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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., 1969/1979.
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 of variation mean cumulative annual rates.
Figures and percentages in tables may not neccessariiy add up to the corresponding totals, because of rounding.

FIRST PART

ECONOMIC TRENDS IN LATIN AMERICA AND THE CARIBBEAN

I. MAIN TRENDS

In 1991, the economic activity in Latin America and the Caribbean as a whole grew by 3.2%; as a result, per capita output registered its first improvement in four years. At the same time, inflation receded and hyperinflation was virtually eliminated. This moderate progress over previous years was achieved in spite of a relatively unfavourable international environment, which was reflected in the very slow growth of exports and a significant deterioration in the terms of trade.

However, the slackening of external demand was accompanied by a notable drop in international interest rates which not only provided some relief for external debt service but also helped to bring about a significantly greater inflow of capital, attracted in part by the higher yields in the countries of the region. As a result, Latin America and the Caribbean registered a positive transfer of financial resources for the first time in 10 years. This, in turn, strengthened the region's import capacity in spite of the stagnation of exports, and made possible a substantial expansion of imports in response not only to the requirements of moderate growth but also to the burgeoning demand for consumer and capital goods which was emerging as part of the processes of trade liberalization.

In 1991 there was a significant increase in the number of countries which were able to increase their growth rates, and there was also a rise in the number of countries which attained, or were in the process of attaining, macroeconomicstability with varying degrees of consolidation. The countries displayed a great variety of situations depending on the stage they had reached in their stabilization programme. In some cases, the expansion process forged ahead after stabilizing adjustments (as in Chile and Mexico); in others the rate of growth slackened as a result of adjustments implemented in 1991 (as in Colombia, Costa Rica and Paraguay, for example), and in still others, output recovered as the economy emerged from a state of high inflation (as occurred in Argentina).

If the above cases are supplemented with the countries which remained in a state of recession because of severe stabilization programmes (Nicaragua, Peru and the Dominican Republic* among other, then .the regional picture, with only a very few exceptions, is essentially. one of generalized containment of inflationary pressures as part of stabilization processes in varying phases of consolidation. Thus, in the last few months of 1991, most of the Latin American and Caribbean countries registered average monthly rates of inflation between l%and 1.5%; price increases in Ecuador and Venezuela were running between 2% and 3.5% per month; prices in Peru and Uruguay (two countries with serious antÍTÍnflationary programmes) were still rising at a rate of between 4% and 5% per month, and only Brazil continued to register very high monthly rates of inflation, between 20% and 25%.

In spite of the fragility still displayed by some stabilization processes, most economies of the region are now operating on new premises which generally are more export-oriented and also include trade liberalization, fiscal austerity, more prudent management of monetary policy and greater reluctance to resort to public regulation of economic activity. However, these new rules of public policy doubtless involve even greater inequality of income than in the past, a more precarious employment situation, tighter fiscal resources, and a lesser degree of freedom for the application of economic policy. All this means that there is less capacity to make transfers between economic sectors or social strata, but at the same time it does inspire greater confidence in the permanence of the rules guiding public policy.

Generally speaking, the economies of the region are operating with more balanced public

budgets, since the leeway for indulging in imbalances without setting off inflationary spirals has been narrowed. Over the two-year period 1990-1991, many countries carried out massive fiscal adjustments, thanks to which their public sector financing needs have been reduced by between *2%* and *1%* of gross domestic product (GDP). Most of the remaining countries reduced their fiscal deficit by more than 1 % of GDP over the same period.

The structural fragility of the fiscal balance is naturally greater in the countries whose restructuring processes were launched more recently and it diminishes proportionately with the degree to which new fiscal parameters are consolidated into permanent institutions. In many cases, the adjustment has been achieved through an extraordinarily severe compression of consumption and investment expenditure which will be difficult to sustain up in more normal circumstances, even with changes in public institutions to enhance their efficiency. At the same time, the interest due on the public external debt continues to represent such a heavy burden in fiscal budgets, that most of the countries of the region are in arrears despite their manifest desire to bring their debt servicing up to date. The inflow of hon-debt-related capital does not solve the problem, since it generally goes to the private sector.

In the stabilization programmes under way, the countries have managed to balance public cash flows not only because of the favourable effects of controlling inflation and of economic recovery on tax receipts but also by taking extraordinary measures such as the deferral of debt service payments and/or the sale of assets through the privatization of public enterprises. In these latter cases, once stability has been achieved, the financial gap will have to be closed by generating resources of a permanent nature through regular fiscal institutions.

Substantial non-debt-related private financial flows of different types, which to some extent represent repatriation of capital, are taking place both towards countries which have continued to maintain their macroeconomic stability and towards those which have only recently undertaken domestic adjustment. In some countries (such as Argentina, Chile, Mexico and Venezuela), these flows include foreign investment, at times connected with the privatization of public enterprises, although there have also been cases of substantial portfolio investments and even bond issues. In these and the majority of the other countries, however, considerable short-term financial investments are attracted by the differential between the real domestic dollar equivalent interest rates (including the reduced risk premium assigned to cover the possibility of abrupt changes in the exchange rate) and low international rates.

In the countries where volume has been substantial, these capital inflows have had two immediate consequences. On the one hand, they have obliged the central banks to buy up the excess supply of foreign exchange and accumulate reserves. On the other, they have kept the real exchange rate below the levels which prevailed when the counterpart of the trade surplus was capital flight.

The latter situation tends to erode the competitiveness of exports and stimulate imports, thus reducing the effective protection of domestic production. When this is combined with trade reforms which involve the rapid reduction of tariff protection, industrial production and employment tend to be adversely affected in the short term, that is, before any of the effects of greater openness on productivity occur.

From the point of view of stabilization policies, these trends have opposing repercussions. The rise in the value of the national currency serves as an "anchor" for nominal prices, while at the same time it stimulates imports (which are also facilitated by the processes of greater trade liberalization), thereby favouring the stabilization of some domestic prices. However, the accumulation of reserves brings with it an unwanted expansion of the money supply which runs counter to the predominantly restrictive orientation of monetary policy; the absorption of this surplus calls not only for the expansion of demand for real monetary assets but also an equivalent fiscal surplus. In these circumstances, rapid and sustained growth of imports requires a continuous inflow of capital.

Obviously, this type of balance is fragile, to the extent that part of the capital inflow may suddenly reverse itself. This is a possibility

which can never be ruled out in the case of investments in securities, financial operations made attractive by a higher interest rate differential than on the international market, and the repatriation of assets to replenish the working capital of enterprises which have been adversely affected by a domestic credit squeeze or by a recession.

In so far as these capital inflows are due to conjunctural circumstances rather than to real confidence in medium-term growth, they are far from representing a structurally stable source of financing which can serve as a sound basis for development. In this respect, the apparently positive evolution of the external accounts of some countries must be viewed against persistent debt overhang, the structural consequences of which continue to compromise the degrees of freedom of economic policy and the prospects for growth. In order to bring about a permanent reversal of the net transfer of external resources, the inflow of private capital must be combined with the reduction of the burden of servicing the external public debt and a consolidation of a climate of confidence in economic policy and the prospects for development.

In this respect, one can observe -at least in certain countries- growing confidence among agents with respect to the continuity, validity and effectiveness of economic policy, which in turn influence such policy in different ways, in a break with the past. This change in attitude and in the prevailing investment climate is probably related to the widespread acceptance of the new foundations for the functioning of the economies, both with regard to their potential benefits and their true costs.

Given the underlying mistrust which prevailed before the consolidation of macro-economic stability, over adjustment of economic policy instruments was usually called for: real exchange rates and interest rates had to remain high in order to avoid capital flight; adjustment of the fiscal deficit by an amount greater than that warranted by the objective effects on the money supply. This was needed in order to telegraph the political determination to eliminate the expansionary effects of the public sector. With the improvement in the climate of confidence on the part of the economic agents, economic policy variables can be managed within narrow margins. In other words, in a climate of growing confidence among the economic agents, the need to factor "risk premiums" into the exchange rate, interest rate, and the magnitude and speed of adjustment of the fiscal deficit disappeared somewhat.

Nevertheless, there are also elements of risk with regard to the confidence of the economic agents. Quite apart from any reaction they may have to political events, the import boom itself -facilitated by trade liberalization and sustained by the inflow of capital- may reach a level at which it becomes vulnerable to changes in these capital flows; economic agents would then anticipate the need for the devaluation which would, in turn, lead to a turnaround in the situation.

At a more fundamental level, underlying the still modest rates of expansion of economic activity and the ever-worrisome inflationary pressures, there are vigorous processes of change which have been consolidating in recent years -in some cases, with ups and downs- and which hold the seeds of progress, even though they also involve hardship for broad segments of the population.

In short, the glooming picture of stagnation, recession and inflation which has characterized most of the countries of Latin America and the Caribbean in recent years showed signs of beginning to fade in 1991, although there are still some contradictory signs and in many cases the recovery is somewhat fragile. Furthermore, there are still considerable lags and shortcomings caused by the legacy of long-standing inequalities, now increased by the social cost of the adjustment.

In 1991 the gross domestic product of the region as a whole grew by 3.2%, which represents a moderate degree of reactivation after three years of virtual stagnation. As a result, per capita output rose (by 1.3%) for the first time in four years, thus recovering its 1977 level. This modest increase in regional output was heavily influenced by the continued recession in Brazil, which continues to wrestle with high rates of inflation. The average growth rate for the remaining economies, taken as a whole, was around 4.3% -that is to say, higher than the 1990 figure- in spite of the stagnation of exports due to the slackening growth of world trade.

In a considerable number of countries in the region, the economy grew at rates of between 3% and 6% per year, which were, equal to or higher than those registered in 1990, either because they continued expansion processes already under way (in El Salvador, Guatemala and Mexico), or because they had reactivated their economies (in Bolivia, Chile and Ecuador, for example), or because the level of activity had picked up once high inflation was brought under control (as occurred in Argentina). The Uruguayan economy recovered (by 1.5%) after three years of virtual stagnation, while Peru registered comparable growth despite the recession from which it is suffering, because of the disinflation achieved in 1991. Noteworthy cases were those of Panama and Venezuela, whose economies grew by slightly more than 9%, well above the already high rate achieved in 1990. In Colombia and Costa Rica, on the other hand, the growth rate slowed down to between 1% and 2%, comparable to the rates that Trinidad and Tobago continued to register. Jamaica's economy, in turn, stagnated after five years of expansion. The output of Brazil, whose economy is oscillating between recession and high inflation, posted an increase of slightly more than 1% over the previous year. Honduras, Nicaragua and the Dominican Republic continued to experience depressed levels of economic activity, in the midst of a battle against inflation, while Barbados and Haiti suffered fresh setbacks. Cuba saw a worsening of the contraction that had begun the year before, following the collapse of its economic relations with the Eastern European countries.

Per capita output registered modest growth in most of the economies of the region, though there was stagnation or regression in this respect in 11 countries. Belize, Bolivia, Ecuador, El Salvador, Mexico and Uruguay registered growth rates of between 1% and 2%, while in Argentina, Chile, Guyana, Panama and Venezuela, per capita output rose by 3% or more.

The stabilization policies put into effect the previous year have in most cases managed to reduce inflationary pressures. Thus, after having stood at levels of around 1 200% in both 1989 and 1990, the weighted average increase in consumer prices in the region fell in 1991 to 200% per year and showed a strong downward trend.

The most notable advances were registered in economies characterized by chronic high inflation. Following the hyperinflationary crises of 1989 and 1990, harsh adjustment programmes were implemented and in almost every case, helped to bring down the inflation rate significantly. The most spectacular results occurred in Argentina and Nicaragua, which, by the end of the year, had not only brought hyperinflation under control but were also consolidating a new price formation policy geared to moderate inflation. In Peru, there was a definite decline in the rate of price increases, but the inflation rate remained fairly high in a shaky macroeconomic context. Ift Brazil, on the other hand, although prices did not go up as much as they had the year before, monthly inflation was again higher than 20%, and the basic mechanisms of a highly inflationary economy remained in place.

Progress was also achieved in controlled-stability economies, characterized by rapidly increasing prices without approaching hyperinflationary extremes. Results varied from country to country, however, and inflation rates remained relatively high. While in Uruguay, which has a long tradition of inflation, the rate of price rises was substantially reduced, and in Venezuela, too, there was a decline, albeit less of a decline, the rate of inflation in Ecuador remained unchanged from that of the previous year. Costa Rica, which can also be considered to have a controlled-stability economy (albeit with lower levels of inflation than in the other countries mentioned), was able to slow down the monthly rise in prices in the second half of the year.

In all those countries where the economy had undergone structural adjustment and price increases were already moderate, inflation abated despite the fact that it had soared in 1990. At the end of 1991, in Chile and Mexico, the annual rate of inflation was less than 20%, and in Bolivia it was not even 15%, while in Colombia it had only decreased to 27%.

Lastly, those economies which had experienced episodes of inflation in recent years consolidated their stabilization programmes in 1991 and, in general, achieved positive results. Following sharp price increases in 1990, caused largely by the fiscal and external imbalance and

the rise in world oil prices, the economies of several Central American and Caribbean countries, in particular, once again experienced moderate rates of inflation. The steepest decline occurred in the Dominican Republic, which virtually achieved stabilization in 1991 (prices rose by only 4%), down from inflation of 101% in 1990. In Guatemala, the decline was striking, as the rate of price increases dropped from 60% in 1990 to 10% in 1991. In El Salvador, the downward inflationary trend gained tremendous momentum: from 24% in 1989 and 18% in 1990 to 10% in 1991. In Honduras, the rate of inflation also went down, from 35% to 21 %, and dropped to a single digit in the final months of 1991. Paraguay also saw a sharp decline in price increases, from 44% to 12%. In Jamaica, on the other hand, the annual rate of inflation shot up from 30% to 80%.

In 1991, despite in many cases the decline or stagnation of the value of exports there was a significant increase in the import capacity of most of the countries of the region, thanks to the reduction of their net payments of profits and interest and, above all, the increased inflow of capital. This fact, frequently combined with lower real exchange rates and trade liberalization designed to open up the economy, gave rise to a substantial increase in imports which was much greater than the requirements for recovery or the increase in economic activity.

As a result, the substantial trade surplus which the region as a whole had maintained since the beginning of the crisis was reduced to one third the levels of the previous two years.

In 1991 the terms of trade of the region suffered a further setback, this time of nearly 6%, thereby accentuating the almost uninterrupted deterioration registered since 1985. On this occasion, the decline was concentrated in the oil-exporting countries but a fair number of the non-oil-exporting countries were also affected. As a result, the purchasing power of the region's exports decreased by nearly 2%.

The value of Latin American and Caribbean exports of goods remained unchanged at around US$121 billion, after having grown at a rate of almost 10% per annum in the previous two years. This was due to the deterioration in the unit value of exports, since the volumes exported continued to grow by slightly more than 4%.

The stagnation of exports of goods was observed both in the oil-exporting and the non-oil-exporting countries. In the former group, it was primarily due to the drop in the average prices of hydrocarbons following the Persian Gulf conflict, a development which most of the countries compensated for by increasing the volume of their exports. Even so, the considerable inflows of capital and -to a lesser extent- the reduction in net payments of profits and interest expanded the capacity of this group of countries to increase their imports or accumulate reserves by US$17 billion -that is to say, by 37% of the value of their imports in 1990.

Among the non-oil-exporting South American countries, only Chile, and, to a much lesser extent Brazil, expanded their exports, while Argentina, Paraguay and Uruguay suffered significant declines. In turn, the exports of most of the Central American and Caribbean countries stagnated or declined, with the exception of Panama, and to a lesser degree, Costa Rica, which were able to increase their sales abroad. The increased import capacity of this group of countries was due essentially to the reduction of nearly US$5 billion in their net payments of profits and interest, since the increased net inflows of capital registered in Argentina, Paraguay, Uruguay and most of the Central American countries were offset by the net reductions of these inflows in Brazil and Chile.

The value of Latin American and Caribbean imports amounted to US$112 billion: an increase of 19% over the previous year and a further acceleration of the upward trend for the second year running. The increase was quite widespread, but the bulk of the variation in the regional total was concentrated in Mexico (an increase of US$7.9 billion), Venezuela (US$3.6 billion) and Argentina (US$3.7 billion).

As a result, the merchandise trade surplus fell from slightly over US$27 billion in the previous two years to less than US$10 billion in 1991. Thus, despite a reduction in the amount of profits and interest due, the trade balance was equivalent to 32% of these latter outlays, compared with 80% of the year before.

The net flow of profits and interest due went down for the second year running, this time to nearly US$31 billion, mainly because of the decline in international interest rates. The

balance-of-payments current account deficit, however, which had been falling in recent years, rose to slightly more than US$20 billion because of the smaller trade surplus.

This bigger current account deficit was amply covered by an inflow of US$41 billion of capital into the region, doubling the net inflow for the second consecutive year. Although the increase in net inflows of capital was fairly generalized, most of the rise in the regional total is attributable to only a few countries. In first place came Mexico, whose capital inflow increased spectacularly, for the second time in two years, to almost US$22 billion. Argentina also registered a big increase (US$3.4 biUion) in its net inflow of capital, which amounted to over US$5 billion in 1991. In Venezuela, the negative balance of US$4.9 billion registered the year before was turned into a net positive inflow of about US$2.2 billion. Inflows into Peru went up from US$1.9 billion in 1990 to US$3.8 billion in 1991. Net capital inflows also increased in Bolivia, Paraguay and four of the six Central American countries. In contrast, however, there were marked reductions in the net capital inflows in Brazil (down to US$5.7 billion) and Chile (because of the reduction of the external debt and a policy that acted as a disincentive to the inflow of short-term capital).

The inflows of capital registered in 1991, which came essentially from private sources, were of various types. In Argentina, Mexico, Venezuela and Chile these inflows included substantial amounts of foreign investment, partly connected -in the case of the first three countries- with the privatization of public enterprises. Mexico and, to a lesser extent, Venezuela, Brazil and Argentina, were additionally able to sell bonds abroad. At the same time, in these and other countries, there were considerable short-term financial inflows, motivated by the differential between domestic and international yields, as well as repatriation of assets to provide working capital for enterprises. Finally, in the majority of the countries of the region, arrears in debt service continued to be a major source of financing.

As the capital inflow was more than double the current account deficit, the international reserves of the countries continued to recover for the third consecutive year, and in 1991 the increase in reserves came to nearly US$20 billion. Moreover, this increase was quite widespread: only two countries registered a decline.

The big increase in the net capital inflow -further heightened by the reduction in remittances of profits and accrued interest- gave rise to a posijtive net transfer of financial resources to the region for the first time since 1981: the net outward transfer of US$15 billion registered in 1990 was converted into a net inflow of nearly US$10 billion. However, this turnaround was essentially due to changes in the capital accounts of just a few countries. More than half of the positive balance reflects the increased flow received by Mexico, another 29% corresponds to renewed inflows into Venezuela, and another 16% is accounted for by the decline in the net outflow of resources from Argentina. Unlike the year before, when the reduction in the net transfers abroad was due to arrears on debt service, in 1991 the improvement in most of the countries was the result of larger voluntary capital flows, predominantly of a non-debt-related nature.

There was practically no change in the external debt of the region (excluding the English-speaking Caribbean countries), which remained at around US$440 billion. Among the factors responsible for this were the national and international debt reduction programmes. Particularly noteworthy was the United States Government's forgiveness of the bilateral obligations of seven countries. In contrast, there was no major progress under the Brady Plan, since new agreements failed to emerge in 1991. Other elements which helped to reduce the outstanding dollar debt were the revaluation of the United States currency over 12 months *vis-à-vis* European currencies and the access of many countries to extensive non-debt-related financing of various kinds. On the other hand, the main expansionary influences were the borrowing by some countries on the international bond markets and the accrual of debt service arrears by most of the debtor countries.

As in 1990, for the region as a whole, the debt/exports ratio remained unchanged from its high level of nearly 280% for the third year running. Nevertheless, in 1991 six countries had a ratio of less than 200%, compared with only one

in 1987. The accrued interest/exports ratio for the region went down for the fifth consecutive year, this time to 22%. The decline in the coefficient -which is still excessively high- was due solely to the reduction of gross accrued interest payments, mainly because of the drop in international interest rates and, to a lesser degree, the reduction of bank debt and some official obligations.

Despite the substantial progress made with regard to the external debt, its servicing continues to be one of the most serious structural problems of the region; this is reflected in the continuing high debt/exports ratios of most of the countries and the external public debt (which account for 80% or more of total debt) in government budgets. The lower interest/exports coefficients, for their part, have a strong conjunctural component, to the extent that international interest rates are unusually low. Moreover, although it is true that debt servicing arrears have provided important temporary relief in terms of cash flow, they create uncertainty and undermine the management and effectiveness of economic policy. It therefore continues to be urgent to strengthen and increase the flexibility of official debt-reduction programmes.

Figure 1-1

LATIN AMERICA AND THE CARIBBEAN: MAIN ECONOMIC INDICATORS

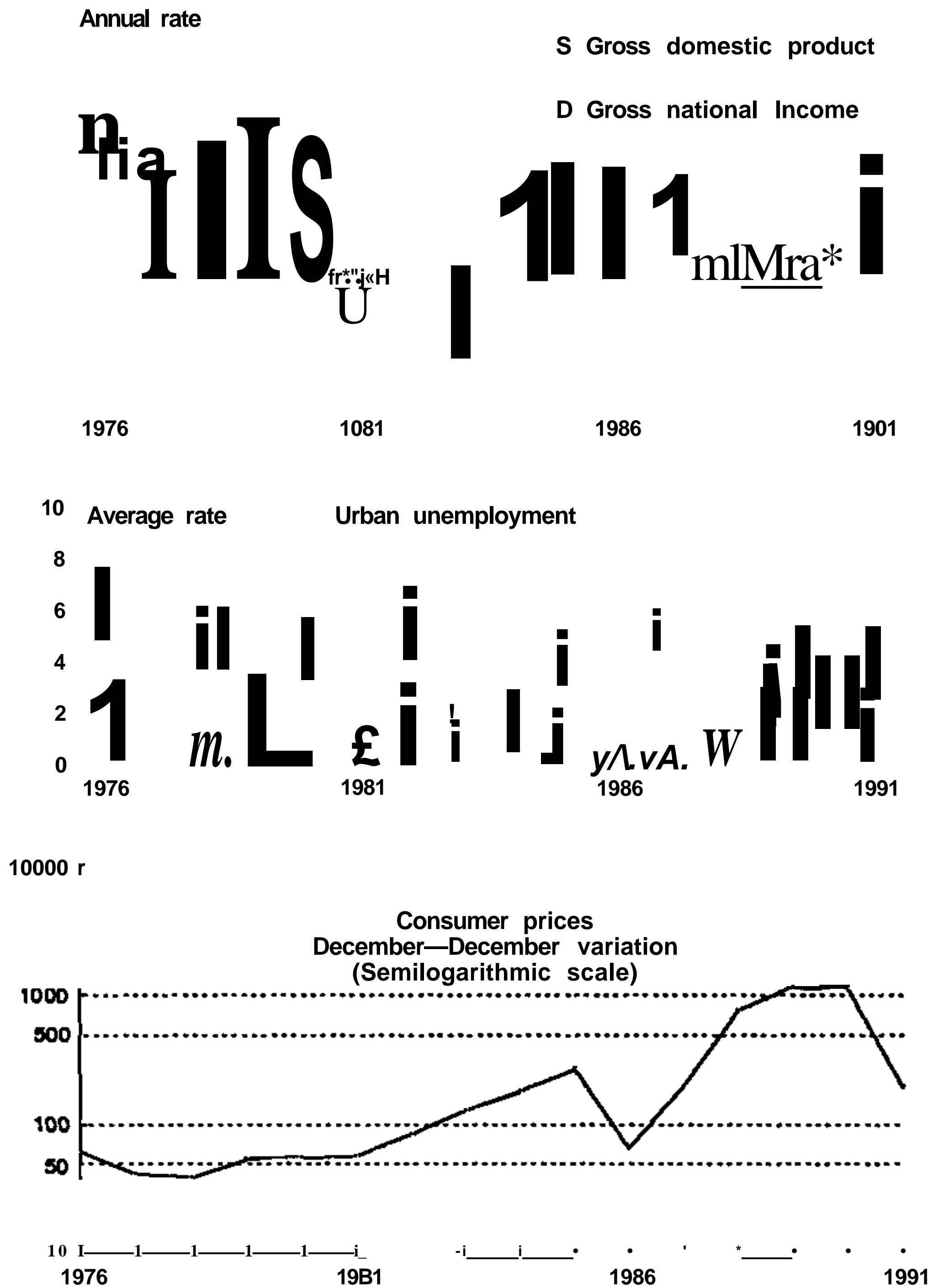
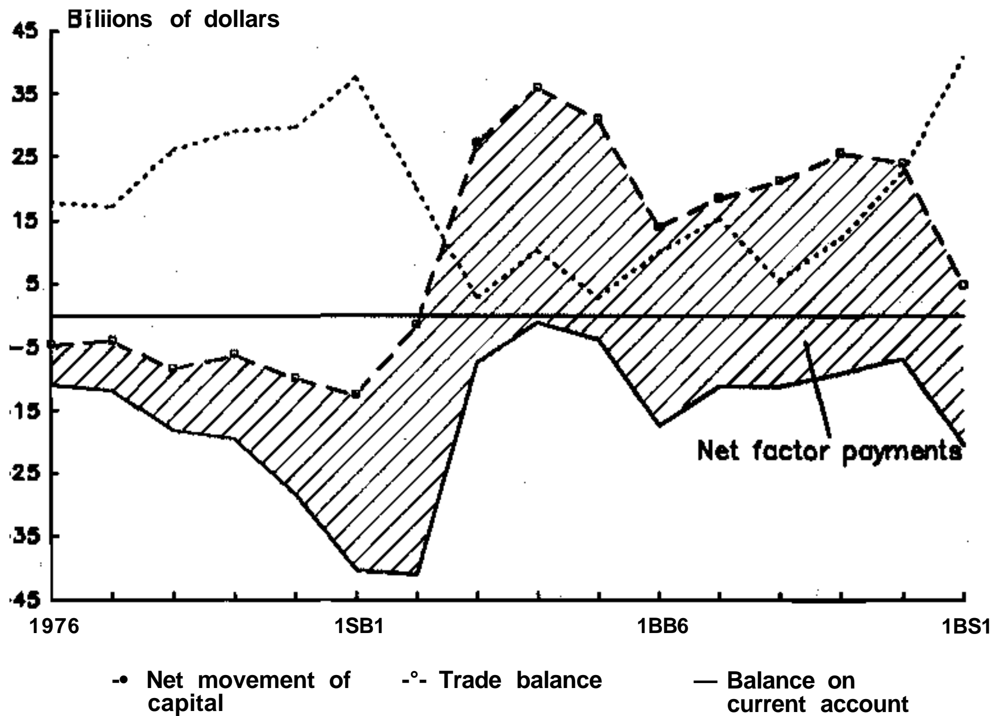
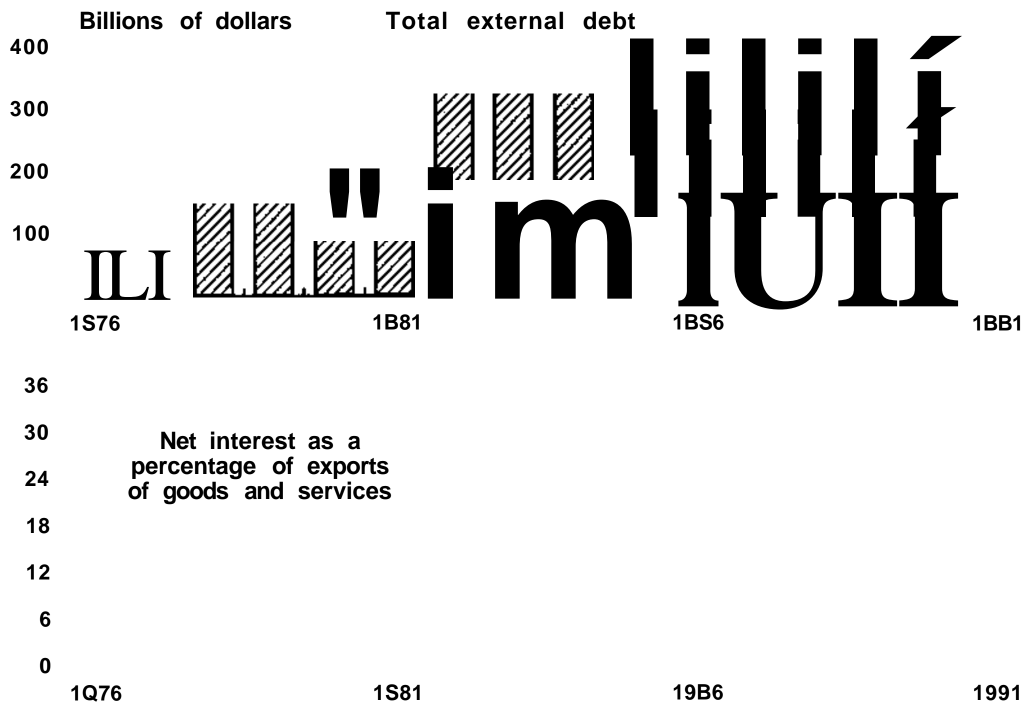


Figure 1-1 (concluded)





Source: ECLAC. on the basis of official data.

Table I-l
LATIN AMERICA AND THE CARIBBEAN: MAIN ECONOMIC INDICATORS

	1984	1985	1986	1987	1988	1989	1990	1991[c]
	Indexes (1980=100)							
Gross domestic product at market prices	99.4	102.7	106.6	109.9	110.9	112.4	112.7	116.4
Gross national income	94.1	97.1	99.7	103.2	103.7	105.1	106.0	109.5
Population (millions of inhabitants)	378.1	386.4	394.8	403.2	411.7	420.3	428.9	437.6
Per capita gross domestic product	90.9	91.9	93.3	94.3	93.1	92.5	90.9	91.9
Per capita gross national income	86.0	86.8	87.2	88.4	87.0	86.4	85.3	86.4
	Percentage ratios							
Urban unemployment rate '	8.2	7.3	6.2	5.8	5.9	5.6	5.8	5.6
	Annual growth rates							
Gross domestic product	**3.3**	**3.3**	**3.8**	**3.1**	**0.9**	**1.4**	**0.3**	**3.2**
Per capita gross domestic product	**1.1**	**0.9**	**1.4**	**0.8**	**-1.4**	**-0.9**	**-1.9**	**1.3**
Per capita gross national income	**1.4**	**0.9**	**0.5**	**1.4**	**-1.5**	**-0.8**	**-1.2**	**1.4**
Consumer prices	**184.8**	**274.7**	**64.5**	**198.3**	**759.4**	**1 161.0**	**1186.6**	**196.1**
Current value of exports of goods and services	10.9	-4.6	-12.8	13.9	14.0	10.9	10.3	1.0
Current value of imports of goods and services	3.4	-0.2	3.9	10.6	13.9	9.1	14.0	16.3
Terms of trade (goods and services)	4.7	-4.8	-10.5	-0.4	1.2	1.1	0.9	-3.7
	Billions of dollars							
External sector								
Trade balance (goods and services)	35.7	30.9	13.9	18.5	21.1	25.1	23.6	**4.5**
Net payment of profits and interest	**37.3**	**35.3**	**32.5**	**31.3**	**34.3**	**38.0**	**34.8**	**30.9**
Balance on current account	**-1.0**	**-3.6**	**-17.4**	**-11.1**	**-11.2**	**-9.1**	**-6.8**	**-20.5**
Balance on capital account	**10.2**	**3.0**	**10.0**	**15.4**	**5.5**	**12.2**	**22.4**	**40.9**
Balance-of-payments position	**9.2**	**-0.6**	**-7.4**	**4.3**	**-5.7**	**3.2**	**15.6**	**20.4**
Total disbursed external debt	**374.0**	**385.1**	**401.0**	**428.1**	**420.9**	**425.4**	**440.9**	**439.9**

Soure»: ECLAC, on the basis of official figures.
*** The figures given for the gross domestic product and the population correspond to the countries appearing in table II-l (except Cuba), while those given for consumer prices refer to the countries listed in table IV-1. The data concerning gross national income and the external sector correspond to the countries shown in table VTI-10. Preliminary figures. ' Weighted average annual rate for 18 of the 25 largest cities in Latin America. December-to-December variation.**

II. LEVEL OF ACTIVITY[1]

After three years of virtual stagnation, the level of activity of Latin America and the Caribbean recovered to some extent (3.2%), raising per capita output for the first time since 1987. Nevertheless, under the persistent effects of the debt crisis and adjustment processes, regional output for 1991 was only 16% higher than that of pre-crisis 1980, while per capita output was 8% below its 1980 level and equal to that of 1977. The carryover of Brazil's recession, with its high inflation rates, had a considerable impact on regional growth, since that country's economy represents close to a third of the total output of Latin America and the Caribbean. The other economies expanded at an average rate of 4.4%, and 2.2% in per capita terms, both increases that had not been seen since 1980.

Growth was widespread but not homogeneous; the degree of change in the level of activity from country to country was significantly different, as were the factors influencing that change. Thus, output expanded considerably, by more than 9% in Panama and Venezuela; in Argentina, Chile and Guyana by between 5% and 6%; in six countries (Belize, Bolivia, Ecuador, El Salvador, Guatemala and Mexico) the level of activity grew by between 3% and 4%; in four countries (Colombia, Paraguay, Peru and Trinidad and Tobago) the expansion was around 2%; in five other countries (Bahamas, Brazil, Costa Rica, Honduras and Uruguay) output increased by 1 % or more, and in Barbados, Haiti, Jamaica, Nicaragua and the Dominican Republic, the level of activity either stagnated or declined. In Cuba, the collapse of economic relations with the eastern European countries furthered the decline in the level of activity that began the year before. Thus, 15 countries registered a higher level of activity than in 1990, while 10 others either had the same level or lower. The small countries of the Organization of Eastern Caribbean States (OECS) maintained their growth rate of the last few years, an average of around 3%, which was a slow-down from the rates of previous years (see table II-1).

Those differences in the rates of change in the level of activity are attributable to differences in conjunctural processes. The highest growth rates were related to diverse phases of economic recovery in countries like Argentina, Panama and Venezuela, or to a speed-up of growth, as in the case of Chile and to a lesser extent Bolivia, Ecuador and El Salvador. The sustained growth of Mexico and Guatemala should also be mentioned. Low growth rates (between 1% and 2%) generally corresponded to phases of slower growth (Colombia, Costa Rica and Paraguay), but also include cases of prolonged stagnation (Uruguay) or persistent recessions (Brazil, Honduras and Peru). The continuation of recessions was also apparent in the decline of the level of activity in Barbados, Haiti, Nicaragua and the Dominican Republic.

High demographic growth rates in several of the countries of the region turned the above-mentioned economic trends into lower or even negative values in per capita terms. In 11 countries, this indicator of well-being either stagnated or declined. Of the remaining 14, only in Argentina, Chile, Guyana, Panama and Venezuela did it grow by more than 3%. Given these results and the poor performance of most of the region's economies during the 1980s, only a small number of countries had a higher per capita

This section and the subsequent five sections deal only with the Latin American countries (Argentina, Bolivia, Brazil, Colombia, Costa Rica, Cuba, Chile, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela). The Caribbean countries other than those contained in that list are discussed in detail in chapter IX.

output in 1991 than in 1980: Belize (28%), Colombia (17%), Chile (17%), Bahamas (8%), Jamaica (2%) and Barbados (2%), and the OECS countries as a whole (55%). At the opposite extreme, the greatest declines in per capita output over that same period were recorded in Nicaragua (-38%), Trinidad and Tobago (-32%), Peru (-29%), Guyana (-28%), Haiti (-22%), Bolivia (-22%), Argentina (-20%), Guatemala (-18%), Venezuela (-16%), El Salvador (-12%), and Honduras (-12%) (see table II-2).

Venezuela's economic recovery from its 1989 recession solidified notably in 1991. Indeed, output grew by more than 9%, under the influence of both petroleum-related and non-petroleum-related activities. The petroleum sector continued to grow at a fast pace (10%), although more slowly than in 1990, due to an increase in exports, which remained throughout the year at the same high levels reached in mid-1990, at the outbreak of the Gulf conflict.

Non-petroleum-related activities also expanded considerably. The construction industry, which tends to behave cyclically, at an especially intense rate. Driven by an increase in public investment, it grew at the extraordinary rate of 34%. Commerce grew by 10%, partially as a result of the significant rise in imports. Manufacturing also performed well (7%), under the impact of a sustained demand for durable consumer goods, including automobiles.

From the viewpoint of aggregate demand, the turnaround in output was mostly influenced by the increase in public sector spending. Investment projects in the petroleum and petrochemical industries were key in this regard. The external sector, unlike the previous year when it was the driving force of total expenditure, was a contractionary element in 1991. This was largely due to the rapid growth of real imports of goods and services (48%). The volume of exports increased less than the year before, and was attributable only to higher oil sales, since non-petroleum exports declined. Private consumption climbed at a faster pace than the moderate rate of 1990 (see tables II-3 and II-4).

Chile's economic activity bounced back considerably, growing by almost 6% after the slow-down of the previous year. This was the eighth year in a row of economic growth, pushing per capita output 17% above that of 1980. The 1991 expansion was grounded on the good performance of non-copper exports, the physical volume of which increased by more than 15%, and the reactivation of domestic demand. The most dynamic sector continued to be transport and communications, followed by fisheries, which recovered in spectacular fashion from the third quarter onward by turning around the conjunctural contraction of demand in the previous quarter brought about by the outbreak of cholera. Manufacturing grew at almost the same rate as that of total output, which was a considerable recovery after the stagnation of the previous year. Construction and mining expanded by nearly 5%, while agriculture grew at a much lower rate, since its level of activity behaved unfavourably during the second half of the year (see table II-3).

In **Argentina** gross domestic product rebounded (growing by more than 5%) in a context of sweeping changes in the rules governing economic activity, which produced a substantially different situation. Thus, per capita output rose for the first time in four years. Expansion of the level of activity was led by domestic demand, and in particular by the consumption of durable goods and by investment. Although the coefficient of gross capital formation remained low, equipment purchases and construction made a strong recovery. The increase in domestic demand was driven by a sharp drop in the high inflation rate, as had happened on previous occasions, although this time with more intensity. The more favourable macroeconomic evolution was also reflected in a considerable recovery of demand for capital goods. The sudden downturn in the inflation rate had an immediate effect on the purchasing power of wage-earners, while the prospect of a more predictable macroeconomic climate broadened the horizon of decision-making and contributed to an expansion of credit. Liquidity constraints were relaxed for the public sector as well as for individuals and private enterprises. Even though high margins of intermediation kept the cost of credit up, the supply of funds and the diversity of financial instruments increased. The reappearance of access to credit by families was reflected in the sale of durable consumer goods and in the real estate market. However, a sizeable part of the

expansion of domestic demand centred on imports, which were also encouraged by the trade liberalization process. Exports, on the other hand, were less buoyant than in recent periods of domestic recession and high real exchange rates. Given these conditions, construction began to recover from the depths to which it had sunk in recent years. The reactivation of industry produced a growth rate of 8%, while agriculture grew by less than 3% (see tables II-3 and II-4).

Mexico's gross domestic product grew by somewhat more than 4%, raising per capita output for the third straight year. After the intense rate of expansion in the third and fourth quarters of 1990, in which several sectors attained yearly growth rates of more than 7%, the growth of output in almost all productive activities began to slow down, a decline especially noticeable during the second half of 1991. This phenomenon was due, on the one hand, to government efforts to balance finances, which led to a contraction of public expenditure, and on the other hand, to the effects of the recession in the United States and the adjustments of the productive apparatus motivated by trade liberalization and the privatization of some State enterprises.

As in 1990, private investment and external demand stimulated the level of activity, although imports as a component of aggregate supply continued to rise. Even though its rate of expansion slowed down, the gross formation of fixed capital still grew at a respectable rate (8.5%), mostly in the private sector, where the rate of fixed investment increased by 14%. That growth was due to the private sector's efforts to expand and modernize plants, made possible by the ample inflow of capital that resulted from greater macroeconomic control and changes in the rules of the game in recent years, such as liberalization and deregulation of the economy and the privatization of some public enterprises. Thus, purchases of machinery and equipment increased at a persistently high rate, while construction slowed to a growth rate of less than 3%.

External demand rose somewhat faster than domestic demand, since it was based on the increase in the volumes of the exports of goods -petroleum as well as other kinds. The biggest rises were in the services sector, especially the in-bond assembly industry and basic services. On the other hand, manufacturing output declined, growing by less than 4% whereas in the previous two years it had reached 7% and 6%, respectively. This loss of buoyancy was mainly due to the relative appreciation of the exchange rate, which made imports more competitive, and the slow growth of the purchasing power of the lower-income strata. Agriculture barely grew, owing to bad weather and less access to credit in real terms, both of which had an unfavourable impact on the production of the main crops in the spring-summer season of 1991-1992. Mining remained stagnant, because of the weak external demand for industrial metals, which was offset by an increase in oil production (see tables II-3 and II-4).

Colombia's output rose by less than 2%, i.e., half as much as the year before, and per capita GDP stagnated. This trend contrasted with that observed throughout most of the 1980s, a period in which Colombia's economy experienced significant growth, except for the interval between 1982 and 1983. The volume of exports continued its expansionary trend (10%), which explains most of the increase in the level of activity. Consumption dropped by 2%, while investment declined by 3%, for the first time in several decades. This was a consequence of the sharp contraction of private investment, led by the uncertainty arising from the new direction in economic policy, which represented a drastic change from those that had prevailed over the past quarter of a century. Agriculture grew by 5%, mostly owing to a rise in coffee sales, since the rest of the sector expanded at a much slower rate. The international price of coffee plummeted by nearly 30% over the last three years, but the domestic price declined by only 7% in real terms during that period, thanks to the National Coffee Fund's price support policy. Moreover, the drop in price was offset by a large increase in output, which went from 11 million sacks in 1989 to 14 million in 1990 and 16 million in 1991. Therefore, the total value of the coffee harvest managed to stay the same in real terms during 1991, which mitigated some of the recessionary pressures arising from the decline in real wages. Manufacturing fell slightly, owing to the contraction of domestic demand, which was compensated for by the buoyancy of manufactures for export. Mining, affected once

again in its petroleum sector by guerrilla activity, contracted by more than 1 %, after seven years of vigorous expansion. Construction, on the other hand, recovered (4%) from its downward slide of the previous two years, thanks to the reactivation of home building.

Brazil's economy continued to be sluggish in the midst of still another speed-up of inflation. The level of activity, after sharply contracting in 1990 (-4%), recorded a modest recovery of a bit more than 1%, but that was due to the temporary expansion of the economy during the first six months of the year. The expansionary trend dissipated during the second half of the year, and by the end of the year the economy had entered another period of recession, the third in less than two years. Recessions in Brazil have alternated with spells of partial recovery, which are becoming shorter and shorter. The sectors most affected by these cycles have been manufacturing and construction, mostly because of the behaviour of durable-goods consumption and investment. The slight recovery that lasted throughout the year was due to domestic demand, which grew by 2%, while the physical volume of exports dropped by almost 2%. The stagnation of productive activity was general, except for the basic-services sector, which increased by almost 7%, and agriculture, which expanded by 2%. Two different phenomena were observed in agriculture. The level of activity of exports dropped, as a consequence of policies adopted the year before, such as the blocking of circulating capital and the cutting back of loans to the agricultural sector, together with the negative impact of the low real exchange rate in 1990 and part of 1991. On the other hand, domestic consumer commodities, such as rice and beans, showed increases of more than 20%, although it was essentially a question of recovering from two poor harvests and responding to the increase in the relative prices of those products.

Industrial output declined slightly in 1991, although it fluctuated widely over the course of the year. Combined with the drastic contraction in 1990, it reached a level of almost 10% below that of 1989. A key factor influencing the evolution of industrial output was the poor performance of capital goods and exports of manufactures, which undoubtedly declined because of the low level of the real exchange rate for part of the year and the increasingly manifest loss of international competitiveness in this sector, owing to a lack of investment in recent years. The growth in the production of durable consumer goods somewhat offset, however, the effect of the declines in the level of industrial activity. Construction remained virtually stagnant, after collapsing the year before. Public works, especially in smaller municipalities, and informal activities only partially offset the adverse conjunctural situation that had affected the sector over the last few years. The considerable expansion of basic services (7%) helped mitigate the sluggishness of the remaining sectors. Other services declined slightly (see tables n-3 and II-4).

Bolivia's output grew more than it did the previous year (4%), and per capita output increased by 1 *%,* which was the biggest rise since 1979. Agriculture was the most dynamic sector, especially in the eastern part of the country, which had an excellent year thanks to abundant rainfall, improved seeds and a more extensive irrigation system. Mining continued to expand significantly, despite the decline in the international prices of almost all minerals. The production of zinc, the mineral with the highest export value in recent years, grew the most (23%). Increased volumes of antimony, wolfram, tin and silver were also extracted while copper, lead and gold declined. Hydrocarbon extraction grew by more than 3%. Manufacturing, electricity and commerce bolstered the expansion, while construction again grew only modestly. Fixed investment bounced back significantly (11%), as projects were carried out in hydrocarbons and transport by the public sector, and in hydrocarbons, mining and agroindustry by the private sector. Private foreign investment projects and joint ventures with public enterprises were facilitated by new laws passed in 1990 governing investments and hydrocarbons. Large stocks were accumulated after several years of decline (see table II-4).

Paraguay recorded a modest growth rate (slightly above 2%), which furthered the slow-down that began the year before. That was mostly due to a virtual stagnation in industry and setbacks in agriculture. Weather conditions favoured cotton production, while that of

soybeans declined significantly. The forestry sector grew by 4%, owing to the higher rate of extraction of lumber for construction and export. Construction, mostly of dwellings, increased by 3%. Mining and services were the most dynamic sectors. Basic services grew by 7%, stimulated by the expansion of electric power, since the hydroelectric plant of Itaipu began to produce at full capacity and electrification networks were extended. Telecommunications also improved considerably both domestically and internationally. As in previous years, commercial services continued to expand, owing to the high levels of sales of imports to residents of neighbouring countries. The rise in investment and especially the expansion of consumption sustained the level of activity, even though exports were declining (see tables n-3 and II-4).

Uruguay's growth rate improved (1.5%), compared to the virtual stagnation of the previous three years; this led to a 1 % increase in per capita output. Domestic demand expanded significantly, thereby recovering from three years of a downward slide, which helped the level of activity to grow modestly, but at the same time contributed to a considerable rise in imports, which expanded by 17% in physical volume. The productive services whose level of activity rose the most were electricity and commerce, restaurants and hotels, largely owing to sales to non-residents. The marketing of imports was also a significant factor. On the other hand, the production of goods declined again, with agriculture and manufacturing practically at a standstill. Harvests of im portant crops were poor, and manufacturing was affected by a considerable contraction of beef processing, owing to a decline in demand from Brazil and the European Economic Community. Construction again shrank, since the increase in private building was insufficient to compensate for the drop in public sector activity.

Peru's output rose slightly (almost 2%) after three years of severe declines (-23%, cumulatively). Economic trends continued to reflect the tensions arising from drastic stabilization measures and radical structural adjustment policies adopted in August 1990 to slow down rampant inflation and to deal with the serious crisis affecting the country. During the course of the year, however, especially during the third quarter, economic activity recovered to some extent. Agricultural output in general began to recover from the low levels of the previous year, when a long drought damaged the main crops. Industrial production recovered significantly (6%), but continued to be far below (-26%) its 1987 level, and was even 13% below that of 1980. An especially significant factor in the recovery was the sharp reduction of the inflation rate (from 18% a month at the beginning of the year to an average of 4% in the last months of the year), which provided a more secure business climate. The production of some metals also increased, especially copper, largely because there were fewer labour problems. During the second half of the year, however, new difficulties arose in the form of trade-union organized strikes to protest against privatizations and the closing of certain mines, and a loss of competitiveness, as reflected in the low level of the real exchange rate. Oil production plummeted (-12%), owing to the financial problems of the Peruvian oil company (PETROPERU) that led to inadequate maintenance of equipment. The fisheries sector also dropped considerably (-11%), because of problems of domestic demand arising from the outbreak of cholera, which were only partially offset by a rise in the production of fish meal for export. Construction fell by 2%, owing to a decline in the level of public investment, which was constrained by the fiscal adjustment policy, and to a contraction of demand in the private sector.

Output in Ecuador grew by more than 4%, and hence per capita GDP rose by more than 1.5%. This increase was made possible by strong growth in agricultural and fisheries exports, especially bananas and shrimps. Also, unlike in previous years, domestic demand showed positive signs. Gross fixed capital formation expanded by almost 8%, owing to an increase in public and private investment. Consumption, nevertheless, barely rose (1 %). A good part of the increase in domestic demand, however, filtered out of the country, since the physical volume of imports jumped by 19%. The most buoyant sectors were those of agriculture and of electricity, gas and water, with growth rates above 6%. Mining also performed well, growing by almost 5%, while the industrial sector attained a figure close to 4%. Construction, however,

declined for the second consecutive year, due to the sluggishness of public and private demand. The expansion of fixed investment was almost exclusively centred on machinery and equipment -virtually all imported goods- while that related to construction declined (see tables II-3 and II-4).

The countries of the Central American Common Market (GACM) had modest growth rates, while their per capita rates either stagnated or increased slightly. Most of the Central American region suffered from a severe drought, which had a negative effect on agriculture and the generation of electric power, forcing several countries to ration the distribution of electricity during some months of the year (see tables II-1 andII-2).

In Costa **Rica** the recessive trends of the previous year worsened. Productive activity grew by only 1 %, whereas the average for the five previous years was 4.4%. That slow-down was caused by the adjustment programme adopted to correct macroeeonomic imbalances through fiscal measures and the application of a more restrictive monetary policy. Fiscal adjustment caused production costs to rise, in so far as it raised the price of fuels, placed a 10% surcharge on imports, raised taxes and advance deposits requirements for imports and established higher interest rates. These actions discouraged investment and production. Nevertheless, their adverse impact was attenuated by a recovery of non-traditional exports. The economy as a whole slowed down, but the sectors most affected were construction, with a sharp drop in the level of activity (-13%), and to a lesser extent, industry, in which the decline was only in its growth rate. Agriculture grew slightly less than the previous year, but in any case considerably more than the economy as a whole. The change in relative domestic prices produced by liberalization provided an incentive for agricultural output.

Guatemala saw modest growth (slightly more than 3%), practically the same as the year before, attaining growth rates of more than 3% for the fifth year in a row. Construction showed a strong recovery, especially for residential and commercial building, after a sharp drop in 1990. Services maintained the same growth rate as they had in previous years, especially transport, storage and communications, a sector which expanded by more than 6%. Agricultural growth was satisfactory, despite the drought that mainly affected the production of basic grains; this was made possible by an increase in the production of export crops, such as sugar, cotton, coffee and bananas, owing to an increase in area planted and better yields. Industrial output, however, showed modest growth (less than 2%), due to a decline in real wages and the continuation of the policy of trade liberalization. This policy was put into practice so rapidly that it caused problems for some traditional, domestically oriented enterprises, which had to adapt to external competition. The drought also affected the generation of electricity, forcingrationing during September and part of October, which had a negative impact on virtually all sectors. The in-bond assembly industry for clothing and textiles continued the same vigorous expansion it displayed during the last five years, becoming an important source of foreign exchange and employment.

El **Salvador's** level of economic activity grew by more than 3% in 1991, a rate similar to that of the previous year but far above the average rate for the 1980s. Moreover, this was achieved in the restrictive context defined by the stabilization policy and adverse short-tèrm factors, both domestic and external. One such domestic factor was the persistence of the armed conflict, since military operations continued despite progress in negotiations. The drought also affected agriculture and hydroelectric power supply, making it necessary to ration electricity consumption from August to December, which had a negative effect on the activity of most productive sectors and made it necessary to generate thermal energy at higher costs. Especially important among the external adverse factors was the new drop in the price of coffee. However, with the exception of the agricultural sector, which virtually stagnated* other sectors had higher growth rates, driven by the reactivation of investment. The production of non-tradeable goods strengthened considerably, especially construction, which displayed its buoyancy by growing by more than 10%. Industry was also stimulated by a healthy flow of investment and exports to the Central American Common Market. The 18% increase in gross fixed capital formation was a sign of greater confidence on the part of the business sector,

based on the economic reforms initiated towards the end of 1989; the favourable performance of the real estate market; the implementation of the government investment programme and the inflow of external resources, and the perception that domestic peace could be achieved soon.

The level of economic activity in **Honduras** grew by somewhat more than 1%, continuing the recessive situation of the previous year. Per capita GDP fell once again, reaching a level 12% below that of 1980. That unfavourable result was especially affected by the adjustment process in effect since 1990 to offset macroeconomic imbalances and the surge of inflation, which brought on a sharp contraction in government consumption and kept exports stagnant. The recessive trends produced by those factors were only offset by a recovery of private investment. Agriculture reactivated somewhat, thanks to the creditable performance in stock-raising and fisheries, and in growing crops for the domestic market, while the output of export crops declined, especially bananas and coffee. Manufacturing remained stagnant. Higher costs for inputs owing to devaluation, contraction of demand and lower duties on imports all affected to different degrees the performance of industrial branches. The in-bond assembly industry, however, intensified its activity over the course of the year, with value added increasing by more than 50%. After declining the year before, construction showed moderate growth, due to the reactivation of public investment, since private investment remained depressed. Electric power generation declined by 2%, since the drought that affected the country prevented electricity sales from being made to other countries during the second half of the year.

Nicaragua's level of economic activity declined slightly (-0.4%), continuing the downslide of per capita GDP observed throughout the 1980s. Sweeping changes took place in 1991 in the econom ic and institutional structures of the country, introduced by the new Government that came to power after the elections of February 1990 and as a consequence of the end of the long civil conflict. The economic recession, however, could not be turned around, in so far as exports plummeted sharply (-16%) and public expenditures were cut back drastically. The main export commodities were affected by depressed external markets and adverse weather conditions. Restrictive policies governing public expenditures, money supply and credit offset the expansionary effects of the inflow of foreign exchange and tax reductions to stimulate production and sales. The country wound up with a decapitalized economic base, severe technological gaps, deteriorated human resources and a degree of instability characteristic of a change process involving property and adjustments on the part of economic agents. These difficulties affected agriculture, the country's most important activity. The sharp drop in agricultural output (-5%) and the reduction of the Government's sphere of action -including military action- were counteracted by growth in manufacturing for the first time in years. The recovery of industrial output (10%), even though with diverse performances among the different industrial branches, was due to an improvement in facilities for importing, and a better supply of inputs, which had been severely restricted for several years. However, government reform paralyzed the activities of public enterprises in the process of being privatized. Construction once again contracted considerably, owing to constraints on public expenditures. Lack of sufficient electricity also became a serious obstacle to the smooth functioning of productive activity. The insufficient generation of hydroelectricity was amply compensated for by the generation of electricity by geothermal means and steam, but the sorry state of the infrastructure led to huge transmission losses, making it necessary to resort to even further rationing of consumption.

Panama, for the second year in a row, continued to recover economically from the severe political and external conflicts that had led to a deep depression in its level of activity. Growth rose to more than 9%, and even though it was higher than the year before, it was still insufficient to return to the levels of activity of 1987. Expansion was based on all the components of aggregate demand, but especially the remarkable rise in investment (53%) and the sustained expansion of exports. Given greater access to bank credit, both consumption and private investment -especially in construction- showed solid recovery, while public investment reacted after four consecutive years of sharp

drops. At the sectoral level, construction doubled its activity, while commerce and manufacturing grew by more than 10%, surpassing pre-crisis levels; basic and financial services grew more modestly. Agriculture increased by 5%, due to an expansion of stock-raising, which offset the slight decline in crop-raising, affected by adverse climatic conditions in some exportable goods (see tables II-3 and II-4).

The level of activity in the **Dominican Republic** continued to be affected by the adjustment programme put into effect to control the outbreak of inflation in 1990; the monetary and fiscal measures applied during the second half of that year generated a sharp contraction in aggregate expenditure. Gross domestic product declined slightly, adding to the larger drop in 1990. Thus, in the last biennium per capita output accumulated a contraction of close to 10%, reaching values attained in the mid-1970s. Activity plummeted in construction and mining, and virtually stagnated in manufacturing. Agriculture and services, on the other hand, recovered slightly. Construction plummeted owing to the continued decline in public investment in real terms, added to a reduction of private construction derived from the high cost of credit. Mining continued its downward slide of recent years, marked by lower output in gold and silver, because of exhausted mines, and stagnation in ferronickel, due to a decline in external demand. Manufacturing was affected by a drop in the purchasing power of the general population. The favourable performance of sugar mills stimulated the expansion of the food sector, which was followed by the processing of other agricultural goods. Beverages and tobacco, on the other hand, dropped decisively, and other branches of the sector also declined, but to a lesser extent.

Cuba's economy felt the full impact in 1991 of the effects of the collapse of its economic relations with the former Soviet Union and the end of trade with the countries of eastern Europe. Although official data are not available, it is estimated that the global social product dropped by around 15%, solely due to the effect of the contraction of trade with the countries belonging to the Council for Mutual Economic Assistance (COMECON). This compounded the impact of a decline of between 3% and 4% in output the previous year. The break-up of the Soviet Union and the spectacular events in the eastern European countries meant that the main sources of the Cuban economy's external supply were no longer available. In only two years, the end of trade with those countries reduced Cuba's purchasing power abroad by half. One of the clearest signs of those problems was the notable drop in the price of sugar sold in 1991 to the Soviet Union. The negative effect was particularly intense in the industrial sector, where numerous plants were semi-paralyzed. On the one hand, that paralyzation was partly due to operational and input-supply problems, and on the other, to the disarray of the markets to which Cuba exported a considerable volume of its manufactures. Moreover, the abnormal supply of fuel and spare parts and other inputs for the sugar mills, together with the effects of the intense rains that interrupted work during the month of April, limited the sugar cane harvest to 7,600,000 metric tons, 6.5% lower than that of the year before. The transport sector, both freight and passenger service, was very much affected, causing new problems for the national economy in transporting goods from and to the country.

In 1991, **Haiti's** economy intensified the recessive trends that began to be seen after the 1987 suspension of the main economic aid programmes. Gross domestic product declined by 1.6% in 1991, leading to a drop in per capita output of 3.4%, the worst in the last 10 years. Stagnation in agriculture went hand in hand with declines in manufacturing and construction. The accumulation of long-standing disequilibria and the social and political disturbances during the election and transition to a new government had an impact on the poor performance of the country's economy. The new administration launched a reform programme during the second half of the year designed to reactivate the economy, but the measures adopted were unable to turn around the depressive trends, since they were interrupted by the fall of the constitutional Government at the end of September after only eight months in effect. That plunged the country into tremendous political and economic uncertainty, and affected trade and financial relations with the rest of the world, owing to the embargo that followed the sudden political change.

Table **II-l**
LATIN AMERICA AND THE CARIBBEAN: GROWTH OF TOTAL GROSS DOMESTIC PRODUCT
(Growth rates)

	1985	1986	1987	1988	1989	1990	1991[a]	Cumulative variation 1981-1991[3]
Latin America and the Caribbean	**3.3**	**3.8**	**3.1**	0.9	**1.4**	0.3	3.2	**16.4**
Oil-exporting countries	2.2	*03*	2.5	2.1	0.1	**3.9**	*A3*	**19.6**
Bolivia	-1.0	-2.5	2.6	3.0	2.8	2.6	4.1	2.8
Colombia	3.8	6.9	5.6	4.2	3.5	3.7	1.9	46.0
Ecuador	4.3	3.0	-7.3	11.7	-0.1	1.8	4.2	26.7
Mexico	2.6	-3.8	1.7	1.2	3.3	4.4	3.6	21.8
Peru	2.2	8.7	8.0	-8.4	-11.5	-5.1	1.9	-9.2
Trinidad and Tobago	-4.2	-2.1	-5.4	-2.5	-0.2	1.3	1.8	-18.5
Venezuela	-0.1	6.6	3.9	5.8	-7.9	5.8	9.1	12.6
Non-oil-exporting countries	4.2	**6.6**	**3.6**	-	2.4	-2.4	2.3	**13.8**
South America	**4.6**	**7.0**	**3.5**	.	*13*	-2.7	2.4	**13.7**
Argentina	-4.4	6.1	2.1	-2.8	-4.6	-0.2	5.3	-6.9
Brazil	7.9	7.6	3.6	-0.1	3.3	-4.0	1.2	17.9
Chile	2.2	5.7	5.7	7.5	9.8	2.0	5.8	40.4
Guyana	1.1	0.2	0.6	-4.1	-5.0	-5.6	6.1	-24.3
Paraguay	4.0	-0.3	4.5	6.7	5.9	3.1	2.3	39.8
Suriname	2.0	0.7	-6.2	7.1	2.0	-		
Uruguay	1.7	8.3	7.9	-0.2	1.5	0.7	1.5	3.0
Central America and the Caribbean	0.2	**2.2**	**4.4**	-0.2	**3.4**	0.9	**1.8**	**15.3**
Bahamas	5.2	1.4	4.6	4.5	4.0	-	1.0	31.7
Barbados	0.9	5.1	2.7	3.6	3.7	-3.4	-4.1	4.8
Belize	0.3	2.2	12.5	6.6	14.7	8.9	4.2	68.0
Cuba[c]	4.6	1.2	-3.9	2.2	1.0	1.0		
Haiti	0.4	1.0	0.1	1.3	0.7	-0.7	-1.5	-4.0
Jamaica	-5.4	2.2	6.7	1.2	6.2	3.8	0.2	19.3
Panama	4.8	3.5	2.0	-16.0	-0.3	5.1	9.1	15.5
Dominican Republic	-1.9	3.0	7.9	1.0	4.5	-5.2	-0.6	20.4
Central American Common Market	*03*	**1.5**	**3.4**	**1.6**	3.2	2.4	2.1	**11.8**
Costa Rica	0.7	5.3	4.5	3.2	5.4	3.5	1.0	26.4
El Salvador	1.8	0.5	2.7	1.5	1.1	3.4	3.3	2.1
Guatemala	-0.2	0.5	3.7	4.1	4.2	3.0	3.3	11.8
Honduras	2.8	2.3	4.9	4.9	4.7	-0.5	1.2	26.9
Nicaragua	-4.1	-1.0	-0.7	-13.4	-4.1	0.9	-0.4	-15.3
OECS countries	5.5	6.8	6.1	7.0	4.9	4.3	2.9	70.3
Antigua and Barbuda	7.7	8.4	8.7	7.1	6.4	2.8	1.6	82.9
Dominica	1.6	6.9	6.8	7.9	-1.4	6.2	2.1	56.9
Grenada	5.4	5.5	6.0	5.3	5.7	5.2	2.9	62.2
Saint Kitts and Nevis	5.7	6.3	7.4	7.0	5.2	2.5	6.9	79.2
Saint Lucia	5.9	5.8	2.2	6.8	5.0	3.7	1.7	54.4
Saint Vincent and the Grenadines	4.7	7.3	5.8	8.4	5.9	6.6	4.6	90.7

Source: ECLAC, on the basis of official figures converted into dollars at constant 1980 prices.
* Preliminary estimates. ExcludesCuba. [c] Refers to total social products. OECS = Organization of Eastern Caribbean Sutes.

Table II-2

LATIN AMERICA AND THE CARIBBEAN: GROWTH OF PER CAPITA GROSS DOMESTIC PRODUCT

(Growth rates)

	1985	1986	1987	1988	1989	1990	1991[a]	Cumulative variation 1981-1991a
Latin America and the Caribbean	0.9	1.4	0.8	-1.4	-0.9	-1.9	***13***	-7.9
Oil-exporting countries	-0.2	-2.0	0.2	-0.2	-2.1	**1.6**	2.1	-7.2
Bolivia	-3.4	-4.9	0.1	0.5	0.4	0.2	1.7	-21.9
Colombia	1.7	4.8	3.6	2.2	1.5	1.7	-	16.9
Ecuador	1.6	0.4	-9.7	8.8	-2.6	-0.7	1.6	-5.1
Mexico	0.2	-5.9	-0.5	-1.0	1.0	2.2	1.4	-5.5
Peru	-	6.4	5.8	-10.3	-13.3	-7.0	-0.1	-28.6
Trinidad and Tobago	-5.8	-3.7	-7.1	-4.2	-1.8	-0.3	0.3	-32.2
Venezuela	-2.7	3.7	1.1	3.0	-10.2	3.2	6.4	-16.4
Non-oil-exporting countries	1.8	4.1	1.2	***•13***	.	-4.7	0.6	-8.7
South America	2.6	5.0	1 3	-1.9	0.4	-4 3	0.6	-8.4
Argentina	-5.7	4.7	0.8	-4.0	-5.8	-1.4	4.1	-19.6
Brazil	5.6	5.3	1.5	-2.1	1.2	-5.9	-0.7	-6.7
Chile	0.5	4.0	3.9	5.7	8.0	0.3	4.1	16.9
Guyana	0.5	-0.1	0.5	-4.1	-5.1	-5.9	5.5	-28.2
Paraguay	0.9	-3.3	1.5	3.6	2.9	0.2	-0.5	-
Suriname	0.1	-1.1	-8.0	5.0	-	-1.9		
Uruguay	1.1	7.6	7.3	-0.7	0.9	0.2	0.9	-3.6
Central America and the Caribbean	-2.1	-0.1	2.0	-2.5	1.0	-1.5	0.6	-9.7
Bahamas	3.2	-0.4	2.8	2.7	2.3	-1.7	-0.7	7.5
Barbados	0.6	4.9	2.5	3.4	3.5	-3.6	-4.4	2.1
Belize	-2.2	-0.2	9.8	4.1	12.0	6.4	1.8	28.2
Cuba[c]	3.5	0.2	-4.8	1.1	-	-		
Haiti	-1.5	-0.9	-1.9	-0.8	-1.3	-2.7	-3.5	-22.4
Jamaica	-6.8	0.8	5.4	-	5.0	2.6	-1.0	2.4
Panama	2.6	1.3	-0.1	-17.7	-2.3	3.1	7.0	-8.4
Dominican Republic	-4.1	0.7	5.5	-1.2	2.3	-7.2	•2.6	-6.3
Central American Common Market	•23	-1.1	0.7	-1.0	0 3	-0-3	**40.7**	**-16.3**
Costa Rica	-2.1	2.4	1.6	0.4	2.6	0.8	-1.6	-7.2
El Salvador	0.6	-1.0	1.0	-0.3	-0.8	1.4	1.2	-12.4
Guatemala	-3.0	-2.4	0.8	1.1	1.3	-	0.4	-18.3
Honduras	-0.7	-1.1	1.6	1.6	1.5	-3.5	•1.9	-12.3
Nicaragua	-6.7	-3.5	-3.0	-15.4	-6.6	-2.1	-3.9	-37.7
OECS countries	4.6	5.9	5.1	6.0	3.9	3.5	2.1	54.8
Antigua and Barbuda	7.6	8.3	8.7	7.1	6.5	2.7	1.4	80.2
Dominica	0.3	5.9	5.9	7.1	-2.0	5.6	1.5	39.1
Grenada	6.0	6.1	6.5	5.7	6.1	5.7	3.4	72.7
Saint Kitts and Nevis	5.7	6.3	7.4	7.0	5.2	2.5	6.9	79.2
Saint Lucia	3.7	3.5	-0.2	4.3	2.7	1.7	0.1	23.1
Saint Vincent and the Grenadines	3.5	5.9	4.4	7.0	4.6	5.4	3.5	67.5

Source: ECLAC, on the basis of official figures converted into dollars at constant 1980 prices.
* Preliminary figures. Excludes Cuba. Refers to total social product. OECS = Organization of Eastern Caribbean States.

Table II-3

LATIN AMERICA AND THE CARIBBEAN: CROSS DOMESTIC PRODUCT, BY BRANCHES OF ECONOMIC ACTIVITY, AT MARKET PRICES

(Annual growth rates)

	Agriculture		Mining and quarrying		Manufac-turing		Construction		Subtotal goods		Basic services		Other services	
	1990	1991*	1990	1991*	1990	1991*	1990	1991*	1990	1991*	1990	1991*	1990	1991*
Latin America and the Caribbean	**1.2**	2 3	5.5	3.0	-2.6	*23*	-3.7	4.7	-0.9	2.6	3.2	5.8	0.7	2.7
Argentina	9.8	2.5	-1.6	-	-4.8	8.0	-18.8	15.0	-1.4	6.1	2.3	2.0	0.2	5.6
Barbados	7.2	-3.4	6.5	-6.1	-2.7	-4.0	-10.2	-11.0	-2.0	-5.7	0.3	-0.5	-4.5	-4.1
Bolivia	-2.0	7.2	7.6	5.3	5.7	6.7	2.5	2.0	2.8	6.2	3.1	4.2	3.0	2.1
Brazil	-3.7	2.1	2.8	0.3	-8.7	-0.6	-8.3	0.3	-7.0	0.2	1.7	6.9	-2.1	-0.4
Colombia	6.6	4.9	3.0	-1.4	4.3	-0.5	-15.1	4.2	3.1	1.6	4.5	2.9	3.6	3.1
Costa Rica	2.7	2.5			3.0[b]	1.0[b]	-2.6	-13.4	2.3	0.3	6.6	2.3	4.1	1.4
Chile	3.0	1.8	-0.9	4.8	0.2	5.5	2.5	4.7	0.8	4.6	7.9	10.7	2.3	5.5
Ecuador	2.7	6.6	-0.5	4.8	-1.3	3.7	-13.7	-3.2	-1.3	4.2	6.0	4.2	2.4	3.8
El Salvador	7.4	-0.3	-8.2	11.1	3.0	4.9	-12.8	10.1	4.1	2.2	6.0	5.6	2.3	4.0
Guatemala	3.7	3.0	-12.2	2.3	2.0	1.5	-7.7	8.8	2.0	2.9	7.2	6.1	2.9	3.0
Haiti	-0.9	-1.5	-20.0	-1.5	-0.9	-1.5	-18.2	-1.5	-2.9	-1.5	-2.3	-1.5	2.8	-1.5
Honduras	1.1	3.4	-9.0	5.6	0.7	-	-9.9	3.2	-0.6	2.2	5.8	1.8	-1.7	-0.1
Jamaica	3.8	2.0	3.8	2.0	3.8	2.0	3.8	2.0	3.8	2.0	3.8	2.0	3.8	2.0
Mexico	6.1	0.5	2.8	0.1	5.8	3.7	7.0	2.6	5.7	2.6	6.2	5.6	3.2	4.1
Nicaragua	5.4	-4.6	-22.1	-3.5	-3.1	10.6	-9.3	-10.9	0.4	1.2	3.8	4.2	1.0	-3.2
Panama	4.2	5.0	33.3	65.0	11.9	11.2	38.9	104.2	9.7	16.3	0.3	10.0	3.3	7.5
Paraguay	2.2	-0.6	3.7	5.0	2.5	1.1	-0.9	3.0	2.0	0.3	8.0	6.9	3.6	4.1
Peru	-8.2	1.1	-4.2	-3.9	-6.9	5.8	3.2	-1.6	-5.5	1.3	-6.0	4.8	-4.6	2.0
Dominican Republic	-6.3	2.4	-16.3	-4.4	-7.8	-0.6	-19.5	-10.9	-10.6	-1.7	-2.6	4.7	-0.4	-0.2
Trinidad and Tobago	15.3	1.8	1.7	1.8	2.9	1.8	-4.6	1.8	1.9	1.8	2.8	1.8	-1.5	1.8
Uruguay	1.4	-	-21.8	-1.7	-1.5	-0.5	-11.9	-1.5	-1.4	-0.4	3.1	4.4	1.8	0.7
Venezuela	-0.3	6.0	16.9	8.2	4.2	7.2	6.7	33.9	8.7	10.2	2.1	8.6	3.9	7.5

Source: ECLAC, on the basis of official figures converted into dollars at constant 1980 prices.
*** Preliminary figures. Includes mining and quarrying.**

Table **II-4**

LATIN AMERICA AND THE CARIBBEAN: VARIATION IN THE COMPONENTS OF AGGREGATE DEMAND

(Annual rates of variation)

	Consumptioni				Gross investment				Demand		Exports		Aggreigate dem:and	
	Private		Government		Fixed		Domestic							
	1990	1991*	1990	1991*	1990	1991*	1990	1991*	1990	1991*	1990	1991*	1990	1991*
Latin America and the Caribbean''	0.5	3.9	2.8	**3.1**	-0.7	7.5	-1.4	**10.5**	0.4	4.9	4.5	3.6	1.2	4.6
Argentina	-3.6	10.7	[c]	[c]	-13.6	30.0	-6.4	25.0	-3.9	12.1	15.7	1.8	0.0	9.7
Bolivia	0.1	3.1	4.0	2.0	-4.3	10.8	-6.4	46.5	-0.2	7.8	18.2	2.1	3.4	6.6
Brazil	-1.2	2.4	[c]	[c]	-8.0	0.5	*t*	*t*	-2.7	2.1	-7.0	-1.6	-3.2	1.6
Colombia	1.6	-2.1	7.1	2.6	-2.9	-2.8	-3.1	-2.5	1.4	-1.6	18.1	10.1	4.1	0.5
Costa Rica	0.3	-3.4	2.0	1.0	14.4	-12.5	8.7	-27.1	2.6	-8.7	8.9	7.6	4.8	-2.7
Chile	1.1	4.8	1.6	3.6	6.9	-1.0	-2.5	2.1	0.5	4.2	5.5	9.9	1.7	5.7
Ecuador	2.2	1.2	2.4	2.5	-9.9	7.8	-7.4	21.6	0.4	4.9	4.3	9.2	1.6	6.2
El Salvador	2.9	2.4	0.9	4.0	-17.3	17.9	-29.2	11.5	-2.9	3.8	33.3	0.1	3.0	3.0
Guatemala	-4.0	5.0	3.1	1.8	-10.9	5.6	3.5	3.8	-1.9	4.4	16.0	1.9	1.3	3.9
Haiti	-3.2	0.2	[c]	[c]			-2.6	-1.7	-3.1	-0.2	-8.2	-13.0	-3.7	-1.7
Honduras	0.4	3.3	-13.5	-11.4	-8.5	16.0	6.9	12.7	-0.3	3.4	-1.9	-3.0	-0.7	2.0
Mexico	6.1	5.1	2.3	2.7	13.2	8.5	11.2	6.9	6.7	5.2	4.0	5.4	6.2	5.2
Nicaragua	-8.6	27.2	25.4	-35.3	-7.0	-8.9	-9.4	8.0	-1.1	7.2	7.3	-16.7	0.1	3.6
Panama	1.0	2.1	-9.6	0.6	31.7	77.1	340.8	52.7	17.3	12.5	8.0	19.1	14.2	14.6
Paraguay	7.9	9.8	3.2	6.4	10.1	5.8	9.2	8.6	7.8	9.3	16.3	-3.3	9.8	6.3
Peru	-3.7	1.4	-3.8	-4.9	2.1	7.7	3.0	19.8	-2.5	4.1	-5.1	-1.1	-3.0	3.2
Dominican Republic	-6.6	-0.7	-10.1	-10.3	-12.9	-0.6	-12.9	1.8	-8.5	-0.8	5.0	-3.2	-6.4	-1.2
Uruguay	-5.6	4.6	4.2	4.1	-5.9	14.5	5.6	18.2	-2.8	6.1	7.6	-1.0	-0.3	4.3
Venezuela	1.6	3.2	6.9	9.2	-2.8	36.6	-8.7	105.9	1.0	18.1	11.1	4.7	4.2	13.5

Source: ECLAC, on the basis of official figures converted into dollars at constant 1980 prices.
* Preliminary figures. Nineteen countries; figures relating to consumption and investment include estimates in the case of some countries for which data were lacking. [c] Government consumption is included under private consumption. Variation in stocks is included under private consumption.

III. TOTAL SUPPLY AND DEMAND

1. trends

In 1991, the overall economy of Latin America and the Caribbean recovered slightly after three years of virtual stagnation. This was reflected in upturns in activity level, total supply and domestic availability of goods and services, in response to a revival of private investment (which in many cases had been at a very precarious level) and, to a lesser extent, to the expansion of exports. However, the effects of the severe economic crisis which has eroded levels of well-being in the region since the early 1980s are still far from being overcome.

Total supply rose 4.6%, reaching its highest level since 1981 and reversing the downward trend caused by four consecutive years of deceleration (see table III-l). The volume of regional imports grew at the rate of 15%, which, being higher than those recorded in previous years, surpassed the 1981 level for the first time. This phenomenon was especially influenced by the notable increases in import volume observed in Argentina (76%), Venezuela (48%), Panama (27%), Mexico (19%), Ecuador (19%), Bolivia (18%), Paraguay (18%), Uruguay (17%), Nicaragua (14%), Peru (10%) and, to a lesser extent, Brazil, Chile and Guatemala. Only four countries recorded a drop in import volume, the most notable of which were Colombia and Costa Rica, where imports declined about 10%. On the contrary, the volume of exports grew only about 4%, accentuating the deceleration of recent years. The largest increase was recorded in Panama (19%), while the expansion in Chile, Colombia, Costa Rica and Ecuador was between 8% and 10%, and in the Dominican Republic, Mexico and Venezuela, between 5% and 6%. In contrast, sharp decreases were recorded in Haiti and Nicaragua (-13% and -17% respectively), while exports from Brazil and Paraguay declined between 2% and 3%.

As a result of the disparity between real expansion rates of imports and exports, the trade surplus in goods and services contracted significantly (-25%), while the domestic availability of goods showed an appreciable increase (5%). This increase brought the level to 7% above that reached in 1980, although, in per capita terms, it remained 17% below the 1980 level (see table III-l).

Domestic demand expanded, owing to the vigorous recovery of gross capital formation and, to a lesser extent, of consumption. Fixed investment increased by over 7%, reversing the contractionary trend observed since 1988 and bringing investment in the region to its highest level since 1983, although it remained 18% below the 1980 level. Consumption also showed greater dynamism than in previous years, growing by over 4%* after having remained nearly stagnant since 1987, and reaching a level 14% higher than that of 1980, although this was still much lower than demographic growth in the region (see table III-l).

Net factor payments to the rest of the world once again plummeted (-12%), counteracting the adverse effect of the terms of trade. In this way, gross national income grew slightly more than GDP and showed a slight per capita increase, which contrasted with the decreases of the previous three years. Even so, per capita national income was 8% lower than the 1980 figure as a result of an increase in external factor payments and the deterioration of terms of trade recorded since the early 1980s (see table III-1).

Including the variation in stocks.

2. Behaviour of demand

Regional output increased in 1991 owing to the dynamism of domestic demand, whose effect on the level of activity was partially offset by the net negative influence of external trade. The volume of exports expanded moderately, contributing to an increase in total supply equal to slightly less than 1% of GDP. However, this phenomenon was largely offset by a demand-driven increase -equivalent to over 2% of regional output- in imports, which was reflected in a smaller trade surplus and a negative contribution to GDP, a phenomenon which had already occurred, though with lesser intensity, in 1990. Nevertheless, in 1991, domestic demand expanded to a degree unprecedented in the decade. Consumption (essentially, private consumption) rose at a higher rate than in previous years, contributing 3.5% of GDP to the increase of total demand; meanwhile, fixed investment contributed somewhat more than 1% of GDP, reversing the negative trend of the previous decade (see table III-2).

Trends at the regional level, characterized by more dynamic private consumption, investment and imports, were shared by a good number of countries in the region, though with different magnitudes of change in the components of demand. Thus, domestic demand rose in 15 of the 19 countries for which information was available. The most notable increases, expressed as percentages of GDP, were recorded in Venezuela (13%), Panama (12%), Argentina and Paraguay (10%), Nicaragua (8%) and Bolivia (7%). Domestic demand also grew significantly in Mexico and Uruguay (over 5% of GDP) and in Chile, Ecuador, El Salvador, Guatemala and Peru (about 4% of GDP). In a large group of countries, the increase in fixed investment contributed significantly to the expansion of demand. In Argentina, Bolivia, Ecuador, Guatemala, Mexico, Peru and Uruguay, the growth in investment contributed between 20% and 33% to that expansion, and in Venezuela, 40%; in El Salvador, Honduras and Panama, between 50% and 100% of the increase in domestic demand was attributable to increased investment (see table III-2).

In many cases, the growth of GDP was lower than that of domesticdemand because a good part of the latter's growth was diverted abroad by the considerable rise in imports and the relative stagnation of exports. Even so, the impetus given by domestic demand translated into substantial growth rates in Argentina, Bolivia, Panama and Venezuela. On the other hand, in Honduras, Paraguay, Peru and Uruguay, most of the increase in demand filtered abroad, while in Guatemala and Mexico, considerable increases in domestic demand were reflected in only a moderate growth of GDP owing to the decline in trade balances. In Nicaragua, trade declined sharply at a rate that was even somewhat higher than the significant increase in domestic demand, resulting in a contraction of output. However, more balanced developments in trade allowed GDP to grow at the same rate as domestic demand in Ecuador and El Salvador, while in Chile, the improvement in trade balances pushed the level of activity above that of domestic demand. In Brazil, a negative trend in external trade weakened the modest recovery in domestic demand, so that the growth of GDP was greatly reduced (see table III-2).

Domesticdemand fell only in Costa Rica (-8% of GDP), the Dominican Republic (-3%), Colombia (-1.5%) and Haiti (slightly). In all of these countries except Haiti, the contraction of private consumption played a major role in reducing domesticdemand, although investment also dropped significantly in Costa Rica (by almost 3% of GDP). However, the improvement in trade balances in these countries -generated by decreased deficits or increased surpluses- attenuated the deterioration of the level of activity in the Dominican Republic, and led to a certain amount of growth in output in Colombia and Costa Rica (see table III-2).

In a number of countries, nevertheless, exports continued to form the basis of the spurt

This analysis of the contributions of the components of demand to growth of GDP does not incorporate the effect of variations in the terms of trade, since it is based on the accounting of real flows. For the same reason, the variations in each of the components of domestic demand also do not reflect the real effect of changes in relative prices, which have acquired importance in the current phase of adjustment processes.

in the level of activity. In Chile, Colombia, Costa Rica, Ecuador and Panama (mainly re-exports in Panama's case), this expansion contributed a number of percentage points of GDP, while in the Dominican Republic, Mexico and Venezuela, it reached over 1%. However, all of this activity represented a less widespread upswing in imports than that of 1990, when 15 countries had benefited from this contribution to growth (see table III-2).

3. **Liberalization, transfers abroad and changes in the structure of demand**

Adjustment triggered significant changes in the structure of demand in the region in the 1980s, with external demand increasing by almost 6% of GDP and gross capital formation recording an equivalent downturn. The coefficient of exports of goods and services, which had stood at an average of 16% of GDP during the 1970s, increased slowly throughout the 1980s, reaching 21.8% in 1991. The cutback and substitution of imports in the first half of the 1980s, however, reduced the import ratio from 16.8% in 1981 to 10.7% in 1985. Subsequently, a modest recovery began, which intensified considerably from 1990 onwards and brought the coefficient up to 15.3% in 1991 (see table ffl-3).

The increase in the export ratio was very widespread, rising in 13 of the 19 countries for which information was available, including the three largest economies of the region, between 1979-1981 and 1989-1991. The largest increases were recorded in Costa Rica and Paraguay (somewhat more than 17% of GDP), while increases in Argentina, Chile, Ecuador and Mexico were equivalent to about 10% of GDP. In Panama and Uruguay, the export ratio rose by between 6% and 7% of GDP, while in Colombia and Venezuela the increase was between 4% and 5%. It also rose 4% in Brazil, although the average ratio for that country in the period 1989-1991 was somewhat less than 14%, by far the lowest in the region. Export ratios in the Dominican Republic and Guatemala remained virtually stagnant during the decade, and dropped significantly (between 6% and 12% of GDP) in the rest of Central America and the Caribbean. Of the South American countries, however, only Peru's ratio fell (see figure III-1).

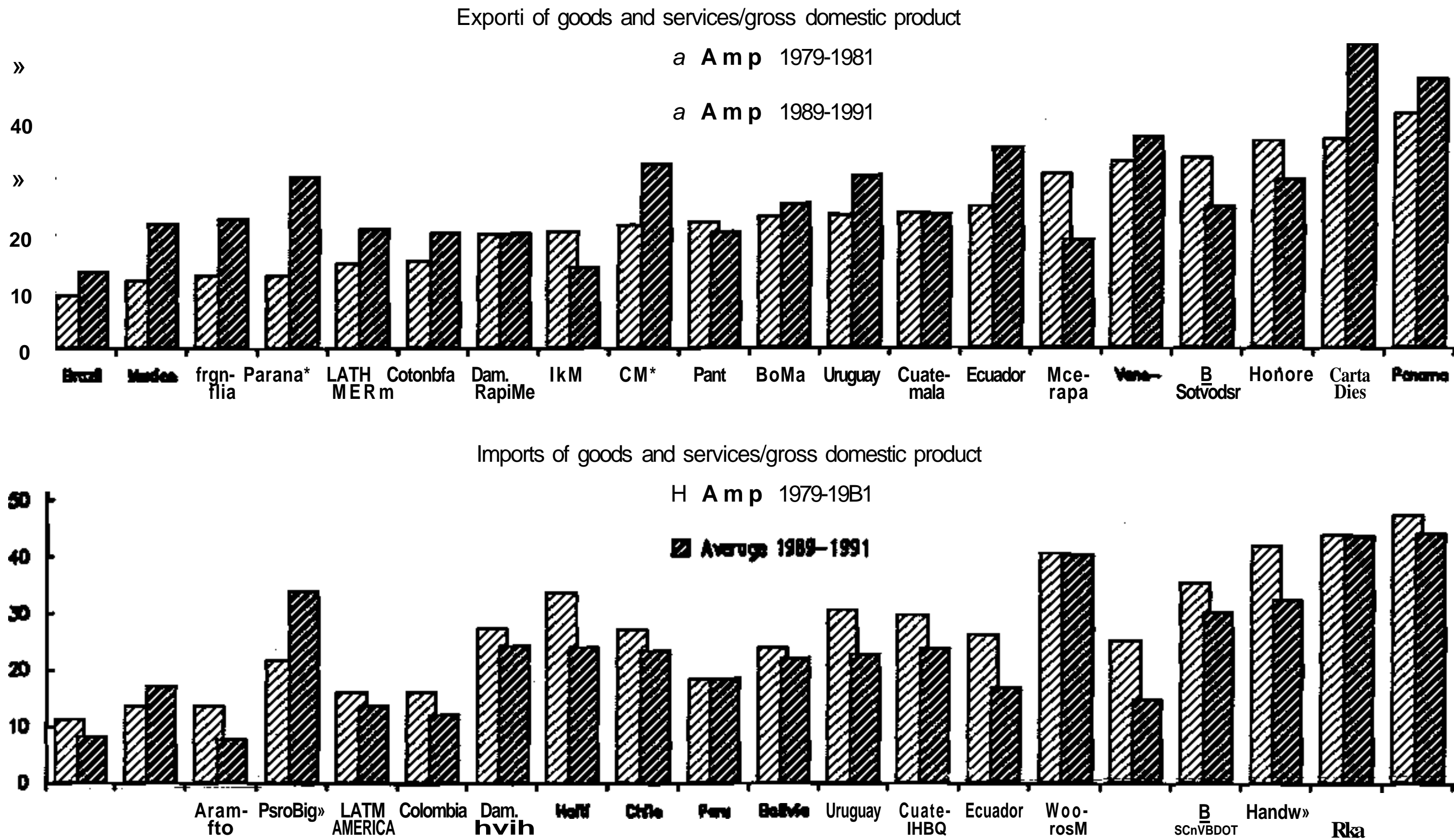
Imports as a proportion of output were reduced during the same period in 14 of the 19 countries. The largest declines were recorded in Argentina, Ecuador, Honduras and Venezuela, with reductions of between 7 and 12 percentage points of GDP. Brazil's import coefficient dropped from 11.5% to less than 7% of GDP between 1980 and 1985, but recovered to reach 9% in 1991 —still a low level (see figure III-1).

In Mexico, the import ratio rose from 14% to 17% between 1979-1981 and 1989-1991; it also expanded notably (12%) in Paraguay. These increases, however, were attributable to different causes. In Mexico's case, the import ratio declined by 8% in 1982 and 1983, the period when the debt crisis broke out. It then recovered slowly, returning to its 1980 level only in 1989 and surpassing it comfortably in 1991, thanks to trade liberalization, the overvalued exchange rate of the last few years and the substantial easing of external constraints. Paraguay's import coefficient also recorded significant decreases at the beginning of the decade but then rose rapidly, attaining about 29% between 1986 and 1988 and 43% in 1991, owing to improved coverage in the recording of imports on the one hand, and to the growing importance of sales of imports to visitors from neighbouring countries on the other.

The performance of exports and imports substantially changed the trade balances of the Latin American countries. The region as a whole went from a deficit of just over 1% of GDP in 1980-1981 to a surplus of 8% in the period 1988-1990, which declined slightly in 1991 to somewhat less than 7%. However, this excess was almost entirely absorbed by the deterioration in the terms of trade between 1981 and 1991. Net factor payments to the rest of the world, despite their decline in recent years, remained at slightly over 3% of the regional product. This means that Latin America and the Caribbean transferred current resources at 1980 prices equivalent to 9% of GDP as a result of the deterioration of the terms of trade and factor payments (mostly interest) to the rest of the world, lowering real gross national income in 1991 to 9% less than real GDP (see table III-3).

n^TB u n

LATIN AMERICA AND THE CARIBBEAN: E3P0RTS AND IMPORTS AS A PERCENTAGE OF GROSS DOMESTIC PRODUCT a



Source: ECLAC, on the basis of official figures.

a Couitries are listed ín Ihe order of their export coefficients for the period 1979-1981.

The huge transfer of current resources abroad in the last decade was financed mainly by reducing gross capital formation, whose share of GDP fell from somewhat more than 22% in the 1970s to 16% in 1984, and subsequently remained at that level, on average, until 1990. It recovered slightly in 1991, but continued to be much lower than in the past. The share of consumption, in turn, declined by more than 1% of GDP between 1981 and 1991, thus contributing a lower proportion than investment to the transfer of resources. Nevertheless, per capita consumption -which grew by 2.4% in 1991- remained 10% below the 1980 level, owing to reductions recorded primarily during the first half of the 1980s (see table 111-3).

Per capita private consumption expanded notably in Nicaragua (23%) and Argentina (12%) in 1991; it grew almost 8% in Paraguay, and between 2% and 4% in Chile, Guatemala, Mexico and Uruguay. Five countries recorded either slight advances or virtual stagnation in per capita private consumption, while seven others recorded reductions, which were between 4% and 5% in the cases of Colombia, Costa Rica and the Dominican Republic. Per capita consumption contracted in fewer than half the countries of the region, in contrast to the situation in the 1980s, when reductions in this indicator of well-being were widespread. However, recoveries in 1991 slightly attenuated the contractions recorded between 1981 and 1990. Per capita private consumption in 1991 was higher than the 1981 figure in only three of the 19 countries for which information was available (Chile, Colombia and Paraguay); however, the increase was very moderate in the first two cases, and in Paraguay's case, the aggregate known as final private consumption included sales to visitors from neighbouring countries, a market that has expanded enormously in recent years. The most pronounced accumulated declines were recorded in Nicaragua (-33%), Costa Rica (-30%), Argentina, Guatemala and Haiti (down more than 20%), while per capita private consumption fell by between 10% and 20% in Bolivia, Ecuador, El Salvador, Honduras, Peru, Uruguay and Venezuela. In Brazil, the accumulated decline since 1981 amounted to about 7%, while in Mexico the contraction over the same period was only 4%, owing to the rebound recorded since 1988 (see figure III-2).

4. **Investment and its financing**

The recovery of investment in 1991 helped to raise the regional coefficient of gross capital formation to more than 16% of GDP, although that figure remained much lower than the level recorded up to 1981 because of a steep decline beginning in 1982. The investment coefficient, in contrast to its behaviour the previous year, increased in most countries in the region. Particularly notable in this regard were the cases of Venezuela (from 14.5% to 18.1%), Argentina (from 7.5% to 9.3%), El Salvador (from 12.6% to 14.4%), Honduras (from 16.6% to 19%) and Panama (from 11.2% to 18.1%). The steepest decline in the gross capital formation coefficient was recorded in Costa Rica, where it dropped by 3% of GDP, reversing the increases observed in the previous two years. In Chile and Nicaragua, the investment coefficient also dropped by more than 1% (see table III-4).

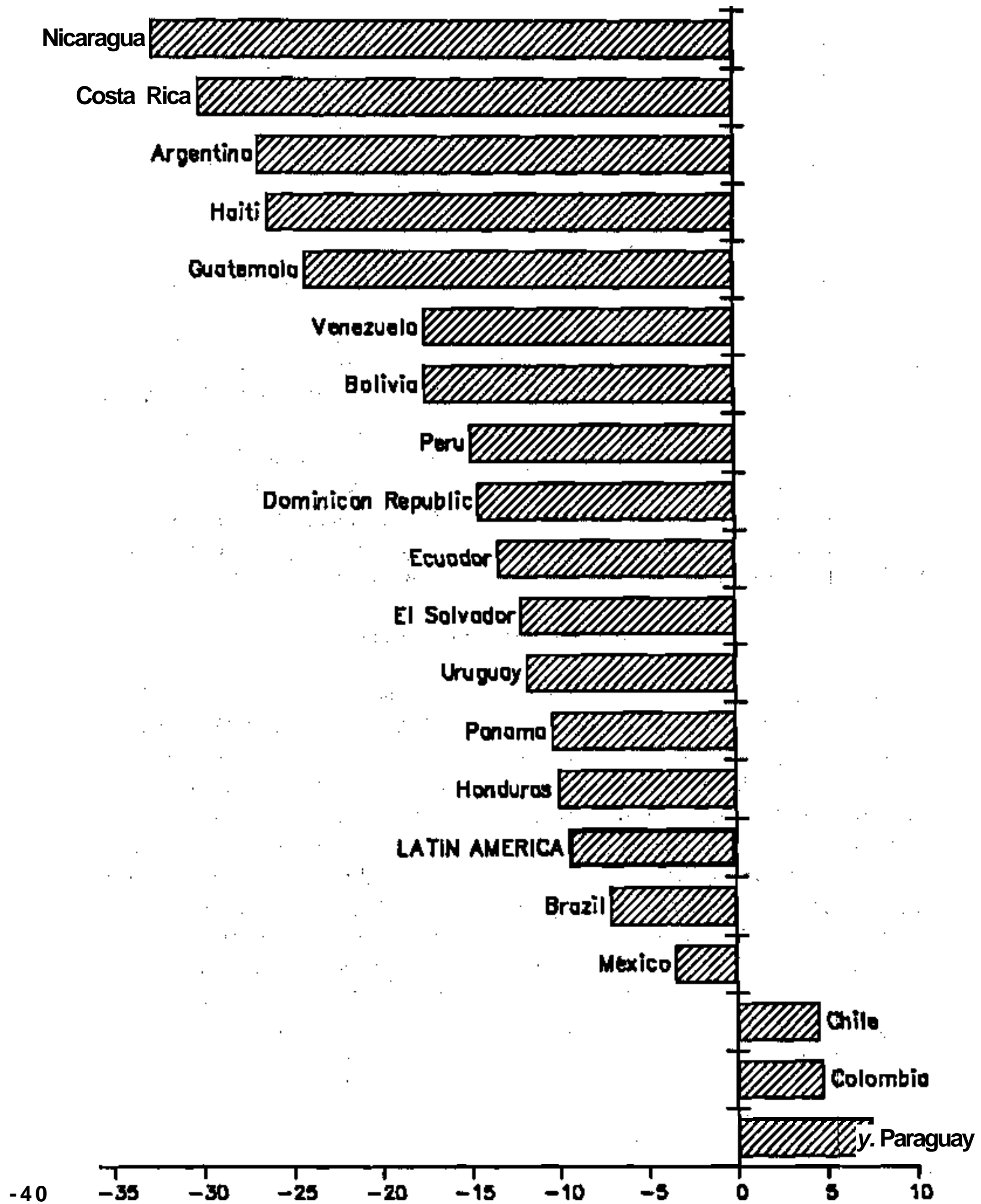
Despite the increases in gross capital formation in 1991, the regional gross fixed investment coefficient for 1989-1991 amounted to only 16%, a figure considerably lower than that of 23% recorded in 1979-1981. The reduction was widespread, although its characteristics differed from country to country in the region. In the last three-year period, most countries showed average coefficients significantly below those recorded before the crisis, while a small group, after dropping sharply at the beginning of the period, rapidly recovered their investment rates. Thus, between these two periods, investment coefficients in Argentina, Panama, Uruguay and Venezuela plummeted by over 10% of GDP, while in Brazil, Ecuador, Honduras, Mexico, Paraguay and Peru, the coefficient fell by between 4% and 8% of GDP. In Bolivia, Colombia, Costa Rica, El Salvador, Guatemala and Haiti, investment failed to recover the ratios recorded in 1979-1981. The only countries that did so were Chile, Nicaragua and the Dominican Republic, although all three suffered setbacks in 1991 (see figure III-3).

Domestic savings dropped somewhat in relation to the year before, but remained above

Figure 111-2

LATIN AMERICA AND THE CARIBBEAN: PER CAPITA PRIVATE CONSUMPTION

(Cumulative percentage variation 1981-1991)



Source: ECLAC, on the basis of official figures.

Figure III-3

LATIN AMERICA AND THE CARIBBEAN: GROSS FIXED CAPITAL INVESTMENT AS A PERCENTAGE OF GROSS DOMESTIC PRODUCT [a]

D **Average 1979-1981** **0 Average 1989-1991**

Venezuela
Paraguay
Mexico
Panama
Peru
Costa Rica
LATIN AMERICA
Dominican Republic
Ecuador
Honduras
Brazil
Argentina
Uruguay
Guatemala
Haiti
Colombia
Chile
Bolivia
El Salvador
Nicaragua

X 12 16 20 24 28 32

Source: ECLAC, on the basis of official figures.

a Countries are listed in the order of their investment coefficients for the period 1979-1981.

23% of GDP in 1991 -after reaching 25% in 1987-1988; still, the figure continued to be high, recording seven percentage points of GDP above the investment rate. National savings also decreased, to somewhat less than 15% of the regional product. External savings, which had accounted for less than 1% of GDP in the previous two years, grew considerably (over 2%), contributing slightly more than 12% to the financing of investment (see table III-5).

The enormous difference between the rate of domestic savings and the small investment coefficient was attributable to the loss of income resulting from the gradual deterioration of the terms of trade since 1980 (which worsened in 1991), to net factor payments (mostly interest on the external debt) and to the small amount of net flows of external savings, which, despite their spectacular growth in 1991, were equivalent to half the amount recorded in 1980i The worsening of the terms of trade compared to 1980, which represented 6% of real GDP, absorbed one fourth of domestic savings in real terms. Moreover, flows of interest and profit remittances abroad continued to take up another 14% of gross domestic savings, despite a decline in 1991. Since nearly 40% of domestic saving is usually channelled abroad and foreign capital in the region is still scarce, investment levels were inevitably reduced. Thus, the crisis and its consequences, which are still affecting most of the countries of the region, have not only lowered standards of living but have also jeopardized future growth.

Table III -1
LATIN AMERICA AND THE CARIBBEAN: TOTAL SUPPLY, DOMESTIC DEMAND AND GROSS NATIONAL INCOME[a]
(Indexes and growth rates)

	Indexes (1980=100)								Cumulative variation
	1989	1990	1991[b]	1987	988	1989	1990	1991[b]	1981-1991[b]
1. Total supply (2 + 3)	108.9	110.3	115.4	3.4	1.7	1.7	1.2	4.6	15.4
2. Gross domestic product at market prices	112.6	113.0	116.6	3.2	0.9	1.3	0.3	3.2	16.6
3. Imports of goods and services	86.5	94.2	108.3	5.4	9.2	4.3	8.8	15.0	8.3
4. Exports of goods and services	159.2	166.3	172.2	9.0	7.8	5.1	4.5	3.6	72.2
5. Domestic availability of goods and services (2 + 3 - 4) = domestic demand (6 + 7)	101.7	102.2	107.2	2.3	0.5	0.9	0.5	4.9	7.2
6. Final consumer expenditure[c]	108.9	109.7	114.5	2.3	0.8	1.6	0.8	4.4	14.5
7. Gross fixed capital formation	77.2	76.6	82.4	2.6	•0.9	-2.2	-0.7	7.5	-17.6
8. Net factor payments to rest of world	178.2	157.7	139.2	-9.4	3.3	4.9	-11.5	-11.7	39.2
9. Real gross national income (2 - 8)[d]	110.8	111.7	116.0	3.8	0.8	1.2	0.8	3.8	16.0

Source: ECLAC, on the basis of official figures converted into dollars at constant 1980 prices.
* Nineteen countries. Preliminary figures. [c] Includes variation in stocks. Includes unrequited private transfers and terms-of-trade effect.

Table III - 2

LATIN AMERICA AND THE CARIBBEAN: CONTRIBUTIONS TO GROWTH OF GROSS DOMESTIC PRODUCT

(Annual average percentages)

Country and period	Total demand						Total supply	
	Consumption		Gross fixed invest- ment	¡Domestic demand	Exports of goods and services	Total	Imports ofgoods and services	Gross domestic product
	Government	Private[3]						
Latin America and the Caribbean								
1981-1983	0.2	-2.0	-2.4	-4.3	0.9	-3.3	-2.0	-1.3
1984-1987	0.3	2.3	0.6	3.1	0.8	3.9	0.5	3.4
1988-1989	0.0	0.9	-0.3	0.7	1.2	1.9	0.8	1.1
1990	0.3	0.3	-0.1	0.5	0.9	1.4	1.1	0.3
1991	0.3	3.0	1.2	4.5	0.8	5.3	2.1	3.2
Argentina								
1981-1983	-0.3	-4.2	-3.3	-8.1	1.3	-6.6	-2.9	-3.5
1984-1987	0.5	1.6	-	2.0	-0.3	1.7	0.3	1.5
1988-1989	0.3	-4.8	-2.6	-7.2	2.0	-5.0	-1.2	-3.7
1990	0.1	-2.2	-1.2	-3.3	3.3	0.0	0.2	-0.2
1991	0.2	7.5	2.3	9.9	0.4	10.3	5.0	5.3
Bolivia								
1981-1983	-0.3	-0.2	-2.0	-2.5	-1.2	-3.7	-1.0	-2.7
1984-1987	-0.2	0.8	1.1	1.6	-0.7	0.9	1.3	-0.4
1988-1989	-	-0.6	0.4	-0.2	2.7	2.5	i0.4	2.9
1990	0.5	-0.1	-0.6	-0.2	4.3	4.1	¡1.5	2.6
1991	0.2	5.8	1.4	7.4	0.6	8.0^	3.8	4.1
Brazil								
1981-1983	0.2	-2.5	-2.5	-4.9	0.9	-3.8	-1.3	-2.4
1984-1987	0.4	4.0	1.4	5.6	0.7	6.3	0.2	6.1
1988-1989	-0.1	1.4	-0.3	1.0	1.0	2.0	0.4	1.6
1990	0.3	-1.2	-1.3	-2.3	-1.0	-3.2	0.8	-4.0
1991	0.4	1.4	0.1	2.0	-0.2	1.7	0.5	1.2
Colombia								
1981-1983	0.3	2.5	0.6	3.3	-1.4	2.0	0.3	1.7
1984-1987	0.4	1.5	0.2	2.1	2.8	4.8	-0.3	5.0
1988-1989	0.8	2.9	0.4	4.0	0.2	4.2	0.3	3.9
1990	0.8	1.0	-0.4	1.4	3.3	4.7	1.0	3.7
1991	0.3	-1.4	-0.4	-1.5	2.1	0.6	-1.3	1.9
Costa Rica								
1981-1983	-0.7	-5.5	-3.4	-10.2	1.9	-7.8	-5.1	-2.4
1984-1987	0.4	2.6	2.3	5.1	2.9	7.6	3.4	4.6
1988-1989	0.5	1.6	1.1	3.2	4.8	7.9	3.7	4.3
1990	0.3	-1.0	3.1	2.4	4.5	7.0	3.4	3.5
1991	0.2	-5.3	-2.9	-8.1	4.1	-4.0	-5.0	1.0
Chile								
1981-1983	-0.2	-4.7	-2.1	-7.3	0.4	-6.8	-3.6	-3.0
1984-1987	-0.1	2.3	1.6	3.7	2.6	6.0	1.4	4.8
1988-1989	0.3	7.2	2.3	9.6	3.1	12.4	4.1	8.6
1990	0.1	-0.8	1.1	0.4	1.7	2.2	0.2	2.0
1991	0.3	3.7	-0.2	3.8	3.2	7.0	1.2	5.8

TableIII-2(cont.)

Country and period	Total demand						Total supply	
	Consumption		Gross fixed invest-ment	Domestic demand	Exports of goods and services	Total	Imports of goods and services	Gross domestic product
	Government	Private[3]						
Ecuador								
1981-1983	-0.2	-0.1	-2.5	-2.8	0.4	-2.3	-3.6	1.1
1984-1987	-0.2	1.3	0.4	1.5	2.0	3.4	2.5	0.9
1988-1989	-0.1	0.4	-0.5	-0.2	3.0	2.8	-3.0	5.6
1990	0.3	1.5	-1.4	0.3	1.5	1.8	-	1.8
1991	0.3	2.7	1.0	4.0	3.3	7.3	3.1	4.2
El Salvador								
1981-1983	0.2	-2.9	-1.2	-3.9	-2.5	-6.7	-1.9	-4.6
1984-1987	0.8	0.6	0.9	2.3	-0.5	1.8	-	1.8
1988-1989	0.1	3.9	0.9	5.0	-2.9	2.2	1.0	1.3
1990	0.2	-0.6	-2.7	-3.2	7.1	3.9	0.5	3.4
1991	0.7	0.9	2.3	3.9	-	3.9	0.6	3.3
Guatemala								
1981-1983	0.2	-1.8	-2.5	-4.2	-1.7	-6.2	-3.4	-2.6
1984-1987	0.4	1.0	1.1	2.5	-0.2	2.3	1.2	1.2
1988-1989	0.7	2.4	0.9	3.9	1.8	5.7	1.6	4.1
1990	0.4	-0.6	-1.7	-2.0	3.6	1.6	-1.4	3.0
1991	0.2	3.4	0.8	4.3	0.5	4.8	1.5	3.3
Haiti[c]								
1981-1983	0.2	-4.0	0.1	-3.7	1.1	-2.5	-0.6	-1.9
1984-1987	0.3	1.2	0.2	1.6	-1.7	-	-0.5	0.5
1988-1989	-	0.7	-0.2	0.4	-2.1	-1.6	-2.7	1.0
1990	-0.1	-3.1	-0.3	-3.4	-1.3	-4.7	-4.1	-0.7
1991	-0.2	0.2	-0.2	-0.2	-1.9	-2.1	-0.6	-1.5
Honduras								
1981-1983	-0.2	1.0	-2.5	-1.6	-1.4	-3.1	-3.2	0.2
1984-1987	0.8	1.9	-0.2	2.5	1.4	3.8	0.5	3.4
1988-1989	0.8	2.9	2.8	6.4	-0.2	6.2	1.5	4.8
1990	-1.8	3.1	-1.5	-0.3	-0.6	-0.9	-0.4	-0.5
1991	-1.4	2.2	2.7	3.5	-0.9	2.6	1.4	1.2
Mexico								
1981-1983	0.5	-1.6	-2.6	-3.7	2.5	-1.0	-2.3	1.2
1984-1987	0.2	0.4	-	0.7	0.9	1.5	0.5	1.0
1988-1989	-	4.0	1.0	4.9	0.8	5.7	3.5	2.2
1990	0.3	3.7	2.3	6.2	0.9	7.1	2.7	4.4
1991	0.3	3.1	1.6	5.0	1.2	6.2	2.6	3.6
Nicaragua								
1981-1983	5.1	-6.5	1.7	1.0	1,4	2.4	-0.6	3.0
1984-1987	2.9	-1.6	-0.1	1.4	-3.1	-1.6	0.2	-1.9
1988-1989	-14.0	2.2	-3.0	-14.9	0.7	-14.1	-4.8	-8.9
1990	6.8	-7.0	-1.1	-1.3	1.4	0.1	-0.8	0.9
1991	-11.8	21.5	-1.3	8.4	-3.5	4.9	5.4	-0.4

TableIII-2(concl.)

Country and period	Total demand						Total supply	
	Consumption		Gross fixed invest-ment	Domestic demand	Exports of goods and services	Total	Imports of goods and services	Gross domestic product
	Government	Private[3]						
Panama								
1981-1983	1.3	0.3	-0.7	0.9	0.6	1.5	-1.5	2.9
1984-1987	0.9	1.1	0.5	2.4	0.3	2.7	0.3	2.5
1988-1989	-2.0	-3.3	-6.6	-12.4	-1.3	-13.8	-4.9	-8.5
1990	-2.1	14.7	2.8	15.4	3.6	19.0	13.8	5.1
1991	0.1	3.6	8.6	12.3	8.9	21.2	12.1	9.1
Paraguay								
1981-1983	0.5	2.4	-1.9	1.1	-0.6	0.5	-1.1	1.6
1984-1987	0.2	3.7	0.6	4.3	2.2	6.3	3.7	2.9
1988-1989	0.3	-1.6	1.5	0.3	6.7	6.9	0.7	6.3
1990	0.2	5.4	2.1	7.7	4.7	12.4	9.3	3.1
1991	0.5	7.8	1.3	9.5	-1.1	8.5	6.1	2.3
Peru								
1981-1983	0.1	-0.5	-1.6	-2.1	-1.2	-3.3	-0.5	-2.7
1984-1987	0.3	5.9	0.8	6.8	-	6.7	1.0	5.9
1988-1989	-1.2	-8.6	-3.0	-13.2	0.3	-12.9	-2.6	-10.0
1990	-0.4	-2.4	0.3	-2.4	-1.1	-3.5	1.6	-5.1
1991	-0.5	3.2	1.3	4.0	-0.2	3.8	1.9	1.9
Dominican Republic								
1981-1983	0.8	2.2	-1.6	1.5	-0.1	1.4	-2.1	3.4
1984-1987	-0.2	1.1	2.1	2.9	0.4	3.3	1.1	2.3
1988-1989	0.4	0.5	2.4	3.3	1.4	4.6	1.9	2.7
1990	-0.8	-4.7	-3.5	-9.0	1.0	-8.1	-2.9	-5.2
1991	-0.8	0.1	-0.1	-0.8	-0.7	-1.5	-0.9	-0.6
Uruguay								
1981-1983	0.1	-8.3	-3.2	-12.1	1.4	-10.3	-4.5	-5.2
1984-1987	0.6	4.7	-0.4	5.0	-	5.0	1.1	4.0
1988-1989	-0.1	-1.0	0.2	-0.8	1.4	0.6	-0.1	0.7
1990	0.6	-2.6	-0.6	-2.6	2.2	-0.3	-1.1	0.7
1991	0.7	3.4	1.5	5.5	-0.3	5.2	3.7	1.5
Venezuela								
1981-1983	-	-0.9	-2.7	-3.7	-1.7	-5.5	-3.2	-2.2
1984-1987	0.2	1.9	-0.6	1.6	1.0	2.5	0.9	1.7
1988-1989	0.5	-4.6	-1.8	-5.9	2.2	-3.6	-2.3	-1.3
1990	0.9	0.3	-0.4	0.8	4.1	4.8	-1.0	5.8
1991	1.2	6.9	5.3	13.4	1.8	15.2	6.1	9.1

Source: ECLAC, on the basis of official figures converted into dollars at constant 1980 prices.
* Includes variation in stocks. Government consumption was estimated on the basis of incomplete information.
[c] Government consumption and variation in stocks were estimated on the basis of incomplete information.

Table III - 3
LATIN AMERICA AND THE CARIBBEAN: RELATIVE SHARES OF COMPONENTS OF GROSS DOMESTIC PRODUCT AND OF GROSS NATIONAL INCOME, AT MARKET PRICES [a]
(GDP = 100)

	Total final consumer expend-iture	Gross fixed capital formation	Domestic demand	Exports of goods and services	Imports of goods and services	Terms-of-trade effect	Net factor payments to rest of world	Real gross national income
1971-1980	76.7	22.4	99.1	16.1	15.2	-2.2	2.2	95.7
1981	78.2	22.9	101.1	15.7	16.8	-0.8	3.9	95.4
1982	77.3	20.3	97.6	16.3	13.9	-2.7	5.3	92.0
1983	76.1	16.7	92.8	18.1	10.9	-3.1	5.2	91.9
1984	76.2	16.0	92.2	18.9	11.1	-2.6	5.5	92.1
1985	76.2	16.2	92.4	18.4	10.7	-3.2	5.0	91.9
1986	76.5	16.8	93.3	17.8	11.1	-4.7	4.7	90.9
1987	75.9	16.7	92.6	18.8	11.3	-5.0	4.1	91.2
1988	75.8	16.4	92.2	20.0	12.3	-5.2	4.2	90.9
1989	76.0	15.9	91.8	20.8	12.6	-5.3	4.3	90.9
1990	76.3	15.7	92.0	21.7	13.7	-5.4	3.8	91.3
1991°	77.2	16.4	93.5	21.7	15.3	-5.9	3.3	91.4

Source: ECLAC, on the basis of official figures converted into dollars at constant 1980 prices.
* Nineteen countries. Includes variation in stocks. [c] Preliminary figures.

Table III - 4
LATIN AMERICA AND THE CARIBBEAN: INVESTMENT COEFFICIENTS
(Gross fixed investment as a percentage of gross domestic product)

	1980	1983	1984	1985	1986	1987	1988	1989	1990	1991[a]
Latin America and the Caribbean	**23.1**	**16.7**	**16.0**	**16.2**	**16.8**	**16.7**	**16.4**	**15.9**	**15.7**	**16.4**
Argentina	22.2	13.9	12.4	11.5	11.8	13.1	11.3	8.7	7.5	9.3
Bolivia	14.2	9.1	10.2	12.4	13.4	13.7	13.6	13.7	12.7	13.6
Brazil	22.9	16.9	16.3	16.4	18.7	17.9	17.0	16.7	16.0	15.9
Colombia	16.8	17.6	17.2	15.7	15.8	15.1	16.1	14.7	13.8	13.1
Costa Rica	23.9	15.1	17.7	18.5	19.6	20.7	19.3	21.2	23.4	20.3
Chile	15.5	10.4	11.6	12.5	12.6	13.9	14.3	15.7	16.5	15.4
Ecuador	23.6	15.8	14.5	14.8	15.0	16.9	14.4	14.3	12.6	13.1
El Salvador	13.6	11.6	11.6	12.6	13.4	14.3	14.6	15.8	12.6	14.4
Guatemala	18.0	11.5	10.3	10.1	11.8	15.4	15.2	15.8	13.6	13.9
Haiti	17.2	18.7	19.2	21.2	18.6	19.0	18.8	18.2	18.0	18.0
Honduras	24.5	17.0	18.6	17.6	14.0	14.2	15.3	18.1	16.6	19.0
Mexico	24.8	16.6	17.0	17.9	16.4	16.1	16.8	17.3	18.8	19.7
Nicaragua	14.6	18.0	18.7	19.8	18.7	19.1	19.4	15.7	14.5	13.3
Panama	24.3	20.4	19.0	19.4	20.6	20.2	10.9	8.9	11.2	18.1
Paraguay	27.2	20.6	20.1	19.4	20.0	20.4	19.8	20.7	22.1	22.8
Peru	23.5	20.3	18.1	15.7	17.1	18.8	17.7	16.0	17.2	18.2
Dominican Republic	23.9	17.4	18.8	18.0	18.1	23.6	25.8	27.0	24.8	24.8
Uruguay	21.0	13.7	10.8	8.5	8.8	10.4	10.9	10.7	10.0	11.3
Venezuela	29.0	22.5	18.0	19.2	19.6	18.9	19.5	15.8	14.5	18.1

Source: ECLAC, on the basis of official figures converted into dollars at constant 1980 prices.
* Preliminary figures.

Table III - 5

LATIN AMERICA AND THE CARIBBEAN: FINANCING OF GROSS CAPITAL FORMATION [a]

	1071 J ^ ç	1980	1983	1984	1985	1986	1987	1988	1989	1990	1991 h
	Coefficients in respect of gross domestic product										
1. Gross domestic savings	23.9	23.0	23.1	23.7	24.7	23.7	24.9	25.0	24.4	23.9	23.4
2. Net external factor payments	2.1	2.7	5.2	5.5	5.0	4.7	4.1	4.2	4.3¡	3.8	3.2
3. Unrequited private external transfer payments	0.1	0.1	0.1	0.2	0.2	0.2	0.3	0.3	0.4	0.5	0.6
4. Terms-of -trade effect	-2.5	-	-3.1	-2.6	-3.2	-4.7	-5.0	-5.2	-5.3	-5.4	-6.0
5. Gross national savings (1 - 2 + 3 + 4)	19.4	20.4	14.9	15.8	16.6	14.6	16.1	15.9	15.3	15.3	14.8
6. External savings	3.2	4.4	1.0	0.1	0.5	2.5	1.4	1.3	0.7	0.5	2.0
7. Gross capital formation (5 + 6)	22.6	24.7	15.9	15.9	17.1	17.0	17.5	17.3	16.0	15.7	16.8
	Other coefficients										
Domestic savings/gross capital formation	105.7	93.0	145.1	148.8	144.7	139.2	142.6	145.0	152.6	151.9	139.0
Terms-of-trade effect/ domestic savings	-10.4	-	-13.2	-10.9	-13.1	-19.9	-20.1	-20.8	-21.5	-22.4	-25.5
Net external factor payments/domestic savings	-8.7	-11.9	-22.6	-23.2	-20.4	-19.7	-16.4	-16.7	-17.7	-15.9	-13.8

Source: ECLAC, on the basis of official figures converted into dollars at constant 1980 prices.
* Nineteen countries. Preliminary figures.

IV. MACROECONOMIC POLICY AND INFLATION

Inflation rates plummeted in the region in 1991. After three years of turbulent domestic price fluctuations in the countries of Latin America and the Caribbean, the widespread adoption or intensification of stabilization programmes and, in particular, the shock tactics put into effect in economies suffering from more acute inflation brought about a rapid reduction of price variations. In fact, average price increases for the region, weighted by population, fell from 1,200% in 1989 and 1990 to around 200% in 1991; although this rate is still high, the dramatic improvement and the downward trend observed throughout the year are promising signs (see table IV-1). The rates of inflation recorded in the various economies towards the end of 1991 suggest even greater progress. The annualized rate of consumer price variation in 19 countries for the last quarter of the year shows that inflation was under 20% in 12 of them, and fluctuated between 30% and 50% a year in three others. Only four countries had higher rates, three of which were between 55% and 80%, and only one of which exceeded these levels at the end of 1991.

Countries with chronically high inflation drastically reduced their domestic price increases. Following the bouts of hyperinflation recorded in almost all of them, the shock tactics adopted in 1990 and 1991 -which included radical exchange-rate, monetary and financial reforms- slashed inflation from 1,350% to 84% in Argentina, from 1,600% to 480% in Brazil, from 13,500% to 780% in Nicaragua and from 7,650% to 140% in Peru. Prices stabilized notably towards the end of the year in Argentina and Nicaragua, whose monthly rates were in the neighbourhood of 1% to 2%, and in Peru, whose monthly average was 4%. The case of Brazil stood in sharp contrast to the others; although the country adopted measures at the beginning of the year to make the 1990 stabilization programme even more restrictive, and succeeded in reducing the rate of inflation in the second quarter of 1991, the trend subsequently reversed itself and, in the last quarter, led to a price increase of about 25% per month. Uruguay, which is also plagued with chronic inflation, though never as severely as in the aforementioned cases, managed to cut its annual rate from 130% in 1990 to 80% in 1991.

Economies which a few years ago experienced high rates of inflation have kept their stabilization programmes in force, with varying results. In the Dominican Republic, inflation plunged to 4% after having reached 100% the preceding year. Mexico also made notable progress by reducing its rate of domestic price variation to 20% (from 30% in 1990). Venezuela's progress, however, was more modest (from 37% in 1990 to 31% in 1991), and Ecuador's rate was virtually unchanged from its 1990 level (almost 50%). Consumer prices in Guatemala, after increasing considerably in 1990, went up another 10% in 1991.

Economies with moderate inflation also underwent varying developments. Some of them were able to neutralize, to a greater or lesser extent, the inflationary upsurges of the previous year: Chile reduced its rate from 27% to 19%; Paraguay, from 44% to 12%; El Salvador, from 19% to 10%; Honduras, from 35% to 22%; and Haiti, from 26% to 7%. Others faced strong resistance that allowed price movements to decrease only slightly, as in Colombia (from 32% to 27%), Bolivia (from 18% to 15%) and Costa Rica (from 27% to 25%). Meanwhile, Panama maintained its low rate of inflation of about 1%.

In the English-speaking Caribbean, Jamaica's rate of inflation rose from 30% in 1990 to 80% in 1991, and that of Barbados, from somewhat more than 3% to 8%. Trinidad and Tobago reduced its

annual price increases, which had bordered on 10% in recent years, to only 2%}

Two fundamentally important circumstances, which strongly influenced inflationary processes, characterized economic policy in most of the countries of Latin America and the Caribbean: a marked tendency to reduce public-sector financial imbalances, and a widespread trend towards the shrinkage of real exchange rates in the context of a considerable inflow of foreign capital.

Following the severe fiscal adjustments made in the previous biennium, which significantly reduced the public sector's financial needs, in 1991 most of the countries of the region intensified their quest for fiscal balance. Economies whose public sector had been restructured more recently showed greater fragility in budget management than did those whose restructuring processes had been under way for some time. In most cases, financial balance was achieved through extraordinary cuts in spending, on both consumption and investment, which even included postponing foreign debt service payments; in other cases, countries resorted to sales of fixed assets, including the privatization of public enterprises, which provided the capital inflows needed to balance public accounts. In these economies, the success of stabilization programmes based on fiscal adjustment will depend on whether circumstantial revenues can be replaced by permanent fiscal resources and, moreover, whether spending cuts translate into a definitive restructuring of different services. If this does not occur, unfavourable expectations may arise concerning the durability of the public sector's financial equilibrium; this could alter private-sector projections and introduce ah uncertainty factor that would undermine the progress achieved to date in the fight against inflation.

Another phenomenon which has arisen with particular intensity and frequency has been the tendency for real exchange rates to fall, although in many cases from a high level (see table IV-1). A considerable inflow of external resources, consisting largely of short-term private capital and repatriated capital attracted by the existing differential between declining international interest rates and the interest offered on local currency in a context of falling nominal exchange rates, expanded the supply of foreign exchange, while demand contracted with the reduction of uncertainty regarding exchange rates. This generated pressure which lowered the real exchange rate. Although this effect supported stabilization programmes, it also introduced a negative factor for international competitiveness by increasing domestic costs in dollars. Faced with this economic policy dilemma, Governments resorted to various strategies. The central banks of a number of countries opted to intervene in the exchange market, increasing demand in order to counter the deterioration of the real exchange rate. These operations, which increased official international reserves, expanded the money supply by the equivalent value in local currency, which translated into greater liquidity than necessary to meet the goals of stabilization programmes. In other cases, priority was given to the objective of lowering inflation, and greater autonomy was maintained in monetary policy, which caused a considerable drop in the real exchange rate.

In addition, the trade liberalization and tariff-reduction programmes being implemented in many countries of the region have helped to reduce inflation by promoting price reductions and an increase in aggregate supply.

1. Stabilization in chronically high-inflation countries

Following the outbreaks of hyperinflation in 1989 and 1990, countries with chronically high rates of inflation applied rigorous adjustment programmes, which in almost all cases helped to lower inflation significantly. The most spectacular results were recorded in Argentina and Nicaragua, which, by the end of the year, had not only conquered hyperinflation but were also on the way to consolidating a new pricing system compatible with moderate inflation. In Peru,

More detailed information on these countries is given in chapter IX.

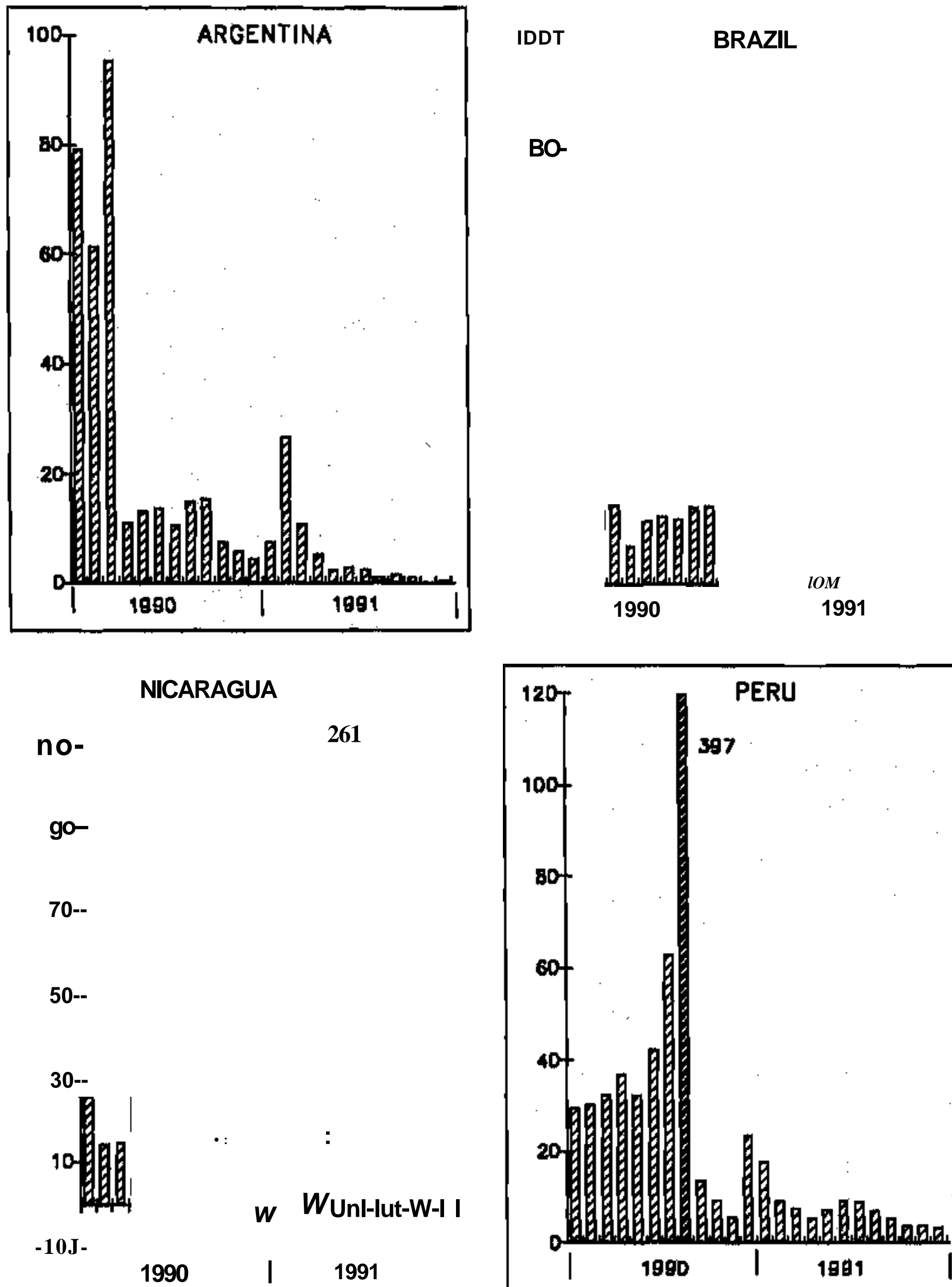
price increases slowed down appreciably, but inflation remained at a fairly high level in a fragile macroeconomic context. In contrast, while price increases in Brazil were lower than in the previous year, monthly inflation was over 20% and the basic mechanisms of high inflation were still in place (see figure IV-1).

The drop in inflation reached extraordinary proportions in **Argentina,** where the rate fell steeply in the second half of 1991. After price hikes of over 1,300% in 1990, inflation plunged to 84% in 1991 (the lowest figure recorded since 1986); at year's end, prices were rising at the rate of only about 1 % per month. New economic rules drawn up in 1991 substantially modified the previous regime. In the area of external trade, the number of tariff categories applied to imports was reduced, with the exception of certain goods that received special treatment, and the maximum tariff was lowered to 22%; moreover, quantitative restrictions and specific duties levied on certain products were eliminated. Efforts to transfer activities to the private sector continued; the largest operations took place in the oil and railway sectors. A timetable of privatizations for 1992 was unveiled, which mainly concerned industrial and energy-producing enterprises. Reforms of the hiring system were introduced, and a wide-ranging decree eliminated regulations applicable to a number of activities. The law on convertibility, in turn, established a strict monetary system based on a fixed exchange rate against the dollar.

In the first part of the year, the macroeconomic scenario was characterized by the rupture of the restrictive monetary scheme which had been applied since the year before, involving the dirty float of foreign exchange. Although this programme had reduced inflation to around 6% a month in the fourth quarter of 1990, the steep drop in the real exchange rate and the perception that fiscal adjustment was beset by obstacles generated unfavourable expectations. Early 1991 saw an upsurge in the demand for foreign exchange, which could not be contained through sales by the Central Bank; the result was a marked increase in the exchange rate, which climbed over 80% in the first two months. Domestic prices showed similar tendencies, but to a lesser degree: the variation in the consumer price index reached 27% in February. In response to this situation, the Government established an exchange-rate spread with a ceiling of 10,000 australes to the dollar, a value somewhat higher than that already reached in the market. It also decided to increase public rates and charges and announced measures to boost tax revenues and restrain the expansion ofdomesticcredit granted through the official banking system. Although these policies did not completely dissipate expectations of inflation, they alleviated the pressure on the foreign exchange market and brought about a slowdown in price increases, which amounted to 11% in March. At the end of that month, the authorities announced a new programme which centred on an exchange rate fixed by law at 10,000 australes to the dollar, and which was legally committed to unrestricted convertibility of the currency at that fixed rate, which could only be changed by parliamentary vote. It was also decided that the Central Bank's international reserves should at all times cover the full value of the monetary base and that these backup assets could not be put to any other use. The announcement of the new monetary regulations sparked a strong reaction in financial markets; the sudden drop in the interest rate and the abundant supply of foreign exchange indicated that the anchoring of the exchange rate had effectively countered expectations of devaluation. Moreover, the Government signed sectoral agreements that included price reductions which, in some cases, were offset by tax breaks. The initial reaction of the consumer price index (CPi) was limited; however, in April its growth dropped to 5.5%, and continued to slow down in succeeding months.

Apart from the specific provisions of the law, the general idea of convertibility -in both official statements and popular interpretation- was clearly associated with the establishment of a fixed-exchange-rate system, under which the supply of reserves would be closely related to the balance of payments. The harshness of these conditions imposed stringent requirements on public finances and the pricing system, so that convertibility in this sense would become a permanent regime; as a counterpart to this rigidity, uncertainty about the drift of policies -in particular, about one of their most important variables, the exchange rate- was put to rest for

Figure IV—1
MONTHLY VARIATIONS IN THE CONSUMER PRICE INDEXES OF ARGENTINA, BRAZIL NICARAGUA AND PERU
(Percentages)



Source: ECLAC, on the basis of official figures.

the short term, and a definite orientation was given to fiscal management.

In this last area, the programme was based on a number of recent changes. The obligatory conversion of bank deposits into external bonds at the beginning of 1990 -known as the "Bonex plan"- had eliminated interest-bearing reserves; previously, the maturity date of various public securities had been postponed. This did not cause the domestic public debt to disappear, but did make the Government much less vulnerable financially to fluctuations in domestic interest rates or to possible "crises of confidence" that could reduce demand for its securities. Moreover, the privatization of public enterprises and other entities had created a new source of financing with the potential to contribute a considerable volume of resources, and won confidence among influential groups. Moreover, despite some ups and downs, the Treasury recorded successive operating surpluses and had, for some time, been adjusting outlays to the availability of cash. This had been accomplished through painful belt-tightening, since revenues continued to be low, and no permanent basis had as yet been given to a budget plan under which the public sector could meet its obligations. In the convertibility plan, priority was given to increasing tax revenues through a recovery in activity level, to be achieved through the normalization of the economy and, especially, through structural and administrative reforms of the tax system.

The drop in inflation had immediate positive effects on tax receipts and the purchasing power of wages. In addition, the inflow of private capital prompted a reduction in the interest rate and expanded the demand for financial and real assets. As in the past, though perhaps with greater intensity, the slowdown in inflation was accompanied by a spurt in the level of activity. This reaction was one factor that influenced the increase in tax revenues; at the same time, efforts to improve tax management began to bear fruit. The central Government continued to cut back its expenditures: there were no more across-the-board wage hikes after April, the number of personnel was reduced (though this necessitated immediate outlays in the form of compensation) and there was no increase in investment expenditure, which had dropped to a low level. Nevertheless, the contraction of the deficit did not obviate the need for financing, which was met in part through recourse to credit but also, to a significant extent, through the sale of assets. Thus, fiscal management did not exert pressure on monetary policy and, despite the widespread perception that this financing scheme could not be used indefinitely, expectations in financial markets were no longer based on the very short-term situation of public-sector cash flow. With some vicissitudes attributable to adjustments of the prices of services and commodities, the rate of inflation took a downward turn. Towards the end of the year, the variation in CPI had fallen to about 1 % per month, a very low percentage in light of Argentina's experience in recent decades. The economy was not re-indexed, in part because of policy decisions to prohibit the inclusion of automatic adjustment clauses in contracts and the granting of wage increases on the basis of past inflation, but also because inflationary expectations had softened considerably. A significant drop (-27%) was observed in the real exchange rate calculated according to the variation in CPI, which does not appear if wholesale prices are used as a reference variable. This demonstrates the greater volatility of prices for services, which represent a higher proportion of the consumer price basket. The reduction of taxes on exports compensated in part for the drop in the real exchange rate (see figure IV-1).

Nicaragua achieved outstanding results in its adjustment and stabilization programme, which enabled it to end hyperinflation in 1991. During the year, intensive economic and institutional reforms were introduced and the third stage of the economic stabilization policy was initiated, which drastically curbed the hyperinflation of recent years. The notable progress represented by the reduction of inflation from 13,500% in 1990 to 775% in 1991 appears even more impressive in light of the fact that overall price levels fell between May and August and rose very moderately in the final four months. In March 1991 a series of economic policy measures were adopted to strengthen the stabilization and structural adjustment programmes launched the year before. These included devaluing the gold córdoba from one to five per dollar, eliminating the Central Bank's granting of net credit to the

Government, limiting that institution's credit to commercial banks and keeping the fiscal deficit at levels consistent with external borrowing capacity. These measures brought about a corrective rate of inflation of 260% in March. However, the stabilization of the exchange rate, fiscal austerity and a rigid monetary policy, which included high real interest rates, helped to quickly curb consumer price increases. Consumer prices rose 838% in the first four months and then fell between April and August, to rise again by 8% between August and November and decline slightly in December (see figure IV-1).

The marked devaluation of the gold córdoba stabilized the current market value of the dollar and substantially reduced the difference between its official and free rates, at a time when increased family remittances had boosted the supply of foreign exchange. The support of the United States and the rest of the international financial community for the country's stabilization and structural adjustment programmes yielded a greater abundance of foreign exchange, which served to finance the negative balance on current account of the balance of payments and initiated a recovery of international reserves. Draconian austerity in the management of public finances, including an intensive programme to reduce Government employment that entailed a considerable cut in the number of army personnel, and a real increase in tax receipts, particularly from indirect taxes, led to an improvement in the fiscal situation. In addition, though the deficit reached high levels (on the order of 7% of GDP), it was financed exclusively by official unrequited transfer payments and external credit, which, in a remarkable recovery from previous levels, exceeded the central Government's financing needs by 2.6% of GDP.

Inflation also declined sharply in **Peru.** Following the exaggerated levels recorded in previous years, the reduction of the fiscal deficit and the application of a restrictive monetary policy cut consumer price variations to 139% in 1991. Prices decelerated notably throughout the year, but showed marked fluctuations; after rising some 17% in January, owing to the delayed effect of an increase in public rates and charges, they slowed their pace until May, when inflation surged again owing to the delayed effect of devaluation and of another increase in public rates and charges, especially for fuels. Inflation declined again starting in July, and the downward trend became more evident in the last quarter, when a rate of 3.7% per month was recorded -the equivalent of less than 60% annually. Although this monthly rate was well below those recorded in 1990, it was still high owing to a number of factors. On the one hand, the fiscal balance was largely based on successive increases in public rates and charges, particularly for gasoline, which influenced the increase in CPI. In fact, the rise in those rates was more pronounced than the increase in overall price levels, ranging from 176% a year for health services to 365% for fuels and electricity. The sharp rise in the nominal exchange rate in the second quarter (50%), which included a significant speculative component, had the same effect. In general, the economy's high degree of dollarization has made price variations very sensitive to movements in the exchange rate. The Central Bank countered this situation by ceasing to acquire foreign exchange on the market. The cost of the dollar stabilized in the third quarter, but rose 14% in October when the monetary authority once again began to acquire dollars in a market in which the local currency was regarded as being greatly overvalued. Lastly, high domestic interest rates, the considerable impact of fixed costs owing to excess capacity and delays in the distribution of the effects of trade liberalization also helped to keep inflation at a higher level than expected.

Both fiscal and monetary policy had contractionary effects. The central Government's deficit fell from 6.7% of GDP in 1990 to 1.6% in 1991; moreover, in contrast to previous cases, the deficit was financed with external resources. The rest of the non-financial public sector managed to virtually balance its budget. Meanwhile, the restrictive orientation of the monetary policy made it one of the pillars of the stabilization process in 1991. While this policy helped to control inflation, it also caused an upsurge in domestic interest rates, which stimulated the inflow of short-term foreign capital. Monetary expansion also contracted dramatically (from almost 5,000% in 1990 to 133% in 1991), to remain more or less stable at 1.6% of GDP. TO discourage dollar deposits and to counter the

monetary expansion caused by the Central Bank's acquisition of foreign exchange, the marginal reserve requirements were increased for both deposits in foreign currency (from 30% to 60%) and deposits in local currency (from 15% to 40%) at about the m iddle of the year. Generally speaking, the Peruvian economy remained highly dollarized (in December, dollar deposits represented 60% of total liquidity), while the tight monetary policy helped to maintain a low real exchange rate (the rate fell by 26% in 1991, bringing the cumulative reduction to nearly 70% since 1985) and high interest rates in local currency, which in real terms averaged 11% over the first 10 months of the year. Moreover, the stabilization programme continued to be accompanied by structural reforms. In March, tariffs were reduced to a maximum of 25%, which caused the average tariff to fall from 26% to 17%. Foreign exchange controls were eliminated, the State petroleum monopoly was abolished and a liberal foreign investment regime was adopted. In addition, the Government proposed a set of over 100 laws designed to liberalize the economy.

Stabilization attempts in **Brazil,** on the other hand, faced serious difficulties. While inflation in 1991 (480%) was only one fourth the rate recorded in 1990, the economic situation was once again highly turbulent, to the point where the monthly price variation climbed to about 25% at year's end. Following the initial impact of the stabilization plan adopted in early 1990, which included the freezing of 75% of financial assets and a fiscal adjustment on the order of 8% of GDP, inflation again picked up speed in the final months of that year and reached nearly 20% in January 1991. Given this situation, the Government adopted a new and heterodox stabilization programme that included wide-ranging price controls, a wage freeze following an initial adjustment and a new financial reform which turned overnight bank deposits into Financial Application Funds (FAF) for the purchase of public securities or for certain investments. At the same time, taxes on short-term financial assets were raised, indexing mechanisms based on prior inflation were eliminated and a reference interest rate was established to serve as an indicator of predicted inflation. The main fiscal policy measure consisted of limiting central government spending to the amount of available resources.

In the first months of the new programme's execution, inflation plummeted after topping 21% in February. This "respite" from inflation boosted purchasing power and encouraged the commerce sector to build up stocks, thus reversing the economy's slide towards recession. However, the de-indexing measures, price controls and government spending limits generated strong pressures that led to the replacement of the economic team in May 1991. The new authorities reoriented economic policy to gradually decontrol prices, resorting for this purpose to "sectoral councils" where the Government and representatives of production chains sought to establish price readjustment indexes. Moreover, beginning in September, and for a 12-month period, the financial claims frozen under the Collor Plan of March 1990 were scheduled to be released, for a total amount equivalent to 6% of GDP. The recovery of domestic demand and the decontrol of prices, together with the expectations generated by the imminent unfreezing of financial claims and the reappearance of the public sector's operating deficit, gave inflation another boost, pushing it up to a monthly rate of 15% in August.

Given this highly volatile situation, the new economic team introduced changes in monetary policy beginning in August, and took steps to reform fiscal policy as well. In the monetary sphere, mechanisms were implemented to sterilize liberated *cruzados novos,* which began to be called in in August, one month in advance of the original date; for this purpose, special tax-free deposits adjusted daily were established, with a higher real interest rate (8%) than savings deposits. Moreover, the acceleration of inflation accentuated the population's preference for financial claims over money. The consequent reduction of credit brought about an increase in the lending interest rate. Although the borrowing rate did not follow suit, in part because of a lag in the reference rate, the *cruzados novos* were successfully diverted away from consumption expenditures, since over half of them ended up in the special deposits. In the fiscal sphere, the executive branch submitted to the Congress a set of constitutional amendments concerning state and municipal financing, entitlements of public

employees, the creation of new taxes and the privatization of State services. In addition, it sought approval for an increase in federal taxes, particularly income taxes, beginning in 1991. The Congress postponed the constitutional amendments until Í992, and the fiscal adjustment is still under discussion.

International reserves dwindled by nearly a fourth between June and September owing to fluctuations in the inflow of external capital and the attempt to maintain the nominal exchange rate. In view of these circumstances, at the end of September an abrupt additional devaluation of 16% was introduced. The drain on reserves could not be controlled until October, when the Central Bank stopped its intervention in the parallel foreign exchange market through gold transactions. To keep these foreign exchange measures consistent, the Central Bank raised the real interest rate considerably, so that it reached nearly 4% a month in November. The additional devaluation, the termination of rent freezes and expectations concerning the adoption of a new programme spurred inflation markedly in October, when consumer prices rose 25%. The authorities toughened monetary constraints, raising the real interest rate while keeping a tight rein on federal expenditure and establishing a policy for regulating public rates and charges based on the evolution of the cost of the goods and services produced. The monetary policy's powerful impact set off a new recessionary cycle in domestic production. This climate of economic depression, together with the maintenance of high real interest rates and the National Treasury's balanced reserves, mitigated the inflationary acceleration recorded since October and, in particular, reversed expectations of price hikes of over 30% a month in the last quarter. Even so, prices again rose by about 25% monthly in November, then slackened their pace slightly (to 23%) in December, despite the fact that most prices had been deregulated.

The real drop in public revenues (15%) gave rise to an operating deficit in the non-financial public sector of about 1% of GDP, compared to a surplus of 1.2% in 1990.

To enhance their programme's credibility, the economic authorities decided to use only classic tools of fiscal and monetary policy, instead of resorting to unconventional mechanisms. Also helpful in this regard was the continuation of the structural reforms announced in March 1990 when the current Government took office. As part of the privatization process, beginning in September 1991 four State-owned enterprises were sold for nearly US$2 billion. Furthermore, despite problems related to foreign exchange, the liberalization of import policy continued on schedule.

2. Persistently high inflation in countries with controlled instability

The rate of inflation remained relatively high in this group of countries, which in recent years have operated under a regime of controlled instability marked by prices that increase rapidly, but without approaching hyperinflation. Nevertheless, the results achieved have varied from one country to another. While Uruguay, a country with a long tradition of inflation, substantially slowed price increases and Venezuela did the same, though to a lesser degree, Ecuador maintained its rate of inflation at the 1990 level. Costa Rica, whose economy is also considered to operate under a controlled-instability regime (although with lower rates of inflation than the other countries mentioned), managed to reduce the monthly rate of price increases in the second half of the year.

The 1991 rate of inflation in Uruguay, though still high (81%), represented a drop from the preceding year's high level of 129%. Fiscal adjustment remained the principal component of economic policy, since it was assumed that a reduction of the fiscal deficit would lower government demand for credit from the banking system and, in turn, would relieve inflationary pressures stemming from the corresponding monetary expansion. The new adjustment resulted in a financial balance in the consolidated public sector, which had recorded a deficit of 2.5% of GDP in 1990 and 6.5% in 1989. Over half of this reduction was attributable to the lower interest paid by the Central Bank, while the increase in the Government's current revenues (equivalent to 1.5% of GDP) was another

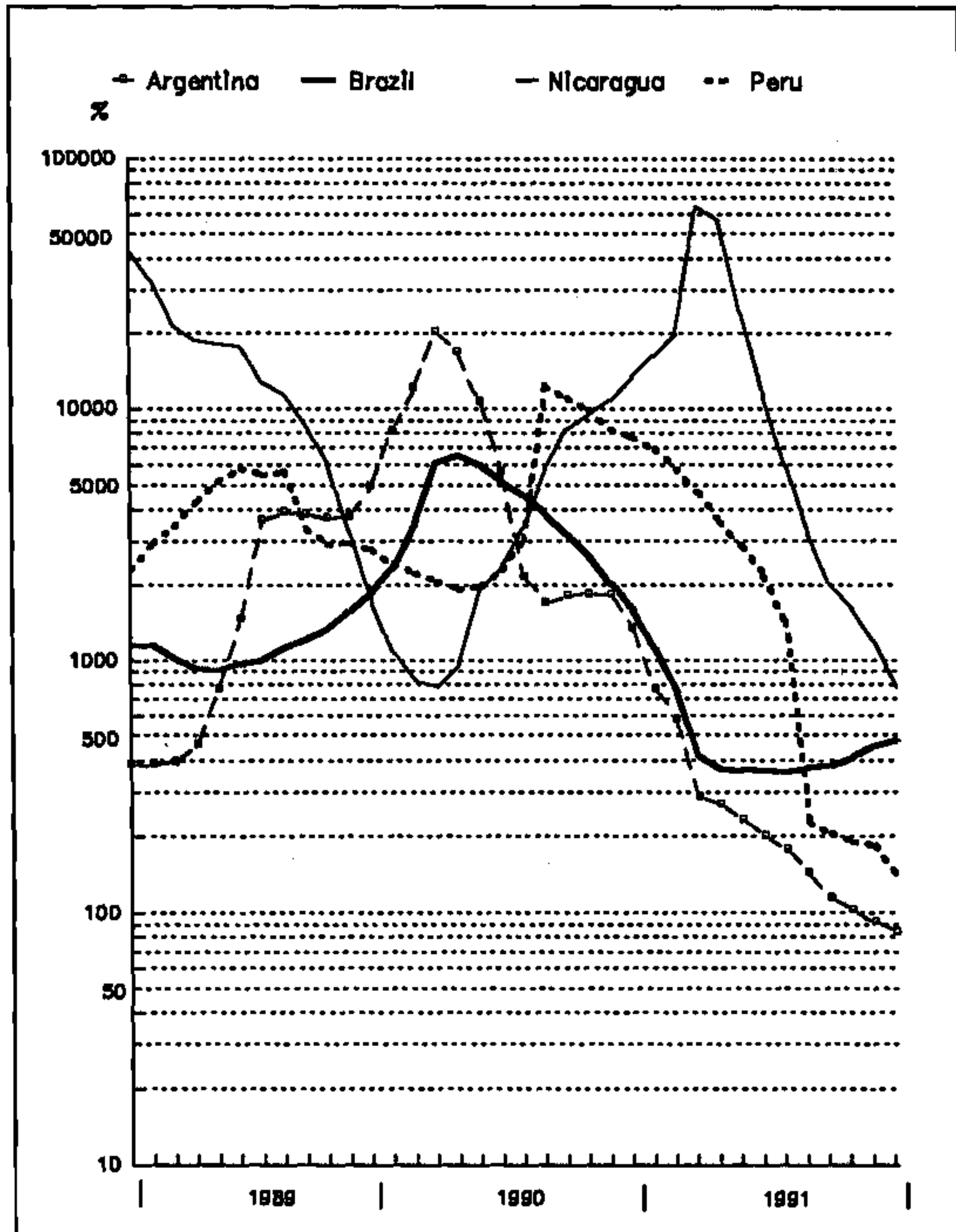
important contributing factor. Interest paid by the Central Bank decreased because of a simultaneous reduction in interest rates and in the Bank's indebtedness. The debt with international banks diminished as a result of the agreement signed in 1990 under the Brady Plan, while the real value of the Monetary Regulation Notes in circulation also contracted. Accrued interest on foreign debts fell because of thé decline in international rates, and on local debts because of reduced demand by the monetary authorities for financing on the local market. This brought the Central Bank's quasi-fiscal deficit down to just over 2% of GDP. Public enterprises, for their part, maintained a financial surplus of somewhat less than 1% of GDP.

Although the improvement in fiscal management caused a contraction in net credit from the Central Bank to the non-financial public sector, the high degree of indexation attached to domestic price formation and the purchase of foreign exchange by the Central Bank translated into a monetary expansion on the order of 100% a year and continued private-sector expectations of, *inter alia,* a rate of price variation higher than that projected by the Government. Exchange-rate policy was strongly oriented towards keeping the rate of devaluation at about 60% a year, which was hinted at during the first half of the year and became more obvious during the second half, when the exchange rate showed a monthly rate of variation very close to 4%. An abundant supply of foreign exchange owing to increased purchases by Argentine tourists and to the inflow of private capital meant that the monetary authorities acquired a considerable volume of international reserves, causing an increase in the monetary base, which contributed to a rate of inflation higher than that officially projected. Thus, the "inflation tax" served to finance the acquisition of international reserves which, in practice, brought down the public sector's net indebtedness. Wage adjustments in the private sector (usually made every four months) continued to be calculated on the basis of past inflation, so that expectations of price variation in the neighbourhood of 5% a month were maintained. As a result, even though inflation slowed, it continued to exceed the Government's objectives. Moreover, the divergence between devaluation and domestic prices eroded the real exchange rate, whose average level fell 15% (see figure rV-3).

Inflation remained highly intractable in **Ecuador,** where the 49% increase in CPI was comparable to the annual rates for the previous two years. The ineffectuality of the anti-inflation policy is attributable to the public sector's relatively high deficit (both fiscal and quasi-fiscal), financed with domestic credit, and to the exchange-rate policy, which sought to maintain a high, stable exchange rate and thus necessitated the monetization of the private sector's external surplus and, under these circumstances, became a mechanism for propagating inflationary pressures. The nominal exchange rate underwent minimum weekly adjustments of 3.50 sucres and three special devaluations (6% in January, 4% in June and 10% in July), which kept the real exchange rate stable. Fiscal policy faced serious problems, largely because of the decline in oil revenues throughout the year, which ultimately translated into a non-financial public sector deficit of 1.2% of GDP in 1991, compared to a surplus of 0.6% in 1990. Moreover, the Central Bank's quasi-fiscal deficit in 1991 (caused by external debt servicing, subsidized credits, monetary stabilization bonds and net purchases of foreign exchange) hovered at around 2.5% of GDP. Thus, the consolidated public sector deficit grew by about 2% of GDP, amounting to slightly less than 4%. The high deficit prompted the authorities to adopt austerity measures. Accordingly, current government expenditure (except wages) was cut by 15% midway through the year. In September, domestic fuel prices were raised and the system of monthly price adjustments was reintroduced as a means both of augmenting revenues and of curbing contraband trade in petroleum products with neighbouring countries. Steps were also taken to reduce the expenditures of public enterprises. Monetary policy also faced serious problems because, in addition to having to finance a higher fiscal deficit, Ecuador had to assimilate an increase of US$160 million in international reserves. The main monetary control measures were the management of cash holdings, open-market operations and increases in interest rates, which became mildly positive in real terms beginning in August. These measures made monetary policy somewhat more

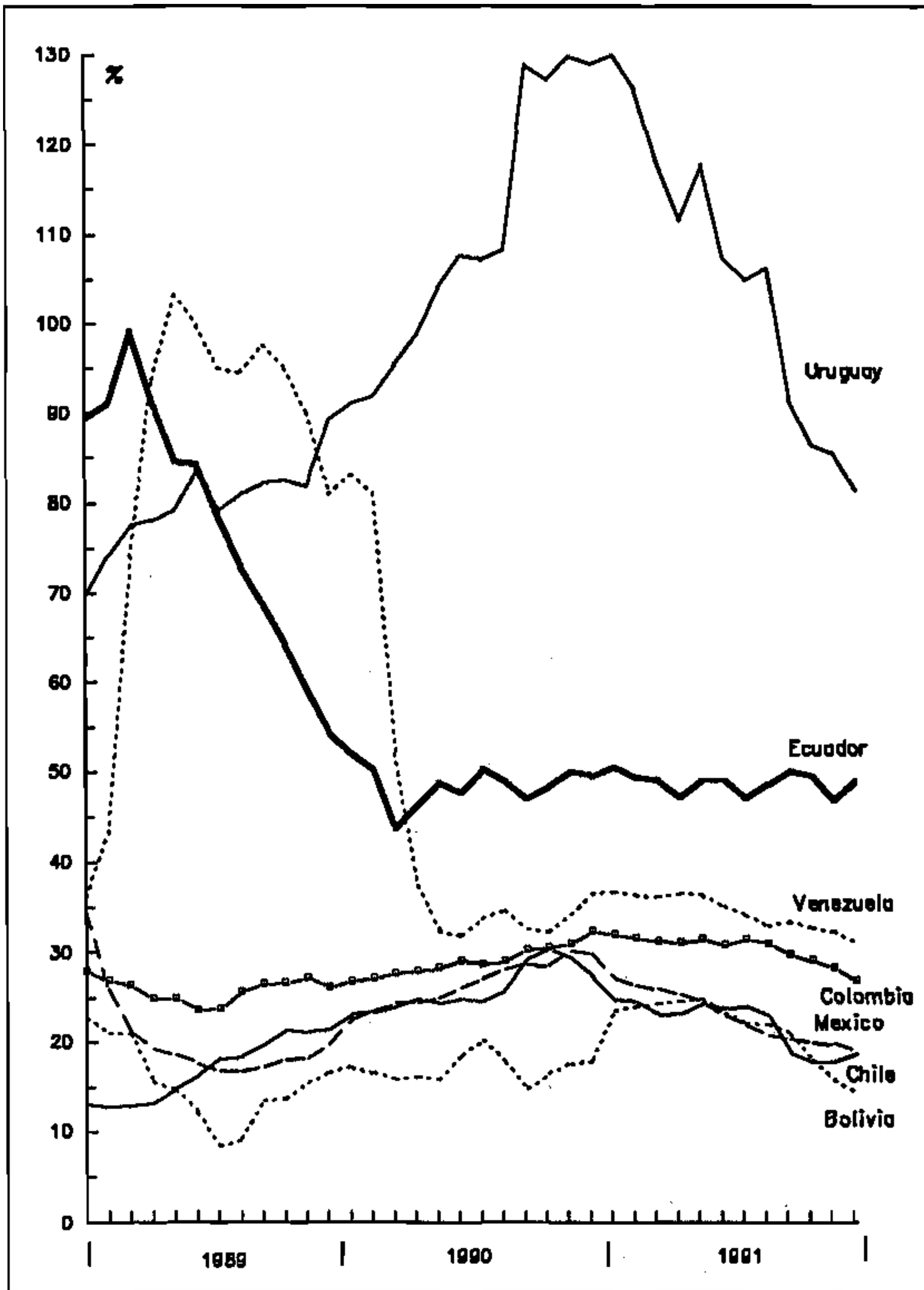
Figure IV-2

LATIN AMERICA: TWELVE-MONTH VARIATIONS IN THE CONSUMER PRICE INDEXES OF SELECTED COUNTRIES



Source: ECLAC, on the basis of official figures.

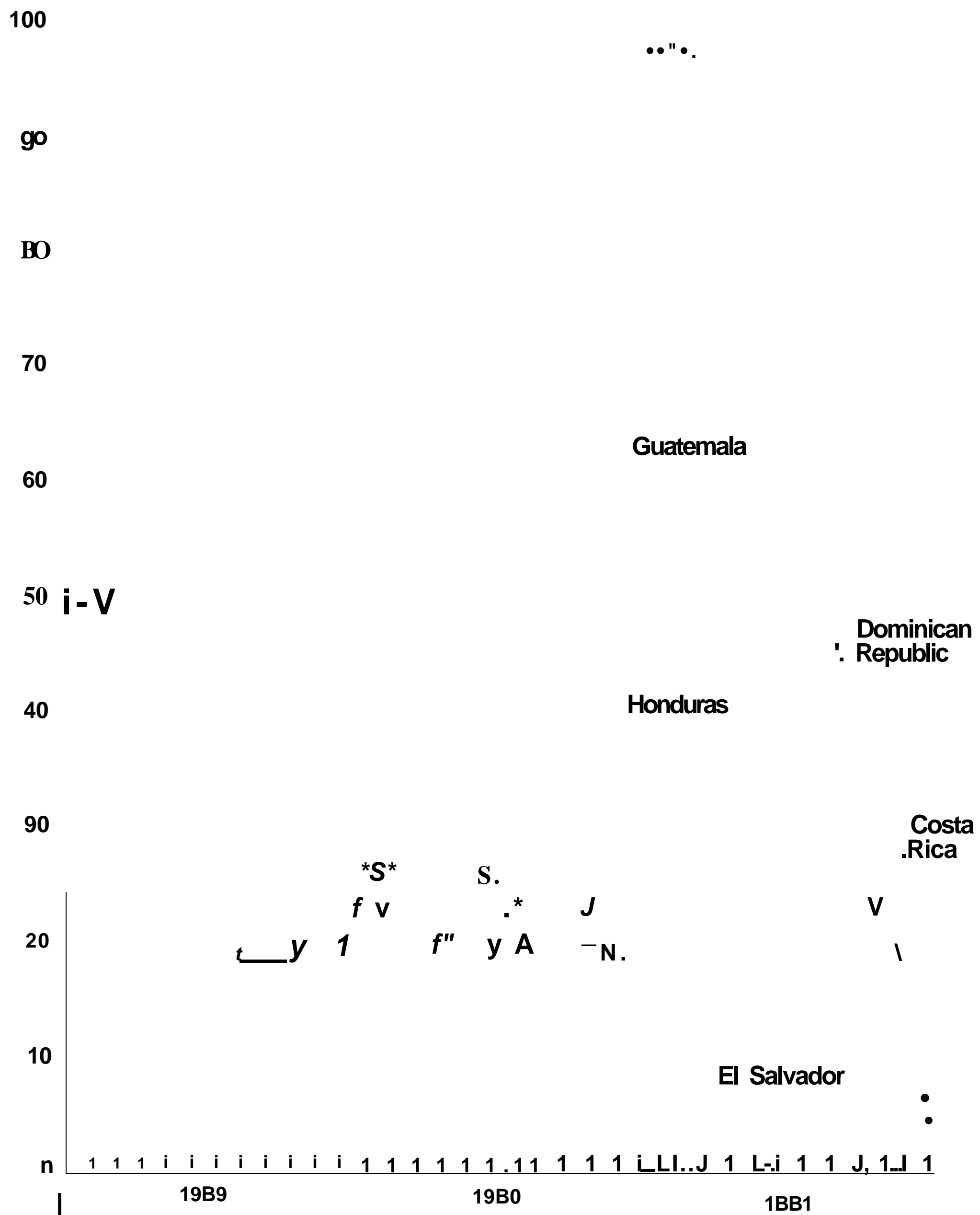
Figure IV-3
LATIN AMERICA: TWELVE-MONTH VARIATIONS IN THE CONSUMER PRICE INDEXES OF SELECTED COUNTRIES



Source: ECLAC, on the basis of official figures.

Figure IV-4

LATIN AMERICA: TWELVE-MONTH VARIATIONS IN THE CONSUMER PRICE INDEXES OF SELECTED COUNTRIES



Source: ECLAC, on the basis of official figures.

restrictive than in the preceding year, since the money supply, whose expansion in 1990 had outdistanced price increases, grew at a rate slightly less than the rate of inflation. Lastly, the tariff-reduction programme was continued, and in November 1991 entered its second phase with the lowering of the maximum tariff to 35% (except for automobiles) and the abolition of surcharges. These measures supported the anti-inflation policy in terms of costs.

Venezuela was able to lower its inflation by no more than a limited amount, as the 31% increase in CPI for 1991 was not much lower than the rate of slightly over 36% recorded as of the end of 1990. Strong domestic demand and the rapid growth of monetary aggregates (especially during the first half of the year), together with the continued process of price adjustments for public-sector goods and services, were the main factors that neutralized, to some degree, inflation's tendency to decline. The expansion of imports -partly as a consequence of the country's comfortable external accounts position and the reduction of the maximum tariff from 50% to 40% under the trade liberalization programme- exerted an opposing influence by reducing the pressure of domestic demand. A slowing of the rate of devaluation contributed to an increase in imports (the real exchange rate calculated according to CPI dropped by around 7%) and, at the same time, helped relieve the pressure on domestic prices.

Broad money continued to expand very swiftly during the first half of the year, marking up an increase of 66% for the 12-month period ending in June. This sharp rise may have partially been a reflection of the replenishment of real money balances following a substantial decrease, as well as the greater demand for financing generated by the boom in economic activity. In any event, the pivotal factor was the increase in the expenditures of the central Government and the State petroleum company, which put strong pressure on the monetary base. In order to alleviate the pressure on prices and the exchange rate, during the first few months of the year the Central Bank continued to offer its own short-term instruments on the open market. These operations began to lose their effectiveness, however, as the liquidity of the securities in circulation mounted. Accordingly, the authorities decided to raise the minimum reserve requirement in order to soak up some of the excess liquidity in the economy. Between May and July, the reserve requirement on public-sector deposits and obligations in the financial system was increased from 15% to 80%. Then, between August and November the reserve requirement on private-sector deposits was raised to 25%, except in the case of deposits with mortgage banks. This package of measures succeeded in curbing the growth of monetary aggregates in the second half of the year, with the result that in December the cumulative annual increase amounted to 44%, which was substantially lower than the 12-month increases recorded in the first half of the year. The authorities' relatively tighter monetary policy was reflected in higher interest rates as the average commercial-bank lending rate, which had declined to an annual level of less than 30% in late 1990, climbed to 40% in the third quarter of 1991. Owing to the central Government's increased current and capital expenditures, the oil industry's sharply rising investment outlays and the reduction in public revenues from oil sales (the fall in world oil prices after the end of the Gulf war was only partly offset by a larger volume of exports), the consolidated public sector posted a deficit in the first half of the year. This deterioration in fiscal accounts prompted the authorities to take action designed to ease the demand pressures on the economy. Accordingly, during the second half of the year, cuts were made in the budgeted expenditures of the State petroleum company and the central Government. In addition, monthly increases in domestic oil prices -which had remained unchanged since early in the year- were reintroduced beginning in August. The public sector closed out its balance sheet with a surplus of somewhat over 1% of GDP (after closing it at equilibrium in 1990), thanks to the extra revenues from the sale of assets.

Consumer prices in Costa Rica increased 25%, which was only slightly lower than the rate recorded in 1990. However, in the course of the year the inflationary process slowed appreciably: the annualized rate of inflation in the fourth quarter of 1991 was 18%, whereas it had approached 37% in the fourth quarter of 1990. In late 1990 and the first half of 1991, price increases turned virulent as a result of the strong

monetary expansion caused by the concession of loans to the Government and the rise in oil prices. The rate of devaluation was accelerated in 1991 to improve the balance-of-payments situation, pushing the real exchange rate applied to imports up by 9%, an event which was a rare exception in the region. A series of measures adopted to correct the fiscal deficit, such as the raising of the value-added tax from 10% to 13%, the imposition of an extraordinary tariff of 10% and the readjustment of public rates and charges, along with spending cuts, eliminated the consolidated non-financial public sector deficit but also contributed to the high rates of inflation recorded early in the year. After this readjustment of relative prices, inflation began to decline. Growing expectations of inflation and popular protests against the rise in the cost of living prompted the Government to freeze prices of regulated products (basic consumer goods and some services) and to slow down the rate of devaluation in August, thus reducing inflation in the final months of the year. That process was also influenced by a slowdown in economic activity, which brought the growth rate of GDP down to only 1 %, and a tighter monetary policy during the second half of the year; towards the end of 1991, prices were rising by about 1.5% a month -4he equivalent of 20% a year.

3. Control of outbreaks of inflation in structurally-adjusted economies

Inflation subsided in all of the countries whose economies had undergone structural adjustments and whose normally moderate rates of inflation had accelerated significantly the preceding year. By the end of 1991, inflation was below 20% a year in Chile and Mexico and below 15% in Bolivia, while Colombia was able to reduce its rate of inflation only to 27%.

In Chile, a 19% consumer price increase represented a notable achievement in overcoming the bout of inflation which had brought the annual rate of increase to 27% in 1990. A low rate of inflation during the first quarter was followed by increases equivalent to an annual pace of about 22% until the final two months of the year, when monthly rates of around 1% were registered. Since the non-financial public sector was running a surplus, the Government relied chiefly on monetary, exchange-rate and tariff policies in its efforts to fight inflation. The fiscal year once again closed with a surplus; the tax reforms initiated in 1990, which entered into full force in 1991, and the higher level of economic activity helped to raise tax receipts by slightly more than 12% in real terms. However, since expenditure rose even more sharply, current government saving was somewhat lower than in 1990 (close to 2% of GDP). Even though the non-financial public sector was not exerting pressure on the domestic credit supply, the system of administered exchange rates under which their movements are determined by the monetary authorities on the basis of domestic and international inflation made monetary policy difficult to manage. The effort to maintain a stable, competitive real exchange rate in the presence of high domestic interest rates and an ample supply of foreign exchange obliged the Central Bank to buy up large amounts of foreign exchange on the market. Although some of the resulting monetary repercussions were neutralized through increased domestic borrowing on the open market, the 12-month rate of growth of the money supply consistently remained above 30%. The monetary authorities' cautious course of action was based on the belief that the large supply of foreign exchange was a temporary phenomenon brought about by higher-than-expected copper prices and falling international interest rates. Since, at the same time, the Central Bank kept domestic interest rates at high levels, the inflow of short-term external capital mounted. The policy of keeping the exchange rate stable, coupled with the expansion of the money supply stemming from the monetary authorities' purchases of foreign exchange, caused monthly price variations to exceed the Government's targeted inflation rate. Another contributing factor in this connection was the marked upturn in domestic demand, which made a quick recovery in the first quarter, following the adjustment made the year before. In view of this development, in mid-June the Government

announced a 2% revaluation of the Chilean peso and a reduction of tariff rates from 15% to 11%. It also froze 20% of the loans obtained from foreign sources, which had a proportionally greater impact on the cost of short-term external credits, and levied a special tajupn the latter. To offset the drop in tax revenue caused by the tariff reduction, the gasoline tax was raised by 40%. This package of measures indicated that the authorities felt that the country's external accounts had undergone a structural change. A further decline in international interest rates prompted the Central Bank to lower the yield of its 90-day readjustable notes from 5.7% to 5.2% at the start of November. At the same time, it lowered the figure for international inflation which it used in determining the level of the exchange rate from an annual rate of 3.7% to 2.4%. These measures, which were intended to increase the cost of external credit and to counter the peso's persistent tendency to rise in value, did not manage to pull the dollar up from the floor of the official currency band.

Mexico also made great progress in its stabilization process by cutting back the 1991 consumer price increase to 19%, compared to a 30% increase the preceding year. This reduction in the rate of inflation was closely linked to the improvement in public finances, the decrease in the rate of devaluation and the extension of the period of validity of the price concertation mechanism. By strictly controlling expenditure, strengthening fiscal discipline and collecting extra revenues from the sale of State entities, the public sector achieved exceptional financial results: a consolidated surplus equivalent to 1.8% of GDP. Even excluding the additional revenues, the financial deficit declined considerably, amounting to only 1.5% of GDP after reaching 4% in 1990. To reduce indebtedness and the spending related to its servicing, resources from the Contingency Fund -created from 1990s windfall earnings from petroleum and some of the receipts from the sale of public enterprises- were used to reduce the domestic debt by 20 billion pesos, causing the public sector's total debt to fall to 38% of GDP, with a corresponding reduction in outlays for its servicing. Furthermore, the copious inflow of external capital brought about a considerable expansion in liquidity, which was attenuated by the public sector's decreased demand for financing. The large increase in international reserves resulted in a greater monetary expansion than had been foreseen; the authorities therefore used open market operations as the main instrument of monetary absorption. In any case, the money supply grew 18% in real terms.

The price stabilization policy was implemented under the fifth Pact for Stability and Economic Growth, adopted in November 1990 and valid until November 1991, when the sixth version of the plan went into effect. One of the most notable actions agreed upon was a policy of stabilizing exchange rates, under which the daily increase in the nominal exchange rate was lowered from 80 to 40 centavos in November 1990, and then from 40 to 20 centavos in November 1991. As another stabilizing measure, the minimum wage was increased at a lower rate than the average rate of inflation. These measures were supplemented by agreements with groups of producers on price reductions for certain products. Along with these actions, in late 1990 and in 1991 prices of energy products, especially gasoline, were drastically adjusted to correct the price lags accumulated in previous years and to make the price structure more consistent with current prices in other countries. Both the correction of outdated prices and contractual wage adjustments above the minimum wage drove prices higher than had been expected. These factors were compounded by increases in freight transport charges owing to the recent deregulation of that sector and by increases in urban transport charges which exceeded the average rise in prices. These changes caused two surges of inflation, the first between November 1990 and February 1991, and the second starting in November 1991, but in any case the accumulated rate over 12 months showed a declining trend throughout 1991. Exchange-rate policy was a key tool in the stabilization programme, as the price of the dollar rose only 4% during the year. Thus, prices of tradeables moved less rapidly than those of non-tradeables, which meant that relative price movements continued to favour the latter. This caused the real exchange rate to erode during the year; its level in the fourth quarter was 11% lower than in the same period in 1990.

In Bolivia the continued application of the stabilization programme initiated in 1985

succeeded in reducing the rate of inflation from 18% in 1990 to 14.5% in 1991. Prices rose faster early in the year because of the domestic price hike for petroleum and petroleum products instituted in January. However, this spurt of inflation was quickly brought under control by means of a slower rate of devaluation, a restrictive monetary policy and more stringent fiscal discipline. The policy of avoiding additional rises in fuel prices for the rest of the year also helped control inflation. The high level attained by the country's international reserves facilitated the application of the exchange-rate policy, while bank deposits in foreign currency increased notably for the second year in a row. Consequently, expectations of a scarcity of foreign exchange were dispelled, and the phenomenon became, instead, one more stabilizing factor. The extremely prudent management of fiscal accounts also contributed to stability. The non-financial public sector's current revenues grew as a result of greater tax pressure and higher output, as well as increased petroleum revenues, while current expenditure remained unchanged in real terms; however, public enterprises showed a mounting deficit. Therefore, the consolidated non-financial public-sector deficit of 3.4% of GDP decreased only to 3%, although its monetary effect was considerably mitigated by the fact that it had been financed almost exclusively with external resources.

In Colombia inflation decelerated slowly. Although the main economic policy objective was to reduce the rate of inflation, which had reached 32% in 1990, little progress was made in that direction, since prices rose by 27% in 1991. However, the monthly rate during the second half of the year was in the neighbourhood of 1.5% -equivalent to an annual rate of 20% and lower than in previous years. In 1991, the commercial liberalization of the economy was completed and the exchange-rate system was reformed, *inter alia* through the creation of a free foreign currency market. Anti-inflationary policy, in which a squeeze on credit played an important role, grew stronger after January with the adoption of a marginal reserve requirement of 100% on new deposits, which drove interest rates up. At the same time, it was decided to reduce the rate of devaluation to 22% a year, the target rate of inflation for 1991. The differential between domestic interest rates (which were over 40% a year), the announced devaluation and international interest rates prompted a large inflow of short-term external capital. Foreign exchange purchases by the Bank of the Republic caused a sizeable monetary expansion, which in turn necessitated a considerable number of open-market operations, with the usual consequences in terms of fiscal cost. The system of certificates of exchange was therefore reinstated to defer the monetization of the foreign exchange entering the country, first for 90 days and then, in November, for one year. Another measure adopted in this connection was the decentralization of exchange-rate operations, which were transferred to the country's financial institutions, while the Bank of the Republic reserved the right to intervene as a last resort to regulate the prices quoted in the free market for certificates of exchange, which were not allowed to fall more than 12.5% lower than the official rate in order to protect exporters. During the year, the official exchange rate rose by nearly 26%; meanwhile, the price of the dollar on the free market was 4% lower than the official price. The monetary expansion stemming from the purchase of foreign exchange was partially offset by the credit squeeze, with the result that the means of payment grew by about 33%, far exceeding the price-increase goal established at the beginning of the year. The public sector, for its part, maintained the financial balance it had achieved the preceding year.

4. Stabilization of episodes of inflation

Economies which had experienced bouts of inflation in recent years consolidated their stabilization programmes in 1991, generally with positive results. In particular, following the significant price hikes recorded in a number of Central American and Caribbean countries in 1990, which were largely attributable to fiscal and external imbalances and the rise in world oil prices, inflation in these economies subsided to moderate levels. The steepest reduction took place in the Dominican Republic, which achieved virtual stabilization in 1991 (prices rose

only 4%) after witnessing 101% inflation in 1990. A marked reduction also occurred in Guatemala, where the rate of price increases fell from 60% in 1990 to 10% in 1991. In El Salvador, the decline in inflation picked up speed, falling from 24% in 1989 and 18% in 1990 to 10% in 1991. Inflation also slowed in Honduras -from 35% to 21%- to reach single-digit annualized rates in the final months of 1991. Likewise, Paraguay recorded a pronounced drop in inflation, from 44% to 12%.

Inflation fell precipitously in the **Dominican Republic,** from 100% in 1990 to 4% in 1991. In August 1990 the authorities initiated substantial economic policy reforms designed to remedy the economy's worsening instability, which had led to mounting expectations of devaluation and inflation, at a time of severe crisis in the country's external payments and in its supply of goods. The measures adopted consisted of relaxing the exchange-rate policy and reducing subsidies for public rates and charges -particularly for energy, in response to higher international oil prices- and initiating a series of reforms aimed at controlling fiscal imbalance and liberalizing foreign trade. The adjustment had an immediate impact on prices (whose variations reached double-digit monthly rates) and depressed the level of activity.

Against this backdrop, the authorities decided early in 1991 to strengthen these measures as a means of rapidly stabilizing prices. Consequently, they maintained the restrictions on the Central Bank's financing of the pubbc sector, further contracted the money supply, continued to decontrol prices and liberalized exchange-rate transactions. Amidst a severe recession, the rate of price increases fell steeply beginning in January; at the same time, expectations changed in the exchange-rate market and the gap between the official and parallel rates narrowed. These new circumstances received a boost in early March, when the Government set the official exchange rate at a level which remained constant, except for slight variations, for the rest of the year. Another contributing factor was an abundant inflow of foreign exchange, despite a gradual reduction of interest rates, whose real levels for borrowers remained fairly high.

Inflation plummeted dramatically, falling from levels of about 10% a month in the second half of 1990 to an average of 0.7% a month in the first quarter of 1991; this phenomenon was accentuated in the second quarter, when a drop equivalent to 0.7% a month was recorded in the consumer price index (CPi). The fiscal and monetary measures applied in the second half of the year immediately affected prices by sharply contracting aggregate expenditure, at a time when the economy was operating without indexing mechanisms and with increased foreign competition in the area of consumer goods. With the maintenance of the fiscal measures and the exchange rate, overall price levels varied little in the second half of the year, averaging considerably less than 1% a month.

Consumer prices in **Guatemala** rose only 9% in 1991, following a two-year period in which they had accelerated sharply, culminating in a 60% increase in 1990. During most of 1991, in contrast, prices either fell or rose only moderately. This alleviation of inflationary pressures was possible despite the steep rise in electric service charges (47%), the 40% increase in the minimum wage and the drought which affected food production and the operating costs of the industrial sector, which had to reorganize work shifts and effect some outlays for the purchase of equipment and materials -including the import of diesel plants for electricity generation- in order to continue functioning during the power cuts caused by the drought.

Economic policy focused on controlling inflation by means of a rigorous fiscal and monetary policy. Under the liberalized exchange-rate policy instituted the preceding year, a large inflow of foreign exchange (particularly short-term) flattened out the exchange rate following the considerable increase recorded in 1990, thus helping to keep domestic prices down. In addition, the drop in oil prices after the Gulf conflict moderated expectations concerning inflation and the external deficit. The increased flow of foreign capital was largely attributable to high domestic interest rates, especially during the first half of the year, when nominal yields averaged close to 33% a year and the exchange rate was virtually constant, while domestic prices grew very slowly, with several months of negative

variation. In response to the abundant inflow of foreign exchange, interest rates declined markedly during the second half of the year, despite the use of open market operations to absorb the excess liquidity generated by the increase in international reserves. An improvement in public finance helped to strengthen the policy of monetary stringency. The large increase in the central Government's current revenues (over 1% of GDP) and significant spending cuts eliminated the fiscal deficit (of 2.3% in 1990) and yielded a modest surplus (of 0.4%). During 1991 the authorities pursued reforms designed to facilitate market operations, including the elimination of price ceilings, further liberalization of external trade and reduced subsidies.

Inflation also declined notably in **Paraguay,** falling to 12% after reaching 44% in 1990. The policy of credit stringency put into effect in the second half of 1990 (in which the liberalization of interest rates played an important role), the moderation of public spending and the near-stability of the nominal exchange rate in an economy with a plentiful supply of foreign currency had already brought the variation in CPI down to a monthly rate of about 1% towards the end of 1990. Those same factors continued to operate throughout 1991. The public sector remained in surplus (1.5% of GDP), though to a lesser degree than in 1990, since its expenditures grew more rapidly than its revenues. Credit policy remained stringent; during the first half of the year, the preceding year's interest rates continued in effect and, given the drop in inflation, were highly positive in real terms. At mid-year the rediscount rate was reduced from 30% to 20%, but even so, it remained positive in real terms. The reserve requirement on deposits in local currency also fell to 30%, with that on deposits in foreign currency rising to 25%. The dollar rate rose very slowly for a good part of the year, and accelerated somewhat in December, but exceeded the price quoted in December 1990 by only slightly more than 9%; thus, in the fourth quarter of 1991 the real exchange rate was some 8% lower than it had been in the same period the preceding year.

In **El Salvador** a large inflow of external resources helped to stabilize the exchange rate and bring the rate of inflation down from 18% in 1990 to 10% in 1991, despite increases in food prices in July and August as a consequence of the severe drought. In the climate of relative optimism created by expectations that warfare would end with a negotiated solution, and with an abundant inflow of foreign exchange received primarily through unrequited official and private transfers totalling over US$600 million, the exchange rate was virtually stable in 1991. In this context, the consumer price variation followed a downward trend, dropping from the monthly rate of 1.5% recorded in 1990 to the situation of near-stability observed in the final quarter of 1991. This price pattern was also influenced by falling oil prices throughout the year. Monetary policy remained circumspect, under the stabilization plan put into effect in late 1989, and succeeded in countering the pressures exerted by the fiscal imbalance created by a spending increase that exceeded the increase in the central Government's revenues and brought the deficit up from 3.5% of GDP in 1990 to about 5% in 1991.

Prices rose 21% in **Honduras** in 1991, representing a slowdown in the preceding year's spurt of inflation. The substantial economic policy changes introduced in 1990, notably a considerable devaluation that pushed the real exchange rate up by over 70%, had contributed to a steep rise in inflation, which in the last quarter of 1990 had reached an annual rate of over 50%. The subsequent decrease in the rate of devaluation slowed the rate of price increases, which hovered around 10% annually in the second half of 1991. Moreover, adjustment policies enabled the central Government to reduce its financial deficit from more than 6% of GDP in 1990 to 3% in 1991. Monetary policy, in accordance with the stabilization policy, was stringent. The money supply grew 17%, owing to the influence of the external sector and to a significant recovery of international reserves. Credit rose only 4%, since loans to the public sector dropped 6%. To absorb excess bank liquidity, public securities were auctioned.

Inflation also fell in **Haiti,** from 26% in 1990 to slightly less than 7% in 1991. Lastly, **Panama** again recorded a small price increase of about 1%, as it had the preceding year, in the context of a vigorous recovery in its level of economic activity.

Table IV-1
LATIN AMERICA AND THE CARIBBEAN: CONSUMER PRICES
(Percentage variations from December to December)

	1983	1984	1985	1986	1987	1988	1989	1990	1991
Latin America and the Caribbean	**130.8**	**184.8**	**274.7**	**643**	**1983**	**759.4**	**1161.0**	**1186.6**	**199.1**
Argentina	433.7	688.0	385.4	81.9	174.8	387.7	4 923.8	1 343.9	84.0
Barbados	5.5	5.1	2.4	-0.5	6.3	4.4	6.5	3.4	8.1
Bolivia	328.5	2 177.2	8 170.5	66.0	10.7	21.5	16.6	18.0	14.5
Brazil	179.2	203.3	228.0	58.4	366.0	933.6	1861.6	1 584.6	475.8
Colombia	16.7	18.3	22.7	20.7	24.6	28.3	26.1	32.4	26.8
Costa Rica	10.7	17.3	11.1	15.4	16.4	25.3	10.0	27.4	25.3
Chile	23.6	23.0	26.4	17.4	21.5	12.7	21.4	27.3	18.7
Ecuador	52.5	25.1	24.4	27.3	32.5	85.7	54.2	49.5	49.0
El Salvador	15.5	9.8	30.8	30.3	20.1	18.2	23.5	17.9	9.8
Guatemala	15.4	5.2	31.5	25.7	8.6	11.0	20.2	59.8	10.2
Haiti	11.2	5.4	17.4	-11.4	-4.1	8.6	10.9	26.1	6.6
Honduras	7.2	3.7	4.2	3.2	2.9	6.7	11.4	35.2	21.4
Jamaica	16.7	31.2	23.9	10.5	8.4	8.8	17.2	29.7	80.2
Mexico	80.8	59.2	63.7	105.7	159.2	51.7	19.7	29.9	18.8
Nicaragua	32.9	50.2	334.3	747.4	1347.3	33 602.6	1689.9	13 490.1	775.4
Panama	2.0	0.9	0.4	0.4	0.9	0.4	0.1	1.5	1.1
Paraguay	14.1	29.8	23.1	24.1	32.0	16.9	28.5	44.0	11.8
Peru	125.1	111.5	158.3	62.9	114.5	1 722.3	2 775.8	7 649.7	139.2
Dominican Republic	7.7	38.1	28.4	6.5	25.0	57.6	41.2	100.6	4.0
Trinidad and Tobago	15.4	14.1	6.6	9.9	8.3	12.1	9.3	9.5	2.3
Uruguay	51.5	66.1	83.0	76.4	57.3	69.0	89.2	129.0	81.5
Venezuela	7.0	18.3	5.7	12.3	40.3	35.5	81.0	36.5	31.0

Source: ECLAC, on the basis of official figures.

V. EMPLOYMENT AND WAGES

The moderate, if uneven, recovery of economic activity in the region as a whole in 1991, sparked modest growth in employment in formal activities and a slight decrease in unemployment, which still affects more than 5.5% of the workforce in the urban area. The differing rates of increase, however (in several countries, it was very slight and, in others, the level of activity even went down) were mirrored in the very heterogeneous development of formal employment, which rose satisfactorily in some countries while in others the downward trend of the 1980s continued.

The average rate of open unemployment in Latin America's 20 largest cities has ranged from 5.6% to 5.9% in recent years, down from more than 8% when the crisis of the 1980s was at its worst. In 1991, the rate of open unemployment went down in 9 of the 15 countries that were able to provide information, some of which registered a drop in the unemployment rate equivalent to one percentage point or more of the workforce (Argentina, Bolivia, El Salvador, Panama, Paraguay and Peru). In two other countries (Brazil and Chile), the average rates were higher than those of the previous year, but the third and fourth quarters showed a downward trend. Moreover, only Costa Rica and Honduras registered significant increases in the unemployment rate (see tables V-l and V-2).

It should be remembered, however, that in most countries of the region the degree of underemployment creates greater instability than the rate of open unemployment. The informal labour market expanded considerably in the 1980s and, at the end of the decade, held steady at around 25% of the urban workforce. The absorption capacity of the informal sector prevented a significant rise in unemployment, though at the expense of an increase in low-productivity jobs with no benefits. The expansion of the informal sector has varied from country to country. In Argentina and Mexico, informal employment reached its peak in the 1990s. In Brazil, Colombia, Costa Rica, Chile and Venezuela, the proportion of informal activities has decreased in recent years, compared to the all-time high attained in the past decade, but Chile is the only country in which the informal sector is smaller than it was 10 years ago.[1]

As a result of the considerable economic expansion of Venezuela and Chile, formal employment in those countries rose significantly and, in Venezuela, unemployment went down. The recovery of the level of activity in Argentina and Panama, on the other hand, led to only modest growth in industrial jobs, although in both cases it had a positive impact on unemployment. In Mexico, despite steady economic growth, industrial employment dropped because of the slower growth of the inbond assembly industry and lower employment in the manufacturing sector. The slowdown in growth brought with it a decline in industrial employment after three years of expansion, and higher unemployment in Costa Rica. Such was not the case in Colombia, where formal employment went up slightly, compared to no increase in 1990, or in Paraguay, where unemployment went down. While Uruguay registered only modest growth, the employment situation improved slightly. On the other hand, the extended recession in Brazil, Nicaragua and Peru later translated into a reduction in formal employment. In view of the critical situation in Brazil, informal hiring increased, heightening the instability of the labour market, but also keeping the rates of open

See Regional Employment Programme for Latin America id the Ciribbean (PREALC), "El empleo urbano: diagnóstico y desafíos de los noven ta "(Urban employment: diagnostic study a; 1 challenges in the 1990s), *Informa,* No. 29, April 1992.

unemployment from soaring. In Peru, economic reactivation combined with stabilization at least paved the way for a decline in the unemployment rate. In Nicaragua, on the other hand, the adjustment programme and institutional restructuring resulted in an abrupt drop in the employment level and a considerable increase in open unemployment (see tables V-l and V-3).

In addition, the steep decline in the inflation rate in some economies (Argentina, Nicaragua, Peru and Uruguay) contributed to an increase in average real wages; this also occurred in some countries which had experienced steady growth (Chile and Mexico). On the other hand, real wages went down in the economies that continued to be plagued by high rates of inflation (Brazil and Venezuela), or that registered lower growth rates (Colombia, Costa Rica and Paraguay).

As a result, in 1991 the unemployment rate in most countries was higher than it had been just before the crisis, except in Brazil, Costa Rica, Chile, Honduras, Mexico and Peru. On the other hand, the unemployment in industry remained below its 1980 level in a number of countries. In the 1980s, industrial unemployment had decreased or remained unchanged in many countries; only Cuba, Panama, Guatemala and Venezuela had registered upward trends. In Chile, employment in the manufacturing sector picked up steadily -after an abrupt drop (almost 30%) in 1981-1982-, outstripping the 1980 level by 22% in 1991. In Brazil, on the other hand, the level of industrial unemployment was 19% lower in 1991 than it had been in 1980. In Peru, the number of persons employed in industry was 23% below the 1980 figure, although the decline has occurred principally (20%) in the past four years. In Mexico, industrial employment was 3% higher than in 1980, owing to the creation of 340,000 jobs in the inbond assembly industry since that time, which compensated for the decline in other industrial sectors (see table V-3).

Moreover, in most countries of the region, average real wages in 1991 remained lower than they had been in 1980 as a result of the sharp downturn in the preceding decade. Only Brazil, Colombia, Chile, Panama and Paraguay surpassed their 1980 levels. In São Paulo, however, even with the decline (12%), the real wage level was well above what it had been in 1980, whereas the decline (8%) in Venezuela brought average real wages down to less than half their 1980 level. In Costa Rica and Guatemala, wages decreased by around 5% in real terms, while in Colombia, they went down by 3%, but this still represented a 12% increase over the 1980 level. In Argentina, Mexico, Nicaragua, Peru and Uruguay, on the other hand, average wages increased and recovered their purchasing power in part although in some cases, very slightly. Chile was the only country where wages exceeded the level of 10 years ago by 5% in real terms, pushing the figure up 10% over the previous level (see table V-4).

The minimum wage, a tool of both social policy and macroeconomic regulation, again decreased in real terms in most countries. Only in five countries (Argentina, Bolivia, Brazil, Chile and the Dominican Republic) did it increase compared to the previous year, although it remained well below the beginning figure for the decade. Of all the countries for which information was available, only three (Colombia, Costa Rica and Paraguay) have higher real minimum wages than in 1980 (see table V-5).

In **Argentina,** as a result of a significant economic recovery in 1991, the average rate of open unemployment in urban areas went down from 7.5% to 6.5%, but the trend in the larger cities was uneven. While in Buenos Aires, Córdoba and Mendoza, the rate went down in comparison to 1990, in Rosario, it rose around two percentage points. It seems that employment in formal activities increased only modestly because businesses tended to accommodate increased demand by extending working hours rather than hiring more personnel. In May, industrial wages and minimum wages began to show signs of improving as a result of the economic turnaround and of bringing inflation under control. This increase in real terms, however, was not sufficient to offset the losses accumulated over the previous four years, and therefore the average industrial wage continued to be around 20% below the 1980 level, while the real minimum wage was little more than half the legal minimum in 1980 (see tables V-4 and V-5).

In **Brazil,** in the context of a severe recession and a flare-up of inflation (monthly rates over 20%) in the fourth quarter of 1991 and amidst a climate of growing uncertainty because of

repeated unsuccessful attempts at stabilization, there was a widespread drop in urban employment (around 4%), particularly formal employment in the manufacturing industry (7%) and in construction (6%). Some of the jobs eliminated, however, were absorbed by the informal market, which explains why the average rate of open unemployment does not fully reflect this change. Unemployment shot up in São Paulo and Porto Alegre, especially in the first half of the year, and went down slightly in the second half (see table V-2).

For the second consecutive year, wages lagged behind prices, severely reducing purchasing power. Various factors explain this unfavourable development: the economic recession, the adoption of one stabilization programme after another, all alike in the sense that they aimed to achieve greater austerity in salary and wage readjustments and brought on persistent, high inflation. The wage policy implemented in 1991 is divided into two clear-cut phases. The first phase, which ran through August, began with the so-called Collor II Plan, aimed at de-indexing wages in order to control inertial inflation and thereby help to bring about stabilization. In that framework, a readjustment was declared in February in order to align real wages with the real average in the past 12 months. From March to August, a provisional readjustment mechanism was in place, limited to the issue of bonds denominated in fixed amounts. Beginning in September, permanent regulations came into force. The new law established a system of partial indexation though only for salaries and wages that were less than three times the minimum wage, staggered over time, fully adjustable every four months, with bimonthly advances on the order of 50% of the price increase. In general, however, major enterprises continued readjusting wages in line with schemes that made greater provisions for the impact of inflation. The Government was able to declare an exception to the civil service salary and wage policy ordinarily applied, whereby readjustments would be made according to the availability of resources, and a balanced budget would take precedence over everything else. As a result, public administration salaries were cut drastically. On the other hand, at the municipal and State levels, the same austerity was not practised, as wages were pegged to income, and therefore fared better than those paid by the federal Government.

The minimum wage policy underwent a significant change, as Congress moved to augment the purchasing power of salaries and wages in order to protect the lower-income strata by reversing the long-standing trend of progressive deterioration in real terms. As a result, real minimum wages increased by 12% in 1991, although they remained well below the level achieved in 1980 (see table V-5).

In **Colombia,** the employment situation deteriorated in the first half of the year and then improved in the second half. In Bogotá and Barranquilla, the average unemployment rate was below the 1990 figure, and in Cali, it held steady, while in Medellin, it increased by almost two percentage points. Despite reduced inflation, real wages decreased in 1991, as the uncertainty surrounding the radical change in economic policy and the slowdown in economic activity effectively ruled out larger wage increases. In those circumstances, real wages in the manufacturing industry went down by 3%, while the minimum wage decrease in real terms was somewhat more significant.

In **Chile,** the average urban unemployment rate was higher than that of 1990, although employment rebounded in the second half, reflecting a vigorous business expansion in certain sectors, including industry and construction, bringing the unemployment rate down to 5.5% in Greater Santiago and 5% at the national level in the fourth quarter. Average salaries and wages increased by 5%, chiefly as a result of greater productivity and lower inflation. The real minimum wage went up by 9.4%, owing -for the second consecutive year- to the tripartite agreement concluded between the Government and the major unions and business organizations. This increase brought the level close to the 1980 average (see tables **V-4** and V-5).

In Mexico, the average rate of open unemployment remained unchanged generally speaking, although there was a decline in employment in the manufacturing industry, which suffered drastic cutbacks. Elsewhere, the number of persons employed in the inbond assembly industry increased by only 1.6%, to 467,500, and the level of employment also

increased in trade and construction. Moreover, the informal sector of the economy continued to absorb a large percentage of the workforce for which there was no slot in the formal sector, representing around 30% of the economically active population. Pay scales in manufacturing went up by 6.5% in real terms in 1991 with increased productivity, but the purchasing power of the minimum wage remained on the decline (4.2%).

Lower employment in the formal sector of industry, commerce and services for the fourth consecutive year left 78% of the workforce in **Peru** underemployed, while open unemployment decreased from 8% to 6%. As a result of the successful stabilization policy, salaries and wages recovered somewhat from the accumulated loss since 1988, and real wages of workers in the manufacturing sector rose by 8%. Both public-sector remunerations and minimum wages posted further declines (35% and 32%, respectively).

Venezuela's vigorous economic expansion gave a major boost to employment, especially in the construction and manufacturing sectors. Indeed, the increase was greater in formal employment (8.3%) than in informal employment (3.3%). The open unemployment rate dropped from 11% to 10%. By mid-year, the Government of Venezuela had readjusted the nominal minimum wage which had remained unchanged since early 1989, by 50%. At the same time, pay increases for private-sector employees were declared, ranging between 17% and 21%, depending on the income level, and at the beginning of the year, there was a major increase in public-sector wages. None the less, these rises were not enough to prevent another drop in real terms, although less of one than in the previous three-year period. Minimum wages declined by 7%, while average salaries and wages went down by more than 8% (see tables V-4 and V-5).

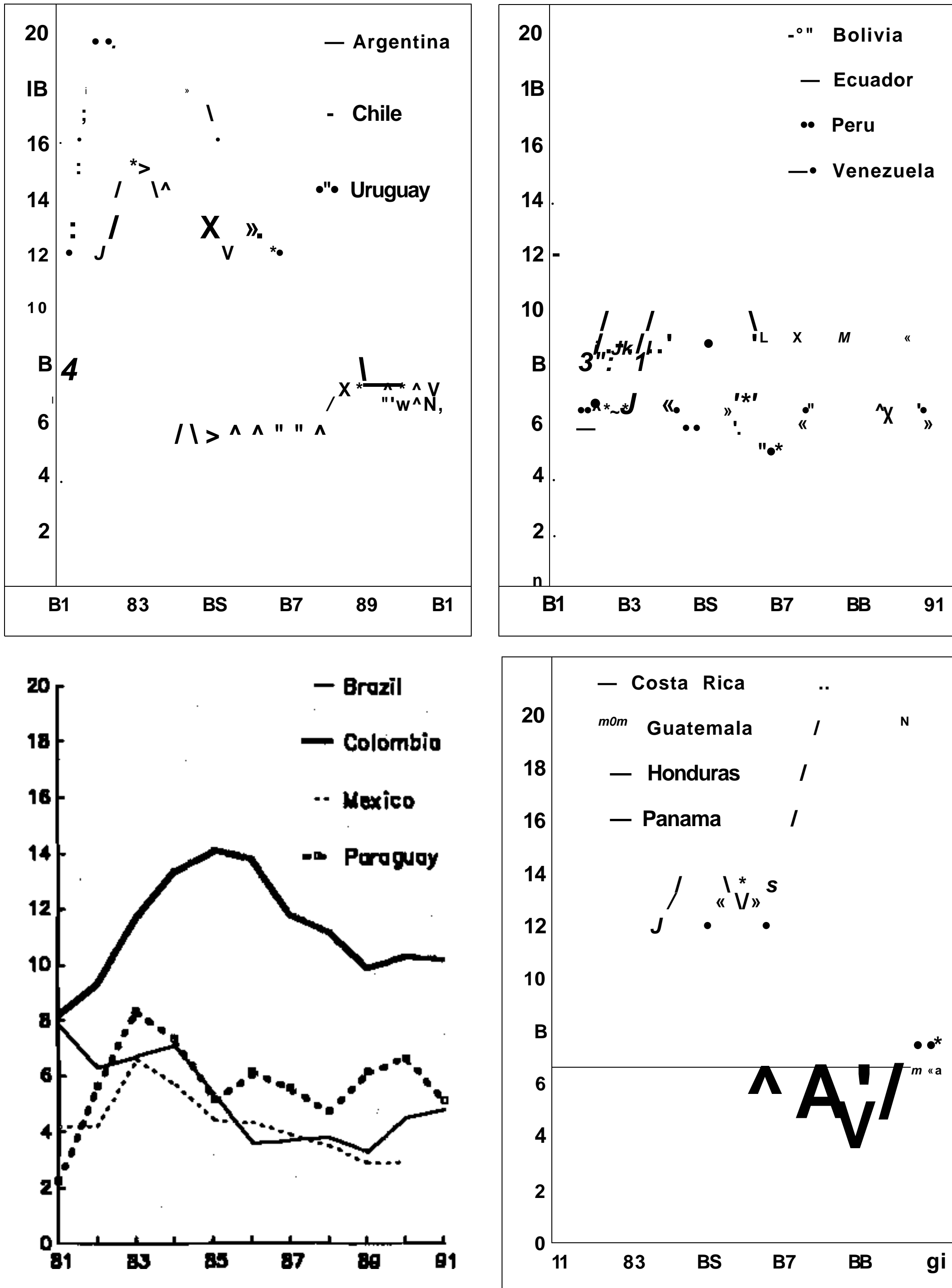
In Bolivia, the employment situation improved along with increased output, and open unemployment went down by more than a percentage point. Moreover, in January, the minimum wage was readjusted by 100%, rising by 54% in real terms; none the less, owing to the accumulated effect of deterioration in the past 10 years, the minimum wage is still equivalent in real terms to only 25% of its 1980 value. In **Ecuador,** there was another minimum wage decline, as only one readjustment was made in January on the assumption that inflation would tend to go down. Therefore, over the year, the minimum wage went down by 15.5% in real terms to one third of what it had been in 1980. In **Paraguay,** unemployment was lower in urban areas, largely because of the impetus of commerce, but rural employment was less stable because of a poor agricultural performance. Under the stabilization policy, salaries and wages were frozen in 1991, which brought the minimum wage down by 4.4% in real terms. The decrease in average salaries and wages, however, was not as great (1.2%) (see tables V-1, V-4 and V-5).

In **Uruguay,** employment during the first six months remained low in industry and commerce, but later increased, bringing down unemployment figures in the second half of the year. The yearly unemployment average remained high (nearly 9%), although it was lower than that of 1990 and most of the 1980s. None the less, real average wages increased by nearly 4%, recovering nearly half of the value lost in the preceding biennium. Salaries and wages in the private sector increased more rapidly than in the public sector, because different salary and wage adjustment scales were used: whereas, in the private sector, wages were readjusted on the basis of accumulated inflation in the preceding four-month period, in the public sector they were adjusted in line with the Government's fiscal targets. In a context of disinflation, therefore, private-sector salaries and wages went up by 6% in real terms, while in the public sector, the increase was only slight. Minimum wage purchasing power posted another decline (10%).

In the Central American and Caribbean countries, the trend was not uniform. In Costa Rica, the adjustment programme curbed economic activity, a result which had direct repercussions on employment levels. The unemployment rate rose slightly to 6%. Although manufacturing output grew by 1%, employment in that sector registered a decline of 3.7%, largely attributable to cutbacks in labour-intensive sectors, such as textiles and furniture-making. Also affecting the deterioration in the employment situation, although less so than anticipated, was the job relocation plan implemented in October 1990 with the aim of

Figure V-1

LATIN AMERICA AND THE CARIBBEAN (SELECTED COUNTRIES): URBAN UNEMPLOYMENT
(Average annual rateB)



Source: ECLAC, on the basIB of official figures.

reducing public-sector employment; however the objectives of the Plan were only partially achieved, since many of the dismissed workers filed suit and were reinstated in their jobs. Therefore, as of March, the Plan became a voluntary retirement programme with very attractive financial incentives. Wage policy was determined by the adjustment policy, and, average wages therefore went down by 4.6% in real terms; the real wage level in 1991 was 17% below what it had been in 1980. The minimum wage declined in real terms by 7.2% but remained 12% above the 1980 level.

The prospect of an imminent settlement of the conflict in El Salvador stimulated economic activity and helped to bring down inflation. In this context, the unemployment rate dipped from 10% to 8%, and underemployment also decreased, which would confirm the trend towards greater formal employment. The minimum wage readjustment was not commensurate with inflation and it again declined in real terms (2%), prolonging the decade-long trend of the 1980s and reducing the minimum wage to one third of its 1980 level.

In Guatemala, job creation was negligible, and thus open unemployment remained unchanged while underemployment worsened steadily. As a result of the 40% minimum wage increase and lower inflation, the minimum wage went up by 5% in real terms. Average salaries and wages went down by only 5%, because the higher inbond assembly wages served to push up the average.

In Honduras, the national unemployment rate rose slightly as a result of a significant increase in unemployment in the capital city, for in the San Pedro Sula industrial zone, there was a decline of one percentage point. The fact is that the job situation is predominantly one of underemployment, since a large percentage of the population works in the informal sector. As a result of a "worker-entrepreneur agreemenf'in Honduras, minimum wages were readjusted by a weighted average of 30%. Since this increase was lower than the rise in prices, real wages decreased by more than 3%.

The steep rise in unemployment in Nicaragua was one of the most disturbing aspects of the 1991 economic picture. The newest members of a workforce that is growing by more than 4% annually, together with part of the armed forces and the demobilized fighters, the first returnees to the country and those who over the year had lost their jobs because of business failures or because of depressed business activity, were all job-hunting in a weak labour market. In short, underutilization of the labour force went up from 45% in 1990 to 54% in 1991. Open unemployment stood at 13.6%. In the manufacturing sector, employment dipped by 20%. The drop in employment in the services sector was widespread, especially in public administration and the army, where 17,000 posts were eliminated as part of a job conversion plan in State institutions. Average wages increased by slightly more than 3% in real terms, although, severely eroded by hyperinflation, they are, even now, equal to only 15% of their 1980 level in real terms (see tables V-l and V-5).

In Panama, the open unemployment figures were extremely high (19%), if on a slightly downward trend. Formal job creation rose by 12%, but the figure had been so low to begin with that it did little to reduce unemployment. In 1991, personnel continued to be rehired at wages below what they had originally earned in the same jobs, a policy initiated in 1990 which was applied virtually across-the-board. This brought down real wages in the private sector and it may well be that only public-sector salaries increased (at the expense of dismissing 4,500 employees) and in the Canal zone. Moreover, minimum wages have not increased since February 1983; while inflation is down, this has brought on a loss in real value of six percentage points.

In Haiti, a worsening economic crisis seems to have pushed open unemployment up to 30% of the economically active population in a context, moreover, of rampant underemployment. Real wages dropped by more than 5%, as the readjustment implemented was not enough to offset the impact of inflation. By contrast, significantly lower inflation in the Dominican Republic raised the real minimum wage somewhat.

Table V-1

LATIN AMERICA AND THE CARIBBEAN: URBAN UNEMPLOYMENT

(Average annual rates)

	1983	1984	1985	1986	1987	1988	1989	1990[a]	1991[a]
Latin America[b]	**8.1**	**8.2**	**73**	**6.2**	**5.8**	**5.9**	**5.6**	**5.8**	**5.6**
Argentina[0]	4.6	4.6	6.1	5.2	5.9	6.3	7.8	7.5	6.5
Bolivia[0]	8.5	6.9	5.8	7.0	7.2	11.6	10.2	9.5	8.1
Brazil[e]	6.7	7.1	5.3	3.6	3.7	3.8	3.3	4.5	4.8
Colombia[f]	11.8	13.5	14.1	13.8	11.8	11.2	9.9	10.3	10.2
Costa Rica[8]	8.5	6.6	6.7	6.7	5.9	6.3	3.7	5.4	6.0
Chile[h] ,	18.9	18.5	17.2	13.1	11.9	10.2	7.2	6.5	7.3
Ecuador' .	6.7	10.6	10.4	10.7	7.2	7.4	7.9	6.1	
ElSalvador[j]	...	...	...	...	...	9.4	8.4	10.0	8.0
Guatemala[k]	10.0	9.1	12.1	14.0	11.4	8.8	6.2	6.4	6.5
Honduras[1]	9.5	10.7	11.7	12.1	11.4	8.7	7.2	6.9	7.6
Mexico"	6.6	5.7	4.4	4.3	3.9	3.5	2.9	2.8	3.0
Panama"	11.7	12.4	15.6	12.6	14.1	21.1	20.4	20.0	19.0
Paraguay[0]	8.4	7.4	5.2	6.1	5.5	4.7	6.1	6.6	5.1
Peru[1]"	9.0	8.9	10.1	5.4	4.8	...	7.9	8.3	5.9
Uruguay[q]	15.5	14.0	13.1	10.7	9.3	9.1	8.6	9.3	8.9
Venezuela[1]"	11.2	14.3	14.3	12.1	9.9	7.9	9.7	11.0	10.1

Source: Estimates by ECLAC and Regional Employment Programme for Latin America and the Caribbean (PREALC), on the basis of official figures.

* Preliminary figures. [b] Weighted average for 20 of the 25 most populous cities in Latin America. [c] Nationwide urban rate, April-October average; 1986: October. Nationwide urban rate; estimates by the Economic Policies Unit (UDAPE). From 1987 onward, Permanent household survey conducted by the National Institute of Statistics. [c] Metropolitan areas of Rio de Janeiro, São Paulo, Belo Horizonte , Porto Alegre, Salvador and Recife: 12-month average. Bogotá, Barranquilla, Cali and Medellfn: average for March, June, September and December; 1985: average for March, July, September and December; 1986: average for April, June, September and December. [g] Nationwide urban rate: average for March, July and November; 1984: average for March and November, 1986: average for March and July; from 1987 onward: July. National Institute of Statistics (INE), Santiago Metropolitan Region, four-quarter moving average. From August 1984 onward, figures' refer to the Santiago Metropolitan Region; from October 1985 onward, the figures are not entirely comparable to those for preceding periods due to changes in the design and size of the sample. . i Nationwide, according to official estimates; from 1986 onward, household surveys in Quito, Guayaquil and Cuenca. ' Nationwide urban rate, 1988 and 1990: January to April; 1989: October 1988 to February 1989. Nationwide, according to General Secretariat of the National Council for Economic Planning (SEGEPLAN) estimates. Nationwide, according to official estimates; from 1986 onward, Urban Labour Force Survey; 1987: March, central district. [m] Average for 16 cities. Four-quarter average. ° Metropolitan area, August of each year; 1990: estimates. ° Asunción, Fernando de la Mora, Lambaré, and urban areas of Luque and San Lorenzo; 1983: average for September, October and November, 1984: average for August, September and October, 1985: average for November and December. [p] Metropolitan Lima. [q] Montevideo: four-quarter average. [r] Nationwide urban rate: average for the two halves of the year, 1986: second half of the year.

Table V-2
LATIN AMERICA AND THE CARIBBEAN: UNEMPLOYMENT RATES IN MAJOR CITIES

	1987	1988	1989	1990	1991"	1990				1991"			
						I	II	III	IV	I	II	III	IV
Latin America	5.8	5.9	5.6	5.8	5.6	5.5	6.4	5.7	5.5	5.7	6.0	**5.4**	***S3***
Argentina [c]													
Buenos Aires	5.3	6.0	7.4	7.4	5.9		8.8		6.0		6.4		5.3
Córdoba	5.2	5.5	8.1	5.8	4.8		7.4		4.2		4.1		5.4
Greater Mendozai	3.4	4.4	4.3	5.9	4.3		6.0	...	5.8		4.2		4.4
Greater Rosario	7.8	7.6	10.8	8.5	10.2		10.4	...	6.5		10.9		9.4
Brazil [d]													
Rio de Janeiro	3.3	3.1	2.8	3.5	3.6	3.2	4.0	3.4	3.4	4.1	4.1	2.9	3.2
São Paulo	3.8	4.0	3.5	4.6	5.5	3.6	5.3	4.8	4.6	6.5	6.3	4.4	4.8
Recife	5.2	5.6	5.3	5.7	5.9	5.3	6.6	5.9	5.1	6.3	6.1	5.8	5.5
Porto Alegre	3.9	3.7	2.6	3.7	4.4	2.8	4.3	3.9	3.8	5.1	4.8	3.7	3.9
Colombia [e]													
Bogotá	11.1	10.5	8.0	9.4	8.8	7.9	10.1	8.8	10.9	9.2	9.6	8.2	8.2
Ba Tranquilla	13.0	11.4	11.7	11.0	9.9	12.1	11.8	10.4	9.8	9.5	11.1	10.7	8.2
Medellín	12.2	12.9	12.4	12.5	14.1	11.5	12.4	13.7	12.5	14.0	14.8	14.0	13.6
Cali	12.4	11.3	10.3	9.5	9.5	10.9	9.9	8.3	8.7	10.6	9.2	9.2	9.0
Costa Rica [f]													
San José	4.8	6.7	2.7										
Chile [g]													
Santiago	11.9	10.2	7.2	6.5	7.3	5.2	7.5	7.0	6.1	7.4	8.1	8.3	5.5
Mexico													
Mexico City	4.1	4.4	3.7	3.2	3.0	2.9	3.5	3.6	2.9	2.9	2.7	3.3	3.0
Guadalajara	3.1	2.6	1.7	1.5	2.5	1.2	1.4	1.9	16	2.1	1.8	3.0	3.0
Monterrey	5.5	4.1	3.1	3.6	3.6	3.3	3.1	4.1	3.7	3.8	3.2	3.7	3.6
Paraguay '													
Asunción	5.5	4.7	6.1	6.6	5.1			6.6				5.1	
Peru [j]													
Lima	4.8		7.9	8.3	5.9		8.3				5.9		
Uruguay													
Montevideo	9.3	9.1	8.6	9.3	9.0	9.3	8.6	9.6	9.7	9.9	9.4	8.2	8.3
Venezuela													
Caracas	7.9	5.8	7.3	8.3	8.3		8.9		7.7		9.3		7.3

Source : ECLAC, on the basis of official figures.
[a] Preliminary figures. Weighted average for 20 of the 25 most populous cities in Latin America. [c] Figures for April and October. Twelve-month average. [e] Figures for March, June, September and December. Metropolitan area. Figures for March, July and November; 1988 and 1989: July. * Greater Santiago. Figures for March, June, September and December. , Quarterly averages. ' Includes Fernando de La Mora, Lambaré and the urban areas of Luque and San Fernando. [j] Metropolitan Lima; 1987: June. Four-quarter average. Caracas metropolitan area. Average for two half-years.

Table V-3

LATIN AMERICA AND THE CARIBBEAN: INDICATORS OF EMPLOYMENT IN MANUFACTURING

	1983	1984	1985	1986	1987	1988	1989	1990	1991
				(Indexes 1980=100)					
Argentina [a]	85.5	88.0	84.8	81.3	80.5	81.3	74.5	71.0	
Brazil									
Metropolitan areas	79.0	78.1	79.1	86.9	89.7	88.2	90.1	87.3	81.3
São Paulo [b]	81.6	81.5	91.7	100.9	103.0	101.0	102.5	99.3	92.1
Rio de Janeiro	89.1	89.0	93.4	99.5	103.3	101.5	103.8	100.7	94.9
Colombia [?]	84.4	83.4	81.6	81.2	83.8	86.1	85.9	86.0	87.1
Costa Rica	96.2	99.3	99.8	100.4	97.7	104.4	105.0	106.7	102.7
Cuba	115.6	125.3	129.9	133.0	133.2	136.1	140.7		
Chile	74.3	81.8	86.6	93.1	100.3	111.2	114.9	116.9	121.8
Guatemala	93.7	83.7	94.1	94.2	94.4	124.5	121.9	124.4	
Mexico';	9.3.1	92.2	94.3	93.4	93.4	93.5	95.2	95.4	93.9
Mexico	151.0	167.0	177.3	207.6	254.0	310.1	361.6	387.6	393.8
Nicaragua	92.8	92.8	87.6	87.6	88.7	92.8	86.6	78.4	62.9
Panama [g]		113.4	114.6	121.4	133.6	117.0	123.1	126.7	128.9
Peru [h]	94.3	84.4	83.4	88.4	95.9	92.4	83.5	81.3	77.2
Venezuela [l]	100.3	98.9	99.9	102.6	114.3	124.0	120.8	113.7	125.1
				Percentage variation (Percentages)					
Argentina	3.3	2.9	-3.6	-4.1	-1.0	1.0	-8.4	-4.7	
Brazil									
Metropolitan areas	-7.4	-1.1	1.3	9.9	3.2	-1.7	2.1	-3.1	-6.8
São Paulo	-7.8	-0.1	12.5	10.0	2.1	-2.0	1.5	-3.1	-7.3
Rio de Janeiro	-4.4	-0.1	4 9	6.5	3.8	-1.7	2.3	-3.0	-5.8
Colombia	-6.6	-1.2	-2.1	-0.5	3.2	2.7	-0.2	0.1	1.3
Costa Rica	3.8	3.2	0.5	0.6	-2.7	6.9	0.5	1.6	-3.7
Cuba	5.2	8.4	3.7	2.4	0.1	2.2	3.4		
Chile	4.2	10.1	5.9	7.5	7.7	10.9	3.3	1.7	4.2
Guatemala	5.3	-10.7	12.5	0.1	0.2	31.9	-2.1	2.1	
Mexico	-9.6	**-i:o**	2.3	-1.0	-	0.1	1.8	0.2	-1.6
Mexico	23.8	10.6	6.2	17.1	22.4	22.1	16.6	7.2	1.6
Nicaragua	4.7	-	-5.6	-	1.2	4.7	-6.7	-9.5	-19.8
Panama			1.0	5.9	10.1	-12.4	5.2	2.9	1.8
Peru	-5.4	-10.5	-1.2	6.0	8.4	-3.6	-9.7	-2.6	-5.1
Venezuela	-1.7	-1.4	1.0	2.7	11.4	8.5	-2.6	-5;9	10.1

Source: ECLAC on the basis of official figures.
[a] Manual workers employed in manufacturing. Source: Brazilian Geographical and Statistical Institute (IBGE).
[c] Manual workers employed in industry, except that of coffee hulling. Number of persons paying into the social security system. [e] Persons employed in manufacturing: does not include the inbond assembly industry. Persons employed in the inbond assembly industry *(maquiladoras)*. [g] Employment in manufacturing activities according to household surveys. Persons employed in manufacturing in the Lima metropolitan area. ' Source: Industrial Survey conducted by the Central Statistics and Information Office (OCEI) (indexes 1981=100).

Table V-4

LATIN AMERICA AND THE CARIBBEAN: REAL AVERAGE WAGES

	1983	1984	1985	1986	1987	1988	1989	1990	1991[a]
Average manual indexes (1980 = 100)									
Argentina	100.5	127.1	107.8	109.5	103.0	97.3	83.3	78.7	81.8
Brazil									
Rio de Janeiro[c]	112.7	105.1	111.8	121.5	105.4	103.2	102.3	87.6	87.8
São Paulo[d]	94.0	96.7	120.4	150.7	143.2	152.1	165.2	142.1	125.4
Colombia[e]	110.1	118.1	114.6	120.1	119.2	117.7	119.4	115.9	112.4
Costa Rica	78.5	84.7	92.2	97.8	89.2	85.2	85.7	87.2	83.1
Chile[8]	97.1	97.2	93.5	95.1	94.7	101.0	102.9	104.8	109.9
Guatemala[h]	126.2	114.8	99.2	81.0	86.5	91.0	95.8	78.5	74.5
Mexico ' .	80.7	74.8	75.9	71.5	71.3	71.7	75.2	77.9	83.0
Nicaragua[J]	83.4	78.5	55.0	19.8	13.6	4.8	9.2	14.8	15.3
Panama[k]	100.8	105.0	105.7	108.4	109.9	101.2	108.9	102.1	
Paraguay	95.2	91.8	89.8	85.9	96.5	103.9	109.8	103.5	102.3
Peru*"	93.4	87.2	77.6	97.5	101.3	76.1	41.5	36.5	39.3
Uruguay[n]	84.7	72.2	67.3	71.9	75.2	76.3	76.1	70.6	73.2
Venezuela[°]	98.4	93.5	84.2	85.4	74.5	66.0	48.4	46.2	42.4
Percentage variation[p]									
Argentina	25.5	26.4	-15.2	1.6	-5.9	-5.5	-14.4	-5.5	**4.0**
Brazil									
Rio de Janeiro	**-7.3**	**-6.7**	6.4	8.7	-13.3	**-2.1**	**-0.9**	**-14.4**	0.2
São Paulo	12.3	2.9	24.4	25.2	**-5.0**	6.2	8.6	**-14.0**	**-11.8**
Colombia	5.2	7.3	**-3.0**	4.8	**-0.7**	**-1.3**	1.4	**-2.9**	**-3.0**
Costa Rica	10.9	7.8	9.1	**6.1**	**-9.7**	**-4.5**	0.6	1.7	**-4.6**
Chile	10.7	0.1	**-3.8**	**1.7**	**-0.3**	6.6	1.9	1.8	4.9
Guatemala	**-1.2**	**-9.0**	**-13.6**	-18.3	6.8	5.2	5.3	**-18.1**	**-5.0**
Mexico	•22.7	**-6.6**	1.5	**-5.8**	**-0.3**	0.6	4.9	3.6	6.5
Nicaragua	12.9	**-5.9**	-30.0	-63.9	-31.3	-64.9	92.0	61.5	3.2
Panama	1.1	4.2	0.6	2.6	1.4	**-7.9**	7.6	**-6.2**	
Paraguay	**-7.0**	**-3.6**	**-2.2**	**-4.3**	12.3	7.7	5.7	**-5.7**	**-1.2**
Peru	•15.2	**-6.6**	-11.0	25.6	3.9	**-24.9**	-45.5	-12.1	7.9
Uruguay	•20.8	**-14.8**	**-6.8**	6.8	4.6	1.5	**-0.3**	**-7.2**	3.7
Venezuela	**-1.6**	**-5.0**	**-9.9**	1.4	**-12.8**	**-11.4**	-26.7	**-4.6**	**-8.2**

Source : ECLAC, on the basis of official figures.

* Preliminary figures. Average total monthly wages in the manufacturing industry. [c] Average wages in basic industry, deflated by the consumer price index for Rio de Janeiro. Average wages in the manufacturing industry in the State of São Paulo deflated by the cost-of-living index for São Paulo. ' Wages of manual workers in the manufacturing industry. Average wages of persons enrolled in the social security system. [8] Average remunerations of wage earners in non-agricultural . sectors. Averagewagesofpersonsenrolledin the social security systetn. 'Average wages In the manufacturing Industry. ' Average wages of persons enrolled in the social security system, deflated by the price index implicit in the gross domestic product. Average industrial wages in Panama City. Wage of manual workers in Asunción; average for June and December. [m] Wages of private-sector manual workers in Metropolitan Lima. [°] Real average wage index. "Average income per urban worker, deflated by the variation in consumer prices in the Caracas Metropolitan area. [p] In comparison to the same period of the preceding year.

Table V-5

LATIN AMERICA AND THE CARIBBEAN: REAL URBAN MINIMUM WAGE

	1983	1984	1985	1986	1987	1988	1989	1990	1991[a]
				Averag;e **annual indexes** (1980 = 100)i					
Argentina	152.9	167.5	113.1	110.0	120.8	93.5	42.1	40.2	56.0
Bolivia[0]	55.4	45.6	18.4	17.1	19.8	20.9	18.7	17.3	26.6
Brazil[d]	95.9	87.4	88.9	89.0	72.6	68.7	72.1	53.4	59.9
Colombia[e]	107.9	113.5	109.4	114.2	113.0	109.9	110.8	107.9	104.3
Costa Rica	99.3	104.4	112.2	118.7	117.9	114.6	119.4	120.5	111.8
Chile[8]	94.2	80.7	76.4	73.6	69.1	73.9	79.8	87.5	95.6
Ecuador	63.6	62.8	60.4	65.0	61.4	53.4	47.3	39.6	33.5
El Salvador[1]	76.5	76.8	66.2	57.5	46.0	43.6	37.0	34.8	34.1
Guatemala[J]	115.3	111.4	94.0	68.6	61.1	75.9	68.1	48.2	38.9
Haiti [k]	94.0	87.1	91.3	84.8	94.7	94.8	95.7	99.7	
Honduras	96.5	92.1	89.1	85.3	83.3	79.7	72.6	87.1	84.4
Mexico [m]	76.6	72.3	71.1	64.9	61.5	54.2	50.8	45.5	43.6
Nicaragua "	56.7	63.6	45.1						
Panama °	103.7	102.1	101.0	101.1	100.1	99.7	99.9	99.3	97.7
Paraguay [p]	94.2	93.8	99.6	108.3	122.6	135.2	137.5	131.6	125.8
Peru[q]	80.6	62.3	54.4	56.4	59.7	52.0	25.4	23.4	15.9
Dominican Republic [r]	80.8	82.2	80.2	86.0	84.1	87.4	77.7	65.2	66.2
Uruguay[s]	88.6	88.8	93.2	88.5	90.3	84.5	78.0	69.1	62.0
Venezuela '	73.9	66.5	96.8	90.4	108.7	89.5	72.9	59.3	55.1
				Percentage variation					
Argentina	47.6	9.5	-32.5	-2.7	9.8	-22.6	-55.0	-4.5	39.3
Bolivia	-40.9	-17.7	-59.6	-7.1	15.8	5.6	-10.5	-7.5	53.8
Brazil	-10.2	-8.9	1.7	0.1	-18.4	-5.4	4.9	-25.9	12.2
Colombia	4.2	5.2	-3.6	4.4	-1.1	-2.7	0.8	-2.6	-3.3
Costa Rica	15.6	5.1	7.5	5.8	-0.7	-2.8	4.2	0.9	-7.2
Chile	-19.6	-14.3	-5.3	-3.7	-6.1	6.9	8.0	9.6	9.3
Ecuador	-16.2	-1.3	-3.8	7.6	-5.6	-13.0	-11.4	-16.3	-15.5
El Salvador	-11.7	0.4	-13.8	-13.2	-19.9	-5.3	-15.1	-5.9	-2.2
Guatemala	-4.5	-3.4	-15.6	-27.0	-10.9	24.2	-10.3	-29.2	-19.3
Haiti	-6.7	-7.3	4.8	-7.1	11.7	0.1	0.9	4.3	
Honduras	-7.7	-4.5	-3.3	-4.2	-2.4	-4.3	-8.9	20.0	-3.1
Mexico	-17.4	-5.6	-1.7	-8.7	-5.5	-12.0	-6.7	-10.2	-4.2
Nicaragua	-23.8	12.2	-29.1						
Panama	15.8	-1.6	-1.0	0.1	-1.0	-0.4	0.2	-0.6	-1.6
Paraguay	-7.6	-0.4	6.2	8.7	13.2	10.3	1.7	-4.3	-4.4
Peru	1.3	-22.7	-12.7	3.7	5.9	-12.9	-51.2	-7.9	-32.1
Dominican Republic	-6.5	1.7	-2.4	7.2	-2.2	3.9	-11.1	-16.1	1.5
Uruguay	-14.7	0.2	5.0	-5.0	2.0	-6.4	-7.7	-11.4	-10.3
Venezuela	-5.9	-10.0	45.6	-6.6	20.2	-17.7	-18.5	-18.7	-7.1

Source: ECLAC, on the basis of official figures.

* Preliminary figures. National minimum wage. [c] National minimum wage. Minimum wage for the city of Rio de Janeiro, deflated by the corresponding consumer price index. [e] Minimum wage for upper urban sectors. National minimum wage. [g] Minimum income. Minimum overall living wage, calculated on the basi s of the annual minimum living wage and legal supplementary benefits. ' Minimum wage for non-agricultural activities in San Salvador. ′ National minimum wage. Minimum daily wage paid in industries. Minimum wage in the manufacturing sector in the Central District and San Pedro Sula. [m] Minimum wage in Mexico City, deflated by the corresponding consumer price index. [n] Minimum wage for industrial workers in the Department of Managua. ° Minimum wage applying to all activities except construction and domestic service. [p] Minimum wage in Asunción and Ciudad del Este. ' Minimum wage in Metropolitan Lima for non-agricultural activities. ′ National minimum wage. * National minimum wage for workers over 18 years of age. ' National minimum wage for non-agricultural activities deflated by the consumer price index corresponding to the lowest income quartile. " In comparison to the same period of the preceding year.

VI. PUBLIC FINANCES

Public finances in Latin America reached a turning point at the end of 1991, owing to significant progress in the fiscal adjustment processes launched in previous years and the budget control measures taken in most of the countries of the region. The sale of government-owned enterprises and other assets also gained momentum during the year. Improved budgetary performance helped in most cases to reverse the trends observed throughout the 1980s. The marked imbalance in public finances was one of the most important components of the economic crisis that affected the region during that decade. The recession was most evident in the severe problems of public-sector financing, caused by large deficits -aggravated by the effects of declining revenues and the debt burden-, and the sharp drop in external financing.

Policies to reduce or eliminate fiscal deficits play a key role in the current phase of the adjustment processes being undertaken by the economies of the region to face the debt crisis, and they are being given higher priority than they would normally have in macrpeconomic adjustment. Their importance during this reorientation phase of development in the countries of the region is due to the potential positive effect of the control of public finances on stabilization processes and the economic agents' confidence in economic policy and the economy, and the usefulness of budgetary restraint in reducing State entropy and facilitating public policy reform. Of course, eliminating the fiscal deficit or keeping it within margins that can be financed with non-inflationary resources is a necessary but insufficient condition for sustained strategies of changing production patterns with greater social equity. Another key requirement is the reform of public policies and fiscal tools to enhance the State's ability to effectively promote such strategies.

Although considerable, the progress made in 1991 was not definitive, and it is far from being consolidated. Results were obtained largely by using temporary, unsustainable mechanisms, such as drastically contracting current and capital expenditures, or resorting to non-recurrent receipts, such as those obtained from privatization programmes. Measures to create new tax structures are, in many cases, too recent to be able to determine what effect they have had. Also, in several countries those results will be consolidated only if advances are made in stabilizing and reactivating the economy and in securing access to stable external financing, as well as in reducing external debt servicing to fiscally tolerable levels.

1. Fiscal adjustment programmes

By the end of the 1980s, most of the economies of the region faced serious problems in their fiscal accounts, which in many cases undoubtedly contributed to a speed-up of inflation during those years, leading to periods of hyperinflation in some countries and aggravating those same fiscal problems. The magnitude of those imbalances, a clear symptom of a lack of fiscal control, made it necessary to undertake drastic fiscal adjustment programmes to restore balance to public-sector financing and regain the confidence of economic agents in the future of the economy.

The debt crisis took away government access to external credit in the early 1980s. Some countries turned to domestic credit to cover their deficits, already bloated by external debt service payments. Only in the early stages, and in a limited number of cases, was domestic credit able to offset the lack of external resources. But even in those cases, the steady growth of the deficit in

nominal terms quickly put an end to that alternative. Inflation, fueled by the need to finance growing public deficits by issuing currency, made it increasingly difficult to resort to seigniorage, bank reserve requirements and the sale of domestic debt paper. Governments were therefore faced with an unavoidable choice: either put government spending back on a sound financial basis or watch inflation spiral upwards, in some cases leading to hyperinflation.

After focusing on external accounts in the early 1980s, adjustment programmes entered a new phase, oriented towards stabilization and domestic adjustments, of which the elimination of the fiscal gap gradually became the most important. Virtually all the adjustment processes were having some effect, and by 1991 more concrete results were achieved. In 1989 and 1990, most of the countries of the region carried out sizeable fiscal adjustments entailing a radical restructuring of government, although in some cases this led to a deterioration of services. During those years, a considerable number of countries (Argentina, Brazil, Ecuador, Mexico, Panama and Venezuela) adjusted their fiscal deficit by more than 3% of gross domestic product. Other countries reduced their deficit (Bolivia, Colombia, Dominican Republic and Uruguay) or increased their surplus (Chile and Paraguay) by about 2% of GDP. Only Costa Rica expanded its fiscal imbalance during those years. During 1991, the process of adjusting fiscal accounts intensified in Argentina, Bolivia, Colombia, Honduras, Mexico, Peru and Uruguay, and was reinitiated in Costa Rica, Guatemala and Nicaragua.

Bolivia was the first country to attempt to achieve broad-based fiscal stabilization, when in the fourth quarter of 1985 the new Government was forced to take drastic measures -in respect of exchange policy, taxes and public rates- to combat a hyperinflation on the order of 22,000% in the 12-month period ending in September of that year. That programme achieved immediate results, both reducing the fiscal deficit and bringing down inflation, and consolidated these results in subsequent years.

Mexico began a new stage of fiscal adjustment in 1988 to control inflation that had reached 150% a year and was spinning out of control. That adjustment was part of a concerted stabilization programme that gave positive results: the fiscal deficit was steadily reduced, owing to an increase in the primary surplus and lower interest rates, and inflation declined considerably. The adjustment process continued with no major changes until 1991, when public accounts showed a surplus. **Ecuador** also undertook an adjustment programme in 1988, since the fiscal deficit had reached almost 10% of GDP in 1987 because of problems with petroleum production and exports. The public-sector deficit was reduced significantly in subsequent years but began to rise again in 1991, while inflation remained around 50% a year.

By the end of 1988 and early 1989, **Venezuela** was in a bind because of imbalances in the external sector and in public finances, which led the Government to take drastic steps to correct these severe macroeconomic disequilibria. The results obtained that year were spectacular, but control over public accounts was slackened in 1990 because of the huge jump in oil revenues stemming from the rise in the price of crude on the international market provoked by the Gulf crisis. **Argentina** had to launch a severe fiscal adjustment programme in mid-1989 because of bouts of hyperinflation during the first half of that year. Results were meager at the outset, and inflation re-emerged from time to time in the following years. But the adjustment process deepened enough in 1991 to significantly reduce the disequilibrium.

Several sweeping fiscal adjustment processes were carried out in 1990. One of these, in **Brazil,** was unusual because of the tools it used. Inflation was running over 50% a month during the first quarter of 1990, and the fiscal deficit, which was approaching 80% of GDP in nominal terms, was being financed with extremely short-term -practically one-day- credits. The main mechanism of the adjustment programme was the freezing of financial assets, which corresponded almost exclusively of federal Government debt.

For an analysis of the sequences of adjustments and disequ ilibria of the public finances of the countries of the region during the 1980s, see ECLAC, "Public finances in Latin America in the 1980s", *Economic Survey of Latin America and the Caribbean,* ¿990 (LC/G.1676-P), vol.1, part three, Santiago, Chile, 1992, U nited Nations publication, Sales No. E.91.II.G.2.

Initial results were good, but inflation returned, since the problem of permanent financing of the public sector remained unsolved, and market inertia persisted. **In Nicaragua,** the Government that took office in April 1990 began a new period of fiscal adjustment as part of a restructuring of the economy, and also with the aim of curbing runaway inflation. The country's dramatic political problems made it very difficult to carry out the programme. However, in 1991, after adjustment measures were strengthened, the fiscal deficit began to narrow and inflation was virtually eliminated. **Peru's** new Government also launched a stringent adjustment process, since inflation was reaching almost 8,000% per year and current government income was plummeting. Despite some obstacles, the programme achieved important advances, although the serious problems relating to public finances are still far from being corrected, since government income and spending are still very low. **Uruguay** also had to apply a new adjustment programme because of the structural imbalance in public finances, mainly caused by the enormous deficit in the social security system. A sharp rise in the tax burden and controls over spending made it possible to meaningfully reduce the deficit of the whole public sector, which virtually balanced out by 1991.

During 1990 and 1991, fiscal adjustment programmes were initiated by countries whose public sectors had begun to record considerable imbalances, but which traditionally had maintained balanced fiscal accounts. **Costa Rica, Dominican Republic, Guatemala, Honduras** and **Paraguay** endured bouts of inflation several times since 1988, something that had happened only sporadically in the past. That imbalance was largely due to problems related to public finances, but also somewhat to difficulties in the external sector. Thus, fiscal adjustment programmes in most of those countries were successful. Costa Rica, Guatemala and Honduras lowered their fiscal deficits between 2% and 3% of GDP.

Other countries of the region had different kinds of fiscal problems. **Chile** had basically adjusted its public accounts already by the late 1970s and had begun to produce fiscal surpluses. But the external debt crisis slowed down this process, since the Government assumed responsibility for private debt, resulting in a huge deficit in the accounts of the Central Bank. However, the problem gradually diminished over the following years, to the point where, for the last three years, the non-financial public sector showed a surplus and public finances achieved a solid equilibrium. **Colombia,** which was not affected by the debt crisis, was able to correct its fiscal imbalance through a tax reform in 1983 and strict control over its public accounts since that time. **El Salvador** dealt differently with its fiscal problems because of the political situation that has existed since the late 1970s, when the country suffered from an all-out armed conflict. Huge expenditures for the war were covered by the United States, meaning that the large deficit was offset by external financing, and the Government was able to keep the fiscal situation relatively under control. **Panama's** fiscal problem had a different origin, namely, the blockade imposed by the United States in 1987. Once the blockade was lifted, however, the country quickly corrected the public-sector deficit.

2. **Widespread reduction of fiscal deficits in 1991**

Most Latin American countries consolidated the adjustment of their public accounts in 1991 and substantially narrowed their deficits. Some countries even achieved a surplus, and those in an already solid position were able to reinforce it. Argentina brought the deficit of the non-financial public sector down from more than 5% of GDP in 1990 to 2.2%; Bolivia from nearly 4% to 3%; Colombia from 0.4% to 0.1%, and Costa Rica from 2.5% to virtual equilibrium. Guatemala converted the central government deficit from 2.3% of GDP in 1990 into a surplus of 0.4%. Panama also changed the sign of its fiscal balance (-2.2%) to 1.4%). The central government of Honduras lowered its deficit from somewhat more than 6% to 3%; Nicaragua from 26% to 7%; and Peru from 2.5% to 0.6%. The slight central government surplus of the Dominican Republic rose from 0.3% of GDP to 0.8%. Uruguay consolidated its public sector and eliminated the deficit, which had been 2.5% of GDP the year before. Mexico's central government

transformed its deficit of almost 3% of GDP into a notable surplus of 3.4%. Chile continued to achieve a surplus in its non-financial public sector accounts, as it had since 1986, although in 1990 and 1991 it fell to less than 2% of GDP. The surplus of the non-financial public sector in Paraguay dropped from 3.3% of GDP to 1.5%.

Venezuela also raised the surplus in the non-financial public sector from 0.2% of GDP in 1990 to 1.2%, but this was solely due to revenues from privatizing government enterprises. Without that non-recurrent income, the deficit would have risen to 3% of GDP (see table VI-1).

The deficit of the central government in El Salvador rose from 3% to 5% of GDP, partly due to a change in accounting procedures and, to the constant inflow of external resources, which financed a strong rise in public investment. In Ecuador, the positive balance of 0.6% became a deficit of 1.2%, which, together with the quasi-fiscal deficit, left an aggregate deficit of close to 4% of GDP. Finally, Brazil was barely able to maintain the gains from its adjustment in 1990, which had sharply reduced the fiscal deficit; by year end the financial pressures on the Treasury were becoming more and more intense,

The fiscal adjustments in 1991 produced favourable results because most of the economies of the region enjoyed higher revenues, while they cut spending or increased it only slightly. Conversely, almost all the countries whose fiscal accounts worsened were those whose income fell by more than they were able to cut spending. In 14 Latin American countries, fiscal revenues increased both as percentage of GDP and at constant prices. Seven of those countries (Costa Rica, Guatemala, Honduras, Mexico, Nicaragua, Peru and Venezuela) also reduced spending, which helped consolidate the adjustment. Expenditures rose in six other countries of this group with increased income (Argentina, Bolivia, Colombia, Chile, Panama and Uruguay), but fiscal revenues rose even more, which allowed them to also improve their financial position. In the remaining country (El Salvador), the deficit grew, since expenditures increased considerably more than revenues. In the Dominican Republic, one of the countries in which fiscal revenues declined, the surplus increased because expenditures contracted more than revenue. Finally, in three countries (Brazil, Ecuador and Paraguay), income dropped more than spending was cut, which made the situation worse than the year before.

The substantial improvement in the public accounts of most countries of the region resulted from an enormous effort to put their finances in order. That effort began years ago in some countries; in others it is more recent. In the early group, which includes Bolivia, Colombia, Chile and Mexico, fiscal management continued to follow the same policies as in previous years, which had provided a certain control over public finances. All these countries had better financial results in 1991 than in 1990, enabling them to consolidate the trends of recent years. Chile maintained a surplus in the non-financial public sector, thanks to a considerable rise in revenue, making it possible to significantly increase social expenditures without reducing the fiscal surplus. Mexico made remarkable progress in its public accounts, which went from a negative to a large positive balance. The main contributing factor was non-recurrent income from the privatization of State-owned enterprises, but even without that income, the deficit would have been virtually eliminated. In Bolivia, the deficit of its non-financial public sector was reduced, owing to a sizeable expansion of income with only a moderate rise in spending. Colombia's relatively small non-financial public-sector deficit was wiped out, thanks to a slight increase in income that was larger than the increase in spending. El Salvador has also been adjusting public spending since 1988. Even though the government deficit rose in 1991, the fiscal situation remained relatively stable, since expenditures rose, owing to a change in accounting procedures, which transferred the debt of public enterprises to government accounts starting in 1991, and an expansion of investment, financed mostly by external resources.

Most of the countries, however, only recently (1989-1990) began to implement strong fiscal adjustment programmes to reduce government deficits, which had grown worse in previous years. The most sweeping programmes were undoubtedly those of Argentina, Nicaragua and Peru, since all these economies were practically on the threshold of hyperinflation, and public-sector financing had plummeted. All three countries attempted to increase tax receipts, since

they could not contract expenditure by much: high inflation rates and previous attempts to cut spending for the sake of stabilization had left real expenditure levels extremely low. Results were spectacular: inflation was brought under control and public financing was re-established. However, the fiscal situation of all three countries is still in transition, although for different reasons. Almost half the reduction of Argentina's deficit was made possible by non-recurrent income from privatizations. Further advances will depend on whether a new tax structure can be consolidated on a more permanent basis; important steps have been taken in that direction. Peru almost balanced its budget by raising tax receipts, but these remained too low to increase spending enough to make the public sector, which had deteriorated markedly in recent years, function once again. Nicaragua narrowed its deficit considerably by placing severe constraints on spending, in an extensive institutional restructuring.

Other countries, such as Costa Rica, Guatemala, Honduras, the Dominican Republic and Uruguay, saw their fiscal imbalances and inflation worsen, but theirs was not the explosive situation of the three countries mentioned above. All these countries narrowed their deficit in 1991, the first three by increasing income and simultaneously reducing expenditures. Uruguay augmented both income and expenditures, but the latter at a much lower rate. In the Dominican Republic, on the contrary, the contraction of spending was greater than that of income. Panama, having normalized its economy, was able to expand capital expenditures and still convert its fiscal deficit into a surplus.

Venezuela, on the other hand, reversed to a certain extent its adjustment policy of previous years. The healthy surplus earned from oil exports during the Gulf crisis mitigated the harsher effects of adjustment measures. Therefore, spending was raised considerably to carry out the petroleum industry expansion programme, to continue investments in infrastructure and upgrade social programmes for low-income sectors. Even so, non-recurrent income from the privatization of public enterprises (close to 4% of GDP) amounted to enough to close the year with a positive financial balance. Paraguay also made its adjustment policies more flexible and increased government spending in a framework of virtually stagnant revenues, which reduced the surplus, Ecuador had difficulty in continuing its adjustment programme, raising spending while resources declined because of a drop in income from the petroleum sector.

Brazil was once again unable to stabilize its economy when inflation rose sharply during a deep recession. That situation especially affected fiscal revenue, which contracted severely in real terms. However, spending was cut by a similar amount, although a large part of the cuts were suspended interest payments on federal bonds, which were largely frozen during the year. That led to a temporary slack in the public sector's financial needs. But in August, when the first of 12 monthly installments was made to release the resources -equivalent to *6%* of GDP- previously frozen by the first Collor Plan, the Government had to raise interest rates considerably, even in real terms, to attract those resources. Therefore, spending to meet interest payments and financial needs once again came together in an upward spiral.

3. The impact of the debt on government budgets

The fiscal adjustment measures taken by some countries allowed them to cover all public expenditures in 1991, including interest payments on the external and domestic debt, which had been a large part of fiscal imbalance in previous years. In other countries, however, fiscal adjustments only allowed for covering basic expenditures (which do not include interest payments on the debt); therefore, the debt burden continues to be one of the main structural causes of the persistence of fiscal disequilibria. Finally, a third group of countries had already restructured public finances in order to service public debt, and hence fiscal revenues were sufficient to cover all outlays.

The first group of countries is comprised of Costa Rica, which balanced its non-financial public accounts in 1991 ; Guatemala and Panama, which also balanced their central government accounts; Mexico, which in 1991 also converted

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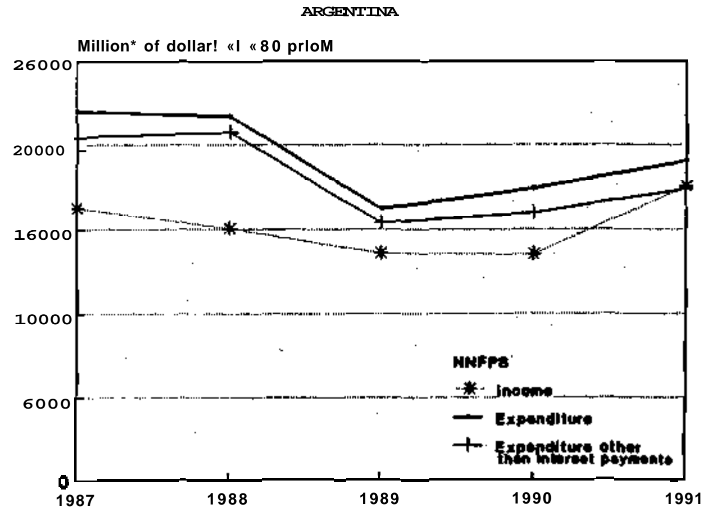
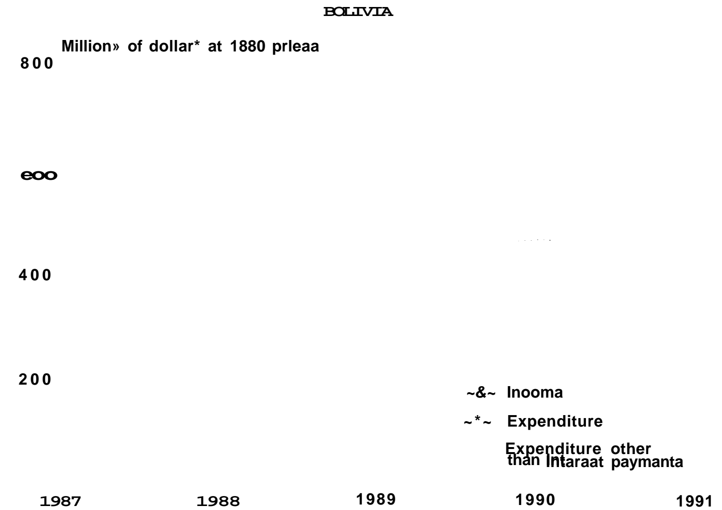
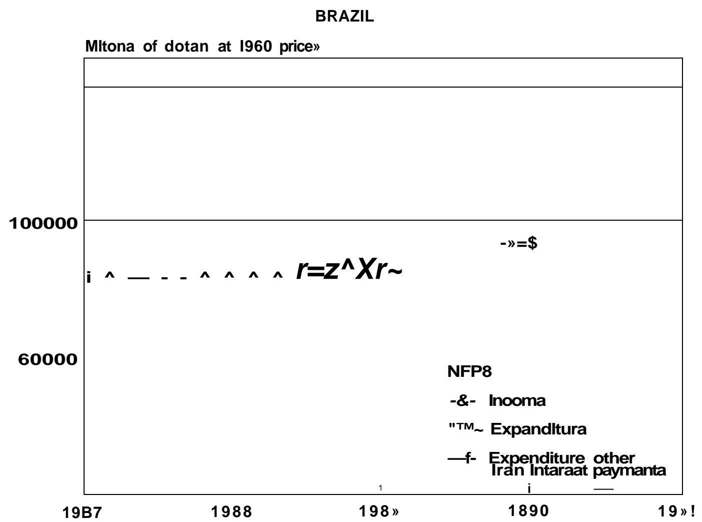
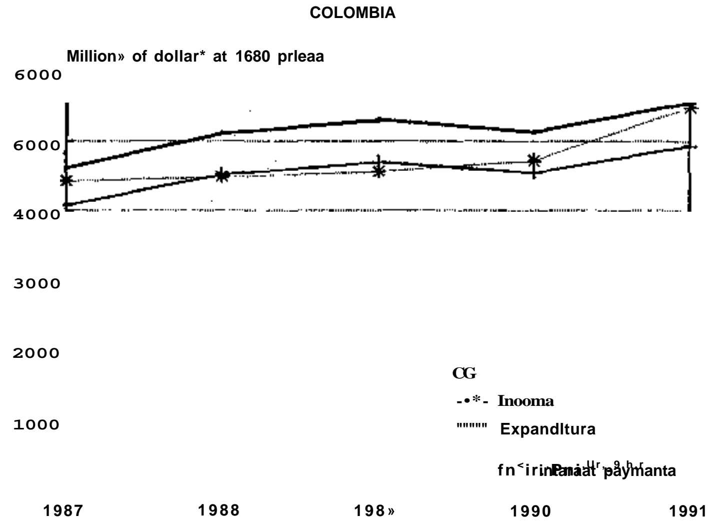
Figure VI-1

LATIN AMERICA AND THE CARIBBEAN: TRENDS IN PUBUC-SECTOR INCOME AND EXPENDITURE[8]









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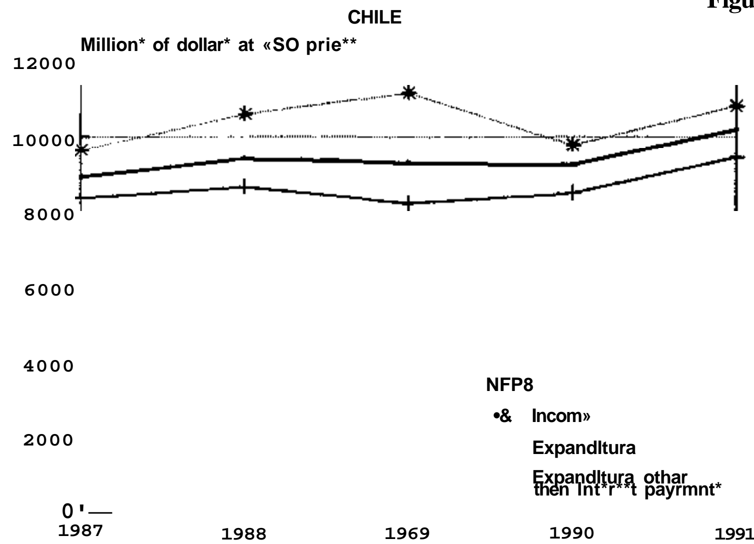

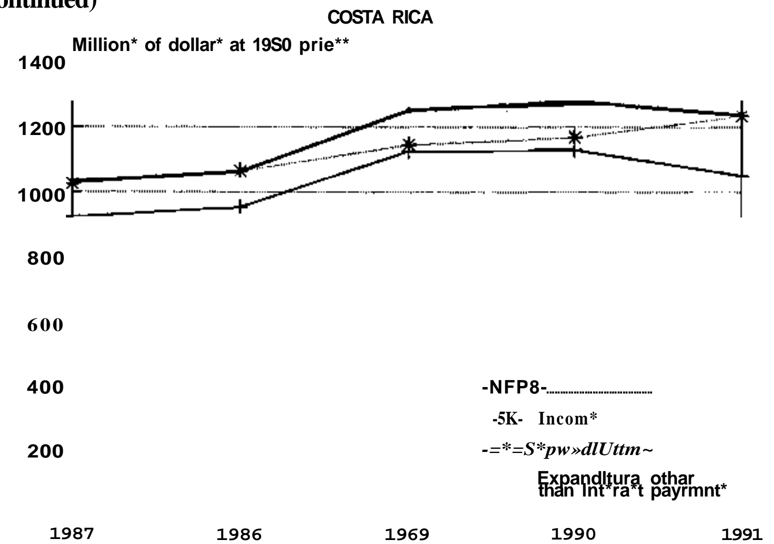

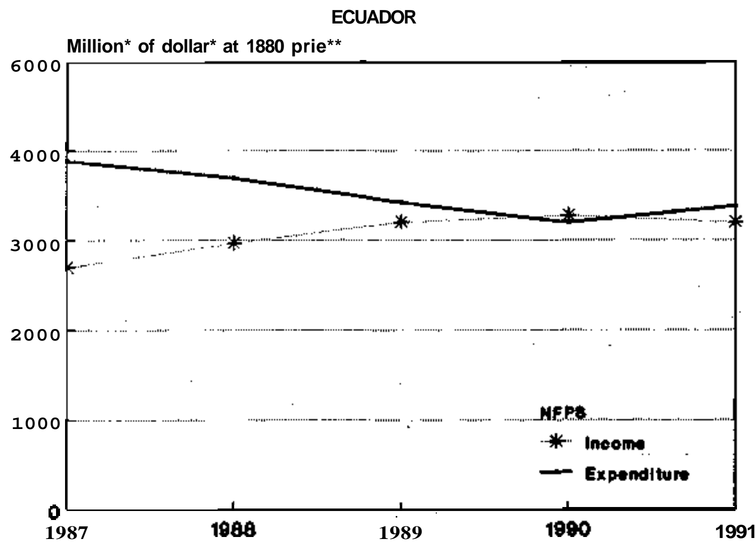

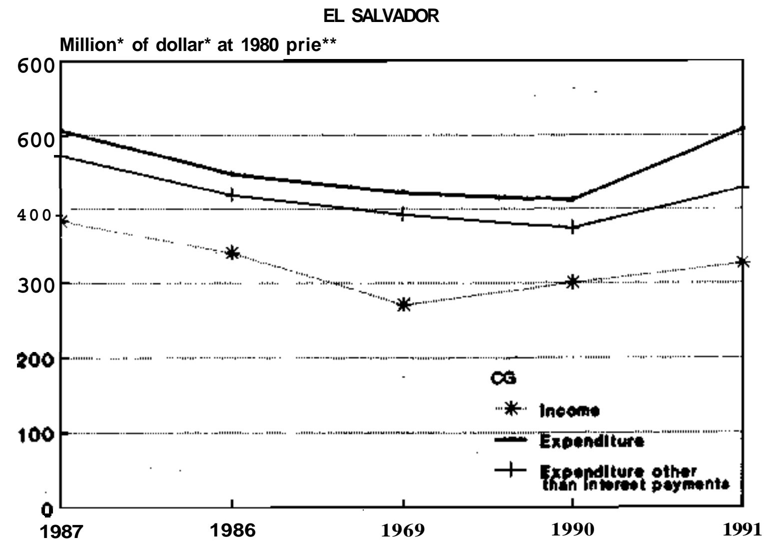

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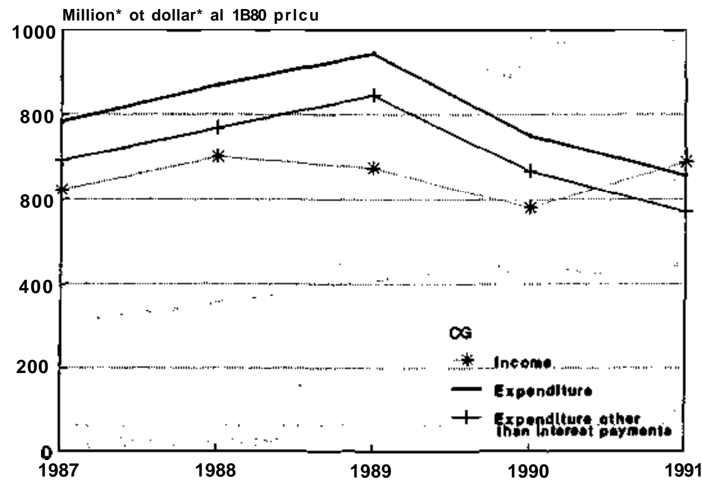

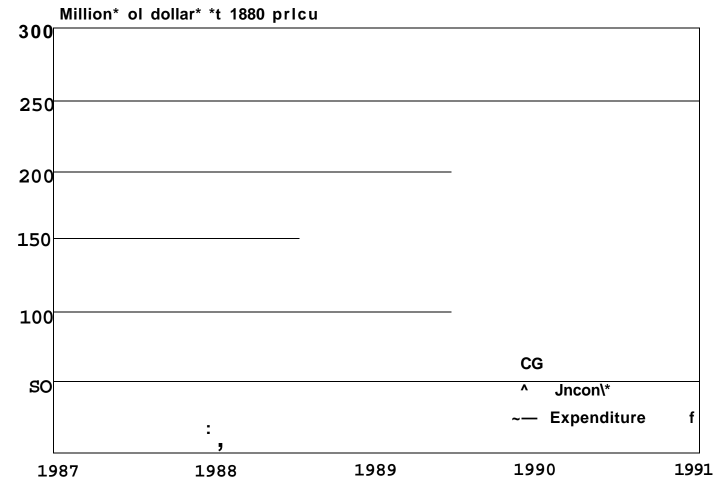

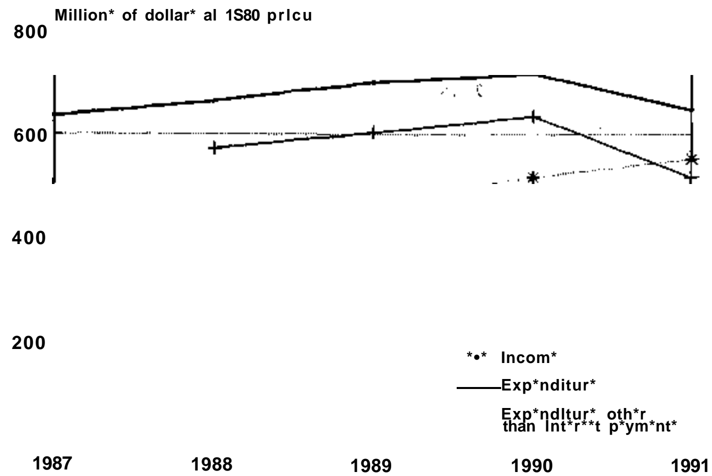

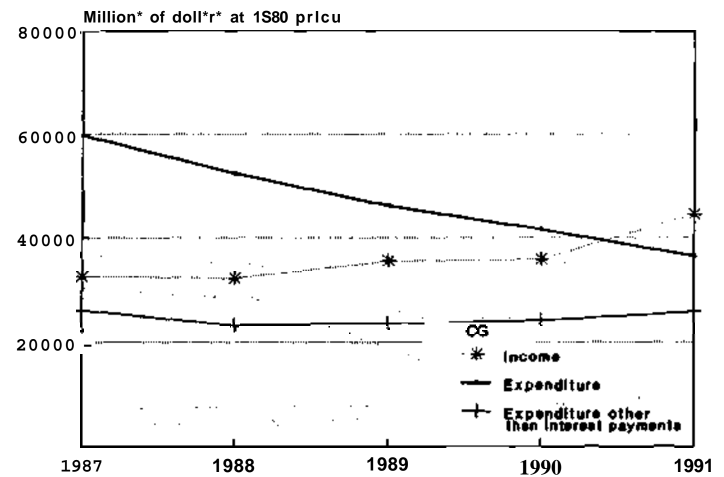

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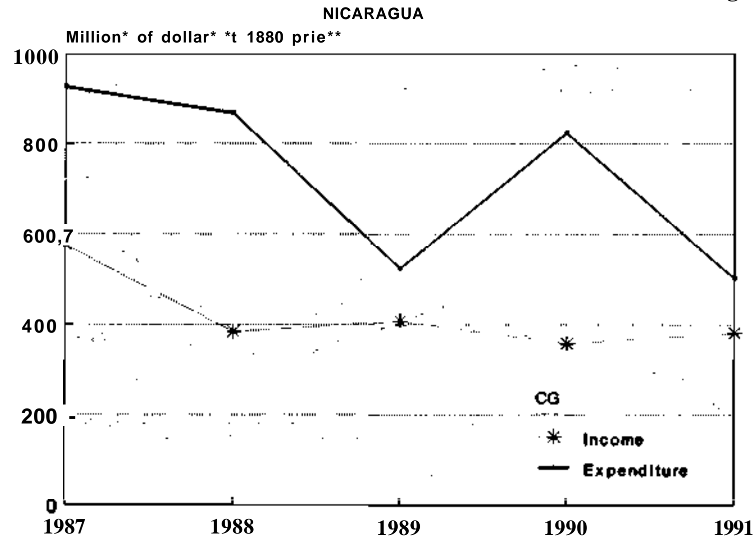

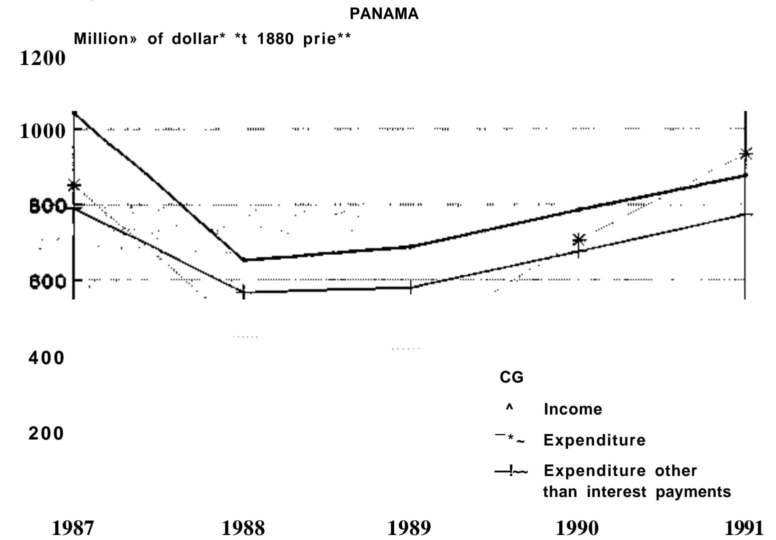

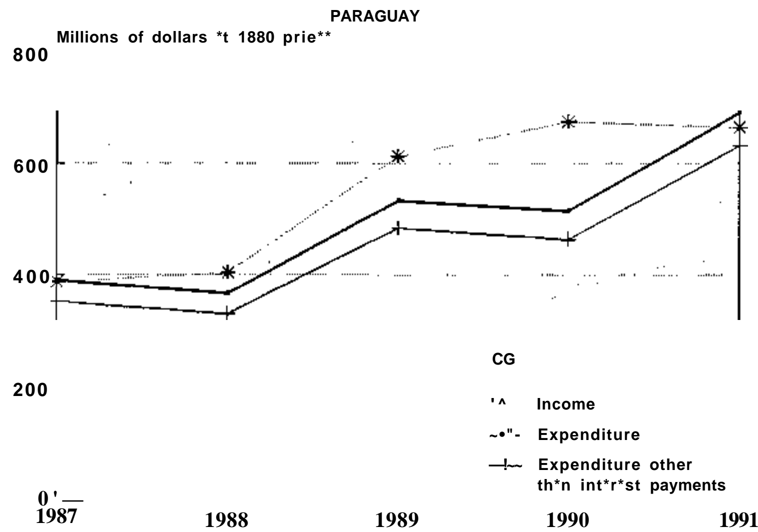

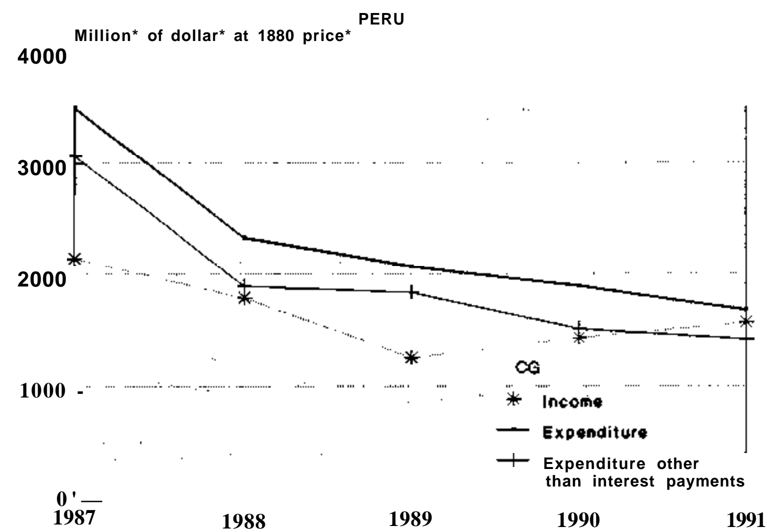

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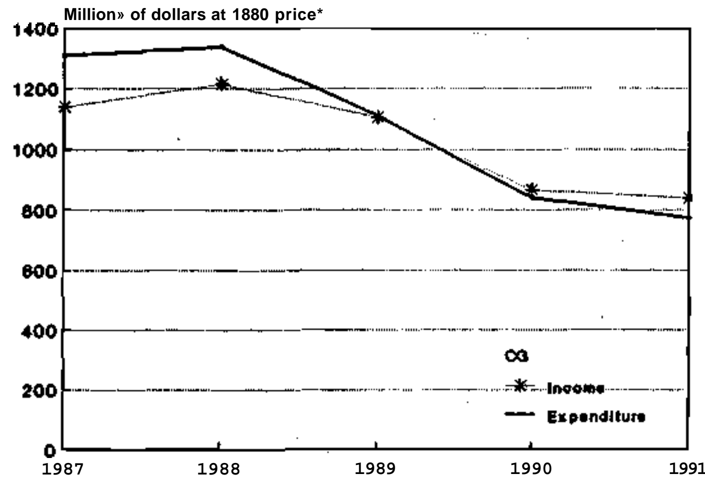
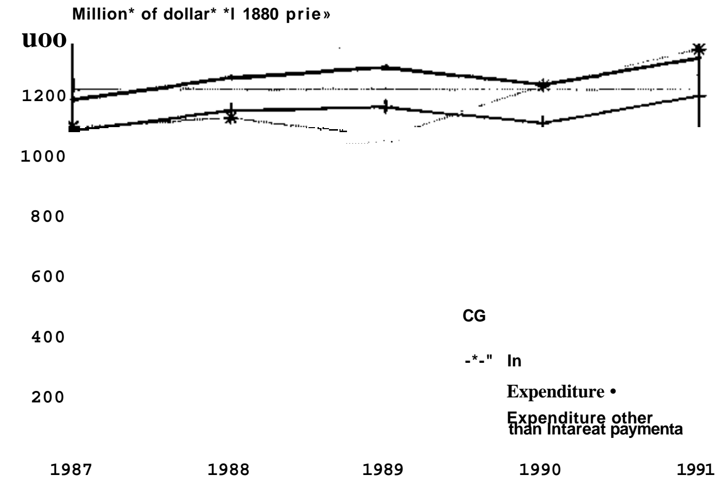
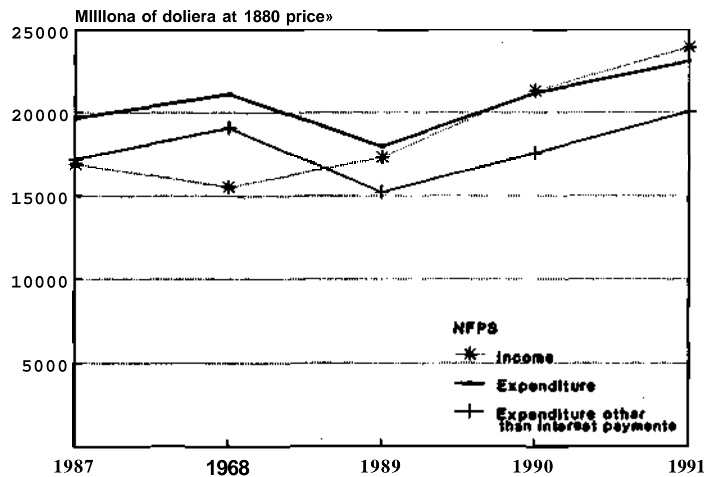
DOMINICAN REPUBLIC



URUGUAY



VENEZUELA



Source: ECLAC, on the basis of figures provided by official sources.

TTie definitions used for this table are as folllows: Total income of the non-financial public sector equals the sum of the central government's current Income plus capital income. Total expenditure is the sum of the central government's current expenditure plus the non-financial sector's capital expenditure, which includes Investment by both the central government and public enterprises.

Key:

CO : Central government»
NFPS : Non-financial publio sector.
NNFPS : National non-financial public sector.

its overall deficit into a surplus and covered all government outlays; and Uruguay, whose non-financial public sector has covered all its expenditures since 1990, but where the quasi-fiscal deficit of the Central Bank persists, in order to cover interest on the external debt.

The members of the second group of countries are Argentina, where the revenues of the national non-financial public sector (including income from privatizations) was only enough to cover basic expenditures in 1991; Honduras, where the central government accounts were also able to cover only basic expenditures; Bolivia, El Salvador, Haiti and Nicaragua, whose revenues still did not cover even basic expenditures; Ecuador, which only in 1990 was able to cover all the expenditures of the non-financial public sector, but which ran another deficit in 1991; and Peru, which also in 1991 easily covered its scant basic outlays. In recent years, Brazil has been covering the expenditures of the non-financial public sector, but also in this case, interest payments were of the same magnitude as the fiscal imbalance (see figure VI-2).

In the third group of countries, Colombia had gradually been able to amass enough revenue to cover the basic expenditures of its non-financial public sector and part of its interest payments; in 1991 the country was able to make all interest payments. Chile has had a surplus in the non-financial public sector and has serviced the debt on a regular basis since 1986. Paraguay has maintained a variable surplus in recent years, after covering both basic expenditures and interest payments. By 1989, the Dominican Republic was covering all the outlays of the central government. Venezuela, which had been unable to cover the basic expenditures of the non-financial public sector in 1987-1988, has been doing so comfortably since 1989, and even achieved a surplus in 1991 (see figure VI-2).

4. Trends in fiscal revenues

Fiscal revenues rose in 16 countries of Latin America during 1991, and declined in only three (Brazil, Ecuador and the Dominican Republic). The overall rise in fiscal revenues was due to higher tax receipts and greater profits by government enterprises, and, in some cases, to non-recurrent income from privatizations. On the other hand, export earnings, especially from petroleum and metals, had no major impact in 1991, owing to the drop in their international prices. However, certain countries that were affected by this adverse situation, like Chile and Mexico, were easily able to com pensate for lower export earnings by expanding tax receipts from other sources (see tables VI-2 and VI-3).

a) General upswing in tax receipts

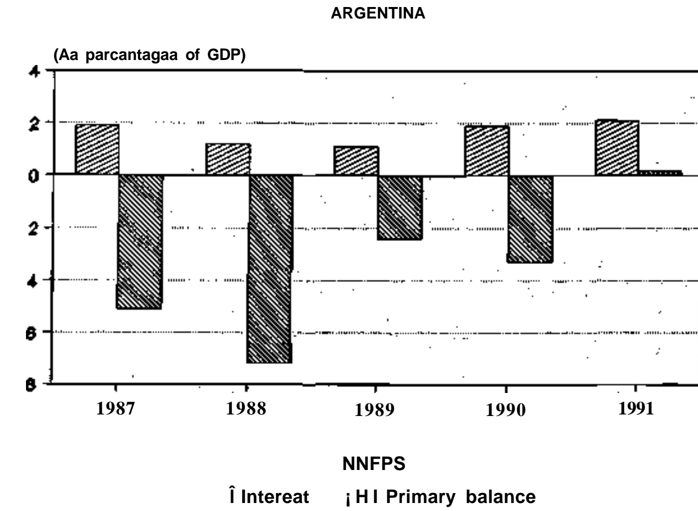
Tax receipts rose in general, owing to a number of factors, such as the slow-down in inflation, expansion of economic activity and imports, tax reforms, more efficient tax collection and the climate of confidence that has spread to several countries in the region. The decline in tax receipts in some countries was also caused by different factors, as the rise of inflation and the deep economic crisis in Brazil, the economic recession in the Dominican Republic and lower oil earnings in Ecuador.

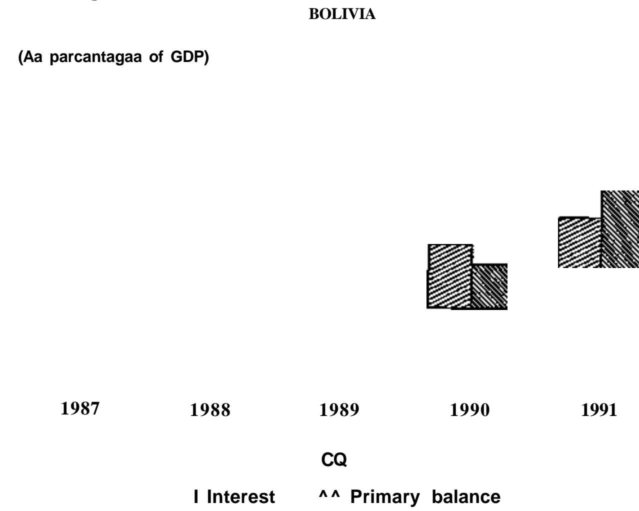
Despite some progress, the effects of the 1980s crisis continued to affect tax collection in 1991. It is still too early for negative factors such as rising tax evasion resulting from a loss of administrative efficiency in collection agencies, capital flight and the noteworthy growth of the informal sector in many economies to have been corrected. That is especially true in Peru, where tax receipts continue to be much lower than in the past. In Argentina, despite the recovery in 1991, the ratio of tax receipts to GDP remained below the level of the late 1970s. In Brazil, after a temporary recovery in 1990, the tax burden represented approximately 20%, between two and four percentage points lower than those recorded during the previous decade (see table VI-2).

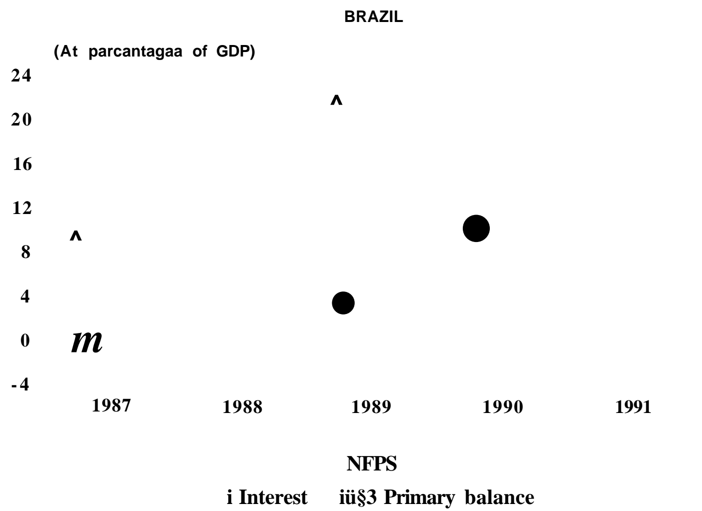
Formerly high inflation rates nosedived in 1991 in several countries of the region, leading to a significant increase in tax revenues. Receipts had declined in almost all the countries because of spiralling inflation, owing to the time lag between the time when the tax obligation was generated and the time when the State actually collected (the "Olivera-Tanzi effect"). A

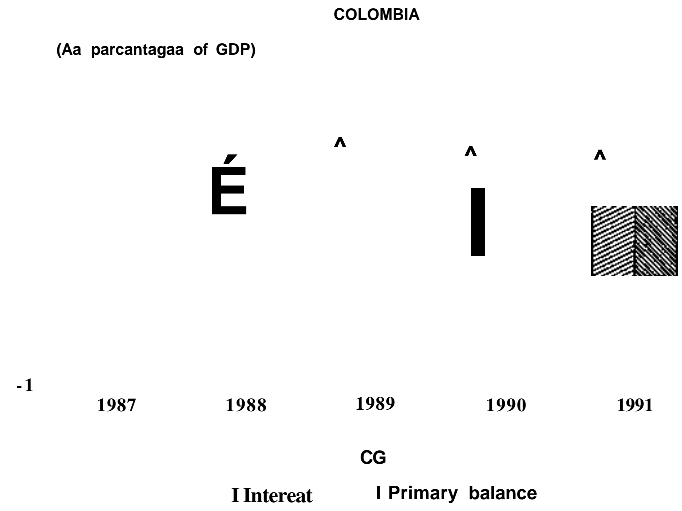
Figure VI-2

LATIN AMERICA AND THE CARIBBEAN: INTEREST ON THE PUBLIC DEBT AND THE PRIMARY BALANCE[a]









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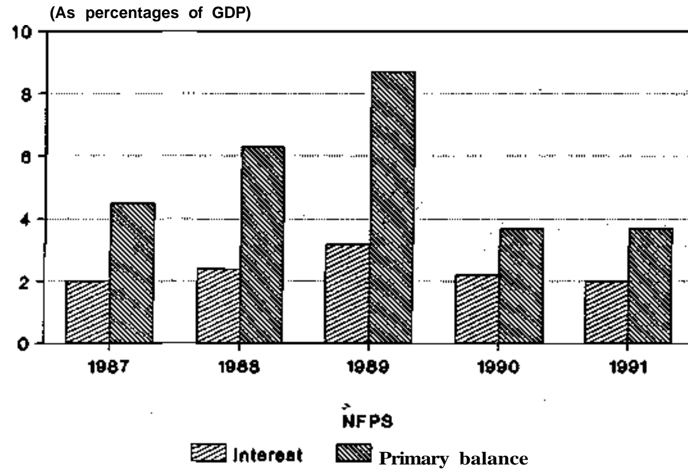
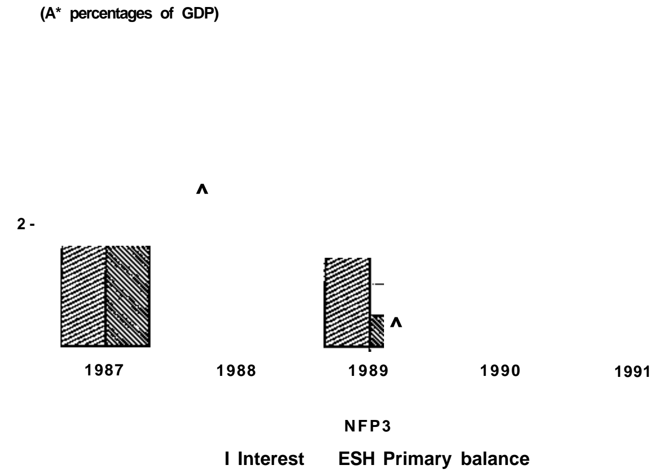


COSTA RICA



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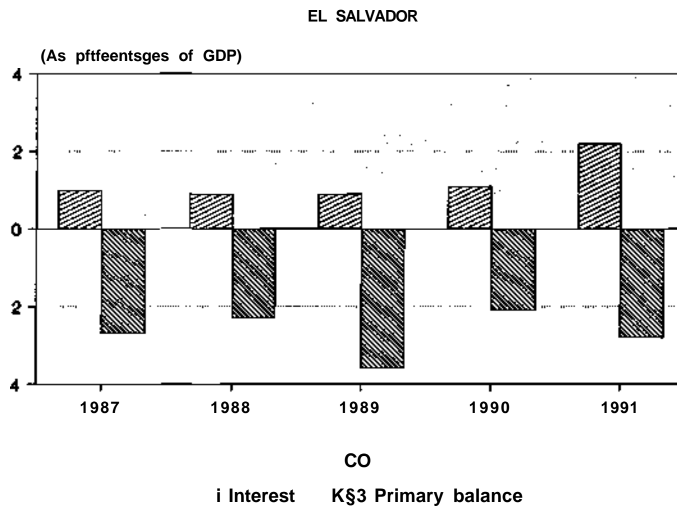
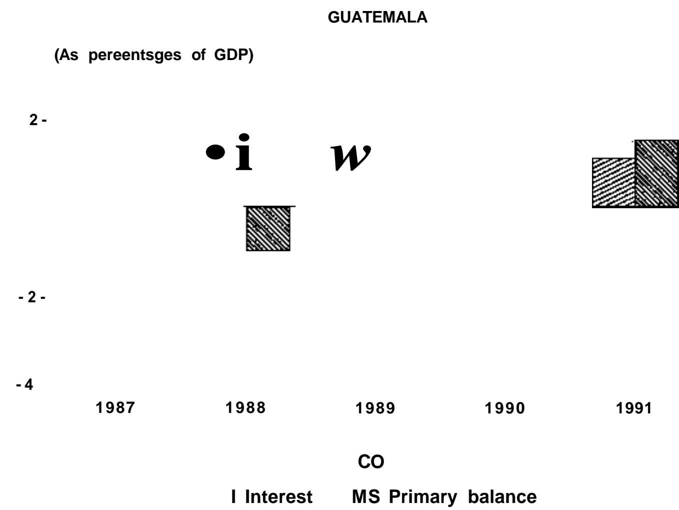


GUATEMALA



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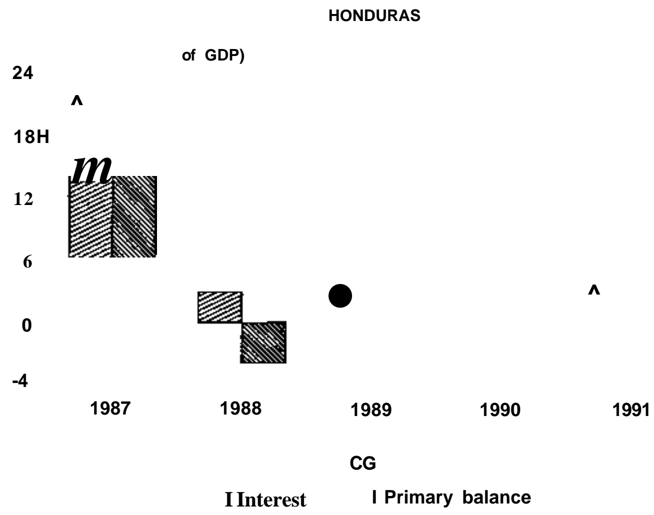

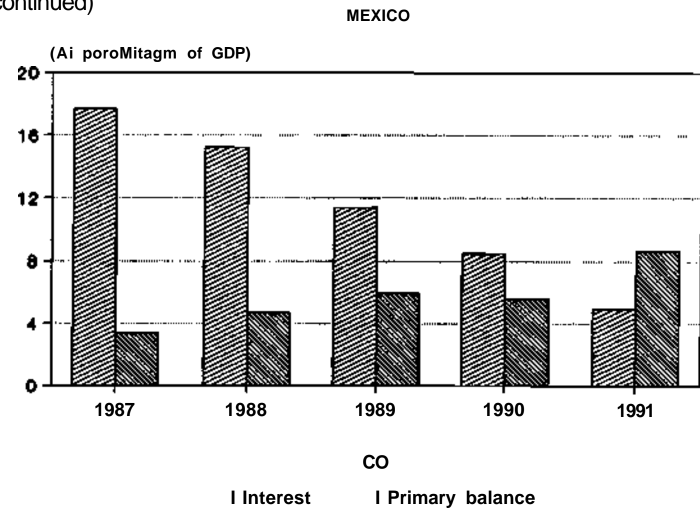

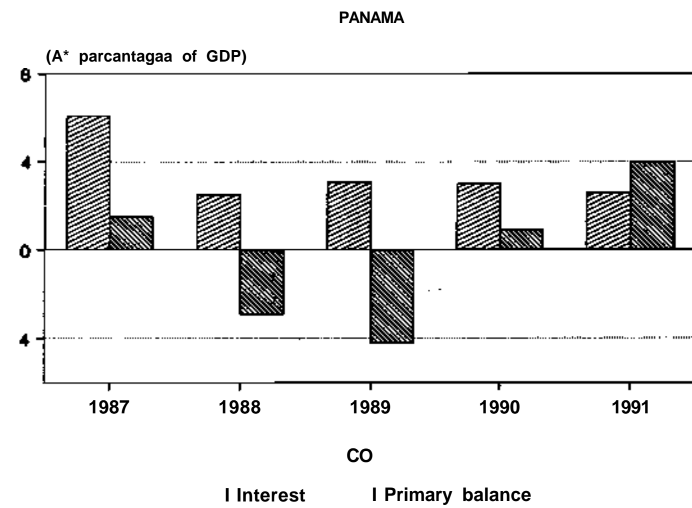

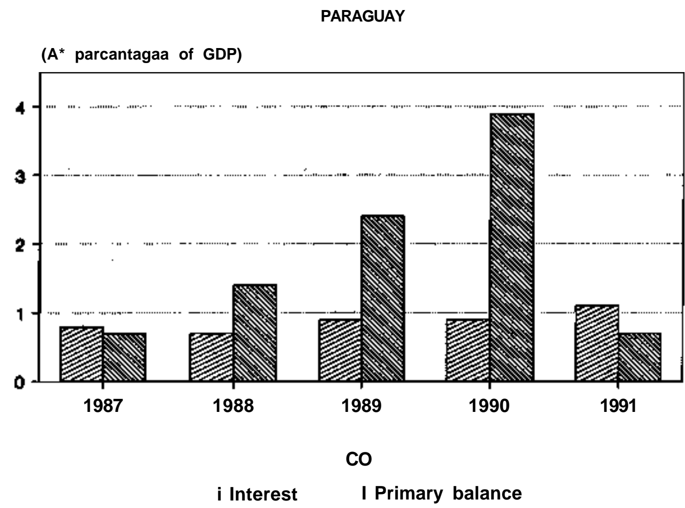

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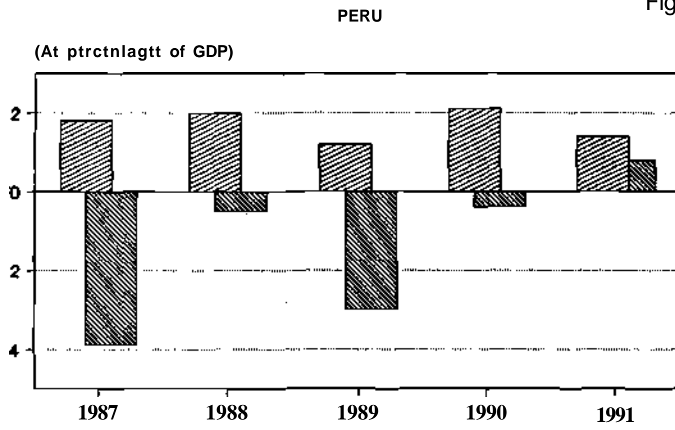

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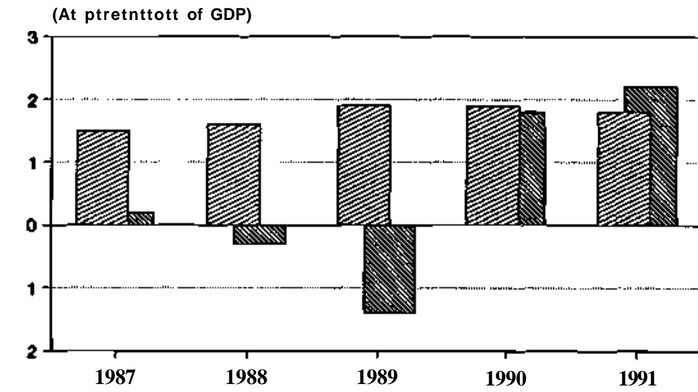
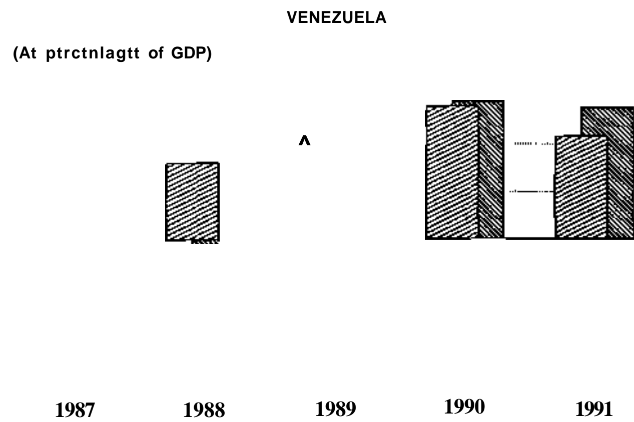
i Interest ÊᐱM Primary balance



CQ

I Interest I Primary balance



NFP3

I Interest Êü^ Primary balance

Source: ECLAC, on the basis of figures provided by official sources.

*** The primary balance is equivalent to the difference between current income and total expenditure, as defined in figure Vl-1.**

Key:

CG : Central government.
NFPS : Non-financial public sector.
NNFPS : National non-financial public sector.

slow-down in inflation produced the opposite effect, since tax obligations lost less of their value by the time they were paid. The effect was more pronounced in countries with no tradition of inflation (like Nicaragua and Peru); huge price rises had severely limited their fiscal revenues because there were no mechanisms for indexing amounts to be taxed or sums entitled to be collected under the various types of taxes. On the other hand, in countries accustomed to inflation (like Argentina or Uruguay), which do have mechanisms to limit inflation-led losses of fiscal revenues, there was less of an effect, since the decline in receipts was not very large, except during relatively brief periods when prices were soaring. Lower inflation rates had the same effect in El Salvador, Guatemala, Honduras and Mexico, although it was much less pronounced than in the aforementioned cases, since their inflation rates were considerably more moderate.

The reactivation of the economy also helped raise tax receipts by broadening the tax base in most of the countries of the region, owing to the high elasticity generally shown by tax receipts when GDP rises. The notable increase in imports in most countries was also a tremendous help in expanding tax receipts, since imports are subject to high taxes, import duties and specific levies, value-added tax (VAT) and other similar taxes on products once they are in the country. This was especially true in Argentina, Bolivia, Chile, Ecuador, Mexico, Panama and Venezuela, where the level of activity rose by between 4% and 9%, imports increased rapidly and tax revenues grew at a considerably higher rate than GDP. Tax receipts also increased in El Salvador, Guatemala, Peru and Uruguay, but owing to a greater extent to the sharp rise in the value of imports than to the growth of GDP, which was only moderate (see figure VI-4).

Tax reforms also contributed somewhat to raising fiscal receipts. Extensive reforms were carried out in eight countries of the region (Argentina, Bolivia, Chile, Colombia, Costa Rica, Nicaragua, Peru and Uruguay), consisting of raising tax rates, broadening the tax base and adjusting collection mechanisms. The purpose of the reform in practically all these countries was to correct severe disequilibria in public finances. Chile was an exception to that rule, since it had balanced its accounts several years earlier. The objective of the reform carried out by the Government that came to power in 1990 was to increase revenues in order to finance a considerable expansion of social expenditures and thereby contribute to greater social equity.

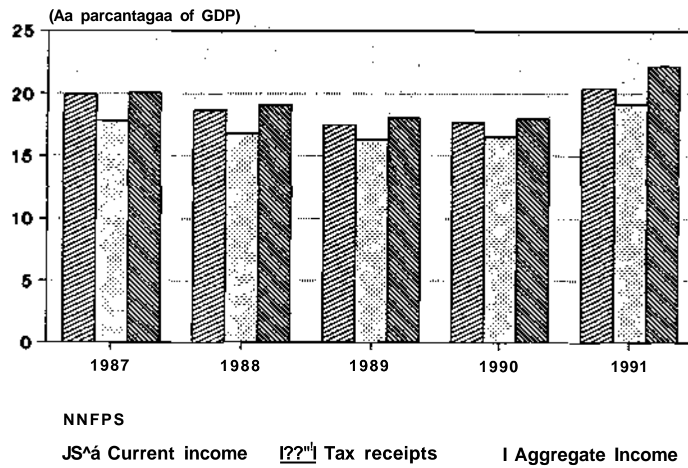
Several countries also im proved the efficiency of their collection agencies and gave more confidence to taxpayers, which definitely helped expand tax receipts. That was the case especially in Argentina, Colombia and El Salvador, where tax revenues displayed high elasticity in relation to variations in GDP (more than 2.5%), which would indicate that factors such as greater efficiency in collection systems and higher credibility made significant contributions to expanding tax receipts. Such was also the case in Nicaragua, probably even more intensely than in the countries just mentioned, since receipts grew considerably despite the fact that GDP declined, although imports did rise spectacularly.

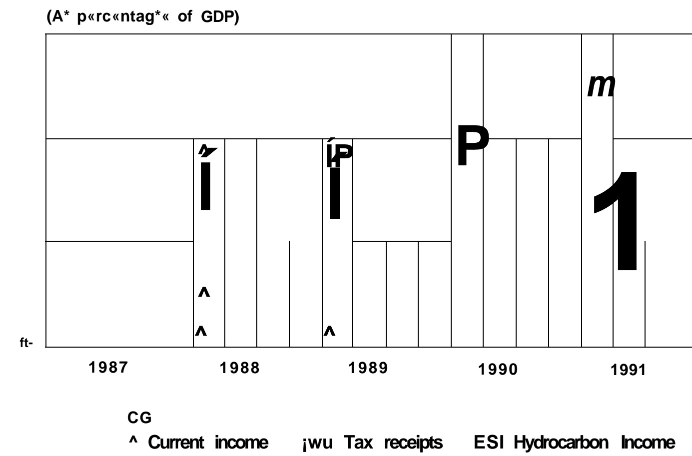
In some countries of the region (Argentina, Bolivia, Chile, Colombia, El Salvador, Guatemala, Nicaragua and Panama), tax receipts grew from 10% to slightly more than 20%. In Venezuela, moreover, non-petroleum tax receipts increased by more than 20%. Tax revenues grew by more than 20% in real terms in Argentina, owing to the combined effect of the factors mentioned above. The economy reactivated significantly, imports expanded spectacularly and the inflation rate dropped sharply, while sweeping tax reforms were introduced and collection agencies became more efficient. Economic agents also showed more confidence in the future of the economy, based on the favourable results of 1991. Collection agencies tightened their procedures, which seems to be quickly changing people's attitudes about paying their taxes. That new attitude, higher VAT receipts and payments into the social security system amply compensated for the decline in resources from duties on foreign trade and specific taxes, such as fuel taxes, whose rates were reduced (see table VI-4).

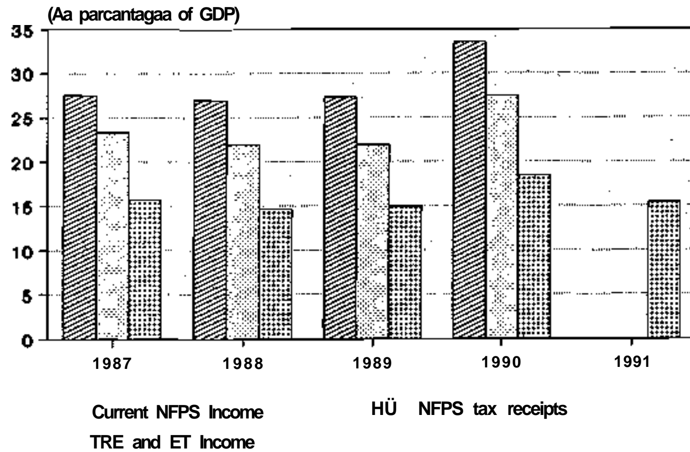
Tax receipts of the non-financial public sector increased by 19% in real terms in Bolivia, owing not only to the rise in the level of activity and the considerable increase in imports, but also to the enhancement of administrative efficiency. People also began to have more confidence in the economy because of faster growth, more

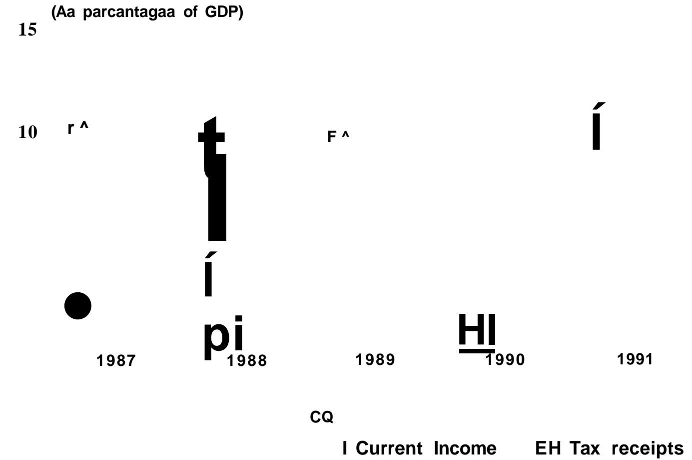
Figure VI-3

LATIN AMERICA AND THE CARIBBEAN: AGGREGATE PUBLIC SECTOR INCOME BY TYPE









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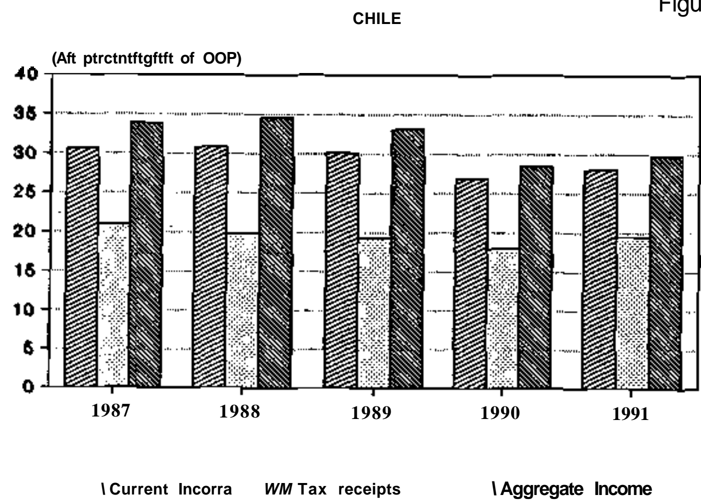

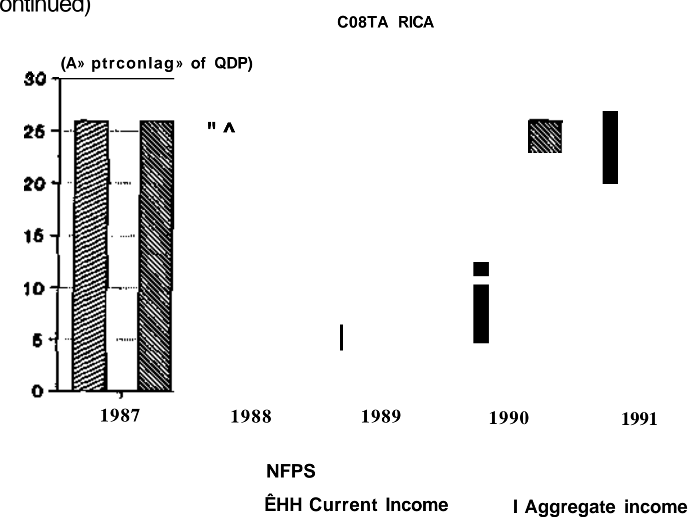

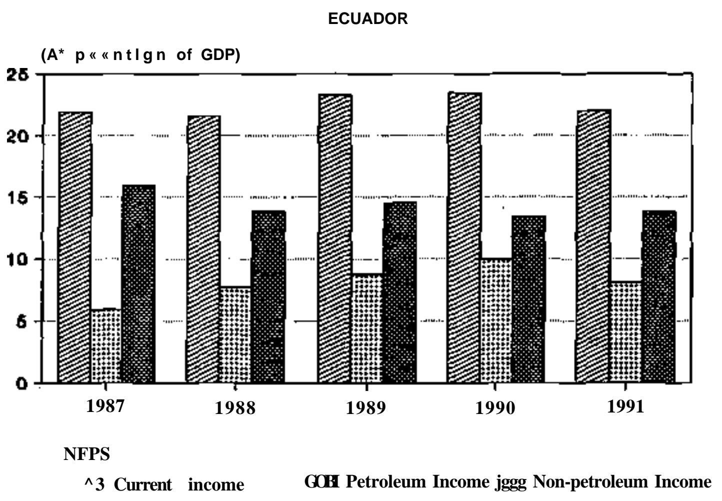

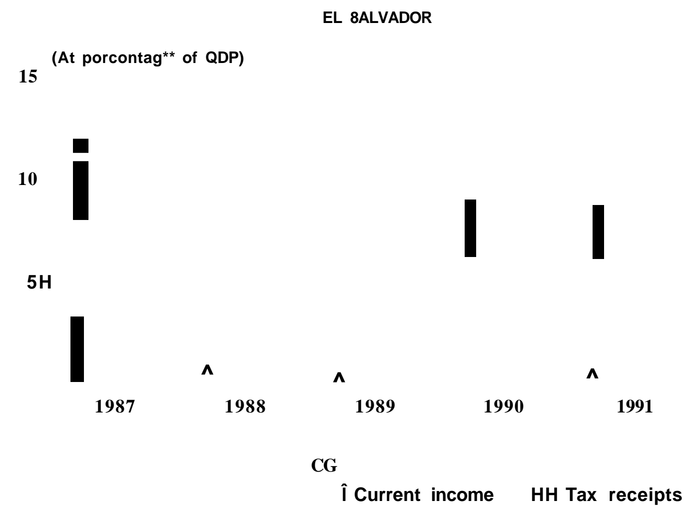

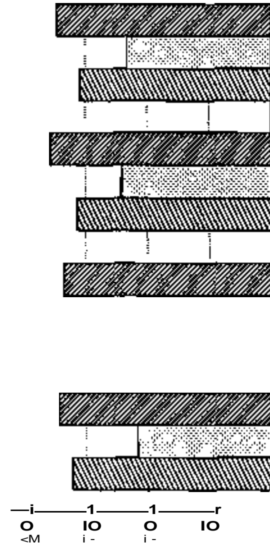

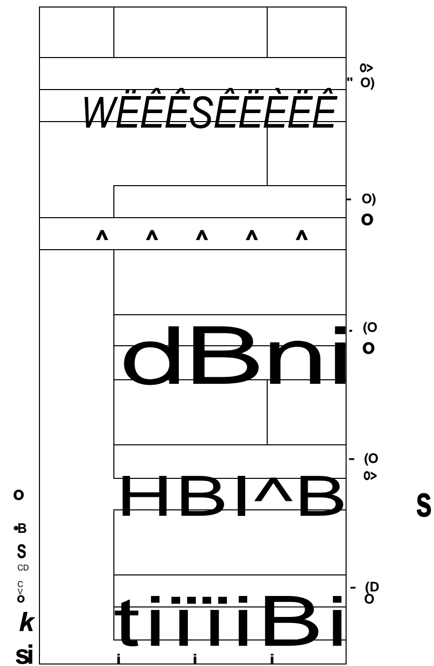

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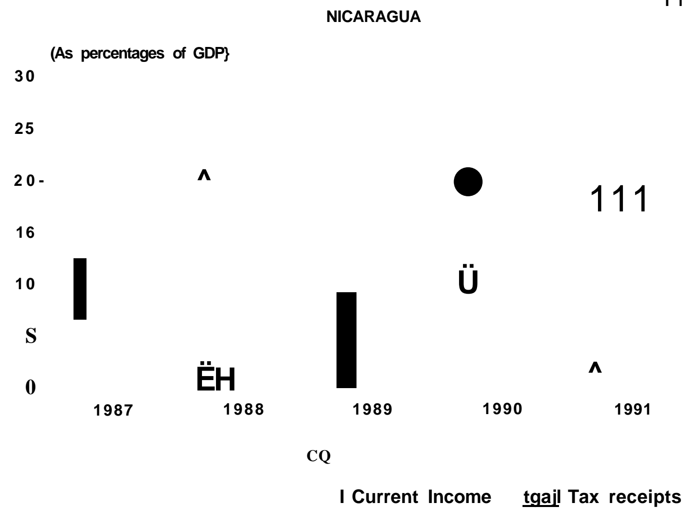
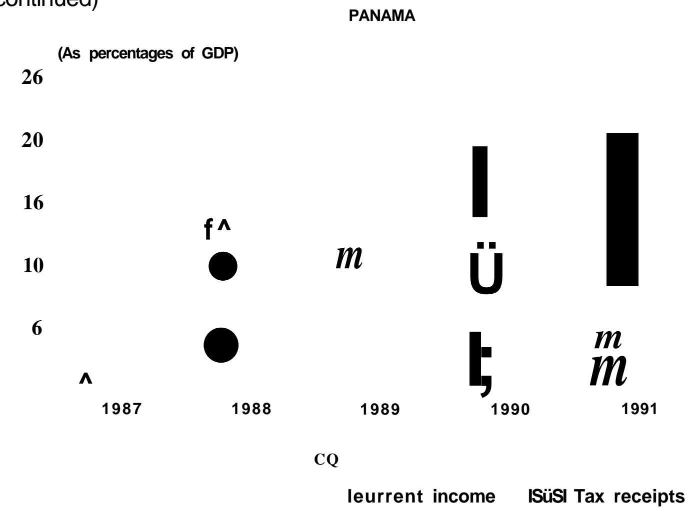
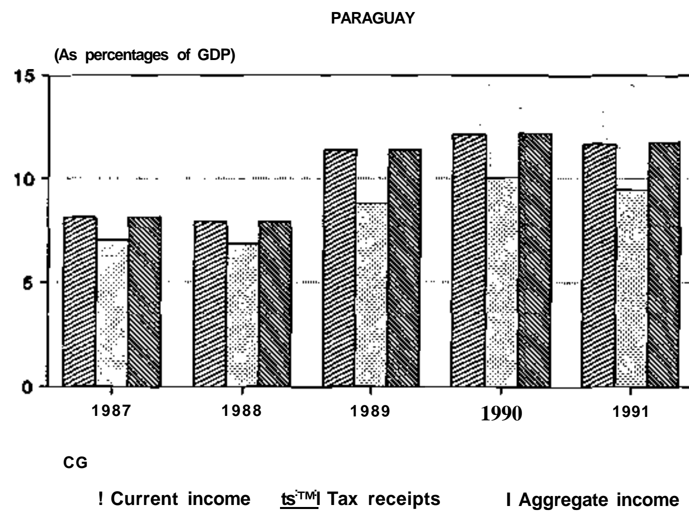






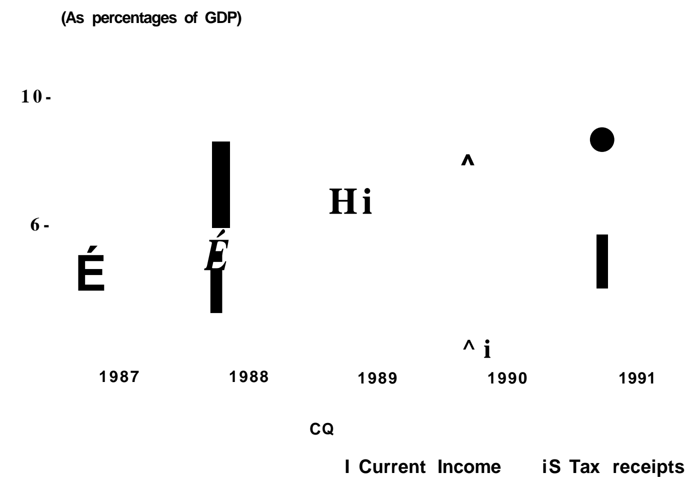
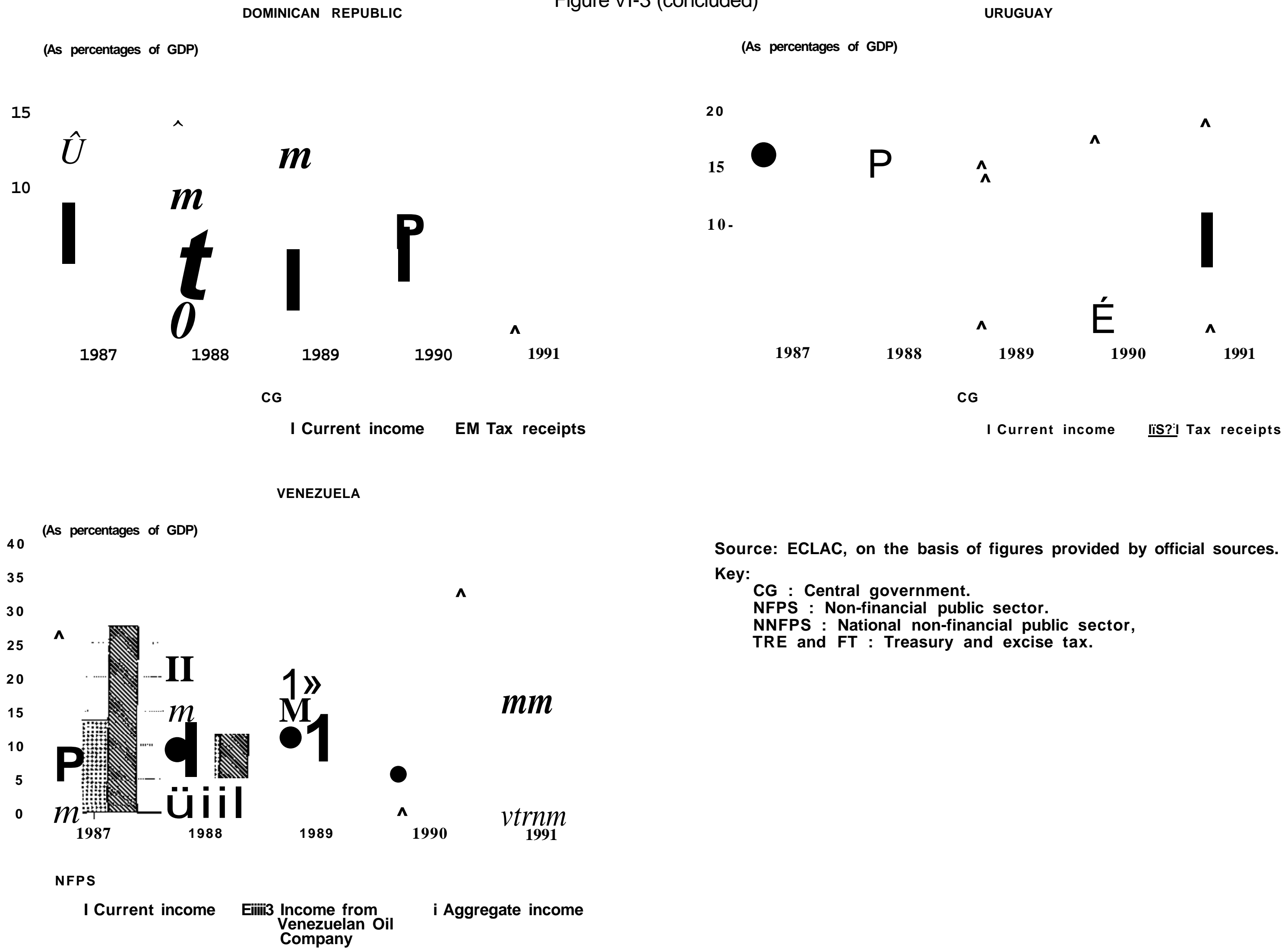


Figure VI-3 (concluded)

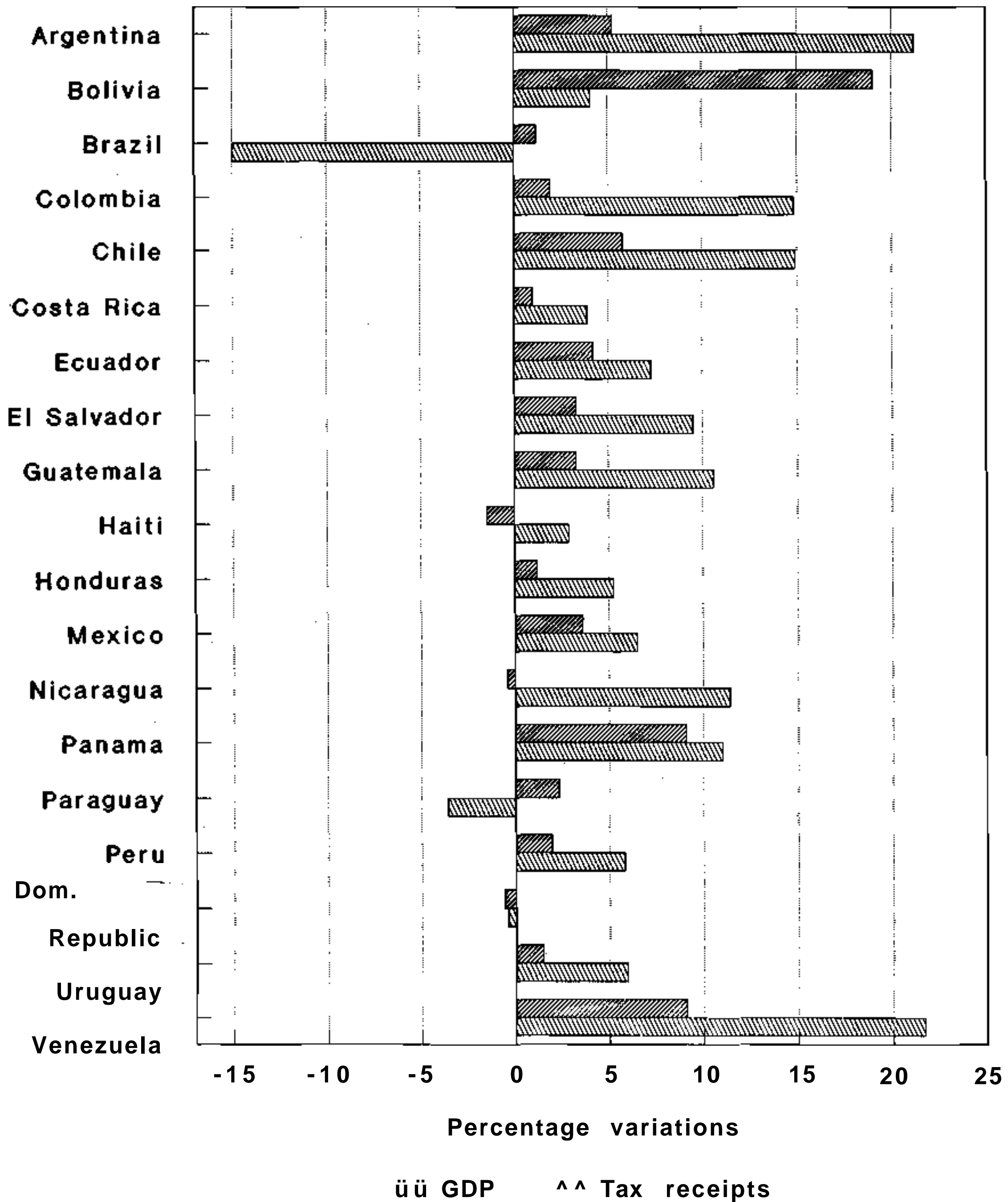


Source: ECLAC, on the basis of figures provided by official sources.

Key:

CG : Central government.
NFPS : Non-financial public sector.
NNFPS : National non-financial public sector.
TRE and FT : Treasury and excise tax.

Figure VI-4
LATIN AMERICA AND THE CARIBBEAN: TAX REVENUES AND GROSS DOMESTIC PRODUCT, 1991



Source: ECLAC, based on official figures.

investment and greater macroeconomic control. The rise in government income in Colombia was due to the satisfactory level of income-tax and VAT receipts, thanks mainly to the Government's efforts to improve collection systems and curb evasion. The tax base was also broadened, along with that of the VAT, which rose from 10% to 12%. The increase in income-tax and VAT receipts more than offset the decline in income from import duties, which fell because of trade liberalization. The significant rise in tax receipts in Chile, despite lower copper earnings, can be attributed to high growth, more efficient tax administration and the tax reform carried out in mid-1990 to finance social expenditures, which generated additional revenues equivalent to 9% of tax receipts in 1990.

The increase in fiscal revenue in El Salvador (by 10%, for the second year in a row) came mainly from economic growth, reduced inflation and greater confidence in the country's peace process. Several laws were also promulgated in 1991 that modified taxes on transactions (agricultural exemptions were eliminated and the tax base for imported products was broadened), extended the tax base on net worth and simplified income taxes. The authorities also adopted several administrative measures to reduce tax evasion and facilitate the payment of delinquent taxes. Despite administrative problems that hindered the application of those reforms, income-tax receipts rose considerably. In Guatemala, tax revenue, especially direct taxes, rose by 11 % in real terms, owing to the combined effect of a slow-down in inflation and greater compliance with tax obligations. An important role was also played by the "compensation fund" provided by the differential between the international and domestic prices of petroleum and its by-products (approximately 12% of the Government's aggregate income). Tax revenue in Nicaragua grew by more than 11% in real terms, thanks to successful stabilization and taxpayer confidence in the major changes being made in economic policy. Tax reforms adopted in 1990, lower duties on foreign trade and administrative improvements also contributed considerably to tax receipts, by discouraging evasion and contraband. Panama's government income rose spectacularly because of a sustained recovery after the international blockade was ended. The Government also improved its tax administration and received more non-tax resources, owing to the fact that several activities which had suffered the effects of the political crisis in previous years returned to normal (see table VI-4).

Current income of the non-financial public sector in Venezuela was affected when petroleum revenues dropped along with international hydrocarbon prices at the end of the Gulf war. The contraction was not very significant; it was partially offset by increasing the volume of petroleum exported, by virtue of the reallocation of production quotas by the Organization of Petroleum Exporting Countries (OPEC) to compensate for the paralysation of exports from Iraq and Kuwait. Non-petroleum earnings, on the contrary, rose very nicely (29%), especially income from customs duties, since imports increased sufficiently to overcome the negative impact of lower tariff rates. Nevertheless, despite its magnitude, that expansion was not able to offset the reduction of petroleum earnings, since non-petroleum income provides less than 25% of the revenue of the non-financial public sector.

Tax receipts rose more moderately in another group of countries (Costa Rica, Ecuador, Haiti, Honduras, Mexico, Peru and Uruguay). In Costa Rica, tax revenues rose because of higher taxes on banana exports, an increase in the sales tax from 10% to 13% (in late 1990) and the addition of new products liable to sales tax, among others, gasoline. Higher surcharges on imports collected by the Central Bank also helped reduce the losses of that institution and the fiscal and quasi-fiscal deficit of the public sector. In Haiti, despite the recession and political crisis, tax revenues rose by almost 3% in real terms, partly because of a marked reduction of inflation in 1991. In Ecuador, declining petroleum income led to lower public sector receipts, despite the fact that non-petroleum tax revenues increased by 7%, especially due to the rise in the level of economic activity and a notable increase in imports.

Mexico's current revenues, with the exception of petroleum income, rose by more than 6%, owing to an expansion of the economy, particularly imports, which led to an increase in direct and indirect taxes. The gradual consolidation of tax reforms also contributed to that increase, especially the broader tax base.

Direct taxes also rose by 6% in real terms, despite a lower maximum income tax rate and the exemption of up to 40% for individuals whose income was below four times the minimum wage (see table VI-4).

Tax receipts in Peru increased by 6%, thanks to a lower inflation rate and measures taken to raise taxes. A tax package was put into effect in June 1991, including non-recurrent levies on net personal worth and on shares of stock; the extension of a selective consumption tax on bank operations dealing with capital gains, bills of exchange and promissory notes; a rise in the VAT from 14% to 16% and the elimination of exemptions for goods and services, and a rise in the special tax on water supply services. The measures, however, had limited effects, given the persistence of macroeconomic instability and the recession, as well as the inefficiency of collection agencies. Tax revenues rose by 6% in Uruguay, especially because of the tax reform carried out in 1990, which raised several types of taxes, in order to eliminate the large deficit in central government accounts. Above all, the reform was reflected in higher VAT receipts; this tax had been raised to 22% during the second half of 1990. The reason receipts did not rise even more was the negative effect of factors such as lower tariffs and a drop in the real exchange rate, which reduced the tax base in national currency and was not counterbalanced by the higher dollar value of imports.

Tax revenues declined in 1991 in Brazil, the Dominican Republic and Paraguay. In Brazil, revenue contracted mostly because the special taxes established by the first Collor Plan in March 1990 (taxes on financial assets) were suspended. Also, an upsurge in inflation (with monthly rates above 20% by the end of the year) led to a contraction of receipts, in view of the lag in the actual payment of taxes. Likewise, the severe economic crisis reduced the tax base, owing to the poor performance of enterprises, which led to more evasion (see table VI-4).

Tax receipts declined by almost 4% in real terms in Paraguay because of lower indirect tax receipts, partially due to a slow-down in economic activity. Receipts remained low in the Dominican Republic, owing to the deep recession that has affected the country since the adjustment programme was put into effect. Controls were strengthened in response to that situation, in order to raise income-tax receipts, and changes were made in the methods of calculating levies on foreign trade, producing much higher receipts.

b) **Income from public enterprises**

Rate adjustments for public services significantly raised public sector revenues, making it possible to reduce the deficit of government enterprises and even, in some cases, generate a surplus that helped finance the central government. Public rates were adjusted drastically in Argentina in early 1991, when the fiscal situation was difficult. The result was that government enterprises were able to make some contribution to an expansion of current public-sector income, but not as much as taxes did. In Bolivia, transfers from the Bolivian Oil Company (YPFB) grew by more than 16% in real terms because of the rise in January in the domestic prices of hydrocarbons and petroleum products; that was responsible for more than half of the increase in fiscal revenues (see table VI-2). In Brazil, the rates and prices charged by public enterprises rose sharply, offsetting to some extent the effect of the collapse of the tax collection system on the aggregate income of the public sector. In Costa Rica, most of the increase in public sector income came from a rate adjustment. In Honduras, rate adjustments made by decentralized agencies, especially the National Electric Power Com pany (ENEE) and the Honduran Telecommunications Company (HONDUTEL) made it possible to reverse the direction of financial transfers, with the enterprises contributing to the central government instead of vice versa. In Nicaragua, the change in rates for public services provided by government enterprises improved the Government's financial position, which showed serious imbalances. Public enterprises in Peru practically balanced their budgets, thanks to an ongoing readjustment of their rates (between 7% and 12% monthly). Public rates rose in the Dominican Republic, which reduced implicit subsidies, particularly in the price of energy, which had been established in response to higher petroleum prices on the world market. Given the deterioration of public-sector current income in

Venezuela, incremental price hikes for gasoline and petroleum products were reintroduced after having been suspended because of the rise in petroleum income during the Gulf crisis. Rates and prices for other goods and services produced by public enterprises continued to be adjusted.

c) Capital earnings and income from the sale of public assets

A new element of public finances in 1991 was the huge sums obtained from the sale of enterprises and other public assets in certain countries of the region. Privatization had been only sporadic and of limited scope in the past. Previously, the sole example of widespread privatization was that of Chile throughout the 1980s, a process which ended with the arrival of the new Government in 1990. In the last few years, several countries, including some of the largest ones in the region, launched extensive privatization programmes. Those programmes provided an important source of income for the public sector, capable of financing for a limited time appreciable resources and generating a climate of favourable opinion among some economic agents. Privatizations, in practice, replaced financing by selling securities.

Income from privatization was extraordinarily high in 1991 in three countries (Mexico, Venezuela and Argentina), which helped finance the public sector and even produce a surplus in fiscal accounts. Such was the case in Mexico, where income from the sale of enterprises to the private sector -among them, two important commercial banks that had previously been nationalized- represented more than 3% of GDP. Non-revenues significantly increased the surplus of the consolidated public sector and contributed greatly to reducing domestic debt. During 1991, Venezuela sold government-held stock to private investors and transferred administrative control of the national telecommunications enterprise, the international flagship airline (VIASA), two commercial banks, a shipyard and a sugar mill. These operations contributed non-recurrent income to the national treasury, equivalent to 4% of GDP. Privatization was also one of the tools used to restructure the productive public sector, since advances were made in rationalizing several State agencies and the operational administration of the ports began to be transferred to State port authorities. Revenues from privatizations in Argentina in 1991, mainly from the transfer of petroleum areas and advances on the sale of telephone company stock, attained a considerable volume, more than 1.5% of GDP (see table VI-2).

Brazil also began a privatization process by selling four public enterprises for around US$2 billion. However, that was not an important factor in financing the public sector in 1991, since the process only began in September and the total payment was made through public debt conversion. Privatization is still just beginning in other countries; only the legal framework has been approved and the enterprises to be sold identified; sales already made to the private sector have been negligible. This is the case in Bolivia, Costa Rica, El Salvador, Honduras, Nicaragua, Peru and Uruguay.

5. Trends in public expenditure

In 1991, public expenditures rose in real terms in 10 of the countries for which information is available and declined in nine others. The largest increases in aggregate spending took place in El Salvador, Panama and Paraguay, with variations between 12% and 34%. They also rose significantly in Argentina, Bolivia, Chile, Ecuador, Uruguay and Venezuela, with increments of between 6% and 10%. In Colombia, on the contrary, aggregate non-financial public sector outlays expanded slightly. They nosedived in Brazil and Nicaragua, contracting by 29% and 39%, respectively. There were also sizeable declines in the Dominican Republic, Guatemala, Haiti, Honduras, Mexico and Peru, and a moderate one in Costa Rica (see table VI-5).

In almost all 19 countries for which up-to-date information on public finances is available, data on expenditures referred to the central government (and generally included transfers to local governments, although not their total expenditures). However, information about the non-financial public sector is available for only a subgroup of countries.

Distinct components of expenditures evolved unevenly. In some countries, both current and capital expenditures had the same sign but different rates, whereas in others they had opposite signs. Bolivia, Chile, Colombia, El Salvador and Paraguay were among the countries in which aggregate spending rose, with both current and capital expenditures rising. In three other countries (Ecuador, Panama and Venezuela), only capital expenditures increased or remained virtually stable. The rise in non-financial public sector expenditure in Argentina can be attributed exclusively to current expenditures, since capital expenditures dropped considerably (-7%). In Uruguay, the expansion of central government spending was also a result of current expenditures, since capital expenditures dropped significantly (-8%), although real public investment by the public sector as a whole soared (23%). In all the countries where aggregate spending declined -with the exception of Nicaragua, which greatly expanded investment- both current and capital expenditures fell.

Current expenditures rose in only seven countries and fell in 12. The biggest increases (between 8% and 16%) were recorded in Argentina, Chile, El Salvador, Paraguay and Uruguay, while the largest declines (between 10% and 40%) occurred in Brazil, Guatemala, Mexico, Nicaragua, Panama and Peru. The various components of current expenditure also evolved differently, although most contracted, reflecting widespread adjustment policies. In turn, increases in current expenditures in almost all cases responded to a slackening of budget constraints, allowing for greater spending in areas that had previously been severely affected by contractionary measures. The exception was Uruguay, a country in which spending rose on the basis of higher transfers from the central government to social security to cover the automatic indexing of retirement payments and pensions established by the constitutional reform.

Interest on both the external and domestic debt declined, for different reasons. In the case of the external debt, international interest rates fell, and in some cases the debt itself was reduced, mainly under Brady-style agreements. Interest payments on domestic debt declined in some countries because nominal interest rates fell, generally owing to lower inflation, although the reduction was notably smaller in real terms. Still, reductions in the nominal amount of interest payments helped improve public finances, since even though the amount corresponded to the monetary correction component of the debt principal, which had deteriorated because of inflation and which therefore had to be accounted for as a capital outlay, it also represented a significant contraction of short-term obligations, which created a good deal of instability because of their magnitude. That was precisely what happened in Mexico, and it is what explains the change of sign recorded in total public expenditure (see table VI-5).

Consumer spending plummeted in several countries of the region, generally because wages were not adjusted to price hikes. The most dramatic cases were Brazil, Nicaragua and Peru. In those countries, wages were not adjusted frequently enough to keep up with monthly inflation rates, which brought down the real level of wages significantly. A similar situation was produced in Argentina in the first months of the year, as a result of an upsurge of inflation. The decline eased in subsequent months, although it did not cease, since prices continued to rise, albeit more moderately. The same took place in other countries, but to a lesser extent, and hence the inflation rate was much lower. Such was the case in Costa Rica, the Dominican Republic, Guatemala, Honduras and Uruguay. In Chile, on the other hand, consumer spending rose, basically because of an increase in social expenditures, making that country one of the exceptions in the region. Paraguay was the other exception, since adjustments of nominal wages substantially raised wages in real terms, given the sharp drop in inflation.

Unlike what happened during the 1980s, capital expenditures in 1991 were less affected by adjustment policies than current expenditures, and they even expanded in some countries. This happened in Panama, which returned to its 1987 levels, i.e., before the outbreak of the political crisis. Capital expenditures also rose by more than 20% in Ecuador, El Salvador, Honduras, Uruguay and Venezuela. In several of those countries, the recovery was due to the availability of external financing, while in Venezuela it was

linked to the expansion of petroleum activity and was financed mainly by surpluses obtained during the Gulf crisis (see table VI-5).

Argentina was among the countries that increased public sector spending; aggregate outlays expanded by slightly more than 9% in real terms. Although government employment declined, current expenditures of the national non-financial public sector -which had been severely constrained in recent years- rose by more than 11%, especially because of the increase in transfers to the provinces and in outlays in the form of pensions. Capital expenditures continued to fall (-7%), adding to a sharp decline during the two previous years, bringing the 1991 level down to 60% below that of 1988. Investment fell because of serious problems in public financing, but also, more recently, because of advances in privatization. Expenditures rose in Bolivia, thanks to a generous increase in capital expenditures. Current expenditures also expanded, as a result of rising interest payments on the domestic debt and the considerable increment in transfers and contributions to social security (see table VI-5).

Aggregate spending of the non-financial public sector in Chile increased by 10% in real terms, with current expenditures rising by 12%. Outlays in local currency from the Treasury increased by 5%, a figure which includes increments in social spending. In fact, fiscal contributions to the ministries in the social area represented real increases that exceeded those that could have been financed solely by the results of the tax reform. Expenditures denominated in foreign currency rose by 20%, owing to an increase in servicing the public sector's external debt, mainly for the payments and pre-payments it had to make to the Central Bank. In Colombia, expenditures of the non-financial public sector rose moderately, but those of the central government increased by 8% in real terms, as a result of considerable investment spending. The non-financial public sector rose by close to 6% in Ecuador, thanks to a vigorous expansion of investment, which increased by 30%. Investment recovered well from the decline of the previous year, as a result of the increase in petroleum revenues recorded in the second half of 1990 and early 1991. Current expenditure continued to decline at the same rate as it had since 1987.

Expenditures rose noticeably in El Salvador, especially because of higher interest payments and an upsurge in public investment. Interest payments rose in part because of a transfer made to the Central Reserve Bank to consolidate the public domestic debt. Within the category of capital expenditures, transfers and loans more than doubled, owing to payments made to the electric company to deal with the country's energy problems during the year. Meanwhile, real investment completely recovered from its collapse of the year before, after having been concentrated in telecommunications and water and sewerage, although the transport and energy sectors also benefited from investments. Expenditures increased considerably in Panama, by virtue of a huge expansion of capital expenditures, which almost doubled. This growth was made possible by a financial contribution from the United States Agency for International Development (USAID) of some US$220 million, which allowed for a substantial increase in capital transfers, while real investment also soared (142%), reaching its 1987 levels. Current expenditures, conversely, declined (-14%), owing to a large reduction in operating costs. Wages increased despite the reduction in public employment, owing to raises given to upper-level employees (see table VI-5).

Current expenditures in Paraguay increased as a result of wage hikes and bonuses in the public sector and a rise in transfers made to the private sector. Capital expenditures also rose, although they remained at low levels. In Uruguay, after two years of decline in real expenditures, spending recovered its 1989 share of GDP (19%). The rise in central government spending (7%) was based on higher purchases of goods and non-personal services, and on greater transfers to the social security system. Other expenditures declined again, particularly wages -for the third consecutive year-, interest payments on the public debt and another drop in investment by the central administration, which accumulated a real decline of 20% over the last two years. Aggregate public investment, on the other hand, rose significantly, thanks to an increase in capital expenditures by State enterprises, especially for the installation of a new thermoelectric plant.

Aggregate spending increased considerably (9%) in Venezuela, although its ratio to GDP

remained the same. Despite a large increase in outlays for transfers and social subsidies, current public expenditures declined from 20.8% to 19.3% of GDP. An important factor in that decline was the drop in the relative weight of interest payments on the domestic and external debt. There was also a notable decline in indirect subsidies implicit in preferential exchange rates given to the private sector to make certain payments. The decline in current expenditures was offset by a comparable increase in capital expenditures. This expansion was due to a rapid growth of capital formation and a large increase in investments in the petroleum industry. On the other hand, capital formation in non-petroleum public enterprises declined in real terms by more than 30%, owing to the privatization and restructuring processes initiated in several of them.

Spending plummeted in Brazil. Wages contracted significantly; they were no longer adjusted monthly, whereas inflation accelerated. In order to control spending, the Federal Government froze the investment and current expenditure items of the fiscal budget and social security, and postponed payments. The objective was to limit spending to the amount of cash available. Government enterprises were also placed on a stricter austerity programme, consisting of a freeze on new contracts and a reduction of 10% in current expenditures (see table VI-5).

Expenditures in Costa Rica fell by more than 3% in real terms, which was less than what was programmed. One of the major impediments to controlling the level of spending was the large increase in interest payments on the domestic debt (76%) by the central government, owing to greater indebtedness and higher interest rates. In fact, interest payments on the domestic debt rose from 13% of total central government expenditures in 1990 to 23% in 1991. Consumer spending, however, fell by almost 6%, mainly because wages were not readjusted. Public investment was the component most affected by the adjustment programme, contracting by 17%. Current expenditures in Guatemala fell by 13% in real terms, owing to a drop in consumer spending and a lower level of transfers. Public investment, on the other hand, increased on the basis of investments by autonomous agencies and enterprises, since central government investment declined. Aggregate spending fell by 8% in Haiti, with capital expenditures declining more than the rest. The emergency situation facing the country was one of the major causes for the decline. The crisis deepened when the constitutional Government fell in late September, after only eight months in office. Real current expenditures contracted in Honduras, despite a rise in interest payments. Financial transfers from the central government to the rest of the public sector and government capital expenditures also declined. However, real investment by the public sector rose considerably in real terms, financed exclusively by external resources.

The decline in spending by the federal Government in Mexico was due to a drop in interest payments, which fell by 40% in real terms. However, some of those outlays were really amortizations of the domestic debt, once the principal was adjusted for inflation. Capital expenditures also declined significantly as a result of privatization, since investments made by the enterprises that were sold were no longer counted as public expenditures. Consumer spending and transfers from the federal Government, however, rose by close to 20% in real terms.

Nicaragua was another country where aggregate government spending -almost exclusively current expenditures- fell sharply. This was the result of a reduction in personnel who entered a job- retraining programme. Central government purchases and current transfers also contracted, affecting the quality of services provided, especially health care and education. The real level of central government outlays fell by 11% in Peru, in the context of a policy to reduce public spending. Wages fell by 0.6% of GDP and domestic debt servicing declined, although capital expenditures increased by 16%. Real investment by the public sector, in turn, which represented 1.8% of GDP, remained at the same level as that of the previous year. Aggregate spending in the Dominican Republic declined by 8%, although current expenditures fell by less than that. Some items were especially controlled in order to avoid significant rises -in nominal terms- in such outlays as wages and payments for goods and services. But the strictest control over

spending was still on government fixed investment, which in 1991 was kept to 60%, in real terms, of the 1989 level. Among the expenses that expanded the most were interest payments on the external and domestic debt, owing to a rescheduling of the latter, and transfers to the Dominican Electricity Corporation for fuel purchases (see table VI-5).

6. **Financing of the deficit**

Since the fiscal deficit shrank in most of the countries of the region, it was easier to finance than it had been for several years. Throughout the 1980s, imbalances in public accounts and the sharp drop in external financing created serious obstacles to the management of monetary and fiscal policies, since several governments in the region had to issue currency in order to cover their deficits. Important changes in the magnitude of public sector domestic financing took place in 1991. Domestic financing was negative in eight of the 16 countries of the region for which information was available. In four others it declined in relation to the previous year, and only in four was it higher than in 1990. External financing increased in nine countries, although they are all among those with the smallest economies in the region. The Central American countries received the most external financing, especially Nicaragua, Honduras and El Salvador. However, the flow of external credit to meet the needs of the public sector generally remained at the same low level as in previous years, and in some cases net outflows were recorded, since amortizations outpaced loans received from abroad. On the other hand, less need for external financing meant less credit from central banks to governments, a flow which had been the main -and at times the only- source of domestic financing for governments in the region during the 1980s. Resources from the sales of public debt securities or income from other forms of indebtedness with the private sector were scarce in most of the countries, except for a few that had more highly developed capital markets or financial systems.

Brazil ran one of the highest deficits, owing to the magnitude of its financial needs. The flow of external resources was negative, since amortizations by the non-financial public sector exceeded new credits by almost 1% of GDP. Domestic financing climbed to 28% of GDP, but once the monetary correction implicit in the interest rates was discounted, the real flow turned out to be close to 1 % of GDP, since the major part of the interest payments was amortization of the principal, given the high inflation in the Brazilian economy (see table VI-6). Argentina's external financing was also negative, although only slightly so, while its domestic financial needs were slightly above 2% of GDP, which, in any case, was an improvement over previous years, especially the period 1988-1989, when it was more than 6%.

A number of countries with deficits on their fiscal accounts in 1990 received external financing. The Government of Nicaragua received decisive support from the United States after the new authorities came to power in April 1990. The amount of external resources received by the central Government represented more than 9% of GDP, whereas the year before it had been only 2%. In any case, that figure was high in comparison with income from other external sources received by most Latin American governments. Because of that flow, the domestic financing needs of the public sector were negative (by almost 3% of GDP), which helped reduce the monetary base and became an important factor in bringing down inflation (see table VI-6). Honduras also received a flow of resources from abroad for a sum equivalent to more than 6% of GDP, which, although large, was somewhat lower than the year before. Those resources were used to support an adjustment programme begun in 1990, since they made it possible for the Government to reduce its debt to the Central Bank by an amount equivalent to more than 3% of GDP, which was an important element in the contraction of the monetary base. El Salvador once again received external resources for almost 4% of GDP, since the war continued throughout the year, despite progress in the peace negotiations. However, domestic resources were also needed to overcome the deficit. Costa Rica received much less external assistance than the other Central American countries, but what was received made it possible

to reduce the Government's domestic indebtedness by more than 1% of GDP, since the deficit on fiscal accounts was small. Haiti received close to 3% of GDP in external resources to finance the Government, which was less than in 1990, continuing the downward trend observed since 1987, when several sources of external financing were cut off. Once non-voluntary credits corresponding to unpaid interests were discounted, Bolivia recorded an inflow of voluntary external resources for the non-financial public sector equivalent to more than 1% of GDP, thus consolidating its return to voluntary financing in 1990, after an external debt moratorium in the mid-1980s. The non-financial public sector of Ecuador had a net inflow of external resources in an amount of close to 1% of GDP, which was not enough to close the deficit. The central government of Paraguay recorded a small deficit, but the net inflow of external resources, though less than 1% of GDP, made it possible to achieve negative domestic financing.

Among the countries with a surplus in their fiscal accounts, the non-financial public sector of Chile acquired external financial resources for almost 1% of GDP, allowing it to transfer to the Central Bank more than 2% of GDP, thus helping to alleviate the quasi-fiscal deficit. Mexico, in turn, had a net outflow of external resources equivalent to 1.5% of GDP, but since the fiscal accounts showed an even larger surplus, it was able to reduce domestic debt by almost a half of a point of GDP. External financing of the public sector was also negative in Colombia, after reaching close to 1% of GDP, making it necessary to seek domestic financing to cover that amount, since the surplus on non-financial public accounts was very small. The Government of Venezuela, thanks to a surplus on the fiscal accounts and a small inflow of capital, was able to reduce its domestic financial needs by almost 3% of GDP. That would indicate that most of the revenues from privatizations were used to reduce the domestic debt of the central Government. In Uruguay, domestic financing of the central Government was negative, representing an improvement over the result of the previous year, when it was slightly positive. Thus the adjustment following the huge financial deficit recorded in 1989 was consolidated.

Table VI-1
LATIN AMERICA AND THE CARIBBEAN: PUBLIC SECTOR DEFICIT (-) OR SURPLUS AT CURRENT PRICES [a]
(Percentages of GDP)

	Coverage	1987	1988	1989	1990	1991[b]
Argentina	NNFPS	-6.7	-8.6	-4.8	-5.1	-2.2
Bolivia	NFPS			-4.5	-3.9	-3.0
	CG		-1.2	-1.6	-0.5	1.9
Brazil	NFPS	-10.4	-16.3	-24.4	-12.5	
	Nominal FNPS	32.3	53.0	83.1	26.9	27.5
	Operational FNPS	5.7	4.8	6.9	-1.2	-0.3
Colombia	NFPS		-2.1	-1-9	-0.4	0.1
	CG	-0.5	-1.4	-1.6	-0.9	-0.1
Costa Rica	NFPS	-0.2	0.1	-2.5	-2.5	-
	CG	-2.0	-2.5	-4.1	-4.4	-3.1
Chile	NFPS	2.6	3.9	5.5	1.5	1.7
Ecuador	NFPS	-9.6	-5.3	-1.6	0.6	-1.2
El Salvador	CG	-3.8	-3.2	-4.5	-3.2	-5.1
Guatemala	CG	-2.5	-2.5	-3.8	-2.3	0.4
Haiti	CG	-7.0	-5.2	-6.6	-5.8	-3.9
Honduras	CG	-66	-6.9	-7.3	-6.3	-3.0
Mexico	CPS	-15.5	-12.5	-5.7	-4.0	1.8
	CG	-14.3	-9.7	-5.1	-2.9	3.4
Nicaragua	CG	-16.6	-26.6	-6.7	.-26.4	-6.9
Panama	NFPS	-5.1	-5.2	-7.8	1.3	
	CG	-4.6	-5.4	-7.3	-2.2	1.4
Paraguay	NFPS				3.3	1.5
	CG	-0.1	0.7	1.5	2.9	-0.4
Peru	CG	-5.7	-2.5	-4.2	-2.5	-0.6
Dominican Republic	CG	-2.2	-1.6	-0.1	0.3	0.8
Uruguay	CPS		-4.5	-6.1	-2.5	-
	NFPS	-0.9	-1.4	-3.7		
	CG	-1.3	-2.0	-3.4	-0.1	0.4
Venezuela	NFPS	-4.4	-8.6	-1.1	0.2	1.2
	CG	-5.0	-6.2	-1.0	-2.1	2.5

Source: ECLAC, based on official figures.
Key: CG= Central Government, CPS = Consolidated public sector. NFPS= Financial needs of the public sector. NFPS= Non-financial public sector. NNFPS= National non-financial public sector, excluding provinces and municipalities
* Calculated on the basis of figures in national currency at current prices. Preliminary figures.

Table VI-2

LATIN AMERICA AND THE CARIBBEAN: FISCAL INCOME AT CURRENT PRICES[a]

(Percentages of GDP)

	Coverage	Item	1987	1988	1989	1990	1991[b]
Argentina							
	NNFPS	Current income[c]	19.9	18.7	17.5	17.7	20.5
	NNFPS	Tax receipts	17.8	16.8	16.3	16.6	19.1
	NNFPS	Capital income	0.2	0.4	0.6	0.3	1.7
	NNFPS	Aggregate income	20.1	19.1	18.1	18.0	22.2
Bolivia							
	NFPS	Current income			22.8	23.4	25.4
	NFPS	Tax receipts		..»	6.1	5.9	6.7
	NFPS	Hydrocarbon income			10.2	10.6	11.8
	NFPS	Capital income			1.3	1.6	1.4
	NFPS	Aggregate income			24.0	25.0	26.8
	CG	Current income		10.1	9.6	10.7	12.4
	CG	Tax receipts		4.1	4.0	4.0	5.9
	CG	Hydrocarbon income		5.6	5.0	6.2	6.0
	CG	Capital income		-	0.3	0.3	0.7
	CG	Aggregate income		10,1	9.8	10.9	13.1
Brazil							
	NFPS	Current income	27.5	26.9	27.3	33.5	
	NFPS	Tax receipts	23.4	21.9	21.9	27.4	
	TRE&ET	Treasury income	15.7	14.6	14.9	18.5	15.4
Colombia							
	NFPS	Current income		35.8	36.7	36.9	37.1
	CG	Current income	10.6	10.3	10.2	10.1	11.6
	CG	Tax receipts	9.5	9.4	9.3	9.1	10.3
Costa Rica							
	CG	Current income	15.6	15.2	15.3	14.6	15.0
	CG	Tax receipts	14.4	14.1	14.4	14.1	14.5
	NFPS	Current income	25.9	26.1	26.7	26.3	27.5
	NFPS	Capital income	0.1	0.1	0.1	-	-
	NFPS	Aggregate income	26.0	26.2	26.7	26.3	27.6
Chile							
	NFPS	Current income[e]	30.6	30.9	30.1	26.9	28.0
	NFPS	Tax receipts	21.0	19.8	19.3	17.9	19.5
	NFPS	Operating income	5.0	6.2	6.6	5.0	3.9
	NFPS	Capital income	3.4	3.7	3.1	1.6	1.8
	NFPS	Aggregate income	33.9	34.6	33.2	28.5	29.8
Ecuador							
	NFPS	Current income	21.9	21.6	23.3	23.5	22.0
	NFPS	Petroleum income	6.0	7.7	8.8	10.0	8.1
	NFPS	Non-petroleum income	16.0	13.8	14.6	13.5	13.9
El Salvador							
	CG	Current income	11.7	10.3	8.1	8.7	9.1
	CG	Tax receipts	10.9	9.3	7.6	8.1	8.6
Guatemala							
	CG	Current income	9.4	10.2	9.5	7.9	9.1
	CG	Tax receipts	8.1	8.8	7.8	6.8	7.3
Haiti							
	CG	Current income	11.7	11.8	12.1	10.2	11.1
	CG	Tax receipts	11.1	11.4	11.6	9.7	10.1
Honduras							
	CG	Current income	15.4	15.0	14.7	16.4	17.3
	CG	Tax receipts	13.4	12.8	12.5	14.8	15.4

Table VI-2 (concluded)

Country	Coverage	Item	1987	1988	1989	1990	1991[b]
Mexico							
	CG	Current income	16.1	15.6	15.7	15.5	15.6
	CG	Tax receipts excluding PEMEX	10.8	12.2	12.1	11.6	12.0
	CG	PEMEX earnings	5.3	3.5	3.6	3.8	3.6
	CG	Capital income	1.1	1.2	2.3	1.8	5.2
	CG	Aggregate income	17.2	16.8	17.9	17.3	20.8
Nicaragua							
	CG	Current income	27.5	21.1	23.4	20.4	21.8
	CG	Tax receipts	25.0	19.2	21.7	17.7	19.8
Panama							
	NFPS	Current income [e]	34.6	30.5	30.0	33.9	
	CG	Current income	20.5	13.4	12.5	19.3	23.4
	CG	Tax receipts	14.9	9.8	9.1	13.1	13.3
Paraguay							
	CG	Current income	8.1	7.9	11.4	12.1	11.7
	CG	Tax receipts	7.0	6.9	8.8	10.0	9.5
	CG	Aggregate income	8.1	7.9	11.4	12.2	11.8
Peru							
	CG	Current income	9.0	8.2	6.5	7.8	8.4
	CG	Tax receipts	8.4	7.6	6.2	7.5	7.7
Dominican Republic							
	CG	Current income	14.6	15.4	13.4	11.1	10.8
	CG	Tax receipts	13.1	13.7	12.5	10.5	10.6
Uruguay							
	NFPS	Current income [e]	29.4	29.8	28.2		
	CG	Current income	16.3	16.8	15.6	17.9	19.4
	CG	Tax receipts	15.0	15.4	14.3	16.3	17.0
Venezuela							
	CG	Current income	18.1	18.2	19.3	22.9	23.1
	CG	Petroleum income	9.5	10.5	14.8	18.8	18.5
	CG	Non-petroleum income	8.6	7.7	4.5	4.1	4.5
	CG	Capital income	-	-	-	-	4.1
	CG	Aggregate income	18.1	18.2	19.3	22.9	27.2
	NFPS	Current income	27.1	23.8	28.9	33.4	30.0
	NFPS	PDVSA earnings	13.6	11.4	20.1	26.0	21.7
	NFPS	Non-petroleum income	13.5	12.4	8.8	7.4	8.3
	NFPS	Capital income	0.4	0.1	0.0	0.1	4.5
	NFPS	Aggregate income	27.5	23.9	28.9	33.5	34.5

Source: ECLAC, on the basis of official figures.

Key: CG= Central Government. PEMEX= Mexican National Oil Corporation.
PVDSA= Venezuelan National Oil Corporation. NFPS= Non-financial public sector. NNFPS= National non-financial public sector, excluding provinces and municipalities. TRE& ET= Treasury and excise tax.

"Calculated on the basis of figures in national currency at current prices. Preliminary figures. [c] Includes saving of public enterprises. Includes income from sales of public enterprises and autonomous agencies. Includes taxes and operating income from public enterprises, but not their saving after transfers.

Table VI-3

LATIN AMERICA AND THE CARIBBEAN: CURRENT PUBLIC SECTOR INCOME IN REAL TERMS[a]

Country	Coverage	Index 1987 = 100				Percentage of annual variation			
		1988	1989	1990	1991[b]	1988	1989	1990	1991[b]
Argentina	NNFPS	91.4	81.6	82.4	100.5	-8.6	-10.7	1.0	22.0
Bolivia	NFPS[c]		100.0	105.5	119.2			5.5	13.0
	CG[d]	100.0	99.8	113.9	142.6		-0.2	14.1	25.2
Brazil	NFPS	97.8	102.4	120.6		-2,2	4.7	17.8	
	TRE&ET	93.1	98.1	116.6	98.6	-6.9	5.4	18.8	-15.5
Chile	NFPS	108.7	116.3	105.9	116.6	8.7	7.0	-9.0	10.2
Colombia	NFPS[d]	100.0	106.1	110.8	113.3		6.1	4.4	2.3
	CG	101.4	103.2	106.9	124.2	1.4	1.8	3.5	16.2
Costa Rica	CG	100.1	106.3	105.5	108.9	0.1	6.1	-0.8	3.3
	NFPS	104.2	112.2	114.5	121.0	4.2	7.6	2.1	5.7
Ecuador	NFPS	109.8	118.7	121.5	118.6	9.8	8.1	2.3	-2.4
El Salvador	CG	89.0	70.9	78.5	85.2	-11.0	-20.3	10.6	8.5
Guatemala	CG	112.8	108.6	93.6	110.6	12.8	-3.7	-13.8	18.2
Haiti	CG	102.2	105.7	88.5	95.1	2.2	3.4	-16.3	7.5
Honduras	CG	102.3	105.0	116.2	124.0	2.3	2.6	10.7	6.7
Mexico	CG	98.0	101.6	104.8	109.3	-2.0	3.7	3.1	4.3
Nicaragua	CG	66.6	70.7	62.2	66.2	-33.4	6.3	-12.0	6.4
Panama	CG	54.7	51.0	82.9	109.6	-45.3	-6.7	62.4	32.2
Paraguay	CG	104.3	158.4	174.2	171.3	4.3	51.8	10.0	-1.6
	NFPS			100.0	103.3				3.3
Peru	CG	83.4	58.7	66.7	73.3	-16.6	-29.7	13.8	9.8
Dominican Republic	CG	106.7	97.0	75.9	73.7	6.7	-9.0	-21.8	-2.8
Uruguay	CG	102.8	97.0	112.5	123.6	2.8	-5.7	16.0	9.9
Venezuela	CG	106.1	104.0	130.2	143.3	6.1	-2.0	25.3	10.0
	NFPS	92.9	103.7	127.1	124.4	-7.1	11.6	22.5	-2.1

Source: ECLAC, based on official figures

Key: CG= Central Government. NFPS= Non-financial public sectoir. NNFPS= National non-financial public sector, excluding provinces and municipalities. TRE& ET= Treasur)' and excise tax.

'Calculated on the basis of figures in national currency at current prices. Preliminary figures. [c] Index 198Ç» = 100.

' Index 1988 = 100.

Table VI-4

LATIN AMERICA AND THE CARIBBEAN: TAX RECEIPTS IN REAL TERMS

Country	Coverage	Index 1987 = 100				Percentage of annual variation			
		1988	1989	1990	1991[b]	1988	1989	1990	1991[b]
Argentina	NNFPS	91.8	85.0	86.4	104.7	-8.2	-7.4	1.7	21.2
Bolivia	NFPS[c]		100.0	99.1	117.9			-0.9	19.0
	CG[d]	100.0	99.1	102.5	157.1		-0.9	3.4	53.3
Brazil	NFPS	93.7	97.0	116.4		-6.3	3.5	20.0	
	TRE & ET	93.1	98.1	116.6	98.6	-6.9	5.4	18.8	-15.5
Chile	NFPS	101.6	108.7	102.8	118.1	1.6	7.0	-5.4	14.9
Colombia	BCG	102.9	105.1	107.4	123.3	2.9	2.1	2.3	14.8
Costa Rica	BCG	101.1	108.8	110.3	114.6	1.1	7.7	1.4	3.9
Ecuador	NFPS	96.8	101.9	95.7	102.6	-3.2	5.3	-6.1	7.3
El Salvador	CG	86.8	71.8	79.2	86.7	-13.2	-17.3	10.3	9.5
Guatemala	CG	112.8	103.7	93.8	103.8	12.8	-8.1	-9.5	10.6
Haiti	CG	103.4	106.0	88,4	90.9	3.4	2.5	-16.6	2.9
Honduras	CG	100.5	103.2	121.0	127.5	0.5	2.6	17.3	5.3
Mexico	CG	113.7	116.8	117.4	124.9	13.7	2.7	0.5	6.5
Nicaragua	CG	66.6	72.2	59.4	66.2	-33.4	8.4	-17.7	11.4
Panama	CG	55.3	51.0	77.1	85.6	-44.7	-7.7	51.1	11.0
Paraguay	CG	104.1	142.0	166.4	160.5	4.1	36.4	17.2	-3.6
Peru	CG	82.8	60.1	68.4	72.3	-17.2	-27.5	13.9	5.8
Dominican Republic	CG	105.5	100.6	80.6	80.2	5.5	-4.6	-19.9	-0.4
Uruguay	CG	102.2	96.2	110.4	117.1	2.2	-5.9	14.8	6.0
Venezuela	CG	94.5	50.9	48.8	59.3	-5.5	-46.1	-4.3	21.7

Source: ECLAC, based on official figures.

Key: BCG= Budgeted central Government. CG= Central Government. NFPS= Non-financial public sector.
NNFPS= National non-financial public sector, excluding provinces and municipalities, TRE * ET= Treasury and excise tax.

[a] Calculated on the basis of figures in constant 1980 dollars. Preliminary figures. [c] Index 1989 = 100. Index 1988 = 100.

Table VI-5
LATIN AMERICA: TOTAL PUBLIC EXPENDITURE, CURRENT AND CAPITAL EXPENDITURE

Country	Coverage	Item	Index 1987=100[a]				Percentage of annual variation[a]				Percentage of GDP[b]				
			1988	1989	1990	1991[c]	1988	1989	1990	1991[c]	1987	1988	1989	1990	1991[c]
Argentina															
	NNFPS	Total expenditure	98.7	73.9	79.3	86.7	-1.3	-25.0	7.2	9.4	27.1	27.5	21.6	23.2	24.1
	NNFPS	Current expenditures	95.9	75.3	87.5	97.5	-4.1	-21.4	16.2	11.5	21.8	21.5	17.7	20.6	21.8
	NNFPS	Capital expenditures	110.1	68.3	45.4	42.3	10.1	-38.0	-33.5	-6.8	5.3	6.0	3.9	2.6	2.3
Bolivia															
	NFPS	Total expenditure	103.6	105.2	109.4	117.4	3.6	1.5	4.0	7.3	28.7	28.9	28.6	28.9	29.8
	NFPS	Current expenditures	93.7	97.6	101.7	108.3	-6.3	4.2	4.2	6.4	23.1	21.1	21.3	21.7	22.2
	NFPS	Capital expenditures	135.0	135.4	140.1	153.9	35.0	0.3	3.5	9.9	5.6	7.9	7.2	7.3	7.7
	CG	Total expenditure	100.0	102.9	106.2	108.4		2.9	3.2	2.1		11.4	11.4	11.5	11.2
	CG	Current expenditures	100.0	94.5	106.0	107.8		-5.5	12.2	1.7		10.9	10.0	11.0	10.7
	CG	Capital expenditures	100.0	304.0	107.8	124.2		204.0	-64.5	15.2		0.5	1.4	0.5	0.5
Brazil															
	NFPS	Total expenditure	114.2	140.9	120.3		14.2	23.3	-14.6		37.9	43.3	51.7	46.0	
	NFPS	Current expenditures	118.9	152.5	129.5		18.9	28.3	-15.1		31.2	37.2	46.2	40.8	
	NFPS	- Primary expenditures	98.7	115.1	119.3		-1.3	16.7	3.6		21.3	21.0	23.8	25.6	
	NFPS	- Interest payments	162.2	232.6	151.2		62.2	43.4	-35.0		10.0	16.2	22.4	15.2	
	NFPS	Capital expenditures	92.2	85.9	76.9		-7.8	-6.8	-10.5		6.6	6.1	5.5	5.2	
	CG	Total expenditure	100.0	117.1	107.3	77.5		17.1	-8.4	-27.8		11.6	13.2	12.6	9.0
Colombia															
	NFPS	Total expenditure	100.0	105.4	105.7	106.7		5.4	0.3	1.0		37.9	38.6	37.3	36.9
	NFPS	Current expenditures	100.0	107.3	110.5	111.4		7.3	3.0	0.8		29.2	30.2	30.0	29.7
	NFPS	Capital expenditures	100.0	98.8	89.3	90.6		-1.2	-9.6	1.5		8.7	8.3	7.3	7.2
	CG	Total expenditure	110.7	115.0	111.2	120.6	10.7	3.9	-3.3	8.4	11.1	11.8	11.8	11.0	11.7
	CG	Current expenditures	108.7	116.1	113.3	116.8	8.7	6.8	-2.4	3.1	8.7	9.1	9.4	8.8	8.9
	CG	Capital expenditures	118.3	111.6	103.4	134.3	18.3	-5.7	-7.3	29.8	2.4	2.7	2.5	2.2	2.8

TableVI-5(cont.2)

Country	Coverage	Item	Index 1987=100				Percentage of annual variation				Percentage of ODP				
			1988	1989	1990	1991[c]	1988	1989	1990	1991[c]	1987	1988	1989	1990	1991[c]
Honduras															
	CG	Total expenditure	104.4	110.1	112.7	101.8	4.4	5.5	2.4	-9.7	22.0	21.9	22.1	22.7	20.3
	CG	Current expenditures	103.1	110.6	105.5	102.6	3.1	7.3	-4.6	-2.8	17.7	17.5	17.9	17.1	16.5
	CG	Capital expenditures	109.7	107.8	142.6	99.0	9.7	-1.8	32.3	-30.6	4.3	4.5	4.2	5.6	3.9
	NFPS	Real investment	104.9	118.1	83.8	109.2	4.9	12.6	-29.1	30.3	5.1	5.1	5.4	3.9	5.0
Mexico															
	CG	Total expenditure	87.7	77.3	69.7	61.2	-12.3	-11.9	-9.8	-12.3	31.5	27.3	23.3	20.2	17.1
	CG	Current expenditures	90.8	78.9	67.4	59.1	-9.2	-13.2	-14.6	-12.3	28.3	25.4	21.3	17.5	14.8
	CG	Capital expenditures	60.6	63.5	90.6	79.5	-39.4	4.9	42.5	-122	3.2	1.9	2.0	2.7	2.3
Nicaragua															
	CG	Total expenditure	93.7	56.7	89.0	54.3	-6.3	-39.5	56.9	-38.9	44.1	47.7	30.1	46.8	28.7
	CG	Current expenditures	90.8	56.3	95.1	53.4	-9.2	-38.0	69.0	-43.9	39.4	41.3	26.7	44.7	25.2
	CG	Capital expenditures	117.7	60.0	37.4	62.0	17.7	-49.1	-37.7	65.9	4.7	6.4	3.4	2.1	3.5
Panama															
	NFPS	Total expenditure	75.5	79.7	72.4		-24.5	5.6	-9.2		39.7	35.7	37.8	32.6	
	NFPS	Current expenditures	75.9	81.7	75.0		-24.1	7.6	-8.2		36.9	33.3	36.0	31.4	
	NFPS	Capital expenditures	71.0	53.8	37.2	99.5	-29.0	-24.1	-30.9	167.6	2.8	2 3	1.8	1.2	2.9
	CG	Total expenditure	62.7	66.0	75.4	84.1	-37.3	5.2	14.3	11.6	25.1	18.7	19.8	21.5	22.0
	CG	Current expenditures	64.3	66.4	77.4	66.9	-35.7	3.2	16.5	-13.5	23.8	18.2	18.8	20.9	16.5
	CG	Capital expenditures	33.0	57.7	41.1	386.6	-67.0	75.0	-28.8	840.6	1.4	0.5	0.9	0.6	5.4
Paraguay															
	CG	Total expenditure	93.9	136.3 .	131.6	176.6	-6.1	45.1	-3.5	34.3	8.2	7.2	9.9	9.3	12.2
	CG	Current expenditures	98.1	156.3	138.7	177.4	-1.9	59.3	-11.2	27.9	6.5	5.9	8.9	7.7	9.6
	CG	Capital expenditures	79.7	67.0	113.6	187.6	-203	-16.0	69.7	65.1	1.6	1.2	1.0	1.6	2.6

Table VI-5 (concluded)

Country	Coverage	Item	Index 1987=100				Percentage of annual variation				Percentage of GDP				
			1988	1989	1990	1991[c]	1988	1989	1990	1991[c]	1987	1988	1989	1990	199r
Peru															
	CG	Total expenditure	66.6	59.1	54.1	48.0	-33.4	-11.3	-8.5	-11.3	14.7	10.7	10.7	10.3	9.0
	CG	Current expenditures	68.8	56.4	56.9	48.4	-31.2	-18.1	0.9	-14.8	12.3	9.3	8.6	9.1	7.6
	CG	Capital expenditures	55.1	73.7	39.6	45.8	-44.9	33.7	-46.2	15.7	2.3	1.4	2.1	1.2	1.4
Dominican Republic															
	CG	Total expenditure	102.2	84.8	64.3	59.2	2.2	-17.0	-24.2	-8.0	16.8	17.0	13.5	10.8	10.0
	CG	Current expenditures	100.2	94.2	77.4	73.9	0.2	-6.0	-17.9	-4.5	7.5	7.5	6.7	5.8	5.6
	CG	Capital expenditures	103.8	77.2	53.7	47.3	3.8	-25.7	-30.4	-12.0	9.3	9.5	6.8	5.0	4.4
Uruguay															
	NFPS	Total expenditure	1026	106.5	...	...	2.6	3.8	...	...	30.3	31.2	31.9		
	NFPS	Currentexpenditures	102.8	105.9	...	...	2.8	3.0	...	...	26.3	27.1	27.5		
	NFPS	Real investment	101.1	110.5	101.3	124.5	1.1	9.3	-8.3	22.9	4.0	4.1	4.4	4.0	4.8
	CG	Total expenditure	106.3	109.2	104.4	111.9	6.3	2.7	-4.3	7.2	17.6	18.7	19.0	18.0	19.0
	CG	Currentexpenditures	105.6	107.3	104.0	113.3	5.6	1.6	-3.1	8.9	15.7	16.7	16.7	16.0	17.2
	CG	Capital expenditures	111.7	124.8	108.1	99.7	11.7	11.7	-13.4	-7.7	1.9	2.1	2.3	2.0	1.8
Venezuela															
	NFPS	Total expenditure	107.4	91.3	107.6	117.2	7.4	-15.0	17.8	9.0	32.0	32.5	29.9	33.3	33.3
	NFPS	Currentexpenditures	110.3	95.0	112.8	114.1	10.3	-13.9	18.7	1.1	19.0	19.8	18.5	20.8	19.3
	NFPS	Capital expenditures	103.1	85.8	99.8	121.7	3.1	-16.8	16.3	22.0	13.0	12.6	11.4	12.6	14.0
	CG	Total expenditure	111.5	85.6	111.4	120.1	11.5	-23.2	30.2	7.8	23.1	24.4	20.3	25.0	24.7
	CG	Currentexpenditures	111.7	95.0	113.9	114.6	11.7	-14.9	19.9	0.5	17.6	18.5	17.1	19.4	17.9
	CG	Capital expenditures	110.7	55.6	103.3	137.4	10.7	-49.7	85.7	32.9	5.6	5.8	3.2	5.6	6.8

Source: ECLAC, based on official figures.

Key: CG = Central Government. NFPS = Non-financial public sector. NNFPS National non-financial public sector, excluding provinces and municipalities. TRE 4 ET = Treasury and excise tax.

[a] Calculated on the basis of figures in constant 1980 dollars, [b] Calculated on the basis of figures in national currency at current prices. [c] Preliminary figures. Includes operating costs of public enterprises and autonomous agencies.

Table VI-6

LATIN AMERICA AND THE CARIBBEAN: FINANCING NEEDS AT CURRENT PRICES [a]

(Percentage of GDP)

Country	Coverage		1987	1988	1989	1990	1991°
Argentina	NNFPS	Total	6.7	8.6	4.8	5.1	. 2.2
		Domestic	3.5	6.5	6.7	2.7	2.5
		External	3.2	2.1	-1.9	2.4	-0.3
Bolivia	NFPS	Total			4.5	3.9	3.0
		Domestic			2.8	1.2	0.2
		External			1.8	2.2	2.8
		Unpaid interest			2.0	1.5	1.3
Brazil	Nominal FNPS	Total	32.3	53.0	•83.1	26.9	'27.5
		Domestic	34.8	55.8	82.8	26.5	28.3
		. External	-2.5	-2.8	0.3	0.4	-0.8
Colombia	NFPS	Total		2.1	1.9	0.4	-0.1
		Domestic		0.7	1.1	0.9	0.6
		External		1.5	0.7	-0.5	-0.7
Costa Rica	NFPS	Total	0.2	-0.1	2.5	2.5	0.1
		Domestic	-0.5	0.1	2.0	2.2	-1.3
		External	0.7	-0.2	0.4	0.3	1.4
Chile	NFPS	Total	-2.5	-3.9	-5.5	-1.5	-1.7
		Domestic	-4.4	-6.1	-6.0	-1.9	-2.4
		External .	1.9	2.2	0.4	0.5	0.7
Ecuador	NFPS	Total	9.6	5.3	1.6	-0.6	-1.2
		Domestic	1.8	2.2	-1.5	-1.4	0.5
		External	7.8	3.1	3.1	0.9	0.7
El Salvador	CG	Total	3.8	3.2	4.5	3.2	5.1
		Domestic	0.2	0.2	3.0	-0.1	1.4
		External	3 6	3.0	1.5	3.3	3.7
Guatemala	CG	Total	2.5	2.5	3.8	2.3	-0.4
		Domestic	0.8	1.2	1.2	0.8	0.8
		External	0.5	0.8	0.4	0.4	.
		Other sources	1.2	0.5	2.1	1.2	-1.1
Haiti	CG	Total	7.0	5.2	6.6	5.8	3.9
		Domestic	0.6	1.6	1.9	1.9	1.2
		External	6.5	3.6	4.7	3.9	2.7
Honduras	CG	Total	6.6	6.9	7.4	6.3	3.0
		Domestic	3.9	3.2	5.4	-1.1	-3.3
		External	2.8	3.7	2.0	7.4	6.3
Mexico	CPS	Total	15.5	12.5	5.7	4.0	-1.8
		Domestic	14.1	13.7	6.2	3.8	-0.4
		External	1.5	-1.2	-0.5	0.1	-1.5

Table VI-6 (concluded)

Country	Coverage		1987	1988	1989	1990	1991[b]
Nicaragua	CG	Total	16.6	26.6	6.7	26.3	6.9
		Domestic	16.1	24.6	3.4	24.6	-2.6
		External	0.1	2.0	3.3	1.8	9.2
Panama	CG	Total	4.6	5.4	7.3	2.2	-1.4
		Domestic	13.2	5.8	7.3	5.8	
		External	-8.6	-0.4		-3.6	
Paraguay	CG	Total	0.1	-0.7	-1.5	-2.9	0.4
		Domestic				-1.1	-0.4
		External				-1.9	0.8
Peru	CG	Total	5.7	2.5	4.2	2.5	0.6
Dominican Republic	CG	Total	2.2	1.6	0.1	-0.3	-0.8
		Domestic	1.2	0.3	0.1	-0.2	-0.1
		External	1.0	1.2			-0.7
Uruguay	CG	Total	1.3	2.0	3.4	0.1	-0.4
		Domestic	1.1	1.8	3.3	0.1	-0.3
		External	0.2	0.2	0.1		-0.1
Venezuela	CG	Total	5.0	6.2	1.0	2.1	-2.5
		Domestic	4.7	6.3	1.5	1.2	-2.9
		External	0.3	-0.1	-0.5	0.9	0.4

Source: ECLAC, based on official figures.

Key: CG= Central Government. cre= Consolidated public sector. FNPS= Financial needs of the public sector. NFPS= Non-financial public sector. NNFPS= National non-financial public sector, excluding provinces and municipalities, TRE & ET= Treasury and excise tax.

" Calculated on the basis of figures in 1980 dollars. Preliminary figures.

Vn. THE EXI'ERNAL SECTOR

In 1991 the Latin American and Caribbean economies were influenced by events in the international economy which had differing impacts on their export markets and on the cost and volume of external credit.

The developed market economies' growth rates continued to slacken. The recession into which Canada, the United Kingdom and the United States had slipped in the second half of 1990 deepened during the early months of 1991 and later spread to Germany and Japan, without any notable recovery being made by the United States economy. Consequently, the industrialized countries' growth rate slowed for the third year running, falling to an annual rate of 1%, as compared to 2.6% for 1990,3.3% in 1989 and 4.4% in 1988. In fact, the industrialized countries' 1991 growth rate was the lowest since the 1982 recession.

The sluggishness of the industrialized economies, and particularly the recession in the United States, had a more harmful effect on Latin American and Caribbean exports than it had the year before, as the growth rate for the industrial countries' imports, by volume, slid from 4.5% in 1990 to around 3% in 1991, which was the lowest level since 1983.

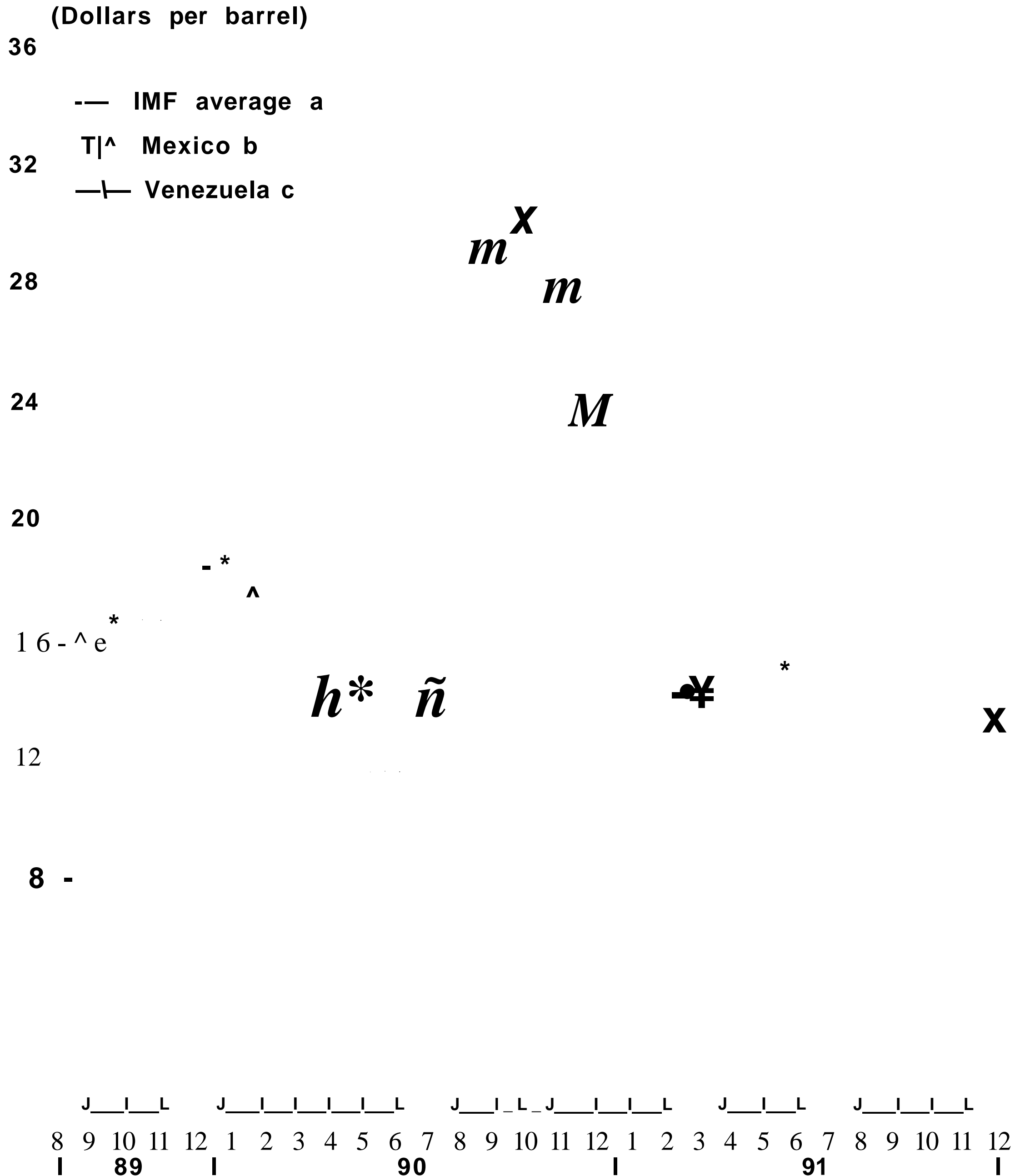
This downturn in the industrialized economies was reflected in a further slowdown (to 3.4%) in world trade, which was also hurt by the collapse of the European economies now in the midst of a transition to market-based systems. One of the consequences of this slump in world demand was the prolongation of commodity prices' persistent downward slide. The average prices of many of the region's main export products fell (sugar, bananas, cocoa, coffee, soya, wheat, cotton, wool, copper, tin, lead, zinc and petroleum), and in some cases the declines were quite steep. In contrast, only a few prices rose (beef, fish meal, maize and iron ore) (see table vn-6).

These variations caused the index of average world prices for commodities other than petroleum to drop once again in 1991 (by over 6%) in dollar terms. The largest decrease was in minerals and metals (-10%) owing both to their sensitivity to the recession in the industrial countries and to the expansion of the exportable supply from the former republics of the Soviet Union. Edible oils and oilseeds were the only category of commodities whose prices climbed (by 8%). Oil prices, which had skyrocketed between August and October 1990 as a result of the Persian Gulf crisis, tumbled in mid-January 1991 when the war broke out. By February, oil prices had nearly returned to their pre-crisis levels, but they then rose gradually in the course of the year. The net result was that the average price of crude oil for 1991 was 16% below the 1990 average (see figure VIM).

The international financial market saw a drop in nominal interest rates as a consequence of the recession in most of the industrialized countries and the slowing of inflation, and this trend strengthened with the normalization of the oil market early in the year. It was led, however, by the sharp decrease in short-term interest rates in the United States and the resulting drop in these rates in Japan, since European interest rates -which were propped up by the increase in the German central bank's discount rate- held more or less steady. As of December 1991, the 180-day LIBOR stood at an annual rate of less than 5% (the lowest since 1965), as compared to a level of 7.8% one year earlier. As a result, the average rate for 1991 was 6.1%, which was 2.3 points lower than the 1990 average and one-third lower than the 1989 figure.

For more detailed information, see part II.

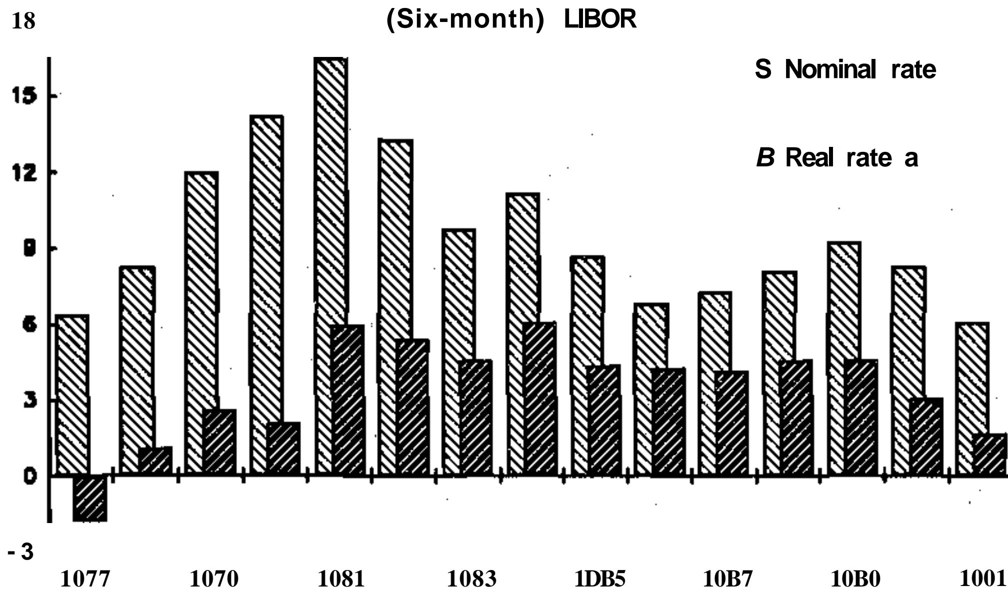
Figure VII-1
CRUDE OIL PRICES
(Monthly averages)

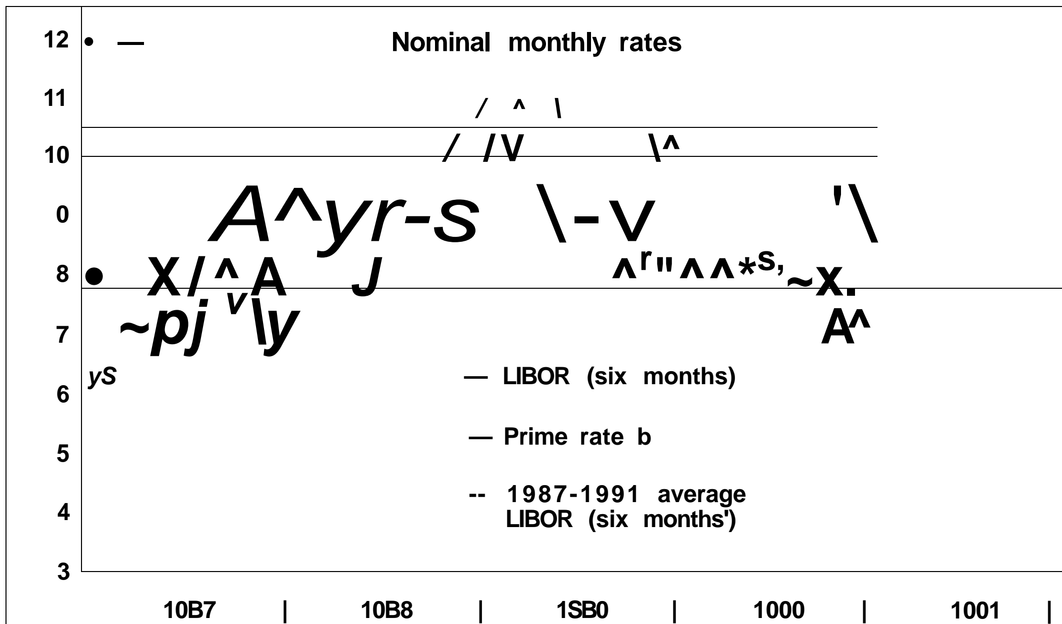


Source: ECLAC, based on data from the International Monetary Fund (IMF) and Petroleum Intelligence Group, Petroleum Market Intelligence, New York (various issues).

a Dubai, Brent (United Kingdom) and Alaskan N. Slope crude. b Isthmus 34 and Maya 22.
c Tia Juana 22.

Figure VII—2
INTERNATIONAL INTEREST RATES
(Percentages)





Source: ECLAC, on the basis of figures provided by the International Monetary Fund (IMF).

a Nominal rate deflated by the consumer price index for industrialized countries, b The prime rate is the preferential rate offered by United States banks to their best clients.

Nevertheless, the import capacity of most of the Latin American and Caribbean countries was not hurt by the external sector's performance in 1991 thanks, in large part, to a heavy inflow of private capital. The drop in commodity export prices -which was more widespread than the year before- did, however, undermine the region's export drive and seriously eroded its terms of trade. Imports, on the other hand, grew more rapidly, thereby causing the large trade surplus maintained by the region since the outbreak of the economic crisis of the 1980s to plunge to just 8% of exports. Meanwhile, the outflow of profits and interest payments decreased once again owing to the drop in international interest rates. This mitigated the impact of the decline in the trade surplus on the current account deficit, but the latter climbed to its highest level since 1932 none the less. The already considerable inflow of capital doubled, however, and was more than enough to cover this deficit; in fact, the region's overall payments surplus rose to US$20.4 billion.

1. **Foreign trade and the terms of trade**

a) **Exports**

The value of the region's merchandise exports held virtually steady at US$121 billion in 1991, thereby putting an end to a growth spurt (starting in 1987) during which such exports had expanded at an average annual rate of 12%. The flattening out of this growth curve was attributable to a nearly 5% drop in unit value, since export volumes continued to rise at a rate of slightly over 4% (see table VII-1).

The export performance of the countries of the region was quite mixed. The value of exports jumped in Panama (by almost 27%, chiefly as a result of an increase in re-exports), was up sharply in Colombia, Costa Rica, Chile and Ecuador (by between 5% and 9%) and expanded moderately in Brazil, El Salvador, Guatemala, Mexico and Peru (by 3% or less). However, it fell by between -3% and -5% in Argentina, Honduras and Uruguay and by between -7% and -20% in Bolivia, Haiti, Nicaragua, Paraguay, the Dominican Republic and Venezuela. In the oil-exporting countries, the value of exports slipped by somewhat more than 2% as the net result of a decrease of nearly 10% in unit value -chiefly owing to the slump in average hydrocarbon prices- and an 8% expansion in volume. In the non-oil-exporting countries, in contrast, the value of exports rose moderately (by less than 2%), partly because unit-value increases slightly outnumbered decreases and partly because of a rise in Chile's and some Central American countries' export volumes. Within this group, the value of the South American countries' exports showed little change, whereas that of the Central American and Caribbean countries showed significant growth (10%) (see table VII-2).

The oil-exporting countries' external sales fell from US$58.2 billion in 1990 to US$56.7 billion in 1991. **Venezuela** registered a 13% decrease due to the steep drop in the price brought by its oil and a downturn in non-oil exports. The expansion in the volume of oil shipments (2.1 million barrels per day in 1991 as compared to 1.9 million in 1990) was not enough to make up for the 18% decline in average export prices. Consequently, the value of Venezuelan oil exports plunged by approximately US$1.6 billion. Non-oil exports were also down (after three years of strong growth) owing to a rollback of tax incentives, the lower real exchange rate, the shift in sales towards the growing domestic market and plummeting world aluminium prices. In **Bolivia,** the value of traditional exports fell primarily because of a decrease in their average unit value, which was in turn chiefly due to lower zinc, tin and other mineral prices on the international market. The value of non-traditional exports was also down (see table VTI-2).

In contrast, higher export values were recorded (in descending order of magnitude) by Colombia, Ecuador, Mexico and Peru. **Colombia's** exports jumped by nearly 7% (thanks to an increase of over 30% in non-traditional exports) despite the fact that hydrocarbon exports plunged (-25%) as a consequence of the drop in oil prices and the problems caused by repeated attempts to sabotage the country's oil pipeline. Coffee exports remained depressed -amounting to about US$1.4 billion- due to the international market situation. **Ecuador's** exports rose by 5% as the net result of a 10% increase in volume and a 5% decrease in unit value. The significant downswing in oil prices pushed the value of

hydrocarbon exports back down to their 1989 level. Hence, the bulk of the increase in merchandise exports was attributable to soaring external sales of bananas and shrimp. Banana shipments jumped by 23% (much the same as the year before) in terms of volume; this four-year boom in banana exports was buttressed by the opening up of the Eastern European market and stronger demand from South-East Asia, as well as weaker competition from some Asian exporters. Shrimp exports also skyrocketed; in fact, they rose so swiftly that in 1991 they accounted for one-sixth of the country's total external sales, while sales of coffee and cocoa dipped. In **Mexico** the value of merchandise exports grew by only 1 % owing to the drop in the average price of oil. The resulting US$2 billion decline in the value of external sales of hydrocarbons brought such exports back down to their pre-Gulf war levels. Non-oil exports continued to exhibit strong growth (13%) however, thanks to the expansion seen in manufactures and in fruits and vegetables, which offset the drop in mineral sales. *Maquiladora* (inbond assembly) activity -which is, however, recorded on the services account- again exhibited a high growth rate (16%), climbing to over US$4 billion. The value of **Peru's** exports remained flat. The increases in its exports of fish meal, cotton and coffee were almost entirely cancelled out by the reduction -for the second year running- in non-traditional exports and, especially, the drop in the value of oil and metal exports. The sharp downswings in metal prices were, in most cases, partially offset by larger export volumes despite the further difficulties caused during the second half of the year by the low exchange rate and the reappearance of labour disputes in the mining sector. The situation in the oil industry was quite different: the slackening of domestic demand opened up the possibility of selling a larger portion of output on the external market, but output fell, and this opportunity to substantially increase exportable surpluses was therefore wasted; consequently, virtually the whole of the price decrease was translated into a reduction in export value.

Of all the South American non-oil-exporting countries, only Chile was able to boost the value of its exports, while Brazil's exports held just about steady and Argentina, Paraguay and Uruguay saw decreases. **Chile's** exports expanded at a considerable rate (over 7%) entirely as a result of an upturn in volume, since the average unit value remained virtually constant. This constituted the seventh year of uninterrupted export growth, with an average increase in volume of 9% per year. The decline in copper prices on the international market was not entirely offset by the larger volume of these exports, whose total value thus diminished by almost 5%. Exports other than copper climbed by nearly 18%, however, thanks primarily to the expansion of external sales of fruit (which verged on US$1 billion), packaged food products and fish meal. In **Brazil,** exports remained at much the same level as the year before despite a slightly higher average unit value, which meant that they remained 8% below the high point reached in 1989. The trend in exports was quite uneven during the year, with a 20% growth rate during the first four months giving way to a considerable decline thereafter. In the category of commodities, the lower value of exports of soya and soya products was made up for by the higher value of external sales of coffee beans and iron ore. Semi-manufactures also exhibited moderate growth (5%), but manufactures were virtually unchanged despite an increase in exports of iron and steel and mechanical products. In **Argentina,** exports were down by 3% mainly as a result of a drop in unit value, since the decrease in the volume of exports was quite small. Increased exports of oilseeds (16%) and, to a lesser extent, of fishery products (29%) offset part of the downturn in grains (-10%) and livestock products (-15%). Exports of fuel and manufactures slackened (-5%) as these sales lost the buoyancy they had displayed in recent years, when the country was in a recession and had a high real exchange rate. **Paraguay** experienced an export slump (-7%) due to a decline in soya shipments (as soya prices remained soft) and in sales of livestock products to Brazil, while cotton exports were affected by a weakening of the international price. The value of Uruguay's external sales fell by over 5% due to the performance of its traditional exports. The drop in wool exports was a consequence of lower international prices, whereas the decrease in meat sales was attributable to a decline in volume as the livestock sector strove to rebuild its herds in the

wake of a severe drought that had cut sharply into its inventories. The value of non-traditional exports, on the other hand, continued to rise (6%), particularly in the case of rice (see table VII-2).

The Central American and Caribbean countries for which information is available saw an increase of nearly 10% in the value of their exports. This overall result was made possible by strong growth in Panama (consisting chiefly of re-exports from the Colón Free Zone) and, to a lesser degree, in Costa Rica, since the remaining countries either recorded moderate growth rates or outright declines. In **Costa Rica,** the value of exports climbed by 9% thanks, in particular, to the higher prices brought by bananas, which moved up into first place among the country's export products. Exports of coffee, meat and sugar also rose, as did sales to Central America. **Guatemala's** slow rate of export growth was a consequence of the downturn in its traditional exports (-8%), since non-traditional exports were up by almost 14%, largely as a result of expanded trade with Central America. The poor showing turned in by traditional exports was attributable to sizeable decreases in the volume of coffee, cotton and banana exports, as well as to a nearly 30% drop in world sugar prices. In **El Salvador,** the export sector registered a quite modest growth rate (3%) because the strong performance of non-traditional exports (12%), particularly to other Central American countries, was largely neutralized by the decline in traditional exports. Among the latter, the decrease in coffee sales was especially steep as exporters reduced their shipments in order to hold back part of the harvest. Sugar sales, in contrast, were up sharply, since the doubling of export volumes more than covered the severe downswing in sugar prices. **Nicaragua's** exports plunged by 20%, bringing their total value down to just 60% of what it had been in 1980 and further deepening the slump which has been affecting the country in recent years. The emergence of domestic supply problems in the midst of the country's restructuring process and unfavourable trends in the prices of its traditional export products were responsible for the decrease. The value of **Honduras'** exports slipped by nearly 5% for the second year in a row because the 13% expansion in other export products was not enough to entirely offset the declines in the volumes of its main exports (bananas and coffee). The volume of banana exports fell for the fourth consecutive year due to bad weather and labour problems; coffee exports were also affected by bad weather, as well as by sagging international prices. The strong upward trend in **Panama's** exports continued with an increase of 27%, which put them almost 80% above their 1980 level. Nevertheless, this rise was almost wholly attributable to an US$800 million increase in re-exports from the Colón Free Zone. In the **Dominican Republic,** exports were down (by 10%) for the second year running as the result of a further decrease in external sales of ferronickel and, to a lesser degree, of other traditional exports. Meanwhile, the serious political problems which arose in **Haiti** during the second half of the year caused the value of its exports to slide (-10%) once again (see table VII-2).

b) **Imports**

The value of Latin American and Caribbean merchandise imports climbed by 19% to over US$111 billion. This expansion, which carried the region's accelerating growth trend into its second year, was almost entirely the result of an increase in volume, since the average unit value of imports was virtually unchanged. Although the upswing was quite widespread among the region's countries, almost all of the US$17.5 billion increase was accounted for by just four countries: Mexico (US$7.9 billion), Venezuela (US$3.6 billion), Argentina (US$3.7 billion) and Panama (US$1.2 billion, mainly from re-exports). In contrast, imports declined by US$550 million in Colombia, by US$150 million in Costa Rica and by smaller percentages in Haiti, Honduras and the Dominican Republic (see table VII-3).

For the oil-exporting countries as a group, imports swelled by 27%, from US$48 billion to nearly US$60 billion. Although unit values rose by almost 5%, the bulk of the increase was attributable to an expansion of import volumes. In **Venezuela,** imports soared by 56% to US$10.2 billion mainly because domestic demand strengthened notably as the process of drawing down stocks ran its course and the real exchange rate moved lower. Another factor was the trade liberalization programme launched in

1989, which entered into its third stage in May 1991 with a reduction of the tariff ceiling from 50% to 40%. In **Mexico,** the steady rise in imports continued (22%) in response to the reactivation of production and investment. In fact, inputs and capital goods were the fastest-growing categories of imports, while the growth rate for consumer goods slowed to just 10% in comparison to an average rate of nearly 90% during the three preceding years. **Peru's** imports were up by 22% as a reflection of the country's effort to open up its economy to external trade, along with its low real exchange rate, but their expansion was somewhat dampened by a restrictive policy on government spending which lowered public-sector imports by 12%. **Ecuador's** imports also rose steeply (29%) thanks to its trade liberalization programme and the growth of domestic demand, which stimulated imports of both capital and consumer goods. In November, the country's tariff reform programme moved into its second stage, which entailed setting the tariff floorat 5% and the tariff ceiling at 35% and adopting a series of measures designed to phase out quantitative restrictions. In **Bolivia,** the sharp rise in the value of imports (about 30%) was led by capital goods and raw materials, which reflected the strong recovery being made by investment and economic activity as a whole. In contrast, **Colombia's** imports diminished by almost 11% owing to a slackening growth rate and a drop in investment, as well as to the uncertainty sparked by the Government's plans to step up the pace of the country's tariff reduction programme, which caused many importers to postpone their purchases until these plans were implemented (see table VII-3).

Among the non-oil-exporting countries of South America, merchandise imports expanded by 14% from US$34 billion to US$39 billion, even though unit values declined. A considerable share of that increase was due to the fact that **Argentina's** imports doubled in value from US$3.7 billion to US$7.4 billion thanks to an upturn in demand, the implementation of trade liberalization measures and the erosion of the real exchange rate as capital inflows swelled the supply of foreign exchange. The changes made in the trade regime included a reduction in the number of tariff lines for imports, the lowering of the tariff ceiling (except for a few types of goods subject to special provisions) to 22%, and the elimination of the quantitative restrictions and specific duties that had been applied to some products. The upsurge in imports was reflected in all product categories; imports of consumer goods quadrupled in value while capital goods jumped from the extremely low level of US$600 million to US$1.5 billion, which was much the same level as the high 1981-1982 average. **Paraguay** and **Uruguay** saw their imports rise substantially as well (by 14% and 22%, respectively). This was primarily due to the decline in their real exchange rates, which, in the case of Paraguay, mainly stimulated imports of consumer goods. In **Brazil,** on the other hand, the value of imports held fairly steady (moving up by less then 2%) since their average unit value slipped by 7% and their volume expanded by 9%. Oil imports fell as international prices weakened, but non-oil imports rose by around 10% owing to purchases of farm produce to cover the drop in domestic production of some goods and to the more open trade policy launched the year before. In **Chile** an increase in volume was reflected in an expansion of less than 5% in imports. This low rate is accounted for by the flat growth of imports of capital goods and by the delayed effect of adjustment policies (see table VII-3).

For the Central American and Caribbean countries for which information is available, the total valueof imports roseby 12%, but the figures differed widely from one country to another. **Panama** accounted for the largest portion of the increase, as its purchases (mainly for re-export through the Colón Free Zone) climbed by nearly US$1.2 billion. In **Guatemala** and **El Salvador,** upturns in economic activity and domestic demand boosted imports by 17% and 8%, respectively. In both countries intermediate goods played a particularly important part in these results, along with consumer goods in the case of Guatemala, and capital goods in the case of El Salvador. Imports were also up sharply in N **icaragua,** thanks to the am pie supply of foreign exchange generated by unrequited official transfers and the loans granted in connection with the country's stabilization and structural adjustment programme, as well as by tariff reductions (to a maximum of 20%), the

streamlining of the government service and the nation's exchange policy. **In Costa Rica,** on the other hand, imports slipped by 8% due to some of the adjustment measures applied in order to deal with the country's balance-of-payments problems, such as the levying of a surcharge, the hiking of prior-deposit requirements for import operations and a steeper rate of devaluation, especially during the first half of the year. In **Honduras,** the value of imports remained low (following a decrease the year before) owing to the combined effect of a high exchange rate and lower oil prices. **Panama's** imports, on the other hand, continued to climb briskly (27%) due, in particular, to purchases for re-export through the Colón Free Zone. Imports intended for consumption within the country were also up considerably (13%), however, thanks to the sustained recovery of economic activity and investment. The value of the **Dominican Republic's** imports continued to slide (-4%) as a result of its adjustment policies, which led to drops in GDP and capital formation, and the slum p in oil prices. In **Haiti** imports were down as a consequence of the political problems which have plagued the country during the year (see table VII-3).

c) **Terms of trade and the purchasing power of exports**

The combined impact of a decrease in the unit value of exports and a slight rise in the unit value of imports occasioned a 6% deterioration in the region's terms of trade for 1991. This further decline, when added to earlier downturns (especially those of 1981-1982 and 1985-1986), pushed the terms of trade of Latin America and the Caribbean down to 26% below their 1980 level (see table VII-4).

This downturn was most apparent among the oil-exporting countries, where, largely as a result of the drop in oil prices, the terms of trade slipped by nearly 14%, falling to a point 36% below their 1980 level. Venezuela was one of the hardest-hit countries with a decrease of over 20%. Colombia had a below-average decline (less than 6%), but although the drop was smaller, it constitutes the continuation of a trend which began back in 1987.

In contrast, the terms of trade for the South American non-oil-exporting countries as a group showed a 4% improvement, although this was still 13% below the 1980 figure. Brazil's terms of trade jumped by 9%, largely as a result of the price decline for oil, which accounts for a large share of the country's imports (see figure VII-3). Chile and Paraguay also saw improvements in their terms of trade (of around 2%) thanks to decreases in their imports' unit values. In Argentina and Uruguay, however, sagging export prices were reflected in a deterioration in their terms of trade of about 2% (see table VII-5).

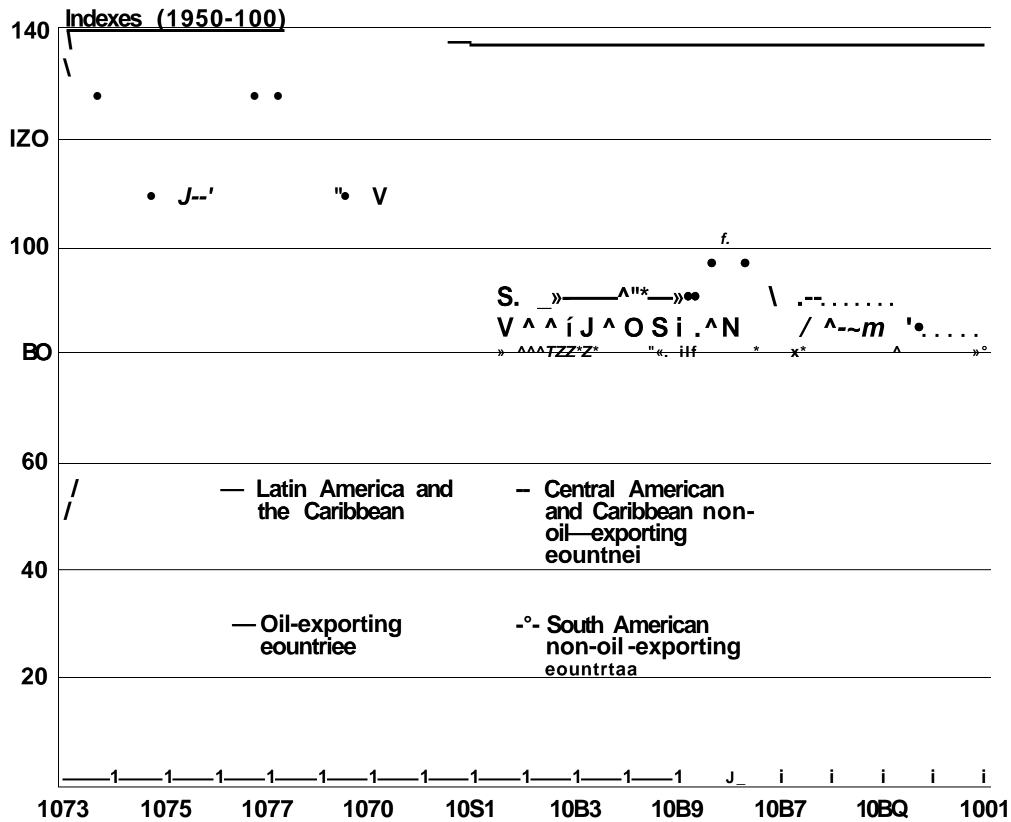
Among the Central American and Caribbean countries, only Honduras and Haiti bettered their terms of trade, with the help of lower oil prices. In Costa Rica and Panama, higher unit values for imports outweighed the slight increase in export prices, while in the remaining countries declines in the unit values of exports caused the terms of trade to take a definite turn for the worse (see table VII-5).

The overall deterioration in the terms of trade eroded the purchasing power of the region's exports by nearly 2%. This figure was the net result, however, of opposing trends in the oil-exporting and non-oil-exporting economies. In the former group of countries, the steep drop in international oil prices pushed down the purchasing power of exports by almost 7%. Venezuela was the hardest-hit economy (-16%) because its non-oil exports represent a much smaller share of total exports than in the rest of the countries, whereas in many of the other countries in this group, the decline in oil prices was partly offset by increases in the purchasing power of non-oil exports. In fact, in Colombia the purchasing power of total exports actually rose by over 4% despite the decrease in the value of the country's hydrocarbon exports.

Among the non-oil exporters, noteworthy performances were turned in by Chile, where the purchasing power of exports climbed by about 9%, and Brazil, where it rose by 8%. The following countries in this group saw considerable declines in this indicator, however: Nicaragua (-23%), Paraguay (-4%), the Dominican Republic (almost-1 l%)and Uruguay (over -6%) (see table VII-8).

Figure VII—3

LATIN AMERICA AND THE CARIBBEAN: TERMS OF TRADE (GOODS)



Source: ECLAC, on the basis of data from the International Monetary Fund (MF).

2. The balance-of-payments current account

With a substantial increase in the valueof imports and virtually no change in that of exports, the surplus on the region's merchandise trade surplus narrowed considerably. Between 1986 and 1989, the trade surplus had grown from US$17.9 billion to US$27.3 billion; then, after leveling off in 1990, it dove to less than US$10 billion in 1991, the lowest level since 1983. This contraction of the region's trade surplus was largely accounted for by decreases of almost US$6 billion in Venezuela's surplus and of US$4.1 billion in Argentina's, together with a US$8 billion increase in Mexico's trade deficit. Ecuador's and Uruguay's surpluses were also down by sizeable amounts, while small surpluses turned into deficits of between US$200 million and US$250 million in Paraguay, Peru and Bolivia. In addition, the deficits of the Central American countries (except Costa Rica), the Dominican Republic, Panama and Haiti deepened. On the other hand, increases were seen in the surpluses of Colombia (US$1 billion) and Chile (US$300 million), and Costa Rica's deficit shrank by 60%. Brazil, for its part, maintained its large surplus of nearly US$11 billion (see table VII-10).

The trade balance for goods and services declined in parallel with the trade balance for goods alone, plummeting from US$23.6 billion to US$4.6 billion. This was attributable to the fact that net payments for non-factor services

continued to climb steeply (from US$4.2 billion to US$5.4 billion) as the larger net amount of the payments made by Argentina, Venezuela and, to a lesser extent, Colombia far outweighed the net inflow of such payments to Mexico and Uruguay and the reduction in the net outflow from Chile (see table VII-10).

In 1991 the region's net payments of profits and interest amounted to US$30.9 billion, which was US$4 billion less than the year before. The lower level of these payments was the result of decreases in the net payments made under this heading by numerous countries. These reductions were as follows: Brazil, US$2 billion; Argentina and Colombia, around US$600 million each; Mexico, US$500 million; Venezuela, US$200 million; and Costa Rica, Ecuador, Panama and Uruguay, between US$26 million and US$110 million each. The net amount of such payments held more or less steady in all the other countries except Nicaragua, Peru and the Dominican Republic, where it rose by US$150 million, US$40 million and US$65 million, respectively (see table VII-11). Because the region's merchandise trade surplus was so much smaller than the year before, it covered only 32% of its net factor payments (as opposed to 83% in 1990).

The lower net level of payments for factor services for the region as a whole was due, in part, to the fact that in most of the countries, bank debt (at floating interest rates in dollars) accounts for a large share of total external obligations (around 55% for the region taken as a whole); consequently, the reduction of approximately two percentage points in the average level of the dollar-denominated LIBOR worked to their advantage. There was also a significant increase in the amount of foreign exchange moving into the region in the form of incoming interest payments, thanks to the substantial expansion of almost all the countries' international reserves over the past two years. However, the net payments of profits and interest made by the various Central American and Caribbean countries (with the exception of Costa Rica) either rose or held steady because the bulk of these countries' external debt carries fixed interest rates, and they therefore derived little benefit from the decline in international interest rates.

Since the region's trade surplus shrank by a substantially greater amount than its payments of profits and interest did, the deficit on current account jumped from US$6.8 billion to US$20.5 billion, thereby reversing the trend of the preceding two years, when a cumulative reduction of US$6.4 billion had been made in the current account deficit (see table VII-11).

The larger deficit on current account was the result of similar trends in most of the Latin American and Caribbean countries. Among the oil exporters, Mexico saw its deficit swell from US$8.4 billion to US$13.7 billion, which represented one-half the value of its merchandise exports. Venezuela's surplus tumbled from US$8.2 billion in 1990 to just US$1.1 billion in 1991. Ecuador's and Peru's deficits also grew, but Colombia enlarged its current account surplus by almost US$2.2 billion. As for the non-oil-exporters as a group, between 1990 and 1991 they saw their deficit on current account climb from US$4.8 billion to US$6,6 billion. This was chiefly a consequence of Argentina's slide from a surplus of US$1.8 billion to a deficit of US$2.7 billion. Paraguay, too, exchanged a small surplus for a US$200 million deficit, while Uruguay's US$200 million surplus practically disappeared. Brazil, on the other hand, managed to lower its deficit from US$3.5 billion to just US$1 billion, and Chile's deficit fell from US$900 million to only US$200 million. In Central America and the Caribbean, the deficit on current account rose slightly, to US$2.6 billion, as a result of divergent trends: a steep drop, on the one hand, in Costa Rica's deficit (US$400 million) and, on the other, an increase in Nicaragua's (US$340 million), combined with a turnaround in Panama, where a small surplus gave way to a US$200 million deficit (see table VII-11).

3. International interest rates

Since the bulk of the region's external assets and liabilities are denominated in United States dollars, the decrease in the 180-day LIBOR for dollar-denominated loans was a significant event. The rate slipped to less than 5% in December 1991 (as opposed to a level of 7.8%

one year earlier), and the average annual rate for 1991 was therefore 6.1%, which was 2.3 points below the 1990 average and one-third lower than the 1989 rate. In fact, the December 1991 level was the lowest since 1965.

This sharp decrease was chiefly due to plummeting short-term interest rates in the United States. Faced with a domestic recession and a marked slowdown in the rate of inflation, the United States Federal Reserve Bank lowered its discount rate on several occasions, bringing it down from 6.5% in late 1990 to just 3.5% in December 1991 (the lowest level since 1964). During the same period, the interbank offer rate (an indicator of the cost of short-term credit) was moving in the same direction, although more slowly, falling from 8.1% to 5.7%. The spread between short-term and long-term rates widened considerably (from 0.5% in late 1990 to 2.2% in December 1991), however, which suggests that there may be a large cyclical component in the movement of the interbank rate (see table VII-15).

Unlike what occurred in the United States, European interbank rates tended to hold steady or even to rise. This was primarily due to the two-point hike in the German Bundesbank's discount rate, which came in response to inflationary pressure associated with the unification of the country. Consequently, the other members of the European Com munity (all of which, with the exception of the United Kingdom, have linked their exchange rates to one another) had little manoeuvering room in which to lower their interest rates even though they were faced with downturns in their domestic economies. In Japan, on the other hand, interest rates moved downward as bankers followed the lead of Japan's central bank, which lowered its discount rate in response to recessionary signals in that country's economy.

4. Capital flows and international reserves

The regional's capital account reflected a net inflow of US$40.9 billion, which was almost double the 1990 figure. While this increase in capital flows was a virtually regionwide phenomenon, in absolute terms it was chiefly accounted for by Mexico and Argentina, whose capital inflows jumped by US$10.2 billion and US$3.4 billion, respectively, by Venezuela, which went from a net outflow of US$4.9 billion to a net inflow of US$2.2 billion, and by Peru, which recorded an increase of US$1.9 billion (see table VII-11). Marked rises were also seen in the capital inflows of Guatemala (US$600 million), Nicaragua (US$500 million), Bolivia, Paraguay and the Dominican Republic (US$350 million each), Costa Rica and Ecuador (US$100 million each), and Honduras and Uruguay (US$25 million each). This expansion was partly offset by declines in Brazil and Chile. In Brazil, the preceding year's net capital inflow of US$4.7 billion shrank to only US$1.2 billion in 1991, while Chile's surplus on capital account dwindled from US$3.3 billion to US$1.4 billion. Capital flows also ebbed in Panama (by US$200 million), El Salvador (US$150 million) and Haiti (US$30 million), and Colombia's US$200 million capital-account surplus of 1990 gave way to a US$600 million deficit.[2]

For the third year in a row, Mexico had an extremely large surplus on capital account (US$22 billion, which was almost double the already large surplus recorded in 1990). The increase was generated by foreign direct investment and portfolio investment (including investments made in connection with the privatization of State firms) as well as financial flows, including capital repatriation. In 1991 approximately US$15 billion of foreign investment flowed into the country; one-third of this was direct investment, while the other two-thirds took the form of investment in the stock market and the purchase of Mexican bonds and other financial instruments. Meanwhile, even though part of Argentina's capital inflows of over US$5 billion were made up of new interest arrears on the external debt and bond placements in the international market, most of the inflow was voluntary short-term financing and much of this, in turn, consisted of repatriated capital. The turnaround in Venezuela's capital

However, unrequited private transfers (entered on the current account of the balance of payments), which include incoming capital, expanded by a similar amount.

account was a reflection of foreign direct investment (primarily in connection with the privatization of the national telephone company), net private-sector short-term borrowing to finance imports, and the more favourable balance of the public sector's short-term flows made possible by a decline in the oil industry's accounts receivable. **Peru's** net capital inflow of US$3.8 billion represented the accounting entries for interest arrears on the external debt and, especially, capital repatriation in response to sweeping changes in the country's economic policy, high domestic interest rates and the ploughing back of profits by private businesses. In **Chile,** net capital inflows remained high (US$1.4 billion) but were lower than the year before owing to the amortization of a portion of the external debt by public-sector bodies, the narrowing of the spread between the rate of return on domestic deposits and external interest rates, and a deliberate move to discourage the entry of short-term capital. In **Brazil,** capital inflows slackened off considerably despite an increase in interest arrears on the country's international bank debt and the entry of voluntary capital in the form of bonds and other foreign portfolio investments. This was due to the fact that during 1991 some arrears from earlier years were settled and short-term capital flows were down sharply.

Since the net inflow of capital was almost double the size of the deficit on current account, the region's overall balance of payments yielded a surplus of US$20.4 billion, which was 32% higher than the year before. As a result, almost all the countries' international reserves climbed substantially. The largest increase was clearly in Mexico: US$8.1 billion. Strong growth was also seen in the reserves of Venezuela (US$3.3 billion), Argentina (US$2.4 billion), Colombia (US$2 billion), Peru (US$1.3 billion), Chile (US$1.2 billion), Guatemala (US$600 million), the Dominican Republic (US$400 million), Costa Rica and Paraguay (US$300 million each) and Uruguay and Ecuador (US$150 million each), while Brazil's grew by a meagre US$200 million. Only one country -Panama- recorded a sizeable decrease in reserves (where they were down by US$120 million) (see table VII-11).

5. **Net transfer** of **resources**

The region's net transfer of financial resources moved from a net outward flow of US$13 billion in 1990 to a net inward flow of nearly US$10 billion in 1991. This turnaround, which put the region in the black for the first time since 1981, represented a shift equivalent to US$23 billion and to 16% of the value of the region's exports of goods and services (see table VII-13). Nevertheless, this reversal of the trend was actually brought about by just a few countries. Almost one-half of the above amount was accounted for by the increase in the transfers received by Mexico, which climbed from US$3.7 billion to nearly US$15 billion. Another 30% was generated by the about-face in Venezuela's net transfers, whichjumped from minusUS$6billion to a positive level of over US$1 billion, and 17% by Argentina, which reduced its outward transfer by US$4 billion. Be that as it may, the favourable trend in such transfers was quite widespread; in fact, only five countries in the region -Brazil, Chile, Colombia, El Salvador and Haiti- saw this trend move against them in 1991 (see table VII-14).

This sharp turnabout in the net transfer of resources was primarily a result of the region's increased capital inflows and, secondarily, of the decline in the outflow of interest and profits. Measured in terms of exports, this was mainly accounted for by the oil-exporting countries, whose net resource transfers did an about-face from one year to the next, shifting from 6% of the value of exports and services to 22%, which was the first time that this indicator had reached a positive level since the outbreak of the debt crisis. The net transfer of the non-oil-exporting countries as a group, on the other hand, did not change direction owing to the enormous impact of Brazil's negative transfer. If Brazil is excluded from the calculations, however, then it may be seen that the other non-oil-exporters did indeed have a net inflow of resources equivalent to 5% of their exports. The results for the Central American and Caribbean countries -which have traditionally been recipients of net transfers from abroad- were particularly favourable. Unlike the situation in 1990, when the reduction in the region's outward transfer was chiefly a reflection

of a large increase in interest arrears on the debt, in 1991 the improved position of most of the countries in the region was principally due to inflows of voluntary non-debt-related capital, primarily foreign investment and financial placements. It should be noted, however, that a sizeable portion of this flow is made up of short-term capital, which could change direction at any time (see table VII-14 and figure VII-4).

This turnaround also paved the way for a significant increase (about 20%) in the region's import capacity. This was the third consecutive annual rise in this indicator but, unlike the preceding year, in 1991 the improvement was entirely due to the reversal of direction in net transfers, since the purchasing power of the region's exports faltered slightly (with the further deterioration in the region's terms of trade outweighing the slight increase in export volumes) whereas it had grown by somewhat more than 5% in 1990 (see figure VII-5). This raised the region's import capacity almost all the way back up to the real levels it had attained in the early 1980s. Import capacity had weakened during much of the 1980s because the transfer of real resources implicit in the region's deteriorating terms of trade and its net transfer of financial resources abroad had more than offset the steep rise in export volumes witnessed between 1980 and 1992.

6. Import trade reforms

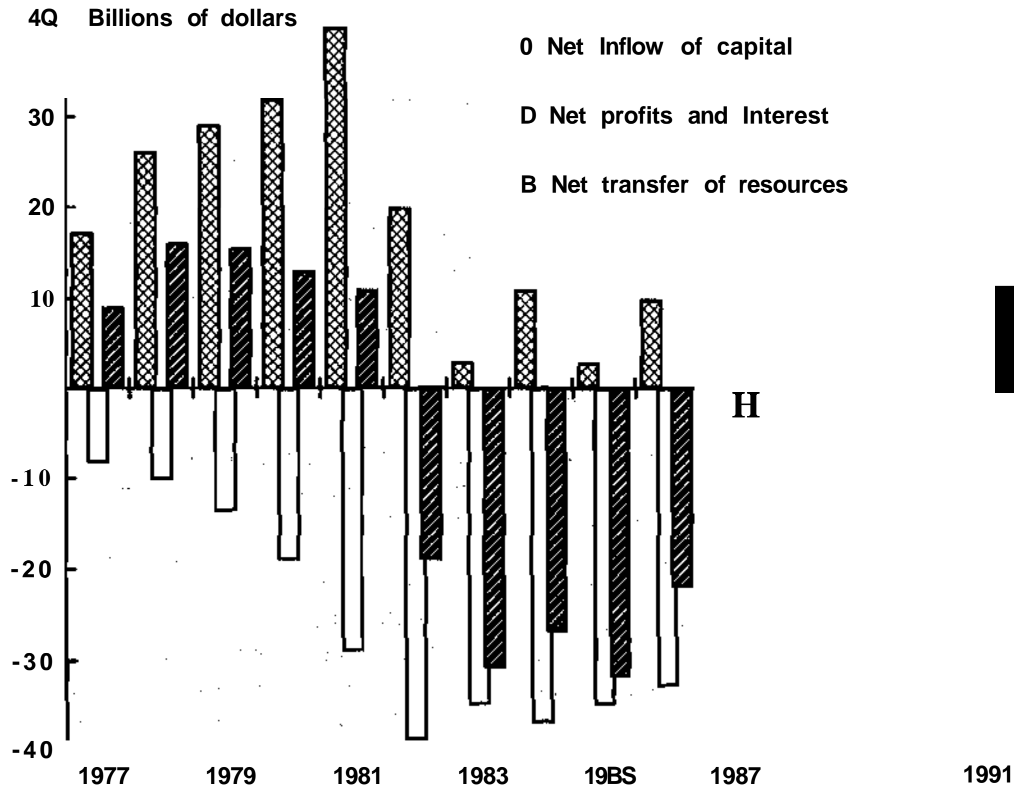
The move to open up the region's economies to imports gained considerable momentum irr 1991. Many Latin American and Caribbean Governments took meaningful steps towards carrying forward reforms -some of which had been instituted in past years- in their import trade regimes. In Argentina, whose trade policy has been oriented towards greater liberalization of the economy since 1990, efforts were primarily aimed at lowering the average level of tariffs and reducing the tariff spread. In addition, late in the year the authorities had announced that in order to facilitate imports, the system of "sworn import statements" (which were a type of permit application) would be replaced by an import registry that was to be maintained for statistical purposes. During 1991 the reform process was consolidated and import tariffs were established for only four categories of products: 0% on raw materials and machinery, 11% on intermediate goods, 22% on most consumer goods, and 35% on just a few types of consumer goods, such as electronic equipment. These levels were later adjusted to reduce the spread (5%, 13% and 22%, respectively). In addition, quantitative restrictions were eliminated. A major exception to the above, however, was made in the form of the establishment of a special regime applying to the importation of motor vehicles.

In July 1986 Bolivia had streamlined its tariff system and set a uniform tariff of 20%. Early in 1988, the tariff on capital goods was lowered to 10%, and late in the same year, the 20% rate, which had remained in place for all other goods, was lowered to 17%. In 1990, tariffs were reduced once again, to 5% for capital goods and to 10% for all other products. These rates have remained in effect since that time.

In 1988 Brazil undertook to streamline its tariff structure, but since quasi-tariff restrictions were not changed, this tariff rationalization effort had little effect on the overall level of protection. In 1990, however, the Government embarked upon a new and much more sweeping programme to reform the import trade regime. It eliminated most administrative controls on imports and announced a tariff reduction schedule designed to lower the average tariff to 17% by 1994. Some products, especially ones needed to modernize the country's industry and ones which do not represent a major source of competition in the domestic economy, may be eligible for special tariff reductions or waivers. In the case of computer equipment, the Government limited the number of protected products. In February 1991, a new schedule for cutting import tariffs was unveiled. During the first year of the new schedule's implementation, the most frequently-applied tariff was reduced from 40% to 20% and the average 1990 tariff level of 32% was brought down to 25%. If the authorities continue to pursue this programme as it now stands, by 1994 the average tariff will have been lowered to 14%. Moreover, the tariffs on imports of machinery and equipment not produced in the country -which applied to over 2,000 tariff items- were eliminated in July.

Figure Vil—+

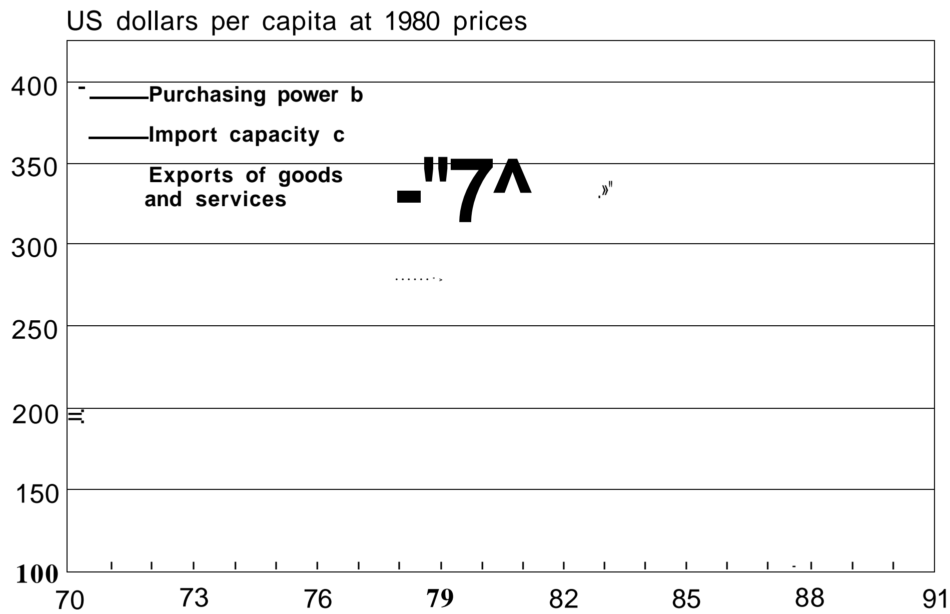
LATIN AMERICA AND THE CARIBBEAN: NET INFLOW OF CAPITAL AND NET TRANSFER OF RESOURCES



Source: ECLAC, on the basis of data from the International Monetary Fund (IMF).

Colombia made a great deal of headway in the area of import liberalization during 1990. Unlike earlier programmes, the liberalization plan which was made public in February clearly defined the various stages of the process to be used for reducing import barriers. This programme was explicitly based on a gradual approach, but a number of different events soon prompted the authorities to speed up the trade liberalization process. By means of a series of reforms applied during the course of 1990, tariff levels and the tariff spread were significantly reduced; in November permit requirements were eliminated for almost all types of products, and late in the year the tariff reduction schedule was defined. The reduction of average tariff levels and the narrowing of their spread lowered the weighted average from 44% to 34%. This tariff-cutting programme, which has been designed for implementation over a four-year period, will ultimately result in an average tariff of 14%, with five rates: 0%, 5%, 10%, 15% and 50%, plus an 8% surcharge. In 1991, demand for imports was weak because the uncertainty generated by the successive modifications made in the tariff reduction schedule caused economic agents to defer their purchases. Consequently, the Government decided to consolidate the reductions which had been scheduled for gradual implementation between 1991 and 1994 and to apply them at a single stroke. A four-tiered structure was established (0%, 5%, 10% and 15%) with the exception of a 75% tariff on private motor vehicles and lower rates for other types of

Figure VII-5
LATIN AMERICA AND THE CARIBBEAN*
FORMATION OF IMPORT CAPACITY



OIL-EXPORTING COUNTRIES d

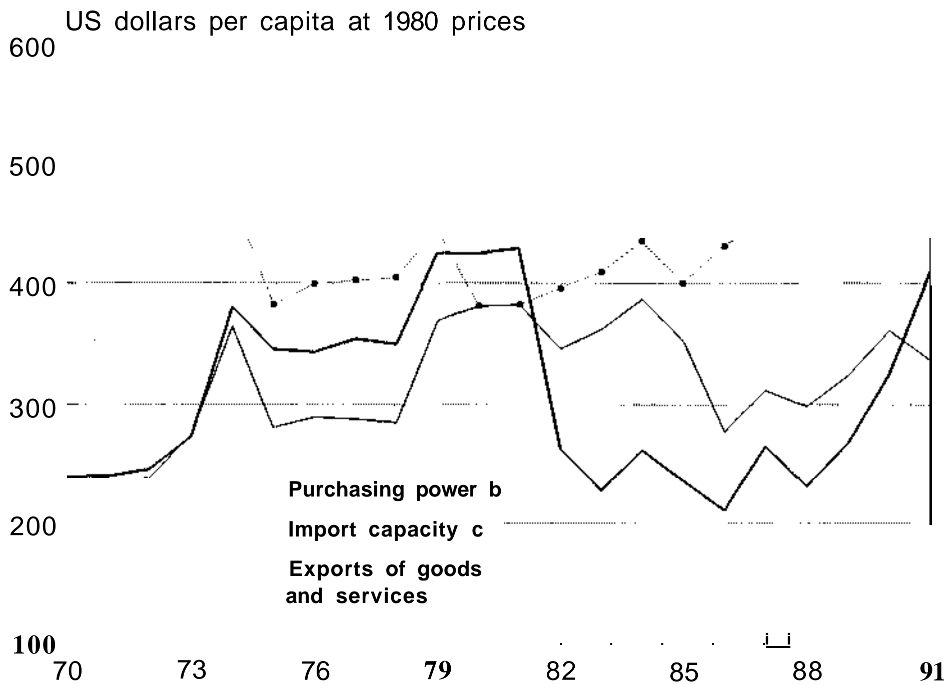
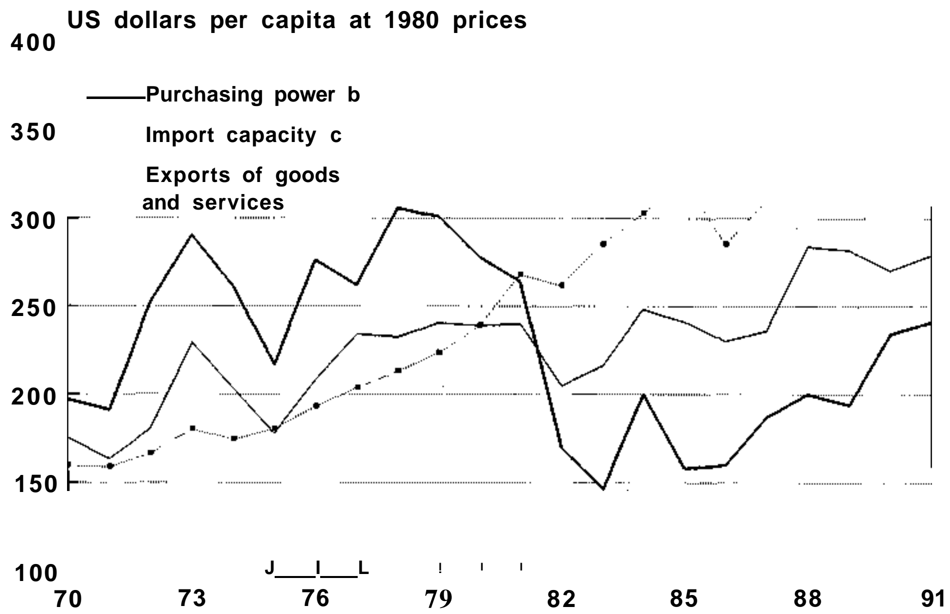
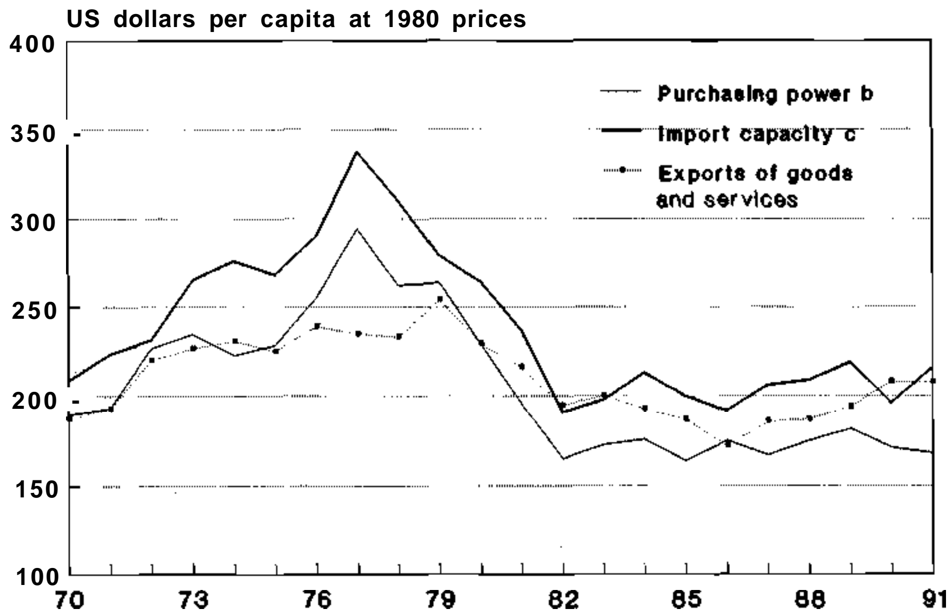


Figure VII-5 (concluded)
SOUTH AMERICAN NON-OIL-EXPORTING COUNTRIES e



CENTRAL AMERICAN AND CARIBBEAN NON-OIL-EXPORTING COUNTRIES f



Source: ECLAC, on the basis of official figures and data from the International Monetary Fund (IMF).
a 17 countries. b Purchasing power of exports of goods and services. c Equivalent to the purchasing power of exports (including the terms-of-trade effect) plus net transfers of resources. d Bolivia, Colombia (since1980), Ecuador, Mexico, Peru and Venezuela. e Argentina, Brazil, Chile, Colombia (up to 1979), Paraguay and Uruguay. f Costa Rica, the Dominican Republic, El Salvador, Guatemala, Haiti, Honduras and Nicaragua.

motor vehicles. In addition, the 10% surcharge -which had been as high as 13% in the past- was lowered to 8%.

In July 1988, **Costa Rica** made further progress in implementing the import liberalization programme it had launched in 1985. It set out a schedule of graduated tariff reductions that would lower the tariff ceiling to 40% within three years' time, except in the cases of textiles, wearing apparel and footwear, for which a deadline of five years was established. Prior-deposit requirements for imports were eliminated in 1990, but were reinstated in December of that year when the country's rapid loss of international reserves made it necessary for the authorities to take emergency measures.

In 1974 **Chile** embarked upon a sweeping trade reform programme under which, within a little over five years, it established a uniform 10% tariff for all imports and eliminated virtually all non-tariff barriers. Then, faced with a balance-of-payments crisis which had its origins in the 1982 recession, it raised the tariff to 20% in March 1983 and to 35% in September 1984, as well as establishing countervailing surcharges on items classified as vulnerable to dumping. A mechanism was also created for offsetting external price fluctuations for three major agricultural products (wheat, sugar and oilseeds). As the external situation returned to normal, the uniform tariff was lowered to 30% in March 1985, to 20% three months later, and then to 15% in January 1988. Surcharges on imported automobiles were eliminated at the same time. Finally, around mid-1991 the tariff was lowered to 11%.

In May 1990 **Ecuador** made major changes in its trade regime which narrowed the range of tariffs from 0%-290% to 5%-60%. In November 1991 it launched a second phase of the programme under which the top rate was lowered from 60% to 35% except for automobiles, and the surcharges which had been levied for monetary stabilization purposes were discontinued.

In an effort to discourage unregistered imports (which had risen to a significant level) and boost government revenue, in 1988 **El Salvador** took a series of steps towards the gradual liberalization of its import trade. When a new administration took office the following year, this process picked up speed. In 1990, the move to open up the economy, which had begun the year before, was carried forward with the reduction of the tariff ceiling to 35%. In June 1991 this ceiling was lowered again, to 30%, except for some textiles and footwear. This had the effect of reducing the rates applying to consumer goods in particular.

In March 1990, **Guatemala** lowered the tariffs applying to most products and set just six tariff levels, ranging from a minimum of 2% to a maximum of 37%, with a 4% surcharge. As a result of these measures, the average tariff on manufactures dropped from 26% in 1987 to 20% in 1990. However, the tariff structure was such as to maintain a relatively high level of protection for consumer goods (26%) as compared to intermediate goods (15%) and capital goods (19%). In 1991 further headway was made in implementing the liberalization programme with the elimination of various import permit requirements.

In **Honduras,** substantial changes were made in the Government's trade policy during 1990. In addition to a steep devaluation of the currency (whose exchange rate had been fixed for the past 30 years), many tariff waivers and exemptions were eliminated, tariff levels and the tariff spread were reduced, and a number of specific import duties were converted into value-based rates. This graduated tariff reduction process was carried forward in 1991 as rates were lowered to a range of 4%-35%. Administrative import permits were also replaced by a statistical registry.

When a new administration took office in **Nicaragua** in 1990, drastic economic reforms were undertaken which, *inter alia,* paved the way for the liberalization of imports.

Most of the measures called for by Mexico's trade liberalization programme were adopted between July 1985 and December 1987. The first step in this process was the elimination -in July 1985- of import-permit requirements for almost all intermediate and many capital goods, although the Government restored some of the protection thus lost by raising the tariffs on half of the affected items and, later on, temporarily broadened the coverage of official import prices. These measures were accompanied by a 20% increase in the nominal exchange rate on the regulated exchange market, and from that point

on until late 1986, the sliding parity scale was kept above the level of inflation. In 1986 the 100% tariff rate was eliminated and a tariff-reduction timetable was established. In addition, the Government began to dismantle the official price structure and continued to elim inate im port-permit requirements during 1986 and 1987. The final major step was taken in December 1987 when, as part of the stabilization programme known as the "Economic Solidarity Pact", a more ambitious tariff reduction effort was undertaken and a five-level scale, from 0% to 20%, was established. Since that time, minor adjustments have been made in the tariff structure and some quantitative controls have been abolished.

The new administration that took office in **Peru** in July 1990 embarked upon an effort to liberalize its import trade regime as part of a broader structural adjustment programme. The number of import items on the prohibited list was cut from 539 to 25, and the import-permit requirement was eliminated. In September, the tariff structure was overhauled and just three rates (15%, 25% and 50%) were set, along with a surcharge applying to the upper two rates; this surcharge was done away with in November, however. All import bans were lifted, as well as a number of specific import duties. These modifications brought the average tariff down from 66% to 26%. In March 1991, the timetable was changed to speed up the pace of tariff reductions; rather than taking five years to arrive at a uniform tariff of 15%, as previously planned, two levels -15% and 25%- were set, thereby lowering the effective protection on automobiles from 65% to 15%. Furthermore, permit and other administrative requirements pertaining to imports were discontinued.

Uruguay began to open up its economy to foreign trade in 1974 by liberalizing its balance-of-payments capital account and consolidating its exchange rates. In 1975 import quotas were abolished and a tariff-cutting process was begun in which the first step was the elimination of the "water" in existing tariffs. Requirements regarding the terms of import credits and prior deposits were replaced with a minimum surcharge. In 1980 a new tariff reduction process was initiated, but this time it was a programmatic effort involving a simpler tariff structure; the objective was to arrive at a single tariff rate of 35% by 1985. At the start of this phase, the tariff ceiling was 116%. In the ensuing years, the tariff spread and levels were reduced, although the authorities did not keep to the 1980 timetable. In June 1989 tariffs were lowered further, to a range of between 10% and 40%. An across-the-board tariff increase of 5% was instituted in June 1985 and again in April 1990, for fiscal reasons on both occasions. The tariff structure was narrowed to four levels in 1990 and then, in September 1991, to just three (10%, 20% and 30%). As a result of this process, the average tariff (asimple average, not including exemptions) declined from 53% as of late 1979 to 20% in September 1991.

In 1989, the newly-elected administration in **Venezuela** put an end to the existing system of differentiated exchange rates and started up a broad-ranging tariff reform programme. Under this programme, volume-based rates were converted into *ad valorem* rates, most non-tariff barriers were dismantled, and the tariff ceiling was lowered from 135% to 80% for finished goods and to 50% for capital goods, intermediate products and raw materials. In 1990, the second stage of this programme was carried out, which involved reducing the tariff ceiling from 80% to 50% and limiting the number of tariff brackets to five. This stage also marked the beginning of the liberalization of trade in agricultural products, starting with the elimination of quantitative restrictions. In 1991, the third stage of the programme was implemented with the reduction of the tariff ceiling for manufactures and agricultural goods from 50% to 40%, which brought the (unweighted) average tariff to 15% (it had been 37% in 1988 and 17% in 1990). The import bans on 120 luxury items were also eliminated, thereby reducing the coverage of quasi-tariff barriers to just 2% of the tariff universe (as compared with 38% in 1988 and 5% in 1990). The liberalization programme for the motor vehicle sector was speeded up as well, with tariffs being set at 25% for small-engine passenger cars and 40% for higher-priced models; consumers were also permitted to import models other than those assembled in the country.

Table VIM

LATIN AMERICA AND THE CARIBBEAN: VARIATIONS IN EXPORTS AND IMPORTS OF GOODS

{Growth rates)

	Exports			Imports		
	Value	Volume	Unit value	Value	Volume	Unit value
			Latin America and the Caribbean			
1981	8.4	9.2	-0.7	8.0	2.7	5,1
1982	-8.9	1.5	-10.3	-19.8	-18.6	-1.4
1983	0.1	8.6	-7.9	-28.5	-21.5	-9.0
1984	11.5	8.9	2.6	3.9	**7.9**	-3:7
1985	-5.8	**-0.2**	-5.7	0.2	1.3	-1:1
1986	-15.7	**-0.9**	-14.9	2.5	7.3	-4.3
1987	14.4	8.8	5 2	12.7	6.1	6.1
1988	13.9	8.9	4.6	13.9	8.7	4.7
1989	9.9	3.8	5.8	9.3	4.4	4.7
1990	9.6	5.6	3,9	12.2	7.6	4.2
1991[a]	-0.3	4.3	-4.5	18.7	17.0	1.5
			Oil-exporting countries			
1981	8.7	5.0	3.5	19.6	14.7	*'42*
1982	-5.6	5.4	-10.4	-16.8	-16.0	-1.0
1983	-2.4	7.0	-8.8	-39.5	**-30.7**	-12.7
1984	10.6	10.0	0.5	10.8	13.3	-2.2
1985	-9.3	**-6.7**	**-2.7**	6.1	**7.0**	-0.9
1986	-23.7	8.1	-29.5	-2.6	**-0.7**	-1.8
1987	19.3	6.5	12.2	11.7	8.0	3.4
1988	-1.3	6.1	**-6.9**	31.5	23.5	6.5
1989	16.8	4.0	12.3	3.8	**-0.4**	4.2
1990	20.2	7.5	11.7	15.0	9.6	4.8
1991[a]	-2.4	8.0	**-9.7**	23.5	**18.0**	4.8
			South American non-oil-exporting countries[0]			
1981	10.4	17.1	-5:7	-1.9	-7.3	5.8
1982	-12.5	**-2.4**	-10:4	-24.8	-23.8	-1.1
1983	5.7	13.8	-7.1	-20.1	-15.2	-5.9
1984	14.3	9.1	4.7	-4.2	2.3	-6.2
1985	-2.2	7.5	-9.1	-7.6	-5.4	-2.5
1986	-10.4	**-9.8**	-0,7	10.7	21.4	-8.7
1987	12.8	12.1	0.7	13.7	3.4	9.9
1988	32.0	14.0	15,8	0.3	-3.7	4.1
1989	4.9	**3.6**	1.4	-16.2	10.3	5,4
1990	0.8	3.1	-2.4	10.7	6.5	3.9
1991[a]	0.5	**-0.3**	0.7	14.2	18.2	-3.4
			Central American and Caribbean non-oil-exporting countries			
1981	-0.9	0.1	-1.0	1.4	-4.8	6.5
1982	-13.2	**-3.3**	-10.2	-15.1	-10.8	-4.8
1983	-9.4	**-6.9**	-2.7	-7.8	-2.5	-5.4
1984	4.2	**-1.2**	5.4	7.4	7.6	-0.2
1985	-1.0	2.0	-3.0	2.2	-0.3	2.5
1986	9.3	**-6.6**	17.2	-0.8	-0.8	-
1987	-1.5	7.2	-8.1	13.1	8.2	4.6
1988	2.3	**-3.2**	5.7	-4.3	-6.3	2.1
1989	6.3	3.8	2.4	13.5	9.4	3.7
1990	7.0	8.6	-1.5	6.2	2.6	3.2
1991[a]	9.7	5.8	3.6	12.1	8.7	3.1

Source: ECLAC, on the basis of data provided by the International Monetary Fund (IMF) and nationa sources.

[a] Preliminary figures. Includes Bolivia, Colombia Ecuador, Mexico, Peru and Venezuela. [c] Includes Argentina, Brazil, Chile, Paraguay and Uruguay. Includes Costa Rica, the Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Nicaragua and Panama.

Table **VII-2**

LATIN AMERICA AND THE CARIBBEAN: EXPORTS OF GOODS FOB

(Indexes: 1980 = 100 and growth rates)

	Value				Unit value				Volume			
	Index	Growth rates			Index	Growth rates			Index	Growth rates		
	1991[a]	1989	1990	1991[a]	1991[a]	1989	1990	1991[a]	1991[a]	1989	1990	1991[a]
Latin America and the Caribbean	137	**9.9**	**9.6**	•03	**78**	**5.8**	3.9	-4.5	**175**	3.7	**5.6**	**4.3**
Oil-exporting countries	**124**	**16.8**	**20.2**	-2.4	**69**	**123**	**11.7**	-9.7	**179**	**4.0**	**7.5**	**8.0**
Bolivia	81	33.4	14.8	-8.5	72	10.7	-4.9	-10.5	112	20.5	20.8	2.3
Colombia	190	12.9	17.8	6.6	85	1.1	-1.0	-3.4	224	11.6	19.0	10.3
Ecuador	113	6.9	15.3	5.0	59	8.7	9.6	-4.7	192	-1.6	5.2	10.2
Mexico	175	11.1	17.5	1.0	69	9.1	12.8	-7.4	254	1.8	4.2	9.1
Peru	84	31.3	-7.3	0.9	94	1.8	-2.6	-	90	29.0	-4.8	0.9
Venezuela	79	28.1	34.8	-13.1	62	24.8	21.2	-18.3	129	2.6	11.3	6.3
Non-oil-exporting countries	**151**	**5.1**	**1.4**	**1.7**	**88**	**1.4**	-2.1	**1.2**	**171**	3.6	3.7	**0.4**
South America	**163**	**4.9**	**0.8**	**0.5**	**86**	**1.4**	-2.4	**0.7**	**187**	3.6	3.1	-03
Argentina	149	4.8	29.1	-3.1	77	8.2	-4.0	-2.0	194	-3.1	34.5	-1.1
Brazil	157	1.8	-8.6	0.7	88	-1.4	-1.3	2.1	179	3.2	-7.4	-1.4
Chile	190	14.6	2.8	7.4	90	1.8	-1.9	0.2	210	12.6	4.8	7.2
Paraguay	323	33.9	19.4	-7.0	102	4.1	-2.9	-1.1	318	28.6	22.9	-6.0
Uruguay	152	13.8	5.9	-5.2	100	7.3	-3.7	-0.8	152	6.1	10.0	-4.4
Central America and the Caribbean	**111**	6.3	**7.0**	**9.7**	**105**	**2.4**	-1.5	3.6	**105**	3.8	**8.6**	**5.8**
Costa Rica	149	12.9	2.4	8.9	81	-0.9	-5.2	4.8	184	13.9	8.0	3.9
El Salvador	56	-8.7	4.3	3.2	76	4.4	-28.0	1.8	74	-12.5	44.9	1.4
Guatemala	81	4.9	7.5	2.0	84	-1.6	-2.9	-2.5	97	6.6	10.8	4.5
Haiti	58	-17.8	-6.3	-10.1	93	-7.0	-3.0	1.6	62	-11.6	-3.4	-11.5
Honduras	95	1.0	-4.0	-4.7	96	-2.6	-3.2	-0.1	99	3.6	-0.8	-4.6
Nicaragua	59	35.2	4.3	-19.3	88	-3.1	-2.9	-3.2	67	39.5	7.4	-16.7
Panama	178	9.4	24.4	26.6	158	7.9	12.4	1.0	113	1.4	10.7	25.3
Dominican Republic	68	3.9	-20.5	-10.4	81	9.9	-14.7	-3.7	84	-5.5	-6.8	-7.0

Source: ECLAC, on the basis of data provided by the International Monetary Fund (IMF) and national sources.

* Preliminary figures.

Table **VII-3**

LATIN AMERICA AND THE CARIBBEAN: IMPORTS OF GOODS FOB

(Indexes.1980 = 100 and growth rates)

	Value				Unit value				Volume			
	Index	Growth rates			Index	Growth rates			Index	Growth rates		
	1991[a]	1989	1990	1991°	1991[a]	1989	1990	1991[a]	1991[a]	1989	1990	1991[a]
Latin America and the Caribbean	**123**	***93***	**12.2**	**18.7**	**106**	**4.7**	**4.2**	**1.5**	**117**	**4.4**	**7.6**	**17.0**
Oil-exporting countries	**149**	**3.8**	**15.0**	**23.5**	**108**	**4.2**	**4.8**	**4.8**	**138**	-0.4	**9.6**	**18.0**
Bolivia	140	23.5	6.3	29.8	111	10.4	-2.5	9.9	158	11.9	9.0	18.1
Colombia	106	0.9	11.7	-10.9	110	5.6	5.6	2.3	97	-4.5	5.7	-12.9
Ecuador	98	6.9	1.1	29.0	97	4.7	0.6	7.3	102	2.2	0.5	20.2
Mexico	202	34.6	22.9	22.1	109	3.2	5.3	5.0	186	30.5	16.7	16.3
Peru	114	-17.9	25.9	21.8	126	7.3	13.0	9.6	90	-23.5	11.4	11.1
Venezuela	94	-39.7	-10.2	55.6	102	3.9	0.5	4.2	92	-42.0	-10.6	49.3
Non-oil-exporting countries	**103**	**15.5**	**9.4**	**13.6**	**103**	**5.0**	**3.6**	-2.0	**100**	**10.0**	**5.5**	**15.9**
South America	**97**	**16.2**	**10.7**	**14.2**	**100**	**5.4**	**3.9**	-3.4	**97**	**10.3**	**6.5**	**18.2**
Argentina	79	-21.0	-3.6	99.4	114	6.1	-4.1	-0.3	69	-25.5	0.5	100.1
Brazil	92	25.0	13.1	1.7	96	7.4	4.8	-6.7	95	16.4	8.0	9.0
Chile	134	34.5	8.2	4.5	103	6.0	7.9	-1.3	130	27.0	0.3	5.9
Paraguay	230	-2.8	35.2	14.5	76	-1.5	-0.3	-3.5	300	-1.3	35.5	18.6
Uruguay	93	2.2	11.5	21.9	101	6.8	7.7	1.4	92	-4.3	3.6	20.2
Central America and the Caribbean	**126**	**13.5**	**6.2**	**12.1**	**116**	**3.7**	**3.2**	**3.1**	**109**	**9.4**	**2.6**	**8.7**
Costa Rica	122	22.9	16.6	-8.4	111	4.1	8.2	5.6	110	18.1	7.8	-13.3
El Salvador	134	26.2	-9.0	8.1	139	20.4	-15.6	5.9	96	4.9	7.7	2.0
Guatemala	113	5.0	-3.8	16.5	102	-3.2	5.3	3.4	110	8.5	-8.7	12.7
Haiti	69	-8.7	-13.3	-2.1	106	2.2	5.2	-3.8	65	-10.6	-17.6	1.7
Honduras	91	-3.0	3.1	-0.7	94	-4.8	4.8	-6.2	96	1.9	-1.7	5.9
Nicaragua	86	-23.8	4.1	20.8	99	-7.1	5.0	6.6	87	-17.9	-0.9	13.3
Panama	166	21.8	23.3	31.0	128	5.1	2.1	2.4	130	16.0	20.8	27.9
Dominican Republic	156	22.1	-8.7	-3.6	111	4.7	5.0	-0.3	103	16.7	-13.0	-3.3

Source: ECLAC, on the basis of data provided by the International Monetary Fund (IMF) and national sources.

* Preliminary figures.

Table VII-4
LATIN AMERICA AND THE CARIBBEAN: TERMS OF TRADE
IN GOODS (FOB/FOB)
(Indexes; ,1980 = 100 andgrowth rates)

	Latin America and the Caribbean		Oil-exporting countries [a]		Non-oil-exporting countries			
					South America		Central America and the Caribbean [c]	
	Index	Variation	Index	Variation	Index	Variation	Index	Variation
1980	100.0	3.3	100.0	,, 20.2	100.0	-11.3	100.0	5.8
1981	94.5	-5.5	99.3	-0.7	89.1	-10.9	92.9	-7.1
1982	86.0	-9.0	89.7	'.';• -9_7"	80.8	-9.3	87.6	-5!7
1983	87.1	1.3	93.7	4.5	79.7	-1.4	90.2	3.0
1984	92.7"	6.4	96.4	2.9	89.1	11.8	95.3	5.7
1985	88.4	'46 ;	94.5	; -2 0	; 83.0 ;	-6.8	90.2	-5.4
1986	• 78.8	-10.9	68.0	-28.0	90.3	8.8	105.7	¡17.2
1987	78.0	-1.0	73.7	" 8.4	82.8	-8.3	92.9	-12.1
1988	77.9	r -01	64.4	-12.6 ,	92.1 ,	11.2	: 96.1	'"'.3:4.
1989	78.8	!• 1-2 . ;	69.4	7.8	88.4 .	-4.0	94.9	^ -1.2
1990	78.5	-0.4	740	6.6	83.1	-6.0	90.5	-4.6
1991 [d]	73.9	-5.9	63.9	' -13.6	86.7	4.3	91.1	0.7

Source: BCLAC, on the basis of data provided by the. International Monetary Fund (IMF) and national sources.
[a] Includes Bolivia, Colombia, Ecuador, Mexico, Peru and Venezuela.. . Includes Argentina, Brazil, Chile, Paraguay and Uruguay. [c] Includes Costa Rica, El Salvador, Guatemala, Haiti, Honduras, Nicaragua, Panama and lhe Dominican Republic. Preliminary figures.

Table **VII-5**
LATIN AMERICA AND THE CARIBBEAN: TERMS OF TRADE IN GOODS FOB/CIF
(Indexes: 1980 - 100 and growth rates)

	Indexes						Growth rates			
	1986	1987	1988	1989	1990	1991[a]	1988	1989	1990	1991[a]
Latin America and the Caribbean	77	76	76	77	76	72	-0.4	*13*	-0.5	**-5.8**
Oil-exporting countries	**66**	72	**63**	68	72	**62**	**-12.6**	8.2	6.5	**-13.6**
Bolivia	88	85	76	76	74	60	-11.5	0.5	-3.2	-18.1
Colombia	116	90	89	85	80	76	-0.7	-4.0	-6.2	-5.5
Ecuador	70	69	58	61	66	59	-15.8	4.3	8.4	-11.1
Mexico	64	72	62	66	70	62	-13.3	5.6	6.9	-11.7
Peru	78	83	96	92	79	72	16.1	-4.9	-13.7	-9.4
Venezuela	52'	63	51	62	74	59	-18.6	21.3	19.4	-21.2
Non-oil-exporting countries	89	81	89	86	81	84	9.8	-3.4	-5.6	**3.3**
South America	89	81	90	87	81	85	**11.0**	-4.0	-6.0	4.1
Argentina	72	63	66	68	67	66	5C0	2.2	-0.4	-1.8
Brazil	96	86	95	87	82	90	10.9	-8.1	-5.8	9.2
Chile	75	80	96	92	84	85	20.7	-4.4	-8.7	1.5
Paraguay	111	111	118	124	121	123-	5.6	5.3	-2.6	2.0
Uruguay	100	104	111	111	99	97	6.4	0.6	-10.6	-2.1
Central America and the Caribbean	**103**	90	93	92	87	88	**3.1**	-1.2	-4.8	**1.1**
Costa Rica	102	• 84	84	80	70	70	0.1	-4.8	-12.2 :..	-0.6
El Salvador	107	70	75 ••-	66	55	53	7.6	-12.5	-15.8	,3:8
Guatemala	101	87	88	89	81	78	1.6	1.1	-9.6	-3.6
Haiti	94	102	92	83	77	81	-9.7	-96	-7,5	5.0
Honduras	99	83	97	99	91	97	17.1	2.0	-7.9	6.1
Nicaragua	100	97	97	101	94	87	0.4	: 4,2	-7.6	-7.6
Panama	114	110	110	113	124	122	-0.3	2.8	9.7	-1.2
Dominican Republic	83	76	85	89	•.. 73	70	12.8	4.7	-18.4	-3.7

Source: ECLAC, on the basis of data provided by the International Monetary Fund (IMF) and national sources.
* Preliminary figures.

Table VII-6
LATIN AMERICA AND THE CARIBBEAN: PRICES OF MAIN EXPORTPRODUCTS
(Dollars at current prices and growth rates)

	Annual price averages					Growth rates				Cumulative variation
	1970	1985	1989	1990	1991[a]	1988	1989	1990	1991[a]	1981-1991
Unrefined sugar	3.7	4.1	12.8	12.6	9.0	50.0	25.5	-1.6	-28.8	-68.7
Bananas	7.9	18.4	20.4	29.5	25.0	-7.2	-17.0	44.6	-15.3	32.4
Cocoa	30.6	102.3	56.5	57.7	54.2	-20.4	-21.6	2.1	-6.1	-54.1
Coffe(mild)[b]	52.0	145.6	107.0	89.2	85.0	20.3	-20.8	-16.6	-4.7	-52.5
Beef[b]	59.2	97.7	116.5	115.4	120.8	5.5	2.0	-0.9	4.7	-4.1
Fish meal[c]	197.0	280.0	408.0	412.0	478.0	42.0	-Z5.0	1.0	16.0	-5.2
Maize[0]	73.0	135.3	140.8	119.9	140.1	37.5	3.8	-14.8	16.8	-33.4
Soybeans [c]	121.0	225.0	275.0	247.0	240.0	40.7	-9.5	-10.2	-2.8	-18.9
Wheat[0]	55.0	138.0	170.0	137.0	129.0	27.0	16.4	-19.4	-5.8	-27.3
Cotton	30.7	61.7	75.9	82.1	74.6	-16.7	19.7	8.2	-9.2	-20.8
Wool[b]	54.5	141.0	191.5	155.0	119.2	13.4	-7.7	-19.1	-23.1	-38.7
Copper	64.3	64.4	129.2	120.9	106.3	46.0	9.5	-6.4	-12.1	7.8
Tin[fl]	1.7	5.4	3.9	2.8	2.5	6.5	19.4	-29.8	-10.6	-67.5
Iron ore [c]	12.5	22.0	24.3	26.1	28.4	0.9	9.0	7.4	8.7	-1.8
Lead[b]	13.8	17.8	30.5	36.8	25.4	9.6	2.7	20.8	-31.2	-38.3
Zinc[b]	15.3	40.4	82.0	74.6	52.8	42.0	36.2	-9.0	-29.2	52.6
Crude oil [e]										
IMF average	2.1	27.0	17.2	22.0	18.3	-20.2	21.1	27.9	-16.8	-48.5
Colombia			18.3	22.5	19.2			23.0	-14.7	
Ecuador		26.6	17.8	22.2	18.6	-15.6	17.1	24.7	-16.2	-46.7
Mexico		24.1	15.2	17.6	13.1	-22.3	17.8	15.8	-25.6	-56.3
Venezuela	1.7	25.9	15.7	16.9	14.2	-24.1	27.6	7.6	-16.0	-48.6

Source: *WCTAD, Monthly Bulletin of Commodity Prices,* 1970-1989 Supplement (TD/B/C.l/CPB/L.101/Add.l), November 1989; ¡bid. (TD/B/C.1/CPB/L.123) vol. XI, No. 9, September 1991; International Monetary Fund, *International Financial Statistics,* November 1991; Petroleum Intelligence Group, *Petroleum Market Intelligence,* New York (various issues); and ECLAC, on the basis of official figures.

Note: Unrenned sugar, FOB, Caribbean ports, for export to the open market. Central American Bananas, CIF North Sea ports. Cocoa beans, average of daily prices (futures), New York/London. Coffe, mild arabica, *ex-dock* New York. Beef, frozen and de-boned, all sources, United States ports. Fish meal, all sources, 64%-65% protein, CIF Hamburg. Maize, Argentina, CIF North Sea ports. Soybeans, United States, No. 2, yellow, in bulk, CIF Rotterdam. Wheat, FOB United States, No. 2, Hard Red Winter. Cotton, Mexican M 1-3/32", OF northern Europe. Wool, clean, combed, 48"s quality, United Kingdom. Copper, tin, lead and zinc, cash quotations on the London Metal Exchange. Iron ore, Liberia, C 61% Fe, OF North Sea ports. Oil: IMF average, average of spot prices for Dubai, Brent (United Kingdom) and Alaskan North Slope oil, which reflects a fairly balanced mix of medium, light and heavy crude worldwide; Colombia, C. Limón 30 (Gulf Coast, United States); Ecuador, Oriente-30 (Gulf Coast, United States); Mexico, Maya Heavy-22(Gulf Coast, United States); Venezuela, Tía Juana-22 (Caribbean).

* Preliminary figures. [b] US cents per pound. [c] Dollars per metric ton. [d] Dollars per pound. ' Dollars per barrel.

Table VII-7

LATIN AMERICA AND THE CARIBBEAN: PURCHASING POWER OF EXPORTS OF GOODS

(Indexes: 1980 = 100 and growth rates)

	Latin America and the Caribbean		Oil-exporting countries [a]		Non-oil-exporting countries			
					South America		Central America and the Caribbean [c]	
	Index	Variation	Index	Variation	Index	Variation	Index	Variation
1980	100.0	10.0	100.0	21.7	100.0	-3.1	100.0	13.0
1981	102.9	2.9	104.2	4.2	103.6	3.6	92.6	-7.4
1982	94.9	-7.8	98.8	-5.2	92.5	-10.7	83.6	-9.7
1983	105.3	11.0	111.4	12.8	103.4	11.8	79.9	-4.4
1984	119.4	13.4	123.1	10.5	123.4	19.3	82.2	2.9
1985	113.9	-4.6	112.8	-8.4	123.7	0.2	79.4	-3.4
1986	100.3	-11.9	86.9	-23.0	121.4	-1.9	87.0	9.6
1987	108.3	8.0	100.1	15.2	125.6	3.5	81.8	-6.0
1988	117.1	8.1	92.8	-7.3	158.3	26.0	81.5	-0.4
1989	122.4	4.5	104.4	12.5	155.6	-1.7	84.7	3.9
1990	128.8	5.2	120.4	15.3	150.3	-3.4	86.7	2.4
1991 [d]	127.9	-0.6	112.1	-6.9	157.6	4.8	92.6	6.8

Source: ECLAC, on the basis of data provided by the International Monetary Fund (IMF) and national sources.

[a] Includes Bolivia, Colombia, Ecuador, Mexico, Peru and Venezuela. Includes Argentina, Brazil, Chile, Paraguay and Uruguay. [c] Includes Costa Rica, El Salvador, Guatemala, Haiti, Honduras, Nicaragua, Panama and the Dominican Republic. [d] Preliminary figures.

Table **VII-8**

LATIN AMERICA AND THE CARIBBEAN: PURCHASING POWER OF EXPORTS OF GOODS

(Indexes: 1980 = 100 and growth rates)

	Indexes						Growth rates			
	1986	1987	1988	1989	1990	1991[a]	1988	1989	1990	1991[a]
Latin America and the Caribbean	**100**	**108**	**117**	**122**	**129**	**128**	**8.1**	**4.5**	**5.2**	-0.6
Oil-exporting countries	**87**	**100**	**93**	**104**	**120**	**112**	**-7.3**	**12.5**	**153**	-6.9
Bolivia	61	58	57	69	80	67	-2.4	21.2	16.9	-16.3
Colombia	149	151	136	145	162	169	-10.3	7.1	11.6	4.3
Ecuador	108	97	98	101	115	113	1.3	2.6	14.1	-2.0
Mexico	117	147	136	146	163	157	-7.3	7.1	11.5	-3.3
Peru	72	72	70	86	71	65	-1.8	22.6	-17.9	-8.5
Venezuela	51	60	54	68	90	75	-8.9	24.5	32.9	-16.3
Non-oil-exporting countries	**115**	**117**	**143**	**142**	**138**	**145**	**22.4**	-1.0	-2.8	**5.1**
South America	**121**	**126**	**158**	**157**	**150**	**158**	**26.0**	-1.7	-3.4	**4.8**
Argentina	91	76	100	99	132	128	31.8	-1.0	33.9	-3.0
Brazil	135	144	180	171	149	160	24.9	-5.1	-12.8	7.6
Chile	109	126	160	172	165	179	27.2	7.7	-4.4	8.8
Paraguay	188	183	251	340	407	391	37.0	35.5	19.8	-4.1
Uruguay	130	131	151	161	158	148	15.3	6.7	-1.7	-6.4
Central America and the Caribbean	**87**	**82**	**82**	**85**	**87**	**93**	**-0.4**	**3.8**	**2.4**	**6.8**
Costa Rica	116	116	121	131	124	128	4.3	8.4	-5.2	3.3
El Salvador	60	45	43	33	40	39	-4.0	-23.4	22.1	-2.5
Guatemala	74	66	70	75	75	76	5.0	7.8	0.1	0.8
Haiti	84	89	76	61	54	50	-15.1	-20.1	-10.6	-7.2
Honduras	100	88	99	104	95	96	11.9	5.7	-8.6	1.3
Nicaragua	62	67	53	76	76	58	-21.3	45.3	-0.7	-23.1
Panama	101	99	88	91	111	137	-11.8	4.2	21.6	23.8
Dominican Republic	75	71	88	87	66	59	23.3	-1,1	-24.0	-10.5

Source: ECLAC, on the basis of data provided by the International Monetary Fund (IMF) and national sources.

[a] Preliminary figures.

Table VII-9

LATIN AMERICA AND THE CARIBBEAN: REAL EFFECTIVE EXCHANGE RATES FOR EXPORTS[a]

(Indexes: 1985=100)

Country	Deflator	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
Oil-exporting countries															
Bolivia	CPI	143	144	155	112	144	88	88	100	136	139	147	135	191	215
Colombia	CPI	94	92	90	81	77	79	86	100	132	147	150	153	173	171
	WPI	100	97	97	90	84	83	89	100	125	138	139	139	160	158
Ecuador	CPI	74	75	75	70	74	74	102	100	110	125	146	150	159	151
Mexico	CPI	95	91	82	72	108	115	101	100	139	145	118	110	108	98
	WPI	101	97	88	80	118	121	101	100	131	133	112	107	107	96
Peru	CPI	108	104	94	82	73	84	83	100	89	81	84	52	42	35
Venezuela	CPI	97	96	88	80	76	86	99	100	121	161	156	184	192	180
	WPI"	110	112	103	95	88	97	106	100	111	136	142	153	170	168
Non-oil-exporting countries															
South America															
Argentina	CPI	101	75	61	70	108	108	95	100	107	131	137	144	113	86
	WPI	108	88	81	90	101	99	91	100	122	155	138	131	134	139
Brazil	CPI	65	73	90	74	69	92	97	100	106	104	94	72	65	76
	WPI	95	105	114	93	89	108	100	100	105	109	98	75	70	88
Chile	CPI	82	82	71	58	66	78	80	100	123	134	141	133	140	138
	WPI[c]	105	93	79	70	82	87	87	100	115	122	140	134	142	134
Paraguay	CPI	88	75	64	60	72	84	81	100	107	115	120	125	125	108
Uruguay	CPI	107	95	74	64	65	96	97	100	99	103	111	111	129	111
	WPI	107	88	80	76	84	108	100	100	102	103	116	121	137	116
Central America and the Caribbean															
Costa Rica	CPI	70	72	73	124	126	102	98	100	107	112	117	110	112	121
	WPI	95	93	91	127	116	97	96	100	107	118	126	121	126	134
El Salvador	CPI	204	199	187	159	143	130	117	100	162	139	122	105	141	134
Guatemala	CPI	123	123	125	111	114	114	113	100	142	185	186	188	220	192
Haiti[e]	CPI	136	135	129	123	120	111	107	100	103	123	123	150	156	145
Honduras	CPI	136	135	127	118	110	104	101	100	109	117	118	109	195	200
Nicaragua	CPI	407	408	352	267	210	162	117	100	38	10	184	220	169	162
Dominican Republic	CPI	75	75	74	73	81	86	118	100	92	113	131	95	85	87

Source: ECLAC, on the basis of figures provided by the International Monetary Fund (IMF).

* Corresponds to the average of the indexes of the (main official) real exchange rates between each country's currency and the currencies of its main trading partners, weighted by the share of that country's total exports represented by exports to those trading partners. These weightings correspond to the averages for the period 1986-1990. For further information about the methodology and sources used, see ECLAC, *Economic Survey of Latin America, 1981* (E/CEPAL/G.1248), Santiago, Chile, 1983. United Nations publication, Sales No. E.83.II.G.2. The exchange rate used here is as follows: Up to July 1982, the mean of the average buying and selling rates as reported to the Banco de México by the main commercial banks; August-November 1982, preferential rate for essential imports; after November 1982, the mean of the buying and selling rates on the regulated market. National-products sub-index of the wholesale price index. The unregulated or parallel exchange rate was used. [c] From 1987 on, the commercial exchange rate was used.

Table VII-10
LATIN AMERICA AND THE CARIBBEAN: TRADE BALANCE
(Millions of dollars)

	Exports of goods FOB			Imports of goods FOB			Merchandise trade balance			Net service payments[a]			Trade balance		
	1989	1990	1991	1989	1990	1991	1989	1990	1991	1989	1990	1991	1989	1990	1991
Latin America and the Caribbean	111052	121746	121380	83 732	93 953	111 536	27 320	27 793	9849	2 236	4 234	5394	25084	23559	4455
Oil-exporting countries	48 399	58175	56 737	41992	48 275	59629	6 407	9900	-2892	-450	687	1730	6 857	9 213	•4622
Bolivia	724	831	760	730	776	1007	-6	55	-247	160	169	215	-166	-114	-462
Colombia	6 031	7 105	7 572	4 557	5 088	4 535	1474	2 017	3037	322	273	440	1152	1744	2 597
Ecuador	2 354	2 714	2851	1693	1711	2207	661	1003	644	162	186	266	499	817	378
Mexico	22 842	26 838	27120	25 438	31272	38184	-2596	-4 434	-11064	-2454	-1761	-2610	-142	-2673	-8454
Peru	3 533	3 276	3 307	2291	2 885	3 515	1242	391	-208	444	622	888	798	-231	-1096
Venezuela	12915	17411	15 127	7 283	6 543	10181	5 632	10 868	4 946	916	1198	2 531	4716	9670	2415
Non-oil-exporting countries	62 653	63 571	64 643	41740	45678	51907	20913	17 893	12 741	2686	3 547	3(64	18 227	14346	9077
South America	54 794	55163	55 419	30766	34 045	38 888	24028	21118	16536	3876	4737	5165	20152	16381	11371
Argentina	9 573	12 354	11965	3864	3 726	7 430	5 709	8 628	4 535	600	707	1598	5 109	7 921	2937
Brazil	34 375	31414	31625	18 263	20 661	21010	16 112	10 753	10 620	2 784	3756	3 891	13 328	6 997	6 729
Chile	8 080	8 310	8929	6 502	7 037	7 354	1578	1273	1575	635	451	4	943	822	1571
Paraguay	1 167	1392	1 295	1001	1354	1550	166	38	-255	-111	-65	-94	277	103	-161
Uruguay	1599	1693	1605	1 136	1267	1544	463	426	61	-32	-112	-234	495	538	295
Central America and the Caribbeani	7 859	8 408	9 224	10974	11633	13 019	-3115	-3 225	-3795	-1190	-1190	-1501	-1925	-2035	-2294
Costa Rica	1333	1366	1487	1572	1833	1680	-239	-467	-193	-12	-26	-71	-227	-441	-122
El Salvador	558	582	600	1220	1 110	1200	-662	-528	-600	35	51	59	-697	-579	-659
Guatemala	1 126	1211	1235	1484	1428	1664	-358	-217	-429	67	123	-64	-425	-340	-365
Haiti	148	139	125	259	225	220	-111	-86	-95	100	94	85	-211	-180	-180
Honduras	883	848	808	844	870	864	39	-22	-56	58	68	65	-19	-90	-121
Nicaragua	319	332	268	547	570	681	-228	-238	-413	97	52	66	-325	-290	-479
Panama	2 568	3 195	4 043	3 084	3 804	4 981	-516	-609	-938	-781	-772	-798	265	163	-140
Dominican Republic	924	735	658	1964	1793	1729	-1 040	-1 058	-1071	-754	-780	-843	-286	-278	-228

Source: ECLAC, on the basis of data provided by the International Monetary Fund (IMF) and national sources.

[a] Excluding net payments of profits and interest.

Table VII-11
LATIN AMERICA AND THE CARIBBEAN: BALANCE OF PAYMENTS
(Millions of dollars)

	Trade balance			Net payments of of profits and interest*			Balance on current accountt[b]			Balance on capital account[c]			Total balance[d]		
	1989	1990	1991	1989	1990	1991	1989	1990	1991	1989	1990	1991	1989	1990	1991
Latin America and the Caribbean	**25 084**	**23 559**	**4455**	37 **983**	**34 829**	**30 893**	**-9078**	**-6808**	**-20 485**	**12236**	22 **397**	40 **866**	**3158**	**15 589**	**20381**
Oil-exporting countries	**6 857**	9 **213**	**-4622**	**15 266**	**13 802**	**12 479**	**-5653**	**-1967**	**-13865**	7 **215**	9 **841**	**28 718**	**1562**	7 **874**	**14853**
Bolivia	-166	-114	-462	255	247	243	-399	-339	-681	295	352	712	**-104**	13	31
Colombia	**1** 152	1744	2 597	2 245	2 352	1740	-181	406	2 566	615	206	-595	434	612	1971
Ecuador	499	817	378	1139	1053	961	-569	-236	-583	762	618	740	193	382 •	157
Mexico	-142	-2673	-8 454	7 984	7 526	7 070	-6 204	-8 377	-13673	6 599	11610	21810	395	3 233	8137
Peru	798	-231	-1096	1275	1411	1453	-477	-1642	-2 549	1072	1911	3809	595	269	1260
Venezuela	4 716	9 670	2 415	2 368	1213	1012	2177	8 221	1055	-2128	-4 856	2 242	**49**	3365	3297
Non-oil-exporting countries	**18 227**	**14 346**	**9** 077	**22 717**	**21027**	**18 414**	**-3425**	**-4841**	**-6620**	5 **021**	**12 556**	**12148**	**1596**	7 **715**	5 **528**
South America	**20152**	**16 381**	**11371**	**21307**	**19 721**	17 **018**	**-863**	**-2378**	**-4023**	2 **012**	**9823**	**8300**	**1149**	7 **445**	4 277
Argentina	5 109	7 921	2 937	6 422	6 203	5 634	-1305	1789	-2 668	*•43*	1590	5 021	-1348	3 379	2 353
Brazil	13 328	6 997	6 729	12 547	11340	9 286	1007	-3 509	-1006	693	4 730	1227	1700	1221	221
Chile	943	822	1571	1925	1811	1810	-924	-935	-198	1493	3266	1444	569	2 331	1246
Paraguay	277	103	-161	64	45	55	214	61	-213	-102	171	520	112	232	307
Uruguay	495	538	295	349	322	233	145	216	62	-29	66	88	116	282	150
Centra] America and the Caribbean	**-1925**	**-2035**	**-2294**	**1410**	**1306**	**1396**	**•2 562**	**-2463**	**-2597**	3 **009**	2 **733**	**3848**	**447**	**270**	**1251**
Costa Rica	-227	^41	-122	380	284	172	-567	-679	-241	713	472	545	146	-207	304
El Salvador	-697	-579	-659	107	124	127	-572	-359	-326	687	514	350	115	155	24
Guatemala	^25	-340	-365	167	171	183	^38	-371	-328	510	302	882	72	-69	554
Haiti	-211	-180	-180	26	25	25	-178	-158	-160	179	185	155	1	27	-5
Honduras	-19	-90	-121	248	256	257	-250	-326	-363	249	363	391	-1	37	28
Nicaragua	-325	-290	-479	205	217	363	-531	-507	-849	595	468	935	64	-39	86
Panama	265	163	-140	45	78	52	185	51	-215	-137	307	96	48	358	-119
Dominican Republic	-286	-278	-228	232	151	217	-211	**-114**	-115	213	122	494	2	8	379

Source: ECLAC, on the basis of data provided by the International Monetary Fund (IMF) anid national sources.

^ * Excluding labour and ownership. Including net unrequited private transfers. Including long- and short-term capital, unrequited official transfers, and errors and omissions.

-t* Equal to variation in international reserves (of opposite sign) plius counterpart items.

Table **VII-12**

LATIN AMERICA AND THE CARIBBEAN: RATIO OF THE BALANCE-OF-PAYMENTS DEFICIT ON CURRENT ACCOUNT TO THE VALUE OF EXPORTS OF GOODS AND SERVICES[a]

(Percentages)

	1983	1984	1985	1986	1987	1988	1989	1990	1991[b]
Latin America and the Caribbean	7.1	**0.9**	**3.4**	**18.4**	**103**	**9.1**	6.7	**4.5**	**13.5**
Oil-exporting countries	-9.9	**-10.8**	-2.8	**13.7**	**2.0**	**21.1**	**9.0**	2.7	**18.8**
Bolivia	23.8	29.4	47.6	69.9	80.9	63.7	46.0	34.7	74.2
Colombia	79.9	27.3	40.5	-6.2	-5.0	3.0	2.5	-4.7	-28.0
Ecuador	5.9	9.8	-1.0	22.7	51.4	22.8	19.8	7.3	17.1
Mexico	-19.7	-13.7	-1.7	8.2	-13.4	9.0	18.9	21.8	34.2
Peru	29.3	11.5	3.3	42.0	54.6	46.4	10.6	38.7	60.6
Venezuela	-28.1	-27.9	-21.9	23.5	12.0	52.3	-15.5	-44.0	-6.5
Non-oil-exporting countries	**26.1**	**13.7**	9.7	**22.5**	**18.1**	-0.2	**4.6**	**6.3**	**8.5**
South America	**273**	**113**	6.7	**243**	**16.0**	-3.5	**1.4**	3.7	**6.2**
Argentina	26.2	26.0	9.5	33.9	52.1	14.1	11.1	-12.1	18.4
Brazil	29.0	-0.1	1.0	21.9	5.0	-11.6	-2.7	10.0	2.9
Chile	25.1	50.3	30.0	23.1	13.8	3.4	9.6	9.2	1.8
Paraguay	54.4	56.7	41.7	49.4	66.9	22.1	-14.7	-3.5	12.5
Uruguay	5.0	10.8	10.4	-1.3	10.7	0.7	-7.3	-10.2	-2.9
Central America and the Caribbean	**21.1**	**24.4**	**23.5**	**15.7**	**27.2**	**17.6**	**22.1**	**19.9**	**193**
Costa Rica	28.8	20.4	24.8	13.9	30.6	24.3	30.8	34.8	11.2
El Salvador	22.6	27.2	26.8	11.4	24.5	28.9	62.7	41.5	36.2
Guatemala	19.2	30.8	21.3	3.6	47.1	39.1	30.8	23.6	19.7
Haiti	60.4	56.7	56.7	49.6	45.6	61.8	75.0	70.8	78.8
Honduras	31.7	45.6	37.3	29.0	35.1	29.1	24.5	33.0	38.3
Nicaragua	117.1	148.6	243.6	279.4	250.8	309.5	155.8	129.3	251.2
Panama	-10.5	-2.5	-4.4	-6.3	-2.4	-18.6	-5.0	-1.2	4.1
Dominican Republic	35.3	16.3	16.8	17.5	27.0	4.6	9.9	5.7	5.8

Source: ECLAC, on the basis of data provided by the International Monetary Fund (IMF) and national sources.
* Negative figures indicate a surplus on the balance-of-payments current account. Preliminary figures.

Table VH-13

LATIN AMERICA AND TIIE CARIBBEAN: NET INFLOW OF CAPITAL AND TRANSFER OF RESOURCES[a]

(Billions of dollars and percentages)

	Effective net inflow of capital	Unregistered transactions[0]	Net inflow of capital (1+2)	-/i	Net payments of profits and interest	Transfer of resources		Exports of goods and services	6 *	TM
						(1-5)	(3-5)			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1980	33.6	-2.0	31.6	-6.0	18.8	14.8	12.8	101.5	14.6	12.6
1981	51.5	-11.7	39.8	-22.7	28.8	22.7	11.0	109.5	20.7	10.0
1982	32.0	-11.9	20.1	-37.4	38.8	-6.8	-18.7	99.4	-6.8	-18.8
1983	5.5	-2.3	3.2	-41.8	34.6	-29.1	-31.4	99.4	-29.3	-31.6
1984	12.7	-2.2	10.5	-17.3	37.3	-24.6	-26.8	110.6	-22.2	-24.2
1985	6.9	-3.6	3.3	-52.2	35.3	-28.4	-32.0	105.3	-27.0	-30.4
1986	11.0	-0.9	10.1	-8.2	32.5	-21.5	-22.4	91.0	-23.6	-24.6
1987	14.2	1.3	15.5	9.2	31.3	-17.1	-15.8	104.1	-16.4	-15.2
1988	7.6	-1.5	6.1	-19.7	34.2	-26.7	-28.1	119.5	-22.3	-23.5
1989	8.8	3.6	12.4	40.9	37.9	-29.1	-25.5	132.7	-21.9	-19.2
1990	20.6	1.5	22.1	7.3	35.1	-14.5	-13.0	146.1	-9.9	-8.9
1991[d]			40.1		30.8		9.9	146.6		6.8

Source: 1980-1988: ECLAC on the basis of data from the International Monetary Fund (IMF); 1989-1991: ECLAC, on the basis of figures from the IMF and national sources.

'Covers 16 Spanish-speaking countries (Cuba and Panama are not included), plus Brazil and Haiti. Equivalent to net inflow of capital minus unregistered transactions. [c] Corresponds to the errors and omissions entry on the balance of payments. Preliminary estimates.

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Table VII-14
LATIN AMERICA AND THE CARIBBEAN: NET TRANSFER OF RESOURCES[a]

	Net transfer of resources (millions of dollars)							Ratio of net transfer of resources to exports of goods and services (%)					
	1986	1987	1988	1989	1990	1991[b]	1982-1991[b]	1986	1987	1988	1989	1990	1991"
Latin America and the Caribbean	-22 401	-15 804	-28141	-25 517	-13 042	9 929	-203623	-24.6	-15.2	-23.6	-19.2	-8.9	6.8
Oil-exporting countries	-10 739	-8103	-12 171	-7 979	-4341	16 239	-96 684	-24.2	-15.4	-22.6	-12.8	-5.9	22.0
Bolivia	274	201	120	41	106	469	1251	41.1	30.8	17.8	4.7	10.8	51.1
Colombia	-847	-1910	-1 344	-1630	-2146	-2 335	-9 065	-13.2	-28.0	-19.9	-22.3	-25.1	-25.5
Ecuador	-458	253	-384	-306	-435	-221	-3 844	-17.4	10.3	-14.5	-10.7	-13.5	-6.5
Mexico	-6127	-5 325	-11 287	-1385	3 704	14 740	-52 218	-28.0	-19.3	-38.8	-4.2	9.7	36.8
Peru	113	275	485	-203	500	2356	2 761	3.4	7.7	13.2	-4.5	11.8	56.0
Venezuela	-3 694	-1597	239	-4 496	-6 070	1230	-35 469	-38.9	-14.0	2.2	-32.1	-32.5	7.6
Non-oil-exporting countries	-11662	-7701	-15 970	-17 538	-8701	-6310	-106 939	-25.1	-14.9	-24.3	-25.0	-12.1	-8.7
South America	-12301	-9 244	-17 377	-19 295	-9899	-8718	-120327	-30.8	-20.6	-29.8	-31.0	-15.5	-13.5
Argentina	-2448	-2166	-1697	-6 465	-4 613	-613	-32 835	-29.0	-26.6	-15.2	-55.0	-31.2	-4.2
Brazil	-9 046	-6 747	-14 545	-11854	-6 610	-8 059	-82 849	-37.5	-24.0	-40.4	-31.6	-18.8	-23.1
Chile	-958	-696	-811	-432	1455	-366	-4 234	-18.7	-11.0	-9.8	-4.5	14.3	-33
Paraguay	175	419	-30	-166	125	465	1855	23.1	54.4	-2.7	-11.4	7.2	27.2
Uruguay	-24	-54	-294	-378	-256	-145	-2 264	-1.6	-3.5	-16.7	-18.9	-12.1	-6.7
Central America and the Caribbean	639	1543	1407	1757	1198	2408	13 388	9.7	23.1	19.3	22.2	15.0	29.4
Costa Rica	11	184	284	334	188	373	1409	0.8	12.7	17.5	18.1	9.6	173
El Salvador	41	194	135	580	390	223	2018	3.9	21.3	143	63.6	45.0	24.8
Guatemala	-54	310	178	319	131	699	2364	-4.6	27.3	14.0	22.4	8.3	41.9
Haiti	154	131	168	153	160	130	1476	52.7	40.9	61.1	64.6	71.7	64.0
Honduras	99	166	77	-	107	134	941	9.8	17.1	7.6	-	10.8	14.1
Nicaragua	338	577	627	390	251	572	4 807	117.6	177.6	229.7	114.4	64.0	169.2
Dominican Republic	50	-19	-62	-19	-29	277	373	3.5	-1.2	-3.3	-0.9	-1.4	14.0

Source: 1986-1988: ECLAC, on the basis of data from the International Monetary Fund (IMF); 1989-1991: ECLAC, on the basis of figures from IMF aid «ational sources.

' The net transfer of resources is equal to net capital inflow (unrequited official transfer payments, short- and long-term capital, and errors and omissions) minus net payments of profits and interest, which include both interest actually paid and interest due but not paid. In this table, negative figures indicate outward transfers of resources. Preliminary figures.

Table VII-15

INTEREST RATES IN INDUSTRIALIZED-COUNTRV MARKETS

(Year-end)

	1985	1986	1987	1988	1989	1990	1991
	Discount rates						
United States	7.5	5.5	6.0	6.5	7.0	6.5	3.5
Germany	4.0	3.5	2.5	3.5	6.0	6.0	8.0
France	9.5	9.5	9.5	9.5	9.5	9.5	9.5
Canada	9.5	8.5	8.7	11.2	12.5	11.8	8.0
Netherlands	0.7	4.5	3.8	4.5	7.0	7.3	8.5
Italy	5.0	12.0	12.0	12.5	13.5	12.5	12.0
Japan	5.0	3.0	2.5	2.5	4.3	6.0	4.5

	1985		1986		1987		1988		1989		1990		1991	
	ST	LT	ST	LT	ST	LT	ST	LT	ST	LT	ST	LT	ST	LT
	Financial market rates													
United States	8.1	10.6	6.8	7.7	6.7	8.4	7.6	8.9	9.2	8.5	8.1	8.6	5.7	7.9
Germany	5.2	6.9	4.6	5.9	3.7	5.8	4.0	6.1	6.6	7.1	7.9	8.9		8.6
France	9.9	10.9	7.7	8.6	8.0	9.4	7.5	9.1	9.1	8.8	9.9	10.0	9.5	9.1
Canada	9.6	11.0	8.2	9.5	8.5	10.0	10.4	10.2	12.1	9.9	11.6	10.6	7.4	9.8
Netherlands	6.3	7.3	5.8	6.4	5.2	6.4	4.5	6.3	7.0	7.2	8.3	8.9	9.0	8.7
Italy	15.3	13.0	13.4	10.5	11.5	9.7	11.3	10.2	12.7	10.7	12.4	11.5	12.2	10.1
Japan	6.5	6.3	4.8	4.9	3.5	4.2	3.6	4.3	4.9	5.1	7.2	7.4		
United Kingdom	10.8	10.6	10.7	9.9	9.7	9.5	10.3	9.4	13.9	9.6	14.7	11.1	11.8	9.9

Source: International Monetary Y\ini, *International Financial Statistics,* Washington, D.C., (various issues).
Symbols: ST = short term; LT = long term.

Vni. THE EXTERNAL DEBT

1. MJ trends

At US$439 billion, the region's external debt was slightly smallerat the end of 1991 than it had been a year earlier (see table V1II-1). There were a num ber of reasons for this decrease. Although no Brady-style debt reduction agreements were signed with private banks during the year, the United States Government did decide to cancel large amounts of the concessional official bilateral debt owed by some countries in the region. In addition, some countries made use of national conversion mechanisms to further reduce their debt. Another influential factor was the revaluation of the United States dollar against European currencies (1%-5%), since this considerably reduced the debts of countries which owed large sums in those currencies. The large inflows of non-debt-related private funds (mainly repatriated capital and foreign investment) being received by some countries also helped to check any increase in the debt. The two percentage-point drop, on average, in international interest rates played a role as well, since this reduced the need to refinance interest payments, whether by securing fresh loans or allowing arrears to build up.

Be that as it may, the accumulation of interest arrears continued to be a major source of new debt for the region. Interest arrears are estimated to have risen by between US$6 billion and US$7 billion in 1991, as compared to an increase of US$9 billion the year before. Thus, total arrears (most on debts owed to private banks) amounted to about US$30 billion, which was equivalent to one third of the total increase recorded in the region's debt since 1982. Some countries also contracted debts in more conventional ways by re-entering international capital markets and floating large bond issues.

All in all, 14 countries reduced their debt in 1991 (see table VIII-1). In most cases, much of the reduction was achieved through the negotiation of debt cancellation agreements, while a somewhat smaller portion of the decrease was attributable to unilateral payments policies regarding the debts owed to some creditors. The United States Government agreed to forgive more than 90% of the bilateral debt of Guyana, Honduras and Nicaragua, around 70% of Haiti's and Bolivia's, 25% of Jamaica's debt and 4% of Chile's. Under a Paris Club agreement, Nicaragua's creditor Governments also forgave that country's arrears. In addition, Guatemala, Jamaica and Costa Rica retired part of their external debt through debt-for-nature swaps. The Dominican Republic negotiated a reduction of its debt with Mexico, and El Salvador negotiated the cancellation of its debt with some official bilateral creditors. The Dominican Republic and Guatemala also made unilateral moves to settle the debts that they had built up with some official creditors.

In the cases of Nicaragua, El Salvador, Guyana, Jamaica, the Dominican Republic, Guatemala, Honduras and Bolivia, debt reduction operations were on such a large scale that they far outweighed new debt accumulation (including interest arrears with private banks) and thereby contributed to an absolute decline in these countries' stock of foreign obligations (see table VIII-1).

The 7% decrease in Chile's debt was chiefly a result of its net amortization of public obligations, since the slight reduction made in its very small debt with the United States Government was of negligible significance. Colombia also recorded a net amortization of its debt. The 3% decline in Uruguay's external debt was attributable to the agreement it signed with its creditor banks under the Brady Plan in 1990 and to the protracted delay in the disbursement of

multilateral loans to finance the implementation of that agreement.

The 2% drop seen in Argentina's debt was made possible by a series of privatizations that were financed with commercial-bank debt paper. The effect of these swaps was partially counteracted by the accumulation of interest arrears on around 60% of that country's commercial bank debt, however. Fresh loans also offset part of the reduction, since, despite the public sector's arrears, the country was able to re-enter voluntary international capital markets with a nearly US$800 million bond issue. Investors were attracted by the relatively high yield of these securities, the headway made by the Government's structural adjustment programme, and anticipation of a Brady agreement with the banks some time in 1992.

Brazil also managed to reduce its debt by 2% in 1991. Some of the main factors which helped it to do so were the revaluation of the United States dollar against European currencies and the net amortization of certain obligations by the country's public and private sectors, including the payment of some of the arrears built up with private banks in 1989 and 1990. This more than offset the increase in the debt brought about by the accumulation of new interest arrears on about 70% of the public sector's commercial-bank and Paris Club obligations in 1991 and the issuance of around US$2 billion in new bonds on international markets by various Brazilian organizations, including some State firms. Bond placements, and especially those whose primary aim was to cover the public sector's debt service arrears, were promoted by a number of factors, including a very high initial return (12%-14%), the Government's "decentralization" of the debt problem -which enabled the private sector and solvent public bodies to engage in direct negotiations regarding their external obligations- and, prior to the initiation of Brady Plan negotiations, the signing of an agreement with commercial banks to set up a mechanism for the cancellation of US$8 billion in interest arrears that had been accumulated before the end of 1990. Under the terms of this accord, Brazil paid off US$2 billion of its interest arrears in cash over the course of the year and agreed to cover the balance with an issue of 10-year bonds upon signatureof a Brady Plan deal-probably in 1992. Meanwhile, as noted earlier, Brazil continued to make only partial service payments on its bank debt.

The increase seen in Mexico's debt (over 4%) in 1991 was largely a reflection of that country's growing access to international bond markets. In fact, Mexico issued over US$2.2 billion in internationally-offered bonds in 1991, after already having placed more than US$2.7 billion of these instruments in 1990. Indeed, Mexico's bond-market activity was notable not only for the size of its bond issues but also because of the steady improvement in credit terms: maturitiesof from 7 to 10 years began to be traded and their initial yields fell from about 8% over those of United States Treasury instruments in 1989 to just 3% in 1991. This expansion of the debt was restrained, however, by swaps and secondary-market operations, as well as by Mexico's broad access to non-debt-related sources of external finance.

Arrears played an important part in the increases seen in the debts of Haiti, Peru, Panama, Paraguay and Ecuador. Nevertheless, the general trend was towards a regularization of the region's payments position. Besides the agreement signed by Brazil to eliminate some of the payments it owed to various banks, Peru arrived at satisfactory refinancing agreements with its multilateral creditors which either canceled arrears, as in the case of the Inter-American Development Bank (IDB), or established a phased programme to eliminate them in due course, as with the new "rights approach" refinancing agreements signed with the International Monetary Fund (IMF) and the World Bank. In similar negotiations, Nicaragua and Panama put together refinancing packages designed to normalize their payments positions with multilateral agencies. The Dominican Republic also became current on its payments with multilateral lenders, and Guatemala signed agreements with IDB and the Central American Bank for Economic Integration (CABEI). In addition, Peru, Nicaragua, El Salvador and the Dominican Republic regularized their payments to the Paris Club Governments.

The agreement signed by Nicaragua with the Paris Club was especially important because it marked the beginning of a new debt relief programme under what is often referred to as the

"extended" version of the Toronto terms. The Toronto terms were originally formulated in 1988 as a means of affording special relief to low-income African countries. These terms provided for a reduction of approximately 33% in the current value of eligible official debt (eligible debts are generally those having maturities one or two years after the date of submission of a formal rescheduling request). Then, in 1990, the scope of this programme was expanded to include low-income Latin American countries, two of which signed agreements under these new terms (see table VIII-2). The agreement signed with Nicaragua, which received little publicity, follows the general lines of the Toronto terms but provides for a greater measure of relief.

The new Paris Club scheme offers creditors three options in the case of eligible non-concessional debts: i) reducing obligations by 50% and rescheduling the balance over a repayment period of 23 years (with a six-year grace period); ii) lowering interest rates to a point where the amount of relief is equivalent to that provided by the first option in terms of discounted values, together with a rescheduling of the debt over a 23-year term (with no grace period); and iii) rescheduling over 23 years (with a six-year grace period) at a below-market interest rate along with cost-free capitalization of interest payments during the grace period. The capitalized interest is to be amortized over a three-year period starting at the end of the grace period. Concessional debt maturities are to be reprogrammed over a 30-year repayment period with a 13-year grace period. The interest rate agreed to remains unchanged.

The rescheduling agreement signed with Nicaragua covered US$830 million in debt, including arrears in payments on principal and interest. In the case of non-concessional debt, the discounted value of total principal and interest arrears and of payments falling due between 31 December 1991 and 31 March 1993 was reduced by 50%. To do so, the debt-reduction option was chosen by France, Germany, the Netherlands and the United Kingdom, while Austria, Finland, Israel, Italy, Spain and Switzerland decided on the interest-rate reduction option. In addition to these measures for ...dealing with non-concessional debt, a number of innovations were introduced; these included a decision to reschedule the interest payments on the restructured debt that were to fall due in 1992 and the first half of 1993 and the rescheduling of the country's short-term debt.

Although the United States Government did not take part in the Club's new scheme, choosing instead to apply the original Toronto terms to Nicaragua, it did cancel US$260 million of debt under its Enterprise for the Americas initiative.

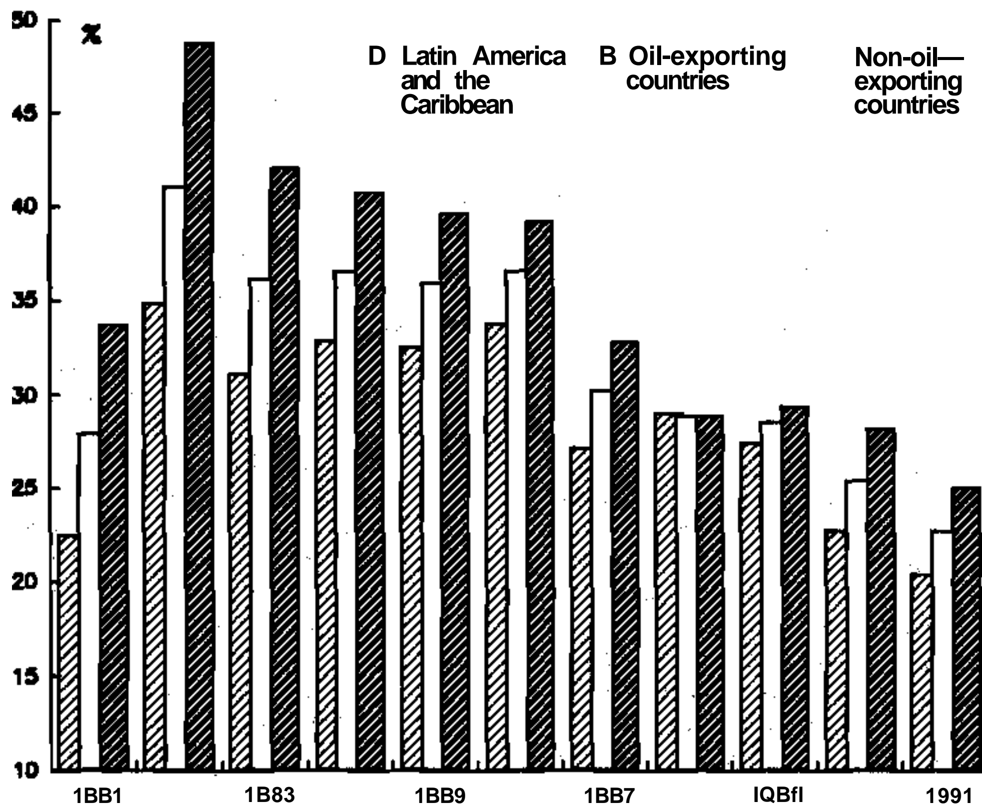
2. The debt burden

The Latin American and Caribbean region's debt load has become significantly lighter in recent years, as is demonstrated by the fact that the regional interest/exports ratio decreased for the fifth year in a row, falling to 23% (see table VIII-3 and figure VIII-1), as compared to 26% in 1990 and a record 41% in 1982. The drop was wholly accounted for by the lower level of interest payments falling due (nearly US$5 billion less than the year before), which was in turn primarily a function of a cyclical reduction in international interest rates. Nevertheless, a coefficient of 23% is still quite high, since, generally speaking, a desirable level for this ratio would be about 10%. Hence, the 23% figure indicates that, even with the temporary relief afforded by the drop in international interest rates, most of the countries in the region continue to suffer from a debt overhang.

In 1991, nine countries had interest/exports ratios of between 16% and 10% or even lower, as compared to just five countries in 1990. The new members of this group were Costa Rica, Chile, Colombia and Venezuela (see table VIII-3). In the first three of these countries, higher export earnings and lower interest payments both played a role in lowering the ratio; in Venezuela, the decrease was due entirely to the fact that the reduction in interest payments proved to be more than large enough to make up for a sharp drop in export earnings. Five of these nine countries -Dominican Republic, Haiti, Guatemala, Costa Rica and Paraguay- continue to have difficulty in servicing their external debt, in part because a

Figure VIM—1

LATIN AMERICA AND THE CARIBBEAN: INTEREST PAYMENTS DUE AS A PERCENTAGE OF EXPORTS OF GOODS AND SERVICES



Source: ECLAC, on the basis of figures obtained from the International Monetary Fund (IMF).

large portion of their debt is owed by their public sectors and thus has a heavy impact on their fiscal accounts. Other countries continued to exhibit extremely high ratios, with the most staggering levels being registered by Nicaragua (110%), Argentina and Peru (36%), and Bolivia, Brazil and Ecuador (25%-27%). Uruguay, Honduras and Mexico also had high ratios (21%-22%). Mexico's effective debt load was substantially lower, however, thanks to its success in regaining investor confidence, since this triggered a hefty inflow of voluntary finance that far outweighed interest payments.

The debt continued to place a heavy burden on many Latin American countries, as was illustrated by the fact that the region's debt/exports ratio, which expresses its debt as a percentage of its exports, has remained very high, since it has hovered around 300% for the past three years. As of the end of 1991, this ratio was 284%, as compared to 287% in 1990 (see table VIII-4). The situation has, none the less, improved, inasmuch as six countries (Colombia, Chile, Panama, Paraguay, Guatemala and Costa Rica) had ratios of below 200% -a level which in some cases is regarded as a critical financial threshold- whereas in 1988 there were only two such countries (Panama and Paraguay). On the other hand, extraordinarily high figures were racked up by Nicaragua (3,000%), Argentina, Haiti and Peru (400%-500%), and disturbingly elevated levels were recorded by Bolivia, Brazil,

Ecuador, Honduras and Uruguay (over 300%) as well.

The region's debt/GDP ratio -another structural indicator of the external debt burden- was 43% in 1991, which was similar to the figure for the year before but considerably lower than the record coefficient registered in 1986 (60%) (see table VIII-5). Nevertheless, the ratio was still high in comparison to the 28% level registered at the start of the 1980s, which might be considered a fairly acceptable figure. Substantial decreases were observed in Argentina, Bolivia, Venezuela and Chile as a result of both debt reduction and an expansion of economic activity; lower ratios were also recorded by Colombia, Honduras and Uruguay, but in these cases debt reduction was the chief reason. A deterioration in the debt/GDP ratio was seen only in Costa Rica, Haiti and Peru, where an increase in the debt was coupled with very weak growth. The countries with the lowest coefficients in 1991 wereBrazil (24%), Paraguay (29%) and Guatemala (32%), while those with the highest were Nicaragua (620%), Panama (133%), Ecuador (113%), Bolivia (102%) and Argentina (93%).

Another very significant indicator of the debt burden is the relationship between the countries' debt and their fiscal income. In the 1970s, the lion's share of external debt was already being shouldered by the Governments of the region. Then, in the 1980s, this situation was compounded by the fact that public debt tended to grow much faster than private-sector debt due, in large part, to exceptional circumstances, such as the public sector's obligatory assumption of private obligations and the involuntary rollovers associated with the first three stages of the international debt strategy. Consequently, the Latin American Governments owe at least 80% of their countries' total external debt, and this is the main factor which is hindering the servicing of that debt.

Some of the countries' debt/fiscal income ratios have improved in the past few years thanks to progress in tax reform, the positive effects of the upturn in tax receipts in some economies and debt reduction programmes. Although the data given in table VIII-6 are not comparable owing to differences in the way the category of public-sector income is defined, it is none the less clear that a marked improvement was seen in the ratios of Peru, Argentina and Guatemala. All the countries achieved a notable increase in tax revenues and a reduction in public-sector debt (except Peru, whose external debt continued to climb). Moreover, no country experienced any major deterioration in its debt/fiscal income ratio, although this coefficient did remain high in almost all the countries. Nicaragua represented an extreme case, since its external public debt was 20 times greater than its fiscal revenues. The ratio was slightly under 600% for Honduras, over 400% in the Dominican Republic, Peru and Ecuador, and over 300% in El Salvador and Argentina. The only countries where this coefficient was around 100% were Colombia, Mexico, Brazil and Chile.

Obviously, from a fiscal standpoint the external debt continues to pose a very serious problem. Although recent official debt reduction programmes have provided some relief for the public sector, help has been slow in coming and often modest relative to the overall public debt burden. Indeed, the most important source of relief of late has been the tolerance displayed by creditors with regard to the buildup of interest arrears, which, in effect, have acted as an "escape valve" for overindebted Governments; be that as it may, arrears are an uncertain and ineffective relief mechanism, and clearly do not offer a definitive solution for the debt overhang. Hence the need to strengthen and accelerate the debt reduction process in respect of private banks and the Paris Club, as well as to develop more comprehensive and timely means of relieving the serious burden represented by multilateral debt.

Yet another indicator of the debt load is the discount given on commercial-bank debt paper in the secondary market, and it is therefore noteworthy that the average price for Latin American debt in secondary markets had climbed from US$0.35 on the dollar in late 1990 to US$0.45 on the dollar by December 1991 (see table VIII-7). This rise was the result of a number of factors. One of the main reasons was the market's perception that some countries are solving their debt problems with the private banking system. The most outstanding such case is Chile, whose debt was being traded nearly at par by the end of 1991 (in December Chilean debt paper was going for approximately US$0.90 on the dollar, as compared to US$0.75 in December

1990). The sharp rise in the price of Mexican, Venezuelan and Costa Rican bank debt (countries which have reduced their bank debt under the Brady Plan) may be interpreted in a similar manner. The notable increase in the price of Colombia's debt paper (the only country which, strictly speaking, has not had a debt problem) may be at least partly due to the recent turn of events in that country, where the domestic situation has settled down considerably. The increase in the price of the debt paper of other countries which are still having very severe problems with their bank debt, on the other hand, is partially a reflection of expectations that these debtors will eventually negotiate new accords with their creditor banks. This development does, however, introduce an element of inefficiency into debt reduction operations, since it sharply raises the public-sector cost of future debt reduction agreements with the banks. In fact, in view of the severe shortage of public funds available for debt-reduction purposes, the higher price of loans held by debt-distressed countries highlights the problems involved in the voluntary sort of debt-reduction negotiations called for by the Brady Plan.

Table **VIII-1**

LATIN AMERICA AND THE CARIBBEAN: TOTAL DISBURSED EXTERNAL DEBT[a]

(Millions of dollars and growth rates)

	Year-end balances						Annual growth rates				
	1986	1987	1988	1989	1990	1991[b]	1979-1981	1982-1983	1984-1989	1990	1991[b]
Latin America and the Caribbean	**401 Oil**	**428 066**	**420 906**	**425379**	**440 899**	**439 858**	**22.9**	**11-3**	**2.9**	**3.6**	-0.2
Oil-exporting countries	**178 407**	**184 940**	**185174**	**180 899**	**189 225**	**193795**	**24.7**	**10.7**	**1.6**	**4.6**	**2.4**
Bolivia [c]	3 643	4 289	4 070	3 492	3 779	3 596	14.3	9.4	1.6	8.2	-4.8
Colombia	14 987	15 663	16 434	17 007	17 556	16 500[g]	28.0	16.0	6.8	3.2	-6.0
Ecuador	9 063	10 300	10 581	11322	11856	12 271	21.0	18.3	7.4	4.7	3.5
Mexico	100 500	102 400	100 900	95 100	99 700	104 100	30.2	11.9	0.2	4.8	4.4
Peru	14 477	15 373	16 493	18 686	19 912	20 860	1.0	13.8	7.0	6.6	4.8
Trinidad and Tobag;o	1898	2 082	2 012	2 097	2 520	2 431	29.3	16.3	6.7	20.2	-3.5
Venezuela[6]	33 839	34 833	34 684	33 195	33 902	34 037	24.7	4.0	-0.7	2.1	0.4
Non-oil-exporting countries	**222 604**	**243126**	**235 732**	**244 480**	**251674**	**246 063**	**21.5**	**11.7**	**4.0**	**2.9**	-2.2
South American countries	**191 818**	**209 825**	**201012**	**206** 752	**212 659**	**207 740**	**21.9**	**11.1**	**3.5**	**2.9**	-2-3
Argentina	51 422	58 324	58 473	6.3 314	60 973	60 000	41.9	12.4	5.8	-3.7	-1.6
Brazil [d]	111 045	121 174	113 469	115 096	122 200	119 709	14.4	10.6	2.7	6.2	-2.0
Chile	20 716	20 660	18 960	17 520	18 576	17 360	30.5	7.6	-0.5	6.0	-6.5
Guyana	1542	1736	1778	1801	1802	1700	28.1	17.8	11.0	0.1	-5.7
Paraguay	1 855	2 043	2 002	2027	1725	1788	12.3	24.5	5.5	-14.9	3.7
Uruguay	5 238	5 888	6 330	6 994	7 383	7 183	35.9	21.2	7.3	5.6	-2.7
Central American and Caribean countries	**30 786**	**33301**	**34 720**	**37 728**	**39 015**	**38323**	**18.7**	**16.1**	**7.3**	**3.4**	**-1.8**
Costa Rica	4 079	4 384	4 471	4 513	3 874	4000	12.8	14.7	4.2	-14.2	3.3
El Salvador	1928	1880	1913	2169	2 226	2 216	17.7	8.4	2.3	2.6	-0.4
Guatemala	2 674	2 700	2 599	2 731	2 602	2 561	19.0	24.8	4.0	-4.7	-1.6
Haiti[c]	696	752	778	803	861	900	21.0	21.7	6.5	7.2	4.5
Honduras	3 366	3 773	3 810	3 374	3 526	3 174	17.5	16.7	7.7	4.5	-10.0
Jamaica	3575	4 014	4 002	4 039	4 152	3 874	22.6	14.9	5.6	2.8	-6.7
Nicaragua [c]	5 760	6270	7 220	9 741	10 616	10 454	27.1	21.5	17.0	9.0	-1.5
Panama	4 896	5 629	6 044	6 268	6 676	6900	13.3	14.2	6.1	6.5	3.4
Dominican Republic	3 812	3 899	3 883	4 090	4 482	4 244	24.2	14.0	3.6	9.6	-5.3

Source: ECLAC, on the basis of official figures.

[a] Includes debt owed to the International Monetary Fund (IMF). Preliminary figures. [c] Public debt. Up to 1984, corresponds to World Bank data. Total debt according to official figures and data from international financial agencies. World Bank figu res. [g] As of the end of September.

Table VIII-2

LATIN AMERICA AND THE CARIBBEAN: FIFTH ROUND OF EXTERNAL DEBT RESCHEDULINGS WITH THE PARIS CLUB

(1989-1991)

Country	Date	Restructured maturities		Percentage of service restructured		Terms[a] (years)	
		Months	Amount (millions of dollars)	Interest	Principal	" zation	Grace
Trinidad and Tobago	January 1989	14	209	-	100	9.4	4.9
Guyana	May 1989	14	195	100	100	19.4	9.9
Costa Rica	May 1989	14	182	100	100	9.4	4.9
Mexico	May 1989	10	2 400	100	100	9.6	6.1
Ecuador	October 1989	14	397	100	100	9.4	5.9
Argentina	December 1989	15	2 450	100	100	9.3	5.8
Bolivia	March 1990	24	276	100	100	Toronto terms	
Jamaica	April 1990	18	179	100	100	9.3	4.8
Trinidad and Tobago	April 1990	13	110	-	100	9.5	5.0
Guyana	September 1990	35		100	100	Toronto terms	
Honduras	September 1990	11		100	100	14.6[c]	8.0
El Salvador	September 1990	13		100	100	14.4 [c]	7.9
Panama	November 1990	17		100	100	9.3	4.8
Jamaica	July 1991	13	97	100	100	14.5 [c] .	5.1
Costa Rica	July 1991	9	125	100	100	9.6	5.0
Peru	September 1991	14	5900	100[d]	100	14.5[c]	7.1
Argentina	September 1991	9	1700	100	100	10.0	6.0
Dominican Republic	November 1991	18		100	100	14.3[c]	6.1
Nicaragua [e]	December 1991	15	860	100[f]	100[f]	"Extended" Toronto terms[8]	

Source: 1989: ECLAC, on the basis of official figures; 1990 and 1991: UNCTAD, Money, Financing and Banking Division.

* Interest rates were renegotiated bilaterally. Under an agreement reached among creditor countries at the Toronto summit meeting of June 1988, special terms and conditions are to be granted to low-income developing countries. In these cases, the creditor country may choose among three options: i) forgiveness of one-third of the eligible debt and the rescheduling of the remainder over a 14-year period with eight years of grace; ii) the rescheduling of the eligible debt over a 25-year period with 14 years of grace, or iii) the reduction of the interest rate by 3.5 points or 50%, whichever is less, and the rescheduling of the debt over a 14-year period with eight years of grace. For further information see UNCTAD, *Trade and Development Report, 1989,* Geneva, 1989, United Nations publication, Sales No. S.89.II.D.14. [c] The longer repayment periods are a reflection of the new terms (known as the "Houston terms") for lower midlle-income countries which were agreed upon at the Houston summit meeting in 1990. [d] Includes 70% of interest arrears. [c] An agreement is expected to be signed in December. Includes all arrears. In addition, 100% of the interest corresponding to the 15-month consolidation period will be rescheduled as well.

[g] The new terms provide for three options: i) reducing obligations by 50% and rescheduling the balance over a repayment period of 23 years (with a six-year grace period); ii) lowering interest rates to a point where the amount of relief is equivalent to that provided by the first option in terms of discounted values, together with a rescheduling of the debt over a 23-year term (with no grace period), and iii) rescheduling over 23 years (with a six-yeargrace period) at a below-market interest rate along with cost-free capitalization of interest payments during the grace period. In the case of concessional debt, maturities corresponding to the consolidation period are to be reprogrammed over a 30-year repayment period with a 13-year grace period.

Table VIII-3

LATIN AMERICA AND THE CARIBBEAN: TOTAL INTERESTAS A PERCENTAGE OF EXPORTS OF GOODS AND SERVICES[a]

(Percentages)

	1983	1984	1985	1986	1987	1988	1989	1990	1991[b]
Latin America and the Caribbean	**36.2**	**36.7**	**36.0**	**36.7**	**30.4**	**29.0**	**28.6**	**25.5**	**22.8**
Oil-exporting countries	**31.2**	**33.0**	**32.6**	**33.9**	**27.8**	**29.1**	**27.5**	**22.8**	**20.5**
Bolivia	39.8	49.8	46.8	42.1	38.4	41.0	30.2	25.3	26.7
Colombia	26.7	22.8	28.9	20.5	20.5	20.7	21.7	19.2	15.6
Ecuador	30.0	33.3	25.7	29.7	32.2	33.2	33.8	29.4	25.1
Mexico	37.5	39.2	37.2	38.3	29.7	29.9	28.3	24.1	21.2
Peru	29.8	34.8	31.4	31.7	29.1	33.6	29.5	34.6	36.4
Venezuela	21.6	23.9	26.4	34.2	25.9	29.0	26.6	17.6	16.0
Non-oil-exporting countries	**42.1**	**41.0**	**39.7**	**393**	**32.9**	**29.0**	**29.6**	**28.2**	**25.1**
South American countries	**45.4**	**44.0**	**42.4**	**42.4**	**34.9**	**30.2**	**31.1**	**29.9**	**26.2**
Argentina	58.4	57.6	51.1	50.9	51.0	42.0	51.2	39.0	35.9
Brazil	43.5	39.6	40.0	42.4	33.1	29.4	29.2	30.9	27.1
Chile	38.9	50.1	43.5	37.9	26.4	21.7	18.5	18.0	14.6
Paraguay	14.4	13.7	17.3	15.4	21.0	12.5	7.8	5.8	6.3
Uruguay	24.8	34.8	34.2	24.7	24.8	23.8	27.7	27.4	21.7
Central American and Caribbean countries	**20.6**	**19.8**	**203**	**20.4**	**19.8**	**18.8**	**16.9**	**15.0**	**16.2**
Costa Rica	33.1	26.6	24.9	21.8	21.3	22.0	23.6	16.7	10.4
El Salvador	11.9	12.3	11.1	10.1	10.9	9.5	8.9	13.0	12.6
Guatemala	8.7	12.3	14.9	17.4	13.6	13.9	11.4	10.0	10.2
Haiti	2.4	5.2	5.4	5.1	*6.0*	8.3	9.7	9.4	10.3
Honduras	16.3	15.9	16.1	19.5	18.3	18.0	18.0	19.1	20.5
Nicaragua	43.5	57.9	78.3	88.5	75.6	96.7	62.2	58.4	110.4
Dominican Republic	24.5	18.0	18.7	18.9	20.4	14.7	11.3	8.1	11.8

Source: ECLAC, on the basis of data from the International Monetary Fund (IMF) and from national agencies.
'Includes inleresi payments actually made and interest due but not paid. Services do not include factor services. ' Preliminary figures.

Table VIII-4

LATIN AMERICA AND THE CARIBBEAN: TOTAL DISBURSED EXTERNAL DEBT AS A PERCENTAGE OF EXPORTS OF GOODS AND SERVICES [a]

(Percentages)

	1983	1984	1985	1986	1987	1988	1989	1990	1991
Latin America and the Caribbean	**344**	**324**	**349**	**416**	**389**	**336**	**306**	**287**	**284**
Oil-exporting countries	**302**	**281**	**312**	**397**	**348**	**340**	**286**	**252**	**259**
Bolivia	370	392	458	530	640	606	403	387	392
Colombia	303	239	314	233	230	244	232	205	192
Ecuador	277	261	246	345	420	400	394	367	360
Mexico	346	322	357	459	371	347	289	260	260
Peru	334	349	362	430	428	447	414	469	496
Venezuela	219	202	225	357	305	314	237	181	210
Non-oil-exporting countries	**392**	**371**	**387**	**433**	**429**	**333**	**323**	**322**	**308**
South American countries	**424**	**397**	**412**	**476**	**463**	**342**	**329**	**329**	**320**
Argentina	485	481	491	610	717	525	538	412	414
Brazil	415	364	379	460	430	315	307	347	343
Chile	390	456	457	405	327	229	182	183	152
Paraguay	316	289	287	244	265	182	139	99	105
Uruguay	324	362	391	349	381	359	351	348	334
Central American and Caribbean countries	**246**	**253**	**272**	**265**	**281**	**284**	**290**	**282**	**256**
Costa Rica	343	308	339	292	302	276	245	199	186
El Salvador	211	218	219	188	207	203	238	257	246
Guatemala	184	203	232	229	238	205	192	165	154
Haiti	190	190	178	238	235	283	339	386	443
Honduras	270	282	336	334	389	378	331	357	334
Nicaragua	761	946	1435	2007	1929	2 644	2 856	2708	3 093
Panama	149	148	141	133	151	172	170	153	172
Dominican Republic	267	258	281	271	250	205	191	224	214

Source: ECLAC, on the basis of data from the International Monetary Fund (IMF) and from national agencies.
* Preliminary figures.

Table **VIII-5**

LATIN AMERICA AND THE CARIBBEAN: TOTAL EXTERNAL DEBT AS A PERCENTAGE OF GROSS DOMESTIC PRODUCT[a]

(Percentages)

	1980-1981	1982-1983	1984-1985	1986-1987	1988-1989	1990	1991[b]
Latin America and the Caribbean	30	51	57	59	49	44	43
Oil-exporting countries	31	54	54	68	58	55	54
Bolivia [c]	64	111	94	160	128	111	102
Colombia	22	29	36	41	42	42	39
Ecuador	38	54	67	90	112	114	113
Mexico	26	61	55	76	54	49	49
Peru	43	55	75	53	59	59	60
Venezuela	49	51	55	68	72	72	67
Non-oil-exporting countries	29	49	60	53	44	39	38
South American countries	28	47	58	51	41	36	34
Argentina	25	68	76	70	90	99	93
Brazil	28	39	47	41	30	25	24
Chile	47	83	122	117	77	67	59
Paraguay	20	25	59	64	49	29	29
Uruguay	24	59	97	78	81	83	79
Central American and Caribbean countries	48	64	78	80	88	93	91
Costa Rica	74	122	105	94	90	69	70
El Salvador	40	49	48	43	32	41	40
Guatemala	15	22	35	37	33	34	32
Haiti[c]	35	46	43	47	56	55	58
Honduras	55	69	77	86	90	111	99
Nicaragua [c]	96	134	189	242	716	634	618
Panama	85	96	96	101	135	135	133
Dominican Republic	43	58	88	69	66	62	59

Source: ECLAC, on the basis of official figures and data from the International Monetary Fund (IMF).

[a] Estimates of gross domestic product in current dollars were arrived at on the basis of GDP data expressed in local currency and the exchange rate applying to exports of goods and services. [b] Preliminary estimates. [c] External public debt as a percentage of gross domestic product.

Table VIII-6

IATIN AMERICA AND THE CARIBBEAN: EXTERNAL PUBLIC DEBT AS A PERCENTAGE OF CURRENT PUBLIC SECTOR INCOME[3]

(Percentages)

	Sector	1987	1988	1989	1990	1991[b]
Latin America and the Caribbean		177	**160**	**134**	**110**	**120**
Oil-exporting countries		**192**	**168**	**160**	**150**	**147**
Bolivia	NFPS	691	573	393	393	
Colombia	NFPS	99	97	94	95	95
Ecuador	NFPS	402	449	397	402	420
Mexico	NFPS	198	151	135	125	123
Peru	BCG	431	551	605	505	452
Venezuela	BCG	163	180	213	201	204
Non-oil-exporting countries		**167**	**154**	**119**	**90**	**103**
South American countries		**154**	**139**	**106**	78	**91**
Argentina	CCG	310	318	493	423	362
Brazil	NFPS	112	101	68	51	62
Chile	BCG	270	200	142	138	113
Paraguay	BCG	1 008	680	430	238	245
Uruguay	BCG	244	220	226	191	175
Central American and Caribbean countries		**379**	**432**	**440**	**450**	**427**
Costa Rica	NFPS	312	289	254	208	198
El Salvador	BCG	298	274	326	403	389
Guatemala	BCG	343	262	268	359	279
Honduras	BCG	403	445	500	605	571
Nicaragua	BCG	835	2 268	3067	2 362	2196
Panama	GG	219	289	286	238	235
Dominican Republic	BCG	393	399	359	430	426

Source: External public debt: World Bank, *World Debt Tables 1991-92,* Washington, D.C., 1991; current public-sector income: ECLAC, on the basis of official figures.

Abbreviations:
GG = General Government.
CCG= Consolidated central Government.
BCG = Budgeted central Government.
NFPS = Non-financial public sector.

[a] See the definition of public-sector income used in this table. Estimates subject to revision.

Table VIII-7

LATIN AMERICA AND THE CARIBBEAN: PRICES OF EXTERNAL DEBT PAPER ON THE SECONDARY MARKET

(As a percentage of face value)

	1989			1990			1991		
	January	June	December	January	June	December	January	June	December
Argentina	20	13	13	12	13	20	19	25	36
Bolivia	10	11	11	11					
Brazil	37	31	22	25	24	25	23	33	30
Colombia	56	57	64	60	64	63	64	73	81
Costa Rica	13	14	17	18	36	34	34	46	50
Chile	60	61	59	62	65	74	75	88	89
Ecuador	13	12	14	14	16	20	20	22	22
Honduras	22	17	20	21					
Jamaica	40	41	40	40	44				
Mexico	40	40	36	37	45	46	45	55	60
Nicaragua	2	1	1	1					
Panama	19	10	12	19	12	13	11	13	21
Peru	5	3	6	6	4	4	3	7	11
Dominican Republic	22	22	13	13	17				
Uruguay	60	57	50	50	49	55			
Venezuela	38	37	34	35	46	50	50	60	66
Average [a]	35.2	31.9	28.0	29.5	33.3	35.1	32.5	41.5	45.0

Source: United Nations, Department of International Economic and Social Affairs, on the basis of asked prices compiled by the High Yield Department of Salomon Brothers.

[a] Weighted by the amount of bank debt.

IX. ECONOMIC TRENDS IN THE CARIBBEAN IN 1991

1. Main trends

The economies of the English-spea king countries of the Caribbean subregion once again grew only modestly (1%) in 1991; hence per capita domestic product remained virtually stagnant and the declining trend observed in the 1980s continued (see table IX-1). This limited expansion is attributable to downturns in merchandise exports and tourism earnings, which resulted in a contraction of the activities that depend on those sectors, such as construction, commerce and the public sector. Major crops declined significantly following an exceptional boom in agriculture the year before, thus accentuating the subregion's recession. In addition, macroeconomic policies, which were basically designed to stabilize Caribbean economies and to enhance their competitiveness, became more rigorous in 1991 as the inflow of foreign exchange dwindled, prompting a number of countries to tighten fiscal discipline and restrict credit. Some countries adjusted by liberalizing the exchange rate, while other, smaller ones adopted a series of measures to balance their budgets in a context of fixed exchange rates. Inflation remained low in most countries of the subregion, ranging from 5% to 10%; the exceptions were Guyana and Jamaica, where prices increased by over 50%. The smallest increases (less than 3%) were observed in most of the countries of the Organization of Eastern Caribbean States (OECS) and represented a substantial slowdown in inflation. Trinidad and Tobago also reduced its rate of inflation significantly, from 11% to 4% (see table IX-13).

A deceleration of the growth rate of gross domestic product (GDP) characterized most Caribbean countries in 1991, with the exception of Guyana, Saint Kitts and Nevis and Trinidad and Tobago. In Barbados, GDP fell for the second year in a row (-4.1%) owing to shrinking exports, while Jamaica's level of activity remained virtually stagnant after five years of considerable expansion. The rest of the countries in the subregion showed positive growth rates. Guyana made a vigorous recovery (6.1%), although this did little to offset its steep decline over the previous three years (-14%). Trinidad and Tobago continued the modest recovery (somewhat less than 2%) it had begun the preceding year, following the severe contraction of its economy during the 1980s (-23%). The OECS economies continued to evolve positively, although the rate of expansion slowed considerably in almost all of them; only Saint Kitts and Nevis achieved its usual growth rate of over 6% (see table IX-1).

Agricultural production went down in nearly all of the countries in 1991, following the bumper crops of 1990, but shrank most notably in Saint Lucia, Saint Vincent and the Grenadines and Trinidad and Tobago, and more moderately in Antigua and Barbuda, Barbados and Grenada. The only countries whose agricultural sector expanded were Guyana, Dominica, Jamaica

The expression "English-speakingcountries of the Caribbean" refers to the following countries and territories in the subregion for which data were available: Antigua and Barbuda, Bahamas, Belize, British Virgin Islands, Dominica, Grenada, Guyana, Jamaica, Montserrat, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines and Trinidad and Tobago. Also included are some Dutch-speaking countries such as Aruba, Netherlands Antilles and Suriname. Countries for which insufficient information was available have been excluded.

Composed of Antigua and Barbuda, British Virgin Islands, Dominica, Grenada, Montserrat, Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines.

(only slightly) and Saint Kitts and Nevis (see figure IX-1).

The agricultural output of banana-producing OECS countries either rose slowly, as in the case of Dominica, or fell. In all cases, production of bananas -the main export crop- was lower than in 1990. Export volumes fell 19% and export earnings, 16%. This decline was mainly attributable to poor weather conditions and to uncertainty about the banana market's future. In Saint Kitts and Nevis, the only sugar-cane producer, output made a robust recovery of 30% after the hurricane damage suffered in 1989, which had resulted in a 32% decline in 1990.

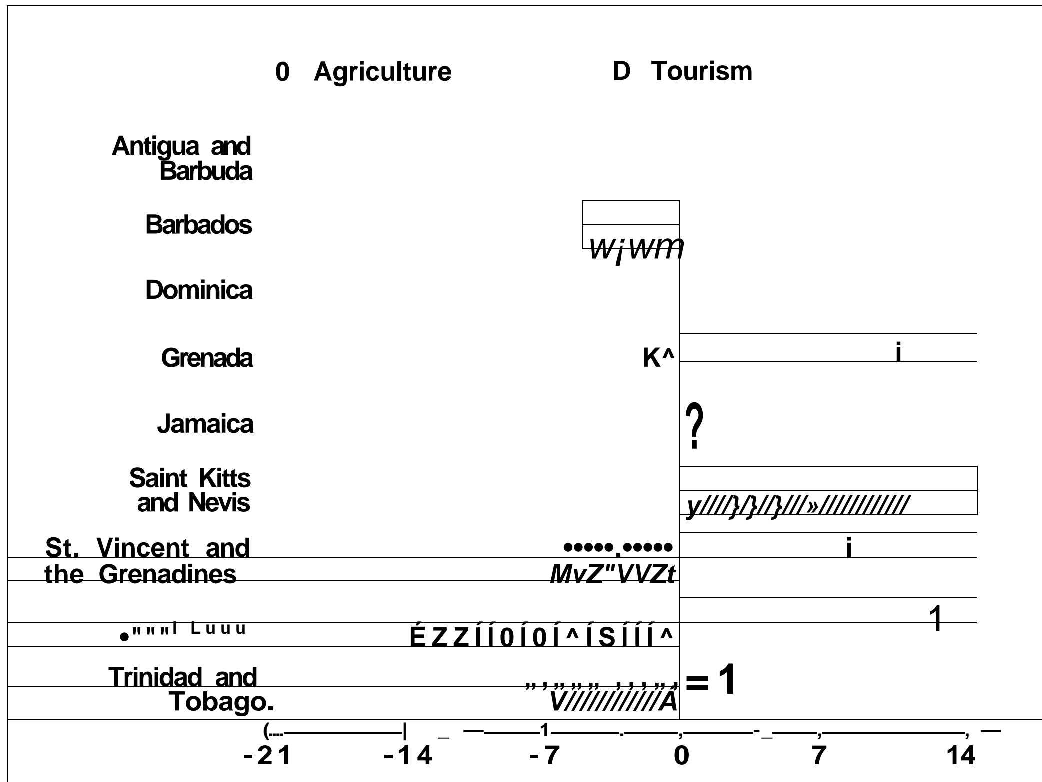
The contraction of Barbados's agricultural sector reflected decreased production of both export crops, such as sugar (-5%) and cotton, and crops for domestic consumption. A similar phenomenon took place in Belize, where agricultural output dropped 4% with decreased production of sugar, bananas and citrus fruits and increased fishing and forestry activities. Trinidad and Tobago followed a similar pattern, with a 34% drop in export agriculture. Sugar production fell 8% and cacao production, 20%, while coffee production dropped to less than half its previous level. A more moderate contraction (-7%) was observed in agricultural products for domestic consumption. Jamaica's agricultural sector expanded slightly. In general, export agriculture tended to shrink, as production of the main crops (such as sugar and bananas) and of coffee went up, while citrus fruits, allspice and cacao went down. In fact, agricultural products for domestic consumption rose nearly 3%. In contrast, Guyana's agricultural output rose considerably, to the point where its contribution to GDP increased 10%. The production of sugar and rice for domestic consumption rose 23% and 60%, while export volume rose 16% and 6%, respectively. Moreover, it is estimated that fresh and processed agricultural products increased significantly and that a considerable proportion thereof was exported (see figure IX-1).

The tourist industry's weak performance reflected the economic recession and consumer caution in countries from which tourists visiting the Caribbean subregion traditionally came. However, some Caribbean countries reacted better than others to the shrinkage of that market. The sector suffered some deterioration in Antigua and Barbuda, the Bahamas and Barbados, but grew slightly in Dominica, Trinidad and Tobago and Jamaica. In contrast, most OECS countries experienced an evident growth in tourism, which, as one of the most important sources (along with bananas) of foreign exchange for those countries, partially compensated for their poor agricultural performance. Nevertheless, the rate of increase of tourist activity was less than in 1990. Also, income from tourism dwindled as competition for the reduced number of tourists forced prices down and necessitated special offers. In many cases, the average occupancy rate of hotel rooms also fell. Cruise tourism, which contributes little to GDP, continued to expand in most countries, providing a more economical alternative to the traditional vacation in times of austerity (see figure IX-1).

Manufacturing took an upward turn, especially in Saint Kitts and Nevis and Trinidad and Tobago. In the former, sugar refining, which had shrunk 40% in 1990, made a partial recovery by expanding 28%, thus increasing the sector's contribution to total output. In Trinidad and Tobago, all branches of manufacturing grew except those which produced wood products, clothing and textiles. The most dynamic growth took place in the assembly industry and in, processed foods and non-metallic products (such as fertilizer, methanol and cement). In Barbados, the sector's decline was generalized, but was most pronounced in the manufacture of wood furniture, clothing and electronic components, which declined 50%, 25% and 24% respectively. The production of non-metallic minerals and chemicals took a lesser downturn, while food production dipped slightly (less than 1%). In Belize, manufacturing dropped 5% despite the increase in exports of clothing and treated wood, mainly because of the slowdown in agro-industry and lessened demand for domestically manufactured products. In Dominica, the downturn was largely a reflection of decreased activity in the coconut processing industry. Manufacturing in Jamaica, which uses many imported inputs and depends heavily on the domestic market, was affected by the notable rise in the exchange rate and its effects on prices, a sharp contraction of domestic demand and high interest rates. Consequently, manufacturing's

Figure IX—1

CARIBBEAN SUBREGION: SECTORAL PRODUCT
(Growth rote In 1991)



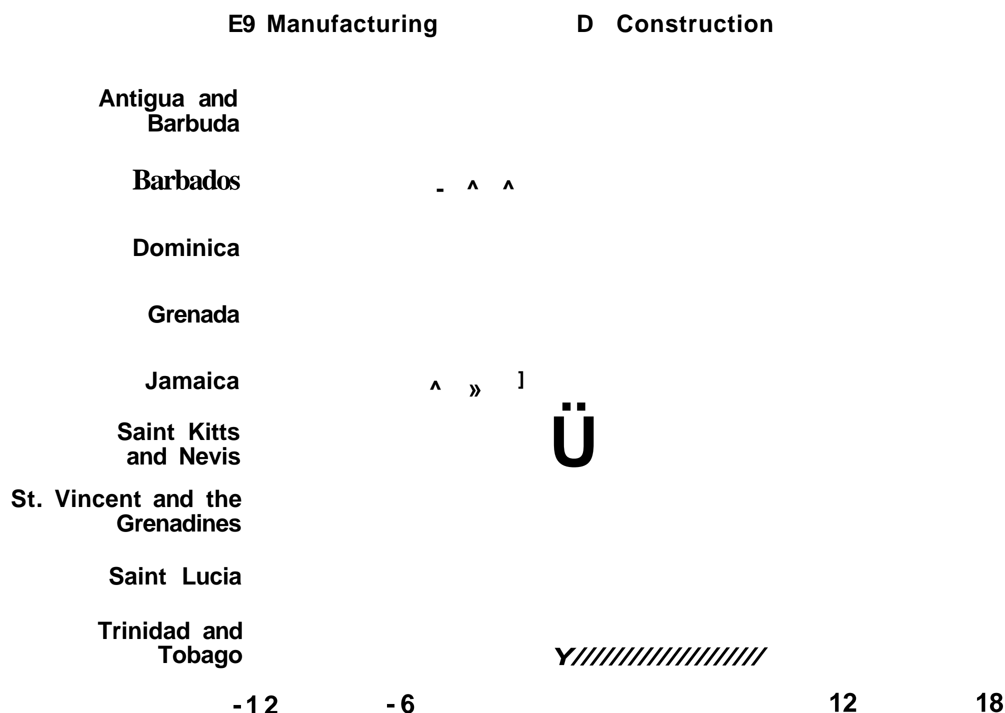
Source: ECLAC, on the basis of official figures.

contribution to employment in Jamaica fell 8% (see figure IX-2).

The construction sector expanded considerably in Trinidad and Tobago and Saint Lucia, and showed significant increases in Saint Vincent and the Grenadines and Grenada, but declined in Antigua and Barbuda and Barbados. In Trinidad and Tobago, the dynamism of infrastructure projects was the main stimulus in that sector, as capital expenditure more than doubled its 1990 level, although the hotel, transport and communications industries also made important contributions. In Saint Lucia, the sector's growth was propelled by government spending, especially on infrastructure, and also by private-sector activity, though to a lesser degree than in 1990. In Jamaica, the growth rate of construction was similar to that of GDP, i.e., very slight. In Barbados, on the other hand, the steep decline in the construction sector for the second year in a row was attributable to reduced liquidity and economic recession. These factors reduced private construction activity, and ultimately public activity as well when the Government froze capital expenditure in the last quarter of 1991 under its adjustment programme. In Antigua and Barbuda, the sector was affected by a severe drop in residential construction within a relatively stagnant economy (see figure IX-2).

Most of the countries did not experience serious macroeconomic imbalances; however, Guyana and Jamaica had difficulty restoring macroeconomic balance. To that end, they

Figure IX-2
CARIBBEAN SUBREGION: SECTORAL PRODUCT
(Growth rate In 1991)



Source: ECLAC, on the basis of official figures.

established a floating exchange rate and liberalized the exchange market. In contrast, Barbados used fiscal and monetary tools to achieve stabilization with a fixed exchange rate.

In those countries which had been affected by chronic imbalances for over 15 years, the exchange market showed some volatility as currency depreciated. Such was the case in Guyana, where the price of the United States dollar rose from 45 to 122 Guyana dollars, although the exchange rate stabilized around the middle of the year and rose slightly at year's end. Substantial growth was achieved (6%) and reserves were increased by US$120 million, representing nearly four months of imports. External debt shrank as the United States forgave US$113.5 million in official debt and multilateral organizations resumed capital contributions to finance infrastructure projects. Despite persistently high inflation, the privatization policy and improved management increased production in some sectors.

Economic activity grew hardly at all in Jamaica, since the slacking-off of exports in the tourism and bauxite-aluminium sectors translated into a reduction of aggregate demand. This phenomenon, along with the currency depreciation, affected a number of sectors, including manufacturing. The exchange rate rose from 8.12 to 16.8 Jamaican dollars per United

States dollar, before the authorities let the exchange rate float in September, and continued to rise until it reached 21 Jamaican dollars per United States dollar towards the end of the year. Owing to this devaluation, the deficit on current account was reduced and prices increased by an average of about 50% during the year, and 80% between December 1990 and December 1991.

Trinidad and Tobago's economy grew 1.8%, continuing the slow recovery begun in 1990 after six years of contraction. Since the economy's external performance was lackluster, the expansion represented greater internal dynamism, achieved at the cost of foreign-exchange reserves, the amount of which, expressed in numbers of months of imports, fell from 5.8 to 3.4 between late 1990 and late 1991. However, the central Government's fiscal deficit shrank to 0.4% of GDP, although the deficit of State-owned enterprises and public services remained very high, and measures continued to be adopted to try to eliminate it. Inflation and unemployment also dropped. The external debt descended to 25% of GDP in 1991, but the internal debt climbed during the year, amounting to 23% of GDP.

Barbados, whose macroeconomic imbalances have been neither as severe nor as prolonged as those of the subregion's three largest countries, had to apply a stabilization programme in 1991, which cut the fiscal deficit from 9% to 3% of GDP by the end of the year, and under which the deficit is expected to reach 1% by the end of the 1992 fiscal year. Interest rates rose 2.5% and net domestic credit remained within projected levels at the end of the year. The external debt dipped slightly, and the Central Bank's net foreign exchange reserves increased 48%. The fiscal and monetary austerity policies unleashed great protest; although prices rose only 8% in 1991, this was double the 1990 rate of inflation. Moreover, most sectors were hurt by serious contractions and a 15% to 17% rise in unemployment.

In Grenada, the drop in agricultural exports and in fiscal revenues, owing in part to difficulties experienced in collecting the value-added tax, obliged the Government to limit its operations in a context of growing indebtedness and a consequent disquiet among creditors. As a result, the economic expansion achieved in recent years at the expense of the government deficit was halved with respect to the preceding year. Even so, fiscal balance has yet to be achieved.

2. Performance of the main sectors

Bananas

Banana production in the region as a whole suffered a setback in 1991, after sustained growth over the previous decade, when the export volume rose 58%. Export revenues fell 9% in 1991 because of an 11% drop in the volume of bananas exported. The decline in production was generalized, with the exception of Jamaica, where the recovery begun in 1988 was sustained, and a 20% increase was recorded in 1991.

Banana exports, which contribute significantly to the economic well-being of the Windward Islands (in the Spanish m eaning of the term), were plagued with drought and pestilence in 1991. However, these natural phenomena were compounded by other factors that limited exports, such as the scarcity of manpower in Dominica and Grenada and the decision of growers in Grenada and Saint Vincent and the Grenadines to replace bananas with other crops. The reduction of exports from these islands (Grenada, Saint Lucia and Saint Vincent and the Grenadines) was greater than in the Caribbean subregion as a whole; their volume fell 19%, while the revenues they generated (US$121 million) were 16% lower than in 1990. The most pronounced drop in exports took place in Saint Lucia and Saint Vincent and the Grenadines, while Grenada -a relatively smaller-scale exporter- has recorded a steady decline since 1988 (see table IX-2).

Banana production in Belize, which had suffered various blights in 1990, was beset in 1991 by a drought, financial problems and inadequate irrigation, but the improvement of the country's port facilities enabled it to overcome a serious obstacle to increased exports.

Jamaica's banana industry continued to expand; its exports reached their highest level since 1978. Export volume rose 23% in 1991, while export revenues increased 20%. Production surpassed the goals established,

despite the adverse weather conditions that affected the entire region. This growth reflected both an increase in per-hectare yield and the expansion of the surface area cultivated, which also exceeded the goals set for the year. All of these factors enabled Jamaica to boost its participation in the United Kingdom's preferential market and to export better-quality fruit.

The region's reaction to the uncertainty aroused by the United Kingdom's preferential market has been mixed: Grenada has gradually scaled down its banana industry, while Jamaican producers are planning a 46% increase in the surface area cultivated in 1993 and an increase in the productivity of existing plantations.

Sugar

The sugar sector's performance was uneven, although the volume and value of exports from the Caribbean Community (CARICOM) countries[3] rose 5%. Outstanding among this group of countries were Guyana and Saint Kitts and Nevis, the value of whose exports increased 35% and 21% respectively, representing a recovery from the preceding year. Guyana increased its production through soil rehabilitation and improved administration, in order to take advantage of the preferential quotas which had not been used since 1988. In Saint Kitts and Nevis, the increase reflected a partial recovery from the damage inflicted by the 1989 hurricane, which cut the 1990 harvest by 33%.

Increased output in Jamaica, which brought sugar production to its highest level since 1980, translated into a 7% rise in export volume. Production surpassed targeted levels, despite adverse climatic conditions and processing problems in the country's largest refinery, owing to greater efficiency in both plantations and refineries and to the expansion of the area cultivated, which reached a level unprecedented since 1980.

In contrast, sugar exports from Barbados, Belize and Trinidad and Tobago decreased. Sugar production in Barbados has dropped to some 66,000 tons, the country's lowest volume in 60 years, and a far cry from the levels recorded in the 1950s, which exceeded 200,000 tons. The decline in production can be ascribed to poor weather conditions and to unsuitable agricultural practices, such as the burning of sugar cane plantations, insufficient land conservation and, in general, the steady decrease in sugar production per hectare of sugar cane cultivated. The volume and value of exports fell 7% in 1991. In Belize, the sugar industry's performance was acceptable; production rose nearly 2%, reaching its highest level since 1983, as a result of higher crop yields. However, the volume and value of exports dipped slightly because, even though the price of sugar rose in the European Community, the preferential quota for sugar exported to the United States fell. In consequence, 28% of the exports (as opposed to 19% in 1990) had to be placed on a world market with low sugar prices. Production in Trinidad and Tobago was over 20% less than the target level, amounting to 95,000 tons of raw sugar. This decline was influenced by unsuitable growing practices, such as an increase in sugar-cane burning, no-cutting campaigns on the part of growers, the harvesting of unripe sugar cane, poor weather conditions and the use of less efficient processing methods (see table IX-3).

The sugar industry throughout the region was hurt by a general reduction of 35% of the preferential quota assigned by the United States. The exception was Saint Kitts and Nevis, which suffered a reduction of only 10%. Although the United States market is less important than the European Community market for most producers, the quota reduction particularly affected Belize, which is in a position to meet both the European Community and United States quotas. In the long term, the measure will affect those countries wishing to increase their sugar production, since current prices on the world market are much lower than on the preferential markets.

Minerals and petroleum

Regional bauxite and alumina production rose some 5%. In Guyana and Jamaica, it was 6% higher than in 1990. In Jamaica, bauxite and alumina production increased 8.6% and 4.7%

The Caribbean Community consists of the Bahamas, Jos, Belize, Guyana, Jamaica, Trinidad and Tobago and the countries of the Organization of Eastern Caribbean States.

respectively. The world alumina and aluminium market continued to decline in 1991, with a weak demand that reflected the stagnation of world production, but prices fell owing to a steady increase in supply. Ultimately, both countries' revenues from bauxite and alumina exports fell 8%, partly as a consequence of the drop of over 11% in Jamaica's alumina revenues, which, in turn, was attributable to the decline in prices, since export volume rose 5% (see table IX-4).

Trinidad and Tobago's petroleum sector grew slightly in 1991, as did its contribution to GDP. Crude petroleum production was 4.3% lower than in 1990, owing to the natural depletion of the wells being exploited, labour problems and technical difficulties with vapor-injection processes in wells. Drilling operations also declined. Gasoline production for motors and aircraft decreased, but production of diesel fuel, fuel oil and kerosene increased. Fertilizer production rose 5%. The production and use of natural gas also increased, owing to the more efficient use of processed and discharged natural gas and the building of a new plant for recovery of liquids from natural gas fields.

In Barbados, crude petroleum production was slightly higher than in 1990, when it had risen considerably (17%) owing to the authorities' effort to take advantage of high international oil prices in 1991. Currently, local production satisfies 56% of domestic demand. In 1991, new wells began to be explored and the amount of the country's estimated reserves was revised upward. Natural gas production fell 8%, although domestic consumption rose 12% as a result of an expanded installation programme.

Tourism

The steady growth in tourism in recent years came to an abrupt halt in 1991, mainly because of the Gulf war and its repercussions on tourism and consumer confidence, and also the economic contraction in the United States, Canada and the United Kingdom. However, continental Europe's solid economic situation offset the drop in purchasing power in what had traditionally been the main markets.

Few tourists visited the subregion between January and April, but a modest spurt of arrivals occurred in the summer. What most worried hotel owners was the possibility that the prolonged recession would keep the recovery from lasting until the end of the year, since the winter months are normally the most profitable.

Despite the widespread contraction, a significantly larger number of tourists visited less common destinations, especially Aruba and Grenada, whose tourist activities had reached a satisfactory level the preceding year. Tourism also expanded in Saint Lucia and Saint Kitts and Nevis, and grew more moderately in Dominica and Jamaica. However, Antigua and Barbuda, the Bahamas, Barbados, Saint Vincent and the Grenadines and the British Virgin Islands experienced a drop of over 5% in the number of visitors. In the latter case, this loss was attributable to the closing of the airline "Air BVI" in the second half of 1991 (see table IX-5).

Tourism declined less radically in the Netherlands Antilles, as the number of visitors to Curaçao dipped slightly; however, travel from the United States to Saint Maarten was reduced. In Barbados, whose recession was particularly severe, the added value of tourism fell for the second year in a row; following a decline of nearly 10% in 1990, it fell nearly 6% in 1991. There were8% fewervisitors in 1991, while their spending went down 10%. Thus, the steady growth observed between 1986 and 1990 was reversed.

The steepest drop in arrivals (-7%) corresponded to visitors from the United States. Of these, the most severe decreases were recorded in Barbados (-17%), the Bahamas (-11%) and Antigua and Barbuda (-10%). Aruba and Grenada showed the only notable increases in arrivals from the United States: 7% and 18% respectively. The number of arrivals from Canada also declined, by 20% in the cases of Barbados and Antigua and Barbuda, and by 17% in the case of Jamaica, although Aruba and Grenada recorded increases of 29% and 7% respectively. European visitors to the subregion as a whole increased by over 10%. The main increases in the number of European tourists were recorded in Aruba (28%), Jamaica (32%), Saint Lucia (36%) and Trinidad and Tobago (37%).

Cruise lines were among the main beneficiaries of the economic recession in the United States and Canada, since a higher proportion of visitors preferred to remain on

board rather than disembark. Consequently, the number of cruise ship passengers has risen steadily: in 1991 the total number for the subregion increased 10%. This percentage was exceeded by Saint Lucia and Saint Kitts and Nevis, followed by Jamaica and Saint Vincent and the Grenadines. In contrast, the number of cruise ship passengers declined in Saint Maarten and the British Virgin Islands (see table IX-6).

The higher number of cruise ship passengers did not offset the drop in the number of visitors who stayed on land, since the latter figure not only declined but reached its minimum in the winter season, normally the most profitable. Nor did the recessionary cycle of the final quarter bode well for 1992. Furthermore, in an attempt to attract tourists to the land, hotel owners resorted to discount rates, which limited their profits still further.

3. External trade and balance of payments

The slowdown in the world economy and the fluctuations in export revenues inevitably affected the subregion's balance of payments; both the merchandise trade deficit and the current-account deficit became larger.

The value of merchandise exports from CARICOM countries fell off slightly (by over 2%). This decline was somewhat greater in OECS countries (nearly 7%), reflecting the disappointing performance of the banana industry; the drop in exports from Grenada and Saint Lucia (17% and 14% respectively) was particularly severe. The contraction of Trinidad and Tobago's exports (nearly 5%) was due above all to lower international petroleum prices. In contrast, Guyana and Saint Kitts and Nevis recorded increases in their merchandise exports as a result of the recovery of their agricultural sectors (see table IX-7).

Imports continued to outpace exports; in the CARICOM countries their value exceeded the 1990 value by almost 6%. In contrast, imports in OECS countries grew less than 1 %, though Grenada and Saint Lucia imported 9% more than in 1990. Belize and Trinidad and Tobago greatly expanded their imports, by 25% and 30% respectively. In the latter case, the partial liberalization of trade and payment agreements unleashed the formerly contained demand for imports. The value of Jamaica's imports fell by over 7% owing to the rise in the exchange rate and the application of restrictive credit policies. Import value also fell, though to a lesser degree, in Antigua and Barbuda, Barbados, Dominica and Saint Kitts and Nevis (see table IX-8).

Thus, the Caribbean countries' trade deficit mounted. The most dramatic change took place in Belize, whose trade deficit increased 70%. Grenada and Saint Lucia also recorded higher deficits. In contrast, Jamaica's trade deficit declined 17% and Guyana's fell to less than a third of its 1990 level. In Trinidad and Tobago, the only country in the subregion that normally runs a surplus in merchandise trade, the surplus shrank from over US$800 million to slightly over US$300 million, i.e., to a level similar to those recorded before 1990 (see table IX-9).

Because of the poor performance of merchandise trade and tourism, the current-account deficit of the Caribbean countries rose considerably (25%). However, in most OECS countries the current-account deficit declined, with the exception of Saint Lucia, whose deficit grew by over 30%, and Saint Vincent and the Grenadines, whose trade balance went from near-zero to a deficit higher than that recorded in 1989. Trinidad and Tobago's surplus was well below the surplus recorded in 1990. The rest of the countries in the subregion managed to effect acceptable reductions in their current-account deficit (see table IX-10).

4. External debt

The external debt of the CARICOM countries fell 5%, mainly because of the reductions achieved in Guyana and Jamaica, two of the region's most deeply indebted countries (see table IX-11). Guyana, whose debt fell 9%, signed a number of agreements on the rescheduling or cancellation of its pending bilateral debt, representing 46% of the total, especially with the United Kingdom, the United States, Canada and the Netherlands. Despite this relief, it is estimated that the cost of debt-servicing represented 40% of the value of exports of goods and services in 1991.

Jamaica's debt, mainly that of the Government and of the Central Bank, dropped 7% as a result of a lower volume of foreign loans, debt forgiveness and cancellation (especially by the Governments of the United States and the Netherlands) and measures for converting the debt, which have reduced the amount owed to international commercial banks by nearly US$100 million. Also, in mid-July 1991 an agreement was reached with the Paris Club to reschedule US$140 million of the debt. All of these measures cut down the burden of debt servicing from the 1987 peak level, equivalent to 64% of exports of goods and services (although only 47% of that value was actually disbursed for debt-servicing that year), to the 31% recorded in 1991, when the amount actually disbursed equalled 25% of the value of exports. Moreover, in an attempt to make debt management more flexible, its composition was altered in favour of bilateral debt over multilateral and commercial debt.

The other country in the subregion that reduced its debt was Barbados, which resorted to amortization of the debt corresponding to public service enterprises. The external debt, which had reached a maximum of 46% of GDP in 1987, dropped to 35% in 1991, and its servicing absorbed some 16% of the value of exports of goods and services.

The debt of the Bahamas grew 20% in 1991 as a consequence of the financing of lumpy investments in a small economy, since the electricity enterprise and the national airline were responsible for 46% of that increment. The Government's direct debt rose 4%. At year's end, debt servicing represented 11 % of government revenues and 4% of exports of goods and services.

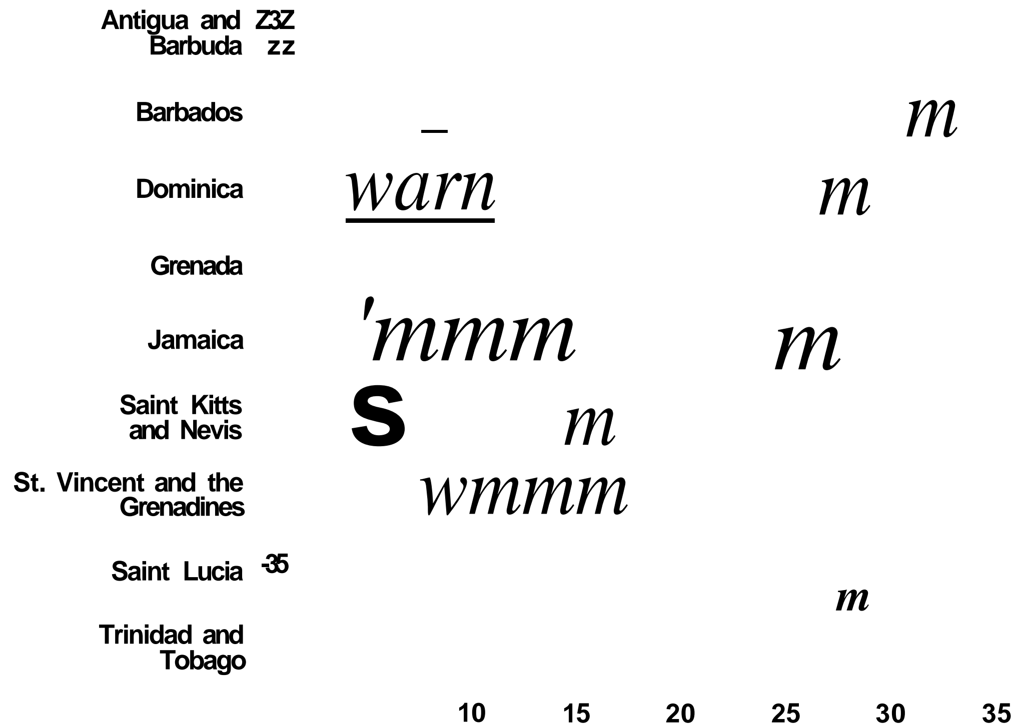
5. Fiscal policy

Fiscal policy remained one of the primary instruments used to adjust Caribbean economies. In addition, emphasis continued to be placed on achieving current-account surpluses to be used for fixed investments. The need to contain the overall deficit was recognized, since it could adversely affect access to private-sector credit and had negative consequences for the balance of payments and external debt. Indeed, the burden of external government debt was one of the major obstacles in the way of improving the fiscal balance on current account. Governments (particularly those of Guyana, Jamaica and Trinidad and Tobago) continued to resort to disinvestment, consisting of the sale of shares, to cut down the spectrum of government activities to a more manageable size, but they also tried to improve the efficiency of public enterprises to generate a flow of resources that would balance the budget and reduce the debt burden. In some countries, the tax burden was increased (see figure IX-3).

Government efforts in 1991 to maintain fiscal discipline yielded varying results, in part because after 1990 they had to act in a less promising economic context. In the OECS countries as a whole, the fiscal surplus on current account fell 19%, owing to poorer performance in that area in Antigua and Barbuda, Dominica, Saint Kitts and Nevis and Montserrat (see table IX-12). In Antigua and Barbuda, the increase in the current deficit was attributable to lower revenues because of the contraction of trade and higher current expenditure. This last factor mainly reflected the concession of pay raises to government employees. Interest on the public debt climbed to 4.6% of GDP, and the Government's capital expenditure doubled in relation to its 1990 level; consequently, the fiscal deficit rose from 1.4% to 4.3% of GDP. In Dominica, current expenditure -especially on payroll expenses, which rose 27% - grew faster than revenues and ultimately reduced the current-account surplus. Capital expenditure was also reduced, but because of a drop in external grants-in-aid, the fiscal deficit grew from 11% to nearly 13% of GDP. Grenada achieved a current-account surplus by dint of determined efforts to raise revenues and cut spending, and also reduced its overall deficit. Despite these measures, however, revenues fell short of projected goals, owing to administrative difficulties in collecting the value-added tax.

After achieving a current-account surplus in 1990, Saint Kitts and Nevis recorded a deficit in 1991 as tax revenues from imports and consumption contracted. Although current and capital expenditures declined, the overall deficit

Figure IX—3
CARIBBEAN SUBREGION: TAX REVENUES, 1991
(Percentage of GDP)



Source: ECLAC, on the basis of official figures.

increased to 2.7% of GDP in 1991, whereas in 1990 it had reached only 0.3%. That situation was caused by reduced revenues and external grants-in-aid. In Saint Lucia, the current-account surplus grew, as did revenues and current expenditure; capital expenditure also increased, although a reduced budget surplus was achieved. Tax receipts in Saint Vincent and the Grenadines increased almost on a par with current government spending, so that the current-account surplus remained unchanged. Capital expenditure was higher, but the fiscal deficit fell because external grants-in-aid increased.

In Barbados, the current-account deficit recorded in 1990 turned into a surplus in 1991, as expenditure dropped and revenues rose. Although the economy was in a recessionary phase and had a weak tax base, higher taxes on consumption and the introduction of a special stabilization tax pushed tax revenues up to 32% of GDP. Direct taxes rose 17%, excise taxes rose 4% and capital expenditure was frozen. As a result of the stabilization programme, the overall fiscal deficit fell from 8.2% to 2.3% of GDP at the end of 1991.

Public-sector performance in Guyana improved in general, although fiscal accounts deteriorated. Current revenues grew considerably as a result of new taxes, a recovery in economic growth and better tax administration. On the other hand, expenditure also increased owing to higher public-employee payroll expenses and the transfer of large amounts to some State enterprises. Public-sector

reform, aimed at reducing the number of ministries from 18 to 11, raising user fees so that autonomous public-service entities could be self-financing and cutting down the number of public enterprises, continued. In 1991, 13 of those enterprises were eliminated, bringing in revenues of about US$2 billion to the country. The public investments programme was beset by operational problems, constraints on counterpart financing and the decision not to apply for large loans from national financial institutions.

One of the Jamaican Government's main policy objectives in recent years has been to reduce the fiscal deficit, but this goal has been somewhat elusive owing to the heavy burden of external debt servicing. Nevertheless, in 1991 the current-account surplus was increased in nominal terms, even though interest payments rose 61% and represented 29% of revenues. The authorities boosted the current-account surplus by raising revenues 50% through sweeping tax reforms, under which a number of taxes were replaced by a 10% value-added tax, a special excise tax and a one-time tax equivalent to 0.5% of bank assets, as well as the adoption of more effective tax-collection measures. Expenditure also increased (52%), mainly because of higher debt-servicing expenses (which nearly doubled), since it grew from 15% of GDP in 1990 to 20% in 1991. Gross investment grew only slightly. Consequently, the deficit remained high, reaching nearly 7% of GDP.

In Trinidad and Tobago, a notable change was observed in the central Government's current accounts, which ran a surplus, above all because of a 20% rise in oil earnings owing to the price hike for hydrocarbons in the last quarter of 1990 and the collection of pending payments. Non-oil revenues also increased thanks to a series of tax reforms and the liberalization of trade and payments. The extent of the increase in current expenditure was attributable to higher personnel expenses, which more than doubled. Transfers to public enterprises also increased, and capital expenditure doubled. Nevertheless, the overall deficit decreased in relation to the preceding year (see table IX-12).

6. Pnces

On average, prices rose faster than in the industrialized countries, although rates of inflation in the subregion were among the lowest recorded in developing countries. The smallest increases took place in the OECS countries; most of them were less than 3%, which represented a significant slowdown in inflation for the countries in which they occurred (Antigua and Barbuda, Dominica, Grenada and Saint Vincent and the Grenadines). Price increases (annual averages) ranged from 5% to 10% in the rest of the Caribbean countries except Guyana and Jamaica, where they exceeded 50% (see table IX-13).

The main external factor influencing price variations was the Gulf war and, in particular, its repercussions on oil prices. In the Bahamas, where price increases were evenly distributed among the various products, interest rates also rose. In Belize, the deregulation of prices of a number of imported goods and poor weather conditions, which adversely affected food production, compounded the effects of higher oil prices.

Price increases in Barbados reflected higher taxes on consumption, interest rates and public service tariffs. Transport charges rose 17%; housing, 11%; alcohol, 8%; and food, 5%.

The most significant price hikes in Guyana and Jamaica represented variations in relative prices set under adjustment programmes, marked devaluations and a tax increase to reduce the fiscal deficit. In Trinidad and Tobago, the deceleration of the rise in consumer prices (from 11% to 4%) basically reflected the lowering of domestic food prices, although the costs of fuel and electricity also fell.

7. Employment

In general, the employment situation in the Caribbean tended to weaken, since employment grew more slowly for the second year in a row. In Barbados, the rise in unemployment was attributable to the decline in economic activity, especially in construction, and to the contraction

of the public sector. Unemployment increased towards the end of the year, as stricter budgetary measures began to be implemented, and reached 20% in the final quarter. The overall unemployment rate does not reflect the fact that the rate for women was 21.4%, while that for men was 13.3%. Some 60% of unemployed persons were in the 15-to-29 age group.

Unemployment in Jamaica ceased to decline in 1991, remaining at a rate similar to that of 1990. The general rate of employment rose moderately in the produaion of goods, since the elimination of jobs in mining, manufacturing and construction was largely offset by the boom in the agricultural sector. Employment also rose slightly in the service sector as a whole, although community, social and personnel services employed fewer people at the end of 1991 than at the end of 1990. Young people under the age of 25 made up 56% of the unemployed; of these, 65% were women.

The trend towards reduced unemployment continued in Trinidad and Tobago, falling from 20% to less than 19%. The biggest growth in employment took place in manufacturing and construction, which showed increases of 15% and 10%, respectively. Young people between the ages of 15 and 19 represented 43.5% of the unemployed, a disproportionately high percentage. Moreover, 23.7% of the jobless were women, compared to 16% of men in the same situation (see table IX-14).

Table IX-1

CARIBBEAN SUBREGION: GROWTH OF TOTAL GROSS DOMESTIC PRODUCT

(Annual growth rates) [a]

	1985	1986	1987	1988	1989	1990	1991[a]	Accumulated growth 1981-1991[a]
Total subregion	-L8	0.5	0.1	1.0	2.7	1.4	1.0	1.9
Antigua and Barbuda	7.7	8.4	8.7	7.1	6.4	2.8	1.6	82.9
Bahamas	5.2	1.4	4.6	4.5	4.0	-	1.0	31.7
Barbados	0.9	5.1	2.7	3.6	3.7	-3.4	-4.1	4.8
Belize	0.3	2.2	12.5	6.6	14.7	8.9	4.2	68.0
Dominica	1.6	6.9	6.8	7.9	-1.4	6.2	2.1	56.9
Grenada	5.4	5.5	6.0	5.3	5.7	5.2	2.9	62.2
Guyana	1.1	0.2	0.6	-4.1	-5.0	-5.6	6.1	-24.3
Jamaica	-5.4	2.2	6.7	1.2	6.2	3.8	0.2	19.3
Saint Kitts and Nevis	5.7	6.3	7.4	7.0	5.2	2.5	6.9	79.2
Saint Lucia	5.9	5.8	2.2	6.8	5.0	3.7	1.7	54.4
Saint Vincent and the Grenadines	4.7	7.3	5.8	8.4	5.9	6.6	4.6	90.7
Suriname	2.0	0.7	-6.2	7.1	2.0	-		
Trinidad and Tobago	-4.2	-2.1	-5.4	-2.5	-0.2	1.3	1.8	-18.5

Source: ECLAC, on the basis oí oíficial figures converted into dollars at constant 1980 prices.
' Preliminary figures.

Table IX-2

CARIBBEAN SUBREGION: BANANA EXPORTS

	Value (millions cif dollars)					Volume (thousands of tons)				
	1987	1988	1989	1990	1991	1987	1988	1989	1990	1991
Belize	7	8	12	8	7	21	26	31	23	20
Dominica	31	37	24	30	30	61	71	50	57	55
Grenada	4	5	4	4	4	8	9	9	7	7
Jamaica	19	16	19	38	45	34	28	42	61	75
Saint Vincent and the Grenadines	18	31	30	41	33	35	62	66	80	63
Saint Lucia	42	66	59	69	54	86	128	126	134	101

Source: ECLAC, on the basis of official figures.

Table IX-3
CARIBBEAN SUBREGION: SUGAR EXPORTS

	Value (m¡liions of dollars)					Volume (thousands of tons)				
	1987	1988	1989	1990	1991	1987	1988	1989	1990	1991
Barbados	36	34	26	34	31	70	68	52	57	53
Belize	31	33	36	43	42	79	75	77	95	94
Guyana	80	68	73	70	95	205	171	170	129	150
Jamaica	74	92	65	86	93	134	153	132	146	157
Dominican Republic	127	123	157	143	132	553	514	491	355	319
Saint Kitts and Nevis	11	12	12	9	11	23	23	22	14	18
Trinidad and Tobago	21	27	31	30		50	55	57	54	49

Source: ECLAC, on the basis of official figures.

Table IX-4
CARIBBEAN SUBREGION: BAUXITE AND ALUMINA EXPORTS

	Value (millions of dollars)					Volume (thousands of tons)				
	1987	1988	1989	1990	1991	1987	1988	1989	1990	1991
					Bauxite					
Guyana	84	80	**77**	89	92	1410	1274	1317	1387	1254
Jamaica	116	105	126	103	112	3711	3494	4190	3886	4261
					Alumina					
Jamaica	221	307	432	616	550	1572	1575	2145	2889	3 032

Source: ECLAC, on the basis of official figures,

Table IX-5

CARIBBEAN SUBREGION: NUMBER OF ARRIVALS

(Thousands)

	1987	1988	1989	1990	1991
Antigua and Barbuda	177	195	198	206	182
Bahamas	1480	1475	1575	1561	1427
Barbados	422	452	461	432	394
Belize	99	164	220	222	
Cuba	293	309	310	334	
Dominica	27	32	35	45	46
Grenada	57	62	69	82	92
Guyana	60	71	67	67	
Haiti	122	122	122	120	
Jamaica	739	649	715	841	845
Dominican Republic	911	1116	1300	1533	
Saint Kitts and Nevis	65	70	72	76	84
Saint Vincent and the Grenadines	46	47	50	54	46
Saint Lucia	112	125	133	138	160
Suriname	27	21	21	29	
Trinidad and Tobago	202	188	194	194	
Netherlands Antilles	632	685	751	832	803
Aruba	232	278	344	433	501
Guadeloupe	293	329	255	272	
British Virgin Islands	173	176	176	161	136
United States Virgin Islands	555	543	493	523	682
Martinique	234	280	312	282	315
Montserrat	17	18	17	17	
Puerto Rico	2035	2281	2 450	2645	

Source: Caribbean Tourism Organization (CTO).

Table IX-6

CARIBBEAN SUBREGION: NUMBER OF CRUISE-SHIP PASSENGERS

(Thousands)

	1987	1988	1989	1990	1991
Antigua and Barbuda	153	199	208	227	239
Aruba	81	81	79	130	133
Bahamas	1434	1 505	1645	1854	2 020
Barbados	229	295	337	363	372
Grenada	127	134	121	183	196
Jamaica	292	368	444	386	490
Saint Kitts and Nevis	31	54	37	34	53
Saint Vincent and the Grenadines	66	59	75	62	68
Saint Lucia	84	78	104	102	163
Trinidad and Tobago	16	12	16	27	
British Virgin Islands		3	68	97	79
United States Virgin Islands	956	1097	1063	1 120	1215
Martinique	297	386	368	421	417
Puerto Rico	584	767	746	834	995

Source: Caribbean Tourism Organization (CTO).

Table IX-7

CARIBBEAN SUBREGION: EXPORTS OF GOODS

(Millions of dollars)

	1987	1988	1989	1990	1991
Antigua and Barbuda	29.0	30.1	15.7	16.7	18.3
Bahamas[a]	273.1	273.6	259.2	306.1	248.2
Barbados	132.2	145.7	147.8	151.9	150.6
Belize	102.7	116.5	124.8	129.2	130.0
Dominica	49.3	57.0	46.3	56.1	53.7
Grenada	31.6	32.8	28.4	26.6	22.0
Guyana	240.5	214.6	204.7	203.9	238.6
Jamaica	709.2	883.1	998.1	1 157.5	1 145.2
Montserrat	3.5	2.3	1.6	1.8	
Saint Kitts and Nevis	28.0	27.4	28.6	27.7	32,1
Saint Vincent and the Grenadines	52.3	85.3	74.7	82.7	78.5
Saint Lucia	77.3	119.1	112.0	127.3	109.8
Trinidad and Tobago	1 414.7	1 470.0	1 578.1	2 080.5	1982.6

Source: ECLAC, on the basis of official figures.
* Does not include petroleum exports.

Table IX-8

CARIBBEAN SUBREGION: IMPORTS OF GOODS

(Millions of dollars)

	1987	1988	1989	1990	1991
Antigua	274.8	310.6	275.0	262.2	254.6
Bahamas[3]	1 154.7	1 058.9	1224.4	1228.8	890.3
Barbados	535.8	603.2	699.9	725.4	699.4
Belize	127.4	161.3	192.6	188.4	235.0
Dominica	66.7	87.5	107.3	118.1	114.1
Grenada	89.1	92.2	100.9	109.5	119.7
Guyana	261.9	215.6	212.4	249.6	252.2
Jamaica	1 234.3	1 449.4	1 820.1	1 942.4	1 799.5
Montserrat	25.3	26.6	31.0	42.5	
Saint Kitts and Nevis	79.5	92.7	102.5	110.7	108.6
Saint Vincent and the Grenadines	98.7	122.3	127.5	136.1	138.6
Saint Lucia	178.1	221.0	273.7	271.3	295.2
Trinidad and Tobago	1 160.5	1186.1	1 221.3	1 261.6	1662.8

Source: ECLAC, on the basis of official figures.
* Does not include petroleum imports.

Table IX-9

CARIBBEAN SUBREGION: BALANCE OF TRADE IN GOODS

(Millions of dollars)

	1987	1988	1989	1990	1991
Antigua and Barbuda	-245.8	-280.5	-259.3	-245.5	-236.3
Bahamas[a]	-881.6	-785.3	-865.2	-922.7	-642.1
Barbados	-403.7	-457.6	-552.1	-573.5	-548.8
Belize	-24.5	-44.9	-67.8	-59.2	-105.0
Dominica	-17.4	-30.5	-61.0	-62.0	-60.4
Grenada	-57.5	-59.4	-72.5	-82.9	-97.7
Guyana	-21.4	-1.0	-7.7	-45.7	-13.6
Jamaica	-525.1	-566.3	-822.0	-784.9	-654.3
Montserrat	-21.7	-24.3	-29.4	-40.7	
Saint Kitts and Nevis	-51.5	-65.3	-73.9	-83.1	-76.5
Saint Vincent and the Grenadines	-46.3	-37.0	-52.8	-53.3	-60.1
Saint Lucia	-100.8	-101.9	-161.8	-144.0	-185.4
Trinidad and Tobago	254.2	283.9	356.8	818.9	319.7

Source: ECLAC, on the basis of official figures.
[a] Does not include petroleum trading.

Table IX-10

CARIBBEAN SUBREGION: BALANCE ON CURRENT ACCOUNT

(Millions of dollars)

	1987	1988	1989	1990	1991
Antigua and Barbuda	-70.7	-55.8	-79.1	-62.3	-42.1
Bahamas[a]	-196.0	-128.3	-160.6	-180.1	-152.2
Barbados	-52.8	2.4	-2.8	-37.6	-31.0
Belize	18.0	-4.6	-19.0	-2.6	-50.0
Dominica	3.0	-3.9	-32.4	-28.7	-23.5
Grenada	-27.7	-23.6	-33.8	-35.9	-34.4
Guyana	-109.5	-93.0	-113.3	-147.8	-135.0
Jamaica	-136.9	-0.6	-257.8	-340.1	-131.6
Montserrat	-2.3	-2.0	9.3	-17.4	
Saint Kitts and Nevis	1.6	1.5	-34.3	-61.9	-38.9
Saint Vincent and the Grenadines	-15.4	-2.7	-15.0	-3.0	-21.0
Saint Lucia	-5.3	0.9	-56.4	-57.5	-75.6
Trinidad and Tobago	-270.8	-151.5	-66.8	404.4	

Source: ECLAC, on the basis of official figures.
[a] Does not include petroleum trading.

Table IX-11
CARIBBEAN SUBREGION: EXTERNAL DEBT[a]
(Millions of dollars)

	1987	1988	1989	1990	1991
Antigua and Barbuda	231.8	243.2	260.6	268.6	253.0
Bahamas	192.7	171.3	219.7	267.7	321.7
Barbados	465.2	479.0	469.5	466.6	438.8
Belize	113.1	124.1	130.3	132.8	142.8
Dominica	65.1	65.7	72.0	86.4	91.1
Grenada	66.9	68.6	70.2	87.1	89.6
Guyana	1 735.9	1 777.9	1801.1	1801.9	1 640.0
Jamaica	4 013.7	4 001.7	4 038.4	4 152.4	3874.3
Montserrat	3.4	3.5	3.4	3.0	3.3
Saint Kitts and Nevis	21.3	26.6	31.7	36.4	36.6
Saint Vincent and the Grenadines	37.8	44.9	50.7	55.1	60.3
Saint Lucia	27.9	41.3	51.7	67.6	70.4
Trinidad and Tobago	2 082.2	2011.8	2097.4	2 519,6	2 430.8

Source: ECLAC, on the basis of official figures.
* Government or government-guaranteed debt. Includes arrears.

Tablé IX-12
CARIBBEAN SUBREGION: FISCAL BALANCE ON CURRENT ACCOUNT
(Millions of units of local currency)

	1987	1988	1989	1990	1991
Antigua and Barbuda	24	- 18	-22	-5	-17
Bahamas	-9	-5	-23	15	.6
Barbados	-1	62	154	-7	95
Belize	10	17	42	58	60
Dominica	17	25	22	17	: - 4
Grenada	-15	10	-42	-8	5
Guyana	-913	-426	-501	1912	-3 129[a]
Jamaica	1590	958	2 408	2 274	3 926
Montserrat	1	1	4	6	3
Saint Kitts and Nevis	4	4	10	9	....-3
Saint Vincent and the Grenadines	13	13	5	20	20
Saint Lucia	33	65	52	61	73
Trinidad and Tobago	233	-397	-365	-14	635

Source: ECLAC, on the basis of official figures.
* January-September.

Table IX-13

CARIBBEAN SUBREGION: CONSUMER PRICES

(Average annual variations)

	1987	1988	1989	1990	1991
Antigua and Barbuda		3.4	5.3	7.7	2.1
Bahamas	5.8	4.5	5.3	4.7	7.0
Barbados	3.4	4.8	6.2	3.1	6.3
Belize	2.0	2.9	2.1	3.0	5.6
Dominica	2.9	5.2	4.3	6.8	2.3
Grenada	-0.9	6.5	3.6	3.7	2.7
Guyana	29.4	43.1	61.3		
Jamaica	6.7	8.3	14.3	22.0	51.0
Montserrat	2.7	3.6	1.8	6.8	9.0
Puerto Rico	0.9	3.3	3.4	4.1	5.2
Saint Kitts and Nevis	2.6	0.2	6.6	3.7	4.5
Saint Vincent and the Grenadines	2.0	2.1	3.5	9.2	2.3
Saint Lucia	7.0	0.8	3.8	5.9	7.3
Trinidad and Tobago	10.8	7.8	11.3	11.4	4.0

Source: ECLAC, on the basis of official figures.

Table IX-14

CARIBBEAN SUBREGION: UNEMPLOYMENT RATES

(Percentages)

	1987	1988	1989	1990	1991
Barbados	18.9	17.3	13.7	14.7	17.2
Jamaica	21.0	18.9	18.0	15.3	15.4
Trinidad and Tobago	22.3	21.9	22.0	20.1	18.8

Source: ECLAC, on the basis of official figures.

SECOND PART

THE INTERNATIONAL ECONOMY

THE INTERNATIONAL ECONOMY[1]

The gross global product -the total world output of goods and services- actually dipped in 1991, even if only by one half of 1% (see table 1). This is a rare occurrence, and the main reason was that the economies of eastern Europe and the former Soviet Union plunged even deeper into disruption than in 1990, but growth in the big industrial economies slowed down too and several of them were in recession. World output per capita declined by over 2% in 1991, after virtually stagnating in 1990. African economies, on an average, barely kept up with population growth. Latin American economies seemed to revive from a decade of stagnation, and in Asia growth remained widespread and fast despite the slow-down in world trade.

It was a year of relentless and dramatic political and economic events -the military operation in the Gulf, major policy reforms in many developing countries and political upsets in others, the eruption of new regional conflicts, slides in some financial markets, the failure to complete the Uruguay Round, the ambitious Maastricht agreement on European integration, the apparent breakthrough towards multiracial democracy in South Africa, the *coup d'état* in Moscow and the formal dissolution of the Soviet Union at the end of the year. Many of these developments were of a positive nature, but others added to the uncertainties already surrounding the principal markets of the world economy.

1. Trends in global output and policies

World output declined in 1991 for the first time since the Second World War and is expected to recover only modestly in 1992 (see table 1). It was the world's first global recession of the post-war era.

The economic decline of 1991 was pervasive. In the developed market economies, which account for over 70% of world output, growth fell from 2.6% in 1990 to just under 1% in 1991. Several countries slid into outright recession. In many of them, unemployment rose to its highest level since the early 1980s. Although inflationary pressures subsided substantially, Governments and central banks responded slowly and tentatively, or not at all, to the recession. Their policies were premised on the assumption of a spontaneous upturn, and the unexpected prolongation of the recession created a dilemma. A recovery may begin in 1992 but it is generally expected to be subdued and not of a nature that would give a push to the world economy.

In eastern Europe and the former Soviet Union, output plummeted by around 16% in 1991, after a 5% fall in 1990. The difficulties of enacting a transition of these economies to a market system are becoming apparent to all. The people in the transition economies will pass through yet another very difficult year in 1992.

The developing countries as a whole grew slowly in 1991, as they have for several years, mainly following the same pattern of strong growth in eastern Asia and virtually no change in per capita incomes in Africa. Latin America, however, showed the first signs of emerging from its decade-long stagnation. Nevertheless, in almost half the developing countries, per capita output fell or stagnated. In a small number of countries, albeit accounting for almost half the

extract of chapters I, II, III, IV, and V of *World Economic Survey 1992* (E/1992/40; ST/ESA/231), New York, 1992. United Nations publication, Sales No. E.92.II.C.1.

people living in developing countries, per capita output grew significantly.

a) **Developed market economies: recession and response**

In early 1991, three of the seven major industrial economies were in outright recession -Canada, the United Kingdom and the United States- while production surged in the western part of Germany and in Japan (see table 2). By the end of the year, Germany and Japan were in recession, and the recovery elsewhere was weak and fragile. For 1991 as a whole, the developed market economies grew by less than 1%, the slowest rate since the 1982 recession. The policy response, analysed below, was tentative and weak.

Three million people were added to the unemployment rolls in the developed market economies in 1991. In December, the unemployment rate in the United States reached 7%, measured on an internationally standardized basis, about a percentage point higher than it had been a year before. In Canada and the United Kingdom unemployment was above 10% of the labour force at year-end and in France and Italy, it was almost as high. Only in the western part of Germany and in Japan, among the seven major economies, were unemployment rates still at moderate or low levels relative to industrial country averages in recent years.

Several of the smaller developed market economies also were in recession in 1991, including Australia, Finland, New Zealand, South Africa and Sweden. Unemployment rose during the year by 2 percentage points in Australia and New Zealand, and about 6 percentage points in Finland. By December it exceeded 10% in all three countries. In Finland, the crisis of the Soviet economy, as well as slow growth in other major export markets, made for great difficulties. Unemployment also rose in countries with chronic unemployment problems, such as Ireland, where a 2 percentage point increase pushed the rate to 16%.

The recession came after the longest, though not the strongest expansion in post-war history. Renewed inflationary concerns in the late 1980s had led to monetary stringency that weakened several of the developed market economies by the end of 1990.[2] Although inflation was brought down in 1991, some countries were pushed into recession. For others, the *coup de grace* was a drop in consumer and business sentiment associated with the crisis situation between Iraq and Kuwait that began in August 1990.

After the war in the Middle East ended in February 1991, consumer confidence rebounded in several industrial countries and the spending slide eased. Even so, consumers remained cautious, especially in Canada, France, Italy and the United States. In France, for example, 16% more respondents expected their situation to deteriorate rather than to improve in March, which was the most "optimistic" month of 1991. Output began to recover, notably in Canada, France and the United States; but the recovery never gathered steam (see table 2).

Why does the United States grow so slowly?

Since the United States accounts for more than a third of the output produced in the developed market economies, it is of special concern when the economy of that country becomes mired in recession. A year ago it was thought that the United States downturn had ended and that the dip in output had been rather short and mild. But since late summer, output has been almost stagnant. Moreover, from the second quarter of 1989 until the recession began at the end of 1990, real GDP grew at an annual rate of only 1.25%. If the crisis in the Gulf provoked the United States recession, the United States economy may have returned to the pre-recessionary, nearly stagnant growth path. The trend may continue until structural imbalances stemming from the 1980s are corrected.

One such imbalance is the high level of debt of households and enterprises. After a decade of stability, the debt/equity ratio of non-financial corporations rose from about 50% in the early 1980s to82% by 1989. The ratio of consumerand mortgage debt to disposable income rose from about 70% in the early 1980s to nearly 95% by 1990. In the light of a disappointing outlook for

Sources of Che recession were reviewed in *WorldEcouomic Survey, 1991* (UniCed NaCions publicación, Sales No. E.91.II.C.1), pp. 10-18.

jobs or sales growth, coupled with widely publicized difficulties of some of the most prominent United States corporations, it became prudent -if not necessary- to use additional cash flow to reduce debt. Thus, neither consumer nor investment spending grew in 1991. Personal consumption expenditures in constant dollars rose slightly in the second and third quarters (1.4 and 2.3%, at annual rates), but then fell in the last quarter; non-residential fixed investment continued to drop throughout the year. If it is a balance-sheet restructuring that is taking place, the process may well take longer than the inventory adjustments of a few quarters in traditional business cycles.

The one bright spot in the second half of 1991 in the United States economy was the 10% rise in residential construction over the first half of the year. This has to be seen, however, against the 16% decline that took place in the first half. For the year as a whole, residential construction was down 10%. The country is still in the midst of a correction to the building boom in the 1980s that had been stimulated by the relaxation of regulations in the banking sector and a tax structure that is highly favourable to real estate investment. Thus, despite the incentive from lower interest rates this year, construction is unlikely to become a major growth sector until high vacancy rates in over-built commercial real estate and generally depressed housing prices are worked off.

Government expenditure has not been a stimulus to growth. Since the mid-1980s, fiscal policy has been restrictive, as the earlier uncontrolled growth of Federal deficits had to be corrected. In 1990, additional Federal spending cuts and tax increases were enacted just as the recession was beginning. However, the recession made a mockery of deficit-reduction commitments, as the consolidated Federal Government deficit surged to US$269 billion in the year ending 30 September 1991 (5% of GDP). The rise in the deficit has mainly been the result of passive changes in revenues and expenditures, rather than counter-cyclical spending efforts. Moreover, in the absence of Federal assistance state and local governments have had to cut back expenditures as the recession hit their revenues, adding a directly contractionary factor. As a result, the current recession is the first one in at least 30 years in which the fiscal stance was not pressing for recovery.[4]

The United States Administration and Members of Congress proposed several fiscal stimulus packages in the early months of this year, but they would only have given a small fiscal impulse if enacted. On the other hand, many calls from outside the Government were heard during the winter months for a substantial, temporary fiscal impulse. The argument was that consolidation of the Federal deficit remained a very important medium-term policy goal, but that short-term exigencies -social as well as economic- required immediate counter-cyclical action and that investment in education and infrastructure would also improve long-term growth prospects. "The nation cannot afford the economic waste and human distress of protracted high unemployment" stated an open letter to the Government from 100 eminent United States economists in March 1992.

The use of monetary policy In the major economies

Though fiscal policy was hamstrung, United States monetary authorities had more room to act and they did, as did monetary policy makers in the other major industrial countries. But policy actions were very cautious for fear of setting off new inflationary pressures. In the event, repeated doses of monetary easing have been applied in most of the major countries, as the economies failed to respond adequately.

In fact, inflationary pressures were generally weak. The sharp run-up in spot prices on international petroleum markets that occurred in the last third of 1990 was largely unwound by the first quarter of 1991, and the unit values of fuel imports of the industrialized countries returned

Data of the United States Department of Commerce, *Survey of Current Business,* February 1992.

The "fiscal stance"-as measured by OECD- was essentially zero (neutral) in 1990 and 1991 (it excludes, in particulada large contributor to the Federal deficit, i.e., the financing to restructure failed savings institutions and extra support for deposit insurance); the same indicator was expected on the basis of existing policies to be a surplus of 1% of GNP in 1992, reducing aggregate demand and thus exerting a significant pressure retarding recovery (see Organization for Economic Co-operation and Development, *Economic Outlook, No. 50 (December 1991), p. 132).*

essentially to pre-crisis levels by the second quarter. Moreover, if dollar fuel prices are deflated by dollar prices of manufactured exports of developed market economies -reflecting exchange rate changes among other factors- the oil-price "shock" in late 1990 is seen to have been much smaller than the nominal dollar data indicate. In addition, non-fuel commodity prices on international markets weakened in 1991 and were especially low when measured in terms of the volume of manufactured exports of industrial countries that they could buy. Coupled with the recessionary dampening of wage pressure and an attendant slow-down in the growth of labour cost per unit of output, fears about inflation and inflation itself eased, except in Germany.

In the United States, the Federal Reserve reduced its discount rate in several stages from 7% in December 1990 to 3.5% in December 1991, the lowest level since 1964. The full range of short-term interest rates has fallen significantly through 1991; longer-term rates declined less. While such reductions in interest rates ease the cost of servicing outstanding debt, they seem to have provided only a very limited stimulus to demand as there has been little inclination to borrow -or to lend- in the face of lingering recession and high levels of personal and corporate debt. Thus, in spite of the easing of credit terms, the broad money supply in the United States (M2) actually declined in real terms in 1991.

In Ganada, short-term interest rates declined substantially in the face of the steep recession there. By year-end the prime rate at commercial banks was 6.5 percentage points below its 14.75% peak, reached in summer, 1990.

British authorities have similarly eased monetary conditions: the three-month money rate fell from 15% in 1990 to below 12% in 1991. As in the United States, however, long-term rates have changed less.

In Japan, economic growth weakened in the course of the year. By the summer, the Bank of Japan took the opportunity of a calming of inflationary concerns to ease monetary policy slightly; during the second half of the year it lowered the official discount rate by 1.5 percentage points to 4.5%.

The unification of Germany added 1.5 percentage points to the growth rate of the western part of the country in 1990 and about 1 percentage point to the growth in 1991. Large financial transfers were made by the Federal Government to the eastern *Lander,* which were financed by government borrowing. German macroeconomic policy in 1991 aimed at easing the resulting demand pressures. On the one hand, as will be analysed in more detail below, the Government imposed a tax increase from 1 July along with other measures of fiscal restraint. On the other hand, the Bundesbank raised official interest rates, first in February by half a percentage point and then again in August when the discount rate was increased by 1 percentage point and the Lombard rate was raised 0.75 percentage point. Consumer price inflation in western Germany rose above 4%, a moderate rate in many countries but high by German standards. Thus, although the German economy began to contract, the Bundesbank remained firm in its stance against inflationary pressure and its commitment to avoid a wage-price spiral during 1991. As the year ended, the Bundesbank raised interest rates another notch. As a result, German interest rates became the highest they have ever been in the post-war period.

Government activism in the 1990s

Much discussion of economic policy in the 1980s emphasized the limits to the role of government in a market economy. In many governmental and academic circles, fiscal policy lost favour as a tool for countering the inherent fluctuations in aggregate economic activity, let alone steering national economies onto adequate and sustainable economic growth paths. A common theme in national parliaments and international policy discussions was the need to contain the growth of budgetary expenditure and reduce public sector borrowing requirements. Official borrowing was considered excessive and thought to be less in the national interest than private sector borrowing.

See Organization for Economic Co-operation and Develo] :,*EcoiiomlcSurveys:Germmiy (Paris,* July 1991), pp. 127-128.

However, the reality of government policy did not match the rhetoric. As the failure to contain the United States budget deficit has shown, political pressures in a democratic government may prevail over economic objectives. Three other cases -from Germany, Italy and Japan- further illustrate this point.

The unification of Germany

Towards the end of 1989, the prospect of German unification, long dismissed as impossible, became all of a sudden a very distinct possibility. By early 1990 the question was no longer whether or when but how and how soon. Proposals for a gradual process of economic reintegration seemed reasonable from a purely economic point of view, but they did not take account of political and social issues, including the prospect of a tide of emigration from east to west. It also could not be said how long the new fluid political situation in eastern Europe would remain. The Government believed it to be of overriding political importance to create an irreversible unification of the country as quickly as possible. Thus, on 1 July 1990 the German Economic, Monetary and Social Union was created and by 3 October the former German Democratic Republic (GDR) became part of the Federal Republic of Germany (FRG).

b) The transition to new market economies

A revolution is under way in the eastern part of Europe and in the former Soviet Union. In its economic dimension, it entails a complete change of system. Without precedents against which to compare national progress, Governments have been changing policy-making teams, sometimes frequently. Expectations have tended to be over-optimistic and disappointments have been sharp. Untried policies and considerable "learning by doing" are the order of the day. Towards the end of 1991, these economies were still in transition: the old order of central planning had broken up, but the new system had not yet crystallized.

In such a situation, severe economic disruption might be expected; indeed, with output falling 16% last year, it was happening. Output fell sharply even in the countries that were expecting recovery to begin, notably Poland and Romania. Activity in the private sector has begun to flourish, but, because of its small share in overall activity, that could only moderate, not arrest, the decline. In the former Soviet Union, national income in 1991 was at least 15% less than in the previous year.

By all indicators, the region is in the grip of a savage economic contraction. The fall in economic activity is without precedent in industrialized countries. Levels of output in 1991 were no higher than ten years ago (see table 3). Investment fell to the levels of the middle 1970s. The last three years have witnessed such deep cuts in investment outlays that even essential maintenance has been delayed or neglected, threatening much of the viable capital stock.

In the Soviet Union, practically all of the increment in national income in the period 1986-1990 had been expended on current consumption and on non-industrial construction. In 1991, the stock of unfinished construction grew by 30%; in 1990 it had already amounted to 17% of investment, compared to 5% in 1985. According to estimates of *Goskomstat* of the USSR, the Union ended with two thirds of machinery and equipment in industry technically obsolete and 42% of fixed assets due for replacement. In individual sectors, the situation was even worse; e.g., in the Russian Federation's oil refining industry, 90% of equipment was reported to be due for replacement.

Industrial production has been especially hard hit. Anti-inflationary demand restraints sharply cut back domestic purchases in eastern Europe. With the collapse of trading relationships under the Council for Mutual Economic Assistance (CMEA), orders from neighbouring CMEA countries fell by a half or more, seriously hurting production for exports. Exports to hard-currency markets have not been able to make up the slack. Import restraints in some countries deprived

Quantitative data from the economies in transition must be interpreted with great caution as national statistical systems and data collection are in flux.

"Ob itogakh funktsionirovaniia narodnogo khozyaistva Rossiiskoy Federatsii v 1991 godu", *Gosudarstvennyi komitet Rossiiskoy Federatsii po statistike* (Moscow), 1992, p. 37.

industry of necessary raw materials, equipment and replacement parts, in the USSR especially in the food, pharmaceuticals, textile, garments and footwear sectors.

The deterioration in the agricultural sector became an international focus of attention, particularly in the countries that were relatively late starters in the transformation to market economies, namely Bulgaria, Romania and the former Soviet Union. Bulgaria, formerly a food exporter to the east and the west, was forced to import large quantities of food. In the former Soviet Union, the grain harvest dropped 25% in 1991. The acreage sown fell 3.3 million hectares, after having fallen 2.1 million hectares from 1986 to 1990.

The rural economy has generally been buffeted by inflationary cost increases and heavy taxation, making many formerly profitable farms unprofitable. The political debates continue about new land laws and how to reprivatize the agricultural sector. The claims of earlier owners of the land largely remain to be settled and some unregulated transfers of property have made the people working in the still collectivized sector uncertain even of their continued habitation on those properties.

At the same time, markets for the agricultural output of the countries with more successful harvests were not readily found. Thus, while Hungarian and Polish exports to western Europe increased substantially, they were insufficient to offset the steep drop in sales to former CMEA partners. Coupled with domestic demand constraints, this has led to large unsold supplies in those countries. As in the past, farmers expected their Governments to provide guidelines and intervene to help them. The assistance that could be mustered was only sufficient to arrest a drastic collapse in confidence, but not enough to stop the decline in production.

Inflation, except in Czechoslovakia, exceeded by a wide margin what policy makers had planned. Czechoslovakia pushed down the month-to-month inflation rate from 26% in January 1991 to practically nil by September and maintained a low rate for the rest of the year. At the other extreme, triple-digit inflation became the order of the day in Bulgaria, Romania and in the disintegrating Soviet Union. In Poland, the target had been to reduce inflation to 1 % a month before the end of 1991. The actual monthly rate declined to virtually zero by July, but theii began to rise as macroeconomic policy was eased. For the year as a whole, the inflation rate was thus 70% (it had been 584% in 1990). The 1991 Hungarian inflation rate, while half that of Poland, was nevertheless higher than in 1990.

Inflation exploded in the USSR: consumer prices in October 1991 were 2.1 times and wholesale prices 2.7 times higher than a year before, in part due to a price rise put into effect in April. But the real spurt of inflation occurred at the very end of 1991 and the beginning of 1992, especially after the liberalization of prices on 2 January. By mid-February, prices had jumped at least 350% above the year-end 1991 level.

A further complication is that the decision makers of the newly independent States have to reconcile solid national economic interests with powerful -if not always rational- sentiments of resurrected national identity and State independence. This is one area in which concessions to symbolism and political posturing could entail a high long-term price. In several major problem areas, considera tionsof long-term economic need have been overruled or hindered by political expediency.

At the same time there are certain encouraging signs of cooperation. An inter-State coordinating mechanism was created in February 1992 in the area of statistics, and a certain level of cooperation is maintained in customs services, transport and environmental protection. Progress lies in building on these successes.

c) Developing countries: slow growth once more

In 1991, overall economic growth in developing countries remained sluggish. It averaged about 3.4% in 1991, about the same as in 1989 and 1990. There was also great diversity. In Latin America and the Caribbean, economic

***The decline in livestock is worrisome indeed. In Hungary, for example, in the first three quarters of 1991 the stock of hogs decreased by more than 20%, that of cattle by 6%, poultry by 18%, sheep by 20% (*Sépszabadsâg* (Budapest), 22 November 1991, p. 5).**

recovery is taking place in several countries and, after a virtual stagnation in 1990, the region showed a 2.6% growth in 1991. On the other hand, there was not much change in growth in Africa. In the Mediterranean region, caught between the impact of the Gulf war and the war in Yugoslavia, growth collapsed. South and East Asia remained the fastest growing region in the world, as it was throughout the 1980s, but world recession and the consequences of the Gulf crisis for labour remittances, tourism and oil imports, affected the countries of the region in 1991 in various degrees. The result was a deceleration from 6.3% in 1990 to 5.4% in 1991.

There are large differences in the patterns of investment and rates of growth within the regions, which are highlighted in the analysis that follows, but there also is an identifiable convergence of growth performances. The deceleration in 1991 is concentrated in the bracket of high growth. While 12 countries had attained growth of over 7.5% in 1990, only 8 reachedsuch levels in 1991. The decline was even sharper in the performance bracket of 5 to 7.5%. This reflects developments in the newly industrializing countries and in the second generation of successful manufacture exporters in South and East Asia. At the other extreme, there were fewer countries with zero or negative growth in 1991 than in 1990. The number of countries in the moderate to slow growth bracket of 2.5 to 5% increased.

Africa: broadening the adjustment

The growth of output in Africa was around 3% in 1991, less than population growth. For the second consecutive year, the energy-exporting countries performed significantly better than the energy-importing countries. Growth in the energy-importing countries was less than 2% in 1991, half the rate for the oil-exporting countries.

Economic performance in 1991 was affected by the events in the Gulf which had an impact on export and government revenues in oil-exporting countries and on tourism and oil import prices in oil-importing countries. During the second half of 1991, however, the effects of the Gulf crisis had subsided. Energy prices fell and tourism rebounded in Egypt, the Gambia, Ghana, Kenya and Mauritius. In Egypt, Suez canal revenues almost doubled in 1991 and workers' remittances were far higher than expected. In the Sudan, on the other hand, the loss of workers' remittances continues to be felt. As terms of trade continued to deteriorate, Africa's export revenues did not increase despite a nearly 10% increase in their volume.

Total food production in Africa increased by 14% in 1991, although agricultural output was curtailed by civil strife, notably in Mozambique, Rwanda, Sierra Leone, Somalia and the Sudan, and by drought in some areas in eastern and southern Africa. In countries with more normal weather, for example, Mozambique, the United Republic of Tanzania and Zambia, agricultural production continued to suffer from lack of credit, poorly developed marketing, distribution, and transportation systems, inadequate extension services, and untimely delivery of fertilizers and seeds. Maize output in Zambia suffered from low producer prices, forcing the country to import maize.

A large number of countries continued to pursue programmes of economic reform, but their effects on investment and growth are still disappointing. Despite modest results in some areas, a conclusive empirical assessment is not yet available. This is partly because the assessments are difficult to compare, owing to limited information on the methodology. Neither do adjustment programmes of individual countries have the same starting point. For many countries, too little time has elapsed since the adoption of structural adjustment measures. Statistical data are inadequate in particular in economies in which the subsistence factor is still very large. And political reform aimed at greater pluralism has brought changes to the implementation of economic reform programmes.

'The effects of the Gulf crisis on the economic performance in Africa were analysed in *World Economic Survey, 1991* (United Nations publication, Sales No. E.91.II.C.1).

See, for instance, Riccardo Faini, Jaime de Melo, Abdelhak Senhadji and Julie Stanton, "Growth-oriented adjustment programs: a statistical analysis", *World Development,* vol. 19, No. 8 (August 1991), pp. 957-967; Carol Lancaster, "The political economy of economic reform: focus on sub-Saharan Africa", United Nations Committee for Development Planning, twenty-eighth session, November 1991, pp. 14-20; Howard Stein, "Deindustrialization, adjustment, the World Bank and the IMF in Africa", *World Development,* vol. 20, No. 1 (1992).

West Asia: the aftermath of war

The economic situation in the region in 1991 was marked by the Gulf war. Output plunged in the war-devastated economies of Iraq and Kuwait but rose in other major energy-exporting countries. Loss of trade, tourism and workers' remittances in the aftermath of the war caused great difficulties for energy-importing and poorer countries. The combined gross domestic product of the region declined.

Although oil output expanded in 1991, output in other sectors declined. Most of the decline occurred early in the year and economic activities recovered after the end of hostilities. In most countries, output was affected by the massive departure of foreign workers at the outbreak of the crisis. Construction slowed down and many projects scheduled for 1991 were delayed. Air transport and shipping were badly affected by the war. In some countries, other services were also affected: some banks stopped operation, and hotel occupancies and retail sales declined as foreigners left the region.

Almost all countries in the region faced increased budget deficits owing to an unprecedented rise in government outlays. In many countries much of this was war-related spending, but others had to cope with rising spending on social services, owing to a massive influx of returnees or refugees. To finance the budget deficits, most countries borrowed domestically and externally. The Saudi Government, for the first time in 20 years, raised a syndicated loan of around US$4.5 billion in the international capital market. It also raised a US$2.5 billion loan from the local banking system.

Despite increased government spending, inflation in energy exporting countries remained relatively low, the major exceptions being the Islamic Republic of Iran, Iraq and the Syrian Arab Republic. By contrast, consumer prices increased on the average by over 20% in the net energy-importing countries.

The external balance of most countries worsened in 1991. The volume of oil exports increased with expanded oil production, but their value was 11% lower than in 1990. Non-oil exports contracted, due partly to the importance of aluminium, which fetched lower prices. In the major countries of the region, there were heavy outflows of official transfers, mostly related to war commitments. Private transfer payments increased owing to the massive transfer of savings by the departing foreign workers. As a result, the region's current account deficit widened in 1991.

Soon after the war, most countries turned their attention to accelerated implementation of infrastructural and industrial projects which had been delayed by the Gulf crisis and the war. With the oil sector providing only limited scope for further expansion, the emphasis was on the development of other sectors such as aluminium, light industry and services. A major aim of long-term policy has been to attract foreign investment in these sectors and to this end many countries have revised their ownership regulations. Wholly foreign-owned companies are now allowed in Bahrain. The Islamic Republic of Iran passed new legislation allowing up to 49% foreign ownership in joint ventures. In May 1991, the Syrian Arab Republic passed a new investment law to promote foreign participation.

South and East Asia: the best performers slowed down

The region was once more the fastest growing in the world, but it slowed down almost a full percentage point, to 5.4% in 1991.

On the whole, economies in South and East Asia showed remarkable resilience to the unfavourable international environment in 1991. As in 1990, growth in domestic demand rather than exports was the locomotive of growth. Fiscal policy was expansionary in several of them. In Hong Kong, Malaysia, Taiwan Province of China and Singapore, government investment increased, especially in infrastructure projects in the transport system. Government expenditures increased also in Bangladesh and in the Philippines, as they struggled to rebuild after natural catastrophes. In Indonesia and in the Republic of Korea, on the other hand, public expenditures were contained, as inflation rose to near double digits. Inflation had accelerated across the region from 1989 to 1990, but was kept under control in 1991, although it did

increase in Hong Kong, Pakistan and more markedly in the Philippines.

Except for the Philippines and India, all economies in the region grew much faster than their population, but slower than before. Among the exceptions are Hong Kong and Taiwan Province of China, where higher growth in 1991 owed much to the boom of the southern provinces of China. Other cases of recovery are Afghanistan, with hopeful signs of peace after more than a decade of civil war and four years of steep GDP decline, and Papua New Guinea, going through a mining boom after two years of decline.

In recent years the second generation of newly industrialized Asian economies (Indonesia, Malaysia and Thailand) had begun to replace the original four newly industrialized economies (NiEs) as the engine of growth in the region, but this trend seemed to halt in 1991. Growth of the original NIES outstripped that of the second generation. Among the original four, the rate of growth was higher than in the previous year in Hong Kong and Taiwan Province of China and only slightly lower in the Republic of Korea and in Singapore. In this group, export growth accelerated in 1991 to almost 14% compared to around 8% in the previous year, specially due to a sharp rise in trade with China, which benefited in particular Hong Kong and Taiwan Province of China.

Growth decelerated in the second generation of successful exporters of manufactures. In Indonesia, the largest of the group, the slow-down was due to drought and fiscal and monetary austerity measures. In Thailand growth slowed from 10 to 8%, as infrastructural bottlenecks and shortages of skilled manpower in some industries emerged. Exports, on the average, grew faster in 1991 than in 1990, despite deceleration in Indonesia. Despite some decline in the overall flow of foreign direct investment to these countries in 1991, the tendency to relocate manufactures from Japan and from the first generation of NiEs towards Indonesia, Malaysia and Thailand continued. The same process is continuing in Indochina, as Thai and Taiwanese investment is increasing in Viet Nam and its possibilities are being explored in Cambodia. In general, economic interlinkages within the region, as well as between it and China and Japan have been increasing.

India's economic performance improved in the 1980s when growth of output averaged 5.3% a year compared to 3.2% in the 1970s. The path of the 1980s had been one of "growth-cum-debt". Current account deficits in the second half of the 1980s were on average more than double those of the first half, financed by increasing external borrowing. Rising from US$2.6 billion at the beginning of the decade, the current account deficit averaged US$8 billion in the period 1990-1991. Total external debt, from US$21 billion in 1980, reached over US$70 billion in 1990, representing 12% of GNP at the beginning of the period and 25% at the end. The debt service-exports ratio tripled from 9% in 1980 to 27% in 1990.

In 1991, India's growth rate fell to 2.5% from over 5% the year before. Restrictions on imports and bank credit in the first half of 1991 led to sharp deceleration in industry. The country suffered from the Gulf crisis: it had to reabsorb 200 thousand returnees, it had lost US$500 million in workers' remittances and exports to the Gulf area and it had faced a higher oil bill in 1990. Furthermore, there was an abrupt halving in trade with the rupee payment area including the former Soviet Union, which had accounted for about 20% of the country's trade in 1990. These losses compounded the deterioration of the balance of payments already in course.

The external environment was no more favourable to the transition economies in Asia, such as Mongolia, Viet Nam or the other countries in Indochina, which suffered from the disruption in trade and other economic links resulting from the dismantling of the CMEA and the break-up of the Soviet Union. To adjust to the new situation, economic and political reforms began in Mongolia at the end of 1989. In 1991 the Mongolian Government embarked on a privatization programme. The first step was the sell-off of State stores and some food services. To prepare for the privatization of larger enterprises,

See United Nations, *Economic andSocial Survey of Asia ndlhe Pacific* (ST/ESCAP/1905, February 1992).

TSee, for instance, M. Shibusawa, Z.H. Ahmad and B. Brit ;es, *Pacific Asia in the 1990s* (London, Routledge for The Royal Institute of International Affairs, 1992).

two types of "privatization vouchers" were given to citizens born before 31 May 1991 entitling them to purchase shares of State enterprises and other assets. This bold attempt at creating a market economy is still to be tested in the next years. Until now adjustment and transition have been painful: output declined some 10% in 1991, industrial production contracted by 12%, unemployment has risen almost 50%, the Government deficit shot up and inflation surpassed 50%.

Adjustment has been more successful in Viet Nam, with better than expected economic performance (about 2.5% output growth in 1991). The country has taken measures to attract foreign investment and in 1991 signed projects with a total value of US$1.2 billion. To balance its hard currency trade accounts, Viet Nam has cut back imports and succeeded to increase exports in spite of the United States embargo. The Government has increased taxes while cutting spending in order to slow down inflation, which remained, however, at around 60%.

China: growth accelerates

Economic growth accelerated in China during 1991. The gross national product (GNP) is estimated to have grown by 7%, two percentage points higher than both the rate of 1990 and the Government target for 1991. Growth in total output was fueled by rapid increases in both consumer demand and investment demand. Total retail sales rose 10% in real terms while fixed investment expanded by 17%. Inflation inched up in 1991 but still remained moderate.

The stabilization programme which was launched in late 1988 to combat inflation came to an end during 1991, and the Government began to follow more expansionary monetary and fiscal policies. Money supply increased 28% during 1991, only slightly less than in 1990. Interest rates were lowered. Fiscal spending exceeded the government plan, partly due to unexpected fiscal outlays to aid victims of the summer floods.

A relatively loose monetary and fiscal policy played an important role in boosting investment demand. Although a reduction in interest rates by itself may have only a small impact on total demand for investment in a country like China, the general relaxation of macroeconomic policies following the end of the stabilization programme opened a floodgate that had been holding back expenditure.

Consumer spending also boomed, as reflected in a sharp rise in retail sales. Urban real income per capita increased close to 8% in 1991 while farmers' income per capita grew by 2% in the same period. Increased personal income boosted consumption spending directly while lower interest rates on bank deposits helped shift income from savings to consumption. Another factor which led to increased retail sales was the Government's decision to cut prices of overstocked goods.

The performance of the agricultural sector was unexpectedly good, considering that China experienced severe flooding in some of the richest agricultural areas of the country during the summer of 1991. As floods hit the provinces along the Yangtze River, an estimated total of 68 billion yuan (about US$13 billion) worth of properties and output was lost. Flood waters destroyed summer crops and delayed the planting of autumn crops. Despite this, China harvested 435 million tons of grain, only 2.5% less than the 1990 crop and the second highest in history, and 5 million tons of cotton, which was over 25% more than the 1990 record. Total agricultural output increased by 3% in 1991.

Growth of industrial output accelerated. The collective and the private enterprises grew by 18% and 44%, respectively, compared with 8.4% in the State sectors. The relative size of the State sector has been declining, and in 1991 it fell below 45%.

The State sector continued to be troubled by a large inventory of unsold finished products and mounting bad debts. Even after extensive government rescue operations, total debts of these enterprises remained around 300 billion yuan at the end of 1991.[1] Supporting a State sector in which one third of the firms were losing money, coupled with aid to flood victims, pushed the Government's budget deficit above the

A comparison between this figure and the total reported pre-tax profits of State-owned enterprises of 142 billion yuan in 1991 gives an idea of the relative magnitude of the debt problem, although the firms that are in debt are not likely to be generating any profits at all.

planned figure of 12.3 billion yuan (US$2.3 billion) by about 8.8 billion yuan. But its inflationary effect will be limited since issue of bonds rather than printing money was the primary means of financing the deficits, and financial institutions were used as underwriters selling the bonds on the emerging financial markets.

After a year of relative price stability, the acceleration of growth in 1991 was accompanied by a modest upturn in inflation as reflected in the retail price index, which increased by around 3%. The cost of living index in major cities increased by 8% in the same period. This difference reflects partly the increase in the official prices of cooking oil and other staple food items sold to urban residents at State stores last May (which has a much smaller impact on the first price index). The existence of stocks of finished goods also cushioned the inflationary pressure brought on by looser fiscal and monetary policies.

During 1991, China was involved in a trade dispute with the United States over issues of copyright protection and barriers to trade. The growth of Chinese foreign trade seems to have been little affected by these frictions.

Foreign investment continued to grow following the upward trend set in 1990. Contracted projects reached a total value of US$17.8 billion in 1991, rising by 47.6% over 1990. Actual investment totalled US$11.3 billion in the same period, or 9.6% higher than in the previous year. Rapid growth was seen in investment from Hong Kong, Japan, the Republic of Korea and Taiwan Province of China. Combined with increased revenues from the recovery of tourism in 1991 and the trade surplus, these inflows pushed China's foreign reserves to about US$40 billion at the end of September of 1991.[15] China, with a debt service ratio less than 10%, has not encountered any difficulties in meeting its external liabilities.

Mediterranean: between two wars

With the war in Yugoslavia[16] and the slow-down in Turkey and Cyprus, the region's real GDP declined by 7% in 1991. This reflects the collapse of the Yugoslav economy, brought about by civil war and ethnic violence. Industrial production dropped by more than 20% in 1991. Construction declined by about 16% and tourism virtually disappeared, with a drop of almost 90%. Agriculture seemed to recover precariously. Altogether, domestic output declined by more than 20% in 1991, after about 9% in 1990. Fueled by successive devaluations, falling production and increased import prices, inflation reached more than 250% for the whole of 1991. Unemployment exceeded 20%. There was a complete breakdown of inter-republican trade. External trade also fell between 20 and 30%. The country's political disintegration made programmes of economic reform meaningless.

In Turkey economic growth decelerated sharply in 1991, to only about 2%, from over 9% in 1990. The sharp economic contraction stemmed mainly from the effects of the Gulf crisis which led to a collapse of trade with Iraq, the country's main trade partner in the area and to an erosion of consumer and business confidence. The effects were felt in all sectors, excepting agriculture.

Interest rates rose sharply at the outbreak of the Gulf war and as banks, in times of uncertainty created by the crisis, sharply reduced lending. Monetary policy remained restrictive. Expansionary fiscal policies, and the end of the Gulf war led to a recovery in the second half of 1991. Industrial production recovered somewhat, mainly in consumer durables. The service sector also began to grow, albeit slowly, thanks to the revival in tourism.

Government outlays increased sharply to accommodate higher wage demands from civil servants, a rise in agricultural support prices and higher military expenditures. The budget deficit widened to 11% of GNP and was financed mainly through short-term borrowing from the Central Bank, and to a lesser extent through sale of treasury bills and external borrowing. Inflation accelerated to nearly 70% from 60% in 1990. Unemployment rose to over 11%.

State Statistical Bureau, "Report on the national economic and social development in 1991", in *The Economic Dally* (Beijing).
The Economic Daily (Beijing), 1 February 1992.
[1]*With the independence of Croatia and Slovenia recognized at the start of 1992, Yugoslavia, as a federation of six constituent republics and two provinces, has ceased to exist.

Growth in the volume of world trade slowed for the third consecutive year in 1991 to about 3%. This constituted the smallest gain since 1985, but was none the less remarkable in a year when world output declined (see figure 1). In value terms, world merchandise exports rose 2% in 1991 to a record US$3.47 trillion, as prices declined on average (see table 4).

The slow-down in world trade was largely due to the recession in the industrial economies and, to a lesser extent, to the collapse of the economies of eastern Europe and the former Soviet Union. The growth of export volume of the industrial countries dropped from 5.7% in 1990 to a little under 3% in 1991. Despite the decline, trade remained more resilient than output in these economies which increased by only 1% in 1991. Exports from eastern Europe and the former Soviet Union fell by almost 22% in volume terms in 1991, while their imports contracted by 30%. Exports of the developing countries, on the other hand, increased by about 10% in volume while their imports increased by around 9%.

The revival of world trade will clearly depend on the speed of recovery of the industrial economies from the current recession. The pent-up import demand in eastern Europe and the republics of the former Soviet Union both for current consumption and reconstruction should also lead, if adequately financed, to increased imports into that area. Moreover, the present efforts at trade liberalization in the developing countries should make a modest contribution to the resuscitation of world trade. Continuing protectionist trends in many parts of the world, on the other hand, could dampen these possibilities.

As of May 1992, when this *Survey* was completed, the outcome of the Uruguay Round remained uncertain. The biggest sticking point continued to be agriculture, but there were other important areas where the negotiations were not nearly complete. Despite declared commitments at the highest political levels among the major countries, no breakthrough looked imminent.

While the Uruguay Round negotiations wavered, forces eroding the multilateral trading system appeared to gather strength. Among the moves towards unilateralism and managed trade was the attempt to re-activate the Super 301 process in the United States. There was little abatement of protectionism among the major trading nations. In contrast, a number of developing countries -especially in Latin America- were undertaking significant liberalization of their trade regimes.

Attempts at forming regional trading arrangements continue. Some have viewed these arrangements as building blocks, and others as stumbling blocks, in the evolution of the trading system. In the latter case, the proliferation of blocs is seen as inherently likely to impair multilateralism. In the former case, trade liberalization agreed to in so-called "mini-multilaterals" is expected to spread throughout the global trading system.

Among the other long-term issues of special concern for developing countries, commodity prices, which have been falling since the early 1980s but recovered slightly in the late 1980s, are now at record low levels. Moreover, prices are not expected to recover substantially in the near future.

The relationship between development and the environment has assumed great importance in national and international discussions in recent years. Concern with the issues of trade and protection of the environment has correspondingly increased.

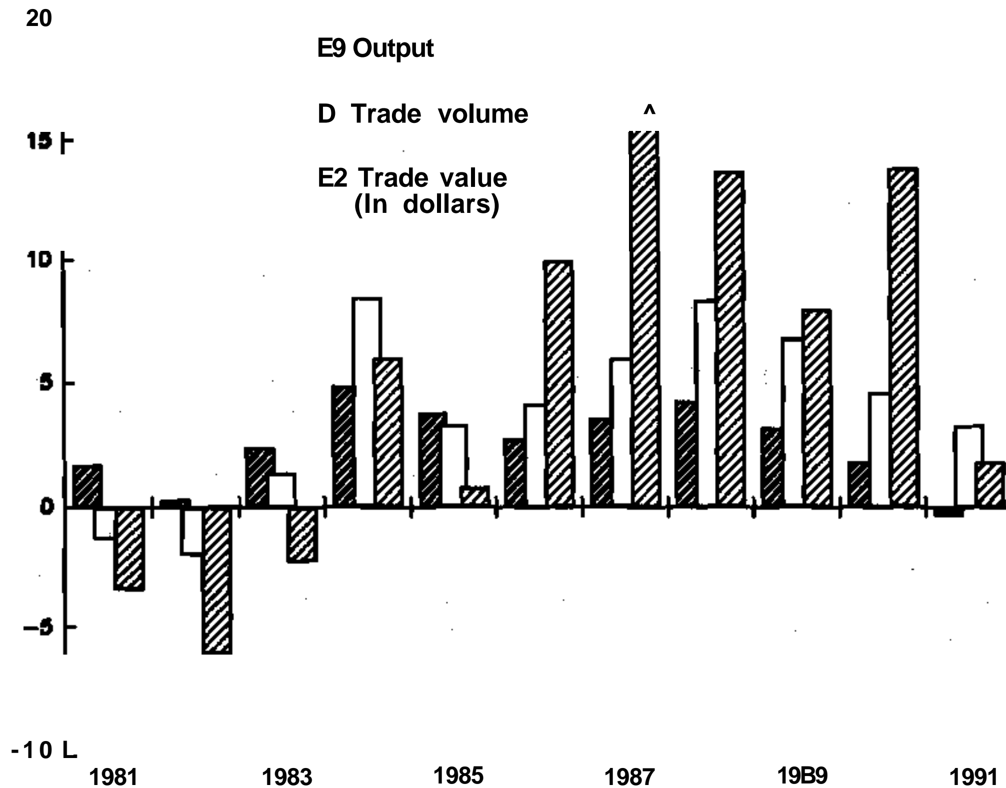
a) Trade flows in 1991 : salient features

Developed market economies

The value of the industrialized economies' merchandise exports and imports, which represent about 70% of world trade, increased about 2% in 1991, the smallest rate of increase since 1985. In volume terms, the growth of their exports slowed to just under 3% from around 6% in 1990, while the growth of their imports slowed from about 5% to 3%. This lethargic growth of trade in 1991 is largely attributed to the recession in both North America and the United Kingdom and the consequent decline in their import demand. A strong growth of import demand in Germany and the continuing strength of United States exports were the major factors sustaining the growth of industrialized country trade.

Figure 1

WORLD TRADE AND OUTPUT, 1981-1991
PERCENTAGE CHANGE OVER PRECEDING YEAR



Source: United Nations, Department of Economic and Social Development (DESD).

For the United States, export growth was one of the few bright spots in the economy during 1991. The volume of exports increased by about 7% in 1991, and although this represented a slow-down from an 8% increase in 1990, the growth was much higher than that of other major developed countries' exports. The growth was fueled by the decline in the value of the dollar, which reached historic lows against the mark and the yen in February 1991. Thereafter, the dollar began to rally and economic growth overseas began to stall just as the United States economy was showing signs of recovery.

The strength of exports contributed to a further reduction of United States merchandise trade deficit which shrank by about US$34 billion to US$74 billion in 1991. Over the period 1987-1991 the deficit as a proportion of exports declined from over 60% to under 20%, which makes the current protectionist sentiments in the country incongruous. The focus of protectionism has, however, shifted from overall deficit to bilateral deficits, some of which remain large. Deficits were especially large with China, Japan and Taiwan Province of China, which together accounted for some four fifths of the United States's trade deficit in 1991, up from roughly half in 1988. The fact that the United States trade deficit with Asia, and particularly Japan, is not shrinking fast has put a particular spin on United

States trade policy *vis-à-vis* these countries which continued in 1991.

The Japanese response has been one of accommodation. For example, in mid-Match 1992, Japan announced that it would reduce its ceiling for automobile exports to the United States to 1.65 million cars per year, down from 2.3 million. This gesture is, however, expected to have only a limited impact on the American automobile industry -in part because of the depressed market and in part because of the increasing number of cars being manufactured at Japanese "transplant" factories in the United States.

In a further bid to offset trade tensions, Japan's Ministry of International Trade and Industry (MiTi) was said to be considering announcing a similar reduction in its exports of cars to Europe -though, here too, a 5% quota cut would have little effect on total Japanese sales because of the existence of Japanese auto plants in Europe. Nevertheless, such a move is expected to symbolize Japanese auto makers' willingness to abide by last summer's Min-European Community (EC) accord to limit their European market share until the end of the century.

The growth of Japanese imports slowed in 1991 in response to the slow-down of the economy and was no longer one of the major growth poles of world trade that it had been since the mid-1980s. Exports also grew only modestly, at just about the same rate as imports. Nevertheless, the country's trade surplus increased by US$40 billion to around US$103 billion. This was largely due to a 10% improvement in the terms of trade of the country, partly resulting from an appreciation of the yen and a decline in prices of oil imports. The trade balance with the United States increased, though only by just over 1%, for the first time in four years. Much of the increase in overall trade surplus in 1991 was due to a sharp switch of the trade balance of the country with the EC from a deficit to a surplus, and an increase in the surplus with South and East Asia.

Largely as a consequence of unification, German imports increased sharply in 1991 while exports declined. Total imports in 1991 were some 10% higher than in 1990 for Germany and was one of the major sources of growth of world trade.

Developing countries

In 1991, exports of developing countries increased by around 10% in volume and by 5% in nominal dollar terms as average prices of exports fell. Imports also increased sharply, by about 9% in volume and 8% in value. The growth of developing country trade was thus much higher than the growth of world trade. As with economic growth, there were however very large differences among countries.

Developments in 1991 that affected the merchandise trade of developing countries include the recession in developed market economies which reduced demand for their exports, the price effects of the unanticipated increase of exports of some mineral and metals from republics of the former Soviet Union (see below), the loss of export markets in eastern European countries and republics of the former Soviet Union, and the lingering effects of the Gulf conflict. The roll-back of oil prices benefitted the energy-importing countries.

Imports of Latin America and the Caribbean surged at the highest rate in recent years, growing 14% in volume in 1991. On the other hand, exports, which had been growing at an annual rate of around 6% in volume over 1987-1990, slowed to under 5%. Export revenues declined by 1.4% as export prices fell. The terms of trade of the region deteriorated by around 6%.

The volume of Africa's exports increased by around 4% but this was more than offset by a 9% decline in export unit values, leading to a 6% fall in export earnings. Prices of oil, coffee, cocoa, copper and other commodities that together account for over 80% of Africa's export revenues were lower in 1991. The terms of trade of the

Thus, Japan exported roughly 1.76 mil lion automobiles to the United States in 1991, which was only 110,000 above the new ceiling. Moreover, this represented the fifth consecutive year that Japanese car exports to the United States fell below 2.3 million, the ceiling in effect since the mid-1980s.

rational import quotas that have long protected European automobile manufacturers are to disappear next year under the European Community's single market. Export ceilings -but only to the year 1999- are to replace these quotas.

region worsened by over 7%. The volume of imports increased only marginally.

The volume of exports of South and East Asia increased by around 14%, while region's imports grew almost as fast, at around 12%. Along with the growth of China's trade, it was one of the most dynamic elements in world trade in 1991. Although the world-wide recession had an adverse impact, trade performance remained strong because of high rates of economic growth in the region and increased trade and investment links between developing countries in the region and with Japan. Singapore's export growth slowed, but was not halted, by recession in the United States and other exporters of manufactures -Hong Kong, Republic of Korea and Taiwan Province of China- were also able to increase their exports substantially, mainly to China and the European Community. Exports from Malaysia and Thailand continued to grow fast. Indonesia's exports were relatively sluggish because of lower oil and commodity prices. On the other hand, exports of India and Viet Nam stagnated, partly because of reduced import demand in eastern Europe and the former Soviet Union. Trade flows of several countries in South Asia were adversely affected by the disruptions caused by the Gulf conflict.

China's trade expanded robustly with the value of exports increasing at a rate of about 16%. Imports, recovering from a decline of over 15% in 1990, increased by almost 20% in 1991. China's trade benefitted from strong trade links with the United States, Japan and other countries in South and East Asia. The rapid expansion of exports can be attributed to reforms that allowed for increased autonomy in the export sector, an overall depreciation of the yuan, and rapid industrial growth. The import growth was a result of the lifting of austerity measures that had restricted imports in the past two years.

In West Asia lower oil prices led to a 10% fall in export revenue despite an increase in the volume of oil exports. Much of the increase was due to higher levels of production and exports of oil in Saudi Arabia, the Islamic Republic of Iran and the United Arab Emirates. The combined volume of exports of these three countries, which normally account for about two thirds of the region's exports earnings, increased by 4.5% in 1991.

Economies in transition

The volume of foreign trade of the economies in transition fell sharply in 1991. There were two major components of this decline: the sharp contraction of intra-CMEA trade and the collapse of Soviet foreign trade.

The value of exports of the five eastern European countries declined by about 10% in 1991, as trade with other eastern European economies and the Soviet Union contracted sharply. Their exports to the industrial countries, on the other hand, increased by about 8%. The share of inter-group trade, which had been declining recently, plummeted. Imports of these countries increased by around 6%.; As with exports, there was a substantial increase in imports from the market economies, and a very sharp decline of imports from other eastern European countries, while imports from the former Soviet Union increased slightly. Exports of the former Soviet Union declined by over 20% in value while its imports plunged by almost 40%. Trade of the country with eastern Europe fell even more drastically.

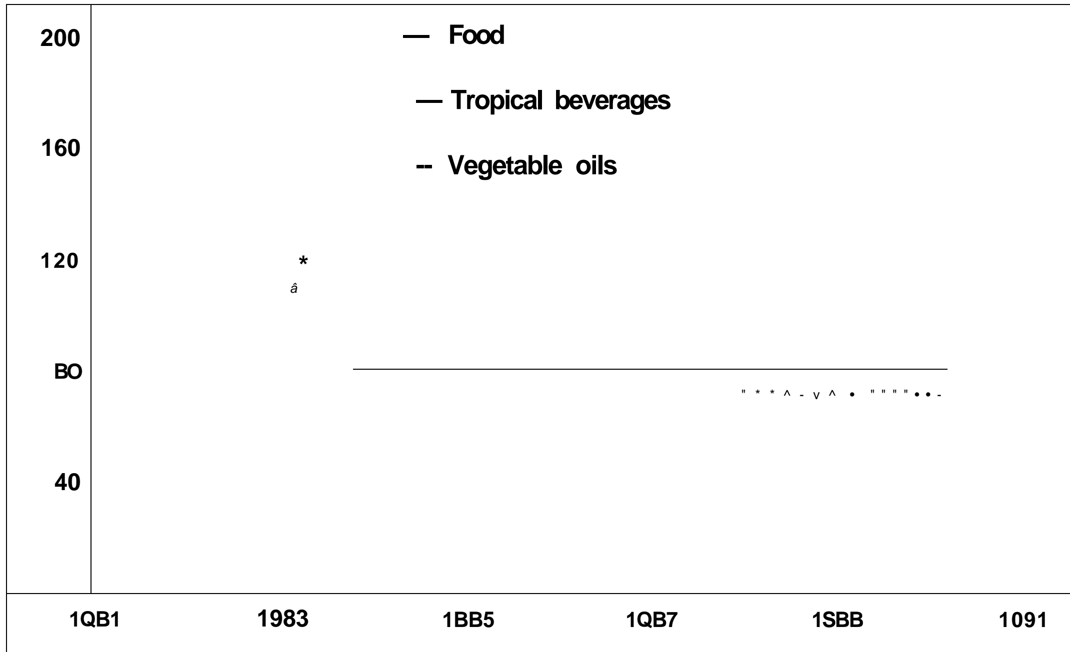
b) Commodity prices in 1991

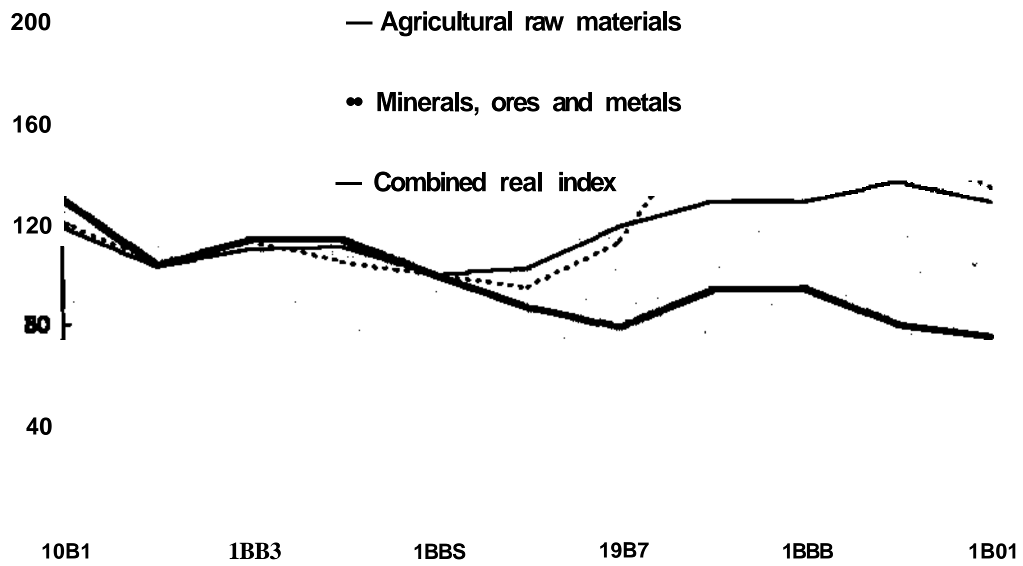
The average price of non-fuel commodities, as measured by the combined index of nominal dollar prices of the United Nations Conference on Trade and Development (UNCTAD), declined by 6.3% in 1991 (see figure 2). Measured in special drawing rights (SDRs), the decline was a slightly steeper 7.4%, reflecting the slight overall depreciation of the dollar. In real terms, i.e. in terms of manufactures they would buy, the decline in prices was also around 6%, as prices of manufactured goods exports of industrialized

'estimation of the value and volume of trade of eastern Europe and the former Soviet Union has always presented problems, especially those related to prices and exchange rates applied in intraregional trade. Since the break-up of central planning and the Council for Mutual Economic Assistance (CMEA), these problems have been compounded by changing trade and payments patterns, remnants of transferable rouble accounting and modified trade reporting. The trade numbers of this group of countries have therefore an unknown margin of reliability and error.

Figure 2

PRICE INDEXES OF COMMODITIES OTHER THAN FUEL. 1981-1991
(Indexes 1985-1QQ)





Source: UNCTAD, Monthly Commodity Price Bulletin.

countries remained practically unchanged. The decline was smaller than the 14.9% fall in real commodity prices in 1990 that resulted from a combination of a 5.9% decrease in nominal dollar prices and a 10.6% increase in the average prices of manufactured goods (see table 5).

The continuing fall of commodity prices, which started to weaken in 1989, mainly reflected demand conditions as a consequence of the recession in developed market economies. Prices for many commodities had strengthened early in the year at the onset of the Gulf war. After the conclusion of the war, forecasts of an end to the recession in the United States and a resumption of growth in other economies spurred producers of some commodities to maintain high levels of production and exports. These forecasts turned out to be overly optimistic, and many markets were left with large stocks. Prices of many commodities then resumeo their downward trend from the second quarter of 1991 to the end of the year.

Commodity prices in 1991 were also influenced by the supply and demand shocks to several markets that resulted from the breakup of the Soviet Union and increased participation of eastern European economies in western commodities markets. On the supply side, exports of zinc, aluminium and copper from republics of the former Soviet Union increased by 92%, 65% and 15.3%, respectively. Prices for aluminium and zinc fell almost to the lows of the mid 1980s. Copper prices also declined on average for the year, but were supported by low stockpiles and production shortages stemming from political disturbances in Zaire and Zambia. The increased com modity exports were driven by the need for increased foreign exchange earnings and, in the case of the Russian Republic, changes in foreign exchange control laws that provided incentives for individual companies to increase exports rapidly. The flood of exports in 1991 came largely from stockpiles growing as a consequence of reduced domestic demand for industrial production.

Foreign exchange shortages and sharply reduced economic activity in these countries caused significant reductions of imports. The dismantling of the CMEA and other trading arrangements between the former Soviet Union and several developing countries created other types of market dislocations. The Soviet Union was the world's biggest importer of tin and provided the largest export market for India's tea and Cuba's sugar. Commodity imports of the Soviet Union from developing countries were reportedly cut by half in the first quarter of 1991 compared with the same period in 1990. Prices of these commodities weakened as the excess supplies were diverted to world markets. On the other hand, prices of certain food items -wheat and grain, in particular- strengthened as production shortfalls and the threat of famine in the new republics led to massive imports of food from the United States and the European Community.

Among the major commodity groups, food prices declined by 6.6%. Sugar led the decline with a loss of 27% of free-market prices although the United States import price decreased by only 7%. The European Community import price for sugar actually increased by a slight 3.7%. Wheat prices, following a steep decline of 19% in 1990, recovered from lows at the beginning of the year to almost boom levels in the fourth quarter as a result of increased shipments to the former Soviet Union, strong demand from China and reports of dwindling United States stockpiles. Nevertheless 1991 prices were on average 12% lower compared with 1990.

Tropical beverage prices declined by 8.1%. Increased production, weak demand in western countries, and a slum p in purchasing power in the former Soviet Union and eastern Europe resulted in surpluses of coffee and cocoa that took prices to their lowest levels in 16 years. Coffee prices fell about 9% in 1991. Prices for robusta coffees, exported mainly by African countries, fell by 9.4%. By comparison, prices of mild arabicas, exported mainly by the major Latin American producers to North American markets, fell by 4.6%. Although demand for cocoa outstripped production for the first time in eight years, seven years of bumper crops have resulted in huge stockpiles that further reduced prices by 10% in 1991 but they had strengthened somewhat towards the end of the year on the basis of forecasts of lower production in some of the major exporting countries. London Auction tea prices registered a decline of about 9%. Export sales remained depressed because of reduced demand in the former Soviet Union and the

additional loss of the Iraqi market on account of the continuing United Nations trade embargo. Increased supplies of lower grade teas accounted for much of the price decline.

Vegetable oils and oilseeds was the only commodity group to register an increase in prices in 1991. The UNCTAD index for this group increased by 8.1% following two successive years of steep declines. Coconut oil and copra prices increased, by 29.2% and 25.5%, respectively, largely because of drought conditions and supply problems in the Philippines. Increases were also recorded for palm oil (18.4%) and palm kernel oil (22.4%). Prices of every other commodity in this group fell in 1991.

Prices of most agricultural raw materials declined in 1991 leading to an overall decline in the UNCTAD index of these prices of 8.1 %. Cotton prices started the year with an increase but fell to a cumulative loss of 26% during the second half of the year. Bumper harvests in the United States and in China, which became a net exporter for the first time in 1991, and large quantities of exports from the republics of the former Soviet Union caused the downturn in prices. Wool prices declined by 19% largely because of the ending of Australia's 17-year-old price-support scheme. Jute prices rose in the fourth quarter of 1991 when Bangladesh reintroduced export price controls but fell by 16%, on average, for the year because of weak export demand. Rubber prices fellby 5% mainly because of the world-wide slump in the tyre industry. Prices of sisal, hides and skins and tropical timber also fell.

The UNCTAD composite index of minerals, ores and metals prices declined by 9.4%, the steepest decline of all the commodity groups. Aluminium prices in December 1991 were 47% lower than their peak in September 1990 and were down 20% for the year as a whole. Tight stocks on the London Metals Exchange and supply problems in Zaire and Zambia held copper prices to only a 13% decline for the year. Zinc prices declined by 31% mainly because of oversupply conditions and reduced demand in construction and automobile industries. Tin prices have been depressed since the collapse of the International Tin Council price support scheme in 1985. Prices fell by a further 10% in 1991. Small increases were recorded for phosphate rock, manganese ore and iron ore.

Negotiations aimed at reviving stalled price-stabilization schemes produced no significant results in 1991. The major coffee producers, Brazil and Colombia, failed to arrive at an agreement to withhold a percentage of exports from the market in order to strengthen prices, though Brazil actually suspended exports briefly in March 1991. The International Coffee Organization extended the International Coffee Agreement without economic clauses. Disagreements remain over export quotas between different types of coffee and a retention plan that allows for sales to non-members at substantial discounts. The buffer stock agreement of the International Cocoa Organization remains suspended because of disputes between major producers and consumers over the price range to be defended and over accumulated payment arrears of some producers. The International Cocoa Agreement is operating without economic clauses with an extension to December 1993. The most stable commodity agreement, the International Rubber Agreement, came under pressure in 1991 as major producers and consumers in the International Natural Rubber Organization failed to agree on whether to start negotiations on a new pact. The current agreement expires in December 1993 but major producers, led by Malaysia, maintain that the present agreement only succeeds in stabilizing prices at the lower end of the price support band of the Agreement.

The Association of Tin Producing Countries (ATPC), formed in 1985 after the collapse of the International Tin Council was strengthened in 1991 when China, the world's second largest producer, became a member. The association has already agreed on export reductions aimed at reducing stockpiles to 20,000 tons from present levels of 45,000 tons in order to boost prices.

3. **The international oil market**

Following a period of unprecedented price volatility, which lasted throughout the Gulf crisis from August 1990 to January 1991, the oil market in 1991 settled into a period of tranquility, with a few gyrations upwards and downwards, despite the disintegration of the Soviet Union and

uncertainties regarding its ailing oil industry. In late 1991, Soviet oil output reached its lowest level in 15 years because of technical and logistical problems as well as general disorganization caused by political instability.

More than a year has passed since the end of the Gulf war, but normalcy has not yet completely returned to the oil market. The timing and extent of the worldwide oil industry's return to normal activities hinge on the magnitude and timing of the resumption of oil exports by Iraq and Kuwait.

Although Kuwait's oil exports were resumed late last summer and have recently picked up some momentum, Iraq's exports are still embargoed. Without the oil facilities of Iraq and Kuwait, the rest of the world oil industry was in 1991 operating at a high level of capacity utilization in both production and refining.

However, because of sluggish world oil demand and OPEC overproduction, oil prices weakened in late 1991, falling to about US$16 a barrel, or US$5 below OPEC'S target price of US$21 per barrel. Weak oil prices continued during the first quarter of 1992, although prices then increased somewhat because of uncertainties with regard to Libyan oil supplies.

The evolution of oil prices in the short-term will depend on a variety of factors, such as the timing and magnitude of the resumption of economic growth in industrial countries and elsewhere, the volume of oil production in the former Soviet Union and the participation of international oil companies in the overhaul of its oil industry. It will also depend on the implementation of ongoing and announced plans for expanding oil production capacities in major OPEC countries and the resulting margin of spare capacity in the world oil supply system.

In 1991, world oil demand was relatively weak due to mild weather conditions, increased conservation efforts and low economic growth, particularly in the industrial countries. On a regional basis, total oil consumption in the developed market economies is estimated to have remained virtually flat in 1991, with increases in western Europe and the Pacific offset by declines in North America. In eastern Europe and the Commonwealth of Independent States, oil consumption continued to decline mainly due to the adjustment problems of the former centrally planned economies. In the developing countries, growth in total oil consumption was relatively strong, especially in the rapidly growing economies of Asia.

World oil output declined slightly, but OPEC production reached its highest level in almost a decade. Output in the former Soviet Union continued to decline significantly. Elsewhere, production increased moderately.

A factor of paramount importance that helped create a rough balance between supply and demand in the aftermath of the loss of exports from Iraq and Kuwait was the ability of OPEC to expand capacity quickly and significantly. This decisive expansion of output allayed fears of an oil supply shortfall, but it has since prompted new concerns of oversupply. It is possible that these quick developments on the supply front may have delayed the expansion programmes needed to meet the substantial growth of oil demand expected during the 1990s.

Most experts agree that in the 1990s demand for OPEC oil, especially from the Gulf, will increase substantially because of abundant reserves and low costs. At present, OPEC produces only 40% of the world's output but possesses 78% of the world's proven reserves of one trillion barrels. The Gulf contains two-thirds of these reserves and is the most significant source of incremental supply in the future. Despite these vast oil reserves, raising the required finance to expand capacity will be a major challenge to OPEC countries, most of which have serious financial problems.

The anticipated resumption of growth in world oil demand and the increasing concentration of supplies in OPEC countries, particularly in the Gulf region, focus attention on the need for cooperation between major participants in the international oil market to insure that incremental production capacities will be sufficient to match incremental oil demand in an environment of reasonable price stability.

The uncertainty over OPEC'S ability to expand capacity may be allayed by the new reintegration of the oil industry, in which the major international oil companies are being offered joint ventures and partnership in some OPEC countries which had previously nationalized their oil industries. Similarly, producers are expanding investments in the downstream end of consumer

markets. These developments may mark the beginning of a new era of cooperation among the principal participants in the energy market. The aim of such cooperation should be to provide security of supply to consumers and security of markets to producers in a mutually acceptable framework beneficial to all. The recent crisis in the Gulf brought into sharp focus the need for such cooperation and led to preliminary talks and exchanges of views between producing and consuming countries and international oil companies. The continuation of this dialogue will be essential in view of the very large investment involved; according to an estimate below, they may exceed US$1 trillion for the rest of the decade.

Since the beginning of the Gulf crisis in August 1990, all OPEC countries have been producing at full capacity to meet the loss of supply from Iraq and Kuwait. With demand relatively weak, surplus production by OPEC became evident early in 1991. However, uncertainties with regard to declining Soviet oil output as well as depressed production in the North Sea kept prices fairly buoyant throughout mid-1991, the agreement of the OPEC market monitoring committee in March 1991 to reduce output by 5% to an informal quota of 22.3 million barrels per day through voluntary cuts provided strong price support.

Towards the end of the second quarter of 1991, prices began to weaken, prompting several OPEC member countries to voice concern. At the OPEC Conference in June 1991, the oil ministers tentatively agreed to keep production ceiling at 22.3 million barrels per day for the third quarter of the year despite conflicting views of market fundamentals.

During most of the second half of the year, declining Soviet oil production and a steady fall in export volumes added to speculations about supply tightness in the winter and kept prices hovering around US$19 a barrel.

In anticipation of higher oil demand for the winter, OPEC members, at their meeting on 24-25 September 1991, raised their ceiling to 23.65 million barrels per day without setting firm quotas for individual members. Following that meeting, OPEC oil production rose to 23.9 milhon barrels per day in October and 24.0 million barrels per day in November without any erosion of prices. However, as OPEC output continued to climb and earlier expectations of an end to recession and strong winter demand for oil failed to materialize, oil prices dropped to around US$17 a barrel in early December. At the same time, oil production and exports of the former Soviet Union's various republics had stabilized despite political disarray there. Moreover, the possibility of the resumption of Iraqi exports following reports that Iraq was to meet with the United Nations representatives in January exerted downward pressure on prices. Prices remained weak in January 1992 despite voluntary production cuts by several OPEC members. The agreement reached in the February 1992 OPEC Ministerial meeting to reduce production to 22.9 milhon barrels per day did nothing to shore up oil prices.

The recent declines in oil prices have deeply hurt the income of many OPEC countries. Many of them have serious financial difficulties, having based their economic plans on the basis of a price close to the OPEC target of US$21 a barrel. Oil revenues for OPEC as a whole are estimated at US$134 billion in 1991, as compared to US$147 billion in 1990.

Oil consumption remains depressed

Following the precipitous decline in oil prices in early 1986, world oil consumption grew at about 2.3% per annum for three years. However, in 1990 and 1991, demand for oil remained almost stagnant, rising at only 0.3% and 0.2%, respectively (see table 6).

Oil is still the largest source of commercial energy world wide despite two decades of efforts to change the energy mix in favour of other energy sources. In 1990, oil accounted for approximately 39% of global commercial energy, followed by coal (27%), natural gas (22%), and primary electricity (12%). After a considerable increase during the 1970s, oil demand in the 1980s continued to grow relatively fast in developing countries while it declined in the developed market economies as well as in eastern Europe and the Soviet Union.

Between 1980 and 1985, demand for oil in the developed market economies fell by about 2.0% per annum owing to the introduction of energy conservation measures, improvements in energy efficiency and substitution away from oil in

response to the large price increases of the 1970. However, lower oil prices since 1986 reversed this trend and oil consumption has risen by 2.5 million barrels per day, or 1.4% per annum. The increase was particularly noticeable in the Pacific region, where demand rose by 0.9 million barrels per day, or 17.3%. In western Europe demand increased by 1 million barrels per day, or 8.2%, whereas in North America, demand grew by only 0.5 million barrels per day, or 2.8%.

In 1991, consumption in the developed market economies remained at the 1990 level. Small increases in demand in western Europe and the Pacific were more than offset by declines in North America. The growth of demand in western Europe was mainly due to German demand for fuel oil, which replaced high-sulphur coal for electricity generation in the former German Democratic Republic. In North America, consumption continued to decline for the second year in a row, mainly because of mild weather and economic recession. Oil consumption in the developed market economies in 1991 was still 9% below the peak level of 1979.

In developing countries, oil consumption has grown considerably faster than in the developed market economies. It rose at an average annual rate of 4.2% during the period 1986-1991, reflecting rapid urbanization and increasing industrialization and also limited possibilities for substitution of oil. Much of the growth was in Asia, where oil demand increased by 2.2 million barrels per day, or about 7% per year. The surge in demand was most apparent in the rapidly industrializing countries of the Republic of Korea, Singapore, Taiwan Province of China and Thailand, where demand for oil has grown at double-digit annual rates in recent years.

In the other developing countries of Africa and Latin America as well as the oil-exporting countries, oil demand grew more slowly in 1991, and growth in oil demand in the developing countries as a group is estimated at 3.3%.

Following rapid growth in the 1970s, oil demand in eastern Europe and the Soviet Union stabilized in the early 1980s and then declined through the rest of the decade. It was the only region where demand declined during the period 1986-1991. In 1991, oil consumption in the former Soviet Union and in eastern Europe fell by a further 4%, as compared to 1990.

World crude oil production

OPEC production continued to rise in 1991, although at a slower pace than in previous years, while total non-opEC production declined, mainly because of the sizeable drop in output in the former Soviet Union. Production continued to rise in a number of other developing countries and production from the North Sea reached a record level, reflecting a surge in output from the Norwegian sector.

The increase in world oil demand since 1985 and the virtual stagnation in non-OPEC supplies caused by the fall in output in the United States and more recently in the former Soviet Union have raised the OPEC market share over the past six years from 30 to 39%.

OPEC production patterns and policies during 1991 have demonstrated a new determination to keep and enhance market share by providing security of supply to consumers even at the risk of somewhat lower prices. Despite the loss of oil from Iraq and Kuwait, OPEC output rose over the levels in 1990 and 1989. This increase in output, however, has led to more concentration of supplies, with Saudi Arabia's share rising from 25% in 1989 to 35% in 1991.

Output of the non-OPEC oil-exporting developing countries continued to grow during the second half of the 1980s. The increase output from these countries has resulted from expansion of existing capacities and development of new discoveries in a number of countries, including Angola, Colombia, Egypt, Malaysia, Oman, the Syrian Arab Republic and Yemen. As a result, total output has increased by some 3% a year between 1985 and 1990. In 1991, it rose by another 3% to 10.3 million barrels per day.

In the oil-importing developing countries, oil production decelerated considerably in the send half of the 1980s, which reflected slow-down in exploration and development. It grew at an average annual rate of 1.6% as compared to 12% between 1980 and 1985. In 1991, total production grew by 3.3% to 2.16 million barrels per day.

The growth in oil output of the developed market economies throughout the 1970s and early 1980s came to an end with the collapse of oil prices in early 1986. Since then, their crude

oil production has dropped by 5%. The drop was especially significant in the United States, where crude oil production in 1991 was 18% below its 1986 level.

However, in 1991, total crude oil production in the developed market economies rose for the first time in six years increasing by 2.7%. Although production in the United States increased marginally in 1991, the downward trend is expected to continue. In Canada, crude oil output remained essentially unchanged in 1991, with a small decline in conventional crude production offset by an increase in synthetic crude production. However, recent reductions in governm ent financial support for exploration and development of conventional as well as tar sand projects may be expected to result in lower production in the near future.

In the North Sea, crude oil production in the United Kingdom recorded a decline of 3.8%, but crude oil output in Norway reached record levels. The decline in output in the United Kingdom was largely due to disruptions from a series of shutdowns for repairs and refurbishment in a number of platforms. Substantial incremental crude oil output from the United Kingdom sector of the North Sea is unlikely at current price levels, but with the commissioning of new smaller fields, total production may, in the absence of platform maintenance problems, rise during the next few years.

In 1991, output in the former Soviet Union plunged to its lowest level in more than 15 years, as a result of technical problems that have beset the oil industry for years. These include declining well productivity, reduction in upstream oil investments, outdated equipment and shortages of materials and technical supplies as well as general disorganization. Crude oil outputreached an all-time peak of 12.5 million barrels in 1987 and 1988, but fell to 12.17 million barrels per day in 1989 and to 11.4 million barrels per day in 1990. Afurther decline to 10.3 million barrels per day was estimated for 1991. Exports of crude oil and petroleum products are estimated to have declined to 3.05 million barrels per day in 1990 from a record of 4.1 million barrels per day in 1988, and to have fallen another 30%, to 2.1 million barrels per day in 1991.

Oil production in all eastern European countries declined sharply in 1991. In Romania, the only one with significant oil reserves, output dropped by 19%. Some of the East European countries with favourable geological conditions and good exploration potential are promoting joint venture participation with international oil companies.

4. Saving, investment and the international transfer of resources

Recent trends in saving, investment and the net international transfer of resources indicate that world economic growth is expected to be unnecessarily restrained in the medium term, but not by a saving shortage in the ordinary sense. There is, rather, an inadequate allocation of the world's resources to investment projects. Developing countries, particularly in Asia, have demonstrated the "virtuous cycles" that result from a high investment, high growth policy in a context of relatively well-managed financial and fiscal systems. In other cases, debt overhang and fragile economic situations hold back possible investment and growth levels. Among the formerly centrally planned economies, the disruptions of the transition process are deterring investment, and medium-term progress requires success in implementing new systems of financial intermediation. Among the developed market economies, government investment needs to be stepped up, international flows need to be augmented to support capital formation in developing and transition economies, and, especially in the United States, private investment could be effectively stimulated as well.

In recent years, annual world investment has surpassed US$5 trillion. But as a share of gross world product it has been on a declining trend for decades. From 1950 until the early 1970s, the share of world investment in gross world product rose almost steadily, reaching a figure of almost 27% in 1973, from which point it fell to almost 22% in 1983, before beginning to rebound.

Changes in the world investment share have roughly followed the cycles of growth in world

output, generally rising during periods of more rapid world growth and declining during periods of slowergrowth and recession, as can be seen in figure 3. Since producers generally seek to expand capacity when sales and profits are rising and since investment in the capital stock is the major means by which productive capacity is augmented, this cyclical relationship is an expected one. However, a long-term downward trend in the share, extending over several cycles, is disturbing since a sustained decline in investment effort could translate into slower world economic growth in the future. As already discussed, world output actually declined in the early 1990s, and only a slow recovery is forecast for the medium term. In that light, the prospects for investment could well be a cause for concern.

There is no a priori reason that expenditure on investment should be a fixed proportion of output. Since 1973, the prices of investment goods have fallen relative to those of other goods and services. The real value of investment as a share of output could be maintained with a decreasing share of investment expenditure. Thus, when measured in constant prices and exchange rates, the investment share in global output seems to have fallen less than when measured in current prices (see figure 3). This notwithstanding, the trend is still a declining one.

The relationship between the investment effort, as measured by the share of capital formation in gross product, and the growth of labour productivity, as measured by the growth in output produced per person in the labour force, has long been a close one. Thus, average gross output per worker in the world economy rose rapidly during the 1960s and early 1970s, a period when investment effort steadily increased in all main regions of the world economy. During the period of falling investment share from 1974 to 1982, the growth of world labour productivity also slowed. Indeed, it became negative and output per worker fell from 1980 to 1982. When the investment share began to recover after 1983, so, too, did productivity, at least until the current recessionary cycle began (see figure 3).

This is not to say that productivity is exclusively determined by the investment effort. Productivity rises for a variety of reasons and even the contribution that investment makes to productivity growth is affected by more than the volume of resources mobilized for capital formation. It depends, in particular, on the technology embodied in the investment, the flexibility of management and labour in making the most efficient use of new capacity, the education and skills of the workforce, the level of unemployment, and so on. An increasing stock of capital per worker is, nevertheless, recognized as a fundamental source of productivity growth.

From the first half of the 1970s to the latter half of the 1980s gross output per worker rose only about 20% in the world as a whole (see table 7). Most of the increase took place in the developed market economies, where investment per worker has been far higher than in the rest of the world, even if it grew only in the last half of the 1980s.

Data for the countries of eastern Europe and the former Soviet Union also showed substantial productivity gains over two decades, although as has subsequently become more clear, the quality of their output was frequently inferior. As may also be seen in table 7, investment per worker in the countries that are now in transition to market economies was never as much as half the level of the developed market economies, and the efficiency of the investment undertaken was generally low.

Productivity growth in the developing countries displayed a pattern that has been repeated for almost all macroeconomic indicators: Latin America and the Caribbean experienced a measure of productivity growth in the 1970s and stagnation thereafter; Africa has enjoyed virtually no growth in average productivity in the entire period and Asia's productivity has doubled, albeit from a very low starting point. Not surprisingly, investment per worker barely rose at all in the developing countries and in Africa and Latin America it actually declined. In these countries, in

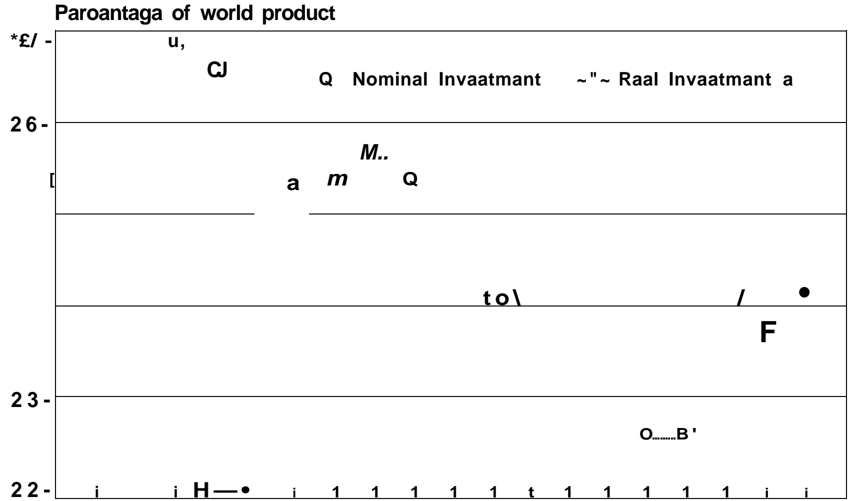
T'hese data are based on an analytical reconstruction national accounts statistics that allow for highly consistent aggregations of data across countries and over time, derived fi major components of national expenditure and output.

See the review of investment in eastern Europe and the for rSovietUnion in *WorldEconomicSurvey, 1986*(United Nations publication, Sales No. E.86.1I.C.1), pp. 121-134.

Figure 3

WORLD INVESTMENT AND THE GROWTH OF OUTPUT

Investment shares



Production and productivity b

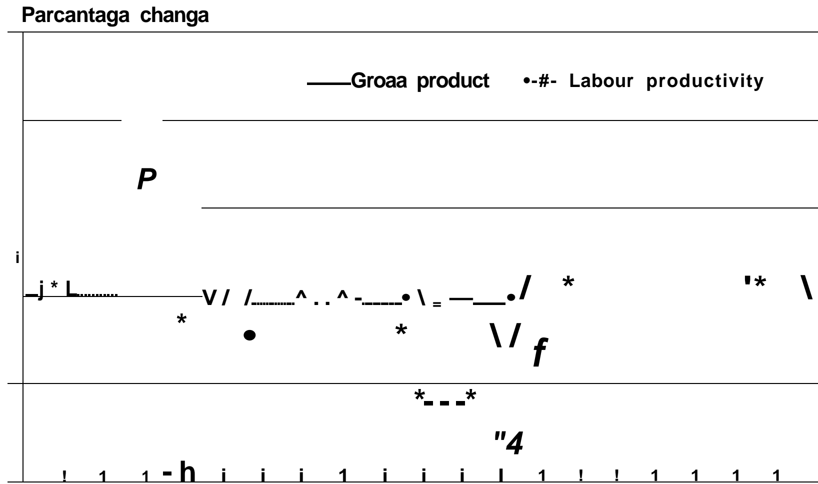


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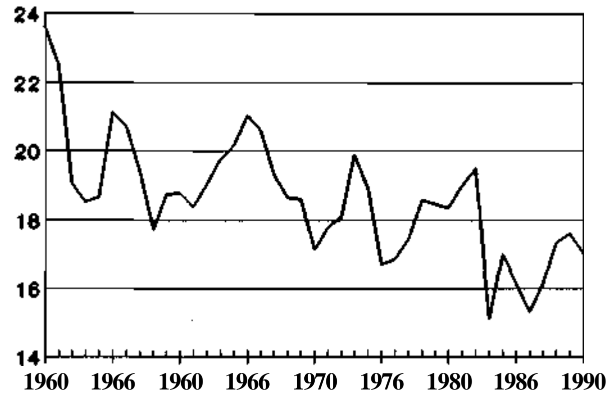
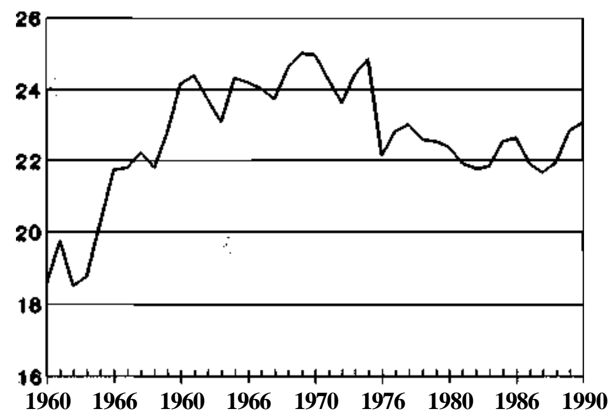
Figure 4

REAL SWING IN HIGH-INCOME DEVELOPED MARKET ECONOMIES
(Percentage of GDP in 1980 prices and exchange rates)

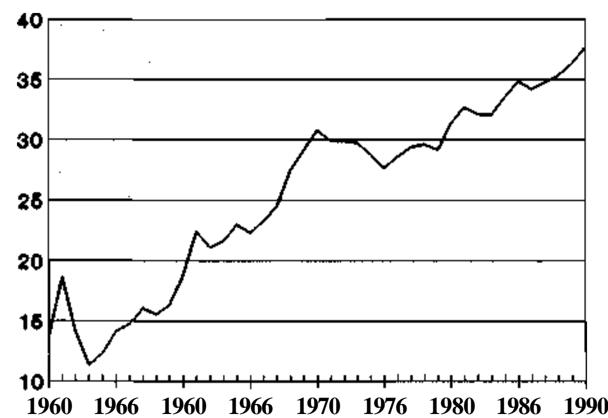
United States



High-income European countries



Japan



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particular, it is crucial that investment spending be raised in a significant and sustained manner.

Saving and net transfers

Thus, the shares of world investment and saving of the different major country groups -developed market, transition and developing economies- are not exactly equal, as net transfers occur between the groups, but at this level of aggregation the transfers are relatively small. In other words, the overwhelming majority of investments in each group of countries is financed out of its own saving. The broad orders of magnitude in the late 1980s reflected the great weight of the developed market economies in the world economy, namely that about two thirds of global investment and saving were in those countries, about 15% were in eastern Europe and the former Soviet Union and roughly a fifth in the developing countries.[2]

At a more disaggregated level, the net transfer of resources has been economically important and politically sensitive. Indeed, the direction and composition of the international transfer of resources as regards developing countries, which will be discussed in some detail below, has been a topic of major policy interest in international forums.[23] The net transfers do not necessarily follow economically efficient or politically desirable directions. They embody the net result of innumerable international trade and financial transactions, while also being the net result of all the domestic investment and saving decisions. Net transfers are, moreover, only partly under the influence of Governments.

If the global investment effort were strengthened in the 1990s, most of the saving for the investments would be generated within the country groups, indeed, within the domestic economies of the investing countries. Yet, given the economic dominance of the developed market economies, a proportionally greater increase in their saving than in their investment might provide considerable resources for investment in the other country groups.

It appears, however, that the developed market economies have been saving less over time as a share of total output, as have the capital-surplus oil exporters of the Middle East, a grouping of developing countries that once had been a significant source of net transfers to other countries.. Excluding the latter countries, the developing countries appear to have significantly raised their saving rate, in particular after the recession-induced fall that affected all these country groups in the early 1980s. This has mainly been accounted for by the rapidly growing economies of Asia. In countries in which per capita income was stagnant or falling, to raise the share of income saved would have required reducing the level of consumption per head.

The net transfer of resources in 1991

Last year the developed market economies transferred about US$25 billion to developing and transition economies, mainly the former (see table 8). Only a year before, the advanced industrialized countries had received a transfer of US$24 billion and a similar transfer of US$25 billion the year before that. The developing countries had made transfers abroad of US$24 billion to US$36 billion in each of the previous four years.

In much of the 1980s, the major feature of the net transfer of financial resources of the industrialized countries was the large inflow of resources to the United States and to a lesser extent the United Kingdom. Although Germany

TTie differences between the shares of investment and saving of country groups noted here and the output shares of the same groups, are accounted for by the lower share of output invested in developed economies as a whole than in the rest of the world.

Recent examples of resolutions that result from such discussion include General Assembly resolutions 44/232 of 22 December 1989 and 45/192 of 21 December 1990 and Economic and Social Council resolution 1989/112 of 28 July 1989, all of which pertain to the net transfer of resources between developing and developed countries.

For most of the formerly centrally planned economies, economic methodologies in the 1970s and 1980s were too different from those in the rest of the world for comparison with data on domestic saving elsewhere to be meaningful. They are thus excluded from the figure.

The data in table 8 are derived from balance-of-payments data and are subject to a major weakness from the point of view of global analysis; namely, that there isa very large volume of unrecorded transactions. Thus, instead of world trade balances and current account balances being equal to zero, as they should in theory, the sum of all country balances runs as high as US$75 billion. It is widely believed that most of the difficulty is in the accounts of the developed market economies, and so the size of their net transfers -if not the overall thrust of the yearly changes- must be interpreted with special caution.

and Japan made large outward transfers, they were less than the transfers being absorbed by the other countries and thus the developed market economies as a whole absorbed resources from the rest of the world. The major reason for the US$48 billion shift in the net transfers of these countries in 1991 was that the net transfer to the United States fell by US$44 billion.

The United States reduced its net intake of financial transfers from several sources, but especially from the developing countries (see table 9). Latin America and the Caribbean, in particular, did not make a net transfer to the United States in 1991 for the first time in 10 years. Japan's net transfer to the United States was virtually unchanged, but the United States transferred US$18 billion to Europe, probably mainly to Germany, which is a sharp departure from the relative balance of the United States *vis-à-vis* western Europe in the previous two years. Indeed, the world transferred resources on a net basis to Germany, instead of Germany transferring US$45 billion to US$60 billion abroad as it had done each year since 1986 (see table 8). The high cost of integrating the eastern *Lander* into the Federal Republic is the main reason for Germany's absorption of external transfers.

The changes in the net transfers of major industrialized countries in 1991 were accompanied by major changes in the financial flows through which the transfers were effected. One of those changes was unique, namely the US$42 billion net drop in flows of official grants from the United States, turning it into a recipient country instead of a donor. This reflected the official transfers to the United States to help finance its participation in the war in the Gulf.

Germany and Japan were in the past major sources of financing of the large net transfer to the United States, but the prospects for their playing that role again have dimmed. As noted above, Germany is now an overall recipient of net resource transfers and although Japan's net transfer burgeoned once again in 1991, the character and direction of its capital flows have changed. Although Japan's net outward transfer grew by US$40 billion, its net transfer to the United States was unchanged. Most likely, a significant part of the funds sought the higher earnings available in western Europe.

Moreover, Japan did not supply long-term credits on a net basis to the rest of the world in 1991, as it had for most of the 1980s, but instead absorbed them. Foreign purchases of Japanese securities outpaced Japanese investment abroad. Instead, Japan made its net financial transfer by producing a large net outflow of short-term capital. This was brought about, in part, through a reduction in the large amount of short-term foreign borrowing that had been undertaken over the previous five years. Thus, at both the short and the long end of the financial spectrum, Japanese finance seemed to be looking inward to a greater degree than before.

Although involving far smaller flows in dollar terms, major changes are also under way in the net transfer of eastern Europe and the former Soviet Union. Through much of the 1980s, several eastern European economies were debt-constrained and had to curtail imports and push exports -much like the heavily indebted developing countries- and the region transferred resources to the market economies. Since 1990, however, they have been absorbing resource transfers, as the international community has supplied finance and debt relief to assist their transition to market economies. In 1989 and 1990, the Soviet Union also became a net recipient of resource transfers, partly through assistance, but mainly through external credits and use of official reserves. In 1991, reserves were depleted, credit was cut off and the net transfer turned negative. But if the financial assistance proposals for the successor republics are carried out, the net transfer to those countries in 1992 will be quite large.

The developing countries did not all share in the US$24 billion inflow shown in table 8. The "capital-surplus" exporters of oil received US$19 billion of the total, largely financed by the sale of official reserves and other assets, as well as by capital-market borrowing, mainly to finance reconstruction after the cessation of the Gulf war. However, the "capital-importing"

^hort-term foreign liabilities of Japanese foreign exchange banks had risen by from US$140 billion to US$192 billion a year from 1986 to 1989; in the first three quarters of 1991, they fell by US$124 billion (data of Bank of Japan, *Balance of Payments Monthly).*

countries also shared in the inflow. This was the first positive net transfer to that group of countries since the developing-country debt crisis burst open in 1982 (see table 10). Considering the large number of countries involved, the size of the transfer was small, only US$5 billion, but it represented a swing from a net "negative" transfer of US$31 billion in 1990. It meant that imports could increase lastyear by US$36 billion more than exports grew.

Most of the change was enjoyed by a group of countries that have been making very large net resource transfers since 1983, illustrated in table 10 by a sample of 15 heavily indebted countries that were originally associated with a plan for debt restructuring proposed by the United States in 1985.[28] The net transfer of this group improved by US$24 billion. It was still negative, however, by more than US$11 billion; that is, there was a surplus in the balance of trade in goods and non-capital services of this amount. Countries had received a larger net transfer in financial terms -that is, the net inflow of capital minus the net payments of income to capital left these countries with a surplus of US$8 billion, the first surplus on this account since 1981-and they took the opportunity to build up their foreign reserves by US$20 billion. They thus ended the year with reserves sufficient to cover almost four months of imports of goods and services.

Aside from these countries, most changes in the net transfer in 1991 were not large. One exception was that of the group of "recent surplus countries", which was identified as the first generation of Asian exporters of manufactures. The growth of exports from these countries to the more slowly growing world economy did not keep pace with the growth of imports, maintained in particular for investment purposes, and so the resources available for foreign transfer virtually disappeared.

In fact, exports grew by US$56 billion and imports grew by US$92 billion and the trade balance went from a US$16 billion surplus to a US$20 billion deficit.

Given that 10 of the 15 countries are Latin American, a comparable change is seen in the Latin America grouping in table 10.

Table 1
GROWTH OF GROSS DOMESTIC PRODUCT (GDP) AND POPULATION BY REGION, 1981-1991

	Growth of GDP (annual percentage change)					Growth of population (percent-age change)	Memo items: 1991 indicators	
	1981-1987	1988	1989	1990	1991		Population (millions)	GDP (billions of 1988 dollars)
World	2.7	4.4	3.2	**1.8**	-0.4	1.7	**5315**	**20868**
Developed market economies of which:	**2.5**	**4.4**	**3.3**	**2.6°**	**0.9**	**0.5**	**833**	**15 177**
United States	**2.7**	**3.9**	**2.5**	**1.0**	**-0.7**	**0.7**	**252**	**5 038**
European Community	**1.8**	**4.0**	**3.5**	**2.9[b]**	**0.7**	**0.2**	**342**	**5181**
Japan	**3.7**	**6.3**	**4.7**	**5.7**	**4.5**	**0.5**	**124**	**3 350**
Economies in transition '	2.9	4.5	2.3	-S.rf'-lS^		0.4	**387**	**2 212**
Developing countries	2.9	4.4	3.3	3.2	3.4	2.1	4 095	**3 479**
Latin America and the Caribbean	**1.5**	**0.7**	**1.1**	**-0.1**	**2.6**	2.1	**451**	**895**
Africa	**1.8**	**2.3**	**2.7**	**3.1**	**3.1**	3.2	**591**	**338**
West Asia	**•2.0**	**-0.5**	**2.3**	**1.6**		3.0	**130**	**446**
South and East Asia	**5.5**	**8.5**	**6.1**	**6.3**	**5.4**	2.2	**1685**	**1157**
China	**9.7**	**10.9**	**3.6**	**5.2**	**7.0**	1.5	**1156**	**511**
Mediterranean	**3.0**	**1.3**	**1.0**	**1.1**	**-7.0**	1.6	**82**	**133**

Soarce: United Natlons/bESp. Data on population are those published by the Department in World Population Prospects, 1990 (United Nations publication, Sales No. E.91.XIII.4).
*** Preliminary Figures. After 1990, the former German Democratic Republic is Included in Germany. [z] The former Soviet Union and eastern Europe.**

Table 2

OUTPUT, UNEMPLOYMENT AND INFLATION IN SEVEN MAJOR INDUSTRIAL ECONOMIES, 1990-1991

	Quarter								Year	
	1990				1991					
	I	II	III	IV	I	II	III	IV[a]	1990	1991[a]
	Growth of gross domestic product									
Canada	2.1	-0.7	-1.0	-4.7	-4.8	5.8	1.0	-0.8	0.5	-1.5
France	4.6	-0.3	3.5	-0.3	0.3	2.8	3.1	-	2.8	1.0
Germany[c,d]	10.1	1.3	7.5	2.3	10.1	-2.4	-1.9	-1.4	4.5	3.1
Italy	3.5	-1.7	2.8	0.3	1.4	1.0	0.2	1.2	2.0	1.0
Japan	6.4	5.6	4.5	2.5	8.4	2.8	1.8	-0.2	5.7	4.5
United Kingdom	4.2	3.8	-5.3	-4.0	-2.7	-2.4	0.4	-1.4	1.1	-2.1
United States	1.7	1.6	0.2	-3.9	-2.5	1.4	1.8	0.4	1.0	-0.7
Total	4.3	2.3	2.1	-1.1	1.9	1.4	1.3	-0.1	2.7	1.1
	Unemployment[e]									
Canada	7.5	7.4	8.1	9.1	10.1	10.3	10.3	10.3	8.1	10.2
France	9.0	9.0	8.9	8.9	9.0	9.2	9.5	9.7	8.9	9.4
Germany	5.3	5.2	5.1	4.7	4.3	4.3	4.4	4.3	4.9	4.3
Italy	10.1	9.7	9.8	9.8	9.9	10.0	9.6	9.9	10.3	9.9
Japan	2.1	2.1	2.1	2.1	2.0	2.1	2.2	2.1	2.1	2.1
United Kingdom	6.7	6.7	6.8	7.3	8.2	9.2	9.9	10.3	6.9	9.4
United States	5.2	5.2	5.5	5.8	6.4	6.7	6.7	6.9	5.4	6.6
Total	5.5	5.5	5.6	5.8	6.1	6.3	6.4	6.5	5.6	6.3
	Consumer price increases[f]									
Canada	5.4	4.6	4.2	5.0	6.4	6.2	5.7	4.1	4.8	5.6
France	3.3	3.1	3.5	3.6	3.5	3.2	3.0	2.9	3.4	3.1
Germany	2.7	2.3	2.7	3.1	2.7	3.1	4.2	4.0	2.7	3.5
Italy	6.4	6.0	6.5	6.7	6.4	6.7	6.4	6.1	6.4	6.4
Japan	3.5	2.5	2.6	3.6	3.7	3.4	3.2	2.8	3.1	3.3
United Kingdom	7.8	9.6	10.4	9.9	8.6	6.0	4.8	4.2	9.5	5.9
United States	5.2	4.6	5.5	6.2	5.3	4.8	3.8	3.0	5.4	4.3
Total	4.8	4.4	4.9	5.5	5.0	4.6	4.0	3.4	4.8	4.2

Source: United Nations/DESD, based on data of IMF, OECD and national authorities.

[a] Partly estimated. [b] Percentage change in seasonally adjusted data from preceding quarter, expressed at annual rate (total is weighted average, with weights being 1990 GDP, valued at 1988 prices and exchange rates). [c] Western Germany only. [d] Gross national product. [e] Percentage of total labour force; seasonally adjusted data as standardized by OECD. [f] Percentage change in average consumer price index in quarter relative to same quarter of preceding year (total is weighted average with weights being annual consumption valued in 1988 prices and exchange rates).

Table 3

THE LAST YEAR IN WHICH ECONOMIC INDICATORS MATCHED 1991 LEVELS IN TRANSITION ECONOMIES

	GDP at market prices	Gross industrial production	Gross investment	Private consump-tion
Bulgaria	1979	1979	1977	1983
Czechoslovakia	1979	1979	1978	1988
Hungary	1981	1978	1975	1983
Poland	1982	1975	1974	1983
Romania	1980	1979	1973	1988
Soviet Union	1983	1985	1984	1989

Source: United Natlons/DESD **and** ECE

Table 4

WORLD TRADE, 1982-1991

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991[a]
Value of exports (billion dollars)										
World	1806	1771	1873	1895	2083	2 438	2 768	2988	3 408	3 469
Developed market economies	1186	1171	1248	1289	1504	1759	2007	2148	2 476	2 534
Developing countries	494	475	501	485	452	547	630	711	808	846
Economies in transition	126	125	124	121	127	132	131	129	124	90
Eastern Europe	62	61	62	64	67	69	69	67	65	43
Former USSR	64	64	62	57	60	63	62	62	59	47
Volume of exports (annual percentage change)										
World	-2.6	2.1	8.3	3.7	4.1	6.2	8.5	7.2	4.7	3.4
Developed market economies	-1.8	1.8	9.9	5.1	3.3	5.0	8.6	6.7	5.7	2.8
Developing countries	-6.9	2.1	5.6	1.1	12.0	10.9	10.2	8.5	5.9	10.1
Economies in transition	4.9	5.5	4.6	-1.0	4.3	2.4	4.3	-0.9	-10.7	**-21.6**
Eastern Europe	5.3	8.0	7.0	2.5	-1.2	1.3	3.6	-1.9	-7.9	**-16.2**
Former USSR	4.5	3.3	2.5	-4.3	10.0	3.3	4.8	-	-13.1	-25.0

Source: IMF, *International Financial Statistics,* and DESD estimates.
[a] Preliminary estimates.

Table 5

INDICES OF PRICES OF NON-FUEL PRIMARY COMMODITIES EXPORTED BY DEVELOPING COUNTRIES, 1981-1991

(1985 = 100)

	Food	Tropical beverages	Vegetable oilseeds and oils	Agricultural raw materials	Minerals and metals	Combined index		Prices of manufactures[3]	Real prices of commodities[b]	Memo item: crude petroleum[0]
						Dollar	SDR			
1981	192	97	112	119	121	142	122	109	130	123
1982	131	92	90	103	105	111	102	107	104	121
1983	138	96	107	110	113	118	112	103	114	108
1984	116	110	144	111	105	114	112	100	114	102
1985	100	100	100	100	100	100	100	100	100	100
1986	110	124	62	102	95	104	90	120	87	55
1987	117	81	73	119	113	107	84	135	79	62
1988	152	82	96	129	164	135	102	144	94	49
1989	161	70	85	129	164	135	107	143	94	59
1990	151	62	74	137	149	127	95	158	80	75
1991	141	57	80	129	135	119	88	158	75	62
1990										
I	165	58	74	132	140	129	99	145	89	64
II	157	63	73	135	148	129	100	123	84	51
III	144	62	73	140	160	128	95	160	80	82
IV	137	63	77	142	148	123	87	169	73	103
1991										
I	145	61	78	139	142	124	89	166	74	64
II	142	57	76	128	136	119	90	152	78	58
III	138	55	80	125	132	116	88	152	76	62
IV	140	56	85	123	130	116	85	157	74	66

Source: UNCTAD, *Monthly Commodity Price Bulletin,* and United Nations, *Monthly Bulletin of Statistics.*

″ Unit value of exports of manufactures from developed market economies. The base of the original index has been shifted to 1985.

[b] Dollar index deflated by unit values of manufactured exports of developed market economies. [c] OPEC oil price, which is the average spot price of a basket of seven OPEC country crudes (Saharan Blend, Minas, Bonny Light, Arab Light, Dubai, T.J. Light and Isthmus).

Table **6**

WORLD OIL DEMAND, 1986-1991 '

(Millions of barrels per day)

	1986	1987	1988	1989	1990	1991	1986-1991 variation Absolute	1986-1991 variation Percentage
Developed market economies	35.4	36.0	37.5	37.8	38.0	37.9	2.5	7.1
North America	18.0	18.5	19.2	19.3	18.9	18.5	0.5	2.8
Western Europe	12.2	12.3	12.8	12.8	13.0	13.2	1.0	8.2
Pacific	5.2	5.2	5.5	5.8	6.0	6.1	0.9	17.3
Eastern Europe and the USSR	11.0	11.1	10.8	10.7	10.1	9.7	-1.3	-11.8
Eastern Europe	2.0	2.1	1.9	1.9	1.7	1.4	-0.6	-30.0
USSR [b]	9.0	9.0	8.9	8.8	8.4	8.3	-0.7	-7.8
Developing countries	15.2	15.8	16.6	17.5	18.1	18.7	3.5	23.0
Africa	1.8	1.9	2.0	2.1	2.1	2.2	0.4	22.2
Middle East	2.9	3.0	3.0	3.1	3.3	3.3	0.4	13.8
Asia	3.8	4.0	4.5	4.9	5.3	5.6	1.8	47.4
Latin America	4.7	4.8	4.9	5.0	5.1	5.2	0.5	10.6
China [b]	2.0	2.1	2.2	2.4	2.3	2.4	0.4	20.0
Total world	**61.6**	**62.9**	**64.9**	**66.0**	**66.2**	**663**	**4.7**	**7.6**

Source: United Nations/DESD, based on International Energy Agency, *Monthly Oil Market Report,* April 1991 and January 1992.
' Including deliveries from refineries/primary stocks, marine bunkers, refinery fuel and non-conventional oils. Based on estimates of apparent domestic demand derived from official production figures and quarterly trade data.

Table 7

PRODUCTIVITY AND INVESTMENT IN THE WORLD ECONOMY, 1971-1990

(Thousands of 1980 dollars)

	1971-1975	1976-1980	1981-1985	1986-1990
Gross product per worker				
Developed market economies	20.2	22.0	23.0	25.8
Eastern Europe and USSR	6.0	7.3	8.2	9.2
Developing countries	1.5	1.7	1.8	1.9
of which:				
Africa	1.8	2.0	1.8	1.8
Asia, excluding West Asia	0.6	0.8	0.9	1.2
Latin America and the Caribbean	5.4	6.0	5.9	5.8
World	5.5	6.0	6.2	6.6
Investment per worker				
Developed market economies	5.1	5.2	5.1	6.2
Eastern Europe and USSR	1.9	2.3	2.3	2.4
Developing countries	0.3	0.4	0.5	0.5
of which:				
Africa	0.4	0.5	0.4	0.3
Asia, excluding West Asia	0.2	0.2	0.3	0.4
Latin America and the Caribbean	1.2	1.5	1.1	0.9
World	1.4	1.5	1.5	1.6

Source: United Nations/DESD.
Note: Workers include unemployed as well as employed labour force, in accordance with ILO practice.

Table 8

WORLD NET TRANSFER OF FINANCIAL RESOURCES, BY COUNTRY GROUP, 1981-1991 [a]

(Billions of dollars)

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991[b]
Developed market economies	12.3	7.1	4.7	35.6	26.2	-14.9	9.6	4.3	24.9	23.7	-24.5
of which:											
Germany [c]	-3.4	-13.5	-10.4	-13.2	-21.0	-44.9	-54.5	-59.4	-59.8	-47.8[d]	7.5
Japan	-7.2	-6.5	-19.3	-32.3	-44.0	-78.4	-74.0	-62.7	-37.8	-18.2	-58.4
United Kingdom	-14.7	-8.5	-3.8	1.1	-4.8	4.1	8.0	30.3	32.7	23.7	8.4
United States	16.7	24.9	58.1	110.3	123.6	141.1	154.2	117.6	94.5	82.6	38.6
Developing countries	5.3	34.2	18.2	-22.9	-17.9	10.7	-35.1	-24.4	-30.6	-36.4	23.7
Eastern Europe and the Soviet Union [c]	-2.8	-12.1	-13.9	-15.7	-8.9	-6.6	-13.3	-9.3	-1.3°	3.6	0.5
Eastern Europe[0]	-2.5	-6.6	-6.6	-7.8	-6.9	-4.1	-4.0	-4.5		2.5[d]	2.4
Soviet Union	-0.3	-5.5	-7.3	-7.9	-2.0	-2.5	-9.3	-4.8	1.0[d]	1.1	-1.9

Source: United Nations/DESD, based on data of IMF and international sources.

* Expenditure basis (negative of balance of payments in goods, services and private transfers, excluding investment income). Preliminary estimate. [c] The former German Democratic Republic is included in Eastern Europe until 1990 and as part of Germany thereafter. [d] Indicates break in series.

Table 9

NET RESOURCE TRANSFERS TO THE UNITED STATES BY REGION, 1980-1991

(Billions of dollars)

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991[a]
Canada	0.3	7.1	9.0	12.3	13.1	10.2	8.0	7.5	4.4	3.2	
Japan	14.5	15.5	24.6	42.1	51.3	52.1	53.4	47.4	40.7	32.4	33.6
Western Europe	-9.0	-2.7	5.4	21.4	31.1	34.8	32.2	18.9	1.5	-3.2	-18.0
of which:											
Germany	2.9	5.3	8.3	13.2	15.9	20.0	21.4	18.2	13.9	16.2	
United Kingdom	1.1	2.9	2.8	3.0	5.3	5.6	4.7	0.1	-4.3	-4.7	-4.5
Latin America and the Caribbean	-6.3	4.7	18.0	20.6	16.6	12.7	15.3	10.2	10.7	11.2	
of which:											
Mexico	-5.5	4.2	10.1	7.9	7.5	7.3	8.3	5.5	5.2	4.9	
Major oil exporters of Africa and Asia	24.9	5.8	0.8	5.2	3.1	2.3	7.1	5.9	11.3	15.0	6.9
Other developing countries	-0.6	1.1	9.4	21.3	22.1	31.6	42.1	34.9	36.0	32.6	26.4
Eastern Europe and USSR	-2.9	-2.8	-1.7	-2.1	-1.4		-0.2	-1.6	-3.6	-2.2	-2.1
Other countries [c]	-4.7	-4.4	-8.0	-11.0	-12.9	-3.4	-4.9	-6.7	-7.6	-7.4	-9.0
Total	**16.1**	***243***	**57.6**	**109.8**	**123.0**	**140.4**	**153.1**	**116.6**	**93.5**	**81.7**	**37.7**

Source: United Nations/DESD, based on data of the United States Department of Commerce, Survey *of Current Business.*

″ Preliminary; full country breakdown unavailable at this time. Comprising OPEC member countries, excluding Ecuador and Venezuela. [c] Including net transactions with international organizations and unallocated amounts.

Table 10

NET TRANSFER OF FINANCIAL RESOURCES TO GROUPS OF DEVELOPING COUNTRIES, 1981-1991[a]

(Billions of dollars)

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991[b]
Long-term capital importers of which:	51.6	33.7	-4.0	-31.5	-22.3	-12.9	-44.2	-36.3	-38.5	-31.5	4.6
Deficit energy exporters	10.2	11.5	-10.0	-23.1	-20.3	-1.5	-21.2	-8.0	-19.6	-32.7	-7.1
Energy-importing countries	43.7	27.7	9.3	-7.5	-14.3	-18.6	-22.4	-31.9	-23.6	12.0	24.2
Recent surplus economies	3.7	-0.5	-4.6	-9.1	-12.1	-23.8	-30.9	-26.6	-22.5	-11.4	-0.6
Other energy importers	40.0	28.2	13.9	1.6	-2.2	5.2	8.5	-5.3	-1.0	23.4	24.8
China	-2.2	-5.5	-3.3	-0.8	12.3	7.1	-0.5	3.6	4.7	-10.9	-12.5
Surplus energy exporters	•46.3	0.5	22.1	8.6	4.4	23.6	9.1	11.9	7.9	-4.9	19.1
All developing countries	5.3	34.2	18.2	-22.9	-17.9	10.7	-35.1	-24.4	-30.6	-36.4	23.7
Memorandum items											
15 heavily indebted countries[d]	20.4	9.4	-23.8	-40.6	-40.6	-22.1	-28.4	-31.1	-37.7	-35.2	-11.5
Africa, of which:	15.5	14.7	8.4	2.6	-0.6	6.8	1.0	4.0	3.8	-4.7	-1.2
sub-Saharan Africa[e]	9.1	7.4	5.4	2.3	3.1	5.3	6.3	6.7	6.5	7.0	6.9
Latin America	14.3	3.7	-25.5	-35.5	-30.8	14.1	-19.3	-22.0	-29.5	-29.7	-13.2

Source: United Nations/DESD, based on data of IMF, official national and other sources.

* Expenditure basis (negative of balance of payments in goods, services and private transfers, excluding investment income). Preliminary estimate. [c] Hong Kong, Republic of Korea, Singapore and Taiwan Province of China. Argentina, Bolivia, Brazil, Chile, Colombia, Côte d'Ivoire, Ecuador, Mexico, Morocco, Nigeria, Peru, Philippines, Uruguay, Venezuela and Yugoslavia.

[e] Excluding Nigeria.

Table 11
AVERAGE SAVING RATES IN THE SEVEN MAJOR DEVELOPED MARKET ECONOMIES, 1951-1990
*(Percentage of GDP *)*

		1951-1960	1961-1970	1971-1980	1981-1990
Canada	Nominal	23.1	23.8	24.7	22.6
	Real	24.6	25.4	24.1	26.4
France	Nominal	21.9	26.1	25.6	20.5
	Real	17.9	22.5	23.6	20.8
Germany	Nominal	26.5	28.3	25.2	24.3
	Real	26.7	26.6	23.6	24.3
Italy	Nominal	20.4	23.0	22.2	21.8
	Real	24.5	29.0	24.8	22.5
Japan	Nominal	27.7	36.3	34.5	32.3
	Real	15.2	24.6	29.4	34.4
United Kingdom	Nominal	15.1	18.7	19.2	17.1
	Real	16.6	20.4	21.6	18.3
United States	Nominal	19.9	19.6	19.2	15.7
	Real	19.5	19.3	18.1	17.0

Source: United Nations/DESD.
[3] Percentage of GDP in real terms based on components of real GDP as reported to the United Nations by national authorities, rebased to 1980=100. Western Germnay only.

Table 12
COMPOSITION OF GROSS SAVING IN SEVEN MAJOR ECONOMIES, 1985-1989
(Percentage of GDP)

	Capital consumption allowance	Net saving: General government	Net saving: Enterprise sector a	Net saving: House-holds	Total gross saving	Total „-«„« saving in 1980 prices
Canada	11.6	-2.8	3.9	6.7	19.4	23.5
France	12.5	-0.5	2.9	5.3	20.3	20.0
Germany	12.5	1.7	.2.5	7.8	24.4	23.7
Italy	12.0	-6.6	3.5	11.9	20.8	21.3
Japan	14.0	5.8	2.8	10.2	33.0	35.3
United Kingdom	11.4	0.4	2.8	1.5	16.1	17.7
United States	12.5	-3.5	1.9	4.4	15.3	16.6

Source: United Nations/DESD, based on OECD, *National Accounts, Detailed Tables* (Paris, 1991).
[8] Including corporate and quasi-corporate enterprises in the private and public sectors. Western Germany only.

Table 13
GENERAL GOVERNMENT NET INVESTMENT IN SEVEN MAJOR ECONOMIES, 1970-1989
(Percentage of GDP; period average or annual)

	Canada	France	Germany[2]	Italy	Japan	United Kingdom	United States
1970-1974	3.7	3.6	4.0	3.1	5.2	4.8	2.3
1975-1979	3.1	3.3	3.3	3.3	5.7	3.5	1.8
1980-1984	2.7	3.2	2.8	3.6	5.7	2.0	1.6
1985	2.7	3.2	2.2	3.7	4.7	2.0	1.6
1986	2.5	3.2	2.3	3.5	4.8	1.8	1.6
1987	2.4	3.0	2.3	3.5	5.0	1.6	1.6
1988	2.3	3.1	2.2	3.5	5.1	1.3	1.6
1989	2.4	3.3	2.3	3.5	5.0	1.7	1.7

Source: United Nations/DESD, based on OECD, *National Accounts, Detailed Tables* (Paris, 1991).
* Western Germany only.

THIRD PART

EXCHANGE RATE POLICY IN LATIN AMERICA IN THE EARLY 1990s

EXCHANGE RATE POLICY IN LATIN AMERICA IN THE EARLY 1990s

One of the most characteristic trends of the early 1990s has been the decline in real exchange rates in most of the countries of Latin America and the Caribbean. That was particularly the case in 1991, when a considerable inflow of resources turned the minus sign of the net transfer of external resources into a plus sign for the first time since the abrupt turnaround in 1982. Ten years after the eruption of the external debt crisis, the economic context exhibits certain similarities and differences with the pre-crisis period.

The globalization of economic activities and increased liberalization in the economies of the region give each country greater latitude in formulating macroeconomic policies. Thus a development strategy oriented towards growth of exports, which requires *inter alia,* relatively high, stable real exchange rates, introduces economic policy options that must be examined against this new national and international backdrop.

Exchange rate policies have generally been implemented for two basic reasons: to achieve equilibrium in the balance of payments or to reduce inflation. These objectives can at times be contradictory. Exchange rate systems adopted to this end have ranged from a managed exchange rate based on fixed parity with one or more strong currencies, to a freely floating rate, to mini-devaluations (periodic or not) and fixed ranges of fluctuation.

According to the classification established by the International Monetary Fund, by 1991 56 out of 156 countries had adopted floating regimes (either freely floating or with some kind of government intervention), while another 80 had pegged their currencies to the dollar or another strong currency. In Latin America and the Caribbean -a region in which the exchange rates of most countries (12 of 19) had been tied to the dollar in the late 1980s- only three countries were using the dollar standard by the early 1990s. The others were adjusting the external value of their currency according to a basket of indicators (two countries) or through flexibly floating or managed-floating systems (see table 1).

1. The role of the exchange rate

Economic literature has abounded with theories about which factors determine exchange rates, especially since the disappearance of the fixed parities established at Bretton Woods. Over and above the traditional external constraints that affect Latin America and the Caribbean, the volatility of the relative value between the currencies of the industrialized countries after that agreement collapsed, due to uncoordinated national fiscal and monetary policies, has introduced yet another factor that must be taken into account by the countries of the region in formulating economic policy.

The exchange rate has generally been used as a tool to achieve equilibrium over the medium to long term in the current account of the balance of payments or permanent equilibrium in the balance of payments. It has also been used as a basic reference point, or as an "anchor" in short-term anti-inflationary policy.

For this point see *Changing production patterns with social equity. The first development task in Latin America and the Caribbean in the 1990s* (LC/G.1601-P), Santiago, Chile, March 1990. United Nations publication, Sales No. E.90.II.G.6; and *Social Equity and Changing Production Patterns: An Integrated Approach* (LC/G.1701(SES.24/3) and Corr.l), Santiago, Chile, April 1992.

Until the early 1970s, theories on exchange rate determinants normally held that long-term equilibrium in the current account required an international context of fixed exchange rates. Analyses were done on the basis of trends in real variables, with exports and im ports depending on price differences between countries and the corresponding levels of income. The equilibrium exchange rate was the one that allowed for a zero balance of foreign exchange or a building of "equilibrium" reserves that would leave the balance of payments in balance over the short term. The flow of international capital was reduced under this scheme.

The evolution of the overall panorama of the 1970s, a period in which a system of floating exchange rates between the currencies of the major industrialized countries was adopted and the flow of international capital increased considerably, clearly showed the influence of transactions on the financial markets in determining the exchange rate. This new situation, in which international movements of financial capital far surpassed the value of trade in goods and services, made the capital account the new focus of analysis.

The inclusion of capital flows as one of the elements determining the exchange rate revealed the differences between currency transactions in the financial market and transactions in the non-financial market for goods and services. Because of these differences, the exchange rate defined by the financial market may not be the same as the one that would allow for equilibrium over the medium term in the goods market. If the goal is to achieve permanent equilibrium in the balance of payments, in which case any imbalance on current account is financed simultaneously by capital movements, a flexible exchange rate is needed, which implies that the Central Bank should not intervene and that international reserves should not be built up or drawn down. Contrarily, the adoption of a managed exchange rate produces temporary movements, not necessarily balanced, between the current account and the capital account, and, therefore, fluctuations in international reserves. Medium-term equilibrium presupposes that these variations are compensated for within a determinate period.

Traditionally, the exchange rate has been used not only as a tool to obtain a certain result in external accounts, but also as a short-term anti-inflationary policy instrument. The scope of that policy, of course, is limited by the effect of the exchange rate, as an inflation-fighting mechanism, can have on the medium-term equilibrium of the balance of payments through its influence on the ratio between the production of tradeable and non-tradeable goods. In the rather common case of a declining real exchange rate -that is, the locai currency appreciates- the policy's limit is determined by the flow of capital and available international reserves.

Finally, the proof that with a floating exchange rate the independent fiscal and monetary policies of the industrialized countries introduce a factor of high variability into the relative parities of their currencies has brought out the need to adopt mechanisms for coordinating macroeconomic policies at the international level. The exchange rate has played a key role in this regard. Indeed, the European Monetary System, unlike the dynamics between the three major international currencies (dollar, mark, yen), can be considered as an example of close coordination between the signatories'fiscal and monetary policies, based on a mechanism for fixing exchange rates. This is particularly important for Latin America, at a time when a good part of the region is trying to begin the process of subregional integration.

2. Measurement of real exchange rates

Trends in the real exchange rates of the countries of the region have been observed by using purchasing-power-parity as an indicator despite its known limitations. To that end, the exchange rate of a given year (in this case 1980-1985 were used as reference years) was adjusted according to the ratio between the increase or decrease in the domestic prices of each country and those of its main trading partners. The average was calculated by weighting the ratio obtained at the bilateral level by the value of trade, including both exports and imports, in the 1985-1990 five-year period.

There is no consensus about which price indicator is the most useful for this measurement. The consumer price index is generally used. It has the advantage of being readily available and is calculated by using similar methodologies. The wholesale price index, which gives a clearer picture of trade in goods, is also used. The wholesale price index consists mainly of tradeable goods, while the consumer price index also includes services, which are generally not tradeable.

Given the tremendous variance between exchange rates, the weighted average could be significantly different from the bilateral price ratio. Therefore, the general index was broken down into sub-indexes representing each country's trade with four countries or a regional group: a) United States; b) the main countries of the European Economic Community; c) Japan, and d) the main trading partners in Latin America and the Caribbean, usually neighbouring countries.

A good deal of trade in goods and services between neighbouring countries has taken place and is rapidly affecting the dividing line between tradeable and non-tradeable output. For all these reasons, indicators of bilateral competitiveness, broken down by regions, were calculated on the basis of ratios between consumer price indexes. They were also calculated on the basis of ratios between wholesale price indexes (see table 2).

Even though these indicators describe different levels and sometimes show divergent trends, they generally move in the same direction. Argentina was the most outstanding example in 1990-1991, when a considerable difference was recorded between rises in consumer and wholesale prices. Thus, while the local currency had been significantly revalued during that period in terms of the consumer price index (the respective real exchange rate index plummeted by 40%), it was slightly devalued when compared to wholesale prices.

The breakdown into regional sub-indexes makes it possible to observe that exchange rate fluctuations between strong currencies lead to variations quite different from the respective bilateral exchange rates. It is also clear that the appreciation and depreciation of the currencies of the larger-scale economies of the region had considerable influence on the average real exchange rate of their neighbours. That phenomenon was particularly intense in the group comprised by Argentina, Bolivia, Brazil, Paraguay and Uruguay, countries that trade a large volume of goods and services with one another.

All the above led to considerable differences between the average exchange rate of each country and those that measure each bilateral ratio. From the mid-1980s onward the countries of the region have revalued their currencies against the dollar, which has generally been adopted as the standard. They greatly increased their competitiveness between 1985 and 1988-1989 in the areas of both the German mark and the yen, only to later fall back to levels below those recorded in 1985. Exchange rates in Argentina and Brazil fluctuated wildly, producing significant annual variations in their bilateral ratios with neighouring countries (see figure 1).

3. Trends in exchange rate policies during the 1980s

Ever since the outbreak of the regional external debt crisis, the countries of Latin America and the Caribbean have launched several economic programmes of external adjustment and price stabilization, in which exchange rate policy always figures to some degree. In general, the last 10 years are divided into three major periods. The first runs from the beginning of the external debt crisis up to the mid-1980s. During that time, in order to deal with the turnaround in external transfers, a group of countries made external adjustment the priority objective of their exchange rate policy, which led to a significant rise in their real exchange rates. The second period, more or less concurrent with the second half of the 1980s, was characterized by the widespread adoption of a policy of maintaining or raising the real exchange rate; also, the dilemma between external adjustment and stabilization began to be taken into account. Finally, in the late 1980s and even more so in 1990-1991, stabilization became the top priority of exchange rate policy, within the new financial context of positive external transfers. These

Figure 1

LATIN AMERICA AND THE CARIBBEAN: INDEXES OF REAL EXCHANGE RATES

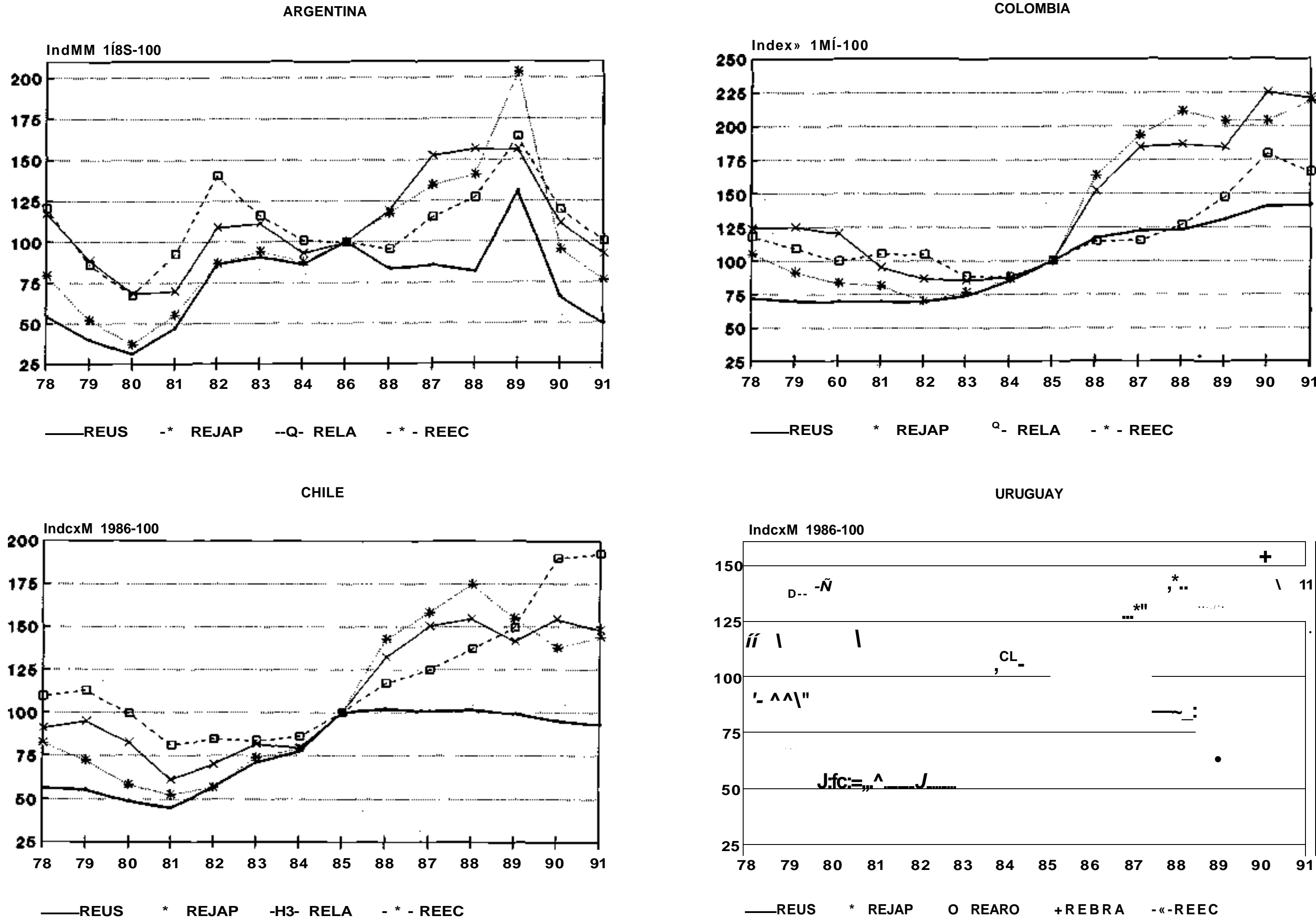
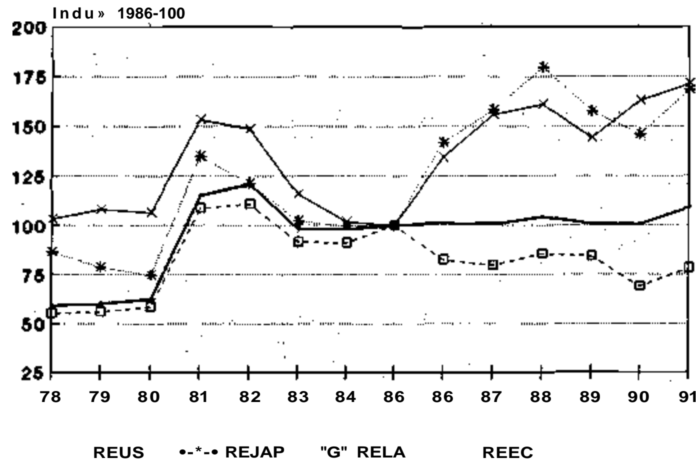
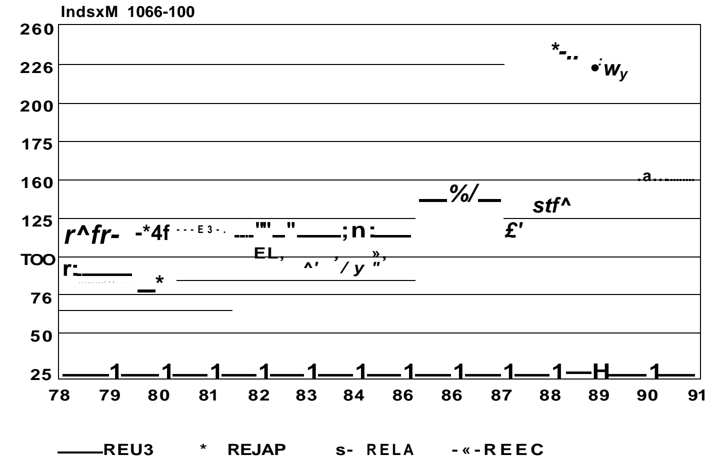


Figure 1 (continued)

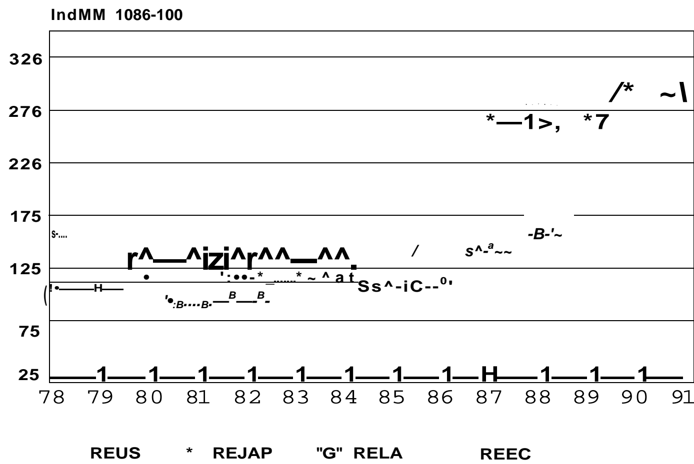
COSTA RICA

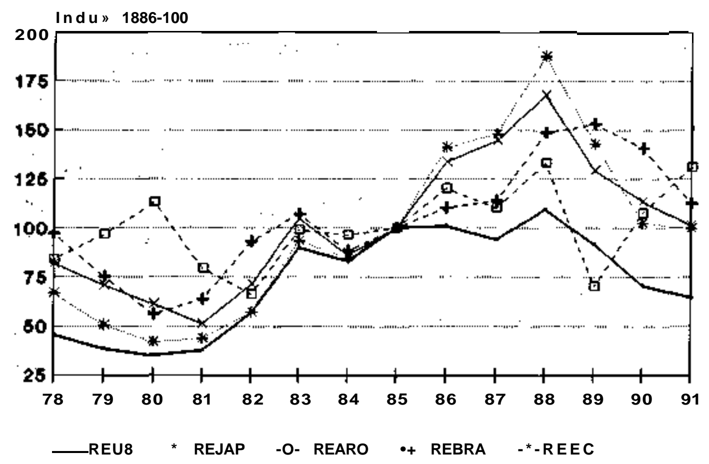


ECUADOR



GUATEMALA





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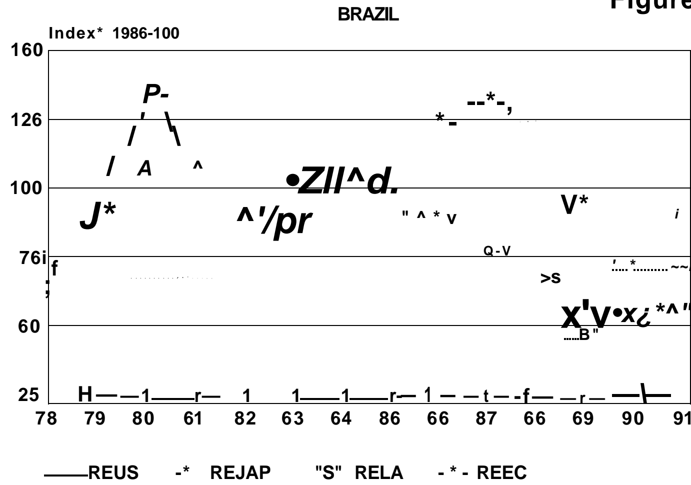
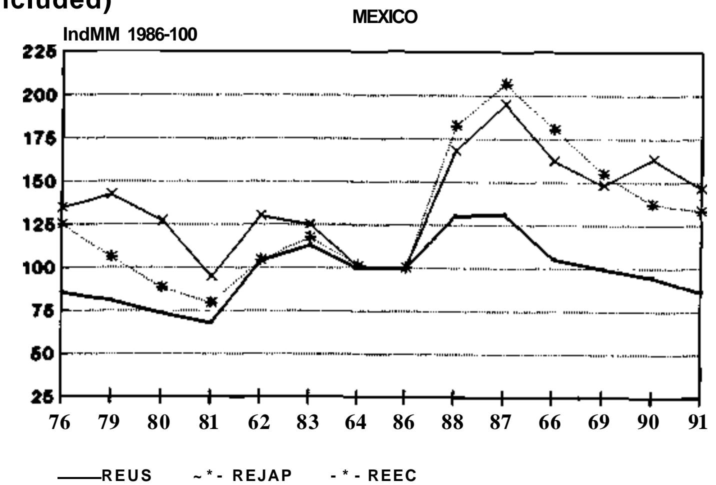
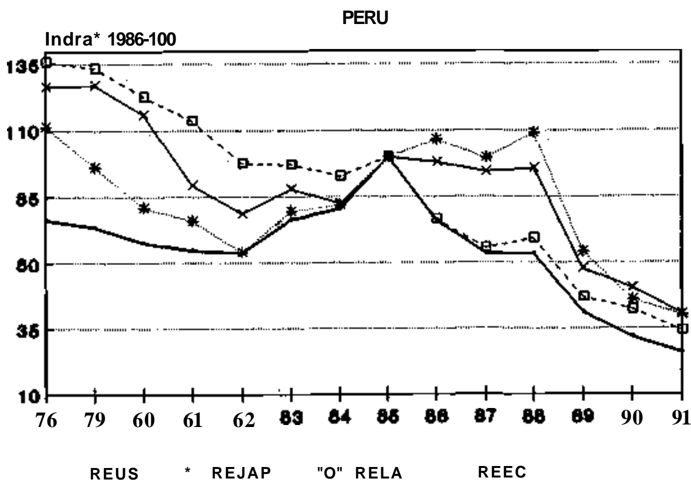
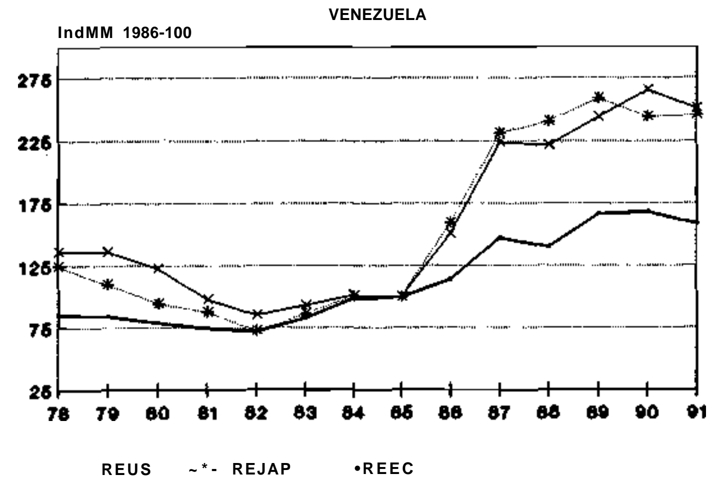








Source: ECLAC, on the basis of figures from the International Monetary Fund.

Key:

REUS: Real exchange rate index relative to the UnXed States.

REJAP: Real exchange rate index relative to the Japan.

RELA: Real exchange rate for exports to main Latin American trading partners.

REEEC: Real exchange rate for exports to the main trading partners of the European Economic Communty.

REARG: Real exchange rate index relative to Argentina

REBRA: Real exchange rate index relative to Brazil.

changes were more or less defined in each country, depending on the amount of their debt, the direction and magnitude of their external transfers and the interaction of trends in their volume of foreign trade and the terms of trade.

a) **The situation in Latin America in the early 1980s**

The outbreak of the external debt crisis highlighted, with a new sense of urgency, the need to deal with the increase in interest payments. Since the flow of external financing was interrupted, the only possibility of making those payments was to achieve a positive balance on current account sufficient to compensate for the larger outflow of foreign currency.

The problem manifested itself differently in each country. The most indebted, which therefore had to use a large portion of their export earnings to make interest payments, had a more difficult situation to contend with than those with a lower debt-servicing burden. In fact, the countries that were able to maintain a positive net transfer of resources did not experience a debt crisis.

In this context, the most indebted countries depreciated their currencies,[2] making equilibrium of the current account of the balance of payments their top priority, on the assumption that the capital account would remain neutral in the immediate future, which implied an automatic renewal of amortizations of the debt. In the early 1980s, this was the situation of Brazil, whose external interest represented 57% of its exports, Argentina (54%), Chile (50%), Mexico (47%), Bolivia (43%) and Nicaragua (42%) (see table 3). There was an abrupt turnaround in the net transfer of external resources in all those countries (see table 4). In almost every case, the real exchange rate rose sharply between 1981 and 1983. In some countries it climbed back up to its previous levels, after the declines posted in the framework of strategies in which exchange rate policy played an essentially anti-inflationary role (see table 2 and figure 2).

Nicaragua was a special case in this regard, since unlike the other countries in that group, it received a large volume of external financing. The net transfer of resources to Nicaragua was similar to its export pattern in the triennium 1981-1983 and far surpassed exports between 1984 and 1989. Although it did not attain those levels external transfer was positive in the other Central American countries. Since they were less indebted, they also had less need for a significant real devaluation. Costa Rica, with relatively higher indebtedness and a balance-of-payments crisis, raised its real exchange rate between 1981 and 1982. Paraguay and Uruguay did likewise in those same years, even though the pressure of external debt interest on exports was less than the regional average. In Uruguay, this was related to the low level of the real exchange rate in 1982. Both cases were influenced by the exchange rate policies of Argentina and Brazil. The other countries of the region were not highly indebted and did not noticeably modify their real exchange rates at that initial stage.

b) **The second half of the 1980s**

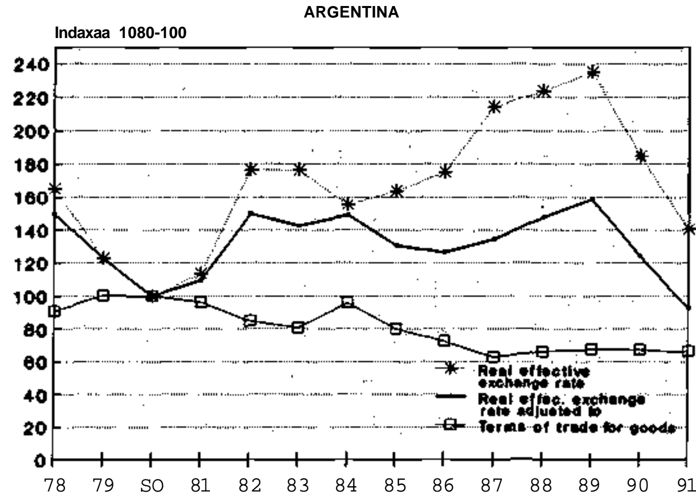
As mentioned above, the first reaction of the overindebted countries was to reorient their economies towards increasing exports. The rise in the real exchange rate and the policy to control domestic demand that was implemented in those countries in the first half of the 1980s abruptly reduced imports, in the midst of successive restructurings of the external debt and adjustment programmes adopted in the framework of agreements with the International Monetary Fund.

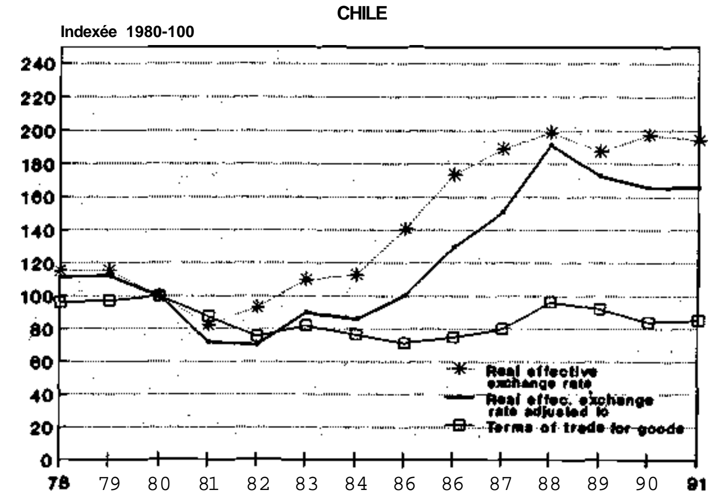
The drop in international oil prices in the mid-1980s affected those countries of the region that export hydrocarbons and introduced disequilibria into their balance of payments. It also had an impact on their national accounts, since the fiscal revenue of those countries depends largely on petroleum exports. The response to this situation was severe real devaluations, which led to a widespread rise in the real exchange rate in the region, with some major exceptions, especially Brazil and Peru. Between 1984 and 1987, Ecuador devalued its currency by 23% in real terms (after devaluing by 37% in 1983), while Venezuela, Bolivia and

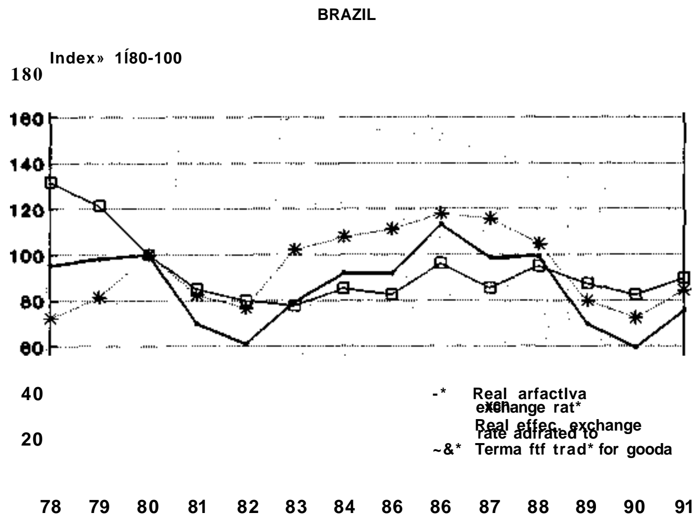
The methods used ranged from considerable devaluations to complete non-intervention by the monetary authority in the foreign exchange market, which in practice meant a sharp drop in supply in a high-demand market.

Figure 2

LATIN AMERICA AND THE CARIBBEAN: REAL EFFECTIVE EXCHANGE RATE INDEXES FOR EXPORTS[3]







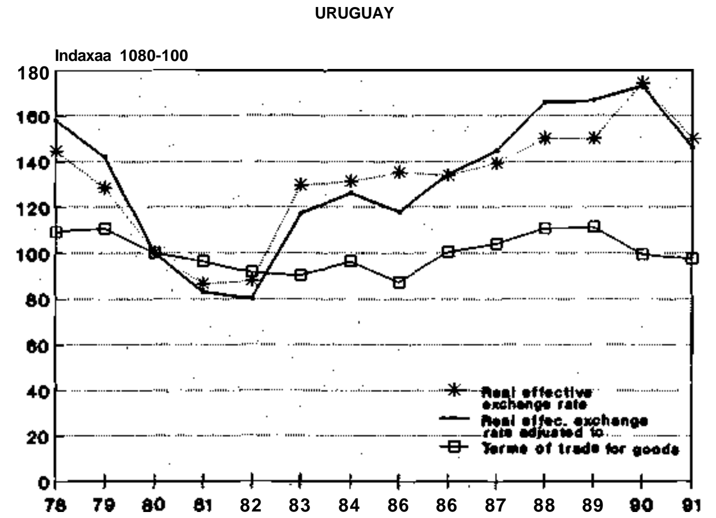


Figure 2 (continued)

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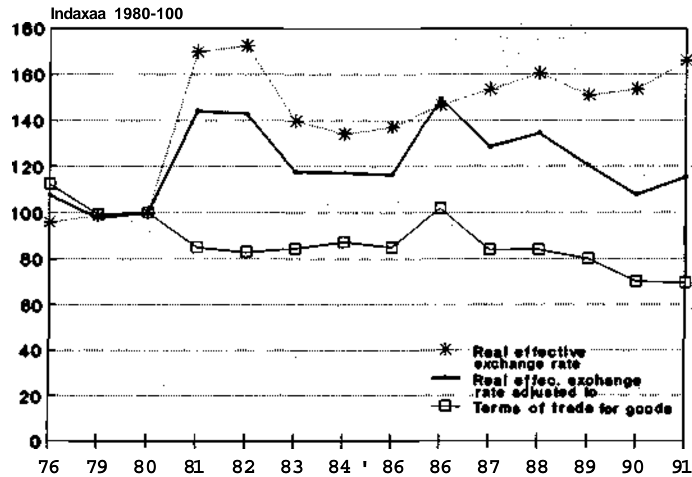
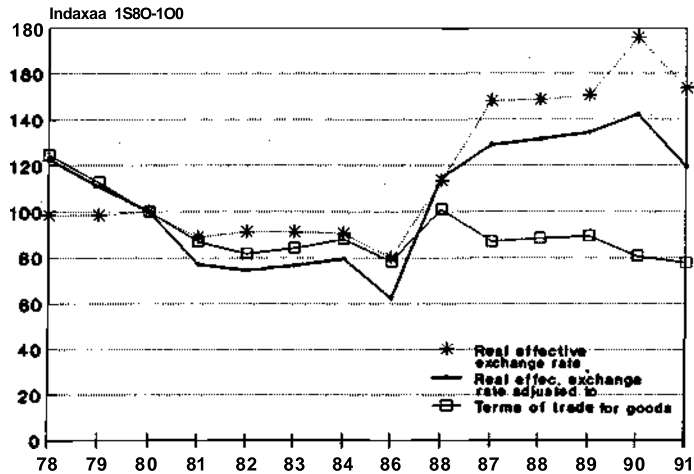
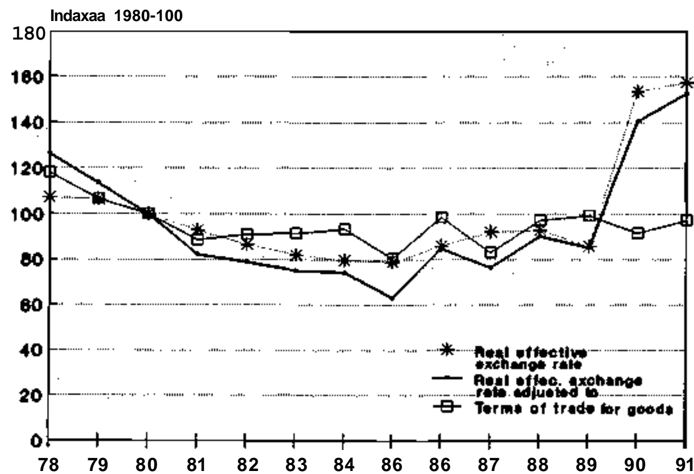
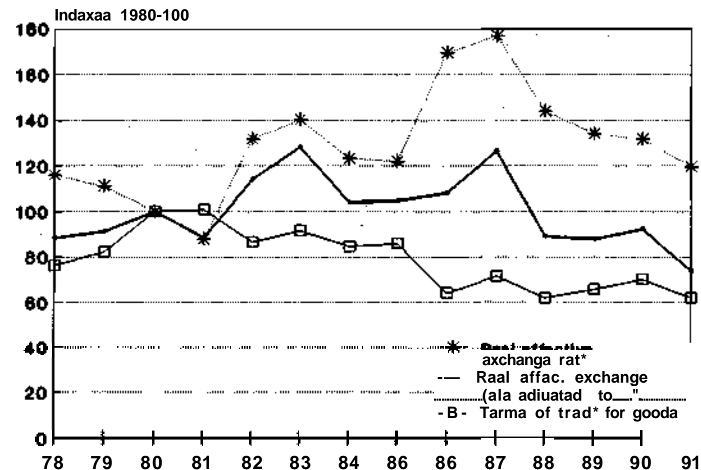


GUATEMALA



HONDURAS





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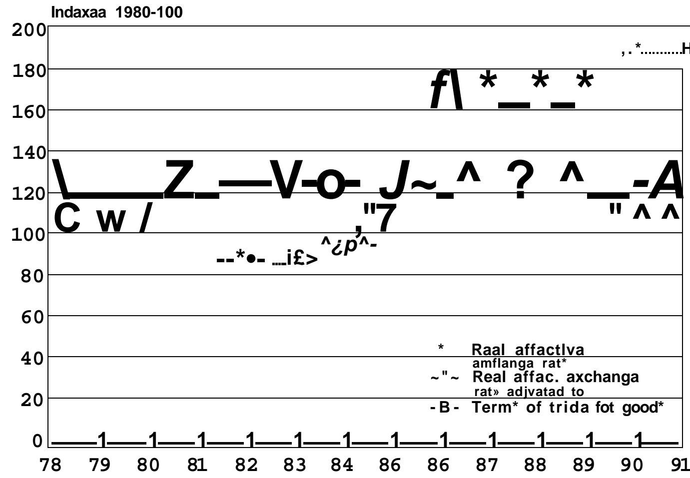
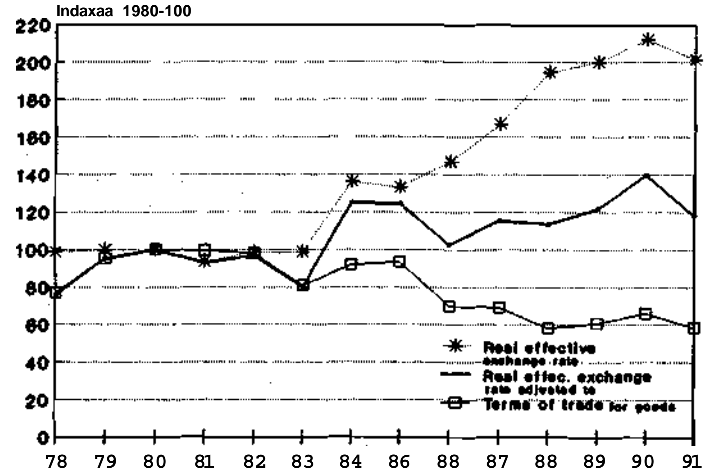
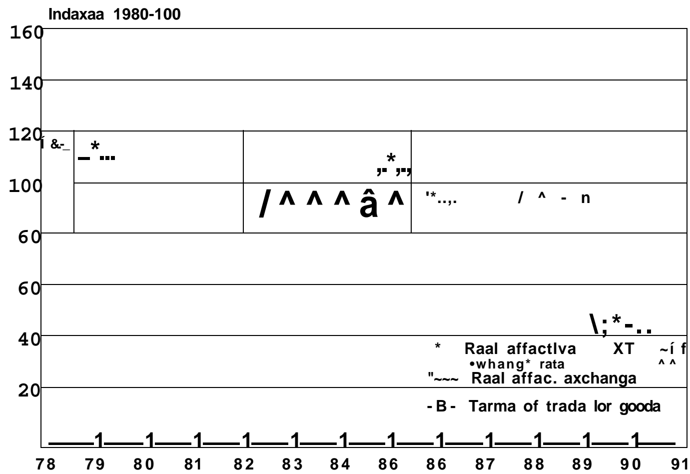






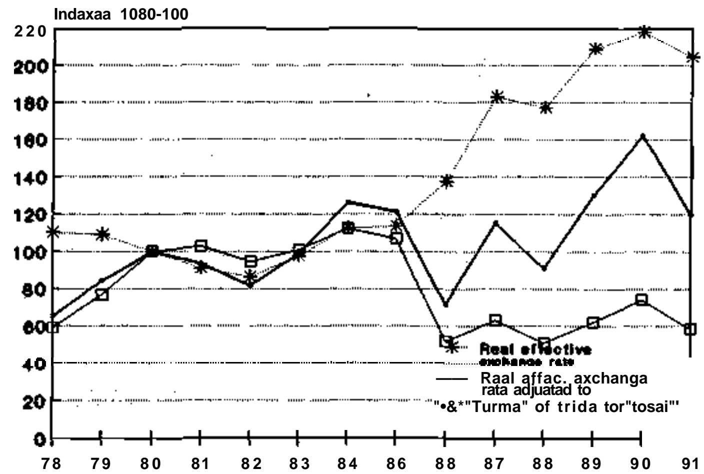
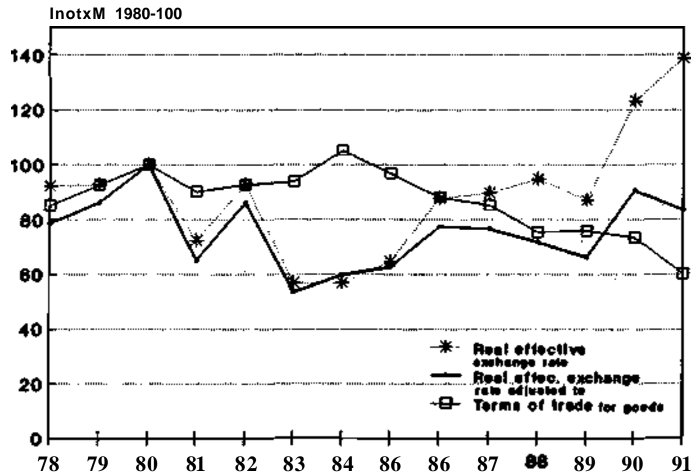
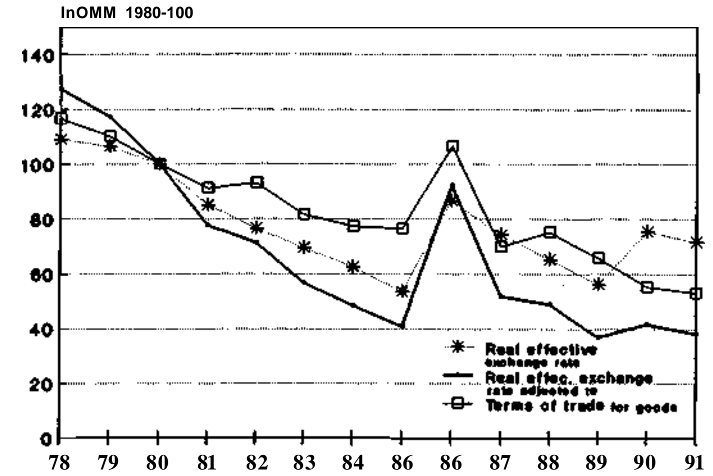


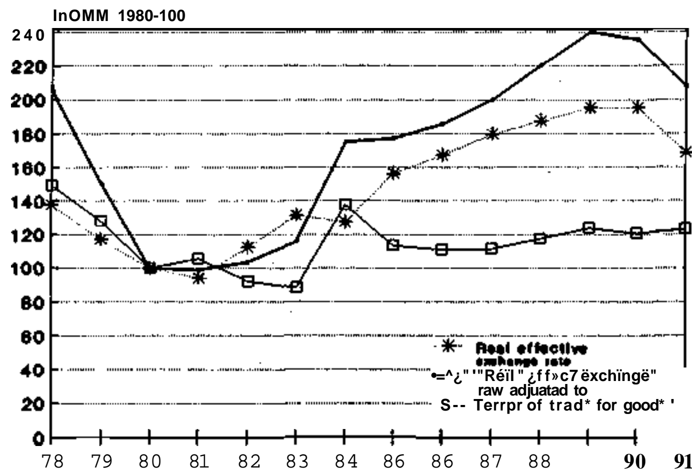
Figure 2 (concluded)

BOLIVIA

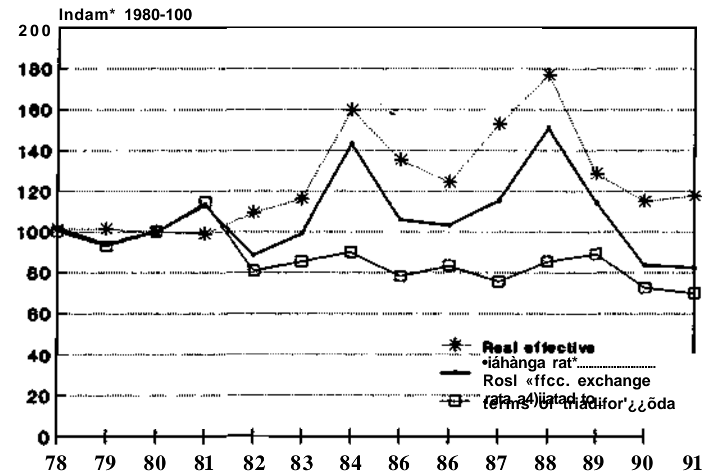


EL SALVADOR





DOMINICAN REPUBLIC



Source: ECLAC, on the basis of figures from the International Monetary Fund.
[a] Adjusted by the terms of trade for goods.

Mexico devalued their currencies by 62%, 58% and 44%, respectively, in real terms. Therefore, the decline in the terms of trade in all the petroleum-exporting countries was largely offset by the depreciation of theircurrencies. Colombia, a country that had large oil surpluses in the mid-1980s, also declared a real devaluation of 70% during that same period in response to worsening balance-of-payment problems, which began in the early part of the decade, owing to a decline in both the price of coffee and the volume exported under the new international coffee quota regime. The notable depreciation of the bolivar coincided with the oil and coffee bonanza of 1985-1986, which generated a substantial increase in international reserves (see tables 5 and 6 and figure 2).

The South American countries that do not export petroleum, almost all highly indebted, continued to raise the real exchange rate as part of their strategies to expand exports, with the exception of Brazil, which in a context of overall indexation maintained its exchange rate. Between 1984 and 1988, Argentina raised its real effective exchange rate by 45%, Chile by 76%, Paraguay (less indebted) by 48% and Uruguay by 15%. The Central American countries also considerably devalued their currencies in the midst of severe economic, and in some cases political, crises. The exchange rate corrections made by Guatemala and the Dominican Republic are notable exam pies of that process.

However, the countries that raised their real exchange rates had problems in controlling domestic inflation in a context of fiscal imbalances (partly due to the burden of interest payments on the external public debt) and indexation mechanisms. Therefore, during the second half of the decade, when the process of restructuring the external debt was further along and interest payments were putting less strain on export earnings, higher priority began to be given to stabilizing prices instead of expanding exports. Two examples of this were the "austral plan" in Argentina and the "cruzado plan" in Brazil, both failures, which after a corrective devaluation froze the nominal price of the dollar, a measure which eroded the real exchange rate until the fixed parity policy was finally replaced by one of periodic mini-devaluations. The programme launched by Mexico in 1987 -which included a considerable fiscal adjustment, tighter monetary policies, external financing and elements of heterodox income and price policies- also contained an important component of anti-inflationary policy, namely curbing the slide in the exchange rate. The stabilization programme that Bolivia launched in 1985 adopted the nominal exchange rate as an "anchor" in early 1986, and then established a sliding parity system the following year. In Uruguay, the rise in demand from Argentina and Brazil due to their respective stabilization programmes (austral and cruzado), which significantly increased the external purchasing power of their economies, confronted the economic authorities with an economic policy dilemma that would later become common to the region: an abundant flow of foreign currency considered to be temporary, which tended to reduce the real exchange rate in a country that had adopted an export strategy. Corrective devaluations were made to respond to this situation, attempting to prevent deterioration of the real exchange rate, which in an economy with a high degree of indexation introduced an inertial inflationary component.

Brazil and Peru adopted policies which differed from those used in the rest of Latin America. Brazil's economic policy was characterized by strong fluctuations during the 1980s, alternating between fixed exchange rates with price freezes and liberalization of domestic prices combined with exchange rates set by a sliding parity system. These latter programmes employed indexation mechanisms that prevented a "dollarization" of the economy, a very common phenomenon in the region. Thus, after the initial impact of the external debt crisis, the real exchange rate rose slightly between 1984 and 1987. Peru's moratorium on the external debt, together with anti-inflationary mechanisms to regulate prices and control exchange rates, led to a continuous reduction of the real exchange rate from the time the new Government took office in 1985.

c) **Exchange rate policy in the early 1990s**

By the late 1980s and early 1990s, exchange rate policy commonly came to be used less to shore up the balance of payments and more to

achieve stabilization. The rapid rise in prices brought on by fiscal and monetary imbalances -which in some cases involved hyperinflationary episodes that raised the regional annual inflation rate of 65% in 1986 to 800% in 1988 and 1,200% in the biennium 1989-1990- led most of the countries to focus macroeconomic policy on stabilization. After Bolivia's bout with hyperinflation in 1985 and the sharp rise in prices in Mexico in 1986-1987, inflation sped up rapidly in almost every country of the region by the late 1980s. Thus in 1988 inflation skyrocketed in Argentina, Brazil, Costa Rica, Ecuador, Nicaragua, Peru and the Dominican Republic, a phenomenon that in the following two years also affected Chile, Guatemala, Haiti, Honduras, Paraguay, Venezuela and Uruguay. The gradual acceleration of prices in Colombia peaked in 1990 with the highest rate of the decade. Few countries escaped a speed-up of inflation in the late 1980s, although there were huge differences in both absolute and relative terms.

Anti-inflationary policies were based on rigorous fiscal adjustments and tighter monetary programmes. The exchange rate was managed in response to two general trends. In some countries it was used as an "anchor" in price formation; such was the case in Mexico, Bolivia and Argentina, which in 1991 established an exchange rate at a legally fixed parity with the dollar. In other cases, the foreign exchange market was liberalized and flexible exchange rates were adopted with some degree of intervention by monetary authorities.

Government intervention in the foreign exchange market (in conform ity with floating rate systems) took on a variety of forms: a managed-floating rate (Brazil, El Salvador, Paraguay, Peru, Venezuela), periodic mini-devaluations within a margin of fluctuation (Chile, Guatemala -with auctions- Uruguay) and auctions (Bolivia). The countries that established systems based on fixed parities or with decreasing mini-devaluations used this tool as the pivot of their domestic price stabilization programmes. Those that opted for a floating exchange rate with government intervention sought a middle ground that allowed for reducing inflation and at the same time avoided a sharp drop in international competitiveness, within the framework of a strategy that kept real exchange rates relatively high and stable.

Some countries continued to give high priority to their balance-of-payments objectives. Ecuador, which devalued slightly more every week, tried to avoid the erosion of the exchange rate by correcting with discrete devaluations the differences between the rise in domestic prices and the weekly slide of the nominal exchange rate, which was announced in advance. Costa Rica, Honduras and the Dominican Republic maintained exchange rates managed by non-periodic devaluations (see table 7).

4. The new economic and financial situation in the region and the world

a) Main characteristics

Ten years after the outbreak of the external debt crisis, the econom ic situation has changed in Latin America and the Caribbean, and in the industrialized countries, as well.

First, most of the countries of the region are in a new stage of their fiscal adjustment. The last few years have seen an impressive decline in the financial needs of the public sector in Nicaragua (33% of GDP), Mexico (18%), Brazil (56%), Panama (9%), Venezuela (10%), Ecuador (8%), Argentina and Uruguay (6%) and Peru (5%), with a lesser although sizeable reduction in Bolivia, Guatemala and Honduras (4%), the Dominican Republic and Costa Rica (3%) and Colombia (2%). Many countries converted their fiscal deficit into a surplus. Chile and Paraguay also deserve special mention, since they have achieved a fiscal surplus for several years,

The chapter on inflation provides a breakdown of price increases in each country.

The capacity to obtain foreign exchange on the part of a public sector highly indebted in foreign currency is an important factor that must be taken into account when formulating economic policy. Thus countries whose public sectors export (Chile, Colombia, Ecuador, Mexico, Venezuela) are in a different situation in terms of obtaining the foreign exchange needed to meet their external commitments than those in which the public sector has to make payments abroad in foreign exchange but the positive international trade balance is essentially achieved by the private sector (Argentina, Brazil, Uruguay).

especially Chile. In 1991, six of the 18 countries for which information is available showed a surplus in the non-financial public sector and two others were in balance. Moreover, two had balanced their central Government finances, while five posted a deficit in the non-financial public sector of 3% or less of GDP. Only three countries (Brazil, El Salvador and Nicaragua) continued to have serious fiscal disequilibria (see table 8).

Declining financial needs of the public sector also eased pressure to increase the money supply. In turn, private-sector credit became tighter. Given this context, with very few exceptions, the domestic interest rate in recent years has remained positive in real terms. The real rates show a marked rise in certain countries that have implemented tight monetary policies to fight inflation (Mexico in 1988-1989, Chile in 1900, Brazil in 1991), but became notably negative during periods in which inflation rose abruptly (Argentina in 1989, Peru in 1990, Venezuela in 1989, Guatemala in 1990-1991, Ecuador in 1988).

Positive real rates combined with the slower depreciation of local currencies led to high interest rates in dollars. There were periods in 1991 during which Argentina, Bolivia, Brazil, Colombia, Chile, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Paraguay, Peru, Uruguay and Venezuela offered interest rates in local currency with equivalent annual rates in dollars of more than 10%, which was much higher than the rate in the United States market (see table 9).

The rise in interest rates to offset excessive monetary expansion caused by an inflow of external capital -which transgressed the monetary programme and therefore did nothing to further anti-inflationary objectives- gave rise to a vicious circle. The inflow of capital tended to lower the real exchange rate. Monetary authorities bought foreign exchange to avoid a sizeable exchange rate lag, a measure that led to an expansion of the money supply. Then, to neutralize excess money in circulation, they sold securities on the open market at attractive interest rates. The rise in interest rates and the downward trend of the real exchange rate produced high yields in dollars, which in turn stimulated another inflow of external capital. Thus the real interest rate rose with no particular effect on the money supply, so that along with high real interest rates the money supply expanded considerably.

The international interest rate, in turn, showed a downward trend, particularly in the United States, due to a monetary policy designed to mitigate the effects of a domestic recession. In a new context of less fiscal and exchange rate uncertainty, fewer economic policy regulations and a higher degree of openness to the outside world, the combination of international real interest rates below the long-term trend and domestic rates in local currency with high dollar yields brought in a large volume of external capital. That was accompanied in some cases by a reduction in the external debt burden, after several agreements to renegotiate the principal under new conditions, including the reduction of its nominal value. In 1991, for the first time since the debt crisis broke out in 1982, the net transfer of external resources was positive. In 1990-1991, the net transfer of external resources to the region as a whole was equal to one sixth of the exports of goods and services, since it went from a negative transfer of some 9% of exports to a positive one of 7% in 1991 (see table 4).

The flow of external resources in the early 1990s has been very different from that of the 1982-1988 period, when the net transfer of resources from the region was equivalent to close to one fourth of its exports. The rise in external financing was particularly high in Mexico, Venezuela and Argentina. The turnaround in the net transfer of resources over the last three years was spectacular in three countries: Mexico after sending resources abroad for US$11.3 billion in 1988, received US$14.7 billion in 1991; Venezuela had transferred out resources for US$6.1 billion in 1990 but received US$1.2 billion in 1991; and Argentina's transfer, though remained negative, was US$5.8 billion less in 1991 than it had been in 1989.

Although no breakdown of figures is available for all the countries of the region, close to 25% of the US$40 billion in external capital received

This group includes Honduras, which provided data only for the central Government.

in 1991 corresponded to direct investment (including privatizations) and some 20% to portfolio investment. Short-term private capital, entered under "errors and omissions" in the balance of payments, and registered short-term capital, contributed another 25% of the total. Thus, slightly less than half the resources received corresponded to portfolio investments and short-term capital, which were at times highly volatile.

On the other hand, a large proportion of the capital inflow led to a considerable increase in net international reserves, which put the monetary authorities in a stronger financial position to deal with cyclical problems. Some countries that rapidly increased their purchases abroad maintained or even increased the number of months that their imports could be covered by their international reserves. For example, Argentina, which doubled its imports, had at the end of 1991 reserves to cover seven months of imports; Venezuela, which increased imports by 50%, was able to cover more than nine months; Mexico, with significant rises in imports for four years in a row, had by the end of 1991 reserves to cover more months (4.4) than it had had two years earlier. A similar situation occurred in Chile (reserves to cover almost nine months of imports), Colombia (practically a year), and Uruguay (which, counting its gold reserves, had more than nine months) (see table 10).

b) The new situation and macroeconomic adjustment processes

Each country has faced the recent changes in the capital market under different conditions. In general, the economies of the region adjusted their external sectors during the second half of the 1980s, through some mix of increasing exports and reducing imports on the basis of rising real exchange rates (see table 11). Different methods, however, were used to achieve external adjustment. In some countries (Chile, Colombia, Mexico, Uruguay), the rise in exports and a more relaxed situation of external indebtedness increased import and normal debt-servicing capacity. Others -for example, Argentina, Brazil and Peru- also in a context of falling imports, placed a series of moratoria on external debt servicing, applicable to payments of both principal and interest, which in practice amounted to non-voluntary external loans.

The method used to achieve external adjustment made it possible, in some cases, to considerably increase the ratio between tradeable goods and non-tradeable goods, after a relative price adjustment in favour of the former. Other countries, however, even though they have less of an external imbalance, show no significant change in this ratio.

The abrupt reversal in the flow of external capital obliged almost all the countries of the region to establish a new relative price scheme that was different from the one of the previous period. Although this poses a challenge for all of them, in so far as it significantly changes the strategy aimed at achieving relatively high, stable real exchange rates, the problem is more serious for those countries that have yet to achieve a suitable balance between the production of tradeable and non-tradeable goods. In other words, a strategy oriented towards integration into the international market will place greater demands to increase productivity on the economies that produce fewer tradeable goods, in a context that continues to favour a lower real exchange rate.

The effect of renewing the flow of private capital into the region also varies with the internal situation in each country and the type and the intended use of that capital. The effects are different on production and external restrictions when external savings are used to produce exportable goods -generally linked to the exploitation of natural resources (petroleum, minerals or industries that process those raw materials)- or when they are used for investments in public services enterprises (power generation, banks, telephone companies), which normally do not produce tradeable goods and services.

On the other hand, the inflow of resources was due in part to purchases of government securities or shares listed on the stock exchange. The new situation in the countries of Latin America and the Caribbean raises less uncertainty about economic policy and, in some cases, offers the possibility of making attractive profits: in some countries, the price-earnings ratio of shares listed on the stock exchange was low, while government securities offered high interest rates. This and the decline in the international interest

rate provided incentives for investing in the region's main stock exchanges, which produced a sharp rise in both the volume traded and total market value. This was how financial resources poured into Chile, Mexico and Venezuela in the late 1980s and the early 1990s.

Private external capital also began to be channelled into short-term financial investments. One of the more important was the opening of time deposits in local or foreign currency in the banking system, at a time when the difference between the interest rate offered locally and in the international market was attractive. The asymmetry between the countries of the region in the process of reviving production (or out-and-out growth, as in the case of Chile) while applying stabilization policies and the industrialized countries in recession (the situation of the United States had serious repercussions) laid the groundwork necessary for an increase of capital flows, largely the repatriation of flight capital. This short-term financial flow occurred virtually throughout the region. Information is still not available about how commercial banks in each country channelled those resources into domestic credit or into the acquisition of external assets.

The larger flow of external resources received in these two ways (portfolio investment and deposits) may well be absorbed more quickly in those countries that are still affected by significant external constraints. Even so, the move from scarce to abundant external financing will introduce distortion factors during the transition period until such time as capital formation is reactivated. It is possible that for a time demand will respond slowly to new investment, especially in those cases where severe adjustment-related constraints on domestic demand deactivated certain mechanisms in the investment-production process.

The volatility implicit in capital flows affects an economy differently depending on the degree of liberalization of the capital account. While in some cases the programme of opening up to the outside included broad liberalization of capital transactions, in others, rules are still applied that are designed to reduce the effects of abrupt inflows and outflows of external capital. Experience shows that it is not easy to control capital flows, but the fact that capital transactions are sometimes still managed (which implies introducing personal influence into the speculative management of capital in order to obtain arbitrating advantages) would indicate that it is still possible to use selective instruments to narrow temporary differences between an exchange rate that helps to achieve short-term equilibrium of the balance of payments -determined above all by the financial market- and an exchange rate that provides medium-term equilibrium in markets for goods and financial markets.

At the domestic level, the economies of Latin America and the Caribbean also have different price stabilization and structural reform programmes. In some cases (Chile, Bolivia, Mexico, Colombia, Costa Rica), considerable progress was made on both fronts. Tax reforms were introduced and expenditures restructured to reduce the financial disequilibrium of the public sector; new measures were taken to liberalize external transactions, and regulations were scaled down in different economic and financial spheres. In other cases (Argentina, Peru, Venezuela), the new international situation coincided with the beginning of their stabilization and structural reform programmes, in which priority was also given to reducing the public sector and liberalizing foreign trade.

Thus, in varying degrees, all of Latin America and the Caribbean had opened up to the outside world by the early 1990s. In 1991, most of the countries implemented more liberal policies concerning transactions on the external current account or on the capital account, or both. There were fewer regulations, and, in addition, taxes were lowered and import duties were made more uniform.

Indeed, after Chile and Uruguay had begun to liberalize their foreign trade in the mid-1970s, price stabilization programmes around 10 years later in Bolivia, Mexico and Costa Rica included reducing controls on the import of goods, lowering tariffs and applying them to fewer items. Quasi-tariff barriers were also largely removed. Tariffs were subsequently lowered by Argentina (1987), Brazil (1988), El Salvador and Venezuela (1989) and Colombia, Ecuador and Peru (1990).

During the recent external debt crisis, the public sector, Ily through the Central Bank, acted as the lender of last resort (or *ex-post* guarantor) of the private sector's loan arrears.

In recent years, tariff reduction coincided with a drop in the real exchange rate. In those countries that began to liberalize years ago, additional declines in tariffs were not as steep and thus had no great impact on the total cost per import dollar. That was the case in Uruguay, where the combined effect of the real exchange rate and tariffs was practically neutral between 1985 and 1991, whereas in Chile the cost per import dollar in 1991 was even higher than that of 1985. The countries that liberalized their foreign trade more recently behaved differently, with few exceptions. In Argentina, Brazil, Colombia, Ecuador, Mexico, Peru and Venezuela, the cost per import dollar in 1991 was considerably lower than it had been before the liberalization programme began. On the other hand, in Bolivia and Costa Rica, devaluations exceeded tariff reductions, although it should be remembered that in Bolivia the programme began with a lower real exchange rate, in the wake of a period of hyperinflation (see tables 12 and 13).

Another consequence of more abundant external financing and a lower cost per import dollar was a significant jump in importsof goods and services, probably starting at low levels because of the process of current account adjustment begun in 1982. The value of imports doubled in Argentina in 1991 and in Mexico between 1988 and 1991, and increased by 50% in Peru and Venezuela in 1991,40% in Brazil in the past three years. Only in Colombia did imports fail to respond to the rise, although they accounted for a smaller percentage of the GDP, due to a tight credit policy and the slow-down of domestic activity. Economic agents' expectations about the tariff reductions scheduled until 1994 and first implemented in 1991 also influenced this situation.

c) The current situation: permanent or temporary?

The situation of the early 1990s, both domestically and internationally, is somewhat uncertain as regards the permanency of some key factors. While some current characteristics can be considered as determinants of a new context that is reasonably long-lasting, others seems to be temporary (see table 14).

From the perspective of the current international scene, the current recession in the industrialized countries, the level of interest rates in dollars, marks and yens and the relative values between those currencies seem to be temporary. On the one hand, real interest rates on deposits in the United States are below the long-term trend (and much lower than those of the 1980s); in this regard, if the United States economy pulls out of the recession, the downward trend of its interest rate could be reversed. Contrarily, a gradual reduction of Germany's steep public-sector deficit, directly linked to the cost of political reunification with the former German Democratic Republic, would tend to lower its interest rate. A higher international interest rate, albeit with fewer disparities between the different currencies, would reduce one of the factors attracting external capital to the region. A reactivation of the economies of the Organization for Economic Cooperation and Development would have the same effect. A faster pace of growth in the more industrialized economies would increase the external demand for goods and services from the countries of the region, thereby particularly offsetting through the current account a potential decline in the capital account.

The reduction of the external debt burden of the region's economies should be considered, on the contrary, as a more lasting positive factor, even though a rise in international interest rates implies a greater outflow from the current account. The current flow of external financing, which is based to a lesser extent on indebtedness to the international financial system and includes a good part of repatriated flight capital, in turn represents a significant difference between the situation of the 1970s and the present.

Changes in the terms of trade are essentially a temporary factor. What happened in Colombia and Chile with the stabilization fund for coffee and copper, respectively, offers an alternative that should be taken into account when attempting to palliate the domestic impact of abrupt changes in the relative prices of leading export products.

In addition, some aspects of the domestic situation at the end of 1991 are less temporary than others. First, many of the economies of the

In this case, a revaluation of the United States currency agaii the mark-implicit in the difference between the current interest rates- can be expected.

region are functioning on new bases, which give priority to macroeconomic equilibrium in fundamental areas. That has considerably reduced uncertainty about the likelihood of change in medium-term policy guidelines, and greatly aided in decision-making about new investments.

From the fiscal viewpoint, the present context is the result of adjustments based on structural reforms and provisions that had basically cyclical effects. In some economies, the rise in the tax burden in real terms, which included the well-known "Tanzi-Olivera effect" in cases of falling inflation, was achieved in some cases through tax reforms, but in others through temporary measures. Part of the rise in revenues was due to better administrative procedures. A rise in public rates also made it possible to balance the operational management of those enterprises. The sale of public enterprises brought in additional income, which in some cases (Argentina, Mexico, Venezuela) was considerable. Public expenditures were also reduced, sometimes by eliminating redundant expenditures and in others through drastic cuts in investment, social spending and the wages of government employees. Interest payments were also reduced, owing to the decline in external indebtedness and in the international interest rate.

Although many of these cases can be considered to be recurring, others take place only once or are only temporary. Income from the sale of public enterprises is a one-time occurrence. The aforementioned decline in the real international interest rate to a level below the long-term trend, could be quickly reversed. The contraction of fiscal spending by cutting back on investment and that of expenditures for public services that respond to a permanent and growing demand (education, public health, urban security) could also turn around abruptly. Therefore, those countries that achieved fiscal equilibrium through procedures that could be considered temporary will find themselves in a more fragile situation than those who restructured their public sector by creating new permanent fiscal structures.

Domestic credit policy, closely linked to the change in national accounts, could also have an impact on real exchange rate trends. Monetary policies designed within the framework of a price stabilization programme are normally predicated on positive real interest rates. Because of the need to offset an expansion of the money supply corresponding to public-sector credit, those real rates might also have to be high. In that event, which generally goes with a high yield in dollars once the devaluation rate of the local currency is discounted, a significant inflow of external capital should be expected, which tends to appreciate the local currency in floating exchange rate systems. That situation should not last long, since high real interest rates discourage investment and undermine the solvency of indebted firms, including the financial system. In this regard, the continuity of the flow of external resources will be conditioned by trends in this process and will also influence changes in the real exchange rate.

The policy of openness and liberalization of foreign trade should be considered as a new permanent element of the economies of the region over the medium term, but pressure from contained imports will only have a temporary effect in those countries that have recently liberalized.

To sum up, an analysis of the economies of Latin America and the Caribbean in the early 1990s, almost 10 years after the outbreak of the external debt crisis, clearly reveals, with few exceptions, a new context that is more favourable from the viewpoint of both the external environment and domestic macroeconomic equilibria. The degree of consolidation and permanency of the external adjustment and the stabilization programmes differs from country to country. However, there is overall fiscal improvement. Permanent and temporary factors coexist in this new context, both domestically and internationally. In any case, and even taking into account the uncertainty that does exist, the current situation leads one to believe that the real exchange rate of the 1990s in those countries that have achieved or are in the process of achieving a solid macroeconomic equilibrium will tend to be below the high levels recorded in the mid-1980s at a time of greater external constraints. Even though the real exchange rate observed at the beginning of this decade could be affected by short-term economic factors that lead to an exaggerated appreciation of local currencies (owing to overshooting), that factor will have to be considered as a part of the basic strategy in future export-promotion programmes.

Table 1

EXCHANGE RATE ARRANGEMENTS

***(End** of year)*

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
World total	**136**	**138**	**140**	**143**	**146**	**146**	**147**	**148**	**150**	**150**	**150**	**152**	**152**	**156**
Currency pegged to:														
U.S. dollar	42	42	39	38	38	33	34	31	32	38	36	32	25	24
Other currencies	53	52	55	56	56	58	60	63	59	54	58	60	60	56
Cooperative arrangements	5	8	8	8	8	8	8	8	8	8	8	9	10	10
Limited flexibility	.	.	.	.	.	9	7	5	5	4	4	4	4	4
Adjusted according to a basket of indicators	5	3	4		5	5	6	5	6	5	5	5	5	5
Floating (managed and flexible)						33	32	36	40	41	39	41	48	56
Limited flexibility and floating	31	33	34	37	39.		.	.	.	.		.	.–	–
Latin America	19	19	19	19	19	19	19	19	19	19	19	19	19	19
Currency pegged to:														
U.S. dollar	12	12	11	11	11	10	10	8	9	9	10	5	3	3
Adjusted according to a basket of indicators	4	2	4	4	4	3	4	3	3	3	3	3	2	2
Floating (managed and flexible)	3	5	4	4	4	6	5	8	7	7	6	11	14	14

Source: ECLAC, on the basis of figures from the International Monetary Fund *(\MF) International Financial Statistics,* several issues.

Table 2
LATIN AMERICA AND THE CARIBBEAN: REAL EFFECTIVE EXCHANGE RATE INDEXES FOR EXPORTS[3]
(1980=100)

Country	Deflator	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
Oil-exporting **countries**															
Bolivia	CPI	92	93	100	72	93	57	57	65	88	90	95	87	123	139
Colombia	CPI	104	102	100	90	86	88	96	111	147	163	167	170	192	190
	WPI	103	99	100	92	86	86	91	103	128	141	143	143	164	162
Ecuador	CPI	99	100	100	93	99	99	136	133	147	167	195	200	212	201
Mexico	CPI	116	111	100	88	132	140	123	122	170	177	144	134	132	120
	WPI	115	109	100	91	134	137	114	113	148	151	126	121	121	109
Peru	CPI	115	111	100	87	78	89	88	106	95	86	89	55	45	37
Venezuela	CPI	110	109	100	91	86	98	113	114	138	183	177	209	218	205
	WPI	107	109	100	92	85	94	103	97	107	132	137	148	164	162
Non-oll-exportlng countries															
South America															
Argentina	CPI	165	123	100	114	176	176	155	163	175	214	224	235	185	141
	WPI	133	109	100	111	125	123	113	124	151	192	171	162	165	172
Brazil	CPI	72	81	100	82	77	102	108	111	118	116	104	80	72	84
	WPI	83	92	100	82	78	94	87	88	92	96	86	66	62	77
Chile	CPI	115	115	100	82	93	110	113	141	173	189	199	187	197	194
	WPI	133	118	100	88	105	111	111	127	147	155	178	170	180	170
Paraguay[0]	CPI	138	117	100	94	113	131	127	156	167	180	188	195	195	169
Uruguay	CPI	145	128	100	86	88	130	131	135	134	139	150	150	174	150
	WPI	135	111	100	96	106	136	125	125	128	129	145	152	172	146
Central America and the **Caribbean**															
Costa Rica	CPI	96	99	100	170	173	140	134	137	147	153	160	151	153	166
	WPI	105	102	100	141	128	107	106	110	118	130	139	133	139	147
El Salvador	CPI	109	106	100	85	76	70	63	53	87	74	65	56	75	72
Guatemala	CPI	98	98	100	89	91	91	90	80	114	148	149	150	176	154
Haiti[4]	CPI	105	105	100	95	93	86	83	78	80	95	95	116	121	112
Honduras	CPI	107	106	100	93	87	82	80	79	86	92	93	86	154	157
Nicaragua	CPI	116	116	100	76	60	46	33	28	11	3	52	63	48	46
Dominican Republic	CPI	101	101	100	99	109	116	159	135	124	153	177	128	115	118

Source: ECLAC, on the basis of figures from the International Monetary Fund (IMF).

* Corresponds to the average of the real exchange rate indexes (main official) of the currency of each country relative to the currencies of its main trading partners, weighted by the rela tive volume of exports to those countries. These weightings correspond to the average for the period 1986-1990. For further details on the methodology and sources used, see the Statistical Appendix of the *Economic Survey of Latin America, 1981.* The exchange rate used was the average of the average buying and selling rates reported by the main commercial banks to the Banco de México up till July 1982, the preferential rate for essential imports from August to November 1982 and the average of the buying and selling rates in the managed market from that date onwards.

[c] The flexible floating or parallel exchange rate was used. The commercial exchange rate was used from 1987 onward.

Key: CPI = Consumer price index
WPI = Wholesale price index.

Table 3

LATIN AMERICA AND THE CARIBBEAN: DEBT SERVICE (INTEREST) TO EXPORTS RATIO, 1982[a]

(Percentages)

	Interest/exports (in current dollars)	Exports/gross domestic product T(at 1980 prices)
Brazil	57.1	10.5
Argentina	53.6	16.9
Chile	49.5	25.3
Mexico	47.3	15.5
Bolivia	43.4	21.5
Nicaragua	41.8	22.6
Latin America and the Caribbean	**41.1**	**16-3**
Costa Rica	36.1	43.7
Ecuador	30.3	23.9
Colombia	25.9	13.4
Peru	25.1	22.3
Dominican Republic	22.7	16.9
Honduras	22.4	31.5
Uruguay	22.4	26.9
Venezuela	21.0	29.0
Paraguay	13.5	12.2
El Salvador	11.9	26.4
Guatemala	7.8	22.1
Haiti	2.4	24.6

Source: ECLAC, on the basis of figures provided by the International Monetary Fund (IMF) and official figures of the countries.
* Includes interest paid and interest in arrears. Factor services are not included.

Table 4

LATIN AMERICA AND THE CARIBBEAN: NET TRANSFER OF RESOURCES [a]

(As a percentage of the value of exports of goods and services)

	1982-1988	1989	1990	1991
Latin America and the Caribbean	**-243**	**-19.2**	-8.9	6.8
Oil-exporting countries	**-29.1**	**-12.8**	-5.9	**22.0**
Bolivia	3.8	4.7	10.8	51.1
Colombia	-3.6	-22.3	-25.1	-25.5
Ecuador	-13.8	-10.7	-13.5	-6.5
Mexico	-36.4	-4.2	9.7	36.8
Peru	0.5	-4.5	11.8	56.0
Venezuela	-27.2	-32.1	-32.5	7.6
Non-oil-exporting countries	**-19.2**	**-25.0**	**-12.1**	-8.7
Central America and the Caribbean	17.4	22.2	15.0	29.4
Costa Rica	4.9	18.1	9.6	17.3
El Salvador	11.3	63.6	45.0	24.8
Guatemala	14.9	22.4	8.3	41.9
Haiti	53.3	64.6	71.7	64.0
Honduras	11.2	-	10.8	14.1
Nicaragua	126.8	114.4	64.0	169.2
Dominican Republic	2.6	-0.9	-1.4	14.0
South America	**-24.3**	**-31.0**	**-15.5**	-13.5
Argentina	-32.5	-55.0	-31.2	-4.2
Brazil	-26.7 [b]	-31.6	-18.8	-23.1
Chile	-13.1	-4.5	14.3	-3.3
Paraguay	18.5	-11.4	7.2	27.2
Uruguay	-14.7	-18.9	-12.1	-6.7

Source: ECLAC, on the basis of figures from the International Monetary Fund (IMF) and official figures of the countries.
* Net transfers of resources abroad are marked by a (-) sign. Refers to the 1982-1987 period.

Table 5

LATIN AMERICA AND THE CARIBBEAN: TERMS OF TRADE FOR GOODS FOB/CIF

(1980=100)

Country	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
Oil-exporting countries														
Bolivia	85	93	100	90	93	94	105	97	88	85	76	76	74	60
Colombia	125	104	100	85	87	93	99	90	116	90	89	85	80	76
Ecuador	77	95	100	100	98	81	92	93	70	69	58	61	66	59
Mexico	76	82	100	101	87	91	85	86	64	72	62	66	70	62
Peru	72	92	100	89	80	95	91	88	78	83	96	92	79	72
Venezuela	59	77	100	103	94	101	112	107	52	63	51	62	74	59
Non-ofl-exporung countries														
South America														
Argentina	91	100	100	96	85	81	96	80	72	63	66	68	67	66
Brazil	132	121	100	85	80	78	85	83	%	86	95	87	82	90
Chile	96	97	100	87	75	82	76	71	75	80	96	92	84	85
Paraguay	149	128	100	106	92	88	138	113	111	111	118	124	121	123
Uruguay	109	111	100	96	91	90	96	87	100	104	111	111	99	97
and the Caribbean														
Costa Rica	112	99	100	85	83	84	87	85	102	84	84	80	70	70
El Salvador	117	110	100	91	93	82	77	76	107	70	75	66	55	53
Guatemala	125	113	100	87	82	84	88	78	101	87	88	89	81	78
Haiti	120	104	100	70	73	65	79	82	94	102	92	83	77	81
Honduras	118	107	100	89	91	92	94	80	99	83	97	99	91	97
Nicaragua	118	107	100	90	85	82	103	94	100	97	97	101	94	87
Dominican Republic	100	93	100	114	81	85	90	78	83	76	85	89	73	70

Source: ECLAC, on the basis of official figures.

Table 6

LATIN AMERICA AND THE CARIBBEAN: REAL EFFECTIVE EXCHANGE RATE INDEXES FOR EXPORTS [a]

(Deflated by the consumer price index and adjusted according to the terms of trade)

(1980 = 100)

Country	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
Oil-exporting countries														
Bolivia	79	86	100	65	86	53	60	63	77	77	72	66	91	83
Colombia	131	106	100	76	74	82	94	100	171	146	148	145	154	144
Ecuador	76	95	100	93	97	80	125	125	103	115	113	122	140	118
Mexico	88	91	100	89	114	128	104	105	108	126	89	88	92	74
Peru	83	101	100	77	62	85	80	93	74	72	86	51	35	27
Venezuela	65	84	100	93	82	99	126	121	71	115	91	130	162	120
Non-oU-exporting countries														
South America														
Argentina	150	123	100	109	150	142	149	131	127	135	148	159	124	93
Brazil	95	98	100	70	61	79	92	92	113	99	99	70	59	76
Chile	111	112	100	72	70	90	86	100	130	151	191	173	166	166
Paraguay [c]	205	150	100	99	104	116	175	177	186	200	220	242	236	208
Uruguay	158	142	100	83	80	117	126	118	134	145	166	167	173	146
Central America and the Caribbean														
Costa Rica	108	98	100	144	143	118	117	116	149	129	134	120	108	115
El Salvador	127	117	100	78	71	57	48	41	92	52	49	37	42	38
Guatemala	123	111	100	77	75	77	80	63	115	129	132	134	142	120
Haiti [d]	127	109	100	67	67	56	65	63	75	97	87	96	93	90
Honduras	126	113	100	82	79	75	74	63	85	77	90	85	140	153
Nicaragua	137	124	100	68	51	38	34	27	11	3	51	63	45	40
Dominican Republic	102	94	100	113	89	99	143	106	103	115	151	114	83	82

Source: ECLAC, on the basis of figures from the International Monetary Fund (IMF).

" Corresponds to the average of the real exchange rate indexes (main official) of the currency of each country relative to the currencies of its main trading partners, weighted by the rela tive volume of exports to those countries. These weightings correspond to the average for the period 1986-1990. For further details on the methodology and sources used, see the Statistical Appendix of *the Economic Survey of Latin America, 1981.* The exchange rate used was the average of the average buying and selling reported by the main commercial banks to the Banco de México up till July 1982, the preferential rate for essential imports from August to November 1982 and the average of the buying and selling rates in the managed market from that date onwards.

[c] The floating or parallel exchange rate was used. The commercial exchange rate was used from 1987 onward.

Table 7

LATIN AMERICA AND THE CARIBBEAN: EXCHANGE RATE SYSTEMS **IN 1991**

Country	Fixed parity	Mini-devaluations			Floating with official intervention
		Non-periodic	Periodic	Within a margin of fluctuation	
Argentina	X				
Bolivia					
Brazil					
Colombia			X[a b]		
Costa Rica		X[e]			
Chile				X[a]	
Dominican Republic		X			
Ecuador			X[c d]		
El Salvador					
Guatemala				X	
Haiti					
Honduras		X[e]			
Mexico		-	X[e]		
Nicaragua	X[e]				
Panama	X				
Paraguay					X
Peru					X
Uruguay					
Venezuela					

Source: ECLAC, on the basis of official data and data from the International Monetary Fund (IMF).

* Included in the exchange rate adjusted according to indicators in the IMF classification. In 1991 the exchange rate was decentralized and was left to be determined to a larger extent by the market. Included in other managed-floating systems in the IMF classification. With non-periodic corrections.

Table 8
LATIN AMERICA AND THE CARIBBEAN: FISCAL ADJUSTMENT
(As a percentage of gross domestic product)

	Period	Level of government	Result in 1991[a]	Evolution of the NFPS b
Argentina	1988-1991	NFPS	-2.2	-6.4
Bolivia	1987-1991	NFPS	-3.0	-4.3
Brazil	1989-1991	NFPS	-27.5	-55.6[c]
Colombia	1988-1991	NFPS	0.1	-2.2
Costa Rica	1989-1991	NFPS	-	-2.5
Chile	1984-1991	NFPS	1.7	-6.1[d]
Ecuador	1987-1991	NFPS	-1.2	-8.4
El Salvador	1988-1991	CG	-5.1	+1.9
Guatemala	1989-1991	CG	0.4	-4.2
Honduras	1989-1991	CG	-3.0	-4.3
Mexico	1987-1991	CPS	3.4	-17.7
Nicaragua	1988-1991	BCG	-6.9	-33.5
Panama	1989-1991	BCG	1.4	-8.7
Paraguay	1990-1991	NFPS	1.5	**(surplus decreased 1.8)**
Peru	1987-1991	BCG	-0.6	-5.1
Dominican Republic	1987-1991	BCG	0.8	-3.0
Uruguay	1989-1991	TPS	-	-6.1
Venezuela	1988-1991	NFPS	1.2	-9.8

Source: ECLAC, on the basis of official figures.
Note: Key: NFPS = Non-financial public sector; CG = central government;
TPS = total public sector (fiscal and quasi-fiscal); BCG = budgetary central government;. CPS = consolidated public sector.
[a] The minus (-) indicates a deficit and a (+) sign indicates a surplus. The column includes an adjustment made during the period referred to. The term NFPS refers to the financial needs of the public sector. The (-) sign indicates a reduction of the deficit. In the case of a change from a deficit to a surplus, the difference is computed as a deficit reduction. [c] In terms of operational deficit, the reduction was by 7.2% of GDP, since there was s small surplus in 1981. The NFPS has had a surplus since 1989.

Table 9

LATIN AMERICA AND THE CARIBBEAN: INTEREST RATES ON LOANS IN LOCAL CURRENCY

(Annual rates in percentages)

	Real rates [a]								Equivalent rates in dollars[0]			
	1990				1991				1991			
	I	II	III	IV	I	II	III	IV	I	II	III	IV
Argentina	-94.2	-32.6	-34.8	4.1	-47.4	-20.1	-9.8	-0.9	-74.0	-5.9	14.1	8.9
Bolivia	14.3	14.1	4.3	-11.4	-3.7	15.5	14.1	7.5	7.7	15.8	16.0	
Brazil	-41.1	-62.3	24.2	92.3	18.8	31.0	19.4	69.7	42.6	32.8	51.9	-6.5
Colombia	-13.3	-1.4	4.9	1.1	-9.2	-0.3	9.7	11.6	9.6	11.3	10.3	7.9
Costa Rica	-4.4	-5.8	-1.8	-7.8	-0.4	-0.8	2.5	4.8	-14.5	-10.9	8.4	5.9
Chile	12.3	10.0	-0.6	19.7	3.2	0.8	6.7	1.7	3.7	21.6	10.4	5.1
Ecuador	-12.9	-3.3	4.7	-3.4	-13.2	-5.9	-0.4	0.8	-8.9	15.1	1.8	-15.5
El Salvador	-11.9	-3.6	18.9	-5.4	2.3	3.1	3.7	14.6	21.6	16.1	13.6	10.7
Guatemala	-16.7	-30.3	0.1	-48.7	9.3	10.7	19.9	12.6	19.4	35.7	17.1	18.5
Honduras	-14.9	-20.0	-15.0	-30.1	-22.1	-12.9	1.4	3.2	7.4	11.4	•11.8	3.8
Mexico	-1.0	8.8	4.0	-7.4	-3.2	4.0	3.8	-9.5	15.1	11.6	9.7	12.3
Paraguay					-6.3	16.0	0.3	9.1	0.4	14.4	18.3	4.7
Peru	-43.9	-30.6	-99.3	-43.4	-15.7	21.1	26.0	23.3	127.1	-45.3	273.7	-20.0
Uruguay	-10.9	-12.4	-29.9	0.7	2.5	-10.5	-12.7	8.3	14.6	11.8	7.8	9.4
Venezuela	5.5	-9.7	-6.7	-14.7	1.1	-0.4	-0.5	-0.6	-3.8	19.9	1.3	18.2

Source: ECLAC, on the basis of official and International Monetary Fund (IMF) figures.

[a] Nominal rates (quarterly averages) deflated by the respective rates of increase or decrease in the consumer price index (during the quarter). Nominal rates (quarterly averages) less their respective rates of devaluation (during the quarter), according to data provided by the International Monetary Fund (IMF).

Table 10

LATIN AMERICA AND THE CARIBBEAN: IMPORTS OF GOODS AND SERVICES AND RESERVES (EXCLUDING GOLD)

(Number of monthsf

	1980	1985	1991
Argentina	6.2	7.4	7.2
Bolivia	1.5	3.4	0.9
Brazil	2.5	7.5	3.4
Colombia	10.6	3.8	11.1
Costa Rica	1.1	4.8	4.9
Chile	5.3	7.5	8.8
Ecuador	4.2	4.0	3.8
Mexico	1.4	3.2	4.4
Peru	6.0	7.9	5.5
Uruguay	2.1	2.0	2.2
Venezuela	5.2	12.7	9.3

Source: ECLAC, on the basis of official and International Monetary Fund (IMF) figures.

[a] Corresponds to the number of months of imports of goods and services covered by reserves, excluding gold.

Table 11

LATIN AMERICA AND THE CARIBBEAN: CURRENT ACCOUNT OF THE BALANCE OF PAYMENTS

(In billions of dollars)

	Trade balance				Current account			
	1982	1985	1989	1991	1982	1985	1989	1991
Latin America	**-13**	**30.2**	**27.1**	**0.4**	**-40.9**	-3.6	-7.0	**-20.3**
Oil-exporting countries	**13**	**16.0**	**8.9**	**-63**	**-16.6**	**1.6**	-3.6	**-14.0**
Bolivia	0.3	-	-0.2	-0.2	-0.1	-0.3	-0.4	-0.4
Colombia	-2.3	-0.7	1.2	2.6	-2.9	-1.8	-0.2	2.6
Ecuador	-0.2	1.0	0.5	0.4	-1.2	0.1	-0.6	-0.6
Mexico	6.3	9.2	1.9	-8.4	-6.4	0.5	-4.1	-14.1
Peru	-0.7	1.0	0.8	-1.1	-1.8	-	-0.5	-2.5
Venezuela	-2.1	5.4	4.7	2.4	-4.2	3.1	2.2	1.1
Non -oi 1-export ing countries	-2.6	**14.2**	**18.2**	**9.0**	**•24.3**	-5.0	-3.4	-6.2
South America	-1.0	**15.6**	**20.2**	**113**	-21.7	-3.0	-9.0	-3.7
Argentina	2.7	4.4	5.1	2.9	-2.4	-1.0	-1.3	-2.7
Brazil	-2.8	10.7	13.3	6.9	-16.3	-0.4	1.0	-0.4
Chile	-0.4	0.5	0.9	1.6	-2.4	-1.3	-0.9	-0.2
Paraguay	-0.5	-0.2	0.3	-0.4	-0.4	-0.2	0.2	-0.5
Uruguay	-	0.2	0.5	0.3	-0.2	-0.1	0.1	0.1
Central America	-1.6	-1.5	-1.9	**-23**	-2.6	-2.0	-2.6	-2.6
Costa Rica	0.1	-0.1	-0.3	-0.1	-0.3	-0.3	-0.6	-0.2
El Salvador	-0.2	-0.3	-0.7	-0.7'	-0.3	-0.2	-0.6	-0.3
Guatemala	-0.3	-0.1	-0.4	-0.4	-0.4	-0.2	-0.4	-0.4
Haiti	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Honduras	-0.1	-0.1	-	-0.1	-0.2	-0.3	-0.2	-0.4
Nicaragua	-0.4	-0.6	-0.3	-0.5	-0.5	-0.8	-0.5	-0.8
Panama	-0.1	0.1	0.3	-0.1	-0.2	0.2	0.2	-0.2
Dominican Republic	-0.4	-0.2	-0.3	-0.2	-0.5	-0.2	-0.2	-0.1

Source: ECLAC, on the basis of official figures.

Table 12
LATIN AMERICA: REAL EFFECTIVE EXCHANGE RATE AND TARIFFS

	Beginning of programme	Average tariff		Real exchange rate 1985 = 100		Percentage variation of real exchange rate per import dollar[a]	
		Beginning	199	Beginning	1991	Period	Percentage
		A. Countries with recent liberalization					
Argentina	1987	**43**	**9**	**131**	**86**	1987-1991	-50
Bolivia	1985	**12**	**10**	**100**	215	1985-1991	112
Brazil	1988	**51**	**25**	**94**	**76**	1988-1991	-33
Colombia	1990	**37**	**14**	173	171	1990-1991	-18
Costa Rica	1986	**27**	**20**	107	121	1986-1991	7
Ecuador	1990	**53**	**25**	159	151	1990-1991	-22
Mexico	1985	**24**	**12**	100	98	1985-1991	-11
Peru	1990	**66**	**17**	**42**	**35**	1990-1991	-41
Venezuela	1989	**35**	**10**	192	180	1989-1991	-24
		B. Countries with earlier liberalization					
Chile	1973	26	11	100	138	1985-1991	21
Uruguay	1974	32	22	100	111	1985-1991	2

Source: ECLAC, on the basis of official figures.
[a] Combination of variations of the real effective exchange rale and the average tariff in the periods indicated.

Table 13
LATIN AMERICA: PROCESS OF TRADE LIBERALIZATION

Country	Begin-rdng of pID'' gramme	Maximum tariff Initial	Maximum tariff Present	Maximum tariff Pr•STM m-med	Number of brackets Initial	Number of brackets Present	Number of brackets Pr0g∧m'' med	Average tariff initial	Average tariff Present	Non-tariff barriers	Notes
Argentina	1987	115	22			4	4	43[a]	9[a]	In 1987-1988, the value of industrial output subject to restrictions was reduced from 62% tol8%.In 1989-1990, the remaining licensing restrictions were eliminated. The deregulation decree at the end of 1991 reduced non-tariff requirements to security and sanitary controls and removed the restriction known as "buy Argentine".	Liberalization began in 1987 and was stepped up in 1989. Besides tariff reductions, other temporary and specific duties were eliminated. At the end of 1991, tariffs were raised from 0% to 5% on food and raw materials, and from 11% to 13% on intermediate goods. The initial tariff includes the surcharge.
Bolivia	1985	150	10			1	1	12[b]	10[b]	All bans and license requirements on imports were abolished, with the exception of controls on sugar and wheat and goods that are a threat to health and State security.	Before liberalization, quantitative restrictions and the differentiated tariff structure acted as steep barriers against imports.
Brazil	1988	105	85	40	29	7	7	51 '	25'	In 1990, the list of banned imports (annex Q was abolished. Nevertheless, 47 computer-related products will not be allowed to be imported until 1992, and local-content rules for intermediate and capital goods will be maintained.	Tariffs began tobe restructured in 1988-1989. The present programme was introduced in 1990; it will gradually reduce tariffs until are reached a maximum tariff of 40%, a mode of 20% and a mean of 14% are reached in 1994.
Colombia	1990	100	23	15	14	4	4	37[b]	14[b]	Prior-licensing restrictions were almost completely eliminated at the end of 1990, except for certain products produced by State monopolies (arms) or covered by international treaties (inputs related to drug traffic) and certain agricultural products.	The process of tariff reduction initially scheduled for 1993 was moved up to August 1991. This tariff includes the surcharge which is now 8% (it was formerly 10%) and it will be eliminated in 1992. The tariff for automobiles is 75%.
Costa Rica	1986	220	40	20				27[e]	20[c]	Gradual elimination of import permits and other restrictions in the 1990-1994 period.	Tariffs above 40% are still applied to some items (among them, automobiles, with a tariff of 100%), but they are a small percentage of the total. In 1992, the maximum tariff will be reduced to 20% on most products.
Chile	1973	220	11		57	1	1	94[c]	II[e]	Quantitative import restrictions were eliminated in the 1970s, with the exception of those on second-hand automotive vehicles, and sanitary and phytosanitary inspection of a broad range of agricultural products.	In response to a balance-of-payments crisis, the uniform tariff of 10% was raised to 20% in 1983 and 35% in 1984. It was then reduced by stages to 15% in 1988 and 11% in 1991.

Table 13 *(concluded)*

Country	Beginning of programme	Maximum tariff			Number of brackets			Average tariff		Non-tariff barriers	Notes
		Initial	Present	Programmed	Initial	Present	Programmed	Initial	Present		
Ecuador	1990	290	35					53'	25 '	Quantitative import restrictions are in the process of being eliminated, with the exception of those on vehicles and on chemical substances that can be used to produce illegal drugs. Prior deposits on imports were abolished.	The tariff on vehicles is40%, but their import is still banned.
El Salvador	1989		30	20	20	7				Prior deposits on imports and several laws promoting certain sectors were abolished.	The maximum tariff will be gradually reduced to 20% in 1994 (with a few exceptions).
Mexico	1985	100	20		10	5	5	24'	12 '	Coverage of import licenses was reduced from *912%* of production in June 1985 to 17.9% in December 1990, and official import prices were eliminated. Import licenses continued to be required for some agricultural and food products, petroleum and its by-products and some products used in industrial development programmes.	The surcharge of 5% was discontinued in December 1987. The customs system was reformed.
Peru	1990	110	25	15	53	3	1	66[c]	17[c]	Licenses, controls, import permits, quotas and bans were eliminated in March 1991.	The programme began in August 1990when the maximum tariff was established at 50%. It introduced further cuts in March 1991, when trie maximum tariff was reduced to 25% on consumer goods and 15% on all other items (80% of all imports). The initial tariff includes the surcharge.
Uruguay	1974	346	30		>30	3	3		22[c]	Import quotas and licenses were abolished in 1975 and requirements on terms of financing and controls on imports of capital goods, in 1977. Benchmark prices were maintained for some products.	Tariffs have been slowly coming down since 1974. This process speeded up in 1979, but was suspended between 1982 and 1986. The most recent reductions were made in September 1991.
Venezuela	1989	135	40	20	41	6	3	35'	10'	The number of headings subject to restriction was red uced from 2,204 in 1988 to 200 at present.	Specific duties were eliminated; in some cases they brought the maximum tariff up to 940% before the liberalization programme was put into effect. The tariff reduction programme will be completed in 1993.

Source: ECLAC, Socio/ *Equity and ChangingProductbn Patterns: An Integrated Approach* (LC/G.1701(SES.24/3and Corr.l), Santiago, Chile, April 1992.

[a] Weighted by domestic production. Weighted tariff on imports. [c] Simple average based on tariff items.

Table 14
EFFECTS ON THE REAL EXCHANGE RATE

New conditions / Probable duration	Temporary	Permanent
Domestic	Greater Fiscal equilibrium through:	Greater fiscal equilibrium through:
	* Overall contraction of spending and privatization-	* Tax reforms and cuts in excessive spending.
	Excessively tight monetary and credit policies with high real interest rates.	Monetary and credit policies in support of stabilization.
	Demand for imports following a period of lower domestic spending.	Liberalization of foreign trade and tariff reduction.
		Less uncertainty about macroeconomic policies.
External	International interest rates.	Net external debt reduction.
	Other effects of industrialized nations' policies (protectionism, ratio between strong currencies).	
	Real exchange rate of countries with which the region has the strongest trade ties.	
	Terms of trade.	
	Recession in the industrialized countries.	
	Inflow of external resources attracted by a temporarily big difference between domestic and international yields.	Inflow of external resources attracted by higher domestic yields and less uncertainty about macroeconomic policies.

STATISTICAL ANNEX

Table 1
ARGENTINA: REAL EFFECTIVE EXCHANGE RATE INDEXES'
(Indexes 1985 =100)

		Japan ^	c EEC	i-aun . . d America	Exports ^	Imports ^
1978	55	80	117	120	101	85
1979	40	52	89	86	75	62
1980	31	37	69	67	61	47
1981	47	55	70	93	70	57
1982	86	87	109	140	108	100
1983	91	94	111	116	108	103
1984	86	88	93	101	95	91
1985	100	100	100	100	100	100
1986	84	117	119	96	107	96
1987	86	134	152	115	131	107
1988	82	141	156	127	137	120
1989	127	196	165	168	152	163
1990	77	110	127	139	113	111
1991	50	77	93	101	86	70
1989						
I	65	109	131	119	118	105
II	181	283	218	228	203	228
III	128	194	155	165	145	167
IV	132	197	155	160	141	154
1990						
I	113	162	177	204	161	162
II	82	112	131	144	117	118
III	65	93	112	124	99	96
IV	47	75	88	85	76	69
1991						
I	54	84	103	103	92	78
II	51	76	91	102	85	70
III	48	72	86	103	82	68
IV	47	75	92	96	85	66

Source: ECLAC, on the basis of figures from the International Monetary Fund (IMF).

"For further information on the methodology and sources used, see the Statistical Appendix to the *Economic Survey of Latin America,* 1981 (E./CEPAL/G.1248), Santiago, Chile, 1983. United Nations publication, Sales No. E.83.II.G.2. Also see the table on exchange rate trends in Argentina in volume II of this publication.

[b]The consumer price index was used in all the countries. 'Exports to the main trading partners of the European Economic Community. Exports to the main trading partners of Latin America.

Table 2

BOLIVIA: REAL EFFECTIVE EXCHANGE RATE INDEXES*

(Indexes 1985 = 100)

	United States	Japan	Argentina	EEC[c]	Latin America	Exports	Imports
1978	91	133	167	143	164	143	147
1979	77	101	194	129	178	144	129
1980	72	86	232	122	204	155	121
1981	68	80	144	95	138	112	103
1982	119	119	137	151	151	144	153
1983	79	82	86	91	90	88	89
1984	81	82	94	83	94	88	87
1985	100	100	100	100	100	100	100
1986	117	163	139	146	138	136	134
1987	113	178	133	162	136	139	139
1988	116	199	142	172	146	147	150
1989	121	189	109	165	133	140	155
1990	128	187	186	200	211	191	194
1991	124	192	251	190	263	215	192
1989							
I	116	193	178	165	176	161	156
II	121	189	67	162	101	122	149
III	124	187	97	165	130	138	157
IV	124	185	94	169	126	137	159
1990							
I	127	181	112	184	157	158	181
II	130	177	159	194	187	177	189
III	130	186	201	207	224	200	201
IV	128	203	273	214	274	228	204
1991							
I	123	191	229	202	247	209	189
II	124	187	245	183	255	209	189
III	124	188	260	182	275	219	196
IV	125	201	269	195	277	224	195

Source: ECLAC, on the basis of figures from the International Monetary Fund (IMF).

"For further information on the methodology and sources used, see the Statistical Appendix to the *Economic Survey of Latin America,* 1981 (E./CEPAL/G.1248), Santiago, Chile, 1983. United Nations publication, Sales No. E.83.II.G.2. Also see the table on exchange rate trends in Bolivia in volume II of this publication.

The consumer price index was used in all the countries. 'Exports to the main trading partners of the European Economic Community. Exports to the main trading partners of Latin America.

Table 3

BRAZIL: REAL EFFECTIVE EXCHANGE RATE INDEXES[ab]

(Indexes 1985 = 100)

	United States	Japan	Argentina	EEC[c]	Latin America	Exports	Imports
1978	47	69	87	79	73	65	66
1979	51	67	129	90	94	73	75
1980	63	75	202	108	136	90	95
1981	59	69	125	80	110	74	77
1982	61	61	71	76	84	69	70
1983	84	87	93	97	105	92	92
1984	94	96	109	97	110	97	98
1985	100	100	100	100	100	100	100
1986	92	128	109	119	95	106	105
1987	83	130	97	125	79	104	102
1988	74	126	90	112	75	94	93
1989	63	99	59	90	55	76	74
1990	50	72	73	81	53	65	64
1991	57	88	115	91	74	76	77
1989							
I	70	117	107	101	79	88	88
II	62	97	34	86	45	74	71
III	62	94	49	86	50	73	70
IV	59	88	45	84	47	71	68
1990							
I	48	69	43	75	41	60	58
II	49	67	60	77	48	62	61
III	47	67	73	77	52	62	61
IV	55	87	117	95	72	' 76	76
1991							
I	58	90	108	99	71	79	79
II	57	86	112	86	73	73	74
III	54	81	113	82	72	70	71
IV	60	97	130	98	82	81	83

Source: ECLAC, on the basis of figures from the International Monetary Fund (IMF).

"For further information on the methodology and sources used, see the Statistical Appendix to the *Economic Survey of Latin America,* 1981 (E./CEPAL/G.1248), Santiago, Chile, 1983. United Nations publication, Sales No. E.83.II.G.2. Also see the table on exchange rate trends in Brazil in volume II of this publication.

[b]The consumer price index was used in all the countries. 'Exports to the main trading partners of the European Economic Community. Exports to the main trading partners of Latin America.

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Table 5

COSTA RICA: REAL EFFECTIVE EXCHANGE RATE INDEXES[a,b]

(Indexes 1985 = 100)

	United States	Japan	Argentina	EEC[c]	Latin America	Exports	Imports
1978	59	86	69	103	55	70	67
1979	60	79	75	108	56	72	68
1980	62	75	85	106	58	73	70
1981	115	135	170	153	109	124	127
1982	121	121	117	149	111	126	126
1983	98	102	87	116	91	102	100
1984	98	100	98	102	91	98	97
1985	100	100	100	100	100	100	100
1986	101	142	78	134	82	107	103
1987	101	158	77	156	80	112	104
1988	105	180	99	161	86	117	112
1989	101	158	102	144	83	110	105
1990	101	147	106	164	70	112	104
1991	109	169	126	172	78	121	115
1989							
I	101	168	103	147	84	110	107
II	102	160	103	142	85	110	105
III	101	153	101	141	83	109	104
IV	101	151	100	148	79	110	103
1990							
1	100	143	104	156	74	111	103
II	100	136	104	157	69	110	101
III	100	144	106	164	68	112	103
IV	103	164	111	177	70	117	109
1991							
I	106	164	119	179	75	120	112
II	109	164	125	164	78	119	113
III	111	167	128	166	80	120	115
IV	111	179	133	179	80	124	119

Source: ECLAC, on the basis of figures from the International Monetary Fund (IMF).

"For further information on the methodology and sources used, see the Statistical Appendix to the *Economic Survey of Latin America,* 1981 (E./CEPAL/G.1248), Santiago, Chile, 1983. United Nations publication, Sales No. E.83.II.G.2. Also see the table on exchange rate trends in Costa Rica in volume II of this publication.

[b]The consumer price index was used in all the countries. [c]Exports to the main trading partners of the European Economic Community. Exports to the main trading partners of Latin America.

Table 6

CHILE: REAL EFFECTIVE EXCHANGE RATE INDEXES[a,b]

(Indexes 1985 = 100)

	United States	Japan	Argentina	EEC[c]	Latin America	Exports	Imports
1978	56	82	119	91	109	82	84
1979	55	72	108	95	113	82	84
1980	49	58	78	83	100	71	73
1981	45	53	76	61	81	58	60
1982	57	57	92	70	84	66	67
1983	71	74	85	82	84	78	78
1984	77	79	82	80	86	80	80
1985	100	100	100	100	100	100	100
1986	102	143	112	132	117	123	119
1987	101	158	122	150	125	134	127
1988	102	175	138	155	137	141	135
1989	99	155	158	141	146	133	129
1990	95	138	192	155	189	140	139
1991	93	144	163	148	193	138	138
1989							
I	97	162	139	142	146	134	131
II	98	153	157	136	135	129	124
III	102	153	163	141	152	134	129
IV	100	150	171	144	153	135	131
1990							
I	99	142	205	153	187	141	140
II	95	130	195	150	182	136	136
III	93	133	199	154	194	138	139
IV	93	149	171	162	193	144	144
1991							
I	96	150	167	164	195	147	144
II	93	141	165	142	189	134	135
III	92	139	171	139	201	134	136
IV	91	147	151	148	188	137	136

Source: ECLAC, on the basis of figures from the International Monetary Fund (IMF).

"For further information on the methodology and sources used, see the Statistical Appendix to the *Economic Survey of Latin America,* 1981 (E./CEPAL/G.1248), Santiago, Chile, 1983. United Nationspublication, Sales No. E.83.II.G.2. Also see the table on exchange rate trends in Chile in volume 11 of this publication.

[b]The consumer price index was used in all the countries. ^Exports to the main trading partners of the European Economic Community. Exports to the main trading partners of Latin America.

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Table 8

EL SALVADOR: REAL EFFECTIVE EXCHANGE RATE INDEXES[a][b]

(Indexes 1985 = 100)

	United States	Japan	Argentina	EEC[c]	Latin America	Exports	Imports
1978	162	236	189	291	197	204	262
1979	157	205	194	292	190	199	255
1980	152	182	207	265	180	187	251
1981	146	171	215	198	143	159	233
1982	139	139	134	173	123	143	164
1983	126	131	112	150	117	130	132
1984	118	120	119	123	109	117	120
1985	100	100	100	100	100	100	100
1986	155	216	119	205	123	162	145
1987	128	202	98	198	90	139	119
1988	111	191	106	172	78	122	106
1989	109	169	109	155	77	115	103
1990	130	189	137	211	84	141	123
1991	123	190	143	194	83	134	120
1989							
I	106	177	108	154	76	113	101
II	103	161	104	143	73	108	97
III	106	160	106	148	76	111	100
IV	120	180	120	176	83	127	113
1990							
I	125	179	130	195	82	134	118
II	129	177	136	203	84	139	122
III	132	189	140	215	84	143	125
IV	133	212	143	229	86	148	129
1991							
I	126	196	143	214	85	141	124
II	124	187	143	185	84	132	120
III	121	183	140	181	82	129	117
IV	122	196	146	196	82	133	120

Source: ECLAC, on the basis of figures from the International Monetary Fund (IMF).

"For further information on the methodology and sources used, see the Statistical Appendix to the *Economic Survey of Latin America,* 1981 (E./CEPAL/G.1248), Santiago, Chile, 1983. United Nations publication, Sales No. E.83.II.G.2. Also see the table on exchange rate trends in El Salvador in volume II of this publication.

The consumer price index was used in all the countries. 'Exports to the main trading partners of the European Economic Community. Exports to the main trading partners of Latin America.

Table 9

GUATEMALA: REAL EFFECTIVE EXCHANGE RATE INDEXES*

(Indexes 1985= 100)

	United States	Japan	Argentina	EEC[c]	Latin America	Exports	Imports
1978	107	157	66	185	105	123	125
1979	107	140	68	191	106	123	125
1980	110	132	72	187	110	125	128
1981	109	128	75	145	91	111	120
1982	115	116	83	141	93	114	118
1983	114	118	90	133	101	114	115
1984	115	117	97	119	106	113	115
1985	100	100	100	100	100	100	100
1986	140	196	91	186	111	142	143
1987	172	270	134	266	148	185	182
1988	169	290	152	261	157	186	186
1989	171	266	157	244	164	185	184
1990	203	296	157	332	171	220	221
1991	178	275	144	283	150	192	196
1989							
I	168	281	159	246	164	185	185
II	167	262	163	233	165	182	179
III	167	252	157	234	163	181	178
IV	180	269	150	265	166	194	193
1990							
I	198	282	158	310	176	214	213
II	203	277	157	321	169	217	218
III	212	305	161	350	175	230	231
IV	200	319	151	347	162	220	223
1991							
I	181	282	144	309	151	199	202
II	176	265	142	266	148	187	191
III	177	267	146	267	150	188	192
IV	178	286	146	288	150	194	199

Source: ECLAC, on the basis of figures from the International Monetary Fund (IMF).

"For further information on the methodology and sources used, see the Statistical Appendix to the *Economic Survey of Latin America,* 1981 (E./CEPAL/G.1248), Santiago, Chile, 1983. United Nations publication, Sales No. E.83.II.G.2. Also see the table on exchange rate trends in Guatemala in volume II of this publication.

[b]The consumer price index was used in all the countries. [c]Exports to the main trading partners of the European Economic Community. Exports to the main trading partners of Latin America.

Table 10

HAITI: REAL EFFECTIVE EXCHANGE RATE INDEXES*

(Indexes 1985 = 100)

	United States	Germany	EEC[c]	Exports	Imports
1978	125	227	212	136	137
1979	123	229	218	135	134
1980	118	207	208	129	128
1981	118	159	164	123	123
1982	117	145	143	120	119
1983	109	130	124	111	111
1984	107	112	109	107	107
1985	100	100	100	100	100
1986	99	131	129	103	104
1987	116	179	175	123	125
1988	115	178	174	123	127
1989	144	203	196	150	154
1990	145	233	231	156	158
1991	135	210	206	145	148
1989					
I	140	203	198	148	152
II	143	198	193	150	154
III	145	199	196	151	153
IV	147	214	197	154	157
1990					
I	154	238	234	164	166
II	150	233	230	160	161
III	143	231	230	154	155
IV	136	231	230	148	150
1991					
I	135	225	222	146	148
II	134	197	195	142	144
III	137	203	198	145	148
IV	137	216	212	147	150

Source: ECLAC, on the basis of figures from the International Monetary Fund (IMF).

"For further information on the methodology and sources used, see the Statistical Appendix to the *Economic Survey of Latin America,* 1981 (E./CEPAUG.1248), Santiago, Chile, 1983. United Nations publication, Sales No. E.83.II.G.2. Also see the table on exchange rate trends in Haiti in volume II of this publication.

The consumer price index was used in all the countries. 'Exports to the main trading partners of the European Economic Community.

Table 11

HONDURAS: REAL EFFECTIVE EXCHANGE RATE INDEXES*

(Indexes 1985 = 100)

	United States	Japan	Argentina	EEC[0]	Latin America	Exports	Imports
1978	112	164	204	189	133	136	128
1979	111	146	208	196	131	135	127
1980	107	128	187	181	124	127	120
1981	108	127	146	143	104	118	116
1982	105	106	131	129	91	110	106
1983	100	104	119	116	92	104	101
1984	100	102	104	104	93	101	100
1985	100	100	100	100	100	100	100
1986	98	136	130	129	78	109	102
1987	99	155	153	152	72	117	106
1988	98	169	152	152	73	118	108
1989	94	147	133	137	70	109	102
1990	160	235	259	269	112	192	175
1991	174	269	271	283	127	209	192
1989							
I	96	160	139	142	73	113	105
II	96	150	132	135	72	110	103
III	93	140	128	132	70	107	100
IV	91	137	133	137	67	106	98
1990							
I	107	152	166	170	76	126	115
II	173	236	270	279	122	203	186
III	170	244	275	287	117	204	185
IV	191	305	326	338	134	236	213
1991							
I	183	284	306	319	133	224	204
II	172	260	255	267	126	203	188
III	170	257	252	263	124	200	186
IV	171	275	271	283	124	207	191

Source: ECLAC, on the basis of figures from the International Monetary Fund (IMF).

"For further information on the methodology and sources used, see the Statistical Appendix to the *Economic Survey of Latin America,* 1981 (E./CEPAL/G.1248),Santiago,Chile, 1983. United Nations publication,SalesNo.E.83.II.G.2. Also see the table on exchange rate trends in Honduras in volume II of this publication.

The consumer price index was used in all the countries. 'Exports to the main trading partners of the European Economic Community. Exports to the main trading partners of Latin America.

Table 12
MEXICO: REAL EFFECTIVE EXCHANGE RATE INDEXES*[0]
(Indexes 1985 = 100)

	United States	Japan	Germany	EEC[d]	Exports	Imports
1978	85	125	155	135	95	97
1979	81	106	151	142	91	92
1980	74	88	128	127	82	82
1981	68	80	92	95	72	73
1982	104	104	129	130	108	108
1983	113	117	135	125	115	116
1984	100	101	104	101	100	100
1985	100	100	100	100	100	100
1986	130	182	173	168	139	139
1987	131	206	204	195	145	146
1988	105	181	162	162	118	118
1989	99	155	141	147	110	110
1990	95	138	152	164	108	108
1991	86	133	134	147	98	98
1989						
I	98	163	142	149	109	109
II	99	155	137	143	109	109
III	101	152	139	147	110	110
IV	101	150	147	151	111	111
1990						
I	96	138	149	156	108	108
II	95	130	148	159	107	107
III	94	136	153	167	108	108
IV	93	148	158	172	108	107
1991						
I	88	137	148	162	102	102
II	87	131	128	141	98	97
III	86	130	128	140	97	97
IV	84	135	133	145	96	96

Source: ECLAC, on the basis of figures from the International Monetary Fund (IMF).
"For further information on the methodology and sources used, see the Statistical Appendix to the *Economic Survey of Latin America,* 1981 (E./CEPAIVG.1248), Santiago, Chile, 1983. United Nations publication, Sales No. E.83.H.G.2. Also see the table on exchange rate trends in Mexico in volume II of this publication.
The consumer price index was used in all the countries. ^Theexchange rate used was the average of the average rates of sales and purchases reported by the main commercial banks to the Banco de México up till July 1982, the preferential rate for imports of primary necessities from August to November 1982 and the average of the rates of purchases and sales in the controlled market from that date onwards. Exports to the main trading partners of the European Economic Community.

Table 13

NICARAGUA: REAL EFFECTIVE EXCHANGE RATE INDEXES[a,b]

(Indexes 1985 = 100)

	United States	Exports	Imports
1978	277	407	384
1979	276	407	391
1980	249	352	344
1981	222	267	256
1982	189	210	201
1983	149	162	156
1984	114	117	115
1985	100	100	100
1986	32	38	36
1987	4	5	4
1988	135	184	169
1989	159	203	190
1990	123	169	158
1991	117	162	150
1989			
I	108	144	133
II	174	224	208
III	183	220	214
IV	170	223	206
1990			
I	146	196	183
II	125	169	158
III	118	164	153
IV	102	148	137
1991			
I	109	157	145
II	115	155	144
III	126	170	158
IV	119	167	154

Source: ECLAC, on the basis of figures from the International Monetary Fund (IMF).

"For further information on the methodology and sources used, see the Statistical Appendix to the *Economic Survey of Latin America,* 1981 (E./CEPAL/G.1248), Santiago, Chile, 1983. United Nations publication, Sales No. E.83.II.G.2. Also see the table on exchange rate trends in Nicaragua in volume II of this publication.

The consumer price index was used in all the countries.

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Table 15

PARAGUAY: REAL EFFECTIVE (FREE OR PARALLEL) EXCHANGE RATE INDEXES[a,b]

(Indexes 1985 = 100)

	United States	Japan	Argentina	Brazil	EEC[c]	Exports	Imports
1978	46	67	84	97	82	88	73
1979	39	50	97	75	71	75	65
1980	35	42	113	56	61	64	62
1981	37	44	79	64	51	60	56
1982	57	57	66	93	71	72	62
1983	90	93	99	107	105	84	79
1984	83	85	97	88	86	81	81
1985	100	100	100	100	100	100	100
1986	101	141	120	110	134	107	106
1987	94	148	110	114	145	115	110
1988	109	188	133	148	168	120	115
1989	95	148	91	149	134	124	112
1990	71	104	100	145	115	125	107
1991	64	99	129	112	100	108	102
1989							
I	120	200	184	171	172	126	125
II	86	135	48	138	118	119	105
III	89	135	70	144	123	126	112
IV	83	124	63	142	121	124	106
1990							
I	82	117	72	169	126	138	112
II	74	101	90	151	115	127	106
III	67	96	104	143	109	123	105
IV	63	101	136	116	109	114	106
1991							
I	65	101	121	113	110	111	103
II	65	98	128	114	97	107	102
III	63	96	132	117	95	108	102
IV	63	101	135	104	101	105	102

Source: ECLAC, on the basis of figures from the International Monetary Fund (IMF).

"For further information on the methodology and sources used, see the Statistical Appendix to the *Economic Survey of Latin America,* 1981 (E./CEPAL/G.1248), Santiago, Chile, 1983. United Nations publication, Sales No. E.83.II.G.2. Also see the table on exchange rate trends in Paraguay in volume II of this publication.

The consumer price index was used in all the countries. [c]Exports to the main trading partners of the European Economic Community.

Table 16
PERU: REAL EFFECTIVE EXCHANGE RATE INDEXES^
(Indexes 1985 = 100)

	United States	Japan	EEC[c]	Latin America	Exports	Imports
1978	76	111	126	136	108	110
1979	74	96	127	134	104	110
1980	68	81	116	123	94	102
1981	65	76	89	114	82	87
1982	64	64	79	98	73	75
1983	76	79	88	97	84	84
1984	80	82	83	93	83	84
1985	100	100	100	100	100	100
1986	76	106	98	77	89	85
1987	64	100	94	66	81	69
1988	63	109	96	69	84	86
1989	45	71	63	51	57	56
1990	32	47	52	43	43	43
1991	26	40	41	34	35	35
1989						
I	57	95	82	66	74	83
II	45	70	61	49	55	56
III	38	57	52	42	47	45
IV	41	62	58	47	52	40
1990						
I	29	42	44	38	38	33
II	35	48	55	47	46	45
III	32	46	52	45	43	46
IV	32	51	55	43	45	46
1991						
I	25	39	42	32	35	35
II	28	43	43	37	37	38
III	24	37	36	33	32	33
IV	26	41	41	33	35	36

Source: ECLAC, on the basis of figures from the International Monetary Fund (IMF).

"For further information on the methodology and sources used, see the Statistical Appendix to the *Economic Survey of Latin America,* 1981 (E./CEPAUG. 1248), Santiago, Chile, 1983. United Nations publication, Sales No. E.83.II.G.2. Also see the table on exchange rate trends in Peru in volume II of this publication.

[b]The consumer price index was used in all the countries. [c]Exports to the main trading partners of the European Economic Community. Exports to the main trading partners of Latin America.

Table 17
DOMINICAN REPUBLIC: REAL EFFECTIVE EXCHANGE RATE INDEXES*
(Indexes 1985 = 100)

	United States	Japan	Germany	Mexico	Venezuela	EEC[0]	Exports	Imports
1978	66	96	120	77	77	114	75	77
1979	66	86	123	82	78	115	75	77
1980	66	79	115	89	83	108	74	77
1981	69	80	93	101	92	91	73	79
1982	77	78	96	74	106	94	81	83
1983	83	87	99	74	101	95	86	86
1984	117	119	122	118	119	121	118	118
1985	100	100	100	100	100	100	100	100
1986	87	121	115	67	76	116	92	91
1987	103	161	159	78	70	158	113	109
1988	118	203	182	112	84	187	131	132
1989	89	139	126	89	55	128	96	95
1990	77	112	123	81	46	120	85	84
1991	79	122	122	91	49	122	87	88
1989								
I	99	166	144	102	72	148	109	111
II	93	146	129	94	52	132	101	100
III	86	130	119	86	52	121	92	91
IV	77	114	112	76	44	111	83	81
1990								
I	73	105	114	76	43	110	80	78
II	80	110	125	84	47	121	88	85
III	84	120	135	88	49	132	93	90
IV	70	112	120	76	43	118	79	78
1991								
I	75	116	125	85	46	123	84	83
II	81	122	119	93	51	120	88	88
III	79	120	117	92	50	118	87	87
IV	80	128	127	95	51	128	89	90

Source: ECLAC, on the basis of figures from the International Monetary Fund (IMF).
"For further information on the methodology and sources used, see the Statistical Appendix to the *Economic Survey of Latin America,* 1981 (E/CEPAL/G. 1248), Santiago, Chile, 1983. United Nations publication, Sales No. E.83.II.G.2. Also see the table on exchange rate trends in the Dominican Republic in volume II of this publication.
The consumer price index was used in all the countries. 'Exports to the main trading partners of the European Economic Community.

Table 18

URUGUAY: REAL EFFECTIVE EXCHANGE RATE INDEXES[3*3]

(Indexes 1985 = 100)

	United States	Japan	Argentina	Brazil	EEC[0]	Exports	Imports
1978	62	91	115	132	102	107	110
1979	55	71	137	106	93	95	102
1980	44	52	141	70	74	74	83
1981	43	50	91	73	58	64	69
1982	49	49	57	80	61	65	65
1983	84	88	93	100	98	96	95
1984	92	94	107	98	95	97	98
1985	100	100	100	100	100	100	100
1986	87	121	103	95	112	100	100
1987	82	129	96	99	122	103	102
1988	83	143	101	113	126	111	110
1989	82	127	74	130	115	110	107
1990	79	115	113	160	127	129	129
1991	70	108	141	123	110	111	117
1989							
I	82	137	126	117	118	112	116
II	81	127	45	131	112	107	100
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Source: ECLAC, on the basis of figures from the International Monetary Fund (IMF).

"For further information on the methodology and sources used, see the Statistical Appendix to the *Economic Survey of Latin America,* 1981 (E./CEPAL/G.1248), Santiago, Chile, 1983. United Nations publication, Sales No. E.83.II.G.2. Also see the table on exchange rate trends in Uruguay in volume II of this publication.

The consumer price index was used in all the countries. [c]Exports to the main trading partners of the European Economic Community.

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