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**PRELIMINARY OVERVIEW OF
THE LATIN AMERICAN AND
CARIBBEAN ECONOMY
1995**



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Notes and explanation of symbols

The following symbols have been used in the *Preliminary Overview*.

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 point (.) is used to indicate decimals.

Use of a hyphen (-) between years, e.g., 1971-1973, indicates reference to the complete number of calendar years involved, including the beginning and end years.

The abbreviation n.e.s. indicates that the item in question is not elsewhere specified or included.

The abbreviation n.e.c. indicates that the item is not elsewhere classified or included.

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

Unless otherwise stated, reference to annual rates of growth or variation signify compound annual rates.

Individual figures and percentages in tables may not necessarily add up to the corresponding total, because of rounding.

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PRELIMINARY OVERVIEW OF THE LATIN AMERICAN AND CARIBBEAN ECONOMY 1995

1. THE REGIONAL PANORAMA

The economic panorama of Latin America and the Caribbean during 1995 was dominated by three features. The first and most significant of all was the Mexican financial crisis that arose at the end of 1994 and produced major after-effects in Argentina. The second was the consolidation of the stabilization programme in Brazil. Both events marked turning-points in the evolution of the region's three largest economies. The third noteworthy feature, on the other hand, was the similarity of the other countries' economic performance to that of 1994.

Therefore, most of the countries of the region maintained, and seemed to be consolidating, a pattern of economic performance characterized by moderate growth rates accompanied by moderate and diminishing inflation, large current account deficits covered by external capital, and low domestic savings rates. Despite its vulnerability and its insufficient rate of job creation, this pattern is a significant improvement compared with the stagnation and instability that characterized the regional panorama in the 1980s. Brazil, for example, which in previous years did not conform to this pattern owing to its high rate of inflation and continual current account surplus, was coming close to conforming in 1995.

In previous years, the performance of most of the region's economies has relied on external capital inflows, and this has continued to be the case in 1995. Although such capital was initially withdrawn from Mexico and Argentina, it remained at the previous year's levels in most of the other countries, and in Brazil it rose considerably. In the cases of Argentina and especially Mexico, the effect of the net outflow of private capital was reduced by a heavy inflow of compensatory financing from the International Monetary Fund and the United States Government and by financing from official multilateral sources. Dependence on external capital was also reduced because the value of exports grew by more than 20% in 1995, owing in large measure to an upward trend in prices for the second consecutive year.

The Mexican financial crisis did not actually have such extensive or lasting repercussions in the rest of the region as had at first been feared. Nevertheless, the adjustments that the crisis forced upon some economies constituted a warning of the dangers of a growing trade deficit and of excessive dependence on short-term foreign capital, and of the need for greater consistency in economic policy.

Because the economic performance of the Latin American and Caribbean countries exhibited a far greater diversity in 1995 than in earlier years, it is difficult to make an interpretation based on the regional averages as shown by the economic indicators. Growth in GDP reached barely 0.6% compared with 4.6% in 1994 (a fall of 1.1% in per capita terms following an increase of 2.7% in 1994), but this poor performance was due to a great extent to the set-backs experienced by Mexico and Argentina. On a more positive note, the tendency towards lower inflation seen in prior years became more pronounced; the drop in the inflation rate from three digits to 25% was essentially the result of Brazil's stabilization programme, which more than offset the effect of Mexico's price rises following the devaluation of the peso.

Not only was the performance of the economies unequal; individual groups of countries also had quite different reasons for their unequal performances. In the cases of Mexico and Argentina, internal demand, in terms of both consumption and investment, dropped sharply; only the dynamic performance of the external sectors of both countries prevented even more drastic reductions in GDP. The volume of exports rose considerably (increasing by 17% in Argentina and 25% in Mexico), whereas the volume of imports declined (by 17% and 15%, respectively). On the other hand, in the other countries the opposite situation applied. Internal demand surged, rising by an amount that outstripped the increase in GDP, so that a large portion of this increased demand had to be met with imported products. The volume of imports rose by nearly 37% in Brazil and by an average of 14% in the other countries, while the volume of exports declined in Brazil and grew at a moderate pace (under 6%) in the rest of the countries (see table 1).

Table 1
**VARIATION IN ECONOMIC PERFORMANCE IN LATIN AMERICA
 AND THE CARIBBEAN IN 1995**

(Percentages)

	1994		1995 ^a			
	Latin America	Latin America	Argentina	Mexico	Brazil	Other countries
Gross domestic product	4.6	0.6	-2.5	-7.0	4.0	4.5
Consumption	4.0	0.2	-5.5	-17.6	10.0	6.6
Gross capital formation	9.7	-5.8	-14.0	-30.0	10.9	7.0
Domestic demand	5.0	-1.0	-7.4	-20.3	10.2	6.7
Exports of goods and services (volume)	9.2	10.5	17.1	24.5	-2.8	5.6
Imports of goods and services (volume)	14.3	2.8	-17.4	-14.9	36.7	14.4
Net capital income (billions of dollars)	44.9	22.4 ^b	-0.4 ^b	-16.9 ^b	28.0	10.7

Source: ECLAC, on the basis of official figures, converted to dollars at 1980 prices.

^a Preliminary estimates.

^b Does not include balance-of-payments "exceptional financing".

The disparities in the performances of the individual economies, especially the larger ones, also reduce the relevance of the indicators for the region as a whole in other respects. For example, in 1995 the region reported a surplus in its merchandise trade balance for the first time in this decade. This is an average resulting from large surpluses in Argentina and Mexico plus those of Chile, Ecuador and Venezuela, which all taken together more than offset the deficits reported by the other countries. By extension, the performance of the current account and the capital account balance reflect similar country-to-country differences.

Comparing the performance of Argentina and Mexico with that of the other economies does not, however, mean that the latter were free of problems. Most of them continued progressing towards macroeconomic stability with growth, but with notable weak spots, and in many cases their growth was not sufficient to reduce the "social deficits" accumulated in earlier years. Other sources of concern in 1995 were some countries' limited growth in exports, the continuation of savings rates that are clearly inadequate, some set-backs in terms of fiscal balance, and the weakness that is beginning to appear in the banking system.

Taken individually, the countries exhibited significant differences during 1995. There were considerable differences in terms of economic growth, but the gap has continued to become narrower. Four countries grew by more than 5%: Chile, Colombia, El Salvador and Peru. In 12 other countries, GDP rose by between 2% and 5%. Besides Argentina and Mexico, only Uruguay experienced a decline in GDP during the year, owing largely to its close economic ties and interdependent relationship with Argentina (see figure 1).

At 25%, average inflation in Latin America and the Caribbean was the lowest in the past 25 years. Four countries

(Argentina, Chile, Guatemala and Panama) had only single-digit price rises for the past 12 months. In seven other countries, the annual inflation rate was between 10% and 20%, and in five countries it was between 20% and 30%. Only in Mexico, Uruguay and Venezuela did price rises exceed 30% in the past 12 months. Most of the countries maintained or improved their performance in comparison with 1994; only Mexico suffered a significant set-back with respect to inflation (see figure 1).

Although it did not have a great impact on inflation, the fiscal performance of three countries deteriorated significantly: Brazil, with a substantial deficit; and Colombia and Peru, with slight imbalances. Venezuela and a number of Central American countries continued to have pronounced fiscal imbalances. On the other hand, public accounts were kept under control in the rest of the region. Specifically, the three countries most affected by turbulence in their financial markets (Mexico, Argentina and Uruguay) were able to maintain control over and even improve their fiscal results in spite of reduced revenues owing to the contraction of economic activity.

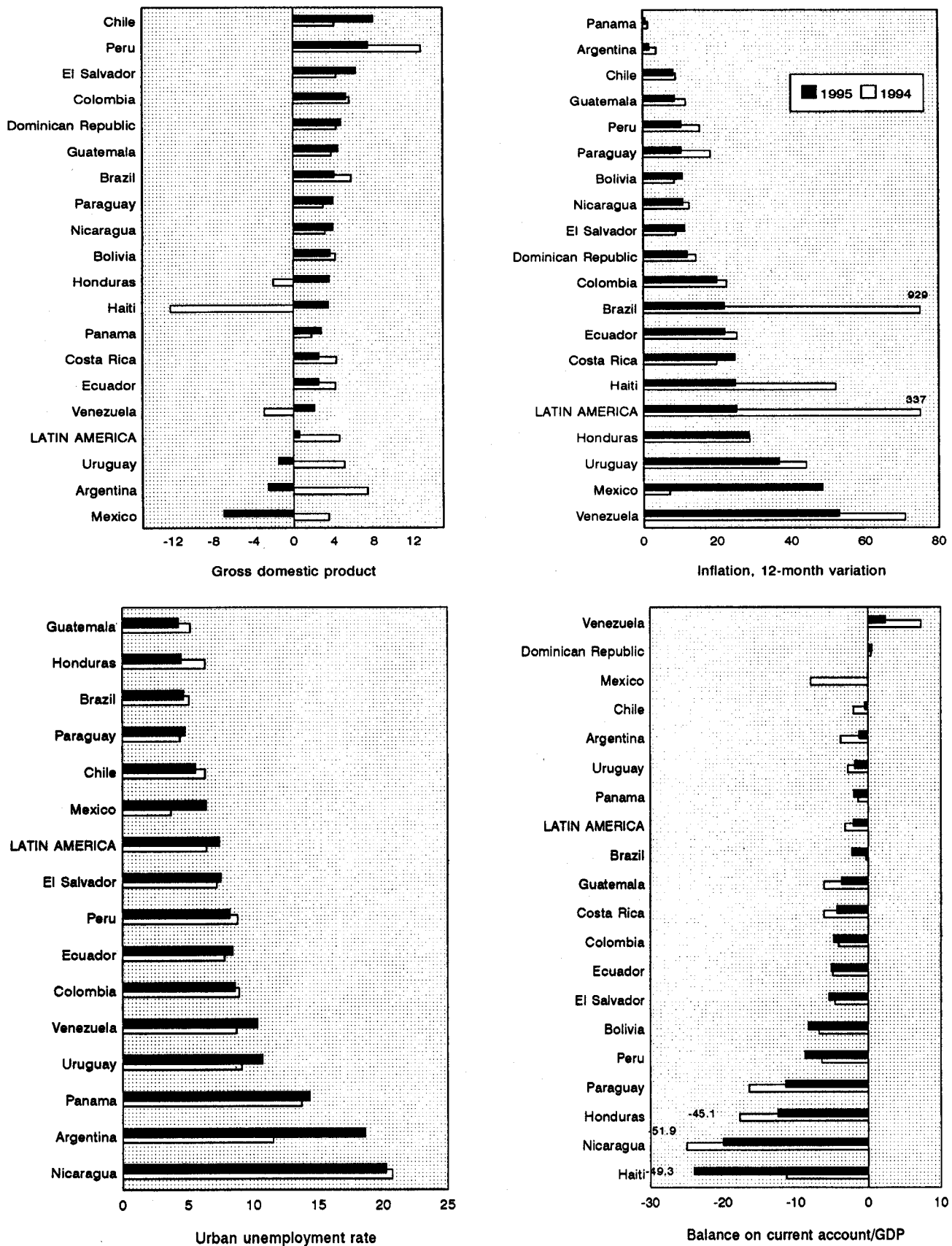
The financial problems that affected Bolivia, Costa Rica and Venezuela in 1994 spread to many of the countries in the region in 1995, with the possibility of having a negative influence on their fiscal situations. For example, the withdrawal of external capital had a strong negative impact on Mexico's banking system, which was already suffering from a constant deterioration of its loan portfolio. Argentina was confronted with a massive withdrawal of bank deposits that put the stability of its banking system in doubt. For more specifically local reasons, Brazil, Ecuador and Paraguay also experienced cases of insolvency among banking institutions, and Nicaragua's banking system continued to be affected by a high level of loan defaults. Despite the seriousness of these problems, the monetary authorities were able to deal with or lessen their effects by means of mergers, deferred-payment programmes for debtors in arrears, and financial assistance or government supervision of financial institutions.

The labour situation in the region as a whole deteriorated with respect to 1994. A sharp rise in unemployment in a number of countries caused the population-weighted regional rate of open unemployment to increase by one point, or approximately 15%. There has not been a deterioration of this magnitude since the beginning of the 1980s. The rise in unemployment was most severe in Mexico and Argentina, but unemployment also rose in Venezuela and Uruguay and, to a lesser extent, in Ecuador and Panama. In the cases of the latter countries, there was not enough economic growth to absorb the increase in the labour supply. On the other hand, unemployment fell in those countries that had a faster growth rate (Brazil, Chile, Colombia, Guatemala, Honduras, Nicaragua and Peru), although only to a limited degree, owing either to modest growth or to the fact that the growth was based more on increased productivity than on increased use of manpower (see figure 1).

This record of job creation is reflected in the way that wages have progressed. In contrast to 1994, when formal-sector average real wages increased in all the countries on which information is available, in 1995 real wages fell in a number of countries; only in very few did they rise significantly.

Figure 1

LATIN AMERICA AND THE CARIBBEAN: MAIN MACROECONOMIC INDICATORS, 1994-1995
(Percentages)



Source: Tables in the Statistical Appendix.

There were important quantitative and qualitative changes in external-sector accounts in 1995. First of all, there was a jump in the value of exports, which rose from US\$ 182 billion to US\$ 223 billion, an increase of nearly 23% compared with the previous year, causing a reduction in the external deficit. Secondly, as already mentioned, net capital inflows either remained constant or rose in most of the countries, although the flow of autonomous capital diminished for the region as a whole. Nevertheless, in the light of these aggregate figures, it once again becomes important to clarify some points.

Firstly, the improvement in the current account of Latin America and the Caribbean during 1995 was largely due to the changes that occurred in Mexico and Argentina. For the first time since the beginning of the decade, the merchandise trade balance of these two countries showed a surplus and the trade balance practically reached a state of equilibrium. Chile's trade balance surplus also grew. These three countries' positive results were partially offset by the reversal in Brazil's trade balance, which for the first time in many years showed a deficit. The changes in other countries were less significant, generally tending to show an increased deficit or (in the case of Venezuela) a smaller surplus.

Secondly, there were great country-to-country variations in terms of increased export earnings. Such increases were especially high in Argentina, Chile, Colombia, Mexico, and Peru (with increases of 20% to 40%), and also in a number of Central American countries, where they rose by over 25%. Except for the cases of Argentina and Mexico, these increases were due above all to higher unit values. Since 1994, in fact, commodity prices have departed from the downward trend of earlier years and have begun a rebound that has lasted into 1995. Of the 17 commodities studied by ECLAC, only the prices of beef and soya beans declined during the first nine months of 1995 compared with 1994, while the prices of all the others rose. The price increases varied between 2% for bananas and 27% for copper; the price of petroleum rose by 9%. In the performance of the export sector, intra-Latin American trade showed especially rapid growth.

Thirdly, there was also a great variety of results in terms of imports. Overall, imports rose by 12% (from US\$ 197 billion to US\$ 221 billion) compared with a 17% average annual increase between 1991 and 1994. An extraordinary rise of 9% in unit value, influenced by the dollar's depreciation against the yen and the mark, played an important role in this increase. In addition to a sharp drop in imports to Mexico and Argentina, other countries, including Bolivia, Paraguay, Uruguay and a number of Central American countries, registered moderate increases or substantial declines. On the other hand, imports surged by 20% or more in Brazil, Chile, Colombia, Ecuador, El Salvador, Guatemala, Haiti, Peru and Venezuela.

Factor payments increased from US\$ 33 billion in 1994 to US\$ 40 billion in 1995, owing chiefly to higher interest payments, since profit remittances rose moderately. In such circumstances, the balance-of-payments current account continued to show a deficit, but the amount was considerably

less than in recent years: US\$ 34.5 billion in comparison with US\$ 50 billion in 1994 (see figure 1). In spite of this significant reduction, the deficit exceeded the inflows of autonomous capital into the region as a whole, owing to the withdrawal of capital from Mexico.

Fourthly, capital movements during the year were characterized above all by outflows from Mexico (and, to a lesser extent, from Venezuela and Argentina) and inflows into Brazil. Mexico, which had average receipts of US\$ 27 billion from 1991 to 1993 and US\$ 11 billion in 1994, lost US\$ 17 billion of autonomous capital in 1995. These losses were amply covered by compensatory capital from the financial support package of the International Monetary Fund, the United States Government and the Bank for International Settlements. This package, the largest ever seen in Latin America and the Caribbean, enabled the Government of Mexico to cope with the demand for funds and even to replenish part of its gross reserves. Argentina also received a financial aid package, but it was smaller in size.¹

In Brazil, on the other hand, capital inflows jumped from US\$ 9 billion in 1994 to US\$ 28 billion in 1995. This sharp increase can be explained in part by the new reform policies proposed by the Government that assumed power in January 1995, the success of the stabilization programme, and the high interest rates in effect during the past few months. More than half of this sum has come from portfolio or short-term investments.

Other major recipients of capital were Peru (US\$ 4.6 billion) and Colombia (US\$ 4.2 billion). The sharp drop in capital inflows to Chile (from US\$ 4.2 billion in 1994 to only US\$ 300 million in 1995) was due in part to a prepayment of Chile's debt to multilateral agencies, but it was also due to Chile's policy of creating disincentives to short-term movements of capital. Colombia, Peru and Brazil have also attempted to create disincentives to this type of transaction by means of reserve requirements or taxes, with varying degrees of success.

There were also important changes in the composition of capital flows. Although the inflow of foreign direct investment has continued unabated in the majority of the countries in the region and will most likely equal 1994's total of US\$ 18 billion, portfolio investment and other types of short-term capital have declined considerably compared with the early years of this decade. On the other hand, the official multilateral and bilateral loans mentioned above have played a decisive role.

In 1995, the total external debt of the countries of Latin America approached US\$ 574 billion, a nominal increase of 8% over the 1994 figure. The region's ratio of external debt to exports of goods and services declined once again, thanks to strong external sales and moderate growth in its debt. The ratio thus fell from 250% to 220%, the lowest percentage since 1980. The ratio between interest paid and exports of goods and services also fell, although only slightly.

Significant progress was made during 1995 in renegotiating the external debt of the majority of the region's most indebted countries. In October 1995, under the Brady Plan,

¹ In accordance with international norms, inflows of compensatory capital are not recorded as entries of capital in the balance of payments, which explains the losses shown in Mexico and Argentina's capital accounts.

Panama signed an agreement to restructure its commercial external debt that included US\$ 3.5 billion for payment of debt and overdue interest. Peru announced that it had come to a provisional agreement to restructure its debt with the commercial banking sector, also under the Brady Plan, that would involve US\$ 4.4 billion in principal and US\$ 3.5 billion in overdue interest payments. Similarly, Nicaragua repurchased its debt of US\$ 1.37 billion with the commercial banking sector at 7% of its face value; for this purpose it made use of funds from the Inter-American Development Bank, the World Bank and a number of European Governments. During 1995, Bolivia, Nicaragua and Haiti signed agreements to restructure their bilateral debt with the countries that make up the Paris Club, and Honduras is also negotiating a restructuring. These negotiations have brought some relief to the majority of the region's most indebted countries, but their debt levels remain high.

2. LEVEL OF ACTIVITY, INFLATION AND EMPLOYMENT

a) Output growth

The gross domestic product (GDP) of Latin America and the Caribbean grew by 0.6% in 1995, marking a pause in the recovery which began in 1991. Thus, per capita GDP fell by 1.1%, by contrast with the increases of the four preceding years. As a result, regional output for 1995 was only 30% higher than that of 1980, before the debt crisis, and per capita GDP was a further 1% lower than in 1980. This negative trend is attributable almost entirely to the sharp contraction of activity in Mexico and, to a lesser extent, Argentina (see table 2 and Statistical Appendix, A.1). Without those two countries, trends in regional output were very different, with a gain of slightly over 4%, nearly equal to that of 1994, the highest in 15 years.

This negative trend was provoked by the financial crisis which began in Mexico in December 1994 with a sharp devaluation of the local currency and a reversal of capital inflows, which soon occurred also in Argentina. As a result, both countries underwent a change in total demand, with falling consumption and investment, partially offset by increases in exports. Brazil was at first affected by the Mexican crisis, but the slow-down was basically the result of government measures to deal with the overheating of the economy observed since the implementation of the *Real Plan*, which in addition to causing spectacular growth brought an explosive rise in imports, jeopardizing the success of the stabilization process. Furthermore, the restrictions on external resources which affected the other two economies did not occur in Brazil; on the contrary, the Government was obliged to make strenuous efforts in the second half of the year to sterilize an abundant inflow of external resources, at a high fiscal cost.

By contrast with the poor performance of Argentina and Mexico, in almost all the other countries of the region trends were favourable, with more even growth rates than those recorded recently. Expansion in both domestic and external demand, and the continued high inflow of financial resources from outside were the main contributory factors in this growth in 1995.

In 1995, 10 of the 22 countries presented in table 3 showed more favourable trends in the level of activity than in 1994.

To sum up, the economic panorama of Latin America and the Caribbean in 1995 was extraordinarily varied. The broad spectrum of situations that arose during the year included the exceptional performance of the Chilean economy, characterized by continued rapid economic expansion in a context of growing financial stability, Mexico's deep economic recession coupled with a surge in inflation that occurred as a result of its financial crisis at the end of 1994, and the consolidation of the Brazilian stabilization programme. It was a year filled with events that produced contradictory signals, but it was also a year that on the whole revealed a certain vitality and ability to respond creatively to opportunities offered by the international environment and by intraregional cooperation, and also to face new challenges as they arise.

In two others it was practically the same and in eight others growth continued, but at a slower pace; only three countries recorded a marked contraction in their level of activity. This is similar to what happened in 1994, when 14 countries turned in better performances than in 1993 and another 7 continued to expand. There are, however, important differences with respect to 1994—in two aspects in particular: firstly, in that the contraction occurred in two of the region's three largest economies; secondly, in that, out of the 10 countries with improved performances, 4 expanded only moderately, having contracted markedly in previous years.

Table 2
LATIN AMERICA AND THE CARIBBEAN:
PRINCIPAL ECONOMIC
INDICATORS

	1991	1992	1993	1994	1995 ^a
	<i>Annual rates of variation</i>				
Economic activity and prices					
Gross domestic product	3.3	2.8	3.0	4.6	0.6
Per capita gross domestic product	1.4	0.9	1.1	2.7	-1.1
Consumer prices ^r	199.7	418.9	887.6	337.3	25.0
Terms of trade f.o.b./f.o.b.	-6.5	-3.9	-0.3	2.7	1.8
	<i>Billions of dollars</i>				
External sector					
Exports of goods	136.8	146.0	156.4	182.0	223.4
Imports of goods	124.0	151.6	166.5	197.2	221.1
Trade balance (goods)	12.8	-5.6	-10.1	-15.2	2.3
Balance on current account	-18.8	-36.9	-46.1	-50.0	-34.5
Balance on capital account	37.9	61.6	66.9	44.9	22.4
Total disbursed external debt	449.1	466.0	507.4	533.4	573.7

Source: Tables A.1, A.2, A.3, A.13 y A.19 in the Statistical Appendix.
^a Preliminary figures.

Table 3
LATIN AMERICA AND THE CARIBBEAN: TOTAL AND PER
CAPITA GROSS DOMESTIC PRODUCT^a

(Annual rates of variation)

	Total		Per capita	
	1994	1995 ^b	1994	1995 ^b
	<i>Over 5%</i>			
Chile	4.1	8.0	2.4	6.4
Peru	12.8	7.5	10.9	5.7
El Salvador	4.3	6.5	2.0	4.0
Colombia	5.6	5.5	3.9	3.6
	<i>From 2% to 4.9%</i>			
Dominican Republic	4.3	5.0	2.4	2.9
Guatemala	3.8	4.5	0.9	1.6
Brazil	5.8	4.0	4.0	2.4
Nicaragua	3.2	4.0	-0.7	0.4
Paraguay	3.0	4.0	0.2	1.3
Bolivia	4.2	3.5	1.7	1.2
Honduras	-2.0	3.5	-4.8	0.7
Haiti	-12.2	3.5	-14.0	1.4
Trinidad and Tobago	5.1	3.5	3.9	2.4
Panama	1.8	3.0	-	1.0
Costa Rica	4.3	2.5	1.9	0.2
Ecuador	4.2	2.5	2.0	0.4
Venezuela	-2.9	2.0	-5.1	-0.1
Barbados	4.2	2.0	3.8	1.6
Jamaica	2.5	0.5	1.8	-0.4
	<i>Less than 0%</i>			
Uruguay	5.1	-1.5	4.5	-2.1
Argentina	7.4	-2.5	6.1	-3.6
Mexico	3.5	-7.0	1.7	-8.6

Source: Tables A.1 and A.2 in the Statistical Appendix.

^a In descending order of rate of variation, based on gross domestic product for 1995.

^b Preliminary figures.

Four countries (Chile, Colombia, El Salvador and Peru) posted gains of more than 5%, continuations of the favourable results of previous years. Chile grew by 8%, considerably more than in 1994 and completing 12 years of uninterrupted growth. Peru recorded a significant increase of around 7.5%, though this was lower than in 1994, when growth was almost 13%. In any case, it continued its recovery from the recession of 1988-1992. The rate of economic activity slowed from the second half of the year onwards as a result of action by the authorities and in accordance with the letter of intent signed with IMF, with the aim of preventing the economy from overheating. El Salvador once again showed great buoyancy (6.5%), based on a recovery in agriculture and robust expansion in manufacturing and construction, although these sectors slowed to some extent. Colombia, which has posted positive growth rates for many years, recorded a level of somewhat more than 5% in 1995. At the beginning of the year, economic activity was stimulated by thrusting domestic demand, in which both private demand and growth in public expenditure played a part. However, the economy slowed later, which may be

partly attributable to the policy of monetary restriction implemented by the Bank of the Republic.

Meanwhile, output grew moderately in 10 countries –Barbados, Bolivia, Brazil, Costa Rica, the Dominican Republic, Ecuador, Guatemala, Panama, Paraguay and Trinidad and Tobago. The Dominican Republic, Guatemala, Panama and Paraguay were more buoyant than the preceding year, while the other economies slowed somewhat. GDP in Brazil expanded by 4%, less than the previous year. Nevertheless, performance varied widely in the course of 1995, and there were significant changes in short-term trends in Brazil's level of activity. In the first quarter, the impetus of the last months of 1994 continued, with a remarkable rise of 10% with respect to the same period the previous year, but from the second quarter onwards the economy slowed noticeably. This was a general trend throughout the economy, though intensity varied between sectors, and particularly within the manufacturing sector. A slow-down in production was finally achieved from the second quarter onwards, assisted by the monetary policy which had been applied since the end of 1994, using reserve requirements, high interest rates, and bank credit restrictions. The relative stagnation of domestic demand resulting from this policy was essential to the control of prices in recent months, apart from the contribution it made to the improvement in the trade balance in the second half of the year.

The Bolivian economy grew by 3.5% owing to the mediocre performance of the agricultural sector, which was affected by adverse weather conditions. The highest growth rates were in communications and the electricity, gas and water sector. In mining (4%), gold and silver production was most notable. In Ecuador growth in GDP fell owing to the contraction in capital expenditure and public consumption in the wake of the war. However, exports were buoyant. The areas of highest growth were trade and agriculture, while some of the sectors which expanded greatly in 1994, such as petroleum and construction, lost impetus. In Paraguay GDP rose by 4%, thanks to the recovery in agriculture, which was fuelled by the two main products, soya beans and cotton. Construction also posted a high growth rate, while manufacturing expanded more moderately.

In Costa Rica, restrictions on external resources in the first months of 1995, along with the surge in interest rates and the adjustment programme, resulted in a slowing of economic activity, and GDP grew by only 2.5%. The worst performance came in the construction sector and related industries, which contracted substantially, while services expanded at higher rates than GDP. Growth in Guatemala was 4.5%, exceeding the population growth rate for the ninth year in succession. Merchandise exports gave impetus to total demand: they grew by 15%, as a result of the excellent market conditions for coffee and sugar and the increase in banana exports to the United States. Panama recorded slightly higher growth (3%) than in 1994, marking the end of three years of decline. Nevertheless, trading activity and, to a lesser extent, the construction industry, slackened. In the Dominican Republic GDP recorded a rise of around 5%. This was mainly a product of tourism, family remittances and the free trade zones, while traditional exports such as sugar and ferronickel showed a poor performance. Barbados and Trinidad and Tobago grew by 2% and 3% respectively –less than in 1994– while Jamaica experienced meagre growth, at a

considerably lower level than its already modest performance in the four preceding years.

Four other countries (Haiti, Honduras, Nicaragua and Venezuela) recovered after the poor results of previous years. Output in Venezuela grew, despite the relative stagnation of the non-petroleum sector, which was more than offset by the performance of the petroleum sector. In Honduras, the main obstacles to growth during the previous year lost strength, and the economy expanded by 3.5%. There was plenty of rain, which, apart from the effect on agriculture, also helped to replenish the electricity supply, while in 1994 power shortages had paralysed several industries. Nicaragua's growth was satisfactory for the second year in succession, but insufficient to make up for a long period—more than 10 years—of severe economic contraction. Haiti, too, just recovered from the considerable losses of earlier years, as a result of the lifting of the international embargo.

In 1995 only three of the countries covered by table 3 recorded a drop in the level of activity—apart from Argentina and Mexico, Uruguay's output also fell, though to a lesser extent. The level of activity in the Argentine economy fell in 1995 for the first time since the beginning of the decade, breaking the phase of dynamic expansion which had lasted for a number of years. The decline in domestic demand and in aggregate production in 1995, combined with the collapse in capital inflows, led to serious disturbances in the credit markets, which had been one of the main factors in the rapid economic expansion which began in 1991. Among the broad areas of activity, there was a considerable increase in primary goods production, while manufacturing and construction contracted. Overall, the activity of goods-producing sectors fell proportionately more than total activity.

The emergency economic programme implemented in Mexico as a result of the financial crisis led to a severe contraction in domestic demand, alleviated by the buoyancy of exports, which prevented GDP from falling even further than 7% in 1995. At the sectoral level, the most serious set-backs occurred in those sectors and enterprises which concentrate primarily on the domestic market, such as construction, trade, services and the vast majority of small businesses. Agriculture and manufacturing fell by 7% and construction by more than 20%, while mining stagnated and electricity, gas and water went up by 3.6%. Output in the service sector also declined, with a notable drop of 15% in trade.

In Uruguay, the abrupt downturn in domestic demand as a result of the fiscal adjustment exercise undertaken by the Government which took office in March and of the steep decline in demand from Argentina, led to a drop in Uruguay's GDP of around 1.5% during 1995. This was in stark contrast with the previous year, when domestic demand had expanded by 10% and GDP by 5%.

Economic activity in Cuba increased, but at the same time there was no end to the deep crisis which has persisted for some years as a result of the collapse of relations with the defunct socialist system and the economic embargo imposed by the United States. Output was thus only a little more than half that recorded in 1989. The growth of GDP in 1995 is attributable to increases in manufacturing, tourist and electricity services, mining, non-sugar agriculture and construction. Non-sugar manufactures grew once again,

with recovery in practically all divisions (see Statistical Appendix, table A.1).

Despite the still relatively high population growth rates of many of the countries covered by table 3, the results in terms of per capita GDP were mainly positive. This indicator of well-being grew by 3% or more in four countries—Chile, Colombia, El Salvador and Peru—and in a further nine—Barbados, Bolivia, Brazil, the Dominican Republic, Guatemala, Haiti, Panama, Paraguay and Trinidad and Tobago—it increased by between 1% and slightly under 3%. In four other economies—Costa Rica, Ecuador, Honduras and Nicaragua—it expanded slightly, and in Venezuela it was practically unchanged. In the four remaining countries (Argentina, Jamaica, Mexico and Uruguay) per capita GDP fell.

After the unfavourable performance of the region's economies during the previous decade, in 1995 only eight countries recorded per capita GDP in excess of the 1980 figure: Chile (45%), Colombia (34%), Jamaica (24%), Uruguay (13%), Panama (12%), the Dominican Republic (11%), Costa Rica (4%) and Barbados (1%). Brazil, Ecuador and Paraguay recorded levels similar to those of 1980, and in Argentina the figure dropped slightly (2.5%). At the other extreme, the greatest falls in per capita GDP occurred in Haiti (-47%), Nicaragua (-41%), Peru (-15%), Guatemala (-13%), Bolivia (-12%), Mexico (-10%), Honduras (-7%) and El Salvador (-6%) (see table 3 and Statistical Appendix, A.2).

In the countries which recorded increases in GDP, almost all sectors were buoyant in 1995, particularly services, which in this group of countries accounted for half of GDP growth, and manufacturing, which accounted for a quarter. Growth in construction in Peru was notable, at nearly 20%. In the three countries which recorded a fall in the level of activity, output contracted basically because of the poor performance of manufacturing and construction, although trends in services were also unfavourable. The drop in industrial production in Argentina was particularly noticeable in sectors such as the automotive industry (despite higher exports) and domestic appliances, and counteracted the sometimes appreciable rises in the production of some intermediate goods for export. Manufacturing in Mexico contracted substantially and nearly all areas were affected; only two, the paper and basic metals industries, expanded, and there were sharp declines in wood, textiles, non-metal minerals and machinery and equipment. In the car industry there was a drastic redistribution of demand, which dropped by 19% overall: while domestic sales fell by 73%, export volume rose by 38%, which meant that exports accounted for 82% of total sales.

The agricultural sector expanded in all the countries of the region with the exception of Mexico. Here, agricultural production fell considerably because of the drought in the north of the country and the financial difficulties faced by the sector: its portfolio of debts with the banking system revealed a high rate of arrears, which led to a contraction in credit. Mining also recorded growth in all countries where it is a major activity. In Argentina mining output continued its upward trend, driven by higher fuel extraction. Hydrocarbons showed notable advances in Colombia, and in Venezuela the petroleum sector was buoyant, in contrast to other sectors, where there was a general decline.

Overall demand in the economy of Latin America and the Caribbean as a whole grew by around 1% in 1995, owing to the scant growth in the level of activity and the volume of imports. This increase in supply was thus considerably lower than the year before, when it grew by almost 6%, and the upward trend of the past four years slowed. Domestic availability of goods and services contracted by 1%, since in addition to the low growth in output, growth in export volume exceeded growth in import volume.

A drop of around 15% in the volume of imports to Argentina and Mexico made a particular contribution to the lower increase in regional import volume, which was offset by strong expansion of imports to Brazil, Chile, Colombia, the Dominican Republic, Ecuador, El Salvador, Guatemala, Peru and Venezuela (between 10% and 40%) and the marked increase in Haiti's imports, which nearly trebled when the embargo was lifted.

Export volume grew by around 10%, which was more than the year before, and more than the annual average for the period 1981-1994. There were significant increases in Argentina, Chile, Guatemala, Haiti, Mexico and Nicaragua (between 12% and 75%). However, in Brazil, Panama, Paraguay and Uruguay export volume went down by between 1% and 3%.

In contrast with previous years, regional aggregates show that there was no shift from domestic demand to foreign economies, which had been fairly high between 1991 and 1994. The substantial expansion in export volume contributed to a rise in overall demand equivalent to 3% of GDP, which was only partly offset by the channelling of domestic demand towards imports. Even so, there was substantial shift in demand in some countries, such as Brazil, where more than half the increase in demand was accounted for by foreign economies, which explains the spectacular surge in imports there. Exports were also affected, since a portion of the flows which could have been channelled abroad went to meet the strong expansion of domestic demand.

Trends in overall demand varied widely among the countries of the region. Growth in demand was characteristic of a large group of countries, and in eight of them it was fairly buoyant, rising more than 5%. Another five countries recorded stagnant or falling total demand, particularly Mexico where demand contracted by 9%, and Argentina, where it fell by 4%. There were also significant differences in the causes of these trends. Thus, among the countries where demand increased significantly, in Chile this was due to internal demand as well as to the great buoyancy of its exports. In Haiti, the reason was the recovery of the economy owing to the start of normalization of economic activity, while in Brazil, Colombia and Peru the considerable rise in total demand was attributable solely to domestic demand. In Guatemala, the opposite was true, since the impetus came from exports. In cases where overall demand contracted strongly, the explanation lies in the sharp fall in domestic demand, since those countries' exports soared.

In some countries, as a result of the fact that some of the buoyancy of domestic demand shifted to foreign economies, GDP grew less than demand. Thus, in Brazil, Haiti and Venezuela, the substantial deterioration in trade resulted in considerably lower growth in output than in domestic demand. By contrast, the increase in the trade

surplus in Argentina and Mexico prevented a greater fall in output.

Gross capital formation turned in a fairly varied performance in 1995. On the one hand, Argentina and Mexico recorded a steep decline in investment as a result of the crisis. Venezuela also did badly, with investment continuing downwards, as it has since 1993. On the other hand, several other economies are in diametrically opposite situations: their recovery in investment began in 1991 and grew stronger in 1995, so that their investment rate continued to rise, particularly in Bolivia, Brazil, Chile, Colombia, El Salvador and Peru. The lowest rate came once again in Haiti, where it had dropped significantly in previous years.

Thus, despite the increase in gross capital formation recorded in the early 1990s, the regional rate of fixed capital investment in 1995 is substantially below the 23% recorded in the period 1979-1981, before the crisis of the 1980s.

In some countries the increase in gross capital formation in 1995 was reflected in a considerable rise in capital goods imports. On the other hand, these declined significantly in Argentina and Mexico owing to the sluggishness of investment and the recession there. In Mexico, the sharp devaluation also played a part.

Investment financing also underwent some important changes in 1995. External savings, having risen for four years to around 3% of GDP, fell by more than 1% of GDP. They were still high, even so, especially compared with the tiny 1990 figure of 0.5%. The spectacular growth of capital flows from 1991 onwards contributed to these high levels, and the proportion of external savings (calculated from capital inflows net of accumulated international reserves) reached high levels in recent years.

Analysis of countries on an individual basis reveals wide variations. In Argentina and Mexico, as a result of the cut in income from external resources, investment and consumption fell drastically. National savings thus expanded significantly, while external savings fell sharply. By contrast, in Brazil investment grew and national savings dropped by nearly 5%, while external savings went up by 6%. Among the remaining countries, Chile, El Salvador and Peru are notable for their buoyant investment, though nearly all experienced large increases in national savings and contractions in external savings; in Colombia, too, investment increased, but so did external savings. In all these countries the level of activity rose significantly. In Venezuela investment and national savings contracted, and external savings, which had been negative in 1994 owing to the flight of capital, remained negative in 1995 but to a lesser extent.

b) Inflation

The regional inflation rate plummeted in 1995 to 25%, from 890% in 1993 and 340% in 1994. This was, moreover, a generalized trend: in 17 of the 22 countries observed the consumer price index fell or remained stable. Only in four countries was the trend unfavourable and only in Mexico was there a significant increase in inflation, though this did not attain the same levels as in the 1980s and the beginning of the 1990s: over the 12 months to November 1995, prices went up by 48% while they had only increased by 7% in 1994. The rise in Costa Rica was 25% in 1995, compared with 20% in 1994; and in Bolivia and El Salvador consumer

prices went up by only two percentage points to around 11% (see table 4 and Statistical Appendix, A.3).

By contrast, inflation was almost zero (less than 2% annually) in three countries (Argentina, Barbados and Panama) and another three experienced single-digit rises (Chile, Guatemala and Trinidad and Tobago). A large group of countries (Bolivia, Dominican Republic, El Salvador, Jamaica, Nicaragua, Paraguay and Peru) posted increases of between 11% and 16%. Six others (Brazil, Colombia, Costa Rica, Ecuador, Haiti and Honduras) had price rises of between 20% and 30%. Lastly, only three countries (Mexico, Uruguay and Venezuela) recorded rises in inflation of 40% to 50%.

With the marked drop in Brazilian inflation, all the near-hyperinflationary situations of the last 15 years in the region have disappeared. Bolivia has had moderate price increases since 1986, and Argentina has made great progress in controlling inflation since 1992, so that in November 1995 the annual rate was less than 2% – a record for that country. In Peru, inflation continued to fall, dropping from 15% in 1994 to 10% in 1995 and consolidating a rate of low price increases after the very high rates recorded between 1988 and 1990. Nicaragua's annual inflation has fallen considerably since 1992, to 11% in 1995. This is in sharp contrast to the rates noted up to 1991, with a peak of nearly 34,000% in 1988 (see table 4 and Statistical Appendix, A.3).

Other countries which in the past have experienced high inflation – though not nearly as high as in the countries just referred to – also saw a drop in prices in the course of 1995. Examples are Ecuador and Uruguay: in Ecuador the downward trend continued in moderate fashion – from 25% in 1994 to 22% in 1995; and in Uruguay inflation was below 40% for the first time since 1983.

In most of the countries where inflation has gone down in recent years, it continued to do so, with the exception already referred to of Mexico and, to a lesser extent, Costa Rica. Thus, Chile and Trinidad and Tobago, where inflation has been relatively low for some years, maintained this situation in 1995 with single-digit annual inflation. In El Salvador, where inflation had been 9% in 1994, it rose slightly, to 11%. Guatemala continued at the levels of previous years, hovering at slightly more than 10%, while the countries with perennially low inflation, Barbados and Panama, continued in 1995 with rates below 1%.

Colombia, where inflation has been moderate for some years, maintained that trend in 1995 and even managed a small decrease in relation to the 1994 figure. Paraguay, on the other hand, whose inflation figure had fluctuated at somewhere under 20% in 1994, experienced a clear reduction, to somewhat more than 10% over the 12 months up to November 1995. Jamaican inflation has been going down since 1992 (from 80% in 1991), and this performance was consolidated in 1995 with an annual rate of somewhat less than 16%.

The clear reduction in the regional inflation rate and the improved performance of the majority of countries were attributable to the stabilization programmes implemented in previous years, including that of Brazil, the largest economy in the region, which began in mid-1994. Mexico's devaluation had the opposite effect, although it was mitigated by the drop in the level of activity there. The chief objective of

Table 4
LATIN AMERICA AND THE CARIBBEAN: CONSUMER PRICES^a
(December-December variations)

	1993	1994	1995 ^b
<i>Less than 10%</i>			
Barbados	-1.0	0.5	0.4 ^c
Panama	0.9	1.4	0.8 ^d
Argentina	7.7	3.7	1.8
Trinidad and Tobago	13.5	5.5	5.6 ^e
Chile	12.2	8.9	8.3
Guatemala	11.6	11.6	8.6
<i>From 10 to 19%</i>			
Peru	39.5	15.4	10.4
Paraguay	20.4	18.3	10.4
Bolivia	9.3	8.5	10.7
Nicaragua	19.5	12.5	10.8 ^d
El Salvador	12.3	8.9	11.4
Dominican Republic	2.7	14.3	12.1 ^d
Jamaica	30.1	26.9	15.8 ^e
<i>From 20 to 30%</i>			
Colombia	22.6	22.6	20.0
Brazil	2 489.1	929.3	22.0
Ecuador	31.0	25.4	22.2
Costa Rica	9.0	19.9	24.9
Haiti	39.3	52.1 ^f	25.0 ^f
Honduras	13.1	28.8	28.6 ^c
<i>Over 30%</i>			
Uruguay	52.9	44.1	36.8
Mexico	8.0	7.1	48.5
Venezuela	45.9	70.8	52.9

Source: Table A.3 in the Statistical Appendix.

^a In ascending order based on information for 1995.

^b Variation over 12 months up to November 1995.

^c To June.

^d Variation over 12 months up to October 1995.

^e To July.

^f Fiscal year ending in September.

previous years' macroeconomic policies in the region has been control of inflation, and accordingly strategies have involved fiscal austerity, prudent monetary policy, and also greater external liberalization, especially through regional agreements abolishing tariffs between trading partners. Trends in the exchange rate have also played a major role in the development of consumer prices in nearly all countries of the region, providing support for anti-inflationary measures in situations where foreign currency has been in abundant supply.

Brazil's success in subduing inflation was remarkable, given that the rate dropped from 2,500% in 1993 to 930% in 1994 and to just 22% over the 12 months ending in November 1995. The stabilization plan, which was put into effect in July 1994, after a preparatory period of realignment of relative prices and adjustment of the public accounts, has now been in place for 18 months, which is in itself an extraordinary achievement, when compared with all the plans that have been launched since 1980. This fresh attempt at stabilization aimed to cut inflation drastically, eliminating the element

of inertia, which stemmed from a generalized indexing system. There were certain obstacles in the way of its execution, since the process of de-indexation was not yet complete and a not inconsiderable inflationary residue remained, causing monthly price increases of around 2%, which rapidly worsened the exchange rate. The dramatic drop in inflation was due to the initial revaluation of the local currency, which reversed trade flows, with high deficits. At the same time a strict monetary policy was applied, with considerable domestic interest rate increases. In 1995 control of inflation was also assisted by a perceptible drop in agricultural prices. In the second half of the year, the average monthly inflation rate stood at 1.3%, while the real exchange rate has remained steady since the value of the dollar in reals started rising gradually in March.

Argentina's near-zero inflation is mainly attributable to the recession which hit the country in 1995. The slow development in the price indexes was spread over the various categories of items, and included, notably, services. Non-tradables prices were particularly slow to rise, and there were even significant falls in price in many areas; whereas tradables experienced rises, albeit moderate, given the trends in the prices of exported and imported goods on the international markets.

In Mexico, the inflationary effect of the devaluation of December 1994 was felt in practically all sectors of the economy, though not at a uniform rate. Generally speaking, prices of tradable goods rose faster than those of non-tradable goods. Inflation was very high in the early months of the year, when prices were also affected by the VAT increase from 10% to 15%. However, the drop in domestic demand, the fact that the impact of the devaluation was almost completely absorbed in the first four months, the stability of the exchange rate from May onwards and the strict monetary policy all gave rise to a significant drop in inflation. In the last few months, fuelled by the sharp depreciation in the exchange rate from October onwards and the December pay rises, inflation has accelerated once again, to an annual rate of more than 50%. This is considerably less than the increase in the exchange rate, a fact which was certainly influenced by the deep recession the Mexican economy went through in 1995.

The countries where inflation accelerated in 1994 had varying experiences in 1995. Thus in Costa Rica, inflation rose further, despite the economic downturn, and reached 24% over the 12 months ending in November. This acceleration, at a time when the economy was slowing, was due to a larger devaluation, the 8% import surcharge and the increase in VAT from 10% to 15%, as well as the rise in the prices of petrol and a range of basic consumer products and public services. In Honduras inflation settled at around 29% –i.e., similar to the increase in the exchange rate. In Haiti, however, with the end of the embargo and the beginning of the economic normalization process, inflation fell markedly. Relatively prudent application of monetary policy, the re-establishment of a certain amount of fiscal discipline and an abundant supply of external resources provided a favourable framework for controlling inflation. In Venezuela inflation dropped markedly, but this did not signal the end of the imbalances. Abundant liquidity in the domestic market, due to the lack of outlet in the foreign currency market and the low deposit interest rates (in real terms they were negative),

continued to fuel inflation despite official control of the prices of principal products and the real appreciation of the bolívar. By the end of the year, the cumulative rise in the price index, though less than the previous year, was around 50%. On 11 December the Venezuelan Government devalued the local currency significantly, which, it is anticipated, will lead to an upsurge in inflation in the following months.

In 1995, one group of countries in Latin America and the Caribbean has kept the fiscal result within acceptable limits, with no pressure on domestic credit. Fiscal policy in these countries continued to attempt to balance the public accounts, while progress in fiscal reforms has continued, although not to the extent of the beginning of the decade.

On the other hand, another group of countries has seen public finances deteriorate markedly. This problem was observed already in 1994 in Costa Rica, Honduras and Venezuela and, to a lesser extent, in Uruguay. In some of these countries the imbalance was financed chiefly through monetary expansion. In 1995 this situation continued without great change, but included the marked imbalance in the Brazilian accounts, where a deficit of 4.5% of GDP was recorded, in contrast with the 1% surplus of 1994. This deterioration was due to the large increase in expenditure, particularly on interest, wages and social security benefits. The increase in wages and social security benefits was a direct result of the rapid decline in inflation and adjustment of the payments to take account of past inflation. The increase in expenditure on interest stemmed from the large rise in real domestic interest rates which resulted from the harsh contractionary monetary policy adopted by the authorities in the face of growing public sector disequilibrium and the difficulties in obtaining approval for broad fiscal reform. The rapid increase in public debt also contributed to this higher expenditure.

Colombia recorded a deficit of 3% in public finances after a relatively balanced situation –even, at times, showing a surplus– in the last five years. Mexico experienced difficulties, not so much in the non-financial public sector accounts –which are relatively balanced– as in the quasi-fiscal accounts, owing to the financial crisis the country is going through. In Argentina, the fiscal situation deteriorated through a drop in revenue as a result of the recession and the difficulty in reducing expenditure still further.

Monetary policy in a number of countries has thus been assisted by fiscal management, as well as by the increase in the demand for money against a background of expectations of reduced inflation. In another group of countries, growing fiscal problems have complicated the application of monetary policy. Some economies also experienced continuing large flows of external resources, which has made it difficult to reconcile monetary expansion with growth and inflation targets. Domestic interest rates have thus had to contend with the conflict between the development of competitiveness, monetary targets and the financing of the external current account deficit. However, in the majority of cases, as in previous years, price stabilization has been the prime objective, so that real interest rates remained high and even went up in some cases. In some countries, the local currency appreciated again, while policies designed to sterilize the excess of money in circulation had a high price.

c) Employment and wages

At the regional level, the drop in economic growth had a considerable impact on labour markets, which aggravated employment problems. Because of the steep rise in unemployment in some countries, the regional open unemployment rate, weighted to take account of the population of the countries, rose from 6.4% to 7.4%, a jump which has not been seen since the beginning of the 1980s. The trend towards higher wages based on steep rises in productivity, which was prevalent in the region as a whole in the early 1990s, also came to a halt.

In particular, in some of the largest countries of the region, the poor performance led to a steep rise in open unemployment (Argentina, Mexico, Venezuela). In other countries such as Ecuador, Panama and Uruguay, moderate or negative growth also affected employment levels, though, generally speaking, not as seriously. In some countries, the impact of the crisis in 1995 was felt in those labour markets which were already facing difficulties due to restructuring of production and in the public sector. Unemployment thus reached unprecedented levels, and this deterioration also hit real wages (see table 5 and Statistical Appendix, A.4).

By contrast, in countries with higher growth rates, such as Brazil, Chile, Colombia, Guatemala, Honduras, Nicaragua and Peru, unemployment rates dropped. The reductions were generally moderate, since growth rates were moderate or because growth was based on higher productivity rather than a greater absorption of labour. This allowed more scope for improvement in the wages for formal activities.

Although employment in export-oriented activities increased in some countries with low or negative growth (e.g., in *maquila* (inbond assembly) in Mexico and exports of industrial goods in Argentina), this did not make up for the loss of jobs resulting from lower domestic demand in some countries such as Argentina, Mexico and Venezuela. As a result, the number of new hirings dropped sharply, the level of employment went down and open unemployment climbed to very high levels.

In Argentina and Mexico levels of underemployment also went up. In Argentina, visible underemployment rose from 10.3% in 1994 to 11.3% in May 1995, while in Mexico the proportion of those working less than 35 hours per week rose from an average of 22.2% in 1994 to 25.5% in 1995.

In some cases (such as Argentina), higher unemployment is partly attributable to increasing labour supply, as reflected in the labour force participation rate. This increase is due chiefly to more women who are not heads of households looking for work, probably in response to difficult economic situations at home – as indicated by the increase in the level of unemployment among male heads of household. Thus, in Greater Buenos Aires, the participation rate among women went up from 31.5% in 1994 to 35.1% in May 1995. However, many of these women do not find work, so that female unemployment figures are persistently higher than those for men. In Buenos Aires, female unemployment reached 24.5%, as compared with 17.3% for men. In the second half of the year, participation in the labour market appeared to drop again, which was the main reason for a reduction in unemployment levels in Greater Buenos Aires (17.4% in October, compared with 20.2% in May 1995 and 13.1% in October 1994).

Table 5
LATIN AMERICA AND THE CARIBBEAN: URBAN
UNEMPLOYMENT^a

(Average annual rates)

	1993	1994	1995 ^b
Argentina	9.6	11.5	18.6
Bolivia	5.4	5.8	...
Brazil	5.4	5.1	4.7
Chile	4.1	6.3	5.6
Colombia	8.6	8.9	8.6
Costa Rica	4.0	4.3	...
Ecuador	8.9	7.8	8.4
El Salvador	8.1	7.2	7.5
Guatemala	5.5	5.2	4.3
Honduras	7.1	6.3	4.5
Mexico	3.4	3.7	6.4
Nicaragua	21.8	20.7	20.2
Panama	13.2	13.7	14.3
Paraguay	5.1	4.4	4.8
Peru	9.9	8.8	8.2
Uruguay	8.4	9.1	10.7
Venezuela	6.8	8.7	10.3

Source: Table A.4 in the Statistical Appendix.

^a Geographical coverage and periodicity vary.

^b Preliminary figures.

Young people are another group seriously affected by the critical situation in the labour market. In May 1995, 36.1% of young people aged between 15 and 24 who were part of the labour force of Greater Buenos Aires were out of work. In Venezuela, too, the unemployment rate for 15- to 24-year-olds was 19.4% – almost double the rate for the labour force as a whole.

Normally, a contraction in domestic demand mainly affects the sectors which produce non-tradable goods and services. Thus unemployment in construction rose to 36.8% in Greater Buenos Aires and to 14.7% in Montevideo in the three months from June to August, compared with 7.4% in the same period the previous year.

Nevertheless, in the countries mentioned, manufacturing also shed jobs. In Mexico there was a reduction in the proportion of manufacturing workers in work from 22.2% of the total labour force in work in 1994 to 20.2% in the first five months of 1995, despite the expansion of employment in *maquila* by 9% between June 1994 and June 1995. In Uruguay, employment in medium-sized and large industrial enterprises fell by 8% compared with the previous year. In Greater Buenos Aires, industrial unemployment went up from 11.8% to 19.4%.

Public sector cuts also have an impact on the sectoral composition of employment, and in 1995 they did not affect only those countries where the labour market contracted sharply. In several countries (for example, Argentina, Brazil, Costa Rica, Ecuador, El Salvador, Honduras and Peru) plans have been drawn up to limit public sector growth, dismiss large numbers of civil servants or promote voluntary retirement.

As a result of this decline in the labour market, the informal sector, which is already extensive in the region, continued

to expand in 1995. Faced with the loss of a formal job or the impossibility of obtaining one, and in the absence of unemployment protection systems, a portion of the labour force frequently resorts to the low-productivity and low-wage activities of the informal sector. While there is no specific analysis of this, some indicators suggest that this has happened in Mexico, where the proportion of people working in enterprises with between one and five employees rose from 42.2% to 43.9% (May) and the proportion of those in work with earnings below the minimum wage rose from 8.1% to 11.6% (May). For the region as a whole, the International Labour Organization estimates that 84% of non-agricultural jobs generated in 1995 correspond to the informal sector.

In those countries of the region with relatively high growth in 1995, the labour market has developed favourably, in some cases for several years in succession. Nevertheless, the movement of this market has been influenced not only by the positive impact of the expansion in activity, but also by the fact that that activity has been characterized by changing production patterns. Thus, in some cases, steep rises in productivity have been noted, either in some specific sectors or globally.

In Chile, the strong growth in GDP was based mainly on growth in labour productivity, while job creation was a mere 1.2% (comparing the average of the first three quarters of 1994 and 1995). Thus, unemployment—which had risen in 1994 as a result of the readjustment policies, reaching an annual average of 6.3% in the Metropolitan Region—came down only slightly, to 5.6%. A slight reduction in the participation rate contributed to this improvement.

In Brazil, unemployment rates tended downwards from mid-1994 onwards, resulting in fairly moderate rates, particularly in the first half of 1995. From mid-year onwards, the stabilization measures affected the labour market, producing a slight trend towards higher unemployment. Nevertheless, despite this decline, the average rate for January to October 1995 was 4.7%, lower than the 1994 average, which was 5.1%.

The performance of Colombia's labour market, like Brazil's, was positive in the first half of 1995, and in this case the trend had started in 1993. However, the measures taken to control growth clearly affected the labour market there, too, so that in the third quarter of 1995 job creation slowed and the open unemployment rate exceeded the figure for the same period in the previous year. The average rate for the first three quarters of the year was 8.6%, slightly below the previous year's level.

Even in those countries where the labour market developed relatively favourably, there is a trend towards a reduction in

the significance of manufacturing in the structure of employment. Thus, in Chile, job creation was concentrated in the service sector, while employment in manufacturing and construction remained the same in absolute terms, but fell as a proportion of total employment. Agricultural employment continued to decline even in absolute terms. In Brazil, industrial employment contracted from the second quarter of 1995 onwards, having expanded strongly from the middle of the previous year onwards. Its share of the sectoral structure of employment thus fell, also partly as a result of far-reaching industrial transformation in São Paulo, which meant that productivity continued to rise. Thus, in Brazil and also in Colombia, it has been the tertiary sector which has generated most employment.

The varied behaviour of unemployment levels affected wages. While in 1994 real average wages in the formal sector rose in all countries for which information is available, in 1995 wages rose significantly only in a few countries.

Where available figures allow evaluation, a contraction in the labour market was also reflected in a drop in real wages. This drop was greater where inflation was high. Thus, in Mexico real wages fell by 13.2% up to July. At the same time, the minimum wage, which in 1994 was two thirds lower than the 1980 level, fell on average by 11.4% in real terms in the period from January to October 1995, in relation to the previous year's average. In Argentina, low inflation will not allow a large wage adjustment downwards through nominal adjustments which are less than the increases in the consumer price index: here, the chief measures used to reduce labour costs, apart from dismissals, were the suspension of overtime and a reduction in working hours. Average real industrial wages went down only 1%. The nominal minimum wage remained stable, which meant that it lost 3% of its average value in real terms of the period January to November. In Costa Rica and Uruguay, too, real wages went down.

By contrast, in Chile average wages and minimum wages went up in real terms by approximately 4%, against a background of favourable development of labour productivity. Over the course of the year in Brazil, real wages recovered from their fall in the second half of 1994. Thus in July the cumulative average reached the annual average for 1994, and by the end of the year the annual average may well exceed it. The same occurred with the minimum wage, which was raised in May. Towards October, the cumulative average for the minimum real wage in 1995 was equal to that for 1994, pointing to a slightly higher average for the end of the year, in comparison with 1994 as a whole. In Colombia, industrial wages maintained their levels in real terms.

3. MACROECONOMIC POLICY

a) Main characteristics of the region

The region's countries adopted varying approaches to economic policy depending on the degree to which the financial crisis that had begun in Mexico at the end of 1994 affected their economies. In particular, the net inflow of external financial resources and the greater or lesser uncertainty prevailing in domestic markets as a result of foreign or

domestic events were decisive factors in the policies applied in response to the crisis.

In general, two major types of approaches were seen. On the one hand, Argentina, Mexico and, to some extent, Uruguay, had to manage their economic policies in a climate marked by a sharp contraction of external financing, in which they faced severe slumps in domestic demand, with adverse

effects on output and fiscal revenues. Other countries, on the other hand, once they had recovered from the initial impact, managed to overcome the financial turmoil and to pursue a satisfactory pace of growth, although with varying degrees of control over their chief macroeconomic equilibria. By the end of the year the uncertainty had abated in much of the region. This, together with the decline in international interest rates, suggested a positive change in the expectations of domestic and foreign economic agents.

Despite the diversity of climates in which the region's economies had developed, the achievement of domestic price stability remained a priority, reaching the point where a significant increase in the inflation rate occurred only in Mexico. Fiscal equilibrium also remained a concern; however, the increase in local government expenditures in highly decentralized countries, the impact of interest payments and the drop in tax revenues resulting from the decline in the level of activity hampered public administration (see box 1).

The insistence on achieving stability continued to mean that monetary policies swung between prudence and constraint. Real interest rates were generally favourable; in cases where real rates rose significantly, the monetary authorities again faced the dilemma of either allowing capital inflows to exert downward pressure on real exchange rates, or seeking to sterilize the monetary impact of the flow of funds at the risk of creating a vicious circle that would stimulate new capital inflows.

Exchange rate policy was changed in Mexico, which allowed the peso to float at the end of 1994, after a period in which it had been subject to a fluctuation band; Brazil and Ecuador, which went over to flotation band systems; and Honduras, which implemented an auction mechanism with intervention by the central bank. The other countries continued with the exchange rate systems that had been in force in the previous year. Real exchange rates showed varying trends. In some cases, local currencies continued to appreciate, which supported anti-inflationary efforts, but undermined the competitiveness of domestic products *vis-à-vis* imports. On the other hand, the three countries affected by the interruption of foreign financing saw their currencies depreciate against those of their main trading partners. Mexico was significantly affected by this, while the other countries were affected to lesser degrees as were Bolivia, Paraguay and Peru. In mid-December Venezuela substantially devalued its currency, which had appreciated during the year; the effects of this move on the country's key economic and financial variables will be felt mainly during 1996.

In general, the rise in the international prices of commodities, including both primary products and manufactured goods, had a notably positive effect on trade deficits. In the countries most affected by financial turbulence, falling domestic demand and improved external competitiveness helped to expand the physical volume of exports and, at the same time, to slow and even curtail the growth of imports. On the other hand, current-account deficits widened in Brazil, Colombia and Peru, countries in which domestic demand increased.

A variety of trends were seen in capital-account liberalization processes. Some countries in which the flow of short-term foreign capital was tending to erode real exchange rates sought to restrain the appreciation of local currencies by

Table 6
LATIN AMERICA AND THE CARIBBEAN: PUBLIC SECTOR
FINANCIAL RESULT ^a
(As a percentage of GDP)

	1993	1994	1995 ^b
Argentina	-0.1	-0.1	-0.4
Bolivia	-5.8	-3.0	-2.5
Brazil	-1.3	1.2	-4.5
Chile	2.0	2.0	3.8
Colombia	0.3	2.6	-1.2
Costa Rica	-2.2	-6.5	-4.3
Ecuador	-0.4	-0.2	-1.0
El Salvador	-3.3	-2.1	-1.6
Guatemala	-1.5	-1.5	-0.7
Haiti	-3.8	-5.4	-5.6
Honduras	-9.3	-5.1	-3.7
Mexico	0.8	-0.4	0.1
Nicaragua	-8.6	-12.1	-9.6
Panama	-0.4	-0.8	-1.0
Paraguay	-0.7	0.8	0.7
Peru	-2.7	1.9	-1.3
Dominican Republic	-0.4	-1.1	0.6
Uruguay	-1.5	-3.0	-2.5
Venezuela	-3.4	-6.5	-6.0

Source: Table A.6 in the Statistical Appendix.

^a On the basis of figures at current prices.

^b Preliminary figures.

adopting tax measures or banking reserve requirements. Other countries depended less on short-term capital to finance their current-account deficits. In particular, countries which experienced a setback in private external financing resorted to medium- and long-term government debt. In this connection, the financial support provided by the United States Government and by multilateral agencies played an important role.

The solvency of the financial system was jeopardized in several countries (Argentina, Brazil, Ecuador, Mexico, Nicaragua, Paraguay and Venezuela, in the latter case by delayed effects of the previous year's crisis). In some cases, the problems were of domestic origin, sparked by the liquidity crisis of large financial institutions; the monetary authorities provided safety nets and financially supported the restructuring of the system. In other cases, the abrupt suspension of private external financing in the wake of the Mexican crisis meant massive withdrawals of short-term bank deposits, which led to an acute liquidity shortage, a significant rise in real interest rates and a growing trend towards default on bank loans. This situation generally led to a reorganization of the financial system through mergers, intrabank acquisitions, branch closings and measures to deal with the increase in default (see box 3 on the Mexican case). A third category of banking problems arose from the constraints on the provision of financing by central banks to regional banks. In a context of non-performing portfolios, these banks, which financed local government deficits, could not rediscount the loans granted to public and private institutions; this generated banking problems at the regional level. Lastly, in some countries there were isolated bank failures resulting from poor management decisions.

Structural reforms made some headway. The onset of financial difficulties in the public sector focused greater atten-

Box 1

THE WAVE OF FISCAL REFORMS IN 1995: SOME HYPOTHESES

The comforting notion that the Latin American economies had made sufficient progress in balancing their fiscal accounts during 1990-1993 has been called into question by the large number of new fiscal reform efforts which sprang up, mainly during the first half of 1995, although some were initiated during the second half of 1994 (see table 6).

There are clearly two possible readings of such initiatives. The first expresses the optimism that prevailed during the early years of the decade regarding the extensive change in the region since 1990. From this standpoint, the recent adjustment measures are a further confirmation of the trend towards fiscal health noted earlier. The second, more cautious reading reflects the traditional vulnerability of the sources of government finance in Latin America. From this standpoint, public-sector accounts continue to be the underlying weak spot in the region's macroeconomic equilibria. This implies that fundamental fiscal reform remains on the Latin American economic and political agenda as an unfinished task.

The question, then, is how to interpret the resurgence of fiscal reforms. In order to facilitate a fuller consideration of this subject, we are advancing a set of hypotheses—clearly neither exhaustive nor mutually exclusive—which summarize the arguments in support of the optimistic and the cautious readings referred to above.

Hypothesis 1 (electoral cycle): *The wave of fiscal reforms in 1995 reflects the changes of government that have resulted from the series of presidential elections held in accordance with Latin American electoral timetables.*

Between 1994 and 1995, presidential elections and changes of administration took place in a large number of countries: Chile, Costa Rica, El Salvador, Colombia, Panama, Mexico, Brazil, Uruguay, Peru and Argentina. In view of the incentives that politicians have for increasing pre-electoral expenditure, the reforms could reflect an objective need to make up for possible excesses stemming from the electoral process.

Hypothesis 2 (adaptive, risk-averse behaviour): *The 1995 fiscal reforms constitute rational responses by political agents who prefer not to delay the implementation of corrective measures nor to characterize adverse effects as temporary which may be permanent.* Part of the change in public-sector deficits is of endogenous origin; it reflects subjective changes in the factors determining revenues and/or public spending. Thus, not every increase in the deficit requires a permanent fiscal adjustment. Be that as it may, the uncertainty generated by the 1994 Mexican crisis, which spread rapidly to the Argentine economy at the beginning of 1995, may have aroused fears of a chain reaction like the one triggered by the 1982 Mexican crisis. The 1995 fiscal reforms are thus essentially preventive, i.e., designed to head off incipient trends towards structural fiscal disequilibria. Such initiatives thus reflect the maturity of leaders who are seeking to balance their countries' public sector accounts.

Hypothesis 3 (temporary versus permanent reforms): *The promising reductions in public-sector deficits during 1990-1993 were more apparent than real—i.e., they reflected temporary adjustments in public-sector accounts which would have to be reversed sooner rather than later.*

Fiscal reforms are clearly temporary if they are based on measures that are technically or politically untenable, or if they have an inherently finite life-span. An example of the latter type of reform is the reduction in the above-the-line deficit obtained by subtracting the income generated by privatizations from the expenditures of the period. After a few years, this "source of income" will be exhausted, and, depending on how the revenues are allocated, the structural deficit will re-emerge. Similarly, if the expectation of the agents

concerned is that the measures will have to be reversed, this will often prove to be a self-fulfilling prophecy. A reform will be permanent, on the other hand, if the agents accept the new system and adjust their behaviour to the new rules.

From this point of view, the reforms carried out in 1990-1993 were essentially temporary, and the 1995 events reflect the predictable reversal of a situation which could not last indefinitely. Such fiscal reforms are inefficient because they consume real resources simply in order to buy time, thereby postponing the necessary confrontation with the political, economic and social costs of permanent fiscal adjustment programmes.

Hypothesis 4 (short-term inconsistency): *The 1995 reforms reflect the weakening of public finances which emerges in the light of the short-term inconsistency of the current growth model.*

Since the early 1990s, when consumption became the driving force behind short-term growth, tax revenues have risen a great deal, because the tax reforms carried out in the 1980s—reflecting the logical requirements of the trade liberalization process—had skewed the tax base towards indirect taxes on domestic consumption. Revenues increased rapidly so long as the current growth model—based on financial liberalization and fixed nominal exchange rates, while the industrialized economies were in recession—generated high net inflows of capital, particularly short-term capital. However, the collapse of such inflows in the wake of the Mexican crisis signalled a drop in private consumption and domestic activity. As a result, tax revenues diverged from their expected course, making fiscal reform necessary.

Hypothesis 5 (building a creditworthy reputation): *The wave of reforms represents an attempt by economic authorities to build a reputation for prudence and discipline in budgetary management so as to enhance their creditworthiness in the financial markets.*

In an increasingly globalized world economy, in which short-term financial capital is highly mobile, domestic economic authorities need to build solid reputations for solvency in order to ensure continuing net inflows of capital on satisfactory terms (interest rates and repayment periods). Therefore, governments are now under pressure to generate better fiscal results than those which would have been optimal in the past, when the competition in international financial markets was not as severe. To paraphrase a celebrated passage in *Alice in Wonderland*, governments now need to generate smaller and smaller primary deficits (or larger and larger primary surpluses) in order to enjoy the same credit rating in the financial markets as before.

Hypothesis 6 (poor design and/or implementation of public policies): *The wave of reforms in 1995 meets the need to cope with costs arising from poorly designed policies.*

The fiscal costs of implementing specific policies are usually underestimated owing to the incentives that motivate various actors. Thus, fiscal decentralization processes have tended to weaken central Government finances in Brazil and Colombia because resources were transferred to the subnational governments without a corresponding transfer of authority. The disequilibrium which this creates for the central Government is compounded by the imbalance within the subnational governments, which are now richer and more independent. Something similar can happen if the system of financing of social security is changed from a distribution to a capitalization system without sufficient attention being paid to the fiscal costs of reform.

tion on privatization processes (see box 2). High priority was also given to social security reforms, with capitalization systems playing a bigger role in order to reduce the tax burden. Banking reforms placed emphasis on supervisory efforts. Meanwhile, trade policy continued on the path to liberalization. Protectionist measures, some quasi-tariff measures and other steps to increase levies were mostly limited to specific categories (automobiles, textiles, footwear). Meanwhile, the commitments made under sub-regional integration agreements, although in some cases after tough negotiations, were not affected.

Lastly, the widespread decline in growth rates and resulting unemployment, especially in those countries where recessions occurred, meant that job creation became the central topic of economic discussion in much of the region.

b) National economies

As mentioned earlier, the climates in which the Latin American and Caribbean economies had developed were different. The countries can be divided into three main groups. First are those which were more severely affected by the financial turbulence that began in Mexico at the end of 1994. The other countries fall into two groups: those which continued on a growth path with greater or lesser control over their macroeconomic equilibria, and those which faced greater difficulties.

i) Economic policy in countries more affected by financial turbulence. The withdrawal of external financing from two of the region's largest economies generated varying economic policy responses. While Mexico opted for a nominal devaluation of its currency as a means of changing its relative prices, Argentina adhered to the nominal exchange rate anchor that had been enacted into law under its convertibility programme.

In recent years the **Mexican** economy had shown growing signs of vulnerability; this process reached its peak at the end of 1994, triggering a major financial crisis. The implementation of a drastic emergency stabilization programme and subsequent control measures, the sharp contraction of foreign capital flows, and the persistence during the year of a number of situations marked by uncertainty meant that in 1995 the country experienced an economic depression unprecedented in its recent history.

The aim of the adjustment programme was to narrow the current-account deficit, avoid an inflationary spiral, and rapidly re-establish the necessary conditions for economic recovery through tight fiscal and monetary policies and wage restraint. In addition, a floating exchange-rate policy was introduced, which meant the abandonment of the currency-band system that had served as an anti-inflationary anchor since 1988.

One essential ingredient in ensuring the viability of the adjustment programme was an international aid package totalling US\$ 47.8 billion, consisting of contributions from the United States, the International Monetary Fund (IMF) and the Bank for International Settlements. The financial support made it possible to amortize nearly US\$ 28 billion in government debt through short-term securities denominated in dollars (TESOBONOS). The release of these funds was subject to an agreement with IMF, which established economic per-

formance goals. By the end of the year, only about half of the funds in the aid package had been used.

At the cost of a harsh impact on output, employment and real wages, the programme yielded satisfactory results with regard to inflation and the current-account deficit, which declined substantially as a result of the remarkable growth in manufacturing exports and the decrease in imports. This decrease was not as drastic as it might have been, owing to the marked buoyancy of imports of intermediate goods by exporting firms.

The inflation rate, meanwhile, after reaching a high in April, fell to moderate levels in the second half of the year. Interest rates and the exchange rate also tended to stabilize from the second quarter onward, although interest rates remained high while the local currency continued to depreciate in real terms. These results were facilitated by a rigid monetary policy, an adjustment in public finances which produced a sizeable financial surplus, and external borrowing, mainly in order to redeem TESOBONOS.

While by the second quarter it had proved possible to restrain the severe financial turbulence and the strong upsurge in inflation, thus avoiding a collapse of the financial system, the steady decline in output continued, and during the third quarter expectations that the necessary conditions for economic recovery would be re-established faded. The resurgence of inflation, the perception by economic agents of a growing gap between government projections and their expectations of how key economic variables were more likely to evolve, and events outside the economic sphere all combined to produce speculative movements in the foreign exchange market in November.

During the fourth quarter of 1995 the financial system displayed considerable instability, which sent interest rates soaring again and accelerated the depreciation of the exchange rate; this, in turn, further eroded the hopes of an imminent recovery. The early signing of the economic co-operation pact –now called the Alliance for Economic Recovery– and the announcement of the General Economic Policy Guidelines did not succeed in changing expectations, and the financial markets remained volatile.

A combination of recession and high interest rates severely threatened the financial health of companies and families and delayed the payment of their debts. This jeopardized the solvency of the banking system, whose overdue portfolios rose rapidly, reaching the point where the Government was obliged to take measures to assist debtors and commercial banks. These programmes succeeded in mitigating the severity of the problem, although at a high cost to the Government and the banks, which by the end of the year again showed signs of financial weakness.

In an effort to cushion the effects of adjustment on the most vulnerable groups in society, the Government brought in a range of compensatory social measures, including temporary job creation schemes (primarily in rural areas), training programmes for workers, increases in consumer subsidies on food staples and a special programme of assistance to rural areas. The Government also decided to extend to six months the length of time during which the unemployed and their dependants can use health services provided by the social security system.

Box 2

THE PRIVATIZATION PROCESS IN 1995

The privatization process in Latin America, which had progressed rapidly from 1990 onwards, lost momentum in 1995; public enterprises passed into private hands at a significantly slower pace. Nevertheless, privatization continued to be a key element of public-sector reform processes in most of the region's countries. Meanwhile, the region continued to move towards a smaller role for the State in the direct provision of goods and services, but at the same time, a larger role in regulation.

As shown in the following table, the year 1995 saw a considerable drop in the number of privatized companies in most of the region's countries, with the exception of Bolivia and Peru.

On the other hand, generally speaking this year has been characterized by the development in several Latin American countries of programmes designed to ensure greater transparency in the privatization process, and by the establishment of regulatory frameworks in those sectors in which the bulk of privatizations will take place over the next few years. Some countries have also used "non-traditional" privatization methods which stress the need to incorporate notions of social equity and capitalization of enterprises into the privatization process. Bolivia's capitalization programmes and Colombia's "social leap" project are noteworthy in this regard. The Bolivian programmes are focused on increasing investment resources and distributing capitalized State assets among the population, while the Colombian project seeks to channel revenues from privatization totalling US\$ 2.3 billion into social programmes and infrastructural investment.

The following are some of the most significant developments in the privatization process during 1995:

a) The partial implementation of the capitalization process in Bolivia, which will make it possible to channel an amount equalling approximately 30% of GDP into investment over the next seven years. By mid-December 1995, four of the six enterprises targeted in the original programme had been capitalized. The attractive bids submitted for the electricity-generating and telecommunications enterprises were well above the expected minimum levels.

b) The passage of constitutional reforms in Brazil which put an end to the State monopolies in the telecommunications, natural gas distribution, shipping and hydrocarbons sectors, and the adoption of constitutional amendments in Mexico, which will enable domestic and foreign private investors to participate in the telecommunications, transport, natural gas and infrastructure sectors. The full scope of these measures will become clear in the next few years, when the privatizations have been carried out and the channels for participa-

tion by the private sector in the provision of services linked to these sectors have been expanded.

c) The resumption of privatization processes in Argentina and Mexico, prompted chiefly by fiscal difficulties stemming from the financial crisis in late 1994. Mexico embarked on a second stage of privatizations, focusing on concessions and contracts for infrastructural services. In Argentina, the Federal Government put pressure on the provinces to privatize public enterprises in order to stabilize the finances of the provincial governments.

d) The growing use of concession mechanisms as a means of financing activities traditionally funded by the State, such as infrastructure (Chile) and natural resources (oil in Ecuador and Peru), leading to a reduction in the public sector's relative share of output.

Number of enterprises privatized

	1990	1991	1992	1993	1994	1995
Argentina	6	13	30	34	34	4
Bolivia	0	0	6	19	0	19 ^b
Brazil	0	5	15	6	12	5
Chile	4	2	0	0	5	1
Colombia	7	10	4	3	4	0
Ecuador	0	0	0	0	8	2
Mexico	90	70	28	21	12	0
Nicaragua ^c	1	4	20	28	8	0
Panama	1	1	2	3	1	0
Peru	0	2	10	15	26	30 ^d
Other	0	1	0	0	10	3
Total	109	108	115	129	120	63

Source: ECLAC, on the basis of official information. *Privatización Internacional* (various issues) and *Latin Finance* (various issues).

^a Information to 30 November 1995.

^b Includes privatizations and capitalizations, including the capitalization of the Empresa Nacional de Ferrocarriles del Estado in mid-December 1995.

^c Counts only enterprises sold, i.e., does not include enterprises returned to their former owners, closings or mergers.

^d Includes leasing and concessions.

In short, the prospects for 1996 are for an increase in privatization activities, since several countries have removed obstacles to greater participation by domestic and foreign private investors in the provision of goods and services, and other countries have resumed transfers of public enterprises into private hands because of short-term fiscal difficulties.

The objective of fiscal policy, which was a cornerstone of the adjustment programme, was in essence to produce a sizeable financial surplus, mainly through a considerable cut in expenditure. This, in conjunction with a relatively minor drop in revenues, meant a real increase in the surplus. The goal for 1995 was to keep the share of public-sector revenue in GDP at the same level and to reduce expenditure (excluding interest payments), in order to increase the primary surplus from 2.3% of GDP in 1994 to 4.5% in 1995, and to generate a financial surplus equivalent to 0.5% of GDP. Similarly, it was expected that public-sector spending would contract by 10% in real terms, equivalent to 1.6% of GDP.

The financial and primary surpluses of the public sector increased sharply in real terms. During the first nine months

of 1995, there was a financial surplus of 1% and a primary surplus of around 4.5% of GDP. The total revenue of the budgetary public sector declined by 5% in real terms, owing to a very sharp drop in non-petroleum revenues that was not offset by the strong growth in petroleum revenues. The severity of the recession, tax exemptions approved during the year, the cash crisis affecting taxpayers, which spawned increased evasion attempts, and delays in collection against a background of high inflation led to a slump of 18% in tax revenues. In particular, revenues from the value-added tax (VAT) contracted by 8%, despite the increase in the VAT rate from 10% to 15% in April.

Total budgetary expenditure declined by 9% in real terms; the decline in physical investment was particularly note-

worthy. Interest payments on domestic and foreign debt, which increased by 49% in real terms during the first nine months of the year, represented 18% of total budgetary expenditure; the devaluation of the peso and higher domestic and foreign interest rates had a bearing on this. In mid-December the legislature passed a social-security reform authorizing a partial privatization of the system.

During the year there was a severe domestic liquidity constraint, which contributed to the sharp decline in output and placed further strain on the banks, whose financial health had been undermined by the size of their overdue portfolios. The monetary base fell by 38% in real terms from December 1994 to November 1995. Thus, despite the replenishment of international reserves through external borrowing, the sharp reduction in net domestic credit from the Bank of Mexico served to restrict total liquidity.

During the first 10 months of the year, the money supply decreased by 37% in real terms relative to December 1994, owing to a marked public preference for income instruments. Over the same period, financial savings (M4, excluding notes and coin outside the banks) declined by 21% in real terms.

Over the first quarter, a trend towards higher nominal yields on government debt instruments and a certain volatility became evident; this was a reflection of both a tight monetary policy and the need to offer a sufficiently attractive risk premium to generate an independent supply of foreign exchange on domestic financial markets. The peak was reached in March, when annual yields on 28-day treasury certificates (CETES) on the primary market exceeded 80%, while interest rates on loans exceeded the 100% mark.

In April, when the inflation rate reached its peak, nominal annual yields exceeded 70%, but from then onwards, lower inflationary expectations and greater confidence in the functioning of the Economic Emergency Programme reduced the yield on 28-day CETES, which fell to under 32% in August. Beginning in late September, the depreciation of the exchange rate prompted a substantial new rise in yields on CETES, which reached 60% in mid-November; this reflected the intention of the financial authorities to offer investors a high premium in order to compensate for the pressure exerted on the peso by the flotation system.

The redemption of TESOBONOS totalling US\$ 28 billion in 1995, and, from June onwards, high real interest rates on instruments denominated in pesos, led to an important change in the value and composition of government securities in circulation. Total securities holdings declined by 89 billion new pesos from December 1994 to October 1995, specifically because of the redemption of TESOBONOS, since the circulation of other instruments increased by 55 billion pesos. Some holders of TESOBONOS, most of whom are non-Mexican, may have switched to CETES, since the non-Mexican share of holdings of such instruments rose from 33% to 46%.

The securities exchange was characterized by a high degree of volatility and a downward trend in quotations in real terms. In early 1995 the downswing that had been in evidence since the end of 1994 intensified; consequently, the index of prices and quotations plunged in March to its lowest level for the year. Thereafter, greater confidence in the functioning of the adjustment programme stimulated a price

recovery, but this trend was disrupted in late September, when the foreign exchange market showed signs of instability.

Following the foreign exchange crisis in late 1994, the Government gave up controlling the exchange rate through the use of flotation bands, a system which had served as an anchor against inflation. Beginning on 22 December 1994, the exchange rate was allowed to float, with intermittent intervention by the central bank to avoid significant fluctuations. The behaviour of the foreign exchange market was characterized by three distinct periods. The first of these, which lasted nearly all of the first quarter, was notable for the instability and depreciation of the exchange rate; this was attributable to the maturing of TESOBONOS, the climate of instability and uncertainty in financial markets, the fears of economic agents concerning the flotation-band system and the delay in the announcement of the international aid package. These factors drove the exchange rate on the interbank market to a high of 7.55 new pesos to the dollar on 9 March, which represented a devaluation of 53% relative to the level reached by the peso prior to the December devaluation, and 34% relative to early 1995.

Adjustments to the emergency programme contributed to the peso's subsequent recovery; this marked the beginning of the second period, during which relative calm prevailed in the foreign exchange market, despite the maturing of TESOBONOS totalling US\$ 6.7 billion in July and August. Contributing to this climate was the change in expectations regarding the Economic Emergency Programme, which was beginning to show the desired results. Thus, by mid-September, the interbank rate for the new peso was 6.3 to the dollar.

Nevertheless, the absence of signs of an economic recovery, combined with some events outside the economic sphere (mainly of a political nature), led to the dollar's recovery. From 15 September to mid-November, the exchange rate on the interbank market rose from 6.26 to 8 new pesos to the dollar; this prompted the central bank, for the first time since May, to pump US\$ 300 million into the market during two consecutive weeks in November in order to avoid a further slide in the peso. In addition, the value of the dollar on the Chicago futures market exceeded 8 new pesos for contracts to the end of December; this meant that in mid-September, economic agents had expected that the exchange rate would be 6.7 new pesos to the dollar by that date.

In **Argentina**, economic policy also developed in a context of greater uncertainty than in previous years. While basic policies remained unchanged—in particular, the exchange-rate system based on fixed parity with the dollar was maintained—macroeconomic management took place in a rapidly changing environment, which gave rise to various monetary and fiscal measures. During the first half of the year, attention was focused on reducing the risk of a widespread financial crisis; later, the performance of government accounts became salient, given the decline in revenues against a background of recession and the constraints on public-sector borrowing capacity.

By the end of 1994 the national public sector deficit had already resulted in spending cuts. In February 1995, in the light of shrinking revenues, the authorities announced new

Box 3

FINANCIAL SYSTEM PROBLEMS AND SUPPORT PROGRAMMES: THE CASE OF MEXICO

Struggling banks and financial institutions have proven a fairly widespread problem in Latin America in 1995. It has affected countries as diverse as Argentina, Bolivia, Brazil, Ecuador, Mexico and Paraguay. Similar situations arose in Costa Rica and Venezuela in preceding years. In light of the central importance of the financial sector for the rest of the economy, Governments have had to develop support programmes. This box presents the case of Mexico by way of example and describes the crisis and the measures adopted to aid the reorganization of the financial system and the restructuring of the debts of its borrowers.

How the problem developed

The loan portfolio of Mexican commercial banks began to take a turn for the worse in 1992; since that time, there has been a large increase in the amount of arrears and the overdue loan ratio, which doubled between 1992 and 1994. Believing that the economic problems of 1994 were transitory, the banks applied an expansionary credit policy in 1994, in line with that of the Bank of Mexico and consistent with the Government target of a high rate of economic growth.

The expected scenario did not materialize, and the foreign exchange crisis at the end of 1994 caught the private sector overindebted, a situation that had emerged since the financial deregulation introduced in 1991. Another problem in the economic mix was the large portfolio of high-risk loans inherited by the new bank owners when the banks were reprivatized in 1991 and 1992.

Support programmes

Recessionary conditions in 1995, the drastic currency devaluation, the resurgence of inflation and high rates of interest all contributed towards expanding the overdue loan portfolio and undermining bank finances; this led to the adoption of emergency measures to assist banks and their borrowers.

Commercial banks: Loan portfolio and provisions
(In billions of pesos)

	Sept. 1994	Dec. 1994	March 1995	June 1995	Sept. 95
Total portfolio	530.1	627.8	742.5	698.2	697.1
Overdue portfolio	49.5	56.6	82.7	102.4	120.0
Provisions	17.7	24.5	39.9	53.9	59.0
Overdue loan ratio (%)	9.3	9.0	11.1	14.7	17.2

Source: National Banking and Securities Commission (CNEV).

The first steps were taken in March, when the financial authorities required the banks to set aside additional reserves for credit risks and insisted on strict observance of the rule that the capitalization ratio (the ratio of capital to loan portfolio) must exceed 8%. To achieve this, the Government instituted a temporary capitalization programme (PROCAPTE) whereby capital was injected into banks that

were unable to meet the requirements with their own resources—due to the economic situation and not to poor management. Of greater significance, however, were the measures taken through the Bank Savings Protection Fund (FOBAPROA), which has assumed stockholder control in a number of banks, so that it is now the largest stockholder of the banking system. It has also acquired loan portfolios equal to 9% of the total bank portfolio.

The other support programmes aimed at promoting loan restructuring. To that end, the opportunity was offered to extend loan deadlines and reduce interest rates, in return for which the sums owed would be indexed according to a real constant value unit of account (UDI). The depth of the recession and the problems experienced by the public and the banks in assimilating the UDI system meant that the debt restructuring process moved slowly and therefore proved to be insufficient to reduce the overdue loan portfolio.

In response to the difficult economic situation, in September a new programme was instituted to deal with the overdue loan problems (Agreement on Immediate Debtor Assistance, or ADE), entailing reductions in interest rates, forgiveness of late interest, temporary suspension of legal proceedings and limits on additional collateral for restructured loans. The ADE programme provided for loan restructuring through indexation using UDI or other mechanisms. Unlike the previous schemes, ADE includes bold measures for debtor relief. It is calculated that the programme will assist some 7.5 million debtors (behind in their payments or otherwise), including firms, families and farmers, although this will cover only 20% of the total portfolio.

Conclusion

The cost to the Government of the programmes created is huge. The bank bail-out will cost some 2.4% of GDP, while the loan-restructuring programme will cost an estimated 2.7% of GDP. Although some of the funds for these programmes come from loans granted by the World Bank and the Inter-American Development Bank, the Government contribution will be none the less considerable, around 4.5% of GDP, and will necessitate far-reaching new adjustments in public finances.

The banks' financial problems persisted, despite the government resources allocated to capitalization and portfolio acquisition. Moreover, what was originally an economic and financial problem took on political and social dimensions, as groups of debtors organized and began to pressure the authorities and the banks for waiver or reduction of interest, forgiveness of principal and negotiations *en bloc*.

The root answers to the financial problems of banks and debtors lie in restored stability in the financial markets, reduced inflation and economic recovery; if this does not happen, it is quite possible that overdue loan ratios will continue to climb and that banks will remain weak, and this factor in itself will be an obstacle to the revival of the economy.

adjustment measures. They included roll-backs in the wages of the highest paid public-sector employees and measures broadening the tax base for profits and personal property; a system of payment facilities for tax liabilities was also set up. Some time later, the Government decided to increase the VAT rate by three points (without sharing the additional revenue with the provincial governments), reduce drawbacks on exports and raise import duties. In addition,

social security contributions were modified, and a law was passed to try to limit pension costs.

In March the Extended Fund Facility, whose implementation had been suspended in the preceding year, was renewed. This agreement, under which IMF agreed to grant loans in view of the especially tense situation in the financial markets, set strict fiscal surplus targets for the last three quarters of the year. In August the framework of the agreement was

renegotiated to provide for government use of credit to redeem debt instruments, and lower revenue and expenditure goals were established than those originally envisaged.

It is estimated that the national public sector had a primary surplus of around 0.5% of GDP in 1995. This primary surplus was lower than interest payments; the resulting gap was partially covered by income from privatizations. During the first half of the year, sales of assets did not reach significant proportions; in November petrochemical companies were sold by competitive bidding, and sales of shares in electricity-generating firms were scheduled for the end of the year. Income from these operations will result in a deficit of nearly 0.4% of GDP for the year.

The primary expenditure of the national public sector was lower than in 1994, but interest payments were higher, while revenues declined. This was attributable, in particular, to the drop in social security contributions, which in turn was influenced by the pension-scheme reform adopted in mid-1994. During the first 10 months of the year, tax receipts, excluding social security contributions, slightly exceeded the revenues collected during the same period in 1994. Different types of levies showed varying trends. VAT revenues remained at the same level, since the decline in consumption, at which the tax is primarily aimed, counteracted the increase in the rate. The lower volume of consumer spending was also reflected in the drop in revenues from taxes on specific products, while the slump in imports affected customs revenues. Revenues from taxes on profits, on the other hand, rose again. In addition, the Government obtained revenues from systems of payment facilities for tax liabilities. In particular, the adoption of a tax moratorium with a November deadline led to the settlement of a considerable volume of tax liabilities.

During 1995 the Government engaged in massive debt financing and liquidation operations. In the early months of the year, loans obtained from multilateral agencies and bonds purchased by international banks and by the country's large enterprises played a particularly important role; some of those resources were used to set up fiduciary funds to assist in restructuring the financial system. Later, the Government resumed the sale of securities on the open market and, at the same time, redeemed other, more onerous instruments before maturity. In striking contrast to the situation at the beginning of the year, when the Government had faced severe restrictions on its access to credit, it was able to obtain voluntary financing. However, there still appeared to be fairly narrow constraints on sales of new public debt instruments on the market. By the end of November, further adjustments in both the expenditure and the income accounts of the public sector had been proposed; in addition, negotiations had been held concerning the financial relationship between the central Government and the provincial governments, some of which were facing serious problems in their fiscal administration.

The financial turmoil that had been unleashed in the region following the devaluation of the Mexican peso in late 1994 emerged strongly in Argentina during the first half of 1995. Thus, during the first quarter, a sharp drop in the demand for domestic assets affected the entire range of financial instruments. In addition to a lesser inclination to keep funds in Argentina, this behaviour on the part of asset holders appeared initially to reflect uncertainty about the stability of

the exchange rate. It soon became clear, however, that the exchange rate system would not be changed.

During the first three months of the year, money in circulation contracted strongly; this was accompanied by an equally severe erosion in international reserves. There was also a sharp drop in the volume of bank deposits, at first affecting primarily the peso-denominated segment, but eventually spreading to dollar deposits. Although in early March there had been fears that the withdrawal of funds might accelerate, it did not go so far as to constitute a widespread run on the banks. The decline in the volume of deposits was associated with a sharp rise in interest rates. Although the volume of bank loans, which only began to decline in March, showed some delay in responding to this, it is likely that many firms were already suffering from a credit shortage. The securities exchanges were extremely volatile, and the prices of both stocks and bonds dropped significantly.

The withdrawal of funds from the banks during that period had the greatest impact on a number of smaller institutions, while other banks took in more funds than they paid out. Some banks could not meet their obligations on maturing deposits. During 1995 there were many bank acquisitions, mergers and portfolio transfers, some of them involving institutions (representing only a small percentage of total banking volume) that were ordered by the central bank to close or suspend operations. Over the period there was a decrease in the number of banking institutions and thus in employment in the sector.

The monetary authorities responded in various ways to the problems emerging in the financial sphere. At the start of the year, they converted the banks' reserves into foreign currency, giving signals reinforcing the pegging of the peso to the dollar. In addition, a safety-net mechanism, consisting of a pool of funds deposited by all institutions, was set up to ease the banks' liquidity shortages. Moreover, the central bank made the rules on reserves more flexible and advanced funds to financial institutions by extending credit to banks with public securities as collateral and through rediscount operations. In March the central bank charter was amended to extend its scope of action as lender of last resort within the limits imposed by the requirement for monetary liabilities to be covered in foreign currency. In addition, a new system of deposit guarantees was established and two fiduciary funds were set up to facilitate the restructuring of the financial system and the privatization of state-owned provincial banks. In August it was announced that reserve requirements would gradually be replaced by liquidity requirements, which banks could satisfy through holdings of various assets.

After reaching its peak in March, the tension in the financial markets gradually eased, probably due to the fiscal and financial signals given out by the Government, relief from the uncertainty existing prior to the general elections and the gradual recovery of confidence in Latin America on the part of foreign investors. International reserves increased, partially reversing previous losses. Despite continuing fluctuations, prices of securities and stocks made a strong recovery up to August. Meanwhile, interest rates dropped, and deposits began flowing back into the banks, although not to the same extent for all institutions; thus, it is likely that segmentation increased in terms of the degree of access to credit that various categories of borrowers enjoyed. At any

rate, the increase in deposits did not fully translate into an increase in loan volume, because some of the funds were used to settle transactions with the central bank and to build up bank liquidity.

The recovery in the volume of deposits that had begun in August continued over the following months, although at a more gradual pace. Interest rates on deposits and bank loans to top-rated companies remained at almost pre-crisis levels. However, stock prices fell again, although to distinctly higher levels than the lowest ones reached during the year. The expectations in the stock market appeared to be highly sensitive to different types of signals emanating from the external climate, the local political situation, the trends in public-sector accounts and probably also the real activity level. Meanwhile, potential borrowers displayed caution in incurring debt in the face of still uncertain income expectations. In November the steps taken by the Government to close the fiscal gap had a positive impact on the financial markets and a significant effect on the prices of securities and stocks.

Uruguay can be regarded as a member of this group, although the crisis had an indirect impact on the country in the form of a sudden weakening of demand from Argentina. The new administration which had taken office in March continued to give priority to reducing inflation; it therefore embarked on a rapid fiscal adjustment programme. At the same time, it proposed structural reforms designed to enhance the international competitiveness of domestic products and substantially change the social security system, which was putting tremendous pressure (15% of output) on the budget. In the light of the fiscal adjustment programme and the expectations of lesser demand from Argentina, it was assumed that the level of activity would remain stagnant, resulting in a significant slow-down in domestic demand.

Against this background, the initial measures adopted were aimed at increasing fiscal revenues and reducing expenditure, thereby rapidly lowering the consolidated public-sector deficit, which had risen to 3.5% of GDP. In order to reduce this deficit while enhancing the international competitiveness of domestic industry, direct taxes on wages and pensions were increased. In addition, the executive branch was empowered to reduce employer social security contributions in the manufacturing industries by up to 6%. Furthermore, the basic rate for the VAT was raised 1% to 23%, and the minimum rate was raised from 12% to 14%. Spending limits were increased and public-sector investment was substantially reduced. These measures, a motor-vehicle tax which served to accelerate purchases prior to its entry into force, and a better performance by public enterprises than had been anticipated succeeded in rapidly reducing the deficit, to the point where the financial goals of the consolidated public sector were expected to be met. A large share of the deficit was financed with external resources and the remainder with central bank credit. In August, moreover, a social security reform law was passed replacing the current system with a mixed system based on both distribution and capitalization, to begin operating shortly.

The fight against inflation continued to be supported by the foreign exchange policy, which was geared to setting the nominal anchor of the price system. As in previous years, the system consists of a 7% exchange-rate band, the bottom

of which is adjusted 2% monthly. The supply of foreign currency kept the price of the dollar close to the bottom of the band, which meant that the central bank had to intervene only intermittently. As in previous years, the fact that the price of the dollar increased more slowly than consumer prices meant an appreciation in the local currency against the United States dollar, this time by around 7%. In the second half of the year, the peso also appreciated against the Argentine and European currencies, while depreciating significantly against the Brazilian currency. On average, the real effective exchange rate (implicit in the country's foreign trade) slightly increased the purchasing power of the peso, although that was attributable chiefly to the significant appreciation of the Brazilian real.

Since the exchange rate remained within the flotation band for much of the year, monetary policy resumed an active role. The expansion of monetary aggregates was consistent with the financial guidelines adopted. Central bank purchases of foreign currency were not a significant factor in the expansion of the monetary base, which was mainly the result of credit extended to the public sector and the quasi-fiscal deficit. The growth of monetary aggregates kept pace with the nominal GDP increase. Thus, the money supply expanded 32% during the 12 months ending in October, while the broad monetary aggregate (M2) expanded 37%. This was attributable to the fact that time deposits in local currency expanded at a 46% annual rate, since the interest rates offered by the financial system meant attractive yields in foreign currency. The turmoil in the Argentine banking system at the beginning of the year was reflected in an increase in foreign currency deposits in Uruguayan banks, but as these funds flowed into offshore institutions, they did not constitute a source of financing for domestic agents.

ii) Economic policy in the rest of the region. While economic activity decreased in the three countries discussed above, the level of activity in the rest of the region increased. The economic policies implemented in each case, however, evolved within different settings and in different stages of macroeconomic balance. On the basis of the results of their macroeconomic policies, the countries have first of all been divided into two large groups according to the size of their external or fiscal deficits. A third group is made up of economies that receive considerable amounts of external assistance. Lastly, Cuba, which owing to its special situation cannot be put in any of the above-mentioned categories, is placed in a special category.

– **Countries without significant external or fiscal deficits.** There are only three countries in this group. Chile stands out among them for its strong fiscal and external position, with a high growth rate and low inflation. The other members of the group, although with less sound balances, are Panama and the Dominican Republic.

Chile experienced simultaneously a high level of economic activity in a context of healthy external accounts, a decline in the rate of inflation, the consolidation of a high level of domestic savings, a reduction in the unemployment rate and an increase in real wages that was below the rate of productivity increases.

After overcoming the effects that the Mexican crisis had on domestic interest rates, the exchange rate and the price of shares on the stock market, during the first quarter the

Chilean economy resumed its vigorous rate of growth. After the adjustment process was over, early in the year the authorities began to introduce various measures designed to make monetary policy more flexible, to place emphasis on a gradual and selective opening-up of the capital account, and to readjust the restrictions on short-term capital. In the second half of the year, the continuation of a favourable trend in international prices led to a marked increase in domestic disposable income; this increase in disposable income was reflected in increased domestic spending, which until the third quarter was growing at a 12% annual rate. The authorities regard this marked growth in spending as temporary to a large extent, since it is the result of favourable terms of trade amounting to around 4% to 5% of GDP.

Monetary and exchange-rate policy was marked by the relative abundance of foreign currency enjoyed by the Chilean economy. During the first half of the year, the concern was to reconcile a reduction in interest rates with new steps in opening-up the capital account and additional restrictions on short-term flows. In the second half of the year, the concern shifted to the need to control spending once initial projections had been exceeded regarding the terms of trade and, with it, national income, domestic spending and imports.

In the first half of the year, foreign-exchange restrictions on the liquidation of foreign currencies derived from exports were eliminated, making the proceeds freely available. The gradual and selective opening-up of the capital account continued, permitting insurance companies and mutual funds from January to invest abroad. In June, the range of foreign investment choices for institutional investors was increased, broadening the options in fixed and variable income securities, thus facilitating the international diversification of portfolios. Furthermore, the banks' freedom to use foreign-currency deposits in the formal foreign-exchange market was reduced, thus closing off another avenue for foreign-currency speculation. A restriction was thus placed on the spot market, depriving it of depth and making it more vulnerable.

Seeking to increase their ability to influence the structure and level of capital flows, the authorities extended the 30% reserve requirement to financial investments, secondary ADRs and foreign deposits. This measure was accompanied by a broadening of the range of financial investments abroad that banks are allowed to make.

The appreciation of the peso against the dollar continued to be the main topic of discussion. In September, the real exchange rate showed a fall of nearly 9% in 12 months, which declined to 7% in October. The yearly average showed an appreciation of 4%. The explanation for this development is the sharp depreciation of the dollar against the yen and the mark, as reflected in the currency weightings of the Chilean currency basket; the strength of the trade balance; the continuation of foreign investment flows and the gradual return of short-term flows, once foreign investors have included in their financial calculations the structural differences between the Chilean economy and the economies of the rest of the region. The nominal exchange rate moved from 402 pesos to the dollar in mid-December 1994 to a maximum level of 419 pesos at the beginning of March 1995, under the influence of the repercussions of the Argen-

tine financial crisis. From then on, the currency began a sustained descent, reaching a low of 368 pesos to the dollar in mid-June. From this point onwards, the combination of measures adopted, the international valuation of the dollar, and the marked increase in imports raised the market value of the peso to 420 per dollar at the end of November, after which the Central Bank announced exchange-rate measures that were the equivalent of a revaluation.

In the first fortnight in December, the Central Bank altered its method of adjusting the benchmark currency basket, including an additional discount of 2% per year in the international inflation figure used in the basket, which fluctuates daily according to a figure obtained by subtracting the international inflation rate from the domestic inflation rate. The authorities explain their reasoning by pointing to the need to determine the central value of the currency basket on the basis of data that reflect trends in the economy, so as to estimate scarcity of foreign currency in the medium term.

The monetary policy regulations were modified in May, once the daily interest rate had become the principal monetary instrument, replacing as monetary signal the rate of 90-day adjustable notes of the Central Bank, which became fixed by the market. From September onwards, monetary policy took a restrictive approach. Given that the rapid rate of domestic spending was continuing during the second half of the year, the Central Bank adopted restrictive monetary measures such as increases in the base rate, extraordinary sales of securities and an increase in the rediscount rate.

In the final quarter, the Central Bank reacted to excessive spending by raising the base rate by 50 points, a move that was reflected in the market by a rise of a little more than 100 basis points, indicating that the market shared the Central Bank's concern about the continuing growth in spending. At the beginning of December, the daily rate of liquid deposits had gone from 5.2% to 6% in real annual terms, and the rediscount rates had been raised by 1% to 7.5% in an effort to raise the interbank rate to around 7% in real terms.

At the end of the third quarter, current public spending had built up a real increase of 6% with respect to the same period the year before, while current revenues grew by 7%. Public savings in the first nine months of the year reached nearly 4% of GDP. The increase in current revenues is linked to the rapid pace of economic activity and the extraordinary revenues resulting from the high price of copper in international markets. The growth in fiscal expenditure, although significant, was lower than the growth of the economy during a similar period.

At the beginning of August, Parliament passed direct tax increases of nearly 10% on cigarettes and fuels, generating funds to help finance increases of 10% for pensions below 100,000 pesos per month (US\$ 240) and of 5% for education subsidies. It also passed changes in the tax code to close legal gaps that allowed tax evasion by companies and individuals.

In the light of the external bonanza, which had the effect of creating an accumulation of reserves, the public sector made a prepayment of medium- and long-term external debt of the Treasury and the Central Bank of over US\$ 1.3 billion, the equivalent of 9% of exports and of 2.6% of GDP. This prepayment permits further implementation of an active

exchange-rate policy, sterilizing the monetary effect of an accumulation of reserves. In the same vein, the Central Bank recently announced that it will prepay US\$ 1.6 billion of its debt to the private banking sector.

Although in a less consolidated economic situation, **Panama** was able to bring its principal economic balances under control. In spite of the uncertainty of the early months, containment of expenditure by the central Government, especially on investment, was coupled with an increase in tax revenues, with the effect that the fiscal deficit was kept within very moderate bounds. Likewise, the authorities were able to renegotiate with the commercial banking sector a significant portion of the accumulated overdue interest payments on the external public debt.

In the context of its proposed structural reform, the new Government passed the Universalization of Fiscal Incentives to Production Act, which standardizes a 30% tax on earnings, eliminates tax breaks for companies, and applies a flat rate of 15% on re-exports from the free trade zone. The Government also approved a reform of the labour code that had been in force since 1972, increasing employers' ability to dismiss or redeploy personnel and to reduce contractually-agreed pay in cases where companies are experiencing financial difficulties, and also to require continuous work shifts.

The central Government deficit at the end of September slightly exceeded 1% of GDP. Although the structural reforms had not yet had a significant effect on the central Government's current revenues, these rose by 7% in comparison with 1994. Total expenditures remained at the same level as in the previous year, owing chiefly to the containment of expenditure on investment, on which only 41% of the amount budgeted to date had been spent; to deferment of scheduled service of total government debt (in the amount of a little over 120 million balboas); and to stability of wage and salary payments, which comprise more than 34% of total expenditure. An important financial policy achievement was the renegotiation of the external public debt with the commercial banking sector.

The domestic banking system continued to encourage the extension of credit for construction of low- and middle-income housing. In this way it was attempting to compensate for the decline in construction of large hotels and luxury tower blocks, since only two projects for the construction of large-scale hotel complexes remain pending. Work also continued on the Panamerican Highway to the north of the capital and on the multi-lane highway from Panama City to Colón.

During 1995, the multilateral talks on the terms for the country's admission into the World Trade Organization (WTO) continued; changes were made in the Inter-oceanic Region Authority in order to attract foreign capital to the Canal Zone; and the Government adopted a series of administrative measures to combat drug trafficking.

Following the fiscal and monetary measures put into place beginning in September 1994, in 1995 the **Dominican Republic** made progress in re-establishing its principal macroeconomic balances, achieving fiscal and external surpluses that helped to keep inflationary pressures under control.

Increased revenues enabled the central Government to achieve a surplus of 0.6% of GDP after two years of deficits. This achievement was chiefly due to better administration of the tax system and a broadening of the tax base, which brought an increase in tax receipts from earnings, communications, and industrial goods sales (value-added tax), as well as from customs duties and selective taxes on tobacco and alcoholic beverages. Fiscal expenditure also rose slightly, owing to increased current expenditures and lower capital outlays. Public companies, on the other hand, showed an increased financial imbalance.

A cautious monetary policy was maintained by means of restrictions on the amounts of credit extended by both the Central Bank and the State Reserve Bank. In addition, participation certificates were issued in order to stabilize prices by adjusting the amount of liquidity. The broadly-defined money supply grew by 15% in nominal terms as a result of an increase of 12% in money and 17% in savings and time deposits.

The average dollar exchange rate rose only from 13.17 pesos in January 1995 to 13.77 pesos in September 1995. The country's international competitiveness therefore continued to erode, albeit only slightly, owing to the national currency's appreciation in the light of increasing integration and trade liberalization.

– **Countries with a significant external or fiscal deficit.** While also experiencing growth, other countries had economic policies that reflected the differences in their level of consolidation of macroeconomic equilibria.

Brazil, the largest economy in the region, continued to give top priority to the stabilization programme instituted in the middle of the previous year. Its efforts in this regard enabled it to achieve a drastic reduction in its rate of inflation on the basis of an exchange rate system involving flotation bands adjusted periodically and strict monetary policy implemented through high real interest rates. Despite these efforts, the fiscal gap widened significantly.

The early months of the *Real* Plan saw a rapid increase in internal demand and a considerable increase in imports, a process anticipated by the authorities, who had accumulated international reserves of some US\$ 40 billion, or 15 months' worth of imports. They were also counting on a greater availability of external resources through loans and direct investment. The Mexican crisis of December 1994 forced them to revise this strategy, as they observed a slackening in external capital flows. The amount of new Brazilian securities placed abroad (bonds, notes and certificates of deposits), for example, dropped to US\$ 1.5 billion in the first quarter, half the amount realized the previous quarter. On the stock market the decline was even greater; the net balance for the first three months was negative by more than US\$ 2 billion, compared with net monthly inflows of some US\$ 5 billion in 1994.

The deterioration in the external accounts induced the authorities to make Brazilian exchange rate policy clearer. In March, they announced the introduction of a flotation band system which permitted the dollar to fluctuate between 0.84 and 0.93 reals. The ceiling of the band was to be adjusted to 0.98 reals to the dollar in May. In practice, the implementation of this new policy was complicated by speculative movements that caused a drop of over US\$ 4 billion in

international reserves, until the Central Bank consolidated the band between 0.88 and 0.93 reals, a nominal devaluation of a little under 5%. At the end of June, the exchange rate band was raised to 0.91 and 0.99, this time without implementation problems. At the end of November, the price of the dollar was 0.96 reals, with the Central Bank intervening from time to time in the exchange market.

Trade policy varied with changes in the foreign trade balance. At the end of February, the Government raised tariffs on motor vehicles and electronic goods when imports of automobiles reached US\$ 300 million per month, six times higher than their level during the same period of 1994. Despite the tariff increase, motor vehicle imports continued to be substantial for the entire first half of the year. At the end of June, the tariff on motor vehicles was raised to 70% and a quota system was instituted. After an adverse ruling by the World Trade Organization, however, Brazil eliminated the quotas, which were proving redundant in any case because of a decline in local demand. Negotiations with its MERCOSUR partners, in particular, resulted in an agreement to reduce the tariff gradually to 35% in 1999.

Although exchange rate parity was a critical factor during the early months of the *Real Plan*, in 1995 monetary policy became the chief instrument for adjusting domestic demand and alleviating pressures on inflation and the balance of payments. In October 1994 the Central Bank of Brazil raised the reserve requirement on deposits and extended it to the lending operations of financial institutions. This policy generated a significant difference between the costs of accepting deposits and investing the domestic resources thus obtained. Given strong growth in domestic demand and in credit transactions, the Central Bank focused its efforts on interest rates, which reached historical highs in real terms. Persistent monetary restriction slowed the demand for credit and caused problems along the payment chain, increasing payment arrears.

Failure to meet trade payments hurt industry, which began to accumulate inventories. In the second half, a number of sectors, including the automotive industry, reduced their inventories by cutting back on production.

The lower level of economic activity had an impact on fiscal revenues. Although total receipts were 10% higher than the previous year, federal and state tax revenues stagnated beginning in May. Fiscal expenditure, however, continued to grow at a faster pace than revenues. The federal treasury, for example, excluding social security, posted a real increase of 13% in revenue and 16% in expenditure. Of particular significance were the increases of over 60% in real terms in service on the debt and 15% in wages and salaries. There was also a strong rise in social security expenditure (32% in real terms), which consumed all the resources generated. The states also had serious problems with their finances; personnel expenses alone accounted for 80% of their resources.

Fiscal deterioration thus occurred in both financial and non-financial items. The public sector's financing needs to the end of December translates into an operating shortfall equal to 4.3% of output, composed of a deficit of 0.8% of GDP generated by the central Government and Central Bank, 2.7% generated by the states and municipalities, and 0.9% generated by public sector enterprises. In contrast, in 1994

there was a fiscal surplus of 2% of output. Similarly, the primary surplus was equal to only 1% of output, well below the figure of 5.5% posted in 1994; of the difference, 2% was accounted for by the increase in interest paid.

In light of the growing deficit, the Government asked parliament to move more quickly to pass constitutional reforms and took steps to reduce its expenditures and improve the management of public sector enterprises. The federal Government also sought to link its financing of state governments to cost-control measures and improvements in local revenue collection.

Tight credit resulting from higher interest rates also had an impact on the financial system, both public and private. Bank profits had been declining from the start of the stabilization process, and the deterioration in the quality of their loans—in the case of state banks because of loans to state governments (e.g., BANESPA) or purchases of public securities (e.g., Rio, Rio Grande do Sul) and in the case of private banks because of default by agricultural producers (e.g., Banco do Brasil) or on loans to retailers (various private banks)—made it necessary to restructure the local financial system. Early in the year the Central Bank was forced to intervene in the administration of a number of state banks, and in August the largest bank in the northeast, the eighth largest in the country, was added to their number. In the latter case, the special financing granted by the Central Bank exceeded US\$ 1.5 billion.

In order to stimulate the restructuring of the system, special Central Bank financing facilities were created, its intervention capacity was expanded, and deposit insurance was instituted for deposits of up to 20,000 reals. In November, two of the country's major banks merged with the financial support of the Central Bank because of the shaky position of one of the banks, and there was another merger of two regional institutions.

High domestic interest rates forced companies to resort to external financing and simultaneously attracted capital flows to the country. Thanks to these factors, there was a heavy influx of external capital during the second half. Given this situation, a move to lower the financial tax on external capital instituted following the Mexican crisis was dropped, and the Central Bank instead extended the tax to foreign exchange transactions in the fluctuating market.

During the second half, however, the Central Bank reduced reserve requirements on bank deposits, which had been raised the year before, and eliminated the reserve requirements on bank lending operations. Early in October, measures were taken to encourage longer loan maturities. Finally, the Central Bank reduced its basic rate to under 3% per month. Despite these measures, the prevailing uncertainties in the financial system have so far kept interest rates high. Recently, the monetary board increased the term of consumer credit allowed from three to six months.

Colombia was able to sustain economic growth, while reducing inflation. The deficit on its balance-of-payments current account, however, continued to widen.

In pursuit of its goal of controlling inflation, the Bank of the Republic started the year off by continuing to apply a monetary policy aimed at containing the growth of liquidity, against a background of burgeoning domestic demand.

Demand was swelled by an increase in both public and private spending, the latter facilitated by bank credit that expanded at an annual rate of nearly 45%. The monetary authorities used open market operations to contain the growth of the monetary base and the money supply; both aggregates remained below the target range set by the authorities for nearly the entire year. This situation meant that interest rates were higher than they had been during most of 1994; by the end of the first quarter deposit rates topped 35% and lending rates 45% (against an inflation rate of 20%).

Despite the restraint on growth in the money supply, liquidity in the broad economic sense (M2) continued to grow rapidly, as the process of replacing demand deposits with savings and time deposits accelerated. The latter were stimulated by higher yields and by a steady influx of foreign capital attracted by the high rates and the slow pace of nominal devaluation of the local currency.

In order to counteract the above trend and to achieve a more stable relationship between the money supply and quasi-money in the future, beginning in May the monetary authorities restructured the reserve requirements, reducing them for demand deposits and raising them for time deposits. Towards the end of the first half, the Government—which was committed under the Social Pact to supporting the inflation target through fiscal measures—agreed to cut public sector spending by 530 billion pesos, thereby making it possible to relax monetary policy. The Bank of the Republic then set maximum limits on interest rates, a measure that was in force until mid-August. Rates reversed course during the second half, dropping by more than 5%.

The growth of quasi-money, which had reached a rate of 49% per annum by mid-year, slowed in the second half. Consequently, the growth of liquidity (M2) slowed from 38% to 34% between the middle and the end of the year, while growth in the money supply slowed from 18% to 12%. Total credit in pesos increased more slowly, and in October growth was at a rate of 37% per annum, close to the 35% target set for the end of the year.

The strong influx of foreign capital continued to influence the exchange rate of the peso, which depreciated in the first half by less than 6%, a rate much lower than domestic inflation. At the beginning of the second half, the rate of nominal depreciation accelerated, due to measures taken to moderate interest rates. In August, as a result of events beyond the economic sphere—chiefly political—that added to uncertainty, the price of the dollar rose abruptly to the ceiling of the exchange-rate band set by the Bank of the Republic, so that it was forced to intervene to support the currency. The value of the dollar, which had closed the year before at 830 pesos, went over 1,000 pesos in mid-November, and by the end of the year the national currency had depreciated 20%. A factor contributing to this tendency may have been a smaller supply of dollars from drug-trafficking as a result of progress in fighting this type of crime.

By the time the Government decided to cut spending, it had already increased by 40% in the first half. Despite a boost in petroleum income, the increase in revenue did not keep pace with expenditure, and the finances of a number of State-owned enterprises and regional and local governments deteriorated. As a result, halfway through the year the

public sector was showing a deficit of around 1% of GDP. The need to finance the gap through domestic borrowing was one of the factors keeping interest rates high.

The commitments undertaken in the "Social Leap", the Government's development plan, together with social security reform and the transfers mandated by the constitution to decentralized entities continued to put pressure on central Government expenditure. "Social Leap" commitments caused public investment expenditure to grow more rapidly than current expenditure (32% as against 27% for the first three quarters). Altogether, spending slowed during the year; in 1994, the increase in operating expenditure during the same period has been 46%. In mid-December, Parliament passed a tax reform bill that should increase revenues substantially.

At the end of the third quarter, the Constitutional Court ruled that the income from the concession of cellular telephone service, which the Government had been treating as capital revenue, should be charged to current expenditure, an interpretation that would give local governments a share. At the end of the year, while the public sector was facing a deficit of 1.2% of GDP, the central Government deficit was 3%. The deficit was to be financed by a combination of domestic and foreign borrowing. In September, Moody's credit rating agency raised Colombian debt paper to a higher rating.

In **Costa Rica** the economy was shaped by an atmosphere of uncertainty, especially during the first half, due to slow progress in the passage of the tax package submitted to the Legislative Assembly at the end of 1994. Both the fiscal and external deficits were considerable. Although economic policy was oriented towards reducing inflation, which had doubled the previous year, consumer prices continued to rise rapidly.

Because of the delay in approving the fiscal package, in the early months of the year the Government resorted to contingency measures. In February, for example, it proposed to maintain constant the number of public sector employees. It also instituted a tax on coffee exports in order to tap some of the windfall profits generated by high international coffee prices. Finally, it instituted a temporary increase of 8% in import duties (beginning in March) and raised selective excise taxes. Once the tax package was approved in August, some of these measures lapsed.

Some of the major changes in the tax laws involved raising the value added tax (VAT) from 10% to 15% (for 18 months, then to be reduced to 13%) and instituting a 1% tax on gross assets of companies with capital of over US\$ 160,000. Thanks to these measures, the fiscal deficit was reduced from 6.5% in 1994 to 4.3% in 1995. The new pension law, approved at mid-year, provided for increasing the contributions of employees, raising the minimum retirement age from 50 to 55 years, increasing the number of years of contribution and setting ceilings on pensions.

The process of reducing the size of government was taken further with the privatization of some public sector units and activities. At mid-year, the Executive decided to combine four separate ministries into one. In addition, a Public Works Concession Act was implemented authorizing the private sector to execute infrastructure projects, and the initial steps were taken to transfer the functions of six public entities

involved in promoting agricultural production and exports. Finally, a law passed in May extended the private sector's opportunity to participate in electricity generation from 15% to 30% of the total, and increased the allowed proportion of foreign capital from 35% to 50% of total private investment.

As part of the stabilization programme, monetary policy was adjusted. The high reserve requirements introduced at the end of 1994 were maintained, while placement of Monetary Stabilization Bonds expanded by 20% in the first half compared with the same period of the previous year. This resulted in a contraction in real terms of currency in circulation. The effect on quasi-money in national currency was similar. However, quasi-money in the broad sense (including components denominated in foreign currency) expanded 24% due to a marked trend towards dollarization of the economy, a phenomenon that had begun the previous year. The above measures greatly increased the cost of credit; interest rates topped 40% on loans and hovered around 30% on deposits, against an inflation rate of 25% per annum. By June, the nominal amount of outstanding credit to the private sector had risen only 3% from its level in December, and this acted as a constraint on production.

The restraining effect of greater fiscal and monetary austerity on prices was counteracted, however, by the accelerated devaluation of the colón against the dollar. The nominal exchange rate rose by 19%, at twice the pace of the previous year. Since inflation was higher, however, the national currency actually appreciated slightly.

In September a law was passed approving a new charter for the Central Bank of Costa Rica and strengthening the supervisory function of the General Financial Institution Audit Bureau (AGEF). The new law ends the monopoly of State banks over current accounts and gives financial institutions access to the Central Bank's discount facility. At the same time, it requires all financial institutions to maintain minimum reserves. The public sector banking system, meanwhile, will be implementing a plan for improving its efficiency.

After achieving favourable macroeconomic results the year before, in 1995 **Ecuador's** economy was adversely affected by a number of factors. Among the most important were the armed conflict with Peru, an energy crisis caused by unfavourable climatic conditions and technical problems, and serious conflicts in mid-year between the branches of Government, culminating in the resignation of the Vice-President of the Republic. To a lesser extent, the country was also affected by the crisis in other economies of the region and the uncertainties of a pre-election year.

The authorities adhered to the main components of their stabilization strategy, based on a policy of fiscal austerity and scheduled nominal devaluations designed to keep the exchange rate stable in real terms. The above-mentioned events forced the authorities to adjust the economic targets originally set. Inflation was brought down slightly against a background of slowing growth, but the external deficit remained around 5% of output.

The armed conflict with Peru caused extraordinary expenditure of roughly US\$ 360 million (2% of GDP). To cover the extra expense, a 2% tax on motor vehicles and a contribution of two days' wages and salaries were levied. Other public spending was cut, reducing investment targets from 7% to

6% of output. Higher than expected petroleum prices helped boost public sector revenues during the first half. Slower growth had the opposite effect. The energy crisis, which necessitated an increase in thermoelectric generation using subsidized fuel, increased expenditure. The net result of all these factors is that the non-financial public sector should show a deficit of around 1% of output for 1995.

In January the authorities modified their exchange rate policy by defining a flotation band for the sucre to be adjusted upward according to the anticipated rate of inflation. In order to keep the exchange rate within the band, the Central Bank intervened in the foreign exchange market and influenced interest rates. Since the exchange rate rose to the ceiling of the band on a number of occasions, there were losses of reserves and interest rates remained high. At the end of October the authorities raised the ceiling of the band, widening it from 100 sucres to 10% of the exchange rate (in October to 272 sucres). The price of the dollar rose some 21% in the course of the year, so that the annual average of the real effective exchange rate should be similar to the figure for 1994.

Monetary policy, as already noted, gave an assist to exchange rate policy through management of interest rates. The uncertainty generated by the armed conflict early in the year caused a sharp rise in interest rates. After hostilities had ceased, deposit rates sank back to their previous levels. Lending rates proved less elastic and in mid-year began to rise again, so that by September the reference lending rate showed a real yield of 25% per annum. A tight monetary policy slowed the pace of money creation to a rate of 23% per annum in September, substantially below the 36% recorded the previous December. The growth of aggregates M1 and M2 also slowed to rates of 15% and 35% per annum, respectively. On the other hand, high interest rates limited the expansion of the financial system and caused an increase in the proportion of overdue loans, which in August reached the level of 7% of total credit.

As part of its trade policy, Ecuador continued to pursue the negotiations that culminated in its admission to the World Trade Organization, subject to ratification by the Ecuadorian Congress. At the start of the year an economic complementarity agreement with Chile went into effect, and in mid-year an agreement was signed with Cuba providing for preferential tariff treatment for certain products. In addition, negotiations were undertaken on a free trade agreement with Mexico.

Structural reforms progressed slowly. The only privatization completed was that of Ecuatoriana airlines; the initial steps were taken to sell Cementera Chimborazo, and Congress approved the partial sale of EMETEL. In addition, licenses to distribute fuel were granted to the private sector.

Economic policy in **Paraguay** also gave high priority to reducing inflation, a goal that was achieved by continuing the policy of fiscal austerity and stabilizing the nominal exchange rate. The external deficit, however, was large again.

In September the central Government was showing a surplus thanks to a substantial increase in current revenues. A major element was higher tax revenue, especially from value added tax and levies on foreign trade. In contrast, non-tax revenue declined, in part because the royalties received in

1994 for use of the binational Itaipú dam had included the payment of arrears. On the other side of the ledger, expenditure also grew rapidly. It is expected that the fourth quarter will show a deficit, which will mean that the year will close with a small surplus, similar to that posted in 1994.

Given the above situation, the non-financial public sector's cash flow with the Central Bank had a net contractionary effect. The financial crisis, however, caused an increase in credit to the banking system. Negative expectations about the management of some private banks brought about a liquidity crisis that obliged the Central Bank to intervene to assist three banks and one savings and loan association. Continuing pressure by the public on deposits then led to intervention in yet another bank and four other financial institutions. In order to mitigate the negative effect of these occurrences, the Central Bank provided short-term financial assistance and created a "Financial System Security Network", which granted loans to banks against guaranteed credit instruments. This resulted in an increase of approximately 70% in net credit to the banking system. None the less, fiscal contraction and heavy absorption through open market operations succeeded in offsetting the expansionary effects of the financial crisis. In this context, while interest rates on both deposits and loans declined in nominal terms, by the end of the third quarter real yields were around 10% per annum.

The problems faced by the financial system, however, did not create pressure on the price of the dollar, which rose only 2% in nominal terms during the course of the year. The effective rate of exchange, however, measured against a basket of currencies of the country's main trading partners continued to climb, due largely to the appreciation of Brazil's currency.

Strict fiscal and monetary policies succeeded in further reducing inflation in **Peru**, although this was against the backdrop of a slow-down in the economy's previous strong rate of recovery. The external deficit, however, widened to equal over 8% of output.

From May onward there was a substantial drop in the rate of money creation from an annual rate of 46% in May to 35% on October. While foreign exchange transactions continued to be the main source of expansion, the Central Reserve Bank resorted chiefly to the issuance of securities and the retention of deposits from the public sector and Banco de la Nación to decrease the money supply. Both money and liquidity in national currency showed a similar trend; growth in the money supply slowed from an annualized rate of 43% at the end of the first half to 30% in October, while growth in liquidity slowed from 44% to 35% over the same period. In an effort to moderate liquidity, the Central Reserve Bank decided to adjust the financial system's reserve deposit requirements every 15 days.

During the second half the expansion of non-financial public sector expenditure slowed in both the consumption and investment categories, after strong growth in the first two quarters. The increase in expenditure, which rose to 12% of output (10% in 1994), including investments equal to 4% of output (1% higher than the previous year), resulted in a financial deficit of around 1% of output.

The turbulence in international financial markets had some negative repercussions during the early months of the year,

but by the second quarter the impact of the Mexican crisis had dissipated, to the point that net international reserves actually increased by US\$ 376 million. Despite continued inflows of external capital, the real effective exchange rate rallied slightly, after seven consecutive years of decline.

While the privatization process was interrupted during the first quarter pending the outcome of elections, in the second half negotiations were initiated on the sale of a number of public enterprises. Among the more important developments were the confirmation of Yacimientos Petrolíferos Fiscales de Argentina's interest in Petroperú and of Shell's interest in developing the Camisea gas reserves and building pipelines to transport the gas. The sale in April of the Cahua hydroelectric plant marked the start of the programme to privatize Electroperú. Three thermal energy plants were also put up for sale through a capitalization mechanism.

In **Venezuela** a mild economic recovery and a decline in inflation marked improvements over the previous year's management, but the fiscal deficit remained wide.

The exchange rate controls instituted in June 1994, setting the rate at 170 bolívares to the dollar, were maintained until nearly the end of the year. The policy was intended to staunch the outflow of foreign currency reserves, but they declined none the less by some US\$ 2 billion. At the end of the first half, the national securities exchanges were authorized to trade in bolívares public external debt "Brady bonds" denominated in dollars; this created a virtual parallel currency market. The ratio between the prices of the bonds in local currency and in dollars constituted what was called the "arbitrage parity rate", which at first stabilized at around 230 bolívares to the dollar, but later rose to over 300 bolívares in October. Early in the month it was decided that this parity would apply as the rate of exchange for travel and credit card purchases, in an attempt to eliminate the incentive for heavy outflows of foreign exchange through this avenue. In mid-December, the Government made the exchange rate uniform at 290 bolívares for all transactions, amid expectations that exchange rates would soon be liberalized completely.

The outflow of foreign currency helped to moderate growth in the money supply, reinforcing the open market operations of the Central Bank of Venezuela. Specifically, beginning in March, the bank sold new "monetary stabilization bonds" (TEMs), which replaced the old "zero coupon" bonds. Unlike the old bonds, the yield on the TEMs was initially set by the Central Bank, until June, when the yield was allowed to depend on the market. As a result, the money supply (M1) barely increased during the year in nominal terms (by a little over 10%) and contracted sharply in real terms. Hence, the growth in liquidity (M2) reflected the growth in time and savings deposits at banks. After increasing significantly (17%) during the first two months of the year, it stabilized and then moved in step with M1, showing annual growth of 35% by December.

Interest rates, after falling sharply due to the imposition of foreign exchange controls the previous year, remained negative in real terms for deposits and even, in some months, for loans. The growth in liquidity early in the year was accompanied by a downward trend in rates, with nominal effective rates (annualized at compound interest) falling below 20% on deposits and 40% on loans, while domestic

prices grew at an annual rate of 70%. The relative success in containing liquidity subsequently resulted in a rise of up to 33% for deposit rates and over 50% for lending rates on average in October, at a time when inflation had slowed to an annual rate of 50%. This trend was consistent with the range set in June by the monetary authorities for nominal simple interest rates (24% minimum for deposits and 46% maximum for loans). The new rules replaced the old regulations which linked interest rates to TEM yields.

After the acute financial crisis of the previous year, which forced the public sector to make huge outlays to rescue banks in difficulty, public sector accounts enjoyed something of a respite in 1995, although the State still was obliged to back the liabilities of some financial institutions to their depositors. The fiscal deficit, however, although somewhat narrower, continued to be substantial. In the first place, revenues in bolívares were affected by the maintenance of a fixed exchange rate when calculating them in dollars, which in Venezuela constitute the greater part of public sector finance. In addition, the economic recession that affected the non-petroleum portion of the economy shrank the tax base. In September, the Government authorized a price hike on some types of gasoline sold in Venezuela, one of the cheapest in the world, but the increase did not go far towards covering the deficit.

Expenditure was influenced primarily by the increase in interest on the debt, which, together with transfers mandated by the constitution to regional and local governments, accounted for roughly two thirds of current expenditure. The increase in interest of the domestic debt was particularly large, while interest on the external debt (in bolívares) was restrained by the maintenance of the fixed exchange rate. In terms of financial results, as the year drew to a close the central Government was facing a deficit equivalent to 6% of GDP, while the deficit for the public sector as a whole was rising to 7.7%. The Government encountered difficulties in financing a significant portion of the deficit by recourse to the domestic capital market, and towards the end of the year Congress authorized the placement of debt instruments on the international market to meet obligations in foreign currency.

Towards the end of the year, the Government opened talks with the International Monetary Fund in the hope of obtaining a substantial financing package (some US\$ 3 billion), which would in turn make it easier to obtain even larger loans from the World Bank and the Inter-American Development Bank.

– **Countries that receive considerable external assistance.** This group includes Bolivia and some of the Central American and Caribbean countries. These economies receive significant amounts of external grant money or income from citizens residing abroad, which finances public investment or private domestic expenditure that would not otherwise be possible. In practice, the fiscal policy of these countries is aimed at balancing their current accounts, while investment expenditure is a function of the external assistance received.

Bolivia adhered resolutely to its stabilization policy and set in motion an ambitious programme of privatizations. It achieved better results in fiscal management, but the external deficit widened.

The non-financial public sector achieved a considerable reduction in its operating deficit. To September it actually ran a slight surplus. However, an increase in expenditures in the late months of the year resulted in a deficit equal to 2.5% of output, slightly lower than the previous year's. The improvement over 1994 was due to both an increase in revenues, particularly tax revenues and proceeds of privatization, and a decrease in outlays, primarily investment. The reduction of the fiscal deficit, combined with major external financing obtained by the public sector, allowed for a contraction of domestic credit.

The absorption effect that fiscal policy had on monetary creation helped to slow the expansion of the monetary aggregates. Both monetary creation and the monetary base grew by only 11% per annum, close to the rate of inflation.

Foreign exchange policy continued to be directed at maintaining a competitive real exchange rate. The real effective rate of exchange showed a slight increase in external competitiveness, but the effect was largely due to the appreciation of Brazil's currency.

Trade policy underwent occasional changes. Since a scarcity of basic grains due to drought was putting pressure on the general level of prices, the authorities decided to eliminate import duties on wheat, maize, sugar and wheat flour for three months. Toward the end of the year Bolivia reached an agreement to join MERCOSUR.

In the course of the year the national electric utility, telecommunications company, airline and electrical generating enterprise were all privatized. In addition, a contract to operate the railroads was awarded. The Government instituted an ambitious programme of structural reforms, comprising the political make-up of the State, the organization of the executive branch, the education system, the capitalization of public enterprises and popular participation. The external funds received were to be allocated primarily to social concerns such as health, education, popular participation and investments in infrastructure to improve Bolivia's integration into the international market. The decentralization programme approved by the Popular Participation Act transferred some political and economic power to the country's 301 municipalities on the basis of a more equitable distribution of State resources.

Finally, the Government made efforts to carry out the programme of reducing coca plantations that was initiated in 1991, a condition for financial aid from the United States. The eradication of plantations aroused peasant protests.

The economy of **El Salvador** continued to perform positively in 1995, with satisfactory growth and reductions in inflation. Public finances improved in relation to 1994 –indeed, the central Government deficit dropped both in absolute terms and as a proportion of GDP (1.6%). The trade deficit, however, increased, and the deficit on the balance-of-payments current account was nearly 5% of output.

In order to stimulate growth and employment, the Government of El Salvador set out in its monetary and financial programme its targets of reducing inflation to between 6% and 8% by the end of the year, keeping the exchange rate stable, cutting interest rates, bringing down the fiscal deficit to 1.6% of GDP and stimulating exports in order to correct the balance-of-payments current account deficit. In addition, the

Government announced a series of measures which aimed to open up the economy still further, raise and improve the competitiveness of the financial system and speed up the privatization and modernization of State enterprises.

As a result of the rise in revenue and the reduction of current expenditure, the central Government achieved its planned objectives. As regards privatization, the sale of the first sugar refinery was completed. During the first half of the year approval was given to an increase in VAT from 10% to 13%, income tax reforms and increases in the taxes on cigarettes and alcoholic and carbonated beverages.

The aim of monetary policy was to control liquidity, for which the main tool was the bank reserve requirement. At the end of March, the reserve requirements for financial operations in dollars and local currency were standardized; for demand deposits they were set at 30% and for savings and time deposits at 20%, 5% of which would yield a return. Later, with inflationary pressure mounting, the monetary authorities announced the staggered application of an excess reserve to public sector deposits in banks and financial institutions. This reached to 35% as of 18 November 1995.

In November the sale of the last State bank (Banco Hipotecario) was announced. This concluded the process of financial sector privatization which began in 1990. In the first phase of the operation, employees will be offered 25% of the shares. A further 35% of the bank's assets will be offered to small investors, and the remaining 40% to large investors in competitive bidding.

The economy of Guatemala grew in 1995, and inflation remained moderate, lower than the previous year. The external deficit, although somewhat reduced, still remained around 4% of output. In the political arena, there were some positive developments. General elections were held for new office-holders in the national executive, congress and municipal governments. This represented a normalization of the political state of affairs from the anomalous situation prevailing since the attempted coup in 1993. Moreover, groups long excluded from the electoral process went to the polls. Negotiations to end the internal armed conflict, however, progressed slowly, delaying the conclusion of a peace agreement, and public safety was threatened by an unusual surge in violence and crime.

Economic policy was directed at restoring net international reserves to their December 1994 level (US\$ 796 million), reducing the overall public sector deficit to 1.3% of GDP, increasing tax revenues and reducing outstanding central Government debt.

The fiscal policy goal was achieved, as the public sector deficit was brought down to around 1% of output. A major contributing factor was the increase in tax revenues to the equivalent of 7.4% of GDP. Since current expenditure increased slightly, the current account saving was close to 1.5% of GDP, higher than the 0.8% figure for 1994. Given this situation, government investment, equal to 2% of GDP, was essentially self-financed.

A number of factors contributed to higher tax revenues. In the first place, quarterly income-tax payments were re-instituted after the legislative defects were corrected that had resulted in their being declared unconstitutional. Moreover, early in the year the Constitutional Court upheld the legality

of the concept of tax offense, thereby strengthening the system of penalties against tax evasion and tax avoidance. In addition, the administration of value added tax was reinforced, and the criteria for qualifying for a tax credit were tightened. As a result, an increase of 53% in VAT revenues was reported, averaging domestic transactions and imports together.

Monetary policy was somewhat variable. During the early part of the year, monetary policy showed unmistakable signs of being expansive; net international reserves dropped from US\$ 796 million to US\$ 629 million between the end of 1994 and the middle of February 1995. Beginning in the second quarter, a series of measures were adopted to counteract excess liquidity. The Bank of Guatemala went back to using open market operations and kept bank reserve requirements high. Interest rates increased as a result.

These monetary measures were insufficient to restore net reserves to their 1994 year-end level. The rate of exchange was subject to depreciation pressures that caused the Central Bank to intervene. In contrast to 1994, when the Bank intervened to moderate the appreciation of the national currency against the dollar, in 1995 it intervened to avoid a rise that would put inflationary targets at risk. The interventions and the monetary and fiscal policies instituted succeeded in establishing a framework of exchange rate stability; by year-end, the national currency had depreciated 5% in nominal terms, which nevertheless constituted a further drop in the exchange rate in real terms.

The resumption of the "shadow" agreement with the International Monetary Fund restored Guatemala's access to the external financing windows. In June, the Inter-American Development Bank made the final disbursement of US\$ 35 million on the loan for financial modernization. Meanwhile, negotiations proceeded on getting the World Bank to release the next tranche of funds for the modernization of the State, probably in December 1995.

The rise in Haiti's gross domestic product was a break in the deep crisis in which the country has been mired since 1990. The upturn in productive activity brought a general improvement in macroeconomic indicators and can be attributed to the normalization of the internal political situation, through the restoration of civilian government, and the determined financial support of the international community. Nevertheless, fiscal and external imbalances persisted.

The objectives of the constitutional Government's economic and financial programme, which was backed by foreign aid commitments of US\$ 1.2 billion, were to re-establish the basis for sustainable development, promote employment and correct external imbalances. The programme was elaborated in the macroeconomic context set out in the compensatory and contingency financing facility agreed with the International Monetary Fund in February.

The previous year's high inflation rate (52%) was brought under control by the opening-up of foreign trade, greater external liquidity, better fiscal management and a reorientation of monetary policy. The situation is nevertheless still very delicate. The moderate recovery occurred in a context of emergency administration and was based on the availability of US\$ 450 million in aid in rapid disbursement funds which were spent partly on financing 50% of the Government budget. The challenges facing the new Government which

would emerge from the elections in December include re-establishing the proper functioning of institutions, implementing fundamental structural reforms to lay the basis for sustainable growth and at the same time dealing with the population's pressing social demands.

Broadly speaking, the constitutional Government which was reinstated in October 1994 with the support of the international community had two main objectives in its economic programme. Firstly, to deal with the emergency created by the virtual collapse of the national economy after three years of military rule and the international embargo provoked by the coup. Secondly, to reduce and correct the structural and institutional distortions left behind after decades of paternalist, autocratic administration, which would impede the fulfilment of the country's potential for development.

The tone of macroeconomic policy was set by the contingency financing agreement concluded in February with the International Monetary Fund, which laid the foundation for attempts to put public finances in order, redirect domestic credit towards productive activities and liberalize trade. This agreement was complemented by several programmes of action financed by bilateral and multilateral bodies, which provided support for economic revival and attempted to alleviate the social cost of the crisis. The economic programme also included a set of measures which aimed to promote private initiative, demilitarize public life and privatize State enterprises.

When the Government regained control of public administration at the beginning of the fiscal year 1994-1995, it found public finances in a state of general breakdown. Taxation had plunged to a mere 3% of output, reflecting the conditions of ungovernability which prevailed within the de facto administration. The latter had resorted heavily to the inflation tax to finance a public deficit of 5% of GDP. The new economic and financial programme aimed, therefore, to raise tax revenues to 6% of GDP, using a series of fiscal and administrative measures. Fiscal measures included an increase in the tax on petroleum products, an import surcharge of 1% and a revision of the reference exchange rate used for customs valuations. At the same time, efforts were made to tighten up budgetary administration in order to minimize tax and customs evasion and recover the accumulated arrears of recent years, estimated at 80 million gourdes. In particular, measures were approved establishing an office to monitor the 200 largest taxpayers, update registers of companies and automating customs.

Most of the fiscal measures were incorporated in a law enacted at the beginning of March, at the same time that foreign trade was liberalized and the average tariff was reduced by 50%. Tax revenues went up steadily. Public enterprises also transferred surpluses to a value 10 times greater than the previous year, and 390 million gourdes were recovered from accounts which had been frozen during the embargo.

Total expenditure increased at a similar rate to revenue, through wage increases in connection with decentralization and the establishment of new security forces, the burden of interest on public internal and foreign debt, and an investment programme for the repair and maintenance of the infrastructure. Thus the fiscal deficit equalled 5.6% of GDP

(similar to 1994) and was financed almost entirely with external resources, half of which were grants.

The situation of the rest of the non-financial public sector was more variable. The total surplus which enabled it to transfer resources to the Government and pay off 265 million gourdes worth of debt with the Central Bank came essentially from the telecommunications company. By contrast, the hard-pressed cement, milling and electricity companies continued to receive support from the Treasury of 150 million gourdes.

Monetary policy resumed a moderate path, after two years of unchecked expansion. The monetary base expanded less (17%) than the value of transactions and was within the limits agreed with the IMF. Net public sector credit went down, mainly owing to the repayment of advances made in 1994 on accounts frozen during the international embargo. Private sector borrowing, however, increased by more than 50%. The exchange rate remained within a reasonable fluctuation band (from 13 to 15 gourdes to the dollar) for most of the year.

The law of 9 March liberalized foreign trade and cut existing tariff barriers considerably. In April the office dealing with privatization of public enterprises was established. Funds to encourage private investment were also set up with the support of the international community: one of US\$ 80 million to promote labour-intensive schemes and another of US\$ 65 million to stimulate foreign investment in infrastructure projects.

In 1995, the economy of Honduras experienced some relief from the chief burdens that had weighed it down the previous year, and hence began to grow again. Although fiscal management improved, inflation remained close to 30% per annum, and the external accounts showed a wide deficit, financed primarily with short-term capital and grants.

The fiscal reforms instituted in the late months of 1994, which introduced new taxes and broadened the tax base, together with a real decline in expenditure, reduced the deficit to under 4% of output (5% in 1994).

Monetary policy remained restrictive and succeeded in holding money supply growth to 15%, half of the nominal increase in output. A contributing factor was lower demand for real balances on the part of the public, in response to an inflation rate higher than normal for the country. In this context, interest rates remained high and credit tight.

In mid-1995 a system of foreign exchange auctions was instituted with intervention by the Central Bank, which set the limits within which the exchange rate was allowed to fluctuate. During the first few months of the year, the national currency strengthened somewhat because of a greater supply of foreign currency. Later on, an increase in demand for a supply limited by shrinking inflows of foreign capital caused the price of the dollar to rise; by October, it was selling for over 10 lempiras to the dollar. Nevertheless, in a departure from the previous two years, the national currency appreciated with reference to the currencies of the country's main trading partners.

In the course of the year the process of privatizing public enterprise continued. As the first step in that direction, the

enterprise Hondureña de Telecomunicaciones (HONDUTEL) was put under administration for the purpose of reorganizing its finances. According to the legislation governing the sale of the enterprise, the State is to retain 51% of the shares.

In Nicaragua, the recovery picked up speed, and inflation went down. However, both fiscal and external deficits were substantial. The targets agreed with the IMF were not achieved over the year within the framework of the extended fund facilities. Non-financial public sector savings targets were not met because of external debt servicing obligations and increased operating costs for the electrical company due to the energy crisis of 1994-1995. There were difficulties in controlling monetary expansion, since the State banking sector fell behind in repayments to the Central Bank and international reserves were used to service the Government's foreign debt.

The loss of momentum in the economic programme led to a freeze in loan disbursements from international financial bodies. The privatization of the telecommunications company, in particular, was delayed for political reasons. In the second half of the year the Government entered into negotiations with the IMF to agree on an interim programme with new targets, tightening fiscal austerity and monetary restrictions. This would enable some of the frozen disbursements to be released, international reserves to recover and the programme to be brought back on track towards the second quarter of 1996, with a view to releasing the funds corresponding to the second year of the agreement.

The fiscal deficit, at around 10% of output, was similar to that of the previous year. Central Government revenues moved up from 20% of output in 1994 to 22% in 1995. The increase in tax revenues was due to a policy of reducing discrimination through the abolition of exemptions, broadening the tax base, making the tax system more efficient and clamping down on illegal trade. These efforts were supplemented by the drafting and presentation to the Assembly of a new tax code which regulates and updates several legal aspects of taxpayers' rights and obligations. Nevertheless, central Government expenditure rose from 30% of GDP in 1994 to 33% in 1995. The main factors causing this increase were high interest and amortization payments to service the debt, and extra crude oil imports. For central Government, payment of interest and amortizations on the foreign debt accounted for approximately one third of total income.

In 1992, the State banking system was rehabilitated to resolve inherited problems. Later, however, poor-quality loans were generated, and in 1995 arrears once more reached a high level. Transfer of these loans from the State banking system to a special trust fund is just getting under way. This trust fund would undertake to collect loans estimated at 600 million córdobas. In June, to absorb liquidity from the financial system, the bank reserve requirement was raised from 10% to 15% of local currency deposits, and the base of deposits subject to the requirement was broadened.

Exchange-rate policy continued the pattern of daily decline which over the course of the year resulted in a nominal devaluation of 12%. Inflation was of a similar order, which meant that the effective rate of exchange was virtually stable. In the framework of the agreement with the IMF, unification of the exchange markets is in preparation. Currently, only merchandise importers have access to foreign

currency at the official exchange rate. The project aims to open up access to foreign currency at the official exchange rate for service transactions and capital operations.

One of the most important items of structural policy is the process of privatization. The main element of this process, the partial sale of Telecomunicaciones y Correos de Nicaragua (TELCOR), was delayed owing to parliamentary discussions. This privatization is very closely tied to the process of consolidation of property rights, especially real estate nationalized under the Sandinista administration. At the end of 1995 the general law on privatization was enacted. It provides a legal basis for the handover of title deeds and the compensation programme. A new compensation bond issue for an estimated US\$ 650 million is planned, to be exchanged for previous bonds. The new issue would be backed by United States Treasury zero-coupon bonds, and would thus offer better guarantees. This would also enhance domestic reception of the issue in settlement of the outstanding property disputes, and the price of the bond on the secondary market would improve.

– **The special case of Cuba.** Cuba made significant progress in 1995 under its new macroeconomic policy aimed at strengthening a pattern of development based on greater and more competitive integration into the global economy. One of the more important liberalization initiatives was the passage in September 1995 of a new foreign investments law, consistent with the constitutional changes in 1992, which allowed for the possibility of transferring State property in whole or in part when it was in the national interest to do so. Liberalization, deregulation and government down-sizing measures have created a new basis for productive activity that should give enterprises greater autonomy in managing their operations.

Fiscal policy continued to be restrictive, resulting in a further contraction in liquidity, deceleration in inflationary pressures and appreciation of the national currency in the informal foreign exchange market. After institutional restructuring and price adjustments in 1994, the fiscal system was strengthened by a new tax policy that enabled the deficit to be reduced to 4% of GDP (from 33% in 1993 and over 7% in 1994). Prudent monetary policy brought about another reduction in liquidity. The monetary authorities continued to restrict the money supply, while 64% of liquid assets remained deposited in savings accounts, despite the fact that lending rates offered by banks were not keeping pace with inflation.

The official exchange parity continued to be one dollar per Cuban peso, while in the informal market the national currency strengthened once again, from around 50 pesos to the dollar in December 1994 to 25 pesos in October 1995. The authorities stated that since international reserves were at a very low level, the conditions were not right for making the national currency convertible. Nevertheless, since the end of December 1994 they have been gradually introducing a convertible peso for use in establishments authorized to make foreign exchange transactions. State-owned foreign exchange offices were set up in Havana and the beach resort of Varadero selling convertible pesos at 30 Cuban pesos to the dollar and buying dollars for 25 Cuban pesos.

Within the framework of a foreign trade policy tending towards decentralization, in mid-1995 some 260 firms made

direct foreign purchases and sales, compared to only 50 firms in 1989.

Following the changes in 1993 making it legal to hold foreign currency and the subsequent reforms to the tax system to put internal public finances on a sounder footing, progress was made in studies on reorganizing the financial system to adapt it to the new operating patterns of the Cuban economy. As part of an effort to diversify forms of ownership and decentralize the economy, financial reforms were initiated to separate the functions of the Central Bank from those of commercial banks. The new Central Bank would then have

a greater autonomy in implementing monetary policy, particularly with regard to domestic credit policy.

Further financial reform should help to resolve the exchange rate dichotomy in the Cuban economy. Part of the economy is still operating on the traditional model based on a non-convertible national currency, while a parallel, "dollarized" economy with a strong market orientation is growing in importance. Because of the distortions that this dual economic system generates, the authorities have already adopted a number of measures to strengthen the Cuban peso.

4. THE EXTERNAL SECTOR

a) The international context

Seen from the viewpoint of Latin America's linkages with the global economy, the year 1995 brought several major developments. In the first place, the growth rate of the principal industrialized countries slowed down. In this context, their growth rates tended to converge, aided by the fact that the countries were in different stages of the business cycle. External demand played an important countercyclical role by maintaining economic activity, except in Japan. This role played by external demand was reflected in the continuing robust growth of international trade. The economic slowdown—which was the product of the restrictive monetary policies adopted earlier, among other things—led to a lowering of inflationary pressures, with a consequent reduction in the high interest rates of the beginning of the year. It also brought with it a drop in commodity prices in the course of 1995. In addition, the instability of the financial markets grew more pronounced, translating into major fluctuations in the principal currencies and, in particular, a drop in the value of the United States dollar.

The loss of the dynamism that had been exhibited by the principal economies (except Japan) during the previous year may represent a pause in the upswing of the business cycle (which began in the United States considerably earlier than in Europe) or the beginning of a new recessive phase. The fact that there is increasing evidence of a simultaneous downward trend in the growth rates of the various countries implies that external demand will be less effective in compensating for a slackening of internal demand. All these factors point towards an economic environment that is less favourable than it has been in the recent past.

In 1995, the growth rate of all of the OECD countries as a group barely exceeded 2%. The economy of the **United States**, which provides the market for almost half of Latin American exports, slowed down following the rapid expansion of the previous year, which proved to be incompatible with price stability. This slowing down was the result of the monetary policy adopted for this very reason by the Federal Reserve. The resulting increase in long-term interest rates in the previous year, plus 1995's reduction in exports to Mexico, were factors that had a dampening effect on the upward trend in production. In the third quarter, however, the economy resumed its rapid growth, slowing down once again towards the end of the year, with an increase in GDP of around 3% for 1995 as a whole. There was no change in monetary policy while, at year-end, the cooling-down of the economy was confirmed and the President and Congress

remained in disagreement over the budget and the timetable for eliminating the fiscal deficit, which was estimated to be over 2% of GDP in 1995.

As the third quarter began, the United States trade deficit had risen by 14%, which meant that by the end of the year it would be at the unprecedented level of nearly US\$ 170 billion. Nevertheless, the chronic deficit with Japan was gradually reduced owing to the dollar's decline against the yen. The same happened in the case of the deficit with Latin America, owing to increased sales to South and Central America. These increased sales more than compensated for the drop in trade with Mexico, which following the devaluation of the peso reversed its traditional trade deficit with the United States.

In the **European Union**, 1994's robust growth also slackened in 1995, dropping below 3%, which did nothing to improve the unemployment rate of over 10% of the workforce. Europe's slowing-down resulted from the cooling-down of the economies of the United States and Japan, from 1994's rise in long-term interest rates, and also from the instability of the international capital markets, which produced strains in the European monetary system and led to the appreciation of the mark and currencies that are aligned with it. In Germany, as it happened, the economic recovery stopped in the second half of the year. This reversal threatened to have repercussions in other European countries such as France, whose economic position, initially boosted by a buoyant demand for exports, was made difficult at year-end by the Government's austerity policy intended to contain the fiscal deficit. The future performance of the European economies will be affected, among other things, by the measures that the Governments adopt to meet the requirements of convergence with a view to monetary union.

In **Japan**, in addition to the recessionary pressures already present during this decade, the sharp appreciation of the yen during the first half of the year was instrumental in depressing exports and production. In spite of fiscal and monetary policies to stimulate growth, GDP did not rise by more than 0.5%, with the result that unemployment continued at unprecedented levels of more than 3% according to the calculation method used in Japan. The trade surplus showed a downwards tendency, largely as a result of a high level of imports from Asia and a decrease in the number of cars exported to the United States. Finished products were the largest component of this increase in imports.

The slowing-down of the developed economies was offset by the improved performance of the developing regions, with

the exception of Latin America and the economies in transition. South-East Asia, which was the region least affected by the drop in capital inflows following the Mexican crisis, continued to produce the highest growth rates, on the order of 9%, in spite of a slight slowing-down since the previous year. This growth was due to a vigorous expansion in exports, which had the effect of producing an increase in imports. The Eastern European countries, including Albania and the republics of the former Yugoslavia, achieved an average growth rate of 4.5%, while the recession in Russia showed a slight improvement, with economic activity decreasing by about the same percentage.

The slower growth rate of the global economy was reflected in a slowing-down of the growth in the volume of international trade, but trade still showed great dynamism, with a growth rate of 8% in 1995 following upon a rate of 9.5% in 1994. There was a greater increase in the value of international trade; during the first six months of the year it went up by 23% in dollar terms, although this figure also reflects the decline in the value of the United States currency. In real terms, growth in world trade continued to exceed growth in output by a wide margin, a phenomenon that has become more pronounced during the present decade. This development is an indication of the growing integration of the world's economies and highlights the importance of external demand for the economic performance of countries, including those that, as in Latin America, have opened up their economies to international trade. Import volume rose the most in developing countries (by 11% as compared to 7% in developed countries).

As a consequence of economic policies and reduced growth, inflation remained under control in the main OECD countries. Other factors were the appreciation of the currencies of many countries and the continued rapid growth of international trade, which increased competition on a global level. In Japan the growth in prices was slightly negative, and in the European Union it came close to 3%. A figure close to this last one was recorded in the United States, where the risk of inflation, although it declined during the year, did not disappear completely, and prices began to climb somewhat at the beginning of the last quarter. It has been precisely those countries whose currencies have recently experienced substantial depreciations that have had the greatest difficulties in controlling inflation.

Lowered inflationary expectations, together with greater fiscal discipline, were reflected in the drop in long-term interest rates that began in early 1995. Short-term rates also fell in most of the countries. The fall in rates was especially significant in Germany, where the discount rate declined from 4.5% to 3% during the year, and in Japan, where it dropped from 1.75% to 0.5%. The dollar LIBOR rate took a downward trend from its high point of December 1994, although the average for 1995 still exceeded the previous year's figure. The year 1995 closed with expectations of new declines in interest rates; this trend may provide a stimulus for capital flows to move towards developing countries in general and towards Latin America in particular, since, as last year's experience has demonstrated, differences in the rate of return on capital have a decisive influence on the decision as to where to invest it.

As a result of the slowing-down of the industrialized economies and in line with the containment of inflationary pres-

ures, commodity prices (excluding petroleum) took a downward trend after the previous year's sharp rise. The sharpest decline was during the first half of the year, when the prices of minerals and metals reached their highest point. By the end of the year, the dollar price of commodities as a group had fallen by about 5%, with foodstuffs falling somewhat more and agricultural raw materials less. Nevertheless, since the price rise was very rapid in 1994, average prices in 1995 were higher than during the previous year for almost all commodities. Certain prices, such as those for copper, textile fibres and fish-meal, jumped more than 20% compared with their 1994 averages. Of the main commodities, only beef suffered a significant price decline.

Supply factors also played an important role with respect to petroleum prices. Prices gained ground in the first months of the year, lost some of their gain towards the middle of the year, and then stabilized with a slight upwards tendency. At the beginning of December, the average price for the year for the various types sold by OPEC was around US\$ 16.80, US\$ 1.25 higher than in 1994.

Another aspect of the increasing globalization of the world economy is the size and speed of capital flows among countries. This was seen during the northern hemisphere spring, when stresses in the currency markets caused a sharp depreciation of the dollar against the chief currencies and above all against the yen. Subsequently, concerted action by the central banks caused the United States currency to regain all the ground it had lost against the yen, but not against most other currencies. By the end of the year, it had lost part of its original value against all the continental European currencies. The loss reached 10% in the case of the German, Dutch, Belgian and French currencies, and up to 15% in the case of the Swiss franc. The United States dollar had gained ground only against the pound sterling, the yen and the Australian dollar.

As a result of the Mexican crisis, capital flows to developing countries weakened considerably, only to recover later. This recovery, however, was not equally distributed among the countries. Specifically, the Latin American region experienced the greatest decreases in portfolio capital inflows, while the decreases were less pronounced in the South-East Asian countries.

b) External trade

Given the preponderance that the main economies have in the regional aggregate, the overall results of the external sector reflect the atypical performance of Mexico and Argentina, on the one hand, and Brazil, on the other. These countries' performances had opposing effects.

In the first place, the Mexican crisis had a decisive influence on the region's aggregate external sector performance, although this influence was clearly concentrated in Argentina and Mexico, whose external accounts reflected, as did those of Uruguay, the adjustments in their economies. Confronted with a sharp drop in capital inflows, these countries had to mount a drastic effort to reduce their current account deficits, which had risen spectacularly during the present decade, by reducing spending and increasing external sales. In the rest of the countries, the process of adjusting to reduced capital inflow was aided by the international economic situation, as shown in the improvement of the

terms of trade, which contributed significantly to a widespread increase in export revenues and to the maintenance of a rising trend in imports.

The other important factor that helps explain the region's overall performance was the jump in demand that occurred in Brazil as a result of the success of its stabilization plan. This increased demand gave rise to a spectacular surge in imports, which in turn caused a deterioration in the current account balance, only to be offset by a trebling of net capital inflows.

In addition, the boom in intraregional trade continued to be a driving force for the region's external trade. In 1995, trade among the LAIA member countries continued to increase more than their trade with the rest of the world, with the result that such intraregional trade came to represent 17.5% of their total world trade. The subregional groups of countries made an active contribution to this growth. An example is the evolution of trade within Mercosur, where, in spite of the difficulties that affected the external accounts of their two principal members and that led to the adoption of protectionist measures and caused friction between them, trade within the group came to represent 22% of their members' total trade, compared with 19% in 1994. In the Andean Group, the other subregional arrangement on which information is available, this percentage rose from 10% to nearly 12% thanks to the rapid growth (42%) of trade among its members (see table 7).

As in the previous year, the *terms of trade* improved in most of the region, thanks above all to higher commodity prices (since commodities are major export items). Among South American countries, the ones that benefited the most from this situation were Chile, Colombia and Peru, whose good economic performance in 1995 was due in part to these higher prices. This development simply intensifies the trend that began the previous year, with the result that in the past two years these three countries have achieved cumulative increases in their terms of trade on the order of 25%. El Salvador, Honduras and the Dominican Republic also saw improvements of more than 10% in 1995.

On the other hand, the terms of trade of the region's two main economies, which mostly export manufactures, either stagnated (Brazil) or declined (Mexico). The same happened in Bolivia, Ecuador, Panama and Uruguay, owing especially to the small price increases for some of their export commodities (such as bananas and beef).

The value of merchandise exports rose by 23%, which constituted another milestone in this decade's rapid increase (nearly -1% in 1991; 5% in 1992; 7% in 1993; and 15% in 1994). There has not been a similar increase since 1980. The only greater increase in the past several decades was when the price of petroleum rose abruptly during the 1970s. The region's external sales in 1995 thus easily surpassed US\$ 220 billion. The Mexican crisis had a decisive influence on this exceptional result. In fact, 60% of the increase came from the two countries (Mexico and Argentina) that had to take the most drastic recessionary adjustment measures as a result of the crisis (see table 8).

With the exception of Argentina and Mexico, the generally good performance was due in large measure to the favourable international economic situation, since for most of the countries the principal cause of their improved results was

Table 7
INTERREGIONAL AND TOTAL EXPORTS, 1992-1995
(Billions of dollars)

	1992	1993	1994	1995 ^a
MERCOSUR				
-Intrasubregional	7.2	10.0	12.0	15.8
-World	50.5	54.2	62.1	71.8
MERCOSUR/World (in %)	14.3	18.5	19.3	22.0
Andean Group				
-Intrasubregional	2.2	2.9	3.5	4.7
-World	28.3	29.8	34.8	40.2
Andean Group/World (in %)	7.8	9.7	10.1	11.7
LAIA				
-Intrazonal	19.4	23.7	28.4	36.3
-World	134.9	145.2	170.3	207.4
LAIA/World (in %)	14.4	16.3	16.7	17.5
CACM				
-Intrazonal	0.9	1.1	1.3	...
-World	4.7	4.9	5.4	...
CACM/World (in %)	19.1	22.4	24.1	...
CARICOM^b				
-Intrazonal	0.2	0.3	0.4	...
-World	3.7	3.7	3.8	...
CARICOM/World (in %)	6.1	7.9	10.2	...
Latin America and the Caribbean^c				
-Intraregional	24.5	29.3	34.7	...
-World	146.1	156.4	180.6	...
L.A. & C./World (in %)	16.8	18.7	19.2	...

Source: ECLAC, on the basis of official information.

^a Estimates based on partial data.

^b Includes only Barbados, Guyana, Jamaica and Trinidad and Tobago.

^c Includes LAIA, CACM, Barbados, Guyana, Jamaica, Trinidad and Tobago, Bahamas, Belize, Haiti, Panama, Dominican Republic and Suriname.

the higher prices they received for their export goods. It needs to be kept in mind, however, that this comparison is based on the average results of the present year and the previous year, which conceals the fact that both the world economy and international prices have been declining during 1995. In particular, the prices of commodities, which comprise most of the region's exports, have generally fallen, although it is true that the prices of some of the commodities that are very important for a number of the region's countries, such as coffee or copper, have performed better this year than the prices of most of the others. On the other hand, the fact that sales of many commodities are made on the basis of long-term contracts means that trends in the spot markets will only become apparent later in the prices actually paid. A situation as favourable as the present one might therefore not be sustainable.

In all the countries in the region the dollar value of merchandise exports rose, and they all experienced unit value increases. The average pattern of export performance was exhibited by a group of countries (Colombia, Costa Rica, Dominican Republic, Ecuador, Honduras, Peru and Vene-

Table 8
LATIN AMERICA AND THE CARIBBEAN: TRADE BALANCE
(GOODS FOB), 1995^a
(Percentages)

	Exports		Imports		Balance
	Vari- ation 1995/ 94	Contri- bution to varia- tion regional	Vari- ation 1995/ 94	Contri- bution to varia- tion regional	As per- cen- tage of GDP
Latin America and the Caribbean	22.7	100.0	12.1	100.0	0.1
Principal exporters of manufactured products	22.7	57.2	9.6	45.3	0.5
Brazil	7.9	8.3	51.0	70.8	-0.4
Mexico ^b	33.2	48.8	-7.7	-25.4	3.3
Intermediate countries	26.8	19.0	3.5	5.7	-0.7
Argentina	30.1	11.5	-10.0	-8.3	1.0
Colombia	22.5	4.8	20.0	9.3	-3.2
El Salvador	35.3	1.1	26.9	2.7	-18.4
Guatemala	34.8	1.3	20.3	2.2	-6.9
Uruguay	8.2	0.4	-1.5	-0.2	-3.0
Principal exporters of manufactured products	20.4	23.8	25.3	49.0	-
Bolivia	4.6	0.1	7.8	0.4	-2.7
Chile	37.8	10.5	32.7	14.9	2.4
Costa Rica	18.1	0.9	9.0	1.1	-6.2
Ecuador	15.4	1.4	19.7	2.7	1.8
Haiti	92.3	0.1	183.7	1.1	-35.2
Honduras	23.6	0.5	11.1	0.6	-10.5
Nicaragua	39.6	0.3	9.6	0.3	-19.6
Panama	3.9	0.6	6.6	1.9	-16.0
Paraguay	9.8	0.4	-5.6	-0.8	-16.5
Peru	20.3	2.2	34.3	8.1	-3.9
Dominican Republic	27.3	0.4	30.1	2.9	-19.0
Venezuela	16.5	6.2	49.3	15.9	9.6

Source: Tables A.9 and A.10 in the Statistical Appendix.

Note: Exporters of manufactured products are defined as those countries whose exports of manufactured products amounted to more than 50% of total exports in the three-year period 1992-1994; intermediate countries are those whose manufacturing exports accounted for 25% to 49% of the total in the same period; and commodity exporters, those countries whose manufacturing exports were less than 25% of the total in the same period.

^a Preliminary figures.

^b Maquila is included in imports and exports.

zuela) that does not include the region's two chief exporters (Brazil and Mexico), which together account for 60% of the region's sales. This pattern was characterized by increases in the value of exports of more than 10% and less than 30%, with positive and generally moderate variations in volume and predominant contribution of unit value increases to value increases.

Two groups of countries with very different characteristics deviated from this pattern. One group was made up of countries with export growth in excess of 30%, and the other of countries with growth not higher than 10%.

The first group, whose exports grew far more than the average, was made up of countries that occupy both ends

of the Latin American spectrum as regards GDP growth, together with a number of Central American and Caribbean countries. These are Argentina, Chile, El Salvador, Guatemala, Haiti, Mexico and Nicaragua. Almost all these countries achieved export volumes that were substantially higher than the average. But in Chile, whose outstanding trade results were accompanied by equally outstanding results for its economy as a whole, the increase in unit value contributed the major part of its export income, as also occurred in the Central American countries mentioned. Argentina, Mexico and Haiti, on the other hand, owe their excellent export performance above all to increased shipments. In the first two of these countries, this performance was the result of drastic adjustment programmes that resulted in a significant drop in GDP and internal consumption (caused also in Mexico's case by the collapse of the exchange rate). In Haiti it was due to the recovery of trade following several years of political emergency, trade embargo, and disruption of the economy.

Lastly, the five countries with lower export growth (Bolivia, Brazil, Panama, Paraguay and Uruguay) were the only ones that did not manage to maintain the previous year's level of shipments. There were various reasons for this performance. In Brazil's case it was due to the sharp appreciation of the local currency; in Panama's case it was due to shrinking demand for manufactures exported from the Colón Free Zone; in the case of Paraguay, it was due to the expanded production of soya beans in Brazil, which resulted in a drop in demand in Brazil for Paraguayan soya beans and in difficulties in transporting them across that country; in the case of Uruguay, it was due to the effects of the Argentine recession and reduced Argentine demand for industrial products (such as cars) and electric power. This factor also contributed to the weakness of Bolivian export sales.

In **Argentina**, the value of merchandise exports went up 30%, due in part to a rise in prices, but chiefly to an increase in volume. Strong growth in exports had already been observable in the latter part of 1994 and picked up speed in the first half of 1995; growth slowed somewhat but still remained strong in the later months. The increase in sales abroad in 1995 was pronounced in all major categories of goods. Top performers were basic non-agricultural manufactures and fuels (with exports respectively 58% and 45% higher during the first seven months of the year than during the same period the previous year). There was also a significant increase (around 35%) in exports of primary products and processed commodities. With respect to the geographical destination of exports, Brazil took a larger share, nearly 27%, chiefly in manufactures. The increase in quantities shipped was influenced by favourable trends in international commodity markets and growth in Brazilian demand for manufactures. There were also contributing supply-side factors: in the case of primary products, good grain harvests and greater fuel production, and in the case of manufactures, productivity gains in recent years, investments in some export sectors (e.g., food products) and a drop in sales to the domestic market.

In **Mexico** the recessionary adjustment and heavy exchange rate depreciation that took place in 1995 were accompanied by substantial expansion (33%) in merchandise exports, which exceeded US\$ 80 billion, topping im-

ports by nearly US\$ 8 billion. Total export performance was determined by the similar rate of growth of exports of manufactures, including those produced by the *maquiladora* industry, which accounted for 83% of manufacturing exports and 40% of total exports. The *maquiladora* industry increased sales by 20%, while other manufacturing exports increased by a little under 50%. The agricultural and extractive sectors enjoyed the largest relative increase (over 60%), but accounted for only 6% of the total. In the second year of the North American Free Trade Agreement, the chief markets for Mexican firms continued to be the United States and Canada, which absorbed over 85% of quantities shipped.

Brazil's exports increased to US\$ 47 billion, 8% higher than a year before. The pattern observable in the first three quarters showed that the increase was due chiefly to a surge in prices of semi-manufactures, especially during the first half. The value of exports of semi-manufactures increased 30%, while that of other categories remained practically unchanged. Quantities shipped declined 3% altogether, in a context of real currency appreciation. There was a decline in both quantity and value of exports to the country's two major markets, the United States and Argentina, but it was compensated for by additional sales to Japan and non-traditional markets such as Venezuela, Hong Kong, Southeast Asia, the Middle East and Russia. There was also some increase in the value of exports to the European Union and to fellow MERCOSUR members (Uruguay and Paraguay).

Chile benefited both from better prices for its export products (including copper, fish meal and cellulose) and from larger quantities shipped. Merchandise exports increased nearly 40%. Traditional exports posted increases on a similar scale, except for copper, which increased by over 60%, at prices 47% higher than those prevailing the year before. In contrast, exports of non-traditional products increased by a relatively small amount, some 26%, thanks to a 10% increase in volume and a 15% increase in prices. **Colombia's** exports were higher than the year before by nearly one fourth, largely thanks to higher international prices. Judging from the results for the first seven months of the year, the major contributing factors were strong growth in exports of petroleum (53%), manufactures (27%) and emeralds (67%). Coffee, which rivals petroleum for first place among Colombia's exports, recorded a 20% increase.

Judging from the results of the first three quarters, **Ecuador's** exports grew by around 15% as a function of moderate increases in quantities shipped and in international prices. Growth was observable in all major categories of exports: petroleum, bananas, shrimp, flowers and manufactures. In **Peru** the depreciation in the real exchange rate (8% against the dollar and 3% against a basket of currencies) helped the export industries, but the export growth figure of over 20% was chiefly due to higher international prices than the year before for export products such as minerals.

Bolivia's exports, highly dependent on Argentine demand, grew only moderately, and non-traditional exports, which in 1994 had been the most dynamic segment, were stagnant. The best-performing sectors were hydrocarbons (44%) and mining, chiefly due to higher prices for tin. In **Paraguay** exports went up nearly 10% as a result of higher prices for cotton in international markets. The value of cotton exports doubled, due in part to a larger crop. Soya exports, on the other hand, posted a decline of over 20%; the explanation

lies in recording problems, difficulties in securing transport across Brazil because of the latter's abundant soya crop, and weak international prices.

In **Uruguay**, merchandise exports grew moderately (8%), thanks to good sales of traditional products. Exports of beef cattle and processed beef, hides, vegetable products and fish expanded strongly. There was also a considerable increase in sales of milk products, textiles, chemicals and rubber products. In contrast, there were sharp drops in exports of motor vehicles, non-metallic minerals and electricity. Export growth came largely in response to Brazilian demand and to international commodity prices. Lower demand from Argentina caused much of the decline in exports of manufactures and electricity and was the determining factor in lowering the positive balance of tourist services.

Venezuela continued to depend heavily on petroleum for its export performance. The price of Venezuelan crude, on the rise since the last quarter of 1994, reached its peak in May, fell somewhat and resumed an upward trend in August. The average price for the year was close to US\$ 15 per barrel, nearly a dollar and a half higher than for 1994. Higher prices, together with an increase in quantities shipped, raised the value of petroleum exports to some US\$ 13.1 billion. Non-petroleum exports also grew in value, albeit moderately, despite declining in volume, influenced by the strong real appreciation of the bolívar. The value of total export sales was 16% higher than the year before.

The export performance of the Central American and Caribbean countries for which information is available was generally good, with the exception of **Panama**. The country posted modest export growth (4%) despite the positive trend in traditional export products, which expanded sales by 7% in the first three quarters compared to the same period the previous year. A positive factor was the decision by the European Community not to apply banana import quotas, although banana export volume dropped in any case (-6%) because of a work stoppage in August. Since the country did not join in the agreement to restrict coffee exports, volume exported more than doubled, while prices were considerably higher than in 1994. Products extracted from the sea, such as shrimp, fish meal and fish oil, experienced growth of between 6% and 8%. Re-exports from the Colón free zone, on the other hand, were held back by reduced demand in some of the major markets.

The good growth of exports in **Costa Rica** (nearly 20%) was attributable to better prices for its products and occurred in both traditional and non-traditional exports. Better prices, chiefly for coffee, also helped **Honduras** to increase its exports by nearly one fourth. Quantities declined, except for bananas, which rallied significantly after two years of contraction, and coffee, two products that together represented over half of the country's merchandise exports. Coffee also played a major role in the surge of exports in **El Salvador** and particularly in the strong expansion of traditional exports; other exports, constituting roughly 60% of the total, also increased, although less dramatically, on the strength of 30% growth in sales to the Central American market. **The Dominican Republic** also managed to increase the value of its foreign sales considerably thanks to better prices for its traditional export products, such as sugar and ferronickel, even though quantities declined.

In **Guatemala**, in contrast to the Central American countries mentioned above, a surge in export volume combined with good prices to raise the total value of exports by 35%. Intraregional exports grew 23%. The growth in non-traditional exports was more modest (8%), but within that category garment sales to the United States expanded by 27% to a level of US\$ 175 million. This performance moved the sector into fourth place, following coffee, sugar and tourism, as a generator of foreign exchange. In **Nicaragua**, increases in both prices and quantities shipped combined for a growth rate of nearly 40% in export earnings, driven primarily by sales of coffee, sugar, products from the sea and manufactures.

Haiti's foreign trade began to return to normal after the lifting of the trade embargo. A major beneficiary was the *maquiladora* industry, which doubled its exports to the United States. The process of recovery was slower for primary products, chiefly coffee, essential oils and mangos, sales of which did not improve appreciably. Neighbouring **Cuba** continued to experience problems with trade. Sugar exports suffered because of the poor results of the 1992/1993 sugar cane season, which forced a buy-back of some 400,000 tons to cover commitments and deferral of contracts on another 100,000 tons. Income from nickel sales fell, despite larger quantities, due to lower international prices for nickel sulphide. Lower prices also reduced the value of exports of crustaceans (shrimp and lobster) and probably of citrus fruits as well. Exports of pharmaceutical products and biotechnology, on the other hand, expanded due to the island's competitiveness in this area.

The improvement in the terms of trade and the increase in the volume of exports combined to strengthen the *purchasing power of exports* (the volume of imports that can be purchased given the physical quantities exported) in the region, improving in all countries except Bolivia, Brazil, Panama and Uruguay. In some, the improvement was marked (close to 20% or higher); this was the case with the Central American countries of El Salvador, Guatemala and Nicaragua, as well as with Argentina, Chile, Mexico and Haiti, the latter for exceptional reasons. The trend confirmed and consolidated the major gains made the previous year. Some countries accumulated striking increases in the purchasing power of their exports over the two-year period. Export purchasing power doubled in El Salvador, for example, increased by over 60% in Nicaragua, by over 50% in Chile and by over 40% in Argentina, the Dominican Republic, Mexico and Peru.

The improvement in the purchasing power of exports resulted from different combinations of larger export volumes and better terms of trade, depending on the country. All the countries, including those mentioned above, that most improved their purchasing power achieved it primarily by increasing the physical quantities of their exports. This was also the case with Ecuador. Those that achieved less of an increase in the volume of their external sales benefited comparatively more from the improvement in real terms of trade (this was the case in Colombia, Costa Rica, the Dominican Republic, Paraguay, Peru, and Venezuela). Chile was the only country in which an improvement in terms of trade and an increase in quantities exported were roughly equal factors.

The positive evolution of prices and export quantities, therefore, allowed the region to increase its imports, thereby mitigating somewhat the negative impact of the economic slow-down and the decline in capital inflows that limited the availability of foreign exchange. In value, the region's *imports* expanded by 12%, less than the previous year, and topped US\$ 220 billion, an historical high. Excluding Argentina and Mexico, where the crisis caused a substantial drop in imports, however, the growth figure is much higher (33%), although it is also true that much of the region's increase was concentrated in a single country: Brazil.

The value of imports varied widely from country to country because of the diversity of factors influencing quantities imported. On the other hand, because the categories of imports were more or less the same from country to country (chiefly manufactures and fuel), increases in the prices of imports varied little and were in most cases under 10%; the increases were due primarily to higher prices of manufactures in developed countries.

Hence, the wide spread in import figures was due chiefly to differences in quantities imported. A middle ground was found in some countries where the increase in imports was associated with a moderate expansion of domestic demand that resulted in output growth and extended to foreign suppliers. In none of these cases did the increase in imports significantly exceed 10% in quantity and 20% in value.

In contrast to this median situation, at one extreme were countries with fast-growing domestic demand and good access to foreign currency, which expanded both their output and their external purchases, or countries which experienced real appreciation of their currencies. Both those conditions prevailed in Chile and Peru. In the Dominican Republic, a strong increase in imports was associated with a surge in industrial activity in the free zones, the most dynamic sector of the economy (along with services). In Brazil, imports were stimulated by exchange rate appreciation, and the same happened in Venezuela, where import growth occurred in the context of a controlled fixed exchange rate and expectations of devaluation, despite a low level of domestic activity and problems in obtaining foreign currency. All the countries mentioned recorded increases of 30% or more in the value of their imports. Haiti's experience was atypical in that imports rose drastically as political and economic life began to return to normal.

At the other extreme were the countries in which declining demand eventually led to a reduction in the components of aggregate supply; this was particularly the case in Argentina, Mexico and Uruguay. In these countries, the drop in the volume of imports more than offset the higher prices of the products purchased, so that the overall import bill was lower. Import volume also declined or stayed the same in Bolivia, Costa Rica, Nicaragua, Panama and Paraguay.

Brazil's imports increased spectacularly in value by over 50% to a level of around US\$ 50 billion; Brazil's increase accounted for over 70% of the total regional increase for the year. The strong growth of purchases took place against a background of rapid expansion of domestic demand and appreciation of the local currency at the beginning of the year. Faced with the swift deterioration of the trade balance, the Government, among other measures, raised tariffs and placed import quotas on motor vehicles. Despite the friction

Box 4

RECENT TRENDS IN REGIONAL INTEGRATION PROCESSES

1995 was a period of historic advances for the regional integration process, but also one fraught with difficulties and dangers. The difficulties originated in events outside the integration process itself: principally the financial crisis at the end of 1994 and its impact on Mexico and Argentina's foreign trade; also the imbalances in Brazil's external accounts following the successful implementation of the Real Plan; the economic problems which prompted Venezuela to impose controls on foreign trade; and the armed conflict between two members of the Andean Group, Ecuador and Peru, which led to the closing of their common frontier.

Against this unpromising background, the integration process had some important successes. On 1 January 1995, the Southern Common Market (MERCOSUR) entered a new phase in its development. As of that date a permanent institutional organization was established and a common external tariff came into effect. Along with the liberalization of most of their mutual trade, this brought into being the customs union. There remained, none the less, some sombre notes. At the institutional level, the dispute between Brazil and Argentina following Brazil's measures to stem the flow of imports highlighted the need for more adequate mechanisms for settling disagreements and harmonizing economic policies. Moreover, certain exceptions to the common external tariff and the liberalization programme were allowed, so that the customs union would not be in full operation for some years to come.

Nevertheless, with the entry into force of the common external tariff, a new area in MERCOSUR's outward orientation opened up. Negotiations began between the group and the other members of the Latin American Integration Association (LAIA) with a view to maintaining existing preferential treatment. These negotiations, which were complicated by their multilateral nature, began between Chile and Mexico separately and, as a first step, among the member countries of the Cartagena Agreement as a group. Moreover, the constitution of MERCOSUR as an international legal entity laid the foundation for the signing on 15 December of an Interregional Cooperation Framework Agreement with the European Union, which provides for the establishment in the medium term of a free trade association between the two groups.

The Andean Group also passed a milestone at the beginning of 1995: on 1 February the common external tariff came into effect after more than a decade of negotiations. The new tariff includes five brackets, with a ceiling of 20%, and covers 95% of items subject to tariff. Four of the member countries had already attained free trade for most of their exchanges, and this additional step transformed the system into another subregional customs union. There were, however, still exceptions to the free trade regime, and Peru and Bolivia continued to apply their own national tariffs. Peru continued putting off its participation in the customs union until January 1996, when it will assess the possibility of once more playing a full part in the union.

Other significant advances were the introduction of greater flexibility into the common foreign investment regime and the liberalization of air and sea transport among the member countries. In September, a plan of action for 1996 was adopted, with the intention of transforming the Commission into a General Secretariat extending the functions of the Court of Justice of the Cartagena Agreement, and promoting physical integration.

Also on 1 January 1995, after protracted negotiations, the Treaty of the Group of Three entered into force. Colombia, Mexico and Venezuela thereby committed themselves to establishing a free trade zone by the year 2005. In reality, Colombia and Venezuela

have already engaged in free trade since the end of 1991 as a result of progress made within the Andean Group. Trade with Mexico would be liberalized through a programme of automatic tariff reductions of 10% per year. Mexico and Venezuela's difficult economic situation did not allow further progress this year.

LAIA continued to provide the institutional and legal framework for these schemes, and for the many bilateral agreements signed between member countries, including the "second generation" economic complementarity agreements signed since the end of the 1980s. These agreements proposed far more ambitious trade liberalization targets than those signed at the beginning of the 1980s, which incorporated the historic heritage of the Latin American Free Trade Association (LAFTA). The different types of agreement proliferated and overlapped to such an extent that it became necessary to integrate them within a coherent framework so as to avoid mutual incompatibility and the revocation of previously negotiated preferences. This task was not being furthered by the current process of integration at the hemisphere level, which looked increasingly uncertain. However, the establishment of a free trade zone covering almost the whole South American region was the ultimate objective of negotiations between the five countries of the Andean Group and MERCOSUR, five sessions of which were held in the course of the year.

Since the beginning of the decade, as the peace-making process has progressed in the region, Central American integration has taken on new life. Since mid-1993, a customs union scheme between El Salvador, Guatemala, Honduras and Nicaragua (the Group of Four) has been in operation. It is based on a common external tariff with a ceiling of 15% applicable to 95% of items subject to tariff, together with a free trade regime for around 1,500 products. Costa Rica followed a more independent line in its trade policies, as shown by the bilateral free trade agreement it signed with Mexico, which came into force on 1 January 1995. During the course of the year, Costa Rica, like El Salvador and Guatemala, decided to implement unilateral tariff changes, threatening the institutional integrity of the grouping. However, in May, the five Central American countries agreed not to alter their tariffs without first consulting the other members.

By mid-1995, the Caribbean Community (CARICOM) had largely achieved its aim of eliminating barriers to mutual trade, although some countries continued to require licences for the import of some goods from other member countries. The revised common external tariff was in force in nearly all the countries, although agreement had not yet been reached on the harmonization of customs procedures. A protocol was also being prepared on the establishment and movement of capital within CARICOM. It was agreed to allow the free movement of labour to apply to university professionals as from 1996, subject to acceptance of their credentials by the receiving country. Given the trend towards more active participation by member countries in the global and hemispheric economies, it was agreed that, while monetary union was not yet thought feasible, it was necessary as a first step to introduce free convertibility of currency in all the countries and to abolish exchange controls.

In August 1995 the Association of Caribbean States (ACS) was established, embracing 25 countries and 12 territories within the Caribbean Basin. The summit meeting at which the Association was inaugurated also adopted a Plan of Action covering areas such as tourism, trade and transport, considered vital to subregional integration. The secretariat headquarters were set up in Trinidad and Tobago and a secretary-general was appointed. Member countries' levels of contribution are still to be agreed.

they caused with Argentina within MERCOSUR, these measures, along with macroeconomic policy, contributed to slowing down imports. By the end of the third quarter, imports of crude petroleum had increased by 22% and imports of all other products by over 80% compared with the previous year.

The opposite situation occurred in **Mexico**, where imports declined by 8% in value and 15% in volume. Imports of consumer goods plummeted, dropping by over 40%. Imports of capital goods contracted by 33%, while imports of intermediate goods rose slightly. The latter two outcomes are directly related to the export upturn and reflect the sharp dichotomy between trends in domestic and external demand. Imports of intermediate goods by firms in the export sector grew by over 30%, while for all remaining sectors they declined by the same percentage. Foreign purchases of machinery and equipment by exporting firms grew at a similar pace, but those by non-exporting firms shrank by nearly half due to a sharp drop in investment. In **Argentina**, the pattern was similar. Imports declined by 10% in value because of a heavy cutback in purchases of finished products, including both consumer and capital goods. In contrast, figures for the first eight months suggest that imports of intermediate goods remained high. **Uruguay**, affected by the crisis and by a decline in domestic demand, also showed a slight drop in the value of external purchases, which actually contracted by over 10% in volume.

Chile increased the value of its imports by one third. All categories showed substantial increases –40% for intermediate products, 37% for consumer goods and 19% for capital goods. In **Peru**, the high growth rates of output and investment in the first half also resulted in a pick-up in imports, further stimulated by exchange rate appreciation, and the result was a widening external deficit that led to the adoption of measures to slow the economy. Imports increased 34% during the course of the year. **Venezuela** increased its foreign purchases during the year at a brisk pace of around 40%-50%, despite a low level of activity and foreign exchange controls; imports were stimulated by the real appreciation of the bolívar and expectations of a devaluation. In the late weeks of the year, a scarcity of foreign currency limited the number of import licences that could be issued.

The growth in **Colombia's** imports (20%) was sustained largely by purchases of intermediate goods; imports of capital goods expanded more slowly (17%). **Ecuador** increased its imports by a similar percentage, but there the strong-growth categories were fuel, raw materials and capital goods, while imports of consumer goods declined. To the above must be added the arms purchases resulting from the conflict with Peru. The 8% increase in **Bolivia's** imports was due primarily to higher prices, while quantities increased very little. The largest expansion was in capital goods, followed by raw materials. Imports of consumer goods contracted significantly.

In the Central American and Caribbean countries for which information is available, imports overall grew 16%, but in some countries import growth did not exceed 10%. **Panama** posted a 7% increase, actually reflecting a decline in quantities imported. Contributing factors were a slow-down in the economy and a slackening in the markets for re-export products from the Colón free zone. **Costa Rica**, where

economic activity also slowed, increased import value by 9%, but import quantities changed very little. **Nicaragua**, which depends heavily on foreign aid to finance its imports, showed a similar pattern. In 1995, grants were insufficient to cover the budget deficit, so that the Government had to draw temporarily on its foreign exchange reserves. The most significant decline in imports was in the category of capital goods. **Honduras** registered a similar increase in import value (11%) along with some growth in volume (4%).

El Salvador's import bill went up considerably (27%). Contributing factors were the healthy pace of economic activity, exchange rate appreciation and stockpiling by firms in expectation of a VAT increase. Moreover, the country had embarked on a policy of greater openness in its economy. The Government suggested to the Central American Tariff Board a tariff reduction that would drop the existing 5%-20% range to a 1%-6% range. In order to hold down production costs, in April the country reduced tariffs on capital goods from 5% to 1%, and the other Central American countries committed themselves to follow suite in the future. Imports also expanded in **Guatemala**, stimulated by the growth of the economy and facilitated by higher export earnings. Its import bill rose to US\$ 3.3 billion. Particularly significant were the increases in purchases of raw materials (23%) and capital goods (18%), which outstripped the increase in consumer goods (12%) for the first time in some years. The **Dominican Republic** experienced even faster growth in imports (30%) during a period in which the country's international competitiveness was hurt by the real appreciation of its currency, while integration and trade liberalization were increasing.

Normalization of **Haiti's** trade relations with its major trading partners and an extraordinary injection of purchasing power due to the implementation of the international aid programme set off a surge in imports. The value of the country's foreign purchases nearly tripled, running up to US\$ 400 million. Of its imports from the United States, the island's main trading partner, 40% were food products. None the less, the resurgence of productive investment translated into a considerable increase in transportation equipment and machinery (18% of the total). In contrast, **Cuba's** capacity to import continued to be limited by the lack of foreign exchange and the country's anomalous international trade situation. Purchases were destined primarily to meet the most essential food and energy needs, which meant that bills for imported oil and food accounted for 44% and 26%, respectively, of total imports. Under a counter-trade arrangement, the Russian Federation supplied Cuba with 3.8 million tons of oil in exchange for 2 million tons of sugar.

Substantial growth in exports of goods caused them to outstrip slower-growing imports. For the first time since 1991, the region's balance of merchandise trade changed signs and showed a modest surplus of US\$ 2.3 billion. Decisive in this turnaround were the big merchandise trade surpluses accumulated by Argentina and Mexico (over US\$ 10 billion between the two), a radical shift from their heavy deficits (more than US\$ 22 billion combined) the year before. Their combined surpluses more than offset the shift in the opposite direction in the other dominant economy in the region, Brazil, which swung from a surplus of over US\$ 10 billion the previous year to a deficit of US\$ 3 billion in 1995. It was also significant that Chile more than doubled

its surplus. The other countries were fairly equally divided between those that improved their balance of merchandise trade and those that saw it deteriorate.

In addition to improving its balance of merchandise trade, the region also managed a substantial reduction in its deficit of net service payments. This result was due largely to the drastic improvement in Argentina's and Mexico's balance of net service payments, associated with the drop in foreign purchases by these two countries; Argentina reduced its deficit by US\$ 1 billion, while Mexico swung from a negative to a positive balance, an improvement of US\$ 3.6 billion. Together they more than made up for the deterioration in the balance of this account experienced by all other South American and some Central American countries.

Thus, the deficit in the goods and services trade balance shrank drastically from nearly US\$ 27 billion in 1994 to around US\$ 6 billion in 1995. The change was due primarily to the turnaround in the merchandise trade balance, which accounted for 85% of the decline in the goods and services deficit. Especially noteworthy was the big surplus achieved by Mexico, which went from a negative balance of US\$ 21 billion the previous year to an impressive US\$ 9 billion on the plus side for 1995. Just the opposite occurred in Brazil, which went from a surplus to a heavy deficit.

Argentina also achieved a positive combined balance, after a substantial deficit in 1994, despite the fact that it continued to post a large deficit in services. Venezuela managed to strike a positive balance in combined goods and services, but it was considerably smaller than the previous year. Chile increased its surplus, while Colombia and Peru widened their deficits, Peru to a greater extent.

The remaining twelve countries all ran a deficit; in seven of them the deficit was smaller than the year before, while the other five accumulated a larger trade balance deficit.

c) The current account balance and external financing

The current account deficit declined significantly in 1995 to US\$ 34.5 billion from a 1994 figure of around US\$ 50 billion. This reduction resulted entirely from the improved balance of goods and services, since the profits and interest account rose nearly 20%. All the countries in the region posted a deficit, with the exception of the Dominican Republic and Venezuela.

The most significant changes were similar to those noted in the balance of goods and services: disappearance of Mexico's large deficit, a significant reduction in Argentina's, and a ballooning of Brazil's deficit. Meanwhile, Venezuela's considerable surplus of the previous year was cut by more than half.

The increase in net outflows of factor payments is attributable to the rise in average international interest rates in 1995 in relation to the previous year. In Brazil a contributing factor was an increase in profit remittances, stimulated by the appreciation of the local currency and the high level of activity in 1994 and the first months of 1995.

Net capital inflows to the region in 1995 amounted to US\$ 22.4 billion, lower than in 1994 and much lower than in 1992-1993, when the amount was US\$ 65 billion (see table 9). This figure includes US\$ 18 billion in direct investment, US\$ 14 billion in other long-term capital, and US\$ 10 billion

in short-term capital and portfolio investment outflows. It should be pointed out that in 1995, capital flows to the region were particularly affected by net outflows from Mexico and Venezuela. Excluding those, the capital account balance for the remaining countries was US\$ 43 billion.

The 1995 result was influenced by the events of 1994 in Mexico; after its devaluation that December, financial turbulence affected the major economies of the region to varying degrees. In the early months of 1995, short-term capital outflows occurred in a number of Latin American countries and private financing virtually came to a halt. The International Monetary Fund and other multilateral institutions played a vital role in this situation by supplying compensatory capital, thanks to which Mexico was able to fulfil many short-term commitments and, along with Argentina, regain access to the international financial markets. Over the course of the year, financing through direct investment remained stable or increased in the majority of countries of the region, and access to the international bond markets recovered from the second quarter of 1995 onwards, fairly strongly from the third quarter onwards.

The 1995 capital account balance was the result of contradictory movements. Among countries where capital inflows increased substantially, Brazil is particularly noteworthy, with US\$ 28 billion, and a sizeable share in short-term capital and portfolio investments, amounting to US\$ 18 billion. Colombia's net inflows increased from US\$ 3.0 billion to US\$ 4.2 billion, a record figure for the country, with more than half corresponding to direct investment. Peru's capital inflow stayed at the previous year's exceptional level of US\$ 4.6 billion, with substantial direct investment, portfolio investment and short-term capital flows.

Meanwhile, other Latin American countries experienced net outflows of capital. In 1995, Mexico recorded net outflows of US\$ 17 billion in autonomous capital, attributable mainly to net outflows of portfolio investment and other capital in the amount of US\$ 23 billion over the course of the year. These outflows were almost entirely financed by compensatory capital supplied by multilateral institutions and the United States Treasury. Venezuela recorded, as in 1994, net outflows of capital, although in 1995 they went down to US\$ 3.7 billion. Argentina's outflows of autonomous capital amounted to US\$ 400 million, as compared with large inflows (US\$ 10 billion) during the three-year period 1992-1994. In Chile, which took steps to discourage short-term capital and also made an exceptional prepayment of US\$ 1.6 billion to multilateral institutions in October, there was a drop in net inflows from US\$ 4.2 billion the previous year to a mere US\$ 300 million in 1995. Among the other South American countries, Bolivia's figure of over US\$ 400 million in capital inflows remained the same, while Ecuador, Paraguay and Uruguay posted surpluses on their capital accounts, albeit noticeably smaller than the previous year.

For the Latin American and Caribbean countries as a whole, there was also a slight improvement, resulting from contradictory movements. In El Salvador, and particularly Haiti, as a result of the initiation of the international assistance programme, net capital inflows rose significantly. However, there were moderate falls in Costa Rica, Honduras and Nicaragua, while in Guatemala, flows dropped by half. The Dominican Republic managed to reverse its net outflow of US\$ 500 million in 1994 and achieved a capital account

surplus of US\$ 40 million in 1995. Panama maintained its surplus from 1994.

Direct investment flows remained at the previous year's level of US\$ 18 billion, albeit with marked variations between countries. In Mexico, direct investment in 1995 totalled US\$ 6 billion, a drop of 25% relative to 1994, attributable to the uncertainty created by the country's economic and political crisis. In Peru, too, inflows fell from the 1994 figure of US\$ 2.4 billion, although they were still substantial. Estimated inflows in 1996 are rising, especially because of upcoming privatizations of electricity and petroleum sector enterprises. In Uruguay, flows were less than the previous year owing to lower foreign investment in beach resorts, although foreign investment in productive sectors continued to rise. On the other hand, in the remaining countries, thanks to a much more favourable regulatory environment than in previous years, foreign investment has stayed stable or continued to expand, and it is anticipated that this will lead to even higher rates of investment in some countries next year. In Brazil, these flows increased from US\$ 2.0 billion to some US\$ 3.2 billion, a rise in relation to previous years' levels. In Colombia, too, inflows of US\$ 2.2 billion are projected, with a major share going to the petroleum sector. In Argentina it is estimated that direct investment this year will be around US\$ 2 billion, half of that proceeds from privatization. In Chile, direct investment flows grew from US\$ 900 million in 1994 to US\$ 1.4 billion this year, with a high proportion going to the mining sector. In Venezuela, private sector direct investment should be around US\$ 600 million this year, although

Table 9

LATIN AMERICA AND THE CARIBBEAN: PRINCIPAL BALANCE OF PAYMENTS INDICATORS

(Billions of dollars)

	Balance on current account		Balance on capital account		Global balance	
	1994	1995 ^a	1994	1995 ^a	1994	1995 ^a
Latin America and the Caribbean	-50.0	-34.5	44.9	22.4	-5.13	-12.06
Argentina	-10.2	-3.3	10.9	-0.4	0.62	-3.70
Mexico	-28.9	-0.2	11.2	-16.9	-17.67	-17.12
Other countries	-10.9	-31.0	22.8	39.7	11.91	8.76
Bolivia	-0.4	-0.5	0.4	0.4	-0.01	-0.12
Brazil	-1.7	-17.9	9.0	28.0	7.29	10.10
Chile	-1.0	-0.3	4.2	0.3	3.13	0.04
Colombia	-2.8	-3.8	3.0	4.2	0.17	0.37
Costa Rica	-0.5	-0.4	0.5	0.5	-0.03	0.08
Ecuador	-0.9	-1.1	1.4	1.0	0.47	-0.10
El Salvador	-0.3	-0.4	0.4	0.5	0.14	0.14
Guatemala	-0.8	-0.5	0.8	0.4	-	-0.09
Haiti	-0.1	-0.4	0.1	0.6	-0.04	0.18
Honduras	-0.5	-0.4	0.5	0.5	0.02	0.06
Nicaragua	-0.9	-0.9	1.0	0.9	0.05	0.04
Panama	-0.1	-0.1	0.2	0.2	0.07	0.04
Paraguay	-1.3	-0.9	1.6	0.9	0.33	0.00
Peru	-3.2	-4.8	4.7	4.6	1.47	-0.18
Dominican Republic	0.0	0.1	-0.5	-	-0.47	0.10
Uruguay	-0.4	-0.3	0.5	0.3	0.09	0.04
Venezuela	4.1	1.7	-4.9	-3.7	-0.78	-1.94

Source: Table A.13 in the Statistical Appendix.

^a Preliminary figures.

the figure for public sector net investment will be minus US\$ 200 million owing to greater investment abroad. In Ecuador, net inflows should amount to US\$ 500 million, a continuation of the last two years' trends; and in Costa Rica and Paraguay inflows increased to US\$ 360 million and US\$ 210 million, respectively. Foreign direct investment in Bolivia rose sharply thanks to privatizations in the electricity and telecommunications sectors.

In 1995 further restrictions were introduced on the movement of short-term capital. Brazil and Peru formulated regulations, as Colombia and Chile already had, to discourage the entry of very short-term capital ("golondrina"), attracted by exchange rate expectations and by high domestic interest rates.

In the first nine months of 1995, portfolio investment in bonds (gross) amounted to US\$ 13.5 billion, which represented an increase of 5.5% over the US\$ 12.8 billion figure for the first nine months of 1994 (see table A.16 in the Statistical Appendix). If recent trends continue, total issues of bonds in 1995 will be around US\$ 18 billion, similar to the previous year, but much lower than the US\$ 30 billion recorded in 1993. Sales of these bonds were overwhelmingly concentrated in only three countries: Brazil (US\$ 5 billion), Mexico (US\$ 4 billion) and Argentina (US\$ 3.5 billion), accounting for 93% of the total. The remaining nearly US\$ 1 billion applied to only three countries – Colombia, Panama and Uruguay. In November the Government of Venezuela announced a government bond issue in Deutsche mark equivalent to US\$ 357 million, resuming for the first time in two years its participation in the international bond market. In 1995 issues of government securities clearly predominated.

In the wake of the Mexican devaluation at the end of 1994, there was a sharp decline in bond issues in Latin American countries, and in the first four months issues amounted to barely US\$ 1 billion. However, in the following months – and particularly in the third quarter – international investors showed more interest in providing financing to Latin American countries. Thus in July the Mexican Government issued bonds to the value of US\$ 1 billion, the first government bond issues since the end of 1994. Later, in August, it floated another bond issue, denominated in yen, to the value of US\$ 1.1 billion. In August the Government of Argentina, also for the first time in 1995, issued bonds denominated in Deutsche mark, to the value of US\$ 720 million, and later placed another bond issue denominated in yen to the value of US\$ 1 billion. In Brazil in the third quarter of 1995, almost all bond issues were by the private sector.

Conditions for bond issues deteriorated in 1995. Average terms shortened from four and a half years in 1993 and four years in 1994 to only three years in the first nine months of 1995. In addition, the margins above reference rate at which lenders were able to place their bonds widened, with a corresponding rise in the cost of borrowing. The private sector share of nearly 60% in 1993-1994 fell to slightly over 35% in 1995, mainly attributable to greater public sector interest in Argentina and Mexico in obtaining financing through bond issuance, particularly in the last few months.

Portfolio investment in stocks, both on local stock exchanges and abroad, chiefly in the United States, which since 1991 had been a new source of foreign capital, was badly affected by the Mexican crisis, and by political and/or

Box 5

STRIKING INCREASE IN THE INFLUX OF CAPITAL TO BRAZIL IN 1995

In 1995, Brazil will have received net capital inflows of US\$ 28 billion, an unprecedented figure, and equivalent to more than half of this year's exports of goods and services.

In the early months of the year, the Mexican crisis hit Brazil in the form of a shrinkage in capital inflows. The amount of new Brazilian securities (bonds, euronotes and certificates of deposit) dropped from US\$ 3.1 billion in the last quarter of 1994 to US\$ 1.5 billion in the first quarter of 1995. During the same period, the stock market recorded net outflows of more than US\$ 2 billion, in contrast to 1994, when over US\$ 5 billion had been accumulated. Because of this vulnerability, the Central Bank announced in March the introduction of an exchange-rate system with a flotation band, which was initially set at 0.84 to 0.93 reais per dollar, formalizing a mechanism which had already been operating de facto for some months.

External events and the adjustment of domestic policies prompted speculative activity and a reduction in international reserves of US\$ 7 billion between December 1994 and April 1995. This forced a fresh adjustment of the exchange-rate band, which was set at 0.88 to 0.93 reais, a devaluation of 5%. However, from midway through the second quarter there was a gradual but steady increase in participation in international private financial markets. The exchange rate band was adjusted once more in June, this time without turbulence in the foreign exchange market, and the value of the dollar gradually rose to slightly over 0.96 reais per dollar by mid-December.

The return of capital flows, which accelerated in the second half of the year, was evident from the following: i) sales of private bonds and securities between July and October 1995 reached US\$ 5.9 billion, compared with US\$ 3.7 billion in the first half of the year; ii) the Brazilian Government once again floated international bond issues, in Germany and Japan, to the value of US\$ 1.8 billion; iii)

cumulative net direct investment between January and September reached US\$ 2.7 billion, nearly double the amount for the same period in 1994; iv) an increase in commercial credit lines to finance foreign trade in light of the substantial expansion of imports of goods and services this year; and v) the inflow of stock and financial capital.

BRAZIL: BALANCE ON THE CAPITAL ACCOUNT, 1994-1995

(Billions of dollars)

	1994	1995 ^a
Total	9.0	28.0
Long-term capital	3.0	8.8
Direct investment	2.0	3.2
Other long-term capital	1.0	5.6
Portfolio investment and short-term capital	5.7	18.2
Errors and omissions	0.3	1.0

Source: ECLAC, on the basis of official figures.

^a Preliminary estimates.

The increase in long-term capital and, in particular, the growing percentage of direct investment are significant. The changes in legislation on foreign investment and the end of the State monopoly in petroleum and communications, together with the privatizations announced in the electricity sector, should stimulate such flows still further. Short-term capital and portfolio investment, however, soared to over US\$ 18 billion, despite the measures—chiefly tax-based—adopted in October 1994 by the Central Bank to discourage speculative inflows of very short-term capital.

economic disturbances in other countries. Stock prices in mid-November 1995 were down compared with the end of 1994 in Mexico (-38%), Colombia (-31%), Brazil (-25%), Argentina and Chile (-8%) and Peru (-2%), while in Venezuela they rallied (27%) on the expectation that an agreement would be reached with the IMF. The trend towards recovery in stock prices between April and July was reversed between August and October and then resumed once more.

Primary issues of depositary receipts in the United States market (ADRs) declined sharply from US\$ 4.7 billion in 1994 to only US\$ 650 million in the first nine months of 1995. During that period there were corporate issues from only four countries, Brazil, Chile, Colombia and Panama. In Panama, there was a major issue of US\$ 370 million by one company in April. In the first months of 1995 several Latin American companies tried in vain to issue ADRs, and others finally opted to expand their capital locally.

According to figures from the Bank for International Settlements, international financing to the region increased somewhat (1.5%) to US\$ 232.5 billion at the end of June 1995. This was the result of increases in Peru (26%), Colombia (8%), Honduras (7%) and Argentina and Brazil (5%) and reductions in the remaining countries. The greatest drops in percentage terms occurred in Ecuador (-12%) and the Dominican Republic (-10%). Growth in debt owed to commer-

cial banks was strong up to mid-year owing to the appreciation of European currencies and the yen in relation to the United States dollar. This situation was reversed partly during the second half of the year.

Net transfer of financial resources to Latin America was negative for the first time since 1990. It amounted to US\$ -17.4 billion, compared with a positive transfer of US\$ 11.5 billion one year previously and US\$ 34 billion only two years earlier. Excluding Brazil's contribution—from almost zero in 1994 net transfers to the country went up to US\$ 16 billion in 1995—the remaining Latin American countries showed a net transfer resources abroad to the value of US\$ 33 billion. Positive net transfers to Colombia went up to US\$ 2.15 billion and Peru's balance was positive by a wide margin. By contrast, in Mexico, the negative transfer balance of a year earlier declined much further, mainly owing to the large amounts of autonomous capital which left the country in 1995. In Argentina and Chile, very high positive transfers in 1994 became negative in 1995 (US\$ 4.9 billion and US\$ 1.5 billion, respectively). Venezuela's transfers continued strongly negative (US\$ 5.4 billion), and inflows to Ecuador barely covered factor services. Of the remaining South American countries, Paraguay's and Uruguay's net positive transfers of the previous year were cut almost in half, while Bolivia's remained the same.

The transfer of resources to Central America and the Caribbean increased owing to the turnaround in Haiti, which received nearly US\$ 600 million, and to the reduction in net negative transfers to the Dominican Republic. In Costa Rica, El Salvador, Honduras and Nicaragua there was no significant change, but net positive transfers to Guatemala and Panama dropped by more than half.

d) External debt

i) General trends. In 1995 external debt amounted to US\$ 574 billion with a rate of increase of 7.5%, a rate only exceeded in 1993 and before that in 1982. This expansion resulted in the main from the increase in external liabilities of Brazil and Mexico, since in the remainder of the countries there was moderate growth in external borrowing and in some there was even a reduction. In 1995, the Mexican debt grew 13%, chiefly owing to the larger commitments the Government had entered into with international institutions to redeem TESOBONOS dollar-denominated federal treasury bonds, in addition to further public sector borrowing. In Brazil, debt increased by 14%, partly because private firms preferred to borrow on the international market in order to avoid the high costs of domestic borrowing; and because of larger credit lines for foreign trade together with issues of government securities. Colombia's foreign liabilities increased by 6.5%, following an increase of 16% the previous year, with larger public sector liabilities. By contrast, debt in a number of Latin American countries went down in nominal terms in 1995. This occurred in Ecuador (-5%) and the Dominican Republic (-11%), basically through the debt restructuring and debt reduction schemes arranged with the commercial banks in the framework of the Brady Plan. Nicaraguan debt also dropped 11% through the buy-back of its commercial debt at 7% of its nominal value and forgiveness of bilateral debt by some European Governments. Chile's external debt was reduced by 4.5% through the exceptional prepayment of US\$ 1.6 billion made by the Government and the Central Bank to multilateral institutions in October.

The secondary market reacted negatively to the Mexican devaluation at the end of 1994. The price of the debt in most of the countries (except Chile and Colombia) fell in the first quarter. The largest decreases came in Panama (-31%), Mexico (-28%), Peru (-23%), Costa Rica (-21%) and Argentina (-17%). Later there was a gradual but systematic trend towards recovery, and at the end of September the price of the debt in the majority of the countries where transactions were carried out had exceeded that at the end of the previous year. The percentages of the face value of the debt were as follows at the end of October: Peru (68%), Mexico (60%), Venezuela (52%), Argentina and Brazil (49%) and Ecuador (33%).

ii) The debt burden. The regional debt burden dropped once again, as it has done since 1987. The ratio of total interest due to exports of goods and services was 16%, half that of ten years ago. As in 1994, this was the result of a robust expansion of exports, since interest paid increased both because of the higher level of borrowing and because of the steady increase in international interest rates from the beginning of 1994 to mid-1995. This indicator went down in the majority of the countries, with the exception of Bolivia, Brazil, Colombia, Haiti and Uruguay, where there was a moderate rise. In 1995 six countries (Chile, Costa Rica,

Dominican Republic, El Salvador, Guatemala and Paraguay) had ratios below 10%, which may be considered an appropriate proportion for debt interest payments. In another eight countries (Bolivia, Colombia, Ecuador, Haiti, Honduras, Mexico, Uruguay and Venezuela), ratios were between 14% and 17%. Although Argentina still records a ratio of 23% between interest paid and exports, it is worth bearing in mind its appreciable improvement over the last six years, during which time the ratio has fallen by half. In Peru the ratio of interest owed to exports was 32% in 1995, the highest in the last nine years, while in Nicaragua it continued to be very high (80%), despite a reduction.

In 1995 the ratio of external debt to exports of goods and services declined once more, which is attributable to the strong expansion of exports, since the rate of external borrowing accelerated. For the first time since the beginning of the debt crisis in 1982, the external debt ratio stood at 221%, similar to the ratio for the biennium 1979-1980, before the crisis. In 1995 the ratio fell practically across the board in all the countries of Latin America and the Caribbean, with the exception of Bolivia and Brazil, where it increased owing to a higher rate of increase of external debt than exports. Nevertheless, it needs to be pointed out that in some countries of the region there were worryingly high levels of this ratio. Although it went down in Nicaragua and Haiti (through a drop in debt in Nicaragua and a robust recovery in exports in Haiti) levels were still extremely high.

An extraordinary increase in exports of goods and services enabled Argentina's debt/export ratio to come down from 439% to 346%, Peru's from 448% to 392% and that of Honduras from 348% to 300%. In Ecuador there was a considerable reduction from 327% to 272%, mainly owing to debt reduction through restructuring of debt owed to commercial banks under the Brady Plan. In Colombia, Mexico and Venezuela, this indicator also continued to improve, and in 1995 in those countries debt was equal to less than two years' worth of exports of goods and services. Lastly, in seven countries of the region (Chile, Costa Rica, Dominican Republic, El Salvador, Guatemala, Paraguay and Uruguay) external debt was practically equal to or less than the annual level of exports of goods and services. Particularly notable was the dramatic reduction in this ratio in Chile, where not only did exports increase, but debt was reduced this year through the prepayment of principal to multilateral institutions.

iii) Renegotiation of external debt. During 1995, important advances were made in the renegotiation of external debt in the majority of heavily-indebted Latin American countries. Under the Brady Plan, Panama signed a definitive agreement on the restructuring of its external commercial debt in October 1995, including US\$ 2 billion in principal repayments and US\$ 1.5 billion in arrears. The "menu" of principal options included: a discount bond with a 30-year term and grace period at a 45% discount and an interest rate equal to six-month LIBOR plus 0.81% and a par bond with a 30-year term and grace period and with interest rates rising gradually from 3% to 5%. The "menu" of interest options allows for the greater part to be paid over 20 years after a grace period of 10 years, at interest rates of 0.81% over LIBOR.

Peru announced in October that, after a year of negotiations, it had reached a preliminary agreement with commercial banks to restructure its debts in the framework of the Brady

Plan. The amounts to be restructured include principal of US\$ 4.2 billion and interest arrears estimated at around US\$ 3.5 billion. The agreement includes an option of bonds at a discount of 45%. In November, Nicaragua, whose external debt was equivalent to six times output in 1994, bought back 80% of its debt of US\$ 1,727 million with commercial banks at approximately 7% of its nominal value. For this it obtained a loan of US\$ 40 million from the Inter-American Development Bank, a US\$ 40 million grant from the World Bank and US\$ 25 million in assistance from the Governments of the Netherlands, Sweden and Switzerland. This agreement is without doubt a very positive precedent for the restructuring of the debt of other poor countries.

Bolivia and Nicaragua signed restructuring agreements in March, followed by Haiti in May, on their bilateral debt with countries members of the Paris Club and availed themselves of the "Naples Terms", which were agreed in December 1994 for the benefit of the poorest, severely indebted countries, and which allow for a reduction in bilateral debt of 50% or 67%. To qualify for these conditions, countries should either have a per capita output of less than US\$ 500, or have a debt/export ratio of more than 350%. They should also have complied satisfactorily with the adjustment programmes agreed with the IMF. The Government of Honduras is also negotiating with the Paris Club to restructure its bilateral debt of US\$ 1.1 billion, under the same conditions.

STATISTICAL APPENDIX

Table A.1
**LATIN AMERICA AND THE CARIBBEAN: TOTAL GROSS
 DOMESTIC PRODUCT**
(Percentages based on values at 1980 prices)

	Annual rates of variation							Cumulative variation	
	1989	1990	1991	1992	1993	1994	1995 ^a	1981-1990	1991-1995 ^a
Latin America and the Caribbean	0.9	0.3	3.3	2.8	3.0	4.6	0.6	13.0	14.9
South America	-0.1	-1.1	3.7	3.0	4.2	5.1	2.9	10.9	20.3
Argentina	-6.2	-0.1	8.9	8.7	6.1	7.4	-2.5	-8.7	31.4
Bolivia	3.5	4.7	5.1	1.2	4.1	4.2	3.5	1.4	19.7
Brazil	3.1	-4.4	0.3	-0.9	4.2	5.8	4.0	16.8	14.1
Chile	9.7	3.3	6.8	10.6	5.9	4.1	8.0	32.1	40.7
Colombia	3.5	4.0	1.8	3.8	4.7	5.6	5.5	43.6	23.0
Ecuador	0.2	2.0	4.9	3.4	2.2	4.2	2.5	20.4	18.4
Guyana	-4.5	-2.8	5.4	7.5	7.6	8.4	3.5	-24.4	36.8
Paraguay	5.9	3.1	2.3	1.7	3.9	3.0	4.0	36.6	15.9
Peru	-11.5	-5.6	2.6	-1.2	5.8	12.8	7.5	-11.4	30.1
Suriname	4.4	0.1	3.5	5.8	-4.5	-0.8	...	5.0	3.7 ^b
Uruguay	1.3	0.9	3.2	7.9	2.5	5.1	-1.5	4.7	18.2
Venezuela	-7.8	6.8	9.7	5.8	-0.2	-2.9	2.0	4.2	14.8
Mexico	3.3	4.4	3.6	2.8	0.6	3.5	-7.0	17.9	3.2
Central America and the Caribbean	2.4	0.3	-1.3	0.2	-0.8	2.5	3.4	17.6	3.9
Bahamas	2.0	4.8	-3.2	1.0	2.4	0.0	1.5	31.2	1.6
Barbados	3.7	-3.2	-4.2	-5.8	1.1	4.2	2.0	9.5	-3.1
Belize	13.1	10.3	3.0	11.3	3.5	1.6	...	56.0	20.5 ^b
Costa Rica	5.5	3.4	2.1	7.3	6.1	4.3	2.5	25.1	24.2
Cuba	0.7	-3.0	-10.7	-11.6	-14.9	0.7	2.5	39.5	-30.6
El Salvador	0.4	4.4	2.3	7.2	6.3	4.3	6.5	-7.2	29.4
Guatemala	3.7	2.9	3.5	4.9	3.8	3.8	4.5	8.8	22.2
Haiti	1.0	-0.2	-0.8	-14.3	-5.1	-12.2	3.5	-3.8	-26.7
Honduras	4.7	-0.4	2.3	6.1	6.7	-2.0	3.5	25.5	17.7
Jamaica	6.3	6.2	1.2	2.0	1.6	2.5	0.5	31.8	7.9
Nicaragua	-1.7	0.0	-0.2	0.4	-0.4	3.2	4.0	-12.7	7.2
Panama	-0.1	6.3	8.6	6.1	4.2	1.8	3.0	20.1	25.7
Dominican Republic	4.8	-5.3	0.5	6.8	2.3	4.3	5.0	27.5	20.1
Trinidad and Tobago	-0.4	1.9	1.7	-2.3	-2.8	5.1	3.5	-19.9	5.0
OECS countries^c	6.1	4.7	3.3	3.9	2.1	3.0	2.8	78.7	16.3
Antigua and Barbuda	6.3	3.5	4.3	1.7	3.4	5.3	...	86.5	15.4 ^b
Dominica	-1.1	6.3	2.3	2.9	2.6	1.9	-2.0	53.6	8.0
Grenada	5.8	5.2	3.6	1.1	-1.3	2.3	...	61.8	5.8 ^b
Saint Kitts and Nevis	6.7	3.0	3.8	3.6	4.0	4.1	...	75.0	16.4 ^b
Saint Lucia	8.5	4.4	2.3	7.1	2.3	2.8	4.0	93.5	19.8
Saint Vincent and the Grenadines	7.2	7.0	3.1	6.5	1.4	0.4	4.0	87.0	16.3

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

Note: Totals and subtotals exclude, where applicable, those countries for which no information is provided.

^a Preliminary estimates subject to revision. Figures for countries for 1995 have been rounded to the nearest ten or five.

^b Refers to the period 1991-1994. ^c OECS = Organization of Eastern Caribbean States.

Table A.2
**LATIN AMERICA AND THE CARIBBEAN: PER CAPITA
 GROSS DOMESTIC PRODUCT**
(Percentages based on values at 1980 prices)

	Annual rates of variation							Cumulative variation	
	1989	1990	1991	1992	1993	1994	1995 ^a	1981-1990	1991-1995 ^a
Latin America and the Caribbean	-1.0	-1.6	1.4	0.9	1.1	2.7	-1.1	-7.5	5.1
South America	-1.9	-2.9	1.8	1.2	2.4	3.3	1.2	-9.1	10.4
Argentina	-7.5	-1.4	7.5	7.3	4.8	6.1	-3.6	-21.1	23.6
Bolivia	1.3	2.4	2.7	-1.2	1.6	1.7	1.2	-17.4	6.1
Brazil	1.2	-6.1	-1.4	-2.6	2.4	4.0	2.4	-4.6	4.8
Chile	7.8	1.6	5.0	8.8	4.2	2.4	6.4	12.4	29.7
Colombia	1.7	2.2	0.1	2.0	3.0	3.9	3.6	17.9	13.2
Ecuador	-2.2	-0.3	2.5	1.1	0.0	2.0	0.4	-6.6	6.0
Guyana	-4.8	-2.9	4.4	6.3	6.6	7.2	2.5	-27.7	30.0
Paraguay	2.7	0.1	-0.6	-1.1	1.1	0.2	1.3	-0.8	0.9
Peru	-13.2	-7.4	0.7	-2.9	4.0	10.9	5.7	-28.9	19.3
Suriname	3.2	-1.2	2.3	4.6	-5.6	-1.9	...	-6.8	-0.8 ^b
Uruguay	0.7	0.3	2.6	7.2	1.9	4.5	-2.1	-1.4	14.8
Venezuela	-10.2	4.2	7.1	3.4	-2.4	-5.1	-0.1	-19.4	2.5
Mexico	1.4	2.5	1.7	0.9	-1.2	1.7	-8.6	-4.3	-5.8
Central America and the Caribbean	0.4	-1.7	-3.3	-1.9	-2.9	0.4	1.4	-3.4	-6.3
Bahamas	0.4	2.8	-4.8	-0.4	0.9	-1.5	0.0	7.7	-5.7
Barbados	3.0	-3.2	-4.6	-6.2	0.7	3.8	1.6	6.1	-4.9
Belize	10.3	7.4	0.4	8.5	0.9	-1.0	...	20.5	8.7 ^b
Costa Rica	2.6	0.7	-0.4	4.6	3.5	1.9	0.2	-5.8	10.1
Cuba	-0.3	-3.8	-11.5	-12.3	-15.6	-0.1	1.7	27.8	-33.4
El Salvador	-1.5	2.4	0.3	4.9	4.0	2.0	4.0	-18.8	16.0
Guatemala	0.8	0.0	0.6	1.9	0.8	0.9	1.6	-18.2	5.8
Haiti	-1.0	-2.2	-2.8	-16.0	-7.0	-14.0	1.4	-20.6	-33.7
Honduras	1.6	-3.4	-0.7	3.0	3.6	-4.8	0.7	-8.2	1.6
Jamaica	5.8	5.7	0.5	1.3	0.9	1.8	-0.4	18.9	4.3
Nicaragua	-4.3	-3.0	-3.6	-3.4	-4.3	-0.7	0.4	-33.5	-11.1
Panama	-2.1	4.3	6.6	4.1	2.2	0.0	1.0	-2.4	14.6
Dominican Republic	2.5	-7.2	-1.5	4.7	0.4	2.4	2.9	2.1	9.2
Trinidad and Tobago	-1.2	0.2	0.6	-3.4	-3.8	3.9	2.4	-29.9	-0.6
OECS countries^c	5.3	4.3	2.6	3.2	1.6	2.4	1.9	70.2	11.2
Antigua and Barbuda	5.6	2.8	3.7	1.0	2.8	4.7	...	77.8	12.6 ^b
Dominica	-2.0	7.9	2.3	2.9	2.6	1.9	-1.8	60.0	8.0
Grenada	4.9	5.7	3.4	0.9	-1.5	2.1	...	58.3	4.9 ^b
Saint Kitts and Nevis	8.7	3.0	3.8	3.6	6.5	4.1	...	95.8	19.2 ^b
Saint Lucia	7.1	2.9	1.0	5.7	0.9	1.5	2.6	67.3	12.2
Saint Vincent and the Grenadines	6.2	5.9	2.2	5.6	0.4	-0.5	3.1	71.3	11.1

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

Note: Totals and subtotals exclude, where applicable, those countries for which no information is provided.

^a Preliminary estimates subject to revision. ^b Refers to the period 1991-1994. ^c OECS = Organization of Eastern Caribbean States.

Table A.3
**LATIN AMERICA AND THE CARIBBEAN: VARIATIONS IN
 CONSUMER PRICE INDEXES**
(December-December variations)

	1987	1988	1989	1990	1991	1992	1993	1994	1995 ^a
Latin America and the Caribbean	209.2	776.8	1 212.5	1 191.3	199.7	418.9	887.6	337.3	25.0
Argentina	174.8	387.7	4 923.3	1 343.9	84.0	17.6	7.7	3.9	1.8 ^b
Barbados	6.3	4.4	6.6	3.4	8.1	3.4	-1.0	0.5	0.4 ^c
Bolivia	10.7	21.5	16.6	18.0	14.5	10.5	9.3	8.5	10.7 ^b
Brazil	394.6	993.3	1 863.6	1 584.6	475.8	1 149.1	2 489.1	929.3	22.0 ^b
Chile	21.4	12.7	21.4	27.3	18.7	12.7	12.2	8.9	8.3 ^b
Colombia	24.0	28.2	26.1	32.4	26.8	25.2	22.6	22.6	20.0 ^b
Costa Rica	16.4	25.3	10.0	27.3	25.3	17.0	9.0	19.9	24.9 ^b
Ecuador	32.5	85.7	54.3	49.5	49.0	60.2	31.0	25.4	22.2 ^b
El Salvador	19.6	18.2	23.5	19.3	9.8	20.0	12.1	8.9	11.4 ^b
Guatemala	9.3	12.3	20.2	59.6	10.2	14.2	11.6	11.6	8.6 ^b
Haiti	-4.1	8.6	10.9	26.1	6.6	18.0	39.3	52.1 ^e	25.0 ^e
Honduras	2.9	6.6	11.4	36.4	21.4	6.5	13.1	28.8	28.6 ^d
Jamaica	8.4	8.9	17.2	29.7	80.2	40.2	30.1	26.9	15.8 ^f
Mexico	159.2	51.7	19.7	29.9	18.9	11.9	8.0	7.1	48.5 ^b
Nicaragua	1 347.2	33 547.6	1 689.1	13 490.2	775.4	3.5	19.5	12.5	10.8 ^d
Panama	0.9	0.3	-0.2	0.8	1.1	1.6	0.9	1.4	0.8 ^d
Paraguay	32.0	16.9	28.5	44.1	11.8	17.8	20.4	18.3	10.4 ^b
Peru	114.5	1 722.6	2 775.3	7 649.6	139.2	56.7	39.5	15.4	10.4 ^b
Dominican Republic	22.7	55.8	34.6	79.9	7.9	5.2	2.8	14.3	12.1 ^b
Trinidad and Tobago	8.3	12.1	9.3	9.5	2.3	8.5	13.5	5.5	5.6 ^f
Uruguay	57.3	69.0	89.2	129.0	81.3	59.0	52.9	44.1	36.8 ^b
Venezuela	40.3	35.5	81.0	36.5	31.0	31.9	45.9	70.8	52.9 ^b

Source: Information provided by the countries.

^a Figures correspond to the variation in prices during the 12-month period ending in the month indicated for each country.

^b Corresponds to the variation between November 1994 and November 1995. ^c Corresponds to the variation between June 1994 and June 1995. ^d Corresponds to the variation between October 1994 and October 1995. ^e Fiscal year ending September. ^f Corresponds to the variation between July 1994 and July 1995.

Table A.4
LATIN AMERICA AND THE CARIBBEAN: URBAN UNEMPLOYMENT^a
(Average annual rates)

	1987	1988	1989	1990	1991	1992	1993	1994	1995 ^b
Argentina	5.9	6.3	7.6	7.5	6.5	7.0	9.6	11.5	18.6
Bolivia	5.7	11.5	10.2	9.5	7.3	5.8	5.4	5.8	...
Brazil	3.7	3.8	3.4	4.3	4.8	5.8	5.4	5.1	4.7
Chile	11.9	10.2	7.2	6.5	7.3	4.9	4.1	6.3	5.6
Colombia	11.8	11.3	10.0	10.5	10.2	10.2	8.6	8.9	8.6
Costa Rica	5.9	6.3	3.7	5.4	6.0	4.3	4.0	4.3	...
Ecuador	7.2	7.4	7.9	6.1	8.5	8.9	8.9	7.8	8.4
El Salvador	...	9.4	8.4	10.0	7.5	7.9	8.1	7.2	7.5
Guatemala	11.4	8.8	6.1	6.5	6.4	5.7	5.5	5.2	4.3
Honduras	11.4	8.7	7.9	7.8	7.4	6.0	7.1	6.3	4.5
Mexico	3.9	3.5	2.9	2.7	2.7	2.8	3.4	3.7	6.4
Nicaragua	5.8	6.0	8.4	11.1	14.2	17.8	21.8	20.7	20.2
Panama	11.8	16.3	16.3	16.8	16.0	14.7	13.2	13.7	14.3
Paraguay	5.5	4.7	6.1	6.6	5.1	5.3	5.1	4.4	4.8
Peru	4.8	7.1	7.9	8.3	5.9	9.6	9.9	8.8	8.2
Uruguay	9.3	9.1	8.6	9.3	8.9	9.0	8.4	9.1	10.7
Venezuela	9.9	7.9	9.7	11.0	10.1	8.1	6.8	8.7	10.3

Source: ECLAC, on the basis of official information.

^a Figures from household surveys in the countries. Geographical coverage and periodicity vary.

^b Preliminary figures.

Table A.5
LATIN AMERICA AND THE CARIBBEAN: AVERAGE REAL WAGES

	1980	1985	1989	1990	1991	1992	1993	1994	1995 ^a
Average annual indexes (1990 = 100)									
Argentina ^b	130.0	135.7	95.5	100.0	101.3	102.7	101.0	102.0	100.9
Bolivia ^c	...	64.9	97.6	100.0	93.4	97.1	103.6	111.8	115.2
Brazil ^d									
Rio de Janeiro	94.0	96.2	111.9	100.0	79.3	79.5	85.7	87.1	87.9
São Paulo	88.6	93.8	111.7	100.0	88.3	85.3	94.6	98.0	98.2
Chile ^e	95.4	89.3	98.2	100.0	104.9	109.6	113.5	118.8	123.3
Colombia ^f	85.0	97.4	101.3	100.0	97.4	98.6	103.2	104.1	104.2
Costa Rica ^g	115.6	106.6	98.4	100.0	95.4	99.3	109.6	113.8	111.5
Mexico ^h	128.3	97.4	96.5	100.0	106.5	114.3	124.5	129.1	112.0
Peru ⁱ	309.3	250.2	114.5	100.0	115.2	111.1	110.2	127.4	122.6
Uruguay ^j	108.5	95.5	107.9	100.0	103.8	106.1	111.2	112.2	109.1
Annual percentage variation									
Argentina ^b			-19.1	4.7	1.3	1.4	-1.7	1.0	-1.1
Bolivia ^c			5.7	2.5	-6.6	4.0	6.7	7.9	3.0
Brazil ^d									
Rio de Janeiro			1.9	-10.6	-20.7	0.3	7.8	1.6	0.9
São Paulo			3.4	-10.5	-11.7	-3.4	10.9	3.6	0.2
Chile ^e			2.0	1.8	4.9	4.5	3.6	4.7	3.8
Colombia ^f			1.3	-1.3	-2.6	1.2	4.7	0.9	0.1
Costa Rica ^g			0.6	1.6	-4.6	4.1	10.2	3.8	-2.0
Mexico ^h			4.8	3.6	6.5	7.3	8.9	3.7	-13.2
Peru ⁱ			-45.1	-12.7	15.2	-3.6	-0.8	15.6	-3.8
Uruguay ^j			-0.4	-7.3	3.8	2.2	4.8	0.9	-2.8

Source : ECLAC, on the basis of official figures.

^a Preliminary figures. ^b Average total wages in manufacturing. 1995: January-October average. ^c Wages of workers in private enterprise in La Paz. 1995: Average of March and June. ^d Wages of workers covered by social and labour legislation. 1995: January to July average. ^e Until April 1993, average wages of non-agricultural wage-earners. From May 1993 onwards, general index of hourly wages. 1995: January-September average. ^f Wages of manual workers in manufacturing. 1995: January-May average. ^g Average remuneration declared by persons covered by the social security system. 1995: January-April average. ^h Average wages in manufacturing. 1995: January-July average. ⁱ Wages of private-sector manual workers in the Lima metropolitan area. 1995: first half of the year. ^j Average salaries. 1995: January-October average.

Table A.6
LATIN AMERICA AND THE CARIBBEAN: PUBLIC SECTOR
DEFICIT (-) OR SURPLUS AT CURRENT PRICES^a
(Percentages of gross domestic product)

	Coverage	1989	1990	1991	1992	1993	1994	1995 ^b
Argentina	NNFPS	-3.2	-3.8	-1.6	-0.1	-0.1	-0.1	-0.4
Bolivia	NFPS	-4.8	-3.9	-3.7	-4.8	-5.8	-3.0	-2.5
Brazil	Nominal CPS ^c	-83.1	-26.9	-28.2	-48.4	-65.6	-39.2	...
	Operational CPS ^{cd}	-6.9	1.2	-0.2	-2.8	-1.3	1.2	-4.5
Chile	NFPS	2.8	3.5	2.4	2.8	2.0	2.0	3.8
Colombia	NFPS	-1.9	-0.6	0	-0.2	0.3	2.6	-1.2
Costa Rica	NFPS	0.0	-2.5	-0.1	0.7	0.6	-6.9	...
	CG	-4.1	-4.4	-3.1	-1.9	-2.2	-6.5	-4.3
Ecuador	NFPS	-1.4	0.1	-1.0	-1.7	-0.4	-0.2	-1.0
El Salvador	CG	-4.9	-3.6	-5.2	-5.2	-3.3	-2.1	-1.6
	NFPS	-5.8	-2.8	-4.9	-6.5	-3.6	-2.0	...
Guatemala	CG	-3.8	-2.3	-0.1	-0.5	-1.5	-1.5	-0.7
Haiti	CG	...	-1.3	-0.5	-2.8	-3.8	-5.4	-5.6
Honduras	CG	-7.4	-6.4	-3.3	-4.9	-9.3	-5.1	-3.7
Mexico	CPS	-5.0	-2.8	3.3	1.6	0.7	-0.3	...
	CG	-5.1	-2.8	3.5	4.8	0.8	-0.4	0.1
Nicaragua	CG	-6.7	-17.1	-7.5	-7.6	-7.3	-9.7	-1.5
	CPS	...	-17.2	-7.9	-8.3	-8.6	-12.1	-9.6
Panama	CG	-7.0	6.8	-2.7	-1.4	-0.4	-0.8	-1.0
Paraguay	NFPS	...	5.2	2.9	0.1	1.2	3.3	...
	CG	1.5	3.0	4.4	-0.1	-0.7	0.8	0.7
Peru	CG	-1.4	-1.4	-2.7	1.9	-1.3
	NFPS	-6.9	-4.3	-1.4	-1.3	-1.3	2.4	...
Dominican Republic	CG	-0.1	0.3	2.8	2.9	-0.4	-1.1	0.6
Uruguay	CPS	-6.1	-2.5	0.0	0.5	-1.5	-3.0	-2.5
	CG	-3.4	-0.1	0.4	0.3	-1.2	-2.3	...
Venezuela	NFPS	-1.1	0.2	0.2	-5.8	-3.5	-13.8	...
	CG	-1.0	-2.1	2.8	-3.6	-3.4	-6.5	-6.0

Source: ECLAC, on the basis of official figures.

Note: Abbreviations used: CG= Central Government. NFPS= Non-financial public sector. NNFPS= National non-financial public sector (does not include provinces and municipalities). CPS = Consolidated public sector.

^a Calculated on the basis of figures in local currency at current prices. ^b Preliminary estimates. ^c Estimates based on the financing needs of the consolidated public sector. ^d Does not include the inflationary component of the interest rate.

Table A.7
**LATIN AMERICA AND THE CARIBBEAN: REAL EFFECTIVE
 EXCHANGE RATE INDEXES FOR EXPORTS ^a**
(Prepared on the basis of consumer price indexes)

	1987	1988	1989	1990	1991	1992	1993	1994	1995 ^b
Argentina	122.4	129.7	143.1	100.0	83.3	77.5	74.4	78.4	86.7
Bolivia	69.8	74.1	71.9	100.0	108.3	116.3	120.0	125.1	127.5
Brazil	156.8	143.2	108.4	100.0	118.5	127.7	115.4	92.9	71.2
Chile	96.3	102.0	96.4	100.0	98.9	95.3	96.6	96.5	93.0
Colombia	85.2	86.5	88.8	100.0	101.0	90.0	87.0	74.8	73.3
Costa Rica	99.6	104.0	98.0	100.0	108.3	103.0	100.7	101.0	98.4
Ecuador	78.8	92.3	94.6	100.0	95.2	94.7	84.0	78.2	77.4
El Salvador	99.7	86.9	82.8	100.0	98.4	98.2	87.4	83.9	81.9
Guatemala	84.1	85.0	85.4	100.0	87.9	87.0	88.2	85.1	82.6
Haiti ^c	88.2	93.1	96.4	100.0	92.8	96.2	110.2	97.7	86.0
Honduras	60.3	60.4	56.1	100.0	107.9	102.2	112.6	125.3	113.1
Mexico ^d	135.2	110.0	103.2	100.0	91.1	84.1	79.8	81.9	120.5
Nicaragua	3.1	125.4	150.0	100.0	104.6	104.9	108.3	113.3	118.0
Paraguay ^e	93.1	96.5	101.9	100.0	86.9	90.6	92.2	97.4	108.9
Peru	189.8	195.8	122.1	100.0	82.1	80.9	83.3	84.4	86.2
Dominican Republic	130.2	151.0	109.2	100.0	100.6	101.3	96.8	95.4	93.5
Uruguay	80.6	86.7	86.3	100.0	88.1	84.1	74.2	76.6	79.3
Venezuela	83.9	81.2	96.1	100.0	93.9	88.5	88.9	92.5	74.3

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

^a Corresponds to the average indexes of the real exchange rate (official principal) between the currency of each country and the currencies of its main trading partners weighted by the relative participation of each of those countries in the exports of the country under analysis. These weightings correspond to the average for the period 1989-1993. For 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.

^b January-September average. ^c From 1987 onwards, the commercial exchange rate was used. ^d The exchange rate used was as follows: median rate between the average selling and buying rates declared by the main commercial banks to the Bank of Mexico up to July 1982; preferential rate for commodity imports from August to November 1982; median rate between the selling and buying rates in the controlled market from November 1982 onwards. ^e The free or parallel exchange rate was used.

Table A.8
**LATIN AMERICA AND THE CARIBBEAN: PRICES
 OF MAIN EXPORT COMMODITIES**
(Dollars at current prices and rates of variation)

	Average annual prices					Annual rates of variation		
	1991	1992	1993	1994	1995 ^a	1993	1994	1995
Unrefined sugar ^b	9.0	9.1	10.0	12.0	13.7	10.6	19.7	14.2
Bananas ^b	25.5	21.7	20.1	19.9	20.4	-7.4	-1.0	2.4
Cocoa ^b	54.2	49.8	50.7	63.3	65.4	1.9	24.8	3.3
Coffee (mild) ^b	85.0	63.6	69.9	148.5	160.0	9.9	112.5	7.7
Beef ^b	120.8	111.3	118.7	105.8	86.3	6.6	-10.9	-18.4
Fish meal ^c	478.0	482.0	365.0	376.0	463.2	-24.3	3.0	23.2
Maize ^c	126.3	120.2	120.4	125.2	140.5	0.2	4.0	12.2
Soya beans ^c	240.0	236.0	255.0	252.0	251.3	8.1	-1.2	-0.3
Wheat ^c	129.0	150.5	141.9	150.9	169.7	-5.7	6.3	12.5
Cotton ^b	81.5	62.6	62.2	82.2	101.2	-0.6	32.1	23.1
Wool ^b	119.2	123.7	115.8	144.7	179.9	-6.4	25.0	24.3
Copper ^b	106.0	103.5	86.7	104.9	133.4	-16.2	20.9	27.3
Tin ^d	2.5	2.7	2.3	2.5	2.8	-15.3	7.0	12.7
Iron ore ^c	33.3	31.6	28.1	25.5	27.0	-11.0	-9.5	6.0
Lead ^b	25.4	24.6	18.5	24.9	27.6	-24.8	34.5	10.8
Zinc ^b	50.7	56.3	43.7	45.3	47.2	-22.4	3.7	4.1
Crude petroleum ^c	17.1	16.9	14.7	14.6	15.9	-13.0	-0.7	8.7

Source: United Nations Conference on Trade and Development (UNCTAD), *Monthly Commodity Price Bulletin*, supplement 1970-1989 (TD/B/C.1/CPB/L.101/Add.1), Geneva, November 1989; and *Monthly Commodity Price Bulletin* (TD/B/CN.1/CPB/L.26), vol. XV, No. 9, Geneva, September 1995 and International Monetary Fund (IMF), *International Financial Statistics*, Washington, D.C., November 1995.

Note: **Unrefined sugar**, f.o.b. Caribbean ports, for export to the free market. **Bananas** from Central America and Ecuador, f.o.b. United States ports. **Cocoa beans**, average of daily prices (futures), New York/London. **Coffee**, mild arabica, ex-dock New York. **Beef**, frozen and boned, all sources, United States ports. **Fish meal**, all sources, 64-65% protein, c.i.f. Hamburg. **Maize**, United States No. 3, yellow, c.i.f. Rotterdam. **Soya beans**, United States, No. 2, yellow bulk, c.i.f. Rotterdam. **Wheat**, f.o.b. United States, No. 2, Hard Red Winter. **Cotton**, United States M 1-3/32", c.i.f. Northern Europe. **Wool**, clean, combed, grade 48"s, United Kingdom. **Copper, tin, lead and zinc**, spot cash prices on the London Metal Exchange. **Iron ore**, Brazil to Europe, C. 64.5% Fe, f.o.b. **Petroleum**, Venezuela, Tia Juana, light.

^a January-September average.

^b United States cents per pound.

^c Dollars per metric ton.

^d Dollars per pound.

^e Dollars per barrel.

Table A.9
LATIN AMERICA AND THE CARIBBEAN: EXPORTS OF GOODS, FOB
(Indexes 1980 = 100 and annual rates of variation)

	Value			Unit value			Volume					
	Index	Rates		Index	Rates		Index	Rates				
	1995 ^a	1993	1994	1995 ^a	1995 ^a	1993	1994	1995 ^a	1995 ^a	1993	1994	1995 ^a
Latin America and the Caribbean	252	7.0	16.4	22.7	88	-0.2	6.6	11.1	286	7.3	9.2	10.5
South America	197	4.3	16.0	17.5	92	-3.7	7.5	13.4	214	8.1	7.9	3.6
Argentina	257	7.2	20.8	30.1	94	2.0	2.0	11.0	274	5.1	18.4	17.1
Bolivia	109	17.6	37.7	4.6	63	-6.6	13.2	6.0	175	25.9	21.6	-1.3
Brazil	233	8.4	12.3	7.9	89	-2.0	6.4	11.0	261	10.6	5.5	-2.8
Chile	338	-8.1	25.4	37.8	113	-10.7	15.5	22.5	300	2.9	8.6	12.5
Colombia	269	2.3	17.9	22.5	115	-4.4	17.0	21.5	233	7.0	0.7	0.8
Ecuador	170	1.8	21.4	15.4	61	-3.9	11.0	5.5	280	5.9	9.3	9.4
Paraguay	489	52.8	7.7	9.8	135	4.0	9.0	11.5	363	47.0	-1.0	-1.5
Peru	140	-0.6	31.5	20.3	119	-8.0	14.0	20.0	117	8.0	15.4	0.3
Uruguay	195	-3.9	10.5	8.2	106	-5.1	7.5	11.0	185	1.3	2.8	-2.6
Venezuela	96	0.1	10.4	16.5	65	-6.2	1.5	10.5	149	6.7	8.8	5.4
Mexico	523	12.3	17.3	33.2	82	6.2	5.0	7.0	639	5.8	11.8	24.5
Central America and the Caribbean	179	6.8	14.8	17.0	131	-0.2	6.4	13.7	137	7.1	7.9	2.9
Costa Rica	247	11.8	7.7	18.1	98	1.2	8.0	14.5	253	10.5	-0.3	3.2
El Salvador	157	22.4	70.7	35.3	123	2.5	21.0	25.0	128	19.4	41.4	8.2
Guatemala	137	6.2	13.7	34.8	112	2.5	10.0	17.5	122	3.6	3.4	14.7
Haiti	46	7.9	-36.3	92.3	75	2.1	10.0	10.5	61	5.7	-42.1	73.7
Honduras	134	1.7	8.1	23.6	117	2.3	8.0	18.5	115	-0.5	0.1	4.4
Nicaragua	109	19.7	31.5	39.6	88	15.0	21.0	18.5	123	4.1	8.7	17.9
Panama	271	5.5	10.0	3.9	161	-3.0	0.0	6.5	168	8.8	9.8	-2.4
Dominican Republic	85	-9.1	25.9	27.3	88	-5.3	11.7	23.5	97	-3.9	12.6	3.2

Source: ECLAC, on the basis of official information.

^a Preliminary estimates.

Table A.10
LATIN AMERICA AND THE CARIBBEAN: IMPORTS OF GOODS, FOB
(Indexes' 1980 = 100 and annual rates of variation)

	Value				Unit value				Volume			
	Index	Rates			Index	Rates			Index	Rates		
	1995 ^a	1993	1994	1995 ^a	1995 ^a	1993	1994	1995 ^a	1995 ^a	1993	1994	1995 ^a
Latin America and the Caribbean	243	9.7	18.5	12.1	120	-0.1	3.6	9.1	201	9.9	14.3	2.8
South America and the Caribbean	200	14.7	17.3	27.3	112	-2.8	3.3	9.7	183	18.0	13.5	16.0
Argentina	191	13.6	27.9	-10.0	146	-1.5	3.0	9.0	129	15.3	24.1	-17.4
Bolivia	211	6.8	0.9	7.8	115	1.2	4.4	7.0	183	5.5	-3.3	0.8
Brazil	218	25.1	28.8	51.0	100	-3.7	3.0	10.5	218	29.9	24.9	36.7
Chile	264	10.2	6.8	32.7	120	-2.2	3.6	9.5	220	12.7	3.1	21.1
Colombia	309	50.7	21.5	20.0	111	-1.2	3.0	9.5	273	52.4	18.0	9.7
Ecuador	175	18.8	32.3	19.7	86	-1.5	4.3	9.0	202	20.7	26.7	9.8
Paraguay	490	37.0	31.0	-5.6	85	-1.0	2.9	7.0	574	38.3	27.5	-11.8
Peru	246	-0.2	40.0	34.3	143	-0.1	2.3	9.0	172	-0.1	36.9	23.1
Uruguay	153	10.1	22.0	-1.5	106	-6.9	2.8	10.5	144	18.3	18.7	-10.9
Venezuela	106	-12.6	-31.5	49.3	105	-1.6	4.1	9.0	100	-11.1	-34.1	37.0
Mexico	379	5.2	21.3	-7.7	132	4.5	3.5	8.5	287	0.7	17.3	-14.9
Central America and the Caribbean	214	4.7	13.1	15.9	131	0.5	4.7	8.0	164	4.1	8.1	7.4
Costa Rica	221	18.1	6.9	9.0	99	-0.7	4.2	9.0	223	18.9	2.5	0.0
El Salvador	341	13.3	36.3	26.9	162	-2.1	4.4	8.0	210	15.8	30.5	17.5
Guatemala	208	2.4	6.8	20.3	113	0.4	4.5	9.0	185	2.0	2.2	10.4
Haiti	125	24.5	-47.1	183.7	117	-0.8	8.4	6.5	107	25.6	-51.2	166.0
Honduras	157	-4.6	43.1	11.1	93	1.7	4.3	6.5	169	-6.3	37.2	4.3
Nicaragua	107	-14.5	19.0	9.6	135	5.6	3.4	10.5	80	-19.0	15.1	-0.8
Panama	243	4.5	10.9	6.6	164	2.7	5.0	8.0	148	1.7	5.7	-1.3
Dominican Republic	195	-2.6	7.4	30.1	136	-1.1	3.8	8.0	143	-1.5	3.6	20.4

Source: ECLAC, on the basis of official information.

^a Preliminary estimates.

Table A.11
LATIN AMERICA AND THE CARIBBEAN: TERMS OF TRADE, FOB/FOB
(Indexes: 1980 = 100 and rates of variation)

	Indexes				Annual rates of variation				Cumulative variation	
	1992	1993	1994	1995 ^a	1992	1993	1994	1995 ^a	1981-1992	1993-1995 ^a
Latin America and the Caribbean	70	70	71	73	-3.9	-0.3	2.7	1.8	-30.2	4.5
South America	75	74	79	82	-5.4	-1.0	7.0	3.4	-25.3	10.6
Argentina	61	63	63	64	-0.3	3.4	-0.1	1.4	-39.2	1.2
Bolivia	55	51	55	54	-20.5	-7.7	8.3	-0.8	-45.2	7.4
Brazil	85	86	89	90	-2.3	1.8	3.7	0.4	-15.2	4.1
Chile	82	76	84	94	-6.5	-8.7	11.6	11.8	-17.6	24.7
Colombia	83	81	92	102	-11.4	-3.2	13.5	11.1	-16.6	26.1
Ecuador	70	69	73	71	-1.1	-2.4	6.4	-3.2	-29.8	3.1
Paraguay	136	143	152	158	-3.8	5.0	5.9	4.2	36.3	10.4
Peru	74	68	76	84	-1.6	-7.8	11.3	10.1	-26.1	22.6
Uruguay	93	95	99	100	-0.5	1.9	4.6	0.4	-6.8	5.0
Venezuela	65	62	60	61	-4.0	-4.8	-2.4	1.5	-35.0	-1.0
Mexico	61	62	63	62	-1.5	1.8	1.5	-1.4	-39.1	0.0
Central America and the Caribbean	90	90	95	100	-1.1	-0.8	5.9	5.3	-9.7	11.5
Costa Rica	89	91	94	99	-1.7	1.8	3.8	5.0	-11.0	9.0
El Salvador	54	57	66	76	-5.4	4.8	15.9	15.7	-46.0	34.1
Guatemala	86	88	93	100	-7.1	2.2	5.2	7.8	-13.8	13.4
Haiti	59	61	62	64	-6.0	3.0	1.5	3.7	-40.6	5.2
Honduras	108	109	113	125	-2.6	0.6	3.5	11.2	8.1	15.1
Nicaragua	48	52	61	66	-30.9	8.8	17.0	7.3	-51.9	25.6
Panama	111	105	100	98	-0.5	-5.6	-4.7	-1.5	10.8	-6.1
Dominican Republic	55	52	56	65	-8.7	-4.3	7.6	14.4	-45.2	23.2

Source: ECLAC, on the basis of official information.

^a Preliminary estimates.

Table A.12
**LATIN AMERICA AND THE CARIBBEAN: PURCHASING POWER
 OF EXPORTS OF GOODS**
(Indexes: 1980 = 100 and rates of variation)

	Indexes				Annual rates of variation				Cumulative variation	
	1992	1993	1994	1995 ^a	1992	1993	1994	1995 ^a	1981-1992	1993-1995 ^a
Latin America and the Caribbean	149	160	180	202	4.7	7.1	12.4	12.7	49.2	26.7
South America	131	140	157	168	5.2	7.0	12.0	7.2	30.8	20.0
Argentina	112	122	143	170	0.0	8.6	17.3	19.4	11.9	40.1
Bolivia	60	69	92	90	-20.8	15.7	32.9	-2.2	-40.3	30.0
Brazil	190	213	232	227	14.2	12.3	9.2	-2.4	89.5	6.6
Chile	192	181	219	276	10.2	-6.0	21.3	25.9	92.3	52.7
Colombia	175	180	206	231	-4.2	3.0	14.7	12.0	74.8	28.4
Ecuador	147	152	178	189	4.8	3.7	16.7	6.0	47.0	23.7
Paraguay	318	494	513	527	-6.4	55.3	3.9	2.7	217.8	6.7
Peru	67	66	85	94	4.2	-1.0	28.8	10.3	-33.0	42.1
Uruguay	166	169	184	180	12.2	1.9	8.5	-2.2	66.0	6.1
Venezuela	74	75	83	88	-6.3	1.1	10.2	6.8	-25.8	17.8
Mexico	259	279	316	388	1.5	7.6	13.4	22.9	158.8	39.4
Central America and the Caribbean	104	110	122	132	7.2	5.6	10.8	8.4	4.1	20.1
Costa Rica	187	210	217	236	16.2	12.2	3.6	8.4	87.0	12.3
El Salvador	37	46	76	95	0.0	24.7	64.6	25.2	-63.1	106.1
Guatemala	82	87	94	116	3.9	5.4	8.6	23.5	-17.9	34.1
Haiti	31	33	21	37	-62.8	8.1	-38.6	79.5	-69.1	10.2
Honduras	113	112	117	136	-0.2	-0.9	4.7	16.0	13.0	21.4
Nicaragua	43	49	62	78	-19.8	13.5	27.1	26.3	-57.1	60.6
Panama	158	162	170	163	20.0	2.7	4.9	-3.8	57.9	0.9
Dominican Republic	46	42	51	60	-16.5	-8.5	21.8	17.8	-54.3	43.5

Source: ECLAC, on the basis of official information.

^a Preliminary estimates.

Table A.13
LATIN AMERICA AND THE CARIBBEAN: BALANCE OF PAYMENTS
(Millions of dollars)

	Exports of goods			Imports of goods			Trade balance (goods)			Balance of services ^a			Balance of goods and services		
	1993	1994	1995 ^b	1993	1994	1995 ^b	1993	1994	1995 ^b	1993	1994	1995 ^b	1993	1994	1995 ^b
Latin America and the Caribbean	156 393	181 988	223 375	166 468	197 222	221 095	-10 075	-15 234	2 280	-11 479	-11 421	-8 140	-21 554	-26 655	-5 860
South America	93 369	108 322	127 330	84 199	98 752	125 665	9 170	9 570	1 665	-11 132	-11 331	-12 370	-1 962	-1 761	-10 705
Argentina	13 117	15 839	20 600	15 545	19 880	17 900	-2 428	-4 041	2 700	-2 481	-2 891	-1 800	-4 909	-6 932	900
Bolivia	716	985	1 030	1 112	1 122	1 210	-396	-137	-180	-145	-113	-175	-541	-250	-355
Brazil	38 783	43 545	47 000	25 711	33 105	50 000	13 072	10 440	-3 000	-5 004	-5 922	-6 100	8 068	4 518	-9 100
Chile	9 199	11 537	15 900	10 181	10 878	14 430	-982	659	1 470	5	19	-25	-977	678	1 445
Colombia	7 429	8 756	10 725	9 086	11 040	13 250	-1 657	-2 284	-2 525	-21	-323	-370	-1 678	-2 607	-2 895
Ecuador	3 062	3 717	4 290	2 474	3 272	3 915	588	445	375	-340	-387	-475	248	58	-100
Paraguay	1 653	1 780	1 955	2 672	3 500	3 305	-1 019	-1 720	-1 350	458	550	500	-561	-1 170	-850
Peru	3 463	4 555	5 480	4 043	5 661	7 600	-580	-1 106	-2 120	-656	-519	-810	-1 236	-1 625	-2 930
Uruguay	1 732	1 913	2 070	2 118	2 585	2 545	-386	-672	-475	282	429	315	-104	-243	-160
Venezuela	14 215	15 695	18 280	11 257	7 709	11 510	2 958	7 986	6 770	-3 230	-2 174	-3 430	-272	5 812	3 340
Mexico	51 885	60 882	81 090	65 366	79 347	73 275	-13 481	-18 465	7 815	-2 529	-2 589	1 050	-16 010	-21 054	8 865
Central America and the Caribbean	11 139	12 784	14 955	16 903	19 123	22 155	-5 764	-6 339	-7 200	2 182	2 499	3 180	-3 582	-3 840	-4 020
Costa Rica ^c	1 945	2 094	2 475	2 610	2 789	3 040	-665	-695	-565	244	274	295	-421	-421	-270
El Salvador ^c	732	1 249	1 690	1 766	2 407	3 055	-1 034	-1 158	-1 365	26	-53	-110	-1 008	-1 211	-1 475
Guatemala ^c	1 363	1 550	2 090	2 384	2 547	3 065	-1 021	-997	-975	108	-61	95	-913	-1 058	-880
Haiti	82	52	100	267	141	400	-185	-89	-300	-56	-38	-175	-241	-127	-475
Honduras ^c	853	922	1 140	944	1 351	1 500	-91	-429	-360	17	83	100	-74	-346	-260
Nicaragua	267	351	490	659	785	860	-392	-434	-370	-56	-71	-55	-448	-505	-425
Panama	5 386	5 922	6 150	6 155	6 827	7 275	-769	-905	-1 125	637	778	1 060	-132	-127	-65
Dominican Republic ^{c,d}	511	644	820	2 118	2 276	2 960	-1 607	-1 632	-2 140	1 262	1 587	1 970	-345	-45	-170

Table A.13 (conclusion)

	Balance of profits and interest ^e			Unrequited private transfer payments			Balance on current account			Balance on capital account ^f			Global balance [*]		
	1993	1994	1995 ^b	1993	1994	1995 ^b	1993	1994	1995 ^b	1993	1994	1995 ^b	1993	1994	1995 ^b
Latin America and the Caribbean															
South America	-32 951	-33 419	-39 850	8 395	10 052	11 220	-46 110	-50 022	-34 490	66 928	44 891	22 435	20 818	-5 131	-12 055
Argentina ^g	-20 363	-20 259	-25 340	3 140	4 074	4 860	-19 185	-17 946	-31 185	32 652	30 722	35 705	13 467	12 776	4 520
Bolivia	-2 989	-3 626	-4 500	535	315	300	-7 363	-10 243	-3 300	9 911	10 867	-400	2 548	624	-3 700
Brazil	-201	-193	-210	26	24	20	-716	-419	-545	646	414	425	-70	-5	-120
Chile	-10 358	-8 821	-12 000	1 682	2 588	3 200	-608	-1 715	-17 900	9 821	9 001	28 000	9 213	7 286	10 100
Colombia	-1 505	-1 775	-1 770	61	52	55	-2 421	-1 045	-270	2 841	4 177	310	420	3 132	40
Ecuador	-1 541	-1 296	-2 030	1 138	1 055	1 110	-2 081	-2 848	-3 815	2 062	3 015	4 180	-19	167	365
Paraguay	-908	-1 000	-965	0	0	0	-660	-942	-1 065	1 188	1 410	970	528	468	-95
Peru	-84	-80	-80	5	0	0	-640	-1 250	-930	727	1 580	930	87	330	0
Uruguay	-981	-1 575	-1 855 ^h	0	0	0	-2 217	-3 200	-4 785	2 662	4 668	4 610	445	1 468	-175
Venezuela	-192	-206	-170	32	33	30	-264	-416	-300	458	506	340	194	90	40
Mexico	-1 604	-1 687	-1 760	-339	7	145	-2 215	4 132	1 725	2 336	-4 916	-3 660	121	-784	-1 935
	-11 030	-11 745	-13 030	3 544	3 921	3 950	-23 496	-28 878	-215	30 728	11 212	-16 900	7 232	-17 666	-17 115
Central America and the Caribbean															
Costa Rica	-1 558	-1 415	-1 480	1 711	2 057	2 410	-3 429	-3 198	-3 090	3 548	2 957	3 630	119	-241	540
El Salvador	-201	-183	-215	86	89	95	-536	-515	-390	478	489	465	-58	-26	75
Guatemala	-114	-92	-80	790	1 001	1 150	-332	-302	-405	444	446	545	112	144	140
Haiti	-152	-104	-120	362	384	480	-703	-778	-520	855	777	430	152	-1	-90
Honduras	-11	-9	-25	73	43	80	-178	-93	-420	197	56	600	19	-37	180
Nicaragua	-316	-263	-270	29	93	105	-361	-516	-425	255	533	480	-106	17	55
Panama	-429	-466	-500	25	30	75	-853	-941	-850	774	994	890	-79	53	40
Dominican Republic	-77	53	-50	-16	-22	-25	-225	-96	-140	215	170	180	-10	74	40
	-258	-351	-220	362	439	450	-241	43	60	330	-508	40	89	-465	100

Source: ECLAC, on the basis of information supplied by the International Monetary Fund (IMF) and by official national institutions.

^a Does not include net payments of profits and interest. ^b Preliminary ECLAC estimates. Figures have been rounded to the nearest ten or five. ^c The balance of services includes maquila exports and imports.

^d Preliminary estimates of goods for processing (maquila) in 1995 indicate exports to the value of US\$ 1,873 billion and imports to the value of US\$ 1,539 billion.

^e Includes interest due. ^f Includes short-term and long-term autonomous capital, unrequited official transfer payments and errors and omissions, but not exceptional financing.

^g Official data on the balance of payments are currently presented in two versions. The one used here is included for reasons of continuity and is considered to be "under review". It applies the methodological criteria previously used by the Central Bank in its estimates. The second (which uses the methodology applied in the "Argentina en crecimiento" series of publications) amends in particular the estimate of earned interest and the allocation of portfolio operations to take account of the country of residence of agents. To date, these modifications have not been incorporated into the IMF series. ^h The balance of profits and interest for 1994 and 1995 includes paid and unpaid, public and private, short-term and long-term interest.

* Transactions which adjust or finance the global balance include, reserve assets, use of IMF credit and loans, and exceptional financing. These are particularly important in 1995 for Mexico and Argentina, where such financing amounted to nearly US\$ 25 billion and US\$ 2 billion respectively.

Table A.14
**LATIN AMERICA AND THE CARIBBEAN: NET CAPITAL INFLOW AND
 TRANSFER OF RESOURCES**
(Billions of dollars and percentages)

	Net capital inflow	Net payments of profits and interest	Transfer of resources (3)=(1)-(2)	Exports of goods and services	Transfer of resources as a % of exports of goods and services (5)=(3) / (4) ^a
	(1)	(2)	(3)	(4)	(5) ^a
1975-1979 ^b	104.9	44.5	60.4	287.4	21.0
1975-1979 ^c	21.0	8.9	12.1	57.5	21.0
1980	31.6	18.9	12.7	105.2	12.1
1981	40.0	28.5	11.5	113.3	10.1
1982	19.7	38.8	-19.1	103.1	-18.5
1983	2.5	34.6	-32.1	102.5	-31.3
1984	10.3	37.4	-27.1	113.7	-23.8
1985	3.8	35.7	-31.9	108.9	-29.3
1986	10.0	32.4	-22.4	95.0	-23.6
1987	15.2	31.2	-16.0	108.0	-14.8
1988	5.3	34.6	-29.3	122.9	-23.8
1989	11.7	38.6	-26.9	136.5	-19.7
1990	17.6	34.3	-16.7	150.7	-11.1
1991	38.1	31.3	6.8	151.6	4.5
1992	61.9	30.3	31.6	175.1	18.0
1993	66.9	33.0	33.9	188.1	18.1
1994	44.9	33.4	11.5	216.6	5.3
1995 ^d	22.4 ^e	39.8	-17.4	261.6	-6.7

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

^a Percentages. ^b Cumulative. ^c Average. ^d Preliminary estimates. ^e Does not include balance-of-payments exceptional financing.

Table A.15
LATIN AMERICA AND THE CARIBBEAN: NET TRANSFER OF RESOURCES^a
(Millions of dollars and percentages)

	Net transfer of resources							As a percentage of exports of goods and services				
	1991	1992	1993	1994	1995 ^{b,c}	1982-1990	1991-1995 ^c	1991	1992	1993	1994	1995 ^{b,c}
Latin America and the Caribbean	6 818	31 607	33 977	11 472	-17 415	-221 500	66 459	4.5	18.0	18.1	5.3	-6.7
South America	-9 776	11 798	12 289	10 463	10 365	-158 909	35 139	-10.0	11.3	11.2	8.3	4.0
Argentina	-984	7 439	6 922	7 241	-4 900	-33 182	15 718	-6.8	50.3	43.9	38.8	-20.2
Bolivia	202	587	445	221	215	325	1 670	22.0	76.0	49.6	18.1	17.4
Brazil	-8 012	927	-537	180	16 000	-74 749	8 558	-23.3	2.3	-1.3	0.4	30.5
Chile	-373	1 751	1 336	2 402	-1 460	-4 184	3 656	-3.4	14.1	11.3	16.7	-7.6
Colombia	-2 527	-1 772	521	1 719	2 150	-6 840	91	-27.9	-19.2	5.3	16.0	16.5
Ecuador	-210	-487	280	410	5	-3 595	-2	-6.2	-13.4	7.5	9.2	0.1
Paraguay	640	172	643	1 500	850	1 672	3 805	31.7	9.0	24.1	51.9	26.7
Peru	1 504	1 801	1 681	3 093	2 755	301	10 834	35.7	41.6	38.6	54.5	40.7
Uruguay	-80	39	266	300	170	-2 269	695	-3.6	1.5	9.6	9.5	5.2
Venezuela	64	1 341	732	-6 603	-5 420	-36 388	-9 886	0.4	8.6	4.7	-37.8	27.4
Mexico	14 107	17 091	19 698	-533	-29 930	-71 829	20 433	35.5	30.6	32.1	-0.8	-32.9
Central America and the Caribbean	2 487	2 718	1 990	1 542	2 150	9 238	10 887	18.0	17.7	12.0	8.0	9.7
Costa Rica	328	414	277	306	250	967	1 575	14.9	16.0	9.2	9.3	6.7
El Salvador	217	391	330	354	465	1 754	1 757	24.0	40.1	29.0	21.6	21.0
Guatemala	600	559	703	673	310	1 534	2 845	35.6	29.5	34.7	25.6	10.0
Haiti	294	126	186	47	575	1 356	1 228	13.4	10.3	58.8	62.7	383.3
Honduras	106	116	-61	270	210	837	641	10.4	11.1	5.7	23.1	15.0
Nicaragua	572	600	345	528	390	4 234	2 435	169.1	194.1	94.0	116.8	62.4
Panama	128	174	138	223	130	-1 520	793	2.3	2.8	2.1	3.1	1.7
Dominican Republic	242	338	72	-859	-180	76	-387	12.2	16.1	3.1	-31.3	-5.4

Source: ECLAC, on the basis of official information.

^a Negative amounts indicate transfer of resources abroad.
 balance-of-payments exceptional financing.

^b Preliminary estimates.

^c Capital income does not include

Table A.16
LATIN AMERICA AND THE CARIBBEAN: INTERNATIONAL BOND ISSUES^{ab}
 (Millions of dollars)

	1990	1991	1992	1993	1994	1994	1995
						January to September	
Total	2 760	7 242	12 933	28 794	19 238	12 822	13 536
Argentina	21	795	1 619	6 308	5 319	3 238	3 544
Barbados	-	-	-	-	50	20	-
Bolivia	-	-	-	-	10	10	-
Brazil	-	1 837	3 695	6 465	3 998	1 800	4 945
Chile	-	200	120	322	155	155	-
Colombia	-	-	-	567	955	633	547
Costa Rica	-	-	-	-	50	50	-
Guatemala	-	-	-	60	-	-	-
Jamaica	-	-	-	-	55	55	-
Mexico	2 477	3 782	6 333	11 338	6 949	6 261	4 064
Panama	-	50	-	-	1 248	250	225
Peru	-	-	-	30	100	100	-
Trinidad and Tobago	-	-	100	125	150	150	-
Uruguay	-	-	100	140	200	100	211
Venezuela	262	578	966	3 438	-	-	-

Source: 1990-1991: International Monetary Fund (IMF), *Private market financing for developing countries*, Washington, D.C., March 1995; 1992-1995: International Monetary Fund, information supplied to ECLAC.

^a Gross financing. ^b Includes euronotes.

Table A.17
LATIN AMERICA AND THE CARIBBEAN: INTERNATIONAL SECURITIES ISSUES^a
 (Millions of dollars)

	1990	1991	1992	1993	1994	1995 ^b
Total	98	3 891	3 964	6 022	4 704	651
Argentina	-	360	392	2 655	735	-
Brazil	-	-	133	-	1 028	134
Chile	98	-	129	288	799	75
Colombia	-	-	-	98	207	71
Mexico	-	3 531	3 077	2 913	1 679	-
Panama	-	-	88	-	100	371
Peru	-	-	-	26	133	-
Uruguay	-	-	-	-	23	-
Venezuela	-	-	146	42	-	-

Source: 1990-1991: International Monetary Fund (IMF), *Private market financing for developing countries*, Washington, D.C., March 1995; 1992-1995: International Monetary Fund, information supplied to ECLAC.

^a Depository receipts in the United States market (ADRs) and depository receipts in the world market (GDRs) for new capital widening (primary issues). ^b January-September.

Table A.18
**LATIN AMERICA AND THE CARIBBEAN: INDEXES OF STOCK
 EXCHANGE PRICES IN DOLLARS^a**
(Indexes: December 1994=100)

	1993	1994			1995				
	De- cem- ber	March	June	Sep- tem- ber	De- cem- ber	March	June	Sep- tem- ber	No- vem- ber ^b
Average	101.7	105.4	95.1	127.2	100.0	72.4	85.0	87.1	76.2
Argentina	133.5	120.4	113.9	130.5	100.0	81.9	92.9	92.6	92.0
Brazil	59.7	81.6	63.1	114.6	100.0	73.5	78.3	87.8	75.5
Chile	70.8	71.9	82.9	97.4	100.0	94.1	116.3	98.0	91.8
Colombia	78.9	116.0	119.1	109.5	100.0	94.9	95.1	79.4	69.0
Mexico	170.4	150.1	137.9	164.1	100.0	52.2	72.0	78.2	61.7
Peru	65.8	80.7	76.2	99.6	100.0	83.4	106.2	109.4	98.3
Venezuela	137.3	151.5	90.4	111.6	100.0	81.8	82.0	82.8	126.5

Source: ECLAC, on the basis of International Finance Corporation (IFC) figures.

^a Year-end. ^b 17 November.

Table A.19
LATIN AMERICA AND THE CARIBBEAN: TOTAL DISBURSED EXTERNAL DEBT^a
(Millions of dollars and rates of variation)

	Year-end balance										Annual rates of variation			
	1988	1989	1990	1991	1992	1993	1994	1995 ^b	1979-1981	1982-1983	1984-1993	1994	1995 ^b	
Latin America and the Caribbean	413 446	417 936	439 775	449 090	465 991	507 373	533 436	573 690	22.9	11.3	3.8	5.1	7.5	
South America	278 511	285 523	299 511	296 904	314 340	342 056	359 409	383 295	20.9	10.6	3.9	5.1	6.6	
Argentina	58 473	63 314	60 973	63 700	65 000	74 500	82 000	84 000	41.9	12.4	5.2	10.1	2.4	
Bolivia ^c	4 043	3 492	3 768	3 582	3 784	3 777	4 216	4 425	14.3	9.4	1.7	11.6	5.0	
Brazil	113 469	115 096	123 439	123 811	135 949	145 660	148 295	169 000	14.4	10.6	4.0	1.8	14.0	
Chile	18 960	17 520	18 576	17 319	18 964	19 665	21 888	20 900	30.5	7.6	0.9	11.3	-4.5	
Colombia	17 960	17 604	17 848	17 312	16 862	18 867	21 813	23 200	28.0	16.0	4.8	15.6	6.4	
Ecuador	10 581	11 322	11 856	12 271	12 212	13 630	14 589	13 910	21.0	18.3	6.3	7.0	-4.7	
Guyana	1 778	1 801	1 812	1 856	1 871	1 906	1 950	2 020	28.1	17.8	7.1	2.3	3.6	
Paraguay	2 002	2 027	1 695	1 666	1 279	1 254	1 272	1 335	12.3	24.5	-1.6	1.4	5.0	
Peru	16 493	18 536	19 996	20 787	21 409	23 998	25 460	26 555 ^d	1.0	13.8	6.8	6.1	4.3	
Uruguay	3 166	3 245	2 933	2 437	2 426	2 395	2 741	2 750	35.9	38.5	-0.5	14.4	0.3	
Venezuela ^e	31 586	31 566	36 615	32 163	34 674	36 404	35 185	35 200	24.7	4.0	1.4	-3.3	-	
Mexico^f	100 900	95 100	101 900	114 900	114 000	127 600	135 500	152 700	30.2	11.9	3.1	6.2	12.7	
Central America and the Caribbean	34 055	37 313	38 364	37 286	37 651	37 717	38 527	37 695	18.8	15.3	4.4	2.1	-2.2	
Costa Rica	4 470	4 488	3 930	4 015	4 050	4 046	4 200	4 450	12.8	14.7	1.4	3.8	6.0	
El Salvador ^c	1 769	2 017	2 076	2 102	2 338	1 988	2 027	2 145	17.7	3.0	1.5	2.0	5.8	
Guatemala ^c	2 340	2 457	2 387	2 254	2 246	2 086	2 157	2 150	19.0	20.4	0.4	3.4	-0.3	
Haiti ^c	778	803	841	809	819	864	884	900	21.0	21.7	4.6	2.3	1.8	
Honduras	3 810	3 374	3 547	3 174	3 538	3 948	4 069	4 200	17.5	16.7	6.2	3.1	3.2	
Jamaica	4 002	4 038	4 152	3 874	3 678	3 647	3 660	3 700	22.6	14.9	2.2	0.4	1.1	
Nicaragua ^c	7 220	9 741	10 616	10 312	10 806	10 987	11 695	10 400	27.1	21.5	11.2	6.4	-11.1	
Panama	3 771	3 814	3 795	3 699	3 548	3 494	3 663	3 850	9.0	13.8	1.1	4.8	5.1	
Dominican Republic	3 883	4 181	4 500	4 614	4 413	4 559	3 922	3 500	24.2	14.0	3.2	-14.0	-10.8	
Trinidad and Tobago	2 012	2 400	2 520	2 433	2 215	2 098	2 250	2 400	29.3	16.3	4.0	7.2	6.7	

^a Source: ECLAC, on the basis of official information.

^b Includes borrowing from the International Monetary Fund (IMF).

^c Preliminary figures.

^d Public borrowing.

^e The 1995 figure was estimated using data up to September. The whole series of figures takes into account the financial cost of unpaid service on the public debt with the Paris Club and the Japan-Peru Oil Company (JAPECO). Figure supplied by the Central Bank of Venezuela.

^f Public borrowing does not include non-residents' investments in Government securities. The figures for private borrowing between 1991 and 1993 have been adjusted to take account of the privatization process and the abolition of the exchange control system.

Table A.20
**LATIN AMERICA AND THE CARIBBEAN: TOTAL INTEREST DUE AS A PERCENTAGE OF
 EXPORTS OF GOODS AND SERVICES**
(Percentages)

	1979- 1981	1982- 1983	1984- 1988	1989	1990	1991	1992	1993	1994	1995 ^a
Latin America and the Caribbean	23.7	38.6	33.4	28.3	25.1	23.0	18.7	18.1	16.6	16.4
South America	23.6	38.7	34.3	29.3	26.3	23.6	19.6	18.4	16.8	18.5
Argentina	24.1	56.0	50.2	51.2	38.0	36.2	28.3	24.0	23.5	23.5
Bolivia	26.4	41.6	44.0	30.2	25.0	26.9	24.4	20.4	15.0	16.8
Brazil	35.9	50.1	36.3	29.2	31.4	27.6	21.2	21.6	17.0	21.9
Chile	24.7	44.2	33.8	18.5	17.8	14.7	11.3	10.2	8.2	7.5
Colombia	14.3	26.3	22.2	21.7	19.0	16.4	14.5	12.0	12.9	14.4
Ecuador	18.4	29.6	30.5	33.7	29.3	25.0	19.4	17.5	19.5	16.6
Paraguay	13.1	15.3	15.7	7.1	5.3	6.1	8.3	3.4	2.9	3.1
Peru	19.3	27.3	28.7	23.0	28.5	26.5	22.9	24.6	31.9	32.1
Uruguay	11.2	23.6	27.7	27.2	26.9	21.2	15.7	14.4	14.0	16.0
Venezuela	9.5	21.3	27.3	26.6	17.0	15.4	18.3	17.4	15.9	15.6
Mexico^b	31.8	42.5	34.6	28.2	24.2	23.4	17.3	18.3	17.4	14.0
Central America and the Caribbean	12.5	20.8	19.6	16.9	15.7	14.6	16.0	13.5	10.6	9.6
Costa Rica	19.7	34.6	23.2	23.6	15.4	10.0	8.6	7.4	5.3	5.6
El Salvador	6.4	12.0	10.8	8.8	13.0	12.5	10.5	10.3	6.3	5.4
Guatemala	5.3	8.3	14.4	11.3	11.2	7.1	8.8	6.2	5.0	4.8
Haiti	2.6	2.4	5.9	9.3	7.9	7.7	11.3	10.7	12.0	16.6
Honduras	11.2	19.3	16.7	17.6	18.0	21.1	25.9	23.7	17.1	15.0
Nicaragua	22.8	42.7	76.9	62.1	58.3	110.3	158.5	115.6	102.1	80.0
Dominican Republic	18.0	23.6	17.9	11.1	12.2	8.1	8.3	8.6	7.5	5.4

Source: ECLAC, on the basis of official information.

^a Preliminary estimates. ^b As of 1992, "maquila" is included in the export of goods.

Table A.21
**LATIN AMERICA AND THE CARIBBEAN: TOTAL DISBURSED EXTERNAL DEBT AS A
 PERCENTAGE OF EXPORTS OF GOODS AND SERVICES ^a**
(Percentages)

	1979- 1981	1982- 1983	1984 - 1988	1989	1990	1991	1992	1993	1994	1995 ^b
Latin America and the Caribbean	228	331	362	289	292	299	269	273	249	221
South America	189	334	364	309	299	301	300	308	282	257
Argentina	252	480	557	538	412	443	439	473	439	346
Bolivia	243	294	521	403	386	390	490	421	347	358
Brazil	341	419	383	307	356	360	348	340	309	322
Chile	229	380	352	183	184	156	153	167	152	108
Colombia	137	265	263	241	206	191	183	191	203	178
Ecuador	141	237	328	394	364	360	334	367	327	272
Paraguay	155	272	244	129	90	82	67	47	44	42
Peru	250	306	402	423	491	494	494	551	448	392
Uruguay	66	145	190	160	136	111	92	87	87	84
Venezuela	153	182	244	225	195	196	223	233	202	178
Mexico ^c	274	340	365	288	265	289	204	208	192	168
Central America and the Caribbean	148	269	330	347	341	325	313	283	242	193
Costa Rica	201	292	302	244	199	182	156	135	128	119
El Salvador	107	197	190	248	236	233	240	175	124	97
Guatemala	71	157	205	173	152	134	118	104	83	73
Haiti	115	170	222	339	264	311	718	736	1 179	600
Honduras	156	265	345	318	344	313	340	370	348	300
Nicaragua	292	733	1 689	2 857	2 708	3 048	3 494	2 992	2 582	1 664
Dominican Republic	162	263	249	201	224	233	211	195	143	105

Source: ECLAC, on the basis of official information.

^a Ratio of external debt figures from table A.19 to exports of goods and services.

^b Preliminary estimates.

^c As of 1992, "maquila" is included in the export of goods.