its size and for the fact that it was the first drawdown in reserves since 1967.

The financing pattern was very similar in 1975. Medium and long-term credit continued to be the primary source of finance, as the net flows were virtually the same as in 1974. However, net direct investment fell by 9 per cent –the first decline in this type of financing since 1970– due to a marginal fall in direct foreign investment flows and the increased outflow of Brazilian capital for direct investment. Finally, since the other capital inflows were not sufficient to cover the remainder of the deficit, the authorities were again obliged to draw upon a substantial amount of the foreign exchange reserves (1.1 billion dollars).

The balance of payments deficits of 1974 and 1975 contrasted sharply with the series of large and growing balance of payments surpluses in the period 1970-1973. Although the deficits on the current account were relatively large for their time, Brazil was able to attract enough foreign capital (basically credits) not only to cover the current deficits, but also to accumulate reserves. As a result, gross foreign exchange reserves rose from 0.7 billion dollars at the end of 1969 to 6.4 billion dollars at the end of 1973, an increase of over 800 per cent. However, the balance-of-payments deficit in 1974 caused reserves to fall to around 5.2 billion dollars. The reserves fell again in 1975 to an estimated 4.2 billion dollars which was equivalent to the value of about 3 1/2 month's imports.

(c) *The external debt*

Brazil's reliance on foreign credits for balance of payments financing was reflected in a large and rapidly expanding foreign debt (see table 89). The total foreign debt outstanding –private, public and publicly guaranteed– rose at an average rate of 33 per cent per annum in the period 1971-1973[63]. In 1974 the outstanding debt increased by another 36 per cent, while it is estimated that in 1975 the foreign debt expanded by 28 per cent, reaching 22 billion dollars.[64] Somewhat more than half of this debt was attributable to the public sector.

The fastest growing and most important component of external debt has been loans in currency, more commonly known as financial credits. Their share in the total debt rose from 43 per cent in 1970 to 67 per cent by mid-1975 (see table 90). Since these credits are issued by private financial institutions (e.g., the Eurodollar market) on hard commercial terms, Brazil's ability to accumulate them in such large amounts is a testimony to the confidence the country has been able to generate in the capital markets normally associated with developed countries.

The other major sources of finance have been credits from foreign governments (particularly the United States), suppliers, and international lending institutions (most notably the World Bank).

Before discussing the service requirements of the foreign debt, it is useful to examine the evolution of the government's policy on the accumulation of debt.

In 1968, the Government began to actively encourage foreign borrowing in order to generate the external savings that were fundamental to the country's development strategy. However, the objective appeared to be not only to cover current account deficits, but also to generate balance-of-payments surpluses in order to build up foreign exchange reserves. It was presumably felt that the expansion of reserves, coupled with a rapid growth of exports, a high rate of economic growth and prudent financial policies, would establish an environment that would enable Brazil to consistently attract large amounts of foreign credits. The strategy was fairly successful and was helped by the fact that in general the world money markets (particularly the Eurodollar market) were expansive, while there was also a considerable influx of transnational corporations that often brought external finance with them.

External borrowing conditions became so favourable that in May 1972 the authorities, in an attempt to improve the profile of the debt, were able to establish a minimum term of 10 years on foreign credits without any adverse effect on the flow of loans. Indeed, gross disbursements more

[63] It should be noted that Brazil is one of the few Latin American countries that regularly includes private obligations in external debt reporting.

[64] The external debt rose considerably faster than the gross domestic product (GDP). Thus the debt as a percentage of GDP rose form 11.5 per cent in 1970 to 16.1 per cent in 1974. The estimated figure for 1975 is 20 per cent (see table 91).

Table 90

BRAZIL: PRIVATE, PUBLIC AND STATE GUARANTEED EXTERNAL DEBT (DISBURSED) [a]

(Percentage breakdown)

	End of:					
	1970	*1971*	*1972*	*1973*	*1974*	*1975 (June)*
Total	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*
Compensatory loans	7.2	4.5	2.5	1.6	1.0	0.8
United States Government	5.9	4.1	2.4	1.6	1.0	0.8
Other	1.3	0.5	0.1	–	–	–
Bonds	–	–	0.6	1.1	1.0	0.9
International Agencies [b]	8.6	8.7	8.0	7.7	8.1	8.0
World bank	5.2	5.5	5.5	5.5	6.3	6.2
Inter-American Development Bank	3.4	3.1	2.6	2.2	1.8	1.8
Official bilateral agencies	23.5	21.2	15.8	13.4	12.5	12.1
United States Agency for International Development (AID)	16.4	14.0	10.1	8.0	6.1	5.5
Programme loans	11.4	9.4	6.5	4.9	3.6	3.1
Project loans	5.0	4.6	3.6	3.1	2.6	2.4
United States wheat credits (PL 480)	1.9	1.7	1.1	0.8	0.6	0.5
United States Export-Import Bank	1.6	3.6	2.9	2.5	3.2	3.4
Others [c]	1.5	1.8	1.6	2.0	2.6	2.7
Suppliers' credits	11.5	12.8	11.9	11.5	10.6	10.2
Financial credits	43.1	48.2	58.1	62.4	65.3	66.7
Other credits	6.0	4.6	3.0	2.2	1.5	1.3

Source: Boletin do Banco Central do Brasil, February 1976.

a The sum of the components may not give the exact total because of rounding.

b Includes the International Finance Corporation.

c Includes the Canadian Wheat Board, the Export-Import Bank of Japan and the *Kreditanstalt für Wiederaufbau.*

than doubled that year (see table 91). However, towards the end of 1972, the government became concerned that the flow of credits might become excessive and contribute to inflation. In order to slow down the inflow of capital, a cruzeiro deposit requirement of 25 per cent was established for foreign credits, thereby raising the cost of borrowing. In 1973 further steps were taken to stem the inflow of credits: in July the minimum term of foreign loans was raised to 12 years and in August a 40 per cent cruzeiro deposit was established on foreign borrowing (the 25 per cent deposit requirement noted above had been abolished in June). As can be seen in table 91, these measures did have some success in slowing the inflow of credit.

The radical change in the country's current account position in 1974 necessitated an increased flow of external credits. At the beginning of the year the authorities eliminated the 40 per cent cruzeiro deposit requirement in order to encourage increased borrowing. As the year progressed, however, capital markets began to tighten because of the general uncertainty in the world economy. In September, in order to attract a sufficient amount of credits, the authorities reduced the minimum term of loans from 12 to 5 years. Further inducements to borrow abroad were provided the following month when the government reduced the tax on interest payments for foreign loans from 25 per cent to 5 per cent.

Table 91

BRAZIL: EXTERNAL DEBT, LOAN DISBURSEMENTS AND DEBT SERVICE PAYMENTS

	1970	*1971*	*1972*	*1973*	*1974*	*1975* [a]
			Millions of dollars			
1. Gross disbursements [b]	1 494	2 109	4 621	4 754	6 112	6 100
2. Debt service [b]	1 072	1 217	1 632	2 306	2 471	3 326
Amortization	830	887	1 217	1 724	1 758	1 846
Interest (net)	242	330	415	582	713	1 480
3. Debt burden Coefficients:						
			Percentages			
3.1 $\frac{DS}{EXP}$	37.2	39.4	39.1	35.6	29.2	35.8
3.2 $\frac{DS}{EXP + \text{Excess reserves}^{c}}$	39.5	37.6	35.6	26.4	22.1	30.6
3.3 $\frac{DS}{DISB}$	71.7	57.7	35.3	48.5	40.4	54.5
3.4 $\frac{DOUT}{GDP}$	11.5	12.8	15.8	16.1	17.5	20.0

Source: CEPAL, on the basis of official data.

Note: Symbols: DS = Debt service.
EXP = Exports of goods and non-factor services less dividends and profits remitted abroad.
DISB = Disbursements.
DOUT = Total debt oustanding, public and private.
GDP = Gross domestic product.

[a] Estimates.
[b] Medium and long-term credits.
[c] Excess reserves = Total reserves at the beginning of the period less three months' import requirements.

These measures were quite effective. Despite a very tight money market in the latter half of 1974, the gross flow of medium and long-term credits increased by 28 per cent, and this accelerated flow of credits was maintained in 1975 (see table 91).

Inflows of foreign credits were accompanied by large and rapidly growing outflows of financial resources to cover debt service obligations. The debt service of 2.3 billion dollars in 1973 was more than double that of 1970. By 1975, debt service payments (3.3 billion dollars) were more than three times as great as the obligations in 1970. It is worth noting that in the last few years, and particularly in 1975, increased interest payments rather than principal have been the primary factor behind rising debt service requirements.

The large and growing debt service payments have been met through the rapidly growing export earnings and a large reserve balance that has acted as a buffer against any temporary shortages of foreign exchange. An indicator of the burden represented by debt service is provided by the coefficients in table 91 which relate debt service to the means of payment. These coefficients —which are only rough indicators and must be used with caution— suggest that in 1975 debt service was more burdensome than in recent years.

The first coefficient (3.1) shows the ratio between debt service and export earnings. As a result of the remarkable growth of exports, this ratio declined from 39 per cent in 1971 to 29 per cent in 1974. However, the slower growth of exports in 1975, coupled with a 35 per cent increase in debt service payments, caused the ratio to rise to almost 36 per cent –a value approximately equal to 1973.

In view of Brazil's relatively large foreign exchange reserves, it has been customary to include these in any analysis of the burden of debt service payments. This is done in coefficient 3.2, which adds reserves in excess of 3 months' import needs to export earnings. Such an approach substantially reduces the apparent burden of debt service. Even so, the coefficient displays the same trends as the debt service ratio –it declined progressively until 1974 and then rose sharply in 1975. This rise –which was due to the depletion of reserves– brought the absolute value of the coefficient to a level higher than 1973 but less than 1972.

The third coefficient shows the degree to which new loan disbursements covered debt service payments. It is clear that Brazil has had little difficulty in rolling over its debt payments. During the period 1972-1974 new disbursements were more than double debt service payments. Although coverage slipped somewhat in 1975, disbursements for the year were still nearly double the debt service requirements.

The last aspect of the foreign debt to be examined here is the maturity structure. The wider the spread on maturities, the eassier it is to service any given amount of debt. Through effective debt management, Brazil was able to alter its debt profile favourably between 1971 and 1975 (see table 92). The percentage of outstanding debts due to be repaid in the first year fell from 27 per cent in 1971 to only 3 per cent in 1975; similarly, the percentage of debts due to be repaid in the second and third years declined from 27 per cent to 24 per cent. The back end of the maturity structure also improved, with the percentage of debts with a maturity of over 5 years rising from 34 per cent to 46 per cent.

Brazil's ability to establish minimum terms on foreign credits of 10 and 12 years in 1972 and 1973 respectively was the major factor in spacing out maturity terms in the foreign debt. However, the reduction of the minimum term to 5 years in 1974 could bring about some concentration of maturity terms in the near future. Although Brazil consistently attracted 12-year terms on financial credits in 1973 and early 1974 5-8 year terms were more common in late 1974 and 1975. The tightening of maturities was not limited to Brazil, however: it reflected a general shortening of maturities on loans offered by foreign commercial banks. Indeed, in 1975 Brazil generally appeared to be in a position to secure longer maturities than most other developing countries.

Table 92

BRAZIL: EXTERNAL DEBT AMORTIZATION SCHEDULE [a]
(Percentage of total debt at end of period)

Year of payment	*1970*	*1971*	*1972*	*1973*	*1974*	*1975 (September)*
First year	26	27	22	14	11	3
Second year	15	15	16	13	12	11
Third year	8	12	12	12	12	13
Fourth year	7	7	10	12	11	14
Fifth year	5	5	9	10	11	13
Sixth year or later	39	34	31	39	43	46
Total	*100*	*100*	*100*	*100*	*100*	*100*

Source: CEPAL, on the basis of official data.

[a] Only covers fixed-term debt. During the period 1970–1975, 90 per cent or more of the external debt had fixed repayment terms.

Table 93

BRAZIL: EVOLUTION OF DOMESTIC PRICES
(Percentage variations)

	1972	*1973*	*1974*	*1975*
General price index				
Total supply	16.8	16.2	33.8	30.1
Domestic availability	15.7	15.5	34.5	29.4
Wholesale price index				
Total supply	17.8	16.7	34.1	30.6
Domestic availability	15.9	15.5	35.4	29.3
Consumer price index				
(Rio de Janeiro)	*14.0*	*13.7*	*34.1*	*30.8*
Food	16.1	16.4	41.4	26.2
Clothing	8.8	7.1	17.0	14.6
Housing	5.2	7.6	28.2	52.8
Articles for the home	5.4	14.7	29.8	18.9
Health and hygiene	13.8	11.5	28.5	34.7
Personal services	18.4	14.6	33.2	33.1
Public services	23.3	10.7	27.1	41.3
Construction costs (Rio de Janeiro)	19.8	21.1	31.8	24.1

Source: Fundãçao Getúlio Vargas, Conjuntura Económica, vol. 30, Nº 2, February 1976 (*"A Economía Brasileira em 1975, Retrospecto Anual"*).

4. *The evolution of prices*

(a) *Changes in the level and system of prices*

The rate of inflation in the Brazilian economy declined in the course of 1975. The general price indexes showed increases of about 30 per cent, compared with the increases of about 34 per cent in 1974. The fall in the rate of inflation was considerably more pronounced in the case of construction costs (see table 93).

However, the reduction in the rate of inflation was not uniform in all parts of the country. Thus, if a comparison is made between the rates of inflation in 1974 and 1975 in seven state capitals for which consumer price indexes are available, it can be seen that in three of these capitals prices rose more steeply in 1975 than in 1974 (see table 94).

Similarly, the components of the consumer price index for Rio de Janeiro show some discrepancies which suggest changes in the system of prices. While food prices increased rather less in 1975 than in 1974 (26 per cent compared with 41 per cent), the housing sector developed in the opposite way, from 28 per cent in 1974 to 53 per

Table 94

BRAZIL: CONSUMER PRICE INDEX IN VARIOUS STATE CAPITALS

(Percentage variations)

	1973	*1974*	*1975*
Belo Horizonte	13.0	34.1	35.8
Brasilia	23.0	32.1	34.9
Curitiba	33.2	43.5	32.6
Florianópolis	16.7	33.4	31.6
Porto Alegre	21.1	28.7	35.5
Rio de Janeiro	13.7	33.8	31.2
São Paulo	14.0	33.0	29.3

Sources: Instituto Brasileño de Geografía y Estadística (IBGE) and Fundação Getúlio Vargas.

cent in 1975. A similar discrepancy exists between the domestic articles sector, where the rate of price increases declined, and the prices of public services, which showed higher increases (see table 93).

Another kind of change in the system or prices should also be taken into consideration. Thus, for example, the higher rate of price increase in housing in 1975 compared with 1974 contrasted with a lower rate of increase in construction costs in the same two years; similarly, during the same periods the lower rate of increase in the food sector contrasted with the more rapid increases in the prices of agricultural products.[65]

The recent evolution of prices in the Brazilian economy also reveals two other characteristics which should be pointed out. The first is that the variations between the years was such that a comparison of the average annual rates would suggest a slight acceleration of inflation, while a comparison of the rates corresponding to the month of December each year point to the opposite conclusion. Thus, the average annual increase in consumer prices in 1974 was 27 per cent more than in 1973, while in 1975 it was 29 per cent more than in the previous year. However, if the period from December to December of each year is considered, the increase in these prices was 34 per cent in 1974 and nearly 31 per cent in 1975 (see table 93).

Secondly, it should be noted that from August 1975 onwards it was decided that the cost-of-living index and the wholesale price index should not reflect extreme or fortuitous increases in prices.[66] Thus the increases in prices caused by the frosts which affected the Centre-South region of the country in mid-1975 were not reflected in the price indexes, since they were fortuitous events which were difficult to control and seemed to reflect fortuitous and sporadic fluctuations, rather than an inflationary trend in the economy.

This decision clearly makes it more difficult to compare the rate of inflation in the second half of 1975 with that of previous periods, since the fall in that rate during 1975 might also have some connexion with the statistical adjustments mentioned.

In order to assess the scope of these adjustments it is instructive to compare the variation in prices resulting from the application of this measure. In August, which apparently was the month most affected by the adverse climatic conditions, the general wholesale price index rose by 2.9 per cent, but the adjustments turned this rate into an increase of only 1.4 per cent compared with the previous month. The food products sub-group, for its part, increased by just over 6 per cent, which became 2.3 per cent after the adjustment.[67]

(b) *Changes in the behaviour of inflationary factors*

(i) *The fall in imported inflation.* One of the causes of the moderation of the inflationary process in Brazil was the fall in imported inflation. As has already been pointed out, the prices of imports, which had increased by 57 per cent in 1974, rose by only 9 per cent in 1975, while the prices of exports increased by only 1 per cent in 1975 compared with 30 per cent in the previous year.

Furthermore, it should be recalled that the quantum of imports fell by over 8 per cent in 1975, after having increased by about 27 per cent in the previous year. These variations show that the "internalization" of international inflation had a lesser influence and also suggest that in 1974 the accumulation of stocks of imported supplies exceeded the normal ratio to the production flows and were sold in 1975 at prices which took into account the lower increase in prices compared with the previous year.

It should also be pointed out that in 1975 the import and export coefficients (9 per cent and 7 per cent respectively) could be misleading in assessing the influence of outside pressures on domestic prices, since the close dependence on imports displayed by certain dynamic industrial

[65] See Fundação Getúlio Vargas, *Conjuntura Econômica*, vol. 30, Nº 2, February 1976 ("A Economia Brasileira em 1975. Retrospecto Anual"). It is estimated that the prices received by farmers increased by 48 per cent in 1975 and 33 per cent in 1974, while the fisheries sector recorded increases of 15 per cent and 30 per cent respectively.

[66] These two indexes are components of the general price index. The latter is a weighted average of the wholesale price index (60 per cent), the cost-of-living index for the State of Guanabara (30 per cent), and the cost of construction in the same State (10 per cent).

[67] It remains to be seen what the effects of these adjustments were on the savings of enterprises and individuals, the operations of the open market, real wages and income distribution, etc. This is believed to be the first time that such a measure has been applied in Latin America, and it would therefore be useful to observe its after-effects closely.

firms which also lead the way in fixing prices made the Brazilian economy more sensitive to the variations in the external sector than the figures referred to above might suggest.[68]

(ii) *The liquidity of the economic system.* In 1975 the money supply, which is the variable most representative of liquidity, expanded at a higher rate than in the previous year: thus, it increased by 35 per cent in 1974 and by 45 per cent in 1975 (see table 95). If these rates are compared with those recorded by the product (9.6 per cent and 4 per cent respectively) and even more so with those of global supply (11 per cent in 1974 and 3 per cent in 1975), it can be seen that the expansion of liquidity exerted considerable pressure on the level of prices.

[68] For a more extensive study of the recent inflationary process in Latin America and the influence which imported inflation had on it, see the part I of CEPAL, *Economic Survey of Latin America, 1974, op. cit.*

Table 95

BRAZIL: MONETARY POSITION
(Billions of cruzeiros)

	Balances at end of:			*Growth rates*	
	1973	*1974*	*1975*	*1974/ 1973*	*1975/ 1974*
Monetary resources					
Money	93.8	126.5	183.2	34.9	44.9
Quasi-money	14.6	21.4	25.4	46.6	18.7
Other	52.3	84.1	...	60.8	...
Factors of expansion and contraction					
Domestic reserves (net)	35.1	32.8	...	-6.5	...
Credit	125.7	199.2	301.8	58.5	51.7
(a) Claims on Government (net)	0.9	0.5	-9.5	-44.4	
(b) Claims on official entities	5.8	8.2	12.0	41.4	46.4
(c) Claims on private sector	119.0	190.5	299.3	60.1	57.1

Source: International Monetary Fund, *International Financial Statistics*, July 1976.

The increase in money supply was determined by two phenomena which in 1975 evolved in opposite directions: the increase in credit and the fall in international reserves.

Credit was expanded by nearly 52 per cent in 1975. Although that was somewhat less than the previous year (58 per cent) it must be borne in mind that the growth rate of economic activity was less than half what it was in 1974. The most important component of this variable, credit to the private sector, increased by 57 per cent, which was slightly less than the previous year (see table 95).

As regards the international reserves, there is every indication that, in spite of the impression given by the preliminary information available, they fell significantly and therefore contributed to reducing the liquidity of the economic system. Otherwise it would not have been possible to offer such large credits to the private sector with an increase in the money supply of less than 40 per cent. The loss of international reserves is estimated at about 1,100 million dollars in 1975 (see table 75): the most critical period for the reserves in 1975 was the first half of the year, since the reserves had fallen by approximately 1,470 million dollars by June.

As regards the movement of the national treasury, it may be noted that the increase in revenue in 1975, especially from taxes, was not very different from the rise in prices that year and also that there was a virtual equilibrium between revenue and expenditure despite the greater increase of the latter. Thus the behaviour of the fiscal apparatus did not exert much influence on the inflation which occurred during 1975.

(c) *Wages policy*

There was a significant change in the policy of wage adjustments after 1974. At the end of 1974 a first adjustment of 10 per cent over the level in May of that year was decreed with a view to increasing the purchasing power of wages in order to strengthen the domestic market. In May 1975 there was a further adjustment of 41 per cent in the minimum wage (which included the previous 10 per cent). Unfortunately no information is available on the evolution of wages in general or the most representative averages. However, judging by the increase in the minimum wages and the 21 per cent increase in consumer prices which occurred between the months of May and December 1975, it may be concluded that there was a significant increase in the purchasing power of the minimum wage and of the other wages which followed the same pattern.

The goals of strengthening the domestic market by means of wage adjustments slightly exceeding the variations in prices seem to have increased actual demand, at least in the second half of the year. However, this measure was not enough to obtain an adequate improvement in private consumption, as already noted.

COLOMBIA

1. *The overall picture*

The rate of growth of the Colombian economy decreased in 1975. The domestic product rose by 3.8 per cent, while gross income and the per capita product went up by 1.6 and 0.6 per cent, respectively. At the same time, there was a significant decrease in the rate of inflation and the balance-of-payments deficit on current account remained stable (see table 96).

As regards the various sectors, the economy's loss of momentum was accompanied by a decline in construction activity and the slow growth of manufacturing, while agriculture and some services expanded at somewhat more satisfactory rates. The rate of urban unemployment remained at around 10.5 per cent of the labour force.

Exports of goods and services increased by about 4 per cent, thanks to the rise in the world price of coffee in the second half of the year. This increase contrasts with the more vigorous growth of exports in the period 1971-1974. Imports of goods and services rose by less than 2 per cent, following an expansion at an average annual rate of over 20 per cent in the period 1973-1974.

The situation with regard to trade in goods and services in 1975 was a determining factor of the current account deficit of 80 million dollars in the balance of payments. The inflow of capital amounted to about 150 million dollars and, consequently, the international reserves increased.

The rate of inflation declined from about 25 per cent in 1974 to less than 18 per cent in 1975, as a result of the implementation of the stabilization programme established by the Government at the end of 1974, and also of the lesser impact of imported inflation.

2. *Recent economic trends*

(a) *General aspects*

As noted earlier, the growth rate of the Colombian economy declined in 1975; the gross domestic product rose by 3.8 per cent, which was significantly lower than the previous year's rate of 6.3 per cent and the annual average of 7.1 per cent for the period 1971-1973. If the population growth (3.2 per cent annually) is taken into account, the per capita product will be seen to have scarcely risen in 1975 (see tables 96 and 97).

Moreover, the adverse trend of the terms of trade determined a growth of only 1.6 per cent in gross income, which contrasts with the rate of 5.6 per cent recorded in 1974.

This drop in the growth rate was associated, in the first place, with the restrictive effects of the world economic recession on exports, particularly in the first half of 1975 which was a period of depressed world coffee prices. Secondly, anti-inflationary policy and some complementary measures adopted at the end of 1974 and maintained in 1975 also had unfavourable repercussions on the level of domestic activity.

Table 96

COLOMBIA: MAIN SHORT-RUN ECONOMIC INDICATORS
(Percentage annual growth rates)

	1971–1973	*1974*	*1975*
Gross domestic product [a]	7.1	6.3	3.8
Gross income [b]	7.2	5.6	1.6
Per capita gross domestic product	3.8	3.0	0.6
Gross fixed investment	3.3	10.1	–5.3
Value of exports	16.0	27.4	3.8
Value of imports	7.7	31.1	1.6
Terms of trade	1.8	–3.3	–16.8
Balance on current account [c]	–258	–78	–79
Variation in international reserves [c]	109	–85	74
Consumer price index (workers) [d]	17.8	26.9	17.9
Money [d]	23.0	26.9	11.5
Current income of government	19.4	28.9	55.9 [e]
Total expenditure of government	20.9	25.3	44.9 [e]
Fiscal deficit/total expenditure of government [f]	12.4	9.5	–6.3 [e]
Wages and salaries (workers) [g]	...	18.4	20.6
Rate of unemployment [h]	9.0 [i]	10.5	10.5

Source: CEPAL, on the basis of official statistics.
[a] At factor cost.
[b] Gross domestic product plus terms-of-trade effect.
[c] Absolute values in millions of dollars.
[d] December to december.
[e] January-September.
[f] Percentage.
[g] Nominal wages and salaries in manufacturing.
[h] National average urban percentage around October.
[i] 1972.

Total supply grew at a lower rate than the gross domestic product because the volume of imports of goods and services declined by about 9 per cent, whereas in 1974 it had grown by over 6 per cent. The decrease in imports was mainly due to the economy's loss of dynamism.

As regards total demand, exports of goods and services increased by 8.5 per cent and domestic demand by 1.5 per cent, which is much lower than the annual rate (6 per cent) for 1971-1974. This decline is partly accounted for by the fact that gross fixed investment dropped by 5 per cent in 1975 following a 10 per cent increase in 1974.

Although no figures are available for the composition of capital formation in construction or machinery and equipment, it may be affirmed that the drop in fixed investment was essentially due to the decline in construction activity, since imports of capital goods increased appreciably for the second year running. In any case, the ratio of gross fixed investment to the gross domestic product fell to approximately 17 per cent, which compares unfavourably with the ratios of around 20 per cent recorded early in this decade (see table 97).

(b) *Sectoral developments*

The agricultural sector grew by 4.3 per cent, which is slightly lower than the average annual rate for the period 1971-1974 (see table 98). Agricultural production is estimated to have risen by about 5 per cent as the result of a similar increase in the area sown to the country's main crops. The rice, maize, barley and soya harvests were satisfactory, while the production of sorghum, wheat and cotton declined. In animal production activity there was an increase of about 4 per cent in stock.

Table 97

COLOMBIA: TOTAL SUPPLY AND DEMAND

	Millions of pesos at 1970 prices			*Percentage breakdown*		*Annual growth rates*		
	1970	*1974*	*1975* [a]	*1970*	*1975* [a]	*1971–1973*	*1974*	*1975* [a]
Total supply	*151 001*	*190 824*	*195 265*	*115.8*	*111.6*	*6.1*	*6.0*	*2.3*
Gross domestic product [b]	130 361	168 636	175 044	100.0	100.0	6.9 [c]	5.9 [c]	3.8
Imports	20 640	22 188	20 221	15.8	11.6	0.4	6.3	– 8.9
Total demand	*151 001*	*190 824*	*195 265*	*115.8*	*111.6*	*6.1*	*6.0*	*2.3*
Domestic demand	*132 485*	*167 133*	*169 578*	*101.6*	*96.9*	*6.0*	*6.0*	*1.5*
Gross domestic investment	28 660	36 850	31 000	22.0	17.7	– 2.2	37.3	– 19.1
Gross fixed investment	26 441	32 100	30 398	20.3	17.4	3.3	10.1	– 5.3
Public	7 732	9 132	...	5.9	...	5.4	0.9	...
Private	18 709	22 968	...	14.4	...	2.4	14.2	...
Construction	13 824	17 688	...	10.6	...	– 6.8	5.2	...
Machinery and equipment	12 617	14 412	...	9.7	...	– 0.8	16.8	...
Changes in stocks	2 219	4 750	602	1.7	0.3	–	–	–
Total consumption	103 825	130 283	138 578	79.6	79.2	8.0	– 0.5	6.4
General government	9 962	111 286	11 828	7.6	6.8	7.1	– 7.7	4.8
Private	93 863	118 997	126 750	72.0	72.4	8.1	0.3	6.5
Exports	*18 516*	*23 691*	*25 687*	*14.2*	*14.7*	*6.4*	*6.1*	*8.5*

Sources: 1970-1974: CEPAL calculations on the basis of data supplied by the Banco de la República de Colombia; 1975: CEPAL estimates on the basis of provisional official statistics.

Note: 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.

[a] Preliminary figures.
[b] At market prices.
[c] The growth rates shown here and in table 3 are not the same since they measure different concepts of the product (at market prices in the one case and at factor cost in the other).

The contribution of mining to the gross domestic product fell by 5 per cent as the result of a similar drop in the production of crude petroleum, which has declined steadily since 1970.

Manufacturing production grew by 3 per cent, which is very low compared with the rate of 7 per cent recorded the previous year, and particularly with the average annual rate of nearly 10 per cent for the period 1971-1973. Other indicators such as the industrial consumption of electricity and the employment trend in this activity confirm its loss of dynamism (see table 99).

Several factors contributed to the deterioration in manufacturing. The decline in overall economic activity, and particularly construction, restricted demand. At the same time, exports of manufactures lost their momentum and declined by 5 per cent in terms of dollars at current prices between 1974 and 1975 (see table 100). Lastly, industrial enterprises were affected by some economic policy measures that were put into effect. These include a sharp reduction in tax incentives for non-traditional exports provided through tax rebate certificates (Certificados de Abono Tributario – CAT),[69] and the heavier tax burden due to the extended coverage of the sales tax and the increase in the tax on non-essential consumption.

[69] As from 1 January 1975 the maximum incentive was reduced from 15 to 5 per cent of the value of non-traditional exports.

Table 98

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

	Millions of pesos at 1970 prices			*Percentage breakdown*		*Annual growth rates*		
	1970	*1974*	*1975* [a]	*1970*	*1975* [a]	*1971–1973*	*1974*	*1975* [a]
Agriculture	34 245	41 038	42 787	28.6	26.4	4.6	4.8	4.3
Mining	2 528	2 402	2 282	2.1	1.4	0.8	– 7.3	– 5.0
Manufacturing	20 977	29 657	30 547	17.5	18.8	9.9	6.6	3.0
Construction	6 530	8 142	7 621	5.4	4.6	6.3	3.9	– 6.4
Subtotal goods	*64 280*	*81 239*	*83 237*	*53.7*	*51.2*	*9.9*	*4.9*	*2.5*
Electricity, gas and water	1 788	2 631	2 842	1.5	1.8	11.4	6.4	8.0
Transport and communications	8 881	12 946	13 493	7.4	8.3	8.6	13.9	4.2
Subtotal basic services	*10 669*	*15 577*	*16 335*	*8.9*	*10.1*	*9.1*	*12.5*	*4.9*
Commerce	16 416	21 456	22 421	13.7	13.8	7.2	6.1	4.5
Financial establisments, insurance and real estate [b]	11 079	15 580	16 616	9.2	10.2	8.1	11.2	6.6
Communal, social and personal services [c]	17 353	22 620	23 718	14.5	14.7	7.7	4.3	4.9
Subtotal other services	*44 848*	*59 656*	*62 755*	*37.4*	*38.7*	*7.6*	*6.7*	*5.2*
Total gross domestic product	*119 797*	*156 472*	*162 327*	*100.0*	*100.0*	*7.1*	*6.3*	*3.8*

Sources: 1970-1974: CEPAL calculations on the basis of data supplied by the Banco de la República; 1975: CEPAL estimates on the basis of data from the same source.

[a] Preliminary figures.

[b] Real estate refers to owner-occupied dwellings.

[c] Also includes restaurants, hotels and business services.

Table 99

COLOMBIA: INDICATORS OF MANUFACTURING PRODUCTION

	Annual growth rates		
	1971–1973	*1974*	*1975* [a]
Index of manufacturing production	9.9	6.6	3.0
Consumption of electricity by industry [b]	10.3	7.8	4.7
Industrial employment	4.8	2.8	1.0

Source: CEPAL, on the basis of official statistics.

[a] Preliminary figures.

[b] In the cities of Bogotá, Medellín, Cali and Barranquilla considered as a whole.

The construction sector was the most seriously affected by the implementation of anti-inflationary policy. Its contribution to the gross domestic product dropped by more than 6 per cent and it is estimated that the built area in the eight major Colombian cities fell by about 30 per cent between 1974 and 1975. In addition, the estimated cost per square metre of construction rose by approximately 40 per cent, i.e., substantially more than the average increase in wholesale prices (25 per cent).

Another factor which affected the development of this sector was the adoption of new measures to regulate the system of savings and loans for housing. The principal measure was to reduce the monetary correction applicable to the units of

Table 100

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

	Millions of dollars				*Percentage breakdown*		*Annual growth rates*		
	1970	*1973*	*1974*	*1975*[a]	*1970*	*1975*	*1971–1973*	*1974*	*1975*
Coffee	473	597	625	710	60.0	41.9	8.1	4.7	13.6
Other products	315	666	1 030	984	40.0	58.1	28.2	54.7	– 4.5
Cotton	31	79	96	92	3.9	5.4	36.6	21.5	– 4.2
Sugar	14	30	72	75	1.8	4.4	28.9	140.0	4.2
Manufactured products	270	260	398	379	34.3	22.4	–	53.1	– 4.8
Other		297	464	438		25.9	–	56.2	– 5.6
Total	*788*	*1 263*	*1 655*	*1 694*	*100.0*	*100.0*	*17.0*	*31.1*	*2.4*

Source: CEPAL, on the basis of official statistics.
[a] Preliminary figures.

constant purchasing power (Unidades de Poder Adquisitivo – UPAC), which constitute the currency for the system's operation, to a maximum of 17.5 per cent annually. At the end of 1974 the readjustability of these units –which was the only such mechanism in the whole financial market– had been eliminated, while at the same time a limit of 20 per cent had been established for correction purposes. These changes coincided with a general reorganization of the interest rates paid by the various mechanisms designed to tap savings so that the share of savings and loan institutions for housing purposes in the total mobilization of country's financial assets has declined.

Altogether, the goods-producing sectors grew by 2.5 per cent, a rate equal to half of that observed in 1974 and one-quarter of that recorded, on average, in the period 1971-1973. Concurrently, there was an estimated average increase of about 5 per cent in the gross domestic product of all the services sectors (basic and other services), taking into account the trend in the production of goods and other supplementary data (see table 98).

3. *The external sector*

The value of exports of goods increased by 2 per cent, which compares unfavourably with the rate of 31 per cent in 1974, and also with the average annual rate of 17 per cent for the period 1971-1973. The slower growth in 1975 was exclusively due to the 7 per cent drop in the unit value of exports, since their volume increased by 10 per cent, that is, more intensively than in 1973 and 1974 (see table 101).

This slight increase in the total value of external sales of goods was due to the trend in coffee exports, since other export items had to contend with adverse world market and price conditions. Thus, for example, there was a drop in the world prices of cotton (20 per cent) and meat (10 per cent), and serious difficulties were encountered in maintaining the rate of expansion of exports of manufactures and other non-traditional products. These developments are reflected in the progressive changes in the composition of exports of goods and the resulting decrease in the share of non-traditional items (see table 100).

In the second half of the year, coffee exports were favoured by the repercussions on the world markets of the losses in Brazil's harvests due to weather conditions. The upswing in the world price of coffee during this period brought the average price for the year to a figure almost 5 per cent higher than in 1974.[70] At the same time, the

[70] In New York the average price of Colombian coffee was 77.9 cents per pound in 1974 and 81.6 cents in 1975, although in the first half to these two years the average price was 79.8 cents and 72 cents, respectively.

Table 101

COLOMBIA: VARIATION IN THE TERMS OF TRADE AND IN THE VALUE, VOLUME AND UNIT VALUE OF EXPORTS AND IMPORTS OF GOODS

(Annual growth rates)

	1971	*1972*	*1973*	*1974*	*1975*
Exports of goods					
Value [a]	-4.6	30.2	28.9	31.1	2.4
Volume	3.5	15.8	1.3	9.5	9.9
Unit value [a]	-7.8	12.5	27.3	19.7	-6.8
Imports of goods					
Value [a]	12.2	-5.7	15.7	36.6	-0.1
Volume	9.9	-9.1	-2.1	10.4	-10.8
Unit value [a]	2.1	3.7	18.2	23.8	12.0
Terms of trade	*-9.7*	*8.4*	*7.7*	*-3.3*	*-16.8*

Source: CEPAL, on the basis of official statistics.

[a] Calculated on the basis of figures in dollars at current prices.

Table 102

COLOMBIA: VALUE AND BREAKDOWN OF IMPORTS OF GOODS (FOB)

	Millions of dollars			*Percentage breakdown*			*Annual growth rates*	
	1970	*1974* [a]	*1975* [a]	*1970*	*1974* [a]	*1975* [a]	*1974* [a]	*1975* [a]
Consumer goods	86	144	134	10.7	10.7	10.0	–	-7.0
Intermediate goods	364	751	684	45.4	56.0	51.0	40.0	-8.9
Capital goods	352	447	522	43.9	33.3	39.0	50.0	16.8
Total	*802*	*1 342*	*1 340*	*100.0*	*100.0*	*100.0*	*36.6*	*-0.1*

Source: CEPAL, on the basis of official statistics.

[a] Preliminary figures.

volume of exports of this commodity increased by about 8 per cent, so that their value rose by 14 per cent.

The value of imports of goods appears to have remained static in terms of dollars at current prices, in contrast with the considerable expansion in 1974.[71] This stagnation meant a decrease in volume, since the unit value of imports rose by 12 per cent.

A study of the breakdown of imports of goods in terms of dollars at current prices shows that imports of consumer goods and intermediate products declined, while imports of capital goods increased (see table 102). This trend is fairly reasonable considering that, on the one hand, the first two categories of goods respond more rapidly to conjunctural situations in overall economic activity and may be more influenced by stockpiling in earlier periods. On the other hand,

[71] Import licences showed a much steeper declining trend, the total current value dropping by 16 per cent between 1974 and 1975 (see Colombian Foreign Trade Institute (INCOMEX), *Comercio exterior,* vol. 8, Nº 1, January 1976).

Table 103

COLOMBIA: BALANCE OF PAYMENTS
(Millions of dollars)

		1970	*1972*	*1973*	*1974*	*1975* [a]
Current account						
Exports of goods and services		1 000	1 219	1 562	1 990	2 065
Goods FOB		788	979	1 263	1 655	1 694
Services		212	240	299	336	372
Transport		95	104	135	144	173
Travel		54	72	86	102	106
Imports of goods and services		1 149	1 247	1 436	1 883	1 912
Goods FOB		802	849	982	1 342	1 340
Services		347	398	454	541	572
Transport		163	188	222	266	274
Travel		66	80	99	123	125
Net payments of profits and interest on foreign capital		– 180	– 197	– 215	– 192	– 239
Profits		– 91	– 70	– 70	– 70	– 87
Interest		– 89	– 127	– 144	– 123	– 152
Net private transfer payments		– 1	11	12	7	7
Balance on current account		– 330	– 214	– 77	– 78	– 79
Capital account						
Net external financing (a+b+c+d+e)		330	214	77	78	– 79
(a)	Net external non-compensatory capital	405	299	225	199	153
	Direct investment	43	19	24	34	
	Long- and medium-term loans	308	410	455	372	
	Amortization payments	– 121	– 164	– 168	– 230	
	Short-term liabilities (net)	138	10	– 109	– 1	
	Official transfer payments	37	24	23	24	
(b)	Domestic non-compensatory capital or assets	– 36	– 52	– 68	– 82	
(c)	Errors and omissions	– 18	103	66	– 147	
(d)	Allocation of SDRs	21	19	–	–	–
(e)	Net compensatory financing (minus sign signifies an increase)	– 42	– 154	– 146	108	– 74
	Balance-of-payments loans, trade arrears, IMF loans, and other liabilities of the monetary authorities	42	31	13	16	–
	Amortization payments	– 87	– 60	– 2	–	–
	Foreign exchange reserves (minus sign signifies an increase)	2	– 115	– 103	94	– 53
	Gold reserves (minus sign signifies an increase)	1	– 1	– 47	–	27
	SDRs (minus sign signifies an increase)	–	– 10	– 7	– 1	– 6

Source: International Monetary Fund, *Balance of Payments Yearbook*, vol. 27.
[a] CEPAL estimates on the basis of official statistics.

imports of capital goods are based on longer-term growth projections and usually enter the country a year or more after the import applications have been presented.

The variation in the unit values of exports and imports of goods resulted in 1975 in a deterioration of 17 per cent in the terms of trade, added to the 3 per cent recorded in 1974. During the period 1971-1973 the terms of trade had improved slowly, at a rate of about 2 per cent annually.

In the services sector, exports increased by 1 per cent in 1975, while imports grew by 6 per cent. The trend in transport was a determining factor in both cases.

To sum up, exports of goods and services grew by 4 per cent and imports by about 2 per cent, which meant that the trade surplus in goods and services rose from 107 million dollars in 1974 to 153 million in 1975 (see table 103).

This bigger balance was offset by the increase of 47 million dollars in payments of profits and interest on foreign capital. Thus, the balance of payments deficit on current account remained at around 79 million dollars in 1974 and 1975.

Colombia received an estimated net inflow of non-compensatory capital of 150 million dollars to finance this deficit. Most of these resources were obtained by drawing on long– and medium –term loans contracted or guaranteed by the public sector.[72]

In this way, the international reserves increased by 74 million dollars, from nearly 450 million at the end of 1974 to 523 million in December 1975. It should, however, be noted that by July 1975 the reserves had dropped to 362 million, and the rapid increase took place in the last three months of the year after the rise in the world price of coffee had made itself fully felt in terms of drawbacks from coffee exports.

[72] According to data supplied by the Banco de la República, between the end of December 1974 and September 1975 the balance of the outstanding external public debt rose by some 200 million dollars (from 2,250 to 2,450 million), the balance still to be drawn on both these dates being over 550 million dollars.

4. *Prices, employment, wages and salaries*

(a) *Prices*

In 1975 the rate of increase in prices was significantly lower than in the preceding periods, as shown by the rise of less than 18 per cent in the consumer price index compared with rates of 24 and 26 per cent in 1974 and 1973, respectively. Food prices rose by 19.5 per cent in 1975, thus maintaining the trend towards an improvement in the relative prices of foodstuffs that has been evident since 1971[73] (see table 104).

The variation in the average annual consumer price index was 23 per cent, compared with a little over 24 per cent in 1974. There was a sharper drop in the rate of increase in wholesale prices: 25 per cent in 1975 and 36 per cent in the previous year.

[73] The rates indicated relate to variations from December to December for the whole country, considering manual and non-manual workers together.

Table 104

COLOMBIA: EVOLUTION OF DOMESTIC PRICES [a]

(Percentage annual growth rates)

	1971	*1972*	*1973*	*1974*	*1975*
Consumer price index [b]					
Non-manual workers	12.6	14.1	22.1	25.2	17.5
Manual workers	14.7	14.0	25.0	26.9	17.9
Food					
Non-manual workers	15.0	16.2	30.6	30.3	19.3
Manual workers	17.1	16.0	31.5	30.8	19.7
Wholesale price index	*15.6*	*21.0*	*32.9*	*36.2*	*19.6*

Source: CEPAL, on the basis of official statistics.

[a] December to December.

[b] National index.

On repeated occasions, the Government declared that its primary short-term economic policy objective was systematically to bring down the rate of increase in prices, and it also publicly stated that it hoped to keep the rate below 20 per cent in 1975.[74] Thus the rate of inflation observed during the year enabled the Government to fulfil its objective.

The slowing down of the rate of inflation was influenced both by the declining trend of imported inflation and by the implementation of the Government's stabilization programme.

As regards the former, an important development was that in 1975 the unit value of imports in dollars rose by 12 per cent, halving the rate in 1974. At the same time, the unit value of exports declined by 7 per cent, in contrast with the increases of 20 per cent in 1974 and an annual average of about 10 per cent in the period 1971-1973 (see table 101).

In 1975 the increase in the exchange rate lagged slightly behind the rise in domestic prices. Between the end of 1974 and the end of 1975, parity rose by about 15 per cent (from 28.6 to 33 pesos to the dollar), in contrast with an increase of 18 to 20 per cent in domestic prices, depending on the index considered. Thus, the policy of mini-devaluations adopted had the effect of continuing to subtract United States inflation —or a fraction of it— from the total devaluation of the national currency, but in 1975 the amount subtracted was proportionally smaller than in 1974 and 1970-1973 (see tables 104 and 105).

(b) *The stabilization plan*

The programme covered two essential areas of action: fiscal and monetary-financial.

As regards *fiscal policy,* the basic objective was to achieve a significant increase in current government income, so as simultaneously to permit a considerable increment in fiscal expenditure and the stabilization of the Government's finances in order to avoid the inflationary effects of the budgetary implementation process. In this respect, the tax reform[75] put into effect in October 1974 as one of the emergency economic measures adopted by the new administration was expected to play a key role.

From the incomplete data available on central government income and expenditure it may be

[74] See, for example, the statement made by Mr. Rodrigo Botero M., Minister of Finance and Public Credit, at the meeting of the Consultation Group in Paris, 23 June 1975, *Ediciones del Banco de la República,* pp. 8 and 9.

[75] A major feature of this reform was the extended coverage of the sales tax and a heavier tax on capital income and non-essential consumption. See CEPAL, *Economic Survey of Latin America, 1974,* p. 228.

Table 105

COLOMBIA: EVOLUTION OF EXCHANGE RATE AND PRICES

End of:	*Exchange rate* [a]		*Consumer price index* [b]	
	Pesos to the dollar	*Percentage variation*	*1970 = 100*	*Percentage variation*
1970	20.90	–	100.0	...
1973	24.77	18.5	156.9	56.9
1974	28.56	15.3	196.4	25.2
1975	32.96	15.4	230.8	17.5

Source: CEPAL, on the basis of official statistics.

[a] Buyers' rate.
[b] National index for non-manual workers.

noted that between the first three quarters of 1974 and 1975 current income increased by 56 per cent, i.e., 25 per cent in real terms.[76] This substantial increment contrasts with the situation in previous years, since in the period 1971-1974 it only increased at approximately the same rate as domestic prices (see table 106). Current expenditure also increased sharply (54 per cent). This movement resulted in a rise in saving on current account of 59 per cent, or approximately 28 per cent in terms of constant prices. In previous years there had been a slow but steady decline in real saving.

In spite of the considerable relative increase in fiscal current saving and the fact that in the period January-September 1975 it amounted to over 11,200 million pesos, the Government financed investment totalling 9,400 million, which is 29 per cent higher than the figure for the same period in 1974. Thus, up to and including September the total operation of the fiscal finances produced a surplus of around 1,820 million pesos, which was equal to the deficits of 770 million and 1,050 million, respectively, in external and internal indebtedness.

To sum up, the fiscal trends –and particularly the sharp increase in current income– appears to indicate that in 1975, contrary to what happened in 1974, the Government did not need to have recourse to substantial net borrowing from the banking system in order to finance its expenditure. This was so in spite of the rapid expansion of current expenditure and the 29 per cent increase in investment.

[76] On the basis of other data the ratio of tax revenue to the GDP is estimated to have risen from 7.6 per cent in 1974 to 9.3 per cent in 1975, which is similar to that recorded in 1971.

Table 106

COLOMBIA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of pesos					*Annual growth rates*		
	1970	*1973*	*1974*	*1974 (January-September)*	*1975 (January-September)*	*1971–1973*	*1974*	*1975 (January-September)*
1. *Current income* [a]	*11 950*	*20 361*	*26 247*	*19 608*	*30 567*	*19.4*	*28.9*	*55.9*
2. *Current expenditure*	*7 857*	*14 735*	*19 214*	*12 552*	*19 346*	*23.4*	*30.4*	*54.1*
3. *Saving on current accounts* (1 – 2)	*4 093*	*5 626*	*7 033*	*7 056*	*11 221*	*16.7*	*25.0*	*59.0*
4. *Investment*	*5 233*	*8 424*	*9 800*	*7 289*	*9 394*	*8.9*	*16.3*	*28.9*
5. *Total expenditure* (2 + 4)	*13 090*	*23 159*	*29 014*	*19 841*	*28 740*	*20.9*	*25.3*	*44.9*
6. *Fiscal deficit* (or surplus) (3 – 4)	*– 1 140*	*– 2 798*	*– 2 767*	*– 233*	*1 827*	–	–	–
7. *Financing of deficit* [b]	*1 140*	*2 798*	*2 767*	*233*	*– 1 827*	–	–	–
Net external financing	1 462	2 996	315	– 251	– 773	–	–	–
Net domestic financing [c]	– 322	– 198	2 452	18	– 1 054			

Source: CEPAL, on the basis of official statistics.

[a] Excluding tax rebate certificates (Certificados de abonos tributario – CAT) and tourism development certificates (Certificados de Desarrollo Turístico – CDT).
[b] Excluding amortization of external and domestic debt.
[c] Including variation in cash balances.

The objectives of *financial policy* were to keep the expansion of the means of payment under control and to generate a larger volume of saving to finance productive investment.

The first of these objectives was largely achieved. The money supply increased by a little over 11 per cent in 1975,[77] which is less than half the average rate for the previous four years.

[77]See table 107, which presents data compiled by the International Monetary Fund. It should be noted that there are significant discrepancies between the monetary series of the Fund and those presented by the Banco de la República de Colombia.

Table 107

COLOMBIA: MONETARY POSITION
(Millions of pesos)

	Balance at end of				*Annual growth rates*		
	1970	*1973*	*1974*	*1975*	*1971–1973*	*1974*	*1975*
1. *Money* (2 – 3)	*22 393*	*41 649*	*52 865*	*58 928*	*23.0*	*26.9*	*11.4*
2. *Factors of expansion*	*31 700*	*60 150*	*75 532*	*105 476*	*23.8*	*25.6*	*39.7*
Net international reserves	– 1 360	5 502	– 3 169	997	–	–	–
Domestic credit	33 060	54 648	78 701	104 479	18.2	44.0	32.8
Government (net)	4 696	5 800	8 770	10 772	7.3	51.2	22.8
Public institutions	1 266	3 628	4 193	5 100	42.0	15.6	21.6
Private sector	27 098	45 220	65 738	88 607	18.6	45.4	34.8
3. *Factors of absorption*	*9 307*	*18 501*	*26 465*	*46 548*	*25.5*	*43.1*	*75.9*
Quasi-money	3 381	9 151	16 401	19 578	39.1	79.2	19.4
Import deposits	2 402	3 661	3 838	1 973	15.1	4.8	– 48.6
Long-term foreign borrowing	1 333	2 798	3 296	4 541	28.1	17.8	37.8
Other items (net)	2 188	2 891	2 930	20 456	9.7	1.4	598.2

Source: International Monetary Fund, *International Financial Statistics*, July 1976.

This slower growth of the money supply was achieved in spite of the fact that as from August-September the level of the monetary system's international reserves –which in previous months had been declining and had acted as an absorption factor– started to rise, leading to a more rapid increase in the means of payments.

In November 1975, in order to cushion the expansionary effects of the variation in reserves, the Government adopted some compensatory measures, the most important of which include, in the first place, the establishment of cash reserves of 100 per cent for increases in bank deposits as from 20 November and, secondly, a progressive increase in the monthly margin for imports established by the competent authorities.

As regards the policy of incentives to private saving, the principal measure –as stated earlier– was to reorganize the rates of interest applicable to the various instruments for tapping funds, including a change in the monetary correction of the units of constant purchasing power (UPAC) (see table 108). At the same time steps were taken to strengthen the role of commercial banks in the capital market.

It is difficult to examine the effects of these provisions at this time, but it may be affirmed –in addition to what has already been said about the decline in the share of funds in the form of UPAC– that the commercial banks have appreciably increased their tapping of savings deposits. Thus, in the first 11 months of 1975, the total balance of these deposits grew by about 110 per cent compared with only 20 per cent in 1974.

Table 108

COLOMBIA: NOMINAL RATES OF INTEREST ON SOME FINANCIAL ASSETS

	1971	*1972*	*1973*	*1974*	*1975 (October)*
	At end of year				
Savings deposits	4	8.5	8.5	12	16 o/o
Time deposits (6 to 24 months)	7	8.5	8.5	12	16 o/o
Certificates of time deposits (over 180 days)	13	13	13	24	24 o/o
Deposits in savings and housing corporations (UPAC) [a]					
Accounts	–	5	5	4	4
Certificates	–	5.5	5.5	5	5
Central Bank Mortgage bonds	9.5	9.5	12.5	12.5	12.5
Economic development bonds, class "B"	11	11	11	15	15.2

Source: CEPAL, on the basis of data supplied by the Banco de la República and the Asociación Bancaria.

[a] To these rates of interest must be added the monetary correction which was 17.5 per cent at the end of 1975. Up to October 1974, the units of constant purchasing power (Unidades de Poder Adquisitivo Constante –UPAC) were adjusted periodically in line with the changes in consumer prices.

(c) *Employment, wages and salaries*

Available data show that the rate of urban unemployment did not change between October 1974 and October 1975, the national average on both these dates being 10.5 per cent of the labour force.[78] This relatively high rate exceeded that recorded at the end of 1972 (9 per cent) (see table 96).

On the other hand, the minimum increases approved in November 1974 in urban and rural wages –which had not been adjusted since April 1972– were put into effect during the year. The increases ranged from a minimum of 33 per cent in activities such as construction, a maximum of 48 per cent in transport and the agricultural sector. A comparison of the averages for 1974 and 1975 shows that the minimum remuneration rose, in real terms, between 3 and 11 per cent, considering that the average increase in consumer prices was 23 per cent.

From information on the evolution of wages and salaries in manufacturing, however, it is noted that, taking the averages for the period January-August of 1974 and 1975, the nominal salaries of non-manual workers in this activity rose by about 19 per cent, while the manual workers' wages increased by approximately 21 per cent. If the consumer price indexes for each group are used as deflators, it will be seen that real wages and salaries both dropped by about 4 per cent (see table 109).

[78] Calculated by the National Administrative Department of Statistics (DANE) on the basis of household surveys carried out in 74 municipal areas.

Table 109

COLOMBIA: EVOLUTION OF WAGES AND SALARIES IN MANUFACTURING [a]
(Percentage annual growth rates)

	1974	*1975*
	January-August	
Nominal		
Non-manual workers	16.3	18.6
Manual workers	18.4	20.6
Real [b]		
Non-manual workers	–5.4	–4.1
Manual workers	–5.4	–3.9

Source: Departamento Administrativo Nacional de Estadística (DANE), *Boletín mensual de estadística*, December 1975, pp. 18-22.

[a] National totals.
[b] Nominal figures deflated by the respective consumer price indexes.

1. *The overall picture*

Costa Rica's economic growth rate registered a further decline in 1975 compared with the growth recorded in the first 3 years of the present decade and during the 1960s. At the same time, however, there was a sharp drop in the inflationary process and a reduction in the deficit on the current account of the balance of payments.

In 1975 the product and income grew by only 2.6 per cent, which meant a slight reduction in the per capita product compared with the increases of 1.5 per cent in 1974 and almost 5 per cent during the period 1971-1973 (see table 110).

As regards the individual sectors, the loss of impulse was reflected in the slowing down of industrial growth, the scanty increase in agricultural growth and the stagnation in trade. On the other hand, the public sector and construction maintained their 1974 rates of expansion.

As was to be expected, the expansion of the external sector was much smaller in 1975 than it had been in 1974, when the value of imports increased by almost 50 per cent and that of exports by 26 per cent. In contrast, in 1975 the rates dropped to 6 and 14 per cent, respectively. At the same time, the volume of imports fell in absolute terms.

This containment of imports played a decisive part in the reduction of the balance of payments current account deficit by more than 30 million dollars. Even so, the deficit was more than twice the average recorded in the years preceding the rise in oil prices. Capital inflows more than covered the difference on current account in 1975, however, and as a result international reserves increased (see table 110).

Table 110

COSTA RICA: MAIN SHORT-RUN ECONOMIC INDICATORS
(Percentage annual growth rates)

	1971–1973	*1974*	*1975*
Gross domestic product	7.7	4.3	2.6
Gross income [a]	7.0	1.9	2.6
Per capita gross domestic product	4.8	1.5	−0.2
Gross fixed investment	9.7	15.8	3.2
Value of exports	14.4	26.1	14.3
Value of imports	13.0	49.1	5.8
Terms of trade	−2.5	−9.2	–
Balance on current account [b]	−111	−251	−219
Variation in international reserves [b]	11	−5	9
Wholesale price index [c]	7.5	39.8	17.4
Money	22.6	17.6	19.9
Current income of government	16.2	39.6	27.2
Total expenditure of government	24.2	23.1	32.6
Fiscal deficit/total expenditure of government [d]	26.2	16.9	20.3
Rate of unemployment [d]	7.4	7.8	...

Source: CEPAL, on the basis of official statistics.

[a] Gross domestic product plus terms-of-trade effect.
[b] In millions of dollars at current prices.
[c] Annual average variation.
[d] Percentage.

At the same time, inflation declined sharply, and in 1975 the consumer price index increased by only a little over 18 per cent, compared with an increase of 30 per cent in the previous year. The fall in the growth rate of wholesale prices was even more radical: from 40 per cent in 1974 to 17 per cent in 1975. As in most Central American countries, this fall in the rate of inflation reflected the much weaker intensity of imported inflationary pressures in 1975. Thus, the unit value of imports, which in 1974 rose by 36 per cent, increased by only 13 per cent in 1975.

In addition to the objectives of bringing inflation under control and reducing the external imbalance, economic policy tried to improve the situation of the neediest groups (particularly through the transfer of resources from the cities to rural areas) and to make State action more coherent and effective. To this end, regulations were introduced in November 1975 for the application of the Planning Act passed in 1974 and a number of sectoral planning offices were established. At the same time, it was laid down that the investment budgets of the decentralized public institutions must be approved by the National Planning Office, and the Ministries or any State institutions had to obtain a similar authorization to enter into any negotiations for obtaining external credit.

2. *Recent economic trends*

(a) *General aspects*

In 1975, Costa Rica's economic growth rate declined for the second consecutive year. The gross domestic product increased by only 2.6 per cent, much lower than the 4.3 per cent of the

Table 111

COSTA RICA: TOTAL SUPPLY AND DEMAND

	Millions of colones at 1970 prices			*Percentage breakdown*		*Annual growth rates*		
	1970	*1974*	*1975* [a]	*1970*	*1975* [a]	*1971–1973*	*1974*	*1975* [a]
Total supply	*8 807*	*11 395*	*11 446*	*135.0*	*131.2*	*6.9*	*5.9*	*0.4*
Gross domestic product	6 524	8 505	8 726	100.0	100.0	7.7	4.3	2.6
Imports	2 283	2 890	2 720	35.0	31.2	4.4	11.1	– 5.9
Total demand	*8 807*	*11 395*	*11 446*	*135.0*	*131.2*	*6.9*	*5.9*	*0.4*
Domestic demand	*6 966*	*8 962*	*8 977*	*106.8*	*102.9*	*6.4*	*6.7*	*0.2*
Gross domestic investment	1 340	1 991	2 176	20.5	24.9	11.1	8.4	9.3
Gross fixed investment	1 270	1 942	2 005	19.5	23.0	9.7	15.8	3.2
Public	290	...	...	4.4	...	...	...	...
Private	980	...	...	15.1	...	...	...	...
Changes in stocks	70	49	171	1.0	1.9	31.7	– 69.4	249.0
Total consumption	5 626	6 971	6 801	86.3	77.9	5.2	6.2	– 2.4
General government	820	1 085	1 146	12.6	13.1	8.3	4.8	5.6
Private	4 806	5 886	5 655	73.7	64.8	4.8	6.6	– 4.0
Exports	*1 841*	*2 433*	*2 469*	*28.2*	*28.3*	*8.5*	*3.4*	*1.5*

Sources: 1970-1974: CEPAL calculations on the basis of official data; 1975: CEPAL estimates on the basis of preliminary official data.

Note: 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.

[a] Preliminary figures.

Table 112

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

	Millions of colones at 1970 prices			*Percentage breakdown*		*Annual growth rates*		
	1970	*1974*	*1975* [a]	*1970*	*1975* [a]	*1971–1973*	*1974*	*1975* [a]
Agriculture	1 452	1 706	1 737	25.0	22.4	5.8	– 0.8	1.8
Manufacturing [b]	878	1 225	1 286	15.1	16.6	8.7	8.7	5.0
Construction	275	292	311	4.7	4.0	6.0	6.3	6.5
Subtotal goods	*2 605*	*3 223*	*3 334*	*44.8*	*43.0*	*6.2*	*3.0*	*3.4*
Electricity, gas and water	114	172	...	2.0	...	10.9	10.6	...
Transport and communications	277	355	...	4.8	...	7.4	3.7	...
Subtotal basic services	*391*	*527*	...	*6.8*	...	*8.4*	*5.9*	...
Commerce	998	1 158	1 164	17.2	15.0	4.8	1.0	0.5
Financial establishments, insurance and real estate	302	418	...	5.2	...	9.6	5.0	...
Communal, social and personal services	1 503	2 172	...	25.9	...	10.4	7.2	...
Subtotal other services	*2 803*	*3 748*	...	*48.4*	...	*8.4*	*5.0*	...
Total gross domestic product	*5 799*	*7 555*	*7 752*	*100.0*	*100.0*	*7.7*	*4.3*	*2.6*

Sources: 1970-1974: CEPAL calculations on the basis of official data; 1975: CEPAL estimates on the basis of preliminary official data.

Note: As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

[a] Preliminary figures.

[b] Including mining.

previous year and far below the average rate of 8 per cent recorded in the three-year period 1971-1973 (see table 111). This, together with the 2.8 per cent increase in population, resulted in very little growth in the per capita product in the last two years.

The negative results stemming from the scanty growth in the product were further aggravated by the reduction of almost 6 per cent in the volume of imports. As a result of this, both the global supply and the domestic availability of goods and services remained basically at 1974 levels.

The slowing down of economic activity was reflected differently in the various components of final demand. While consumption fell by around 3 per cent, the quantum of exports showed a slight increase and investment increased by more than 9 per cent.

The drop in consumption was entirely due to the marked decline in private consumption which resulted mainly from the drop in per capita income but also to a certain extent from the introduction of selective taxation on consumption and restrictions on credit sales. In contrast, public consumption expenditure increased by almost 6 per cent, due mainly to the expansion of the social services provided by the public sector.

Similarly, the favourable performance of investment covered up the widely different paths taken by fixed capital formation and stock-building investment. The latter more than tripled as a result of the increase in stocks of coffee and staple grains, in spite of the reduction in stocks of imported products.

In contrast, gross fixed investment –which in previous years and particularly in 1974 had expanded at a very high rate– grew only at the moderate rate of a little over 3 per cent (see table 111).

Unlike 1974, the increase in fixed investment in 1975 was mainly due to the sharp increase recorded in public investment and not to private sector expenditure on fixed capital, which showed little change. Although complete figures on public investment are not available, information on projects which in 1974 represented 60 per cent of such investment shows that it increased in value in 1975 by approximately one-third, which implies a real expansion rate of more than 10 per cent. Almost all such investment was concentrated in basic infrastructure works (particularly in the fields of energy, telecommunications and drinking water) and less than 5 per cent was spent on agriculture and industry.

The tendency towards stagnation observed in private fixed capital formation was due to the relatively rapid growth in construction –wich according to incomplete data increased at a rate similar to that of the previous year (6 per cent)– and the marked decline in 1975 in expenditure on machinery and equipment, following its substantial growth of more than 20 per cent during the previous year.

(b) *Sectoral developments*

At the sectoral level, the slowing down of the economy was reflected in the reduction or stagnation in the rates of growth of the principal economic activities.

Thus, the increase of less than 2 per cent in the agricultural product –although it did offset the contraction wich was experienced in 1974– was less than a third of the growth rate achieved by the agricultural sector during the period 1971-1973. There was a similar trend in manufacturing and trade. The former, after having expanded at an average rate of almost 9 per cent between 1970 and 1974, increased by only 5 per cent in 1975, while the latter remained stationary during that year after having increased at an average annual rate of almost 5 per cent during the three-year period 1971-1973 (see table 112).

(i) *Agriculture.* As may be seen from table 113, the scanty growth of the agricultural product was the combined result of increases in the production of sugar and staple grains, the poor coffee harvest, and the drop in cattle slaughtering.

The latter fell by one-third compared with 1974, as a result of the critical situation of the

Table 113

COSTA RICA: INDICATORS OF AGRICULTURAL PRODUCTION

		Thousands of units			*Annual growth rates*	
		1973	*1974*	*1975*[a]	*1974*	*1975*
Production of some important crops						
Coffee	(tons)[b]	79	96	85	21.5	–11.9
Bananas	(tons)[b]	1 159	1 049		–9.5	...
Sugar	(tons)[b]	176	166	175	–5.6	5.5
Rice	(quintales)[c]	1 755	1 968	2 745	10.9	39.5
Maize	(quintales)[c]	1 423	1 250	1 800	–12.2	44.0
Beans	(quintales)[c]	469	436	450	–7.0	3.2
Indicators of stock-raising production						
Meat (number of animals slaughtered)[c]		242	264	176	9.0	–33.5

Source: Central Bank of Costa Rica.

[a] As at August 1975.

[b] For the period 1 October to 30 September.

[c] The data refer to calendar years.

world market,[79] the sharp decline in the international price of meat,[80] and the increase in the cost of inputs.

The coffee harvest also decreased considerably (12 per cent). As in the case of meat, this drop was influenced by external factors –mainly the unfavourable outlook for prices which prevailed in the early months of 1975[81] and the higher cost of basic inputs– as a result of which less fertilizers and insecticides were used.[82]

In contrast, the production of bananas –whose international price remained relatively stable– does not seem to have undergone any mayor change in 1975. During that year, moreover, further progress was made in the acquisition of the property of the banana enterprises (75,000 hectares in 1975) for the purpose of agrarian reform, and the price paid by the marketing companies to national producers was increased in April, by a resolution passed by the Ministry of Economic Affairs, from 1.50 dollars per box to 2.15 dollars. However, the considerable difference which still exists between the new price and that obtaining for the fruit on the world market (8 to 10 dollars per box) led the Government to continue negotiations with the companies so that the country can have a bigger share in the marketing of its main export item.

In the sugar sector the recovery was satisfactory. Sugar production increased in 1975 by more than 5 per cent, thereby offsetting its decline in the previous year. This increase was due mainly to the incentive provided by the very high prices attained by the product in the world market during 1974 and the first quarter of 1975, and the 36 per cent increase allowed on domestic prices.[83] As a result of this, the area under sugar cane mainly at the expense of grazing land.

Finally, the marked increased of approximately 40 per cent in the rice and maize harvests and the increase in the production of beans were mainly due to the determined policy of supporting the production of staple grains followed by the Government. During 1975, this policy included, among other development measures, the fixing of remunerative prices, the granting of generous credits at low rates of interest, and the provision of special technical assistance to the producers of rice, maize and beans.

(ii) *Manufacturing.* The fall in the growth rate was also very marked in the manufacturing sector. It is estimated that in 1975 industrial product increased by only 5 per cent compared with the rate of almost 9 per cent per year registered continuously during the period 1971-1974 (see table 112).

As may be seen from table 114, the loss of impulse in this sector was particularly acute during the first half of 1975, especially as regards the production of consumer durables and capital goods. During the second half of the year, however, the level of industrial activity tended to recover and the degree of utilization of installed capacity increased, although without attaining the 1974 level.[84]

The falling off of industrial expansion was brought about by the combined action of several factors. On the one hand, the drop in the real per capita income, higher taxes on certain consumer goods and the new regulations on hire-purchase sales tended to depress the demand for manufactures and particularly for household appliances. This contraction in the domestic sales of certain industrial goods was aggravated by the fall in exports of manufactures, caused mainly by the decline in the economic expansion of the countries of the Central American Common Market. Lastly, industrial production was also affected by the increase in energy and transport costs and the reduction in the supply and higher

[79] In 1975 the United States reduced Costa Rica's quota in its market by 9 million kilogrammes. However, subsequent negotiations permitted an increase in meat exports to that country, on condition that additional sales should be considered an advance on the quota for 1976. In view of the problems of placing carcass meat, the producers turned to the export of cattle on the hoof (including calves) to Ecuador and Venezuela.

[80] This fell from 1.28 dollars per kilogramme in December 1974 to approximately 85 cents in 1975.

[81] In the second half of the year coffee prices began to recover, but the effects of this will only be felt in the 1975-1976 harvest, sales of which began in October 1975.

[82] Although of lesser importance, another negative factor which has affected coffee production in recent years in the accelerated process of urbanization. This has led to the disappearance of some of the best coffee-growing areas of the Valle Central (especially those near Cartago and Alajuela).

[83] More than 60 per cent of the sugar produced is consumed in the country.

[84] It must be borne in mind that the figures in table 114 come from a half-yearly survey carried out by the Ministry of Economic Affairs and Industry that covers only 38 enterprises which account for 35 per cent of total manufacturing production. The results must therefore be interpreted with caution.

Table 114

COSTA RICA: INDICATORS OF MANUFACTURING PRODUCTION
(Percentage)

	Rates of growth [a]			*Use of installed capacity*		
	1974	*First half 1975*	*1975* [b]	*1974 November*	*1975*[a] *June*	*1975*[a] *October*
1. *Manufacturing production*	*12.0*	*2.6*	*4.8*	*78*	*54*	*68*
Food, beverages and tobacco	5.9	5.9	7.2	75	68	68
Textiles, leather and footwear	11.0	12.7	2.6	70	73	67
Wood and furniture	53.3	5.8	8.6	90	65	73
Paper, paperboard and printing	8.3	7.0	5.7	84	84	87
Chemicals derived from petroleum and rubber	5.7	4.8	6.2	97	95	93
Non-metallic mineral products	65.6	– 0.4	4.0	90	76	72
Metal manufactures and machinery	18.9	– 21.7	– 7.4	59	44	66
Miscellaneous	12.6	– 16.3	...	60	50	...
2. *Production of some important groups of manufactures*	*12.0*	*2.6*	*4.8*	...	...	...
Non-durable consumer goods	...	4.0	6.7	...	...	...
Intermediate goods	...	1.1	5.9	...	...	...
Durable consumer goods and capital goods	...	– 21.7	– 7.4	...	...	...

[a] On the basis of surveys carried out by the Ministry of Economic Affairs, Trade and Industry.
[b] Estimates.

cost of imported raw materials and intermediate goods.

3. *The external sector*

During 1975, the international conjuncture continued to have an adverse effect on Costa Rica's economy. The current account deficit, although somewhat smaller than in 1975, was double that recorded in the years preceding the increase in oil prices. At the same time, there was a considerable increase in the external debt. Unlike 1974, however, net capital inflows in 1975 exceeded the deficit on current account and, as a result, national reserves increased by approximately 9 million dollars.

(a) *Foreign trade*

(i) *Exports.* In 1975, the value of exports of goods and services increased by 14 per cent. This increase was due almost exclusively to the increase of more than 13 per cent in the average unit value, for the increase in volume was only marginal. Indeed, in the case of exports of goods the quantum decreased (see table 115).

Among traditional exports, sales of coffee experienced a considerable decline (23 per cent), due partly to the already mentioned drop in production, and partly to the withdrawal of 200,000 quintals from the market by Costa Rica under the agreement reached in London in 1974 by several countries which produce mild coffees.[85]

Meat exports also declined considerably (9 per cent). As explained above, this contraction would have been greater were it not for the negotiations which permitted the advance placement in the United States market of part of the quota allotted to Costa Rica for 1976 (see table 116).

In contrast, the value of sugar exports doubled, thanks primarily to the exceptional price levels obtained towards the end of 1974 and during the

[85] For the withdrawal of these 200,000 quintals Costa Rica received financial assistance from Venezuela.

Table 115

COSTA RICA: VARIATION IN THE TERMS OF TRADE AND IN THE VALUE, VOLUME AND UNIT VALUE OF EXPORTS AND IMPORTS OF GOODS

(Annual growth rates)

	1971	*1972*	*1973*	*1974*	*1975*
Exports of goods					
Value	2.8	24.1	23.7	27.8	11.6
Volume	5.3	19.0	2.9	3.5	– 1.5
Unit value	–7.7	4.3	20.3	23.5	13.3
Imports of goods					
Value	10.3	6.6	22.3	52.0	1.2
Volume	7.9	– 1.0	5.1	11.8	– 10.6
Unit value	2.2	7.6	16.4	35.9	13.3
Terms of trade	– 9.7	– 3.1	3.3	– 9.2	–

Source: CEPAL, on the basis of official statistics.

Table 116

COSTA RICA: VALUE AND BREAKDOWN OF EXPORTS OF GOODS (FOB)

	Millions of dollars				*Percentage breakdown*		*Annual growth rates*		
	1970	*1973*	*1974*	*1975* [a]	*1970*	*1975*	*1971–1973*	*1974*	*1975* [a]
Main export products	*16*[illegible]	*238.8*	*281.9*	*313.3*	*72.7*	*63.6*	*12.4*	*18.0*	*11.1*
Coffee	73.1	94.0	124.8	96.7	31.6	19.6	8.7	32.8	– 22.5
Bananas	66.8	90.7	98.4	136.4	28.9	27.7	10.7	8.5	38.6
Sugar	10.1	21.5	24.5	49.1	4.4	10.0	28.5	14.0	100.4
Fresh meat and cattle on the hoof	18.1	32.6	34.2	31.1	7.8	6.3	21.6	4.9	– 9.1
Other exports	*63.1*	*105.6*	*158.5*	*179.1*	*27.3*	*36.4*	*18.6*	*50.1*	*13.0*
Cocoa	11.9	4.4	5.9	5.5	5.2	1.1	– 28.3	34.1	– 6.8
Fertilizers	2.4	7.6	12.9	18.4	1.0	3.7	46.8	69.7	42.6
Others	48.8	93.6	139.7	155.2	21.1	31.5	24.2	49.3	11.1
Total	*231.2*	*344.4*	*440.4*	*492.4*	*100.0*	*100.0*	*14.2*	*27.9*	*11.8*

Source: CEPAL, on the basis of official statistics.

[a] Preliminary figures.

first quarter of 1975.[86] Sales of bananas continued to rise also at a very high rate, although the marked expansion of almost 40 per cent which they experienced in 1975 can be partly explained by the considerable increase in the tax on banana exports in that year.[87]

As in previous years, new exports increased in 1975 at a higher rate (13 per cent) than that of traditional exports as a whole (11 per cent), but this increase was much lower than that achieved in 1974 and the average rate for the period 1971-1973 (see table 116).

This reduction in the rate of increase of non-traditional exports reflected to a large extent the stagnation in sales to Central America. Such sales –which represent approximately two-thirds of non-traditional exports– barely showed any increase (from 104 to 106 million dollars) and they actually fell in real terms.[88]

(ii) *Imports.* In 1975 the volume of imports fell by almost 6 per cent. The factors which contributed to this decrease were the fall in the rate of growth of economic activity, the new taxes established on non-essential goods, and the appreciable accumulation of stocks of imported products provoked in 1974 by the strong fear of inflation prevailing at the time.

Even so, the value of imports of goods in 1975 surpassed the high level of approximately 625 million dollars recorded in the previous year. This increase was due entirely to the further increase in average prices, which rose by 13 per cent. As will be seen further on, this rate, although considerably lower than the 36 per cent of 1974, nevertheless had a marked effect on the behaviour of domestic prices (see table 115).

(b) *The balance of payments*

The current account deficit in 1975 was 220 million dollars. Although this deficit was one of the highest ever recorded by this country and was in fact the most unfavourable recorded in Central America during 1975, it nevertheless represented an improvement of 30 million dollars compared with the adverse balance of the previous year.

The deficit was financed with net inflows of medium- and long-term loans amounting to 80 million dollars, with 50 million dollars of direct investments, with 60 million dollars of net trade credits, and with a grant of 16 million dollars by Venezuela in accordance with the oil agreement.

Altogether, these capital inflows financed almost all of the unfavourable balance on current account. Together with the funds obtained from the International Monetary Fund under the oil facility they made it possible for net international reserves to be increased by almost 9 million dollars (see table 117).

In spite of the appreciable increase in 1975 of the public and private external debt –which at the end of the year was estimated to come to a little more than 650 million dollars– its composition became somewhat more favourable as regards maturity dates and rates of interest. This stemmed in part, from the high level of amortization of trade credits achieved in 1975. Nevertheless it is estimated that in 1975 external debt servicing continued to absorb approximately 25 per cent of the income which the country received from the export of goods (see table 118).

4. *Prices and monetary and fiscal trends*

In 1975 inflation decreased considerably. The increase in consumer prices fell from 30 per cent in 1974 to 18 per cent in 1975, and the drop in the rate of increase in wholesale prices was even more marked (from 40 per cent in 1974 to 18 per cent in 1975). In spite of this marked decline in the inflationary process, price levels continued to rise in 1975 at a rate more than twice as high as that prevailing in the years which preceded the world inflationary spiral of the period 1973-1974 (see table 119).

As in most of the Latin American countries, this falling off in the intensity of the inflationary process was due largely to the marked decrease in the growth rate of the prices of imported products in 1975. As pointed out earlier, these increased in 1975 by 13 per cent, a much lower rate of increase than the 36 per cent recorded in 1974 (see table 115).

Government anti-inflationary action consisted mainly of a rather conservative wage policy, the adoption of specific measures such as the organization of a new system of price control (Ley

[86] Because of sales on a future basis, the price actually received for sugar was higher in 1975 than in 1974, in spite of the fact that as from the first quarter of 1975 international prices began to fall.

[87] This was raised from 25 to 45 US cents per box.

[88] Since imports from the sub-region fell at the same time from 114 to 112 million dollars, Costa Rica's negative trade balance with the Central American Common Market fell from 10 to 6 million dollars.

Table 117

COSTA RICA: BALANCE OF PAYMENTS
(Millions of dollars)

	1970	1972	1973	1974	1975 [a]
Current account					
Exports of goods and services	280	346	419	529	604
Goods FOB	231	279	345	441	492
Services	49	68	74	88	112
Transport	15	21	21	25	34
Travel	22	30	36	44	50
Imports of goods and services	347	418	500	746	789
Goods FOB	287	337	412	626	634
Services	60	81	88	120	155
Transport	36	47	54	79	111
Travel	13	19	21	26	27
Net payments of profits and interest on foreign capital	– 14	– 35	– 38	– 41	– 44
Profits	– 4	– 21	– 21	– 19	– 20
Interest	– 10	– 14	– 17	– 22	– 24
Net private transfer payments	3	4	7	8	10
Balance on current account	– 77	– 103	– 112	– 251	– 219
Capital account					
Net external financing (a+b+c+d +e)	77	103	112	251	219
(a) Net external non-compensatory capital	79	107	108	179	192
Direct investment	26	26	38	43	50
Long- and medium-term loans	42	95	123	82	121
Amortization payments	– 19	– 38	– 59	– 18	– 40
Short-term liabilities (net)	27	22	6	71	60
Official transfer payments	3	3	–	–	–
(b) Domestic non-compensatory capital or assets	– 6	– 46	– 20	10	–
(c) Errors and omissions	– 10	39	40	17	6
(d) Allocation of SDRs	4	4	–	–	–
(e) Net compensatory financing) (minus sign signifies an increase)	9	–	– 16	45	21
Balance-of-payments loans, trade arrears, IMF loans, and other liabilities of the monetary authorities	1	17	5	43	31 [b]
Amortization payments	– 4	– 9	– 11	– 3	– 1
Foreign exchange reserves (minus sign signifies an increase)	16	– 4	– 10	3	– 7
Gold reserves (minus sign signifies an increase)	– 4	–	–	–	–
SDRs (minus sign signifies an increase)	–	– 4	–	2	– 2

Source: International Monetary Fund, *Balance of Payments Yearbook*, vol. 27.

[a] CEPAL estimates, on the basis of data provided by the Central Bank of Costa Rica.

[b] Includes 14.3 million dollars from the IMF Oil Facility and 16.5 million from the Venezuela Oil Fund.

Table 118

COSTA RICA: INDICATORS OF EXTERNAL INDEBTEDNESS

(Millions of dollars)

	1972	*1973*	*1974*	*1975*[a]
Total external debt	*384*	*457*	*548*	*653*
Public debt	235	296	357	463
Central government	86	110	129	169
Banking system	57	70	83	98
Remainder of public sector	92	116	145	196
Private debt	149	161	191	190[b]
Debt servicing	*64*	*84*	*100*	...
Amortization	48	63	71	...
Public	28	25	30	21[c]
Private	20	37	41	50
Interest	16	22	29	...
Public	10	15	21	14[c]
Private	6	7	8	...
External debt servicing as percentage of exports	*22.9*	*24.5*	*22.7*	...

Source: Planning Office (OFIPLAN)

a Preliminary figures.

b Estimates.

c For the first six months.

Table 119

COSTA RICA: EVOLUTION OF WHOLESALE PRICES

(1966 = 100)

	Annual rates of increase[a]				
	1971	*1972*	*1973*	*1974*	*1975*
General index	*6.4*	*5.5*	*16.3*	*39.8*	*17.4*
Food products of animal origin	7.5	3.3	14.5	24.1	17.0
Food products of vegetable origin	11.2	11.0	16.4	36.9	41.1
Beverages and other foods	5.6	1.7	14.3	41.2	7.5
Fuel and electricity	5.5	5.1	10.3	81.7	17.5
Textiles and hides	– 0.9	7.0	24.3	40.6	19.0
Building materials	5.4	2.3	21.3	41.5	9.2
Chemical and pharmaceutical products	3.0	4.6	18.6	36.2	23.2
Manufactures	8.2	9.0	16.1	27.5	11.8

Source: Central Bank of Costa Rica, and International Monetary Fund, *International Financial Statistics*, June 1976.

a Annual average variation.

de Defensa del Consumidor), and the establishment of selective taxation on consumption.

In contrast, monetary and fiscal policy continued to be rather expansionist in nature. In 1975 the Government deficit was 60 per cent higher than that of the previous year and was equal to more than 20 per cent of total expenditure, compared with 17 per cent in 1974 (see table 120). This increase was due mainly to the rapid expansion in total Government expenditure. This was one-third higher in 1975 than in 1974 and its growth surpassed the substantial rise of 27 per cent in current income. In particular, capital expenditure increased at a very high rate (38 per cent). The increase in tax revenue, for its part, implied a further increase in the tax coefficient, which was 15 per cent in 1975 —the highest among the Central American countries.

Table 120

COSTA RICA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of colones				*Annual growth rates*		
	1970	*1973* [a]	*1974* [a]	*1975* [b]	*1971–1973*	*1974*	*1975*
1. *Current income*	*883*	*1 387*	*1 936*	*2 463*	*16.2*	*39.6*	*27.2*
Tax revenue	792	1 254	1 795	2 263	16.5	43.1	26.0
Direct	178	310	395	497	20.1	27.7	25.8
Indirect	314	600	770	950	24.0	28.3	23.3
From taxes on external trade	300	344	630	816	4.8	82.9	29.5
Non-tax revenue	91	133	141	200	13.4	5.9	42.0
2. *Current expenditure*	*766*	*1 230*	*1 782*	*2 335*	*17.1*	*44.9*	*31.0*
3. *Saving on current account* (1 – 2)	*117*	*157*	*154*	*128*	*10.3*	*– 1.9*	*– 16.7*
4. *Capital expenditure*	*221*	*662*	*547*	*753*	*44.1*	*– 17.4*	*37.7*
Real investment	85	204	...	430	34.2	...	...
Other capital expenditure [c]	136	458	...	323	49.8	...	...
5. *Total expenditure* (2 + 4)	*986*	*1 892*	*2 329*	*3 088*	*24.2*	*23.1*	*32.6*
6. *Fiscal deficit (or surplus)* (3 – 4)	*– 104*	*– 505*	*– 393*	*– 625*	*69.5*	*– 22.2*	*59.0*
7. *Financing of deficit*	*104*	*505*	*393*	*625*	*69.5*	*– 22.2*	*59.0*
Domestic financing	39	307	213	281	99.6	– 30.7	32.1
External financing	65	198	180	344	44.9	– 9.0	90.8

Source: CEPAL, on the basis of official statistics.

[a] Preliminary figures.

[b] Estimates.

[c] Includes financial investment, amortization and transfers.

Almost half of the total increase in tax revenue came from two recently established or modified taxes. The first was the tax on banana exports, first levied in 1974, the revenue from which rose from 69 million colones in that year to 181 million colones in 1975 as a result of the increase in the tax as mentioned above, from 25 to 45 US cents per case. The second was the sales tax, revenue from which increased from less than 220 million colones in 1974 to more than 320 million in 1975. This considerable increase occurred in spite of the fact that trade activity remained stagnant in real terms during 1975, and was due partly to the replacement in December 1974 of the sales tax by the value added tax, and partly to the increase in the rate of taxation from 5 to 8 per cent.

However, the expansion in current expenditure was even higher (31 per cent) than that of income. As a result, savings on current account –which had already fallen slightly in 1974– dropped sharply in 1975. Since, at the same time, capital expenditure increased by some 40 per cent, the proportion of such expenditure financed with government savings fell from 28 per cent in 1974 to 17 per cent in 1975. Consequently, more than four-fifths of the capital expenditure had to be financed with domestic credit and external loans. The latter in particular showed a major increase, almost doubling the figure for 1974 (see table 120).

Monetary policy was also expansionist. Faced with the dilemma of forestalling the creation of excessive liquidity or of maintaining the level of financial support for the development of productive activities, the monetary authorities opted for the latter. Thus, during 1975 the quantity of money increased by 20 per cent (a somewhat higher rate than that registered in 1974) and domestic credit increased by almost 40 per cent (see table 121).

More than two-thirds of the credit expansion was the result of the increase in loans which the banking system granted to the private sector, but in relative terms the credit extended to the public sector showed a higher rate of increase, as a result of the very substantial increase in loans granted to public institutions.

In these circumstances –and considering, moreover, the expansionist effect which the movement of international reserves had in 1975– the liquidity of the system showed a big increase

Table 121

COSTA RICA: MONETARY POSITION

(Millions of colones)

	Balance at end of			1974[a]	1975[a]	Annual growth rates		
	1970	1973	1974			1971–1973	1974	1975[b]
1. *Money* (2 – 3)	*1 053*	*1 940*	*2 283*	*2 285*	*2 739*	*22.6*	*17.6*	*19.9*
Currency outside banks	352	587	673	674	799	18.6	14.6	18.6
Demand deposits	701	1 353	1 610	1 611	1 940	24.4	19.0	20.4
2. *Factors of expansion*	*2 055*	*3 753*	*4 743*	*4 494*	*6 457*	*22.3*	*26.4*	*43.7*
International reserves (net)	172	677	328	155	456	57.6	–51.5	194.1
Domestic credit	1 883	3 076	4 415	4 339	6 001	17.6	43.5	38.3
Claims on government (net)	231	313	366	468	559	10.7	16.8	19.4
Claims on official entities	38	166	343	299	529	63.8	106.3	76.9
Claims on private sector	1 614	2 597	3 706	3 572	4 913	17.2	42.7	37.5
3. *Factors of absorption*	*1 002*	*1 813*	*2 460*	*2 209*	*3 718*	*21.8*	*35.8*	*68.3*
Quasi-money (savings and time deposits)	405	1 023	1 650	1 623	2 498	36.4	61.4	53.9
Bonds	134	142	82	105	155	1.9	–41.7	47.3
Long-term foreign borrowing	258	363	714	571	1 370	12.0	96.6	140.0
Other items (net)	205	285	14	–90	–305	11.7	–95.2	238.4

Source: Central Bank of Costa Rica.

[a] These data refer to the month of November of each year.

[b] Change from November 1974 to November 1975.

for the second consecutive year. Thus, the supply of money and quasi-money increased by 34 per cent, i.e., at a much higher rate than the rate of increase in the domestic product at current prices, which is estimated at approximately 25 per cent.

As may be seen from table 121, the greater part of the excess liquidity was channelled towards savings and time deposits, which were two and a half times higher in November 1975 than at the end of 1973.[89]

Wage policy was not a source of inflationary pressure in 1975. At the beginning of that year the minimum wages in force for the private sector were adjusted by 10 per cent, but since the average level of consumer prices rose by 18 per cent during 1975, this meant that there was a deterioration of minimum wages in real terms.[90]

The evolution of workers' remuneration in the public sector was, on the other hand, more favourable. These workers received scaled readjustments which, on average, amounted to 20 per cent between December 1974 and the end of 1975, so that they retained their real purchasing power.

All in all, it is likely that for some of the poorest groups the action taken by the Government with a view to the redistribution of income may have offset the adverse effect of the drop in real income. In 1975 the Government continued to increase the resources allocated to social services, established a new system of disability and old age pensions for the sector of the population not covered by the national social security system, and adopted a series of other measures designed to improve income distribution.

Among these, the most important was the Family Allowance Programme, implemented by the Office of the President of the Republic. This extra-budgetary programme, which in 1975 received 200 million colones from the increase in the sales tax and the new 2 per cent payroll tax, is designed mainly to transfer resources from city to rural areas in order to raise the standard of living of the rural population through the provision of electricity, the construction of roads and water supplies, the establishment of medical clinics, the issue of food rations, and the improvement of housing. In 1975 the programme covered 187 priority areas which lacked these services and which had population nuclei of less than 3,000 inhabitants each.

Lastly, the marked price increase granted for staple grains must have helped to improve the income of the rural population engaged in the cultivation of beans, maize, and sorghum.[91] However, it is obvious that whatever increase in income the agricultural population received through this policy implied a transfer of equivalent resources from the urban sectors which had to pay higher prices for these products. In view of the greater importance of these foods in family expenditure in the middle and low income brackets, that transfer must have affected the urban poor to a relatively greater extent.

[89] This spectacular increase was due largely to the activation of the "finance windows" of the banking system. These are new departments of the banking system which operate on the same basis as private finance companies and pay higher rates of interest than the official bank rates for this type of deposit.

[90] In January 1976 the minimum wage was again adjusted by 10 per cent.

[91] Since most of the rice is produced on large farms, the increase in its price must have had much less widespread redistributive effects.

CHILE

1. *The overall picture*

The Chilean economy suffered a severe recession in 1975. The gross domestic product dropped by about 15 per cent, manufacturing production by over 23 per cent and gross fixed investment by 31 per cent. At the same time, unemployment rose sharply and in the second half of the year open unemployment directly affected one out of every six members of the labour force in Greater Santiago (see table 122).

As a result of this pronounced decline in economic activity and of its stagnation in the preceding three-year period, in 1975 the per capita

Table 122

CHILE: MAIN SHORT-RUN ECONOMIC INDICATORS
(Percentage annual growth rates)

	1971–1973	1974	1975
Gross domestic product	1.2	4.3	– 14.7
Gross income [a]	0.2	5.9	– 19.6
Per capita gross domestic product	– 0.6	2.4	– 16.2
Gross fixed investment	– 4.7	12.1	– 31.0
Value of exports	2.7	63.5	– 26.9
Value of imports	10.5	33.5	– 15.8
Terms of trade	– 5.9	5.7	– 33.3
Balance on current account [b]	– 429	– 296	– 642
Variation in international reserves [b]	– 70	– 79	9
Consumer price index [c]	113	505	375
Money	211	247	277
Current income of government	116	857	355
Total expenditure of government	141	815	246
Fiscal deficit/total expenditure of government [d]	36.5	34.5	13.9
Wages and salaries [c]	94	647	366
Rate of unemployment in Greater Santiago	4.6	9.7	16.2

Source: CEPAL, on the basis of official statistics.

[a] Gross domestic product plus terms-of-trade effect.
[b] Absolute values in millions of dollars at current prices.
[c] Annual average variation.
[d] Percentage.

product fell below the 1962 level. Per capita income, in its turn, which in 1975 was also affected by a violent deterioration in the terms of trade, was one-fifth lower than in 1974.

In the course of 1975, however, and especially in the latter half of the year, the serious financial disequilibria that affected the economy in previous years was appreciably reduced. Thus, in the second half of 1975 the fiscal deficit in terms of current prices was eliminated, the balance of payments was almost completely stabilized and the rate of inflation decreased significantly. Nevertheless, between December 1974 and the end of 1975 the consumer price index rose by 340 per cent and wholesale prices by over 410 per cent.

The unfavourable aspects of the evolution of the economy were partly due to singularly adverse external circumstances in connexion with copper prices and the servicing of the external debt. The price of copper showed a continuous steep decline in 1975. In current values, it was 40 per cent below the 1974 price, and in real terms the price in 1975 was not only the lowest in the last 10 years but it was equal to barely 57 per cent of the average price for the period 1965-1974. Moreover, this sharp decline occurred in spite of the reduction of copper shipments in compliance with the decision adopted by the Intergovernmental Council of Copper-Exporting Countries (CIPEC) at the beginning of the year. As a result of the simultaneous fall in the price and the volume of copper exports, their value dropped by more than 760 million dollars and was only slightly over half the value for 1974.

Added to the unfavourable impact of this considerable drop in the sales of Chile's major export commodity was the effect of the substantial service payments on the external debt. Interest and amortization payments amounted to nearly 800 million dollars and were 70 per cent higher than in 1974.

Faced with the prospect of a considerable balance-of-payments deficit due to the unfavourable trend in copper prices and the heavy external debt commitments, and also with a renewed spurt in the inflationary process in the early months of the year, the Government launched an Economic Recovery Programme in May with the basic objectives of reducing the rate of inflation and the unfavourable balance on the external accounts.

In order to achieve these objectives, the economic authorities cut back public spending, introduced changes in the tax system, strengthened measures against tax evasion and altered the system used to establish the automatic quarterly adjustments in wages and salaries with the aim of adapting it to a situation of decreasing inflation. These measures were complemented by a strict control of the expenditure of public enterprises, the reduction of personnel in some of these bodies, the elimination of tariff and tax exemptions accorded to them, and the readjustment of their prices and rates.

At the same time, the authorities defined the guiding principles of their long-term strategy, the aim of which was to establish a more open economy in terms of world market opportunities and competition, with a considerably smaller public sector, and with private enterprise and the price system subjected to fewer controls and playing a more important role than in the past.

In order to achieve these objectives the authorities maintained the policy of periodical mini-devaluations of the peso, promoted non-traditional exports and reaffirmed their decision to introduce progressive reductions in customs tariffs so that in 1977 the maximum tariff in force would be 60 per cent. They further decided to step up the transfer to the private sector of those companies owned or controlled by the State which were not considered as key enterprises.

As a result of these measures, the financial deficits of public enterprises dropped appreciably in the second half of the year and the fiscal deficit in national currency was practically eliminated.

This entailed a sharp drop in public investment, however. Thus, during the last six months of the year the expenditure of the Ministries of Housing and Public Works was equal in real terms to only half the amount spent in the first six months and to less than 30 per cent of their expenditure in the second half of 1974. Capital transfers from the Treasury to the Development Corporation, its subsidiaries and other public bodies decreased by an even greater proportion. In the second half of 1975 their real value stood at only 46 per cent of the figure for the first six months and less than one-quarter of the amount for the second half of 1974; over the whole year they were 77 per cent lower in real terms than in 1974.[92]

This sharp fall in demand from the public sector intensified the depressive effects from abroad and contributed to accentuating the economic recession which had been evident since the beginning of the year. Although the decline in economic activity lasted throughout the year, it was particularly marked in the third quarter when manufacturing output was one-third lower than in the equivalent period of 1974, production of intermediate goods for construction was 50 per cent lower than in the same period of 1974, and unemployment increased significantly.

Naturally, the sharper decline in economic activity led to a decrease in the trade deficit. On the one hand, the drastic fall in production, consumption and investment brought down the demand for imported goods, and as a result of this combined with the rise in the real rate of exchange, the value of imports dropped by 16 per cent (see table 122). On the other hand, the lack of domestic demand facilitated the growth of non-traditional exports, spurring some producers to export those items which they were unable to sell on the domestic market. The contraction of the latter thus reinforced the incentive to non-traditional exports provided by the exchange policy and other complementary measures, and these exports increased at an accelerated pace for the second year running.

Accordingly, in spite of the marked decline in the value of copper exports, trade in goods did not in the end record a deficit. The current account, in contrast, reflected a deficit of over 640 million dollars which derived in equal proportions from the adverse balance on the services account and from net payments of interest and profits. The overall balance-of-payments deficit —envisaged as over 600 million dollars at the beginning of the year— finally amounted to 260 million. This negative balance was almost entirely accumulated in the first half of the year and was financed with loans from the International Monetary Fund and foreign banks, which moreover permitted a marginal increase in international reserves.

[92] See Andrés Sanfuentes, "Efectos del sector fiscal en la recesión", *Comentarios sobre la situación económica: segundo semestre de 1975,* Department of Economics of the University of Chile, Santiago, 1976, pages 57 and 60.

Perceptible, though slower, progress was also made with respect to inflation. In the third quarter, the monthly rate of increase in prices slowed to 9 per cent, or half the average rate for the first six months of the year. The subsequent reductions in the rate of inflation were very small, however, so that in the last three months the annual variation in consumer prices remained at around 340 per cent (see table 142 and figure 4).

2. *Recent economic trends*

(a) *Total supply and demand*

As noted earlier, the gross domestic product dropped by nearly 15 per cent in 1975. Since at the same time the volume of imports contracted by about 23 per cent, the decrease in total supply was even greater (see table 123).

All the components of final demand also declined in 1975. The fall in gross fixed investment was particularly marked (over 30 per cent). This brought the real value of gross fixed capital formation to its lowest ebb in 15 years, and the investment coefficient to below 10 per cent.

The decrease in total investment was mainly due to the substantial drop in public investment. Another contributing factor was the decline in private capital formation, which in many activities was discouraged by the combination of insufficient demand and a considerable margin of idle production capacity.

Private consumption also decreased sharply as a result of the severe contraction of personal income and a further drop in employment and real wages. The decrease of 13 per cent, added to the drops in the two previous years, caused per capita private consumption to fall nearly 25 per cent below the 1972 level.

General government consumption also dropped by over 13 per cent. In this case, however, the decrease followed a rise of over 10 per cent in

Table 123

CHILE: TOTAL SUPPLY AND DEMAND

	Thousands of pesos at 1970 prices			*Percentage breakdown*		*Annual growth rates*		
	1970	*1974*	*1975* [a]	*1970*	*1975* [a]	*1971–1973*	*1974*	*1975* [a]
Total supply	*110 858*	*121 007*	*101 926*	*114.3*	*113.9*	*1.7*	*3.9*	*– 15.8*
Gross domestic product	96 971	104 910	89 485	100.0	100.0	1.2	4.3	– 14.7
Imports	13 887	16 097	12 441	14.3	13.9	4.5	1.5	– 22.7
Total demand	*110 858*	*121 007*	*101 926*	*114.3*	*113.9*	*1.7*	*3.9*	*– 15.8*
Domestic demand	*96 319*	*103 958*	*84 984*	*99.3*	*95.0*	*1.8*	*2.8*	*– 18.3*
Gross domestic investment	15 096	16 160	...	15.6	...	– 5.4	26.4	...
Gross fixed investment	13 306	12 896	8 897	13.7	9.9	– 4.7	12.1	– 31.0
Construction	7 478	...	...	7.7	...	– 6.3	...	...
Machinery and equipment	5 828	...	...	6.0	...	– 2.8	...	...
Total consumption	81 223	87 798	76 087 [b]	83.8	85.0 [b]	2.9	– 0.7	– 13.3 [b]
General government	12 613	16 955	14 682	13.0	16.4	6.8	10.5	– 13.4
Private	68 610	70 843	61 405 [b]	70.8	68.6 [b]	2.1	– 3.0	– 13.3 [b]
Exports	*14 539*	*17 049*	*16 942*	*15.0*	*18.9*	*1.6*	*11.7*	*– 0.6*

Sources: 1970-1974: CEPAL calculations on the basis of ODEPLAN figures; 1975: CEPAL estimates on the basis of preliminary official data.

Note: 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.

[a] Preliminary figures.

[b] Including changes in stocks.

1974 and a significant and sustained growth over the period 1971-1973 (see table 123).

There was also a sharp change in the performance of exports, which, after expanding by nearly 12 per cent in 1974, declined slightly in 1975. This change was mainly due to the sharp fluctuations in the volume of copper exports, which following an increase of approximately 30 per cent in 1974, decreased by about 10 per cent in 1975. This decline was almost completely offset, however, by the significant increase in the volume of non-traditional exports.

(b) *Sectoral developments*

The sharp contraction of overall activity affected all major sectors of the economy in 1975. The evolution of the goods-producing activities was particularly unfavourable; their total value added declined by nearly one-fifth as a result of the drops of 35, 27 and 8 per cent in construction, manufacturing and mining, respectively, and the virtual stagnation of the agricultural product (see table 124).

There were also marked decreases in the value added in commerce, transport, and community, social and personal services. The activities producing electricity, gas and water, in contrast, were the only ones to grow more rapidly than in 1974.

(i) *Agriculture.* Following the sharp increase of around 13 per cent in 1974, the gross product of the agricultural sector remained at practically the same level in 1975. This was due to the combination of a slight increase in crop farming (3

Table 124

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

	Thousands of pesos at 1970 prices			*Percentage breakdown*		*Annual growth rates*		
	1970	*1974*	*1975* [a]	*1970*	*1975* [a]	*1971–1973*	*1974*	*1975* [a]
Agriculture	6 859	6 529	6 556	7.9	8.3	– 5.5	12.7	0.4
Mining	10 101	12 092	11 114	11.7	14.0	0.9	16.7	– 8.1
Manufacturing	23 570	25 943	18 939	27.2	23.8	3.7	– 1.4	– 27.0
Construction	3 611	4 057	2 636	4.2	3.3	– 3.0	23.1	– 35.0
Subtotal goods	*44 141*	*48 621*	*39 245*	*51.0*	*49.4*	*1.2*	*6.2*	*– 19.3*
Electricity, gas and water	1 245	1 682	1 758	1.4	2.2	9.7	2.2	4.6
Transport and communications	4 904	5 180	4 387	5.7	5.5	1.5	1.0	– 15.3
Subtotal basic services	*6 150*	*6 862*	*6 145*	*7.1*	*7.7*	*3.3*	*1.3*	*– 10.4*
Commerce, financial establishments and insurance	14 888	15 052	12 309	17.2	15.5	– 0.1	1.3	– 18.2
Real estate [b]	5 179	5 789	5 951	6.0	7.5	2.8	3.0	2.8
Communal, social and personal services	16 183	18 029	15 770	18.7	19.9	2.3	4.1	– 12.5
Subtotal other services	*36 250*	*38 870*	*34 030*	*41.9*	*42.9*	*1.4*	*2.8*	*– 12.4*
Total gross domestic product	*86 541*	*93 626*	*79 864*	*100.0*	*100.0*	*1.2*	*4.3*	*– 14.7*

Sources: 1970-1974: CEPAL calculations on the basis of ODEPLAN figures; 1975: CEPAL estimates on the basis of preliminary official data.

Note: As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

[a] Preliminary figures.

[b] Refers only to ownership of dwellings.

[c] Also includes restaurants, hotels and business services.

Table 125

CHILE: INDICATORS OF AGRICULTURAL PRODUCTION

	Production				*Annual growth rates*		
	1970	*1973*	*1974*	*1975*	*1971–1973*	*1974*	*1975*
Index of agricultural production [a]	*100*	*87*	*96*	*96*	*- 4.5*	*10.3*	*-*
Crop farming [a]	100	85	97	100	- 5.3	14.1	3.1
Stock-raising [a]	100	89	95	91	- 3.8	6.7	- 3.9
Production of 14 main crops (thousands of metric quintals)							
Wheat	13 069	7 467	9 390	10 024	- 17.0	25.8	6.8
Oats	1 105	1 091	1 499	1 311	- 0.4	37.1	- 12.5
Barley	974	1 074	1 496	1 206	3.3	39.3	- 19.4
Rye	107	85	146	111	- 7.4	71.8	- 24.0
Rice	762	550	344	763	- 10.3	- 37.5	121.8
Maize	2 391	2 940	3 663	3 290	7.1	24.6	- 10.2
Potatoes	6 838	6 236	10 120	7 379	- 3.0	62.3	- 27.1
Beans	656	650	748	741	- 0.3	15.1	- 0.9
Lentils	112	98	128	121	- 4.3	30.6	- 5.5
Peas	74	88	125	63	5.9	42.0	- 49.6
Chickpeas	54	41	50	49	- 8.8	22.0	- 2.0
Sugarbeet	16 551	9 659	10 253	16 167	- 16.4	6.1	57.7
Rape	699	400	348	614	- 17.0	- 13.0	76.4
Sunflower	282	135	104	178	- 21.7	- 23.0	71.2
Production of main livestock items							
Beef (thousands of tons)	170.9	137.0	146.9	150.0	- 7.1	7.3	2.0 [a]
Poultry meat (thousands of tons)	61.6	50.8	55.8	42.6	- 6.3	9.8	- 23.1
Pork (thousands of tons)	...	50.6	53.3	35.5	...	5.3	- 33.4
Mutton (thousands of tons)	...	...	24.8	27.9	...	...	12.5
Milk (millions of litres)	895	855	906	956	- 1.5	6.0	5.5
Eggs (millions of units)	1 206	1 394	1 396	1 197	4.9	0.1	- 14.3
Greasy wool (thousands of tons)	...	17.7	16.8	18.8	...	- 5.1	11.9

Sources: 14 main crops: National Institute of Statistics, *Encuesta Agropecuaria de mayo de 1975*; livestock production: figures supplied by the Ministry of Agriculture, Agricultural Planning Office.

a CEPAL estimates on the basis of official statistics.

per cent) and a drop of nearly 4 per cent in livestock production (see tables 124 and 125).

Of the 14 principal crops, only five showed production increases. Among these, the harvests of rice and the three industrial crops –sunflower, rape and sugarbeet– recorded exceptional increases, while the wheat crop was nearly 7 per cent larger following a 26 per cent growth in 1974. Despite these favourable changes, production of all these crops in 1975 was still below the 1970 level. The increases in the rice, sunflower and sugarbeet crops were due primarily to considerable increases in cultivated area and, secondly, to the improvement in yields. In the production of rape and particularly wheat, however, the yields were lower than in the previous year.

Production of fruit rose by 3 per cent and that of vegetables by 1.5 per cent.[93] According to latest estimates,[94] wine-growing remained at the same level as in 1974.

The scant growth of agricultural production and the fall in the yields of most crops were partly

[93] Agricultural Planning Office, *Producción agrícola: temporadas 1973/1974 y 1974/1975,* Santiago, November 1975, p.4.

[94] Agricultural Planning Office, *Boletín Agroestadístico,* Nº 25, Santiago, December 1975, p. 71.

due to the sharp reduction in the use of fertilizers. Thus, sales of nitrogenous fertilizers (expressed in terms of tons of nutrients) were nearly 13 per cent lower in 1974 than in 1973, while sales of phosphatic fertilizers declined by 12 per cent.[95] These lower sales, in turn, were basically due to the extraordinary increases in domestic fertilizer prices in 1974, which climbed steadily throughout the year to the point where in December 1974 they were three times higher in real terms than the prices at the end of 1973.[96]

In the livestock sector it is estimated that the value of meat production at constant prices fell by nearly 8 per cent, with very uneven variations for the different types of meat. Thus, while the production of pork dropped by one-third and that of poultry meat by nearly one-quarter, output of beef rose by 2 per cent and that of mutton by 13 per cent. The decline in the poultry industry likewise affected the production of eggs, which fell by 14 per cent. On the other hand, milk production expanded for the second year running at a rate of about 6 per cent, and the production of wool rose by 12 per cent (see table 125).

(ii) *Mining.* In 1975 the mining sector experienced a serious setback, which did not, however, counteract its vigorous expansion in the previous year. Following an increase of nearly 17 per cent in 1974, the mining product dropped by 8 per cent in 1975, as the result of a decrease of more than 6 per cent in the production of copper, a further decline of 11 per cent in petroleum production, a slight drop in the production of nitrate and a sharp fall in the production of iodine. Iron output grew, in contrast, by more than 7 per cent, and coal production by nearly 2 per cent, but in both cases the rates of growth were lower than in 1974 (see table 126).

The decline in copper production may be ascribed exclusively to large-scale mining. After an unprecedented output of over 760,000 tons in

[95] Sales of these and potassic fertilizers were even lower in 1975. In the first 10 months of the year, sales of phosphorus and potassium nutrients dropped by about 45 per cent and sales of nitrogen nutrients by more than one-third compared with the same period of 1974. These declines will, however, basically affect the harvests in the 1975/1976 crop year. In this respect, see José Garrido, "El sector agrícola", *Comentarios sobre la situación económica: segundo semestre de 1975, op. cit.* pp. 93-100.

[96] *Ibid.*

Table 126

CHILE: INDICATORS OF MINING PRODUCTION

	Production				*Annual growth rates*		
	1970	*1973*	*1974*	*1975* [a]	*1971–1973*	*1974*	*1975*
Copper (thousands of tons)	*692*	*735*	*902*	*845*	*2.0*	*22.7*	*– 6.3*
Large-scale mining	541	615	763	683	4.4	24.1	– 10.5
Medium- and small-scale mining	151	120	139	162	– 7.4	15.8	16.5
Iron ore (thousands of tons)	11 265	9 466	10 271	11 049	– 5.7	8.5	7.5
Coal (thousands of net tons)	1 382	1 293	1 437	1 460	– 2.2	11.1	1.6
Nitrate (thousands of gross tons)	669	696	738	726	4.0	6.0	– 1.6
Iodine (tons)	2 250	2 168	2 273	1 960	– 1.2	4.8	– 13.8
Petroleum (thousands of m^3)	1 977	1 817	1 599	1 423	– 2.8	– 12.0	– 11.0

Sources: Cooper: Corporación del Cobre; Servicio de Minas del Estado.
Iron: Compañía de Acero del Pacífico.
Coal: Empresa Nacional del Carbón.
Nitrate and iodine: Sociedad Química de Chile.
Petroleum: Empresa Nacional del Petróleo.

[a] Preliminary figures.

1974, this sector had to cut back production by over 10 per cent in 1975, in compliance with the decisions adopted by the member countries of CIPEC. To that end, work was stopped in La Exótica mine.

In contrast, the production of small- and medium- scale mining increased by approximately 17 per cent, thus pursuing the vigorous trend of the preceding year. This was largely due to the financial incentives provided to small copper miners and some medium-scale mining companies by the National Mining Enterprise.

The declining trend in petroleum production since 1971 continued in 1975. This decline, which is attributable to the progressive depletion of the Magallanes wells, was accentuated in the two years 1974-1975, in which output dropped by more than one-fifth.

The slight fall in the production of nitrate was due, on the other hand, to external and internal problems of demand. In consequence, external sales dropped by 29 per cent, and sales on the domestic market by 13 per cent. Thus, the decrease in sales far exceeded the drop in production and led to a considerable increase in stocks.

The contraction of domestic economic activity also seriously affected coal mining. In 1975, domestic consumption of coal fell by 23 per cent, which gave rise to a substantial accumulation of stocks. Despite the steps taken to place some of these stocks abroad and the stoppage of all work in the mines owned by the National Coal Enterprise, at the end of 1975 disposable stocks amounted to about 27 per cent of the year's output.

(iii) *Manufacturing.* The manufacturing sector as a whole suffered a serious recession in 1975. The product dropped by 27 per cent, the total volume of sales by one-fifth and industrial employment by 11 per cent, while production fell steeply in each of the 30 groups included in the index of the Industrial Development Association (Sociedad de Fomento Fabril)[97] (see tables 124, 127 and 129).

The decline in the level of activity was especially pronounced in the case of intermediate

[97]In view of the fact that in 1975 the National Institute of Statistics was no longer calculating its manufacturing production index, the following analysis is based on the indexes of industrial production and sales prepared by the Industrial Development Association.

Table 127

CHILE: INDEXES OF MANUFACTURING PRODUCTION

	Indexes (1969 = 100)						*Annual growth rates*				
	1970	*1971*	*1972*	*1973*	*1974*	*1975*	*1971*	*1972*	*1973*	*1974*	*1975*
Total manufacturing	*103.5*	*114.7*	*117.6*	*109.9*	*111.1*	*85.0*	*10.8*	*2.5*	*- 6.5*	*1.1*	*- 23.5*
Non-durable consumer goods	104.5	117.8	116.6	110.0	104.3	84.6	12.7	- 1.0	- 5.7	- 5.2	- 18.9
Durable consumer goods	115.6	141.2	128.3	111.2	123.9	88.1	22.1	- 9.1	- 13.3	11.4	- 28.9
Transport material	100.0	91.4	105.9	71.6	72.8	53.6	- 8.6	15.9	- 32.4	1.7	- 26.4
Intermediate products for industry	100.6	111.1	115.5	113.8	132.9	113.1	10.4	4.0	- 1.5	16.8	- 14.9
Intermediate goods for construction	104.1	113.2	123.5	117.8	113.4	65.1	8.7	9.1	- 4.6	- 3.7	- 42.6
Miscellaneous manufactures	97.2	105.9	120.5	114.4	105.6	67.4	9.0	13.8	- 5.1	- 7.7	- 36.2

Source: Sociedad de Fomento Fabril.

goods for construction, output falling by about 43 per cent as a result of the contraction in building and the sharp reduction in expenditure on public works. This sharp fall in the output of construction goods came on top of the declines suffered in the two preceding years, so that its level in 1975 was barely above half that reached in 1972 (see table 127).

There were also drastic production decreases in the industries manufacturing durable consumer goods and transport material. Output of the former dropped by 29 per cent, mainly owing to the sharp fall in personal income, while in per capita terms it was 42 per cent below the peak level reached in 1971.

The decline in the production of non-durable consumer goods, while not so pronounced, was also fairly substantial. The manufacture of footwear and textiles dropped by more than 30 per cent and the production of clothing by 23 per cent. The decline in production was less intensive, though still considerable, in the industries manufacturing tobacco (13 per cent), food (11 per cent) and beverages (4 per cent). Altogether, the production of non-durable consumer goods fell by approximately one-fifth in 1975, thus pursuing a declining trend for the fourth consecutive year. As a result, the per capita production of these goods was one-third lower than in 1971.

Although the main reason for the drop in industrial production was the general fall in domestic demand, it was also partly attributable to the short-term effects of the policy of customs tariff reductions and liberalization of imports. The reduction and standardization of tariffs and the liberalization of the imports system led to considerable changes in the relative prices of domestic and imported inputs, as a result of which many industries which had formerly obtained their supplies on the domestic market now found it cheaper to purchase some of their inputs abroad. Thus, at any given stage of production, their demand for imports was greater and their purchases of domestic goods were smaller. This meant that even if there had not been a drop in demand for their products in 1975, their demand for domestic intermediate products would still have declined while their demand for foreign inputs would have increased. Thus the changes in the relative prices of domestic and imported goods induced by the tariff and import policy helped to accentuate the depressive effects of the contraction in domestic demand.[98]

Table 128 and figure 2 provide statistical

[98]This short-term negative impact of the policy of opening up the economy was not offset by the stimulus it

Table 128

CHILE: MANUFACTURING PRODUCTION AND IMPORTS OF INTERMEDIATE GOODS

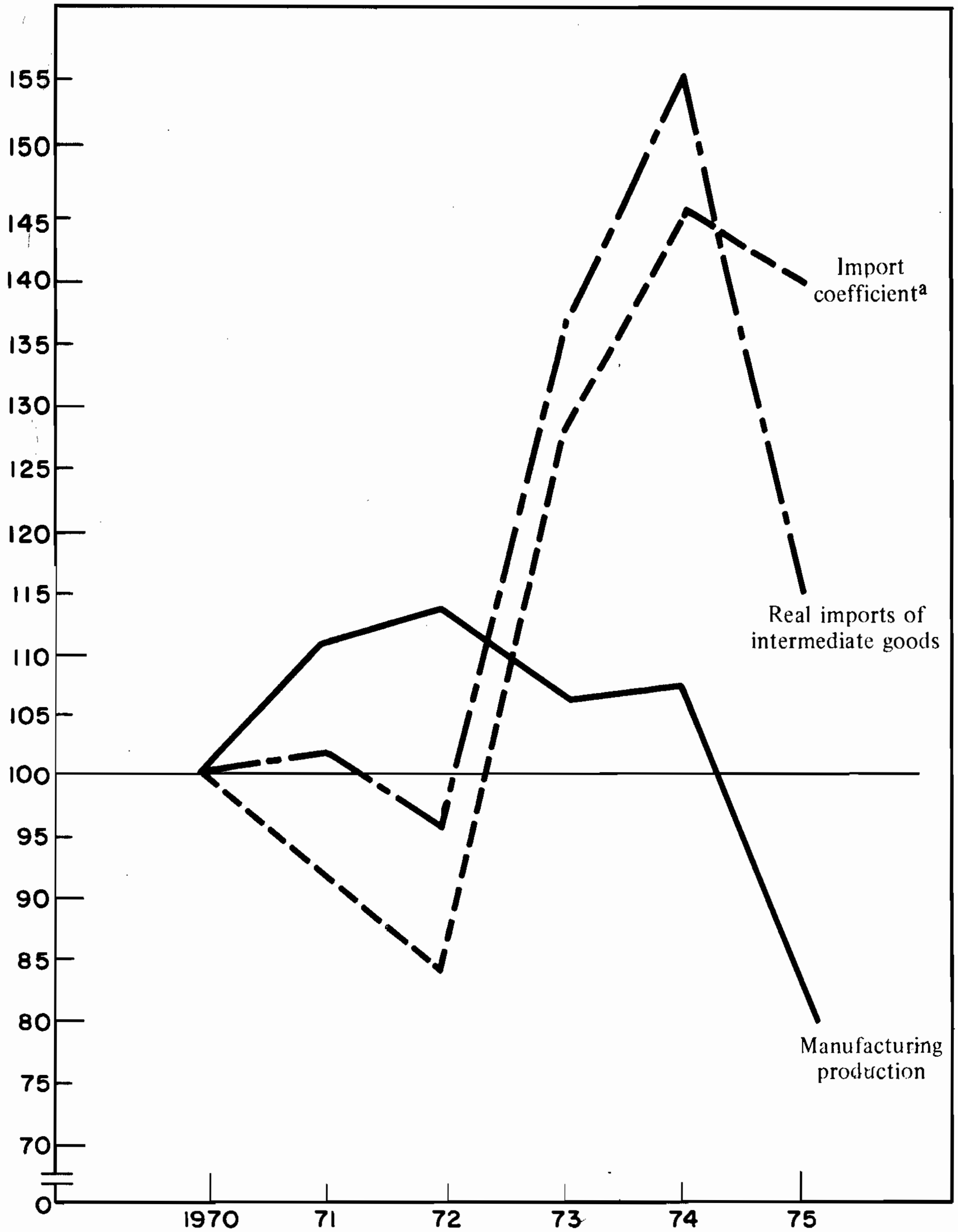
	1970	*1971*	*1972*	*1973*	*1974*	*1975*
			A. Imports of intermediate goods (Value in millions of dollars at 1970 prices)			
Total	*530*	*538*	*505*	*721*	*823*	*607*
Agricultural products	77	75	75	196	134	105
Non-agricultural products	401	401	362	450	622	451
Petroleum and petroleum products	52	62	68	75	67	51
			B. Indexes			
1. Total imports of intermediate goods	100.0	101.6	95.5	136.2	155.4	114.6
2. Manufacturing production	100.0	110.8	113.6	106.2	107.3	82.1
3. Import coefficient of industry (1) : (2)	100.0	91.7	84.1	128.2	144.8	139.6

Sources: Imports of intermediate goods: Central Bank; manufacturing production: Sociedad de Fomento Fabril.

Figure 2

CHILE: INDEXES OF MANUFACTURING PRODUCTION AND OF THE VOLUME OF IMPORTS OF INTERMEDIATE GOODS

(Index: 1970 = 100)



Source: Table 128.

[a]Index of imports of intermediate goods divided by the index of manufacturing production.

evidence in support of the above analysis. They show that the ratio of the volume of imports of intermediate goods to the volume of industrial production in 1975 was 50 per cent higher than in the period 1970-1972. This notable increase in the import coefficient was due, in its turn, to the divergent trends followed by imports of intermediate goods and by manufacturing production. While in 1975 the former were 16 per cent higher in real terms than in 1970-1972, the latter was 24 per cent lower than in the same three-year period.

It is possible, however, that in the period 1970-1972 the ratio of imports of intermediate goods to manufacturing output was exceptionally low and, therefore, that it was necessary in the next few years for the former to grow faster than the latter so as to bring the stocks of imported inputs up to more adequate levels.

In the light of the available figures, however, it is reasonable to assume that the additional import requirements which this process may have entailed had already been comfortably covered in 1974. In that year the volume of imports of intermediate goods reached an unprecedented level, which was 57 per cent higher than the average for the period 1970-1972. Industrial production, on the other hand, was slightly below the average output for the years 1970-1972. It seems obvious, therefore, that the notable expansion in the volume of imports of industrial inputs in 1974 must have led to an equally substantial increase in stocks. Moreover, the fact that the import coefficient of industry in that year was 56 per cent higher than in the first three years of the decade suggests that at the end of 1974 stocks of imported intermediate goods had regained or even surpassed their normal levels. Therefore, there could have been a not insignificant drop in imports of intermediate goods in 1975 without necessarily affecting the level of industrial production. Naturally, that would have resulted in a substantial drop in the import coefficient of industry with respect to the exceptionally high level it reached in 1974. In practice, however, there was only a slight fall in the import coefficient, which was thus over 50 per cent higher than in the period 1970-1972 for the second consecutive year (see table 128 and figure 2). Of course if the import coefficient had not been so high in 1975, the real value of imports for

represented for exports of manufactures. The main reason for this discrepancy was the differing facility and speed with which the two processes tend to operate. With the liberalization of foreign trade it is much easier for industry to change its source of inputs from domestic producers to foreign suppliers than to open and consolidate new markets for export of manufactures. Naturally, this asymmetry was much more pronounced in 1975 because of the depressive phase affecting most of the industrialized economies.

Table 129

CHILE: QUARTERLY VARIATION IN INDUSTRIAL PRODUCTION, SALES AND EMPLOYMENT

(Percentage variation with respect to the same quarter of the preceding year)

	Production	*Sales*	*Employment*
1974			
First quarter	0.4	1.0	5.8
Second quarter	7.0	4.7	–0.3
Third quarter	9.7	8.8	...
Fourth quarter	– 10.5	– 7.4	0.1
1975			
First quarter	– 15.2	– 11.9	– 2.5
Second quarter	– 22.0	– 20.7	– 11.7
Third quarter	– 33.8	– 27.2	– 14.8
Fourth quarter	– 22.3	– 18.3	– 14.0

Sources: Industrial production and sales: Sociedad de Fomento Fabril; industrial employment: employment and unemployment surveys in Greater Santiago prepared by the Department of Economics of the University of Chile.

that year would have been compatible with a considerably higher level of industrial production.[99]

[99]Thus, if the import coefficient in 1975 had been 20 per cent instead of 40 per cent higher than in 1970, the value of imports of intermediate goods in 1975 would have been compatible with a manufacturing output 16 per cent higher than that actually obtained. In assessing this possibility, it should be remembered that in 1975 there was a considerable margin of idle installed capacity in all industrial activities and that the rate of unemployment in the manufacturing sector was nearly 15 per cent. Therefore, from the standpoint of the resources needed to step up production, the supply of imported intermediate goods was, in principle, the only limitation.

The contraction in the manufacturing sector showed sharp variations in the course of the year. As may be seen from table 129 and figure 3, the decline in manufacturing output, which had already begun in the last three months of 1974, accelerated sharply and persistently in the first six months of 1975.[100] This trend culminated in July

[100]In order to eliminate the effect of seasonal factors, the variations considered in table 129 and figure 3 always relate to equivalent periods or months of the preceding year.

Table 130

CHILE: MAIN INDICATORS OF CONSTRUCTION

	Values				*Annual growth rates*		
	1970	*1973*	*1974*	*1975*	*1971–1973*	*1974*	*1975*
Construction product (thousands of pesos at 1970 prices)	3 611	3 296	4 057	2 636	– 3.0	23.1	– 35.0
Building							
Total area (thousands of m²)	*2 436*	*2 599*	*1 904*	*1 713*	*2.2*	*– 26.7*	*– 10.0*
Public sector	662	1 248	285	363	23.5	– 77.2	27.4
Private sector	1 774	1 351	1 619	1 350[a]	– 8.7	19.8	– 16.6
Total number of dwellings [a]	*23 706*	*35 361*	*20 381*	*16 487*	*14.3*	*– 42.4*	*– 19.1*
Public sector	5 914	20 877	3 297	3 758	52.5	– 84.2	14.0
Private sector	17 792	14 484	17 084	12 729[a]	– 6.6	18.0	– 25.5
Buildings materials							
Dispatches of cement (millions of sacks)	30.9	32.4	33.5	23.1	1.7	3.4	– 31.2
Dispatches of round bars for construction (thousands of tons)	86.1	72.3	100.2	53.9	– 5.7	38.6	– 46.2
Index of real sales of intermediate goods for construction (1969 = 100)	101.4	116.6	112.3	67.8	4.8	– 3.7	– 39.6
Employment in construction in Greater Santiago (thousands of persons)	49.5	54.8	86.8	66.9	3.4	58.4	– 22.9
Expenditure of Ministries of Housing and Public Works (millions of pesos at 1975 prices)			2 669	1 112	...	...	– 58.3
Ministry of Housing			1 030	356	...	...	– 65.4
Ministry of Public Works			1 639	756	...	...	– 53.9

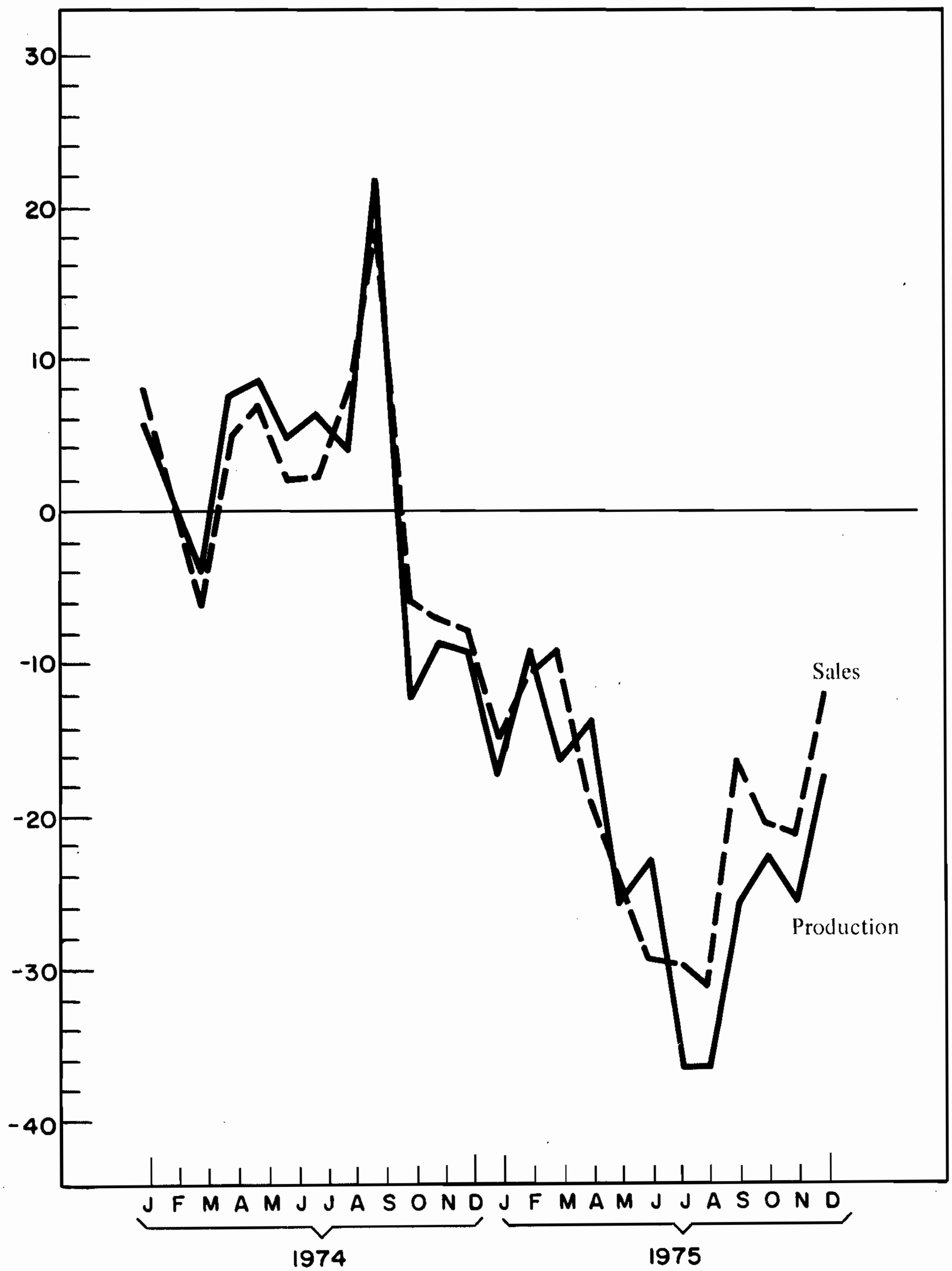
Sources: Construction product: National Planning Office; Building: National Institute of Statistics; building materials: Instituto Chileno del Cemento, Instituto Chileno del Acero, Sociedad de Fomento Fabril; employment in construction: Department of Economics of the University of Chile; expenditure of Ministries of Housing and Public Works: Department of Economics of the University of Chile, on the basis of data supplied by the Ministry of Finance, Budget Office.

[a] From January 1975 onwards the figures for the private sector refer to 80 *comunas*; up to 1974 they referred to only 60 *comunas*.

Figure 3

CHILE: INDUSTRIAL PRODUCTION AND SALES BY VOLUME

(Percentage variation with respect to the same month in the previous year)



Source: Sociedad de Fomento Fabril.

and August, when manufacturing output was 37 per cent lower than in the same months of 1974. From September onwards the decreases became progressively smaller, but in December the output of the manufacturing sector was still 18 per cent lower than it had been 12 months earlier.

The volume of sales by industry followed a fairly similar course, but the monthly decreases were on the whole smaller than the drops in production, particularly in the second half of the year (see figure 3). This trend –which contrasted with the situation in 1974 when the monthly production increases were bigger than the increases in sales– reflected the process of liquidation of stocks which took place at all levels in 1975 as a result of the general drop in demand.

The changes in industrial employment in the course of the year were closely linked with the changes in manufacturing production, since the drops in employment were intensified in the first three quarters of 1975 and the trend was reversed at the end of the year (see table 129). The decreases in employment were much smaller than the drops in production, however, and were therefore accompanied by a sharp fall in productivity. This situation revealed the growing under-employment affecting the industrial labour force, the clearest evidence of which was a reduction of the normal working day in many factories.

(iv) *Construction.* The drop in the level of construction activity was greater than in all the other sectors of the economy in 1975. The construction product fell 35 per cent and was lower than at any time in the previous 14 years (see table 130).

This decline was accompanied by a sharp and persistent drop in employment. In Greater Santiago, the number of persons employed in construction in 1975 was 23 per cent lower, on average, than in 1974 and continued to decline steadily throughout the year. Thus, while 92,200 persons were employed in construction activities in December 1974, only 76,600 persons were thus employed in March 1975, and 71,900 in June. By September the number had dropped to 66,000 and in December it was barely 52,800, or 43 per cent lower than a year previously. This fall in employment was reflected in an equally sharp and continuous rise in the rate of unemployment in this sector. From a little over 12 per cent at the end of 1974 it rose to nearly 24 per cent in March 1975, to approximately 32 per cent in June and September and to about 40 per cent in December.

Naturally enough, the decline in construction gave rise to restrictive effects which directly affected the activities supplying it with inputs and, through them, other sectors of the economy. Thus in 1975 dispatches of cement fell by 31 per cent and of round iron by 46 per cent, while real sale of intermediate goods for construction dropped by nearly 40 per cent (see table 130).

To a large extent, the recession in construction was due to the decline in public investment and to the financial difficulties confronting the National Savings and Loan System (Sistema Nacional de Ahorro y Préstamo – SINAP) in 1975.[101]

As explained earlier, the real expenditure of the Ministry of Public Works and the Ministry of Housing was sharply reduced in 1975. For the year as a whole, the expenditure of the former dropped by 54 per cent in real terms and that of the latter by an even greater proportion (over 65 per cent) (see table 130). In addition, the real expenditure of both these Ministries declined in the course of 1975 to the point where in the second half of the year the total sum was equal to only half the amount for the first half and barely 29 per cent of the figure for the last six months of 1974.[102]

The depressive impact of this decline on the level of employment was accentuated by two additional factors. The first was the sharper

[101] These difficulties led to the large-scale withdrawal of funds deposited in the savings and loan associations, so that the Central Bank had to extend considerably more credit to SINAP. The factors contributing to the crisis in SINAP included the growing competition it had been facing from financial associations and banks since 1974, and the risk of illiquidity in view of the fact that funds were deposited with SINAP on a short-term basis, while loans were granted for much longer periods of sometimes as many as 30 years. Furthermore, faced with the prospect that the funds invested in SINAP readjustable mortgage bonds (Valores Hipotecarios Reajustables – VHR) –which were worth approximately double and were due for a quarterly adjustment in July– were likely to be withdrawn from the associations on a large scale after being adjusted, the economic authorities limited the right to withdraw VHR balances to 500 pesos as from June. This and other subsequent decisions increased the public's lack of confidence in SINAP and in the second half of the year the system continued to lose funds owing to the withdrawal of the authorized VHR quotas and savings deposits. For a brief and clear analysis of the origin and development or the SINAP crisis, see the studies on financial policy by P. Jeftanovic in *Comentarios sobre la situación económica,* Department of Economics of the University of Chile, covering the second half of 1974 and the first and second halves of 1975.

[102] See *Efectos del sector fiscal en la recesión, op. cit.,* p. 60.

decrease in the expenditure of the Ministry of Housing compared whit that of the Ministry of Public Works, which, relatively speaking, has a smaller labour content.[103] The second factor was the concentration of a high proportion of the investment of the Ministry of Public Works in a single project –the construction of Santiago's underground railway– in which employment of manpower per unit of investment is relatively low.

As in 1974, investment in housing in the public sector was mainly allocated to completion of the work initiated in earlier periods, particularly in 1971.[104] Thus in 1975 the public sector completed the construction of over 29,000 units, which was 10 per cent less than in the preceding year. Work was also started on 3,760 dwellings, which,though very much lower than the number recorded in any of the last 15 years, was 14 per cent higher than in 1974 (see table 130).

Building by the private sector also dropped steeply. In 1975, the building projets envisaged by this sector represented a total area of 1,350,000 square metres, that is, 17 per cent less than the 1974 figure of 1,620,000 square metres.[105]

Although this significant decrease partly reflected the effects of the general economic recession, it was mainly due to the aforementioned financial problems of SINAP.[106] As a result of these problems, not only was there a marked reduction in the number and area of new dwellings begun by the private sector, but work was suspended on dwellings that were already begun. Thus by September 1975 work had been stopped on 90 per cent of the 12,540 dwellings scheduled to be built with SINAP financing.[107]

(c) *Changes in the employment situation*

The recession in economic activity was accompanied by a marked deterioration in the employment situation, as borne out by the considerable increases in both open unemployment and under-employment.

The average rate of unemployment in Greater Santiago –which had already risen to about 9.7 per cent in 1974, thus exceeding the highest known levels since comparable data have been available (1960)[108] – continued to increase in 1975 (see table 131). The result was that in the second half of the year at least one out of every six members of the labour force was out of work,[109] and by December there were nearly 246,000 unemployed in the capital, which was double the figure for December of the previous year and nearly three times that for December 1973.[110]

Between December 1974 and December 1975 the global rates of unemployment in industry and commerce more than doubled, while the unemployment rate in construction more than trebled. Thus, by the end of the year, one out of every nine workers in commerce, one out of every six in industry and two out of every five in construction had been laid off (see table 131).

The deterioration in the employment situation particularly affected the manual workers, whose rate of unemployment had already risen to about 17 per cent by March 1975 and it remained at around 22 per cent for the rest of the year. Relatively speaking, however, the rate of unemployment of non-manual workers rose even

[103] See Joseph Ramos, Cristián Eyzaguirre and M. Trautman, *Empleo y productividad en obras públicas,* ICIS-FLACSO, Santiago, 1972.

[104] In that year the public sector started to build more than 76,000 dwellings, the number shrinking to an average of 20,000 in the next two years. A considerable proportion of these dwellings had not yet been completed by the end of 1973.

[105] This is an underestimate of the actual drop in private building, since the data for 1975 cover 80 *comunas,* while the figures for 1974 and earlier years were obtained in only 60 *comunas.*

[106] It is estimated that about 80 per cent of private investment in housing is linked in one way or another with SINAP financing. The construction of dwellings, in its turn, represents a similar percentage of total building in the private sector.

[107] See Planning Ofice (ODEPLAN), *Informe económico anual,* Santiago, 1975, p. 64.

[108] Although the Institute of Economics of the University of Chile carried out its first survey of employment and unemployment in Greater Santiago in October 1956, it was not until 1960 that it began to carry out regular quarterly surveys in the months of March, June, September and December. In the period 1960-1973 the annual average rate of unemployment was normally around 5.5 per cent and it was only slightly over 7 per cent in 1960 and 1970.

[109] According to the survey carried out by the Department of Economics of the University of Chile, the proportion was even higher than this in December. However, according to data supplied by the National Institute of Statistics, however, the rate of unemployment, after reaching a maximum rate of 17.4 per cent in October, declined slightly in the last two months of the year.

[110] See Department of Economics of the University of Chile, *Ocupación y desocupación: Gran Santiago,* December 1975.

Table 131

CHILE: UNEMPLOYMENT IN GREATER SANTIAGO

	1974				*1975*			
	March	*June*	*Septem-ber*	*Decem-ber*	*March*	*June*	*Septem-ber*	*Decem-ber*
Global rate of unemployment (percentage)								
Department of Economics, University of Chile	9.2	10.3	9.4	9.7	13.3	16.1	16.6	18.7
National Institute of Statistics	6.8	9.4	8.3	9.4	12.8	15.0	16.8	15.6
Rate of unemployment among the established labour force (i.e., excluding persons seeking work for the first time) (percentage)	*6.4*	*7.5*	*6.8*	*6.1*	*9.1*	*12.0*	*12.6*	*13.8*
Manufacturing	7.6	8.0	7.7	6.9	10.9	15.3	17.2	15.9
Construction	11.6	14.5	13.7	12.2	23.7	31.5	31.7	39.6
Commerce	5.5	5.5	5.0	5.3	7.8	7.5	9.9	11.1
Non-manual workers	4.2	5.9	4.2	3.7	4.8	7.1	7.8	10.0
Manual workers	9.9	11.9	11.3	10.3	16.8	21.6	22.0	21.9
Own-account workers	5.2	4.4	5.0	4.1	6.3	8.0	9.3	9.9
Indexes (1973 = 100)								
Employment	98.6	97.7	100.2	102.4	98.6	95.3	94.5	96.6
Unemployment	201.8	227.3	209.1	221.8	305.5	367.3	380.0	447.3
Labour force	103.5	104.0	105.4	108.2	108.5	108.3	108.1	113.2

Sources: Department of Economics of the University of Chile, *Ocupación y desocupación en el Gran Santiago*, December 1975; National Institute of Statistics.

more rapidly, from under 4 per cent at the end of 1974 to 10 per cent in December 1975. Similarly, in that month one out of every 10 own-account workers had no occupation, a proportion which, as in the case of manual and non-manual workers, was more than double the figure for December 1974.

According to the figures of the National Institute of Statistics, the rates of unemployment in urban centres in the rest of the country in 1975 were even higher than in Greater Santiago, reaching exceptionally high levels in Tarapacá, Coquimbo, Valparaíso, Aconcagua, Malleco and Cautín (see table 132).

These increases in the rates of unemployment occurred notwithstanding the expansion of the Minimum Employment Plan in the second half of the year. This programme, intended to offer unemployed persons the opportunity of earning a minimum income until they found regular work, was launched in March and was organized by the municipalities under the supervision of the Ministry of the Interior. The activities carried out under this Plan included reforestation, embellishment and cleaning of streets and parks, work on sewerage systems, laying of gravel in outlying population centres and provisional settlements, and the preparation of land for the prevention of floods. Workers enrolled in this programme do not enjoy the status of public employees; they receive a wage on which no social security contributions are payable and which is not considered as income for any legal purposes, nor do they receive family, food or transport

Table 132

CHILE: RATES OF URBAN UNEMPLOYMENT BY REGION, 1975

(Percentage)

	June	*August*	*October*	*December*
Greater Santiago	15.0	16.4	17.4	15.6
Tarapacá	18.8 [a]			
Antofagasta		12.8		
Atacama		16.9		
Coquimbo		20.2		
Valparaíso–Aconcagua			18.0 [b]	
O'Higgins–Colchagua			17.2	
Ñuble–Concepción–Arauco–Bío-Bío	17.8			
Malleco				20.8
Cautín				19.1
Valdivia–Osorno–Llanquihue–Chiloé	14.4 [c]			
Aysén		16.3		
Magallanes		11.3		

Source: National Institute of Statistics.

[a] July.

[b] Global rate of unemployment (including rural areas).

[c] May.

allowances. Since November, however, each worker under the Minimum Employment Plan has received a complementary food allowance equivalent to 634 calories and 24 grams of protein per day.

At first there was little response to this Plan from the workers. In June, however, the wage was raised by 74 per cent,[111] and as a result of this adjustment, combined with the elimination of various administrative restrictions[112] and the steady increase in unemployment, the number of workers enrolled in the programme rose rapidly in the second half of the year, from about 76,600 in July to nearly 127,000 in December[113] (see table 133).

Table 133

CHILE: MINIMUM EMPLOYMENT PLAN, 1975

	Number of workers
July	75 664
August	85 934
September	99 989
October	112 368
November	123 507
December	126 765

Source: National Planning Office, *Informe económico anual*, 1975.

[111] In real terms, this increase meant an improvement of 25 per cent over the wage paid in April. Expressed in terms of dollars, the wage rose from just under 25 dollars in April to nearly 33 dollars in June.

[112] These included certain rules to the effect that all workers in the Minimum Employment Plan must be receiving unemployment benefits and must work in the *comuna* in which the lived or had last been employed.

[113] In order to appreciate the significance of this figure, the following calculation is illuminating. Assuming, that 35 per cent of the 126,765 workers included in the Minimum Employment Plan in December were in Greater Santiago, and that if they had not taken advantage of the programme they would have been out of work, the rate of unemployment in Greater Santiago would have been 22 per cen in December instead of 18.7 per cent as shown in the survey of the Economics Department of the University of Chile. (The proportion of 35 per cent used in this calculation is equal to the share of the labour force of Greater Santiago in the total for the whole country).

Owing to the nature of the work done within the context of the Minimum Employment Plan, most of the persons who were incorporated in it were manual workers. This helped to hold down the rise in the rate of unemployment among manual workers which, as noted earlier, remained stable from June onwards, i.e., precisely when the number of workers enrolled in the programme started to increase sharply. For the same reason, however, the Plan offered limited employment opportunities for the many non-manual workers who had lost their jobs as a result of the general decline in economic activity and the severe reduction of personnel in the public administration and some State enterprise.[114]

Finally, the deterioration in the employment situation found expression, too, in increased under-employment. As already mentioned, the decreases in employment in manufacturing and construction activities were considerably smaller than the respective decreases in value added.

The same situation arose in the economy as a whole. According to ODEPLAN estimates, total employment dropped by 3.5 per cent[115], while the product fell by nearly 15 per cent, thus giving rise to a decline of approximately 12 per cent in the average productivity of employed manpower.

3. *The external sector*

As noted earlier, in 1975 Chile faced highly unfavourable external conditions in connexion with the drop in the price of its chief export commodity and the substantial disbursements involved in servicing the external debt. These adverse circumstances determined the courses open to the economic authorities, who assigned high priority to bringing down the large balance-of-payments deficit envisaged at the beginning of the year. With this end in view they decided to reduce the demand for imports through a contraction of domestic economic activity and a rise in the real exchange rate, while contriving partially to offset the decline in copper earnings by promoting non-traditional exports. Concurrently, they continued to put into effect the programme of customs tariff reductions designed gradually to subject domestic production activities to international competition.

(a) *Foreign trade*

(i) *Exports.* After more than doubling in value in the two years 1973-1974, exports of goods dropped by 28 per cent in 1975. This drop was almost exclusively due to the deterioration of over 27 per cent in unit value, since the volume fell by only a little over 1 per cent (see table 134).

The main reason for the decline in unit value was the drop in the price of copper. The price of this metal fell steadily in 1975 owing to the contraction in world consumption due to the economic recession in the industrialized countries. The average price for the whole year was 40 per cent lower than in 1974, while in real terms the drop was even greater (45 per cent). As a result, the real price of copper in 1975 was considerably lower than in any of the 10 preceding years (see table 135). The steep fall in price occurred notwithstanding the fact that the member countries of CIPEC significantly reduced their copper shipments in 1975 in an attempt to arrest the downswing in world prices.

With the simultaneous drops in the price and volume of copper exports, their value fell by over 760 million dollars in 1975 to barely half the amount recorded in the previous year (see table 136).

The decrease in world prices also affected the value of sales of pulp and paper –Chile's second most important export item– and fish meal. The former fell by 19 per cent and the latter by 6 per cent.

In contrast, the improvement in the average price of iron ore, coupled with a slight increase in shipments, led to a considerable rise in the value of these exports.

The above variations and the drop of over 9 per cent in nitrate sales were responsible for a 40 per cent reduction in the total value of traditional exports. This decline contrasted with the vigorous expansion of non-traditional exports, which, after

[114]In 1975 the staff of the public administration (including that of municipalities) was reduced by more than 43,000 persons. A further 10,000 to 13.000 persons lost their jobs in the main public enterprises. These reductions were concentrated in State Railways (6,000 persons), the large-scale copper mining enterprises (3,300) and the National Electricity Enterprise (1,800). For a more detailed analysis, see Permanent Excecutive Committee of the Inter-American Economic and Social Council (CEPCIES), *Situation, principal problems and prospects of the economy of Chile,* mimeographed, Washington, March 1976, pp. 78-82.

[115]This decline coincides exactly with the average drop in employment in Greater Santiago shown by the figures of the Ecomics Department of the University of Chile (see table 131).

Table 134

CHILE: VARIATION IN THE TERMS OF TRADE AND IN THE VALUE, VOLUME AND UNIT VALUE OF EXPORTS AND IMPORTS OF GOODS

(Annual growth rates)

	1971	*1972*	*1973*	*1974*	*1975*
Exports of goods					
Value	–13.6	–12.6	47.2	69.2	–28.2
Volume	7.9	–10.8	3.8	20.9	–1.2
Unit value	–19.9	–2.0	41.8	40.0	–27.3
Imports of goods					
Value	8.0	18.9	25.1	36.2	–17.3
Volume	5.5	11.7	2.1	2.8	–24.1
Unit value	2.4	6.5	22.6	32.5	8.9
Terms of trade	–21.8	–7.9	15.7	5.7	–33.3

Source: CEPAL, on the basis of official statistics.

Table 135

CHILE: PRICE OF COPPER ON THE LONDON METAL EXCHANGE

(US cents per pound)

	Nominal price (dollars of each year)	*Index of United States wholesale prices*	*Real price (dollars of July 1975)*
1965	58.6	54.9	106.8
1966	69.5	56.8	122.3
1967	51.1	56.9	89.9
1968	56.1	58.3	96.2
1969	66.5	60.6	109.8
1970	64.1	62.8	102.1
1971	49.3	64.8	76.0
1972	48.6	67.7	71.7
1973	80.8	76.6	105.5
1974	93.3	91.1	102.4
1975	55.9	99.5	56.3
First quarter	57.8	97.3	59.3
Second quarter	57.2	98.4	58.1
Third quarter	56.2	100.6	55.8
Fourth quarter	53.1	102.1	52.0

Source: Central Bank of Chile.

Table 136

CHILE: VALUE AND BREAKDOWN OF EXPORTS OF GOODS

	Value (millions of dollars)				*Percentage breakdown*			*Annual growth rates*		
	1971	*1973*	*1974*	*1975*	*1971*	*1973*	*1975*	*1971–1973*	*1974*	*1975*
Total exports of goods	*962.2*	*1 247.5*	*2 152.5*	*1 547.4*	*100.0*	*100.0*	*100.0*	*13.9*	*72.5*	*– 28.1*
Traditional	*866.5*	*1 166.7*	*1 933.1*	*1 159.4*	*90.0*	*93.5*	*74.9*	*15.9*	*65.7*	*– 40.0*
Cooper	701.8	1 025.6	1 653.5	890.4	72.9	82.2	57.5	20.8	61.2	– 46.2
Iron	67.7	61.6	72.7	90.9	7.0	4.9	5.9	– 4.6	18.0	25.0
Nitrate and iodine	35.2	34.4	60.8	55.2	3.7	2.8	3.6	– 1.1	76.7	– 9.2
Fish meal	29.8	12.0	31.1	29.2	3.1	1.0	1.9	– 36.5	159.2	– 6.1
Pulp, paper and paper products	32.0	33.1	115.0	93.7	3.3	2.6	6.0	1.7	247.4	– 18.5
Non-traditional	*95.7*	*80.8*	*219.4*	*388.0*	*10.0*	*6.5*	*25.1*	*– 8.1*	*171.5*	*76.8*
Mining products	8.5	11.0	19.9	34.2	0.9	0.9	2.2	13.8	80.9	71.9
Agricultural and marine products	29.4	25.5	55.0	86.1	3.1	2.0	5.6	– 6.9	115.7	56.5
Crops	22.7	20.8	42.9	59.7	2.4	1.7	3.9	– 4.3	106.3	39.2
Livestock products	4.3	1.2	4.4	16.7	0.5	0.1	1.1	– 83.2	266.7	279.5
Other	2.4	3.5	7.7	9.7	0.2	0.3	0.6	20.7	120.0	26.0
Manufactured products	57.8	44.3	144.5	267.7	6.0	3.6	17.3	– 12.5	226.2	85.3
Food and beverage	13.8	12.0	22.3	76.5 [a]	1.4	1.0	5.0	– 6.7	85.8	243.0
Wood	7.0	4.1	12.7	25.2	0.7	0.3	1.6	– 23.4	209.8	98.4
Chemicals and petroleum products	11.8	6.9	42.2	46.4	1.2	0.6	3.0	– 23.5	511.6	10.0
Basic metals	9.0	6.7	29.5	58.6	0.9	0.5	3.8	– 13.7	340.3	98.6
Metals products, machinery and electrical appliances	4.4	4.5	9.6	42.4	0.5	0.4	2.7	1.1	113.3	341.7
Other	11.8	10.1	28.2	18.6	1.2	0.8	1.2	– 14.4	179.2	– 34.0

Sources: Central Bank and Copper Corporation.

[a] Including 39.2 million dollars' worth of sugar exports.

a rise of over 170 per cent in 1974, increased by 77 per cent in 1975. As a result, their value more than quadrupled the average figure for the three year 1971-1973.

The increase in sales of manufactured products was particularly rapid, their value in 1975 being four and a half times higher than in the years 1971-1973. Exports of agricultural goods likewise increased considerably for the second consecutive year, mainly owing to the expansion of sales of fresh fruit.

As a result basically of the decline in the value of copper exports, but also, to an appreciable degree, because of the steady increase in sales of new products, the structure of exports underwent a significant change. Thus copper sales, which in the three years 1971-1973 represented 78 per cent of the total value of exports of goods, accounted for less than 58 per cent in 1975. The share of non-traditional products, on the other hand, rose from less than 8 per cent to 25 per cent between the two periods (see table 136).

The exchange policy was the key factor of the diversification of exports. The system of frequent small devaluations of the peso was maintained for the second year in succession, so that the rate of return on exports (and on the production of import substitution goods) was not affected by domestic price increases. In addition, in 1975 the authorities raised the rate of exchange considerably above the parity rate with the purpose of stabilizing the trade balance (see table 137).

The incentive to exports provided by the exchange policy was reinforced by credit and tax measures favouring the export sector, the elimination of administrative requirements, and a publicity campaign carried on inside and outside the country by the Export Promotion Institute of Chile regarding the possibilities of exporting non-traditional products. The sale of new products abroad was also stimulated, in practice, by the fall in domestic demand. This not only freed exportable surpluses but it encouraged many entrepreneurs to seek foreign markets for the production they were unable to sell on the domestic market.

(ii) *Imports.* The value of imports decreased by nearly 16 per cent in 1975. This drop –resulting from the marked contraction of domestic economic activity and the rise in the exchange rate– was considerably greater in real terms. In fact, the volume of imports fell by about 23 per cent in 1975 to its lowest level in the last seven years (see table 123).

The drop in the total value of imports affected all the principal groups of goods except consumer goods, purchases of which rose by over 14 per cent in current values and 11 per cent in real terms. The rise in value was exclusively due to increased purchases of consumer goods other than foodstuffs.[116] The value of food imports, on the other hand, remained constant, following a reduction of 84 per cent in 1974 (see table 138).

The value of fuel imports, after more than trebling in 1974 as a result of the rise in the price of oil, dropped by 18 per cent in 1975. This drop, added to the fall in real terms which had already occurred in 1974, brought the volume of imports of petroleum and petroleum products in 1975 down by one-third with respect to the two previous years (see table 128).

The value of imports of agricultural intermediate goods fell even more sharply. The 26 per cent drop was due to a slight fall in the prices and a fairly considerable decrease in the volume of purchases of wheat, maize, oilseeds and milk. In spite of the fact that in real terms imports of inputs of agricultural origin in 1975 represented only a little over half the figure for 1973, their value was slightly higher than in that year. In turn, the value of imports of non-agricultural intermediate goods declined by one-fifth in 1975 following the notable increase (64 per cent) in the previous year (see table 138).

(iii) *The terms of trade.* In 1975 the terms of trade deteriorated drastically. The drop of one-third –the biggest among all the Latin American countries– was basically due to the fall in the world price of copper, which contributed to the decline of over 27 per cent in the unit value of exports of goods. The negative effect of this drop was accentuated in 1975 by the rise in the average price of imports, which, though, substantially lower than in the previous two years, was still considerable (see table 134).

Owing to the appreciable deterioration in the terms of trade in 1975 and the significant decreases also recorded in 1972 and especially in 1971, their level in 1975 was nearly 42 per cent

[116]The fact that imports of these goods should have increased sharply in spite of the drop of more than 13 per cent in private consumption and the existence of considerable idle capacity in the industries producing consumer goods was a further example of the shift in demand towards foreign suppliers as a result of the lowering of customs duties and the liberalization of the system of imports.

Table 137

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 parity exchange rate*	
					(2)/(3)	*(2)/(4)*		$100 \times \frac{(3)}{(7)}$	$100 \times \frac{(4)}{(7)}$
	(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*	*(7)*	*(8)*	*(9)*
1974 (average)	*0.831*	*60*	*59*	*62*	*102*	*97*	*94*	*63*	*66*
First quarter	0.423	31	27	31	115	100	87	31	36
Second quarter	0.627	46	43	48	107	96	90	48	53
Third quarter	0.900	65	68	69	96	94	97	70	71
Fourth quarter	1.377	100	100	100	100	100	100	100	100
1975 (average)	*4.909*	*357*	*348*	*295*	*103*	*121*	*102*	*341*	*289*
First quarter	2.313	168	154	146	109	115	100	154	146
Second quarter	4.054	294	267	247	110	119	101	264	245
Third quarter	5.778	420	411	346	102	121	103	399	336
Fourth quarter	7.493	544	558	441	97	123	104	537	424

Sources: Central Bank of Chile and National Institute of Statistics.

Table 138

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

	Millions of dollars						*Percentage breakdown*			*Annual growth rates*		
	1970	*1971*	*1972*	*1973*	*1974*	*1975*	*1970*	*1973*	*1975*	*1971–1973*	*1974*	*1975*
Consumer goods	*150*	*178*	*357*	*276*	*104*	*119*	*15.7*	*17.2*	*6.6*	*22.6*	*– 62.3*	*14.4*
Food	54	89	218	212	34	34	5.6	13.2	1.9	51.5	– 84.0	–
Consumer goods other than food	96	89	139	64	70	85	10.1	4.0	4.7	– 12.7	9.4	21.4
Intermediate goods	*530*	*589*	*580*	*1 047*	*1 797*	*1 411*	*55.4*	*65.1*	*77.9*	*25.5*	*71.6*	*– 21.5*
Agricultural	77	91	107	376	522	387	8.0	23.4	21.4	64.9	38.8	– 25.9
Non-agricultural	401	413	391	551	902	717	42.0	34.3	39.6	11.2	63.7	– 20.5
Petroleum and petroleum products	52	85	82	120	373	307	5.4	7.5	16.9	32.1	210.8	– 17.7
Capital goods	*276*	*248*	*165*	*285*	*333*	*281*	*28.9*	*17.7*	*15.5*	*1.1*	*34.4*	*– 26.6*
Total	956	1 015	1 103	1 608	2 234	1 811	100.0	100.0	100.0	18.8	42.0	– 20.7

Source: Central Bank of Chile.

lower than in 1970, and lower too than in any of the previous 15 years with the exception of 1962. As a result, and despite the fact that the volume of exports of goods decreased by barely 1 per cent, the purchasing power of exports dropped by 32 per cent with respect to 1974.

(iv) *Invisible trade and financial services.* In 1975 the total deficit on the real and financial services account was 650 million dollars, which stemmed in equal proportions from the unfavourable balance on transactions in freight, insurance, travel and other services and from net payments of profits and interest on foreign capital (see table 139).

Table 139

CHILE: BALANCE OF PAYMENTS

(Millions of dollars)

	1970	1972	1973	1974	1975
Current account					
Exports of goods and services	1 278	1 002	1 383	2 261	1 654
Goods FOB	1 135	858	1 263	2 136	1 533
Services	143	144	120	125	121
Transport	70	76	54	60	51
Travel	50	50	53	48	48
Imports of goods and services	1 183	1 408	1 764	2 355	1 982
Goods FOB	848	1 089	1 363	1 856	1 535
Services	335	319	402	499	447
Transport	194	237	281	373	316
Travel	86	14	70	68	76
Net payments of profits and interest on foreign capital	– 164	– 108	– 155	– 206	– 324
Profits	– 148	– 2	–	– 10	– 27
Interest	– 16	– 105	– 155	– 196	– 297
Net private transfer payments	–	–	–	4	10
Balance on current account	– 69	– 514	– 536	– 296	– 642
Capital account					
Net external financing (a + b + c + d + e)	69	514	536	296	642
(a) Net external non-compensatory capital	209	– 21	192	299	412 [a]
Direct investment	41	–	–	–	–
Long- and medium-term loans	344	190	361	369	–
Amortization payments	– 142	– 300	– 407	– 272	–
Short-term liabilities (net)	– 34	83	234	202	–
Official transfer payments	–	7	4	–	–
(b) Domestic non-compensatory capital or assets	– 7	– 40	– 35	– 57	–
(c) Errors and omissions	– 58	– 7	– 48	– 87	– 31
(d) Allocation of SDRs	21	19	–	–	
(e) Net compensatory financing (minus sign signifies an increase)	– 96	562	427	140	261
Balance-of-payments loans trade arrears, IMF loans, and other liabilities of the monetary authorities	–	496	464	145	277
Amortization payments	– 75	– 4	–	– 85	– 7
Foreign exchange reserves (minus sign signifies an increase)	8	32	– 38	97	– 7
Gold reserves (minus sign signifies an increase)	– 7	–	– 1	– 2	6
SDRs (minus sign signifies an increase)	– 22	39	2	– 16	– 8

Sources: 1970-1974: International Monetary Fund., *Balance of Payments Yearbook*, vol. 27; 1975: CEPAL, on the basis of data supplied by the Central Bank.

[a] Including domestic non-compensatory capital or assets.

The total deficit on the services account was 12 per cent higher than in 1974 and 49 per cent higher than in 1973. This rapid increase basically reflected the considerable expansion of net payment on foreign capital. In 1975 these were more than 50 per cent higher than in the previous year, double the figure for 1973 and three times the 1972 level.

This spurt in payments on foreign capital was almost entirely due to the bigger disbursements under the head of interest on the external debt, which in 1975 amounted to nearly 300 million dollars, or 100 million more than in the previous year and nearly twice the figure for 1973. At the same time, remittances of profits –none of which were recorded in the years 1972-1973– rose to 10 million dollars in 1974 and to 27 million in 1975. This value was equal, however, to a little over one-sixth of the average remittances of profits in the five years preceding the complete nationalization of large-scale copper mining in 1971.

(b) *Financing of the deficit on current account*

The equilibrium of exports and imports of goods, the aforementioned deficit on transactions in services and factor payments, and a small net inflow of private transfer payments altogether gave rise to a current account deficit of a little over 640 million dollars. This deficit doubled the 1974 figure and was also about one-fifth above the very high current account deficits of 1972 and 1973[117] (see table 139).

Approximately two-thirds of the deficit on current account was financed by net inflows of non-compensatory capital which were over 110 million dollars higher than in 1974 and more than double the 1973 figure.

[117] In terms of dollars at constant 1970 prices, however, the 1975 deficit was one-fifth lower than the average deficit for the years 1972-1973.

Table 140

CHILE: MEDIUM– AND LONG-TERM EXTERNAL DEBT
(Millions of dollars of each year)

	1970	*1971*	*1972*	*1973*	*1974*	*1975* [a]
A. *Net balances at 31 December of each year*						
International agencies	308	342	336	354	387	386
Countries of the Paris Club	2 067	2 061	2 298	2 507	3 092	3 195
Latin American countries	21	18	66	95	266	377
Socialist countries	14	7	66	104	148	137
International Monetary Fund	41	40	129	143	195	372 [b]
Total [c]	*2 451*	*2 467*	*2 894*	*3 203*	*4 088*	*4 467* [d]
B. *Annual servicing of the long-term external debt*						
Servicing of external debt	*290*	*331*	*157*	*177*	*297*	*471*
Amortization payments	194	252	106	126	194	307
Interest payments	96	79	51	51	103	164
Total exports	1 278	1 150	1 002	1 383	2 261	1 654
Servicing of external debt as a percentage of total exports	23	29	16	13	13	29

Source: Central Bank of Chile, External Debt Analysis Section.

[a] Estimates.

[b] Central Bank estimate at 19 August 1975.

[c] Including total direct indebtedness of the private sector and indebtedness of the Armed Forces (estimate).

[d] Including 176 million dollars' worth of credit repayable in pesos the value of which is kept constant.

Thus, the balance-of-payments deficit was finally a little over 260 million dollars, which was nearly double the 1974 deficit but was far below the average deficit for the period 1972-1973. This negative balance was covered by 180 million dollars obtained from the Oil Facility of the International Monetary Fund and by loans from private foreign banks. The compensatory financing also enabled foreign exchange holdings to increase slightly (see table 139). However, the net international reserves of the banking system declined from a negative sum of 610 million dollars at the end of 1974 to one of nearly 870 million at 31 December 1975.

(c) *External debt*

According to preliminary estimates, the net medium– and long-term external debt amounted to nearly 4,470 million dollars at the end of 1975. This figure –which includes the debt of the private sector– was 9 per cent higher than that of a year previously and nearly 40 per cent higher than the figure at the end of 1973 (see table 140).

Most of the increase in the debt represented loans granted by the International Monetary Fund and some Latin American countries. The cumulative debt with the countries of the Paris Club also rose by 100 million dollars, while that contracted with international agencies remained at the same level as the previous year and the debt with the socialist countries declined slightly.

At the same time, debt servicing increased at an accelerated pace. In 1975 amortization and interest payments on the long-term debt were 59 per cent higher than in 1974, and 166 per cent higher than in 1973. In view of the fact that between 1974 and 1975 the value of total exports declined by over 600 million dollars, the proportion of exports represented by the servicing of the long-term debt rose from 13 per cent in 1974 to 29 per cent in 1975. The proportion is even higher (48 per cent) if account is taken of the sum of 794 million dollars reached in 1975 by amortization and interest payments on the medium– and long-term debt.

4 *The evolution of prices and wages, and monetary and fiscal policy*

(a) *Price trends*

In 1975 the rate of inflation in Chile was again very high. However, it was lower than in 1974 and, after accelerating in the first few months of the year, it declined markedly during the second half.

Between December 1974 and December 1975 the consumer price index rose 341 per cent, which is slightly lower than the rate recorded in 1974 (376 per cent) and considerably lower than the 1973 rate of over 500 per cent. In 1975 the variation in the wholesale price index was more pronounced (411 per cent), but so also was the drop with respect to the 1974 rate (571 per cent), and especially that of nearly 1,150 per cent in 1973 (see table 141).

The drop in the rate of inflation is also more marked if the annual average changes in prices are considered instead of the variations from December to December. In this case, the increase in consumer prices was 26 per cent less in 1975 than in 1974, while the rise in wholesale prices was equal to less than half the striking rise of over 1,000 per cent in 1974.[118]

In addition to the slowing down of the inflationary process, there were important changes in relative prices which, on the whole, tended to reverse the changes that had taken place in the two previous years. Thus, domestic prices of imported products, which in both 1973 and 1974 had risen much more than the prices of domestic products as a result of the rise in world market prices and the sizable adjustments in the exchange rate, increased considerably less than the prices of domestic products (see table 141). This decline was influenced by the lower rate of increase in the unit value of imports, owing to the slowing down of inflation in the industrialized countries and the drop in the prices of most primary products (see table 134).

Of the domestic products, mining products and manufactured goods showed similar price trends. Their prices rose much more slowly than those of agricultural products, reversing the course followed in the period 1973-1974 in which the prices of these items, particularly mining products,

[118] The fact that the annual average variation in prices in 1974 was much higher than the variation from December to December and that the opposite occurred in 1973 was mainly due to the statistical effect of the huge increases in prices in October of that year as a result of the sharp devaluation of the escudo and the liberalization of the price system. In that month alone the consumer price index rose by 88 per cent and the wholesale price index by 240 per cent. These spectacular increases also account for the extraordinary fall in the 12-monthly variations in the price indexes in October 1974 which are clearly shown in figure 4.

Table 141

CHILE: EVOLUTION OF DOMESTIC PRICES

	Annual growth rates				
	1971	*1972*	*1973*	*1974*	*1975*
A. Variation from December to December					
Consumer price index	*22.1*	*163.4*	*508.1*	*375.9*	*340.7*
Food	28.5	243.3	474.2	392.0	321.3
Wholesale price index	*21.4*	*143.3*	*1 147.1*	*570.6*	*410.9*
Imported products	18.4	98.8	1 692.2	714.5	363.8
Domestic products	22.3	156.6	1 021.2	517.5	424.9
Agricultural products	27.4	337.7	512.9	381.0	565.2
Mining products	44.2	96.5	1 503.1	823.3	381.8
Manufactures	19.9	116.3	1 244.2	527.4	350.7
B. Annual average variation					
Consumer price index	*20.1*	*77.8*	*352.8*	*504.7*	*374.7*
Food	23.8	115.2	376.5	513.7	359.6
Wholesale price index	*17.9*	*70.0*	*511.4*	*1 029.0*	*482.0*
Imported products	22.1	56.2	580.4	1 349.8	445.9
Domestic products	16.7	74.3	492.2	926.9	486.0
Agricultural products	25.5	108.8	448.2	640.1	567.2
Mining products	32.7	71.9	499.4	1503.5	478.8
Manufactures	13.9	66.2	505.1	969.1	420.7

Source: National Institute of Statistics.

went up much faster than those of agricultural goods. This improvement in relative prices for agriculture did not, however, offset their severe deterioration in the previous two years. The upshot was that the index of the ratio between prices of agricultural and industrial products in 1975 was considerably lower than in the period 1972-1973.

As may be seen from table 142, the trend followed by the rate of inflation showed two clearly-defined stages in the course of the year. During the first stage –which lasted up to mid-1975– the acceleration which had started in November 1974 was accentuated. Thus in the first half of the year consumer prices rose at an average monthly rate of 18 per cent and wholesale prices at a rate of nearly 19 per cent. At the end of June, therefore, the level of prices was 170 per cent higher than at the end of 1974 and the annual rate of inflation, in terms of the 12-monthly variation in the consumer price index, had increased almost continuously from 350 per cent in October 1974 to over 420 per cent in May-June 1975 (see figure 4).

As noted earlier, this spurt in the inflationary process was the main factor impelling the Government to formulate its Economic Recovery Plan. When this Plan was put into practice the upward trend of inflation was clearly reversed. Between the second and third quarters, the monthly rates of increase in prices were reduced to half (see table 142). In the last three months of the year, they continued to decline but much more slowly than in the period July-September. As a result, the annual rate of variation in consumer prices – which declined steadily from June to October, remained at the same level in the last two months of 1975. As regards wholesale prices, however, the declining trend persisted up to December (see figure 4).

Figure 4

CHILE: WHOLESALE AND CONSUMER PRICE INDEXES

(Percentage variation over 12 months)

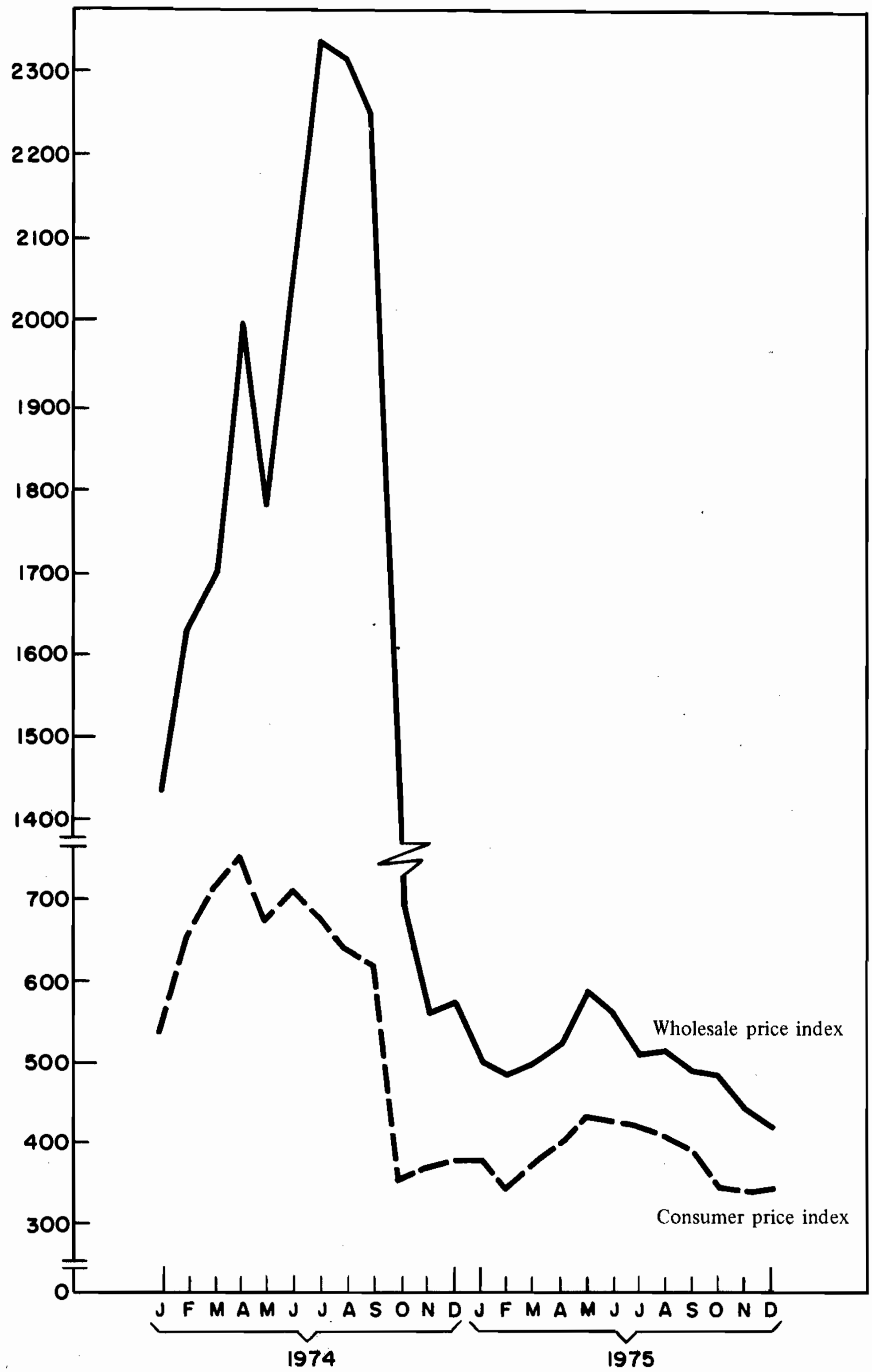


Table 142

CHILE: QUARTERLY VARIATION 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	69.9	65.9
Third quarter	30.0	39.9	30.4
Fourth quarter	25.6	29.6	32.8

Sources: Consumer prices and wholesale prices: National Institute of Statistics; building costs: Cámara Chilena de la Construcción.

(b) *Monetary trends*

The money supply increase by 277 per cent in 1975. This increase, although bigger than in the previous year, was less than the rise in prices (see tables 141 and 143). Consequently, the real amount of money declined for the third consecutive year to an exceptionally low level.[119]

The basic cause of the sharp monetary expansion was the growth of 283 per cent in the Central Bank issue, which in absolute terms represented over 92 per cent of the increase in total money. On the other hand, the bank multiplier declined, and was barely 0.66 in the case of private money and scarcely above 1 for total money.

The main factor of the increase in issues, in its turn, was the exchange operations with agents other than the Treasury, which gave rise to nearly four-fifths of the issue (see table 144).

These operations, however, were not a sign of a foreign trade boom, nor did they lead to an increase in the net international reserves of the banking system. Rather, they represented another consequence of the difficult external situation confronting Chile, and particularly the public

[119] In the middle of 1975, money was equal to only 3.5 per cent of the gross domestic product, whereas before 1970 the percentage was approximately double (ODEPLAN, *Informe económico anual,* Santiago, p. 17).

Table 143

CHILE: MONETARY POSITION

(Millions of pesos)

	Balance at end of				*Annual growth rates*		
	1970	*1973*	*1974*	*1975*	*1971–1973*	*1974*	*1975*
1. *Money* (2 – 3)	*12*	*362*	*1 256*	*4 735*	*211*	*247*	*277*
Private sector	10	281	830	2 963	204	195	257
Public sector	2	81	426	1 772	243	426	316
2. *Factors of expansion*	*23*	*640*	*3 130*	*12 572*	*203*	*389*	*302*
Net international reserves	4	– 277	– 1 533	– 9 591	–	– 453	– 526
Domestic credit	19	917	4 663	22 163	264	409	375
Central government	9	547	3 551	16 772	293	549	372
Official entities	2	311	529	2 318	438	70	338
Private sector	8	59	583	3 073	95	888	427
3. *Factors of absorption*	*11*	*278*	*1 874*	*7 837*	*194*	*574*	*318*
Quasi-money	5	136	670	2 962	201	393	342
Private	5	98	442	2 221	170	351	403
Public	1	38	228	741	236	500	225
Other items (net)	6	142	1 204	4 875	187	748	305

Source: Central Bank of Chile.

Table 144

CHILE: ORIGIN OF ADJUSTED CENTRAL BANK ISSUE, 1975
(Percentages)

Month	*Exchange operations* [a]	*Operations with the Treasury*	*Domestic credit*	*Total*
January	−58.5	20.8	137.7	100.0
February	−42.9	169.3	−26.4	100.0
March	97.5	−25.1	27.6	100.0
April	1.3	4.3	94.4	100.0
May	61.2	11.7	27.1	100.0
June	92.7	−9.0	16.3	100.0
July	82.0	−1.7	19.7	100.0
August	123.7	−44.0	20.3	100.0
September	115.3	−30.4	15.1	100.0
October	115.4	−9.2	−6.2	100.0
November	91.4	58.9	−50.3	100.0
December	85.5	−30.5	45.0	100.0
Total	*78.9*	*−7.8*	*28.9*	*100.0*

Source: Central Bank of Chile.
[a] With agents other than the Treasury.

sector, in 1975. In fact as a result of the drop in the price of copper and the heavy, commitments involved in servicing the external debt, the fiscal budget in foreign currency reflected a considerable deficit. In order to help finance it, the Central Bank had to purchase a larger volume of foreign exchange from the private sector than it sold to importers. The balance of these two amounts and a proportion of the foreign currency loans obtained from abroad by the Central Bank were then transferred to the Treasury in order to fulfil its external financial commitments. The result of the first process was that the Central Bank issued more money for purchases of foreign exchange than it withdrew through the sale of foreign exchange to importers, while the second process brought about a decline in net international reserves of the banking system.

Much less important, but still significant, was the role of domestic credit. For the year as a whole, this accounted for slightly less than 30 per cent of the issue (see table 144). Most of the domestic credit granted by the Central Bank consisted of the financial support it had to extend to SINAP in order that the savings and loan associations could fulfill their comitments with the public. Thus the net credit which the Central Bank granted to SINAP increased by 1,450 per cent in 1975 and the absolute value was equal to nearly 17 times the net financing it provided to public enterprises.

On the other hand, operations with the Treasury in Chilean currency were a limiting factor of the issue. This situation. which was quite unprecedented in Chile's monetary history of the past few decades, occurred in the second half of the year and reflected the small surplus which as from June began to be reflected by the fiscal budget in Chilean currency.

In spite of this, in the second half of the year the rate of growth of currency issues accelerated sharply, and the rate of expansion of the money supply also increased, from 82 per cent in the first half of 1975 to 170 per cent in the second half.

Thus the money supply followed a different trend from prices, which, as noted earlier, increased at a slower rate in the second half of the year than in the first (see table 142).

This difference partly reflected the normal lag in the variation in money supply and prices, and was partly due to the increase in demand for money which occurred in the second half of the year as a result of the decline in the rate of inflation and the lower inflationary expectations.

The changes in these expectations also influenced the variation in the short-term interest rates of banks and finance companies. In view of the existing legal prohibition to readjust loans and investments at less than one year in line with the increase in prices, the nominal interest rates charged or paid on these operations were subject to expectations with respect to inflation.

Therefore, in the first six months, during which —as noted above— the rate of inflation increased, nominal interest rates rose progressively, the process culminating in July with finance companies charging an interest rate of over 24 per cent per month (see table 145).

Subsequently, with the decline in the rate of the inflationary process, nominal interest rates dropped, although at a much lower rate than inflation. Owing to the slow adjustment of interest rates to the decreasing rate of the inflationary process, in October the monetary authorities instructed the finance institutions to limit their monthly interest rates to a maximum of 12 per cent for loans and 8 per cent for investments. However, the Central Bank's intervention in the establishment of short-term interest rates lasted for only two months and the recommendation was strictly observed only by the banks. During this period, of course, interest rates no longer reflected the expectations of inflation and there was also some shifting of credit operations from finance institutions to the unofficial market. As a result, in December the monetary authorities once again left the banks and finance institutions free to establish their own rates of interest, which rose sharply that month, while not reaching the levels prior to the Central Bank's intervention (see table 145).

As a result of the monthly variation in the rate of inflation, as well as the aforementioned changes in nominal interest rates, there were violent fluctuations in the real rates of interest. During the first four months when the rate of inflation actually exceeded expectations, the real rate of

Table 145

CHILE: MONTHLY RATES OF INTEREST ON SHORT-TERM OPERATIONS

Month	*Monthly interest rates paid on short-term operations*				*Monthly interest rates charged on short-term operations*			
	Deposits in the banking system		*Investments in finance companies*		*Banking system*		*Finance companies*	
	Nominal	*Real*	*Nominal*	*Real*	*Nominal*	*Real*	*Nominal*	*Real*
1975								
January	9.3	– 4.0	11.1	– 2.5	9.6	– 3.8	13.9	0.0
February	10.4	– 5.2	11.8	– 4.0	9.6	– 5.9	14.1	– 2.1
March	11.5	– 8.0	13.3	– 6.5	9.6	– 9.6	15.0	– 5.1
April	12.6	– 6.8	17.1	– 3.1	9.6	– 9.3	20.0	– 0.7
May	14.5	– 1.3	18.4	2.1	19.0	2.6	22.0	5.2
June	15.8	– 3.3	18.1	– 1.4	21.0	1.0	23.7	3.3
July	15.2	5.4	18.4	8.3	21.2	10.9	24.6	14.0
August	13.0	3.8	14.4	5.1	19.4	9.6	18.4	8.7
September	9.5	0.3	12.1	2.7	18.3	8.3	17.7	7.8
October	8.0	– 0.4	10.3	1.8	12.0	3.3	12.0	3.3
November	8.0	– 0.2	9.0	0.7	12.0	3.5	12.0	3.5
December	10.0	2.7	11.0	3.6	14.5	6.9	15.5	7.8

Source: Central Bank of Chile.

interest was negative, especially in the case of bank credit for which the nominal rate was established during this period by the monetary authorities.

With the sharp decrease in the rate of inflation in July, real interest rates rose sharply, and that month reached the exceptional level of nearly 11 per cent on bank loans and 14 per cent on loans from finance companies (see table 145). From August onwards, the real rates of interest declined, but even in October-November, when the Central Bank intervened in the establishment of nominal interest rates, the real monthly interest rate charged by banks and finance companies was over 3 per cent. When interest rates could once again be freely established in December, they rose in real terms to about 7 per cent for loans and 3 per cent for investments.

Naturally, the higher real rate of interest charged by banks and finance companies in the second half of the year were a factor pushing up costs and perpetuating the inflationary process which in particular affected enterprises with less capacity to obtain foreign credit at more normal rates of interest.

Table 146

CHILE: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of pesos of each year				*Annual growth rates*		
	1970	*1973*	*1974*	*1975*[a]	*1971–1973*	*1974*	*1975*
1. *Current income*	*20*	*201*	*1 924*	*8 753*	*116*	*857*	*355*
Tax revenue	19	189	1 879	8 461	115	894	350
Direct	5	61	522	2 457	130	756	371
Copper	3	3	314	855	–	10 367	172
Indirect (excluding imports)	9	113	867	4 109	132	667	374
Imports	2	12	176	1 040	82	1 367	491
Non-tax revenue	1	12	45	292	129	275	549
2. *Current expenditure*	*16*	*235*	*1 717*	*6 970*	*145*	*631*	*306*
Wages and salaries	9	96	709	3 213	120	639	353
Other current expenditure	6	136	926	3 104	183	581	235
Interest on the public debt	1	3	82	653	44	2 633	696
3. *Saving on current account* (1 – 2)	*4*	*– 34*	*207*	*1 783*	–	–	*761*
4. *Capital expenditure*	*7*	*86*	*1 221*	*3 197*	*131*	*1 320*	*162*
Fiscal investment	5	72	861	1 711	143	1 096	99
Amortization payments	2	14	360	1 486	91	2 471	313
5. *Total expenditure* (2 + 4)	*23*	*321*	*2 938*	*10 167*	*141*	*815*	*246*
6. *Fiscal deficit* (1 – 5)	*– 3*	*– 120*	*– 1 014*	*– 1 414*			
7. *Financing of deficit*	*3*	*120*	*1 014*	*1 414*	*242*	*745*	*39*
Domestic financing	3	120	690	1 212	242	475	76
Central Bank	2	140	392	1 353	312	180	245
Issue of securities	–	–	100	258	–	–	158
Other	1	– 20	198	– 399	–		
External financing	–	–	324	202	–	–	– 38

Sources: 1970, 1973 and 1974: Ministry of Finance, *Exposición de la hacienda pública*, October 1975; 1975: Ministry of Finance, Co-ordination and Synthesis Department, Budget Office.

[a] Preliminary figures.

(c) *Fiscal trends*

In spite of the strong adverse influence of external conditions in 1975, considerable progress was made towards stabilizing the fiscal budget. The Treasury deficit, which in 1973 had represented over 55 per cent of total public expenditure and in 1974 was still equal to more than one-third of that item, dropped in 1975 to a little over 14 per cent of public spending. At the same time, saving on current account increased by 760 per cent, which was double the annual average variation in consumer prices over the same period (see table 146).

However, the effort made to reduce the disequilibrium in the fiscal accounts is more clearly apparent if the budgets in foreign currency and national currency are analysed separately and if the latter is expressed in terms of constant prices. The relevant calculations are given in table 147, from which the considerable reduction in the Treasury deficit in national currency is immediately observable. This was equal in 1975 to only one-ninth of the 1974 deficit and represented barely 5 per cent of total expenditure. In addition, as was explained above, the 1975 deficit was accumulated entirely in the first six months, while in the second half of the year, income and expenditure in national currency, in contrast, generated a small surplus.

This significant decrease in the disequilibrium of the budget in national currency was due to two factors: first, the maintenance of real current income at virtually the same level as in 1974 and, secondly, the sharp reduction in real fiscal expenditure.

As may be seen from table 147, current income dropped by only 2 per cent in terms of currency of equal purchasing power. In view of the fact that in the course of the year the gross domestic product dropped by nearly 15 per cent, the proportion of total fiscal income obtained from taxation increased considerably. This increase reflected the effects of the changes introduced in the tax system and the stricter control of tax evasion.

The main reason for the decrease in the deficit, however, was the sharp decline in fiscal expenditure in national currency. This fell by 30 per cent as the result of drops of 17 per cent in current expenditure and 56 per cent in capital outlays.

As regards current expenditure in national currency, the sharpest reduction occurred in transfers to the public sector. Their decline of 37 per cent was mainly due to the smaller fiscal contributions to the State Railways, municipalities, housing services and universities. Smaller reductions were recorded in wages (9 per cent) and social security payments (6 per cent), while the only increase was in interest payments which in 1975 were almost five times higher in real terms than in 1974.

Transfers were also the items most seriously affected by the cutback in capital expenditure. They dropped in 1975 to a real value of less than one-quarter of the 1974 figure, as a result of the considerable reductions in capital transfers to the Development Corporation and its subsidiaries, associations for the construction of hospital and educational establishments, the State Railways and universities. Real direct investment thus dropped by 37 per cent, while amortization payments almost doubled (see table 147).

As a result of these changes, central government saving on current account increased sharply and was thus able to finance a much bigger proportion of capital expenditure. In real terms, current saving in 1975 almost quadrupled the previous year's figure and financed three-quarters of the capital expenditure, whereas in 1974 it had covered barely 3 per cent of those outlays.

The evolution of the budget in foreign currency was very different and was decisively influenced by the drop in the price of copper and the increase in the financial commitments in connexion with the external debt. Thus, the fiscal deficit in foreign currency rose from 205 million dollars in 1974 to a little over 450 million in 1975, while the surplus on current account of nearly 130 million dollars in 1974 became a deficit of 100 million in 1975 (see table 147).

This deterioration in the fiscal situation occurred in spite of the fact that expenditure in foreign currency, excluding service payments on the external debt, dropped from nearly 370 million dollars in 1974 to just under 175 million in 1975, owing to the sharp reduction in capital transfers and the significant decrease in purchases of goods.

By contrast, the expenditure in connexion with servicing the external debt increased significantly, from 310 million dollars in 1974 to about 500 million in 1975. This increase was decisively influenced by the larger interest payments, amounting in 1975 to nearly four times the 1974 figure.

All in all, the most important factor underlying the unfavourable evolution of the fiscal accounts

Table 147

CHILE: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

(Millions of pesos of the second half of 1975, and millions of dollars)

	1974			1975			Percentage variation		
	Pesos	*Dollars*	*Total* [a]	*Pesos*	*Dollars*	*Total* [a]	*Pesos*	*Dollars*	*Total* [a]
Current income	*10 014*	*474*	*13 161*	*9 827*	*216*	*11 262*	*– 2*	*– 54*	*– 14*
Copper	–	454	3 013	–	177	1 174	–	– 61	– 61
Other	10 014	20	10 148	9 827	39	10 087	– 2	94	– 1
Current expenditure	*9 839*	*346*	*12 136*	*8 162*	*317*	*10 268*	*– 17*	*– 8*	*– 15*
Wages and salaries	2 944	20	3 077	2 669	21	2 805	– 9	2	– 9
Goods and services	899	97	1 541	738	73	1 221	– 18	– 25	– 21
Social security payments	1 451	1	1 458	1 371	1	1 379	– 6	12	– 5
Transfers to the private sector	694	92	1 302	614	4	642	– 12	– 95	– 51
Transfers to the public sector	3 775	84	4 335	2 382	14	2 474	– 37	– 84	– 43
Interest payments	75	52	422	359	200	1 684	379	282	299
Saving on current account	*175*	*128*	*1 025*	*1 665*	*– 101*	*994*	*851*	*–*	*– 3*
Capital expenditure	*5 042*	*333*	*7 254*	*2 210*	*352*	*4 546*	*– 56*	*6*	*– 37*
Direct investment	2 418	16	2 527	1 520	17	1 630	– 37	–	– 35
Transfers	2 595	59	2 983	632	40	900	– 76	– 31	– 70
Amortization payments	30	258	1 744	58	295	2 016	93	14	16
Total expenditure	*14 881*	*679*	*19 390*	*10 372*	*669*	*14 814*	*– 30*	*– 1*	*– 24*
Deficit	– 4 867	– 205	– 6 229	– 545	– 453	– 3 552	– 89	121	– 43
Deficit as a percentage of total expenditure	33	30	32	5	68	24			
Saving on current account as a percentage of capital expenditure	3	38	14	75	–	22			

Source: A. Sanfuentes, "Efectos del sector fiscal en la recesión", *Comentarios sobre la situación económica: 2º semestre*, 1975, Department of Economics of the University of Chile, Santiago, 1976.

[a] The average rate of exchange for bank sales of dollars, which was, 6 636 pesos during this period, was used to convert the values in dollars to pesos of the second half of 1975.

in foreign currency was the drop in copper revenue, which declined from over 450 million dollars in 1974 to less than 180 million in 1975. Owing to this decline, and in spite of the fact that at the same time other current fiscal income in foreign currency almost doubled, total fiscal income in foreign currency in 1975 was equal to less than half that recorded in the previous year.

(d) *Wage policy and trends*

(i) *Wage policy.* In 1975 the central objective of the incomes policy was to maintain real wages and salaries at a level equal to the average for the preceding year. In order to achieve this the system of automatic quarterly adjustments geared to the variations in consumer prices continued to be applied. However, the specific method used to determine the size of the adjustments was different in the two six-month periods.

Up to June the system used was that introduced in October 1974, by virtue of which wages and salaries were adjusted, with a two months' time lag, in the same proportion as that in which the consumer price index had risen in the previous three-month period.

If inflation slowed down, this procedure would lead to a gradual rise in real wages and salaries. If on the other hand the rate of inflation accelerated, the result would be a drop in the purchasing power of wages and salaries.

In view of the fact that, as noted earlier, the rate of inflation increased in the first few months of 1975, the authorities decided to supplement the system of automatic adjustments with fixed bonuses for the workers with the aim as far as possible of maintaining their real income, particularly that of the poorest wage-earners. In March, therefore, in addition to the general adjustment of 33 per cent (according to the cumulative variation in the consumer price index in November, December and January), a bonus of 20 pesos was given to all workers who, after the 33 per cent adjustment, were earning 150 pesos or less. In April, with the same end in view, a monthly bonus of 20 pesos was given to all wage-earners in the country whatever their income. Lastly, in June, there was a compulsory general adjustment in wages and salaries of 71 per cent, i.e., the same proportion as the rise in the consumer price index in February, March and April.

In formulating the Economic Recovery Plan, however, and in the face of expectations that it would cause the rate of inflation to drop sharply, the authorities changed the reference period used in establishing the amount of the adjustment. Thus, from September onwards the size of the quarterly adjusment was determined by the increase in the consumer price index in the two immediately preceding months, plus an estimate of the rise to be expected in the month in which the adjustment was being accorded.[120] For this purpose, it was established that the increase in prices during the last month would be estimated as half that recorded by the consumer price index in the preceding month. In addition, it was laid down that if the actual increase in the index turned out to be different from the estimate, the difference would be added or substracted from the next quarterly adjustment.

In accordance with this new system, in September all wages and salaries were raised by 24 per cent, a percentage equal to the sum of the cumulative rise in the price index for July (9.3 per cent) and August (8.9 per cent) plus the preliminary estimate of the increase in September (4.5 per cent).[121] Wages and salaries were adjusted again in December by 28 per cent, which was equal to the rise in the consumer price index for October (8.4 per cent) and November (8.2 per cent), plus the estimate for December (4.1 per cent) and the difference between the estimate (4.5 per cent) and the actual increase (9.2 per cent) in the price index for September. Lastly, a minimum bonus of 20 pesos per worker was also given in December.[122]

(ii) *Wage trends.* Available data show that the workers' real average remuneration declined by about 3 per cent in 1975 (see table 148). This decline, added to the deterioration of 6 per cent in real wages and salaries in 1974 meant that in 1975 these were 10 per cent lower than in 1973.

As may be seen from table 148, most of the reduction in 1975 took place in the second quarter, when the sharp acceleration of the inflationary process far exceeded the increases in nominal wages and salaries.[123] As a result of the marked decline in inflation in the third quarter, real wages and salaries increased during that period to a level 5 per cent higher than the average for the previous three months; but in the last three months they remained at the same level owing to the virtually constant monthly rate of inflation

[120] The need for this estimate stemmed from the fact that in the month in which the adjustment in wages and salaries was due to come into effect, the rise in the consumer price index for that month was not yet known.

[121] The adjustment of 24 per cent in September was thus much lower than the 52 per cent which would have been applicable under the previous system, according to which the cumulative inflation over the three months May-July would have had to be taken into account. However, it cannot be inferred from the size of the difference between the two adjustments that the evolution of real wages and salaries would necessarily have been more favourable had the previous system been used, since it would also have been determined by the rise in prices which took place in the three months following the date of the adjustment. Although it is impossible to know how high the rate of inflation might have been during that period if an adjustment of 52 per cent instead of 24 per cent had been granted, there is no doubt that it would have been higher than it actually was.

[122] This amount was paid to workers not eligible for family allowance. The rest received 17.15 pesos directly and an additional sum of 17.15 pesos for each family dependant.

[123] It will be recalled that while in March wages and salaries were adjusted by 33 per cent, in the three months March-May the consumer price index rose by nearly 70 per cent.

Table 148

CHILE: INDEX OF REAL WAGES AND SALARIES [a]
(Base: 1973 = 100)

	1974	*1975*
Annual average	*94.0*	*91.0*
First quarter	93.2	94.5
Second quarter	90.1	86.9
Third quarter	98.4	91.3
Fourth quarter	94.1	91.3

Source: Department of Economics of the University of Chile, on the basis of the index of wages and salaries and the consumer price index of the National Institute of Statistics.

[a] The index of real wages and salaries was estimated by applying a process of linear interpolation of the index of wages and salaries which the National Institute of Statistics calculates for the months of January, April, July and October of each year, and deflating the figures thus obtained by the montly consumer price index.

and the change in the system of adjustments in September.

Apparently the decrease in remuneration in 1975 affected only the manual workers. however. While the index of average real wages was 7.5 per cent less than in 1974, the index of average salaries showed a real increase of a little over 2 per cent.

The difference between the situation of manual workers and that of non-manual workers is even greater if, in addition to the changes in their respective average remuneration, consideration is given to the changes which took place in employment.[124] According to the employment and unemployment surveys of the Economics Department of the University of Chile, the number of non-manual workers employed in Greater Santiago was, on average, 4.2 per cent higher than in 1974.[125] In contrast, the number of manual workers employed fell by 10.3 per cent between these two years. Consequently, the total wages paid were 17 per cent lower in real terms in 1975 than in 1974, while total salaries rose by 6.4 per cent as the result of simultaneous increases in the real average salary and in the number of non-manual workers employed. This increase was not enough to offset the real drop in total wages and salaries. Total real wages and salaries fell by 6 per cent in 1975 as the result of drops of 3.1 per cent in both the index of real average wages and salaries, and total employment of workers and non-manual workers.

[124] Since there are not data available on the changes in the employment of manual and non-manual workers at the national level, the following analysis is based on information on Greater Santiago obtained from the employment and unemployment surveys carried out by the Economics Department of the University of Chile.

[125] As noted earlier, however, between December 1974 and December 1975 the number of non-manual workers employed dropped by 5.8 per cent.

ECUADOR

1. *The overall picture*

During 1975 there was an acceleration of economic growth. The gross domestic product increased by 8 per cent, which represented a resumption of the average rate of development registered by the economy from the beginning of the current decade until the decline in 1974 (see table 149).

The growth of production in 1975 was significant in that it occurred in a year during which there was a deterioration of the factors which had caused the immediately preceding expansion. The production of petroleum fell by 9 per cent, and sales by 16 per cent; this meant a reduction in total exports and international reserves and a slackening in the growth of the income and expenditure of the government. Thus the growth in economic activity, unlike that of 1973 and 1974, was generated by the greater productive and infrastructural capacity created with the petroleum resources and by the high levels reached by domestic demand.

Despite the satisfactory growth of the product, the gross income barely changed during the year because of the deterioration in the terms of trade.

Table 149

ECUADOR: MAIN SHORT-RUN ECONOMIC INDICATORS
(Percentage annual growth rates)

	1971–1972	*1973*	*1974*	*1975*
Gross domestic product	6.5	13.1	6.3	8.0
Gross income [a]	4.9	15.3	21.4	0.5
Per capita gross domestic product	3.1	9.5	2.9	4.6
Gross fixed investment	11.3	23.8	20.1	16.5
Value of exports of goods and services	18.6	68.3	101.1	– 11.6
Value of imports of goods and services	11.5	40.8	66.0	20.7
Terms of trade	–8.2	12.3	71.9	– 21.6
Balance on current account [b]	–161	–97	16	– 255
Variation in international reserves [b]	50	95	107	– 64
Consumer price index [c]	6.8	20.5	21.8	12.7
Money	16.2	26.2	42.8	16.1
Current income of government	21.4	47.2	38.4	12.9
Total expenditure of government	11.8	37.0	36.0	24.4
Fiscal deficit/total expenditure of government [d]	7.9	1.5 [e]	3.2 [e]	6.4
Rate of unemployment	...	4.5	3.9	3.5

Source: CEPAL, on the basis of official statistics.
[a] Gross domestic product plus terms-of-trade effect.
[b] Absolute values in millions of dollars at current prices.
[c] December to December
[d] Percentage.
[e] These figures represent the ratio between the surplus and total expenditure.

The greater real income which the country received from sales of petroleum in 1973 and especially in 1974, however, led to a 40 per cent increase in gross income during that biennium and an increase in per capita income from approximately 300 dollars (at 1970 prices) to nearly 400 dollars between 1972 and 1974. In 1975, however, this figure fell to some 390 dollars.

Furthermore, there was a deterioration in external trade relations in the course of 1975. Exports fell by 12 per cent because of the decline in sales of petroleum and other export products. The terms of trade declined by 22 per cent, after having increased by 72 per cent in the previous year because of the high prices of petroleum, and this led to an even greater decrease in the purchasing power of exports.

In order to lessen the external disequilibrium, the authorities adopted measures to restrict imports, and although the measures operated for only part of the year they successfully reduced the expansion of imports from 66 per cent in 1974 to 21 per cent in 1975.

As a result of the divergent trends of exports and imports, the balance of payments deficit on current account amounted to 255 million dollars in 1975. Consequently, international reserves fell by about 65 million dollars, despite the considerable inflow of capital during the year. During the triennium 1972-1974, in contrast, about 300 million dollars of reserves were accumulated despite the sharp rise in imports during those years.

The fall in sales of petroleum in 1975 caused a reduction in the large income (about 480 million dollars in 1974) which the petroleum industry provides to the public sector, and this had repercussions on the financial position of the central government. Thus, while its current income increased by 13 per cent –only a third of the increase in 1974– total expenditure rose by 24 per cent, causing a deficit of over 6 per cent which contrasted with the surpluses obtained in the two previous years (see table 149). The proportion of the income from petroleum –about one-third– earmarked for the National Development Fund (FONADE) for allocation in accordance with a programme of priority investment for the country remained stable in current prices compared with the amount received in 1974.

The increase in domestic prices, which had aumounted to approximately 21 per cent, in the previous two years, fell to 13 per cent in 1975. This was partly due to the decrease in imported inflation and in the pressure of domestic demand, the good results obtained in agricultural production for domestic consumption, and the reduction in liquidity. The money supply, which had expanded by 26 per cent in 1973 and by 43 per cent in 1974, increased by only 16 per cent in 1975, mainly because the accumulation of international reserves, which had been the main cause of monetary expansion during those years, took an unfavourable turn in 1975.

2. *Recent economic trends*

(a) *Total supply and demand*

The fact that in 1975 the rapid growth of productive activity for the domestic market continued, despite the fall in petroleum income and the consequent decline in the rate of increase of domestic demand, suggests that the growth of productive activity has acquired a certain degree of autonomy, after the initial impetus represented by the financial resources derived from petroleum.

Domestic demand increased by 9 per cent in 1975 compared with the 11 per cent and 16 per cent rises of the two previous years. Gross fixed investment continued to increase at a fairly high rate (16.5 per cent), although more slowly than in the previous biennium, and this was reflected in a rapid increase in the investment coefficient, which rose from 18.5 per cent to 27 per cent between 1970 and 1975 (see table 150).

The rapid and sustained growth of capital formation is not a recent phenomenon. It began in the second half of the 1960s and increased steadily by about 20 per cent a year until 1972, when there was a fall of 11 per cent which coincided with the completion of the construction of the oil pipeline and related projects.

Since 1973 the public sector has played an increasingly important role in capital formation. Thus public investment increased by 42 per cent in 1973 and by about 25 per cent in 1974, although it is estimated that its increase in 1975 must have been somewhat less.

Private investment increased less during these years (about 18 per cent a year); even so, in 1974 its share of the gross formation of total fixed capital was 72 per cent, as at the beginning of the decade. This means that public investment, despite its great increases during 1973 and 1974, did no more than regain levels of participation which it had already reached in the past.

Consumption has also expanded rapidly since 1972. The consumption expenditure of the central government increased from 1972 onwards at an average rate of 14 per cent a year, which contrasts with the low rate recorded in previous years and illustrates the greater responsabilities the government has been assuming in the allocation of resources. Private consumption, for which the figures are only relatively reliable because they reflect the discrepancies which arise from balancing total supply and demand, increased by approximately 36 per cent between 1972 and 1975, which represents a per capita increase of just over 23 per cent during the triennium.

The development of investment and consumption between 1972 and 1975 was a major stimulus to increased production of goods and services, as already noted. However, national production only managed to meet 73 per cent of the increased domestic demand which developed during the triennium; the remaining 27 per cent had to be supplied through imports. These were thus an indispensable and increasing complement of supply to meet the significant expansion of demand, and between 1972 and 1975 the import coefficient increased from 22 to 29 per cent.

The quantum of imports of goods and services increased by 27 per cent in 1973 and 30 per cent in 1974, backed by ample supplies of foreign exchange and a policy of encouraging imports. In addition to ensuring better domestic supply, this policy aimed to prevent the excessive accumulation of international reserves which, if changed into national currency, would exert pressure on prices through the expansion of the means of payment. In 1975, for the reasons already explained, the rate of expansion of imports fell lo less than 5 per cent. In these circumstances, the rate of growth of the global supply of goods and services, which had increased at very high rates during 1973 and 1974, fell to 7 per cent in 1975, which was a lower rate than that of the growth of the domestic product.

Table 150

ECUADOR: TOTAL SUPPLY AND DEMAND

	Millions of sucres at 1970 prices			*Percentage breakdown*		*Annual growth rates*			
	1970	*1974*	*1975* [a]	*1970*	*1975* [a]	*1971–1972*	*1973*	*1974*	*1975* [a]
Total supply	*41 810*	*60 683*	*65 080*	*122.3*	*129.3*	*6.3*	*15.6*	*10.9*	*7.2*
Gross domestic product	34 181	46 601	50 319	100.0	100.0	6.5	13.1	6.3	8.0
Imports	7 629	14 082	14 761	22.3	29.3	5.8	27.2	29.7	4.8
Total demand	*41 810*	*60 683*	*65 080*	*122.3*	*129.3*	*6.3*	*15.6*	*10.9*	*7.2*
Domestic demand	*36 220*	*50 106*	*54 767*	*106.0*	*108.8*	*3.5*	*11.3*	*15.6*	*9.3*
Gross domestic investment	6 936	12 300	14 300	20.3	28.5	10.8	21.6	18.9	16.3
Gross fixed investment	6 327	11 662	13 586	18.5	27.0	11.3	23.8	20.1	16.5
Construction	2 883	...	...	8.4	...	6.5	22.7	...	...
Machinery and equipment	3 444	...	...	10.1	...	15.2	31.7	...	...
Public	1 787	3 299	...	5.2	...	12.0	42.4	24.5	...
Private	4 540	8 363	...	13.3	...	14.8	17.8	18.6	...
Total consumption	29 284	37 806	40 467	85.7	80.5	1.7	8.5	14.6	7.0
General government	4 152	5 607	6 375	12.1	12.7	1.6	9.8	19.1	13.7
Private	25 132	32 199	34 092	73.5	67.8	1.7	8.2	13.9	5.9
Exports	*5 590*	*10 577*	*10 313*	*16.4*	*20.5*	*22.6*	*35.6*	*– 7.1*	*– 2.5*

Source: 1970-1973: CEPAL calculations on the basis of data supplied by the Central Bank of Ecuador; 1974 and 1975: CEPAL estimates on the basis of official data.

Note: 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.

[a] Preliminary figures.

(b) *Sectoral developments*

The acceleration in the growth of the product caused by the initiation of large-scale petroleum exploitation arose not so much from the added-value component of petroleum production as from the expansion of domestic demand, credit facilities and, in general, the opportunities for expansion created by returns from the sales of the fuel. Petroleum production never represented more than 9 per cent of the total gross domestic product.

From 1972 onwards, with the exception of the petroleum industry, the rate of growth of the product was steady at about 8 per cent a year, which was close to the rate of increase in the service industries, these being the activities which could most easily be adapted to the new economic conditions and new dimensions of the national market (see table 151).

Service activities, which generate about 40 per cent of the total product expanded rapidly during these years as a result of the expansion factors already mentioned. It is estimated that they increased by about 10 per cent in 1975, which was similar to the rate in 1974.

There was a marked increase in the rate of growth of basic services: in 1975 the rate seems to

Table 151

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

	In millions of sucres at 1970 prices			*Percentage breakdown*		*Annual growth rates*			
	1970	*1974*	*1975* [a]	*1970*	*1975* [a]	*1971–1972*	*1973*	*1974*	*1975* [a]
Agriculture	8 804	9 450	9 803	29.2	22.1	1.3	2.5	2.0	3.7
Mining	449	634	700	1.5	1.6	203.5	– 8.3	10.1	10.4
Petroleum [b]	c	3 113	2 832	c	6.4	c	266.7	– 12.4	– 9.0
Manufacturing	5 713	8 011	9 017	19.0	20.3	1.9	7.8	11.6	12.6
Construction	1 387	1 957	2 119	4.6	4.8	6.2	14.4	9.3	8.3
Subtotal goods	*16 353*	*23 165*	*24 471*	*54.3*	*55.2*	*7.9*	*16.9*	*3.6*	*5.6*
Electricity, gas and water	418	479	515	1.4	1.2	4.8	1.5	2.8	7.5
Transport and communications	2 091	2 536	2 854	6.9	6.4	3.1	5.7	7.9	12.5
Subtotal basic services	*2 509*	*3 015*	*3 369*	*8.3*	*7.6*	*3.3*	*5.0*	*7.1*	*11.7*
Commerce, restaurants and hotels	3 234	4 144	8 342	10.7	18.8	4.9	10.8	5.2	10.0
Financial establishments, insurance and real estate	2 630	3 440		8.7		7.5	4.4	8.4	
Communal, social and personal services	5 382	7 284	8 141	18.0	18.4	3.5	10.2	14.7	11.8
Subtotal other services	*11 246*	*14 868*	*16 483*	*37.4*	*37.2*	*4.8*	*8.9*	*10.5*	*10.9*
Total gross domestic product	*30 108*	*41 048*	*44 323*	*100.0*	*100.0*	*6.5*	*13.1*	*6.3*	*8.0*

Source: 1970 and 1971: figures supplied by the Central Bank of Ecuador; 1972 to 1975: CEPAL calculations on the basis of information from the same source.

[a] Preliminary figures.

[b] Includes 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] Petroleum included under the heading of mining.

have been nearly 12 per cent, which was considerably higher than in previous years.

The rate of growth of the goods-producing sectors, excluding petroleum, has increased steadily since 1972, reaching nearly 8 per cent in 1975. It would appear that before 1975 these sectors did not have the necessary flexibility to adapt to the new levels of demand, but they will certainly continue to gain momentum in the next few years, as the major investments made in recent years yield their benefits.

(i) *Agriculture.* Agriculture benefited from relatively normal climatic conditions in 1975 and increased by 3.7 per cent – the first time since 1965 that the rate exceeded that of the growth of the population. During the decade which has elapsed since 1965, agricultural production increased by only 16 per cent, while the population grew by 42 per cent.

This constant decline in agriculture, which generates 22 per cent of the total product[126] and provides employment for about 58 per cent of the labour force, of which a high proportion is engaged in subsistence agriculture, has constituted a major obstacle in implementing the development programmes. That is why economic policy has

[126] Its share was 36 per cent in 1965 and 29 per cent in 1970.

concentrated on this sector, giving priority to its programmes and assigning to it income obtained from sales of petroleum.

Two factors have contributed to maintaining the low level of agricultural production in recent years. One has been the loss of incentives caused by the relative decline in the prices of agricultural products, combined with the rapid increase in the prices of inputs and production costs in general. The other is the uncertainty caused by the approval of the agrarian reform law in October 1973, the regulations of which were made known in 1974.

During 1974 an increase in the prices of some agricultural products for domestic consumption was authorized, and higher support prices were fixed for a number of essential foodstuffs, including wheat, maize, rice, meat, milk and sugar.

The policy of incentives to production also included technical assistance programmes, tax rebates on purchases and imports of inputs and capital goods for agriculture, and an increased supply of credit for the sector (in 1974 alone the amount of loans increased by 70 per cent). In addition to these measures, progress has been made in various projects aimed at improving the marketing of agricultural products (such as the establishment of the National Storage and Marketing Company) and encouraging the mechanization of agriculture, while programmes have been established for expanding livestock production.

The relatively satisfactory growth recorded in the agricultural product in 1975 was primarily due to a marked recovery of production for the domestic market, which in 1974 had reached very low levels, especially in products such as potatoes, maize and beans. However, it is estimated that the increase in production for export did not exceed 3 per cent. Forestry production achieved good results in 1975, with an increase estimated at about 4 per cent.

(ii) *Petroleum activity*. In 1973, 76 million barrels of petroleum were produced. This figure fell to 65 million in 1974 and to just under 59 million in 1975. Almost all the production came from the Oriente oilfields, since the coastal field produces less than a million barrels.

Petroleum production was affected by the fall in the international demand for the product. However, Ecuadorian petroleum production was perhaps influenced more by the disagreement which occurred between the companies and the Government concerning the levels of taxation. This is indicated by the fact that in 1974 the increases in the rates of taxation on the income of the oil companies –from 44 per cent to 50 per cent in June and then to 58 per cent in October– coincided with the onset of the decline in the production of crude oil. Furthermore, the recovery of production and sales similarly coincided with a tax reduction of 43 United States cents per barrel approved in July 1975.

Production was also adversely affected by the damage to the pipeline caused by rains and landslips in mid-1974 and again in March 1975, which put it out of service for about one month on each occasion.

The fall in production was greater in the second half of 1974 (from an average of 230,000 barrels per day in the first half of the year to 124,000 in the second half) and continued until March 1975. From then on production increased gradually, the daily average being 161,000 barrels up to July and 190,000 barrels from then on. Maximum production was close to the 250,000 barrels capacity of the 500 kilometer pipeline which connects the Oriente deposits with the port of El Balao.

It is hoped that the construction of a new State refinery at Esmeraldas, with a capacity of 55,000 barrels per day, will be completed towards the end of 1976. This addition will double current capacity, to which the Santa Elena refinery contributes 40,000 barrels.

The Government is to give priority, among its petroleum projects, to prospecting and exploiting new deposits with a view to achieving an appreciable increase in production. The reserves are estimated at between 1,300 and 1,500 million barrels, which would cover some 22 years of exploitation at current levels.

The Ecuadorian State Petroleum Corporation (CEP), which has recently taken over petroleum operations in the Santa Elena peninsula, hopes to increase the production of the coastal region to very high levels. Moreover, the CEPE-Texaco Gulf consortium, in which the State enterprise has a 25 per cent share, plans to invest 27 million dollars in 1976 in prospecting in eastern Ecuador as part of a five-year investment programme involving 130 million dollars.

(iii) *Manufacturing*. The manufacturing product increased by about 13 per cent in 1975: slightly more than in the previous year and more than the average for the period 1970-1973, which was approximately 8 per cent a year.

This evolution reflects the combination of a number of factors which have helped to encourage industrial production, particularly the increased capital resources which have expanded production capacity and the growth of the domestic market and of external demand for Ecuadorian manufactured products. In this latter aspect, an important factor has been Ecuador's participation in the Andean market as a relatively less developed country. The expansion of credit and the facilities offered for the import of inputs and capital goods have also benefited the sector.

The growth of manufacturing production was due entirely to the industrial sector, which grew by an estimated 19 per cent in 1975. Small scale industry and artisan-type activities, which are very widespread in Ecuador and provide 70 per cent of employment in the sector, have developed at a much slower rate.

The increase in industrial production was due both to the rapid increase in installed capacity —by 21 per cent in 1974 and 27 per cent in 1975— and to the greater utilization of that capacity (74 per cent in 1975). Furthermore, the productivity per employed person has improved in recent years.

In a survey on manufacturing production prepared by the Central Bank and based on information covering the period up to September, it is estimated that there was an increase of 22 per cent in 1975, due mostly to the big increases in the production of food, beverages and tobacco, clothing, and especially intermediate metal products, machinery and electrical goods (see table 152).

3. *The external sector*

A 13 per cent fall in exports of goods from the high value attained in 1974 and an appreciable increase (29 per cent) in imports caused a deficit of 255 million dollars in the current account of the balance of payments in 1975. Owing to the favourable movement of capital, this deficit was

Table 152

ECUADOR: INDICATORS OF INDUSTRIAL QUANTUM

	(1970 = 100)			*Annual growth rates*		
	1973	*1974*	*1975* [a]	*1971–1973*	*1974*	*1975* [a]
Food	118.7	128.2	163.8	5.9	8.0	27.8
Beverage	142.4	172.2	235.9	12.5	20.9	37.0
Tobacco	123.9	194.2	320.3	7.4	56.7	64.9
Textiles	141.7	151.0	163.0	12.3	6.6	8.0
Clothing	142.6	154.0	198.2	12.6	8.0	28.7
Timber and furniture	133.6	164.0	183.8	10.1	22.8	12.1
Paper	109.0	108.8	132.6	2.9	– 0.2	21.9
Printing and publications	113.3	114.2	124.1	4.3	0.8	8.7
Leather	160.7	216.5	180.7	17.2	34.7	– 16.5
Chemical substances and products	133.7	147.7	143.8	10.2	10.5	– 2.6
Plastics	162.8	203.5	196.2	17.6	25.0	– 3.6
Non-metallic mineral products	148.8	179.6	215.7	14.2	20.7	20.1
Intermediate metal products	153.2	183.5	253.9	15.2	19.8	38.4
Electrical machinery and articles	216.8	314.2	445.9	29.5	44.9	41.9
Non-electrical machinery, vehicles and components	154.1	252.1	220.5	15.4	63.6	– 12.5
Total manufactures	*136.5*	*157.7*	*192.7*	*10.9*	*15.5*	*22.2*

Source: Central Bank of Ecuador.

[a] Estimates based on information for the third quarter of 1975 from the Survey of Manufacturing Industry published by the Central Bank.

accompanied by a decrease of only 64 million dollars in the country's international reserves.

(a) *Exports*

For the first time in the current decade there was a fall in exports: after doubling in 1974 and reaching a value of about 1,200 million dollars that year, exports of goods diminished by 13 per cent in 1975, because of decreases of about 10 per cent in prices and of just under 4 per cent in quantum (see table 153).

Petroleum represented about 60 per cent of the total exports. In 1975 the series of extraordinary large increases which had begun in 1973, and which raised the value of petroleum sales from 61 million dollars in 1972 to 282 million in 1973 and 615 million in 1974, came to a halt. In 1975, in contrast, the value of petroleum exports fell by 100 million dollars (see table 154).

The increases in 1972 and 1973 were mainly in volume; the 1974 increase was entirely due to the excellent external prices attained by the product, since the volume exported fell by 17 per cent. While the fall in 1975 was due to both a further reduction in the quantum exported, this time of 12 per cent, and the decline which is believed to have occurred in its price.

It was not until August 1975 that shipments of Ecuadorian petroleum began to pick up again. During 1974 sales to the United States and to Trinidad and Tobago fell by almost half, while shipments to Panama and Peru fell by about 30 per cent. In 1975, according to preliminary information, the volume exported to the United States almost tripled, but sales to Trinidad and Tobago, which in previous years had been considerable, appear to have been small and shipments to Panama only appear to have regained the 1973 levels.

The reduction of taxes by 43 United States cents per barrel, decreed by the Government in the middle of the year, served to reactivate production and was designed to recover the usual markets in the United States and the Caribbean. Unfortunately no information is available on the evolution of the prices of Ecuadorian petroleum during the year, except that from October onwards they must have increased by 10 per cent in accordance with the OPEC agreements.

The closure of the pipeline for a month because of bad weather also influenced the fall in the volume of oil sales in 1975, and accounted for about half of the decline in the volume of petroleum exports that year.

Table 153

ECUADOR: VARIATION IN THE TERMS OF TRADE AND IN THE VALUE, VOLUME AND UNIT VALUE OF EXPORTS AND IMPORTS OF GOODS

(Annual growth rates)

	1971	*1972*	*1973*	*1974*	*1975*
Exports of goods.					
Value	1.0	36.2	77.9	106.5	–13.2
Volume	8.1	36.6	42.0	– 7.4	–3.7
Unit value	– 6.5	– 0.3	25.3	123.0	–9.9
Imports of goods					
Value	22.6	4.0	54.9	65.2	29.0
Volume	19.6	– 3.6	38.8	27.3	12.4
Unit value	2.5	7.9	11.6	29.7	14.9
Terms of trade	– 8.8	– 7.6	12.3	71.9	– 21.6
Purchasing power of exports	– 1.6	29.3	52.6	60.4	– 24.0

Source: CEPAL, on the basis of official figures.

Table 154

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

	Millions of dollars				*Percentage breakdown*		*Annual growth rates*		
	1970	*1973*	*1974*	*1975*	*1970*	*1975* [a]	*1971–1973*	*1974*	*1975*
Main products									
Petroleum	0.8	282.1	614.6	516.0	0.3	57.5	606.0	117.9	– 16.0
Bananas	114.6	131.0	130.3	142.4	48.8	15.9	4.6	– 0.5	9.3
Cocoa	22.2	26.7	102.9	42.3	9.5	4.7	6.4	285.4	– 58.9
Coffee	50.0	66.8	67.4	64.3	21.3	7.2	10.1	0.9	– 4.6
Sugar	8.0	12.1	42.6	15.1	3.4	1.7	14.8	252.1	– 64.5
Fishery products	5.5	24.4	28.8	36.8	2.4	4.1	65.0	18.0	27.8
Cocoa products	2.6	9.0	22.7	28.4	1.1	3.2	50.8	152.2	25.1
Timber	2.9	6.3	8.1	9.2	1.2	1.0	29.5	28.6	13.6
Total	*234.9*	*575.0*	*1 187.2*	*1 030.0*	*100.0*	*100.0*	*34.8*	*106.5*	*– 13.2*

[a] This comparison refers to the total value of export permits. The values of total exports shown in this table correspond to the values given in the balance of payments, however, and exceed the total value of export permits.

Apart from petroleum, four other traditional export products account for about 30 per cent of sales. Among these products, the volume and value of exports of bananas remained more or less constant from the beginning of the decade, but in 1975 a considerable increase was recorded as a result of the rise in banana prices. Exports of coffee, for their part, registered a slight fall and exports of cocoa and sugar fell sharply (by about 60 per cent) after having increased considerably in previous years thanks to the high prices in the international markets. Finally, the volume of cocoa exported, which had doubled in 1974, appears to have diminished by over 40 per cent in 1975 (see table 154).

Among the other export products, fish and shellfish are the most prominent. Much of the catch is canned, and there has been a steady increase in sales since 1971. There has also been a considerable increase in recent years in sales of processed cocoa products and other manufactured products such as electrical appliances and metal manufactures, but as yet these products have little relative significance.

(b) *Imports*

As a result of the ample purchasing power afforded by the extraordinary increase in exports and the facilities provided under a non-restrictive policy (at least up to 1974), the value of imports of goods increased 3.3 times between 1972 and 1975, while their volume doubled. In 1975 this value –1,050 million dollars– exceeded that of exports and the average inhabitant had at his disposal the equivalent of about 150 dollars' worth of imported goods. Three years previously the corresponding figure was less than 50 dollars.[127]

In 1973 and 1974 measures were adopted to encourage imports and stimulate the utilization of the foreign exchange which was being accumulated very rapidly. Thus in February 1973 the requirement of prior deposits for imports was abolished, and in April 1974, import duties were reduced by an average of 33 per cent. Imports were also greatly stimulated by the maintenence of

[127] The comparative figure for Latin America as a whole was 128 dollars in 1975.

a fixed rate of exchange while domestic prices were rapidly increasing.

In 1975, on the other hand, in the face of a decline in the volume and prices of exports and the consequent loss of international reserves a policy of restricting imports was pursued, but in practice this had only limited success since the rate of growth of imports continued to be fairly high.

Among other measures, the import of motor vehicles was suspended, applications for imports involving advanced payment were refused, customs duties were greatly increased from September, except for those applying to import of capital goods, and 180-day prior deposits were again required (20 per cent or 30 per cent according to the type of merchandise). Imports destined for public investment programmes financed with international credits and investment programmes of high priority for the country were exempted from this last requirement.

The marked expansion of imports in the last three years was accompanied by quite considerable changes in their structure. After 1972 imports of capital goods increased at a rate of 65 per cent a year, while their value increased 4.5 times. Intermediate goods, for their part, increased 2.8 times and consumer goods 2.3 times (see table 155).

It may be added that among consumer goods the durables increased much more rapidly during those years (3.6 times) than the non-durables, although imports of foodstuffs increased 10 times in value during that period.

In 1975 capital goods constituted 48 per cent of total imports. i.e., 11 per cent more than at the beginning of the decade, while the other types of goods diminished in relative significance.

(c) *Terms of trade*

The terms of trade, which until 1973 had fluctuated around a level below the 1970 base index of 100, improved by 72 per cent in 1974, stimulated by the high prices attained by petroleum, cocoa and sugar. In 1975, however, they deteriorated by 22 per cent because of the fall in the prices of these same products and the 15 per cent increase in the prices of imports (see table 153).

This tendency of the terms of trade was combined with increases in the volume of exports of 37 per cent in 1972 and 42 per cent in 1973; because of this, the purchasing power of exports increased much more than imports (2.4 times between 1971 and 1974). In 1975, however, the purchasing power of exports declined while

Table 155

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

	Millions of dollars				*Percentage breakdown*		*Annual growth rates*			
	1970	*1973*	*1974*	*1975*	*1970*	*1975*	*1971–1972*	*1973*	*1974*	*1975*
Consumer goods	*36*	*63*	*95*	*115*	*14.3*	*10.9*	*16.6*	*28.3*	*50.5*	*21.4*
Durables	12	18	29	43	4.9	4.1	– 1.6	47.4	62.1	48.8
Non-durables	24	45	66	72	9.4	6.8	25.4	22.1	45.9	9.4
Intermediate goods	*121*	*256*	*392*	*435*	*48.2*	*41.4*	*14.1*	*63.3*	*52.5*	*11.2*
Capital goods	*93*	*173*	*327*	*501*	*37.1*	*47.7*	*9.7*	*54.7*	*88.4*	*53.3*
Total	*250*	*493*	*814*	*1 050*	*100.0*	*100.0*	*12.9*	*54.9*	*65.2*	*29.0*

Source: CEPAL, on the basis of official figures.

Table 156

ECUADOR: BALANCE OF PAYMENTS
(Millions of dollars)

	1970	*1972*	*1973*	*1974*	*1975* [a]
Current account					
Exports of goods and services	259	365	614	1 235	1 092
Goods FOB	235	323	575	1 187	1 030
Services	24	42	39	48	62
Transport	1	6	9	10	15
Travel	9	10	15	17	19
Imports of goods and services	359	446	628	1 043	1 259
Goods FOB	250	318	493	814	1 050
Services	110	128	136	229	209
Transport	45	57	80	124	140
Travel	9	14	16	20	22
Net payments of profits and interest on foreign capital	– 29	– 84	– 99	– 183	– 96
Profits	– 19	– 73	– 92	– 192	– 101
Interest	– 10	– 11	– 7	9	5
Net private transfer payments	7	8	17	7	8
Balance on current account	– 122	– 158	– 97	16	– 255
Capital account					
Net external financing (a+b+c+d+e)	122	158	97	– 16	255
(a) Net external non-compensatory capital	118	300	176	81	
Direct investment	89	204	117	77	
Long- and medium-term loans	49	113	59	59	
Amortization payments	– 27	– 30	– 32	– 67	191
Short-term liabilities (net)	– 2	5	11	1	
Official transfer payments	9	8	22	11	
(b) Domestic non-compensatory capital or assets	6	– 6	– 8	– 5	
(c) Errors and omissions	– 2	– 38	31	22	
(d) Allocation of SDRs	4	4	–	–	
(e) Net compensatory financing (minus sign signifies an increase)	– 4	– 103	– 101	– 114	64
Balance-of-payments loans, trade arrears, IMF loans, and other liabilities of the monetary authorities	23	11	14	–	–
Amortization payments	– 7	– 35	– 20	– 7	– 4
Foreign exchange reserves (minus sign signifies an increase)	– 21	– 82	– 88	– 101	67
Gold reserves (minus sign signifies an increase)	1	7	– 8	– 5	–
SDRs (minus sign signifies an increase)	–	– 4	1	– 1	1

Source: International Monetary Fund, *Balance of Payments Yearbook*, vol. 27.

[a] CEPAL, estimates on the basis of official statistics.

imports of goods continued to increase, although at a rather lower rate than in the two previous years.

(d) *The balance of payments*

The opposite trends followed by exports and imports in 1975 caused a deficit on the merchandise trade balance, which had recorded surpluses since 1972 the positive balance in 1974 being over 370 million dollars.

In addition to this there was the customary negative balance on the services account, although this time the deficit was slightly less than in 1974, and the net remittances of profits and interest abroad, which came to only half of the high figure recorded in 1974. The final result was a deficit of 255 million dollars on the current account of the balance of payments in 1975 – the biggest such deficit ever experienced by the country (see table 156).

In 1975 the net inflow of non-compensatory capital –composed mainly of medium- and long-term loans and short-term liabilities – almost doubled compared with 1974. Nevertheless, the net international reserves, which had increased by 320 million dollars during the three-year period 1972-1974, fell by 64 million dollars to 286 million dollars during the year.

4. *Prices and anti-inflationary policy*

(a) *The evolution of prices*

During 1975, and especially from April onwards, a considerable deceleration was discernible in the movement of domestic prices. The consumer price index in Quito registered an increase of 13 per cent in December 1975 compared with the same month of the previous year, which was a considerably lower rate than those of around 21 per cent a year recorded in 1973 and 1974 (see table 157).

The same pattern was followed, although in a less marked way, by the movements of food prices, which are among the most important components of the general price index. Food prices increased by approximately 30 per cent in the second half of 1973 and in 1974. In 1975, however, the total increase was just over 18 per cent.

The intensification of the inflationary process occurred at precisely the time when income from petroleum was beginning to have an expansionist effect on the economy and the prices of both exports and imports were reaching their highest level. Likewise, the decline in the rate of increase of prices in 1975 coincided with the decrease of this income and the reduction of the rate of increase of external prices.

Despite the growth in national production of about 10 per cent a year during the period 1973-1975, it was necessary to resort to imports to meet the expansion of the domestic market. There were sufficient foreign exchange resources and international reserves were also used in order to prevent their excessive accumulation and hence their expansionist effect on the means of payment. Imports rose at a rate of 49 per cent a year during

Table 157

ECUADOR: EVOLUTION OF PRICES
(Annual growth rates)

	1971–1972	*1973*	*1974*	*1975*
Consumer prices index [a]				
December to December	6.8	20.5	21.8	12.7
Food	8.5	31.1	28.0	16.1
Annual averages	8.2	12.9	23.3	15.3
Food	8.8	20.3	32.5	18.5

Source: Central Bank of Ecuador, *Boletín*, September-December, 1975 and 1974, and *Indicadores financieros*, January 1976.

[a] Corresponds to the consumer price index for the low and middle income groups in Quito.

the period 1973-1975 and food imports increased tenfold. Inflation in the supplier countries was passed on through these imports, however.[128] Thus the prices of imported products increased by around 12 per cent in 1973, 30 per cent in 1974 and 15 per cent in 1975.

(b) *Monetary evolution*

During the first years of the current decade there was a progressive increase in the amount of money held by the public. The rate of increase of the money supply rose from 11 per cent in the biennium 1971-1972 to 26 per cent in 1973 and 43 per cent in 1974. In 1975, however, the rate of growth fell to 16 per cent[129] (see table 158).

During these years the money supply followed the movement of international reserves, which until 1974 increased more than the money in circulation but which in 1975 fell by 23 per cent. Out of concern to reduce this drop in reserves the economic authorities introduced measures to restrict imports, and finally, in the last months of the year, the Central Bank almost entirely suspended sales of foreign exchange on the open market.

Another factor which contributed to expanding the means of payment was credit to the private sector, which increased throughout 1974 and up to October 1975 at a rate of 39 per cent per year.

In the last months of 1975, however, there was a drastic contraction of credit to nearly all sectors, so that the increase during the year seems to have been reduced to 35 per cent.

As regards credit to the public sector, the net balance of the accounts with the Central Bank was very small in 1973, and in 1974 and 1975, when the deposits of the central government in the Central Bank exceeded the total of loans received, this balance became a factor absorbing the money in circulation.

[128] See CEPAL, *Economic Survey of Latin America, 1974,* in which there is a chapter dealing with inflation in Ecuador.

[129] For the first eleven months of the year the rate was only 3 per cent, but in December it increased by a further 13 per cent.

Table 158

ECUADOR: MONETARY POSITION
(Millions of sucres)

	Balance at end of					*Annual growth rates*			
	1970	*1972*	*1973*	*1974*	*1975*	*1971–1972*	*1973*	*1974*	*1975*
1. *Money* (2 – 3)	*5 465*	*7 424*	*9 370*	*13 381*	*15 539*	*16.2*	*26.2*	*42.8*	*16.1*
Currency outside banks	2 272	2 818	3 538	4 640	5 241	11.4	25.6	31.2	13.0
Demand deposits	3 193	4 606	5 832	8 741	10 298	19.9	26.6	49.9	17.8
2. *Factors of expansion*	*9 762*	*12 846*	*15 518*	*21 310*	...	*14.7*	*20.8*	*37.3*	*8.0*[a]
Foreign assets (net)	1 402	3 199	5 874	9 653	7 500	51.0	83.6	64.3	– 22.5
Domestic credit	8 360	9 647	9 644	11 657	...	7.4	—	20.9	40.6[a]
Claims on public sector (net)	1 911	1 821	211	– 1 458	...	– 2.4	– 88.4	·	30.6[a]
Claims on private sector	6 449	7 826	9 433	13 115	...	10.2	20.5	39.0	39.3[a]
3. *Factors of absorption*	*4 297*	*5 422*	*6 148*	*7 929*		*12.4*	*13.4*	*29.0*	*– 0.8*[a]
Quasi-money (savings and time deposits)	1 984	3 019	3 598	4 604	...	23.4	19.2	28.0	4.3[a]
Bonds	1 456	1 844	2 135	2 568	...	12.5	15.8	20.3	26.8[a]
Other items (net)	857	559	415	757	...	– 19.2	– 25.8	82.4	– 67.7[a]

Source: International Monetary Fund, *International Financial Statistics*, issues of June and December 1975. Central Bank of Ecuador, Información Estadística Nº 1 358, 20 February 1976.

[a] Variation between October 1974 and October 1975.

With a view to restricting liquidity and reducing the rate of inflation, the Monetary Board decided in November 1974 to decree a gradual increase to 35 per cent in the minimum cash reserves that private banks must maintain in respect of their monetary deposits. It also fixed ceilings for the credit operations of the private banks, although it made an exception in respect of credits for certain activities aimed at developing production. Despite the limits fixed, the commercial banks did not make much use of the rediscounting facilities of the Central Bank, which are a possible means of expanding credit.

The prior deposits for imports which were reintroduced in September 1975 and involve the freezing of a sum of money equal to 20 to 30 per cent of the value of the imports requested for six months, were a factor in the contraction of the money in circulation. In the last three months of the year this measure brought about a reduction of 860 million sucres in the money in circulation.

(c) *The fiscal situation*

Approximately 30 per cent of the income received by the public sector from sales of petroleum goes into the Treasury and a more or less equal amount goes to the National Development Fund (FONADE); the remaining 40 per cent is divided between municipalities, decentralized bodies, finance organizations, the univertisities, the Armed Forces and public enterprises.

Since 1972 the central government has received some 9,000 million sucres from this source and this has caused a considerable change in its income, expenditure and participation in the development of the country. Thus the enormous responsibility of obtaining the maximum benefit from the financial resources provided by petroleum has fallen to the central government, and even more so to the public sector (see table 159).

FONADE was established at the end of 1973 in order to carry out the task of programming the public resources derived from petroleum and allocating them in the best possible manner. This body receives a proportion of the duties levied on petroleum when prices exceed 7.30 dollars a barrel and uses the money to finance projects with the highest priority.

In 1974, FONADE's income amounted to nearly 3,500 million sucres, and it is estimated that it will be similar in 1975. Its expenditure and allocations have increased considerably however, in the course of these two years. Its most significant outlays include the construction of the petroleum refinery at Esmeraldas, the financing of educational programmes and road construction. In 1974 priority was given to agriculture, mainly through credits, supply programmes and emergency projects.

In 1975 the budgetary income of the central government increased by only 13 per cent, which was only about the same as the rise in consumer prices and was a much lower increase than in previous years. This lower rate of increase was influenced by the 10 per cent fall in petroleum income due to the decline in sales of the fuel. Revenue from traditional taxes continued to increase at a steady high rate, however (24 per cent in 1975). Among the duties whose yield increased most were income tax (50 per cent), because of the improvement of the collection system, and the taxes on the consumption of beverages and on commercial transactions (33 per cent in each case). The yield of import duties increased by 18 per cent.

The above data on central government income do not take account of a transfer of 700 million sucres of current income from FONADE to the budget accounts.

Effective budgetary expenditure increased by around 25 per cent, a rate which was double that of income and is estimated to have been more pronounced in capital expenditure than in current expenditure.

Between 1974 and 1975 there was a marked change in the structure of expenditure. That of the Ministry of Agriculture diminished considerably, while the expenditure of the ministries responsible for social development increased as a whole by about 30 per cent.

The changes in income and expenditure described above left a deficit of 850 million sucres in contrast with the surpluses obtained in the two previous years. This imbalance was covered by net borrowing of 70 million sucres and the utilization of 800 million sucres of monetary deposits in autonomous public bodies. During the year domestic loans of about 1,000 million sucres and external loans of about 37 million sucres were utilized, while 960 million sucres of the public debt was amortized.

In 1975 the budgetary deficit of the central government increased to 1,490 million sucres if account is taken of the financial movements of FONADE and of the Fondo Nacional de Participaciones, an institution which centralizes and distributes income derived from taxes and

Table 159

ECUADOR: CENTRAL GOVERNMENT INCOME AND EXPENDITURE[a]

	Millions of sucres			*Annual growth rates*			
	1970	*1974*[b]	*1975*[b]	*1971–1972*	*1973*	*1974*	*1975*
1. *Income*	*3 676*	*11 031*	*12 450*	*21.4*	*47.2*	*38.4*	*12.9*
Petroleum revenue	–	3 505	3 168	–	253.7	96.2	– 9.6
Taxes (except on petroleum)	3 475	7 257	8 962	17.0	29.4	17.9	23.5
Other income	201	270	320	– 11.9	– 78.8	718.2	18.5
2. *Current expenditure*	*3 612*	*7 250*	*8 800*	*15.2*	*21.2*	*24.9*	*21.4*
3. *Saving on current account*	*64*	*3 782*	*3 650*	*213.8*	*244.3*	*74.4*	*– 3.5*
4. *Capital expenditure*	*975*	*3 440*	*4 500*	*– 1.3*	*116.6*	*67.4*	*30.8*
5. *Fiscal deficit (or surplus)* (3 – 4)	*– 911*	*342*	*– 850*	*– 40.8*	–	*20.0*	–
6. *Financing of deficit*							
Domestic financing	531	659	995	– 21.1	76.7	13.0	51.0
External financing	132	98	37	189.6	– 89.0	– 19.7	– 62.2
Debt repayment	– 554	– 688	– 961	10.1	6.0	– 3.2	39.7
7. *Balance*	*802*	*– 411*	*779*	–	–	–	–
	National Development Fund (FONADE)						
Income	–	3 473	3 479	–	–	–	0.2
Expenditure	–	2 433	3 750	–	–	–	54.1
	Fondo Nacional de Participaciones (FNP)						
Income	–	2 110	1 833	–	29.6	29.5	– 13.1
Expenditure	–	2 089	2 200	–	28.3	41.9	5.3

Source: CEPAL, on the basis of various official sources and of OAS, CEPCIES, Situación, principales problemas y perspectivas del desarrollo económico y social de Ecuador, 21 May 1975.

[a] Corresponds to income and expenditure under the General State Budget.

[b] Preliminary figures which may not be strictly comparable with the figures for previous years because of differences in coverage.

[c] Excludes debt repayment, which has been included under the heading "Financing of deficit".

other duties assigned to various institutions and municipalities. The consolidated central government income, including these institutions, came to 17,760 million sucres (of which approximately 6,800 million derived from petroleum). Thus, while income was only 7 per cent higher than in 1974, total expenditure increased by nearly 27 per cent: a disparity which increased the deficit to the figure indicated, in contrast with the surplus of 1,400 million sucres registered in 1974.

(d) *Some anti-inflationary measures*

In recent years the government has adopted a series of measures aimed at containing the increase in domestic prices. In March 1974 price control was established for about 20 essential consumer products, mainly foodstuffs, but also including certain agricultural inputs for industry. In the same year, however, an increase was authorized in the prices of various agricultural products in order to offset the greater costs to growers and encourage increased production.

Sizeable tariff reductions were introduced with the aim of facilitating the import of intermediate and capital goods for agriculture and industry. Before this, imports of foods had been subsidized and the system of prior deposits for the import of many categories of goods had been eliminated. Some restrictions were again imposed on imports in 1975, however, because of the imbalance which developed in external transactions.

The minimum wages of workers were increased in order to alleviate the loss of purchasing power of wages. By the middle of 1975 wages had increased by approximately 25 per cent compared with the beginning of 1974.

EL SALVADOR

1. *The overall picture*

In 1975 the El Salvador economy was harmed by the economic recession in the industrialized countries, the persistence of world inflation and the generalized decline in the rate of growth of the countries of the Central American Common Market. Due to the great relative importance of the external sector for the Salvadorian economy, these changes caused a sharp drop in the economic growth rate and a substantial current account deficit in the balance of payments.

The gross domestic product grew by only 3.4 per cent in 1975, a much lower rate than in 1974 and only slightly higher than the population growth rate. Both the product and per capita income thus remained stagnant (see table 160).

Table 160

EL SALVADOR: MAIN SHORT-RUN ECONOMIC INDICATORS
(Percentage annual growth rates)

	1971–1973	*1974*	*1975*
Gross domestic product	4.8	6.4	3.4
Gross income [a]	5.3	3.6	3.3
Per capita gross domestic product	1.5	3.2	0.2
Gross fixed investment	7.7	14.7	14.1
Value of exports	15.9	30.4	12.4
Value of imports	20.3	45.1	9.1
Terms of trade	2.7	– 11.2	– 1.3
Balance on current account [b]	– 17	–128	– 131
Variation in international reserves [b]	2	36	35
Consumer price index [c]	2.7	16.9	19.2
Money	16.4	19.4	16.9
Current income of government	17.4 [d]	17.2	17.9
Total expenditure of government	17.3 [d]	21.8	20.0
Fiscal deficit/total expenditure of government [e]	5.4 [d]	8.8	10.5

Source: CEPAL, on the basis of official statistics.

[a] Gross domestic product plus terms-of-trade effect.
[b] Absolute values in millions of dollars at current prices.
[c] Annual average variation.
[d] 1971–1972.
[e] Percentage.

This marked decline in the rate of economic growth was primarily caused by the abrupt fall in the rate of growth of the volume of exports, which fell from over 12 per cent in 1974 to only 1 per cent in 1975, primarily because of the sharp drop in the value of non-traditional exports and the stagnation of sales to the Central American Common Market.

Although the rate of growth of imports also fell, their value once again exceeded that of exports. This, together with the sharp rise in payments of profits and interest on foreign capital, increased the current account deficit of the balance of payments. The deficit rose to over 130 million dollars, almost seven times the average deficit for the three years preceding the rise in the price of oil.

However, the inflow of foreign capital was even larger, with the result that currency reserves grew for the second consecutive year by about 35 million dollars (see table 160).

The unfavourable trends in economic activity and the external sector were accompanied by a weakening of inflation. In 1975, wholesale prices rose by somewhat less than 8 per cent, a much lower figure than the 19 per cent and 31 per cent recorded in 1973 and 1974 respectively. Although the rate at which consumer prices were rising was slightly higher than in the previous year, they too tended to become more stable in the second half of the year.

This lessening of inflation was linked both to the weakening of the pressures on prices proceeding from abroad and also to the more efficient control exercised by the monetary authorities on the growth of the money supply. The smaller impact of imported inflation was in particular reflected in the considerably lower rise of the unit value of imports in 1975 (12 per cent) than in 1974 (30 per cent). Monetary expansion in turn fell from almost 20 per cent in 1974 to less than 7 per cent in 1975.

2. *Recent economic trends*

(a) *General aspects*

In 1975, there was a marked decline in the dynamism of the economy of El Salvador. The product, which had grown 6.4 per cent during the previous year, rose by only 3.4 per cent, which is scarcely sufficient to make up for the strong population growth rate (3.2 per cent). Moreover, since the terms of trade worsened further in 1975, the growth of gross income was slightly lower (3.3 per cent). As a result of this, and of the great deterioration in the terms of trade in 1974, gross per capita income was almost the same as in 1973.

The drop in the rate of growth of total supply was also very large. In 1975 the rising trend in the volume of imports was sharply inverted, dropping by about 3 per cent in real terms, after having risen at an average annual rate of over 13 per cent during the four previous years. This abrupt change compounded the effects of the slower growth of the product and contributed to the fall in the growth rate of total supply from 8 per cent in 1974 to under 2 per cent in 1975 (see table 161).

On the demand side, the loss of dynamism of the economy was fundamentally caused by the sharp decline in the growth of exports. The rate of growth of exports fell from over 12 per cent in 1974 to only 1 per cent in 1975. This sharp drop is primarily due to the stagnation of sales to the Central American countries –the main market for El Salvador's industrial exports– and the slower growth of exports to the rest of the world in 1975 (see below, table 165).

The limiting effects of the great drop in the growth rate of the export sector –which generates 27 per cent of the total product– were compounded by the very large drop in stocks, which fell by 40 million colones in 1975. On the other hand, they had grown by twice this amount in the previous year, because of both the prevailing expectations of inflation and the credit support given to industry for it to be able to acquire sufficient supplies of inputs and imported raw materials. As a result, net inventory demand was 120 million colones lower in 1975 than in the previous year, and this decline almost completely offset the growth of private and government consumption.

In contrast with the sharp drop in inventory investment, gross fixed capital formation grew at the very high rate of 14 per cent. This rapid growth was basically caused by the continuation of the great rise in public sector capital expenditure begun in 1974. This expenditure rose by over 30 per cent for the second year running, and because of this and of its steady growth during the first years of the decade, the public investment ratio doubled between 1970 and 1975 (see table 161).

Fixed capital expenditure in the private sector, however, grew at a much slower rate of a little over 6 per cent, less than the 8 per cent rate of the previous year. This slight loss of dynamism in private investment was fundamentally due to the

Table 161

EL SALVADOR: TOTAL SUPPLY AND DEMAND

	Millions of colones at 1970 prices			*Percentage breakdown*		*Annual growth rates*		
	1970	*1974*	*1975* [a]	*1970*	*1975* [a]	*1971–1973*	*1974*	*1975* [a]
Total supply	*3 202*	*4 184*	*4 263*	*124.5*	*131.2*	*6.5*	*8.0*	*1.9*
Gross domestic product	2 571	3 143	3 250	100.0	100.0	4.8	6.4	3.4
Imports	631	1 041	1 013	24.5	31.2	13.3	13.2	– 2.7
Total demand	*3 202*	*4 184*	*4 263*	*124.5*	*131.2*	*6.5*	*8.0*	*1.9*
Domestic demand	*2 563*	*3 311*	*3 381*	*99.7*	*104.1*	*6.5*	*6.9*	*2.1*
Gross domestic investment	340	522	464	13.2	14.3	7.3	24.1	– 11.2
Gross fixed investment	308	442	504	12.0	15.5	7.7	14.7	14.1
Public	72	143	186	2.8	5.7	14.4	31.8	30.2
Private	236	299	318	9.2	9.8	5.5	8.0	6.4
Changes in stocks	32	80	– 40	1.2	– 1.2	...	...	...
Total consumption	2 223	2 789	2 917	86.5	89.8	6.4	4.2	4.6
General government	276	338	353	10.7	10.9	5.5	4.5	4.5
Private	1 947	2 451	2 564	75.8	78.9	6.5	4.2	4.6
Exports	*639*	*873*	*882*	*24.8*	*27.1*	*6.6*	*12.4*	*1.0*

Sources: 1970-1974: CEPAL calculations on the basis of figures of the Banco Central de Reserva of El Salvador; 1975: CEPAL estimates on the basis of official data.

Note: 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.

[a] Preliminary figures.

above-mentioned fall in demand in the Central American Common Market and also in part to the drop in the growth rate of personal consumption. For these reasons, private investment in 1975 also showed a tendency to be concentrated in housing and office construction.

(b) *Sectoral developments*

From the sectoral point of view, the lower level of economic activity was entirely due to the sharp fall in 1975 in the growth rate of the production of goods, which fell from over 9 per cent in 1974 to under 1 per cent in 1975. Although the lower growth rates in 1975 in manufacturing industry and construction were partly responsible for this fall, the basic cause was the sharp drop in the rate of growth of agriculture. The agricultural product, which had grown more than 10 per cent in 1974, fell by 2 per cent in 1975 (see table 162).

This sharp reversal in turn reflected the performance of coffee production –the main crop in Salvadorian agriculture and its most valuable export product. As may be seen from table 163, the coffee bean harvest fell by 4 per cent in 1975 in relation to its record level in the previous year, when it had grown by over 24 per cent. As in other Central American countries, the fall in coffee production was largely due to the smaller application of fertilizers and the decline of other intensive cultivation practices. This was the result of the discouraging world prices between July 1974 and mid-1975.

The production of cotton, the second main export crop, also declined, for which a number of factors were responsible. In the first place, there was some discouragement on the part of the cotton producers who were not able to benefit from the prices of the previous cycle because they had sold before the upswing in prices. A second

Table 162

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

	Millions of colones at 1970 prices			*Percentage breakdown*		*Annual growth rates*		
	1970	*1974*	*1975* [a]	*1970*	*1975* [a]	*1971–1973*	*1974*	*1975* [a]
Agriculture	727	859	842	30.6	28.1	2.3	10.3	– 1.9
Mining	4	4	4	0.2	0.1	5.4	– 14.3	4.8
Manufacturing	418	525	543	17.6	18.1	5.8	6.1	3.4
Construction	72	108	119	3.0	4.0	6.7	23.1	10.4
Subtotal goods	*1 221*	*1 497*	*1 509*	*51.4*	*50.3*	*3.8*	*9.5*	*0.8*
Electricity, gas and water	39	55	60	1.6	2.0	9.6	8.0	8.7
Transport and communications	126	140	142	5.3	4.7	3.2	0.8	1.4
Subtotal basic services	*165*	*195*	*202*	*7.0*	*6.7*	*4.8*	*2.6*	*3.5*
Commerce, financial establishments, insurance	483	590	624	20.3	20.8	5.6	3.8	5.8
Real estate [b]	95	111	665	4.0	22.2	4.4	3.6	7.4
Communal, social and personal services [c]	410	508		17.3		6.9	3.0	
Subtotal other services	*988*	*1 209*	*1 289*	*41.6*	*43.0*	*5.8*	*3.4*	*6.6*
Total gross domestic product	*2 375*	*2 901*	*3 000*	*100.0*	*100.0*	*4.7*	*6.4*	*3.4*

Sources: 1970-1974: CEPAL calculations on the basis of figures of the Banco Central de Reserva of El Salvador; 1975: CEPAL estimates on the basis of official statistics.

[a] Preliminary figures.
[b] Ownership of dwellings.
[c] Including restaurants, hotels and services to enterprises.

Table 163

EL SALVADOR: PRODUCTION OF SOME MAJOR CROPS

	Thousands				*Annual growth rates*		
	1970	*1973*	*1974*	*1975* [a]	*1971–1973*	*1974*	*1975*
Coffee (quintals)	2 973	2 750	3 420	3 280	– 2.6	24.4	– 4.1
Cotton, ginned (quintals)	1 207	1 543	1 626	...	8.5	5.2	...
Sugar cane (short tons)	1 587	2 440	2 953	3 200	15.3	21.0	8.4
Maize (quintals)	7 912	8 878	7 634	8 284	3.9	– 14.0	8.5
Beans (quintals)	636	813	767	821	8.5	– 5.7	7.0
Rice, husked (quintals)	625	510	433	...	– 6.5	– 15.1	...

Source: CEPAL, on the basis of official statistics.

[a] Estimates.

limiting factor was the obligation placed by the Government on cotton producers to devote 5 per cent of the surface area previously used for cotton to the cultivation of cereals. The effects of this regulation were further strengthened by the prohibition on the sowing of cotton in zones where the use of insecticides has harmful effects on the population. Finally, the higher prices of agricultural inputs forced the marginal producers to give up cotton growing.

On the other hand, sugar-cane production grew in 1975 by over 8 per cent and thus continued to follow the rising trend of earlier years. The 1975 harvest was double that of 1970, and exports were once again able to grow (see tables 163 and 165).

The production of crops primarily intended for the domestic market also developed favourably. In particular, the firm support provided by the Bank for Agricultural Development and other government agencies for the cultivation of basic food grains,[130] together with favourable climatic conditions, a suitable distribution of fertilizers and a fall in fertilizer prices, caused the harvest of maize, beans and rice to grown in 1975, thus partly making up for the drop in them during the previous year (see table 163).

Another important agricultural policy measure was the creation of the Instituto Salvadoreño de Transformación Rural in June 1975, whose main purpose is to encourage agricultural development projects which cover not only production but also the processing and marketing of products. To carry out such projects the Institute can purchase or expropriate land.

Finally, with a view to expanding the country's limited agricultural frontier, appreciable progress was made in the construction of a large irrigation system in the Department of La Libertad.

Industrial growth, on the other hand, was much lower in 1975 than in previous years. The product of the manufacturing sector grew only 3.4 per cent in 1975, its lowest rate so far in the present decade. This loss of dynamism was influenced, on the demand side, by the aforementioned stagnation of exports to the Central American Common Market and, on the cost side, by the higher prices of imports and transport.

The smaller growth of the manufacturing product was accompanied by a lower utilization of industrial capacity. According to some surveys, the margin of idle productive capacity grew in the traditional industries, such as textiles,[131] and in food and some of the metalworking and intermediate product industries.

In these circumstances, private sector investment was mainly devoted to the replacement of fixed assets and the few expansions carried out were concentrated in medium or small factories. The new units installed were also generally on this scale, although in the course of the year some industrial projects of some size were initiated.[132] In addition, government policy was mainly directed towards encouraging the manufacturing companies with an export potential developing industrial zones in different parts of the country and providing incentives for medium and small enterprises.

Finally, the construction sector continued to be the most active of the economy, although its growth in 1975 was lower than in 1974 (see table 162). Its growth of over 10 per cent reflected the impact of public investment in large infrastructure works (such as the Cuscatlán airport), projects linked to the programme for the development of tourism, and the extension of the drinking water and sewage systems and of some of the main thoroughfares of the city of San Salvador.

3. *The external sector*

In 1975 the external sector of the El Salvador's economy faced an unfavourable economic situation. While the rate of growth of exports dropped and sales abroad of non-traditional products declined, net payments of profits and interests increased. Thus the current account deficit was even greater than the record level reached in the previous year. However, the inflow

[130] The credit provided by the Bank for this purpose in 1975 was double the 1974 amount, and the surface area financed by it grew by 47 per cent.

[131] However, in 1976 the utilization of installed capacity in the textile industry will probably grow because of the export advantages arising from the Generalized System of Preferences. This will also be the effect of the recent decision to set up a consortium for the exportation of textile products through a joint effort by the Government and private enterprises.

[132] The three largest were the construction of the Central Azucarera of Jiboa, the expansion of the Fertica plant and the installation of a cement plant in Matapán. The huge sugar refinery in Jiboa will cost 112 million colones and will be completed in 1977; it will enable sugar to be produced from sugar-cane which is currently transformed into panela. The Fertica plant will produce ammonia and sulphuric acid, while the Matapán plant will help to solve the problem of the insufficient supply of cement.

of private capital was even greater and therefore net foreign currency reserves rose.

(a) *External trade*

(i) *Exports.* In 1975 the value of exports of goods and services rose slightly more than 12 per cent, a much lower figure than in the previous year (30 per cent) or than the average rate of growth of exports during the period 1972-1973 (22 per cent).

This much lower growth of exports was partly due to the smaller rise in the unit value of exports −11 per cent in 1975 compared to 15 per cent in the previous year. However, it was primarily the result of the total stagnation in 1975 of the volume of exports of goods (see table 164).

Table 164

EL SALVADOR: VARIATION IN THE TERMS OF TRADE AND IN THE VALUE, VOLUME AND UNIT VALUE OF EXPORTS AND IMPORTS OF GOODS

(Annual growth rates)

	1971	*1972*	*1973*	*1974*	*1975*
Exports of goods					
Value	3.0	24.2	18.9	31.4	11.0
Volume	7.3	13.8	−4.1	13.9	0.2
Unit value	−4.0	9.2	24.0	15.4	10.7
Imports of goods					
Value	15.4	11.0	36.1	50.1	11.2
Volume	16.4	4.8	19.1	15.4	−0.9
Unit value	−0.9	6.0	14.3	30.0	12.2
Terms of trade	−3.1	3.0	8.5	−11.3	−1.3

Source: CEPAL, on the basis of official data.

From the point of view of the structure of exports, the lower growth rate was entirely attributable to the sharp fall in non-traditional exports. In addition, if the destination of external sales is taken into account, the lost of dynamism of the export sector may be explained by the large drop in the growth rates of exports to the Central American Common Market.

As may be seen from table 165, the value of non-traditional exports, which had more than doubled between 1970 and 1974, dropped in 1975 by about 27 per cent. Its share of total sales abroad thus fell from about 40 per cent in 1974 to less than 26 per cent in 1975.

To a large extent this sudden reversal of the rising trend for new exports was linked to the equally strong change in the trend of sales to the Central American countries in 1975. The value of these sales also doubled between 1970 and 1974, and they grew by almost 32 per cent in 1974. On the other hand, in 1975 exports to the Central American Common Market did not grow at all, and their share of the total value of exports dropped from over 32 per cent in 1974 to under 29 per cent in 1975 (see table 165).

Although there was a variety of causes of this marked decline in the Central American demand for goods and services from El Salvador, most of them were linked to the general crisis of the Central American Common Market in 1975. They include the transmission of the dumping effects of the international economic situation (with its consequent limiting effect on the purchasing power of the countries of Central America), the restrictions imposed on free trade between the

Table 165

EL SALVADOR: VALUE, BREAKDOWN AND DESTINATION OF EXPORTS OF GOODS (FOB)

	Millions of dollars				*Percentage breakdown*		*Annual growth rates*		
	1970	*1973*	*1974*	*1975* [a]	*1970*	*1975*	*1971–1973*	*1974*	*1975*
Main export products	*151.0*	*222.6*	*279.8*	*387.9*	*63.9*	*74.2*	*13.8*	*25.7*	*38.6*
Coffee	120.8	159.4	192.1	225.4	51.1	43.1	9.7	20.5	17.3
Sugar	7.0	17.8	39.6	81.7	3.0	15.6	35.5	122.5	106.3
Cotton	23.2	36.4	48.1	80.8	9.8	15.5	16.2	32.1	68.0
Others exports	*85.2*	*147.0*	*183.3*	*134.7*	*36.1*	*25.8*	*19.9*	*24.7*	*– 26.5*
Total	*236.2*	*360.6*	*463.1*	*522.6*	*100.0*	*100.0*	*15.1*	*28.4*	*12.8*
To the Central American Common Market	73.6	113.2	149.2	150.0	31.2	28.7	15.4	31.8	0.5
To the rest of the world	162.6	247.4	313.9	372.6	68.8	71.3	15.0	26.9	18.7

Source: Banco Central de Reserva of El Salvador, *Revista Mensual.*
[a] Estimates.

member States of the Central American Common Market,[133] and the rise in transport costs.

Due to these factors and in the face of the uncertain outlook for the process of Central American economic integration, it became necessary to plan a new strategy designed to encourage exports to third countries through the more intensive use of the installed capacity of the industrial sector and the use of the abundant supply of labour available in El Salvador. To this end, fiscal incentives were established by the Ley de Fomento de Exportaciones (legislation to encourage exports) and the El Salvador Foreign Trade Institute and the Fund for the Development of Long-Term Investment were created in the Central Bank.

In contrast with the decline in non-traditional exports, the sales of the main export products grew in 1975 by over 40 per cent, thus amply exceeding their rate of growth in previous years (see table 165).

The highest growth was in sugar exports. These more than doubled for the second year running because of the advantageous international prices (which in 1975 were almost double the price of mid-1974) and a small rise of 4 per cent in volume.

The upturn in cotton prices beginning in July 1975 –after they had been at low levels during the first half of the year– enabled the exportable production from the 1974/1975 cycle to be placed and the sales for the productive cycle 1975/1976 to begin with favourable prospects. The value of cotton exports rose by 68 per cent, but unlike in the case of sugar this increment was mainly due to the very large growth of the volume of sales (62 per cent) and to a much lesser extent the rise in prices (4 per cent).

Finally, there was also a large rise in coffee sales –a product which has traditionally generated half the export earnings of El Salvador. During 1975 the value of coffee sales rose by 17 per cent, through a 12 per cent rise in the average price and a 5 per cent growth of volume.

(ii) *Imports.* In 1975 the value of imports of goods and services rose 9 per cent, which was not enough to offset the rise of over 12 per cent in their unit value. As a result, the volume of total imports –which had grown in the two previous years at an average annual rate of over 17 per cent– dropped by about 3 per cent in 1975.

This sharp downturn in the rising trend of

[133] One of these was that some of the industrial branches in which El Salvador has greater comparative advantages were declared "sensitive".

imports was mainly due to the great drop in the purchase of consumption goods. The value of such purchases fell by 9 per cent in 1975, after an exceptional growth of 48 per cent in the previuos year (see table 166). In view of the rise in world prices, the value of imports of consumption goods must have been about one-fifth lower in 1975 than in 1974.

Table 166

EL SAVLADOR: VALUE AND BREAKDOWN OF IMPORTS OF GOODS (CIF)

	Millions of dollars				*Percentage breakdown*		*Annual growth rates*		
	1970	*1973*	*1974*	*1975* [a]	*1970*	*1974*	*1971–1973*	*1974*	*1975* [a]
Consumer goods	*105.4*	*160.3*	*236.5*	*215.0*	*49.3*	*42.0*	*15.0*	*47.5*	*– 9.1*
Intermediate goods	*60.4*	*125.7*	*215.5*	*250.6*	*28.3*	*38.2*	*27.6*	*71.4*	*16.3*
Petroleum and fuels	10.5	31.8	52.4	59.8	4.9	9.3	44.6	64.8	14.2
Others	49.9	93.9	163.1	190.8	23.4	28.9	23.4	73.7	17.0
Capital goods	*47.8*	*85.0*	*111.6*	*165.7*	*22.4*	*19.8*	*21.2*	*31.3*	*48.5*
Total	*213.6*	*371.0*	*563.6*	*631.3*	*100.0*	*100.0*	*20.1*	*51.9*	*12.0*

Source: Banco Central de Reserva of El Salvador, *Revista Mensual*, September 1975.
[a] Estimates.

The growth rate of imports of intermediate goods also fell sharply from over 70 per cent in 1974 to 16 per cent in 1975. This much smaller growth was partly due to the relative stability of oil prices in 1975, after their record rise in the previous year. It was also due, however, to the lower growth of the demand for inputs caused by the lower rate of growth in the manufacturing sector and also the running down of the high stocks of imported intermediate goods accumulated in 1974. Finally, the slow growth of real imports of intermediate products was also influenced by the drop in fertilizer imports.

On the other hand, imports of capital goods grew strongly. Their value rose by almost 50 per cent in 1975, surpassing the considerable growth of previous years (see table 166). This growth was fundamentally due to the large purchases of machinery and equipment made for the geothermic plant of Ahuachapán and the hydro-electric station of Cerrón Grande.

(b) *The balance of payments*

In 1975 there was a large current account deficit for the second consecutive year. The average deficit in the three-year period 1971-1973 was 17 million dollars, which leapt in 1974 to the record figure of 128 million dollars and rose again slightly, by 3 million dollars, in 1975.

However, the growth of capital inflows was much greater. The gross inflow of official and private capital more than doubled in 1975 over 1974. It was therefore possible not only to cover the current account deficit but also to increase gold and foreign exchange reserves by 35 million dollars (see table 167).

4. *Price movements*

In 1975 inflation weakened considerably. Wholesale prices rose by a little under 8 per cent, a

Table 167

EL SALVADOR: BALANCE OF PAYMENTS
(Millions of dollars)

	1970	1972	1973	1974	1975 [a]
Current account					
Exports of goods and services	257	337	399	521	585
Goods FOB	236	302	359	471	523
Services	21	35	41	49	62
Transport	2	9	11	12	16
Travel	8	11	11	16	19
Imports of goods and services	254	325	444	643	702
Goods FOB	195	250	340	510	567
Services	59	75	104	134	135
Transport	26	36	42	61	64
Travel	20	21	36	37	35
Net payments of profits and interest on foreign capital	– 8	– 12	– 13	– 22	– 34
Profits	– 6	– 7	– 10	– 11	– 17
Interest	– 2	– 5	– 4	– 11	– 17
Net private transfer payments	12	10	12	17	19
Balance on current account	7	10	– 45	– 128	– 131
Capital account					
Net external financing (a+b+c+d+e)	– 7	– 10	45	128	131
(a) Net external non-compensatory capital	15	13	52	77	162 [b]
Direct investment	4	7	8	10	...
Long- and medium-term loans	9	30	35	84	71 [c]
Amortization payments	– 7	– 14	– 20	– 20	...
Short-term liabilities (net)	7	– 12	29	2	...
Official transfer payments	2	2	1	1	2
(b) Domestic non-compensatory capital or assets	– 6	– 11	– 10	– 10	...
(c) Errors and omissions	– 7	2	– 1	15	–
(d) Allocation of SDRs	4	4	–	–	–
(e) Net compensatory financing (minus sign signifies an increase)	– 13	– 18	4	46	– 31
Balance-of-payments loans, trade arrears, IMF loans, an other liabilities of the monetary authorities	1	13	2	87	4
Amortization payments	– 12	– 14	– 21	– 5	–
Foreign exchange reserves (minus sign signifies an increase)	1	– 15	23	– 36	– 34
Gold reserves (minus sign signifies an increase)	– 3	–	–	–	–
SDRs (minus sign signifies an increase)	–	– 2	–	–	– 1

Source: International Monetary Fund, *Balance of Payments Yearbook*, vol. 27.

[a] Estimates on the basis of official statistics.

[b] Includes (b) and (c).

[c] Includes only net official loans.

much lower rate than the 19 per cent and 31 per cent recorded in 1973 and 1974 respectively. Naturally, the fall in the rate at which prices rose was even more marked in the case of the fuels and energy sub-index, which rose in 1975 by less than 3 per cent, after almost doubling in 1974 because of the higher oil prices. The rises in the prices of industrial goods and building materials were also much lower in 1975 than in the two previous years. On the other hand, the prices of agricultural products rose in 1975 almost as much as in the previous year; the rise was more than twice that of the general index (see table 168).

Table 168

EL SALVADOR: EVOLUTION OF DOMESTIC PRICES

	Annual rates of increase				
	1971	*1972*	*1973*	*1974*	*1975*
Consumer price index	*0.3*	*1.6*	*6.4*	*16.9*	*19.2*
Food	0.5	0.8	7.5	17.3	17.0
Wholesale price index [a]	*0.9*	*4.0*	*19.0*	*30.6*	*7.7* [b]
Agricultural products	0.8	14.0	3.9	17.6	16.2 [b]
Manufactures	3.3	13.3	13.3	39.9	4.8 [b]
Building materials	0.3	−0.8	20.1	32.3	6.1 [b]
Fuels and energy	3.8	1.2	23.9	94.8	2.8 [b]

Sources: For wholesale prices, Banco Central de Reserva of El Salvador; for consumer prices, Dirección General de Estadística y Censos, Consejo Nacional de Planificación y Coordinación Económica, *Indicadores Económicos y Sociales*, and United Nations, *Monthly Bulletin of Statistics*, July 1976.

[a] Excluding coffee.

[b] Average January–November.

The consumer price index rose by an average of 19 per cent, which is somewhat higher than the rate in 1974. However, consumer prices became more stable in the second half of the year and, therefore, the December to December variation was considerably lower in 1975 (15 per cent) than in 1974 (21 per cent).

As in other Central American countries, this weakening of inflation was linked to the attenuation of the pressures from abroad on the price level. The unit value of imports rose in 1975 by a little over 12 per cent compared with 30 per cent in the previous year, and thus the impact of imported inflation was smaller. It was also mitigated by the much lower rise in 1975 of the unit value of exports compared with the rise in 1974 (see table 164).

However, the lower rate of inflation was also due to the more effective control which the monetary authorities managed to exercise in 1975 on the growth of the money supply. Between November 1974 and November 1975, the money supply grew by under 7 per cent, which is equivalent to one-third the rate in 1974 and less than half the rate over the three-year period 1971-1973 (see table 169).

This slower monetary expansion occurred despite the very large growth in the net international reserves of the banking system and is mainly explained by the moderate growth of domestic credit and the very sharp rise in quasi-money.

Domestic credit grew by a little over 7 per cent, slightly lower than the rate of increase of wholesale prices and much lower than that of consumer prices. It was also much lower than the rate of almost 30 per cent in the previous year (see table 169).

Table 169

EL SALVADOR: MONETARY POSITION
(Millions of colones)

	Balance at end of			*Balance in November*		*Annual growth rates*		
	1970	*1973*	*1974*	*1974*	*1975*	*1971–1973*	*1974*	*1975*[a]
1. *Money* (2 – 3)	*295*	*466*	*557*	*523*	*557*	*16.4*	*19.4*	*6.7*
Currency outside banks	136	201	241	209	213	13.9	19.6	1.8
Demand deposits	159	265	316	314	344	18.4	19.3	9.9
2. *Factors of expansion*	*827*	*1 214*	*1 597*	*1 512*	*1 718*	*13.6*	*31.5*	*13.6*
Foreign assets (net)	131	132	205	150	257	0.2	55.4	71.3
Domestic credit	696	1 082	1 392	1 362	1 461	15.8	28.6	7.3
Claims on government (net)	30	23	– 5	2	20	– 8.8	–	769.6
Claims on official entities	49	60	197	193	187	7.6	225.7	– 3.2
Claims on private sector	617	999	1 200	1 167	1 254	17.4	20.2	7.5
3. *Factors of absorption*	*532*	*748*	*1 040*	*989*	*1 161*	*12.0*	*39.1*	*17.3*
Quasi-money (savings and time deposits)	300	492	560	546	692	17.8	13.9	26.7
Bonds	113	121	135	119	117	2.3	11.2	– 1.9
Long-term foreign borrowing	71	77	280	243	254	2.9	263.6	4.6
Other items (net)	48	58	65	81	98	6.7	13.1	20.4

Source: Banco Central de Reserva of El Salvador.
[a] Over the same period of the previous year.

This drop in the rate of growth of credit was basically a reflection of the growth of less than 8 per cent in 1975 of the financing provided by banks to the private sector, compared with 30 per cent in the previous year. This drop was in turn caused by a reduction of 14 per cent in the amount of loans granted to trade – the main user of bank credit – and a growth of under 6 per cent in financing for agriculture, whose traditional export sectors (coffee and cotton) resorted increasingly to foreign credit to finance their operations.

In contrast with monetary policy, fiscal policy was slightly expansionist. Total central government expenditure rose by one-fifth, exceeding the rise in current income in absolute and in relative terms. The fiscal deficit thus rose sharply for the second consecutive year, representing in 1975 more than one-tenth of total expenditure as compared with a little over 5 per cent in 1973 (see table 170).

Due to the rapid rise in capital expenditure, the proportion of it financed from current account savings also dropped for the second year running, and stood at only 63 per cent in contrast with 80 per cent two years earlier.

This occurred despite the fact that current account savings rose by 14 per cent, since the increment in ordinary income was somewhat higher than that of current expenditure. Tax income rose by almost one-fifth, as a result of the strong growth of direct taxes and the rise in indirect domestic taxes (see table 170).

The growth of the former was partly caused by the considerable improvement made in the control and taxation systems and partly by inflation, which pushed wages and salaries into higher tax brackets. In turn, the rise in the resources obtained from indirect tax was caused by the higher taxes on the consumption of cigarettes and alcoholic beverages, and the doubling in 1975 of income from the selective tax on consumption imposed in 1974.

Table 170

EL SALVADOR: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of colones				Annual growth rates		
	1971	*1973*	*1974*	*1975*[a]	*1972–1973*	*1974*	*1975*[a]
1. *Current income*	*300*	*414*	*485*	*572*	*17.4*	*17.2*	*17.9*
Tax revenue	280	376	453	536	15.6	20.5	18.2
Direct	70	93	110	150	15.6	17.2	36.7
Import duties	68	79	93	98	7.1	18.6	5.5
Export duties	38	76	93	102	41.0	22.5	8.8
Indirect	104	128	157	186	11.0	23.0	18.3
Non-tax revenue	20	38	32	36	39.1	– 15.6	13.8
2. *Current expenditure*	*256*	*320*	*384*	*457*	*11.8*	*20.0*	*18.8*
3. *Saving on current account (1 – 2)*	*44*	*94*	*101*	*115*	*46.6*	*7.8*	*14.2*
4. *Capital expenditure*	*61*	*117*	*148*	*182*	*38.3*	*26.7*	*23.1*
5. *Total expenditure*	*317*	*437*	*532*	*639*	*17.3*	*21.8*	*20.0*
6. *Fiscal deficit (or surplus)* (3 – 4)	*– 17*	*– 23*	*– 47*	*– 67*	*14.8*	*103.0*	*42.3*
7. *Financing of deficit*	*17*	*23*	*47*	*67*	*14.8*	*103.0*	*42.3*
Domestic financing	10	– 16	– 15	30	–	–	–
External financing	7	39	62	37	123.1	57.8	– 40.5

Source: Banco Central de Reserva of El Salvador.
[a] Estimates.

On the other hand, income from taxes, on exports and especially imports rose very slowly (see table 170). The yield from taxes on imports rose less than the current value of imports, which is explained by the change which took place in their structure in favour of capital goods, the customs dues on which are lower than those on other imported goods. In turn, the moderate growth of tax income from exports may be explained by the persistence of relatively low prices for the main exports during the greater part of the year. From this point of view, the rise in coffee prices as of August could not be exploited to the full because of the sale contracts entered into previously. However, the tax on sugar exports increased the income from such taxes.[134]

[134] In November 1974 legislation was passed imposing a progressive tax on sugar exports, starting with a price of 10 dollars per quintal of 100 pounds.

GRENADA[135]

1. *Introduction*

Grenada is the second last country of the hemisphere to obtain its independence, so that it now has to solve the problems confronting small countries to be economically viable in a world of increasing economic and social complexity.

In addition to being newly independent (since February 1974), Grenada faces a number of problems, a knowledge of which is important in

[135] Values are expressed in East Caribbean dollars (£ 1.0 = EC$ 4.80).

order to understand its recent economic trends. Some of these problems are related to its endowment of resources and others are of an institutional or structural nature. Grenada is a small, very hilly country, with a small population and few basic natural resources. Its total area is 133 square miles, including the Grenadine islands of Carriacou and Petit Martinique. Living in this small space are 100,000 persons, so that while the population is small in absolute terms, the population density is relatively high. Added to this the island is very hilly, approximately 50 per cent of the total area being more than 150 metres above sea level and relatively steep. Moreover, poor conservation practices have resulted in severe erosion. All this means that there are serious impediments to the development of agriculture.

Another limitation is the absence of known deposits of minerals in commercial quantities. Marine exploration for crude petroleum is, however, in progress in the coastal area.

There are a number of problems which may be classified as structural or institutional. Most prominent among these is the openness of the economy as reflected in the relatively high import and export coefficients (60 per cent and 22 per cent, respectively). This situation derives partly from historical patterns and partly from the above-mentioned lack of resources. Other factors are the under-developed physical and institutional infrastructure, unemployment and under-employment, the existence of ideal or under-utilized land and the general socio-political situation.

There is still a relatively large proportion of under-utilized land that is divided up among large numbers of smallholders, the hilly nature of which makes access and cultivation with modern agricultural machinery difficult. Except for the major export crops, marketing is not well organized. The undeveloped infrastructure extends not only to roads, but to institutions, communications and transport systems as well. According to 1970 Population Census data the level of unemployment was at about 10 per cent in that year, but it is almost certainly much higher now.

The general socio-political situation has been unstable especially in the year preceding independence. This instability has undoubtedly contributed to the recent stagnation of economic activity.

Concurrently, all these factors have had more specific effects. The small tax base and the stagnating levels of income plus inflation have created problems for government financing of much needed expenditure, both current and capital.

The flood damage caused by torrential rains in November 1975 further aggravated the economic situation. Agriculture sustained major damage of both a short- and a long-term nature. In addition, roads, bridges, water supply and other infrastructure as well as productive facilities were destroyed.

In view of the foregoing considerations, the short-term prospects are not too bright and the country's recovery will depend to a large extent on the amount of external assistance forthcoming. However, several international and regional institutions responded to the call for assistance after the floods, and the resulting rehabilitation and reconstruction activities should provide a certain boost to the economy.

2. *Recent economic trends*

Considering the years 1970 to 1975 as a whole, the gross domestic product in current values is estimated to have increased annually in absolute terms, although no official data are available on this point and the assessment of economic trends is based on partial data and sectoral indicators (see table 171).

In the period 1970-1973, annual increases in the gross domestic product at current prices averaged 6 per cent per annum, which was followed by a levelling off in 1974 and a mild recovery in 1975. This slow growth reflects, for the most part, the movements in earnings from the major agricultural exports, and also the social problems that arose especially in the second half of the period. Available volume indicators suggest that there was hardly any real growth during the period.

While international developments such as inflation contributed to the economic problems of 1973-1974, the major influence appears to have been the social unrest which assumed great importance in 1973 and reached a peak in 1974. This is borne out by various indicators, such as the decline in the volume of production, the decreases in imports, in revenue from customs duties and in loans granted by banks, the build-up of foreign assets by the banking system, etc. In 1975, simultaneously with the easing of social tensions, these indicators reversed the trend of the immediately preceding period.

Table 171

GRENADA: GROSS DOMESTIC PRODUCT AT CURRENT FACTOR COST

(Millions of East Caribbean dollars and percentages)

Sector	*1970* [a]		*1971* [a]		*1972* [a]		*1973* [a]		*1974* [a]	
	Millions of EC$	*Percentages*	*Millions of EC$*	*Percentages*	*Millions of EC$*	*Percentages*	*Millions of EC$*	*Percentages*	*Millions of EC$*	*Percentages*
Export agriculture	9.0	16.0	7.7	12.9	8.2	13.1	11.2	16.8	13.7	(20.4)
Other agriculture, livestock production and fishing	5.5	9.8	5.6	9.5	5.7	9.2	5.9	8.8	...	...
Mining and manufacturing	2.1 [b]	3.7	2.3 [b]	3.8	2.6 [b]	4.1	3.2 [b]	4.7	...	...
Construction	6.0	10.6	6.1	10.2	6.1	9.7	5.9	8.8	...	...
Commerce	10.6	18.9	11.0	18.5	12.7	20.2	12.6	18.9	...	...
Government	10.2	18.2	12.8	21.5	13.3	21.2	13.7	20.5	14.2	21.2
Other	12.8	22.8	14.0	23.6	14.0	22.4	14.4	21.5	...	...
Total	*56.2*	*100.0*	*59.6*	*100.0*	*62.7*	*100.0*	*66.9*	*100.0*	*67.1*	*100.0*

Sources: CEPAL estimates based mainly on *Economic Survey and Projections* (Grenada), 1967; British Development Division in the Caribbean, Barbados; and data provided by Grenada.

[a] Preliminary figures.

[b] Revised figures.

3. *Sectoral developments*

The main sectors of the economy are agriculture, government and construction, agriculture being the most important in terms of employment and value added of output. Even from the more limited standpoint of foreign exchange earnings, agriculture has surpassed tourism in the last two years. Moreover, agriculture and tourism strongly influence the performance of the government sector, construction and services. The government sector in its turn, has a decisive influence on other sectors, particularly construction. Manufacturing activity is relatively under-developed and consists mainly of the production of a few items such as food and beverages.

(a) *Agriculture*

Historically, Grenada has been predominantly an agricultural economy. The development of agriculture has followed a pattern common to other countries of the Caribbean, in that it was organized mainly to supply raw materials to industrialized countries, with the production of some crops for domestic consumption as a secondary activity. Consequently, export agriculture provides employment and income for a large part of the labour force. The domestic agriculture sub-sector is still, to a large extent, really subsistence agriculture producing a wide range of fruit, vegetables and root crops. It should be noted, however, that there is an export trade with nearby Caribbean islands in these "domestic" crops.

The livestock and fishing sub-sectors are quite small. Cattle rearing is limited by the hilly terrain, while fishing is still of the small-boat type, restricted to coastal waters.

The agricultural product at factor cost during the period 1970-1972 is estimated to have averaged about 23 per cent of the total GDP (see table 171). Since then, the available data indicate that the current value of agricultural output has been increasing under the impact of higher prices, particularly for export commodities but also for locally consumed foods crops.

Production figures for exports commodities have fluctuated widely. For example, output of cocoa beans has declined annually since 1970, while banana production showed signs of recovery only in 1975 following four successive years of decline. It may also be noted that output of both nutmegs and mace dropped during 1975 after their recovery in 1973 and 1974 (see table 172).

Indications are that the volume of output of domestic agriculture increased considerably in 1974 and 1975, while the number of cattle slaughtered declined. Prices also were probably higher, resulting in a substantial rise in the contribution of this sub-sector to the total gross domestic product.

(b) *Manufacturing*

Manufacturing activity was confined mainly to the production of sugar, aerated water, alcoholic beverages, edible oil and oil products, and essential

Table 172

GRENADA: PRODUCTION OF PRINCIPAL AGRICULTURAL COMMODITIES

	Unit	*1970*	*1971*	*1972* [a]	*1973* [a]	*1974* [a]	*1975* [a]
Nutmegs	Thousands of cwt [b]	37.1	35.3	32.5	32.6	38.9	35.7
Mace	Thousands of cwt [b]	5.0	4.8	4.2	4.3	5.6	2.7
Cocoa beans	Millions of pounds	6.0	5.8	5.5 [c]	5.5	5.3 [c]	5.3
Bananas	Thousands of tons	18.8	14.0	12.5 [c]	11.0	8.8 [c]	13.4
Copra	Thousands of tons	0.6	0.7	...	...	0.1	0.2
Sugar cane	Thousands of tons	10.0	7.7	5.7 [c]	4.8	3.9	6.0

Sources: Data supplied by the Statistical Unit, Ministry of Agriculture, Forestry and Fisheries and the Statistical Office, Grenada.

[a] Provisional figures.

[b] 1 hundredweight = 112 lb or 50.8 kg.

[c] Estimates.

oils. Products such as sugar, cotton lint and essential oils have decreased in importance since the early 1970s and only a few new products have emerged to replace them. Consequently, there appears to have been little real growtn in manufacturing output in recent years. Unofficial estimates from different sources indicate that this sector's share has remained close to 4 per cent of the total GDP. There also appears to have been some increase in the gross domestic product in current values in 1974 and 1975.

Although available data on manufacturing output show a general improvement for 1975 compared with 1974, production levels in 1975 were still below the levels of earlier years. Output of beer, malt, coconut meal and cigarettes, which had decreased significantly in 1974, showed strong signs of recovery in 1975 (see table 173).

Table 173

GRENADA: OUTPUT OF SELECTED INDUSTRIAL PRODUCTS

Product	*Unit*	*1970*	*1971*	*1972*	*1973*	*1974*	*1975*
Sugar	Tons	1 002	774	595	–	–	–
Rum	Thousands of proof gallons	105	93	80	57	84	92
Beer	Thousands of gallons	98	46	71	98	47	94
Cigarettes	Thousands of cartons	149	143	161	187	161	181
Malt	Thousands of gallons	17	9	9	9	6	19
Edible oil	Thousands of gallons	102	95	106	90	26	32
Cotton	Thousands of pounds	47	7	–	25	–	29
Coconut meal	Thousands of pounds	392	351	408	325	89	167
Laundry soap	Thousands of pounds	69	77	189	174	45	34

Source: Data supplied by the Statistical Office, Grenada.

(c) *Construction*

The construction sector is important because of its capacity for utilizing manpower and for generating ancillary activities. The industry, which relies heavily on imported inputs, has traditionally been stimulated by government construction expenditure and the building of tourist accommodation. Various unofficial estimates of the gross domestic product which have been computed for this sector show different figures for the current values. Up to 1970 the lowest of these estimates indicated a sectoral contribution of about 11 per cent of the total GDP (see table 171).

Construction in both the private and the public sector has declined since 1971. Large construction projects, especially in the hotel industry, reached completion in the period 1971-1972, and the level of public sector construction also stagnated around this time. The rapidly rising cost of building materials towards the end of 1973 and in 1974 and the general decline in economic activity also adversely affected this sector's performance.

In 1975, there were some signs of recovery. Public construction activities picked up again, particularly with the establishment of the Grenada Housing Authority in March 1975. This organization has been assigned the task of providing 4,000 new low-cost dwellings under a five-year programme to alleviate the country's acute housing shortage. By December 1975, the Authority had built 45 dwellings and was planning to complete a further 520 units by the end of 1976.

(d) *Tourism*

Measured in terms of number of visitors and accommodation the tourist industry is relatively small. Just over 600 beds were available in 1967, but as a result of the rapid expansion of this industry in 1968 and 1969 hotel accommodation had doubled by the end of the latter year, and continued to grow up to 1972 when there were about 1,800 beds available; since then it has remained stable.

Since the mid-1960s the balance has shifted to greater numbers of cruise-ship visitors[136] than stop-over tourists. However, it is the stop-over visitors who provide the bulk of tourism revenue. Another characteristic of Grenada's tourism is the predominance of North Americans in the total number of visitors. The United States alone frequently accounts for one-third or more of the total stop-over visitors. The number of West Indian visitors, however, has been growing and is now almost at the same level as United States visitors.

Unofficial estimates in recent years put the number of persons directly employed in the tourist sector at around 1,200 to 1,400. Official estimates of tourism's contribution to the gross domestic product are not available, but it was probably around 6 per cent of the total product in 1972 and 1973.

Available data indicate stagnation in the tourism sector after 1972. Although the total number of visitors increased by over 25 per cent in 1973, the rise was due entirely to the increase in cruise-ship visitors, since stop-over visitors declined by 12 per cent that year. In 1974 the number of visitors in both categories fell sharply. The tourism picture showed some improvement in 1975 as the number of stop-over visitors is estimated to have increased by 43 per cent and cruise-ship passengers by 48 per cent; however, visitors in both categories were still far below the levels of earlier years (see table 174).

[136] They sleep on the cruise ship.

Table 174

GRENADA: TOURIST STATISTICS

	1970	*1972*	*1973*	*1974*	*1975*
Total number of visitors					
(thousands)	*71.7*	*132.0*	*165.8*	*72.4*	*106.5*
Stop-over visitors	30.4	37.9	33.5	14.7	21.0
Cruise-ship visitors [a]	41.3	94.1	132.3	57.6	85.5
Number of cruise ship calls	125	183	259	117	153
Number of yacht calls	1 150	1 122	1 394	968	1 258
Number of hotel and guest-house beds	1 600	1 800	1 800	1 800	1 800

Source: Data supplied by the Grenada Tourist Board.
[a] The sleep on the cruise ship.

The poor performance of tourism was due to both domestic and external factors. The social problems in Grenada in 1973 and 1974 adversely affected the tourist trade. There were also air transport problems, as the only scheduled airline service was on the verge of closing down and service was severely disrupted for some time. Furthermore, at the peak of the disturbances, work on the construction of the deep-water harbour was suspended. Lastly the economic recession in the United States, Canada and other developed countries also had unfavourable repercussions on Grenada's tourism.

(e) *Government*

The government sector plays a major role in Grenada's economy, and in recent years its contribution to the total gross domestic product is estimated at around 20 per cent. Estimates of government GDP at current factor cost in the years 1971-1974 show relatively little improvement, but provisional estimates indicate a growth of around 12 per cent in 1975.

Total government current income, which had averaged about 19 million East Caribbean dollars in the years 1970-1973, declined significantly to about 15 million in 1974 (see table 175). This decrease was due principally to the lower economic activity during this period. Current income rose again to 19 million in 1975, however, mainly on account of increased revenue from customs duties.

It should be noted that although the sources of

Table 175

GRENADA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Thousands of EC$				Annual growth rates		
	1970	*1973*	*1974*	*1975* [a]	*1971–1973*	*1974*	*1975*
1. *Current income*	*18 977*	*18 118*	*15 262*	*18 800*	*– 1.5*	*– 15.8*	*23.2*
Tax revenue	7 499	7 109	5 621	7 974	– 1.8	– 20.9	41.9
Non-tax revenue	11 478	11 009	10 641	10 826	– 1.4	– 3.3	1.7
2. *Current expenditure*	*20 166*	*20 082*	*20 223*	*24 003*	*– 0.1*	*0.7*	*18.7*
3. *Saving on current account* (1 – 2)	*– 1 189*	*– 1 964*	*– 4 961*	*– 5 364*	*(18.2)*	*(152.6)*	*(8.1)*
4. *Capital expenditure*	*3 071*	*4 515*	*3 468*	*1 837*	*13.7*	*– 23.2*	*– 47.0*
5. *Total expenditure*	*23 237*	*24 597*	*23 691*	*25 840*	*1.9*	*– 3.7*	*9.1*
6. *Fiscal deficit (or surplus)* (3 – 4)	*– 4 260*	*– 6 479*	*– 8 429*	*– 7 201*	*(15.0)*	*(30.1)*	*(–14.6)*

Source: Ministry of Finance, External Trade and Industry, Grenada.
[a] Preliminary figures.

current revenue are fairly varied, customs duties on imports and exports account for a large percentage. Import duties averaged almost 34 per cent of total current revenue in 1970-1973, but their contribution declined to 25 per cent and 26 per cent in 1974 and 1975, respectively. The lower level of import duties since 1973 was partly a result of the drop in imports –especially in 1974– and the rise in the percentage of imports from the countries of the Caribbean Common Market (CARICOM) most of which enter duty-free.

Total government expenditure has shown only a minimal expansion over the past five years, indicating a lower level of real activity since prices and wages have increased during the period. In 1975 total expenditure rose 9 per cent above 1974. Current expenditure, accounting for 93 per cent of the total, increased by 19 per cent, but this was offset by the sharp decline in capital expenditure.

Capital expenditure fluctuates from year to year with the number of projects initiated, which in turn depends largely on the availability of foreign assistance. Some projects have been seriously interrupted in the last two years, because the large and growing deficit on current account has absorbed much of the financing that could normally have been allocated to them (see table 175).

In terms of areas of economic activity it is a noteworthy fact that government expenditure on agriculture has been relatively low, social services and administration being the two major areas of expenditure. Construction and allied activities have also accounted for a sizable share of the total, but expenditure in this category has declined drastically in the last two years.

Given the levels of current revenue and total expenditure, there is always a deficit that must be financed from non-tax sources. These deficits are financed mainly by grants (from the United Kingdom and Canada), loans and advances from commercial banks and, more recently, the issue of treasury bills and debentures.

4. *The external sector*

Historically, the economy has always depended heavily on export earnings from some major agricultural commodities. In addition, in view of the lack of mineral resources and the scant development of manufacturing, Grenada relies greatly on imports of foodstuffs, fuels and manufactured goods.

Import and export coefficients are fairly high. During the period 1970-1972 total imports on average were equivalent to nearly 75 per cent of the gross domestic product, but the proportion has since declined to approximately 60 per cent. The ratio for exports was 22 per cent in 1970 and slightly higher in 1973, the last year for which official data are available.

The total value of exports has increased annually since 1970 (see table 176). The value of imports, after increasing in 1971, declined up to 1974, but preliminary figures indicate a significant increase (around 39 per cent) in 1975. In absolute terms, imports in 1975 are estimated at about 53 million East Caribbean dollars, compared with nearly 45 million in 1970. Exports are estimated at about 27 million East Caribbean dollars in 1975, compared with 12 million in 1970. The merchandise trade deficit in 1975 is estimated at 26 million and with the exception of 1974, it is the smallest trade deficit registered since 1970. It is worth noting that during this period the visible trade deficit was always equal to or higher than the level of exports.

Table 176

GRENADA: EXPORTS, IMPORTS AND VISIBLE TRADE BALANCE
(Millions of East Caribbean dollars)

Year	*Total Exports*	*Imports*	*Visible trade balance*
1970	12.1	44.6	– 32.5
1971	10.2	46.1	– 35.9
1972	10.5	43.8	– 33.3
1973	14.5	42.5	– 28.0
1974 [a]	19.4	38.1	– 18.7
1975 [a]	26.9	52.8	– 25.9

Source: Data supplied by the Statistical Office, Grenada.
[a] Provisional figures.

Table 177

GRENADA: SELECTED EXPORTS

Commodity	*1970*		*1973*		*1974*		*1975*	
	Quantity a	*Value* b	*Quantity* a	*Value* b	*Quantity* a	*Value* b	*Quantity* a	*Value* b
Nutmegs	2 992	3 003	3 178	5 198	2 310	6 028	4 490	9 943
Mace	421	631	568	1 702	318	1 408	356	1 424
Bananas	42 177	2 505	22 743	1 967	18 619	3 277	28 945	6 526
Cocoa	6 204	4 326	6 022	3 574	5 351	5 423	4 794	6 763
Lime juice	1 700	129	24	3	16	17	404	74
Cotton	47	26	25	16	–	–	29	27
Cloves	–	–	14	45	52	205	6	29
Cinnamon	–	–	14	28	25	63	13	33
Lime oil	3	39	1	8	–	–	–	4
Nutmeg oil	–	–	–	–	–	–	3	81
Other spices	61	162	–	–	3	6	9	19

Source: Data supplied by the Statistical Office, Grenada.
[a] Thousands of pounds.
[b] Thousands of East Caribbean dollars.

Exports trade is conducted mainly in four agricultural commodities, bananas, cocoa, nutmegs and mace. These crops accounted for an average of 95 per cent of total exports from 1970 to 1972, but their share has declined slightly in recent years.

During the last three years the value of exports increased substantially, principally as a result of higher export prices, although there were slight increases in the volume of exports of some commodities. For example, the average unit value of banana and cocoa exports increased

Table 178

GRENADA: UNIT VALUE OF SELECTED EXPORTS
(East Caribbean dollars per pound)

Commodity	*1970*	*1971*	*1972*	*1973*	*1974*	*1975*
Bananas	0.059	0.057	0.053	0.087	0.176	0.226
Nutmegs	1.01	0.85	0.80	1.64	2.61	2.21
Mace	1.50	1.27	0.96	3.00	4.43	4.00
Cocoa	0.70	0.58	0.59	0.59	1.01	1.41
Lime juice	0.08	0.18	...	0.13	...	0.18
Cloves	...	...	...	3.10	3.93	5.25
Lime oil	15.76	14.00	16.07	14.40	...	11.00

Source: Calculated on the basis of external trade data, Grenada.

considerably in 1974 and 1975. On the other hand, in 1975 there was a moderate decline in the unit value of exports of nutmegs and mace. The volume of exports of nutmegs, mace and bananas increased in 1975 (see tables 177 and 178).

Historically, the United Kingdom has been Grenada's main trading partner, accounting for an average of 42 per cent of total exports and 29 per cent of imports between 1970 and 1972. The United Kingdom's share of exports declined in 1973, but preliminary data for 1974 and 1975 indicate that it has increased again to the level of the earlier years (see table 179). On the other hand, the share of imports from the United Kingdom declined in 1973 and indications are that this trend continued in 1974 and 1975. Trade with other countries of the European Economic Community (EEC) showed a general increase during the period, with imports fluctuating somewhat but exports consistently increasing.

There has also traditionally been a relatively large volume of trade between Grenada and the other Caribbean Commonwealth countries, notably Trinidad and Tobago. Grenada is a member of the Caribbean Community and Common Market (CARICOM), having acceded to the Treaty of Chaguaramas in April 1974. Between July 1968 and that date Grenada was a member of the Caribbean Free Trade Association (CARIFTA). The value of imports from Caribbean Common Market countries, which was just over 11 million East Caribbean dollars in the years 1971-1973, appears to have increased in 1974 and 1975. Exports, on the other hand, increased throughout the period 1971-1975. The values were relatively low prior to 1972 but have averaged more than 1 million East Caribbean dollars since 1973.

Table 179

GRENADA: IMPORTS AND EXPORTS BY ORIGIN AND DESTINATION
(Percentages)

	Exports by destination			*Imports by origin*
	1973	*1974*[a]	*1975*[a]	*1973*
United Kingdom	35.1	49.0	43.8	26.6
United States	7.8	2.0	5.0	9.4
Canada	2.4	2.4	1.9	7.9
Latin America[b]	2.3	0.3	1.0[c]	3.2
European Economic Community[d]	39.7	37.7	36.8	11.8
CARICOM	9.5	5.3	4.3	27.4
Other	3.2	11.4	7.2	13.7
Total	*100.0*	*100.0*	*100.0*	*100.0*

Source: Data supplied by the Statistical Office, Grenada.

a Preliminary figures.
b Continental Latin America.
c Data for Argentina, Brazil and Venezuela.
d Excluding the United Kingdom.

Grenada's trade with the rest of Latin America is on a fairly small scale, the total value exceeding 2 million East Caribbean dollars only after 1972. Between 1970 and 1973 the total volume of trade increased, with imports by Grenada comprising the bulk of this trade. Complete data are not available for subsequent years, but preliminary figures suggest that Grenada's exports to these countries declined in 1974 and 1975.

Inflows under the head of tourist expenditure, migrants' and other remittances on current account, and public and private capital transfers contribute towards offsetting the merchandise trade deficit. Foreign private capital investment appears to have declined with the cessation of hotel construction around 1971-1972. Public sector inflows have increased somewhat and take the form mainly of grants from the United Kingdom and Canada and a small amount of government external borrowing.

Because of its former status as a State in association with the United Kingdom, Grenada had no balance of payments problems in the conventional sense. Despite the fact that it had a relatively large deficit, this was covered out of a common sterling pool maintained in London. However, with independence in 1974, the situation has changed, but it is not yet clear what new institutional arrangements will have to be made to cover the balance-of-payments deficit.

GUATEMALA

1. *The overall picture*

In 1975 the growth rate of the Guatemalan economy declined for the third year running. At the same time, the expansion of the external sector slowed down and the inflationary process begun in 1973 lost some of its impetus.

The gross domestic product rose by only 2.2 per cent, a much lower rate than that attained on average during the four preceding years, and lower also than the population growth rate (3 per cent). Since there was a simultaneous deterioration in the terms of trade, the increase in income was even smaller, and per capita income dropped by nearly 2 per cent (see table 180).

The economy's loss of dynamism was linked with the marked decline in the growth rate of exports, the liquidation of substantial stocks accumulated in 1974 and the sluggish expansion of private consumption. Gross fixed capital formation increased, in contrast, by over 5 per cent, thus compensting for the drop in 1974.

The external sector was affected in 1975 by the consequences of the economic contraction and inflationary pressures in the main industrialized countries, and also by the less dynamic development of the countries of the Central American Common Market.

These factors led to a marked fall in the rate of growth of the value of exports of goods and services, a decrease in the volume of sales to Central America and an interruption of the process of diversification of exports.

The negative trends of the world economy also caused a drop of almost 7 per cent in the terms of

Table 180

GUATEMALA: MAIN SHORT-RUN ECONOMIC INDICATORS

(Percentage annual growth rates)

	1971–1973	*1974*	*1975* a
Gross domestic product	6.6	5.5	2.2
Gross income [b]	5.7	3.3	1.1
Per capita gross domestic product	3.5	2.5	– 0.7
Gross fixed investment	6.3	– 5.3	5.3
Value of exports	14.9	34.2	10.0
Value of imports	15.4	51.9	13.4
Terms of trade	– 4.3	– 13.3	– 6.8
Balance on current account [c]	– 14	– 72	– 107
Variation in international reserves [c]	45	– 10	105
Consumer price index [d]	4.6	15.9	13.0
Money	20.9 [e]	15.0	12.0
Current income of government	8.9	31.1	15.4
Total expenditure of government	11.3	24.0	13.8
Fiscal deficit/total expenditure of government [f]	15.9	13.3	12.2

Source: CEPAL, on the basis of official statistics.

a CEPAL estimates.
b Gross domestic product plus terms-of-trade effect.
c Absolute values in millions of dollars at current prices.
d December to December.
e For period 1972-1973.
f Percentage.

trade, which —coupled with the slower overall economic growth and the abundant supply of raw materials and consumer goods imported in 1974— helped to reduce the demand for imports. As a result, the volume of imports remained at the same level as in 1974, after having increased at an average annual rate of nearly 10 per cent in the two previous years.

In view of the fact that the unit value of imports increased much more than that of exports, however, there was a bigger increase in the total value of imports than in the total value of exports, in both absolute and relative terms, thereby pushing up the already substantial deficit on current account recorded the previous year. In 1975, the deficit on current transactions was 50 per cent bigger than in 1974, and six times the average deficit for the three years 1971-1973.

The current account deficit, however, was more than offset by the inflow of capital and, therefore, the international reserves rose by over 100 million dollars, reaching an unprecedented level by the end of 1975 (see table 180).

In spite of the fact that prices rose rapidly for the third year in succession, the rate of inflation was lower in 1975 than in the two preceding years. Thus in 1975, both consumer and wholesale prices rose by about 13 per cent, while in 1974 the increases were 16 and 23 per cent, respectively. Moreover, inflation followed a declining trend throughout 1975.

This attenuation of the inflationary process was mainly due to the weakening of the pressures on prices transmitted from abroad. Another contributing factor, however, was the less expansionary nature of both monetary policy and fiscal management in 1975. The former led to a more moderate increase in the amount of money, and the latter to a slight relative drop in the fiscal deficit (see table 180).

Lastly, it is probable that in 1975 there was a redistribution of income which did not favour wage-earners. Although no reliable wage series exist, the available information suggests that wages rose during the year at a considerably lower rate than prices.

2. *Recent economic trends*

(a) *General aspects*

The dynamism of the Guatemalan economy declined in 1975 for the third year running. The gross domestic product rose in real terms by only a little over 2 per cent, compared with 5.5 per cent the year before and the average rate of 6.6 per cent for the three years 1971-1973 (see table 181).

The rates of growth of gross income and total supply were more modest. In fact, due to a further significant deterioration in the terms of trade, the increase in gross income was barely over 1 per cent. At the same time, the virtual stagnation of the volume of imports contributed to the marked reduction in the rate of growth of total supply of goods and services from an average of 6 per cent in the period 1971-1974 to less than 2 per cent in 1975. Since the total population grew by about 3 per cent in 1975, the per capita product dropped slightly and per capita income fell by nearly 2 per cent (see tables 180 and 181).

On the demand side, this unfavourable trend was mainly due to the marked slackening in the growth rate of exports, the violent contraction of demand for stocks and the scant increase in the growth rate of private consumption.

The growth rate of personal consumption, which had already fallen considerably the previous year, showed only a slight recovery in 1975. In all probability, however, the consumption of broad social sectors declined since, as will be explained later, wages rose considerably less than consumer prices. This must also have induced a change in the structure of consumption of these groups in favour of the more essential goods.

Added to the restrictive effect of the sluggish increase in consumption was the slower growth of the volume of exports, which in 1975 —after constituting the most dynamic component of final demand between 1970 and 1974— suffered the adverse effects of the contraction of activity in the industrialized centres and the general weakening of economic expansion in the member countries of the Central American Common Market. As a result of this dual restriction, the growth rate of the volume of exports fell to just over 3 per cent, reaching a level only slightly over one-third of that recorded in the period 1971-1974, when the Guatemalan economy expanded vigorously as a result of the boom in the export sector.

The evolution of final demand was also adversely affected by the sudden reversal in the position with regard to the accumulation of stocks. As shown in table 181 there was an unusually large increase in stocks in 1974, when fears that the world inflationary process would worsen and the unprecedented growth of over 30 per cent in the value of Guatemala's exports for the second consecutive year led to an equally exceptional

Table 181

GUATEMALA: TOTAL SUPPLY AND DEMAND

	Millions of quetzales at 1970 prices			*Percentage breakdown*		*Annual growth rates*		
	1970	*1974*[a]	*1975*[a]	*1970*	*1975*[a]	*1971–1973*	*1974*[a]	*1975*[a]
Total supply	*2 242*	*2 863*	*2 917*	*117.8*	*117.5*	*6.3*	*6.2*	*1.9*
Gross domestic product	1 904	2 430	2 483	100.0	100.0	6.6	5.5	2.2
Imports	338	433	434	17.8	17.5	4.9	10.7	0.3
Total demand	*2 242*	*2 863*	*2 917*	*117.8*	*117.5*	*6.3*	*6.2*	*1.9*
Domestic demand	*1 888*	*2 358*	*2 396*	*99.2*	*96.5*	*5.7*	*5.6*	*1.6*
Gross domestic investment	244	337	281	12.8	11.3	4.9	19.4	– 16.4
Gross fixed investment	238	271	286	12.5	11.5	6.3	– 5.3	5.3
Public	45	61	65	2.4	2.6	18.9	- 19.9	8.2
Private	193	210	220	10.1	8.9	2.9	–	4.5
Changes in stocks	6	66	– 5	0.3	– 0.2	...	...	...
Total consumption	1 644	2 021	2 115	86.4	85.2	5.9	3.6	4.6
General government	151	162	184	8.0	7.4	0.6	4.7	13.0
Private	1 493	1 859	1 931	78.4	77.8	6.3	3.5	3.9
Exports	*354*	*505*	*521*	*18.6*	*21.0*	*9.3*	*9.4*	*3.2*

Sources: 1970-1973: CEPAL calculations on the basis of official data supplied by the Central Bank of Guatemala; 1974-1975: CEPAL estimates on the basis of official data.

Note: 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.

[a] Preliminary figures.

increase (almost 10 per cent) in the volume of imports of goods. When inflationary expectations diminished in 1975, however, stocks of consumer goods and intermediate products decreased. The same situation arose in the case of stocks of export goods, particularly, coffee.[137] In absolute terms, this reversal of the trend meant that, compared with 1974, the demand for stocks contracted in 1975 by 70 million quetzales at 1970 prices, thereby almost completely offsetting the increase in personal consumption (see table 181).

Thus, the only components of domestic demand which increased rapidly in 1975 were government consumption and public investment. While the former expanded by 13 per cent, almost tripling the previous year's rate, the latter rose by more than 8 per cent over the very low 1974 figure, without however, regaining the unprecedentedly high level recorded in 1972. Nevertheless, owing to the very small share of both government consumption (6 per cent) and public investment (2 per cent) in final demand, the vigorous expansion of these two components had little effect on its overall growth.

The trend of private fixed capital expenditure was also more favourable in 1975 than in the previous year. Yet if it is considered that private investment had completely stagnated in 1974, its recovery in 1975 can only be regarded as moderate. Moreover, capital expenditure of the private sector was heavily concentrated in urban building and mining activity. In the manufacturing sector, on the other hand, the already chronic situation of uncertainty regarding the future of the Central American integration process and the

[137] A proportion of the coffee stocks retained at the end of 1974 was exported in 1975.

Table 182

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

	Millions of quetzales at 1970 prices			*Percentage breakdown*		*Annual growth rates*		
	1970	*1974* [a]	*1975* [a]	*1970*	*1975* [a]	*1971–1973*	*1974* [a]	*1975* [a]
Agriculture	535.8	691.8	698.7	30.1	30.1	7.3	4.4	1.0
Mining	1.7	1.7	1.9	0.1	0.1	– 2.0	4.0	11.7
Manufacturing	259.8	332.4	337.4	14.6	14.5	6.9	4.6	1.5
Construction	38.6	51.8	57.5	2.2	2.5	12.8	– 6.6	11.0
Subtotal goods	*835.9*	*1 077.7*	*1 095.5*	*47.0*	*47.2*	*7.5*	*3.9*	*1.7*
Electricity, gas and water	15.9	22.5	22.9	0.9	1.0	9.5	7.4	2.0
Transport and communications	62.7	97.5	102.4	3.5	4.4	9.9	17.0	5.0
Subtotal basic services	*78.6*	*120.0*	*125.3*	*4.4*	*5.4*	*9.8*	*15.1*	*4.4*
Commerce, financial establisments and insurance	452.6	564.2	569.8	25.5	24.6	5.6	5.9	1.0
Real estate	174.9	198.3	204.8	9.8	8.8	3.3	2.8	3.3
Communal, social and personal services [b]	236.9	301.3	324.3	13.3	14.0	6.1	6.4	7.6
Subtotal other services	*864.4*	*1 063.8*	*1 098.9*	*48.6*	*47.4*	*5.3*	*5.5*	*3.3*
Total gross domestic product	*1 778.9*	*2 269.5*	*2 319.6*	*100.0*	*100.0*	*6.6*	*5.5*	*2.2*

Sources: 1970-1973: CEPAL calculations on the basis of data supplied by the Central Bank of Guatemala; 1974-1975: CEPAL estimates on the basis of official data.

Note: As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

[a] Preliminary figures.

[b] Also includes restaurants, hotels and business services.

considerable margin of idle capacity existing in most branches of industry tended to limit the incentives to invest. The same situation arose in the agricultural sector, where the uncertain prospects of the world markets for meat and some basic commodities also discouraged the establishment of new or the enlargement of existing enterprises.

(b) *Sectoral developments*

The decline in the overall rate of growth particularly affected agriculture, manufacturing, the production of basic services and, to a lesser extent, other services (see table 182).

The agricultural gross domestic product –which grew at an exceptional rate of over 7 per cent in the period 1971-1973 and which had already slowed down in 1974– rose by barely 1 per cent in 1975.

This meagre result was mainly due to the decreases recorded in livestock activity, the production of bananas and cotton and the virtual stagnation of coffee production. On the other hand, the production of basic grains and sugar cane increased considerably. The increase in the former was due to relatively favourable weather conditions, the incentives provided by the Government (particularly in the form of credit and support prices) and at least partial observance of the laws compelling certain farmers to devote a proportion of their cultivated land to the production of grains. The 40 per cent rise in sugar cane activity was stimulated by the high world prices of sugar.

The expansion of manufacturing was also very weak, the rate of 1.5 per cent being equal to half the population growth rate and one-quarter of the rate recorded by the manufacturing sector in the four years 1971-1974.

This considerable drop in the manufacturing growth rate was due to the interaction of three principal factors.

The first was the aforementioned decline in the real income of broad population groups, which led to a contraction of demand for manufactures, particularly non-essential items. It is significant that the production of beer, alcoholic beverages and cigarettes dropped in 1975.

A second factor which adversely affected industrial development was the marked decline in the growth rate of exports to the Central American Common Market. These sales –consisting mainly of manufactured goods– had shown a particularly dynamic trend in the previous decade, but in 1975 they increased at a very low rate in value and declined in volume.

Lastly, the growth of manufacturing was adversely affected by the economic contraction in the industrialized countries. The increasing access which some Guatemalan manufactures had gained to the markets of the central economies in 1973-1974 –mainly through the sale of textiles and clothing to the United States, Canada and some European countries– stagnated in 1975 and in some cases the trend was even reversed. Therefore, the value of exports of manufactures to third countries in 1975 was practically the same as in 1974, which means that they decreased in real terms.

In contrast with agriculture and manufacturing, the construction and mining sectors grew at an exceptional rate in 1975 (see table 182). The development of construction benefited from the substantial increases that year in public investment, expenditure on hotel infrastructure and private building. However, the 11 per cent growth of the construction product also partly reflected the low level of activity reached in 1974. In mining, on the other hand, the increase of nearly 12 per cent recorded in 1975 merely continued the rising trend started in 1973, which is likely to persist thanks to the investments made in the production of nickel and hydrocarbons exploration activities.

Nevertheless, owing to the very different relative importance of construction and mining on the one hand, and manufacturing and, particularly, agriculture on the other, not only was the growth rate of total production of goods very low in 1975, but it represented a further notable drop in the rate recorded during the period 1972-1973 (see table 182).

The rate of expansion of basic services, although much faster than that of the production of goods, also dropped significantly. The same was true of commercial activity, whose meagre growth once again closely followed the trend of agricultural and manufacturing production. On the other hand, the financial sector, especially the production of social and community services, grew in 1975 at a higher rate than in previous years.[138]

3. *The external sector*

As noted earlier, in 1975 the external sector was affected by the adverse conditions created by the economic contraction of the industrialized countries, world inflation and the slower growth of the member countries of the Central American Common Market. Yet Guatemala managed to cope with this unfavourable situation with less difficulty than originally expected. Although the current account deficit was high, the balance of payments reflected a sizable surplus and the international reserves reached unprecedented levels by the end of 1975.

(a) *Foreign trade*

(i) *Exports.* In 1975 the value of exports of goods and services rose by 10 per cent as a result of very similar increases in unit value and volume (see tables 180 and 183). As might have been expected, the growth of exports was much slower than in the two years 1973-1974, when their unit value rose at the unprecedented rate of 33 per cent and their average prices also went up at an exceptional rate (23 per cent).

The increase in exports of goods was mainly due to the boom in sugar, sales of which more than doubled for the second year running owing to

[138] The expansion of social and community services exclusively reflected the 12 per cent increase in the value added in the public administration in 1975.

a further improvement of nearly 50 per cent in the price actually received[139] and an expansion of about 60 per cent in the volume exported. The rise in the price of cotton –which increased sharply for the third year in succession– was likewise responsible for the increase in the value of cotton sales, in spite of the slight reduction in volume. In contrast, sales of the other three traditional export commodities –coffee, bananas and meat– all dropped significantly (see table 184).

[139] In spite of the decline in the world price of sugar from the second quarter of 1975 onwards, the rise in the price actually received is accounted for by the future sales contracted in the second half of 1974 at the high prices then in force.

Table 183

GUATEMALA: VARIATION IN THE TERMS OF TRADE AND IN THE VALUE, VOLUME AND UNIT VALUE OF EXPORTS AND IMPORTS OF GOODS

(Annual growth rates)

	1971	*1972*	*1973*	*1974*	*1975*
Exports of goods					
Value	–2.6	15.6	31.6	33.0	10.1
Volume	4.5	14.3	6.6	7.6	4.6
Unit value	–6.8	1.2	23.4	23.6	5.2
Imports of goods					
Value	9.5	1.0	32.8	56.3	15.7
Volume	5.7	– 8.7	9.5	9.5	2.5
Unit value	3.6	10.5	21.2	42.7	12.9
Terms of trade	– 10.0	– 8.5	1.8	– 13.3	– 6.8

Source: CEPAL, on the basis of official statistics.

Table 184

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

	Millions of dollars at current prices (FOB)				*Percentage breakdown*		*Annual growth rates*		
	1970	*1973*	*1974*	*1975*	*1970*	*1975*	*1971–1973*	*1974*	*1975*
Main exports products	*163.3*	*263.9*	*343.8*	*400.0*	*55.0*	*61.8*	*17.3*	*30.3*	*16.3*
Coffee	100.6	145.6	172.9	158.0	33.9	24.4	13.1	18.8	– 8.6
Cotton	27.2	46.6	68.3	77.0	9.2	11.9	19.4	46.6	12.7
Bananas	13.6	24.7	31.5	30.0	4.6	4.6	21.9	27.5	– 4.8
Fresh meat	12.7	25.1	21.5	19.0	4.3	2.9	25.5	– 14.3	– 11.6
Sugar	9.2	21.9	49.6	116.0	3.1	17.9	33.5	126.5	133.9
Other exports	*133.8*	*178.1*	*238.4*	*247.0*	*45.0*	*38.2*	*10.0*	*33.9*	*3.6*
Total	*297.1*	*442.0*	*582.2*	*647.0*	*100.0*	*100.0*	*14.2*	*31.7*	*11.1*

Source: CEPAL, on the basis of official statistics.

The rate of growth of the rest of Guatemala's exports fell even more sharply than that of its traditional commodities, i.e., from 31 per cent in the two years 1972-1973 to less than 4 per cent in 1975. This drop reflected both the effect of the economic contraction in the industrialized countries and the sudden decline in the growth rate of exports to the Central American Common Market. These exports grew by just over 4 per cent in 1975, following an average annual growth rate of 20 per cent in the four preceding years. The result was that the share of Central American trade in Guatemala's total exports shrank, for the first time in 10 years, from 28 per cent in 1974 to a little over 26 per cent in 1975.

At the same time, the process of diversification of exports was reversed. Between 1974 and 1975 the share of non-traditional products decreased from 41 to 38 per cent, while that of coffee, sugar and cotton together rose from 50 to 54 per cent.

Among Guatemala's exports of services, the item which expanded most rapidly was tourism. The income obtained from this activity rose by 24 per cent, following several years of intensive and sustained growth, thus becoming the fourth most important source of foreign exchange.

(ii) *Imports.* In 1975 the value of imports of goods and services increased by 13 per cent. As in the case of exports, this rate was considerably lower than that recorded in the previous two-year period, when they more than doubled in value (see table 185). Contrary to what happened during those two years, however, the rise in the value of imports was not accompanied by an increase in their volume, but was almost exclusively due to the 13 per cent rise in unit value.

As in previous years, this increase basically reflected the impact of inflation in the industrialized countries. The stagnation of the volume of imports was, however, a result of the decline in the overall growth rate of the economy and the exceptional accumulation of imported products in 1974. The first of these factors naturally caused a drop in demand for imported goods. The second –brought about by the extraordinary increase in the volume of imports in the two years 1973-1974– in its turn enabled part of the demand for imported goods in 1975 to be met by means of a reduction in stocks.[140]

(iii) *Terms of trade.* Since import prices rose much faster than export prices, the terms of trade deteriorated by about 7 per cent. Thanks to the favourable prices actually received for sugar and cotton, however, this drop was considerably less than the notable decrease which the country experienced in 1974. It meant, though, that for the fourth time in five years the rate of increase in world prices adversely affected the Guatemalan economy (see table 183). As a result of this process, the terms of trade index was 32 per cent lower in 1975 than in 1970. In addition, the unfavourable trend pursued by the unit values of imports and exports more than offset the increase in the volume of exports in 1975. Thus, the purchasing power of exports recorded a further drop of around 3 per cent that year.

(b) *The balance of payments*

In 1975 the current account showed a deficit of nearly 110 million dollars, which was 50 per cent higher than the 72 million shown the previous year. In contrast with the 1974 results, however, the deficit was more than compensated for by the sizable surplus of more than 200 million dollars on capital account. Thus, the international reserves increased by over 100 millions and by the end of 1975 had reached unprecedent levels (see table 185).

The large-scale movement of capital in 1975 came from four basic sources. First, there was an increase in the repatriation and a reduction in the flight of capital, mainly as a result of the differences between the interest rates paid in Guatemala in 1975 and those paid in the main international financial markets.[141] Secondly, direct foreign investment and related loans increased at an accelerated pace, largely owing to the substantial expenditure on the production of nickel and on oil exploration activities. A third factor was the increase in inflows of long-term official and banking capital, which was partly associated with the rise in public investment. Altogether, direct investment and long- and medium-term loans increased by about 65 per

[140] This process was one of the factors responsible for the sharp reduction in stocks which, as noted earlier, took place in 1975. It was also reflected in the slower growth of imports of raw materials and consumer goods compared with capital goods in 1975.

[141] For example, in mid-1975, when the rates of interest on time deposits in New York had fallen to somewhere between 6 and 7 per cent annually, rates of between 8 and 9 per cent were being paid in Guatemala. The 20 per cent increase in transfers in 1975 is another sign that capital was brought back into the country in search of higher returns.

Table 185

GUATEMALA: BALANCE OF PAYMENTS
(Millions of dollars)

	1970	*1972*	*1973*	*1974*	*1975* [a]
Current account					
Exports of goods and services	350	394	532	714	785
Goods FOB	297	336	442	588	647
Services	52	58	90	126	138
Transport	11	12	17	19	22
Travel	12	17	37	57	70
Imports of goods and services	337	390	521	791	897
Goods FOB	267	295	391	612	708
Services	70	95	129	180	189
Transport	35	45	56	89	97
Travel	15	24	38	52	48
Net payments of profits and interest on foreing capital	– 38	– 46	– 46	– 47	– 61
Profits	– 30	– 32	– 36	– 43	– 46
Interest	– 8	– 14	– 9	– 4	– 15
Net private transfer payments	17	31	43	53	66
Balance on current account	– 8	– 11	9	– 72	– 107
Capital account					
Net external financing (a+b+c+d+e)	8	11	– 9	72	107
(a) Net external non-compensatory capital	29	48	87	67	208
Direct investment	23	12	30	52	198
Long- and medium-term loans	72	72	66	69	
Amortization payments	– 47	– 53	– 32	– 47	– 44
Short-term liabilities (net)	– 19	17	24	– 8	53
Official transfer payments	–	– 1	– 1	1	...
(b) Domestic non-compensatory capital or assets	– 1	4	– 10	–	– 1
(c) Errors and omissions	– 4	– 1	– 1	– 3	5
(d) Allocation of SDRs	4	4	–	–	...
(e) Net compensatory financing (minus sign signifies an increase)	– 20	– 45	– 85	9	– 105
Balance-of-payments loans, trade arrears, IMF loans, and other liabilities of the monetary authorities	3	–	–	–	...
Amortization payments	– 12	– 3	– 5	– 2	...
Foreign exchange reserves (minus sign signifies an increase)	– 10	– 36	– 75	10	– 105
Gold reserves (minus sign signifies an increase)	–	– 6	–	–	...
SDRs (minus sign signifies an increase)	– 2	–	– 5	–	...

Source: International Monetary Fund, *Balance of Payments Yearbook*, vol. 27

[a] Estimates on the basis of official statistics.

cent. Lastly, despite the slow growth of imports, there was a significant expansion in the short-term commercial credit contracted, due mainly to the aforementioned difference between the interest rates paid in Guatemala and those paid in the international financial centres (see table 185).

4. *Price and wage trends*

In 1975, prices rose rapidly for the third year running. The rate of inflation was lower than in the two previous years, however, and showed a distinctly declining trend throughout the year.

According to official figures, consumer prices rose 13 per cent in 1975. This increase, as will be seen in table 186, was slightly smaller than those observed in the two preceding years, but much bigger than those traditionally recorded in Guatemala before it suffered the effects of the sharp acceleration of world inflation in the two years 1973-1974.

Table 186

GUATEMALA: EVOLUTION OF PRICES
(Percentage annual growth rates)

	1971	*1972*	*1973*	*1974*	*1975* [a]
Consumer price index (1946 = 100)	*-0.5*	*0.6*	*14.4*	*15.9*	*13.0*
Food	-1.9	0.1	19.3	15.9	14.3
Fuels	...	...	10.8	53.8	2.5
Wholesale price index (1950 = 100)	*1.5*	*-0.1*	*14.2*	*22.8*	*12.4*
Domestic products	0.3	-0.2	15.4	21.3	12.6
Imported products	-0.7	0.5	5.9	27.1	14.1
Fuels	...	...	2.0	87.9	4.7

Source: Banco de Guatemala.
[a] CEPAL estimates.

It is probable, however, that the actual price increases were bigger than those shown by the official index. The base year of the index is 1946 and only 46 essential articles are included. For example, it fails to show the notable increases in house rents or household electricity rates (which rose, on an average, by over 40 per cent in 1975). Moreover, the elimination in September of subsidies for the sale of basic grains meant that for certain population groups the cost of food was greater than that recorded in the index.[142]

Yet there is no doubt that the inflationary process tended to decline in 1975. The rate of increase in wholesale prices dropped to half between 1974 and 1975, and the variations in the consumer price index over 12 months dropped steadily and rapidly as from March.[143]

As in 1974 –and as occurred in many Latin American countries during the same period– the inflationary pressures in 1975 originated basically in the external sector. They were reflected partly in the delayed effect of the incorporation in the production process of inputs imported in 1974 at exceptionally high prices, and also in the further rise in the unit value of imports of goods in 1975. Although this increase was appreciably less than the 43 per cent recorded in 1974, it was still fairly considerable: 13 per cent (see table 183).

[142] With the elimination of these subsidies, only the urban public transport subsidy has remained in force.

[143] The variation in the consumer price index over 12 months dropped from 24.5 per cent in March to 19.5 per cent in June, 13.6 per cent in September and 13 per cent in December.

The decline in the rate of inflation was not, however, exclusively due to the weakening of the external inflationary pressures in 1975.[144] It was also partly determined by the measures adopted by the Government to attenuate the inflationary pressures. In addition to adopting some measures designed to reduce directly the increase in prices,[145] the Government pursued a fiscal and monetary policy aimed at limiting the growth of the means of payment.

The central Government succeeded in reducing for the second consecutive year both the relative and the actual size of the fiscal deficit. This result was due partly to the favourable trend of fiscal income --which increased 15 per cent-- and partly to the 9 per cent drop in capital expenditure (see table 187).

The growth of income, in its turn, was due to three main factors. In the first place, it reflected the considerable inflation which continued to affect the Guatemalan economy and which, of course, affected the value of taxable transactions and income tax revenue. Secondly, in the latter half of 1974, several reforms of the tax system were approved and began to produce additional income in 1975.[146] Lastly, the Ministry of

[144] Their lesser effect was also manifest in the much smaller increase in the unit price of exports (5 per cent) in 1975, compared with increases of over 23 per cent in the two years 1973-1974.

[145] These measures included the maintenance of some fixed prices and of controls on exports of a group of essential goods and key raw materials.

[146] The tax on sugar exports alone, which was approved in June 1974, contributed approximately 11 million quetzales in 1975.

Table 187

GUATEMALA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of quetzales				*Annual growth rates*		
	1970	*1973*	*1974*	*1975* [a]	*1971–1973*	*1974*	*1975* [a]
1. *Current income*	*165*	*213*	*280*	*323*	*8.9*	*31.1*	*15.4*
Tax revenue	148	192	255	297	9.1	32.8	16.7
Direct	24	32	39	60	10.1	22.4	52.5
Indirect	78	103	135	149	9.7	32.1	10.3
From taxes on external trade	46	57	80	88	7.4	39.9	9.9
Non-tax revenue	17	21	25	26	7.3	19.0	4.0
2. *Current expenditure*	*148*	*176*	*219*	*273*	*6.1*	*24.3*	*24.5*
Operating costs	133	152	190	...	4.7	25.1	...
Transfers	15	24	29	...	17.0	19.2	...
3. *Saving on current account* (1 – 2)	*17*	*37*	*61*	*50*	*28.3*	*63.9*	*– 17.6*
4. *Capital expenditure*	*41*	*84*	*104*	*95*	*26.9*	*23.2*	*– 8.7*
Real investment	36	71	77	87	25.3	8.5	12.1
Financial investment	5	13	26	8	37.5	98.5	– 70.2
5. *Total expenditure* (2 + 4)	*189*	*261*	*323*	*368*	*11.3*	*24.0*	*13.8*
6. *Fiscal deficit (or surplus)* (3 – 4)	*– 24*	*– 47*	*– 43*	*– 45*	*25.7*	*– 8.5*	*4.7*
7. *Financing of deficit*	*24*	*47*	*43*	*45*	...	...	...
Domestic financing	– 1	26	24	30	–	– 7.7	25.0
External financing	25	21	19	15	– 4.6	– 12.2	– 19.3

Source: CEPAL, on the basis of official statistics.
[a] CEPAL estimates.

Finance continued its programmes for improving tax management and control, which also helped towards increasing fiscal revenue.

At the same time, there was a qualitative improvement in the tax system, the salient feature of which was the accelerated growth of income from direct taxes. These were raised by over 50 per cent and their share in total tax revenue rose from less than 16 per cent in 1974 to over 20 per cent in 1975.[147]

Nevertheless, the growth of current expenditure –25 per cent– exceeded the increase in income, which brought current account saving down by almost one-fifth. Notwithstanding this decrease, current account saving financed a considerably larger proportion of capital expenditure than in previous years. As may be seen in table 187, this was due to the severe contraction (70 per cent) in government financial investment in 1975, which more than offset the 12 per cent increase in real investment.[148]

[147] There was an even greater increase in income tax (56 per cent), while income from the inheritance and donations tax almost tripled.

[148] However, as shown in table 181, gross fixed capital formation of the whole public sector grew by 8 per cent in real terms.

The monetary situation in 1975, in its turn, reflected the situations described above. Thus, the amount of money increased at a rate of 12 per cent during the year, which is slightly less than that recorded in 1974 and similar to the rate of inflation in 1975 (see table 188). As with the rise in prices, most of the increase in the money supply is attributable to external factors. The aforementioned gain in international reserves led to an increase of 42 per cent in foreign currency holdings. In contrast, domestic credit rose by only 11 per cent. This expansion was exclusively due to the 15 per cent increase in loans to the private sector, which is a substantially lower rate than those observed in the two preceding years, and lower too than the rate of growth of the gross domestic product at current prices. The public sector reduced its net borrowing from the banking system by about 4 per cent (see table 188).

In spite of the loss of momentum of the inflationary process, there were clear signs that the real wages of the workers were tending to decline. Although there is no reliable information on wages, the available indicators suggest that they increased less than prices, thereby contributing to a deterioration in the distribution of income. In this respect, it is significant, for example, that the

Table 188

GUATEMALA: MONETARY POSITION
(Millions of quetzales)

	Balance at end of				*Annual growth rates*		
	1971	*1973*	*1974*	*1975*	*1972–1973*	*1974*	*1975*
1. *Money* (2 – 3)	*178.2*	*260.3*	*299.3*	*335.3*	*20.9*	*15.0*	*12.0*
Currency outside banks	98.5	136.7	157.4	172.8	17.8	15.1	9.8
Demand deposits	79.7	123.6	141.9	162.5	24.5	14.8	14.5
2. *Factors of expansion*	*392.2*	*645.4*	*747.1*	*886.7*	*28.3*	*15.8*	*18.7*
Net international reserves	68.7	195.6	185.1	262.6	68.7	– 5.4	41.9
Domestic credit	323.5	449.8	562.0	624.1	17.9	24.9	11.0
Public sector	69.0	112.7	124.3	120.0	27.8	10.3	– 3.5
Private sector	254.5	337.1	437.7	504.1	15.1	29.8	15.2
3. *Factors of absorption*	*214.0*	*353.1*	*447.8*	*551.4*	*28.5*	*26.8*	*23.1*
Quasi-money (savings and time deposits)	220.8	335.5	401.8	508.2	26.9	13.0	26.5
Other items (net)	– 6.8	29.6	46.0	43.2	–	55.4	– 6.1

Source: Banco de Guatemala.

public sector granted no new wage adjustments in the whole year[149] (although the 1975 budget included an adjustment granted in 1974); that there was not a single review of the minimum wages established before 1975; that during that year only two sectors (coffee-growing and journalism) were included in the minimum wage system; and that only 36 collective agreements covering fewer than 15,000 workers (an insignificant proportion of the labour force) were signed. Moreover, the annual average wage of the 550,000 workers covered by the social security system rose from 870 quetzales in 1974 to 937 in 1975, i.e., by 7.7 per cent, which is a much lower rate than the change observable in the price index.

Although there are no reliable data available on employment trends either, it is quite possible that they were more favourable than wage trends. The number of members of the social security system rose by 10 per cent, from just under 500,000 at the end of 1974 to a little over 550,000 at the end of 1975, although no new activities or geographical areas were incorporated. This suggests that the vigorous growth of construction, the increase in public consumption expenditure, the creation of new employment opportunities linked with activities in support of tourism, and the favourable development of some labour-intensive crops (especially sugar) at least partially counteracted any effects which the decline in the growth rate must have had on the rate of increase in employment.

[149] The establishment of wages in the public administration is one of the only two ways in which the Government is able to influence wages. The other is the system of minimum wages provided for in the Labour Code. This system, which is applicable at the level of the individual sectors of activity, lays down a lengthy administrative procedure, for the establishment of minimum wages, by commissions with equal representation of employers and workers, both for new sectors of activity and through a review of those currently in force.

GUYANA

1. *The overall picture*

The economic results of 1975 were relatively favourable. According to preliminary estimates the gross domestic product increased by 22 per cent at current prices (see table 189). Although this increase was largely due to higher prices, there were many indications that the economy had grown in real terms. Even so, this expansion appears to have been less marked than in 1974, when most of the main volume indicators showed a considerable increase as the economy recovered from the severe slump of 1972-1973.

The 9 per cent rise in the volume of imports of goods and services in 1975 contributed to the increase in total supply, while external demand was weak because of the recession in the industrialized countries, and this contributed to a 15 per cent fall in the volume of exports of goods and services. In 1974 the opposite situation had prevailed since the volume of imports fell slightly, whereas the strong external demand stimulated a considerable expansion in the volume of exports.

The external sector recorded good results for the second consecutive year. The higher prices of exports, particularly sugar, increased export income by 28 per cent in spite of the decline in

Table 189

GUYANA: MAIN SHORT-RUN ECONOMIC INDICATORS
(Percentage annual growth rates)

	1971–1973	*1974*	*1975*
Gross domestic product (at current prices)	6.2	50.0	22.5
Value of exports	2.4	85.0	28.1
Value of imports	11.1	34.3	30.5
Terms of trade	0.3	19.0	27.0
Balance on current account [a]	– 14	– 8	– 13
Variation in international reserves [a]	–5	46	79
Consumer price index [b]	6.8	11.6	5.5
Money	16.6	31.3	75.8
Current income of government	4.8	99.5	58.6
Total expenditure of government	18.2	23.4	68.1
Fiscal deficit/total expenditure of government [c]		14.9	19.7

Source: CEPAL, on the basis of official statistics.
[a] Absolute values in millions of dollars at current prices.
[b] December to December.
[c] Percentage.

volume. The value of imports increased at a somewhat slower rate than in 1974, but, the volume was greater because of a slower rise in the prices of imported products. The deficit on current account was larger than in 1974, because of a reduction of 3 million dollars in the surplus of the goods and non-factor services account and an increase in factor payments (see table 189).

Capital inflows, bolstered by extensive foreign borrowing by the public sector, considerably exceeded external financing requirements and led to an increase of nearly 80 million dollars in the international reserves. This accumulation, combined with a substantial net inflow of resources in 1974, caused the gross reserves to increase from only 14 million United States dollars in 1973 to 145 million dollars in 1975 –enough to cover approximately 4 1/2 months' import requirements.

In 1975 the rate of inflation (as measured by the urban consumer price index) slackened, since between December 1974 and December 1975 the increase in prices was 45.5 per cent, that is, only half that recorded during the same period of the previous year. This improvement was mainly due to a much more moderate rise in the prices of imports as a result of the slackening of inflation in the industrialized countries. However, Government measures designed to insulate the consumer price index from inflationary pressures also contributed significantly to this improvement.

Monetary and fiscal policy continued to be expansionary in 1975. The supply of money increased by 76 per cent –more than double the already high rate of expansion recorded in 1974– because of the sharp increase in the net international reserves and the increase in domestic credit, particularly loans to the Government. The rate of growth of public expenditure was also very high in 1975 (68 per cent), the 146 per cent increase in the Government's capital expenditure programme being particularly noteworthy. Although the increase in fiscal revenue was considerable it did not cover the growth of expenditure, so that there was a substantial rise in the fiscal deficit from 15 per cent of expenditure in 1974 to 20 per cent in 1975 (see table 189).

The participation of the public sector in economic activity has been growing rapidly in recent years as a result of a policy designed, to promate State control of key economic sectors. At the beginning of 1975 the Government took control of the one remaining foreing-owned bauxite mining plant, thus making Guyana the only major producer of bauxite among the non-centrally planned economies which is independent of the transnational aluminum companies. The Government also took control of part of the foreign-owned sugar industry and amounced plans to nationalize the rest of the industry in 1976. The public sector's investments in the global development programme have gained in importance as a result of this increase in State control of economic activity.

Finally, towards the end of 1975 and because of the constant devaluation of the pound sterling the authorities decided to break the traditional link between the Guyana dollar and the pound and established an exchange rate tied to the United States dollar.

2. *Sectoral developments*

No official national accounts are available in constant prices. Table 190 therefore gives a sectoral breakdown expressed in current Guyana dollars. It can be seen that in 1975 the four main goods-producing sectors –agriculture, mining, manufacturing and construction– showed a combined increase of 26 per cent. A large part of the increase was due to higher prices, but there were also signs of real growth.

(a) *Agriculture*

This sector is an important source of employment and also generates a large proportion of the country's foreign currency income. Sugar and rice –which are harvested twice a year– make up the bulk of agricultural production and are thus the main determining factors in the development of this sector.[150]

In 1975 sugar production fell by 12 per cent, reflecting the 27 per cent reduction in the area of sugar cane harvested compared with the previous year. The fall in production would have been even greater if it had not been for the marked increase in yield –from 2.4 tons of sugar per acre in 1974 to over 3 tons per acre in 1975. In the course of the year the sugar industry was affected by serious labour problems which caused two stoppages; this to some extent cancelled out the advantages of the

[150] Raw sugar and milled rice are included under the heading of manufactures in the national accounts statistics. Since these products are closely connected with the development of the agricultural sector, however, they are dealt with in the present section.

Table 190

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

	Millions of Guyana dollars			*Percentage breakdown*		*Annual growth rates*[a]		
	1973	*1974*	*1975*	*1973*	*1975*	*1973*	*1974*	*1975*
Agriculture	106	259	341	18.4	32.2	2.0	144.1	31.6
Mining	81	117	136	14.0	12.8	– 10.3	45.3	16.1
Manufacturing	64	121	151	11.2	14.2	0.5	87.9	24.7
Construction	47	54	68	8.1	6.4	10.1	14.9	25.9
Subtotal goods	*298*	*551*	*696*	*51.7*	*65.6*	*– 0.8*	*84.9*	*26.2*
Electricity, gas and water	...	...	...	...	...	...	...	...
Transport and communications	37	44	55	6.4	5.2	12.2	19.6	25.0
Subtotal basic services	*37*	*44*	*55*	*6.4*	*5.2*	*12.2*	*19.6*	*25.0*
Commerce, restaurants and hotels	64	77	93	11.2	8.8	9.7	19.6	20.8
Financial establishments, insurance, real estate and miscellaneous services	56	64	71	9.7	6.7	10.5	13.8	11.5
Government	121	129	145	21.0	13.7	40.1	6.4	12.4
Subtotal other services	*242*	*270*	*309*	*41.9*	*29.2*	*23.3*	*11.6*	*14.6*
Total gross domestic product	*577*	*865*	*1 060*	*100.0*	*100.0*	*8.9*	*50.0*	*22.5*

Source: Statistical Bureau, Guyana.

[a] The growth rates are based on values expressed in current dollars.

fine climatic conditions and the relatively high quality of the cane.

The 300,000 tons of sugar produced in 1975 represent the second smallest crop in 9 years; the only year when output was lower was 1973, when bad weather reduced the sugar-cane harvest (see table 191). The lower level of sugar production proved costly to the economy in view of the exceptionally high export prices of sugar during the year.

The production of rice, the second most important crop after sugar, increased by 12 per cent to 160,000 tons, which was the highest output recorded for several years. This increase was due to the expansion in the area cultivated and the improved yield per acre. Rice-growing was stimulated by such factors as higher prices, a greater degree of mechanization and the improvement of flood-control installations.

There was also an increase in the output of certain agricultural products destined mainly for domestic consumption, especially livestock production and in particular meat and poultry. At present the country is self-sufficient in fresh and salted pork and largely self-sufficient in processed pork products.

The Government is placing greater emphasis on agriculture with a view to making Guyana self-sufficient in food. Efforts are being made to bring new areas under cultivation and use the land more intensively in order to reduce unemployment and improve the standard of living of the rural population. The Government has allocated a substantial proportion of its capital budget to the development of agriculture and, as part of a wider system of subsidies, the State marketing organization has guaranteed purchase of the farmers' produce at more remunerative prices.

Table 191

GUYANA: PRODUCTION OF SOME IMPORTANT CROPS

	Production				*Annual growth rates*		
	1970	*1973*	*1974* [a]	*1975* [a]	*1971–1973*	*1974*	*1975*
Sugar [b]	311.0	266.0	341.0	300.0	-5.1	28.2	- 12.0
Rice [b]	–	110.0	143.0	160.0	–	30.0	11.9
Coconuts [c]	50.0	61.1	40.0	31.3	6.9	- 34.5	- 21.8
Root crops [d]	56.6	62.7	55.0	44.0	3.4	- 12.2	- 20.0
Plantains [d]	51.3	55.0	36.0	32.5	2.3	- 34.6	- 9.7
Citrus fruits [d]	18.5	23.8	22.0	24.0	8.7	- 7.4	9.1
Bananas [d]	12.6	18.2	15.2	–	12.9	- 16.6	–
Coffee [d]	1.4	1.6	1.5	–	5.5	- 8.8	–
Maize [d]	4.1	7.3	6.0	12.8	21.4	- 18.3	113.3
Tomatoes [d]	3.5	4.5	3.7	–	8.4	- 16.9	–
Pineapples [d]	2.8	4.8	4.9	3.6	20.0	1.0	- 26.5

Source: Economics Division of the Ministry of Agriculture, Guyana, and Statistical Bureau, *Quarterly Statistical Digest*, (1973), 4 December 1974.

[a] The figures for 1974 and 1975 are not strictly comparable with those of previous years because of changes in the method of calculation.

[b] Thousands of tons.

[c] Millions of units.

[d] Millions of pounds.

(b) *Mining and quarrying*

This sector is dominated by the bauxite and alumina industries, which are export-oriented. Guyana is one of the world's leading producers of bauxite and among the market economies it is the main supplier of calcined bauxite, a refractory material used mainly in the iron and steel industry.

In 1975 the production of dried and calcined bauxite exceeded the 1974 output by a narrow margin. The production of alumina, however, fell slightly (see table 192). These unsatisfactory results reflected the effects of the recession in the aluminium and steel markets of the main industrialized countries in the course of the year.

In January 1975 the Government nationalized the second and only remaining foreign-owned mining enterprise, thus achieving its goal of gaining full control of the national bauxite and alumina industries. The compensation was fixed at 10 million dollars, to be paid in 14 annual instalments. According to available information, the new State enterprise, known as the Berbice Mining Enterprise (BERMINE), made a profit in its first year of operations.

This completed the process of nationalization which had begun in 1971 when the Government took over a much larger foreign-owned mining company subsequently operated under State control as the Guyana Bauxite Company (GUYBAU). The Government intends to complete

Table 192

GUYANA: INDICATORS OF MINING PRODUCTION
(Thousands of long tons)

	1970	*1973*	*1974*	*1975* [a]
Dried bauxite	2 290	1 665	1 383	966
Dried refractory bauxite	–	15	22	7
Calcined bauxite	692	636	727	577
Alumina	312	234	311	294 [b]

Sources: Statistical Bureau of Guyana, *Quarterly Statistical Digest*, December 1973 and December 1974, and data supplied to CEPAL.

[a] January to September

[b] January to December.

the vertical integration of the industry by setting up an aluminium smelting plant in the country in the early 1980s. With this in mind, it has been looking for a suitable site in the interior of the country to set up a hydroelectric plant which would provide the necessary power for the smelter.

(c) *Manufacturing and construction*

Provisional figures indicate that production of most of the main manufactures increased in the course of the year. The output of animal feeds and edible oils had already exceeded the 1974 level by the end of the third quarter of 1975 (see table 193).

It is estimated that construction also increased slightly in real terms in 1975, mainly because of the projects generated by the Government's capital expenditure.

Table 193

GUYANA: INDICATORS OF MANUFACTURED PRODUCTION

	1970	*1973*	*1974*	*1975* a
Production of some important manufactures				
Flour [b]	65	84	82	67
Edible oils [c]	895	788	335	462
Stockfeed [b]	41	61	58	59
Cigarettes [d]	474	489	491	391
Molasses [c]	21	17	21	12
Rum [c]	3	5	6	4

Source: Statistical Bureau of Guyana, *Quarterly Statistical Digest*, December 1974.

a January to September.
b Millions of pounds.
c Millions of gallons.
d Millions of units.

3. *The external sector*

The 1975 balance of payments was generally favourable. Although the surplus on the merchandise account increased compared with 1974, it was offset by a bigger deficit on the services account which helped to increase the deficit on the current account. However, Guyana managed to attract a considerable amount of capital which not only covered the current deficit but also allowed the country to record the highest surplus in the balance of payments since Independence (1966).

The merchandise account has traditionally shown a surplus; the only time since Independence when it showed a deficit was in 1973 when there was a fall in export-income and a simultaneous considerable rise in imports (see table 196). In 1975 the trade surplus was relatively high: the amount of 52 million dollars was 31 per cent higher than the surplus obtained in 1974 and 235 per cent greater than the average surplus during the period 1970-1972. This stabler trade position was mainly due to the favourable development of the terms of trade.

Although in 1975 the volume of exports fell by 15 per cent, their value increased by 30 per cent because of the 54 per cent increase in the unit price. This increase although favourable, was lower than in 1974 when exports doubled as a result of a great expansion in volume and increases in unit price. However a large part of the increase in 1974 represented a recovery after the disastrous economic results of 1972 and 1973, when the very low sugar-cane harvest and the fall in external demand for bauxite and alumina caused a decline in export income.

Sugar was largely responsible for the increase in export income during 1975 (see table 194). Despite the appreciable fall in the volume exported, caused by the decline in sugar production already mentioned, the higher price caused a 41 per cent rise in the value of sugar exports. In 1974 the combination of the greater volume and higher prices had led to an increase of 275 per cent in the income from sugar exports.

Although world sugar prices fell during 1975, Guyana benefitted from the guaranteed price for sugar sales to the European Economic Community (EEC) and from advance sales arranged during the early part of the year at the higher prices then prevailing. The guaranteed price for exports was based on a long-term supply agreement signed in January 1975 between the EEC and sixteen sugar-producing countries (mainly members of the British Commonwealth) in the Caribbean, the Pacific and Africa. Under this agreement, which replaced the former Commonwealth Sugar Agreement, these countries will between them supply 1.4 million tons of sugar a year to the United Kingdom. The export price will be negotiated every year and will depend on the

Table 194

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

	Millions of Guyana dollars				*Percentage breakdown*		*Annual growth rates*		
	1970	*1973*	*1974*	*1975*	*1970*	*1975*	*1971–1973*	*1974*	*1975*
Principal export products									
Bauxite	92.1	108.0	153.4	187.2	33.9	22.6	5.5	42.0	22.0
Alumina	46.4	26.9	47.5	62.8	17.1	7.6	– 16.7	76.6	32.2
Sugar	77.6	75.9	284.8	403.0	28.5	48.7	0.7	275.2	41.5
Rice	18.1	25.0	49.0	84.8	6.8	10.2	11.4	96.0	73.1

Source: Bank of Guyana, *Economic Bulletin,* N° 8, October 1974, and data supplied to CEPAL.

situation of the world sugar market and the prices of beet sugar in the EEC. The guaranteed price agreed on in 1975, which included a supplement paid by the United Kingdom, was £ 260 per ton.

The income derived from the country's other main export products –bauxite and alumina– increased considerably in 1975 in spite of the economic recession in the industrialized countries. The value of bauxite exports increased by 22 per cent and that of alumina exports by 32 per cent. These increases were only about half as great as those achieved in the previous year, however, when external demand had been considerably greater (see table 194). Although the volume of exports was lower than in 1974 the prices, particularly of calcined bauxite and alumina, remained high because of the advance supply contracts which were in force.[151]

The value of the country's other exports also increased in 1975, mainly because of favourable prices. Within this group the prices of rice and molasses were particularly good.

The value of imports increased sharply (by 30 per cent) for the third consecutive year. Unlike the 1974 increase, however, when the growth of imports had mainly reflected the higher prices, in 1975 the volume increased appreciably (7 per cent). While the prices also rose markedly, on average the increases were only about half as great as those of the previous year, thus reflecting the widespread decline in the rate of inflation in the industrialized countries. The highest increases appear to have been in the prices of the capital goods which the Government had to import for its development programme.

In 1975 the net movement of the prices of exports and imports was favourable and the terms of trade rose by 27 per cent. There had been a 19 per cent rise in these terms in 1974 after a 10 per cent deterioration in 1973 (see table 195).

In 1975 the traditional deficit on the services account grew considerably and the deficit on the non-factor services account was 58 per cent greater. The main cause of the increase was the marked rise in transport costs (see table 196). The deficit on the factor payments account also grew by 10 per cent because of the increase in interest payments and profit remittances. The growth of the deficit on the services account greatly outweighed the improvement in the trade balance and caused an increase in the current account deficit from 8 million dollars in 1974 to nearly 13 million dollars in 1975.

Although the current deficit increased greatly compared with 1974, it was still slightly lower than it had usually been in recent years. Since Independence the deficit has fluctuated between 14 and 30 million dollars: the deficit of 63 million dollars recorded in 1973 was anormally high as a result of the exceptionally adverse conditions both at the domestic level and abroad.

[151] Guyana, as the only producer of bauxite and alumina among the non-centrally planned economies which is not tied to one or more of the transnational aluminium corporations, must now seek its own markets for its bauxite and alumina output.

Table 195

GUYANA: VARIATION IN THE TERMS OF TRADE AND IN THE VALUE, VOLUME AND UNIT VALUE OF EXPORTS AND IMPORTS OF GOODS

(Annual growth rates)

	1971	*1972*	*1973*	*1974*	*1975*
Exports of goods					
Value [a]	12.8	−1.3	−5.5	99.0	30.3
Volume	4.0	−12.8	−7.0	19.4	−15.5
Unit value [a]	8.4	13.2	1.6	66.7	54.3
Imports of goods					
Value [a]	−0.2	7.2	23.0	44.5	30.3
Volume	−4.1	2.3	8.6	3.2	7.3
Unit value [a]	4.0	4.8	13.3	40.0	21.5
Terms of trade	4.2	8.0	−10.3	19.1	27.0

Source: CEPAL, on the basis of official data.

[a] Calculated on the basis of figures in dollars at current prices.

It was not difficult to cover the current account deficit in 1975. The net inflow of capital, supplemented by official external borrowing which was more than twice as large as in 1974, offset the deficit and made it possible to obtain a fairly large surplus of 85 million dollars on the balance of payments. This was the second consecutive year in which a considerable payments surplus was achieved (see table 196). The accumulation of reserves increased the total reserves at the end of the year to approximately 145 million dollars, which was sufficient to cover approximately 4 1/2 months' import requirements. This contrasts sharply with the situation prevailing two years ago, when the small balance of reserves, amounting to 14 million dollars, corresponded to less than two weeks' import requirements.

4. *Prices*

In 1975 prices increased considerably less than in 1974. The average level of retail prices, measured by the urban consumer price index, increased by 8 per cent over the previous year, whereas in 1974 and 1973 the increases had been 15 per cent and 9 per cent respectively. The improvement is even greater if the prices are measured over the 12-month period ending in December, since this gives an increase of only 5 per cent in 1975 compared with 12 per cent in 1974 (see table 197). As regards individual groups of products, the prices of food, beverages and tobacco showed much smaller increases than in 1974; on the other hand the increases in the prices of clothing and other groups of products in 1975 were closer to the rates of increase of 1974.

The lower rate of growth of prices largely reflected the decline of the rate of inflation in the industrialized countries. Since the economy of Guyana is very open (in 1975 imports were equivalent to over 80 per cent of the GDP) the inflationary spiral of the developed countries in 1973-1974 was rapidly felt in the form of higher domestic prices. However, the decline in inflation in these countries in 1975 led to a marked reduction in the rate of increase of the prices of imports, and this was reflected in a much lower rate of expansion in the consumer price index.

The measures taken by the Government with the specific aim of insulating retail prices from the pressures of inflation constituted another important factor in the slackening of the rate of inflation. The anti-inflationary policy was basically centred around four elements: (a) the

Table 196

GUYANA: BALANCE OF PAYMENTS

(Millions of Guyana dollars)

	1970	*1972*	*1973*	*1974*	*1975*
Current account					
Exports of goods an services	148.9	166.0	159.9	295.8	378.9
Goods FOB	129.0	143.6	135.7	270.1	352.0
Services	19.9	22.4	24.2	25.7	26.9
Transport	3.8	3.7	3.8	4.2	4.0
Travel	3.4	3.3	3.8	3.6	4.0
Imports of goods an services	153.6	169.8	210.5	282.6	368.9
Goods FOB	121.1	129.6	159.4	230.3	300.0
Services	32.5	40.2	51.1	52.3	68.9
Transport	15.9	17.9	21.3	28.5	41.0
Travel	3.0	5.1	8.3	2.5	5.0
Net payments of profits and interest on foreign capital	– 15.9	– 10.7	– 12.1	– 18.9	– 20.8
Profits	– 14.2	– 7.3	– 5.4	– 13.5	– 14.0
Interest	– 1.7	– 3.4	– 6.7	– 5.4	– 6.8
Net private transfer payments	– 0.5	0.2	– 0.8	– 2.3	– 2.0
Balance on current account	– 21.1	– 14.3	– 63.5	– 8.0	– 12.8
Capital account					
Net external financing (a+b+c+d+e)	21.1	14.3	63.5	8.0	12.8
(a) Net external non-compensatory capital	14.1	12.9	18.4	33.8	97.8
Direct investment	9.0	2.5	8.2	6.6	–
Long- and medium-term loans	9.8	11.9	19.9	24.7	–
Amortization payments	– 1.2	– 1.0	– 4.2	– 4.6	–
Short-term liabilities (net)	– 3.5	0.7	– 5.6	8.3	–
Official transfer payments	–	– 1.2	0.1	– 1.2	–
(b) Domestic non-compensatory capital or assets	1.5	1.3	9.7	13.1	–
(c) Errors and omissions	3.1	8.2	9.3	7.3	–
(d) Allocation of SDRs	2.5	2.3	–	–	–
(e) Net compensatory financing (minus sign signifies an increase)	– 0.1	– 10.4	26.1	– 46.2	– 85.0
Balance-of-payments loans, trade arrears, IMF loans, and other liabilities of the monetary authorities	–	–	4.8	6.0	–
Amortization payments	–	– 2.3	– 0.1	– 6.6	– 6.1
Foreign exchange reserves (minus sign signifies an increase)	0.6	– 5.3	20.6	– 45.5	– 78.9
Gold reserves (minus sign signifies an increase)	– 0.6	– 0.7	0.7	– 0.2	–
SDRs (minus sign signifies an increase)	– 0.1	– 2.1	0.1	0.1	–

Sources: 1970-1974: International Monetary Fund., *Balance of Payments Yearbook*, vol. 27; 1975: CEPAL estimates based on official statistics.

Table 197

GUYANA: EVOLUTION OF DOMESTIC PRICES

	1971	1972	1973	1974	1975
Annual growth rates					
Consumer price index	2.0	4.5	8.9	15.3	8.0
Food	2.3	6.0	14.2	25.9	8.4
Variations from December to December					
Consumer price index	1.4	7.1	15.2	11.6	5.5
Food	1.3	10.6	24.1	17.4	6.2

Source: United Nations, *Monthly Bulletin of Statistics*, various issues.

Table 198

GUYANA: MONETARY POSITION
(Millions of Guyana dollars)

	Balance at end of				Annual growth rates [a]		
	1970	1973	1974	1975	1971–1973	1974	1975
1. *Money* (2 – 3)	*59*	*94*	*123*	*217*	*16.6*	*31.3*	*75.8*
Currency outside banks	38	56	64	111	14.1	14.3	72.8
Demand deposits	21	38	59	106	21.2	56.3	79.0
2. *Factors of expansion*	*167*	*300*	*375*	*569*	*21.4*	*25.1*	*51.7*
Foreign assets (net)	35	23	124	263	– 13.0	436.2	111.7
Domestic credit	132	277	251	305	28.0	– 9.4	21.8
Claims on government (net)	37	152	84	126	60.0	– 44.6	50.6
Claims on official entities	14	21	60	61	15.2	180.3	1.3
Claims on private sector	81	104	107	119	8.5	3.0	10.7
3. *Factors of absorption*	*108*	*206*	*252*	*352*	*23.8*	*22.3*	*39,8*
Quasi-money (savings and time deposits)	103	177	184	231	19.8	4.1	25.3
Other items (net)	5	29	68	121	75.0	133.0	79.4

Source: International Monetary Fund, *International Financial Statistics*, April 1976.
[a] The growth rates were calculated from unrounded data.

maintenance of a system of strict price control, particularly for basic necessities; (b) bulk purchases; (c) Government participation in the distribution network and (d) maintenance of a system of subsidies for a wide range of consumer articles, including some public utility services. Almost 37 million Guyana dollars were invested in direct subsidies.

Despite the slower growth of domestic prices during 1975, the global figures for the fiscal and monetary sectors showed a marked expansion.

The increase in the money supply in 1975 was more than double the already high rate of increase recorded in 1974. Money in circulation and sight deposits rose by the extraordinarily high figure of 76 per cent, compared with 31 per cent in the previous year. Their average increase during the period 1971-1973 had been about 17 per cent a year.

As in 1974, the main cause of the growth in monetary liquidity was the increase in the net international reserves of the monetary system as a result of the balance-of-payments surplus (see table 198). Domestic credit, which in 1974 was one of the factors which limited monetary expansion, contributed in 1975 to the trend towards greater liquidity, since such credit increased by 22 per cent compared with the fall of 9 per cent in the previous year. This was mainly caused by the net loans to the Government, which rose by 51 per cent after having diminished by 45 per cent in 1974. Loans to public institutions, however, hardly increased in 1975, whereas in 1974 they had increased by 180 per cent. Loans to the private sector rose by 11 per cent compared with the relatively insignificant increase of 3 per cent in the previous year.

With regard to the fiscal accounts, in 1975 the budgetary deficit increased by 122 per cent to 118 million Guyana dollars (20 per cent of total expenditure). This contrasts with the 61 per cent reduction of the deficit in 1974 (see table 199). However, it should be noted on the positive side that there was a further substantial increase in savings on current account and furthermore a high proportion of the growth in budgetary expenditure corresponded to capital expenditure.

In 1975 budgetary income remained very high, rising by 59 per cent after having doubled in 1974. The marked increase in income recorded in 1974 and 1975 largely reflected the effects of the Government's tax measures designed to secure a large proportion of the increased income from sugar exports. Whereas income rose more rapidly than expenditure in 1974, however, the opposite

Table 199

GUYANA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of Guyana dollars				*Annual growth rates* [c]		
	1970	*1973* [a]	*1974* [a]	*1975* [b]	*1971–1973*	*1974*	*1975*
1. *Current income*	*133*	*153*	*305*	*484*	*4.8*	*99.5*	*58.6*
Tax revenue	119	135	277	455	4.3	104.7	64.1
(a) Direct	50	57	75	104	4.6	31.2	38.7
(b) Indirect	29	48	169	311	18.4	253.7	84.1
(c) From taxes on external trade	40	30	33	40	– 9.0	9.2	20.5
Non-tax revenue	14	18	28	29	8.4	59.7	4.3
2. *Current expenditure* [c]	*124*	*207*	*255*	*347*	*18.8*	*22.8*	*36.4*
Wages and salaries	50	87	89	112	20.6	2.0	26.0
Other current expenditure	74	120	166	235	17.6	37.9	41.9
3. *Saving on current account* (1 – 2)	*9*	*– 54*	*50*	*137*	–	–	*170.7*
4. *Capital expenditure* [c]	*52*	*83*	*104*	*255*	*17.0*	*24.8*	*145.8*
5. *Total expenditure*	*176*	*290*	*359*	*602*	*18.2*	*23.4*	*68.1*
6. *Fiscal deficit (or suplus)* (3 – 4)	*– 43*	*– 137*	*– 54*	*– 118*	*47.5*	*– 61.3*	*122.1*

Source: Bank of Guyana, *Economic Bulletin,* N° 8, October 1974, and data supplied to CEPAL.

[a] Revised.

[b] Preliminary.

[c] The rates of growth were calculated from unrounded data.

occurred in 1975. In 1975 total expenditure rose by 68 per cent because of a 36 per cent increase in current expenditure and the exceptional increase of 146 per cent in capital expenditure (see table 199).

The accelerated growth in current expenditure in comparison with 1974 was mainly due to the fact that expenditure on wages and salaries in the public sector rose by 26 per cent whereas in 1974 it had hardly increased at all. The exceptionally large increase in capital expenditure was largely due to the implementation of Government development projects, especially in the sphere of the infrastructure. Current budgetary savings, which rose by 171 per cent, financed over 50 per cent of the increased expenditure, the rest being covered by means of foreign credits and domestic borrowing.

Finally, in October 1975 the Government decided to break the traditional link between the Guyana dollar and the pound sterling and to fix the rate of exchange through adjustable parity with the United States dollar at an initial rate of 2.25 Guyana dollars per United States dollar. It is hoped that this measure will lessen inflation. Before this change was introduced the devaluation of the pound sterling had been causing a decline in the value of the country's currency compared with the United States dollar, and this probably contributed to inflationary pressures.

HAITI

1. *The overall picture*

During 1975 the growth rate of the Haitian economy fell for the third consecutive year. The gross domestic product grew by 3.5 per cent, which was below both the 4.3 per cent achieved in the previous year and the 4.8 per cent recorded, on average, during the three-year period 1971-1973. However, owing to the improvement in the terms of trade in the past year, gross income increased at a faster rate than the product (see table 200).

Table 200

HAITI: MAIN SHORT-RUN ECONOMIC INDICATORS
(Percentage annual growth rates)

	1971–1973	*1974*	*1975* a
Gross domestic product	4.8	4.3	3.5
Gross income [b]	4.7	3.2	4.2
Per capita gross domestic product	2.3	1.8	0.9
Gross domestic investment	11.6	6.9	10.0
Value of exports	10.7	29.2	1.1
Value of imports	14.3	28.2	9.1
Terms of trade	–3.7	–11.2	7.3
Balance on current account [c]	–10.7	–32.0	–36.0
Variation in international reserves [c]	...	3.0	–9.0
Consumer price index [d]	13.4	19.5	13.5 [e]
Money	20.4	2.9	13.1

Source: CEPAL, on the basis of official statistics.

a Estimates.
b Gross domestic product plus terms-of-trade effect.
c Absolute values in millions of dollars at current prices.
d December to December.
e October 1974 to October 1975.

The increase in total supply, although more moderate than that of the product, was slightly higher than that of 1974, but it was well below the average rate for the period 1971-1973 (see table 201). The virtual stagnation in the volume of imports helped to close the gap between the rates of expansion of the product and that of supply in 1975 compared with the previous year, and the supply of goods and services increased by only 3 per cent between those years.

On the demand side, the rather more favourable picture was due entirely to the growth in domestic demand, both in terms of consumption and investment. Investment expenditure, in particular, showed a higher growth rate and was once again the most dynamic component of demand. The volume of exports, however, showed a marked drop, after having increased by less than 1 per cent in 1974, and its level in 1975 barely equalled that of 1970 (see table 201).

From the sectorial point of view, the drop in the growth rate of the overall product was attributable to the decline in the goods-producing

Table 201

HAITI: TOTAL SUPPLY AND DEMAND

	Millions of gourdes at 1970 prices			Percentage breakdown		Annual growth rates		
	1970	*1974*	*1975*[a]	*1970*	*1975*[a]	*1971–1973*	*1974*	*1975*[a]
Total supply	*2 603*	*3 088*	*3 181*	*115.4*	*113.3*	*5.0*	*2.5*	*3.0*
Gross domestic product	2 255	2 713	2 808	100.0	100.0	4.8	4.3	3.5
Imports	348	375	373	15.4	13.3	6.1	– 9.4	– 0.5
Total demand	*2 603*	*3 088*	*3 181*	*115.4*	*113.3*	*5.0*	*2.5*	*3.0*
Domestic demand	*2 338*	*2 783*	*2 917*	*103.7*	*103.9*	*5.1*	*2.7*	*4.8*
Gross domestic investment	157	233	256	7.0	9.1	11.6	6.9	10.0
Total consumption	2 181	2 550	2 661	96.7	94.8	4.6	2.3	4.4
General government	188	225	...	8.3	...	6.6	– 1.3	...
Private	1 993	2 325	...	88.4	...	4.3	2.6	...
Exports	*265*	*305*	*264*	*11.7*	*9.4*	*4.5*	*0.7*	*– 13.4*

Sources: 1970-1974: CEPAL calculations on the basis of figures provided by the Haitian Statistical Institute; 1975: CEPAL estimates on the basis of estimates from the same source.

Note: 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.

a Preliminary estimates.

sectors. The total value added in these sectors showed no increase at all in 1975, after having increased at an average annual rate of around 4 per cent during the period 1970-1974 (see table 202).

This recession was due mainly to the extremely small growth of agricultural activities –which generate more than 45 per cent of the total product– as a result of the prolonged drought which affected the north-western region of the country and led to smaller harvests of a nunber of crops produced mainly for the domestic market. As regards export items, whereas coffee production fell for the second year by almost 4 per cent, sugar cane production recovered from the reductions experienced in 1973 and 1974 as a result of the policy of fixing domestic prices well below those of the world market (which were rising at the time).

The manufacturing product, which in the first four years of the present decade had grown rapidly, lost impetus in 1975 and its rate of increase was only half that of the earlier years. This slowing down in industrial growth was due partly to the recession in the United States economy in 1975, since the extraordinary growth of those industries which process imported raw materials and export their products to the United States market, and which constitute the most dynamic element of the manufacturing sector, fell in 1975 and the value of exports of that type decreased by almost 7 per cent. The expansion of industrial activity was also affected by the smallness of the increase in imports of goods and the rise in oil prices.

The production of the mining sector also showed a major drop owing to the fall in external demand for its main product –bauxite– the export volume of which fell by 34 per cent.

As regards the service sectors, commerce and finance maintained their rather slow rate of growth of the previous year, while basic services expanded by 7 per cent and communal, social and personal services increased rapidly, their rate of growth in 1975 being over 12 per cent compared whith only 4 per cent in 1974. As will be seen further on, the increase in tourism was probably responsible for this marked expansion.

Table 202

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

	Millions of gourdes at 1970 prices			*Percentage breakdown*		*Annual growth rates*		
	1970	*1974*	*1975* [a]	*1970*	*1975* [a]	*1971–1973*	*1974*	*1975* [a]
Agriculture	1 041	1 131	1 134	50.8	45.2	2.5	1.0	0.3
Mining	35	48	32	1.7	1.3	9.4	4.1	− 33.5
Manufacturing	201	281	295	9.8	11.7	8.5	9.8	4.8
Construction	47	92	93	2.3	3.7	15.6	25.9	1.6
Subtotal goods	*1 324*	*1 552*	*1 554*	*64.6*	*61.9*	*4.1*	*3.8*	*0.1*
Electricity, gas and water	27	40	44	1.3	1.7	10.3	9.6	10.5
Transport and communications	49	63	66	2.4	2.7	7.6	3.9	4.6
Subtotal basic services	*76*	*103*	*110*	*3.7*	*4.4*	*8.6*	*6.0*	*6.9*
Commerce, financial establishment, and insurance	223	292	303	10.9	12.1	8.0	3.9	3.7
Real estate [b]	204	221	224	9.9	8.9	2.1	1.8	1.6
Communal, social and personal services [c]	224	284	319	10.9	12.7	6.8	4.1	12.4
Subtotal other services	*651*	*797*	*846*	*31.7*	*33.7*	*6.1*	*3.3*	*6.2*
Total gross domestic product	*2 051*	*2 466*	*2 553*	*100.0*	*100.0*	*4.8*	*4.3*	*3.5*

Sources: 1970-1974: CEPAL calculations on the basis of figures provided by the Haitian Statistical Institute; 1975: CEPAL estimates on the basis of estimates from the same source.

Note: As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

[a] Preliminary figures.

[b] Refers to ownership of dwellings only.

[c] Includes restaurants, hotels and services provided to enterprises.

2. *Prices*

The inflationary pressures which had interrupted the traditional stability of price levels from 1973 onwards continued to be felt in 1975. Information available up to September indicates that the consumer price index increased by 19 per cent in the corresponding twelve-month period, i.e., at a rate similar to that of the two previous years (see table 203). This occurred in spite of the fact that imported inflation fell sharply in 1975, when the prices of imports increased by only 8 per cent compared with the increase of more than 50 per cent in 1974 (see table 204).

The shortage of products for the domestic market caused by the stagnation of agricultural production, also helped to maintain the rate of inflation. In the first nine months of the year, the price index for foodstuffs, which make up 69 per cent of the sample basket, increased by 22 per cent.

As may be seen from table 205, the global liquidity of the economic system expanded by almost 25 per cent in 1975 compared with 18 per cent in the previous year. This increase in liquidity was due mainly to the sharp increase in credit to the public sector (over 48 per cent) and to a lesser extent, in loans to the private sector (29 per cent). However, the absorption of monetary resources entailed in the loss of international reserves cushioned the inflationary impact which might

Table 203

HAITI: EVOLUTION OF PRICES
(Annual rates of increase, December to December)

	1971	*1972*	*1973*	*1974*	*1975*
Consumer price index (Port-au-Prince)	13.3	7.4	19.7	19.5	13.5 [a]
Food	12.5	14.8	21.2	13.9	19.6

[a] October 1974 to October 1975.

Table 204

HAITI: VARIATION IN THE TERMS OF TRADE AND IN THE VALUE, VOLUME AND UNIT VALUE OF EXPORTS AND IMPORTS OF GOODS
(Annual growth rates)

	1971	*1972*	*1973*	*1974*	*1975* [a]
Exports of goods					
Value [a]	20.8	-9.1	19.4	39.9	-3.4
Volume	28.5	-11.0	1.6	4.4	-16.7
Unit value [a]	-6.0	2.1	17.4	34.3	15.9
Imports of goods					
Value [a]	17.2	8.8	19.2	30.1	11.9
Volume	13.8	3.7	1.8	-13.8	3.4
Unit value [a]	3.0	4.9	17.1	51.0	8.0
Terms of trade	-8.7	-2.6	0.2	-11.1	7.3

Source: CEPAL, on the basis of official statistics.
[a] Estimates.

have resulted from the expansion of credit. From the point of view of the structure of monetary resources, the moderate increases in money in the years 1974 and 1975 contrasted with the sharp growth in quasi-money in those years.

It is estimated that government income increased by 25 per cent in 1975 as a result of an increase in import duties and a bigger yield from income tax. There was also an inflow of extraordinary funds: a million dollars from taxes on sugar exporters at the end of 1974, when their exemption period expired, and 7 million dollars under the new agreement entered into with the Reynolds Metal Company, which exploits the bauxite deposits.

The increase in government revenue, together with the slower growth in expenditure (17 per cent in 1975 compared with 25 per cent in 1974), led to a reduction in the deficit, which is estimated at 10 per cent of expenditure compared with 14 per cent in 1974.

The persistence of the deficit was linked with the higher disbursements resulting from the readjustment in wages in the government sector, and the increase in imports of food by the Government. It was also due to the binding

Table 205

HAITI: MONETARY POSITION
(Millions of gourdes)

	1973	1974	November 1975	Annual growth rates 1974	1975 [a]
Breakdown of monetary reserves					
Money	332.8	342.4	362.0	2.9	5.7
Quasi-money	154.5	241.2	323.3	56.1	34.0
Long-term foreign borrowing	32.2	32.3	99.9	–	209.3
Other items	64.0	74.5	76.2	16.4	2.3
Factors of expansion and contraction	583.1	689.9	861.4	18.3	24.9
Foreign assets (net)	71.3	– 16.9	– 112.3	–	–
Domestic credit	511.8	706.8	973.7	38.1	37.8
Claims on government (net)	272.5	327.3	485.6	20.1	48.4
Claims on private sector	239.3	379.5	488.1	58.5	28.6

Source: IMF, *International Financial Statistics*, May 1976.
[a] Between December 1974 and November 1975.

commitments entered into by the Government under which they had to provide national counterpart funds for external loans for financing some major investment projects, the most important among these being the construction of the Southern Highway (with an IDB loan of 22 million dollars) and the Northern Highway, together with some local roads (with an IBRD-IDA loan of 30 million dollars).

3. *The external sector*

During 1975, the value of exports of goods and services hardly increased at all. Exports of goods and services showed contrasting trends, however. Whereas the value of exports of goods fell by a little over 3 per cent, that of exports of services increased by almost 14 per cent. The drop in exports of goods was the result of the reduction of almost 17 per cent in the volume exported, which the increase in unit value failed to offset. The increase in exports of services was due mainly to the tourist boom (see tables 204 and 206).

The reduction in exports of goods in 1975 contrasted with the considerable increase they had shown in the previous year, when their total value increased by the record amount of 40 per cent while their unit value also increased at the exceptional rate of 34 per cent.

The main reason for the lower level of exports of goods was the drop in coffee sales. After showing substantial increases in the two previous years these fell by 23 per cent in 1975 as a result of the drop of almost 19 per cent in the average price actually received[152] and the decrease of approximately 5 per cent in the volume exported.

The sales of other important products such as essential oils, sisal, handicraft articles and products of small-scale industry also fell. Thus, the value of sisal exports dropped to half of the 1974 level, that of essential oils fell by 23 per cent and that of handicraft and small-scale industrial products fell by a little over 27 per cent (see table 207). These reductions were due almost exclusively to the decline in the quantities exported.

The only products which increased the volume of their sales abroad were sugar, bauxite, and manufactures. In the first case, sales were more than four times higher than the 1974 value, since the quantity of sugar exported almost tripled while the average prices obtained increased by

[152] This went down in spite of the increase in international coffee prices from the third quarter of 1975 onwards. The drop in the effective price received for Haitian coffee exports in 1975 can be explained by the higher proportion of exports in the firts half of the year, when prices were falling.

Table 206

HAITI: BALANCE OF PAYMENTS
(Millions of dollars)

	1970	1972	1973	1974	1975
Current account					
Exports of goods and services	53	63	72	93	94
Goods FOB	39	43	51	72	69
Services	14	20	21	22	25
Transports	1	1	1	1	1
Travel	7	14	17	19	22
Imports of goods and services	69	86	103	132	144
Goods FOB	48	61	73	94	106
Services	22	25	31	38	39
Transport	10	13	16	22	25
Travel	4	5	7	5	4
Net payments of profits and interest en foreign capital	–4	–5	–5	–6	–6
Profits	–3	–4	–4	–5	–6
Interest	–1	–1	–1	–1	–
Net private transfer payments	15	30	11	13	20
Balance on current account	–5	2	–25	–32	–36
Capital account					
Net external financing (a + b + c + d + e)	5	–2	25	32	36
(a) Net external non-compensatory capital	10	18	21	43	52
Direct investment	3	4	7	8	3
Long- and medium-term loans	1	11	4	7	22
Amortization payments	–1	–3	–3	–3	–3
Short-term liabilities (net)	–	1	5	18	10
Official transfer payments	7	5	8	13	20
(b) Domestic non-compensatory capital or assets	–3	–3	–5	–9	–5
(c) Errors and omissions	–1	–10	8	–11	–19
(d) Allocation of SDRs	3	2	–	–	–
(e) Net compensatory financing (minus sign signifies an increase)	–4	–9	1	9	8
Balance-of-payments loans, trade arrears, IMF loans, and other liabilities of the monetary authorities	–	–	–	4	9
Amortization payments	–3	–1	–	–2	–
Foreign exchange reserves (minus sign signifies an increase)	–1	–5	–	4	–2
Gold reserves (minus sign signifies an increase)	–	–1	1	2	1
SDRs (minus sign signifies an increase)	–	–2	–	1	–

Sources: 1970-1974: International Monetary Fund, *International Financial Statistics:* 1975: CEPAL, on the basis of official statistics.

Table 207

HAITI: VALUE AND BREAKDOWN OF EXPORTS OF GOODS

	Millions of dollars				*Percentage breakdown*		*Annual growth rates*		
	1970	*1973*	*1974*	*1975* [a]	*1970*	*1975* [a]	*1971–1973*	*1974*	*1975* [a]
Coffee	15.2	20.6	24.0	18.5	39.0	26.8	10.7	16.5	– 22.9
Sugar	2.5	2.6	1.8	8.3	6.4	12.0	1.3	– 30.8	361.1
Bauxite	5.6	6.6	6.9	10.5	14.3	15.2	5.6	4.5	52.2
Sisal	1.8	1.2	3.0	1.5 [b]	4.6	2.2	– 12.6	150.0	– 50.0
Essential oils	2.5	3.6	6.5	5.0 [b]	6.4	7.2	12.9	80.6	– 23.1
Products of small-scale industry	1.0 [b]	2.3	5.5	4.0 [b]	2.6	5.8	32.0	139.1	– 27.3
Manufactures	–	5.2	9.8	11.4	–	16.5	–	88.5	16.3
Other products	10.4	9.0	14.0	9.9	26.7	14.3	– 4.7	55.6	– 29.3
Total	*39.0*	*51.1*	*71.5*	*69.1*	*100.0*	*100.0*	*9.4*	*39.9*	*– 3.4*

Source: Ministry of Trade and Industry, Haiti, *Bulletin Trimestriel*, September 1975, Statistical Institute.

[a] Preliminary figures.

[b] CEPAL estimates on the basis of data provided by national sources.

approximately 70 per cent. However, the increase in the volume of exports of sugar in 1975 represented, to a large extent, no more than the recovery of levels attained in previous years, which had plunged in 1974 to their lowest level for the past five years (less than 8,000 tons) because of the ban on exports of this product imposed by the Government in that year in order to guarantee adequate supplies for the domestic market.[153]

The other product for which the value of exports increased considerably was bauxite, which showed an increase of more than 50 per cent. This occurred in spite of the sharp drop in the volume exported and was due solely to the increase in the average effective export price of the product, which was more than double that of 1974. This higher price was the result of the new agreement reached early in 1975 between the Government and the company mining the bauxite (the Reynolds Metal Company).

As regards exports of services, those relating to tourism increased by 16 per cent, thus continuing to show, although at a somewhat slower rate, the steady expansion recorded since 1970. Tourism was the most important source of foreign exchange after coffee in 1975 (see table 206).

In 1975, the value of imports of goods and services increased by 9 per cent. If imports of goods only are considered, the increase was 12 per cent, which is less than half the figure for the previous year. In contrast to trends in that year, when the increase in the value of imports was exclusively the result of an increase in the unit price, in 1975 there was also an increase in volume of a little over 3 per cent.

The increase in the quantum of imports reflected, to a large extent, the increase in food imports which was necessary to make up for the smaller harvests of agricultural products for the domestic market.

The drop in the value of exports of goods during the year, together with the further increase in imports, caused a trade deficit of 37 million dollars: 68 per cent higher than in the two-year period 1973-1974 and a little over four times

[153] The fixing of domestic prices for sugar in 1973, when world prices were increasing rapidly, had a negative effect on sugar cane production, and led two of the largest sugar mills in the country to divert a large part of their production to the export market, thereby causing a shortage in the domestic market. This made it necessary to import sugar and to subsidize prices. For this reason, the Government decided in 1974 to ban sugar exports as long as the domestic market was not adequately supplied.

higher than in 1970. The deficit on the services account, although it remained within the high levels characteristic of it in recent years, dropped slightly in 1975 compared with 1974, however. The items mainly responsible for the services deficit were freight and insurance costs, since net tourist income increased from 14 million dollars in 1974 to 18 million in 1975.

The deficit on the goods and services account, after allowing for net remittances abroad of profits and interest and net income from private transfers of 20 million dollars, resulted in a deficit on current account of 36 million dollars – 13 per cent more than in 1974.

As in 1974, the flow of net non-compensatory capital in 1975 was not high enough to finance the deficit on current account. However, the figure for errors and omissions, which comes to more than half of the deficit itself, makes it difficult to analyse the external sector accounts for 1975. Nevertheless, the fluctuations observed in the main variables of the external sector in recent years clearly bring out its vulnerability. Because of the marked dependence of the Haitian economy on imported supplies, the sharp variations observed in the purchasing power of exports naturally affected the rate of economic growth.

HONDURAS

1. *The overall picture*

In 1975 the Honduran economy stagnated for the second consecutive year, mainly as a result of the damage caused by hurricane Fifi. There was an increase in the deficit on the current account of the balance of payments, but there was also a substantial cutback in the rate of inflation.

Between 1974 and 1975 the gross domestic product showed no change, but the gross income and the per capita product fell by 3.2 and 3.4 per cent respectively (see table 208).

As regards the trends in the various branches of economic activity, the most outstanding was the drop in agricultural production, which in the case of some products (bananas and staple grains) was very marked. In contrast, manufacturing and construction showed relatively satisfactory rates of expansion.

Exports of goods and services fell by approximately 4 per cent, in contrast with the growth recorded in the period 1971-1974. The value of imports of goods and services fell by a similar rate after having increased during the period 1973-1974 at an average annual rate of more than 40 per cent.

The trade in goods and services in 1975 was the main cause of the deficit of 146 million dollars on current account in the balance of payments: a figure almost four times as high as that recorded two years before. Nevertheless, the inflow of capital increased to 198 million dollars and international reserves therefore increased by over 50 millions dollars (see table 208).

The annual rate of increase of prices fell from 13 per cent at the end of 1974 to approximately 6 per cent in September 1975. The weaker impact of imported inflation –which was reflected in a smaller increase in the unit value of imports and a fall in the unit value of exports– played a decisive role in curbing the rate of inflation.

2. *Recent economic trends*

(a) *Global trends*

As noted earlier, in 1975 the performance of the Honduran economy was unfavourable for the second consecutive year, this time mainly as a result of the consequences of hurricane Fifi which devastated the country in September 1974. Other factors responsible for the unfavourable result were the drought in the early months of the year and the poor performance of the external sector. The gross domestic product remained in a state of stagnation, as in 1974. Consequently, in view of the growth in population, the per capita product fell by approximately 7 per cent between 1973 and 1975.

Moreover, when allowance is made for the terms-of-trade effect, which was unfavourable in both 1975 and in the previous year, it can be seen that the gross income of the country fell by 3.2 per cent, following the reduction of 2.7 per cent in 1974 (see tables 208 and 209).

Table 208

HONDURAS: MAIN SHORT-RUN ECONOMIC INDICATORS
(Percentage annual growth rates)

	1971–1973	1974	1975
Gross domestic product	4.2	0.1	–
Gross income [a]	4.5	– 2.7	– 3.2
Per capita gross domestic product	0.7	– 3.4	– 3.4
Gross fixed investment	– 0.3	8.9	9.5
Value of exports	13.2	15.1	– 4.3
Value of imports	6.4	54.1	– 3.7
Terms of trade	0.7	– 10.1	– 14.4
Balance on current account [b]	– 26	– 125	– 146
Variation in international reserves [b]	7	3	53
Consumer price index [c]	4.0 [d]	12.6	6.2
Money	18.5 [d]	2.4	8.9 [c]
Current income of government	10.2 [d]	15.0	10.7
Total expenditure of government	6.3 [d]	19.0	27.7
Fiscal deficit/total expenditure of government [f]	16.4 [d]	15.7	26.9

Source: CEPAL, on the basis of official statistics.

a Gross domestic product plus terms-of-trade effect.
b Absolute values in millions of dollars at current prices.
c Annual average variation.
d 1972–1973.
e Variation from October to October.
f Percentage.

The total supply of goods and services decreased by nearly 4 per cent, partly because of a reduction of 15 per cent in the volume of imports, which declined in real terms to figures similar to those of the early 1970s. The drop in imports was caused by the poor economic performance of the country and the unfavourable balance-of-payments position, moreover, during 1974 there had been some accumulation of imported goods –partly of a speculative nature– which it was possible to use in 1975 owing to the changes in the prevailing internal and external conditions.

As regards total demand, it may be noted that domestic demand fell by 4.2 per cent, while exports fell by 2.2 per cent.

Total consumption fell by 0.4 per cent, but private consumption fell by 1 per cent, mainly as a result of a substantial decrease in agricultural production. In this connexion, the decline in the production of bananas and above all of staple grains (maize, in particular) seriously affected the basic diet of the population. The adoption of measures by the Government which led to the importation of maize and rice, as well as the control of prices and supplies, went some way, however, towards alleviating the unfavourable effects which current economic trends were having on private consumption.

General government consumption, for its part, increased by nearly 4 per cent as a result of the increase in the procurement of goods and services by the Government to meet the needs arising from the natural disaster in 1974.

Investment trends were influenced by the variation in stocks. Thus, the reduction in stocks in 1975 permitted an increase of 9.5 per cent in gross fixed investment at the same time as a reduction of 18 per cent in total investment. At all events, it is interesting to note that the coefficient of fixed capital formation of the country amounted to 20 per cent in 1975, which is a relatively high rate compared with that of the other countries of the region having a per capita income similar to that of Honduras.

It is estimated that private investment was somewhat higher than in 1974, owing to the high

Table 209

HONDURAS: TOTAL SUPPLY AND DEMAND

	Millions of lempiras at 1970 prices			*Percentage breakdown*		*Annual growth rates*		
	1970	*1974*[a]	*1975*[a]	*1970*	*1975*[a]	*1971–1973*	*1974*[a]	*1975*[a]
Total supply	*1 915*	*2 182*	*2 098*	*133.9*	*129.5*	*2.9*	*4.7*	*– 3.8*
Gross domestic product	1 430	1 620	1 620	100.0	100.0	4.2	0.1	–
Imports	485	562	478	33.9	29.5	– 1.5	21.0	– 15.0
Total demand	*1 915*	*2 182*	*2 098*	*133.9*	*129.5*	*2.9*	*4.7*	*– 3.8*
Domestic demand	*1 529*	*1 748*	*1 674*	*107.0*	*103.3*	*2.5*	*6.0*	*– 4.2*
Gross domestic investment	312	378	310	21.9	19.1	– 2.7	31.2	– 18.1
Gross fixed investment	273	295	323	19.1	20.0	– 0.3	8.9	9.5
Total consumption	1 218	1 370	1 364	85.1	84.2	3.8	0.7	– 0.4
General government	166	168	174	11.6	10.7	– 1.5	5.4	3.7
Private	1 052	1 202	1 190	73.5	73.5	4.5	0.1	– 1.0
Exports	*385*	*434*	*424*	*26.9*	*26.2*	*4.2*	*– 0.3*	*– 2.2*

Sources: 1970-1973: CEPAL calculations on the basis of figures provided by the Central Bank of Honduras; 1974-1975: CEPAL estimates on the basis official data.

Note: 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.

[a] Preliminary figures.

level of expenditure needed for rehabilitating the damaged banana plantations; in addition, some important projects were launched in the industrial sector during the year.

Public investment must also have experienced a substantial increase, probably in the region of 15 per cent. Here, the main factors were the high level of investment in transport (among other works, the Tegucigalpa-Danli and Tegucigalpa-Talanga highways) and electric power (expansion of the Yojoa-Rio Lindo power project and the Fifth Electrification Project). There were also important increases in investment in other sectors (agriculture and the social sectors).

The volume of exports fell more sharply than in 1974, so that the performance in the last two years contrasts with the relative growth noted in this sector in the three-year period 1971-1973. As will be seen further on, both external and internal factors influenced the contraction in the volume of exports.

(b) *Sectoral developments*

Since agriculture is the most important productive activity of the country, both because of the product that it generates (approximately one-third of the total GDP and because of the influence it exercises on the remaining sectors, the poor results of the domestic economy in 1975 largely reflect the decrease in agricultural production in the last two years: a drop of nearly 3 per cent in 1974 followed by a 6 per cent fall in 1975 (see table 210). The main factor behind the substantial drop recorded in 1975 was the decrease of more than 30 per cent in banana production as a result of the destruction wreaked by hurricane Fifi in the plantations in the north of the country. It should be added that since the banana companies have, so far, only rehabilitated those plantations which can be easily brought into production again, it is likely that only towards the end of 1978 will it be possible to surpass the level of production achieved in 1973.

The production of staple grains was also seriously affected. The harvests of maize, rice and beans before the hurricane were substantially higher than those of previous years, as a result of the promotion work carried out by the National Development Bank. The floods which occurred towards the end of 1974 and the drought which took place in the first half of 1975, however, caused the loss of large quantities of maize, beans, sorghum, and rice. This led, in 1975, to a reduction of 27 per cent in the production of maize and to the stagnation of the production of other staple grains, with the exception of beans, which recorded an increase of approximately 10 per cent. Livestock production also experienced the unfavourable effects of the drought, which even made it necessary, in the early months of the year, to export cattle on the hoof.

Manufacturing recorded a rate of growth of a little more than 6 per cent. It is estimated that the output of traditional products increased, on average, by approximately 7 per cent; the industries producing metal manufactures and machinery registered a somewhat smaller growth rate, while in those producing intermediate goods the expansion was less than 6 per cent.

The factors which influenced the increase in manufacturing production were the growth in exports to the rest of Central America, as a result of the bilateral agreements reached with three countries of the region and Panama, and the increase in sales to the United States.

Table 210

HONDURAS: GROSS DOMESTIC PRODUCT, BY BRANCHES OF ECONOMIC ACTIVITY, AT FACTOR COST

	Millions of lempiras at 1970 prices			*Percentage breakdown*		*Annual growth rates*		
	1970	*1974*[a]	*1975*[a]	*1970*	*1975*[a]	*1971–1973*	*1974*[a]	*1975*[a]
Agriculture	447	494	464	34.6	31.7	4.4	– 2.8	– 6.1
Mining	29	47	49	2.3	3.4	10.6	20.4	4.4
Manufacturing	180	221	234	14.0	16.0	7.1	– 0.4	6.2
Construction	65	72	78	5.0	5.3	– 1.4	16.5	8.5
Subtotal goods	*721*	*834*	*826*	*55.9*	*56.4*	*4.9*	*0.4*	*– 1.0*
Electricity, gas and water	18	20	20	1.4	1.4	1.8	6.7	0.8
Transport and communications	86	101	101	6.7	6.9	5.4	0.3	0.2
Subtotal basic services	*104*	*121*	*121*	*8.0*	*8.3*	*4.8*	*1.3*	*0.2*
Commerce	171	172	171	13.3	11.7	1.0	– 2.8	– 0.5
Financial establishments, insurance and real estate	136	167	171	10.5	11.7	5.8	3.9	2.3
Communal, social and personal services	159	173	176	12.3	12.0	2.8	– 0.2	1.9
Subtotal other services	*466*	*512*	*518*	*36.1*	*35.3*	*3.0*	*– 0.2*	*1.2*
Total gross domestic product	*1 291*	*1 462*	*1 461*	*100.0*	*100.0*	*4.2*	*0.1*	–

Sources: 1970-1973: CEPAL calculations on the basis of figures provided by the Central Bank of Honduras; 1974-1975: CEPAL estimates on the basis of official data.

Note: 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.

[a] Preliminary figures.

In the case of some industrial products (foodstuffs and wood), the opportunities offered by those markets encouraged the expansion of installed production capacity and led to sizeable investments. Furthermore, attention should be drawn to the Government's promotion policy for exports of industrial products to Central America and other Latin American countries, which did have positive results in some instances, such as that of textiles in 1975.

Construction expanded at a rate of 8.5 per cent, particularly as a result of the efforts at reconstruction and rehabilitation of the economic infrastructure and the large number of housing units built during the year by the public and private sectors. There were also more private investments in housing, taking advantage of the existing system of incentives.

The goods-producing branches of economic activity, taken together, experienced a drop of 1 per cent in their rate of growth: thus, the expansion of the manufacturing and construction industries and of mining served to offset to a large extent the contraction in agriculture.

It is estimated that basic services (transport and public utility services) maintained a level of activity similar to that of 1974, while the various branches which provide "other services" are calculated to have achieved a growth rate only a little higher than 1 per cent (see table 210).

3. *The external sector*

In 1975, the unfavourable international conjuncture and the fall in the rate of expansion of the Central American Common Market, together with the natural disasters which hit the country, had an adverse effect on export trends.

The value of exports of goods fell by more than 5 per cent in contrast with the annual average increase of approximately 14 per cent in the period 1970-1974. This decline is accounted for by reductions of 2 per cent in the volume exported, and somewhat more than 3 per cent in the unit value (see tables 211 and 212).

The drop of 30 per cent in the production of bananas, mentioned above, led to a similar reduction in the quantity and value of exports of that product, since the world price was similar to that of 1974. In October 1975 the Government set up the Honduran Banana Corporation

Table 211

HONDURAS: VALUE AND BREAKDOWN OF EXPORTS OF GOODS

	Millions of dollars				*Percentage breakdown*		*Annual growth rates*		
	1970	*1973*	*1974*[a]	*1975*[b]	*1970*	*1975*	*1971–1973*	*1974*	*1975*
Main export products	*110.2*	*171.8*	*161.1*	*148.8*	*61.8*	*52.7*	*15.9*	*- 6.2*	*- 7.6*
Bananas	68.1	84.2	76.5	54.0	38.2	19.1	7.3	- 9.1	- 29.4
Coffee	25.9	48.5	43.9	52.2	14.5	18.5	23.2	- 9.5	18.9
Wood	16.2	39.1	40.7	42.6	9.1	15.1	34.0	4.1	4.7
Other exports	*21.1*	*38.0*	*48.8*	*39.3*	*11.9*	*14.0*	*21.6*	*28.4*	*- 19.5*
Chilled meat	9.7	21.8	16.8	10.6	5.5	3.8	30.9	- 22.9	- 36.9
Lead and zinc	7.1	10.6	18.9	16.9	4.0	6.0	14.3	78.3	- 10.6
Silver	4.3	5.6	13.1	11.8	2.4	4.2	9.2	133.9	- 9.9
Other products	46.9	49.1	87.6	93.9	26.3	33.3	2.2	78.4	7.2
Total	*178.2*	*258.9*	*297.5*	*282.0*	*100.0*	*100.0*	*13.3*	*14.9*	*- 5.2*

Source: CEPAL, on the basis of official statistics.

a Preliminary figures.

b Estimates.

Table 212

HONDURAS: VARIATION IN THE TERMS OF TRADE AND IN THE VALUE, VOLUME AND UNIT VALUE OF EXPORTS AND IMPORTS OF GOODS

(Annual growth rates)

	1971	1972	1973	1974	1975
Exports of goods					
Value [a]	8.9	8.0	23.6	14.9	- 5.2
Volume	6.6	3.5	1.3	-0.2	- 2.0
Unit value [a]	2.1	4.3	22.0	15.1	- 3.3
Imports of goods					
Value [a]	- 12.7	-0.6	38.0	58.1	- 2.6
Volume	-14.6	-7.8	19.5	23.5	- 13.9
Unit value [a]	2.1	7.8	15.5	28.1	13.0
Terms of trade	0.0	- 3.3	5.6	- 10.1	-14.4

Source: CEPAL, on the basis of official statistics.

[a] Calculated on the basis of figures in dollars at current prices.

(COHBANA) with a view to increasing the country's share in the international banana market, and its participation in the production, transport, marketing, and the fixing of prices for this product.

Coffee exports increased by 19 per cent –in spite of the fact that the unit value fell by more than 20 per cent– because of the preferential treatment given to the country as a result of the problems caused by the hurricane. Thus, the quantum exported increased by 55 per cent, for it was possible to export a large part of the existing stocks in addition to the new harvest.

Exports of wood, for their part, increased by about 5 per cent, reflecting an increase in the volume exported. It is worth noting that the work carried out by the Forestry Development Corporation of Honduras (COHDEFOR), set up in 1974 with a view to protecting and rationalizing the exploitation of the country's forests, also enabled new markets to be opened up, as for example in Venezuela, Argentina, and Uruguay.

Other export items (chilled meat, lead and zinc, silver and other products) were affected adversely by the existing international and regional situation, so that the values of exports fell or rates of expansion were lower than those of previous periods.

Thanks to the bilateral agreements entered into with Guatemala, Nicaragua and Costa Rica, Honduran exports to Central America grew vigorously (30 million dollars, in 1975 compared with 23 million in the previous year). Since the purchases made by the country grew proportionately, however, its deficit with the region remained at the 1974 level (20 million dollars).

As regards imports of goods, there was a reduction of almost 3 per cent in their value expressed in terms of dollars of current prices, as a result of an increase of 13 per cent in the unit value and a drop of 14 per cent in volume. It is worth noting the sharp drop in the rate of rise of the unit value of imports between 1974 and 1975, which coincides with the trend followed by world inflation.

The variations in the unit values of exports and imports of goods led in 1975 to a deterioration of more than 14 per cent in the terms of trade, in addition to that of 10 per cent noted in 1974. It should be added that the country did not improve its terms of trade during the period 1971-1973, as most of the Latin American countries did, owing mainly to the high share of bananas in its exports, since this product did not experience major increases in world prices, in contrast to the trends regarding other commodities.

For their part, exports of services in 1975 increased by 4 per cent owing to the variations recorded in respect of transport and travel. In contrast, imports of services fell by 10 per cent, in spite of the fact that transport costs increased (see table 213).

Table 213

HONDURAS: BALANCE OF PAYMENTS
(Millions of dollars)

		1970	*1972*	*1973*	*1974*	*1975* [a]
Current account						
Exports of goods an services		197	232	285	328	314
Goods FOB		178	210	259	298	282
Services		18	23	26	31	32
Transport		5	7	8	10	10
Travel		4	5	7	8	9
Imports of goods and services		244	221	295	454	437
Goods FOB		203	177	244	385	375
Services		41	44	51	69	62
Transport		21	21	26	36	40
Travel		12	14	15	13	10
Net payments of profits and interest on foreign capital		– 23	– 27	– 33	– 13	– 38
Profits		– 20	– 21	– 25	1	– 21
Interest		– 3	– 6	– 8	– 14	– 17
Net private transfer payments		3	3	4	14	15
Balance on current account		– 68	– 12	– 39	– 125	– 146
Capital account						
Net external financing (a+b+c+d+e)		68	12	39	125	146
(a)	Net external non-compensatory capital	58	38	52	114	
	Direct investment	8	3	7	– 1	
	Long- and medium-term loans	39	34	47	80	
	Amortization payments	– 6	– 10	– 18	– 16	198
	Short-term liabilities (net)	13	8	13	37	
	Official transfer payments	4	3	3	19	
(b)	Domestic non-compensatory capital or assets	– 3	– 15	– 9	– 6	
(c)	Errors and omission	1	–	1	– 1	
(d)	Allocation of SDRs	3	3	–	–	–
(e)	Net compensatory financing (minus sign signifies an increase)	9	– 14	– 5	18	– 52
	Balance-of-payments loans, trade arrears, IMF loans, and other liabilities of the monetary authorities	–	1	2	21	–
	Amortization payments	– 1	– 1	–	–	–
	Foreign exchange reserves (minus sign signifies an increase)	5	– 11	1	– 11	– 53
	Gold reserves (minus sign signifies an increase)	5	–	– 7	8	–
	SDRs (minus sign signifies an increase)	–	– 3	–	–	1

Source: International Monetary Fund, *Balance of Pavments Yearbook*, vol. 27.

[a] CEPAL, estimates based on official statistics.

To sum up, exports and imports of goods and services fell by approximately 4 per cent, as a result of which the trade deficit of 123 million dollars on goods and services maintained a level similar to that of 1974, when it was 126 million dollars.

The deficit on current account, however, increased from 125 million dollars in 1974 to 146 million dollars in 1975, since the net payments of profits and interest on foreign capital increased from 13 million to 38 million dollars between the two years mentioned. In 1975, the transfer of profits reached a level similar to that of the years 1972 and 1973 and was considerably higher than in 1974, when the banana companies suffered a drop in production and had, moreover, to retain profits for reinvestment in the rehabilitation of the areas damaged by the hurricane.

Donations from abroad amounted to 15 million dollars, reflecting the reaction of the international community to the emergency experienced by the country, and helped to reduce, in part, the trade deficit on goods and services.

The net inflow of non-compensatory capital was nearly 200 million dollars, which was substantially higher than in 1974; it is estimated that some 60 million dollars corresponded to loans obtained by the private sector and to direct foreign investment, while the remainder was made up of public sector borrowings, mainly long-term. It may be added that this inflow of funds not only financed the deficit on current account but also generated an increase of 52 million dollars in gross international reserves (see table 213).

4. *Prices*

During 1975 the rate of price increases went down 6 per cent compared with the rate of approximately 13 per cent observed in the previous year, which was rather a high figure for an economy such as that of Honduras with little history of inflation (see table 214). The rate of exchange, for its part, was maintained at 2 lempiras to the dollar, in accordance with the long-standing policy of a steady exchange rate followed by the country.

Study of the trends shown by the components of the index shows that food was the item which displayed the most rapid rate of decrease, followed by housing and clothing.

As in the case of most of the countries of the region, the decrease in imported inflation played a major role in curbing the increase in prices, particularly of foodstuffs. Thus, in 1975 the increase in the dollar unit value of imports of goods was 13 per cent, which was well below the 28 per cent variation observed in the previous year and also lower than the figure of 16 per cent recorded in 1973.

Table 214

HONDURAS: CONSUMER PRICE INDEX

(Rates of growth) [a]

	1971-1972	*1973*	*1974*	*1975*
General index	*2.8*	*4.1*	*12.6*	*6.2*
Food	3.9	3.8	15.4	7.9

Source: United Nations, *Monthly Bulletin of Statistics*, July 1976.

[a] Annual average variation.

The unit value of the country's exports of goods, which in 1973 and 1974 had increased by an average rate of 18 per cent annually, fell by 3 per cent in 1975 (see table 212). It should be recalled that coffee and meat were among the export products whose world prices fell.

Among other stabilizing factors which operated on the supply side, it is worth mentioning the increase in the supply of staple grains in the second half of the year and the measures to control the prices of some commodities implemented by the State agency BANASUPRO set up in 1974.

The trends recorded by fiscal and monetary variables did not exercise any significant pressure on the behaviour of prices.

Between 1974 and 1975 current fiscal income increased by approximately 11 per cent, in spite of the fact that the revenue from import duties fell while that from direct and indirect taxes increased only moderately. Only the taxes on exports showed an increase relatively higher than the average, as a result of the new tax on banana sales which came into force in June 1974[154] (see table 215).

[154] The increase in the current income of State enterprises between the two years mentioned was, on average, higher than 10 per cent, as a result of a 25 per cent adjustment in the tariffs of the National Electricity Corporation, which had remained unchanged for 11 years, the installation of water meters in areas where they did not exist before, and the increase in the volume of operations of the port authority of Puerto Cortés.

Table 215

HONDURAS: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of lempiras				*Annual growth rates*		
	1971	*1973*	*1974* [a]	*1975* [b]	*1972–1973*	*1974*	*1975* [b]
1. *Current income*	*181*	*220*	*253*	*280*	*10.2*	*15.0*	*10.7*
Tax revenue	161	194	228	246	9.8	17.5	7.9
Direct	44	49	68	77	5.5	38.8	13.2
On imports	48	56	65	61	8.0	16.1	– 6.2
On exports	6	12	15	22	41.0	25.0	46.7
Indirect	63	77	81	86	10.6	5.2	6.2
Non-tax revenue [c]	20	26	24	34	14.0	– 7.7	41.7
2. *Current expenditure*	*162*	*189*	*213*	*234*	*8.0*	*12.7*	*9.9*
Operational	133	154	174	181	7.6	13.0	4.0
Other current expenditure	29	35	38	53	9.8	8.6	39.5
3. *Saving on current accounts* (1 – 2)	*19*	*31*	*40*	*46*	*27.5*	*29.0*	*15.0*
4. *Investment*	*61*	*63*	*87*	*149*	*1.6*	*38.1*	*71.3*
Real investment	46	41	56	88	– 5.6	36.6	57.1
Other investment	15	22	31	61	21.1	40.9	96.8
5. *Total expenditure* (2 + 4)	*223*	*252*	*300*	*383*	*6.3*	*19.0*	*27.7*
6. *Fiscal deficit (or surplus)* (3 – 4)	*– 42*	*– 32*	*– 47*	*– 103*	*– 12.7*	*46.9*	*119.2*
7. *Financing of deficit*	*42*	*32*	*47*	*103*	*– 12.7*	*46.9*	*119.2*
External financing (net)	33	13	45	76	– 37.2	246.2	68.9
Domestic financing (net)	9	19	2	27	45.3	– 89.5	1 250.0

Source: CEPAL, on the basis of official statistics.

[a] Preliminary figures.

[b] Estimates.

[c] Including current transfers and other current revenue.

Current central government expenditure increased by approximately 10 per cent, in spite of the fact that operational costs (mainly wages) only increased by 4 per cent. However, the item "other current expenditure" increased by approximately 40 per cent, reflecting the extraordinary expenditure incurred in social rehabilitation programmes in favour of the low-income sectors, which suffered most from the hurricane and drought.

As result of trends in current income and expenditure, government savings increased by 15 per cent. That relative variation is approximately half the average for the period 1972-1974.

Investment by the central government increased sharply (71 per cent). In 1975, the Government gave priority to repairing the economic infrastructure, following the damage caused by the hurricane, and to several major new investments. Among these, the most important were investment projects in the transport and energy sectors, and the implementation of various works in the areas of education and health.

In order to finance the rapid increase in government investment, and in view of the moderate increase in savings on current account, the Government was forced to incur a total deficit of 103 million lempiras in 1975 –double that of the previous year. This deficit was covered by external borrowings of 76 million and internal borrowings of 27 million, both net figures.

In connexion with the foregoing, mention should be made, on one hand, of the improved capacity shown by the country for using increasing amounts of external finance. This applied to the entire public sector. On the other hand, it was observed that the increase in the volume of domestic resources stemmed mainly from the use of cash balances accumulated in previous years, and not from borrowing as such.

In the period from October 1974 to October 1975, the money supply increased by almost 9 per cent, which can be compared with the increase of rather more than 2 per cent recorded in 1974 and the average rate of 19 per cent in the period 1972-1973. Nevertheless, taking trends up to October 1975, expansion factors as a whole increased by little more than 5 per cent –a rate similar to that of the previous year– while absorption factors increased by only 3 per cent, a relative variation considerably lower than that recorded in 1974 and in the period 1972-1973 (see table 216).

During 1975 total domestic credit and that granted to the private sector increased by 18 per cent, in response to the credit expansion guidelines set by the Government in the light of the increased supply of monetary resources needed to deal with the damage caused by the natural disasters. Among the absorption factors, the most important was an increase of more than 15 per cent in the growth in quasi-money. This was largely the result of measures adopted by the monetary authorities to increase the maximum annual rates of interest on savings and time deposits from between 4 and 6 per cent to between 6 and 9.5 per cent.

Table 216

HONDURAS: MONETARY POSITION
(Millions of lempiras)

	Balance at end of			*Balances as at end October*		*Annual growth rates*		
	1971	*1973*	*1974*	*1974*	*1975*	*1972–1973*	*1974*	*1975*[a]
1. *Money* (2 – 3)	*177*	*249*	*255*	*236*	*257*	*18.5*	*2.4*	*8.9*
Currency outside banks	78	110	106	101	105	18.6	– 3.6	4.0
Demand deposits	99	139	149	135	152	18.5	7.2	12.6
2. *Factors of expansion*	*431*	*583*	*615*	*601*	*633*	*16.3*	*5.5*	*5.3*
International reserves (net)	– 14	– 20	– 63	– 56	– 143	–	–	–
Domestic credit	445	603	678	657	776	16.3	12.4	18.1
Claims on government (net)	61	72	75	62	79	8.6	4.2	27.4
Claims on official entities	15	24	20	20	20	26.5	– 16.7	–
Claims on private sector	369	507	582	575	677	17.2	14.8	17.7
3. *Factors of absorption*	*254*	*335*	*360*	*365*	*376*	*14.8*	*7.5*	*3.0*
Quasi-money (savings and time deposits)	167	225	235	234	270	15.9	4.4	15.4
Securities and special saving	25	45	55	54	54	34.0	22.2	–
Other items (net)	62	65	70	77	52	2.4	7.7	– 32.5

Source: CEPAL, on the basis of official statistics.

[a] Compared with October of the previous year.

JAMAICA

1. *The overall picture*

The gross domestic product at factor cost is provisionally estimated to have increased by 17 per cent in current prices in 1975. The increases in 1973 and 1974 were 15 per cent and 31 per cent respectively. Because of the continuous and widespread rise in prices, however, it is estimated that there was very little real growth in the economy during the year (see table 217).

Agriculture and industry expanded quite significantly in real terms and there was also an intensification of government and construction activities, but mining decreased.

The rate of inflation was fairly high for the third consecutive year, although lower than in 1974. The only measure of price variations currently available is the consumer price index, which showed an increase of 17 per cent in 1975, compared with 27 per cent in 1974 and 18 per cent in 1973. However, the monthly increase in prices has been diminishing since the third quarter of 1975 and import prices also seem to have risen more slowly. On the other hand big wage increases continued to be demanded in collective bargaining. There are also indications that the increased liquidity of the banking system and the sluggishness of domestic production exerted some inflationary pressure.

In the external sector, the deficit on merchandise trade came to approximately 335 million dollars, or more than double the figure for the previous year. This was due to the decline in the value of exports and the increase in that of imports. Despite the great increase in external credit (mainly to the Government) and the sustained level of income from tourism, which was close to the 1974 figure, the balance of payments is expected to show a deficit. According to preliminary estimates, the balance of payments in 1974 showed a surplus of 63 million dollars; in 1975, however, it reflected a deficit approximately equal to the previous year's surplus.

In 1975 several of the key elements in economic activity showed poor results, with the notable exception of export prices. Even so, the

Table 217

JAMAICA: MAIN SHORT-RUN ECONOMIC INDICATORS
(Percentage annual growth rates)

	1971–1973	*1974*	*1975*
Gross domestic product	14.6 [a]	31.0 [a]	17.3 [a]
Value of exports	6.6	45.6	0.1
Value of imports	8.9	37.7	18.8
Terms of trade	−4.3	29.6	0.6
Balance on current account [b]	−199	−275	−467
Variation in international reserves [b]	−10	63	−61
Consumer price index [c]	9.3	27.3	17.4
Money	18.0	18.8	23.2
Current income of government	...	40.0	24.0
Total expenditure of government	...	49.4	45.6
Fiscal deficit/total expenditure of government [d]	...	29.1	39.6

Source: CEPAL, on the basis of official statistics.

[a] In Jamaica, as distinct from other countries included in the *Survey*, these rates refer to the nominal growth of the product.
[b] Absolute values in millions of dollars at current prices.
[c] Annual average variation.
[d] Percentage.

Table 218

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

	In millions of Jamaican dollars at current prices			*Percentage breakdown*		*Annual growth rates* [a]		
	1970	*1974* [b]	*1975* [c]	*1970*	*1975*	*1971–1973*	*1974*	*1975*
Agriculture	79	158	198	8.1	8.8	17.5	23.6	25.1
Mining [d]	148	298	281	15.2	12.5	0.4	99.3	- 5.6
Manufacturing	133	250	310	13.6	13.8	13.7	28.4	24.0
Construction	114	204	233	11.7	10.3	16.0	14.5	14.0
Subtotal goods	*474*	*911*	*1 023*	*48.6*	*45.4*	*11.2*	*39.9*	*12.3*
Electricity, gas and water	15	27		1.5		10.6	35.2	
Transport and communications	70	137		7.2		17.7	18.9	
Subtotal basic services	*85*	*163*		*8.7*		*16.5*	*21.3*	
Commerce, restaurants and hotels	139	274	323	14.2	14.3	19.5	15.3	17.8
Financial establishments, insurance and real estate	84	175	907 [e]	8.6	40.3 [e]	19.2	23.2	23.3 [e]
Communal, social and personal services	194	397		19.9		15.8	32.1	
Subtotal other services	*417*	*847*	*1 230*	*42.7*	*54.6*	*17.6*	*24.3*	*21.8*
Total gross domestic product	*975*	*1 920*	*2 252*	*100.0*	*100.0*	*14.6*	*31.0*	*17.3*

Source: Department of Statistics, Jamaica.

[a] Unlike the figures for most countries covered by the *Economic Survey*, there rates reflect changes in current prices.
[b] Preliminary figures.
[c] CEPAL estimates.
[d] Includes petroleum refining.
[e] Also includes subtotal for basic services.

benefits of the higher export prices were offset by increases in the prices of imported raw materials and finished products.

Agricultural production was affected by the drought and by strikes in the sugar industry, among other problems. Industrial production declined because of the shortage of raw materials and because of strikes and other "industrial action" by the workers. Production in the bauxite and alumina industry declined, not only because of the strikes but also because of the reduced demand for aluminum in the world market; furthermore, one firm in the sector temporarily suspended its activities. The reaction of the companies in this industry to the measures taken by the government in order to try to assure greater profits from the bauxite and alumina industry for the country are significant not only in relation to the 1975 output but also to the future of the industry.

Faced with the chronically high levels of unemployment and under-employment, the more or less continuous decline in foreign exchange reserves, especially during the second half of the year, and the sluggishness of manufacturing activity, the government undertook a comprehensive review of its economic and fiscal policies. It was announced that the principal goal of those policies would be to achieve self-sufficiency in food, housing and clothing, and that a wide range of institutions would be established or strengthened and various methods would be used in order to attain those objectives and combat the high rate of inflation. These methods include the following:

(a) Incentives to stimulate production: credit facilities will be extended in order to encourage production utilizing local raw materials, to finance exports and to promote small businesses. The drive to bring additional land under cultivation will also be intensified;

(b) Employers and employees will be required to make contributions to a National Housing Trust Fund which will be used to finance workers' housing;

(c) Minimum wages will be fixed.

Furthermore, all imports have been made subject to a licensing system, profit and wage guidelines have been established, price controls have been tightened and the government has decided to take steps to reduce expenditure during the fiscal year 1976. It will clearly take some time to establish the necessary institutions and implement some of these measures, and consequently the results of these new policy directives will not be discernible until 1976.

2. *Sectoral developments*

(a) *Agriculture*

It is estimated that the gross domestic product of agriculture increased by 25 per cent at current factor cost. (see table 218). This increase, however, was mainly due to the higher price of goods rather than to any growth in production, since the output of most crops declined. It is therefore estimated that in 1975 agricultural production showed only a relatively small increase in real terms.

The output of sugar cane, which had recovered slightly in 1974, is estimated to have fallen again in 1975, judging by the lower volume of sugar manufactured. The average price of sugar exports rose during the year, however. The output of bananas, citrus fruits and pimento also declined, but the production of cocoa, coffee and ginger improved slightly. The gross domestic product created by these traditional export crops is estimated to have increased by nearly 48 per cent, however (see table 219).

The increase in the gross domestic product of crops for the domestic market was much smaller (19 per cent). The expansion of this sub-sector was also mainly due to the higher prices in 1975, as the indications are that the output of most root crops and vegetables declined slightly on account of the severe drought which occurred during the year and completely destroyed some of the crops. Available estimates on the output of sweet potatoes and plantains, for example, indicate decreases of 27 per cent and 33 per cent respectively.

In the livestock sub-sector, the number of animals slaughtered rose considerably. It should be noted that the drought of 1975 caused considerable damage to pasture land and contributed to the increase in the number of cattle slaughtered, although the average weight per head was lower. Milk output remained at around the 1974 level. Estimates of the fishing catch and the output of the forestry industry do not indicate any growth in quantum.

(b) *Mining*

In 1975 the level of activity in mining, quarrying and refining was lower than in the previous year. The gross domestic product of the sector is provisionally estimated to have declined by approximately 6 per cent in current prices. All the sub-sectors shared in this decline, but the most pronounced reduction was in the output of bauxite and alumina, which, because of its large share of the total, caused a marked decrease in the production of the sector as a whole.

In 1975 the output of bauxite and of alumina declined by 11 per cent and 18 per cent respectively. However, the average export prices for the two commodities rose by 16 per cent and 18 per cent respectively. In contrast, there was an increase in the output of gypsum and the refining of petroleum products increased in terms of value, although the output figures for individual commodities showed varying trends (see table 220).

During the year, the bauxite and alumina industry registered severe cutbacks in its production and labour force. There was a temporary suspension of activities by one company, and labour relations were strained resulting in strikes and go-slows. The decline in output was also influenced by the curtailment of the production of primary aluminum by related firms in the producing countries, in response to the fall in world demand for aluminum.

The government's policy of gaining greater control of this important sector of the economy progressed from the first stage of obtaining increased revenue from the bauxite industry by

Table 219

JAMAICA: OUTPUT OF SELECTED AGRICULTURAL PRODUCTS

Commodity	*Unit*	*Production*				*Annual growth rates* [b]		
		Average 1968 - 1969	*1973*	*1974* [a]	*1975* [a]	*1969 - 1973*	*1974*	*1975*
Sugar cane, milled	Thousands of long tons	4 201	3 584	3 786	...	- 3.9	5.6	–
Bananas [d]	Thousands of longs tons	152	108	72	70	- 8.2	- 33.3	- 2.8
Citrus fruits [c e]	Thousands of cases	1 331	1 062	1 077	1 009	- 5.5	1.4	- 6.3
Pimento	Long tons	2 735	2 536	2 613	...	- 1.9	3.0	–
Copra	Thousands of short tons	18	15	9	7	- 4.7	- 35.9	- 24.9
Cocoa [c]	Longs tons	1 917	2 071	1 593	1 771	2.0	- 23.1	11.2
Coffee [f]	Thousands of bags	230	308	240	242	7.6	- 22.1	0.8
Ginger	Thousands of pounds	959	1 498	1 714	1 860	11.8	14.4	8.5
Milk	Millions of grants	43	47	49	49	2.3	4.9	–
Eggs [g]	Millions	196	136	139	...	- 8.7	2.2	–
Cattle, slaughtered	Thousands of head	61	64	67	90	1.1	4.4	34.1
Hogs, slaughtered	Thousands of head	117	151	100	88	6.5	- 33.9	- 11.8
Poultry	Millions of pounds	24	45	50	...	16.7	12.5	–
Plantains	Millions of pounds	22	59	58	39	28.0	- 1.7	- 32.8
Coconuts	Millions	135	99	70	...	- 7.5	- 28.9	–
Sweet potatoes	Millions of pounds	30	35	45	33	3.9	27.8	- 26.9

Sources: Economic and Social Survey, 1974, Jamaica; *Production Statistics*, Jamaica, and data supplied to CEPAL.

a Preliminary figures.
b The growth rates have been calculated from unrounded data.
c Crop year ending in the year shown.
d Exports only.
e Deliveries to packing and processing plants.
f Crop year beginning in the year shown, deliveries to the *Coffee Industry Board*.
g Commercial production.

Table 220

JAMAICA: MINING AND REFINING OUTPUT

Product	Unit	*Production*				*Annual growth rates* [b]		
		Average 1970–1971	*1973*	*1974* [a]	*1975* [a]	*1971–1973*	*1974*	*1975*
Bauxite (mined) [c]		12.1	13.3	15.0	13.3	4.7	12.8	– 11.3
Alumina [c]		1.8	2.5	2.7	2.2	18.0	8.0	– 18.5
Gypsum (mined) [c]		0.3	0.4	0.23	0.24	9.1	– 42.5	4.4
Petroleum products: [d]								
Fuel oil		187.7	228.6	212.9	174.5	10.3	– 6.9	– 18.0
Gasoline		81.0	78.5	60.1	62.2	– 1.5	– 23.6	3.5
Kerosene and jet fuel		43.0	49.6	45.3	35.2	7.4	– 8.7	– 22.3
Diesel oil (auto and marine)		74.1	79.7	60.7	75.7	3.7	– 23.8	24.7
Asphalt		4.5	5.2	6.6	8.2	7.0	26.9	24.3
Propane and butane		7.7	14.4	13.0	11.6	36.3	– 9.7	– 10.7
Lubricating oil		4.7	5.4	4.7	5.1	6.8	– 13.0	8.5
Lubricating grease [e]		4.0	4.5	4.8	5.5	5.2	6.7	14.6

Source: Economic and Social Survey, 1974, Jamaica; *Production Statistics*, Jamaica, and data supplied to CEPAL.

a Preliminary figures.
b The growth rates have been calculated from unrounded data.
c Millions of long tons.
d Millions of imperial gallons.
e Millions of pounds

means of production levies and modifications in the price system for the basic products involved, to the stage of acquiring equity participation in the bauxite and alumina producing companies and repurchasing mined-out land.

(c) *Manufacturing*

Although the gross domestic product of the manufacturing sector rose by 24 per cent at current factor costs, there was little if any real growth in industrial output.

The available data on the production of manufactured goods show a mixed performance. Although the volume of output of sugar, rum and molasses declined marginally during 1975, these activities made a substantial contribution to the sector because of the higher prices obtained in foreign markets. The average export value of sugar, for example, was 551 dollars per ton compared with 275 dollars in 1974.

In 1975 there was a reduction in the output of fertilizers, detergents, textiles, condensed milk and copra. However, there was an increase in the production of ammonium sulphate, sulphuric acid, paints, tyres, cement, salt, soap, edible oils and fats, beverages, cigarettes, animal fodder and flour (see table 221).

The manufacturing sector experienced some difficulties in obtaining inputs, especially from international sources. Moreover, the prices of imported raw materials and intermediate goods continued to rise. These two factors, combined with the reduced demand for final products, delayed the expansion of various manufacturing sub-sectors. The strikes in some industries also contributed to the lower levels of production.

Despite these trends in 1975, there are indications that the manufacturing base is being broadened. The new manufacturing establishments under construction in 1975 included a factory to produce cassava flour and a new dairy products plant which will increase production capacity in this sector considerably. Printing and publishing activities and tyre manufacture were also expanding.

During the year, the government announced a new package of incentives to stimulate

Table 221

JAMAICA: OUTPUT OF SELECTED MANUFACTURES

Product	*Unit*	*1973*	*1974*	*1975*	*Annual growth rates* [a]		
					1973	*1974*	*1975*
Sugar	Thousands of long tons	326	367	355	– 12.7	12.4	– 3.2
Rum and alcohol	Thousands of gallons	4 034	4 850	4 731	10.3	20.2	– 2.4
Molasses	Thousands of long tons	129	121	120	– 9.8	– 6.4	– 1.2
Beer and stout	Millions of gallons	12	13	15	12.1	1.9	14.6
Cigarettes	Millions	1 480	1 546	1 625	– 5.7	4.5	5.1
Cigars	Millions	22	19	15	4.8	– 15.6	– 17.5
Copra	Thousands of short tons	14	9	7	– 22.8	– 35.7	– 22.2
Edible oil	Millions of gallons	3	2	3	– 2.2	– 15.0	15.3
Edible fats	Millions of pounds	12	13	15	– 16.2	4.4	14.7
Soap	Millions of pounds	12	12	13	– 25.6	– 0.7	12.4
Detergents	Millions of pounds	10	11	11	– 8.4	7.6	– 0.5
Condensed milk	Millions of pounds	57	64	63	3.4	12.5	– 0.6
Textiles (fabrics)	Thousands of yards	7 520	9 188	7 780	– 11.2	22.2	– 15.3
Cement	Thousands of tons	397	393	399	– 6.4	– 1.1	1.6
Flour	Millions of pounds	97	83	87	– 14.1	– 14.2	3.9
Sulphuric acid	Thousands of tons	13	11	15	– 1.9	– 17.7	37.7
Paints	Thousands of gallons	1 497	1 312	1 543	– 4.8	– 12.3	17.6
Tyres and tubes	Thousands	356	327	387	12.3	– 8.0	18.2
Fertilizers	Thousands of tons	47	56	47	12.7	18.9	– 15.7
Amonium sulphate	Thousands of tons	5	5	7	19.1	2.3	29.1
Salt	Thousands of tons	15	10	16	– 2.9	– 30.6	53.4
Animal feeds	Millions of pounds	220	301	382	– 18.7	36.8	26.7

Source: National Planning Agency, Economic and Social Survey, Jamaica 1974, and data supplied to CEPAL.
[a] The growth rates have been calculated from unrounded data.

manufacturing activities as part of its policy of self-sufficiency in housing, food and clothing.

(d) *Other sectors*

The part-year data indicate that tourism decreased slightly in 1975. The total number of visitors rose by 4 per cent, but the number of hotel guests fell by 9 per cent, as did the number of tourists from North America, the most important market. There are indications that the hotel room occupancy rate was approximately the same as in 1974, while it is estimated that tourist expenditure declined between January and October 1975 compared with the same period in 1974 (see table 222).

The government product at current prices is provisionally estimated to have risen by 36 per cent in 1975 compared with 49 per cent in 1974. The 59 per cent increase in capital expenditure was a significant feature. Other interesting aspects were the relatively low growth rate of the current revenue and the rise in the deficit (see table 223). As a result it became necessary to increase government borrowing. In 1973 government loans from domestic sources exceeded loans from abroad, but this pattern changed in 1974, and in 1975 the proportion of the debt represented by foreign loans increased even further.

The construction sector did not show any real growth in 1975, although it is estimated that its gross domestic product increased by 14 per cent at current prices. Preliminary figures indicate a decline in the construction activities of the private sector, and although the construction activities of the government appear to have increased, the growth was not sufficient to offset the decline in private construction.

Table 222

JAMAICA: SELECTED STATISTICS ON TOURISM

	1972	*1973*	*1974*	*1975* [a]
Number of rooms	9 065.0	10 069.0	11 068.0	...
Number of beds	17 944.0	19 897.0	21 904.0	...
Total visitors (thousands)	493.5	517.4	530.7	552.7
Room occupancy rate (percentage)	48.9	50.3	43.8	43.8
Length of stay (nights)	7.9	8.3	8.4	...
Estimated expenditure (millions of Jamaican dollars)	107.9	115.8	121.2	106.2 [b]

Source: National Planning Agency, *Economic and Social Survey*, 1974. The Jamaica Tourist Board, *Travel Statistics*, and data supplied to CEPAL.

[a] January to November.

[b] January to October.

Table 223

JAMAICA: GOVERNMENT REVENUE, EXPENDITURE AND NEW BORROWING

	Millions of Jamaican dollars			*Annual growth rates*		
	1973	*1974* [a]	*1975* [a]	*1973*	*1974*	*1975*
1. *Total recurrent revenue*	*326.4*	*457.0*	*566.6*	*19.0*	*40.0*	*24.0*
Income tax	128.9	173.6	211.8	18.4	34.7	22.0
Customs duties	53.0	57.6	81.1	– 8.5	8.7	40.8
Excise duties	56.6	55.5	51.3	7.0	– 1.9	– 7.6
Other revenues	87.9	170.3	222.4	61.3	93.7	30.6
2. *Current expenditure*	*309.4*	*460.4*	*629.6*	*31.8*	*48.8*	*36.8*
3. Capital expenditure	108.2	170.7	271.6	9.1	57.8	59.1
4. Sinking fund and direct debt payment	13.8	13.2	37.2	35.3	– 4.3	181.8
5. *Total expenditure*	*431.4*	*644.3*	*938.4*	*25.4*	*49.4*	*45.6*
Deficit (1–5)	– 105.0	– 187.3	– 371.8	50.2	78.4	98.5
Net borrowing	107.6	158.6	187.2	56.6	47.4	18.0
Domestic	64.6	65.7	73.8	47.5	1.7	12.3
Foreign	43.1	92.9	113.4	73.1	115.5	22.1
Variations in cash balance (minus sign signifies an increase)	– 2.6	28.7	184.6	–	–	543.2
Total gross national debt (end of year)	*485.7*	*649.7*	*842.0*	*26.4*	*33.8*	*29.6*

Source: Bank of Jamaica, *Bulletin, Report and Statement of Accounts* and *Statistical Digest.*

[a] Preliminary figures.

Table 224

JAMAICA: BALANCE OF PAYMENTS
(Millions of dollars)

		1970	1972	1973	1974	1975 [a]
Current account						
Exports of goods and services		522	616	632	920	921
Goods FOB		342	378	393	652	633
Services		180	238	239	268	288
Transport		28	34	36	48	56
Travel		96	135	128	137	143
Imports of goods and services		599	716	773	1 064	1 264
Goods FOB		449	529	571	814	968
Services		150	187	202	250	296
Transport		88	102	111	147	185
Travel		16	21	20	20	24
Net payments of profits and interest on foreign capital		– 98	– 125	– 133	– 165	– 159
Profits		– 104	– 124	– 125	– 150	– 146
Interest		6	– 1	– 8	– 15	– 13
Net private transfer payments		26	35	33	34	35
Balance on current account		– 149	– 190	– 241	– 275	– 467
Capital account						
Net external financing (a+b+c+d+e)		149	190	241	275	467
(a)	Net external non-compensatory capital	191	161	241	315	406 [b]
	Direct investment	162	98	74	23	–
	Long- and medium-term loans	14	41	154	298	–
	Amortization payments	– 4	– 6	– 14	– 6	–
	Net short-term liabilities	23	35	35	6	–
	Official transfer payments	– 4	– 7	– 7	– 6	–
(b)	Domestic non-compensatory capital or assets	– 35	3	– 35	– 7	–
(c)	Errors and omissions	8	– 5	5	30	...
(d)	Allocation of SDRs	6	6	–	–	–
(e)	Net compensatory financing (minus sign signifies an increase)	– 21	25	30	– 63	61
	Balance-of-payments loans, trade arrears, IMF loans, and other liabilities of the monetary authorities	–	–	23	–	16
	Amortization payments	–	–	– 7	–	– 13
	Foreign exchange reserves (minus sign signifies an increase)	– 15	4	14	– 64	57
	Gold reserves (minus sign signifies an increase)	–	14	–	–	–
	SDRs (minus sign signifies an increase)	– 6	7	–	1	1

Sources: 1970-1974: International Monetary Fund, *Balance of Payments Yearbook*, vol. 27; 1975: CEPAL, on the basis of official data.

[a] Preliminary figures.

[b] Includes (b) and (c).

3. *The external sector*

During 1975 there was a marked deterioration in the performance of Jamaica's external sector. The evolution of external trade during the year was characterized by divergent trends in the values of imports and exports, which led to an increase in the merchandise trade deficit. The performance of non-merchandise transactions was also unfavourable compared with 1974, and international reserves dropped to a dangerously low level.

The decline in the volume of goods exported cancelled out the favourable effects of the price increases for the four principal export commodities, and indeed for other basic products as well. Thus, the value of exports in 1975 is provisionally estimated to have been around 630 million dollars, some 20 million dollars less than the 1974 total. On the other hand, imports are estimated to have increased considerably to a figure of nearly 970 million dollars. As a result, the deficit on merchandise trade was almost double the 1974 figure of 162 million dollars (see table 224).

The levels of exports were largely determined by the value of exports of alumina, bauxite and sugar, which represented about 90 per cent of the total in 1975 (see table 225). Foreign demand for bauxite and alumina declined as a result of the reduction in the output of aluminum in the producing countries because of lower world market demand for this metal. Preliminary data indicate that the average unit value of sugar shipments was much higher than in 1974, however. The price of bananas also increased, but at a much slower rate than that of sugar.

The higher cost of total imports was due to world inflation and occurred in spite of the restrictions imposed on imports during the year. The price increases for fuels and manufactured products continued to swell the value of imports, although on the other hand the average price of food imports did not increase as much as in the

Table 225

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

	Millions of Jamaican dollars				*Percentage breakdown*		*Annual growth rates*		
	Average 1969–1970	*1973* [a]	*1974* [a]	*1975* [a-b]	*Average 1969–1970*	*1975*	*Average 1971–1973*	*1974*	*1975* [a]
Foodstuffs	58.0	72.6	110.3	149.6	23.4	29.2	7.8	51.9	35.6
Beverages and tobacco	6.0	12.2	17.4	14.0	2.4	2.7	26.7	42.6	– 19.5
Raw materials	154.2	229.7	483.9	305.9	62.1	59.7	14.2	110.7	– 36.8
Mineral fuels, etc.	6.7	8.5	9.9	7.8	2.7	1.5	8.3	16.5	– 21.2
Animal and vegetable oils and fats	–	0.1	0.2	0.1	–	–	–	100.0	– 50.0
Chemicals	5.2	7.7	10.2	8.6	2.1	1.7	14.0	32.5	– 15.7
Manufactured goods	3.7	7.2	11.9	9.1	1.5	1.8	25.0	65.3	– 23.5
Machinery and transport equipment	5.1	6.3	10.3	9.1	2.0	1.8	7.3	63.5	– 11.7
Miscellaneous manufactured articles	9.2	10.0	10.0	7.6	3.7	1.5	2.8	–	– 24.0
Other goods not elsewhere specified	0.2	0.4	0.3	0.4	0.1	0.1	26.0	– 25.0	33.3
Total	*248.3*	*354.6*	*664.4*	*512.1*	*100.0*	*100.0*	*12.6*	*87.4*	*– 22.9*

Source: External Trade Reports of the Department of Statistics, Jamaica, and data supplied to CEPAL.

[a] Preliminary figures.

[b] January to September.

Table 226

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

	Millions of Jamaican dollars				*Percentage breakdown*		*Annual growth rates*		
	Average 1969–1970	*1973* [a]	*1974* [a]	*1975* [a b]	*Average 1969–1970*	*1975*	*Average 1971–1973*	*1974*	*1975* [b]
Foodstuff	63.6	115.1	175.2	135.4	15.9	18.0	21.8	52.2	– 22.7
Beverages and tobacco	5.6	8.6	6.5	5.4	1.4	0.7	15.4	– 24.4	– 16.9
Raw materials	10.3	24.3	28.7	26.4	2.6	3.5	33.2	18.1	– 8.0
Minerals fuels, etc.	26.7	66.5	177.6	145.8	6.6	19.4	35.5	167.1	– 17.9
Animal and vegetable oils and fats	2.4	6.2	11.5	11.8	0.6	1.6	37.2	85.5	2.6
Chemicals	30.9	59.2	81.0	79.6	7.7	10.6	24.2	36.8	– 1.7
Manufactured goods	103.1	140.6	180.6	152.5	25.7	20.3	10.9	28.4	– 15.6
Machinery and transport equipment	126.5	138.4	141.8	147.5	31.6	19.7	3.0	2.5	4.0
Miscellaneous manufactured articles	31.6	44.1	46.0	44.1	7.9	5.9	11.7	4.3	– 4.1
Other goods not elsewhere specified	0.7	1.6	2.0	2.5	0.1	0.3	31.8	25.0	25.0
Total	*400.6*	*604.6*	*850.8*	*751.0*	*100.0*	*100.0*	*14.7*	*40.7*	*– 11.7*

Source: External Trade Reports of the Department of Statistics, Jamaica, and data supplied to CEPAL.

[a] Preliminary figures.

[b] January to September.

previous year (see table 226, which for 1975 only includes figures for the period January to September).

Net receipts from tourism, which are an important factor in offsetting the deficit on visible trade, increased only slightly, if at all, compared with the figure of 117 million dollars recorded in 1974. Government foreign borrowing increased significantly during the year but was not sufficient to prevent a sharp decline in international reserves. There was a progressive rise in the level of reserves from January to December 1974, but the opposite occured in 1975, and in spite of the measures adopted to restrain the fall in reserves, the situation worsened towards the end of the year when total gross international reserves amounted to 126 million dollars, or the equivalent of just over one month's imports.

The government made great efforts to improve the balance-of-payments situation, especially during the second half of the year. The bauxite levy introduced in 1974 was retained and efforts were made to keep imports down to a total of 900 million. In addition a system of import licensing was introduced and incentives were granted to firms in the productive sector in an effort to stimulate domestic production.

4. *Prices*

In 1975, although relatively rapid price increases continued to be an important feature of the economy despite the tightening of price control measures over recent years, the rate of inflation was considerably lower than in 1974. In 1975 the average level of retail prices as measured by the All-Jamaica Consumer Price Index increased by 17 per cent, compared with 27 per cent and 18 per cent in 1974 and 1973 respectively (see table 227).

The sectors showing the biggest increases were household furnishings and furniture, transport, and food and beverages. In the All-Jamaica Index, the household furnishings and furniture led the way with a rise of nearly 28 per cent. However this

Table 227

JAMAICA: EVOLUTION OF DOMESTIC PRICES ACCORDING TO THE CONSUMER PRICE INDEX FOR THE WHOLE COUNTRY

(January 1975 = 100)

	Annual rates of increase				
	1971	*1972*	*1973*	*1974*	*1975*
Consumer price index	*5.3*	*5.4*	*17.6*	*27.3*	*17.4*
Food and drinks	6.6	4.8	24.7	29.2	17.7
Personal clothing and accessories	7.2	8.3	8.2	19.2	16.5
All items:					
Kingston, metropolitan area	4.9	6.6	19.1	27.5	16.5
Other towns	5.7	4.5	15.5	26.9	17.7
Rural area	5.7	4.5	18.3	27.0	18.5
All Jamaica	5.3	5.4	17.6	27.3	17.4

Source: Department of Statistics, Jamaica.

group represents only 3 per cent of the total index and consequently its high increase did not significantly affect the movement of the overall index. The transport index, which also represents a relatively small part of the total, increased by 19 per cent. The increase in the food and beverages group, which accounts for nearly 50 per cent of the total index, is more significant: it amounted to nearly 18 per cent in 1975.

During the year a series of measures were adopted with the aim of curbing inflation. These included measures to broaden and tighten price control regulations, freeze various categories of professional fees, and grant incentives to enterprises in the productive sectors to encourage the use of local raw materials and stimulate increased output of food. It was announced that guidelines would be established for profits and dividends, and a national minimum wage of 50 cents per hour per 8-hour working day was decreed. However, the effects of these measures will not be discernible until 1976, since they were introduced at the end of 1975.

MEXICO

1. *The overall picture*

In 1975 the growth rate of the Mexican economy fell for the second consecutive year, and although inflation eased, the deficit on the current account of the balance of payments increased.

The gross domestic product increased by 3.9 per cent, which was less than both the 5.9 per cent achieved in 1974 and the 6.1 per cent average for the period 1971-1973. The growth rate of the product was thus only slightly higher than that of the population and, as a result, the increase in the per capita product was very small (0.5 per cent) (see table 228).

Consumer prices –which in 1974 had risen by more than 22 per cent– rose in 1975 by a little less than 17 per cent. In spite of this progress, the rate of inflation continued to be higher in 1975 than in 1973 (when it was 11 per cent), and well above the annual increase of 5 per cent recorded in the opening years of the decade.

The lower rates of increase in production and prices were accompanied by a larger deficit on the current account of the balance of payments. This increased in 1975 to almost 3.9 billion dollars a figure almost a billion dollars higher than that for 1974, and at least three times as high as the

Table 228

MEXICO: MAIN SHORT-RUN ECONOMIC INDICATORS
(Percentage annual growth rates)

	1971–1973	1974	1975
Gross domestic product	6.1	5.9	3.9
Gross income [a]	6.1	6.6	3.8
Per capita gross domestic product	2.7	2.5	0.5
Gross fixed investment	8.2	9.7	8.5
Value of exports	18.1	32.9	– 1.4
Value of imports	15.8	47.4	8.1
Terms of trade	–1.5	9.5	–5.2
Balance on current account [b]	–1 085	–2 934	–3 888
Variation in international reserves [b]	181	30	165
Consumer price index [c]	7.3	23.7	15.0
Money	14.6	22.0	21.9
Current income of government	16.8	31.4	45.4
Total expenditure of government	26.5	22.9	49.1
Fiscal deficit/total expenditure of government [d]	26.9	29.2	23.3

Source: CEPAL, on the basis of official statistics.

[a] Gross domestic product plus terms-of-trade effect.
[b] Absolute values in millions of dollars at current prices.
[c] Annual average variation.
[d] Percentage.

average deficit recorded in the period 1971-1973 (see table 228).

This increase in the current account deficit was largely the result of the highly unequal performance of exports and imports. Whereas the value of the former fell slightly, following rapid increases during the four previous years, that of the latter was 8 per cent higher than in 1974, when it increased at the record rate of 47 per cent.

However, the increase in the inflow of non-compensatory capital was even higher than the deficit on current account and, for this reason international reserves increased for the sixth consecutive year.

The trends in the economy were not, however, the same throughout the year. Their pattern was rather one of a general gradual improvement in production, prices, and the external sector, which was more perceptible during the second half of the year.

Thus, the annual growth rate of the production of manufactures, which had fallen steadily from 10 per cent in the first half of 1974 to only 2 per cent during the first six months of 1975, increased to 6 per cent in the second half of the year. The trend was the same in the construction sector, whose annual rate of growth was more than 50 per cent higher in the second half of 1975 than in the first.

The current account deficit showed a similar trend. During the first six months of the year it exceeded that of the corresponding period of 1974 by almost 80 per cent. In the second half of 1975 this difference fell to 23 per cent, as a result of the upswing in income from tourism and the international subcontracting enterprises and the slowing down of the growth rate of imports.

The improvement in the position regarding inflation in the course of the year was somewhat more irregular. Although the variations in the consumer price index compared with the corresponding period twelve months earlier grew gradually smaller, the wholesale price index, after plunging in the first quarter, showed an upward trend for the remainder of the year.

To a large extent, the changes described reflected the variations which occurred in the last two years in the world economic scene. Thus, the decline in the rate of price increases was due partly to the drop in the intensity of external inflationary pressures in 1975. Similarly, the loss of impulse by the economy in 1975 was decisively influenced by the economic recession which the industrialized countries suffered in that year and, in particular, the decline in the gross product of the United States. In turn, the recovery of the United States economy, from the second quarter of 1975 onwards, contributed to the increase in economic activity registered in Mexico towards the end of the year and also helped to bring about a gradual reduction in the deficit on current transactions of the balance of payments.

However, the course followed by the Mexican economy in 1975 was also shaped by the decisions on economic policy taken by the Government, which sought simultaneously to counter the adverse effects of the decline in external demand on the levels of production and employment, to moderate the increase in prices and the external deficit, and to reduce the existing inequalities in income distribution.

In order to achieve the first of these objectives, the Government increased spending sharply, raising public investment to particularly high levels. At the same time, in order to curb the rate of inflation, the authorities raised taxes, advocated moderate adjustments in wages, and adopted an active policy for the fixing and control of prices. The latter was designed to protect the standard of living of the low-income groups. For this purpose, subsidies for widely-used urban services were increased, as was the radius of action of government bodies to regulate the supply and prices of mass consumer goods. Simultaneously, credit price and marketing policies were adopted with a view to raising rural income and facilitating the transfer of resources from the urban centres to rural areas.

Furthermore, in view of the upward trend in the trade deficit, the Government adopted a series of measures aimed at reducing the demand for imports and strengthening the long-term policy for the promotion and diversification of exports. To achieve this objective, the Development Fund for the Export of Manufactures and the National Foreign Trade Bank increased their financial support to the export sector and at the same time subsidies were granted to facilitate the imports needed in order to expand the export capacity of the industrial plants, the regulations governing the international subcontracting enterprises and the temporary importation of goods for re-export were broadened, and fiscal incentives were provided for shipping companies, companies promoting external sales of technology and national services, and manufacturers of goods sold north of the border.

2. *Recent economic trends*

(a) *Global trends*

As already noted, the Mexican economy slowed down in 1975. The rate of growth of the gross domestic product was the lowest in the last 4 years, and gross income —which in 1974 increased by 6.6 per cent, helped by the improvement in the terms of trade— increased in 1975 at a rate only slightly higher than that of the population. Furthermore, the sharp downturn in the growth rate of the volume of imports was one of the reasons why the growth rate of total supply dropped to half that of 1974 (see table 229).

The principal reason for the drop in the economic growth rate was the decline in demand and, in particular, in external demand. The decline in the latter resulted from the economic recession in the industrialized countries and especially in the United States, where more than 55 per cent of Mexican exports of goods are sold and which is the source of more than four-fifths of Mexico's tourist income.

Primarily because of these factors, the volume of exports of goods and services —which had already stagnated in 1974— fell by more than 10 per cent during 1975. This sudden decline occurred in spite of the strong expansion in oil sales and was due to the sharp drops in income from tourism and from exports of manufactures, minerals, processed agricultural products and goods produced by the international subcontracting enterprises (see tables 236 and 238).

Trends in domestic demand were also less favourable in 1975 than in the previous year. In 1974, the rapid increase in world prices and the predominant fear of inflation led to advance purchasing of both foreign and national goods. The volume of imports of goods therefore increased at the exceptional rate of 21 per cent, and demand for the purpose of building up stocks increased by more than 80 per cent (see tables 229

Table 229

MEXICO: TOTAL SUPPLY AND DEMAND

	Millions of Mexican pesos at 1970 prices			*Percentage breakdown*		*Annual growth rates*		
	1970	*1974*	*1975* [a]	*1970*	*1975* [a]	*1971–1973*	*1974*	*1975* [a]
Total supply	*459 904*	*589 138*	*608 440*	*109.8*	*110.6*	*6.2*	*7.1*	*3.3*
Gross domestic product	418 700	529 516	550 216	100.0	100.0	6.1	5.9	3.9
Imports	41 204	59 622	58 224	9.8	10.6	7.0	18.2	– 2.3
Total demand	*459 904*	*589 138*	*608 440*	*109.8*	*110.6*	*6.2*	*7.1*	*3.3*
Domestic demand	*425 592*	*544 619*	*568 491*	*101.6*	*103.3*	*5.9*	*7.7*	*4.4*
Gross domestic investment	90 200	131 909	138 913	21.5	25.2	8.1	15.9	5.3
Gross fixed investment	82 200	114 330	124 048	19.6	22.5	8.2	9.7	8.5
Public	31 269	...	...	7.5	...	13.7	...	...
Private	50 931	...	...	12.1	...	4.6	...	...
Variation in stocks	8 000	17 579	14 865	1.9	2.7	6.4	82.6	– 15.4
Total consumption	335 392	412 710	429 578	80.1	78.1	5.3	5.3	4.1
General government	32 575	44 657	49 123	7.8	8.9	8.2	8.1	10.0
Private	302 817	368 053	380 455	72.3	69.2	5.0	5.0	3.4
Exports	*34 312*	*44 519*	*39 949*	*8.2*	*7.3*	*9.1*	...	*– 10.3*

Sources: 1970-1974: CEPAL calculations on the basis of figures provided by the Bank of Mexico; 1975: CEPAL estimates on the basis of official data.

Note: 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.

[a] Preliminary figures.

and 237). Stockpiling was therefore much higher than normal and acted as a factor in the expansion of the demand for intermediate and final goods, thus stimulating commercial and productive activities.

In 1975, however –and particularly during the first half of the year– the liquidation of part of the accumulated stocks, although it helped to maintain the growth of commercial intermediation, tended to reduce the pressure of demand on the productive sectors, with consequent unfavourable effects on the level of activity.

The restrictive impact provoked by the drop in the quantum of exports and in the demand for stocks was accompanied by a fall in the growth rate of private consumption. Because of the small increase in the per capita product, the considerable increase in taxes, and the loss in purchasing power suffered by some wage sectors as a result of inflation, per capita consumption showed virtually no growth in 1975, especially in the first half of the year, when the effects of the world recession were more strongly felt. Subsequently, domestic demand for consumer goods picked up again when the wages of government and bank employees and of some employees in other activities covered by the Federal contract law[155] were adjusted and the action of the Fondo Nacional de Fomento y Garantía para Consumo de los Trabajadores (FONACOT)[156] was strengthened.

Thus, in 1975 the sole dynamic component of final demand was public expenditure. General government consumption increased by 10 per

[155] These employees taken together, represent approximately 15 per cent of the labour force. The average adjustment in civil service wages granted in July was 16 per cent.

[156] In August the savings departments of the private banks were directed to include in their compulsory investment system the deposit in the Bank of Mexico of 1,200 million pesos in cash to finance the purchase of consumer durables through FONACOT.

cent, mainly under the impulse of the sharp expansion in expenditure on agriculture and education. As a result, the high and steady rate of growth which has characterized such consumption since the beginning of the decade further increased.

The same was true of public investment. In spite of the fact that adequate statistical information is lacking, the big increase of 70 per cent recorded in government investment in physical assets during the first nine months of 1975 suggests that the expansion in fixed capital expenditure must have been considerable.[157] The continuation in 1975 of the major investment programmes of the State enterprises in the steel, electricity, oil and petrochemical industries leads to the same conclusion. The growth in private investment, however, was apparently only moderate. According to the Bank of Mexico "its indifferent performance did not have an important impact on economic activity as a whole in 1975".[158] It is likely, moreover, that because of the slow growth of demand and other factors linked with the expected trend of future policies, private savings were directed preferably towards investment which offered, in addition to an adequate yield, a bigger safety margin.

In spite of this, thanks mainly to the sharp increase in public investment total fixed capital expenditure increased by 8.5 per cent in 1975, thereby maintaining the high rate of growth of the four previous years (see table 229).

(b) *Sectoral developments*

On the side of domestic supply, the slowing down of overall economic growth resulted from the reduction in the growth rates of the main productive sectors, the sole exceptions being agriculture and, to a lesser extent, construction (see table 230).

(i) *Agriculture.* In spite of the fact that in 1975 the rate of increase in the agricultural product was double that of the previous year, it continued to remain very low. The increase of 2 per cent recorded in 1975 was hardly higher than the very low rate for the three-year period 1971-1973, and once again it was well below the rate of increase of the population.

However, the small advance made by the agricultural sector as a whole veiled the diametrically opposed trends which its main components showed in 1975. Thus, whereas agricultural production for export fell by 22 per cent, that of crops for domestic consumption increased by approximately 11 per cent, while the growth rate in livestock production fell to a third of that achieved in the two preceding years (see table 231).

The worst hit of the exports crops was cotton, production of which fell by almost 60 per cent. This enormous reduction was, to a large extent the result of the fall in world prices for this product during 1974, but it was also affected by internal factors which helped to displace the cultivation of cotton in irrigated areas in favour, particularly, of oilseeds. Among these factors, the main ones were the increase in costs, the incidence of certain pests, and the exclusion of cotton from the new system of guaranteed prices established in 1974.

The production of sugar cane also fell in 1975. The decrease of a little more than 3 per cent reflected the long-term problems faced by the mills, which led to drops in productivity, higher costs, and reduced income for cane planters and a consequent decline in the cultivation of sugar cane in favour of other more profitable crops. Since there was a parallel increase in the domestic consumption of sugar, there was a smaller surplus available for export and thus, in 1975, in spite of the favourable world prices for sugar, the quantity exported was the lowest for the last fifteen years. In answer to these problems, the Government adopted in October 1975 a series of measures aimed at encouraging the cultivation of sugar cane, increasing yields and raising the income of producers through a new system of purchasing and storage.

In contrast, coffee production increased by 19 per cent, thus making up for the drop in 1974. To a large extent, this increase was a response to the support policy in favour of small producers implemented by the Instituto Mexicano del Café.

In spite of the fact that the decline in external demand had a major impact on exports of fruit and vegetables, their production continued to increase, although at a lower rate than in previous years. Part of the non-exported production was channelled towards the domestic market, thus bringing about some reduction in prices, whereas

[157] See table 241. Assuming an average increase of 20 per cent in the price of capital goods, the increase in physical investment in real terms was probably around 42 per cent. If an average increase of 15 per cent in prices is assumed, the increase was probably close to 48 per cent.

[158] Bank of Mexico, *Informe Anual 1975*, Mexico City, 1976, p. 24.

Table 230

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

	Millions of Mexican pesos at 1970 prices			*Percentage breakdown*		*Annual growth rates*		
	1970	*1974*	*1975* [a]	*1970*	*1975* [a]	*1971–1973*	*1974*	*1975* [a]
Agriculture	41 179	49 870	50 817	11.8	9.7	1.6	0.9	1.9
Mining and quarrying	16 184	21 004	21 908	4.1	4.2	3.9	15.7	4.3
Mining	5 611	7 044	6 621	1.4	1.3	3.5	13.4	- 6.0
Petroleum extraction and refining	10 573	13 960	15 287	2.7	2.9	4.1	16.2	9.5
Manufacturing	93 518	120 564	125 848	23.4	24.1	6.8	5.7	4.4
Construction	21 401	29 350	30 377	5.4	5.8	9.9	3.4	3.5
Subtotal of goods	*178 282*	*220 788*	*228 950*	*44.7*	*43.8*	*5.6*	*5.1*	*3.7*
Electricity, gas and water	5 453	7 827	8 414	1.4	1.6	9.3	10.1	7.5
Transport and communications	10 363	15 180	...	2.6	...	9.6	11.4	...
Subtotal basic services	*15 816*	*23 007*	...	*4.0*	...	*9.5*	*10.9*	...
Commerce, financial establishments and insurance	115 249	145 374	...	28.9	...	5.9	6.3	...
Real estate [b]	30 115	35 159	...	7.6	...	4.1	3.4	...
Communal, social and personal services [c]	59 555	79 438	...	14.9	...	8.0	5.9	...
Subtotal other services	*204 919*	*259 970*	...	*51.4*	...	*6.2*	*5.8*	...
Subtotal services	*220 735*	*282 977*	*294 089*	*55.3*	*56.2*	*6.5*	*6.2*	*3.9*
Total gross domestic product	*399 017*	*504 624*	*524 304*	*100.0*	*100.0*	*6.1*	*5.9*	*3.9*

Sources: 1970-1974: CEPAL calculations on the basis of figures provided by the Bank of Mexico; 1975: CEPAL estimates on the basis of official data.

Note: As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

[a] Preliminary figures.

[b] Refers only to housing.

[c] Includes, in addition, restaurants, hotels and services provided to enterprises.

the surpluses of non-perishable products such as sisal and cocoa went to increase stocks.

In contrast to export agriculture, crops produced mainly for home consumption made considerable progress. The greatest progress was made by maize –the harvest of which was one-fifth higher than that of 1974– and fruit and oilseeds, among which the production of safflower increased by almots 90 per cent and that of soya beans by almost 30 per cent. On the other hand, the production of haricot beans fell by 6 per cent and that of wheat was slightly lower than that of 1974.

In spite of the recovery in the maize and oilseed harvests, the volume of imports of these items increased for the fourth consecutive year. The main cause was the poor yield of the spring-summer cycle crops in 1974, as a result of which the necessary stocks were not available in 1975.[159]

[159] For 1976 it is expected, however, that it will be possible to eliminate imports of sorghum, barley and the majority of oilseeds, and to generate exportable surpluses of safflower, rice and beans.

Table 231

MEXICO: INDICATORS OF AGRICULTURAL PRODUCTION

	1971	*1973*	*1975* [a]	*Annual growth rates*				
				1971	*1972*	*1973*	*1974*	*1975* [a]
				Index 1970 = 100				
Agricultural production	*106.5*	*113.6*	*121.5*	*6.5*	*0.6*	*6.0*	*3.1*	*3.7*
Crop farming	107.0	114.8	121.3	7.0	1.8	5.3	1.1	4.5
Exports	106.8	116.8	96.1	6.8	11.3	– 1.8	5.8	– 22.3
Domestic consumption	107.1	114.4	126.7	7.1	– 0.3	7.0	0.1	10.7
Stock-raising [b]	105.2	111.1	122.0	5.2	– 1.8	7.5	7.4	2.3
				Thousands of metric tons				
Production of some important crops								
Cotton	397	392	210	18.9	5.0	– 5.8	30.8	– 59.1
Coffee	187	222	214	1.2	8.5	9.0	– 18.8	19.0
Sugar cane	32 715	32 721	32 368	– 5.6	– 1.4	1.4	2.4	– 3.4
Tomatoes	939	1 091	1 127	1.7	28.2	– 9.4	2.7	0.6
Rice	364	451	759	– 8.9	9.2	11.8	9.1	54.4
Beans	954	1 009	918	3.1	– 8.8	16.0	– 3.7	– 5.5
Maize	9 786	8 609	9 400	10.2	– 5.8	– 6.6	– 8.8	19.8
Sorghum	2 516	3 270	4 340	6.4	3.8	25.2	7.0	24.0
Wheat	1 831	2 091	2 750	– 31.6	– 1.2	15.6	33.4	– 1.4
Safflower	411	298	514	42.4	– 34.0	9.9	– 8.6	88.6
Soya beans	256	585	633	19.2	47.3	55.4	– 16.1	28.9

Source: CEPAL, on the basis of official figures.
[a] Preliminary figures.
[b] Figures subject to correction.

In general, the sharp increase in agricultural production for domestic consumption recorded in 1975 can be explained by the major support provided by the Government in recent years through its price, credit, marketing and investment policies, aimed at improving the standard of living and productivity of the rural sector and reversing the unfavourable trend in the balance of trade in agricultural products which has existed since the beginning of the decade.[160]

Thus, in 1974 the authorities introduced a radical change in their agricultural prices policy, with a view to reducing the gap between the domestic prices of a number of agricultural products and their respective world prices. As a result of this reform, the guaranteed prices for maize, beans, wheat, rice, sorghum, and oilseeds were adjusted by between 60 and 240 per cent. In pursuance of this policy, in March 1975, the Government authorized new increases in the official prices of these products and extended the increases to some other crops.

At the same time, the Government's credit policy continued to favour the agricultural sector in particular. As in 1974, credits to the sector in 1975 increased at a much higher rate than those granted to the other productive activities.[161]

[160] Whereas between 1970 and 1974 exports of agricultural products increased by 85 per cent, imports rose by 230 per cent. Between 1972 and 1974 the volume of exports of cattle on the hoof and meat fell by two-thirds and that of sales of cotton and sugar fell by one-quarter, while at the same time there was a sharp increase in imports of oilseeds, maize, milk, and wheat, and rice and beans began to be imported.

[161] In 1974 the respective rates were 30 and 20 per cent; in 1975, 36 and 18 per cent.

Moreover, in order to rationalize this increased financial support, the authorities decided to merge into a single organ –the Banco Nacional de Crédito Rural– the three agricultural credit banks which operated independently up to 1975.[162] With the same aim of improving the co-ordination of official institutions connected with agricultural development, the Comité Coordinador del Sector Agropecuario (COCOSA) was established in July. The Government also set up in 1975 the Rural Development Research Centre (CIDER), the main function of which is to evaluate rural development programmes, and it gave encouragement to the Promotora Nacional para la Producción de Granos Básicos, whose role is to take systematic action to increase the production of grains.

The Government also maintained its policy of allocating a larger portion of government resources to the agricultural sector. The budget of the Ministry of Agriculture and stock-raising was increased by more than 50 per cent, and in the course of 1975 the Public Investment Programme for Rural Development (PIDER) made investments amounting to 2,500 million pesos in 84 micro-regions of the country – three times as much as the amount invested in the previous year.

(ii) *Mining.* In 1975 the growth rate of the mining product showed a marked decline. After increasing at the exception rate of almots 16 per cent in 1974, it rose in 1975 by only a little more than 4 per cent. However, as in the case of agriculture, the overall trends in the mining sector in 1975 concealed the very different paths followed by its principal activities. Thus, whereas the value added in the working of mines and quarries dropped by 6 per cent, the product generated in the extraction and refining of oil increased by more than 9 per cent (see table 230).

In the production of minerals, the drastic reversal of its upward trend was due mainly to the contraction in external demand and, to a lesser

[162]These were the Banco Nacional Agropecuario, the Banco de Crédito Agrícola, and the Banco Ejidal.

Table 232

MEXICO: ANNUAL VARIATIONS IN MINING PRODUCTION

	Index 1970 = 100			*Annual growth rates*		
	1973	*1974*	*1975*	*1971–1973*	*1974*	*1975*
Mining production (total)	*107.0*	*116.7*	*109.4*	*2.3*	*9.1*	*– 6.2*
Precious metals [a]	88.5	85.9	83.0	– 4.0	– 2.4	– 3.4
Non ferrous industrial metals [b]	102.7	110.0	95.9	0.9	7.1	– 12.8
Zinc	101.9	98.6	79.8	0.6	– 3.2	– 19.1
Lead	101.5	123.4	99.8	0.5	21.6	– 19.1
Cooper	131.9	135.5	126.4	9.7	2.7	– 6.7
Metals and minerals for the steel industry [c]	127.9	137.8	138.5	8.5	7.7	0.5
Coke	142.2	152.2	152.6	12.4	7.0	0.3
Iron	119.2	127.8	129.6	6.0	7.2	1.4
Non-metallic minerals [d]	113.8	140.0	141.5	4.4	23.0	1.1
Sulphur	116.5	168.2	167.2	5.2	44.4	– 0.6
Fluorite	111.0	113.7	118.9	3.6	2.4	4.6

Source: CEPAL, on the basis of official statistics.

[a] Including gold and silver.

[b] Including arsenic, antimony, cadmiun, mercury, bismuth, molybdenum, tungsten, selenium and tin.

[c] Including coal and magnesium.

[d] Including barite, graphite, dolomite, koolin, silicon, gypsum, phosphorite, limestone, sodium sulphate, feldspar and magnesite.

extent, to the slower expansion of industry and construction in 1975.

The adverse trends of the international conjuncture affected in particular the production of non-ferrous industrial metals, which together account for 45 per cent of the value of mining production (excluding oil). After rising by 7 per cent in 1974, the production of these metals fell by almost 13 per cent in 1975, mainly because of the very sharp drops which the decline in international demand caused in the production of zinc and lead and the reduction of almost 7 per cent in copper production because of the decline in domestic demand (see table 232).

There was also a very big drop in the growth rate of the production of non-metallic minerals –from 23 per cent in 1974 to 1 per cent in 1975– and in the production of ferrous metals and minerals, which almost completely stagnated in 1975. In the case of the former, the drop was dictated mainly by the plunge in the growth rate of sulphur production, which was caused, in turn by the reduction of almost 30 per cent in the volume of exports. The lower rate of expansion of ferrous metals and minerals was linked with the fall in the domestic production of processed iron and steel.

During 1975, State participation continued to expand in the mining sector through the action of institutions such as the Nacional Financiera, the Comisión de Fomento Minero, and the Fondo Mexicano de Minerales, under the rules governing the implementation of that article of the Constitution which lays down the rules for mining concessions.[163]

At the same time, the Government strengthened its support for the ambitious oil development programme undertaken by Petróleos Mexicanos (PEMEX) under which, in the last two years, PEMEX has begun to work rich deposits which have generated sizeable exportable surpluses of crude.

As a result of PEMEX's activities the product generated in the extraction and refining of oil –which had already increased in 1974 by more than 16 per cent– increased in 1975 by almost 10 per cent, so that the oil industry maintained its position as the most dynamic activity in the economy (see table 230). In particular, extraction grew at the extraordinary rate of almost 20 per cent for the second consecutive year. However, owing to the increasingly full use of the installed capacity, the rate of growth of refining fell from 14 per cent in 1974 to 4 per cent in 1975 (see table 233).

As a result, in order to cover the domestic consumption of petroleum products it was necessary to increase the exports of crude for

[163]The law regulating the application of article 27 of the Constitution was promulgated in December 1975 and came into force in February 1976. Its main provisions include a State monopoly for the exploitation of resources of strategic importance for the development of the country (sulphur, phosphates, potash, and uranium) and State participation in the future programmes for the exploitation of coal and iron.

Table 233

MEXICO: ANNUAL VARIATION IN THE PRODUCTION OF PETROLEUM AND COKE

(Percentage annual growth rates)

	1971	*1972*	*1973*	*1974*	*1975* [a]
Total	*2.8*	*1.9*	*1.4*	*16.2*	*10.6*
Crude petroleum	2.4	7.7	1.2	16.6	10.9
Refining [b]	2.2	11.0	–0.2	13.7	3.7
Extraction	–1.3	3.3	3.1	20.7	19.3
Coke	16.6	9.3	10.0	5.9	0.3

Source: Bank of Mexico.

[a] Preliminary figures.

[b] Throughput of crude and processed liquids.

processing and to import refined products. Partly for this reason, but particularly because of the increase in production, exports of crude were more than 10 times higher in 1975 than in 1974, and their share in oil production rose from a little more than 2 per cent in the latter year to 12 per cent in 1975.

The main obstacle faced by the oil industry in 1975 was the absence of an adequate infrastructure for meeting the needs of the accelerated expansion of extractive activity. This not only helped to reduce the rate of growth of the value added in the oil sector, but also prevented full use from being made of products such as gas, which, because it was in short supply, in turn affected the operation of some industrial plants in Puebla and Veracruz.[164]

In order to overcome this problem, investment was accelerated in 1975 in the refineries at Salina Cruz, Cadereyta and Tula, which, when completed, will increase the primary refining capacity of PEMEX from 760,000 to 1.3 million barrels per day. Exploration activities were also stepped up during the year, and their range of action was expanded to cover the 23 states of the Republic. At the same time, the programme of investment in petrochemicals, production of which increased at a rate of more than 15 per cent for the second consecutive year, continued. At the end of 1975, 10 petrochemical plants were in the process of construction and the engineering studies had been completed for a further 22.

(iii) *Manufacturing.* In 1975 the rate of growth of manufacturing fell for the second consecutive year. The increase in the industrial product was a little more than 4 per cent: lower than in the previous year and only half the annual increase achieved during the period 1972-1973 (see table 234).

The loss of impulse in the manufacturing sector was linked mainly with the drop in both external demand –which fell to its lowest level in the first quarter of the year- and in domestic demand. The downturn in the latter was caused jointly by the decline in the purchasing power of large sectors of the population as a result of inflation, the advance purchases of consumer goods in 1974 as a hedge against new increases in prices, and the stagnation of investment in some activities.

[164] In the new fields, where use could be made of the by-product gas, this source of energy was wasted because of the lack of installations; the gas flared off represents 25 per cent of total production.

Table 234

MEXICO: REAL ANNUAL VARIATIONS IN THE GROSS DOMESTIC PRODUCT OF THE MANUFACTURING SECTOR AT MARKET PRICES

(Percentage annual growth rates)

	1971	*1972*	*1973*	*1974*	*1975*
Total	*3.1*	*8.2*	*8.9*	*5.4*	*4.2*
Food	1.0	5.5	4.9	3.7	3.5
Textiles	5.4	8.2	8.0	2.5	4.5
Footwear and clothing	7.6	8.4	9.6	2.4	4.7
Wood	– 5.2	7.2	6.0	3.1	3.8
Paper and paper products	– 7.1	5.6	11.2	12.6	– 4.0
Printing and publishing	– 1.1	13.1	0.6	5.8	3.5
Rubber products	11.0	10.9	7.1	1.6	10.2
Chemical and mineral products	10.1	14.0	9.9	3.1	2.5
Non-metallic minerales	8.6	11.5	16.3	3.0	5.5
Basic-metals industries	2.7	12.4	8.1	11.4	– 1.5
Machinery	0.1	6.8	11.9	4.6	6.0
Transport equipment	5.9	9.9	18.3	19.8	6.3
Other industries	4.5	2.6	8.4	2.7	3.6

Source: CEPAL, on the basis of official figures.

It was also affected by the decrease in the demand for stocks. During 1974, entrepreneurs increased their stocks of raw materials and finished goods considerably as a result of the prevailing fear of inflation and the scarcity of some products in the market, and when price trend expectations changed in 1975, the process of stock liquidation began and thus helped to reduce the derived demand for industrial goods.

However, the downward trend in the growth rate of the manufacturing sector which had started in mid-1974 continued only up to the first half of 1975, during which industrial production increased at the scanty annual rate of 2 per cent. In the second half of the year in contrast, there was a market upsurge, and the growth rate of the sector was triple that of the first half (see table 235).

Table 235

MEXICO: VARIATIONS IN THE VOLUME OF MANUFACTURING PRODUCTION OVER SIX-MONTH PERIODS [a]

(Percentage variations between corresponding periods)

	1973/1974		*1974/1975*	
Industries	*I/I*	*II/II*	*I/I*	*II/II* [b]
Total	*9.9*	*3.9*	*2.1*	*6.0*
Food, beverages and tobacco	5.7	0.3	2.3	3.0
Textiles	9.1	– 5.8	– 5.0	12.0
Clothing	9.8	– 6.1	– 3.3	20.7
Wood	– 11.4	– 14.2	7.7	35.0
Paper and paper products	15.5	10.6	– 2.7	– 3.7
Printing and publishing	9.0	4.4	4.7	3.3
Rubber products	– 2.5	0.4	– 0.6	17.7
Chemical products	8.8	7.1	2.3	7.8
Non-metallic minerals	4.7	5.3	7.0	12.7
Iron and steel	18.7	7.0	– 1.1	– 1.4
Machinery	7.9	11.2	10.1	11.8
Transport equipment	22.4	29.9	9.7	3.1

Source: Bank of Mexico, *Annual report*, 1973, 1974 and 1975.

a Excluding those industries for which only annual data are available.

b Estimated on the basis of July-October figures.

This recovery, which was attributable largely to the gradual normalization of the stock situation, to the reactivation of external demand, and to the increase in the demand for consumer goods caused by the improvement in the purchasing power of certain wage sectors, was exceptionally marked in textile and clothing manufacturing and in the wood and rubber industries.

In the textile and clothing industries, which together generate a quarter of the value added in the manufacturing sector and which since mid-1974 had been seriously affected by the contraction in external demand,[165] the impressive recovery of production in the second half of the year caused the growth rate of the product in 1975 to be almost double that of the previous year. In spite of this, however, expansion in 1975 was well below that achieved by both branches in the two-year period 1972-1973, when their

[165] During 1975, the volume of exports of cotton textiles fell by 21 per cent, that of man-made fibre yarns by 22 per cent, and that of hemp manufactures by 61 per cent.

product increased at an annual rate of more than 8 per cent.

In contrast, in the basic metals and paper industries, which had shown a high rate of growth up to 1974, production fell in absolute terms and showed no signs of recovery.

In the paper industry, the contraction was due mainly to the decline in demand and the liquidation of the abundant stocks accumulated during 1974. The slight drop in the production of basic metals, for its part, which interrupted the marked expansion recorded in previous years, was linked with the decrease in the production of aluminium, the stagnation of the iron and steel industry, and the marked drop in the growth rate of the production of electrolytic copper.

The production of the latter, which had increased in 1974 by the exceptional amount of 19 per cent, grew by only 1 per cent in 1975 owing to the sharp fall in demand. The slight recession in production of 0.4 per cent in the iron and steel industry, however, was due mainly to factors connected with supply, such as the insufficient supply of gas for the iron and steel plants in Puebla and Veracruz, the interruption in production caused by the maintenance programme for the blast furnaces of Monterrey, and the strike towards the end of the year in the Compañía Fundidora de Hierro y Acero in Monterrey. As a result, the volume of imports of intermediate iron and steel products and scrap iron increased considerably, while exports of iron and steel product fell.

The reduction of 3 per cent in the production of aluminium was also caused by problems linked with supply, such as the inadequate supply of electricity. However, it is also likely that it may have been affected by the time-lag between the increase in electricity tariffs decreed in August and the increase in the price of aluminium authorized in November.[166]

In 1975 there was also a drop in the growth rate of the transport equipment industry. This caused an interruption in the steadily increasing rate of expansion which started at the beginning of the decade and reached its peak in 1974 with an increase of 20 per cent. This was due to the bigger exports of cars and trucks and the strengthening of domestic demand as a result of advance purchases made because of the expected future increases in prices. In 1975, however, the value added by the transport equipment industry rose by only a little over 6 per cent, and exports --which in 1974 included more than 16,500 cars and 2,500 trucks-- fell to a little more than 1,500 trucks and less than 1,000 cars. The slowing down of the growth rate had very distinct effects on the manufacture of trucks and cars, for whereas the production of the latter fell by a little over 2 per cent, that of trucks expanded by 21 per cent.

The food industry --which contributes almost a quarter of the value of the industrial product-- also showed an unfavourable trend. Its rate of growth fell for the third consecutive year and was barely equal to the increase in population.

There was a similar trend in the chemical industry, whose annual growth rate showed a marked and steady fall from 14 per cent in 1972 to only 2.5 per cent in 1975. The main factor responsible for this drop was the decline of 4 per cent in the production of basic chemicals, as a result of the combined effect of the stagnation of demand, problems of energy supplies, and the liquidation of stocks accumulated in previous periods. In contrast, the production of man-made fibres and fertilizers increased at much higher rates than those of 1974.

Finally, both the non-metallic minerals and machinery-manufacturing industries expanded in 1975 at higher rates than in 1974. In the former, the higher growth rate was due to a small increase in the production of cement and, to larger extent, the high production of flat glass (which had been limited in 1974 because of maintenance work in the main factory). In spite of these improvements, however, the growth rate in the production of non-metallic minerals was much lower in 1975 than during the two-year period 1972-1973 when, thanks to the upsurge in construction, the production of cement rose at an average rate of almost 14 per cent. The somewhat higher rate of increase in the manufacture of machinery was due partly to the increase in the production of electrical appliances which are included in this branch (television sets, gramaphones, etc.) and partly to the increase in the production of tractors and agricultural implements. In both cases the growth was linked with the expansion of demand. The demand for electrical appliances increased sharply during the second half of 1975 as a result

[166]The investment programmes for the aluminium industry, which at present satisfies approximately 40 per cent of national demand, envisage an increase in installed capacity from the present figure of 33,000 tons of aluminium ingots to 77,000 tons in 1977. The Government has also made public its plans for the installation of a plant of 120,000 tons capacity in which Mexico and Jamaica will be partners.

of the policy aimed at supporting workers' consumption carried out by FONACOT. The same trend was observed in the purchases of tractors and agricultural implements, as a result of the determined agricultural development policy implemented by the Government.

(iv) *Electricity*. In 1975 the product of the electricity industry increased by 7.5 per cent, which was below both the 10 per cent achieved in 1974 and the average rate of over 9 per cent recorded during the period 1971-1973 (see table 230).

Although the slower rate of growth in general economic activity was instrumental in bringing about this decline, the interruptions in the supply of electricity which occurred in Jalisco, Puebla and Veracruz, as a result of the overloading of the generating stations, showed that it was also due partly to the lack of generating capacity. That capacity, after expanding at an annual average rate of 10 per cent between 1963 and 1973, increased by only 6 per cent in 1973. This is particularly important since it is believed that the present technical reserves are less than they should be.

This situation has resulted partly from the failure to implement the Federal Electricity Commission's plans to increase generating capacity,[167] mainly because of financing difficulties. For this reason, and in order to improve the financial situation of the Commission, in August 1975, electricity tariffs for industrial and commercial use, public lighting and water pumping were increased by 30 per cent, and tariffs for domestic use were increased by 10 per cent.

3. *The external sector*

In 1975 the current account deficit of the balance of payments came to almost 3.9 billion dollars. This amount, which exceeded the deficit of the previous year, was equal to almost 65 per cent of the revenue from exports of goods and services.

This greater imbalance in current transactions was produced by the combined action of four main factors: the stagnation of exports of goods, the drop in income from tourism, the increase in imports of both goods and services, and the sharp increase in financial payments (see table 236).

The net inflow of capital exceeded the deficit on current account, however, so that international reserves increased by 165 million dollars.

(a) *External trade*

(i) *Exports*. In 1975 the value of exports fell slightly (1.4 per cent), thereby interrupting the extraordinarily sharp upward trend in the sector which started in 1971 and during which the value of export doubled (see table 236). The drop occurred in spite of the increase in the unit value of exports and was therefore due exclusively to the reduction in volume of more than 10 per cent. The volume declined markedly in the first half of 1975 under the influence of the contraction in the volume of export of services; the quantum of the sale of goods, on the other hand, only fell by a little more than 3 per cent (see table 237).

The drop in the volume of exports was due basically to the decrease in external demand caused by the crises in the industrialized countries (and in particular the depression in the United States) and the re-emergence in some of them of protectionist practices. In some cases, however, the drop in export volumes was dictated by a longer-term trend linked to the price structure, which favoured the allocation of resources to production for the domestic market.

As may be seen from table 238, the stagnation in the value of exports of goods had highly diverse effects on the different main export groups.[168]

Thus, while exports of minerals fell by almost 16 per cent as a result of the drop in external demand an the fall in international prices for copper, lead and zinc, sales of crude petroleum increased from less than 40 million dollars in 1974 to 435 million in 1975, thereby preventing the total value of sales of goods from falling in absolute terms.

The recession in the industrialized economies had an even greater impact on exports of manufactures, which provide approximately half of the income obtained from sales of goods. After a period of steady growth which ended in 1974, during which the value of exports of industrial goods rose by almost 70 per cent, they fell in 1975

[167] Among the principal investment projects of the Commission are the hydroelectric stations of Angostura (900,000 kW of installed capacity), Peñitas (400,000 kW) and Chocoasan (2,400,000 kW); the expansion of the hydroelectric station at Malpaso (360,000 kW) and the thermoelectric station at Tula; the Bocas complex, Veracruz; the Gómez Palacio complex, Durango; the Valle de México terminal; and the nuclear power station project at Laguna Verde.

[168] The analysis which follows does not take account of the exports of the international subcontracting enterprises.

Table 236

MEXICO: BALANCE OF PAYMENTS
(Millions of dollars)

	1970	*1971*	*1972*	*1973*	*1974*	*1975*[a]
Current account						
Exports of goods and services	2 868	3 106	3 736	4 656	6 188	6 101
Goods FOB	1 429	1 512	1 882	2 419	3 443	3 445
Services	1 439	1 594	1 855	2 238	2 745	2 657
Transport	47	61	79	85	119	126
Travel	1 171	1 317	1 493	1 751	2 250	2 150
Imports of goods and services	3 296	3 263	3 853	5 071	7 601	8 139
Goods FOB	2 264	2 183	2 625	3 691	5 826	6 291
Services	1 032	1 080	1 228	1 381	1 775	1 848
Transport	151	153	173	227	378	408
Travel	755	785	870	942	1 177	1 180
Net payments of profits and interest on foreign capital	– 695	– 738	– 858	– 1 137	– 1 620	– 1 921
Profits	– 480	– 494	– 593	– 751	– 988	– 1 186
Interest	– 215	– 244	– 265	– 386	– 631	– 735
Net private transfer payments	48	50	54	63	99	70
Balance on current account	– 1 075	– 845	– 921	– 1 489	– 2 934	– 3 888
Capital account						
Net external financing (a+b+c+d+e)	1 075	845	921	1 489	2 934	3 888
(a) Net external non-compensatory capital	769	808	1 214	2 232	3 521	
Direct investment	323	307	301	374	557	
Long- and medium-term loans	893	978	1 208	2 483	3 320	
Amortization payments	– 573	– 515	– 609	– 914	– 1 026	
Short-term liabilities (net)	119	31	304	280	653	4 053
Official transfer payments	7	7	8	8	17	
(b) Domestic non-compensatory capital or assets	– 89	– 55	– 274	– 578	– 479	
(c) Errors and omissions	425	234	160	– 24	– 78	
(d) Allocation of SDRs	45	40	42	–	–	–
(e) Net compensatory financing (minus sign signifies an increase)	– 75	– 182	– 220	– 14	– 30	– 165
Balance-of-payments loans, trade arrears, IMF loans, and other liabilities of the monetary authorities	–	–	–	–	–	–
Amortization payments	–	–	–	–	–	–
Foreign exchange reserves (minus sign signifies an increase)	4	– 171	– 190	– 154	– 70	– 228
Gold reserves (minus sign signifies an increase)	– 31	29	12	13	41	6
SDRs (minus sign signifies an increase)	– 48	– 40	– 42	–	– 1	57

Sources: 1970-1974: International Monetary Fund, *Balance of Payments Yearbook*, vol. 27; 1975: CEPAL, on the basis of official statistics.

[a] Estimates.

Table 237

MEXICO: VARIATION IN THE TERMS OF TRADE AND IN THE VALUE, VOLUME AND UNIT VALUE OF EXPORTS AND IMPORTS OF GOODS

(Annual growth rates)

	1971	*1972*	*1973*	*1974*	*1975*
Exports of goods					
Value	5.8	24.4	28.6	42.3	0.1
Volume	6.9	13.0	10.8	–	–3.2
Unit value	–1.0	10.1	16.1	42.3	3.3
Imports of goods					
Value	–3.6	20.3	40.6	57.9	8.0
Volume	–7.3	13.7	20.5	21.4	–1.0
Unit value	4.0	5.8	16.7	30.1	9.0
Terms of trade	–4.8	4.1	–0.7	9.5	–5.2

Source: CEPAL, on the basis of official figures.

by more than one-fifth (see table 238). The drops in the value of exports of cars, motor vehicle spares and components, fertilizers, textiles, clothing and food were of particular significance.[169] In contrast, exports of machinery and electronic appliances swung upwards again, mainly as a result of the flexibility with which they could meet demand through the combined operations of the Mexican subsidiaries of the international corporations and their parent companies.

The decline in external demand and the drop in production of certain agricultural goods also caused a drop of almost 4 per cent in exports of agricultural products. Sales of cattle and meat fell from 87 million dollars in 1974 to 35 million in 1975, mainly as a result of the measures to contain consumption imposed in the United States. Exports of cotton also fell substantially, not only because of the drop in prices, but also because of the sharp decline in production. In contrast, the value of coffee sales increased as a result of the increase of almost 19 per cent in the volume exported and a small rise in prices; the same was true of exports of tomatoes, whose price improved substantially.

The economic recession in the United States also interrupted the steady and marked growth in the exports of the international subcontracting enterprises. These exports, the value of which more than quadrupled between 1971 and 1974, stagnated almost completely in 1975.[170]

The unfavourable effects of the international conjuncture were also evident in income from tourism, which fell for the first time in the last 20 years. The reduction of approximately 5 per cent was due mainly to the fact that the number of United States tourists visiting the country was 4 per cent lower than in 1974, while their average expenditure fell by more than 2 per cent. However, in the second half of the year this income began to rise again as the result of the recovery in the United States economy. Thus, whereas in the first six months of 1975 this income was 10 per cent lower than in the corresponding period of 1974, in the second half of the year it was 1 per cent higher than that of the July-December period of the previous year. Since the expenditure on foreign travel by Mexican travellers increased at the same time,

[169] The value of exports fell by 90 per cent in the case of cars, 93 per cent in the case of fertilizers, 36 per cent in the case of cotton yarn and textiles, and 47 per cent in the case of clothing. The decline in exports of foodstuffs for its part, was caused by lower production, a drop in external demand, and an increase in sales to the domestic market, induced by, among other factors, the backing given to purchases by CONASUPO.

[170] The exports of the subcontracting enterprises showed, however, clear signs of recovery during the last quarter of 1975.

however, the surplus on tourist transactions dropped from approximately 510 million dollars in 1974 to a little more than 400 million in 1975.

On the other hand, border transactions showed a more favourable balance than in the previous year, mainly as a result of the slower rate of growth of Mexican expenditure abroad in 1975 (see table 236).[171]

(ii) *Imports.* Following their extraordinary expansion during the period 1972-1973, when their value doubled, in 1975 imports of goods increased by 8 per cent. Since at the same time their unit value increased on average by 9 per cent, their volume was thus slightly less (see table 237).

This reduction in quantum was mainly the result of the lessening of fears that rates of inflation would be as high as those of 1974, with consequent use of stocks of imported goods accumulated in 1974, and a slower rate of growth of overall economic activity. Other factors which contributed to this were progress in the production of certain goods (particularly petroleum and some agricultural products) and the measures taken in August 1975 to improve the trade balance. To this end, the authorities selectively increased customs tariffs, strengthened the machinery for granting import licences, and introduced rules and procedures designed to secure greater rationalization of public sector imports. As a result of these measures, the annual rate of growth of the value of imports fell from almost 12 per cent in the first half of 1975 to 6 per cent in the final six months of the year.

This more gradual growth had, however, highly unequal effects on the main groups of goods. Thus, after a record increase of 20 per cent in 1974, purchases of raw materials declined by 5 per cent in 1975 due to the drop in the overall economic growth rate and the liquidation of part of the stocks accumulated in the previous year. The drop was considerably higher (10 per cent) in the case of imports of durable consumer goods, demand for which was also satisfied partly from stocks in 1975. In contrast, imports of non-durable consumer goods increased slightly following the enormous expansion experienced in 1974. Continued public spending on the infrastructure and basic industries (iron and steel, electricity, railways, and petroleum) was a decisive

[171] This slower rate of increase can be explained by the reduction in employment in the international subcontracting enterprises and consequently a reduction also in income from them. This occurred in spite of the fact that the relationship between the rates of inflation of the United States and Mexico favoured spending abroad.

Table 238

MEXICO: VALUE AND BREAKDOWN OF EXPORTS OF GOODS (FOB) [a]

	Millions of dollars			*Percentage breakdown*		*Annual growth rates*	
	1973	*1974*	*1975*	*1973*	*1975*	*1974*	*1975*
Declared exports	*1 821*	*2 665*	*2 715*	*100.0*	*100.0*	*46.3*	*1.9*
Agricultural sector	769	872	840	42.2	30.9	13.5	– 3.7
Primary products	153	124	167	8.4	6.1	– 18.8	34.5
Processed products	616	748	673	33.8	24.8	21.5	– 10.0
Extractive industries	92	196	569	5.1	20.9	112.8	190.1
Crude petroleum	–	38	435	–	16.0	–	1 053.8
Other minerals	92	158	134	5.1	4.9	41.9	– 15.6
Manufacturing	893	1 507	1 194	49.0	44.0	68.8	– 20.8
Products not elsewhere classified	67	90	113	3.7	4.2	33.0	26.3
Revaluation	249	185	143	–	–	– 26.0	– 22.5
Total	*2 071*	*2 850*	*2 859*			*37.6*	*0.3*

Source: Ministry of Industry and Trade, Statistics Department.

[a] Excluding exports of international subcontracting industries.

Table 239

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

	Millions of dollars				*Percentage breakdown*	*Annual growth rates*		
	1970	*1973*	*1974*	*1975*	*1975*	*1971–1973*	*1974*	*1975*
Consumer goods	...	437	802	793	12	...	83.5	– 1.1
Non-durable	...	291	629	637	10	...	116.2	1.3
Durable	...	146	173	155	2	...	18.5	– 10.4
Intermediate goods	...	1 690	2 882	2 727	41	...	70.5	– 5.4
Capital goods	...	1 323	1 705	2 368	36	...	28.9	38.9
Goods not elsewhere classified	...	365	669	693	11	...	83.2	3.6
Total	*2 327*	*3 814*	*6 057*	*6 580*	*100*	*18*	*58.8*	*8.6*
Public sector	55.8	1 223	2 202	2 498	...	30	80.1	13.5
Private sector	1 769	2 591	3 855	4 088	...	14	48.8	5.9

Source: Ministry of Industry and Trade of Mexico.

[a] Excluding exports by international subcontracting industries.

factor in the acceleration of the growth rates of imports of capital goods (see table 239).

The increase in public sector purchases of machinery and equipment, together with the fact that in 1975 there was a need to increase —although at a slower rate than in the past— imports of consumer goods of agricultural origin, were reflected in the much higher increase in the growth rate of public sector imports compared with those of the private sector.

(b) *The balance of payments*

The final result of the changes in exports and imports of goods and services was a marked increase in the trade deficit, from 1.4 billion dollars in 1974 to 2 billion in 1975.

At the same time, the imbalance caused by net factor payments continued to increase. The hardening of the terms for obtaining external funds resulted in an increase of more than 100 million dollars in net interest payments, while remittances of profits increased by 200 million dollars. The deficit on the factor payment account was therefore more than 1.9 billion dollars in 1975, a figure 19 per cent higher than that of the previous year.

Because of this and of the increase in the trade deficit, the current account deficit came to almost 3.9 billion dollars, 33 per cent higher than in 1974.

Thanks to its traditional links with the international financial markets, Mexico nevertheless had no difficulty in financing the deficit on current account. The inflow of non-compensatory capital amounted to more than 4 billion dollars, and exchange reserves increased by 165 million dollars (see table 236). In particular, the credits obtained by the public sector expanded considerably, so that the net use of official funds was almost 50 per cent higher in 1975 than in 1974, and more than 5 times as high as in 1972. This marked increased helped to finance the sharp upturn in public investment and the major expansion of development programmes in the agricultural sector.

4. *Prices and anti-inflationary policies*

After three years of continued rapid acceleration, inflation slackened markedly in 1975. The annual average variation in consumer prices fell from 24 per cent in 1974 to 15 per cent in 1975, and wholesale prices declined even more sharply, from 23 per cent in 1974 to 11 per cent in 1975 (see table 240).

Table 240

MEXICO: EVOLUTION OF DOMESTIC PRICES
(Percentage annual growth rates)

	1971	*1972*	*1973*	*1974*	*1975*
Consumer price index (1968 = 100)					
Mexico City	5.7	5.1	11.2	22.5	16.9
National	5.4	5.0	12.1	23.7	15.0
Food	4.7	4.0	15.8	29.9	12.6
Clothing	6.0	6.6	17.1	17.8	14.8
Wholesale price index Mexico City (1954 = 100)	*3.7*	*2.8*	*15.7*	*22.5*	*10.5*
Articles of general consumption	4.6	3.1	14.8	23.4	11.3
Articles generally produced	2.2	2.3	17.3	21.0	9.2
Raw materials	1.0	3.5	24.5	20.7	9.0
Fuel and energy	7.2	0.1	4.3	31.1	7.7
Vehicles and accessories	– 0.1	0.3	3.0	2.8	15.1

Source: CEPAL, on the basis of official figures.

However, the trend in consumer prices over the year differed from that of wholesale prices. Whereas the rate of increase of the former fell quite systematically, that of wholesale prices, after a sharp drop during the first quarter, began to rise again rather markedly during the remainder of the year.[172]

As in most Latin American countries, the drop in the rate of increase in prices was linked partly with the weakening of external inflationary pressures. Thus, in 1975 the increases in the unit values of both imports (9 per cent) and exports (3 per cent) were well below those recorded in 1974 (30 and 42 per cent respectively). As a result there was a marked reduction in the incidence of one of the factors which had exercised the greatest pressure on cost in 1974.

Furthermore, the wage and price control policies helped to ease inflationary pressures. As regards wage increases, these were staggered over the year, and in some sectors they were not sufficient to maintain par purchasing power. In the case of certain articles whose prices were fixed or controlled by the authorities, the Government tried to delay the inflationary impact which would have stemmed from automatic adjustments in prices in keeping with the increases in costs. Since this policy was applied in respect of intermediate goods in wide use, it was a further factor helping to cushion the increase in costs.

The price policy was also designed to prevent inflationary pressures from having a strong impact on the prices of essential consumer goods. For this reason (and also because of the smaller increases in the prices of certain imported products in 1975) the sub-indexes for expenditure on food and clothing showed increases lower than those of the general index (see table 240).

At the same time, the authorities took steps to change the relative price system in favour of the rural sector and to see that prices of goods produced by State enterprises were kept more closely in line with changes in costs. As a result of this, the prices of goods of agricultural origin, petroleum and petroleum products, and transport and communications showed higher than average increases.

Inflation eased in spite of the expansionary nature of fiscal policy in 1975. In order to offset the contraction in external demand and the sluggish growth of investment and private consumption, the Government increased total spending by almost 50 per cent. The growth in investment in physical assets was particularly noteworthy, since after falling by 4 per cent in

[172] Thus, the variation in the wholesale price index over twelve months fell from 13 per cent in December 1974 to somewhat less than 7 per cent in March 1975, but it rose to almost 12 per cent in June and to 13.4 per cent towards the end of 1975.

Table 241

MEXICO: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of pesos at current prices			*1974*	*1975*	*Annual growth rates*		
				(January-September)				
	1970	*1973*	*1974*			*1971–1973*	*1974*	*1975*
1. *Current income*	*33 868*	*53 822*	*70 707*	*50 972*	*74 113*	*16.8*	*31.4*	*45.4*
Tax revenue	29 792	47 979	65 712	47 286	69 158	17.2	37.0	46.3
Direct	16 102	26 982	36 721	26 516	36 655	18.7	36.1	38.2
Indirect	10 165	17 144	23 696	16 959	26 893	18.9	38.2	58.6
On exports	420	470	486	385	498	3.8	3.5	29.3
On imports	3 105	3 383	4 809	3 426	5 112	2.9	42.1	49.2
Non-tax revenue	4 076	5 843	4 995	3 686	4 955	12.8	– 14.5	34.4
2. *Current expenditure*	*27 925*	*55 972*	*74 258*	*49 851*	*71 538*	*26.1*	*32.7*	*43.5*
Administration costs	12 541	21 716	30 559	18 641	26 835	20.0	40.7	44.0
Other current expenditure	15 384	34 256	43 699	31 210	44 703	30.6	27.6	43.2
3. *Saving on current account* (1 – 2)	*5 943*	*– 2 150*	*– 3 551*	*1 121*	*2 575*	–	*– 65.2*	*129.7*
4. *Capital expenditure*	*12 278*	*25 265*	*25 601*	*14 996*	*25 144*	*27.2*	*1.3*	*67.7*
Investment in physical assets	9 821	20 816	19 952	11 438	19 488	28.5	– 4.1	70.4
Other capital expenditure	2 457	4 449	5 649	3 558	5 656	21.8	27.0	59.0
5. *Total expenditure* (2 + 4)	*40 203*	*81 237*	*99 859*	*64 847*	*96 682*	*26.5*	*22.9*	*49.1*
6. *Fiscal deficit (or surplus)* (3 – 4)	*– 6 335*	*–27 415*	*–29 152*	*– 13 875*	*– 22 569*	*63.0*	*6.3*	*62.7*

Source: Bank of Mexico.

1974 it increased by 70 per cent in 1975 (see table 241).

The rate of increase in current expenditure was also high (44 per cent), but not as high as that of current income, which increased sharply when the tax and tariff changes approved at the end of 1974 came into force.

As a result, the downward trend in government savings was reversed and during the period January-September 1975, savings were in fact 130 per cent higher than those of the same period in the previous year. Even so, the enormous increase in capital expenditure meant that only a small proportion (10 per cent) of such expenditure was financed with savings on current account. For the same reason, the total government deficit continued to increase, and during the first nine months of 1975 it exceeded that of the corresponding period in 1974 by more than 60 per cent (see table 241).

From the point of view of monetary policy, this sharp increase in the fiscal deficit meant considerable expansionary pressure on top of that generated by the increase in costs of production. As a result the monetary authorities faced a difficult dilemma in 1975: on the one hand they had to consider the need for increasing the finance provided by the banking system in order to cover the increase in government requirements, the increase in costs, and the real increase in production, while on the other, they had to weigh the desirability of limiting the expansion of the means of payment in order to help to reduce the rate of inflation and the imbalance in external transactions.

In practice, the monetary authorities tried to achieve the first of these objectives, by promoting the tapping of resources by the banks and maintaining the high bank liquidity ratio established in previous years. In this way, it was possible to channel generous flows of funds towards, the public sector without cutting down financial support to the private sector.

Thus, during the 12 months ending in November 1975, total financing provided by the banking system as a whole increased by almost 28 per cent, whereas the national consumer price index only rose by 15 per cent. In real terms, therefore, there was a considerable expansion in credit in contrast to the trend in 1974 when prices increased at a similar rate to that of financing (see table 242).

As in 1974, the highest rate of expansion of financing was recorded by the Bank of Mexico, mainly because of the support that it had to give to the Federal Government, although as the year elapsed it was clear that less use was being made of this means of expanding the money supply than in 1974.

The funds provided by the remainder of the banking system to public and private borrowers

Table 242

MEXICO: MONETARY POSITION

	End year balance (billions of pesos)			*Annual growth rates*		
	1970	*1973*	*1974*	*1971–1973* [a]	*1974*	*1975* [b]
Total credit provided by the banking system		*304.4*	*378.7*	*17.4*	*24.4*	*27.5*
Bank of Mexico		88.5	123.6	26.8	39.7	39.3
Other national institutions		89.6	114.1	17.4	27.3	28.3
Private institutions		126.3	141.0	12.3	11.6	17.8
Deposit Banks		25.5	29.8	7.2	16.9	12.5
Savings Banks		11.2	12.9	17.5	15.2	26.2
Finance Companies		68.9	75.2	11.4	9.1	18.6
Mortgage Companies		19.3	21.5	20.9	11.4	18.3
Other private institutions		1.4	1.6	12.8	14.3	12.6
Tapping of monetary resources by the banking system	*204.4*	*322.6*	*389.1*	*16.4*	*20.6*	*26.6*
National currency	169.4	261.7	309.1	15.6	18.1	25.1
Money	49.0	79.9	97.5	17.6	22.0	21.9
Quasi-money	95.2	140.9	164.9	13.9	17.1	31.2
Savings deposits	10.1	16.6	20.0	18.2	20.4	19.6
Bonds	20.9	33.5	35.3	17.0	5.4	31.5
Notes	27.3	45.4	51.3	18.4	13.0	29.8
Mortgage bonds	13.8	22.8	19.6	18.2	– 14.0	6.3
Securities and debentures	10.7	17.3	20.2	17.4	16.8	41.5
Certificates of deposit	–	–	15.0	–	–	–
Other	12.4	5.3	3.5	– 24.6	– 34.0	– 28.2
Capital and other deposits	25.2	41.0	46.7	17.6	13.9	8.9
Foreign exchange	35.0	60.9	80.0	20.2	31.4	32.2

Source: Bank of Mexico.

[a] In the case of financing the rates correspond to the years 1972 and 1973 only.

[b] Rates calculated by comparing the January-November figures for 1974 and 1975.

also increased at a higher rate than in 1974, particularly in the closing months of the year. This was particularly noticeable in the case of the savings banks and finance companies, where most of the resources attracted by income-bearing instruments were concentrated.

The marked expansion in funds provided by the banking system was also accompanied by a considerable increase in the means of payment, quasi-money, and deposits of foreign currency.

The means of payment increased in the 12 months ending in November 1975 by 22 per cent, compared with the rate of 17 per cent recorded for the corresponding period of the previous year. At the same time the growth rate of the product fell and inflation declined, so that during 1975 the velocity of the circulation of money slowed down considerably.

The rate of increase in quasi-money (31 per cent) was even higher than that of money and almost double the 1974 rate. This was considerably influenced by the policy of maintaining high rates of interest, the attraction of which increased as the rates of interest paid by the main international financial centres fell and the rate of inflation dropped.

Expansion of foreign currency liabilities was also substantial (32 per cent). However, it was lower than that recorded during the corresponding period for 1974 (37 per cent) and its rate tended to decline over the year.

NICARAGUA

1. *The overall picture*

In 1975 there was a sharp decline in the growth rate of the Nicaraguan economy. This contrasted with the rapid expansion in the gross domestic product in the previous year as a result of the revitalizing impact of the reconstruction work following the damage caused by the earthquake in 1972. At the same time, however, there was a significant drop in the rate of inflation in 1975 and the deficit on current account in the balance of payments was smaller.

In 1975 the product grew by 1 per cent, while gross income and the per capita product fell by 3 and 2.3 per cent respectively (see table 243). This loss of impulse coincided with a decline in construction activity and scanty increases in agricultural and manufacturing production. The growth of services as a whole was also sluggish.

After the vigorous expansion shown by the external sector in 1973 and 1974, 1975 was marked by drops of 4 per cent in exports of goods and services and of 10 per cent in imports. The decrease in imports helped to reduce the deficit on the current account of the balance of payments by more than 40 million dollars, but even so, the deficit in 1975 was approximately 3 times higher than that of 1973. Inflows of capital were a little higher than the deficit on current account, however, so that international reserves increased.

It is estimated that the implicit deflator of the gross domestic product rose by 12 per cent in 1975, compared with an increase of 18 per cent in the previous year. Factors which influenced the reduction in the rate of increase of prices were the decrease in imported inflation and the slackening of the pressure of demand following the dropping off of reconstruction activities. A further factor was the restrictive monetary policy followed by the Central Bank, which brought about a slight decrease in the money supply (see table 243).

2. *Recent economic trends*

(a) *Global trends*

In 1975 the Nicaraguan economy provided few grounds for satisfaction, since there was an increase of only 1 per cent in the gross domestic product and a drop of 2.3 per cent in the per capita product. The first rate contrasts sharply with that of 9.2 per cent recorded in the previous year and was also below the average 4 per cent growth rate of the three-year period 1971-1973, when economic activity was affected by the 1972 earthquake and two consecutive years of drought (see tables 243 and 244). Owing to the deterioration in the terms of trade, gross income fell by 3 per cent in 1975.

The combined action of both internal and external factors was responsible for the trends outlined. As regards the former, it may be noted that adverse climatic conditions affected the production of cotton and of crops for domestic consumption, while the sharp decline in construction activity and in private investment

Table 243

NICARAGUA: MAIN SHORT-RUN ECONOMIC INDICATORS
(Percentage annual growth rates)

	1971–1973	1974	1975
Gross domestic product	4.0	9.2	1.0
Gross income [a]	4.1	8.6	–3.0
Per capita gross domestic product	0.7	5.6	–2.3
Gross fixed investment	6.3	37.0	–8.2
Value of exports	20.5	20.9	– 3.9
Value of imports	22.6	57.5	– 10.3
Terms of trade	0.9	– 4.4	– 17.8
Balance on current account [b]	– 36	– 255	– 212
Variation in international reserves [b]	23	– 13	13
Prices (implicit deflator of the gross domestic product)	6.0	18.0	12.0
Money	25.7	16.5	– 1.4
Current income of government	17.2	46.1	0.3
Total expenditure of government	18.5	84.7	0.5
Fiscal deficit/total expenditure of government [c]	19.5	32.1	32.2

Source: CEPAL, on the basis of official statistics.

[a] Gross domestic product plus terms-of-trade effect.
[b] Absolute values in millions of dollars at current prices.
[c] Percentage.

were also important internal factors. Among the external factors, the most noteworthy was the negative impact of the unfavourable world economic situation, which caused reductions in the amount and unit value of exports and a significant increase in the unit value of imports.

The total supply of goods and services fell by more than 5 per cent as a result of a reduction of more than 21 per cent in imports, which had been increasing at the relatively high rate of over 15 per cent annually during the period 1971-1974. In turn, the drop in imports was mainly the result of the unfavourable trends in the economy and in the balance of payments of the country, and also of the accumulation of stocks imported in 1974 and in previous years, a large part of which was used during 1975.

As regards total demand, domestic demand dropped by more than 6 per cent while export demand fell by 1 per cent.

Private consumption increased by 1.6 per cent, a rate higher than that of the gross domestic product but lower than the annual average of approximately 6 per cent recorded during the period 1971-1973. The sluggish increase in private consumption was matched in the productive sphere by the drop in the production of grains, which form the staple diet of the population.

For its part, general government consumption increased by only 1 per cent, compared with an increase of 15 per cent in 1974. This is to be explained by the contraction in real terms of current government income and by the fact that needs in connexion with the reconstruction of essential services destroyed by the earthquake were fewer.

The pattern of changes in stocks was an important factor in the course taken by investment. Thus, the reduction in stocks in 1975 –following two consecutive years of stockpiling to replace stocks damaged by the earthquake and as a hedge against rising prices– explains why gross domestic invesment fell by 32 per cent, whereas the reduction in fixed capital formation was 8 per cent. The coefficient of fixed investment in terms

Table 244

NICARAGUA: TOTAL SUPPLY AND DEMAND

	Millions of córdobas at 1970 prices			*Percentage breakdown*		*Annual growth rates*		
	1970	*1974*	*1975* [a]	*1970*	*1975* [a]	*1971–1973*	*1974*	*1975* [a]
Total supply	*7 499*	*10 153*	*9 607*	*126.8*	*131.0*	*6.4*	*12.3*	*– 5.4*
Gross domestic product	5 912	7 261	7 333	100.0	100.0	4.0	9.2	1.0
Imports	1 587	2 892	2 274	26.8	31.0	14.6	21.1	– 21.4
Total demand	*7 499*	*10 153*	*9 607*	*126.8*	*131.0*	*6.4*	*12.3*	*– 5.4*
Domestic demand	*6 046*	*8 185*	*7 661*	*102.3*	*104.5*	*6.6*	*11.8*	*– 6.4*
Gross domestic investment	1 025	1 931	1 311	17.3	17.9	11.7	35.3	– 32.1
Gross fixed investment	895	1 473	1 353	15.1	18.5	6.3	37.0	– 8.2
Total consumption	5 021	6 254	6 350	85.0	86.6	5.5	6.2	1.5
General government	497	600	606	8.4	8.2	1.6	15.2	1.0
Private	4 524	5 654	5 744	76.6	78.4	5.9	5.3	1.6
Exports	*1 453*	*1 968*	*1 946*	*24.5*	*26.5*	*5.8*	*14.4*	*– 1.1*

Sources: 1970-1974: CEPAL calculations on the basis of figures provided by the Central Bank of Nicaragua; 1975: CEPAL estimates on the basis of preliminary official data.

Note: 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.

[a] Preliminary figures.

of the gross domestic product was 18.4 per cent.

This reduction in fixed investment followed two years of rapid growth (approximately 35 per cent per year), which was largely due to the reconstruction work required to repair the damage caused by the earthquake, and the investment designed to increase the installed capacity of the industries producing construction inputs. Therefore, as the urgency and the scale of the reconstruction work diminished, particularly in the city of Managua, the multiplier effect of the investment determined by the two factors in question became smaller.

The contraction in the volume of exports contrasted with the sharp growth recorded in 1974 and also with the steady growth maintained during the period 1971-1973. (The external and internal factors responsible for this are identified below.)

(b) *Sectoral developments*

Goods-producing activities as a whole generated a gross domestic product barely higher than in 1974. Of these activities, agriculture increased by less than 1 per cent, the construction industry declined by 2 per cent, and manufacturing expanded by 0.6 per cent (see table 245).

In agriculture, the prime determining factor was the performance of cotton production. The fall in the world price of cotton from the third quarter of 1974 onwards, together with the scanty rainfall in the months of May and June 1975, led to a reduction in the area under cultivation of 40 thousand hectares (a 16 per cent reduction in the area sown in 1974), and it is estimated that production fell by approximately 12 per cent as a result. In contrast, there were increases in the production of coffee, bananas, and sugar cane which made up for the drops in cotton, beans, and maize production and the stagnation in the output of rice and sorghum, but it is calculated that the production of staple grains as a whole decreased by 0.3 per cent.

Table 245

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

	Millions of córdobas at 1970 prices			*Percentage breakdown*		*Annual growth rates*		
	1970	*1974*	*1975* [a]	*1970*	*1975* [a]	*1971-1973*	*1974*	*1975* [a]
Agriculture	1 432	1 793	1 807	26.3	26.8	4.6	9.3	0.8
Mining	34	41	39	0.6	0.6	3.8	9.4	- 4.1
Manufacturing	955	1 188	1 195	17.5	17.8	4.4	9.5	0.6
Construction	175	292	286	3.2	4.2	6.2	39.3	- 2.2
Subtotal goods	*2 596*	*3 314*	*3 327*	*47.6*	*49.4*	*4.6*	*11.5*	*0.4*
Electricity, gas and water	121	140	163	2.2	2.4	- 3.2	28.0	16.3
Transport and communications	299	386	378	5.5	5.6	6.3	7.2	- 2.0
Subtotal basic services	*420*	*526*	*541*	*7.7*	*8.0*	*3.8*	*12.1*	*2.9*
Commerce	949	1 223	1 199	17.4	17.8	6.3	7.2	- 2.0
Real estate	484	443	484	8.9	7.2	- 4.5	5.1	9.3
Communal, social and personal services	1 004	1 156	1 179	18.4	17.5	3.0	5.4	2.0
Subtotal other services	*2 437*	*2 822*	*2 862*	*44.7*	*42.6*	*3.0*	*6.1*	*1.4*
Total gross domestic product	*5 452*	*6 662*	*6 730*	*100.0*	*100.0*	*4.0*	*9.2*	*1.0*

Sources: 1970-1974: CEPAL calculations on the basis of figures provided by the Central Bank of Nicaragua; 1975, CEPAL estimates on the basis of preliminary official data.

[a] Preliminary figures.

The production of green coffee increased from 848,500 to 960,000 quintals, which reflects an increase in yield from 7.1 to 8 quintals per manzana, as a result of the implementation of national production promotion campaigns. These campaigns advocate a changeover to higher-yielding varieties and more intensive use of fertilizers and insecticides. The area planted with sugar cane showed an increase of some 2,400 hectares over the area cultivated in 1974 (52,000 hectares), in response to the high prices for sugar in the world market.

In the stockraising sub-sector, the increase in production was 8 per cent. Slaughtering of cattle increased from 220,000 to 254,000 head, mainly as a result of the situation in the last quarter, when world beef prices rose to the highest level of the year. Slaughtering of pigs increased from 289,000 to 304,000 head as a result of the government programme, launched in 1972, under which technical assistance is provided and credit is made available to small and medium-sized farmers by the official banking network for the purpose of improving herds and animal husbandry techniques.

Within a general context of slow growth, the performance of the difrerent branches of manufacturing varied depending on the end-use of the product. Thus, manufactures for sale in international markets –processed foods in the case of Nicaragua– showed relatively high increases in production while the manufacture of construction materials and of other articles for domestic consumption decreased.

The production of foodstuffs for export (sugar, shrimp and lobster) benefited from the favourable world prices for those goods. In the first case, specifically, full use was made of the installed processing capacity of the factories and the area under sugar cane cultivation was expanded. In contrast, the low levels in the production of manufactured articles for domestic consumption, and particularly products such as metallic and non-metallic minerals, were due to the decline in construction activity.

This drop, coming as it did after the high levels recorded in 1974, when construction increased by almost 40 per cent, was mainly the result of the completion of the tasks of repairing the infrastructure and houses damaged by the earthquake in 1972. There was also, however, a drop in the rate of construction of new houses and commercial establishments, owing to the deterioration in the overall economic situation and the restrictions imposed on the expansion of credit provided by the financing system.

As regards the other branches of economic activity, the basic services sub-sector increased by almost 3 per cent, in spite of the drop recorded in transport and communications, while those branches which together provide what are classed as "other services" increased by slightly over 1 per cent.

3. *The external sector*

In 1975 the value of exports of goods fell by 2.5 per cent compared with the sharp increase of 37 per cent recorded in 1974 and with the average annual increase of 16 per cent for the period 1971-1973. This change in trend is explained mainly by the drop of 5.5 per cent in unit value, since the export volume increased by 3 per cent (see tables 246 and 247).

In the case of cotton, which is the principal export item, the value of sales abroad fell by almost 28 per cent as a result of a drop of 30 per cent in the average price and an increase of only 3 per cent in the quantum. A large part of the cotton harvest was exported in the early months of 1975 at around 33 cents per pound, which was a relatively low price, since in the second half of the year the world price rose to over 40 cents.

Other export items helped, to a large extent, to make up for the reduction mentioned above. In particular, exports of sugar increased to approximately 45 million dollars –almost 3 times the figure for 1974– as a result of the sharp increase in the world price; according to estimates, the unit value of sugar rose by 166 per cent and the quantity exported by 38 per cent. In addition, exports of shrimp and lobster increased by 53 per cent and those of fresh meat by a little over 27 per cent, the quantum in this latter case being almost 30 per cent higher, whereas the average price fell by 2 per cent.

Exports of coffee showed similar figures in both 1974 and 1975, although in 1975 the

Table 246

NICARAGUA: VALUE AND BREAKDOWN OF EXPORTS OF GOODS

	Millions of dollars at current prices (FOB)				*Percentage breakdown*		*Annual growth rates*		
	1970	*1973*	*1974*[a]	*1975*[b]	*1970*	*1975*	*1971–1973*	*1974*	*1975*
Main exports products	*108.6*	*172.7*	*225.8*	*232.0*	*61.1*	*62.5*	*16.6*	*30.7*	*2.7*
Cotton	34.2	63.2	135.9	98.1	19.2	26.4	22.6	115.0	– 27.8
Sugar	9.8	13.5	12.3	44.8	5.5	12.1	11.2	– 8.9	264.2
Green coffee	32.1	44.3	46.1	46.5	18.1	12.5	11.3	4.1	0.9
Fresh meat	26.6	44.5	21.9	27.9	15.0	7.5	18.7	– 50.8	27.4
Shrimp and lobster	5.9	7.2	9.6	14.7	3.3	4.0	6.9	33.3	53.1
Other products	*69.2*	*105.3*	*154.8*	*139.0*	*38.9*	*37.5*	*15.0*	*47.0*	*– 10.3*
Total	*177.8*	*278.0*	*380.6*	*371.0*	*100.0*	*100.0*	*16.1*	*36.9*	*– 2.5*

Source: CEPAL, on the basis of official statistics.

[a] Preliminary figures.

[b] Estimates.

Table 247

NICARAGUA: VARIATION IN THE TERMS OF TRADE AND IN THE VALUE, VOLUME AND UNIT VALUE OF EXPORTS AND IMPORTS OF GOODS

(Annual growth rates)

	1971	*1972*	*1973*	*1974*	*1975*
Exports of goods					
Value	4.9	33.2	11.9	36.9	-2.5
Volume	6.4	17.5	-1.0	8.6	3.1
Unit value	-1.4	13.5	13.0	26.1	-5.5
Imports of goods					
Value	6.6	8.2	59.5	65.2	-10.0
Volume	5.4	5.2	34.8	25.3	-21.7
Unit value	1.2	2.8	18.4	31.8	15.0
Terms of trade	-2.6	10.4	-4.6	-4.4	-17.8

Source: CEPAL, on the basis of official statistics.

quantity sold was 22 per cent greater. The average price dropped by approximately 18 per cent because most of Nicaragua's exports were made during the early part of the year, when world prices were depressed and the loss of harvests in Brazil had not yet taken place.

Finally, the value of sales of the remaining export products fell by 10 per cent, whereas in 1974 it had increased by 47 per cent. This drop can be attributed to the fact that exports from the country to the Central American Common Market in 1975 stagnated at around 92 million dollars.

As regards imports of goods, there was a drop of 10 per cent in the total value, as a result of an increase of 15 per cent in unit value and a drop of 22 per cent in volume.

In addition to the reasons mentioned above, which affected the overall performance of imports, it may be mentioned that imports of goods dropped especially in the case of inputs for construction, manufacturing and agriculture. In contrast, imports of fuels increased by approximately 25 per cent, while there was practically no change in imports of consumer goods.

It is estimated that imports of goods from the Central American Common Market fell from 130 to 110 million dollars, mainly because purchases of manufactured articles decreased.

The variation in the unit values of exports and imports of goods led to a deterioration of almost 18 per cent in the terms of trade, which had already fallen by an average of 4.6 per cent a year in the two-year period 1973-1974.

Exports and imports of services fell by almost 11 per cent, thus reducing the trade deficit on services from 55 million dollars in 1974 to 48 million in 1975 (see table 248). In view of the fact that the merchandise trade deficit fell from 159 million dollars to 115 million, the deficit on trade in goods and services fell from 214 million dollars in 1974 to 163 million in the following year. This change was mainly responsible for the reduction in the current account deficit of the balance of payments from 255 million dollars in 1974 to 212 million in 1975, after allowing for the changes in payments of profits and interest on foreign capital and in income from private transfers.

The current account deficit in 1975 was almost entirely covered by the net inflow of non-compensatory capital, which amounted to approximately 200 million dollars. Of this sum, almost 80 per cent was official capital and the remaining 20 per cent corresponded to private loans.

In addition, recourse was had to net compensatory loans in the amount of 25 million dollars, which financed that part of the current

Table 248

NICARAGUA: BALANCE OF PAYMENTS
(Millions of dollars at current prices)

	1970	*1972*	*1973*	*1974*	*1975* [a]
Current account					
Exports of goods and services	215	291	378	457	439
Goods FOB	178	249	278	381	371
Services	37	42	100	76	68
Transport	10	10	10	23	19
Travel	13	14	12	19	18
Imports of goods and services	231	268	426	671	602
Goods FOB	178	205	327	540	486
Services	54	63	99	131	116
Transport	24	25	37	67	60
Travel	15	17	17	31	28
Net payments of profits and interest on foreign capital	– 29	– 36	– 46	– 57	– 62
Profits	– 23	– 25	– 31	– 28	– 30
Interest	– 6	– 12	– 16	– 29	– 32
Net private transfer payments	3	4	40	16	13
Balance on current account	– 42	– 9	– 54	– 255	– 212
Capital account					
Net external financing (a+b+c+d+e)	42	9	54	255	212
(a) Net external non-compensatory capital	54	45	158	176	
Direct investment	15	10	13	16	
Long- and medium-term loans	41	61	120	131	
Amortization payments	– 10	– 19	– 16	– 20	200
Short-term liabilities (net)	4	– 10	23	32	
Official transfer payments	3	3	17	18	
(b) Domestic non-compensatory capital or assets	– 3	– 9	– 78	47	
(c) Errors and omissions	– 1	– 6	–	8	
(d) Allocation of SDRs	3	3	–	–	–
(e) Net compensatory financing (minus sign signifies an increase)	– 11	– 24	– 25	24	12
Balance-of-payments loans, trade arrears, IMF loans, and other liabilities of the monetary authorities	10	5	23	17	31
Amortizations payments	– 14	– 7	– 10	– 7	– 6
Foreign exchange reserves (minus sign signifies an increase)	– 4	– 18	– 39	13	– 15
Gold reserves (minus sign signifies an increase)	– 2	–	–	–	–
SDRs (minus sign signifies an increase)	– 1	– 3	1	–	2

Source: International Monetary Fund, *Balance of Payments Yearbook*, vol. 27.

[a] CEPAL, estimates based on official data.

Table 249

NICARAGUA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Current values (millions of córdobas)				Annual growth rates		
	1970	*1973*	*1974*	*1975* [a]	*1971–1973*	*1974*	*1975* [a]
1. *Current income*	*571*	*921*	*1 346*	*1 350*	*17.2*	*46.1*	*0.3*
Tax revenue	512	822	1 137	1 174	17.1	38.3	3.3
Direct	106	131	174	262	7.1	32.8	50.9
Indirect	406	691	963	912	19.3	39.4	– 5.3
Non-tax revenue	59	99	209	176	18.9	110.4	– 15.6
2. *Current expenditure*	*480*	*611*	*1 011*	*1 049*	*8.4*	*65.3*	*3.8*
Wages and salaries	264	312	388	432	5.7	24.3	11.3
Other current expenditure	216	299	623	617	11.5	108.5	– 0.9
3. *Saving on current account* (1 – 2)	*91*	*310*	*335*	*301*	*50.4*	*8.2*	*– 10.2*
4. *Capital expenditure*	*164*	*461*	*971*	*941*	*41.1*	*110.4*	*– 3.0*
Real investment	110	129	329	348	5.3	154.7	5.9
Other capital expenditure	54	332	642	593	83.3	93.2	– 7.6
5. *Total expenditure* (2 + 4)	*644*	*1 072*	*1 982*	*1 990*	*18.5*	*84.7*	*0.5*
6. *Fiscal deficit (or surplus)* (3 – 4)	*– 73*	*– 151*	*– 636*	*– 640*	*27.4*	*319.7*	*0.8*
7. *Financing of deficit*	*73*	*151*	*636*	*640*			
External financing (net)	62	218	630	604	51.9	188.7	– 4.0
Domestic financing (net)	11	– 67	6	36	–	–	496.7

Source: CEPAL, on the basis of official statistics.

[a] Estimates.

deficit not covered by the inflow of non-compensatory capital.

4. *Price trends and the fiscal and monetary situation*

Price trends can only be judged from the variation in the implicit deflator of the gross domestic product, which is the only official information available on the matter. On this basis it has been estimated that the average increase in prices was approximately 12 per cent in 1975: less than the 18 per cent recorded in the previous year, and similar to the figure for 1973. The rate of exchange, for its part, remained constant at approximately 7 córdobas to the dollar.

The decline in imported inflation played an important role in bringing prices under control. Thus, in 1975 the increase in the unit value of imports of goods was 15 per cent: well below the figure for 1974 (32 per cent), and also below that for 1973 (18 per cent). The drop of 5.5 per cent in the unit value of exports of goods contrasted even more sharply with the increases of 26 and 13 per cent recorded in 1974 and 1973 respectively.

The gradual normalization of activities affected by the 1972 earthquake and, in particular, the easing of demand pressure as a result of the slackening off in reconstruction work and the recession in overall economic growth also helped to reduce inflation.

The trends recorded by the fiscal and monetary variables also had an anti-inflationary impact.

In 1975 current central government income was practically equal to that of the previous year. Nevertheless, the yield of direct taxation increased by 51 per cent whith the increase in revenue from income and property taxes as a result of the introduction of tax reform and real estate revaluation programmes. In contrast, indirect taxes decreased by 5 per cent as a result of the expiring of the two-year period –established because of the earthquake– during which there was a 10 per cent tax on exports (see table 249).

Current expenditure increased by less than 4 per cent, after having increased by 65 per cent in 1974. Total remunerations increased by 11 per cent, mainly because of the adjustment in the wages and salaries of public employees, whereas other current expenditure fell slightly.

As a result of the evolution of current income and expenditure, fiscal savings fell by 10 per cent. In addition, Government investment fell by 3 per cent in 1975, but it ought to be borne in mind that investment in 1974 had been more than double that of 1973. Capital formation in 1975 gave priority to infrastructural works (roads and ports) and works of a social nature (schools and sanitary facilities). In addition, work continued on the laying out of streets and the installation of telephone lines within the framework of a limited reconstruction programme.

The central government incurred a total deficit of 640 million córdobas, a figure very close to that of 1974. Almost all of the deficit –more than 600 million– was financed by net external borrowings, since domestic financing amounted to only 36 million cordobas.

Income from disbursements of foreign credits was similar to that of the previous year. It is estimated that approximately half of the income corresponded to loans from IDB, IBRD, and AID.

In 1975, the supply of money fell by just over 1 per cent, compared with the increase of 16.5 per cent recorded in 1974 and the annual average growth rate of 26 per cent for the period 1971-1973 (see table 250).

Table 250

NICARAGUA: MONETARY POSITION
(Millions of córdobas)

	Balance at end of				*Annual growth rates*		
	1970	*1973*	*1974*	*1975*	*1971–1973*	*1974*	*1975*
1. *Money*	*600*	*1 194*	*1 391*	*1 372*	*25.7*	*16.5*	*– 1.4*
Currency outside banks	251	413	453	447	18.1	9.7	– 1.3
Demand deposits	349	781	938	925	30.8	20.1	– 1.4
2. *Factors of expansion*	*1 153*	*2 233*	*2 565*	*2 538*	*24.5*	*14.9*	*– 1.0*
Foreign assets (net)	– 206	218	– 38	– 216	–	–	– 468.4
Domestic credit	1 359	2 015	2 603	2 754	14.0	29.2	5.0
Claims on government (net)	39	– 8	– 95	40	–	–	–
Claims on official entities	73	35	44	53	–	–	20.5
Claims on private sector	1 247	1 988	2 654	2 661	16.9	33.5	0.3
3. *Factors of absorption*	*553*	*1 039*	*1 174*	*1 166*	*23.4*	*13.0*	*– 0.7*
Quasi-money (savings and time deposits)	310	807	842	927	37.5	4.3	10.1
Other items (net)	243	232	333	239	– 1.5	43.5	– 28.2

Source: IMF, *International Financial Statistics*, February 1976.

This trend was mainly the result of the monetary policy followed. After having allowed a greater degree of liquidity during 1973 and 1974 in order to help counter the effects of the earthquake, the authorities decided in 1975 to apply a policy designed to reduce that liquidity. Basically, two types of measures were used for this purpose. On the one hand, the credit policy in force was strengthened by fixing credit ceilings, while at the same time providing incentives for productive activities –particularly the agricultural sector and exports, but not for commercial activities. On the other, bank liquidity ratios were increased from 28 to 35 per cent for current accounts, and from 25 to 26 per cent for time deposits.

As a result of the application of these measures and of the general situation of the economy, domestic credit to the private sector showed virtually no increase in 1975, whereas during 1974 it had increased by 34 per cent. The loss of net international reserves proved to be an important factor of absorption, particularly when compared with the mid-1974 level of the consolidated monetary system's reserves. This was responsible for the reduction in the money supply to which attention was drawn above.

PANAMA

1. *The overall picture*

The development of the Panamanian economy was rather more favourable in 1975 than during the previous year. There was a slight increase in the rate of economic growth, a small reduction in the current account deficit of the balance of payments, and a marked decline in inflation. Despite these advances, however, the economy did not attain the remarkable indexes of economic

Table 251

PANAMA: MAIN SHORT-RUN ECONOMIC INDICATORS
(Percentage annual growth rates)

	1971–1973	*1974*	*1975*
Gross domestic product	6.5	2.6	3.3
Gross income [a]	6.8	– 0.9	2.3
Per capita gross domestic product	3.6	– 0.2	0.5
Gross fixed investment	9.6	– 3.7	– 14.0
Value of exports of goods and services	10.7	38.5	18.8
Value of imports of goods and services	11.6	51.9	8.3
Terms of trade	– 0.3	– 8.1	– 4.5
Balance on current account [b]	–103	–269	–253
Variation in international reserves [b]	2	–	...
Consumer price index [c]	4.7	16.8	5.5
Current income of government	12.0	20.6	9.5
Total expenditure of government	14.3	15.1	...
Fiscal deficit/total expenditure of government [d]	26.8	27.1	...
Rate of unemployment [d e]	...	7.2	8.5

Source: CEPAL, on the basis of official statistics.
[a] Gross domestic product plus terms-of-trade effect.
[b] Absolute values in millions of dollars at current prices.
[c] Annual average viariation.
[d] Percentage.
[e] In Panama City, October 1974 and July 1975.

growth and price stability which had prevailed during the early years of the 1970s and the previous decade.

Thus, although the 3.3 per cent rate of economic growth attained in 1975 exceeded that of the previous year (2.6 per cent) it was much lower than the rate of 6.5 per cent a year recorded during the period 1971-1973, and it produced only a marginal increase in the per capita product (see table 251). Furthermore, this higher rate of economic growth was almost entirely due to the marked recovery of agriculture and was accompanied by absolute reductions in the mining, manufacturing and construction product and an increase in unemployment in the main urban centres.

There was a rather similar situation in the external sector: the vigorous expansion of exports of goods and the satisfactory growth of exports of services more than offset the increase in imports of goods and services and the growth of the deficit on factor payments abroad, so that the deficit on the current account fell from nearly 270 million dollars in 1974 to just over 250 million dollars in 1975, but even this amount was well over twice the average deficit recorded on the current account of the balance of payment during the period 1971 to 1973 (see table 251).

However, there was a more marked improvement as regards the level of inflation: the rate of increase in the consumer price index, which had reached the unprecedented figure of 17 per cent in 1974, fell to less than 6 per cent in 1975. The decrease in the wholesale price index, though a little smaller, was still considerable, the falling as it did from 30 per cent in 1974 to 14 per cent in 1975.

2. *Recent economic trends*

(a) *Global trends*

As already noted, the Panamanian economy evolved more dynamically in 1975 than in the previous year. The growth rate of the product, which had been declining steadily since 1971, amounted to 3.3 per cent in 1975 and thus exceeded that of the previous year (2.6 per cent) although it was much lower than the rate attained during the period 1971 to 1973 (see table 252).

The rate of economic growth in 1975 was only slightly higher than the rate of pupulation increase (2.8 per cent), however. As a result, and since in 1974 the ratio had been the other way round, the per capita product in 1975 barely recovered the level it had already reached two years previously. Moreover, since imports declined and exports greatly increased during the biennium 1974-1975, the per capita supply of goods and services for consumption and investment in 1975 was more than 6 per cent less than in 1973.

On the demand side, the economic recovery in 1975 was stimulated by the marked growth in the volume of exports (9 per cent) and the exceptional expansion of 34 per cent in public investment (see table 252).

The boom in exports, in turn, was due mainly to the very substantial rises in exports of petroleum, sugar and bananas and the increase in services supplied to the free zone at Colón (see table 254). However, because of the peculiarities of the Panamanian economic structure, the expansion of exports had a less favourable influence on the development of the domestic production apparatus than the overall figures might suggest. In many cases the increased exports from Panama necessitated almost simultaneous and only slightly lower increases in imports. The evolution of exports of petroleum products illustrates this point particularly clearly. In the first nine months of 1975 exports were 38 million dollars higher than during the equivalent period in 1974, but the increase in imports of petroleum and fuels during the same period was even greater (48 million dollars).[173]

In contrast with the sustained and rapid growth of exports, gross capital formation declined appreciably for the second consecutive year, so that the investment coefficient, which had reached a peak of nearly 28 per cent in 1972, fell to only 20 per cent in 1975.

However, the decrease of almost 18 per cent in gross capital formation recorded in 1975 concealed diametrically opposed trends in public and private investment. While the former expanded rapidly and in 1975 reached double the level achieved three years previously,[174] the latter

[173]The difference between the two amounts is partly due to the rise in domestic consumption and partly to the fact that petroleum sold to ships passing through the Canal is included under the general heading of "Sales to the Canal Zone" (see table 254).

[174]In 1975 public investment concentrated on the development of sugar refineries, the construction of a cement factory and various major projects conceived with, for example, copper and the integral development of the Bayano region.

Table 252

PANAMA: TOTAL SUPPLY AND DEMAND

	Millions of balboas at 1970 prices			*Percentage breakdown*		*Annual growth rates*		
	1970	*1974*	*1975* [a]	*1970*	*1975* [a]	*1971-1973*	*1974*	*1975* [a]
Total supply	*1 471*	*1 821*	*1 840*	*140.6*	*134.8*	*6.4*	*2.9*	*1.0*
Gross domestic product	1 046	1 322	1 365	100.0	100.0	7.2 [b]	2.6	3.3
Imports	425	499	475	40.6	34.8	4.3	3.5	- 4.7
Total demand	*1 471*	*1 821*	*1 840*	*140.6*	*134.8*	*6.4*	*2.9*	*1.0*
Domestic demand	*1 081*	*1 340*	*1 318*	*103.3*	*96.6*	*7.0*	*1.3*	*- 1.6*
Gross fixed investment	276	333	273	26.4	20.0	9.3	- 7.5	- 17.8
Gross domestic investment	256	324	279	24.5	20.4	9.6	- 3.7	- 14.0
Public	68	102	137	6.5	10.0	9.7	13.6	34.4
Private	188	222	142	18.0	10.4	9.6	- 10.0	- 36.2
Variation in stocks	20	9	- 6	1.9	- 0.4	...	...	...
Total consumption	805	1 007	1 045	76.9	76.6	6.2	4.5	3.8
General government	150	209	214	14.3	15.7	8.8	8.3	2.1
Private	655	798	831	62.6	60.9	5.6	3.5	4.3
Exports	*390*	*481*	*522*	*37.3*	*38.2*	*4.6*	*8.5*	*8.5*

Sources: 1970-1974: CEPAL calculations on the basis of figures supplied by the Statistics and Census Office; 1975: CEPAL estimates on the basis of data from the same source.

Note: 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.

[a] Preliminary figures.

[b] The discrepancy between this growth rate and the one shown in table 253 is due to the fact that the rates correspond to different concepts of the product (in this case, market prices, and in table 253, factor costs).

fell by 36 per cent and in 1975 amounted to little more than half the rate for 1972. Because of these opposing trends, the totals of public and private investment in 1975 were very similar (see table 252).

Like the decreases recorded in the two previous years, the marked decline in private capital formation in 1975 was influenced by a variety of factors. These included the sharp increases in interest rates and the uncertainty felt by manufacturers during a period when economic policy was aiming to change the traditional pattern of development and as a start introduced measures to increase the share of labour in revenue.

In addition there were other factors of a more structural nature. In recent years the factors which had stimulated the very rapid economic growth of Panama during the 1960s were losing momentum: during the 1960s there had been a combination of a very marked expansion of external income (from the increasing export of bananas; the growth in the sale of services to the Panama Canal Zone; the development of activities in the free zone at Colón and a constantly increasing inflow of tourists) and the development of an incipient process of industrialization oriented towards import substitution. Furthermore, at the beginning of the current decade there was a considerable growth in construction activity linked with the expansion of tourism and with the housing needs of the higher income groups.

In recent years, however, there has been a certain degree of saturation of demand in these spheres, and the consequent restriction of economic growth which was only to be expected, was further aggravated by the economic recession in the industrialized countries, world inflation and the sudden rise in the price of fuels.

Thus in 1975 this combination of adverse circumstances accentuated the marked downward trend followed by private investment since 1973.

However, private consumption increased at a slightly higher rate in 1975 than in 1974, although it did not approach the high rates of growth attained during the first years of the decade (see table 252).

(b) *Sectoral developments*

From the sectoral angle, economic trends in 1975 were characterized by stagnation in the production of goods, a rapid expansion of basic services and the maintenance of the growth rate in the rest of the services sector (see table 253).

In the goods-producing sectors, the satisfactory performance of agriculture contrasted sharply with the decline in industry, mining and especially construction.

Table 253

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

	Millions of balboas at 1970 prices			*Percentage breakdown*		*Annual growth rates*		
	1970	*1974*	*1975* [a]	*1970*	*1975* [a]	*1971–1973*	*1974*	*1975* [a]
Agricultural	199	216	229	20.7	18.8	3.3	– 1.5	6.2
Mining	3	4	4	0.3	0.3	17.2	– 5.0	– 2.6
Manufacturing	152	172	169	15.8	13.9	5.7	– 4.4	– 1.9
Construction	60	89	77	6.3	6.3	12.1	4.0	– 13.2
Subtotal goods	*414*	*480*	*479*	*43.1*	*39.3*	*5.6*	*– 1.6*	*– 0.4*
Electricity, gas and water	19	29	31	2.0	2.5	14.0	4.6	4.4
Transport and communications	54	84	91	5.6	7.5	10.2	15.0	9.4
Subtotal basic services	*73*	*113*	*122*	*7.6*	*10.0*	*11.2*	*12.0*	*8.1*
Commerce, financial establishments and insurance	135	175	187	14.0	15.4	6.9	6.3	6.8
Real estate [b]	57	78	82	5.9	6.7	9.5	4.8	4.5
Communal, social and personal services [c]	283	334	349	29.4	28.6	4.7	3.0	4.2
Subtotal other services	*475*	*588*	*618*	*49.3*	*50.7*	*5.9*	*4.2*	*5.0*
Total gross domestic product	*962*	*1 192*	*1 232*	*100.0*	*100.0*	*6.5*	*2.6*	*3.3*

Sources: 1970-1974: CEPAL calculations on the basis of figures supplied by the Statistics and Census Office; 1975: CEPAL estimates on the basis of information from the same source.

Note: As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

[a] Preliminary figures.

[b] Refers to owner-occupied dwellings.

[c] Also includes restaurants, hotels, services provided to enterprises and personal services provided in the Canal Zone.

The agricultural product recorded a considerable increase of more than 6 per cent which more than made up for the decline in the previous year. The growth in the product generated by the crop farming sub-sector was even greater (8 per cent) and was due both to the expansion of the area cultivated and to improvements in yield. The harvests of basic grains –rice, maize and beans– exceeded those of the previous year by between 4 and 8 per cent and the same was true of the production of bananas and coffee. However the highest increase occurred in the output of sugar cane, which stimulated by the high international prices, rose by 20 per cent.

By contrast, livestock production fell by more than 2 per cent. This was due to the slow increase in the number of animals, lower exports of meat, and the decline in pig rearing and other types of production for the domestic market. However the value added by fisheries increased by over 7 per cent, mainly because of the exceptional expansion of nearly 23 per cent in the catch of species used by industry.

The evolution of manufacturing as a whole was unfavourable. The industrial product declined by 2 per cent, reflecting the persistence of contractive factors and the uncertainties faced by manufacturers, which had already caused a fall in industrial activity in 1974. This decrease was also influenced by the sharp decline of over 13 per cent in construction activity in 1975: the restrictive effect of that decline on the production of intermediate industrial goods was not offset by the expansion in the food and clothing industries generated by the increase in domestic consumption. However, after falling to their lowest level in the middle of the year, industry and construction subsequently began to recover, partly because of the favourable development of agriculture.

The growth rate of the value added by electricity generation and gas and water supply was similar to that of 1974 although it was much lower than the average rate recorded during the rapid expansion of this sub-sector at the beginning of the decade. However, because of the maintenance of a high growth rate in transport and communications, the rate of increase of basic services in 1975, although less than that of previous years, was still significantly higher than that of the global product (see table 253).

The other service-producing activities were more dynamic in 1975 than in 1974, mainly because of the recovery of the value generated by personal services supplied to the Panama Canal Zone (which had declined in 1974). Even so, these services did not regain the 1973 level, because of the reduction in canal traffic caused by the world recession.

The overall rate and sectoral structure of economic growth in 1975 also affected the employment situation. The slow growth of economic activity and in particular the decline in manufacturing and construction activity led to an increase in open unemployment in the metropolitan area from 7.2 per cent in October 1974 to 8.5 per cent in July 1975: between September 1974 and the same month in 1975 industrial employment fell 4.4 per cent in Panama City and 2.5 per cent in Colón.

However, the new methods of agricultural organization which were introduced and the support extended by the government to the expansion of the agricultural sector helped to reduce open unemployment in the rural areas from 4 per cent in October 1974 to 3.6 per cent in July 1975.

3. *The external sector*

During 1975 the evolution of the external sector was more favourable than in the previous year. The growth of exports was able to absorb the higher expenditure on imports of goods and services and also the increase in the deficit on factor payments abroad, thus slightly reducing the deficit on current account.

(a) *Foreign trade*

Exports of goods increased by over 30 per cent in 1975 and, since there had been a considerable rise in the previous year, this meant that the value of exports of goods doubled between 1973 and 1975.

This expansion was due in particular to the higher prices obtained from the export of shrimps and especially sugar, as well as to the rapid recovery of banana exports.[175] In absolute terms the biggest increase was in exports of petroleum products, although as has already been pointed out these exports necessitated a considerable increase in imports of petroleum (see tables 254 and 255).

Exports of services, which in Panama are greater than exports of goods, also increased at a satisfactory rate (12 per cent). This was mainly due to the considerable rise in the value added generated in the Colón Free Zone and to a lesser extent to the growth of tourism.

[175] This recovery occurred when the difficulties encountered with a foreign enterprise in 1974 had been solved. The land belonging to foreign firms was recently acquired by the Government of Panama, while at the same time a land lease contract for banana growing was drawn up under new conditions. See in this connexion, Law Nº 5 of 7 January 1976.

Table 254

PANAMA: VALUE, BREAKDOWN AND DESTINATION OF EXPORTS OF GOODS AND SERVICES (FOB)

	Millions of dollars						*Percentage breakdown*		*Annual growth rates*		
	1970	*1973*	*1974* [a]	*1975* [b]	*January to December*		*1970*	*1974*	*1971–1973*	*1974*	*1975*
					1974	*1975*					
A. *Total of goods exports*	*130.3*	*161.9*	*247.1*	*324.0*			*100.0*	*100.0*	*7.5*	*52.6*	*31.1*
Main exports products	97.4	113.7	178.5	262.0			74.8	72.2	5.3	57.0	46.8
Bananas	60.8	63.8	49.6	...	35.0	43.6	46.7	20.1	1.6	– 22.3	24.6 [c]
Petroleum [d]	21.5	24.4	86.3	...	53.8	92.1	16.5	34.9	4.3	253.7	71.2 [c]
Shrimps	10.2	16.7	15.1	...	12.3	14.2	7.8	6.1	17.7	– 9.6	15.4 [c]
Sugar	4.9	8.8	27.5	...	25.0	48.4	3.8	11.1	21.5	212.5	93.6 [c]
Other exports	10.7	23.3	6.2	...	...	...	8.2	2.5	29.6	– 73.4	...
Sales to the Canal Zone	22.2	24.9	62.4	62.0			17.0	25.3	3.9	150.6	– 0.6 [e]
B. *Total exports of services*	*252.9*	*358.1*	*473.1*	*531.8*			*100.0*	*100.0*	*12.3*	*32.1*	*12.4*
Transport	35.9	68.2	162.7	170.3			14.2	32.0	23.8	138.6	4.7
Travel	78.2	102.5	120.7	130.5			30.9	24.5	9.4	17.8	8.1
Canal Zone	37.3	39.0	40.3	41.0			14.7	7.7	1.5	3.3	1.7
Other countries	40.9	63.5	80.4	89.5			16.2	16.8	15.8	26.6	11.3
Other services to the Canal Zone	85.2	99.4	105.7	104.3			33.7	19.6	5.3	6.3	– 1.3
Net wages and salaries	62.1	76.9	82.0	87.8			24.6	16.5	7.4	6.6	7.1
Other	23.1	22.5	23.7	16.5			9.1	3.1	– 0.9	5.3	– 30.4
Colón Free Zone (net)	29.7	49.4	42.6	70.1			11.8	13.2	18.5	– 13.8	64.6
Other items and adjustments	23.7	38.6	41.4	56.6			9.4	10.7	17.6	7.3	36.7
Total exports of goods and services	*383.2*	*520.0*	*720.2*	*855.8*			–	–	*10.7*	*38.5*	*18.8*

Source: CEPAL, on the basis of official statistics.

a Preliminary figures.
b Estimates.
c Over the same period (January to September) of the previous year.
d Not including sales to ships in transit, which are recorded as exports of services.
e Includes sales of petroleum to ships passing through the Canal.

Table 255

PANAMA: VALUE AND BREAKDOWN OF IMPORTS OF GOODS [a]

	Millions of balboas					*Percentage breakdown*		*Annual growth rates*		
				January to December						
	1970	*1973*	*1974* [b]	*1974* [a]	*1975* [a c]	*1970*	*1974*	*1971–1973*	*1974*	*1975* [d]
Foods products	24.6	42.2	41.6	30.2	32.6	7.5	5.7	19.7	– 1.4	7.9
Petroleum and fuels	59.7	88.0	271.2	194.2	242.0	18.3	37.1	13.8	208.2	24.6
Other intermediate and consumer goods	177.6	235.6	301.5	207.0	191.0	54.4	41.2	9.9	28.0	– 7.7
Capital goods	64.5	88.2	116.8	103.2	97.8	19.8	16.0	11.0	32.4	– 5.2
Total	*326.4*	*454.0*	*731.1*	*534.6*	*563.4*	*100.0*	*100.0*	*11.6*	*61.0*	*5.4*

Source: CEPAL, on the basis of official figures.

a FOB values. Excludes merchandise imported from the Canal Zone.
b Preliminary figures.
c Estimates.
d Over the same period (January to September) of the previous year.

In contrast, imports of goods increased very little: during the first three quarters of the year their value rose by just over 5 per cent, which actually meant a fall in volume because of the rise in international prices. This decline reflected the small overall growth of the economy and particularly the marked decline of investment in 1975 which caused a 5 per cent reduction in the value of imports of capital goods and a decline of nearly 8 per cent in the value of imports of intermediate products and non-edible consumer goods. These reductions suggest that there were decreases in volume of about 15 per cent and 20 per cent respectively. Imports of petroleum, however, increased by a quarter compared with the previous year, when purchases trebled because of the rise in the price of fuels (see table 255).

These divergent trends of the main categories of imports were due to changes in geographical origin: the share of the United States fell considerably, while that of the petroleum exporting countries (Venezuela and particularly Ecuador) increased.

The improved balance in transactions of goods and services in 1975 contrasted with the very marked increase in the deficit on the factor payments account. As may be seen from table 256 net expenditure on this item increased by 50 per cent because of the unusually large increase in payments on foreign capital to nearly 500 million dollars in 1975 –over six times as much as the 1972 total. This unprecedented increase was mainly caused by the rise in interest paid by banking institutions on external savings deposits and in interest paid by the public sector on loans obtained from private foreign sources to finance the widening gap between the savings and investment of the government and public institutions.

The impact of this growing increase in payments of profits and interest abroad was partly offset by the growth of income from the same items, which was also very high. Thus, the profits and interest received in 1975 amounted to 358 million dollars, which was over seven times more than in 1972 (43 million).

(b) *The balance of payments*

The transactions described above caused a deficit of 250 million dollars on the current account. Although this was less than in 1974, it was more than double the deficits recorded in the three-year period 1971-1973 (see table 256).

Although full information is not yet available on the evolution of the balance of payments capital account, the financing of the current account in 1975 probably reverted to dependence on the inflow of long-term capital for the national government and even more so on the inflow of foreign capital to foreign banking institutions situated in Panama, as reflected in the rise in deposits by foreign banks and non-resident banks in the banking system (see table 259).

4. *Prices and credit*

In 1975 the rate of inflation fell to less than half the rate of the previous year. Consumer prices, which had increased by 17 per cent in 1974, rose by less than 6 per cent in 1975. The decline in the wholesale price index was somewhat smaller, but it was still considerable, since the rate fell from 30 per cent in 1974 to 14 per cent in 1975 (see table 257).

The main factor in the slackening of the inflationary process was the much smaller increase in the prices of imported products in 1975 compared with the previous year (13 per cent compared with 29 per cent) as a result of the slackening of inflation in the industrialized countries and the fall in the international prices of many basic products. However the rate of increase in prices in 1975 was still considerably higher than the normal rate which prevailed in Panama before the escalation of world inflation in 1973 and 1974.

As in 1974, the price rises do not appear to have caused a decline in real wages. The average wage increase in Panama City and Colon during the first quarter of 1975 compared with the same period of the previous year was just over 11 per cent, whereas during the same period the consumer price index increased by less than 7 per cent. Since a similar ratio persisted for the rest of the year, the purchasing power of wages seems to have increased somewhat, at least in the main urban centres.

The inflationary process was probably stimulated to some extent by the fiscal policy. Judging by the available information, the current expenditure of the government increased at a considerably higher rate (16 per cent) than current income (9.5 per cent) (see table 258). In fact, there seems to have been such a wide discrepancy between the expansion of expenditure and the

Table 256

PANAMA: BALANCE OF PAYMENTS
(Millions of dollars at current prices)

	1970	1972	1973	1974	1975 [a]
Current account					
Exports of goods and services	383	454	520	720	856
Goods FOB	130	146	162	247	324
Services	253	308	358	473	532
Income from the Canal Zone and other services	139	164	187	189	231
Transport	36	61	68	163	170
Travel	78	83	103	121	131
Imports of goods an services	423	523	587	892	966
Goods FOB	331	409	461	736	791
Services	92	115	126	155	175
Transport	46	58	68	88	95
Travel	23	26	27	34	40
Net payments of profits and interest on foreign capital	– 28	– 34	– 43	– 91	– 137
Profits	– 19	– 14	– 13	– 14	– 15
Interest	– 10	– 20	– 30	– 77	– 122
Net private transfer payments	– 4	– 4	– 9	– 7	– 6
Balance on current account	– 71	– 107	– 119	– 269	– 253
Capital account					
Net external financing (a+b+c+d+e)	71	107	119	269	253
(a) Net external non-compensatory capital	275	676	1 697	2 813	240
Direct investment	33	13	32	24	
Long- and medium-term loans	113	163	176	201	
Amortization payments	– 26	– 31	– 61	– 87	
Short-term liabilities (net)	147	522	1 541	2 666	
Official transfer payments	8	9	9	10	
(b) Domestic non-compensatory capital or assets	– 129	– 491	– 1 474	– 2 487	
(c) Errors and omissions	– 72	– 78	– 105	– 76	
(d) Allocation of SDRs	5	4	–	–	–
(e) Net compensatory financing (minus sign signifies an increase)	– 7	– 4	–	19	12
Balance-of-payments loans, trade arrears, IMF loans, and other liabilities of the monetary authorities	–	–	–	20	12
Amortization payments	– 2	–	–	– 1	...
Foreign exchange reserves (minus sign signifies an increase)	–	–	–	–	...
Gold reserves (minus sign signifies an increase)	– 2	– 4	–	–	...
SDRs (minus sign signifies an increase)	– 3	–	–	–	...

Source: International Monetary Fund, *Balance of Payments Yearbook*, vol. 27.

[a] CEPAL, on the basis of official statistics.

Table 257

PANAMA: EVOLUTION OF THE GENERAL PRICE LEVEL, 1970-1975

	Annual rates of increase				
	1971	*1972*	*1973*	*1974*	*1975* [a]
Wholesale prices in the Republic (1961 = 100)	*5.4*	*8.6*	*10.5*	*30.2*	*14.0*
Imports	5.5	6.7	11.6	28.8	12.5
Industrial	5.6	11.9	10.1	33.7	13.3
Agricultural	4.2	4.3	9.1	23.8	20.3
Consumer price index for Panama City (1962 = 100)	*2.0*	*5.3*	*6.9*	*16.8*	*5.5*
Food and beverages	2.4	4.6	9.8	22.8	6.8
Housing	2.2	3.9	2.2	11.0	3.0
Clothing	2.6	3.7	4.2	10.0	7.0
Miscellaneous	0.9	8.2	6.6	13.6	4.8

Source: CEPAL, on the basis of figures supplied by the Office of the Controller of the Republic of Panama, Statistics and Census Office.

[a] Estimates.

growth of income that in 1975 the government made virtually no savings on current account.[176]

Thus, virtually all the capital expenditure of the Government had to be financed by credit. Moreover, since public investment in fixed capital expanded by 34 per cent in real terms in 1975 (see table 252) the amount of credit needed to finance the fiscal deficit must have been very high. The evolution of the portfolio credit made available by the banking system, including that made available to the Government, provides partial evidence in this respect. At the end of the first quarter of 1975 this credit was 150 per cent greater than in the previous year.

This vigorous expansion was in marked contrast with the decline in the credit made available by the banking system to the productive sectors as a whole during the same period and particularly for the financing of personal consumption. Credit for the latter purpose diminished by half between June 1974 and June 1975, while credit for productive activities fell by a fifth during the same period. This latter decline was entirely due to the fall of almost 30 per cent in loans to commerce. However, there was an increase in credit to agriculture, industry, and above all, construction.[177] All in all, the credit granted to the domestic sectors as a whole dropped by 10 per cent (see table 259).

Nevertheless, this contraction was more than offset by the 28 per cent rise in loans to foreign residents. This, together with the also very

[176] At all events, this was the situation during the first quarter. As may be seen from table 258, savings on current account during the first six months of 1975 amounted to only 1 million balboas, while during the equivalent period of the previous year savings came to over 8 million balboas.

The projection of current expenditure for 1975 as a whole on the basis of the rate of increase during the first quarter produces a similar result. If the 16 per cent growth rate of the first quarter is applied to the 1974 current expenditure of 256 million balboas, a figure of 297 million balboas is obtained for current expenditure in 1975. As may be seen from table 258, this coincides with the figure for current income for that year and therefore suggests a total absence of savings.

[177] Credit to construction was mainly for building homes for the middle-income groups.

Table 258

PANAMA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE
(Millions of balboas)

	Current values						*Annual growth rates*		
	1970	*1973*	*1974*	*1975* [a]	*First half of year*		*1971–1973*	*1974*	*1975*
					1974	*1975*			
1. *Current income*	*160*	*225*	*271*	*297*			*12.0*	*20.6*	*9.5*
Tax revenue	129	173	210	227			10.3	21.7	7.9
Direct	62	82	100	114			9.6	22.6	14.1
Import	37	44	51	44			6.2	14.9	– 12.9
Export	1	1	10	14			–	1 357.0	37.3
Indirect	29	46	49	54			16.4	22.7	10.6
Non-tax revenue	31	52	61	70			18.5	17.3	14.8
2. *Current expenditure*	*150*	*203*	*256*	...	*121*	*140*	*10.5*	*26.0*	*16.1* [b]
Wages and salaries	83	122	144	...	67	82	13.8	17.6	23.4 [b]
Other current expenditure	67	81	112	...	54	58	6.2	38.9	7.2 [b]
3. *Saving on current expenditure* (1 – 2)	*10*	*22*	*16*	...	*8*	*1*	*31.1*	*– 29.0*	*– 87.7* [b]
4. *Capital expenditure*	*67*	*121*	*117*	...	...	...	*21.8*	*– 3.2*	...
5. *Total expenditure*	*217*	*324*	*373*	...	...	...	*14.3*	*15.1*	...
6. *Fiscal deficit (or surplus)* (3 – 4)	*– 57*	*– 98*	*– 101*	...	...	...	*20.0*	*2.5*	...
7. *Financing of deficit*	57	98	101	...	...	...	...	...	...
Domestic financing	22	14	30	...	...	...	– 13.6	112.7	...
External financing	35	84	71	...	...	...	34.2	– 16.0	...

Source: CEPAL, on the basis of official statistics.
[a] Estimates.
[b] Over the same period (first half) of the previous year.

intensive growth in deposits by foreign and non-resident banks, reflected the continuing rapid development of Panama as an international finance centre. These deposits, which in 1970 had amounted to 370 million balboas, had already tripled in 1972 and increased nearly five times between 1972 and 1974, when they reached nearly 5,250 million balboas. By September 1975 the total had again risen and approached 5.800 million balboas.

It should, however, be pointed out that this extraordinary expansion of international banking in Panama involves the risk that a reduction in the inflow of private external deposits might cause difficulties in financing the country's economic growth. Since foreign currency also constitutes the domestic money supply, and reduction in the flow of credit from the external bank could cause serious monetary upheavals as long as the financial gap in the balance of payments persists.

Table 259

PANAMA: MONETARY POSITION
(Millions of balboas)

	Balance at end of			Balance at end of June and September		Annual growth rates		
	1970	1973	1974	1974	1975	1971-1973	1974	1975
Loans by the banking system	*942*	*3 792*	*9 085*	*3 511* [a]	*4 136* [a]	*59.0*	*139.6*	*17.8* [b]
To foreign residents	392	2 399	7 036	2 583	3 303	82.8	193.3	27.9
Domestic	549	1 392	2 049	928	833	36.3	47.2	- 10.2
Personal consumption	54	159	250	128	63	43.4	57.2	- 50.8
Production	452	1 027	1 445	656	525	31.5	40.7	- 20.0
Agriculture	36	103	132	70	74	42.0	28.2	5.7
Industry	36	66	143	71	81	22.4	116.7	14.1
Commerce	380	858	1 170	515	370	31.5	36.4	- 28.1
Housing and construction	36	147	234	104	145	59.5	59.2	39.4
Unclassified and other	7	59	120	40	100	103.5	103.4	150.0
Deposits in the banking system	*673*	*3 183*	*5 923*	*5 026* [c]	*6 481* [c]	*67.9*	*86.1*	*28.9* [d]
By the private sector	289	510	606	573	614	20.9	18.8	7.2
Sight deposit	99	151	191	161	149	15.1	26.5	- 7.5
Time and limited-access deposit	190	359	415	412	465	23.6	15.6	12.9
By the public sector (sight)	15	69	68	68	68	66.3	- 1.4	–
By foreign banks [a]	369	2 604	5 249	4 385	5 799	91.8	101.6	32.2
Sight deposits	213	131	192	157	164	- 14.9	46.6	4.5
Time and limited-access deposits	156	2 473	5 057	4 228	5 635	151.3	104.5	33.3

Source: CEPAL, on the basis of official statistics.
[a] At the end of June.
[b] June 1975 growth rate compared with June 1974 rate.
[c] At the end of September.
[d] September 1975 growth rate compared with September 1974 rate.
[e] Includes deposits by foreigners.

PARAGUAY

1. *The overall picture*

The salient features of Paraguay's economic development in 1975 were the vigorous growth of the gross domestic product, the adverse changes in the pattern of its foreign trade relations, the major decline in the rate of inflation, and the new impetus created by the initiation of work on the Itaipú hidroelectric complex, a project which has been undertaken jointly with Brazil and which was closely linked with the big increase in the inflow of foreign capital recorded during the year.

The gross domestic product maintained the high rate of expansion of recent years by increasing at a rate of 8 per cent. The industrial sector, despite the fall in external demand for some categories of agro-industrial products, grew by 7 per cent, and the construction sector expanded by 30 per cent, stimulated by the initiation of work on the binational project at

Itaipu. Among the other sectors, the most dynamic continued to be the basic services sector, which grew by more than 10 per cent; the growth rates of commerce and the other services were similar to that of the global product.

In 1975 an abrupt change took place in the pattern of Paraguayan foreign trade. There was a considerable decline in the rate of expansion of exports and imports, which had both grown at very high rates since 1971 (see table 260), but the most pronounced feature was the marked deterioration in the terms of trade, caused by a 2 per cent decline in the unit value of exports and a rise of nearly 20 per cent in that of imports. This imbalance caused an appreciable increase in the trade and current account deficits, but international reserves nevertheless grew by nearly 30 million dollars for the second consecutive year as a result of further increases in the inflow of non-compensatory capital.

Table 260

PARAGUAY: MAIN SHORT-RUN ECONOMIC INDICATORS

(Percentage annual growth rates)

	1971-1973	*1974*	*1975*
Gross domestic product	5.7	8.3	8.0
Gross income [a]	7.2	7.9	5.4
Per capita gross domestic product	2.8	5.3	4.9
Gross fixed investment	16.2	11.2	15.2
Value of exports	25.1	35.7	4.0
Value of imports	18.4	49.1	8.6
Terms of trade	10.0	– 3.0	– 18.2
Balance on current account [b]	–18	–37	–50
Variation in international reserves[b]	11	29	28
Consumer price index [c]	8.9	25.2	6.7
Money	19.9	22.2	18.9
Wages and salaries	5.5	18.3	5.3

Source: CEPAL, on the basis of official statistics.

[a] Gross domestic product plus terms-of-trade effect.

[b] Absolute values in millions of dollars at current prices.

[c] Annual average variation.

There was a marked reduction in the rate of inflation in 1975. The consumer price index, which in 1974 had shown an annual average variation of about 25 per cent, rose by less than 7 per cent. Various factors contributed to this favourable change. In the first place there was the Central Bank's monetary policy aimed at controlling the expansion of liquidity generated by the increase in the country's international reserves. Furthermore, the external factors which had strongly affected the rises in domestic prices during the previous year exerted less influence in 1975, while the domestic price control measures and steps to ensure the supply of essential articles also had their effect.

Wages, which had steadily declined in real terms since 1971, again suffered a loss of real value since they did not rise fast enough to offset the increase in the cost of living during the year.

2. *Recent economic trends*

(a) *Global trends*

In 1975 the growth rate of total supply fell to 5.6 per cent despite the fact that the gross domestic product maintained the high growth rate of the previous year (8 per cent). The evolution of the real supply of imported goods and services since

1970 had helped total supply to expand at a higher rate than the gross domestic product (6 per cent higher during the period 1971 to 1973 and nearly 9 per cent higher in 1974), but in 1975 this trend was reversed and the growth supply of imports dropped by over 7 per cent. In keeping with this evolution, the import coefficient rose steadily from 16 per cent in 1970 to 18 per cent in 1974, only to fall to 15 per cent in 1975 (see table 261).

Table 261

PARAGUAY: TOTAL SUPPLY AND DEMAND

	Millions of guaraníes at 1970 prices			*Percentage breakdown*		*Annual growth rates*		
	1970	*1974*	*1975* [a]	*1970*	*1975* [a]	*1971-1973*	*1974*	*1975* [a]
Total supply	*86 999*	*113 255*	*119 646*	*116.1*	*115.4*	*6.2*	*8.6*	*5.6*
Gross domestic product	74 921	96 016	103 697	100.0	100.0	5.7	8.3	8.0
Imports	12 078	17 239	15 949	16.1	15.4	8.9	10.5	– 7.5
Total demand	*86 999*	*113 255*	*119 646*	*116.1*	*115.4*	*6.2*	*8.6*	*5.6*
Domestic demand	*75 823*	*100 790*	*106 593*	*101.2*	*102.8*	*6.9*	*8.8*	*5.8*
Gross domestic investment	11 034	20 549	24 210	14.7	23.3	19.1	10.3	17.8
Gross fixed investment	10 883	18 988	21 873	14.5	21.1	16.2	11.2	15.2
Construction	5 463	8 514	11 068	7.3	10.7	10.9	14.2	30.0
Machinery and equipment	5 420	10 474	10 805	7.2	10.4	21.1	8.8	3.2
Total consumption	64 789	80 241	82 383	86.5	79.5	4.6	8.4	2.7
General government	6 748	6 294	6 669	9.0	6.4	– 2.1	– 0.5	5.9
Private	58 041	73 947	75 714	77.5	73.1	5.3	9.2	2.4
Exports	*11 176*	*12 465*	*13 053*	*14.9*	*12.6*	*1.3*	*7.4*	*4.7*

Sources: 1970-1974: CEPAL calculations on the basis of figures supplied by the Central Bank of Paraguay; 1975: CEPAL estimates on the basis of information from the same source.

Note: 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.

[a] Preliminary estimates.

From the point of view of total demand, the most dynamic factor was investment, which attained a growth rate of nearly 18 per cent. Between 1970 and 1973 it increased at very high rates (19 per cent on average), stimulated by the need to broaden and modernize the country's productive capacity in order to meet the great increase in external demand for Paraguay's agricultural and agro-industrial products. In 1974 the growth rate of investment fell conspicuously (although in remained at the high level of 10 per cent), but it recovered significantly in 1975. As a result of this evolution, the investment coefficient rose from just under 15 per cent in 1970 to over 23 per cent in 1975.

The rapid growth of fixed capital investment in 1975 was mainly due to the initiation of work on the Itaipu hydroelectric project. This project is being carried out as part of the scheme for the development of the enormous hydroelectric resources of the river Paraná along the border with Brazil and Argentina,[178] and when it is complete the country will have the largest hydroelectric plant in the world. The plant will be situated on

[178] In order to develop these resources, Paraguay has signed treaties establishing the Itaipú and Yacyretá binational corporations with Brazil and Argentina respectively. Construction of the Yacyretá plant is planned to begin in 1977.

the river Paraná, approximately 14 kilometres upstream from the international bridge which links Puerto Presidente Stroessner in Paraguay with Foz de Iguazú in Brazil.

When complete, the dam will have 18 turbines with a generating capacity of 700 megawatts each, which will give a nominal total capacity of 12,600 megawatts. Thus the capacity of the plant will be six times that of the Aswan dam in Egypt and 30 per cent greater than the Grand Carlee dam in the United States (currently the largest dam in the world).

It is estimated that the cost of construction will exceed 4,500 million dollars at 1974 prices. The work will require more than 10,000 workers and daily supplies of about 1,000 tons of cement, 5,000 cubic metres of sand and over 10,000 tons of coarse aggregates.

It is hoped that the big electricity generating capacity created by this project will encourage the installation in Paraguay of industries which make intensive use of electricity. However, even if total domestic consumption expands by 20 per cent a year, by 1989 it will still only be equivalent to 3 per cent of the output of Itaipú. The country will therefore have to sell to Brazil a high proportion of the share of the energy to which Paraguay will be entitled under the agreements signed.

In contrast with the performance of investment, the evolution of consumption was less satisfactory in 1975 than during the previous year. Despite the recovery of Government consumption (up to 6 per cent compared with a decline of 0.5 per cent in the previous year), total consumption grew by less than 3 per cent whereas in 1974 it

Table 262

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

	Millions of guaranies at 1970 prices			*Percentage breakdown*		*Annual growth rates*		
	1970	*1974*	*1975* [a]	*1970*	*1975* [a]	*1971-1973*	*1974*	*1975* [a]
Agriculture	23 805	30 418	31 999	34.3	33.1	5.2	9.8	5.2
Mining	83	226	286	0.1	0.3	33.9	14.9	26.4
Manufacturing	12 004	15 875	16 987	17.3	17.5	6.7	8.9	7.0
Construction	2 076	3 235	4 206	3.0	4.3	10.8	14.2	30.0
Subtotal goods	*37 968*	*49 754*	*53 478*	*54.7*	*55.2*	*6.1*	*9.8*	*7.5*
Electricity, gas and water	840	1 527	1 695	1.2	1.7	21.0	2.3	11.0
Transport and communications	2 950	4 147	4 562	4.2	4.7	7.2	14.0	10.0
Subtotal basic services	*3 790*	*5 674*	*6 257*	*5.4*	*6.4*	*10.6*	*10.6*	*10.3*
Commerce, financial establishments and insurance	13 529	17 491	18 890	19.5	19.5	5.9	8.8	8.0
Real estate [b]	2 281	2 718	2 854	3.3	2.9	4.2	5.4	5.0
Communal, social and personal services [c]	11 868	14 164	15 441	17.1	15.9	5.1	2.7	9.0
Subtotal other services	*27 678*	*34 373*	*37 185*	*39.9*	*38.4*	*5.4*	*6.1*	*8.2*
Total gross domestic product	*69 435*	*88 987*	*96 106*	*100.0*	*100.0*	*5.7*	*8.3*	*8.0*

Sources: 1970-1974: CEPAL calculations on the basis of figures supplied by the Central Bank of Paraguay; 1975: CEPAL estimates on the basis of information from the same source.

Note: As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

a Preliminary estimates.

b Refers to housing only.

c Also includes restaurants, hotels and services supplied to enterprises.

had expanded at a rate of over 8 per cent. This slower rate of growth was due to the decrease in the growth rate of private consumption from over 9 per cent in 1974 to just over 2 per cent in 1975.

Exports of goods and services, expressed in constant prices, grew at a rate of nearly 5 per cent. Although exports measured in current prices show a marked expansion from 1971 onwards, if measured in constant prices they are seen to have increased at lower rates than the gross domestic product. Thus the export coefficient fell from close to 15 per cent in 1970 to less than 13 per cent in 1975 (see table 261).

(b) *Sectoral developments*

The agricultural sector, which contributes over 33 per cent of the total gross domestic product, has been stimulated in recent years by active external demand and supported by agricultural promotion policies and has become one of the most dynamic sectors of the Paraguayan economy. Its 5 per cent expansion in 1975, although satisfactory, however, was considerably less than that of the previous year (see table 262). This rate was the result of increases of 4 per cent in livestock raising, 15 per cent in forestry development and 4 per cent in crop farming. In contrast to the previous year, when the production of nearly all the agricultural crops rose considerably, there was a decrease in the output of some important crops such as sugar cane, bananas, potatoes and casava in 1975. However, this was amply compensated by the increase in the harvests of rice, maize, cotton and soya beans (see table 263).

The industrial sector was affected by the sluggishness of external demand for some products, particularly vegetable oils. However, with the help of major increases in the output of cement, sawn woods and other products it achieved a rate of nearly 7 per cent.

The most dynamic sector of the Paraguayan economy in 1975 was construction, which expanded at a rate of 30 per cent. The boom in construction was closely connected with the initiation of work on the Itaipú hydroelectric complex. The Itaipú Binational Corporation has already signed major contracts with Paraguayan enterprises for the construction of roads, housing, hotels, administrative buildings and other engineering work required for the initiation of such a large-scale project. At the end of 1975 this work was providing employment for over 2,000 persons.

Among the other sectors the most dynamic, for the second consecutive year, was basic services which increased by more than 10 per cent; commerce and other services, for their part, increased at similar rates to that of the total product.

Table 263

PARAGUAY: PRODUCTION OF SOME MAJOR AGRICULTURAL CROPS
(Millions of guaraníes at 1972 prices)

	1970	*1973*	*1974*	*1975* [a]	*Annual growth rates* *1971-1973*	*1974*	*1975*
Cassava	3 372	4 603	4 695	4 528	10.9	2.0	– 3.5
Soya beans	440	1 320	2 090	2 310	44.0	58.3	10.5
Maize	1 430	1 777	1 830	2 196	7.5	3.0	20.0
Cotton	782	1 764	1 785	2 100	31.0	1.2	17.6
Sugar cane	706	942	1 034	775	1.5	5.0	– 19.8
Oranges	677	713	784	823	1.7	10.0	5.0
Sweet potatoes	537	668	735	713	7.5	10.0	– 3.0
Rice	524	304	462	660	– 18.0	52.2	42.8

Source: Central Bank of Paraguay.
[a] Preliminary figures.

3. *The external sector*

(a) *Foreign trade*

(i) *Exports.* In 1975 exports of goods, expressed in current values, rose by nearly 4 per cent. This rate, which represented a sudden interruption in the high rate of increase in foreign currency income from exports recorded since 1972, reflected the increase in sales of timber, tobacco, cotton and coffee and the decline in exports of meat, vegetable oils and sugar (see table 264). Between 1972 and 1974 exports of goods grew at an average annual rate of nearly 40 per cent, mainly as a result of rises in international prices, since the quantum increased at an average annual average of only about 7 per cent during that period. In 1975, however, the unit value of exports fell by 2 per cent, so that in order to reach the level attained by exports in current values it was necessary for the quantum to increase by 6 per cent (see table 266).

The exports which increased substantially in volume included beef, sales of which rose by 13 per cent entirely on account of higher sales of canned meat, which rose from just over 8,000 tons in 1974 to 15,000 tons in 1975 in contrast with decreases in the exports of frozen meat and other meat products. There was also quantitative increases in the exports of soya beans (2 per cent), tobacco (6 per cent), cotton (5 per cent) and coffee beans, sales of which were more than three times the total for the previous year. While the unit values of some important export products such as sawn wood, soya beans and vegetable oils maintained a high level during 1975, other products such as meat and cotton registered significant decreases in export prices (24 per cent and 20 per cent respectively).

Paraguay's exports consist almost entirely of agricultural and agro-industrial products, but there have been major changes in the structure of these exports in recent years. The relative importance of meat exports fell from 23 per cent to 18 per cent between 1970 and 1975, while soya beans and sugar, which were not exported in 1970, represented 10 per cent and 4 per cent of total exports respectively in 1975. The relative importance of coffee beans and cotton has also shown a conspicuous increase (see table 264).

Table 264

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

	Millions of dollars				*Percentage breakdown*		*Annual growth rates*		
	1970	*1973*	*1974*	*1975* [a]	*1970*	*1975*	*1971-1973*	*1974*	*1975*
Main exports products	*33.9*	*65.9*	*83.8*	*82.7*	*52.8*	*47.0*	*24.8*	*27.2*	*- 1.3*
Meat products	15.0	40.0	34.2	32.2	23.4	18.3	39.0	- 14.5	- 5.8
Wood	6.1	11.8	24.7	27.9	9.5	15.9	24.5	109.3	13.0
Vegetable oils	7.0	6.6	13.5	10.6	10.9	6.0	- 2.0	104.5	- 21.5
Tobacco	5.8	7.5	11.4	12.0	9.0	6.8	9.5	52.0	5.3
New exports	*4.9*	*25.8*	*45.4*	*53.0*	*7.7*	*30.0*	*74.0*	*76.0*	*16.7*
Soya beans	–	10.4	15.0	17.5	–	9.9	–	44.2	16.6
Cotton	4.0	11.6	16.5	20.1	6.3	11.4	43.0	42.2	21.8
Sugar	–	1.1	10.0	6.7	–	3.8	–	809.0	- 33.0
Coffee	0.9	2.7	3.9	8.7	1.4	4.9	44.1	44.4	123.0
Other exports	*25.3*	*35.2*	*40.6*	*40.5*	*39.5*	*23.0*	*11.6*	*15.3*	*- 0.2*
Total	*64.1*	*126.9*	*169.8*	*176.2*	*100.0*	*100.0*	*25.5*	*33.8*	*3.8*

Source: Central Bank of Paraguay.
[a] Preliminary figures.

(ii) *Imports.* In 1975 imports of goods increased by 8 per cent in terms of current prices. As in the case of exports, this rate represented a major decline from the pace of expansion recorded in previous years. The unit values rose by nearly 20 per cent, so that the 8 per cent increase noted actually represented a reduction of about 9 per cent in real terms. The deterioration in the volume of imports contrasts with the increases of 43 per cent and 11 per cent recorded in 1973 and 1974 respectively.

Until 1973 the high rate of expansion of imports reflected the rapid growth of imports of capital goods in keeping with the high level of domestic investment during those years. In 1974, however, the marked growth of current imports was mainly due to the increased purchases of petroleum and fuels, which were more than 6 times higher than in 1973.

In 1975 the imports which expanded most were again capital goods, which increased by over 22 per cent; in contrast, there was a decline in imports of petroleum and fuels and only a moderate expansion in imports of consumer goods, expressed in current values (see table 265).

Table 265

PARAGUAY: VALUE AND BREAKDOWN OF IMPORTS OF GOODS (FOB)

	Millions of dollars				*Percentage breakdown*		*Annual growth rates*		
	1970	*1973*	*1974*	*1975*	*1970*	*1975*	*1971-1973*	*1974*	*1975*
Consumer goods	*25*	*30*	*48*	*52*	*39.7*	*28.1*	*5.6*	*60.4*	*9.2*
Intermediate goods	*17*	*26*	*71*	*69*	*27.0*	*37.4*	*14.3*	*177.4*	*– 2.8*
Petroleum and fuels	6	7	42	38	9.6	20.7	3.7	516.2	– 8.4
Others	11	19	29	31	17.4	16.7	19.3	55.6	5.1
Capital goods	*22*	*49*	*52*	*64*	*33.3*	*34.5*	*32.0*	*6.1*	*22.4*
Total	*64*	*105*	*171*	*185*	*100.0*	*100.0*	*18.0*	*63.5*	*8.2*

Source: Central Bank of Paraguay.

The evolution of imports benefited from the policy of maintaining fixed rates of exchange, since the rise in domestic prices was more rapid than the depreciation of the guaraní.

(iii) *The terms of trade.* In 1975 the terms of trade deteriorated significantly. The fall in the prices of meat and cotton contributed to a 2 per cent decline in the unit values of exports, while at the same time the unit values of imports continued to increase at a high rate (20 per cent), thus leading to a deterioration of about 18 per cent in the terms of trade.

This contrasts sharply with the favourable situation which existed during the period 1971-1973, when the unit values of exports increased at an annual average rate of nearly 19 per cent, while those of imports rose by less than 8 per cent. In 1974 the rise in the prices of petroleum caused a 34 per cent increase in the average prices of imports, but there was nevertheless only a slight deterioration in the terms of trade because of the big increase that year in the unit values of exports (see table 266).

(b) *The balance of payments and foreign borrowing*

The current account deficit in 1975 amounted to more than 50 million dollars. This represented a major increase compared with the previous year, and was mainly due to the deterioration of the trade balance, on which the deficit rose from 16 million dollars in 1974 to 25 million dollars in

Table 266

PARAGUAY: VARIATIONS IN THE TERMS OF TRADE AND IN THE VALUE, VOLUME AND UNIT VALUE OF EXPORTS AND IMPORTS OF GOODS
(Annual growth rates)

	1971	*1972*	*1973*	*1974*	*1975*
Exports of goods					
Value	1.8	28.7	49.8	35.7	4.0
Volume	– 3.1	15.5	4.0	4.3	6.1
Unite value	5.0	11.5	44.1	30.1	2.0
Imports of goods					
Value	8.4	–5.2	61.9	49.1	8.6
Volume	4.2	– 10.4	43.1	11.2	– 9.3
Unit value	4.0	5.8	13.2	34.1	19.8
Terms of trade	*1.0*	*5.4*	*28.3*	*– 3.0*	*– 18.2*

Source: CEPAL, on the basis of official statistics.

1975. In 1975 exports of services increased by 3 million dollars and imports by 4 million dollars, while remittances of profits and interest rose by 2 million dollars. Nevertheless, the inflow of non-compensatory capital again exceeded the levels of the previous year and consequently there was a further increase of about 28 million dollars in the country's net international reserves (see table 267).

In recent years there has been a considerable increase in the inflow of official and private capital to Paraguay, and this is indicative of the growing interest shown by international financial bodies in contributing to the country's development. In 1974 the loans obtained exceeded 95 million dollars, while in 1975 they reached the unprecedented figure of 141 million dollars. This trend is expected to intensify in the near future because of the initiation of the big hydroelectric projects undertaken by the country.

The evolution in the flow of external capital to Paraguay described above has led to a significant increase in the balance of disbursed external debt, which at the end of 1975 amounted to 330 million dollars, more than double the 1970 figure. Foreign debt servicing rose from 14 million dollars in 1970 to 36 million in 1975. Because of the rapid increase in exports, however, debt servicing as a percentage of exports fell from 16 per cent in 1970 to nearly 14 per cent in 1974, but it rose to over 16 per cent in 1975 (see table 268).

4. *Prices and wages*

Up to the end of 1970, prices in Paraguay were relatively stable, but in 1971 they began to rise steadily. Thus, the consumer price index registered increases of 5 per cent in 1971, 9 per cent in 1972, 13 per cent in 1973 and 25 per cent in 1974. In 1975, however, the rate of increase in prices fell sharply to less than 7 per cent.

Variations in the food sector had a decisive influence on this fall in prices. During the first half of the year food prices rose by only 1.6 per cent. The reduction of prices of beef and dried beans had a moderating effect during that period, but during the second half of the year the food index rose by nearly 10 per cent, mainly because of big increases in the prices of vegetables, fruit, and milk products, the supply of which was reduced because of climatic factors (see table 269).

The upward trend of prices coincided with the improvement of the balance-of-payments situation. The steady accumulation of international reserves from 1971 onwards led to a considerable expansion in the liquidity of the economy, and the means of payment, after rising at an average rate of 20 per cent during the period

Table 267

PARAGUAY: BALANCE OF PAYMENTS
(Millions of dollars)

	1970	*1972*	*1973*	*1974*	*1975* [a]
Current account					
Exports of goods and services	89	106	150	207	217
Goods FOB	65	86	128	174	181
Services	24	20	21	33	36
Transport	3	1	1	2	2
Travel	14	11	11	12	13
Imports of goods and services	101	106	161	235	255
Goods FOB	77	79	127	190	206
Services	25	27	34	45	49
Transport	9	10	15	23	24
Travel	5	8	10	11	12
Net payments of profits and interest on foreign capital	– 10	– 11	– 10	– 10	– 12
Profits	– 3	– 3	– 2	– 2	– 2
Interest	– 7	– 9	– 8	– 8	– 10
Net private transfer payments	2	2	2	1	0
Balance on current account	– 20	– 9	– 20	– 37	– 50
Capital account					
Net external financing (a+b+c +d+e)	20	10	20	37	50
(a) Net external non-compensatory capital	33	24	51	74	78
Direct investment	4	3	9	20	...
Long- and medium-term loans	23	26	35	32	...
Amortization payments	– 7	– 11	– 11	– 10	...
Short-term liabilities (net)	10	2	14	28	...
Official transfer payments	3	4	4	5	...
(b) Domestic non-compensatory capital or assets	– 2	– 4	– 4	– 2	...
(c) Errors and omissions	– 5	– 4	– 6	– 6	...
(d) Allocation of SDRs	3	2	–	–	...
(e) Net compensatory financing (minus sign signifies an increase)	– 8	– 10	– 21	– 29	28
Balance-of-payments loans, trade arrears, IMF loans, and other liabilities of the monetary authorities	0	–	3	1	...
Amortization payments	– 1	0	–		
Foreign exchange reserves (minus sign signifies an increase)	– 4	– 7	– 24	– 30	– 28
Gold reserves (minus sign signifies an increase)	– 1	–	–	–	...
SDRs (minus sign signifies an increase)	– 3	– 2	–	–	...

Source: International Monetary Fund, *Balance of Payments Yearbook*, vol. 27.

[a] CEPAL, on the basis of official statistics.

Table 268

PARAGUAY: INDICATORS OF EXTERNAL INDEBTEDNESS
(Millions of dollars at current prices)

	1970	*1973*	*1974*	*1975*
Balance of public debt and of private debts guaranteed by the State [a]	152.4	219.1	271.3	330.0
Servicing of external debt	14.2	22.4	28.5	35.6
Amortization payments	9.8	15.1	19.6	24.0
Interest payments	4.4	7.3	8.9	11.6
Servicing of external debt, as a percentage of total exports	15.9	14.9	13.8	16.4

Source: Central Bank of Paraguay.
[a] The figures correspond to the debt disbursed.

Table 269

PARAGUAY: EVOLUTION OF DOMESTIC PRICES
(Annual growth rates)

	1971	*1972*	*1973*	*1974*	*1975*
Consumer price index	5.0	9.2	12.8	25.2	6.7
Food	8.6	11.1	21.7	24.8	4.6

Source: Central Bank of Paraguay.

1971-1973, increased by 22 per cent and 19 per cent respectively in the years 1974 and 1975 (see table 270). At the same time, world developments in recent years also had a decisive influence on the domestic inflationary process, both because of the high prices which the country had to pay for imported products and because of the increases in the domestic prices of some of Paraguay's exportable products deriving from the steep rise in the corresponding international prices.

Various factors contributed to the slower rate of price increases in 1975. In the first place there was the Central Bank's monetary policy aimed at regulating the expansion of liquidity in order to alleviate the expansive effects of the big increases in international reserves again recorded in 1975. Furthermore, the effects of imported inflation, which had had such a marked influence in recent years, diminished considerably in 1975, while the domestic price-control measures and the steps taken to ensure the supply of basic articles also had some influence.

Wages, as measured by the general index of manual workers' wages in Asunción, increased by 5.5 per cent in the period 1971-1973, by 18 per cent in 1974 and by slightly over 5 per cent in 1975. If these variations are compared with those in the consumer price index, a steady deterioration in the purchasing power of wages can be observed from 1971 onwards. Thus, real wages fell at an average annual rate of 3.2 per cent in the period 1970-1973 and at rates of 5.5 per cent in 1974 and 1.3 per cent in 1975 (see table 271).

Table 270

PARAGUAY: MONETARY POSITION
(Millions of guaranies)

	Balance at end of				Annual growth rates		
	1970	1973	1974	1975	1971-1973	1974	1975
Money	*6 900*	*11 913*	*14 560*	*17 317*	*19.9*	*22.2*	*18.9*
Currency outside banks	4 021	6 491	7 553	8 900	17.3	16.4	17.8
Demand deposits	2 879	5 422	7 007	8 417	23.4	29.2	20.1
Factors of expansion	*17 077*	*29 238*	*35 608*	*43 372*	*19.4*	*21.8*	*21.8*
Foreign assets (net)	153	5 324	10 144	14 192	227.0	90.5	40.0
Domestic credit	16 924	23 914	25 464	29 540	12.2	6.5	16.0
Claims on government (net)	2 058	3 311	1 423	983	17.0	– 57.0	– 31.0
Claims on official entities	5 856	7 434	9 114	10 212	8.2	22.6	12.0
Claims on private sector	9 010	13 169	14 927	18 345	13.5	13.3	22.9
Factors of absorption	*10 177*	*17 325*	*21 048*	*26 415*	*19.3*	*21.5*	*25.5*
Quasi-money (savings and time deposits)	6 115	11 459	13 782	18 634	23.2	20.3	35.2
Long-term foreign borrowing	190	671	463	252	52.0	– 31.0	– 45.6
Other items (net)	3 872	5 195	6 803	7 529	10.3	30.9	10.6

Source: Central Bank of Paraguay.

Table 271

PARAGUAY: EVOLUTION OF WAGES AND SALARIES
(Annual growth rates)

	1971-1973	1974	1975
Wage indexes [a]			
Nominal	5.5	18.3	5.3
Real	– 3.2	– 5.5	– 1.3

Source: CEPAL, on the basis of official figures.
[a] General index of manual workers' wages in Asunción.

PERU

1. *The overall picture*

(a) *Principal trends and changes*

The rate of growth of the Peruvian economy declined in 1975. The gross domestic product, which had risen at an average annual rate of over 6 per cent in the period 1971-1974, rose by 4 per cent in 1975. As a result, the rate of increase in the per capita product fell from 3.5 per cent in 1974 to barely 1 per cent in 1975. Since at the same time the terms of trade deteriorated sharply, the drop in the growth rate of gross income was even greater: from about 9 per cent in 1974 to less than 2 per cent in 1975 (see table 272).

Table 272

PERU: MAIN SHORT-RUN ECONOMIC INDICATORS

(Percentage annual growth rates)

	1971-1973	*1974*	*1975*
Gross domestic product	6.0	6.6	4.0
Gross income [a]	6.3	8.7	1.9
Per capita gross domestic product	3.0	3.5	1.0
Gross fixed investment	9.0	25.8	18.1
Value of exports	3.7	36.4	−9.9
Value of imports	13.5	78.6	21.3
Terms of trade	1.5	18.3	−15.1
Balance on current account [b]	−114	−851	−1 567
Variation in international reserves [b]	15	242	−543
Consumer price index [c]	8.5	19.1	24.0
Money	22.4	41.6	28.3

a Gross domestic product plus terms-of-trade effect.
b Absolute values in millions of dollars at current prices.
c December to December.

The performance of the external sector was also unfavourable in 1975. The value of exports of goods and services, which had increased by 36 per cent in the previous year, declined by 10 per cent in 1975. In contrast, the value of imports rose by over 20 per cent, following a spectacular rise of 79 per cent in 1974. These diverging trends were due to the fact that the volume and unit value of exports dropped, while the volume and average price of imports increased.

Owing to this uneven performance, the deficit on current account was exceptionally high in 1975, amounting to nearly 1,570 million dollars; it was thus 84 per cent higher than the previous year's deficit, which in turn was 6.5 times higher than the average deficit recorded for the period 1971-1973.

The deficit was largely financed by inflows of long-term capital, which remained at the high level reached in 1974. On the other hand, there was a net outflow of short-term capital in the course of the year, which brought more pressure to bear on the country's international reserves. These, which had increased by 240 million dollars in 1974, dropped by over 540 million in 1975 and by the end of the year amounted to only 150 million dollars.

Furthermore, the inflationary process gained renewed impetus in 1975. The level of domestic prices rose by 24 per cent, compared with 19 per cent in 1974 and less than 9 per cent in the period 1971-1973. External factors, which had helped to increase the rate of inflation in previous years, had less influence than domestic factors in 1975. In fact, the fiscal deficit increased with the simultaneous rise in public investment and in government price subsidies for essential articles. At the same time, the demand for credit for the promotion of exports increased substantially owing to the recession affecting this sector as a result of the adverse conditions on the world market. The same situation arose in connexion with public enterprises responsible for executing investment projects. Moreover, as inflationary expectations spread among the population, the demand for credit for the purchase of durable goods also increased. However, the partial data available shows that the net liquidity of the economy increased very little owing to the sharp drop in international reserves.

(b) *The situation in Peru in the mid-1970s*

The above developments cannot be satisfactorily evaluated if the analysis is confined to the factors that prevailed in 1975. That year was really a milestone in Peru's recent economic history, since it marks the opening of a wide gap between the development policy launched at the end of the past decade and implemented vigorously since then, and the conjunctural policy demanded by the impact of the acceleration of the inflationary process from 1973 onwards.

In order to explain this situation it is first of all necessary, to refer to the development patterns followed by the Peruvian economy. It is a well-known fact that Peru has been identified as an example of an open economy. In the past, the cyclical movement of its growth rate depended on the conditions of the world market of its exportable production, and its long-term growth on the discovery of some new natural resource or the entry into production of a new mine.

If the cyclical variations are excluded, the long-term economic growth rate was seen to rise sharply from time to time with the start of production of some resource or mineral deposit, and to fall when a degree of utilization approaching its production capacity was reached.[179] This deterioration would persist until such time as other sources of income made their appearance on the national economic scene. In the past, this process was often repeated thanks to the abundance and variety of Peru's natural resources.

Since the mid-1950s, a marine resource –anchoveta– has provided the main spur to Peru's economic growth. Its catch and conversion into fish meal and oil required a large fleet of bigger and bigger vessels, and plants stretching the length of the Peruvian coast. By the end of the 1960s, however, the anchoveta catch had, in the opinion of the experts, reached a natural ceiling of around 11 million tons.[180]

Within the above context, the prospects for the present decade were not too bright. The rate of population growth rose to an estimated 3.5 per cent annually. Moreover, the industrial development initiated in previous years was not directed towards the export market, while using a high proportion of imported inputs, so that it exercised strong pressure on the current capacity to import. Moreover, the possibility of increasing exports was limited by the fact that the area sown to exportable crops remained static and the yields per hectare on this land were already among the highest in the world. As regards the mining potential, in spite of a widely published list of concessions granted to foreign capital, no interest had been shown in developing it.

It was therefore considered imperative to launch a long-term plan in which the initiative in investment designed to increase exportable production or replace imported inputs would be the responsibility of the public sector instead of depending on the interest of private promoters.

The plan formulated in 1968 followed these general lines, although it was not until after 1970 that international conditions were such that new public enterprises and the central government were able to obtain adequate external financing. When this happened, it became possible to launch extensive long-range irrigation projects in areas devoted to export agriculture, in exploration and other activities for the development of mineral deposits whose concessions had reverted to the State, in exploration for hydrocarbons in new areas and their transport to Pacific ports, and, lastly, in the development of heavy industry.

Although the contracting of external financing for these projects was highly satisfactory from 1971 onwards, the current capacity to import followed a discouraging course. Its main component, exports of goods, remained static in real terms up to 1972, after which it started to decline. Thus, in the period 1970-1975, exports dropped at an average rate of 6 per cent annually. Thanks to the rise in their unit value in 1974, however, their purchasing power declined more slowly, at an average rate of 4 per cent annually.

Although the aforementioned problems of capacity would account for the stagnation of some exports, their decline was also attributable to other factors. Of these, one was exclusively due to natural causes: the decrease in the anchoveta catch to one-fifth of the levels prevailing at the end of the 1960s, which in turn was reflected in a rapid drop in exports of fish meal. The index of these

[179] See CEPAL, *Tendencias y estructuras de la economía del Perú en el último decenio* (E/CN.12/925), 1972, pp. 3 *et seq.*

[180] See CEPAL, *Economic Survey of Latin America. 1971* (United Nations publication, Sales Nº: E.73.II.G.1), pp. 216-217, and *Ibid.*, 1972 (Sales Nº: E.74.II.G.1), pp. 147-148.

exports, with 1970 as the base year, reached a level of only 19 in 1973.[181] Although the index recovered somewhat in the next two years, the figures for 1974 (32) and 1975 (38) clearly show the magnitude of the decline since 1970. As a result, the value of exports of fish meal dropped from about 300 million dollars in 1970 to less than 110 million in 1975,[182] in spite of the fact that in the latter year the unit value was 50 per cent higher than in 1970.

The second export commodity whose output has declined over a very long period is medium-staple cotton. Despite the increase in production and exports of extra-long-staple cotton (pima), total production of cotton declined. The index dropped from 100 in 1970 to about 65 in 1973 and 1974, and to a little over 40 in 1975.[183] This drop was partly due to the competition between cotton and food crops for the use of arable land.

The fall in cotton exports was also due to the increase in the consumption of the Peruvian spinning mills (which is estimated to have grown by about 5 per cent annually up to 1973). These mills caused the value of cotton exports to drop from about 100 million dollars in 1974 to 66 million in 1975.

The two products mentioned above had a considerable influence on the deterioration of Peru's exports. However, other products also recorded export indexes that were consistently lower than in 1970. This was true of copper exports, which in 1970 contributed nearly 270 million dollars, but which dropped in value to less than 110 million dollars in 1975. This also happened in the case of iron, exported in the form of ore and pellets, the export volume of which has not been as high as the 1970 level in any subsequent year. The same situation arose with respect to sugar, exportable supplies of which were limited, on the one hand, by an area that is difficult to expand and has one of the highest yields per hectare in the world and, on the other hand, by a constantly growing consumption. Some crops, as distinct from those already mentioned, are not faced with problems of capacity but have been limited by international arrangements. This applies to coffee and cocoa, which are produced mainly in the extensive Amazon valley.

Only medium– and small– scale silver, copper, zinc and lead mining have increased their supply, responding flexibly to the variations in prices. Thus, the volume of exports of this sub-sector increased up to 1974 owing to the rise in prices; when these fell in 1975, the volume also dropped.

In the last instance, therefore, the investment plan came to depend on the credit contracted abroad and the counterpart financing which the finance sector and the central government were able to provide. Available data show that in 1974 and 1975 the former reached a very high level. In fact, the balance of payments recorded long-term capital inflows of 1,254 million and 1,200 million dollars, respectively, in those years. Domestic financing also remained at a high level during this period.

The fact that this should occur precisely when imported inflation was most virulent, brings to the fore the dilemma that faced the Peruvian authorities during this period. To continue with investment under the long-term programme meant increasing the liquidity in the economy through credit and the fiscal deficit. This deficit in itself had its own element of impetus. Central government income had dropped owing to the recession in export activities, the high level of fiscal incentives to industrial development, tax exemptions in favour of most public enterprises and the failings in the systems of tax collection where direct taxes other than those on wages and salaries were concerned. Thus, the inflationary process which already existed was accentuated by the financing of the long-term programme.

Furthermore, the authorities were not completely free to choose the course of suspending investment. In fact, most of the long-term external financing was assigned to specific projects, more often than not negotiated jointly with various sources of funds in the industrialized countries.[184] These projects had been the object of international bids and the contractors had already incurred expenditure which they could only recover provided the normal time-table of the investment were

[181] See International Monetary Fund, *International Financial Statistics*, April 1976.

[182] See the statements of the Ministry of Commerce in *The Lima Times*, 26 March 1976.

[183] See *International Financial Statistics*, *op. cit.*

[184] See CEPAL, *Economic Survey of Latin America, 1974* (United Nations publication, Sales N°: E.76.II.G.1), p. 310.

observed.[185] Therefore, if the projects were suspended, the flows of external capital linked with them would cease and the contractors could claim the indemnification stipulated in the agreements. The foreign suppliers of equipment and materials could to likewise.

Moreover, the projects financed with external funds had been fully justified. Some were intended to increase the country's crop-growing capacity; others to enable regionally redundant crops to be transferred to deficit markets; investment in metal-mining activities would serve to increase the capacity to import; the investment in hydrocarbons could moreover be expected to reduce the growing shortage and even generate an exportable surplus; lastly, the investment in industry would reduce the excessive dependence of the manufacturing sector on imported inputs. Not to continue with these projects would therefore involve a substantial risk for economic development in the immediate and foreseeable future.

These circumstances hampered anti-inflationary policy and, in general, the possibilities of restrictive action in the face of the external situation. In other words, the decision-making powers of the Peruvian authorities may be

[185] In January 1976, the Ministry of Economic Affairs informed the country that between 1968 and 1975 public investment in the above-mentioned projects had entailed an expenditure of approximately 1,700 million dollars, but that only 29 per cent of this amount had been spent on projects that were already completed (see Ministry of Foreign Affairs, "Exposición al país y conferencia de prensa del Ministerio de Economía", *Anexo al Boletín Informativo del Ministerio,* Nº 1829, Lima, January 1976).

Table 273

PERU: TOTAL SUPPLY AND DEMAND

	Millions of soles at 1970 prices			*Percentage breakdown*		*Annual growth rates*		
	1970	*1974*	*1975* [a]	*1970*	*1975* [a]	*1971-1973*	*1974*	*1975* [a]
Total supply	*274 386*	*364 046*	*381 386*	*116.1*	*122.1*	*5.9*	*11.6*	*4.8*
Gross domestic product	236 246	299 919	311 916	100.0	100.0	6.0	6.6	4.0
Imports	38 140	64 127	69 470	16.1	22.1	5.5	43.3	8.3
Total demand	*274 386*	*364 046*	*381 386*	*116.1*	*122.1*	*5.9*	*11.6*	*4.8*
Domestic demand	*226 374*	*324 781*	*345 282*	*95.8*	*110.6*	*8.4*	*13.9*	*6.3*
Gross domestic investment	28 800	48 832	56 499	12.2	18.0	9.6	29.0	15.7
Gross fixed investment	29 478	48 046	56 763	12.5	18.2	9.0	25.8	18.1
Public	11 508	26 825	31 170	4.9	10.1	14.1	56.5	16.2
Private	17 970	21 221	25 593	7.6	8.1	5.4	0.8	20.6
Construction	14 511	22 961	27 554	6.1	8.8	9.8	19.5	20.0
Machinery and equipment	14 967	25 085	29 209	6.4	9.4	8.2	32.2	16.4
Total consumption	197 574	275 949	288 783	83.6	92.6	7.8	11.6	4.7
General government	28 306	36 768	39 305	12.0	12.3	6.6	7.2	6.9
Private	169 268	239 181	249 478	71.6	80.3	7.9	12.3	4.3
Exports	*48 012*	*39 265*	*36 104*	*20.3*	*11.5*	*-5.3*	*-4.4*	*-8.1*

Sources: 1970-1974: CEPAL calculations on the basis of figures supplied by the Banco Central de Reserva del Perú; 1975: CEPAL estimates on the basis of data from the same source.

Note: 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.

[a] Preliminary figures.

assumed to have been somewhat undermined. Either of the two options –the long-term plan or conjunctural policy– involved a high cost. This explains why they did not give way with respect to the former and why, as will be seen later, their anti-inflationary policy was not particularly vigorous.

2. *Recent economic trends*

(a) *Global trends*

As mentioned above, the rate of growth of the product declined in 1975. At the same time, the growth rate of the volume of imports dropped sharply following a spectacular increase (43 per cent) in the previous year. As a result, total supply rose in 1975 by less than 5 per cent, or less than half the rate reached in 1974 (see table 273).

The growth of demand in 1975 was due exclusively to the increase in domestic demand. The volume of exports fell, in contrast, by 8 per cent, thereby accentuating their decline in the period 1971-1974.

Table 274

PERU: GROSS DOMESTIC PRODUCT, BY KING OF ECONOMIC ACTIVITY, AT FACTOR COST

	Millions of soles at 1970 prices			*Percentage breakdown*		*Annual growth rates*		
	1970	*1974*	*1975* [a]	*1970*	*1975* [a]	*1971-1973*	*1974*	*1975* [a]
Agriculture	42 455	42 197	41 968	19.8	15.2	– 1.5	4.1	– 0.5
Crop farming and stock-raising	36 731	39 515	39 753	17.2	14.4	1.7	2.3	0.6
Fishing	5 724	2 682	2 215	2.6	0.8	– 31.4	40.9	– 17.4
Mining	19 050	19 954	17 759	8.9	6.4	0.8	2.5	– 11.0
Manufacturing	35 966	48 612	51 529	16.8	18.7	7.8	8.0	6.0
Construction	12 550	19 714	23 656	5.9	8.6	9.6	19.5	20.0
Subtotal goods	*110 021*	*130 477*	*134 912*	*51.4*	*49.0*	*3.4*	*7.4*	*3.4*
Electricity, gas and water	2 831	...	...	1.3	...	6.4	...	...
Transport and communications	11 340	...	...	5.3	...	8.8	...	...
Subtotal basic services	*14 171*	...	...	*6.6*	...	*8.3*	...	...
Commerce, financial establishments and insurance	34 162	...	...	16.0	...	6.2	...	...
Real estate [b]	10 877	...	...	5.1	...	4.5	...	...
Communal, social and personal services [c]	44 930	...	...	20.9	...	8.0	...	...
Subtotal other services	*89 969*	...	...	*42.0*	...	*6.9*	*5.6*	...
Subtotal services	*104 140*	*134 200*	*140 482*	*48.6*	*51.0*	*6.8*	*5.7*	*4.7*
Total gross domestic product	*214 161*	*271 883*	*282 758*	*100.0*	*100.0*	*6.0*	*6.6*	*4.0*

Sources: 1970-1974: CEPAL calculations on the basis of figures supplied by the Banco Central de Reserva del Perú; 1975: CEPAL estimates on the basis of official data from the same source.

Note: As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

[a] Preliminary figures.

[b] Refers to housing only.

[c] Also includes restaurants, hotels and business services.

As in the four preceding years, investment was the most dynamic component of domestic demand. Gross capital formation, which in 1974 increased at the exceptional rate of 26 per cent, rose by nearly one-fifth in 1975. Thus, in 1975 it amounted in real terms to almost twice the figure for 1970.

The expansion of consumption, particularly private consumption, was slower in 1975. The rate of increase was just over 4 per cent, or one-third of the exceptionally high rate recorded in the previous year. On the other hand, general government consumption rose by nearly 7 per cent, thus maintaining the rate of expansion of the previous four years (see table 273).

(b) *Sectoral developments*

In 1975 the evolution of the various goods-producing sectors showed marked contrasts. While the agricultural product dropped slightly and the mining product fell by 11 per cent, manufacturing grew by 6 per cent and construction activities continued their exceptional expansion of the previous year (see table 274).

(i) *Agriculture.* Agricultural production increased by only 1 per cent in 1975 (see table 275). This rate of growth, which was slower than in previous years, was due to a drop of more than 2 per cent in agricultural supply, which was not offset by the increase of over 8 per cent in livestock production.

The decrease in agricultural supply was, in its turn, due to the smaller output of export crops. Among these, the production of sugar cane dropped by 2 per cent and that of coffee by 8 per cent. Cotton production continued its prolonged declining trend and fell by 11 per cent. This trend exclusively affected the principal variety of medium-staple cotton, i.e., tanguis, and is attributable to the instability of world prices, the

Table 275

PERU: INDICATORS OF AGRICULTURAL PRODUCTION

	1970	1973	1974	1975 [a]	Annual growth rates 1971-1973	1974	1975
Index of agricultural production (1973 = 100)	*94.1*	*100.0*	*102.3*	*103.3*	*2.1*	*2.3*	*1.0*
Crop farming	...	100.0	100.2	97.7	...	0.2	- 2.5
Stock-raising	...	100.0	106.8	115.9	...	6.8	8.5
Production of some crops (thousands of tons)							
Rice		440	468	504		6.4	7.7
Cotton		244	237	210	...	- 2.9	- 11.4
Coffee		65	65	60	...	-	- 7.7
Sugar cane		8 746	9 179	8 966	...	5.0	- 2.3
Potatoes		1 712	1 720	1 581	...	0.5	- 8.1
Maize		...	550	610	...	...	10.9
Yuca		...	470	350	...	...	- 25.6
Wheat		...	142	108	...	...	- 23.9
Indicators of some livestock products (thousands of tons)							
Poultry meat		82	103	130	...	25.6	26.2
Beef		73	75	77	...	2.7	2.7
Milk		588	590	600	...	0.3	1.7

Source: Banco Central de Reserva del Perú.

[a] Preliminary figures.

stable exchange rate and the rise in domestic food prices, all of which contributed to the replacement of cotton-growing by other crops in the central coast valleys.

As regards crops destined mainly for domestic consumption, the production of cereals rose by approximately 7 per cent. Maize production increased by nearly 11 per cent, owing partly to the increase in area sown in the coastal region, and partly to the relatively favourable weather conditions in other producing areas. The production of rice, which is grown in coastal areas as well as in the valleys of the rivers flowing into the Amazon, increased at a satisfactory rate for the second year running (see table 275).

On the other hand, wheat production dropped sharply. This drop, like the decrease in the production of potatoes, reflected the impact of the unfavourable domestic prices of these commodities, particularly if they are compared with those of competitive crops which are less important in the Peruvian diet and were therefore not subject to price controls.

Livestock production rose by more than 8 per cent in 1975, largely as a result of the continuing expansion of poultry production in the central coastal region. In contrast, the production of red meat and milk once again rose at a fairly moderate rate.

(ii) *Fishing.* Fishing in Peru grew at a spectacular rate in the 1950s and the 1960s, thanks to the rapid development of anchoveta fishing and the use of this species in the manufacture of fish meal. At the end of the 1960s, fish meal was Peru's major export commodity. In the 1970s, however, the industry entered a period of prolonged recession with the disappearance, for reasons which are still the subject of considerable controversy, of the huge banks of anchoveta. In 1973, for example, the volume of the anchoveta catch was less than one-fifth of that obtained in the two years 1971-1972. From this low level, it increased by 41 per cent in 1974 (see table 276). This increase gave rise to optimistic expectations, the assumption being that the declining cycle of anchoveta fishing was over. Thus, at the beginning of 1975 it was estimated that the catch would increase again that year, this time by 15 per cent. These expectations were not fulfilled, however, and the anchoveta catch was finally 21 per cent lower than in 1974. The consequent reduction in the supply of fish meal prompted the Government to limit exports in order to meet the growing demand from the livestock industry.

(iii) *Mining.* The activities involved in the exploration and opening of new mines have been the object of large-scale investment in the present

Table 276

PERU: INDICATORS OF FISHERY PRODUCTION

	1970	*1973*	*1974*	*1975* [a]	*Annual growth rates* *1971-1973*	*1974*	*1975*
Index of fishery production (1973 = 100)	*329.1*	*100.0*	*140.9*	*116.4*	*– 32.8*	*40.9*	*– 21.1*
Output of fishery products (thousands of tons)							
Total	*12 481*	*2 289*	*4 125*	*3 436*	*– 43.2*	*80.2*	*– 16.7*
For consumption [b]	185	294	324	263	16.5	10.2	– 18.9
For fish meal and oil	12 296	1 995	3 801	3 173	– 45.4	90.6	– 16.5

Source: Banco Central de Reserva del Perú.

[a] Preliminary figures.

[b] Comprises fresh and processed fish consumed in the country or exported.

decade. In contrast, less investment has been devoted to expanding or improving the capacity of mines already being exploited. This explains why, in spite of the high proportion of total investment absorbed by this sector, its product should have increase so slowly. In the years 1971-1972 the rate of growth was 1 per cent annually, rising to 3 per cent in 1973, and 2.5 per cent in 1974. In 1975 the mining product suffered a sharp and substantial fall (11 per cent) (see table 274).

Several factors account for this deterioration. In the case of copper, two main factors were responsible for the 16 per cent drop in production. In the first place, Peru, as a member of the Intergovernmental Council of Copper Exporting Countries (CIPEC), supported the decision that the world's supply of copper should not be increased, and, although the Government did not give any instructions to reduce production, neither did it encourage its growth. Secondly, the world price of copper dropped by 40 per cent in 1975. While this did not affect copper production in the Toquepala mine, it resulted in the closing of or slowing down of work in mines that had been developed during the period of rising copper prices.

As regards other non-ferrous metals, the production of lead dropped by 10 per cent, that of zinc by 6 per cent and that of silver by 7 per cent (see table 277). These three metals should be examined together in the case of Peru, since it frequently happens that the mines contain two or more of these products in commercial quantities. Moreover, many of the mines are fairly small.[186] Accordingly, the enterprises concerned, although highly sensitive to variations in the prices of these metals, are favoured by the combination of metals contained in the ore when prices follow trends which compensate for one another. In 1975, however, the prices of all three metals dropped in relation to 1974, while those of zinc and lead fell even below the 1973 prices. The simultaneous nature of these drops thus created negative conditions for production in all the mines, added to which were those deriving from the high prices of petroleum and imported inputs. As a result, many of the medium- and small-scale mines were forced to cut back their production in spite of the special financing granted to them by the government development bank with the aim of preventing a larger scale of unemployment in the country.

On the other hand, the fall of 19 per cent in the production of iron ore was due to special circumstances. The principal mine, which is an

[186] It is estimated that 40 per cent of total mining production comes from medium– and small– scale enterprises, 30 per cent from public enterprises and 30 per cent from large-scale foreign companies.

Table 277

PERU: INDICATORS OF MINING PRODUCTION

						Annual growth rates		
		1970	*1973* [a]	*1974* [a]	*1975* [b]	*1971-1973*	*1974*	*1975* [b]
Index of mining production (1973 = 100)		*96*	*100*	*103*	*91*	*1.4*	*3.0*	*– 11.7*
Production of some important minerals								
Copper	(thousands of ton of fines)	218	215	223	187	– 0.5	3.7	– 16.1
Silver	(thousands of kilograms of fines)	1 217	1 288	1 218	1 133	1.9	– 5.4	– 7.0
Lead	(thousands of tons of fines)	164	215	202	181	9.4	– 6.0	– 10.4
Zinc	(thousands of tons of fines)	360	480	467	440	10.0	– 2.7	– 5.8
Iron	(thousands of tons of fines)	6 117	5 852	6 220	5 067	– 1.5	6.3	– 18.5
Petroleum	(millions of barrels)	22.6	25.8	28.2	26.2	4.5	9.3	– 7.1

Source: Banco Central de Reserva del Perú.

[a] Preliminary figures.

[b] Estimates.

opencut mine, was exploited up to 1974 by the Marcona Corporation, a subsidiary of the multinational enterprise, the Utah Corporation. The negotiations for its nationalization which started in 1971 prompted this subsidiary company to work the mine more vertically.[187]

The Government nationalized Marcona in 1975 and a new public enterprise, Hierroperú, took over the operation of the mine. The main problem facing Hierroperú was the marketing of the product. The market for iron ore is administered, that is, there is actually no world price for it, the transactions being effected by means of contracts between producers and users. Hierroperu found that the users of this ore were unable to continue purchasing owing to opposition from the Marcona Corporation, the shipping subsidiary of Utah and Marcona International (Panama), which were involved in the above-mentioned sales contracts.

Shipments were suspended and work in the mines proceeded slowly, while new sales contracts were being drawn up. Shipments were resumed at the end of the year, but on a limited scale since they consisted exclusively of special products of vital importance in steelmaking. Since then, sales agreements have been signed with several countries, including Venezuela.

Production of crude oil dropped by 7 per cent, reflecting not only the depletion of the old reservoirs on the northern coast, but also the existence of technical problems in the operation of the rest of the reservoirs in that area. The reactivation of some wells, which were of marginal profitability at the prices prevailing before 1974, and the still somewhat small-scale Amazon production, failed to compensate for the above factors.

In 1975 the development of the oilfields in the Amazon valley proceeded, as also the work on the Trans-Andean pipeline, 367 kilometres of pipe having already been laid. In the Marañón River area alone, 159 structures have been discovered through the seismic method of exploration, of which 41 have been drilled so far and 16 have proved productive. Exploration south of the Marañón River has not been so successful, although one company discovered petroliferous structures in Madre de Dios. The upshot was that 12 out of the 16 private foreign companies which had obtained concessions in the valley started to wind up their operations. In all, proven reserves of 550 million barrels –i.e., which can actually be extracted– were discovered between 1971 and 1975.

According to preliminary estimates of Petroperu,[188] the consumption of petroleum products declined in 1975. This decline, which contrasts with the trend in previous years, was apparently due to the rise of 110 per cent in consumer prices in 1975.

(iv) *Manufacturing*. In 1975 the growth rate of the manufacturing product was 6 per cent, compared with the average rate of 8 per cent for the period 1971-1974. However an analysis at a lower level of aggregation affords a more favourable picture than that presented by the overall figures (see tables 274 and 278).

If the fish meal industry is excluded, the growth rate of the sector was maintained at around 6.5 per cent. This was due to the rapid growth of the sub-sector producing intermediate goods (8 per cent) and the renewed dynamism of the sub-sector producing capital goods (18 per cent). Their expansion thus more than counterbalanced the relatively weak rate of increase of slightly over 2 per cent in the production of manufactured consumer goods.

Among the consumer goods industries, the production of textiles dropped by 4 per cent, that of tobacco by 3 per cent and that of furniture by 2 per cent. Food production was affected by the stagnation in the sugar refining capacity and grew by only 2 per cent. In contrast, output of beverages rose by 7 per cent, and that of footwear and made-up textile goods by 2 per cent.

In the sub-sector producing intermediate goods, the only drops were in the production of processed wood and paper and paper products. The growth of the supply of basic metals was fairly slow, in spite of the entry into production of the Ilo refinery. The rest of the components of this sub-sector expanded vigorously. Chief among them was the chemical industry, with a growth of 15 per cent, the main increases being in the production of acrylic fibre, caustic soda and compound fertilizers. Petroleum refining increased by only 5 per cent, but a higher proportion of catalytic cracking led to a fairly large increase in

[187] This reduces the cost, since the sterile rock covering the ore need not be removed, an operation which normally has a technical limit in terms of the acceptable risk of the walls of the tunnel caving in.

[188] See Petroperu, *Petróleo en el Perú: presente y futuro*, Lima, 1975.

Table 278

PERU: INDICATORS OF MANUFACTURING PRODUCTION

	1970	1973	1974	1975 [a]	Annual growth rates 1971-1973	1974	1975
Index of manufacturing production							
Factory industry [b]		164.1	174.8	186.3		6.5	6.6
Factory industry [c]		152.8	164.9	174.8		7.9	6.0
Consumer goods industries		158.3	166.5	170.7		5.2	2.5
Intermediate goods industries [b]		161.7	175.3	189.3		8.4	8.0
Intermediate goods industries [c]		135.9	152.3	162.0		12.1	6.4
Capital goods industries		203.0	215.5	255.2		6.2	18.4
Production of some important manufactures							
Sugar (thousands of tons)	386	485	526	550	7.9	8.4	4.6
Export sugar (thousands of tons)	386	413	467	413	2.3	13.1	-11.6
Acrylic fibre (Tow) (thousands of tons)	–	7	10	11	–	42.9	10.0
Caustic soda (thousands of tons)	–	33	36	40	–	9.1	11.1
Calcium superphosphate (thousands of tons)	11	15	6	7	10.9	-60.0	16.7
Total refined petroleum (millions of barrels)	29	37	40	42	8.5	8.1	5.0
Passenger cars and station wagons (thousands)	10	20	19	21	26.0	-5.0	10.5
Commercial vehicles (thousands)	3	12	11	13	58.6	-8.3	18.2
Tyres for passenger cars and lorries (thousands)	606	744	767	810	7.1	3.1	5.6
Other indicator of industrial production							
Consumption of electricity by industry in Lima and Callao (millions of KWH)	975	925	1 001	1 060		8.2	5.9

Source: Banco Central de Reserva del Perú.

a Preliminary figures.

b Excluding fish meal.

c Including fish meal.

solvents, agricultural oils and other non-fuel products.

The growth rate of the industries producing durable goods accelerated in 1975. Their output, which had increased by 6 per cent in 1974, rose by 18 per cent in 1975. A decisive factor was the recovery of the assembly of vehicles. This industry increased by 10 per cent in 1975 to slightly over 34,000 units, one-third of which were utility vehicles. Production of machinery other than electrical grew at a rate of 58 per cent and that of electrical equipment, including consumer items, by 13 per cent.

(v) *Construction.* In 1975 the construction sector maintained its previous dynamism, growing by 20 per cent. This was largely due to the continued large-scale investment by the Government and public enterprises, which included irrigation works, port works, fishery terminals and the pipeline linking the Pacific Ocean with the Amazon oilfields.

There were ample financial resources available for the construction of dwellings and other urban work. However, the rise in the prices of urbanized land and of building in general led to a marked decline in the growth rate of this activity towards the end of the year.

(vi) *Other sectors.* The generation of electricity continued to increase at a rate of over 10 per cent. This trend was influenced by the interconnexion of regional systems, which in several cases enabled the maximum load to be increased. Transport activity grew by over 7 per cent and commerce by no more than 3 per cent.

3. *The external sector*

(a) *Foreign trade*

As noted earlier, foreign trade followed an unfavourable trend in 1975. The value of exports of goods fell by 12 per cent, as a result of drops in both volume (8 per cent) and unit value (5 per cent). In contrast, the value of imports rose by 25 per cent after virtually doubling in 1974. The rise in 1975 was due to similar increases in volume and unit value (see table 279).

Table 279

PERU: VARIATION IN THE TERMS OF TRADE AND IN THE VALUE, VOLUME AND UNIT VALUE OF EXPORTS AND IMPORTS OF GOODS
(Annual growth rates)

	1971	*1972*	*1973*	*1974*	*1975*
Exports of goods					
Value	-14.0	6.3	17.9	41.1	-12.3
Volume	-7.6	7.2	-17.5	-3.8	-7.8
Unit value	-7.0	-0.9	43.0	46.7	-4.9
Imports of goods					
Value	4.4	11.3	27.4	93.1	24.7
Volume	1.7	3.9	11.2	55.7	11.4
Unit value	2.7	7.1	14.6	24.1	12.0
Terms of trade	-9.4	-7.4	24.8	18.3	-15.1

Source: CEPAL, on the basis of official statistics.

As a result of the rise in the unit value of imports and the drop in the average price of exports, the terms of trade fell by 15 per cent, after the favourable trend recorded in the previous two years. The drop in the terms of trade in its turn contributed to a 22 per cent decrease in the purchasing power of exports.

(i) *Exports.* The current value of exports of goods fell from slightly over 1,570 million dollars in 1974 to just below, 1,380 million in 1975, owing to the sharp drop in the value of the main commodities exported.

As regards agricultural products, exports of cotton dropped from a value of approximately 100 million dollars in 1974 to 66 million in 1975 (see table 280). Sales of sugar continued to be favoured by the relatively high world prices, rising from about 200 million dollars in 1974 to 265 million in 1975. The same situation arose in connexion with coffee exports, which went up from 35 million to around 50 million between these two years.

In contrast, exports of fish meal were 46 per cent lower in value than in 1974, decreasing from a little over 200 million dollars in 1974 to only 108 million in 1975.

As regards metals, exports of silver and zinc increased. In the case of copper, however, the simultaneous fall in the volume exported and in world prices caused the value of exports to fall from 300 million dollars in 1974 to just over 180 million in 1975. The export values of iron and lead also declined.

The above trends led to fairly substantial changes in the structure of exports, which became more diversified. Thus, in 1975, copper and fish meal, which have traditionally been the major export commodities, fell back to second and fifth place, respectively. Sugar, on the other hand, which had shared third place with iron in 1970, became the most important source of foreign exchange, while silver and zinc advanced to third place (see table 280).

(ii) *Imports.* The value of imports of goods has increased steadily since 1970. It rose at an exceptionally high rate as from 1973, when it exceeded 1,000 million dollars; it doubled this extraordinarily high figure in 1974, and soared once again in 1975 (see table 281).

Table 280

PERU: VALUE AND BREAKDOWN OF EXPORTS OF GOODS

	Millions of dollars at current prices (FOB)				*Percentage breakdown*		*Annual growth rates*		
	1970	*1973*	*1974*	*1975*	*1970*	*1975*	*1971-1973*	*1974*	*1975*
Main export products	*937*	*901*	*1 252*	*1 079*	*90.6*	*78.3*	*-1.3*	*39.0*	*-13.8*
Fish meal	294	136	202	108	28.4	7.8	-22.6	48.5	-46.5
Copper	269	284	301	183	26.0	13.2	1.8	5.7	-39.1
Sugar	66	89	197	265	6.4	19.2	10.3	121.9	34.3
Iron	66	61	75	54	6.4	3.9	-2.6	23.6	-28.1
Silver	62	69	137	156	6.0	11.3	3.6	99.0	14.0
Cotton	53	62	97	66	5.1	4.8	5.5	54.9	-31.4
Zinc	47	93	150	156	4.5	11.8	25.8	61.2	3.4
Coffee	45	64	35	47	4.3	3.4	12.9	-45.9	35.1
Lead	35	43	58	44	3.4	3.2	6.6	34.9	-24.5
Others	*97*	*213*	*320*	*299*	*9.4*	*21.7*	*30.0*	*50.2*	*-6.6*
Total	*1 034*	*1 114*	*1 572*	*1 378*	*100.0*	*100.0*	*2.5*	*41.1*	*-12.3*

Source: Banco Central de Reserva del Perú.

Table 281

PERU: VALUE AND BREAKDOWN OF IMPORTS OF GOODS

	Millions of dollars at current prices (FOB)				*Percentage breakdown*		*Annual growth rates*		
	1970	*1973*	*1974*	*1975*	*1970*	*1975*	*1971-1973*	*1974*	*1975*
Consumer goods	*88*	*154*	*165*	*250*	*12.6*	*10.0*	*20.4*	*7.1*	*51.2*
Non-durable	72	102	116	...	10.3	...	12.5	12.9	...
Durable	16	52	49	...	2.3	...	47.0	-4.4	...
Intermediate goods	*309*	*464*	*797*	*1 230*	*44.2*	*49.4*	*14.5*	*71.7*	*54.3*
Petroleum and fuels	12	57	119	(160)	1.7	...	66.8	110.6	34.2
Others	297	407	678	...	42.5	...	11.1	66.3	...
Capital goods	*224*	*381*	*563*	*750*	*32.1*	*30.0*	*19.2*	*47.7*	*33.2*
Total[a]	*699*	*1 035*	*1 998*	*2 491*	*100.0*	*100.0*	*14.0*	*93.1*	*24.6*

Sources: 1970–1974: Banco Central de Reserva, *Indices de comercio exterior*, Lima, August 1975; 1975: Official statistics.

[a] Including miscellaneous and adjustments.

This trend is attributable to the demand for inputs from the manufacturing sector and, since 1973, to purchases of equipment. In 1975, too, the propensity to accumulate stocks increased and imports of hydrocarbons rose.

Imports of consumer goods went up by 51 per cent in 1975, but continued to represent only one-tenth of total imports.

The value of imports of intermediate goods, which had increased by over 70 per cent in 1974, also rose by more than 50 per cent in 1975. Part of this increase may be ascribed to the rise in both volume and price of imported petroleum. As a result, the value of petroleum and fuel imports more than doubled in 1974 and rose by one-third in 1975.

Imports of capital goods followed a rising trend similar to that of the aforementioned groups. Between 1970 and 1975 they tripled in value, while their relative position declined from 32 to 30 per cent.

(b) *The balance of payments*

The value of exports of services increased slowly in 1975, accounting for more than 280 million dollars of the country's foreign exchange earnings. Payments for imported services were almost twice this amount and were 40 million higher than in 1974.

These movements were reflected in a current account deficit of nearly 1,570 million dollars, a considerably higher figure than in 1974 (850 million), which, in its turn, had quadrupled the 1973 deficit of just under 210 million dollars (see table 282).

The financing of the large deficit on current account in 1975 showed some special characteristics.

The long-term capital account (including direct investment) rose from 745 million dollars in 1974 to around 1,140 million in 1975. A comparison of this item with other balance-of-payments items brings out the importance of this source of funds. For example, as noted earlier, the value of exports of goods in 1975 was nearly 1,380 million dollars while imports of capital goods amounted to 750 million dollars and imports of intermediate goods to 1,230 million dollars.

The loans contracted for specific projects kept to the programmed schedule of disbursements with only minimal changes. Although tied in this manner, such resources helped considerably to bring the inflow of long-term capital to a very high level.

Not all the capital flows followed the same trend, however. In the Eurodollar market, Peru's short-term indebtedness reflected a net payment of 59 million. This outflow, added to that under the head of loans contracted in other markets, caused the short-term capital account to finish the year with a net balance of 112 million dollars.

In order to cover the difference between availabilities and payments of external financial resources, recourse was had to international reserves, which, according to data supplied by the Banco Central de Reserva del Perú, fell from a level of nearly 700 million dollars at the end of 1974 to 150 million in December 1975.

4. *Prices*

In 1975 inflation spurted for the second year running. The consumer price index, which had risen by 17 per cent in 1974, rose by 24 per cent in 1975 (see table 283).

Between 1969 and 1972 the Peruvian economy maintained a relative balance between the monetary, financial and fiscal variables and prices. During this period, prices rose at an annual rate of around 7 per cent. At the same time, money and credit grew by about 25 per cent annually.

This balance began to be disrupted in the middle of 1973. Export prices rose by 60 per cent between June and December. One of the products whose price increased was cotton fibre, the production of which is divided between exports and the demand for inputs from the manufacturing sector. Its export price rose by more than 40 per cent in the first half of the year, which was reflected in a rise in the production costs of yarn, textiles, footwear and made-up textile goods. At the same time, the increase in the prices of non-ferrous basic metals raised the costs of an even bigger range of industries, including steelmaking and the manufacture of batteries, car radiators and electrical appliances.

In this first stage, imports had a moderately inflationary impact. Their unit value rose by 16 per cent, but the subsidies granted for imports of essential items prevented the cost-of-living index from increasing very much. This index, which had risen by 7 per cent in 1972, went up by only 10 per cent in 1973 (see table 283).

The second stage in the inflationary process ocurred in 1974. The unit values of exports

Table 282

PERU: BALANCE OF PAYMENTS
(Millions of dollars)

	1970	1972	1973	1974	1975
Current account					
Exports of goods and services	1 212	1 152	1 352	1 845	1 662
Goods FOB	1 034	945	1 114	1 572	1 378
Services	178	207	238	273	284
Transport	69	63	78	109	111
Travel	41	60	72	78	86
Imports of goods and services	960	1 103	1 402	2 504	3 037
Goods FOB	699	812	1 035	1 999	2 491
Services	261	291	367	505	546
Transport	123	161	181	315	364
Travel	51	45	54	60	61
Net payments of profits and interest on foreign capital	– 148	– 121	– 163	– 198	– 203
Frofits	– 85	– 47	– 80	– 93	– 98
Interest	– 63	– 74	– 83	– 106	– 104
Net private transfer payments	26	7	6	6	11
Balance on current account	130	– 65	– 207	– 851	– 1 567
Capital account					
Net external financing (a+b+c+d+e)	– 130	65	207	851	1 567
(a) Net external non-compensatory capital	– 53	143	433	1 325	
Direct investment	– 77	23	86	91	
Long- and medium-term loans	278	334	786	1 254	
Amortization payments	– 199	– 264	– 392	– 416	1 024
Short-term liabilities (net)	– 111	17	– 82	354	
Official transfer payments	56	33	36	42	
(b) Domestic non-compensatory capital or assets	194	6	– 55	– 150	
(c) Errors and omissions	14	– 111	– 63	– 65	
(d) Allocation of SDRs	14	14	–	–	–
(e) Net compensatory financing (minus sign signifies an increase)	– 299	13	– 107	– 259	543
Balance-of-payments loans, trade arrears, IMF loans, and other liabilities of the monetary authorities	20	72	–	–	–
Amortization payments	– 27	– 3	– 73	– 17	–
Foreign exchange reserves (minus sign signifies an increase)	– 254	– 42	– 1	– 242	539
Gold reserves (minus sign signifies an increase)	– 24	1	– 38	–	–
SDRs (minus sign signifies an increase)	– 14	– 14	5	–	4

Sources: 1970-1974: International Monetary Fund, *Balance of Payments Yearbook,* vol. 27; 1975: CEPAL, on the basis of official statistics.

Table 283

PERU: MAIN INDICATORS OF INFLATION AND ANNUAL VARIATION IN BANK CREDIT

	1971	1972	1973	1974	1975
	Percentage annual growth rates				
Main indicators of inflation					
Domestic prices	6.8	7.3	9.5	16.9	23.6
Export prices	– 7.0	– 0.1	43.0	46.7	–5.0
Import prices	2.7	7.1	15.8	24.5	12.0
Money	23.0	20.0	27.0	31.8	11.7 [a]
Credit	27.0	23.7	31.8	21.6	38.4 [a]
	Thousands of millions of soles				
Annual variation in bank credit					
Total bank credit		*11.9*	*19.7*	*17.7*	*38.3* [a]
Government		5.3	6.2	–2.5	10.3
Official entities		0.7	5.8	15.7	16.2
Private sector		5.9	7.6	4.5	11.8

Sources: CEPAL, on the basis of official statistics; and International Monetary Fund, *International Financial Statistics,* February 1976.

[a] Up to November.

increased even more rapidly and import prices rose now by 24 per cent. Consequently, the level of domestic prices accelerated sharply, the rate of increase being 17 per cent. During that year, and in spite of the food subsidies granted, the rise in food prices was 19 per cent.

These factors increased the liquidity of the economy, first that of the export sector and later, through the demand for credit, that of the import sector. Thus, the currency issue rose by 32 per cent, which was considerably faster than the increase in prices. However, in that year the expansion of bank credit was reduced with respect to the 1973 rate. Its growth in 1974 was 22 per cent, as a result of the reduction in the central government's indebtedness with the banking system and the moderate increase in the amount of credit to the private sector (see table 283).

This even further increased the cost of the subsidies which the central government granted directly for certain imported food items, and also of those granted indirectly by public enterprises, which refrained from increasing their prices in the same proportion as their costs. Noteworthy among the second group was the case of fuels sold by Petroperú, which had to import more than one-third of the fuel it refined.

Since at the same time the investment required by the long-term plan continued, central government expenditure increased rapidly without an equivalent rise in its regular income. The total public sector deficit thus increased considerably, even though public enterprises were authorized to raise their sales prices.

As a result of the drop in international reserves, however, the rate of increase in the money supply in 1975 was relatively low (12 per cent in the first 11 months of the year). At the same time, credit increased at a much higher rate than in 1974. This situation was decisively influenced by the credit granted by the banking sector to both the government and the private sector. The former had reduced its indebtedness by 2,500 million soles in 1974, but in the first 11 months of 1975 it received 10,300 million, which is equal to more than one-quarter of total bank credit (see table 283).

For its part, the private sector, which had obtained credit amounting to 4,500 million soles in 1974 and in the same year had to resort to the unofficial Peruvian capital market which charges higher interest rates than the banking system, received nearly 12,000 million soles from the banking system in the first 11 months of 1975. In addition, the private sector seems to have maintained its demand in the unofficial market.

Thus, without losing sight of the fact that the recent inflationary process in Peru has been linked with world inflation, the acceleration experienced in 1975 was essentially the result of the domestic factors described. The most important of these factors were the expansion of credit, the price increases required to avoid losses in public enterprises, and the rise in the fiscal deficit.

DOMINICAN REPUBLIC

1. *The overall picture.*

During 1975 there was a further slackening of the high rate of growth recorded by the Dominican economy during the first three years of the current decade. Thus, the gross domestic product increased by 11 per cent per year in the period 1971-1973, but the rate fell to 9 per cent in 1974 and to just over 6 per cent in 1975. Even so, the 1975 rate was still one of the highest in the region (see table 284).

Since the population increased by about 3.3 per cent a year, this evolution of the product meant that the per capita product rose from a level of 350 dollars in 1970 to the equivalent of about 480 dollars in 1975.

This trend was even more pronounced in the case of gross income because of the exceptional improvement in the terms of trade, which rose by 21 per cent in 1974, and by 48 per cent in 1975. Since the beginning of the decade real income has grown at a rate of 12 per cent a year, which is

Table 284

DOMINICAN REPUBLIC: MAIN SHORT-RUN ECONOMIC INDICATORS

(Percentage annual growth rates)

	1971–1973	*1974*	*1975*
Gross domestic product	11.4	8.9	6.2
Gross income [a]	11.8	12.2	12.7
Per capita gross domestic product	7.8	5.4	2.7
Gross fixed investment	23.1	18.0	...
Value of exports	26.2	41.9	42.8
Value of imports	15.8	62.1	13.9
Terms of trade	1.1	21.4	47.6
Balance on current account [b]	– 81	–228	– 63
Variation in international reserves [b]	19	7	30
Consumer price index [c]	11.9	10.5	16.5
Money	16.9	46.4	– 0.8
Current income of government	14.2	31.7	34.4
Total expenditure of government	14.0	32.3	8.8
Fiscal deficit/total expenditure of government [d]	– 4.6	– 5.2	17.1

[a] Gross domestic product plus terms-of-trade effect.
[b] Absolute values in millions of dollars at current prices.
[c] December to December.
[d] Percentage.

equivalent to an increase of 8 per cent in per capita income.

Although exports expanded at an unusually high rate in the last two years, doubling in value between 1973 and 1975 as a result of the high prices reached by sugar and other Dominican export products, the growth rates of the other economic activities diminished.

Productive activities, except for mining and electricity generation, grew more slowly than in the previous year. In general they were affected by the contraction of domestic demand, which partly resulted from the restrictive policy followed in the fiscal and monetary sphere with a view to containing inflation. Furthermore, the volume of exports diminished for the second consecutive year.

At the same time, agriculture and the agro-industries were hit by the consequences of a prolonged drought and then, in September, by hurricane Eloise which caused its greatest devastation to crops in the North of the country.

On the supply side, the slower growth rate of production was combined with an increase of barely 1 per cent, in the import quantum, which had risen by 28 per cent in 1974. This resulted in an increase of only 5 per cent in total supply: less than half the growth rate registered in previous years.

During 1975 current public expenditure diminished in real terms, but public investment continued to expand as rapidly as in previous years. Unfortunately no information is available on the trends of private investment and consumption. However, it is estimated that domestic demand must have increased by around 7 per cent, which is about half the increase registered in the previous year (see table 285).

Table 285

DOMINICAN REPUBLIC: TOTAL SUPPLY AND DEMAND

	In millions of Dominican pesos at 1970 prices			*Percentage breakdown*		*Annual growth rates*		
	1970	*1974*	*1975* [a]	*1970*	*1975* [a]	*1971–1973*	*1974*	*1975* [a]
Total supply	*1 849*	*2 807*	*2 952*	*124.5*	*124.3*	*10.6*	*12.3*	*5.2*
Gross domestic product	1 485	2 236	2 374	100.0	100.0	11.4	8.9	6.2
Imports	364	571	578	24.5	24.3	7.0	28.0	1.2
Total demand	*1 849*	*2 807*	*2 952*	*124.5*	*124.3*	*10.6*	*12.3*	*5.2*
Domestic demand	*1 593*	*2 438*	*2 615*	*107.3*	*110.2*	*9.9*	*15.2*	*7.3*
Gross domestic investment	284	592	...	19.1	...	20.2	20.0	...
Gross fixed investment	246	541	...	16.6	...	23.1	18.0	...
Construction	147	...	...	9.9	...	23.2	...	...
Machinery and equipment	99	...	...	6.7	...	22.9	...	...
Public	76	199	255	5.1	...	29.4	21.0	28.1
Private	170	342	...	11.5	...	20.0	16.3	...
Total consumption	1 309	1 846	...	88.2	...	7.3	14.0	...
General government	172	165	...	11.6	...	– 2.6	4.0	...
Private	1 137	1 681	...	76.6	...	8.7	15.1	...
Exports	*256*	*369*	*337*	*17.2*	*14.2*	*14.8*	*– 4.6*	*– 8.7*

Sources: 1970-1974: CEPAL calculations on the basis of figures supplied by the Central Bank of the Dominican Republic; 1975: CEPAL estimates on the basis of official data.

Note: 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.

[a] Preliminary figures.

The containment of fiscal expenditure, bank credit and the money supply —which at the end of the year had diminished slightly compared with the December 1974 level— augured slower future growth in domestic prices. Furthermore, in an attempt to curb the expansion of its expenditure, the government set up a fund with the unusually high surpluses derived mainly from the higher prices of sugar. This fund will be used in the next few years to finance investment projects in the agricultural sphere.

Even so, domestic prices increased by 16.5 per cent between December 1974 and the end of 1975, compared with the rise of 10.5 per cent recorded in 1974. These results were undoubtedly influenced by the inadequacy of domestic supply, which was particularly low in the case of food products because of the meteorological factors already mentioned and the restriction of imports.

The accumulation of international reserves and their entry into the domestic monetary flow must have influenced the rise in prices too. Exports increased three times more than imports, and in addition to causing a substantial reduction in the current deficit of the balance of payments this contributed to an increase of over 30 million dollars in the Central Bank's currency reserves.

In contrast, imported inflation was less serious in 1975, since the increase in the prices of imports (13 per cent) was only half that of the previous year.

Table 286

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

	In millions of Dominican pesos at 1970 prices			*Percentage breakdown*		*Annual growth rates*		
	1970	*1974*	*1975* [a]	*1970*	*1975* [a]	*1971–1973*	*1974*	*1975* [a]
Agriculture	342	411	405	25.8	19.2	5.2	3.3	– 1.5
Mining	23	121	153	1.7	7.3	69.4	9.9	26.5
Manufacturing	221	347	372	16.7	17.6	12.2	11.2	7.2
Construction	73	153	169	5.5	8.0	23.3	12.6	10.0
Subtotal goods	*658*	*1 033*	*1 099*	*49.7*	*52.1*	*13.3*	*8.0*	*6.4*
Electricity, gas and water	18	28	30	1.3	1.4	14.3	6.5	8.0
Transport and communications	113	158	167	8.5	7.9	9.2	7.4	5.6
Subtotal basic services	*131*	*186*	*197*	*9.8*	*9.3*	*9.9*	*7.2*	*6.0*
Commerce, financial establishments and insurance	169	262	271	12.7	12.8	12.3	9.8	3.4
Ownership of dwellings	100	145	159	7.6	7.5	8.7	12.4	9.7
Communal, social and personal services [b]	267	358	385	20.2	18.3	7.0	9.1	7.5
Subtotal other services	*536*	*765*	*815*	*40.5*	*38.6*	*9.0*	*9.9*	*6.5*
Total gross domestic product	*1 325*	*1 995*	*2 119*	*100.0*	*100.0*	*11.4*	*8.9*	*6.2*

Sources: 1970-1974: CEPAL calculations on the basis of figures supplied by the Central Bank of the Dominican Republic; 1975: Estimates.

Note: As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

[a] Preliminary figures

[b] Includes restaurants, hotels and services provided to enterprises.

2. *Sectoral developments*

The rapid growth of the gross domestic product during the five-year period 1971-1975 was mainly due to increases in mining, manufacturing and construction. Commercial and financial activities, which until 1974 had increased at a rate of nearly 12 per cent a year, grew by only just over 3 per cent in 1975, being affected by the slower expansion of economic activity in general (see table 286).

(a) *Agriculture*

Agriculture, for its part, developed much more slowly, and in 1975 the agricultural product actually diminished by nearly 2 per cent. Between 1970 and 1975, despite the efforts made by the government to encourage agricultural development, production grew at an average rate of 3.4 per cent a year, which was only about the same as the rate of population increase, and between these years the share of agriculture in the total product fell from 26 per cent to 19 per cent. However, it continues to be the most important economic activity and about half the population make their living from it.

Official information indicates that during 1975 there were very pronounced decreases in many of the principal agricultural products. Thus, the output destined mainly for domestic consumption declined by 18 per cent. The crops most affected were rice, maize, beans, sweet potatoes and onions. The fall in the output of export products appears to have been about 8 per cent, which is equivalent to the decline in sugar cane production (see table 287).

Table 287

DOMINICAN REPUBLIC: OUTPUT OF MAIN AGRICULTURAL PRODUCTS

	Thousands of 1973 pesos		*Growth rates*	
	1974	*1975*	*1974*	*1975*
Rice	39 079	33 730	- 8.0	- 6.1
Maize	7 120	4 512	- 7.2	- 31.7
Beans	22 899	12 865	11.8	- 49.7
Pigeon peas	3 217	3 474	2.4	5.4
Sweet potatoes	8 858	3 293	- 11.5	- 58.0
Yams	3 275	3 439	2.7	2.3
Potatoes	2 386	2 909	- 30.1	74.5
Arrowroot	5 931	4 873	3.0	- 20.2
Cassava	19 277	17 680	- 19.4	13.8
Pumpkins	1 346	1 386	-	3.0
Onions	1 271	1 430	60.5	- 29.9
Tomatoes	1 259	1 202	2.9	- 7.2
Plantains	62 279	37 966	- 24.6	- 19.2
Peanuts	6 362	4 427	- 21.1	- 11.8
Sugar (cane)	111 412	110 406	7.9	- 8.2
Coffee	22 516	27 269	26.6	- 4.4
Cocoa	20 654	22 211	32.0	- 18.5
Tobacco	30 576	24 009	- 22.8	1.8
Milk	20 510	19 110	3.8	- 10.2
Beef	52 099	47 647	4.0	- 12.0
Pork	11 224	11 822	2.9	2.4
Chicken	17 527	23 426	10.0	21.5
Total	*471 077*	*419 086*	*-0.5*	*- 10.6*

Source: Ministry of Agriculture.

The production of meat and milk also declined, although to a lesser degree (4 per cent). This decrease was offset by the rise in poultry slaughtering which had already begun in 1974.

The two most direct causes of the adverse performance of agricultural production were the severe drought which affected agriculture until August and then, in mid-September, hurricane Eloise. The drought prevented sowing in about 60,000 hectares including 18,000 hectares of rice. The hurricane did not cause so much damage because the main agricultural areas of the country were those least affected by it. The damage caused by the two disasters is estimated at some 100 million pesos.

In 1975 the government's agricultural policy covered various aspects. As far as the encouragement of agriculture was concerned, a system of subsidies to farmers (particularly those producing food) was maintained and this guaranteed them a minimum fixed price which was periodically readjusted. The government also allocated a significant proportion of its investment resources to building up the rural infrastructure, with particular attention to irrigation projects. Thus, for example, it initiated the construction of the Sabaneta, Sabana Yegua and Rincón dams. It also allocated a fairly large amount (about 78 million 1975 pesos) in loans to the sector through the Agricultural Bank. In comparison, less credit was granted to agriculture by commercial banks --up to September they had lent 47 million pesos a sum equivalent to the total disbursed in 1974.

During the year further progress was made in agrarian reform and in the implementation of the "agrarian laws" of 1972. During the year, the Dominican Agrarian Institute distributed about 8,600 hectares divided into 1,890 plots. This made a total of 306,000 hectares divided among 42,700 smallholders. Recently there has been more emphasis on the establishment of collective settlements, which are expected to lead to a rise in productivity.

(b) *Mining*

During the year a new impetus was given to mining when the firm Rosario Dominicana S.A., which has a production capacity of 350,000 ounces of gold and 1,500,000 ounces of silver, began to develop the country's gold and silver deposits. Thus the mining product increased by about 27 per cent in 1975: a percentage much higher than that registered in 1974, although lower than that obtained in 1972 and 1973 when ferro-nickel production began.

(c) *Manufacturing*

The growth rate of manufacturing in 1975 was much lower than the high rates recorded in the four previous years (see table 286). This slower growth is attributable to a combination of factors. The decline in agricultural production affected the regular supply of inputs and thus curbed the expansion of the agroindustries and the food industry, which have a great influence in the Dominican manufacturing sector. There were also difficulties in the supply of electric energy because of technical faults in three power stations. Another factor was the slower expansion of demand caused by the restriction of credit and of monetary liquidity. In addition to this there was a decline in exports of non-traditional manufactured products. Thus, industry operated well below its production capacity throughout the year.

Nevertheless, the loss of dynamism in manufacturing did not affect the installation of new production capacity by the Dominican State Enterprises Corporation (CORDE) and the Industrial Development Corporation in the industrial parks and free zones run by the latter or the establishment of enterprises under the Law on the Protection and Promotion of Industry. During 1975 the Ministry of Industry and Commerce received requests for permits to establish industrial installations representing investments of over 50 million pesos; these include two cement factories.

3. *The external sector*

The 43 per cent increase in income from current transactions with the exterior in 1975 made it possible to finance the 14 per cent rise in imports and to achieve a considerable reduction in the deficit on current account. During the year the net inflow of capital was considerably lower than in the previous year, but even so the net international reserves rose by some 30 million dollars.

(a) *Foreign trade*

(i) *Exports.* For the second consecutive year exports of goods showed an increase of about 45 per cent. This meant that in only two years the value of exports of goods more than doubled, as had already happened in the first three years of

Table 288

DOMINICAN REPUBLIC: VALUE AND BREAKDOWN OF EXPORTS OF GOODS

	Millions of dollars			*Percentage breakdown*		*Annual growth rates*		
	1970	*1974*	*1975* [a]	*1970*	*1975* [a]	*1971–1973*	*1974*	*1975* [a]
Sugar	103	324	561	48	61	22	73	73
Sugar-cane derivatives	13	24	34	6	4	13	26	42
Coffee	29	45	43	14	5	17	– 2	– 5
Cocoa	20	48	29	9	3	6	98	– 40
Tobacco	14	40	36	7	4	30	30	– 10
Ferronickel	–	93	102	–	11	–	12	10
Bauxite	15	18	17	7	2	– 1	20	– 6
Gold and silver	–	–	27	–	3	–	–	–
Total	*213*	*637*	*921*	*100*	*100*	*27*	*44*	*45*

Source: Bulletin of the Central Bank and CEPAL estimates.

[a] Preliminary figures.

the current decade: the value thus rose from just over 210 million dollars in 1970 to 920 million dollars in 1975 (see table 288).

During the period 1974-1975 the rapid expansion of exports was entirely due to the high international prices which benefited the main Dominican export products and particularly sugar. The unit value of exports increased by 55 per cent in 1974 and by 67 per cent in 1975. Their volume, however, decreased by 20 per cent over the two years.

Sugar represents about 60 per cent of total exports, and the 73 per cent increase in sales of this commodity in both 1974 and 1975 accounts for more than three-quarters of the rise in total exports over those years.

In mid-1974 the price of sugar began to rise rapidly, and in November it reached a level of approximately 56 US cents per pound.[189] However, because of the practice of selling sugar on the basis of advance orders, the average price obtained for sales in 1974 was only just over 14 cents. During 1975 the international prices fell rapidly, but a high proportion of the sales were transacted in the first six months at prices which were still high, and this brought the average price for the year to around 27 cents per pound.

However, the volume of sugar exported fell in recent years and in 1975 amounted to less than one million tons because of the drought which affected production and because of technical problems in one of the major refineries.

Exports of ferro-nickel are next in importance after, those of sugar, although they lag considerably behind. In 1975 sales of ferro-nickel exceeded 100 million dollars because of an appreciable rise (40 per cent) in price. The volume of bauxite exports, however, fell by more than a third in 1975, largely offsetting the higher prices of the commodity.

The other traditional export products diminished in value; in the case of cocoa there was a decline of about 40 per cent because of decreases in both volume and price. The prices obtained for coffee and tobacco improved in comparison with the previous year and partially offset the appreciable reductions in quantum.

In April 1975 the export of gold and silver began, and by the end of the year these exports amounted to some 27 million dollars. It is hoped

[189] During 1974 the prices quoted in the United States market tended to be the same as those on the free market. Furthermore, the United States abolished the system of assigning country quotas for its purchases of sugar.

that in the next few years their value will increase substantially.

(ii) *The terms of trade.* The exceptional rise in the prices of exports, especially in the last two years, greatly exceeded the increases in the unit values of imports over the same period (28 per cent in 1974 and 13 per cent in 1975), despite the very steep rise in the prices of petroleum and its derivatives in 1974. This very marked difference was reflected in clear improvements in the terms of trade (21 per cent in 1974 and 48 per cent in 1975). Thus, although in the past the ratio had been well below the base index 1970=100, it increased to 185 in 1975. This very favourable situation of the ratio of external prices also produced a very considerable improvement in the purchasing power of exports (see table 289).

Table 289

DOMINICAN REPUBLIC: VARIATION IN THE TERMS OF TRADE AND IN THE VALUE, VOLUME AND UNIT VALUE OF EXPORTS AND IMPORTS OF GOODS

(Annual growth rates)

	1971	*1972*	*1973*	*1974*	*1975*
Exports of goods					
Value	14.0	43.0	27.5	43.7	44.7
Volume	17.6	26.5	4.7	-7.5	-13.3
Unit value	-3.1	13.0	21.8	55.3	66.8
Imports of goods					
Value	11.4	19.5	14.2	59.2	14.9
Volume	7.1	14.0	-3.5	24.5	1.6
Unit value	4.0	5.6	17.5	27.9	13.0
Term of trade	-6.8	7.0	3.7	21.4	47.6
Purchasing power of exports	9.0	34.0	8.8	12.6	27.3

Source: CEPAL, on the basis of official data.

(iii) *Imports.* Imports of goods and services, which rose by 62 per cent at current prices in 1974 because of the high price of fuels and greater imports of food, rose by only 14 per cent in 1975. In the latter year the increase in the quantum imported was slight and imports of food fell by almost half despite the unsatisfactory performance of agriculture.

The slower growth of imports was achieved through the application of a number of measures adopted with a view to reducing the severe current account deficit recorded in 1974.

Thus total sales of foreign exchange by the Central Bank were limited to 800 million dollars in 1975, and furthermore the system of quotas and prohibitions affecting imports made with official foreign exchange was expanded and the sale of foreign currency for travel was suspended.

(b) *The balance of payments and external indebtedness*

Since the beginning of the current decade exports have been increasing more rapidly than imports, so that while imports almost tripled, exports increased four times over that period. However, it was only in 1975 that the gap between the two types of transactions began to disappear and the trade deficit fell to a small figure. This virtual equilibrium between exports and imports, even after taking into account higher remittances of profits and interest abroad, was reflected in a considerable reduction of the big current account deficit recorded in 1974 (see table 290).

In 1975, however, there was also a pronounced fall in the net inflow of capital, which had reached

Table 290

DOMINICAN REPUBLIC: BALANCE OF PAYMENTS
(Millions of dollars)

	1970	1972	1973	1974	1975
Current account					
Exports of goods an services	256	411	514	729	1 041
Goods FOB	213	347	443	637	921
Services	43	63	71	93	120
Transport	9	12	14	15	21
Travel	16	33	38	54	70
Imports of goods and services	365	471	566	917	1 044
Goods FOB	278	370	423	673	773
Services	87	101	143	244	271
Transport	41	51	71	142	163
Travel	37	38	52	76	77
Net payments of profits and interest on foreign capital	– 26	– 47	– 77	– 90	– 109
Profits	– 18	– 35	– 54	– 67	– 85
Interest	– 8	– 12	– 23	– 23	– 24
Net private transfer payments	30	45	49	50	49
Balance on current account	– 104	– 62	– 80	– 228	– 63
Capital account					
Net external financing (a+b+c+d+e)	104	62	80	228	63
(a) Net external non-compensatory capital	97	81	75	177	–
Direct investment	58	45	55	54	–
Long- and medium-term loans	54	60	40	139	–
Amortization payments	– 23	– 16	– 19	– 30	–
Short-term liabilitics (net)	7	– 9	– 3	12	–
Official transfer payments	1	2	2	2	–
(b) Domestic non-compensatory capital or assets	20	21	38	87	–
(c) Errors and omissions	– 21	– 26	– 11	– 29	93
(d) Allocation of SDRs	5	5	–	–	–
(e) Net compensatory financing (minus sign signifies an increase)	2	– 19	– 21	– 7	– 30
Balance-of-payments loans, trade arrears, IMF loans, and other liabilities of the monetary authorities	7	–	14	14	–
Amortization payments	– 7	– 16	– 13	– 4	–
Foreign exchange reserves (minus sign signifies an increase)	5	5	– 10	– 17	– 31
Gold reserves (minus sign signifies an increase)	– 3	–	– 13	–	–
SDRs (minus sign signifies an increase)	–	– 8	–	–	1

Source: CEPAL, on the basis of official data.

an exceptionally high level in the previous year. Even so, the total exceeded that of the deficit on current account and consequently the Central Bank's gold and currency reserves improved by 30 million dollars. At the end of 1975 the country's international reserves amounted to 116 million dollars, which was equivalent to some 40 days' imports.

Between 1970 and mid-1975 the external debt rose from 290 to 750 million dollars, which meant that during this period net borrowing amounted to some 100 million dollars per year –equivalent to about 15 per cent of the imports of those years. This considerable influx of capital in the form of loans and direct investment explains how international reserves came to rise by some 90 million dollars during that period, despite the big deficit on the current account of the balance of payments. In 1972, when the development of ferro-nickel began, there was an increase of some 230 million dollars in the total private external debt, which currently represents over 40 per cent of the total foreign debt and explains the increase noted in debt servicing and payments of profits and interest on foreign capital (see table 290).

4. *Prices and monetary and fiscal evolution*

(a) *The evolution of prices*

In 1975 domestic prices rose sharply again at a rate close to the maximum recorded in 1973. Thus, the consumer price index in Santo Domingo increased by 16.5 per cent, measured between the months of December of each year, compared with 17.3 per cent in 1973 and 10.5 per cent in 1974. However these variations become less pronounced if the increases are compared on the basis of the annual averages; if measured in that way, the food component is seen to have grown more rapidly than the general index (see table 291).

Table 291

DOMINICAN REPUBLIC: CONSUMER PRICE INDEX IN SANTO DOMINGO

(Rates of variation between annual averages)

	1971	*1972*	*1973*	*1974*	*1975*
General	4.3	7.8	15.1	13.2	14.5
Food	6.5	6.0	18.4	17.7	17.7

Source: PLANDES, *Informe económico anual, 1975;* International Monetary Fund, *International Financial Statistics*, various issues.

In 1974 the rate of the inflationary process was successfully reduced despite the strong influence exerted by imported inflation that year not only through the prices of imports (which rose by 28 per cent) but also through the higher prices for exports (55 per cent). This reduction was achieved by the application of a firm policy on various fronts. The expenditure on subsidies for food and fuels was expanded enormously in order to maintain the low prices of these items, while at the same time guaranteed or support prices were fixed for farmers in order to raise, or at least maintain, the levels of the supply of food.

Furthermore, the supply of imported food was also expanded considerably. The Institute for Price Stabilization (INESPRE) imported 98 million dollars' worth of food, mainly rice (40 million), wheat, maize and oil, and these products were sold at subsidized prices.

Another aspect of the policy applied was more stringent price control. The prices of a number of primary articles were frozen by law and they could only be increased with the prior authorization of a technical committee. During the second half of 1974 the committee exercised this power on many occasions.

In 1975 the factors which contributed to the acceleration of inflation were mainly domestic. Although the unit values of exports showed an increase as exceptional as that of the previous year, those of imports rose by only 13 per cent. Among the domestic factors, the fall in agricultural production undoubtedly exerted a major influence. On the other hand the monetary and fiscal variables rose less than prices, and the same was true of wages and salaries in general.

The prices of unprocessed food products rose in inverse proportion to the variations in their production. In some cases the increases were of the order of 100 per cent (plantains, onions and pumpkins); in others, they ranged from 50 to 60 per cent (beans, potatoes, sugar, sweet potatoes) and in others around 20 per cent (rice, yams, milk).

Although the production deficit was partly made up with imports, INESPRE reduced its purchases of food abroad to 52 million dollars.

During the year special emphasis was placed on the control of fiscal expenditure and of the factors of expansion of the means of payment. Although demand factors exerted more influence in some months through the seasonal increase in the money in circulation, credit and the levels of public expenditure, the trend of the year as a whole was restrictive. It was not possible for the government to maintain the payments of subsidies for consumer goods at the same levels as in the previous year, and the same was true of the scales of charges of public enterprises.

(b) *The fiscal situation*

According to preliminary information, central government revenue rose by about 34 per cent in 1975, but expenditure did not vary very much. Thus there appears to have been a high current surplus of some 360 million pesos which not only greatly exceeded capital expenditure, estimated at some 270 million pesos, but also made it possible to accumulate a further 90 million pesos to finance new investment projects (see table 292).

Table 292

DOMINICAN REPUBLIC: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Current values (millions of Dominican pesos)				*Annual growth rate*		
	1970	*1973*	*1974*	*1975*[a]	*1971–1973*	*1974*	*1975*[a]
1. *Current income*	*242*	*360*	*474*	*637*	*14.2*	*31.7*	*34.4*
Tax revenue	219	320	426	592	13.5	33.1	39.0
From taxes on external trade	105	161	227	332	15.3	41.0	46.3
Exports	(9)	(30)	(65)	(154)	49.4	116.7	136.9
Direct	66	102	132	165	15.6	29.4	25.0
Indirect	48	57	67	95	5.9	17.5	41.8
Other income	23	40	48	45	20.3	20.0	– 6.2
2. *Current expenditure*	*173*	*217*	*269*	*274*	*7.8*	*24.0*	*1.9*
Wages and salaries	109	124	144	150	4.4	16.1	4.2
Other current expenditure	64	93	125	124	13.3	34.4	– 0.8
3. *Savings on current account* (1 – 2)	*69*	*143*	*205*	*363*	*27.5*	*43.4*	*77.1*
4. *Capital expenditure*	*82*	*161*	*231*	*270*	*25.2*	*43.5*	*16.9*
Real investment	51	131	183	200	37.0	39.7	9.3
Construction	49	125	172	184	36.6	37.6	7.0
Machinery and equipment	2	6	11	16	44.2	83.3	60.0
Other capital expenditure	31	30	57	70	– 1.0	90.0	22.8
6. *Fiscal deficit (or surplus)* (3 – 4)	*– 13*	*– 18*	*– 26*	*93*	*11.5*	*44.4*	–

Sources: Central Bank; International Bank for Reconstruction and Development, *Updating Report on the Economy of the Dominican Republic*, April 1975; PLANDES, *Informe económico anual*, 1975.

[a] Preliminary figures and CEPAL estimates on the basis of partial figures for the year.

Between 1971 and 1973 fiscal revenue increased by about 14 per cent per year. This rate rose to 32 per cent and 34 per cent respectively in the two following years because of the high levels reached by export taxes, which increased five-fold between 1973 and 1975. Table 9 clearly shows the importance acquired by these taxes, which are almost equal to the taxes on imports and to direct taxes and greatly exceed the income from indirect taxes.

A proportion of these increased financial resources, which are of an exceptional nature, was temporarily frozen in an account at the Central Bank with a view to ensuring the most advantageous allocation and at the same time lessening the additional inflationary effect which could be caused by their influx into the monetary flow. In April 1975 a "budgetary reserve fund" was set up with the fiscal revenue which is obtained in excess of the budgeted income every month; by the end of the year 60 million pesos had been accumulated and it is expected that this money will be allocated to financing agricultural development programmes.

A very important aspect of the policy of domestic price stabilization was the sharp contraction in budgetary expenditure, and particularly current expenditure, in 1975. Since the beginning of the current decade there has been a much more marked growth in revenue than in current expenditure, and this situation became particularly marked in 1975 when the increase in current expenditure amounted to less than 2 per cent. In the case of wages, the increase was only a little over 4 per cent, which, taking into account the 15 per cent rise in domestic prices, represented a sharp deterioration in real wages and salaries.

The growth rate of capital expenditure also diminished in comparison with the exceptionally high rates recorded in previous years. This trend was particularly clear in the investment allocated to construction, but in contrast capital accumulation in the form of machinery and equipment continued to increase at a very high rate.

Central government expenditure represented only about half the total expenditure of the public sector.[190] It should be borne in mind that there are a considerable number of State enterprises in the Dominican Republic, and these contribute 35 per cent of the capital formation of the public sector, which represents 43 per cent of total fixed investment.

The pattern of public sector income and expenditure in 1975 was similar to that of the central government, except that income appears to have grown less (about 20 per cent) while current expenditure seems to have diminished by about 5 per cent. Thus, the current savings of the public sector must have amounted to some 570 million pesos; this sum served to finance public fixed investments of 320 million pesos (50 per cent higher than in 1974) and financial investments of 200 million pesos (125 per cent greater than in the previous year).

(c) *The monetary picture*

In contrast with 1974, when the 46 per cent expansion in money in circulation was one of the factors which contributed to the rise in prices, no variations were recorded in the means of payment between December 1974 and December 1975. However, there were changes in the components: the amount of currency outside banks increased by 12 per cent and the total of demand deposits fell by 8 per cent (see table 293).

During the period 1971-1974 money increased at a rate of 24 per cent per year —a slightly lower rate than that for domestic credit— but there was a net loss of international reserves.[191] In 1975, however, there was a major increase in international reserves. However, the impact that this increase might have had on the money supply was largely averted by the Monetary Board's decision to freeze a proportion of the money received by exporters in exchange for their foreign-currency earning.

Net domestic credit, the other factor of expansion of the money supply, increased less than half as much as in the previous year because of the limitations introduced at the beginning of the year. Its overall rate of increase was similar to that of prices, while in the specific case of credit to the public sector it was considerably less. This was due to the restrictive policy applied in respect of government expenditure and the consequent major increase in the government's current savings. The establishment of the budgetary reserve also

[190] Purchases of goods and non-personal services by State enterprises are not included as part of this expenditure.

[191] Although in the balance of payments the concept of "international reserves" is limited to the reserves of the monetary authorities, in this case the net reserves of the commercial banks are also taken into account.

Table 293

DOMINICAN REPUBLIC: MONETARY POSITION
(Millions of pesos)

	Balance at the end of				Annual growth rates		
	1970	*1973*	*1974*	*1975*	*1971–1973*	*1974*	*1975*
Money	*176.2*	*281.3*	*411.7*	*408.6*	*16.9*	*46.4*	*– 0.8*
Currency outside banks	81.2	116.2	140.6	157.7	12.7	21.0	12.2
Demand deposits [a]	95.0	165.1	271.1	250.9	20.2	64.2	– 7.5
Factors of expansion	*337.1*	*618.1*	*850.1*	*1 065.1*	*22.4*	*37.5*	*25.3*
Foreign assets (net)	– 25.9	– 6.5	– 36.8	24.9	–	–	–
Domestic credit	363.0	624.6	886.9	1 040.2	19.8	42.0	17.3
Public sector (net)	130.6	190.6	255.6	282.8	13.4	34.1	10.6
Private sector	232.4	434.0	631.3	757.4	23.1	45.5	20.0
Factors of absorption	*160.9*	*336.8*	*438.4*	*656.5*	*27.8*	*30.2*	*49.7*
Quasi-money (saving and time deposits)	118.1	244.8	361.3	467.5	27.5	47.6	29.4
Other items (net)	42.8	92.0	77.1	189.0	29.0	– 16.2	145.1

Source: International Monetary Fund, *International Financial Statistics*, April 1976.
[a] Includes deposits of the private sector in the Central Bank.

helped prevent excessive expansion of the money in circulation.

In turn, the growth rate of loans to the private sector declined from 46 per cent in 1976 to about 20 per cent in 1975, thus showing the results of the restrictive policy followed in this respect. There was no great variation in the destination of these loans: loans to manufacturing and commerce continued to predominate, each representing about 27 per cent of the total. In contrast, the share of loans received by agriculture from the commercial banks amounted to less than 7 per cent. However, this sector also received financing from the "agricultural" bank, a State entity which in 1975 granted 78 million pesos in credit to agriculture, 15 per cent more than in the previous year.

Other factors which helped curb the growth of the means of payment were the relatively low expansion (11 per cent) in the primary issues of the "central" bank and the big increase in time and savings deposits (see table 293).

TRINIDAD AND TOBAGO

1. *The overall picture*

Preliminary calculations indicate that the gross domestic product, at current prices, grew by 32 per cent in 1975. As no deflator is available for the national accounts, it is difficult to evaluate the trends in the real product, but the available indicators suggest that the most decisive element in the increase in the absolute value of the product was a rise in prices. Even so, economic activity does appear to have grown in real terms in 1975, as in 1974, following two years in which it tended to stagnate.

The external position of the country in 1975 was very sound for the second year running. After having registered unprecedented increases in 1974, the value of exports and imports dropped by 14 per cent in 1975, due mainly to the reduction of the volume handled under the petroleum refining agreements. Even so, however, the country's external position continued to be very sound. The surpluses on the current account and the overall external accounts continued to be substantial, so that once again a considerable volume of foreign exchange was added to the reserves (see table 294). Thanks to the very favourable results shown by the balance of payments in 1974 and 1975, the reserves increased from the very low figure of US$ 47 million at the end of 1973 to US$ 750 million at the end of 1975.

Table 294

TRINIDAD AND TOBAGO: MAIN SHORT-RUN ECONOMIC INDICATORS
(Percentage annual growth rates)

	1971-1973	*1974*	*1975*
Gross domestic product	12.4 [a]	40.4 [a]	32.3 [a]
Value of exports	17.0	149.9	– 13.6
Value of imports	13.0	120.8	– 13.8
Terms of trade	6.7	26.0	– 1.8
Balance on current account [b]	– 101.7 [c]	112.4	107.0
Variation in international reserves [b]	–	335.0	345.0
Consumer price index [c]	12.2	18.6	13.4
Money	10.6	32.5	54.6
Current income of government	14.8	173.6	– 2.2 [d]
Total expenditure of government	12.9	65.5	9.1 [d]
Fiscal deficit/total expenditure of government [f]	17.0	50.6 [e]	35.0 [d e]
Rate of unemployment [f]	12.0	15.0	15.0

Source: CEPAL, on the basis of official statistics.

[a] In Trinidad and Tobago, unlike other countries, these rates correspond to the nominal growth of the product.
[b] Absolute values in millions of dollars at current prices.
[c] December to December.
[d] Budget estimates.
[e] Surplus.
[f] Percentage.

External factors had strong repercussions on the domestic behaviour of the economy in 1975. Among these factors were the increases in the prices of most imports and some exports and the drop in production in some sectors of the economy due to the shortage of imported raw materials. In addition, there was the considerable depreciation of the Trinidad and Tobago dollar, which is linked to the pound sterling and whose exchange rate deteriorated between the end of 1974 and the end of 1975 from 2.04 to 2.37 units per United States dollar. As the price of the country's main export (petroleum) is fixed in United States dollars, this depreciation helped to increase the government's local currency revenue and to generate inflationary pressures.

Inflation continued to be a disturbing factor in the economy in 1975, although the rate of inflation was somewhat lower than in 1974. Thus, the rise in the retail price index dropped from 19 per cent in 1974 to 13 per cent in 1975. Among the factors which helped to reduce the rate of increase of domestic prices were the slackening of the rate of inflation in the industrialized countries, the somewhat larger supply of food produced by the domestic agricultural sector, and the price controls, subsidies and other government measures designed to protect the consumer price index from inflationary pressures.

Monetary liquidity rose appreciably for the second year running. The supply of money increased 55 per cent in 1975 after an increase of 32 per cent in 1974. In both years the main factor in this development was the expansion of the net international reserves as a result of the favourable results recorded by the balance of payments. Some of the expansionary effects of the increase in international reserves were compensated, however, by a reduction in net credit to the public sector, since the government increased its deposits in the banking system.

As regards the government accounts, the budget estimates for 1975 foresaw a slight reduction in government income compared with 1974, when the total income increased by 174 per cent because of the big rise in income from petroleum. It was calculated that expenditure, for its part, was likely to rise by 9 per cent, mainly because of the increase in current expenditure. Since the expenditure in 1974 was 65 per cent higher than in 1973, the 1975 expenditure is therefore expected to have been 80 per cent higher than in the latter year.

Although the budgets of the last two years appear to have been expansionary in nature, the authorities have tried to mitigate the inflationary effects of the increase in income from petroleum by channelling an appreciable part of fiscal revenue to capital accounts. Furthermore, a large part of the budgetary resources has been retained as a surplus (see table 294). For the most part, these surpluses have been placed in special funds which will be used at a later date to finance projects in the government's development programme.

The Government plans to devote the accumulated income from oil to the development of new energy-intensive industries. The main projects are two fertilizer plants, an iron and steel complex, a polyester fibre plant, a furfual plants, and the expansion of the national cement factory. Consideration is also being given to other projects which are at a much less advanced stage, including various petrochemicals complexes, a liquefied natural gas plant, and the expansion of an oil refinery. Among the infrastructural works needed for the first set of projects are an electric power station and a natural gas pipeline running across the island. Most of these new enterprises will be mixed, with the Government as majority shareholder in association with some transnational enterprise. It is calculated that in 1975 the cost of the investments in the first group of projects and the associated infrastructural works came to around 1 billion dollars.

Many unionized workers received considerable wage and salary increases in 1975, often after prolonged labour disputes. No progress seems to have been made, however, in reducing the chronically high level of unemployment in Trinidad and Tobago (see table 294).

2. *Sectoral developments*

As in previous years, the leading activity in 1975 was the oil industry, the current value of whose production was 55 per cent higher than in 1974 (see table 295). The industry's growth in real terms was also vigorous, and the volume produced was appreciably higher than the year before. The real growth of the rest of the economy seems more dubious, however, since the rate of activity apparently dropped in most of the other main sectors. Various sub-sectors of the economy were affected by serious labour disputes, which resulted in the loss of many hours of work and production delays.

(a) *Agriculture*

This sector has been showing a lack of dynamism for several years past, due to a complex set of factors which include bad weather conditions, labour problems, inadequate credit facilities and inefficient marketing systems. Even so, this sector continues to be an important source of foreign exchange. In 1975, agriculture registered uneven results and the volume of its overall production increased only slightly.

Sugar has traditionally been the leading product in this sector because its export generates considerable income.[192] The bad weather and other difficulties have led to a persistent decline in production, however, from 240,000 tons in 1968 to 183,000 tons in 1974. In 1975 the weather conditions were favourable but a prolonged strike by the sugar workers was a contributory factor in the decline of production by 13 per cent to 160,000 tons, which is the lowest output since the country's independence. Such a low output was regrettable in view of the relatively high prices for sugar which prevailed during the year in world markets.

[192] Sugar production is included under manufacturing in the national accounts data, but in view of its close link with agriculture it is dealt with in this section.

Table 295

TRINIDAD AND TOBAGO: GROSS DOMESTIC PRODUCT, BY KIND OF ECONOMIC ACTIVITY, AT FACTOR COST

	Millions of Trinidad and Tobago dollars			*Percentage breakdown*		*Annual growth rates* [a]		
	1970	*1974*	*1975*	*1970*	*1975*	*1971-1973*	*1974*	*1975*
Agriculture	128	188	247	7.7	5.6	– 2.7	58.6	31.4
Mining and refining	351	1 024	1 587	21.1	36.2	14.8	93.2	55.0
Manufacturing	314	487	555	18.9	12.7	10.1	16.2	14.0
Construction	73	166	216	4.4	4.9	19.2	33.3	30.1
Subtotal goods	*866*	*1 865*	*2 605*	*52.1*	*59.4*	*11.2*	*56.5*	*39.7*
Transport and commerce	305	502	602	18.3	13.7	10.2	23.0	19.9
Restaurants and hotels Financial establishments, insurance and real estate Communal, social and personal services. Communications, electricity, gas and water	491	943	1 173	29.5	26.8	15.7	24.4	24.4
Total gross domestic product	*1 662*	*3 310*	*4 380*	*100.0*	*100.0*	*12.4*	*40.4*	*32.3*

Source: Government of Trinidad and Tobago, *Draft Third Five-Year Plan*, 1969-1973, and CEPAL estimates.

[a] The growth rates were calculated on the basis of unrounded data and correspond to the nominal growth in the products of the respective economic activities.

The available data indicate that the results for other export crops were uneven. The production of cocoa and coffee seems to have recovered appreciably since the setback caused by the drought in 1973, and there were also gains in the output of poultry, eggs, fish, copra and vegetables. There was an appreciable drop, however, in the production of citrus fruits, beef and veal, and pork (see table 296).

The Government has announced its intention of promoting agriculture by channelling to it some of the revenue received by the country from its oil. With this aim in view, in 1975 the Government continued to put money into a fund designed to provide resources for agricultural projects.

(b) *Mining and oil refining*

The oil industry has long been a dominant economic activity from the point of view of its contribution to the gross domestic product, to export income and togovernment revenue. As it is a capital-intensive industry, however, it only employs around 3 per cent of the labour force. In the last two years oil has become even more important for the economy because of the recovery in Trinidad's production of crude and the high price attained by oil on the world market.

Between 1968 and 1971 the oil industry suffered the effect of a running down of oil deposits, and production dropped by 30 per cent in that period (see figure 5). The steady decline in production was halted in 1973, however, when two oilfields near the East Coast of the island began to be exploited. The production of these oilfields more than made up for the declining output of the traditional inland oil wells, so that there was a 45 per cent rise in production from 129,000 barrels per day in 1971 to 187,000 barrels in 1974.

The available information indicates that in 1975 production increased by 15 per cent to an average of 215,000 barrels per day, entirely due to the activities on the East Coast.

Oil refining is another important activity, and

Table 296

TRINIDAD AND TOBAGO: MAIN INDICATORS OF AGRICULTURAL PRODUCTION

	1972	1973	1974	1975[a]	Annual growth rates 1973	1974	1975[a]
Production of some important crops (millions of units)							
Sugar cane (tons)	2.5	2.0	1.9	1.7	– 20.0	– 1.7	– 12.0
Cocoa beans (pounds)[b]	10.6	7.0	9.2	11.6	– 34.0	31.4	26.1
Coffee beans (pounds)[b]	7.3	6.0	4.3	8.9	– 17.8	– 28.3	107.0
Citrus fruits:							
Oranges (pounds)	25.0	1.6	24.7	6.6	– 93.6	1 486.6	– 73.3
Grapefruit (pounds)	40.6	9.8	39.0	13.8	– 75.9	299.0	– 64.6
Citrus fruit juices (gallons)	2.3	0.3	2.1	0.7	– 87.0	585.0	– 67.4
Meat:							
Beef and veal (pounds)	3.2	3.4	3.2	2.7	6.3	– 6.0	– 15.6
Pork (pounds)	3.9	5.3	4.4	3.5	35.9	– 18.2	– 20.5
Poultry (pounds)	39.6	40.1	43.1	59.6	1.3	7.5	38.3
Eggs (dozen)[c]	4.3	3.9	3.6	4.1	– 9.3	– 7.7	13.9
Fish (pounds)[d]	6.9	6.7	6.0	6.6	– 2.9	– 10.4	10.0
Milk (gallons)[e]	2.3	1.6	1.6	1.6	– 30.4	0.6	0.0
Tobacco (pounds)	0.6	0.7	0.7	0.6	16.7	– 6.0	– 14.3
Copra (thousands of tons)	12.3	11.6	6.6	8.8	– 5.7	– 43.2	33.3

Sources: Central Statistical Office, *Quarterly Economic Report;* Central Bank of Trinidad and Tobago, *Statistical Digest;* and figures supplied by the Co-operative Citrus Growers' Association of Trinidad and Tobago Ltd. and the Sugar Manufacturers' Association.

[a] Estimates.
[b] Deliveries to main exporters.
[c] Figures for Commercial production.
[d] Fish delivered to main markets.
[e] Figures for main products only.

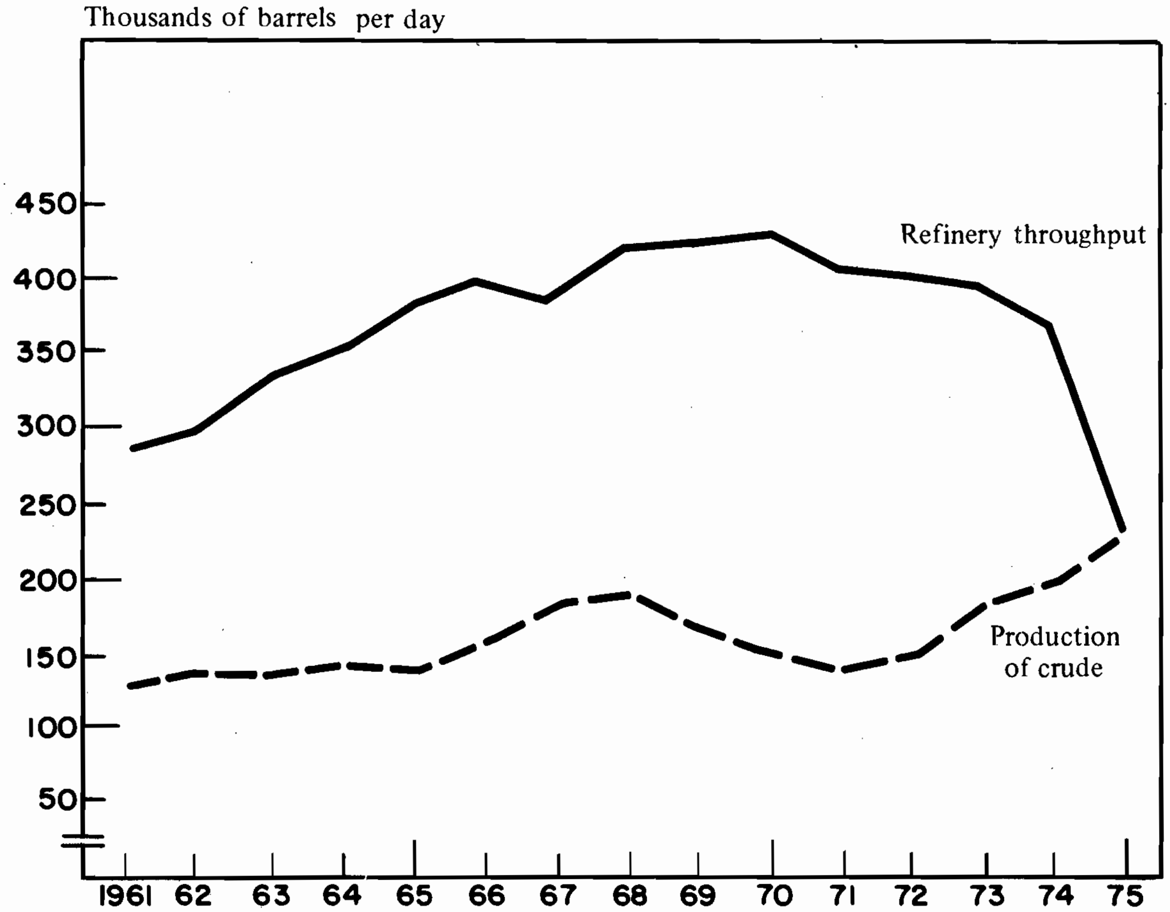
Trinidad has refining capacity for over 450,000 barrels per day. It is interesting to note, however, that most of the refineries' throughput is based on imported crude. This is because the national production of crude is far below the refining capacity, and the refineries in Trinidad are designed to process heavy crude, whereas the local oil is mostly of a lighter grade and is exported abroad for processing. Also, crude oil production of some oil companies is destined specifically for their overseas refineries and is not available for refining locally.

Since 1971 refinery throughput has gone down sharply, creating considerable unutilized capacity (see figure 1). In 1975 there was a particularly sharp decline of 35 per cent, so that the refining industry was working at less than 50 per cent of its capacity. This unsatisfactory result is to be attributed primarily to the strike in the country's biggest refinery, which paralyzed production for six months.

Everything seems to indicate that the improvement in the production and sales of natural gas which began in 1974 became still more marked in 1975. It is expected that the production of natural gas, especially from the East Coast deposits, will go up appreciably when the new energy-intensive industries mentioned earlier begin to operate in the next few years.

Figure 5

TRINIDAD AND TOBAGO: OIL PRODUCTION



Sources: Central Statistical Office, *Quarterly Economic Report* (several issues), and data provided by ECLA.

(c) *Manufacturing*

The general manufacturing index for the first nine months of 1975 was 3 per cent lower than for the corresponding period in 1974 (see table 297). It is estimated that, taking the year as a whole, there was a general drop in the volume of production compared with the year before.

The partial indicators available reflect a reduction in the levels of output of many of the main manufacturing industries. Tendencies towards a drop in production were observed in the case of sugar, rum, cigarettes, margarine, lard and butter substitutes and building blocks and bricks, but the production of soap, edible oil, beer and cement increased. The performance of the assembly industries was more even: the output of motor vehicles increased as well as the production of radio and television receivers (see table 297).

The expansion of manufacturing activities was limited by unfavourable external and internal factors. Among the internal factors, labour disputes disturbed production processes in various ways and were reflected in a loss of man-hours and a drop in the production of finished goods. In addition, the economic recession and the high rate of inflation in the industrialized countries affected the cost of the inputs imported by the sector.

Table 297

TRINIDAD AND TOBAGO: INDICATORS OF MANUFACTURING PRODUCTION

	1970	1973	1974	1975 [a]	Annual growth rates 1971–1973	1974	1975
Index of manufacturing production (1971 = 100)		*108.9*	*115.7*	*112.7* [b]		*6.2*	*– 2.7* [c]
Processed foodstuffs		110.0	130.6	134.6		18.7	1.7
Beverages and tobacco		124.6	133.2	129.4		6.9	1.9
Textiles and footwear		69.4	78.9	77.0		13.7	– 4.6
Production of some important manufactures							
Sugar (thousands of tons)	230.9	181.1	183.4	160.0	– 7.8	1.3	– 12.7
Rum (millions of gallons)	2.5	2.4	4.3	3.8	– 0.4	77.6	– 11.6
Beer (millions of gallons)	4.6	5.2	4.5	5.4	4.4	– 13.2	20.0
Tobacco and cigarettes (millions of pounds)	1.8	2.0	1.8	1.6 [b]	3.9	– 11.9	...
Edible oils (millions of pounds)	2.1	2.0	1.3	1.8	– 0.7	– 34.5	...
Margarine, lard and butter substitutes (millions of pounds)	12.2	14.1	16.3	14.6	4.8	16.4	– 10.4
Soap (millions of pounds)	12.0	13.1	11.8	14.1	3.2	– 9.9	19.5
Cement (thousands of tons)	283.0	249.1	237.7	254.9	– 4.1	– 4.6	7.2
Building bricks and blocks (millions)	27.5	25.8	25.0	20.1	– 2.1	– 2.9	– 19.6
Fertilizers (millions of short tons)	0.6	0.5	0.4	0.4	– 10.0	– 10.5	0.0
Assembly industries							
Motor vehicles (thousands)	11.0	9.0	6.0	8.0	– 6.5	– 33.2	33.3
Radio and television sets (thousands)	29.8	33.5	25.1	27.2	4.1	– 25.1	8.4

Sources: Central Statistical Office of Trinidad and Tobago, *Annual Statistical Digest, Quarterly Economic Report* and *Economic Indicators;* Central Bank of Trinidad and Tobago, *Statistical Digest;* and CEPAL figures.

[a] Estimates.

[b] January-September.

[c] These figures correspond to the variation between the period January–September 1975 and the corresponding period in 1974.

(d) *Other sectors*

The other essential sectors generally displayed a slow rate of economic activity in 1975. Construction, which is an important source of employment, only seems to have attained a modest real rate of growth. Public sector construction, especially of school buildings and roads, accounted for most of the activity during the year. The real level of production of this sector was affected by various factors, including in particular the labour disputes which seriously upset the production of cement and building blocks and bricks. Further repercussions were caused by the transport difficulties due to the shortage of petroleum products on account of the labour problems in the oil industry, while there was also some shortage of labour on some construction projects.

The performance of tourism –an activity which is concentrated mainly in the island of Tobago– was adversely affected by the economic recession in the United States and Canada and the rise in the cost of air transport as a result of the higher fuel prices. The number of tourists grew only marginally in 1975 and –more important– it is unlikely that tourist expenditure went up in real terms. Fortunately, however, unlike most of the

English-speaking Caribbean countries Trinidad and Tobago does not depend very much on tourism for obtaining foreign exchange.

3. *The external sector*

In 1975 the country maintained the very sound external position which it had attained in 1974, and although the trade surplus and the surplus on current account were somewhat smaller than the year before, they were nevertheless quite large. Moreover, the reduction in the current account surplus was more than made up for by the bigger inflow of foreign capital, so that the overall balance-of-payments surplus was greater than in 1974. Since it has had appreciable balance-of-payments surpluses for two years' running, Trinidad and Tobago is in the unusual position of having one of the highest levels of reserves in Latin America, measured on the basis of its import requirements.

Before going into the external accounts in greater detail, it is worth contrasting the very favourable results shown by the balance of payments in 1974 and 1975 with the serious external problems experienced in previous years.

In 1970-1972 there were growing trade and current account deficits because of the slow evolution of export income and the relatively rapid increase in import needs. The growth rate of exports during this period suffered from the unfavourable repercussions of declining oil output, while imports grew markedly because it was necessary to satisfy the capital requirements connected with the programme for developing the country's oil resources and, to a lesser extent, the buoyant demand for consumer goods. Except in 1971, the inflow of capital was not enough to cover the current account deficit, and the balance of payments as a whole showed a deficit (see tables 298 and 300).

In 1973, the position as regards the trade balance improved appreciably, since exports increased because of the recovery in oil production while import requirements remained almost unchanged. All this was reflected in a marked reduction in the current account deficit from 155 million dollars in 1972 to the relatively modest sum of 19 million dollars in 1973. Even so, the balance of payments as a whole showed a deficit yet again because of the sharp drop in the net inflow of capital due to the decline in the foreign investment inflows with the completion of the major part of the oil industry development programme, the increase in amortization payments of the external debt, and the outflow of short-term capital because of the attraction of the higher rates of interest paid abroad and the expectation that there would be a devaluation of the national currency (see table 298). This balance-of-payments deficit was a factor in the drop in gross reserves at the end of the year to barely 47 million dollars —less than the amount needed to cover three weeks' import requirements.

The country's situation changed spectacularly in 1974, when the world price of oil trebled while at the same time the domestic production of crude continued its recovery. There was consequently a notable improvement in the trade balance. The value of exports rose by 187 per cent, due entirely to the higher prices of oil and sugar[193] (see table 299), and although at the same time there was a very marked increase of 135 per cent in the value of imports, most of this was due to the higher prices of the crude that was imported under the agreements for the refining of oil for subsequent re-export, since the value of imports other than crude increased at a much lower rate (38 per cent).

Thus, the merchandise trade account changed from a deficit in 1973 to a surplus of 383 million dollars in 1974. Thanks to the sound trade position, there was a current account surplus of slightly over 110 million dollars and this, together with the appreciable flow of foreign capital, resulted in the overall balance of payments having an unprecedented surplus of 335 million dollars.

The balance-of-payments position was equally sound in 1975, although the values of both exports and imports of goods were 15 per cent lower than in 1974. In both cases there was a marked drop in volume, compensated only partially by the increase in unit value (see table 299). As the reduction in absolute terms in export income was greater than the drop in imports, the merchandise trade surplus declined by 16 per cent, but even so the surplus of 322 million dollars thus recorded remained a very high figure compared with the period before 1974.

The partial figures available on trade indicate that the drop in the value of imports in 1975 was due entirely to the reduction in imports of crude under the oil-refining agreements. The value of these imports dropped by approximately 40 per

[193] The decline of 4 per cent recorded in the volume of exports reflected the smaller volume of exports of sugar and refined petroleum, partially compensated by the increase in exports of domestic crude.

Table 298

TRINIDAD AND TOBAGO: BALANCE OF PAYMENTS
(Millions of dollars)

	1970	*1972*	*1973*	*1974*	*1975*[a]
Current account					
Exports of goods and services	595	755	952	2 380	2 056
Goods FOB	503	595	720	2 069	1 751
Services	92	160	232	311	305
Transport	57	94	100	176	160
Travel	24	51	59	66	70
Imports of goods and services	611	843	882	1 948	1 680
Goods FOB	496	700	718	1 686	1 429
Services	115	143	164	263	251
Transport	78	109	99	193	173
Travel	23	27	24	25	28
Net payments of profits and interest on foreign capital	– 61	– 69	– 87	– 317	– 267
Profits	– 59	– 67	– 80	– 326	– 280
Interest	– 2	– 2	– 7	9	13
Net private transfer payments	2	2	– 2	– 2	– 2
Balance on current account	– 75	– 155	– 19	113	107
Capital account					
Net external financing (a+b+c+d+e)	75	155	19	– 133	– 107
(a) Net external non-compensatory capital	73	101	65	67	246
Direct investment	83	87	65	63	...
Long- and medium-term loans	8	24	34	35	...
Amortization payments	– 9	– 5	– 39	– 30	...
Short-term liabilities (net)	– 5	1	12	9	...
Official transfer payments	– 4	– 6	– 7	– 9	...
(b) Domestic non-compensatory capital or assets	1	7	3	– 64	...
(c) Errors and omissions	– 18	27	– 56	219	...
(d) Allocation of SDRs	7	7	–	–	...
(e) Net compensatory financing (minus sign signifies an increase)	12	13	7	– 335	– 353
Balance-of-payments loans, trade arrears, IMF loans, and other liabilities of the monetary authorities	–	–	–	–	...
Amortization payments	–	–	–	–	– 8
Foreign exchange reserves (minus sign signifies an increase)	16	13	– 1	– 328	– 342
Gold reserves (minus sign signifies an increase)	– 4	–	8	– 6	– 4
SDRs (minus sign signifies an increase)		–	–	– 1	1

Source: International Monetary Fund, *Balance of Payments Yearbook*, vol. 27.

[a] CEPAL, on the basis of official statistics.

Table 299

TRINIDAD AND TOBAGO: VARIATION IN THE TERMS OF TRADE AND IN THE VALUE VOLUME AND UNIT VALUE OF EXPORTS AND IMPORTS OF GOODS

(Annual growth rates)

	1971	*1972*	*1973*	*1974*	*1975*
Exports of goods					
Value	5.5	12.2	20.9	187.3	- 15.3
Volume	- 14.3	16.5	- 7.4	- 3.7	- 23.0
Unit value	23.1	- 3.7	30.6	198.5	10.0
Imports of goods					
Value	22.4	15.3	2.4	134.8	- 15.2
Volume	9.3	9.4	- 5.1	- 0.9	- 24.3
Unit value	12.0	5.4	8.0	137.0	12.0
Terms of trade	9.9	- 8.6	21.0	26.0	- 1.8

Source: CEPAL, on the basis of official data.

cent compared with 1974 because of a marked drop in their volume and perhaps also some decline in their unit price.[194] If petroleum and petroleum products are excluded, however, there was a very marked rise in the value of imports, especially of capital goods (see table 300). The volume was much greater than in 1974, and prices were also higher, although the average increase was appreciably less than in 1974 because of the reduction in the rates of inflation in the industrialized countries.

It would appear that the reduction in export income in 1975 was due mainly to the sharp fall in the volume of exports of refined petroleum products. The labour problems in the refining industry were a contributory factor in bringing about this lower volume. Although specific information on prices is not available, the reduction in the world demand for oil would suggest that on average oil prices remained at the same level as in 1974 or even went down slightly.

As regards crude, the bigger domestic production gives grounds for assuming that the volume of exports went up, but the unit price suffered from the same unfavourable market conditions which affected petroleum products.

The reduction in the income from exports of petroleum was compensated to some extent by the increase of over 40 per cent in the value of food exports, due mainly to the increased income from exports of sugar, which doubled in spite of a drop of 13 per cent in production. Sugar received the benefits of the prevailing high prices and in particular an export price guarantee offered by the European Economic Community.

In Trinidad and Tobago, the fluctuations in the terms of trade may be misleading in some cases, since the total value of imports of goods is strongly influenced by the value of imports of crude under the refining agreements. Thus, for example, the improvement in the terms of trade in 1974 (see table 299) was considerably under-estimated because when the world price of oil trebled this considerably inflated the average price of imports. In 1975, however, the world prices of oil varied relatively little, and this index gives a better indication of the real tendencies. It would therefore appear that after the marked improvement in the terms of trade in 1974, there was a moderate deterioration in 1975.

The behaviour of the other components of the current account was generally favourable. The traditional surplus on the non-factor services account increased by 11 per cent compared with 1974, since the net cost of freight, insurance and transport dropped and the net income with respect to travel showed a slight increase. Moreover, factor payments were 6 per cent lower than in 1974.

[194] The average world price of crude fell slightly in 1975.

Table 300

TRINIDAD AND TOBAGO: VALUE AND BREAKDOWN OF IMPORTS OF GOODS

	Millions of Trinidad and Tobago dollars at current prices (CIF)			*1974* [a]	*1975* [a]	*Percentage breakdown*		*Annual growth rates* [b]		
	1970	*1973*	*1974*			*1970*	*1975* [a]	*1971-1973*	*1974*	*1975*
Consumer goods	191	264	362	257	331	17.7	15.0	11.4	36.9	28.8
Intermediate goods [c]	790	1 098	3 202	2 307	1 523	72.9	68.9	11.6	191.8	- 34.0
Petroleum and fuels [d]	537	769	2 740	1 925	1 023	49.6	46.3	12.7	256.5	- 46.9
Other	253	329	462	382	500	23.3	22.6	9.2	40.6	29.8
Capital goods	102	169	257	185	356	9.4	16.1	18.2	51.9	92.8
Total	*1 083*	*1 531*	*3 821*	*2 749*	*2 210*	*100.0*	*100.0*	*12.2*	*149.6*	*- 19.6*

Source: Central Statistical Office of Trinidad and Tobago, *Quarterly Economic Report*, July-September 1975, table 17.

a January to September.

b Growth rates calculated on the basis of unrounded figures.

c Includes value of raw materials.

d Includes fuels, lubricants and additives.

These smaller out-goings reflected the reduction in remittances of profits, which is probably to be partly explained by the fact that the profits of the oil companies were affected by the strikes in the oil industry and by the deterioration of market conditions.

The transactions with respect to goods and services and private transfers were reflected in a current account surplus of 107 million dollars, which was approximately 5 per cent less than in 1974. The inflow of capital was even greater in 1975 than in the year before, however, and the overall balance-of-payments surplus increased by 6 per cent to 353 million dollars.[195]

The large balance-of-payments surpluses in 1974 and 1975 caused the country's gross international reserves to increase by 1,500 per cent in just two years. The reserves of US$ 750 million at the end of 1975 were sufficient to satisfy the country's import needs for over five months, and if the crude imported under the refining agreements is left out of the reckoning the reserves would have been sufficient to satisfy the country's import needs for almost nine months.

[195] Although little information is available, it is suspected that the net inflow of capital included considerable amounts of funds transferred for speculative reasons. In spite of the country's sound external position, the Trinidad and Tobago dollar was devalued by 16 per cent with respect to the United States dollar in 1975 (see table 302) because of its traditional link with the weakening pound sterling. This being so, it would not be surprising to find that appreciable financial resources entered the country in expectation of the abandonment of the link with the pound sterling and the revaluation of the Trinidad and Tobago currency.

4. *Prices, wages and employment*

Before 1972, the level of prices in the country was relatively stable, as reflected in the moderate average increase of 2.8 per cent per year in the consumer price index during the period 1969-1971. In the following years, however, the rate of inflation began to increase, reaching its peak in 1974 when the average annual increase in prices attained the unprecedented figure of 22 per cent (see table 301). Inflation continued to be a problem in 1975, although the average increase in prices was more moderate (17 per cent). The slackening in the rate of inflation can also be clearly observed by taking the changes in prices during the twelve month period ending in December: on this basis, the increase was 13 per cent compared with 19 per cent in 1974.

An important factor in the recent high rates of inflation has been the rise in the level of world prices. Since the country's economy is quite open (imports other than crude exceed 40 per cent of the gross domestic product), it is very vulnerable to imported inflation. Thus, the accelerated rate of increase of international prices in 1973-1974 caused a rapid rise in domestic prices, while

Table 301

TRINIDAD AND TOBAGO: EVOLUTION OF PRICES

	1971	*1972*	*1973*	*1974*	*1975*
Annual average growth rates					
Indice price index	3.5	9.3	14.9	22.0	16.9
Foodstuffs	4.6	11.5	19.0	30.0	16.9
December - December rates					
Consumer price index	5.0	8.2	24.3	18.6	13.4
Foodstuffs	5.1	10.8	34.5	21.7	12.2

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

similarly the slackening of the rate of inflation in the industrialized countries in 1975 helped to reduce the price rises in that year.

Another external factor which has aggravated inflation has been the depreciation of the Trinidad and Tobago dollar with respect to the United States dollar on account of the traditional link between the former currency and the weakening pound sterling (see table 302). This depreciation was quite marked in the second half of 1975, and by the last quarter of the year the exchange rate with respect to the United States dollar had suffered a deterioration of 14 per cent compared with the corresponding period in 1974. This influenced domestic prices in two ways: firstly, it raised the cost of imports from North America, which form an important part of the total non-crude imports, and secondly, since exports of petroleum (which are responsible for the bulk of total export income) are paid in dollars, it was necessary to issue ever-increasing amounts of national currency to deal with the inflow of income from oil exports this, is turn, tended to increase the domestic money supply more than if there had been fixed parity with the United States dollar.

Among the domestic factors which contributed to inflation was the deficient performance of the agricultural sector. The prolonged drought of 1972-1973 did a great deal of harm because it devastated crops and generated serious pressures on food prices. The more moderate fluctuations in the price index in 1975 were due primarilly to government controls on food prices, bigger subsidies granted on a wider range of products, and an increase in the production of agricultural foodstuffs for the domestic market.

Table 302

TRINIDAD AND TOBAGO:
EVOLUTION OF EXCHANGE RATE
(Trinidad and Tobago dollars per US dollar)

Period	*Exchange rate* [a]
1972	*1.92*
1973	*1.96*
1974	*2.05*
I	2.11
II	2.00
III	2.04
IV	2.06
1975	*2.17*
I	2.01
II	2.07
III	2.26
IV	2.35

Source: International Monetary Fund, *International Financial Statistics*, April 1976.

[a] Period average.

Generally speaking, fiscal and monetary trends have had expansionary effects and have helped to raise domestic prices.

The supply of money has been growing vigorously since 1970 (except in 1973). Thus, after increasing at an average annual rate of 6 per cent in 1967-1969 it grew at an annual rate of 20 per cent in the next three years, and after a contraction of 7 per cent in 1973 it increased by 32 per cent in 1974 and 54 per cent in 1975.

The main element behind the growth of the money supply at the beginning of the 1970s was the expansion of domestic credit, and particularly that granted to the Government. In 1974 and 1975, however, the public sector credit had a moderating influence, since the authorities made large net deposits in the banking system. In contrast, credit to the private sector increased by 12 per cent in 1974 and 34 per cent in 1975, and there was a very big increase in net international reserves, thus stimulating the expansion of the money supply (see table 303).

The fiscal results in recent years can be divided into two periods. The first of these began at the same time as the present decade, and in it the trend towards bigger expenditure, combined with the stagnation of income from petroleum, led to increasingly marked budget deficits which were financed mainly through domestic indebtedness: after being almost balanced in 1969, the budget showed a deficit of 124 million Trinidad and Tobago dollars (23 per cent of expenditure) in 1972. In 1973 fiscal policy was to some extent more restrictive, since the efforts made to contain expenditure and increase income brought about a reduction of 60 per cent in the total deficit.

In the second period, which began in 1974, there was a spectacular turnaround in the fiscal accounts, since the price of oil trebled while at the same time higher taxes were imposed on the income of foreign oil companies. Total fiscal income increased by 174 per cent in that year, mainly as a result of the increase of over 580 per cent in the tax income from the oil industry. As might be expected, the spectacular increase in

Table 303

TRINIDAD AND TOBAGO: MONETARY POSITION
(Millions of Trinidad and Tobago dollars)

	Balance at end of				*Annual growth rates*		
	1970	*1973*	*1974*	*1975*	*1971-1973*	*1974*	*1975*
1. *Money*	*144*	*195*	*259*	*400*	*10.6*	*32.5*	*54.6*
Currency outside banks	56	79	98	143	12.3	23.8	46.1
Demand deposits	88	116	161	257	9.7	38.7	59.9
2. *Factors of expansion*	*488*	*888*	*1 167*	*1 597*	*22.0*	*31.4*	*36.9*
Foreign assets (net)	81	54	765	1 733	– 12.3	1 306.1	126.5
Domestic credit	407	834	402	– 136	27.0	– 51.8	...
Claims on government (net)	76	159	– 326	– 1 086	27.7	...	(233.1)
Claims on official entities	5	90	74	70	169.8	– 17.8	– 5.5
Claims on private sector	326	585	654	880	21.4	11.9	34.5
3. *Factors of absorption*	*344*	*693*	*908*	*1 197*	*26.5*	*31.0*	*31.9*
Quasi-money (savings and time deposits)	338	616	817	1 021	22.1	32.6	25.0
Other items (net)	6	77	91	176	135.0	18.5	94.3

Source: International Monetary Fund, *International Financial Statistics*, May 1976.

income stimulated a marked expansion in spending and total expenditure increased by 65 per cent compared with an average annual increase of 13 per cent in the period 1971-1973 (see table 304).

Although the 1974 budget was expansionary, there can be no doubt that the authorities proceeded with moderation in formulating fiscal policy. While current expenditure increased by 40 per cent, capital expenditure rose by 152 per cent, as over half the total increase in expenditure was allocated to this latter account. The important point to note, however, is that 450 million Trinidad and Tobago dollars (53 per cent of the total increase in income) was retained as a budgetary surplus. A large part of this surplus was deposited in special funds which will subsequently be used for financing the government development programme.

The budget estimates for 1975 indicate maintenance of a sound fiscal position. The estimates provided for an increase of 16 per cent in current expenditure, partly because wages were due to rise by 12 per cent after having risen by 50 per cent in 1974. On the other hand, a slight reduction in capital expenditure was expected after the unprecedented increase of 1974. The estimates also foresaw another substantial budgetary surplus, although smaller than that in 1974 because it was assumed that income would fall slightly (see table 304). A significant portion of surplus resources was again to be deposited mainly in special development funds.

In 1975, domestic inflation made it necessary to raise wages and salaries in the public and private sectors. Moreover, many of the labour agreements in 1975 included machinery for automatic adjustments in line with movements of the retail price index. Such readjustment machinery is relatively new in Trinidad and Tobago as far as the fixing of wages is concerned, and it only came into general use in 1972, when the consumer price index underwent relatively marked fluctuations.

It is clear that the wage increases in the main unionized sectors in 1975 were considerably bigger than in previous years. Thus, for example, in three years wages in the big sugar mills rose by 100 per cent and in the two big oil companies by 57 per cent, while daily paid central and local government

Table 304

TRINIDAD AND TOBAGO: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Current values				*Annual growth rates* [a]		
	1970	*1973*	*1974*	*1975* [b]	*1971–1973*	*1974*	*1975*
1. *Total income*	*327*	*494*	*1 353*	*1 323*	*14.8*	*173.6*	*– 2.2*
Oil income [c]	84	129	883	879	15.3	583.2	– 0.4
Other income	243	365	470	444	14.6	28.7	– 5.7
2. *Current expenditure*	*266*	*419*	*586*	*680*	*16.4*	*39.9*	*16.0*
Wages and salaries	116	195	292	329	18.8	49.8	12.4
Other current expenditure	150	224	294	351	14.5	31.3	19.6
3. *Capital expenditure*	*111*	*124*	*312* [d]	*300*	*3.6*	*152.1*	*– 3.8*
4. *Total expenditure*	*377*	*543*	*898*	*980*	*12.9*	*65.5*	*9.1*
5. *Fiscal deficit (or surplus)* (3 – 4)	*– 50*	*– 48*	*455*	*343*	*– 1.1*	*–*	*– 24.6*
6. *Financing of deficit*	*50*	*48*	*– 455*	*– 343*	*– 1.1*	*–*	*– 24.6*
Domestic financing	58	45	45	35	– 8.1	– 0.9	– 21.7
External financing	8	66	137 [e]	15	104.5	108.0	– 89.1
Other	– 16	– 63	– 361 [f]	– 199 [g]	58.0	475.0	– 45.0
Deposits in especial funds			– 276	– 194	–	–	– 29.5

Source: Permanent Executive Committee of the Inter-American Economic and Social Council (CEPCIES), *The Economic and Social Development of Trinidad and Tobago.*

a Calculated on the basis of unrounded data.
b Budget estimates.
c Figure for 1974 includes 80 million TT dollars from sale of oil concessions; 1975 figure includes 30 million TT dollars from same source.
d Includes 94.4 million TT dollars for adquisition of financial assets of Shell Trinidad Ltd.
e Includes 94.4 million TT dollars for payment of debt contracted in order to acquire Shell Trinidad Ltd.
f Includes 69.6 million TT dollars for same purpose.
g Includes 24.8 million TT dollars for same purpose.

staff obtained increases of 53 per cent. The minimum wage rates for manual workers in all industries rose by an average of 20 per cent between May 1974 and May 1975, while the indexes for construction, sugar manufacturing and the food, beverages and tobacco industries rose by 29 per cent, 54 per cent and 19 per cent respectively.

The wages and salary increases obtained by the non-unionized workers in 1974 and 1975, in contrast, appear to have been considerably smaller, so that the inequality of income between these workers and the unionized workers may have become even greater.

Unemployment continued to run at the relatively high rate of around 15 per cent and was concentrated mainly in the under-25 age groups. High rates of unemployment are a chronic phenomenon in the English-speaking Caribbean countries, but Trinidad and Tobago, which has a solid financial base and possibilities of rapid growth, is in a better position than most of the countries of the region to solve this problem. Since it seems that most of the new industries which are to be set up under the government development programme are capital-intensive, they will probably not in themselves have a large impact on employment, except during the short period of construction activity. It would therefore appear that in order to secure an appreciable reduction in unemployment in the long term it is necessary to stimulate more succesfully the expansion of labour-intensive activities in agriculture and industry.

URUGUAY

1. *The overall picture*

In 1975 there was a considerable increase in the growth rate of the Uruguayan economy. The gross domestic product rose by 3.6 per cent and the per capita product by 2.6 per cent. However; because of a substantial decline in the terms of trade, gross income expanded by only 0.7 per cent. There was a significant slackening of the rate of inflation, but at the same time, there was an increase in the deficit on the current account of the balance of payments (see table 305).

This greater dynamism corresponded to the acceleration of the growth of manufacturing and construction and a moderate increase in agricultural activity. The service sectors, taken together, expanded at a rate similar to that of the previous year, while the rate of urban

Table 305

URUGUAY: MAIN SHORT-RUN ECONOMIC INDICATORS
(Annual growth rates)

	1971–1973	*1974*	*1975*
Gross domestic product	– 1.1	1.8	3.6
Gross income[a]	0.2	– 2.2	0.7
Per capita gross domestic product	– 2.1	0.8	2.5
Gross fixed investment	– 9.7	1.7	10.6
Value of exports	12.3	14.1	2.9
Value of imports	4.7	58.0	10.2
Terms of trade	15.8	– 41.5	– 26.4
Balance on current account[b]	– 16	–154	–212
Variation in international reserves[b]	14	– 10	– 43
Consumer price index[d]	67.4	107.2	66.8
Money[d]	63.1	62.5	53.5
Current income of government	64.7	58.8	67.6
Total expenditure of government	63.0	94.2	70.8
Fiscal deficit/total expenditure of government[e]	18.0	25.5	26.9
Wages and salaries[f]	54.5	74.6	66.4
Rate of unemployment[g]	8.1	...	8.0

Source: CEPAL, on the basis of official statistics.

a Gross domestic product plus terms-of-trade effect.
b Absolute values in millions of dollars at current prices.
c Average for three-year period 1971/1973.
d December to December.
e Percentage.
f Total wage-earners; nominal variations between annual averages.
g Figures for Montevideo at approximately the end of the first quarter.

unemployment remained at around 8 per cent of the labour force.

Exports of goods and services in dollars at current prices, rose by 3 per cent because of the vigorous development of non-traditional categories. On the other hand there was a decline in the country's traditional exports, particularly meat. The value of imports of goods and services rose by 10 per cent, while their volume increased by around 3 per cent after having declined by 5 per cent in 1974.

The evolution of the trade in goods and services in 1975 was a determining factor in the formation of a deficit exceeding 210 million dollars on the current account of the balance of payments. The net inflow of non-compensatory and compensatory capital came to only 185 million dollars, so that there was a drop in the level of the country's international reserves.

The rate of increase in domestic prices fell from 107 per cent in 1974 to 67 per cent in 1975. This fall in the rate of inflation was due to the reduced impact of imported inflation and to the application of stabilization measures –consisting mainly of a pause of approximately six months in exchange and wage adjustments– by the Government. Between 1974 and 1975 real wages and salaries diminished on average by around 8 per cent.

2. *Recent economic trends*

(a) *Global trends*

As already noted, there was an improvement in the growth rate of the Uruguayan economy in 1975. The gross domestic product rose by 3.6 per cent, which was double the rate of the previous year.

Table 306

URUGUAY: TOTAL SUPPLY AND DEMAND

	Thousands of Uruguayan pesos at 1970 prices			*Percentage breakdown*		*Annual growth rates*		
	1970	*1974*	*1975*[a]	*1970*	*1975*[a]	*1971-1973*	*1974*	*1975*[a]
Total supply	*688 716*	*672 476*	*695 050*	*112.5*	*111.3*	*– 1.2*	*1.3*	*3.4*
Gross domestic product	612 154	602 454	624 142	100.0	100.0	– 1.1	1.8	3.6
Imports	76 562	70 022	70 908	12.5	11.3	– 1.7	– 3.8	1.3
Total demand	*688 716*	*672 476*	*695 050*	*112.5*	*111.3*	*– 1.2*	*1.3*	*3.4*
Domestic demand	*617 080*	*612 746*	*620 549*	*100.8*	*99.4*	*– 2.1*	*1.4*	*1.3*
Gross domestic investment	70 030	61 838	61 838	11.4	9.9	– 3.4	– 1.8	–
Gross fixed investment	68 478	51 176	56 601	11.2	9.1	– 9.7	1.7	10.6
Construction	40 416	38 583	42 126	6.6	6.9	– 2.1	1.8	11.7
Machinery and equipment	28 062	12 593	13 475	4.6	2.2	– 23.5	1.2	7.0
Variation in stocks	1 552	10 662	5 237	0.2	0.8	–	–	–
Total consumption	547 050	550 908	558 711	89.4	89.5	– 0.3	1.8	1.4
General government	92 117	82 349	84 984	15.0	13.6	– 3.2	– 1.3	3.2
Private	454 933	468 559	473 727	74.4	75.9	0.2	2.3	1.1
Exports	*71 636*	*59 730*	*74 501*	*11.7*	*11.9*	*– 6.0*	*0.3*	*24.7*

Sources: 1970-1974: CEPAL calculations on the basis of figures supplied by the Central Bank of Uruguay; 1975: CEPAL estimates on the basis of information from the same source.

Note: 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.

[a] Preliminary figures.

This expansion contrasted with the average annual decline of approximately 1 per cent recorded by the product during the period 1971-1973. Taking into account the increase in the population (1 per cent a year), the per capita product grew by 2.6 per cent in 1975 (0.8 per cent in 1974) (see tables 305 and 306).

The very adverse evolution of the terms of trade for the second consecutive year was the cause of the increase of only 0.7 per cent in gross income; that unfavourable result followed a decline of 2 per cent in 1974.

There were some positive factors which helped offset the unfavourable effects of the evolution of the terms of trade and the world economic recession. The intensification of the policy of opening the Uruguayan economy to the exterior and rationalizing the prices mechanism made it possible to increase non-traditional exports substantially and this had favourable repercussions on industrial production, in addition to the greater inflow of currency it entailed. Furthermore, the economic policy applied was sufficiently stable and pragmatic to make it possible to allocate national and foreign resources for investment on more solid foundations than in previous periods.

The increases in construction activity and fixed capital formation were quite considerable, especially considering the prolonged stagnation of the Uruguayan economy. They resulted from the implementation of various large-scale public investment projects and the resumption of housing construction in areas of tourist attraction, and the direct and indirect effects of this development had a strong influence on the economy.

Total supply grew at a rather slower rate than the gross domestic product because the volume of imports of goods and services rose by only just over 1 per cent. This increase in purchases abroad, although small, nevertheless contrasted with the average decline during the period 1970-1974.

As regards total demand, the rate of domestic demand differed sharply from that of exports. Thus, while the former expanded by 1.3 per cent (a rate similar to that of 1974), the volume of the latter rose by about 25 per cent. This pronounced increase, which was a departure from the trend towards the contraction of sales to the exterior observed during the period 1970-1974, occurred in spite of the adverse export price trends.

In 1975, for the first time in many years, gross fixed investment stimulated economic activity by rising about 11 per cent, in contrast with an increase of less than 2 per cent in 1974 and an average annual decline of approximately 2 per cent in the period 1970 to 1973. Thus the ratio of fixed investment to the domestic product rose to 9 per cent, although that figure is well below the average for countries with a per capita income similar to that of Uruguay.

It is estimated that in 1975 the construction component of capital formation grew by around 12 per cent. The machinery and equipment component, for its part, is calculated to have increased by 7 per cent, taking into account the fact that imports of capital goods, expressed in dollars at current prices, are estimated to have increased by over 15 per cent (see table 312).

The recovery of investment in construction was influenced by the execution of a number of major public investment projects, particularly the Salto Grande hydroelectric plant and two road bridges linking Argentina and Uruguay (Fray Bentos-Puerto Unzué and Paysandú-Colón) which were financed jointly with Argentina. It may be noted that the Salto Grande project is very large-scale by Uruguayan standards and will therefore have widespread repercussions on domestic economic activity.

Another factor in this recovery was the construction of a substantial number of apartment blocks, especially in the tourist area of Punta del Este and the vicinity. Abundant private capital from neighbouring countries entered Uruguay for this purpose.

With regard to the sectoral distribution of investment, it would appear –on the basis of the partial information available– that there was a decline in capital formation in agriculture (especially in the permanent pastures sector and the acquisition of equipment in that connexion) and an increase in investment in manufacturing, especially in the sectors concerned with exports of non-traditional products. Both cases were influenced by the evolution of the relative prices in each sector and by the state of the international markets for agricultural and manufactured products. These aspects will be discussed in more detail further on.

In 1975 gross domestic investment, unlike fixed investment, did not increase because of the variations in the accumulation of stocks. In the course of the year the demand for stocks fell by half and this had a restrictive effect on domestic investment. The reduced accumulation of stocks in 1975 was largely due to the reduction of stocks of agricultural products because of the export of wool reserves from previous shearings and the decline in the number of cattle.

Table 307

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

	Thousands of Uruguayan pesos at 1970 prices			*Percentage breakdown*		*Annual growth rates*		
	1970	*1974*	*1975*[a]	*1970*	*1975*[a]	*1971-1973*	*1974*	*1975*[a]
Agriculture	67 164	62 589	63 372	12.6	11.6	– 2.6	0.8	1.3
Mining, Manufacturing	128 760	129 508	138 192	24.2	25.4	– 1.0	3.6	6.7
Construction	20 182	18 630	22 795	3.8	4.2	– 4.7	6.5	22.4
Subtotal goods	*216 106*	*210 726*	*224 358*	*40.6*	*41.2*	*– 1.8*	*3.0*	*6.5*
Electricity, gas and water	7 919	7 919	8 240	1.5	1.5	1.4	– 4.2	4.1
Transport and communications	45 496	47 915	48 473	8.6	8.9	0.4	4.0	1.2
Subtotal basic services	*53 415*	*55 834*	*56 713*	*10.0*	*10.4*	*0.6*	*2.8*	*1.6*
Commerce, financial establishments and insurance	91 603	87 490	91 346	17.2	16.8	– 2.5	3.2	4.4
Real estate [b]	27 436	28 303	28 363	5.2	5.2	1.0	0.1	0.2
Communal, social and personal services [c]	143 070	142 927	143 230	26.9	26.3	–	– 0.2	0.2
Subtotal other services	*262 109*	*258 720*	*262 939*	*49.3*	*48.3*	*– 0.8*	*1.0*	*1.6*
Total gross domestic product	*531 630*	*523 178*	*542 004*	*100.0*	*100.0*	*– 1.1*	*1.8*	*3.6*

Sources: 1970-1974: CEPAL calculations on the basis of figures supplied by the Central Bank of Uruguay; 1975: CEPAL estimates on the basis of official data.

Note: As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

[a] Preliminary figures.

[b] Refers to ownership of dwellings.

[c] Also includes restaurants, hotels and services provided to enterprises.

Total consumption and private consumption grew by just over 1 per cent, after having risen by around 2 per cent in 1974. General Government consumption, for its part, increased by approximately 3 per cent in contrast with its persistent decline during the period 1970-1974.

With regard to the employment situation, it is not possible to make an accurate assessment of the trend followed by the rate of unemployment on the basis of the information available in the country. It is only known that in the first quarter of 1975 the rate amounted to 8 per cent of the labour force in the city of Montevideo, which was similar to the average percentage recorded during the first half of each year during the period 1971-1973.

(b) *Sectoral developments*

There was an improvement in the growth rate of all the goods-producing sectors, without exception. Taken together, their share in the gross domestic product rose by 6.5 per cent in 1975, which was more than double the 1974 rate (3 per cent) and contrasted sharply with the average decline of nearly 2 per cent recorded in 1971-1973 (see table 307).

Agricultural production rose by over 1 per cent, compared with an increase of 0.8 per cent in 1974 and an average decline of 2.6 per cent in 1971-1973. This increase was due to the higher activity in the livestock sub-sector, which generates around two-thirds of the value added by agriculture (see table 308).

In the crop farming sub-sector production is calculated to have increased by 1 per cent in 1975, the biggest increases being in the harvests of wheat (77 per cent), rice (19 per cent), linseed (49 per cent) and sugar beet (32 per cent). However there was a substantial decline (31 per cent) in the maize harvest and it is estimated that the production of other sectors remained more or less unchanged.

The area sown with wheat increased by over 50 per cent between the crop years 1973/1974 and 1974/1975 (from approximately 300,000 to 450,000 hectares), in response to the Government's policy of providing incentives to this activity in the form of guarantees, support prices and adequate credit. The area sown with rice and sugar beet also expanded significantly for similar reasons. All in all, it is estimated that the area sown with the main crops increased from about 700,000 hectares to about 850,000 hectares.

The livestock sub-sector increased by 1.5 per cent because of the higher production of wool and milk. The output of wool increased because of the favourable climatic conditions and production rose by around 5 per cent although there was no increase in the sheep herd. Similarly, the increase in milk production (13 per cent) can be attributed almost enrirely to the relatively mild winter of 1975.

Beef production fell by just over 3 per cent because the reduced proportion of breeding cows in the total herd caused a decline in the number of calves born. The lower rate of reproduction and the increase in slaughtering (12 per cent) caused a decrease of about 2 per cent in the total herd. Despite the pronounced deterioration in relative

Table 308

URUGUAY: INDICATORS OF AGRICULTURAL PRODUCTION

	1970	*1973*	*1974*	*1975*	*Annual growth rates* *1971-1973*	*1974*	*1975*
Index of agricultural production (1961 = 100)	*116.8*	*107.9*	*108.7*	*110.0*	– 2.6	*0.7*	*1.3*
Crop farming	128.5	128.4	131.6	132.9	– 0.1	2.4	1.0
Stock-raising	105.4	97.6	97.2	98.7	– 2.6	– 0.4	1.5
Production of some important crops [a] (thousands of tons)							
Wheat	447	187	297	527	– 25.3	59.1	77.4
Maize	189	229	225	157	6.5	– 1.5	– 30.8
Rice	139	137	158	189	– 0.4	15.3	19.4
Linseed	90	30	26	39	– 30.9	– 10.8	49.4
Sunflower seed	52	71	48	51	10.7	– 32.0	6.2
Sugar beet	275	371	434	573	10.4	17.2	32.0
Indicators of stock-raising production							
Number of livestock (thousands of head) [b]	8 564	9 860	11 000	11 400	4.8	11.6	2.2 [c]
Number of animals slaughtered (thousands of head)	1 791	1 224	1 573	1 755	– 11.0	28.5	11.6
Percentage slaughtered	20.9	12.4	14.3	15.4	–	–	–

Source: Central Bank of Uruguay, on the basis of data supplied by the Ministry of Stock-raising and Agriculture.

[a] Agricultural year.

[b] Up to 30 June of each year.

[c] Variation between December 1974 and December 1975.

livestock prices,[196] there was no excessive slaughtering of stock, as is indicated by the figure for cattle slaughtering as a percentage of the total herd. This could be due, *inter alia,* to the fact that the capacity of the pasture lands was good because of the favourable climatic conditions prevailing, and especially to the fact that future increases in the real prices of meat were expected because of the probable improvement in international prices for the product.

Manufacturing also evolved favourably: in 1975 production increased by about 7 per cent, compared with an increase of less than 4 per cent in 1974 and an average decline of around 1 per cent during the period 1971-1973 (see table 309).

The textiles and tanneries sectors were the most dynamic, each growing by about 23 per cent. The expansion of these two activities was mainly due to the increase in exports made possible by the fiscal, commercial, credit and exchange incentives for non-traditional exports which were in force from 1975 onwards. Thus, the value of exports by tanneries and textile firms almost doubled between 1974 and 1975, rising from approximately 34 to about 60 million dollars.

The higher production of the food industry (8 per cent) was also influenced by the rise in exports, especially of oils, linseed "expellers" and milled rice, which were made possible by the increase in domestic production of the corresponding agricultural raw materials.

The increases in production of other categories of manufactures were linked with the higher demand resulting from the growth of construction. This was particularly so in the case of non-metallic mineral products and of various inputs used in construction.

[196] Other aspects of the trends in the prices of products of the agricultural sector will be discussed in the section on the evolution of prices.

Table 309

URUGUAY: INDICATORS OF MANUFACTURING PRODUCTION

	1970	1973	1974	1975	*Annual growth rates* 1971-1973	1974	1975
Index of manufacturing production (1961 = 100)	*119.3*	*116.4*	*120.7*	*128.8*	*– 0.8*	*3.7*	*6.7*
Food	136.8	122.3	131.4	141.9	– 3.7	7.4	8.0
Beverages	153.2	133.6	134.2	134.2	– 4.5	0.4	0.0
Tobacco	132.8	147.4	146.7	148.2	3.5	– 0.5	1.0
Textiles	91.8	87.2	88.8	108.9	– 1.7	1.8	22.6
Footwear and clothing	114.2	88.5	90.4	82.4	– 8.1	2.1	– 8.8
Paper and paper products	172.7	216.7	216.7	200.2	7.9	0.0	– 7.6
Printing and publishing	113.8	122.0	108.9	108.7	2.3	– 10.7	– 0.2
Rubber products	76.9	84.3	104.6	109.8	3.1	24.1	5.0
Chemical products	122.5	138.4	144.6	128.0	4.2	4.5	– 11.5
Petroleum derivatives	114.5	113.0	118.4	130.0	– 0.4	4.8	9.8
Non-metallic mineral products	155.6	192.5	209.1	218.9	7.4	8.7	4.7
Metal products	72.3	68.9	61.3	58.2	– 1.6	– 11.0	– 5.1
Electrical machinery	58.8	51.9	50.5	53.2	– 4.1	– 2.7	5.4
Tanning	–	–	–	–	–	–	22.5
Transport equipment	–	–	–	–	–	–	– 0.9
Miscellaneous industries	–	–	–	–	–	–	10.1

Source: Central Bank of Uruguay.

In some branches of manufacturing, however, there was no appreciable variation in production, or there was even a decline. This was the case with beverages, tobacco, footwear and clothing, paper and paper products, chemical products, metal products, transport equipment, and printing and publishing. Generally speaking these activities are almost entirely dependent on private domestic consumption, which remained almost unchanged between 1974 and 1975. Finally, the major purchases made in Argentina by Uruguayan tourists, taking advantage of the relatively high value attained by the dollar in the parallel market of that country, had a significant adverse effect on certain industrial sectors.

With regard to construction, judging by the information available on the trends in the production of cement and other inputs used for this activity it is estimated that in 1975 the gross domestic product of the sector rose by just over 22 per cent, which was three times the growth rate of the previous year and contrasted with the average decline of nearly 5 per cent a year during the period 1971-1973.

For their part, both basic services and other services grew by 1.6 per cent in 1975. Commerce and the electricity, gas and water sector showed significant increases compared with 1974 (see table 307).

3. *The external sector*

(a) *Foreign trade*

(i) *Exports. The merchandise trade*

The current value of exports of goods rose by only 1 per cent in 1975. This contrasts with the 16 per cent increase in this value in 1974 and also with the average expansion of nearly 30 per cent a year during the period 1972-1973. However, this decline in the growth rate was entirely due to the 21 per cent fall in the unit value of exports, expressed in dollars in current prices, since the volume rose by 28 per cent. This high rate was more than four times that of 1974 and contrasts sharply with the average decline of approximately 9 per cent recorded during the period 1971-1973 (see table 310).

In 1975 there was a drop of 24 per cent in the value of external sales of the products which have traditionally been the country's main categories of exports (meat, wool and hides); this meant that their share in total export sales fell to just under 50 per cent, compared with nearly 80 per cent in 1970 (see table 311).

Exports of meat declined by 41 per cent as the result of a fall of nearly 35 per cent in the average

Table 310

URUGUAY: VARIATION IN THE TERMS OF TRADE AND IN THE VALUE VOLUME AND UNIT VALUE OF EXPORTS AND IMPORTS OF GOODS
(Annual growth rates)

	1971	*1972*	*1973*	*1974*	*1975*
Exports of goods					
Value [a]	−12.2	23.0	35.4	16.4	1.0
Volume	−13.0	−5.2	−5.6	7.3	27.7
Unit value [a]	1.0	29.7	43.4	8.5	20.9
Imports of goods					
Value [a]	−0.1	−12.0	39.1	75.7	11.0
Volume	−1.3	−21.0	29.8	−5.2	3.3
Unit value [a]	1.3	11.4	7.2	85.3	7.5
Terms of trade	−0.3	16.5	33.8	−41.5	−26.4

Source: CEPAL, on the basis of official statistics.
[a] Calculated on the basis of figures in dollars at current prices.

Table 311

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

	Millions of dollars			*Percentage breakdown*		*Annual growth rates*		
	1973	*1974*	*1975*	*1970*	*1975*	*1971-1973*	*1974*	*1975*
Main export products	*245*	*252*	*192*	*78.0*	*49.7*	–	*2.9*	*– 24.1*
Wool	98	87	87	31.4	22.5	–	– 10.6	– 0.7
Meat	122	141	84	36.1	21.7	–	15.7	– 40.9
Hides	26	24	21	10.5	5.5	–	– 7.0	– 10.8
Other exports	*82*	*129*	*194*	*22.0*	*50.3*	–	*56.6*	*50.1*
Leather manufactures	10	19	41	1.7	10.6	–	86.5	110.8
Milled rice	15	28	33	1.6	8.5	–	88.0	16.3
Textile products	12	15	19	2.6	4.8	–	26.1	28.3
Cement and glass	3	6	12	1.5	3.2	–	61.8	121.8
Products for the automobile industry	4	10	12	0.4	3.2	–	127.9	26.5
Other products	38	52	77	14.2	19.9	–	36.6	48.7
Total	*328*	*382*	*385*	*100.0*	*100.0*	*13.5*	*16.4*	*1.0*

Source: Central Bank of Uruguay.

price obtained in the international markets (1,280 dollars per ton in 1974 but only 835 dollars in 1975) and a reduction of around 8 per cent in the volume exported. Although there was a slight improvement in sales to the European Economic Community, it was not possible to repeat the substantial sales made to Brazil and Argentina the previous year.

The value of wool exports in 1975 was almost the same as in 1974, although the average price obtained fell by over 30 per cent. There was a marked increase in the quantum exported (over 40 per cent) because of the rise of domestic production during the year and in particular the liquidation of wool stocks from previous shearings.

With regard to the export of hides, the value of sales declined by 11 per cent, but no separate information is available on the evolution of the unit value and quantum.

The total value of non-traditional exports rose by 50 per cent by 1975. This marked expansion, which was particularly significant for having taken place in a year of world recession, followed similar rises in 1973 and 1974; thus the total value of non-traditional exports more than trebled between 1972 and 1975, rising from under 60 million dollars to over 190 million dollars.

Many non-traditional export products grew rapidly, the most conspicuous being leather products, milled rice, various textile products, cement and glass, tyres and other products for the automobile industry, and also various articles of agricultural and manufacturing origin which are included under the heading "other products" in table 311).

The policy of encouraging non-traditional exports –which was consistent with the general development strategy adopted by the country since mid-1973– and the adoption of other complementary measures have undoubtedly had a favourable influence on the evolution of these exports. Thus, the favourable results achieved were the consequence of the gradual adoption of a series of measures during the period 1973-1975 and the appropiate utilization of the prices mechanism and rate of exchange as economic instruments.

The boom in this type of exports was due not only to the adoption of a policy of remunerative agricultural prices and periodic mini-devaluations but also to the application of a more liberal trade policy and to the introduction of the Industrial Incentives Act and the Export Promotion Act in 1974. Furthermore, the decisions taken on external trade helped to eliminate the administrative obstacles which prevented or hindered the expansion of industrial activities oriented towards the external market. Moreover, the Government facilitated the export of non-traditional products through trade exchange agreements with Argentina in 1974 and with Brazil in 1975. These agreements led to a considerable expansion of the market for national industry by opening up new export opportunities, in addition to those offered by the favourable conditions of demand for certain Uruguayan products in the international market.[197]

(ii) *Imports.* In 1975 the value of imports of goods rose by 11 per cent as a result of an increase of about 3 per cent in volume and of 8 per cent in unit value. Comparison of these figures with those of the previous year shows that the moderate increase in unit value was quite moderate, since in 1974 the steep increase in the international price of petroleum and the high share of fuels in the country's imports (approximately one-third of the total) caused an 85 per cent increase in unit value.

The composition of imports did not vary very much between 1974 and 1975. The various categories in table 312 showed similar increases to that of the total value of imports.

It should also be stressed that the economic policy was designed to maintain adequate supplies of imported products to prevent bottlenecks in the investment plans and in the provision of inputs for industry and the agricultural sector, as well as to help create the conditions of supply and competition necessary for the implementation of the anti-inflationary programme. To this end the Government was prepared to lose a reasonable amount of international reserves and it adopted various liberalization measures, including the elimination of import quotas and of the requirement to finance imports within certain time limits. Prior deposits, however, which were considered as an important instrument of monetary policy, were maintained almost until the end of the year and were finally abolished in December, when a 7 per cent tax (approximately equivalent to the financial cost of the prior deposits) was imposed on the value of imports, basically for fiscal purposes.

(iii) *The terms of trade.* The variations in the

[197] See CEPCIES, *Situación, principales problemas y perspectivas de la economía del Uruguay,* CEPCIES/135, 29 March 1976, pp. IV-4 to IV-12.

Table 312

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

	Millions of dollars				*Percentage breakdown*		*Annual growth rates*		
	Average 1971-1973	*1973*	*1974*	*1975*	*1970*	*1975*	*1971-1973*	*1974*	*1975*
Fuels and lubricants	*46*	*55*	*161*	*184*	*14.6*	*33.7*	*17.5*	*193.6*	*14.7*
Crude petroleum	36	45	141	164	11.7	30.0	18.2	215.4	16.1
Others	*196*	*230*	*326*	*362*	*85.4*	*66.3*	*5.3*	*41.7*	*11.1*
Vehicles and machinery	47	43	57	65	15.6	12.0	6.1	31.1	15.6
Raw materials and construction materials	110	144	217	297	41.7	54.3	14.3	50.7	10.2
Miscellaneous	39	43	53		28.1		- 12.6	22.6	
Total	*242*	*285*	*487*	*546*	*100.0*	*100.0*	*7.2*	*70.9*	*12.3*

Source: Central Bank of Uruguay.

Table 313

URUGUAY: BALANCE OF PAYMENTS
(Millions of dollars)

	1970	*1972*	*1973*	*1974*	*1975* [a]
Current account					
Exports of goods and services	290	311	410	468	481
Goods FOB	224	242	328	381	385
Services	66	69	82	86	96
Transport	8	9	12	13	15
Travel	43	45	43	45	50
Imports of goods and services	319	280	367	579	638
Goods FOB	203	179	249	437	485
Services	117	101	118	142	153
Transport	50	42	47	68	75
Travel	45	40	44	42	44
Net payments of profits and interest on foreign capital	– 25	– 24	– 25	– 43	– 55
Profits	– 2	–	–	–	–
Interest	– 23	– 24	– 25	– 43	– 55
Net private transfer payments	– 1	–	–	–	–
Balance on current account	– 55	7	18	– 154	– 212
Capital account					
Net external financing (a+b+c+d+e)	– 55	– 7	– 18	154	212
(a) Net external non-compensatory capital	24	64	6	167	
Direct investment	–	–	–	–	
Long- and medium-term loans	26	47	21	38	
Amortization payments	– 17	– 14	– 39	– 19	
Short-term liabilities (net)	5	19	5	126	138
Official transfer payments	10	12	19	22	
(b) Domestic non-compensatory capital or assets	18	– 6	34	31	
(c) Errors and omissions	– 26	– 60	– 31	– 96	
(d) Allocation of SDRs	9	8	–	–	–
(e) Net compensatory financing (minus sign signifies an increase)	30	– 13	– 27	52	74
Balance-of-payments loans, trade arrears, IMF loans, and other liabilities of the monetary authorities	42	31	54	82	47
Amortization payments	– 25	– 24	– 50	– 40	– 15
Foreign exchange reserves (minus sign signifies an increase)	13	– 37	– 27	12	13
Gold reserves (minus sign signifies an increase)	–	25	–	–	13
SDRs (minus sign signifies an increase)	–	– 8	– 4	– 2	16

Source: International Monetary Fund, *Balance of Payments Yearbook*, vol. 27.
[a] CEPAL estimates based on official data.

unit values of exports and imports in 1975 caused a deterioration of over 26 per cent in the terms of trade, after a decline of nearly 42 per cent in 1974 (see table 310). Over the last two years the deterioration of the terms of trade has been so severe that, despite the increases recorded in

1972-1973, the absolute level in 1975 was only 67, taking as the base index of 100 the average value recorded during the period 1960-1970. This decline shows clearly that in recent years the Uruguayan economy has been one of the Latin American economies most affected by the trends of international prices.

(b) *The balance-of-payments situation*

In the services trade (mainly transport and travel) it is estimated that in 1975 exports rose by nearly 12 per cent, while imports grew by less than 8 per cent. This, combined with the evolution of the merchandise trade already described, led to a rise of nearly 3 per cent in the value of exports of goods and services and of 10 per cent in that of imports of the same items. Thus the deficit on the trade in goods and services increased from 111 million dollars in 1974 to about 160 million in 1975 (see table 313).

This deficit was further increased by a rise of nearly 13 million dollars in net payments of profits. Thus the deficit on the current account balance of payments rose from 154 million dollars in 1974 to slightly over 210 million in 1975.

In order to finance this deficit the country had at its disposal a net inflow of non-compensatory capital amounting to nearly 140 million dollars. The issue of treasury bonds to a net value of over 100 million dollars accounted for a significant part of this influx. There was also a major inflow of foreign capital for the financing of short-term investment and capital, which largely reflected the policy of encouragement followed by the Government.

Furthermore, the country received net compensatory financing amounting to a total of 47 million dollars, mainly from credit operations with the International Monetary Fund. To make up the total it was necessary to utilize a total of 27 million dollars of net international reserves[198] (see table 313).

4. *Prices and other variables linked with the inflationary process*

(a) *Prices*

During 1975 the rate of increase in prices was significantly lower than in the preceding period, for the consumer price index showed a variation of less than 67 per cent compared with one of approximately 107 per cent in 1974. The rate of increase of food prices declined from 106 per cent in 1974 to 53 per cent in 1975 (see table 314).

[198] Gross international reserves declined by over 40 million dollars from 215 million dollars at the end of 1974 to approximately 170 million in 1975.

Table 314

URUGUAY: EVOLUTION OF DOMESTIC PRICES

	Prices indexes (annual average) 1970 = 100			*Annual growth rates (December to December)*				
	1973	*1974*	*1975*	*1971*	*1972*	*1973*	*1974*	*1975*
Consumer price index	*430.8*	*763.5*	*1 384.9*	*35.7*	*94.7*	*77.5*	*107.2*	*66.8*
Food	489.3	843.7	1 441.2	49.0	108.3	77.2	105.5	53.1
Wholesale price index	*492.2*	*879.6*	*1 516.2*	*40.0*	*114.6*	*91.7*	*87.5*	*65.4*
Agricultural products	578.3	934.7	1 377.9	61.6	141.0	81.3	54.9	35.5
Manufactures	460.8	858.9	1 564.0	32.1	102.8	97.2	103.4	75.9
Agricultural prices/ manufacturing prices	*125.5*	*108.8*	*88.1*					

Sources: Directorate – General of Statistics and Censuses; Central Bank of Uruguay.

The rate of increase in wholesale prices followed a similar downward trend (88 per cent in 1974 and 65 per cent in 1975), which was also more pronounced in the agricultural products sector (55 per cent in 1974 and 36 per cent in 1975). Thus, a comparison of the averages for 1974 and 1975 shows that the relative agricultural prices deteriorated by around 20 per cent, compared with prices for manufactures, and this decline is almost entirely attributable to the evolution of the prices of livestock products.

In considering the factors which affected the lessening of the rate of inflation a distinction should be made between the effects of imported inflation and the influence of the stabilizing policy.

The most salient aspect of the diminishing effect of imported inflation on domestic prices in 1975 was the rise of only about 8 per cent in the dollar unit value of imports, which was less than one-tenth of increase in 1974. This major decline was particularly significant for the domestic prices of imported products and of national goods with a high imported component.

At the same time the unit value of exports declined by 21 per cent after having risen by around 9 per cent in 1974 and by an annual average of over 35 per cent in 1972-1973. This decline, as well as being important in absorbing existing inflationary pressures on the global level, had a particularly significant stabilizing effect on certain agricultural products which are exported but for which there is also widespread domestic demand.

The case of meat was the most representative in this respect, since in addition to the above-mentioned factors the difficulties encountered in exporting this product and the high level of cattle stocks meant that there were abundant domestic supplies. Thus, during 1975 the average price of the vaious cuts of meat which make up the family shopping basket rose by around 28 per cent[199] in contrast with the increase of 67 per cent recorded in the consumer price index.

(b) *The prices and wages policy*

In general terms, the anti-inflationary strategy which had been applied since 1972 and readjusted in mid-1974 was further developed in 1975. Its main characteristics were flexibility in the prices mechanism and the "functional nature" of changes in both the level and system of prices. Thus rates of inflation considered acceptable by the authorities were generally tolerated in view of other economic policy priorities, particularly those of growth orientation and requirements.

In accordance with this criterion, the flexible policy on prices was maintained during 1975 and at the same time further adjustments were made in the prices and charges for goods and services supplied by public enterprises (particularly energy, transport and communications) and in rents. These measures corresponded to a fundamental objective of economic policy —that of restoring the relative prices of goods and services, which had fallen behind during the inflationary process in recent years. The purpose of this was to increase the proportion of auto-financing of public enterprises, to raise the cost of energy consumption, and to re-establish remunerative conditions of urban property ownership with a view to reviving the interest of the private sector in housing construction. As a result of this policy the costs of rents, fuels, electricity and other public services more than doubled during the year.

Furthermore, with a view to enhancing the role played by market forces in the allocation of resources, the process of eliminating subsidies on the prices of certain goods was continued and direct price controls were simplified.

In view of the evolution of the main real and financial variables of the economy the Government considered in advisable from April 1975 onwards to make some changes in the stabilization scheme it was applying. To that end it introduced a freeze in the periodic modifications of two basic cost factors: the exchange rate and wages.

Thus there were no further mini-devaluations in the commercial rate of exchange between the months of April and September, and the rate remained stable at 2.33 pesos per dollar. At the end of September, however, mini-devaluations were resumed in order to avoid imbalances in the system of prices and the fiscal-financial apparatus. The rate of exchange in fact rose by around 67 per cent between the end of 1974 and 1975, which was almost the same as the increase recorded for consumer and wholesale prices.[200] During 1973

[199] The rise in wholesale prices of beef amounted to only 2 per cent during the year.

[200] The rate of exchange on the financial market, which fluctuates widely on the basis of the supply and demand of foreign currency, rose by only 30 per cent between the end of 1974 and 1975 and remained relatively stable throughout the second half of 1975.

and 1974, in contrast, the devaluations of the national currency seem to have been lower than the relative variations in domestic prices (see table 315).

At the same time, as already noted, various measures aimed at reducing the cost of imported goods were adopted, including the abolition of the system of compulsory 180-day financing and the reduction of consular rates, and a free supply of imported goods was ensured by the abolition of import quotas.

No wage adjustments were authorized between the months of April and October 1975. In November an increase of 22 per cent was granted to workers in the private sector, and in December this was extended to employees in the public sector.

Table 315

URUGUAY: EVOLUTION OF EXCHANGE RATE AND PRICES

Period	Exchange rate [a] (pesos per dollar)		Wholesale price index [b]	
	Value	*Percentage variation*	*Value*	*Percentage variation*
End of:				
1971	0.37	48.0	269.4	40.0
1972	0.73	97.8	377.1	114.6
1973	0.94	28.0	809.2	91.7
1974	1.59	69.1	1 517.0	87.5
1975 (May)	2.33	46.5	1 946.5	28.3
1975 (Sept.)	2.33	46.5	2 083.2	37.3
1975 (Dec.)	2.66	67.3	2 510.3	65.4

Source: CEPAL, on the basis of official statistics.

[a] Corresponds to the commercial exchange rate.
[b] Of domestic products (1968 = 100).

Under this policy, according to the information available, there was a nominal increase of around 66 per cent in average wages and salaries in 1975. The rate for private sector employees was a little more than this, and that for public sector employees was a little less. Taking into account the rise in consumer prices, these nominal variations meant that average real wages fell by just over 8 per cent (nearly 8 per cent for private sector wages and around 9 per cent for public sector wages) in 1975 –a bigger decrease than in 1974 (see table 316).

Table 316

URUGUAY: EVOLUTION OF AVERAGE WAGES
(Annual growth rates) [a]

	1971-1973	*1974*	*1975*
Nominal			
Total wage-earners	54.5	74.6	66.4
Public sector wage-earners	54.2	72.7	65.5
Private sector wage-earners	54.6	76.4	67.1
Real [b]			
Total wage-earners	–5.1	– 1.4	– 8.3
Public sector wage-earners	–5.2	– 2.5	– 8.8
Private sector wage-earners	–5.0	– 0.4	– 7.9

Source: Directorate -- General of Statistics and Censuses.
[a] Between annual averages.
[b] Deflated on the basis of the consumer price index.

The effects of the exchange rate and wages freeze were discernible in the short-term evolution of the price indexes. During the period of approximately six months when the freeze was in force, the average monthly rises in consumer and wholesale prices declined to approximately 3 per cent and just over 2 per cent respectively. These figures were around half the average monthly rise in prices during the six months preceding the date when the exchange rate and wages freeze came into effect. In November and December, however, the rate of inflation reverted to levels similar to those recorded at the beginning of the year.

(c) *Fiscal developments*

The most salient feature of the central government finances was the growth of 68 per cent in nominal current income, which is equivalent, in constant-value national currency, to a decline of nearly 8 per cent.[201] This trend was influenced by the slower rise in taxes on foreign trade, which amounted to only 15 per cent in current values and was mainly due to the reduction in taxes on

[201] Using as a deflator the consumer price index, which rose by 81.4 per cent as between the 1974 and 1975 averages.

exports of meat and wool introduced by the Government in an effort to allay the unfavourable repercussions for producers of the decline in the international prices of these products. Taxes on imports, expressed in constant-value national currency were also reduced in the context of the import liberalization measures introduced during the year.

Current revenue from domestic activity rose by 78 per cent, which is a rate close to the increase in consumer prices. The tax on the minimum assessed productivity of land (IMPROME) did not yield as much as had been expected in the budgetary estimates because of the decline in the revenue from the livestock sector. Furthermore, the revenue derived from the value added tax does not seem to have risen as much as was originally calculated by the authorities when estimating the probable increases in domestic prices and production.

Current fiscal expenditure rose by 70 per cent, which was slightly more than the increase in revenue. In the wages and social security category the increase amounted to approximately 73 per cent, while other current expenditure rose by 61 per cent. The decline of over 11 per cent in this latter category in terms of constant values was largely due to the efforts made by the Government to reduce subsidies to the private sector and transfers to the public enterprises (see table 317).

As a result of the trends in revenue and current expenditure, central government dissaving rose by 80 per cent between 1974 and 1975, amounting in

Table 317

URUGUAY: CENTRAL GOVERNMENT INCOME AND EXPENDITURE [a]

	Millions of pesos				*Annual growth rates*		
	1970	*1973*	*1974*	*1975*	*1971-1973*	*1974*	*1975*
1. *Current income*	*82.9*	*370.2*	*587.9*	*985.5*	*64.7*	*58.8*	*67.6*
Taxes on external trade	17.0	77.5	94.3	108.9	65.8	21.7	15.3
Other taxes and non-tax revenue	65.9	292.7	493.6	876.6	64.4	68.6	77.6
2. *Current expenditure*	*85.0*	*372.2*	*709.4*	*1 203.8*	*63.6*	*90.6*	*69.7*
Wages and social securities	57.5	255.7	499.1	865.9	64.4	95.2	73.5
Other curent expenditure	27.6	116.5	210.3	337.9	61.6	80.5	60.7
3. *Saving on current account* (1 – 2)	*– 2.1*	*– 2.0*	*– 121.5*	*– 218.3*	...	...	*79.7*
4. *Investments*	*8.5*	*34.3*	*80.1*	*145.0*	*59.2*	*133.5*	*81.0*
5. *Total expenditure* (2 + 4)	*93.5*	*406.5*	*789.5*	*1 348.8*	*63.0*	*94.2*	*70.8*
6. *Fiscal deficit (or surplus)* (3 – 4)	*– 10.6*	*– 36.3*	*– 201.6*	*– 363.3*	...	...	*80.2*
7. *Financing of deficit*	*10.6*	*36.3*	*201.6*	*363.3*	...	...	*80.2*
Domestic financing (net)	9.5	28.2	200.6	362.7	43.6	611.3	80.8
Central Bank and Bank of the Republic	(3.3)	(20.9)	(53.8)	(95.2)	(85.0)	(157.4)	(77.0)
Issue of securities	(5.8)	(9.8)	(113.8)	(258.7)	(19.1)	(1 061.2)	(127.3)
Other	(0.4)	(– 2.5)	(32.9)	(8.8)	(...)	(...)	(...)
External financing (net)	1.1	8.1	1.0	0.6	94.5	– 87.7	– 40.0

Source: Central Bank of Uruguay, on the basis of data supplied by the Office of Accounts and General Treasury of the Nation.

[a] Actual income and expenditure (Treasury accounts).

the latter year to about 220 million pesos (approximately 100 million dollars). The relative importance of this deficit, which arose entirely between 1973 and 1975, is significant because it is equivalent to around a quarter of the country's gross fixed investment in 1975.

Fiscal investment grew by 81 per cent after having risen by 134 per cent in 1974, so that in real terms expenditure in 1975 was still about one-third higher than in 1973. This rise in government investment was mainly due to three major investment projects in energy and transport: the hydroelectric plant at Salto Grande and the two international bridges linking Argentina and Uruguay.

During 1975 as a whole the cash movements of the central government generated a total deficit of slightly over 360 million pesos (some 160 million dollars), which was equivalent to 27 per cent of total government expenditure, compared with a proportion of 26 per cent in 1974 and an average annual rate of 18 per cent in 1971-1973 (see table 305).

Nevertheless, the monetary and inflationary constraints which could have been created by the relative size and rapid growth of the fiscal deficit were lessened by the change in the composition of the financing of this deficit. In 1975, as already mentioned, there was a net issue of readjustable Treasury letters and bonds amounting to nearly 260 million pesos (127 per cent more than in 1974) and this meant that there was no need for the government to increase in real terms its utilization of net credit from the Central Bank and the Bank of the Republic. At the same time the external financing utilized by the Treasury declined to less significant levels than in 1974 (see table 317).

(d) *The monetary picture*

Between the end of 1974 and the end of 1975 the supply of money grew by just over 53 per cent, so that the level of real liquidity of the economy fell by around 8 per cent. During 1974 the increase in the means of payment amounted to 63 per cent and real liquidity diminished by about 22 per cent (see tables 314 and 318).

The factors of monetary expansion, taken together, increased by 64 per cent during 1975. However, total domestic credit and credit to the private sector rose by 80 per cent and 75 per cent, respectively: i.e., they increased by more than the rise in domestic prices (67 per cent). This situation of relatively easy credit contrasted with that of 1974 when, although there was a rise of about 110 per cent in prices, total domestic credit and credit to the private sector both rose by less than 80 per cent. On the other hand, however, the increase in credit to the government amounted to a little over 100 per cent in 1974 and 74 per cent in 1975.

In 1975 domestic credit was able to expand in real terms because there was a significant decrease in the net international reserves of the monetary system, combined with a bigger balance-of-payments deficit, as already described. This loss of reserves made it possible to absorb about a quarter of the increase in total domestic credit.

Furthermore, savings and time deposits, which more than doubled and which increased at more than twice the rate recorded in 1974, represented a particularly important factor of absorption. The policy followed on interest rates, which consisted of determining positive real "passive" rates for the tapping of quasi-money resources by the banking system, was the predominant influence in this development. Thus, the share of institutionalized financial savings grew to the detriment of other forms of tapping funds.

At the same time, the rates of interest collected in respect of credit operations (i.e., the "active" rates of interest) also became more favourable in real terms, for the first time in 15 years. Thus, the demand for credit was to some extent contained and speculative uses financed by banking placements, including the acquisition of foreign currency on the parallel market, were discouraged.

The increased monetary resources which entered the banking system in the form of sight and time deposits made it necessary nevertheless to adopt some measures to prevent the excessive growth of domestic credit. To that end, from 1 January 1975 onwards the cash reserve required for increases in deposits recorded after that date was raised to 40 per cent. In October, however, this figure was reduced by half for time deposits, so as not to discourage commercial banks from securing this type of deposit. Finally, at the end of the year the system of bank cash reserves was reorganized and at the same time efforts were made to facilitate the financing of the central government deficit.[202]

[202] On 30 December a system of flat cash reserve rates of 40 per cent for sight deposits and 20 per cent for time deposits for one year or longer was introduced. At the same time, it was decided that private banks must maintain portfolios of public securities in the amount of at least 19 per cent or their deposits in national currency, while 11 per cent of the deposits must be made up of national-currency Treasury bonds.

Table 318

URUGUAY: MONETARY POSITION
(Millions of pesos)

	Balance at end of			Annual growth rates		
	1973	*1974*	*1975*	*1971-1973*	*1974*	*1975*
Money	*331*	*538*	*826*	*63.1*	*62.5*	*53.5*
Currency outside banks	202	316	470	51.2	56.5	48.8
Demand deposits	129	222	356	93.1	71.7	60.0
Factors of expansion	*636*	*996*	*1 637*	*39.1*	*56.6*	*64.2*
Foreign assets (net)	49	– 47	242	–	–	–
Domestic credit	587	1 043	1 879	31.6	77.6	80.1
Claims on government (net)	(100)	(202)	(351)	35.6	102.5	73.9
Claims on official entities	(14)	(–10)	(35)	–	–	–
Claims on private sector	(473)	(851)	(1 493)	33.4	78.9	75.4
Factors of absorption	*305*	*458*	*811*	*24.0*	*50.3*	*76.8*
Quasi-money (savings and time deposits)	209	316	676	28.2	50.9	114.0
Importers' deposits and funds in trust	84	155	137	83.3	85.4	– 12.0
Long-term foreign borrowing	25	37	45	27.2	45.5	22.0
Other items (net)	– 13	– 50	– 47	–	–	–

Source: Central Bank of Uruguay.

VENEZUELA

1. *Introduction and summary*

In 1975 the Venezuelan economy experienced its highest rate of growth in recent years. Furthermore, this growth was accompanied by a marked slowing down in the rate of inflation. The external accounts, on the other hand, weakened with respect to 1974 because of a sharp dip in export earnings and a large increase in imports for the second consecutive year. Despite significant erosion of its surplus position, however, the country's balance of payments continued to be highly favourable.

The gross domestic product expanded by 6.6 per cent in 1975, i.e., 3.6 per cent more than the population growth. This compares with a growth of 4.5 per cent in 1974 and an average growth of slightly more than 4 per cent per annum in the period 1971-1973. Gross income, on the other hand, suffered a decline of 12 per cent owing to a sharp deterioration in the terms of trade, but this loss offset only a part of the extraordinary gains achieved in preceding years (see table 319).

Sectoral development in 1975 followed approximately the same trends as in 1974, when the sectors producing for the domestic market expanded very rapidly, while output of the export-oriented petroleum sector underwent a severe contraction. In 1975, however, the expansion of the sector producing for the domestic market and the contraction of the export sector were considerably more marked. Accelerated growth in the former was spearheaded by

Table 319

VENEZUELA: MAIN SHORT-RUN ECONOMIC INDICATORS

(Percentage annual growth rates)

	1971–1973	1974	1975
Gross domestic product	4.1	4.5	6.6
Gross income [a]	9.0	45.4	–12.0
Per capita gross domestic product	1.1	1.6	3.5
Gross fixed investment	13.4	–5.5	15.0
Value of exports	27.0	170.2	–26.7
Value of imports	13.5	46.2	40.0
Terms of trade	19.0	141.0	–17.0
Balance on current account [b c]	251	6 228	3 100
Variation in international reserves [b c]	423	4 075	2 348
Consumer price index [d]	3.9	11.6	8.0
Money	18.4	40.8	53.0
Current income of government	17.0	160.7	–5.0
Total expenditure of government	13.1	185.9	–6.2
Fiscal surplus/total expenditure of government [e]	–	0.1	2.1

Source: CEPAL, on the basis of official statistics.

[a] Gross domestic product plus terms-of-trade effect.
[b] Absolute values in millions of dollars at current prices.
[c] Average for three-year period 1971-1973.
[d] December to December.
[e] Percentage.

sharply increased output in agriculture and manufacturing.

The weakening of the external sector was largely due to a 17 per cent deterioration in the terms of trade, combined with a smaller volume of exports and a larger volume of imports.

The value of exports of goods declined by 27 per cent in 1975, following the extraordinary increase of 170 per cent in 1974. Earnings fell because the economic recession in the industrialized countries led to a contraction in the volume of petroleum exports and a moderate decline in their unit price, which had increased threefold in 1974. Meanwhile, increased volume and prices caused imports to expand by 40 per cent, which was not much less than the exceptional rate of 46 per cent in 1974.

A 50 per cent reduction in the surplus on the trade account contributed to a similar reduction in the current account surplus. However, the surplus remained large, both in absolute terms (3.1 billion dollars) and relative to trends in the current account prior to 1974. At the same time, outflows of capital decreased, permitting a large accumulation of reserves for the second consecutive year, but the increase of 2.3 billion dollars was considerably less than that of around 4.1 billion dollars in 1974.

Price increases in 1975 remained high for a country with a tradition of price stability, but the rate of increase was less than in 1974. The average rise in wholesale prices was 13.6 per cent, compared with 16.5 per cent in 1974. The slowing down of inflation is even more apparent from the fact that the rise in wholesale prices in the 12-month period ending December 1975 was less than half that for the corresponding period of 1974. The average increase in consumer prices was slightly higher than in 1974, but price increases grew less intense towards the end of the year, finally giving an 8 per cent rise in prices between the end of 1974 and December 1975 (see table 319). The improved inflationary picture was due to a marked slowing down of the rate of increase in the prices of imported goods, and to government measures designed in some degree to insulate domestic prices from the full impact of strongly expanded demand and monetary liquidity.

Current income of the government declined by 5 per cent in 1975, after an increase of 161 per cent in 1974. The reduction reflected a 12 per cent fall in revenue from the petroleum sector, which was partially cushioned by a notable gain in revenue from non-petroleum sources. Notwithstanding the fall in 1975, current fiscal income remained roughly one-and-a-half times larger than it was in 1973.

The unprecedented rise in revenue in 1974 led to a similar increase in budgetary outlays. Total government spending was cut back by 6 per cent in 1975, but still remained very high in relation to 1973. The Government continued the practice, first begun in 1974, of depositing resources that could not be safely absorbed by the economy in the Venezuelan Investment Fund (FIV). However, the shortfall in anticipated petroleum receipts caused the contribution to the Fund to be roughly 40 per cent less than the amount envisaged at the beginning of the year.

The Fund's resources totalled the equivalent of 5.2 billion dollars by the end of 1975. Most of these resources have been placed abroad in short-term bank deposits and foreign government securities that will earn income until the resources can be repatriated to finance priority development projects. A significant proportion of FIV's resources, however, has been used to provide assistance to multilateral lending institutions and governments in the region. By the end of 1975, commitments deriving from international assistance of this type exceeded 2.7 billion dollars.

Finally, it should be noted that in 1975 Venezuela accomplished its goal of bringing key economic sectors under national control. The iron ore industry was nationalized at the beginning of 1975, and final preparations were made during the year for the State take-over of the petroleum industry in January 1976.

2. *Recent economic trends*

(a) *Global trends*

In 1975 the Venezuelan economy registered a vigorous economic expansion. As noted earlier, the GDP increased by 6.6 per cent in real terms, which is considerably higher than the rate of growth in 1974 (4.5 per cent) and the average annual rate for the period 1971-1973 (4.1 per cent). With the population growing at a rate of about 3 per cent annually, there was also a notable gain of 3.5 per cent in the per capita product.

While real output expanded at its highest rate in recent years, gross income suffered a 12 per cent decline due to the higher prices paid for imports and a modest erosion of export prices. However, the loss of income offset only part of the gains achieved in preceding years (particularly 1974, when a threefold increase in petroleum prices contributed to an extraordinary rise of 45 per cent in gross income), and even after the decline in 1975, gross income that year was 32 per cent higher than the GDP and 28 per cent higher than the level of income in 1973.

The growth of the product in 1975 was accompanied by a very rapid expansion of imports of goods and services. The volume of imports rose by 16 per cent compared with the increase of 19 per cent in 1974. Both rates of growth are far superior to those previously experienced (imports rose by an average of 4 per cent annually in the years 1971-1973) and reflected higher levels of national income and an ample availability of foreign exchange. The higher level of imports, coupled with the increased production of goods and services, contributed to a very rapid expansion of aggregate supply (see table 320).

In the growth of aggregate demand, the domestic and external sectors put up very different performances. While domestic demand grew rapidly in 1975 (13 per cent), the volume of exports declined sharply (20 per cent). The pattern had been similar, although somewhat less accentuated, in 1974. In that year domestic demand expanded by 10 per cent and the volume of exports fell by 7 per cent.

The dramatic growth of consumption –public as well as private– was a key factor behind the upsurge of domestic demand in 1975. Consumption expenditure rose by 13 per cent or more than three times the average annual increase recorded for the period 1971-1973, but the increase was less than in 1974, when consumption grew by an unprecedented 16 per cent. The factors encouraging consumption expenditure in 1975 were similar to those prevailing in 1974: higher

Table 320

VENEZUELA: TOTAL SUPPLY AND DEMAND

	Millions of bolívares at 1970 prices			*Percentage breakdown*		*Annual growth rates*		
	1970	*1974*	*1975* [a]	*1970*	*1975* [a]	*1971–1973*	*1974*	*1975* [a]
Total supply	*62 003*	*74 818*	*80 986*	*119.3*	*124.0*	*4.2*	*6.9*	*8.2*
Gross domestic product	51 991	61 250	65 292	100.0	100.0	4.1	4.5	6.6
Imports	10 012	13 568	15 694	19.3	24.0	4.5	18.8	15.7
Total demand	*62 003*	*74 818*	*80 986*	*119.3*	*124.0*	*4.2*	*6.9*	*8.2*
Domestic demand	*48 888*	*63 102*	*71 628*	*94.0*	*109.7*	*5.5*	*9.9*	*13.5*
Gross domestic investment	14 415	18 245	20 976	27.7	32.5	9.1	– 2.6	14.9
Gross fixed investment	11 325	15 631	17 976	21.8	27.5	13.4	– 5.5	15.0
Public	3 061	4 817	6 402	5.9	9.8	24.3	– 16.6	32.9
Private	8 264	10 814	11 574	15.9	17.7	9.0	0.6	7.0
Total consumption	34 473	44 857	50 652	66.3	77.6	3.9	16.0	12.9
General government	6 889	9 616	10 626	13.3	16.3	6.3	16.1	10.5
Private	27 584	35 241	40 026	53.0	61.3	3.3	15.9	13.6
Exports	*13 115*	*11 716*	*9 358*	*25.2*	*14.4*	*– 1.3*	*– 7.1*	*– 20.1*

Sources: 1970-1974: CEPAL calculations on the basis of figures supplied by the Central Bank of Venezuela; 1975: CEPAL estimates on the basis of official data.

Note: 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.

[a] Preliminary figures.

national wage and salary scales,[203] ample availability of credit and a relatively high level of public expenditure.

The sharp expansion of gross domestic investment in 1975 (15 per cent) represented a recovery from 1974, a year in which public investment fell by 17 per cent and private investment showed practically no growth. Public investment displayed a more marked reaction, rising by 33 per cent, while private investment rose by 7 per cent. The resurgence of investment activity reflected the development of the physical infrastructure, especially roads and irrigation systems, and the initiation of important industrial and agricultural projects. Investment in the latter area was facilitated by an ample supply of credit for purchases of capital goods.

The revival of public investment in 1975 is significant because it marks the initial states of a programme designed to channel the country's accumulating oil wealth into investments that will help to diversify and decentralize the national economy.

(b) *Sectoral developments*

Since 1971, Venezuela's development has been characterized by a vigorous expansion of sectors producing for the domestic market and a steady contraction of the export-oriented petroleum industry (see table 321). The diverging growth trends were particularly accentuated in 1974,

[203] In the period 1974-1975 the authorities took a number of measures designed to raise the levels of income and employment, which include regular wage adjustments, tax relief for low- and medium-income workers, and legislation requiring firms with 10 or more employees to increase their work force by 5 per cent.

Table 321

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

	Millions of bolívares at 1970 prices			*Percentage breakdown*		*Annual growth rates*		
	1970	*1974*	*1975* [a]	*1970*	*1975* [a]	*1971–1973*	*1974*	*1975* [a]
Agriculture	3 682	4 253	4 640	7.5	7.4	2.4	7.6	9.1
Petroleum	10 959	8 868	7 431	22.3	11.9	– 2.8	– 11.9	– 16.2
Extraction	9 132	7 472	...	18.6	...	– 2.4	– 11.8	...
Refining	1 827	1 396	...	3.7	...	4.2	– 12.5	...
Mining (excluding petroleum)	717	976	956	1.5	1.5	5.8	15.9	– 2.0
Manufacturing	5 584	7 421	8 378	11.4	13.4	6.8	9.0	12.9
Construction	1 984	2 928	3 338	4.0	5.3	16.7	– 7.1	14.0
Subtotal goods	*22 926*	*24 446*	*24 743*	*46.6*	*39.6*	*2.7*	*– 1.5*	*– 1.2*
Electricity, gas and water	827	1 209	1 356	1.7	2.2	9.3	12.0	12.2
Transport and communications	5 144	7 049	7 937	10.5	12.7	7.0	11.8	12.6
Subtotal basic services	*5 971*	*8 258*	*9 293*	*12.2*	*14.9*	*7.3*	*11.9*	*12.5*
Commerce, restaurants and hotels	5 444	6 479	7 030	11.1	11.3	3.2	8.2	8.5
Financial establishments, insurance and real estate	6 288	7 737	21 340	12.8	34.2	5.4	5.1	9.5
Communal, social and personal services	8 514	11 745		17.3		7.1	12.2	
Subtotal other services	*20 246*	*25 962*	*28 370*	*41.2*	*45.5*	*5.5*	*9.1*	*8.9*
Total gross domestic product	*49 143*	*57 894*	*61 715*	*100.0*	*100.0*	*4.1*	*4.5*	*6.6*

Sources: 1970-1974: CEPAL calculations on the basis of figures supplied by the Central Bank of Venezuela; 1975: CEPAL estimates on the basis of data supplied by the Central Office for Planning and Co-ordination (CORDIPLAN).

Note: As the individual activities and the totals were calculated independently, the sum of the former does not correspond exactly with the latter.

[a] Preliminary figures.

when the sectors producing for the domestic market had a combined growth rate of 7 per cent and the real product of the petroleum sector declined by 12 per cent. The trend accelerated still further in 1975, when the sectors associated with the domestic market expanded by 11 per cent, while the petroleum industry underwent a contraction of 16 per cent.

The sharply differing performance of the domestic and external sectors in 1974 and 1975 reflect the effects of a development strategy aimed at broadening the base of the national economy and thus freeing the country from its traditional dependence on petroleum. An integral part of the strategy is the rapid expansion of agricultural output. Priority has also been assigned to another key sector, i.e., manufacturing, for which an ambitious programme has been prepared with the aim of developing large-scale heavy industries for the production of steel, aluminium, petrochemicals and ships.[204] Petroleum is not neglected in

[204] Since these industries are energy-intensive, the authorities expect output to be sufficiently competitive to penetrate export markets.

the overall strategy, but it is the Government's intention to conserve the country's limited petroleum resources in order that the sector may continue to be an effective source of financial resources.

The influence of the aforementioned strategy can be seen not only in the broad evolution of the economy, but also in the performance of the individual sectors.

(i) *Petroleum.* In 1975 the production of crude suffered its most severe contraction in recent years. The average output of 2.35 million barrels a day was 21 per cent less than in 1974. This followed a 12 per cent reduction in 1974 and an average decline of 3 per cent per annum in the period 1971-1973. The fall in production of petroleum products was even more severe, amounting to 28 per cent, or more than three times the decline experienced in 1974 (see table 322).[205]

The annual decline in petroleum production since 1971 (except in 1973), has led to a striking decline in the participation of petroleum in the sectoral structure of the GDP (see table 321). However, when the GDP is measured in current prices, the opposite is the case; petroleum's share in the total product rose from 18.5 per cent in 1970 to almost 23 per cent in 1973 and then jumped to over 38 per cent in 1974. This reflects the fact that increases in petroleum prices during the period –especially the threefold rise between 1973 and 1974– more than offset the declines in output, so that the value added in the petroleum industry rose faster than the total value added, even in the face of increasing prices and output for the latter. The petroleum sector's share slipped somewhat in 1975, however, as lower prices and output in that sector, contrasted with higher prices and output in the domestic sectors, caused petroleum's contribution to the GDP at current prices to fall by approximately 30 per cent.

The reduced level of output in 1975 (and 1974 as well) was a consequence of sharply depressed world demand for petroleum products and the Government's policy –like that of several other OPEC members– of sacrificing sales volume rather than reducing prices. The cutbacks in output and the defence of high prices were consistent with official policy of conserving petroleum reserves.

The Government's recent preoccupation with

[205] The fall in production of crude and refined products in 1975 is somewhat more severe than the reduction in value added of the sector that is recorded in preliminary national accounts data (see table 321). This suggests that the preliminary data may underestimate the contraction of the petroleum industry in 1975.

Table 322

VENEZUELA: PRODUCTION OF PETROLEUM AND IRON

	1970	*1973*	*1974*	*1975*	*Annual growth rates*		
					1971–1973	*1974*	*1975*
	Millions of barrels per day						
Crude	3.71	3.37	2.98	2.35	– 3.2	– 11.6	– 21.2
Petroleum products	1.30	1.30	1.20	0.87 [a]	0.3	– 8.1	– 27.6
	Millions of matric tons						
Iron	22.1	23.1	26.8	24.6 [a]	1.5	16.0	– 8.2

Source: ECLA estimates on the basis of information provided by the President of Venezuela in his Second Message to Congress, Caracas, May 1976.

[a] Provisional figures.

petroleum conservation stems from the relatively limited "production life" of proven reserves.[206] In 1960, national petroleum reserves of 17.38 billion barrels were equivalent to 16.7 years' production but the 1973 reserves had fallen to 14.08 billion barrels and their production life to only 11.5 years, thus raising the spectre of the approaching exhaustion of exploitable deposits.[207]

In 1974, however, the production life of reserves was extended to 17.1 years by cutbacks in output and a rise in estimated reserves to 18.6 billion barrels as a result of the inclusion of marginal deposits that became economically recoverable with the rise in oil prices. Further production cutbacks in 1975 extended the theoretical life of reserves (estimated at the same level as in 1974) to over 20 years, its highest level in the post-war period. By prolonging the life of reserves, the authorities hope to gain sufficient time to develop the technology needed to tap the huge deposits of heavy oil located in the Orinoco Tar Belt (estimated at over 700 billion barrels) and fully explore new areas in the Gulf of Venezuela and on the continental shelf.

Another manifestation of the petroleum policy followed was the decision to nationalize the industry. In September 1975 the National Congress enacted legislation that transferred the assets of foreign oil companies to the State as from 1 January 1976.[208] Compensation for the nationalized assets was set at 4.32 billion bolívares, or slightly over 1 billion dollars.[209] Payment will be over five years with a 6 per cent rate of interest that will be free of domestic taxes. At the same time a new State enterprise named Petróleos de Venezuela (PETROVEN) was established to control and co-ordinate the activities of the 18 nationalized companies. In order to ensure the smooth operation of the industry, the foreign oil companies have been contracted to provide technical assistance to PETROVEN. They will also, at least initially, market the bulk of PETROVEN's output of petroleum products.[210]

(ii) *Mining.* Mining output, excluding petroleum and natural gas, showed a decrease of 2 per cent in 1975. Reduced activity in this sector is largely attributable to an 8 per cent drop in iron ore output as a result of cutbacks in steel production in the industrialized countries and, to a lesser extent, of labour problems during the year in one of the local mining companies (see table 322).

On 1 January 1975 –as stipulated in a nationalization decree issued in December 1974– the Government assumed control of two foreign-owned companies that had been mining iron ore. In order to facilitate the transition to State ownership, the companies continued to operate the mines up to the end of 1975, but at the expense and risk of the government-owned Corporación Venezolana de Guayana (CVG). In 1976 the Government would become directly responsible for the operation of the industry.

(iii) *Agriculture.* The 9 per cent growth of agricultural output was the highest in more than a decade. This growth, added to the 8 per cent increase the year before, underscores the Government's success in stimulating production in a sector that was only able to achieve an average rate of growth of 2.4 per cent annually in the period 1971-1973 (which was slower than the population growth).

Some products which showed considerable increases were sorghum (77 per cent), maize (33 per cent), rice (24 per cent), yuca (34 per cent), cotton (28 per cent) and coffee (25 per cent). Significant gains were also achieved in the production of cocoa (15 per cent), fish (15 per cent), poultry (12 per cent), pork (9 per cent) and tobacco (9 per cent).

Generally favourable weather conditions contributed to the accelerated growth of agriculture, which was also aided by government policies specifically designed to boost the output of the sector. One of the most important measures has been increase credit flows to agriculture. Special development funds have been created to channel

[206] "Production life" is a theoretical concept referring to the number of years which economically recoverable reserves will last at prevailing rates of extraction.

[207] The decline in reserves was due, at least in part, to a slackening of new investment in exploration and equipment by the foreign oil companies in the face of what was considered by them as an unfavourable oil policy.

[208] The 1975 nationalization decree superseded the 1971 Hydrocarbons Reversion Bill that had established 1983 as the date on which the petroleum industry should be under State control.

[209] The exchange rate used is 4.285 bolívares to the dollar.

[210] Initial sales contracts called for the companies to purchase about 1.5 million barrels a day of crude and derivatives beginning January 1976. Any output in excess of this figure would be directly marketed by PETROVEN.

low-cost resources into food production. In addition, commercial banks have been obliged to increase progressively their credit to the sector in order eventually to reach the point where agriculture will receive a minimum of 20 per cent of all commercial bank loans.[211] Other measures adopted to stimulate agricultural growth included minimum support prices, subsidies for key inputs, debt relief for small– and medium-scale farmers, and elimination of taxes on income earned from agricultural activities.

Notwithstanding the unprecedented growth of agriculture, Venezuela remained dependent on significant quantities of agricultural imports (valued at 260 million dollars in 1975) to augment the domestic food supply. Among the commodities that Venezuela must still import in significant quantities are maize, wheat, sorghum, soybeans, oils and fats, and powdered milk.

(iv) *Manufacturing.* This sector continued to display accelerated growth in 1975. Output expanded by 13 per cent, compared with 9 per cent in 1974 and an average increase of 7 per cent per annum in the period 1971-1973.

The predominant factor behind the very high rate of growth in manufacturing was unusually strong demand for consumer goods, a phenomenon that first appeared in 1974. Among the durable goods, purchases of machinery, electrical equipment and transport equipment showed particulary strong growth. Among the non-durables, production of clothing and shoes were especially dynamic. Rising demand for consumer goods also led to sharply increased output of intermediate products like basic metals, chemicals, rubber and leather.

Moreover significant investment projects in the manufacturing sector in 1975 included the expansion of the capacity of Siderúrgica del Orinoco C.A. (the State-owned steel industry), and Aluminio del Caroní, S.A. (the national aluminium producer that is partly-owned by the Government). Other large investments were made to expand production of chemicals such as phosphoric acid, sodium sulphate and ammonium chloride. There was also considerable investment designed to expand the country's sugar refining capacity.

A further indication of development in the manufacturing sector is the approval by the authorities of 955 industrial projects in 1975, 572 of which are new industries and 383 are expansions of existing capacity. The total cost of these new projects at the time of their approval exceeded 1.9 billion dollars.

The Government also continued its serious efforts to decentralize economic activity. At the present time, most industry and employment are located in the heavily congested Caracas-Valencia region. But outright prohibitions on new development in the capital area plus extensive fiscal incentives and credit facilities for location elsewhere are in force to encourage more balanced development in the future. As a result, a majority of new industries authorized in 1975 are to be located in the interior.

(v) *Construction.* The 14 per cent increase in value added in this sector represents a marked recovery from 1974 when output contracted by 7 per cent. The recovery was particularly noticeable in the case of public construction, which was heavily oriented towards road and irrigation projects.

In 1975 the Government took steps to encourage construction activity through the expansion of credit facilities. In addition, a national urban development fund was created, to which the equivalent of 460 million dollars will be made available to finance the construction of housing, educational and health establishments, and tourism facilities. Lastly, the law governing the national savings and loan system was modified in order to increase the amount of financing available to individuals for the acquisition of housing.

(vi) *Services.* Sharply rising overall economic activity caused the electricity, gas and water sub-sectors to maintain a high rate of growth in 1975. Their combined increase of 12 per cent is on a par with the rise in 1974 and higher than the average increase of 9 per cent per annum in the period 1971-1973 (see table 321).[212]

Transport, storage and communications experienced a combined growth of 13 per cent, which was slightly higher than in 1974 (12 per cent). The

[211] Net commercial bank credit to the sector totalled 2.1 billion bolívares in November 1975, an increase of 78 per cent over November 1974; agricultural loans represented 8.4 per cent of total credit, compared with 7 per cent in November 1974.

[212] In the case of electric power, Compañía Anónima de Administración y Fomento Eléctrico (CADAFE) invested 174 million bolívares in 1975 to bring the electricity services to 500,000 new subscribers in rural and marginal areas.

relatively high rate of growth (the sector expanded at an average rate of 7 per cent per annum in 1971-1973) reflects increased domestic economic activity as well as the increased volume of imported merchandise entering the country.

(a) *Foreign trade*

(i) *Exports.* In 1975 the value of exports of goods totalled 11.1 billion dollars, compared with 15.2 billion dollars in 1974. The 27 per cent decline reflects drops of 24 per cent in the volume of exports and 4 per cent in the unit value (see table 323).

The fall in exports –like the 170 per cent increase the year before– is explained by the change in the trend of petroleum sales, which accounted for 96 and 94 per cent of total earnings in 1974 and 1975, respectively. In 1974 the value of petroleum exports increased by 177 per cent (to a total of 14.7 billion dollars, because a threefold rise in price more than offset an 11 per cent contraction in volume. In 1975, however, the volume fell by 24 per cent and export prices by 4 per cent, causing petroleum exports to decline by 4.1 billion dollars. Nevertheless, the export value in 1975 doubled that of 1973, despite the fact that the volume declined by one-third (see table 324).

The plunge in the volume of petroleum exports that took place in 1975 stemmed from sagging demand in the industrialized countries because of the economic recession and the consumers' resistance to the new prices of fuels. Another factor which accentuated the decline in volume was the Venezuelan Government's determination to defend the higher prices and conserve petroleum reserves.

The drop in the unit price of petroleum exports in 1975 was the first decline in eight years. It reflects the fact that the series of significant increases in petroleum prices between 1973 and 1974 –the average export price of crude rose from 4.04 dollars per barrel in September 1973 to 14.08 dollars by July 1974– was broken by a temporary rollback in prices during 1975. The rollback occurred at the outset of the year when the authorities decided that market conditions merited reducing the average price of crude to 13.38 dollars per barrel. This price prevailed until October, when in accordance with OPEC guidelines the authorities decided to raise the average export price to 14.59 dollars. Thus, for most of 1975, the price of Venezuela's petroleum

Table 323

VENEZUELA: VARIATION IN THE TERMS OF TRADE AND IN THE VALUE VOLUME AND UNIT VALUE OF EXPORTS AND IMPORTS OF GOODS
(Annual growth rates)

	1971	*1972*	*1973*	*1974*	*1975*
Exports of goods					
Value	22.4	12.1	48.8	170.2	–26.7
Volume	–5.9	5.2	3.8	–9.8	–23.9
Unit value	30.0	18.2	43.3	199.5	–3.7
Imports of goods					
Value	11.2	17.5	12.1	46.2	40.0
Volume	6.6	11.0	–5.1	17.7	20.7
Unit value	4.3	5.9	18.1	24.2	16.1
Terms of trade	24.6	11.7	21.4	141.0	–17.0
Purchasing power of exports	15.6	6.5	31.9	125.8	–37.5

Source: CEPAL, on the basis of official statistics.

Table 324

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

	Millions of dollars				*Percentage breakdown*		*Annual growth rates*		
	1970	*1973*	*1974*	*1975*	*1970*	*1975*	*1971–1973*	*1974*	*1975*
Total exports	*2 756*	*5 628*	*15 207*	*11 150*	*100.0*	*100.0*	*27.0*	*170.2*	*– 26.7*
Petroleum and petroleum products	2 496	5 294	14 669	10 530	90.6	94.4	28.5	177.1	– 28.2
Iron ore	177	201	252	313	6.4	2.8	4.3	25.4	24.2
Other products	83	133	286	307	3.0	2.8	17.0	115.0	7.3

Source: CEPAL, on the basis of official statistics.

was somewhat lower than that prevailing in 1974. Consequently, the average export price for crude and derivaties fell from 14.35 dollars per barrel in 1974 to an estimated 13.76 dollars in 1975.

Exports of iron ore, which represent about 3 per cent of total exports, grew in 1975 by approximately the same rate (24 per cent) as in 1974 (25 per cent). The rise in export value was the result of a 50 per cent increase in average price and a 17 per cent decline in volume.

(ii) *Imports.* Imports showed a spectacular growth for the second consecutive year. After a 46 per cent rise in 1974, the value of imports of goods increased by another 40 per cent in 1975, thus reaching a level of 5.4 billion dollars. The growth of imports in 1974 and 1975 greatly exceeded any annual increases that had taken place previously and was responsible for their doubling in value in just 2 years (see tables 323 and 325).

The volume of imports showed increases of 18 and 21 per cent in 1974 and 1975, respectively. The significantly higher volume was due to the vigorous economic expansion in Venezuela and the need to supplement domestic supply with increasing imports. Furthermore, with no shortage of foreign exchange, the Government made no attempt to retard the growth of imports, and in some cases encouraged it by selective tariff reductions and the granting of credit for purchases abroad.

The recovery of public and private investment in 1975 suggests that a significant part of the increased volume was attributable to larger imports of capital goods, which apparently did not occur in 1974 when total investment declined. Consumption goods participated heavily in the increased volume of imports in both 1974 and 1975. The upsurge of imports also brought with it a significant quantity of what are usually called non-essential items; it is estimated that 800 million dollars' worth of this type of goods was imported in 1975.

The unit value of imports rose by 16 per cent in 1975, which is the smallest increase in 3 years and essentially reflects the declining rates of inflation in the industrialized countries.

(iii) *The terms of trade.* In view of the fact that in the period 1970-1974 the rise in petroleum prices exceeded the rise in import prices, Venezuela's terms of trade index rose by 69 per cent in the period 1971-1973 and by an extraordinary rate of 141 per cent in 1974. But 1975 witnessed a 17 per cent decline in the terms of trade because of the aforementioned fall in the average price of petroleum and the increase in import prices. Notwithstanding this deterioration, the index was still more than double that of 1973.

The deterioration in the terms of trade, coupled with the drop in the volume of exports, caused the purchasing power of exports to fall by 38 per cent with respect to 1974. As a result of this, and in view of the developments in 1974, the purchasing power of exports was 41 per cent higher in 1975 than it was in 1973 (see table 323).

Table 325

VENEZUELA: BALANCE OF PAYMENTS
(Millions of dollars)

	1970	1972	1973	1974	1975[a]
Current account					
Exports of goods and services	2 943	4 004	5 950	15 640	11 655
Goods FOB	2 756	3 781	5 628	15 207	11 150
Services	187	223	322	433	505
Transport	59	57	79	105	110
Travel	50	73	119	175	210
Imports of good and services	2 319	3 007	3 386	4 953	6 612
Goods FOB	1 794	2 343	2 626	3 841	5 377
Services	525	664	760	1 112	1 235
Transport	238	317	354	458	509
Travel	140	178	194	285	319
Net payments of profits and interest on foreign capital	–669	– 1 062	–1 584	– 4 329	– 1 808
Profits	–657	– 1 046	–1 582	– 4 508	– 2 238
Interest	– 12	– 16	– 2	179	430
Net private transfer payments	– 86	– 89	– 105	– 130	– 135
Balance on current account	–131	–154	875	6 228	3 100
Capital account					
Net external financing (a + b + c + d + e)	131	154	– 875	– 6 228	– 3 100
(a) Net external non-compensatory capital	156	– 132	– 71	– 667	
Direct investment	– 23	–376	– 329	– 196	
Long– and medium-term loans	168	236	212	136	
Amortization payments	– 34	– 111	– 132	– 316	
Short-term liabilities (net)	51	124	184	– 227	– 752
Official transfer payments	– 6	– 5	– 6	– 64	
(b) Domestic non-compensatory capital or assets	– 78	– 122	13	– 98	
(c) Errors and omissions	101	582	205	– 1 388	
(d) Allocation of SDRs	42	38	–	–	–
(e) Net compensatory financing (minus sign signifies an increase)	– 90	– 212	– 612	– 4.075	– 2 348
Balance-of-payments loans, trade arrears, IMF loans, and other liabilities of the monetary authorities	2	–	–	5	–
Amortization payments	– 5	– 3	– 3	–	–
Foreign exchange reserves (minus sign signifies an increase)	– 30	– 171	– 609	– 3 729	– 1 919
Gold reserves (minus sign signifies an increase)	– 9	–	–	– 349	– 430
SDRs (minus sign signifies an increase)	– 48	– 38	–	– 2	1

Source: International Monetary Fund, *Balance of Payments Yearbook*, vol. 27.

[a] CEPAL estimates on the basis of official statistics.

(b) *The balance of payments*

The strongly contrasting movements of exports and imports caused the trade surplus to decline by roughly 50 per cent, but at 5.8 billion dollars it was still 2.8 billion dollars larger than that recorded in 1973.

The traditional deficit on the services account increased moderately in 1975. In contrast net payments of profits and interest on foreign capital decreased by 58 per cent. The dramatic fall in payments (from 4.3 billion dollars in 1974 to 1.8 billion dollars in 1975) reflects reduced remittances of profits by the foreign oil companies owing to sluggish petroleum sales and higher government taxes on profits. There was also a sharp increase in net interest receipts as a result of the increasing foreign exchange deposits kept in foreign banks by the Venezuelan monetary authorities.

The net effect of the behaviour of the various components of the current account (including transfer payments) was a drop in the current account surplus from 6.2 billion dollars in 1974 to 3.1 billion dollars in 1975. In spite of this sharp drop, however, the surplus was still considerable, especially in view of the fact that in the first few years of the present decade the current account was in deficit (see table 325).

The outflow of capital (including errors and omissions) amounted to slightly over 750 million dollars, or roughly one-third of the outflow recorded in 1974 (2.1 billion dollars). Although information is limited, the smaller outflow appears to be due mainly to a marked reduction in the movement of private short-term capital. In 1974 the net outflow of short-term funds was unusually large –officially 230 million dollars, but in actual fact probably much larger given the figure of nearly 1.4 billion dollars for errors and omissions– owing to a number of factors, including speculative flows and unattractive domestic interest rates. In 1975 the speculative operations appeared to have declined and domestic interest rates were somewhat more competitive with those offered on international markets.

Taking into account the size of the current account surplus, the smaller outflow of capital in 1975 permitted a considerable increase in international reserves (2.35 billion dollars). This increase was, however, lower than the unprecedented increase of 4.1 billion dollars which took place in 1974. At the end of 1975 Venezuela's international reserves stood at around 8.9 billion dollars, or approximately enough to cover its import requirements for 16 months.

4. *Prices and monetary and fiscal trends*

(a) *Prices*

Venezuela, a country traditionally accustomed to moderate price increases, shared in the spread and intensification of world-wide inflation in 1973 and 1974. Domestic wholesale prices, which rose by an average of 3.5 per cent in 1971 and by the same percentage in 1972, increased by over 6 per cent in 1973 and by 16.5 per cent in 1974. Consumer prices, as measured by the index for the Caracas metropolitan area, also accelerated their rate of increase, although not to the same extent as wholesale prices because of the cushioning effect of price controls and subsidies (see table 326).

Prices continued to rise sharply in 1975, but there was a noticeable slackening of the rate of inflation. Wholesale prices rose by an average of about 14 per cent, compared with the 16.5 per cent increase registered in the previous year. An even more telling indicator of a moderating trend, however, is the fact that the 8.6 per cent rise in wholesale prices in the 12-month period ending December 1975 was less than half that recorded for the 12-month period ending December 1974. The reduced intensity of the rise in the unit price of imports referred to above contributed to the improved picture, as indicated by the more moderate rise in the imported goods component of the wholesale price index.

With regard to consumer prices, their average rise in 1975 (10.3 per cent) was greater than in 1974 (8.3 per cent). Nevertheless, the rise in prices in the 12-month period ending December 1975 was 8 per cent, representing a considerable decrease with respect to the rate for the 12-month period ending December 1974 (11.6 per cent) (see table 326).

(b) *Monetary trends*

Total monetary liquidity (money and quasi-money) showed very high rates of expansion in 1974 and 1975 (31 per cent and 46 per cent, respectively). These rates of growth are far higher than the average annual expansion of 20 per cent experienced in the period 1971-1973. The primary factor of expansion was the sharp increase in international reserves, which widened the monetary base of the economy and permitted the

Table 326

VENEZUELA: EVOLUTION OF PRICES
(Percentage)

	1971	1972	1973	1974	1975
	Annual average variation				
Consumer price index [a]	*3.2*	*2.9*	*4.1*	*8.3*	*10.3*
Food	3.4	4.9	7.6	12.7	14.7
Wholesale price index	*3.5*	*3.5*	*6.3*	*16.5*	*13.6* [b]
Imported products	4.9	4.5	5.4	16.2	12.2
Domestic products	2.3	2.7	7.2	16.7	14.3
	December to December variation				
Consumer price index [a]	*3.0*	*3.5*	*5.1*	*11.6*	*8.0*
Food	3.5	7.4	8.1	18.3	8.7
Wholesale price index	*3.7*	*2.7*	*11.0*	*19.9*	*8.6* [b]
Imported products	4.4	3.7	12.1	17.0	5.4
Domestic products	3.1	2.1	10.3	21.9	10.9

Sources: President of Venezuela, *Mensaje al Congreso de la República*, May 1975 and 1976; Central Bank, *Informe económico*, 1970-1971 and 1972.

[a] Cost-of-living index for Caracas metropolitan area.

[b] Provisional figures.

banking system vigorously to expand credit to the private sector. Private sector credit rose by 34 per cent and 47 per cent in 1974 and 1975, respectively, compared with an average increase of 18 per cent per annum in the period 1971-1973. Net credit to the public sector, on the other hand, acted as a factor of absorption, owing to increasing government deposits in the banking system (see table 327).

As to the components of total liquidity, money grew rapidly by 41 per cent in 1974 and 53 per cent in 1975. Quasi-money expanded somewhat more slowly –22 per cent and 38 per cent in 1974 and 1975, respectively– indicating a preference for more liquid monetary assets on the part of the public and the relative absence of adequate incentives that would make investment in the various types of quasi-money more attractive.

(c) *Fiscal trends*

The 1974 and 1975 government budgets were of an expansionary nature. The large increase in tax revenue from the petroleum sector led to a much higher level of government expenditure, even though a substantial volume of resources was "sterilized" in the form of deposits in special investment funds. Thus, despite the generation of a fiscal surplus in both years, the government finances provided an unprecedented stimulus to the domestic economy.

Current fiscal revenue suffered a 5 per cent decline in 1975, after rising by slightly over 160 per cent in 1974. This decline, like the extraordinary rise the year before, is mainly accounted for by the trends in the revenue obtained from petroleum, which accounted for 86 per cent and 79 per cent of total current revenue in 1974 and 1975, respectively. In 1974 a three-fold rise in the price of petroleum and an increase in the tax rate for oil company profits (from 58 to 63 per cent) caused tax revenue from this source to rise by 222 per cent, despite a 12 per cent decline in production; but in 1975 petroleum tax revenue fell by 12 per cent, owing to the decline in petroleum production and the lower average

Table 327

VENEZUELA: MONETARY POSITION
(Millions of bolívares)

	Balance at end of				Annual growth rates		
	1970	*1973*	*1974*	*1975*	*1971–1973*	*1974*	*1975*
1. *Money*	*6 420*	*10 629*	*14 969*	*22 902*	*18.4*	*40.8*	*53.0*
Currency outside banks	2 199	2 885	3 844	4 690	9.5	33.2	22.0
Demand deposits	4 221	7 743	11 125	18 212	22.4	43.7	63.7
2. *Factors of expansion*	*13 418*	*24 745*	*43 029*	...	*22.6*	*73.9*	...
Net international reserves	4 009	10 518	27 909	37 948	38.0	165.3	35.9
Domestic credit	9 409	14 227	15 120	...	14.8	6.2	...
Government	239	– 485	– 4 538	...	–	835.7	256.0 [a]
Official entities	346	162	209	...	– 22.2	29.0	– 34.0 [a]
Private sector	8 824	14 550	19 449	...	18.2	33.6	46.8 [a]
3. *Factors of absorption*	*6 998*	*14 116*	*28 060*	...	*26.5*	*98.8*	...
Quasy-money (savings and time deposits)	5 517	10 275	12 490	17 199	23.0	21.6	37.7
Investment funds	–	–	11 772	16 344	–	–	38.8
Other items (net)	1 481	3 841	3 798	...	37.3	– 1.1	...

Sources: Central Bank of Venezuela, *Boletín mensual*, Nº 383, December 1975; International Monetary Fund, *International Financial Statistics*, March 1976.

[a] Variation in the period January-November 1975 compared with the same period of 1974.

export price (see table 328). It should be noted, however, that at the beginning of the year the rate of taxation on the oil companies' profits rose to 72 per cent, which helped to cushion the drops in the production and price of petroleum. This raised the Government's share per barrel of petroleum by 0.42 dollars to a total of 9.45 dollars.

The decline in revenue from petroleum was partially offset by the sharp increase in receipts from taxes on domestic economic activity. In 1975, tax receipts from sources other than petroleum reached 8.5 billion bolívares, an increase of 38 per cent with respect to 1974. This compares with the increase of about 20 per cent in 1974 and the average rise of 4 per cent annually in the period 1971-1973. The biggest contribution came from direct tax receipts, which rose by 49 per cent in 1975 compared with 22 per cent in 1974. The other major contributor was customs revenue, which showed significant growth for the second consecutive year owing to the sharp increase in imports. Following a 67 per cent increase in 1974, revenue from import duties rose by another 38 per cent in 1975, notwithstanding the sharp reduction or elimination of import tariffs.

A considerable proportion of the increased budgetary resources in 1974 was absorbed by current expenditure, which rose by 41 per cent; it continued to rise in 1975 despite the fall in revenue, but the 6 per cent increase was considerabl less than in the previous year. In both 1974 and, in particular, 1975 the relative increases in wages and salaries were larger than those in other current expenditure.

The operation of the fiscal accounts led to current account surpluses of 28 billion and 26 billion bolívares in 1974 and 1975, respectively, or more than four times the surplus achieved in 1973. The bulk of this saving was used to finance the capital account, leaving final budget surpluses of 300 million bolívares in 1974 and 800 million

Table 328

VENEZUELA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Current values (millions of bolívares)				Annual growth rates		
	1970	*1973*	*1974*	*1975* [a]	*1971–1973*	*1974*	*1975*
1. *Current income*	*10 252*	*16 433*	*42 843*	*40 719*	*17.0*	*160.7*	*– 5.0*
Petroleum	5 822	11 376	36 671	32 242	25.2	222.0	– 12.0
Direct [b]	2 336	3 070	3 747	5 571	9.5	22.1	48.7
Indirect	727	911	1 020	1 120	7.8	12.0	9.8
Imports	613	698	1 163	1 609	4.4	66.6	38.3
Other current income	754	378	241	177	– 20.5	– 36.4	– 26.5
2. *Current expenditure*	*6 882*	*9 972*	*14 106*	*14 945*	*13.2*	*41.5*	*5.9*
Wages and salaries	3 292	4 451	6 593	7 273	10.6	48.1	10.3
Other current expenditure	3 590	5 521	7 513	7 672	15.4	36.1	2.1
3. *Saving on current account* (1–2)	*2 616*	*6 082*	*28 487*	*25 597*	*32.5*	*368.4*	*– 12.2*
4. *Capital expenditure*	*3 404*	*4 900*	*28 413*	*24 933*	*12.9*	*479.9*	*– 12.2*
Real investment	1 539	2 317	3 875	4 341	14.6	67.2	12.0
Transfers	1 522	1 731	22 667	18 644	4.4	1 209.4	– 17.3
Amortization of debt	194	775	1 645	745	58.6	112.2	– 54.7
Other capital expenditure	149	77	226	1 203	– 19.8	193.5	432.3
5. *Total expenditure* (2 + 4)	*10 286*	*14 872*	*42 519*	*39 878*	*13.1*	*185.9*	*– 6.2*
6. *Fiscal surplus* (1–5)	*– 34*	*1 561*	*315*	*841*	–	*– 79.8*	*167.0*

Source: President of Venezuela, *II Mensaje al Congreso de la República*, May 1975.

[a] Provisional figures.

[b] Including tax on iron.

bolívares in 1975. In 1974, capital expenditure increased at the extraordinary rate of 480 per cent with respect to the previous year, while in 1975 it was cut back by 12 per cent owing to the drop in current income noted above; even so, it was still five times higher than in 1973.

The Government increased its direct investment by 67 per cent in 1974 and 12 per cent in 1975. Other capital resources were absorbed by amortization payments, particularly in 1974 when this item jumped by 112 per cent as a result of the Government's decision to accelerate repayment of external obligations bearing high interest rates. However, most of the additional capital resources were allocated to State enterprises, regional and local governments, and special investment funds, as shown by the spectacular growth (1,200 per cent) recorded by transfers in 1974 (see table 328).

The special investment funds absorbed 60 per cent and 47 per cent of the capital transfers in 1974 and 1975, respectively. These funds were created in mid-1974 in view of the Government's concern that the economy might not be able to absorb the substantial increases in revenue obtained from petroleum since the end of 1973. Recognizing that such a sudden and voluminous increase in budgetary resources would have tremendous inflationary implications if directly and rapidly injected into the domestic economy, the authorities decided to "sterilize" a significant proportion of the additional revenue by depositing it in specially created funds.

The primary instrument used to sterilize resources has been the Venezuela Investment Fund (Fondo de Inversiones de Venezuela – FIV). It is designed to absorb a significant proportion of the petroleum revenue and place it abroad in investments that maintain their real value and produce income. These resources will later be progressively repatriated to finance the industrial projects which the Government intends to undertake as part of its programme to diversify the economy.

In 1974, 13 billion bolívares, or 35 per cent of the total revenue from petroleum, were allocated to FIV. Contributions in 1975 had been budgeted at 13.2 billion bolívares, but a shortfall in petroleum revenue resulted in a smaller contribution of 7.5 billion bolívares, or 23 per cent of the total receipts. Most of the Fund's resources have been placed abroad in the form of short-term bank deposits in the United States and Europe, and in foreign government securities. Accumulated earnings on the Fund's investments totalled 1.9 billion bolívares at the end of 1975.

A significant proportion of the Fund's resources have been earmarked for various forms of international financial co-operation. Commitments for such co-operation exceeded the equivalent of 2.7 billion dollars at the end of 1975. These commitments involve loans –many of which have been fully or partially disbursed– to world and Latin American multilateral institutions and to some countries in the region. At the multilateral level, recipients of these loan commitments have been the World Bank (500 million dollars), the Inter-American Development Bank (500 million dollars) and the Oil Facility of the International Monetary Fund (around 780 million dollars). In addition, 100 million dollars have been assigned to the United Nations Emergency Fund. Other recipients of these commitments have been regional finance institutions like the Caribbean Development Bank (35 million dollars), the Andean Development Corporation (60 million dollars) and the Central American Bank for Economic Integration (40 million dollars). Bilateral co-operation has included loans to the Central American countries to help them finance their oil deficits and stockpile coffee, and loans to Jamaica, Panama and Peru to help them finance their oil imports.

The FIV's resources have also begun to find their way back to the national economy. In 1975 the Fund granted loans worth 1 billion bolívares for domestic investment projects. In addition, 3.6 billion bolívares were earmarked for public and private projects that are compatible with the Government's development plans.

While FIV has been the main recipient of petroleum resources, significant although much smaller amounts have been channelled into special domestic investment funds, the two principal ones being the Agricultural Credit Fund and the Industrial Credit Fund which together received contributions of 600 million bolívares in 1974 and 1.2 billion bolívares in 1975. These funds are designed to help develop their respective sectors through the extension of concessionary credit to applicants with economically feasible projects.

Even so, the sterilization of a proportion of the petroleum resources was not enough to prevent strongly expansionary budgets, particularly in 1974. Even after substracting transfers to special funds and amortization of the external debt, fiscal outlays thus calculated rose by 91 per cent in 1974 and 11 per cent in 1975. In absolute terms the increases were 13.2 billion bolívares in 1974 and 3.2 billion bolívares in 1975, compared with 1.4 billion bolívares in 1973. As a result of these increases, the adjusted fiscal expenditure in 1975 was more than double the expenditure in 1973, and on a per capita basis it reached the high level of 2,600 bolívares (approximately 600 dollars).

It is clear that the expansion of fiscal expenditure and monetary liquidity in the years 1974-1975 gave rise to inflationary pressures. Conscious of this, the Government adopted a number of measures, complementing those referred to above, designed to mitigate the actual consequences of those pressures.

Among the direct anti-inflationary measures introduced during the period was the operation of a mechanism for regulating the prices of some important consumer items such as food, clothing and shoes in order to protect, in particular, the purchasing power of the lower-income groups. Along these same lines, an extensive system of consumer subsidies was also established. With that end in view, a network of 230 popular markets was set up throughout the country, which enabled basic food items to be sold at considerably lower prices than those prevailing in private commercial establishments.

At the same time, the Government attempted to hold down prices through policies that would boost domestic supply. Fiscal incentives such as support prices and reduced taxes on income were introduced to encourage output of key domestic products (mainly food). It should also be remembered that increasing imports played an important role in boosting supply, and were encouraged by means of selective tariff reductions and the granting of bank credit to importers. Finally, if shortages appeared despite these measures, the Government did not hesitate to intervene in supply and distribution networks in order to help solve any problem that might have arisen.