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Notes and explanation of symbols

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

Three dots (...) indicate that data are not available or are not separately reported.

A dash (-) indicates that the amount is nil or negligible.

A blank space in a table means that the item in question is not applicable.

A minus sign (-) indicates a deficit or decrease, unless otherwise indicated.

A full stop (.) is used to indicate decimals.

A slash (/) indicates a crop year or fiscal year, e.g., 1969/1970.

Use of a hyphen (-) between years, e.g., 1960-1970, signifies an annual average for the calendar years involved, including the beginning and the end years.

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

Unless otherwise stated, references to annual growth rates or rates of variation mean cumulative annual rates.

Figures and percentages in tables may not necessarily add up to the corresponding totals, because of rounding.

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Part One

THE EVOLUTION OF THE LATIN AMERICAN ECONOMY IN 1978

I. INTRODUCTION

In 1978 the Latin American economy pursued the relatively slow and unsatisfactory evolution initiated in the mid-1970s when, after a period of considerable dynamism, it began to show the effects of the international economic recession. Thus, in the course of the year, production activity once again increased at too low a rate to promote a significant rise in per capita income and at the same time the high inflation indexes persisted in many countries and the region's external trade deficit increased. As in previous years, however, the deficit was more than offset by the net inflow of non-compensatory capital, so that the balance of payments reflected a record surplus and the region's international reserves reached a new historical peak.

According to the preliminary estimates available, Latin America's gross domestic product increased by 4.6% in 1978.1/ This was higher than the rate recorded in the industrialized countries (3.5%) that year and also slightly above the rates attained by the region in the previous three years; it was nevertheless much lower than those reached by the region in the five-year period 1970-1974 when its total production expanded at a very high annual rate, permitting an annual rate of increase of 4.4% in the per capita product (see table 1).

1/ Because of the lack of data on the real variation in the product of the Caribbean English-speaking countries and Suriname and methodological differences in calculating the product in Cuba, the analysis of the region's economic growth covers only the 19 countries appearing in table 2.

/Table 1

Table 1

LATIN AMERICA: MAIN ECONOMIC INDICATORS[a/]

	1970	1971	1972	1973	1974	1975	1976	1977	1978[b/]
Basic economic indicators									
Gross domestic product at factor cost (billions of US dollars at 1970 prices)	172	183	196	213	228	235	245	256	268
Population (millions)	265	272	280	287	295	303	312	321	330
Per capita gross domestic product (US dollars at 1970 prices)	648	672	700	739	771	773	784	798	812
			Growth rates						
Short-run economic indicators									
Gross domestic product	6.9	6.7	6.9	8.5	7.1	3.1	4.2	4.5	4.6
Per capita gross domestic product	4.0	3.8	4.1	5.6	4.3	0.4	1.4	1.7	1.8
Gross income [c/]	7.3	7.1	7.1	10.1	9.2	1.2	4.9	4.8	3.8
Terms of trade	3.3	-2.7	3.0	12.4	14.2	-12.6	2.2	2.3	-10.0
Current value of exports of goods and services	8.6	4.2	15.7	38.6	54.3	-5.2	14.1	16.4	6.7
Current value of imports of goods and services	13.7	10.3	13.2	28.2	64.4	7.6	3.6	12.1	13.1
Consumer price index [d/]	12.2	13.3	21.2	37.0	40.7	59.7	63.6	41.6	39.9
			Millions of US dollars						
External sector									
Trade balance (goods and services)	-429	-1 594	-1 305	676	-2 020	-8 338	-3 857	-2 096	-6 115
Oil-exporting countries	478	611	387	1 904	7 574	2 634	1 501	-1 786	-4 447
Non-oil-exporting countries	-907	-2 205	-1 692	-1 228	-9 594	-10 972	-5 358	-310	-1 668
Balance on current account	-3 238	-4 628	-4 439	-3 578	-7 115	-13 921	-10 694	-10 158	-15 377
Oil-exporting countries	-273	-248	-327	840	6 335	2 330	1 112	-2 274	-4 930
Non-oil-exporting countries	-2 965	-4 380	-4 112	-4 418	-13 450	-16 251	-11 806	-7 884	-10 447
Balance of payments position	1 558	497	2 829	4 478	4 282	772	3 608	4 902	8 407
Oil-exporting countries	86	430	305	688	5 028	3 106	519	487	-1 379
Non-oil-exporting countries	1 472	67	2 524	3 790	-746	-2 334	3 089	4 415	9 786

a/ The figures for the product, population and income relate to the group of 19 countries included in table 2; the figures for the external sector and prices relate to the same group of countries plus Barbados, Guyana, Jamaica and Trinidad and Tobago.

b/ Preliminary figures.

c/ Gross domestic product plus terms-of-trade effect.

d/ Variation from December to December.

/progress in

Progress in the attempts to combat inflation in 1978 was also minimal. In Latin America as a whole, consumer prices rose, on average, by 39.9%, or a slightly lower rate than that recorded in 1977 (41.6%).2/ The relative stagnation in the progress that had been made in this field is also evident if it is noted that while in half the countries of the region the rates of inflation recorded in 1977 diminished, in the other half they were exceeded. The persistence and intensity of the inflationary process is also apparent in the fact that in six countries with 54% of the total population of Latin America the rate of price increases was over 30%, while in only nine countries with barely 13% of the Latin American population it was less than 10%.

Moreover, 1978 marked an interruption of the trend towards greater stability observed in Latin America's foreign trade in the two previous years. During that period the growth rate of exports - particularly of the non-oil-exporting countries - comfortably exceeded the growth rate of imports. In 1978, in contrast, the trend was abruptly reversed, despite the fact that the volume of external sales expanded at a much higher rate than in the previous eight years. At the same time the value of imports of goods rose by about 14% as a result of fairly similar increases in volume and unit value. Owing to the rise in the unit value of imports and the simultaneous drop in the average price of exports, Latin America's terms of trade showed a deterioration of 10%, thus more than cancelling out the slight improvement of the two preceding years.

The main result of this uneven evolution of the region's external sales and purchases was a rise in the foreign trade deficit. After reaching a record level of over 8.3 billion dollars in 1975, the trade deficit diminished in the next two years to only 2.1 billion dollars in 1977 and rose again in 1978 to nearly three times that value (see table 1).

This change in the trend of the trade balance in goods and services affected the balance-of-payments current account, causing the deficit to rise to nearly 15.4 billion dollars, which was 50% higher than the 1977 deficit and even exceeded that recorded in 1975 when the world recession was at its worst.

2/ These averages were calculated on the basis of the changes in consumer price indexes in the 23 countries appearing in table 13, weighted by the share of the population of each in Latin America's total population.

/There was

There was an exceptionally large inflow of non-compensatory capital, however, i.e., some 23.8 billion dollars, which was far higher than the negative balance on current account. The region as a whole thus obtained a final balance-of-payments surplus of 8.4 billion dollars, which was certainly much higher than any recorded in previous years. Most countries of the region contributed to this global surplus, since in all but Bolivia, the Dominican Republic, Nicaragua, Uruguay and Venezuela the balance of payments reflected a positive balance. As most of the net capital inflows were loans, however, the external debt continued to increase rapidly in the majority of the countries.

In short, the basic conclusions presented in the previous issue of the Economic Survey are still valid for 1978.3/ During that year the Latin American economy, although partially recovered from the effects of the long and severe recession in the industrialized countries and from the boost in the price of oil, continued to be affected as regards its evolution by the sequels to those changes. Thus, the growth rate of economic activity, although higher than in the period 1975-1977, was distinctly lower than that attained in the first five years of the decade; the average rate of inflation was more than double the normal rate prior to the increase in oil prices; and the current account deficit, after having dropped in 1976 and stabilized in 1977, rose sharply in 1978 to an unprecedented level almost four times that recorded, on average, in the period 1970-1973.

II. ECONOMIC GROWTH

1. The rate of growth

As already mentioned, Latin America maintained a moderate rate of economic growth in 1978 for the third year running. The region's gross domestic product rose by 4.6%, which although somewhat higher than the rates recorded in the previous two years and a good deal higher than the 1975 rate, was much lower than the average rate (7.2%) attained in the five years

3/ In this respect, see CEPAL, Economic Survey of Latin America, 1977 (United Nations publication, Sales No.: E.79.II.G.1).

1970-1974. As a result, the average rate of increase in the per capita product in the period 1976-1978 was only 1.6% and thus equalled a little over one-third of the high rate attained in the first five years of the present decade (see table 2).

Since, moreover, the terms of trade deteriorated by 10% in 1978, gross income increased less than the product, so that the situation prevailing in the two preceding years was reversed.

These regional averages were the result of the uneven trends occurring in the various countries of the region. Thus, while the growth rate of the regional product tended to rise, especially owing to the greater dynamism shown in 1978 by the economies of Brazil, Colombia and Mexico, it was also adversely affected by the sharp contractions of economic activity in Argentina and Nicaragua and by the decline experienced in Peru (see table 2).

Among the major economies of the region, Mexico and Colombia stood out on account of the marked acceleration of their growth rates.

In Colombia the gross domestic product rose by 8.2%, or nearly double the rate of increase of the three preceding years. This progress - which was unprecedented since 1950 when national accounts calculations were initiated in this country - was a reflection of the significant reactivation of nearly all economic activities in 1978. Thus, agricultural production rose 9%, after two years in which its growth rate had been lower than the rate of population growth. There was an even bigger increase in the manufacturing product (9.5%), and the area of house construction initiated in the seven main cities increased by about 18% for the second consecutive year so that the value added in construction rose by 7% (see table 3). Added to the vigorous development of the goods producing sectors was the sharp expansion of basic services and the continued increase in financial and commercial activities. The latter were stimulated not only by the marked dynamism of the production of goods and the pronounced increase in rural income generated by a three-year coffee boom, but also by the exceptionally rapid and persistent growth of imports of goods, whose value in 1978 almost doubled that recorded barely three years earlier.

/Table 2

Table 2

LATIN AMERICA: EVOLUTION OF GROSS DOMESTIC PRODUCT AT FACTOR COST

Country	Total					Per capita						
	Growth rates					Dollars at 1970 prices		Growth rates				
	1970-1974	1975	1976	1977	1978[a/]	1970	1978[a/]	1970-1974	1975	1976	1977	1978[a/]
Argentina	5.2	-1.8	-3.3	5.2	-4.1	1 208	1 271	3.8	-3.1	-4.5	3.8	-5.4
Bolivia	5.8	5.5	6.4	3.6	3.1	296	364	3.5	3.0	3.8	0.9	0.5
Brazil	11.5	5.7	9.0	4.7	6.3	450	728	8.4	2.7	5.9	1.7	3.3
Colombia	6.9	4.3	4.2	4.7	8.2	528	705	4.4	1.9	1.7	2.2	5.6
Costa Rica	7.1	2.1	5.5	7.7	5.9	658	871	4.4	-0.3	3.0	5.2	3.4
Chile	2.6	-11.3	4.1	8.6	7.3	850	875	0.8	-12.8	2.3	6.8	5.5
Ecuador	8.1	7.5	8.1	6.4	6.8	368	528	5.0	4.4	4.9	3.2	3.6
El Salvador	4.9	5.6	3.4	5.2	4.4	390	458	1.8	2.5	0.5	2.1	1.4
Guatemala	6.4	1.9	7.4	8.3	5.5	410	517	3.1	-1.2	4.2	5.1	2.4
Haiti	4.7	2.2	5.3	1.3	3.6	112	126	2.4	-0.1	2.9	-1.1	1.2
Honduras	3.3	-0.1	5.9	6.9	6.6	278	296	0.2	-3.4	2.3	3.1	2.8
Mexico	6.2	4.1	1.7	3.2	6.6	893	1 011	2.8	0.7	-1.7	-0.2	3.1
Nicaragua	5.3	2.2	5.8	5.9	-5.3	394	422	2.0	-1.1	2.4	2.5	-8.5
Panama	5.6	0.6	-0.3	3.3	2.5	868	921	2.7	-2.1	-2.8	0.7	0.1
Paraguay	6.4	5.0	7.5	11.8	10.0	353	501	3.4	2.0	4.4	8.6	6.8
Peru	6.6	3.3	3.0	-1.2	-1.8	527	551	3.7	0.5	0.2	-3.9	-4.5
Dominican Republic	10.1	5.2	6.4	4.4	3.6	351	478	6.9	2.3	3.6	1.8	1.0
Uruguay	0.8	4.4	2.6	3.4	2.5	947	1 046	0.6	4.2	2.2	2.8	1.9
Venezuela	5.2	5.2	7.8	6.8	6.4	1 163	1 379	1.7	1.7	4.2	3.3	3.0
Total	7.2	3.1	4.2	4.5	4.6	648	812	4.4	0.4	1.4	1.7	1.8

Source: CEPAL, on the basis of official data.

a/ Preliminary figures.

/Table 3

Table 3

LATIN AMERICA: EVOLUTION OF THE MAIN ECONOMIC SECTORS

(Growth rates)

Country	Agriculture			Mining and quarrying			Manufacturing			Construction			Subtotal goods b/			Basic services c/			Other services d/		
	1976	1977	1978a/	1976	1977	1978a/	1976	1977	1978a/	1976	1977	1978a/	1976	1977	1978a/	1976	1977	1978a/	1976	1977	1978a/
Argentina	3.5	6.6	1.2	1.9	10.1	1.5	-4.5	4.2	-7.9	-14.1	13.7	5.7	-3.3	5.8	-4.1	-2.7	5.8	-2.1	-2.8	3.8	3.6
Bolivia	2.9	-3.4	2.3	10.8	-5.0	-7.2	5.9	6.2	5.3	7.9	5.9	4.7	5.6	0.4	2.1	11.7	13.1	5.1	5.7	4.6	4.0
Brazil	4.2	9.6	-1.7	0.9	-4.7	6.1	10.5	2.3	7.6	12.8	9.1	9.7	9.5	4.4	6.2	8.2	6.7	8.5	9.1	2.6	6.1
Colombia	1.9	2.5	9.1	-4.2	-3.8	-3.0	6.7	4.2	9.5	-14.2	5.7	6.9	1.9	3.2	8.8	7.8	6.5	8.6	6.2	6.1	7.5
Costa Rica	0.5	1.5	5.0	e/	e/	e/	5.8	13.0	7.0	20.8	8.5	8.5	5.2	7.0	6.3	6.6	6.2	6.1	5.6	7.3	5.4
Chile	2.6	14.1	-1.0	14.5	2.0	-0.8	6.8	12.2	7.8	-18.8	3.5	6.0	6.5	9.0	3.6	4.7	7.6	5.1	2.6	6.4	8.3
Ecuador	6.6	1.4	2.8	13.3	-6.8	10.1	9.7	14.0	12.9	14.4	4.1	2.8	9.2	4.7	7.1	8.8	11.4	8.1	6.9	6.7	5.0
El Salvador	-8.0	2.4	5.2	-11.3	4.3	-	9.5	6.5	2.5	-9.5	19.8	7.0	-2.2	5.4	4.3	12.4	8.5	6.6	8.2	4.2	4.3
Guatemala	4.5	4.8	3.7	25.0	16.0	80.6	10.4	10.7	7.9	73.5	17.4	3.0	10.0	7.6	5.1	9.0	11.8	7.4	4.9	8.1	5.4
Haiti	3.2	-0.4	1.0	34.2	-7.0	-10.0	8.5	0.6	11.0	-9.7	7.8	6.0	5.2	0.2	3.0	6.2	0.7	...	6.7	3.8	5.0f/
Honduras	9.7	5.9	7.8	-15.2	-3.1	3.2	10.3	9.6	9.4	1.4	14.0	11.0	7.7	7.5	8.5	6.9	8.2	4.4	3.2	5.8	4.7
Mexico	-2.8	2.7	3.1	8.1	13.5	16.1	2.9	3.4	8.7	-1.9	-2.0	12.5	1.4	3.5	8.8	5.8	6.0	...	1.4	1.8	5.5f/
Nicaragua	4.0	3.1	10.0	-30.9	4.3	4.7	4.0	6.3	-0.1	10.2	9.7	-41.3	4.3	5.0	0.7	12.6	8.4	-14.5	6.8	5.8	-10.2
Panama	-0.7	7.6	-1.7	-12.1	-	-	-12.2	1.3	0.6	-15.3	-	3.2	-7.2	4.3	-1.1	15.9	10.2	5.3	1.7	1.1	4.4
Paraguay	5.0	9.4	6.2	41.4	24.1	25.7	5.5	18.4	7.2	17.6	31.7	32.0	6.3	14.2	9.2	12.0	9.5	13.4	8.5	9.5	10.9
Peru	4.3	-0.5	0.8	8.9	29.9	14.8	4.2	-6.1	-3.2	-2.8	-7.7	-16.1	3.9	0.1	-0.4	...	...	...	1.9f/	-2.0f/	-3.1f/
Dominican Republic	7.8	0.6	7.2	20.1	-2.3	-18.8	6.1	3.2	4.7	1.7	18.3	2.2	7.8	3.6	2.3	4.2	12.7	6.7	5.1	3.7	4.1
Uruguay	3.6	-1.3	-5.0	-14.8	12.8	e/	4.0	6.3	7.5	-6.6	14.5	6.9	2.0	5.2	4.1	3.9	4.3	4.3	2.4	2.0	1.2
Venezuela	-3.6	10.4	7.1	-1.2	-3.1	-2.4	11.9	3.9	6.7	20.7	16.0	7.5	6.1	5.0	4.3	9.1	11.6	8.5	8.4	6.7	7.4
Total	1.8	5.1	2.7	5.7	7.0	5.5	5.1	3.4	4.9	3.0	6.6	8.1	4.0	4.5	4.8	5.4	7.0	5.7	4.4	3.2	4.4

Source: CEPAL, on the basis of official data.

a/ Preliminary figures.

b/ Includes agriculture, mining and quarrying, manufacturing and construction.

c/ Includes gas and water, and transport and communications.

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

e/ Mining and quarrying are included in manufacturing.

f/ Includes basic services.

The acceleration of the growth rate was also fairly marked in Mexico, whose gross domestic product rose by 6.6% after three years in which its expansion was very slow and two in which the per capita product declined. The recovery of the growth rate was determined by the sharp expansion of petroleum production (which, as in 1977, rose by 23%), the satisfactory increase in manufacturing output (nearly 9% after three years of little growth) and the reactivation of the construction sector (whose product rose by over 12% after a steady decline in the previous three years). At the same time, there was a sharp increase (16.5%) in gross fixed investment - which had also dropped in absolute terms in 1976 and 1977 - and an equally vigorous expansion of the volume of exports of goods and services. This was largely due to the extraordinary growth of petroleum sales, whose value rose for the second year running by about 80%, thus becoming the main export item.

Brazil recorded a somewhat smaller but nonetheless significant recovery. Although the rate of 6.3% at which the gross domestic product increased in 1978 was much lower than in the five years 1970-1974 when global economic activity expanded at the exceptionally high annual rate of 11.5%, it easily exceeded the previous year's rate (4.7%). This was mainly due to the accelerated growth of manufacturing - whose product rose 7.6% in 1978, thus more than tripling the 1977 growth rate - and the steady progress of the construction sector whose activities once again increased by nearly 10%. Furthermore, the global economic growth recorded in 1978 was achieved notwithstanding the decline of 2% in agricultural production, mainly due to adverse weather conditions.

Although lower than in 1977, the growth rate of the product was again very high in Paraguay (10%) and Chile (7.3%). These increases reflected two very different situations, however.

In Paraguay - whose economy for the second consecutive year achieved the highest rate of expansion in the region - the increase represented the continuation of the trend initiated in the early years of the present decade, which was greatly accentuated from 1976 onwards, in particular as a result of the direct and indirect effects of the construction of the great Itaipú hydroelectric dam. Thanks to this persistent expansion the per capita product in 1978 was over 40% higher than in 1970.

/In Chile,

In Chile, on the other hand, the rise in the product obtained in 1978 owing to significant increases in manufacturing production, construction activity and commerce and the continuing expansion of non-traditional exports merely represented a recovery of the levels of activity recorded at the beginning of the decade. In fact, owing to the fall in the gross domestic product in 1972 and 1973 and, in particular, the considerable drop (over 11%) in 1975, the 1978 per capita product regained the average level for the period 1970-1971.

The per capita product also rose at a satisfactory rate in Ecuador and Venezuela - two of the four traditional oil-exporting economies 4/ - and in Costa Rica and Honduras, which were the only two Central American Common Market countries to raise the value of their exports in 1978.

In Venezuela the rate of economic growth dropped slightly in 1978, as had occurred in the previous year. Nevertheless, the annual rate of increase in the gross domestic product in the three-year period 1976-1978 was 7%, thus easily exceeding that attained in the period 1970-1975 (a little over 5%), a situation which contrasted with that prevailing in nearly all the economies of the region. As in previous years, the economic expansion in 1978 was due to the vigorous growth of the sectors aimed at satisfying domestic demand, while petroleum production declined for the fourth year in succession in line with the Government's policy of conserving oil resources. Thus in 1978, agriculture, manufacturing and construction increased by about 7%, while electricity, gas and water supply services rose by over 11%, and transport, storage and communications activities by 8%. At the same time, gross fixed capital investment went up 14%, which, although less than in previous years, meant a further increase in the already very high investment coefficient.

In Ecuador, in contrast, the rate of economic expansion was slightly higher than in 1977, but failed to regain the level reached in the period 1970-1976, when the gross domestic product increased at the exceptionally

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4/ The other two traditional oil-exporting countries of the region are Bolivia and Trinidad and Tobago. In recent years, especially in 1978, Mexico has become an important oil exporter, and the same is true, although on a much lesser scale, of Peru.

/high rate

high rate of 8% owing to the powerful impetus initially provided by the establishment of the oil industry, and subsequently to the rise in the world price of hydrocarbons agreed on by OPEC at the end of 1973.

In Costa Rica, global economic expansion, though less intensive than in the previous year or during the phase of accelerated development which the country experienced from 1970 to 1974, raised the per capita product by 3.4% in 1978. The increase of nearly 6% recorded by total economic activity contributed decisively to the significant progress in manufacturing, construction and basic services - all of which expanded rapidly for the third consecutive year - and the recovery of the agricultural sector, whose product rose 5% after two years of very weak growth (see table 3). As in the previous year, the rate of increase in fixed capital investment was much higher than that of the product, with the result that investment rose again and came to represent about 28% of the domestic product, one of the highest figures in the whole of Latin America.

Economic growth was also fairly rapid in Honduras, where the gross domestic product, after remaining at the same level in the period 1974-1975, rose by 20% in the next three years. As in the two preceding years, the expansion of the economy in 1978 was mainly based on the consistently rapid increase in the manufacturing product - which rose by about 10% for the third year running - and on the significant rise (nearly 8%) once again recorded by the agricultural product as a result of the recovery in the production of bananas and the 10% increase in both coffee and sugar output. The considerable increase in the production of goods was also stimulated by the accelerated expansion of construction which, as in 1977, contributed to the rapid growth of fixed capital investment.

In the other Central American Common Market countries the growth rate was considerably lower. In Guatemala - whose economy expanded vigorously in the period 1970-1974, and above all in 1976 and 1977 - the per capita product rose by only 2.4% in 1978. This was the lowest rate so far in the decade, except for that recorded in 1975 when the world recession was at its worst. In El Salvador, the already weak rate of expansion of the preceding years declined further, while Nicaragua's gross domestic product dropped by over 5%, owing to a deterioration in the economy without precedent in its present-day history, mainly as a result of the acute political tensions which came to a head in September.

Economic activity also expanded at relatively low rates of between 2.5 and 3.6% in Uruguay, Bolivia, Haiti, Dominican Republic and Panama. Owing to the uneven rates of population growth in all those countries, however, their

per capita product also rose at markedly different rates. Thus in Uruguay the population grew most rapidly (1.9%), notwithstanding the fact that of the five countries considered its global economic activity expanded at a very slow rate (2.5%). Although this was lower than the rate recorded in any of the four preceding years, it contributed to the continued moderate rise in the per capita product initiated in 1975, after remaining practically at a standstill in the previous 15 years.

In Panama, in contrast, the increase in the global product, although equal to Uruguay's, was completely neutralized by the population growth. As a result of this and the steady decline in the per capita product between 1974 and 1976, the latter was equal to that already attained seven years before.

In Haiti the situation, although more favourable, was fairly similar since the slight increase in per capita product in 1978 merely offset the drop in the previous year, so that the level in 1978 barely exceeded that recorded in 1974.

In Bolivia, in contrast, and above all in the Dominican Republic, the small increases in the per capita product recorded in 1978 meant an extension of the relative stagnation that had set in the year before which had interrupted the highly dynamic phases of growth experienced by both these economies between 1970 and 1976.

Lastly, global economic activity declined in Peru and Argentina, both of which also recorded the highest inflation indexes in Latin America in 1978.

In Peru the gross domestic product contracted for the second year running, so that the per capita product dropped below the level attained in 1972. This general economic setback was largely the effect of the Government's restrictive policy aimed at reducing the external deficit and the intensity of the inflationary process. With a view to achieving these objectives, the economic authorities reduced real general government consumption by about 16%, and public investment even more drastically, the amount in real terms falling by about 25% in 1978, as it had done in the previous year. Private investment also declined for the second consecutive year by over 12%, while personal consumption - which had decreased slightly in 1977 - fell by over 6%. As was only to be expected, the restricted domestic demand was reflected in a further contraction of the manufacturing product - by over 3% following a 6% drop in 1977 - and a sharp fall (over 16%) in construction activity. On the other hand, the fishing and mining sectors, both essentially outward-directed activities, showed substantial real increases (23 and 15%, respectively). As a result, the volume of exports of goods increased significantly, while the drops in domestic income and

/production contributed

production contributed to a reduction of around 32% in the volume of imports. The result of these divergent trends was a complete reversal of the trade balance which, after a deficit of over 550 million dollars in 1977, generated a surplus in 1978 of nearly 330 million dollars.

The decline in economic activity was even more pronounced in Argentina, whose gross domestic product declined for the third time in the last four years (see table 2). As a result, the per capita product in 1978 was nearly 9% lower than in 1974 and was barely above the level attained in 1972. As in Peru, the decline in the general level of economic activity was accompanied by a sharp drop in investment, a fall in manufacturing output, a decrease in the volume of imports, a significant improvement in terms of external financial stability and an acceleration of the rate of inflation.

2. Total supply and demand

In 1978, total supply increased by 4.8%, which was similar to the previous year's rate and slightly higher than that of the gross domestic product. The growth rate of real imports of goods and services accelerated: following a contraction in 1975 and 1976 due to the restrictions imposed in many countries of the region in order to ride out the effects of the world economic recession, they recovered in 1977 and expanded by about 7% in 1978. Nevertheless, the growth of total supply continued to be much less than between 1970 and 1974 when it reached an average of around 8% annually owing to the consistently large increase in the product and the even more vigorous growth in the volume of imports (see table 4).

In 1978, as in the two preceding years, exports constituted the most dynamic factor of total demand. After a 3% drop in 1975 and a marked recovery the following year, the volume of exports rose 8.6% in 1977 and 9.4% in 1978.

In 1978 the rate of increase in gross fixed investment also accelerated for the third year running. In view of the fact that, as had already occurred in the previous three years, this item grew more rapidly than the product, the investment coefficient rose once again, for the first time reaching a little over 23% (see table 5).

/Table 4

Table 4

LATIN AMERICA: TOTAL SUPPLY AND DEMAND

	Annual growth rates a/				
	1970-1974	1975	1976	1977	1978 b/
Total supply	7.6	2.6	3.8	4.7	4.8
Gross domestic product	7.2	3.1	4.2	4.5	4.6
Imports of goods and services	10.7	-1.8	-1.7	5.6	6.6
Total demand	7.6	2.6	3.8	4.7	4.8
Domestic demand	7.9	3.0	3.5	4.3	4.4
Gross fixed investment	9.5	7.2	4.9	5.5	6.6
Total consumption c/	7.5	1.9	3.1	4.0	3.8
Exports of goods and services	4.0	-2.7	7.5	8.6	9.4

Source: CEPAL, on the basis of official data.

a/ Calculated on the basis of constant 1970 values.
b/ Preliminary figures.
c/ Includes changes in stocks.

Table 5

LATIN AMERICA: GROSS FIXED INVESTMENT COEFFICIENTS a/

(Percentages)

1970	1971	1972	1973	1974	1975	1976	1977	1978 b/
19.6	20.1	20.5	20.9	21.6	22.4	22.6	22.8	23.2

Source: CEPAL, on the basis of official data.

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

III. THE EXTERNAL SECTOR

1. Foreign trade

In 1978, Latin America's foreign trade continued its vigorous expansion initiated in 1976 with a partial recovery from the setback suffered in 1975 as a result of the world economic recession.

Its evolution was different from that of the two previous years, however. During that period the growth rate of the value of exports was not only very high, but it easily exceeded that of imports (particularly in 1976). Consequently, the trade deficit in goods and services, which had reached the unprecedented level of over 8.3 billion dollars in 1975, dropped rapidly to only 2.1 billion dollars in 1977. At the same time the terms of trade improved, especially in the non-oil-exporting countries.

In 1978, in contrast, the growth rate of the value of exports slowed sharply - despite the fact that their volume expanded at the unusually high rate of 11% - and was much lower than that of imports, which rose substantially for the second year in succession. As a result, the trade deficit once again increased to a level of 6.1 billion dollars. Furthermore, the drop in world prices of several Latin American export commodities, particularly coffee, combined with the steady rise in the average price of imports due mainly to inflation in the industrialized countries, led to a marked deterioration in the terms of trade, which more than offset the small increases they had experienced in the previous two years.

(a) Exports of goods

In 1970, as already noted, the growth rate of the value of exports slowed perceptibly. After two years in which external sales increased at a very high rate (around 17%), they rose by just over 6% in 1978 (see table 6). This drop occurred in spite of the 11% increase in the volume of exports, an unprecedented rate thus far in the decade and even well above the fairly high rates recorded in the years 1972-1973, which preceded the world crisis and in which the world economy and trade grew vigorously. The reason for the smaller increment, in the last analysis, was exclusively the drop in world prices of many Latin American export commodities, in particular coffee and cocoa.

/Table 6

Table 6

LATIN AMERICA: VARIATIONS IN EXPORTS AND IMPORTS OF GOODS

(Growth rates)

Year	Exports			Imports			Purchasing power of exports
	Value	Volume	Unit value	Value	Volume	Unit value	
			Latin America				
1970	9.2	1.3	7.7	13.4	8.7	4.3	3.6
1971	2.7	0.5	2.2	11.0	5.7	5.0	-1.1
1972	16.3	6.8	8.9	14.4	8.2	5.7	10.0
1973	42.7	8.4	31.7	30.7	11.6	17.1	21.9
1974	62.2	-1.0	61.9	72.3	21.6	41.7	16.7
1975	-7.6	-3.9	-3.8	6.4	-3.4	10.1	-15.5
1976	15.9	7.9	7.5	2.5	-2.5	5.1	8.3
1977	17.7	7.5	9.4	12.0	4.6	7.0	8.6
1978a/	6.2	11.1	-4.4	13.7	7.0	6.3	0.7
			Oil-exporting countries				
1970	5.2	2.4	2.7	6.5	1.9	4.6	-0.4
1971	14.1	-3.4	18.1	13.7	7.4	5.8	8.0
1972	5.8	2.0	3.7	14.0	7.3	6.2	1.2
1973	46.9	6.7	37.6	16.9	0.7	16.0	29.7
1974	140.1	-8.2	161.6	71.8	22.6	40.1	79.1
1975	-18.9	-21.4	3.1	22.9	11.4	10.4	-29.4
1976	11.2	5.6	5.3	23.1	13.5	8.5	0.5
1977	4.2	-6.9	11.9	27.1	16.9	8.7	-3.2
1978a/	-4.1	-1.7	-2.4	14.0	5.5	8.0	-11.1
			Non-oil-exporting countries				
1970	10.5	0.7	9.4	15.1	10.4	4.3	4.7
1971	-0.9	2.0	-2.5	10.4	5.3	4.8	-3.5
1972	20.2	8.3	10.9	14.5	8.4	5.5	12.6
1973	41.3	8.9	29.9	34.0	14.2	17.4	19.8
1974	33.6	1.2	32.3	72.4	21.4	42.0	-1.3
1975	-0.8	-	-1.2	3.0	-6.4	10.1	-8.3
1976	18.2	6.9	9.1	-2.6	-6.5	4.1	11.4
1977	23.8	7.4	12.3	7.2	0.9	6.3	13.0
1978a/	10.2	12.5	-2.7	13.6	7.5	5.7	4.4

Source: CEPAL, on the basis of official data.

a/ Preliminary figures.

/As in

As in the previous three years, the evolution of exports was much more favourable in the non-oil-exporting countries than in the four traditional petroleum economies. Thus, whereas in the latter they rose 4% in value, in the remaining group of 19 countries they went up 10%.5/ Thanks to this and the much more pronounced increases of the previous two years, the total value of these countries' exports of goods in 1978 was more than 60% higher than the value attained only three years before.

As distinct from what happened in both 1976 and 1977, the increase in the non-oil-exporting countries was exclusively due to the bigger volume exported. This was over 13% larger than in the previous year, thus growing at a rate which had not been attained in the previous seven years. Moreover, this expansion was recorded in the whole group of countries with the exception of the Dominican Republic (which showed a small decrease) and in many of them the rise was considerable. Thus the volume of exports increased by at least 10% in six countries, and by over 25% in Barbados, Colombia and Mexico (see table 7).

This significant effort was partly cancelled out, however, by the drop in the unit value of exports which, after the marked rise in 1977 in 15 out of 19 non-oil-exporting countries, suffered a substantial decline which adversely affected 12 of these countries, in particular the coffee-exporting economies such as Brazil, Colombia, Costa Rica and El Salvador, as well as Paraguay and the Dominican Republic.

The evolution of external sales was different in the oil-exporting countries. First, the volume exported diminished markedly in all save Ecuador; secondly, the unit value either remained stable - as in Trinidad and Tobago and Venezuela - or increased significantly, as was the case for the third year running in Bolivia. Ecuador - whose exports of coffee and cocoa absorb a relatively large share of the total - was also an exception in this respect, since the unit value of its exports dropped by 6% (see table 7).

5/ For the sake of continuity in the statistical series, Mexico has not been included in the group of oil-exporting countries, in spite of the fact that in 1978 petroleum became its main export commodity. Even if Mexico were considered among the oil countries, however, the rate of increase in the value of their exports (4%) would have been lower than that of the non-oil-exporting countries (7%).

/Table 7

Table 7

LATIN AMERICA: VARIATIONS IN EXPORTS OF GOODS

(Growth rates)

	Value			Volume			Unit value			Purchasing power		
	1976	1977	1978[a]	1976	1977	1978[a]	1976	1977	1978[a]	1976	1977	1978[a]
Latin America	15.9	17.7	6.2	7.9	7.5	11.1	7.5	9.4	-4.4	8.3	8.6	0.7
Oil-exporting countries	11.2	4.2	-4.1	5.6	-6.9	-1.7	5.3	11.9	-2.4	0.5	-3.2	-11.1
Bolivia	24.2	12.3	-0.9	16.0	-4.5	-9.9	7.0	17.6	10.0	15.5	3.2	-7.9
Ecuador	29.1	6.0	24.2	12.6	-12.5	31.8	14.6	21.0	-5.8	21.1	-3.5	11.2
Trinidad and Tobago	24.8	4.2	-9.7	17.7	-1.6	-9.7	6.0	6.0	-	14.5	-4.0	-14.8
Venezuela	5.6	3.5	-6.9	-0.4	-7.1	-6.9	6.0	11.4	-	-5.0	-3.5	-14.2
Non-oil-exporting countries	18.2	23.8	10.2	8.3	10.3	13.2	9.1	12.3	-2.7	11.4	13.0	4.4
Argentina	32.4	44.5	12.1	42.8	48.4	4.1	-7.3	-2.7	7.7	26.8	26.9	9.2
Barbados	-19.5	19.4	32.1	34.2	19.6	25.8	-40.0	-0.1	5.0	-8.2	18.9	13.1
Brazil	17.3	20.8	5.0	1.6	8.3	12.9	15.4	11.6	-7.0	10.7	17.2	-1.3
Colombia	29.1	24.0	15.2	-11.9	-23.6	35.5	46.6	62.2	-15.0	21.6	12.0	6.8
Costa Rica	20.1	37.5	0.9	2.7	1.9	8.0	17.0	34.9	-6.5	12.3	19.6	-2.7
Chile	32.7	4.8	10.7	21.1	5.3	8.0	9.5	-0.5	2.5	32.8	1.4	4.5
El Salvador	39.7	30.6	-12.0	1.5	-15.4	12.0	37.6	54.5	-21.5	39.1	15.6	-14.5
Guatemala	23.9	50.0	-2.6	6.9	11.2	0.9	16.0	34.9	-3.5	11.9	34.4	-6.2
Guyana	-20.5	-7.2	24.1	-7.7	-15.6	11.6	-13.8	10.0	11.2	-23.5	-12.6	17.0
Haiti	39.3	24.3	13.4	0.2	-24.3	10.1	38.9	64.1	3.1	23.6	17.3	9.6
Honduras	31.0	29.4	16.3	11.9	3.5	18.8	17.1	25.0	-2.1	20.7	17.2	9.4
Jamaica	-18.4	15.2	7.1	-9.2	8.7	7.1	-10.1	6.0	-	-17.6	-1.4	2.4
Mexico	15.8	19.8	31.2	2.4	8.9	30.4	13.0	10.0	0.6	8.4	3.6	15.6
Nicaragua	44.5	16.1	-1.3	14.7	-18.0	3.8	26.1	41.6	-4.9	31.6	8.2	-8.4
Panama	-18.7	6.7	1.4	-2.5	3.6	5.7	-16.6	3.0	-4.1	-8.2	2.2	-0.3
Paraguay	13.2	62.3	-8.0	13.5	20.4	0.9	-0.3	34.8	-8.9	19.4	52.2	-9.8
Peru	5.5	26.8	12.5	7.1	28.9	17.1	-1.6	-1.7	-3.9	0.5	14.9	5.5
Dominican Republic	-19.9	8.9	-10.3	13.8	-1.1	-1.4	-29.6	10.2	-9.0	-20.9	2.4	-12.4
Uruguay	46.8	8.2	9.6	45.0	-0.9	9.9	1.2	9.2	-0.3	17.3	14.8	3.8

Source: CEPAL, on the basis of official data.

a/ Preliminary figures.

(b) Imports of goods

In contrast with exports, the rate of increase in the value of imports of goods accelerated to about 14% in 1978 as the result of relatively similar increases in unit value and volume (see table 6).

The volume of imports rose 7% and for the first time in three years exceeded the high level attained in 1974. This situation is only true of the group of oil-exporting countries, however, in which the volume of imports expanded at fluctuating but very high rates from 1974 onwards, and in 1978 almost doubled their 1973 level. In the non-oil-exporting countries, on the other hand, the 7.5% rise was the first fairly large increase since 1974 and failed to offset the drops in the period 1975-1976. Consequently, in 1978 the volume was about 5% less than in 1974. The interruption of this declining trend was largely due to the reversal of the course of real imports by Mexico and Brazil in 1978.

In Mexico, owing to the faster growth of the economy and the radical improvement in the situation and prospects of the external sector with the rapid expansion of oil sales and the discovery of huge hydrocarbon reserves, the volume of imports increased by 31% in 1978, thereby reversing their declining trend of the previous three years (see table 8).

The transition was also clear, although less marked, in Brazil where imports rose 6% in volume in 1978 after a drop of 18% in the period 1975-1977. The fact that this substantial decline should have coincided with a real increase of 20% in the domestic product during that same period reflected the magnitude of the effort made to stabilize the trade balance by means of import substitution. The very intensity of this effort, however - which led to a drop of over one-third in the import coefficient in only three years - meant that it would be increasingly difficult to reconcile the maintenance of a positive rate of economic growth with a declining or even a stable volume of imports. Hence, it was not surprising that it increased in 1978.

In other countries like Colombia, Costa Rica, Honduras and Paraguay, which in 1978 still enjoyed a favourable external situation resulting from the high prices obtained for their chief export products in recent years, the volume of imports continued to increase at an accelerated pace for the third consecutive year.

/Table 8

Table 8

LATIN AMERICA: VARIATIONS IN IMPORTS OF GOODS

(Growth rates)

	Value			Volume			Unit value		
	1976	1977	1978[a/]	1976	1977	1978[a/]	1976	1977	1978[a/]
Latin America	2.5	12.0	13.7	-2.5	4.6	7.0	5.1	7.0	6.3
Oil-exporting countries	23.2	27.1	14.0	13.5	16.9	5.5	8.5	8.7	8.0
Bolivia	9.3	14.4	23.0	5.0	3.1	11.8	4.1	11.0	10.0
Ecuador	4.1	24.5	5.8	-1.7	13.2	0.4	6.0	10.0	5.0
Trinidad and Tobago	30.5	7.8	-3.9	24.3	0.8	-9.3	5.0	7.0	6.0
Venezuela	26.2	33.7	18.4	15.8	21.3	7.6	9.0	10.2	10.0
Non-oil-exporting countries	-2.6	7.2	13.6	-6.5	0.9	7.5	4.1	6.3	5.7
Argentina	-21.2	38.6	-5.1	-24.7	23.7	-7.5	4.7	12.0	2.6
Barbados	11.3	14.2	15.9	8.1	6.7	9.3	3.0	7.0	6.0
Brazil	2.5	-2.9	13.7	-1.4	-5.5	6.2	4.0	2.8	7.0
Colombia	16.9	22.9	34.5	11.4	11.7	23.4	4.9	10.1	9.0
Costa Rica	10.9	30.7	16.9	4.6	16.6	10.3	6.0	12.1	6.0
Chile	-21.2	47.4	27.3	-22.8	32.9	17.8	2.0	10.9	8.0
El Salvador	24.2	25.7	10.1	28.1	12.2	4.3	-3.0	12.9	5.6
Guatemala	34.5	26.1	10.2	25.3	15.4	2.9	7.3	9.3	7.1
Guyana	8.2	-13.4	4.7	6.1	-18.3	-0.3	2.0	6.0	5.0
Haiti	30.8	29.3	7.5	22.4	19.6	0.5	7.0	8.0	7.0
Honduras	13.1	28.7	21.1	4.6	16.1	15.5	8.1	10.9	4.9
Jamaica	-18.4	-15.7	23.1	-20.7	-20.5	15.1	2.9	6.0	7.0
Mexico	-6.9	-10.7	36.8	-10.4	-13.3	30.6	4.0	3.0	4.7
Nicaragua	0.6	45.1	-22.4	-2.7	36.6	-29.5	3.4	6.3	10.0
Panama	-4.8	1.1	12.2	-10.3	-3.7	5.9	6.1	5.0	6.0
Paraguay	4.0	52.4	25.0	8.8	42.8	21.5	-4.4	6.8	2.9
Peru	-12.1	3.1	-26.0	-13.8	-3.2	-31.5	2.0	6.5	8.0
Dominican Republic	-1.2	11.0	6.2	-5.9	4.7	-1.7	5.0	6.0	8.0
Uruguay	8.6	26.7	0.6	2.5	15.2	-2.3	5.9	10.0	3.0

Source: CEPAL, on the basis of official data.

a/ Preliminary figures.

/This also

This also occurred in Chile where, as in 1977, the demand for imports increased owing to the dual incentive of the recovery of domestic economic activity and the systematic and generalized reduction in tariffs.

In contrast - and as was only to be expected - the volume of imports dropped sharply in Nicaragua, Peru and, to a lesser extent, Argentina, whose gross domestic product declined (see table 8).

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

After two years in which the purchasing power of exports had increased by over 8%, it rose less than 1% in 1978 (see table 6).

This deterioration is mainly attributable to the oil-exporting countries where the decrease was 11% owing to the drop in the volume exported and, above all, to the fall of over 9% in the terms of trade. In spite of this sharp contraction and the smaller drops experienced in 1975 and 1976, however, in 1978 the terms-of-trade index in these countries doubled the level recorded at the beginning of the decade (see table 9).

The trend was quite different in the remaining group of 19 countries. In the first place, the purchasing power of their exports rose more than 4% because the vigorous increase in the volume exported (13%) more than offset the drop of nearly 8% in the terms of trade. Secondly, this drop - although less than that of the oil-exporting countries - affected the terms-of-trade index, which fell 8% below the 1970 level (see table 9).

Admittedly, the value reached by this index in 1978 only partially reflected the situation in the individual countries. Thus, for example, in Colombia the index stood at 147 (1970 = 100), mainly owing to the very high price fetched by coffee despite its reduction that year, while in Chile it was only 49 due to the exceptionally low price at which copper was still being quoted on the world markets. In contrast, the drop in the terms of trade of that group of countries in 1978 compared with the 1977 level largely reflected the trend prevailing in the majority of them. Although the deterioration was most marked in the coffee-exporting economies, it affected all the other countries of the group except Argentina and Guyana.

/Table 9

Table 9

LATIN AMERICA: TERMS OF TRADE

(1970 = 100)

Year	Latin America		Oil-exporting countries		Non-oil-exporting countries	
	Index	Variation	Index	Variation	Index	Variation
1970	100.0	3.3	100.0	-1.7	100.0	4.9
1971	97.3	-2.7	111.6	11.6	93.0	-7.0
1972	100.3	3.0	108.9	-2.4	97.7	5.1
1973	112.7	12.4	129.2	18.6	108.1	10.6
1974	128.8	14.2	241.2	86.7	100.7	-6.8
1975	112.5	-12.6	225.4	-6.5	90.4	-10.3
1976	115.0	2.2	218.9	-2.9	94.7	4.8
1977	117.6	2.3	225.4	3.0	100.1	5.7
1978[a/]	105.7	-10.1	204.2	-9.4	92.1	-7.9

Source: CEPAL, on the basis of official data.

a/ Preliminary figures.

/2. The

2. The balance of payments

(a) The trade and current account balances

In 1978 Latin America's trade balance in goods deteriorated sharply since the value of imports rose much faster (13.7%) than that of exports (6.2%), thus reversing the trend observed in the previous two years. During that time the merchandise trade deficit dropped substantially from 5 billion dollars in 1975 to only 280 million in 1976, and was converted into a surplus of over 2.1 billion dollars the following year. In 1978, in contrast, there was a negative balance of nearly 1.4 billion dollars (see table 10).

The trade balance in goods deteriorated in most countries of the region. The exceptions were Argentina, where the growth of exports far exceeded that of imports for the third consecutive year, and which thus obtained a surplus of over 2.7 billion dollars; Ecuador, which increased its surplus; Guyana and Peru, which converted their 1977 deficits into positive balances in 1978 through the continued implementation of policies aimed at reducing the deficits on their external accounts; Nicaragua, where a similar change took place as a result of the drastic fall in imports due to the severe contraction of domestic economic activity; and Haiti and Uruguay, which reduced their deficits.

In contrast, the deterioration was very marked in Venezuela, thereby continuing the process of the previous three years. The exceptionally large surplus of nearly 7.2 billion dollars recorded in 1974 was rapidly reduced, mainly owing to the accelerated increase in imports, to only 460 million dollars in 1977, and in 1978 it was replaced by a substantial deficit (1.9 billion dollars) when imports rose once again by about 20% and exports dropped 7%.

There was a less marked but also fairly considerable change in Brazil where the small surplus of 50 million dollars obtained in 1977 was converted into a negative balance of nearly 1 billion dollars in 1978. Nevertheless, this deficit was equal to only a little over one-fifth of that recorded in 1974 (some 4.7 billion dollars).

/Table 10

Table 10

LATIN AMERICA: TRADE BALANCE

(Millions of US dollars)

	Exports of goods FOB			Imports of goods FOB			Merchandise trade balance			Net non-factor services			Trade balance		
	1976	1977	1978[a]	1976	1977	1978[a]	1976	1977	1978[a]	1976	1977	1978[a]	1976	1977	1978[a]
Latin America	43 148	50 773	53 907	43 428	48 629	55 289	-280	2 144	-1 382	-3 577	-4 240	-4 733	-3 857	-2 096	-6 115
Oil-exporting countries	13 596	14 173	13 592	10 345	13 146	14 932	3 251	1 027	-1 340	-1 750	-2 863	-3 057	1 501	-1 736	-4 447
Bolivia	577	648	642	563	644	792	14	4	-150	-87	-111	-147	-73	-107	-297
Ecuador	1 307	1 385	1 720	1 048	1 305	1 360	259	80	340	-180	-269	-270	79	-189	-70
Trinidad and Tobago	2 370	2 471	2 230	1 844	1 988	1 910	526	483	320	-27	2	20	499	485	340
Venezuela	9 342	9 669	9 000	6 890	9 209	10 900	2 452	460	-1 900	-1 456	-2 435	-2 660	996	-1 975	-4 560
Non-oil-exporting countries	29 552	36 600	40 315	33 083	35 483	40 307	-3 531	1 117	8	-1 827	-1 427	-1 076	-5 358	-310	-1 668
Argentina	3 920	5 663	6 350	2 767	3 835	3 639	1 153	1 828	2 711	-28	13	62	1 125	1 841	2 773
Barbados	76	91	120	219	250	290	-143	-159	-170	71	107	121	-72	-52	-49
Brazil	9 969	12 048	12 650	12 352	12 000	13 639	-2 385	48	-989	-1 571	-1 463	-1 725	-3 954	-1 415	-2 714
Colombia	2 255	2 796	3 221	1 665	2 047	2 753	590	749	468	-119	-80	-96	471	669	372
Costa Rica	592	815	822	695	909	1 063	-103	-94	-241	-42	-66	-82	-145	-160	-323
Chile	2 083	2 182	2 416	1 324	1 952	2 485	759	230	-69	-268	-333	-339	491	-125	-408
El Salvador	744	972	855	684	859	946	60	113	-91	-83	-115	-163	-23	-3	-254
Guatemala	794	1 192	1 160	905	1 141	1 258	-111	51	-98	-35	-141	-177	-146	-90	-275
Guyana	280	259	322	331	287	300	-51	-28	22	-59	-44	-45	-110	-72	-23
Haiti	111	138	157	158	205	220	-47	-67	-63	-25	-34	-36	-72	-101	-99
Honduras	404	522	607	427	550	656	-23	-28	-59	-43	-54	-62	-66	-82	-121
Jamaica	660	760	814	792	667	821	-132	93	-7	-61	-43	-42	-193	50	-49
Mexico	4 011	4 803	6 300	5 859	5 232	7 157	-1 848	-429	-857	413	714	619	-1 435	285	-238
Nicaragua	542	629	621	485	704	546	57	-75	75	-38	-54	-47	19	-129	28
Panama	269	287	291	783	792	889	-514	-505	-598	383	402	432	-131	-103	-166
Paraguay	200	324	298	236	360	450	-36	-36	-152	-23	-11	-24	-59	-47	-176
Peru	1 361	1 726	1 941	2 100	2 165	1 601	-739	-439	340	-142	-113	-11	-881	-552	329
Dominican Republic	716	781	700	764	848	900	-48	-67	-200	-119	-123	-93	-167	-190	-293
Uruguay	565	612	670	537	630	684	28	-68	-14	-38	32	32	-10	-36	18

Sources: 1976-1977: International Monetary Fund, Balance of Payments Yearbook, vol. 29; 1978: CEPAL, on the basis of official data.

a/ Preliminary figures.

/The trend

The trend towards greater stability in trade in goods was also interrupted in Mexico, whose deficit, after declining from 2.8 billion dollars in 1975 to only 430 million in 1977, doubled in 1978 owing to the fact that the exceptional expansion of the value of imports (nearly 37%) exceeded what was also a notable increase in exports (31%).

The unfavourable trend pursued in 1978 by the regional merchandise trade balance and the rise of 500 million dollars in net payments under the head of non-factor services helped to generate a trade deficit of 6.1 billion dollars, which almost tripled the previous year's deficit (see table 10).

Net payments of profits and interest also increased in 1978, reaching a record total for the region of over 9.8 billion dollars (see table 11).

Added to the negative trade balance, these financial remittances helped to raise Latin America's current account deficit to some 15.4 billion dollars. This deficit was not only 50% higher than in 1977 but it also exceeded the former peak deficit of nearly 14 billion dollars recorded in 1975.

With the substantial increase in this negative balance in 1978, the declining trend it had followed since 1975 as a percentage of exports of goods and services was reversed. The proportion in 1978 was 24%, and although much less than the 1975 proportion (31%), it was well above those recorded in 1976 (21%) and 1977 (17%).

Contrary to what happened in 1977, both the oil-exporting and other countries contributed to the increase in Latin America's deficit on current account. Of particular note among the oil-exporting countries was the rise in Venezuela's current account deficit to over 4.5 billion dollars, or 125% higher than in 1977. Among the non-oil-exporting countries, Brazil and Mexico also increased their deficits. In the former, after dropping for three consecutive years from nearly 7,600 million dollars in 1974 to 4,850 million in 1977, it went up by over 2 billion in 1978. Mexico's deficit rose nearly 40%, after falling from 4,080 million dollars in 1975 to 1,780 million in 1977.

/Table 11

Table 11

LATIN AMERICA: BALANCE OF PAYMENTS

(Millions of dollars)

	Trade balance			Net payments of profits and interest			Balance on current account b/			Movement of capital			Balance of payments position before compensation		
	1976	1977	1978a/	1976	1977	1978a/	1976	1977	1978a/	1976	1977	1978a/	1976	1977	1978a/
Latin America	-3 857	-2 096	-6 115	-7 204	-8 318	-9 817	-10 694	-10 158	-15 677	14 302	15 060	23 784	3 608	4 902	8 107
Oil-exporting countries	1 501	-1 785	-4 447	-200	-236	-256	1 112	-2 274	-4 930	-593	2 761	3 551	519	487	-1 379
Bolivia	-73	-107	-297	-42	-73	-115	-112	-178	-398	138	246	362	26	68	-36
Ecuador	79	-189	70	-116	-141	-246	-27	-320	-156	231	432	187	204	112	31
Trinidad and Tobago	499	485	340	-266	-245	-180	223	227	148	39	273	175	262	500	323
Venezuela	996	-1 975	-4 560	224	223	285	1 028	-2 003	-4 524	-1 001	1 810	2 827	27	-193	-1 697
Non-oil-exporting countries	-5 358	-310	-1 688	-7 004	-8 002	-9 561	-11 806	-7 684	-10 447	14 895	12 229	20 233	3 089	4 415	9 786
Argentina	1 125	1 841	2 773	-492	-578	-740	657	1 296	2 078	264	540	1 142	921	1 836	3 220
Barbados	-72	-52	-49	-5	-9	-10	-64	-47	-42	47	53	65	-17	6	23
Brazil	-3 954	-1 415	-2 714	-2 599	-3 432	-4 231	-6 545	-4 846	-6 857	8 810	5 522	11 500	2 265	676	4 643
Colombia	471	669	572	-313	-298	-260	205	421	160	434	165	475	639	586	635
Costa Rica	-145	-160	-323	-69	-74	-98	-203	-221	-405	242	310	409	39	89	4
Chile	491	-123	-408	-326	-362	-460	172	-468	-843	283	461	1 460	455	-7	617
El Salvador	-23	-3	-254	-23	-44	-56	-19	-14	-228	103	58	296	84	44	58
Guatemala	-146	-90	-275	-66	-54	-62	-5	-60	-223	217	208	298	211	148	75
Guyana	-110	-72	-23	-24	-21	-21	-138	-97	-45	48	72	80	-90	-25	35
Haiti	-72	-101	-99	-7	-11	-12	-47	-84	-78	59	97	83	12	13	5
Honduras	-66	-82	-121	-55	-68	-73	-117	-145	-178	153	211	207	38	66	29
Jamaica	-193	50	-49	-116	-139	-164	-307	-74	-196	77	70	201	-230	-4	5
Mexico	-1 435	285	-238	-2 218	-2 217	-2 423	-3 524	-1 781	-2 462	2 531	2 442	2 667	-993	661	205
Nicaragua	19	-129	28	-67	-76	-76	-47	-204	-38	40	213	-59	-7	9	-97
Panama	-131	-103	-166	-41	-55	-70	-185	-170	-248	201	163	323	16	-7	80
Paraguay	-59	-47	-176	-15	-16	-20	-74	-64	-194	110	176	391	36	112	197
Peru	-881	-552	329	-371	-424	-577	-1 253	-957	-192	864	954	274	-389	-3	82
Dominican Republic	-167	-190	-293	-124	-124	-143	-247	-266	-391	232	303	365	-15	37	-26
Uruguay	-10	-36	13	-73	-69	-80	-84	-103	-55	178	281	51	94	178	-4

Sources: 1976-1977: International Monetary Fund, Balance of Payments Yearbook, vol. 29; 1978: CEPAL, on the basis of official data.

a/ Preliminary figures.

b/ Including net private transfer payments.

/The evolution

The evolution of the current account balance of those countries contrasted with that observed in Argentina where, as occurred in 1977, the surplus increased significantly. On the other hand, there was a marked reduction in the previous year's favourable balances in Colombia and Trinidad and Tobago. These were the only countries besides Argentina, however, which showed surpluses in their current external operations in 1978.

(b) The capital account

In 1978 the net inflow of non-compensatory capital soared to a level never before attained, i.e., nearly 23.8 billion dollars, thus exceeding the previous year's figure by 58%. Since this inflow of capital also far exceeded the deficit on current account, the global balance of payments reflected a final surplus of 8.4 billion dollars (see table 11).

Capital inflows increased with particular intensity in the non-oil-exporting countries, thus interrupting the declining trend they had shown in the previous two years. Accordingly, the balance-of-payments surplus of those countries in 1978 was more than twice that obtained a year earlier and over three times the 1976 surplus.

As in previous years, Brazil absorbed most of the capital entering the region. The net increase in that country's capital inflows in 1978 amounted to the record figure of nearly 11.5 billion dollars, or nearly half the net increase in Latin America's inflow of capital and more than twice that obtained by Brazil in 1977. Thus, in spite of the increase in the current account deficit in 1978, Brazil's balance of payments closed with a surplus of around 4,650 million dollars.

The net inflow of loans and investment was also very high in Venezuela (2,830 million dollars) and Mexico (2,670 million), but in the former it failed to offset the sizeable current account deficit on the balance of payments. Chile, in its turn received 1,460 million dollars, which was more than three times the sum obtained in 1977; and Argentina recorded a capital inflow of 1,140 million dollars which, together with the surplus obtained in current external transactions, helped to generate the exceptionally large global balance-of-payments surplus of over 3.2 billion dollars (see table 11).

/In contrast,

In contrast, the net inflow of capital declined sharply in Ecuador, Peru and Uruguay, and slightly in Trinidad and Tobago, Haiti and Honduras. Nicaragua was the only country to record a net outflow of capital in 1978.

Except for Nicaragua, Venezuela, Bolivia, Dominican Republic and Uruguay, in all the other countries of the region the net inflow of non-compensatory capital exceeded the balance-of-payments deficit on current account, and in all of them the balance of payments showed a final surplus.

This result naturally affected the evolution of gross international reserves. In the region as a whole, these increased by 25% and by the end of 1978 had reached a level of over 35 billion dollars (see table 12).

In view of the fact that these reserves declined in the group of oil-exporting countries, their share in Latin America's total reserves diminished, as in previous years, the proportion dropping from 54% in 1975 to 26% in 1978.

In the non-oil-exporting countries, gross reserves continued to increase substantially in Argentina and Chile, in which by the end of 1978 they had quadrupled with respect to the level reached only three years earlier; in Colombia and Paraguay, whose reserves stood at more than four times the 1975 figure by the end of the year; and in Barbados, Brazil, El Salvador, Haiti and Peru.

IV. INFLATION

In 1978 the incidence of inflation in the region was similar to that of the previous year, although much less than in the years 1975 and 1976 which represented the period of most virulent inflation. According to the indicator used to measure its evolution in the Latin American countries as a whole, prices rose by about 40% in 1978 (see table 13).

As in previous years, inflation varied in intensity in the different countries. In nine of the 23 countries considered, price increases were below 10%, while six countries suffered the effects of acute inflation which were reflected in price increases of over 30%.

/Table 12

Table 12

LATIN AMERICA: EVOLUTION OF GROSS INTERNATIONAL RESERVES

(Millions of US dollars)

	At end of year				Growth rates			
	1975	1976	1977	1978	1975	1976	1977	1978
Latin America	18 659	23 544	28 205	35 272	2.9	26.2	19.8	25.1
Oil-exporting countries	10 070	10 293	10 601	9 169	35.2	2.2	3.0	-13.5
Bolivia	157	169	237	197	-13.9	7.6	40.2	-16.9
Ecuador	286	515	671	687	-18.4	80.1	30.3	2.4
Trinidad and Tobago	752	1 013	1 483	1 807	92.7	34.7	46.4	21.8
Venezuela	8 875	8 596	8 210	6 478	36.3	-3.1	-4.5	-21.1
Non-oil-exporting countries	8 589	13 251	17 604	26 103	-20.5	54.3	32.9	48.3
Argentina	457	1 614	3 331	5 148	-65.2	253.2	106.4	54.5
Barbados	40	28	37	60	2.6	-30.0	32.1	62.2
Brazil	4 036	6 544	7 236	11 804	-23.5	62.1	10.9	63.9
Colombia	523	1 161	1 820	2 496	16.5	122.0	56.8	37.1
Costa Rica	51	98	193	198	14.8	92.2	96.9	2.6
Chile	111	462	484	1 149	9.0	316.2	5.2	137.4
El Salvador	126	206	252	291	28.0	63.5	12.6	24.9
Guatemala	304	511	690	765	50.4	68.1	35.0	10.9
Guyana	100	27	23	58	58.7	-73.0	-14.8	152.2
Haiti	13	28	34	39	-35.0	115.4	21.4	14.7
Honduras	97	131	180	185	118.5	35.1	37.4	2.8
Jamaica	126	32	48	53	-34.0	-74.6	50.0	10.4
Mexico	1 533	1 253	1 723	1 928	9.9	-18.2	37.5	11.9
Nicaragua	122	147	149	52	16.2	20.5	1.4	-65.1
Panama	34	79	71	150	-12.5	132.4	-10.0	111.3
Paraguay	115	158	268	466	31.9	37.4	69.6	73.9
Peru	467	330	421	559	-51.8	-29.3	27.6	32.8
Dominican Republic	116	127	105	159	27.9	9.5	45.7	-14.1
Uruguay	218	315	459	453	-6.0	44.5	45.7	1.3

Source: International Monetary Fund, International Financial Statistics, August 1979.

/Table 13

Table 13

LATIN AMERICA: VARIATIONS IN CONSUMER PRICES

(December - December)

	1970	1971	1972	1973	1974	1975	1976	1977	1978
Countries with high inflation	24.9	34.4	92.5	167.2	132.7	314.4	277.1	126.5	123.4
Argentina	21.6	39.1	64.2	43.9	39.9	334.8	347.1	160.4	169.8
Chile	34.9	22.1	163.4	508.1	375.9	340.7	174.3	63.5	30.3
Uruguay	19.3	35.6	94.7	77.5	107.2	66.8	40.0	57.3	46.0
Countries with intermediate inflation	12.3	11.6	10.9	17.2	28.2	23.5	37.6	34.4	32.2
Brazil	17.7	18.1	14.0	13.7	33.8	31.2	44.8	43.1	38.1
Colombia	3.5	14.1	14.0	25.0	26.9	17.9	25.9	29.3	17.8
Mexico	7.8	-0.8	5.6	21.3	20.6	11.3	27.2	20.7	16.2
Peru	5.7	7.7	4.3	13.8	19.2	24.0	44.7	32.4	73.7
Countries with moderate inflation	2.8	4.8	7.4	15.4	20.1	10.4	7.6	8.4	9.9
Barbados	9.2	10.1	10.4	26.0	36.6	12.5	4.0	9.9	11.3
Bolivia	3.8	3.3	23.6	34.8	39.0	6.0	5.5	10.5	13.5
Costa Rica	4.3	1.9	6.9	15.9	30.6	20.5	4.4	5.2	8.2
Ecuador	8.0	6.8	6.9	20.6	21.2	13.2	13.1	9.7	11.7
El Salvador	1.0	-0.6	5.2	7.9	21.0	15.0	5.3	14.9	14.6
Guatemala	1.0	0.3	1.1	17.5	27.4	0.8	17.4	7.4	9.1
Guyana	2.4	1.4	7.1	15.2	11.6	5.5	9.2	9.0	20.0
Haiti	-0.7	13.3	7.3	20.8	19.5	19.9	-0.1	-1.4	1.8
Honduras	1.4	1.5	6.8	5.1	13.0	7.8	5.6	7.7	5.2
Jamaica	7.5	5.2	9.3	9.6	20.6	15.7	8.1	14.1	48.4
Nicaragua						1.9	6.2	10.2	4.4a/
Panama	2.5	1.0	6.7	9.7	16.6	1.8	3.3	9.2	5.0
Paraguay	2.3	6.3	9.5	14.1	22.0	8.7	3.4	9.4	16.9
Dominican Republic	-1.3	10.6	8.0	17.2	10.5	16.5	7.0	8.5	1.8
Trinidad and Tobago	3.3	5.0	8.0	24.4	18.6	13.4	12.0	11.4	8.8
Venezuela	3.4	3.0	3.5	5.1	11.6	8.0	6.9	8.1	7.0
Latin America	12.2	13.3	21.2	37.0	40.7	59.7	63.6	41.6	39.9
Latin America (excluding Argentina)	11.3	10.8	17.0	36.3	40.8	33.3	36.3	30.2	27.4

Sources: IMF, International Financial Statistics, April 1979; and official data provided by the countries.

a/ November to November.

/There were

There were also some differences as regards the evolution of inflation. While in 1978 in half the countries there was more serious inflation than in the previous year, in the other half the rate of price increases diminished. The most conspicuous cases of accelerated inflation were in Peru, Jamaica, Paraguay and Guyana, while in Chile, Colombia, Panama and the Dominican Republic inflation was appreciably reduced. In Argentina the rate of inflation remained once again at an exceptionally high level.

The uneven performance in 1978 makes it impossible to draw any completely valid conclusions for the region as a whole. Furthermore, the classification of countries according to the intensity of their inflationary processes, however relevant for the period 1970-1977, presents some maladjustments in 1978 deriving, in particular, from the higher price increases in Peru and Jamaica and the considerable drop in the rate of inflation in Chile (see table 13).

Within the three groups of countries considered, some disparities were clearly noted in the intensity of inflation in 1978, presenting a very special situation appreciably different from that prevailing in previous years. During that period, external pressures constituted one of the most significant factors contributing to the inflationary process. So-called imported inflation represented a singular and unprecedented ingredient in the process, at any rate because of the intensity with which it affected the region and the mechanisms through which it became internalized. Thus the acceleration and deceleration of external prices from 1973 onwards went hand in hand with higher prices and larger volumes of imports and exports.

The same interpretation does not seem to be applicable to developments in 1978. Both in the region as a whole and in the three groups identified, and even in each country considered, the changes in domestic price levels and in foreign trade prices do not show the same association as that observed in recent years, especially since 1973 (see table 14).

/Table 14

Table 14

LATIN AMERICA: PRICES OF IMPORTS AND EXPORTS OF GOODS

(Growth rates)

	Imports					Exports				
	1974	1975	1976	1977	1978	1974	1975	1976	1977	1978
Countries with high inflation	45.2	3.9	16.3	11.3	4.3	26.1	-17.3	0.5	2.4	5.4
Argentina	46.9	14.1	4.7	12.0	2.6	28.2	-8.5	-7.3	-2.7	7.7
Chile	32.5	20.2	2.0	10.9	8.0	40.0	-27.3	9.5	-0.5	2.5
Uruguay	85.3	7.5	5.9	10.0	3.0	-2.2	-13.6	1.2	9.2	-0.3
Countries with intermediate inflation	38.9	8.7	3.9	3.8	6.0	34.5	-0.5	16.9	14.3	-5.7
Brazil	52.9	9.0	4.0	2.8	7.0	30.0	0.3	15.4	11.6	-7.0
Colombia	32.4	4.1	4.9	10.1	9.0	19.9	-5.8	46.6	62.2	-15.0
Mexico	30.1	9.1	4.0	3.0	4.7	42.3	3.3	13.0	10.0	0.6
Peru	24.1	12.0	2.0	6.5	8.0	46.7	-4.9	-1.6	-1.7	-3.9
Countries with moderate inflation	39.5	11.9	7.0	8.7	7.4	116.1	2.5	4.3	14.6	-5.1
Barbados	32.7	11.9	3.0	7.0	6.0	77.1	39.0	-40.0	-0.1	5.0
Bolivia	24.3	13.0	4.1	11.0	10.0	98.4	-10.2	7.0	17.6	10.0
Costa Rica	35.9	13.3	6.0	12.1	6.0	15.0	14.0	17.0	34.9	-6.5
Ecuador	29.7	14.9	6.0	10.0	5.0	128.3	-8.6	14.6	21.0	-5.8
El Salvador	42.1	10.5	-3.0	12.0	5.6	24.3	2.8	37.6	54.5	-21.5
Guatemala	42.7	12.9	7.3	9.3	7.1	20.7	11.1	16.0	34.9	-3.5
Guyana	40.0	21.5	2.0	6.0	5.0	87.3	24.7	-13.8	10.0	11.2
Haiti	30.0	12.0	7.0	8.0	7.0	35.8	19.1	38.9	64.1	3.1
Honduras	28.1	13.0	8.1	10.9	4.9	31.1	7.3	17.1	25.0	-2.1
Jamaica	39.2	13.0	2.9	6.0	7.0	80.5	33.7	-10.1	6.0	-
Nicaragua	31.8	15.0	3.4	6.3	10.0	26.1	-7.1	26.1	41.6	-4.9
Panama	52.8	15.0	6.1	5.0	6.0	58.8	12.5	-16.6	3.0	-4.1
Paraguay	47.5	12.5	-4.4	6.8	2.9	30.1	0.2	-0.3	34.8	-8.9
Dominican Republic	27.9	13.0	5.0	6.0	8.0	44.8	58.5	-29.6	10.2	-9.0
Trinidad and Tobago	121.7	11.4	5.0	7.0	6.0	198.5	9.5	6.0	6.0	-
Venezuela	24.2	16.0	9.0	10.2	10.0	166.7	6.8	6.0	11.4	-
Latin America	41.7	10.1	5.1	7.0	6.3	61.9	-3.8	7.5	9.4	-4.4

Source: CEPAL, on the basis of official data.

/It must

It must not be forgotten, however, that the region may still be affected by the imported inflation unleashed that year, whose delayed effects may continue to be reflected today in the behaviour of the agents of the Latin American economic system. This hypothesis is even more plausible if it is taken into acccunt, first, that the unstable state of world inflation has not been completely dispelled and, secondly, that in not a few cases the rise in import prices in 1978, though below the levels recorded in previous years, was nonetheless considerable.

Clearly, however, apart from the fluctuations of exogenous pressures which in earlier periods were purely conjunctural movements and whose persistence gives them a different character today, internal factors continued to play a decisive role in a good many countries.

The fact that, in spite of the progress made in the fight against inflation in some countries following orthodox stabilization policies, high rates of inflation persisted in many countries of the region, indicates that factors linked with the economic and social structure also continued to have some effect.

As can be seen in table 13, the highest indexes of inflation continued to be recorded in those countries in which industrialization has made most progress, the economic system is more co-ordinated and the modern sectors play a relatively more important role. Owing to these factors and the greater capacity of resistance and pressure of the enterprises and groups composing the more modern strata of the economy, the reproduction and expansion of circumstantial inflationary pressures tend to be more widespread, rapid and intensive in those countries than in the economies in which the primitive strata predominate or carry considerable weight and intersectoral links are weaker.

It is clear, however, that the rates of price increases differed between the countries of the three groups identified, not only because of this greater or lesser structural tendency towards chain inflationary effects - which are also explained in some degree by the much longer duration and greater intensity of the inflationary processes in the relatively more industrialized countries of the region - but also because of the influence

/of other

of other factors associated both with the handling of economic policy and with the widely varying external situations faced by the different economies of the region.

This combination of external and internal structural and conjunctural factors, their interaction and mutual conditioning thus make up a highly complex inflationary situation in the region. Accordingly, and until such time as a more thorough interpretation is made of the new and varying forms taken by the inflationary process, the difficulty of devising and implementing policies which will enable it to be confronted without detriment to other development objectives will persist.

/Part Two

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Part Two

THE ECONOMIC EVOLUTION OF THE INDIVIDUAL COUNTRIES

ARGENTINA

1. Main recent trends: Introducion and summary

For the Argentina economy 1978 was a year of recession and renewed inflation. Nevertheless, unemployment recorded its lowest historical rates and the external accounts once again reflected surplus, thus further consolidating the international reserves position (see table 1).

The gross domestic product dropped by 4.1%, mainly as a result of the sharp fall in the first three months, after which a slow recovery was noted in aggregate production.

Manufacturing was the most seriously affected sector, since its GDP dropped by nearly 8%. The decline in production was evident in almost all branches of industry, although it was most intensive in machinery and equipment, textiles and made-up textile goods. In contrast, the volume of agricultural production maintained the previous year's high figures, and oil production pursued its upward trend.

The economic recession was largely due to the sharp reduction in fixed capital investment, which fell by about 11%. This, in its turn, was the result of the trend followed by private investment in equipment, since investment in construction was higher than in 1977 and the purchase of equipment by the public sector remained at around the same levels as in the previous year because of the continuation of the plans for refurnishing certain areas of the economic and social infrastructure. Notwithstanding the negative global evolution of private investment, some large-scale industrial import-substitution projects, such as a newsprint plant and an integrated steelmaking establishment, were completed. Private consumption, for its part, remained at approximately the same level as in 1977.

/Table 1

Table 1

ARGENTINA: MAIN ECONOMIC INDICATORS

	1973	1974	1975	1976	1977	1978 a/
A. Basic economic indicators						
Gross domestic product a factor cost (millions of dollars at 1970 prices)	32 901	35 031	34 385	33 263	34 985	33 540
Population (millions of inhabitants)	24.7	25.1	25.4	25.7	26.1	26.4
Per capita gross domestic product (dollars at 1970 prices)	1 331	1 398	1 355	1 293	1 343	1 271
	Growth rates					
B. Short-run economic indicators						
Gross domestic product	6.1	6.5	-1.8	-3.3	5.2	-4.1
Per capita gross domestic product	4.7	5.1	-3.1	-4.5	3.8	-5.4
Gross income b/	7.9	5.7	-3.5	-3.8	3.8	-3.6
Terms of trade	18.7	-12.7	-19.8	-11.5	-13.1	5.0
Current value of exports of goods and services	60.8	23.1	-22.9	31.2	41.5	12.1
Current value of imports of goods and services	19.2	57.2	6.5	-10.1	34.4	-3.0
Consumer price index						
December - December	43.7	40.1	334.9	347.5	160.4	169.8
Variation between annual averages	60.4	24.2	182.8	444.0	176.0	175.5
Money	95.0	58.2	192.5	256.6	124.9	167.7
Average nominal wage c/	74.6	35.8	162.0	213.0	...	...
Rate of unemployment d/	5.4	3.4	3.7	4.5	3.0	2.5
Current income of government	47.7	51.1	87.1	642.1	228.1	154.0
Total expenditure of government	110.3	52.1	249.1	377.8	107.0	169.1
Fiscal deficit/total expenditure of government e/	49.5	49.8	73.1	58.9	35.4	32.4
	Millions of dollars					
C. External sector						
Trade balance (goods and services)	1 099	459	-858	1 125	1 841	2 773
Balance on current account	704	126	-1 281	657	1 296	2 078
Variation in net international reserves	845	75	-1 080	921	1 836	3 220

a/ Preliminary figures.
b/ Gross domestic product plus terms-of-trade effect.
c/ Nominal basic wage for unskilled industrial workers.
d/ Percentage. Surveys in Federal Capital and Greater Buenos Aires.
e/ Percentage.

/The value

The value of exports rose again, basically as a result of the shift in the composition of agricultural exports towards commodities with a higher unit value and the increase in the volume of meat exports. Sales of manufactures reached slightly higher levels than in the previous year.

The positive balance on the merchandise account, combined with the considerable inflow of mainly short-term capital attracted by the high rate of interest and the steady revaluation of the peso, not only led to a further increase in reserves but also enabled a large proportion of the compensatory loans obtained around 1976, at a time of serious balance-of-payments difficulties, to be repaid.

The fiscal policy objectives were once again attained in 1978 in that a small central administration deficit (down by approximately 15% in real terms) was achieved and no resort was had to currency issues to finance it. At the same time the measures designed to transfer State enterprises to the private sector and to decentralize certain national government services by delegating them to the provincial governments continued to be implemented.

Real wages remained at the low levels recorded in the preceding years and the Government continued its policy of authorizing entrepreneurs to increase wages by a certain proportion (which varied over the year) above the levels covered by the previous agreements. This policy led to marked differences between the wages paid by the various enterprises.

The inflation indicators remained at high levels similar to those of 1977. The Government tried different anti-inflationary measures, using instruments of a global nature designed to control monetary expansion and combat inflationary expectations. Thus, in the middle of the year it was decided to exercise a stricter control over the primary issue of money by placing obstacles in the way of the inflow of capital which had become the most important factor of expansion of the monetary base. Some measures were also taken to influence inflationary expectations, such as freeing the exchange market and eliminating indexing for public service tariffs. This culminated at the end of December in the advance establishment for the first eight months of 1979 of the rates of increase in the exchange rate, the nominal minimum and basic wages, and public service tariffs.

/2. Trends

2. Trends in economic activity

(a) Total supply and demand

Total supply of goods and services dropped by a little over 4% in 1978, thus continuing the recessive trend initiated in 1975 which had been interrupted in 1977. The gross domestic product fell 4% and the volume of imports by a larger amount (see table 2). The latter drop was due to the reduction in purchases of capital goods from the substantial level of 1977 and the smaller purchases of inputs for manufacturing, whose volume of production decreased sharply. The global level of activity diminished appreciably in the first quarter of the year, and although there was subsequently a slight upturn this did not permit a recovery of the 1977 levels.

Gross fixed investment, which had been one of the most dynamic factors of the economy in 1977, suffered the biggest contraction in 1978, dropping by about 11% with respect to the previous year's levels. This evolution was mainly due to the 20% drop in investment in production equipment, largely on account of the reduced level of activity and high financial costs. The only item which did not fall so sharply was public investment in these goods, owing to the continuation of equipment plans in several areas of the economy (imports of capital goods by the public sector declined by less than 4%).

It should be noted that imports of production equipment decreased less than purchases of similar equipment manufactured in Argentina, owing to the advantage of an exchange rate which rose appreciably less than domestic prices.

Investment in construction showed a sizable increase for the second year running, basically as a result of demand from the private sector. In this respect, the effects produced by the entry into force of the new building code for the Federal Capital and the continued importance of the construction of dwellings of high unit value remained important factors.

Public construction, for its part, increased by 4% as a result of the relatively high levels reached during the first and, to a lesser extent, the second quarter of the year when the works in connexion with the World Cup Football Championship were continued and completed. Apart from these works, the Government decided to proceed only with the other large-scale projects that had already been initiated, so that in the second half of the year public investment in construction only attained the 1977 levels.

/Table 2

Table 2

ARGENTINA: TOTAL SUPPLY AND DEMAND

	Millions of pesos at 1970 prices			Percentage breakdown		Growth rates		
	1976	1977	1978[a]	1970	1978[a]	1976	1977	1978[a]
Total supply	116 018	122 961	117 756	107.9	106.3	-4.6	6.0	-4.2
Gross domestic product [b]	109 894	115 584	110 810	100.0	100.0	-3.3	5.2	-4.1
Imports of goods and services [c]	6 124	7 377	6 946	7.9	6.3	-23.2	20.5	-5.8
Total demand	116 018	122 961	117 756	107.9	106.3	-4.6	6.0	-4.2
Domestic demand	107 220	110 245	104 796	99.4	94.6	-6.9	2.8	-4.9
Gross domestic investment	20 324	24 604	21 602	20.4	19.5	-4.8	21.1	-12.2
Gross fixed investment	20 278	24 716	22 080	20.0	19.9	-3.9	21.9	-10.7
Construction	9 439	10 535	11 310	11.3	10.2	-12.8	11.6	7.3
Machinery and equipment	10 839	13 641	10 770	8.7	9.7	5.5	25.8	-20.0
Changes in stocks	46	-112	-478	0.4	-0.4			
Total consumption	86 896	85 641	83 194	79.0	75.1	-7.4	-1.4	-2.9
Exports of goods and services [c]	8 798	12 716	12 960	8.5	11.7	37.9	44.5	1.9

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

a/ Preliminary figures.

b/ At market prices.

c/ The figures for exports and imports of goods and services were taken from balance-of-payments data expresed in dollars at current prices, which were converted to constant 1970 values by deflation, using price indexes calculated by CEPAL for the purpose.

/It may

It may be inferred from the foregoing that total investment dropped sharply (by over 12%), and that this was due to the evolution of private investment, since that of the public sector remained at the same level or fell only very slightly. Since practically no changes were recorded in current expenditure, public sector demand was not an important depressive factor.

Exports of goods and services (at constant 1970 prices) rose very slightly in 1978 in contrast with the increases of 38% and 45% in the two previous years. The notable increases in shipments of meat (about 20%), oilseeds and maize were counteracted by the fall in other commodities exported, such as wheat.

Consumption continued to follow a declining trend which reflected the persistence of low real wages. Returns on financial assets, for their part, while not attaining the high levels recorded at the end of 1977, continued to absorb substantial amounts of money, particularly in the first half of the year.

(b) Growth of the main sectors

The drop in the gross domestic product was basically due to the performance of manufacturing and most services; the rest of the goods-producing sectors recorded some growth with respect to 1977, although generally much less than in that year. The agricultural sector grew only slightly (just over 1%), but it should be noted that excellent crops had been obtained in 1977. In the case of services, progress was made only in electricity, gas and water and in financial institutions, insurance and real estate (see table 3).

(i) The agricultural sector. The agricultural product grew at a rate of just over 1%; crop production rose by 0.3%, while stock-raising fell by 0.8% (see table 4). For their part, agricultural construction 1/ and fishing showed high rates of growth (25% and 61%, respectively).

1/ This subsector covers both the construction of sheds, fences, etc., and the planting of trees and perennial crops.

/Table 3

Table 3

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

	Millions of pesos at 1970 prices			Percentage breakdown		Growth rates		
	1976	1977	1978[a]	1970	1978[a]	1976	1977	1978[a]
Agriculture	12 027	12 824	12 975	13.1	13.1	3.5	6.6	1.2
Mining	1 824	2 007	2 037	2.1	2.1	1.9	10.1	1.5
Manufacturing	31 138	32 447	29 869	30.2	30.2	-4.5	4.2	-7.9
Construction	4 079	4 639	4 906	5.7	5.0	-14.1	13.7	5.7
Subtotal goods	49 068	51 917	49 787	51.2	50.4	-3.3	5.8	-4.1
Electricity, gas and water	2 755	2 890	2 995	2.1	3.0	3.4	4.9	3.6
Transport, storage and communications	9 467	10 038	9 656	10.1	9.8	-4.3	6.0	-3.8
Subtotal basic services	12 222	12 928	12 651	12.2	12.8	-2.7	5.8	-2.1
Commerce, restaurants and hotels	13 118	13 978	13 132	13.5	13.3	-5.9	6.6	-6.1
Financial institutions, insurance and real estate	3 968	4 554	4 959	4.5	5.0	-6.6	14.8	8.9
Community, social and personal services	19 316	19 245	18 312	18.5	18.5	0.2	-0.4	-4.8
Subtotal other services	36 402	37 777	36 403	36.5	36.8	-2.8	3.8	-3.6
Total gross domestic product [b]	98 126	103 206	98 944	100.0	100.0	-3.3	5.2	-4.1

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

a/ Preliminary figures.

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

/Table 4

Table 4

ARGENTINA: INDICATORS OF AGRICULTURAL PRODUCTION

	Relative share in 1978	Growth rates			
		1975	1976	1977	1978[a/]
Gross product of the agricultural sector at factor cost [b/]	100.0	-3.5	3.5	6.6	1.2
Crop farming	57.2	-5.0	1.8	8.4	0.3
Stock-raising	36.8	-	6.2	4.5	-0.8

Source: Central Bank of Argentina.

a/ Preliminary figures.

b/ Includes agricultural construction, hunting, forestry and timber extraction and fishing.

/In spite

In spite of the low overall dynamism of this sector, domestic agricultural supply attained record levels, even higher than in 1977. During the year a marked change was noted in the composition of agricultural production in favour of products with a higher unit value, and the area sown to grains was reduced. The livestock subsector recorded an exceptionally high rate of slaughtering which affected the level of cattle stocks.

The reduction in both area sown and cattle stocks may be ascribed to the high rates of interest. In view of the expensive credit, farmers decided to liquidate their stock of cattle in order to gain a flow of funds with which to finance the agricultural year without having recourse to banks (or else to invest in other activities outside the sector).

The unusually high rate of cattle slaughtering in 1978 and the evolution of other indicators of stock-raising activities (the proportion of breeding stock and average weight of animals slaughtered) account for the reduction in stocks observable by the middle of the year. From October of November onwards, however, the process seems to have been reversed (see table 5).

The intensification of cattle slaughtering during the year, a situation which has been observed since 1975, may be explained by the more expensive credit, particularly at the end of 1977; the low yield obtained from agricultural activities in the 1977/1978 crop year; and the lower rate of return on livestock than on crops in the pampa region.

The rise in world prices and the bigger exports led at the beginning of the fourth quarter to an increase in domestic prices which appears to have induced stock breeders to reduce their supply for slaughterning. Furthermore, the price of wheat dropped in the fourth quarter, thus also improving the rate of return on livestock in relation to crops.

The supply of sheep decreased slightly (2.4%) owing to the fall in exports caused by the restrictions imposed by the European Economic Community, but even so it may be estimated to have exceeded production, so that stocks are believed to have pursued their declining trend. Pig slaughtering decreased for the second consecutive year, which was reflected in a recovery in stocks, encouraged by the favourable pork/maize price ratio. At the same time, there was an increase in domestic demand for pork owing to the upward trend in the price of beef.

/Table 5

Table 5

ARGENTINA: CATTLE SLAUGHTERING AND PRICES

	Stocks a/	Slaughtering	Slaughtering rate (percentage) b/	Yield in kg of dressed meat (per head)	Proportion of cows and heifers in typified slaughtering (percentage)	Per capita consumption (kg/inhabitant/year)	Prices of steers in terms of	
	Millions of head						Industrial prices c/d/	Price of wheat e/d/
1972	52.3	10.0	19.3	219	26.9	62	1.31	7.89
1973	54.8	9.8	17.9	219	26.1	66	1.24	7.46
1974	55.4	10.1	18.3	214	25.7	75	0.98	6.08
1975	56.7	12.1	21.4	201	29.3	87	0.66	3.60
1976	58.1	13.9	23.9	203	34.9	89	0.70	3.69
1977	59.2	14.7	24.9	198	35.9	89	0.85	4.82
1978	58.7	16.5	28.1	194	36.1	95	0.73	4.11
I	62.9	3.9	24.9	193	36.6	91	0.69	3.71
II	61.3	4.4	28.9	188	39.1	98	0.64	3.17
III	58.7	4.2	28.6	196	35.5	96	0.70	3.43
IV	62.0	3.9	25.4	200	32.8	94	0.90	5.37

Sources: Ministry of Agriculture, National Meat Board; and CEPAL, on the basis of official data.

a/ At 30 June of each year.
b/ Annual slaughtering as a percentage of stocks at 30 June of each year.
c/ Steer prices in the Liniers market, deflated by the wholesale price index for non-agricultural goods (base: 1970 = 100).
d/ Annual and quarterly averages.
e/ Number of kilograms of wheat per kilogram of steer.

/Wool production

Wool production fell, but the high level of accumulated stocks nevertheless permitted a significant increase in exports.

The area sown to annual crops decreased by 5%, mainly because of the drop in cereals (15%), particularly wheat (-36%). In contrast, the area sown to oilseeds was extended by 41% (see table 6).

The reduction in the area sown led to a 7% drop in cereals production, which, however, still represented a historically high figure of 22 million tons and enabled a high level of exports to be maintained. Production of oilseeds rose by 55%.

Production of industrial crops fell by 28%. The cotton crop increased by 28%, because of both the extension of the area sown (14%) and the favourable weather conditions. On the other hand, output of sugar, which was regulated by quotas, dropped by 9%. The 14% drop in the production of grapes due to adverse weather conditions made it possible temporarily to regulate the wine market, which had been characterized by over-supply. Weather conditions also affected the production of tea and tobacco, which dropped by 39 and 28%, respectively. Finally, the production of maté rose 4% with the improvement in the market situation.

Production of fruit suffered a drop of 9%, attributable in particular to the 12% fall in citrus fruit production due to adverse weather conditions. Vegetables as a whole recorded increases in both cultivated area and yields.

The high interest rates and unattractive prices for crop-farming products in general were in some degree responsible for the decline in agricultural production in the 1977/1978 crop year.

Milk production partially recovered from the drop in 1977, increasing by 3.4%. However, its lower yield with respect to that of crop farming and meat production is a factor which discourages production in the medium term, while weather conditions have more influence in the short term. The production of poultry and eggs pursued the trend towards a recovery initiated in 1977, which could be intensified if the price of red meat increases.

/Table 6

Table 6

ARGENTINA: AREA SOWN AND PRODUCTION OF MAIN AGRICULTURAL COMMODITIES

	Area sown (millions of hectares)				Production (millions of tons)		
	1973/1974-1977/1978[a]	1976/1977	1977/1978	1978/1979	1973/1974-1977/1978[a]	1976/1977	1977/1978
Cereals	16.8	18.2	15.4	15.4	21.7	23.9	22.2
Wheat	5.4	7.2	4.6	5.2	7.5	11.0	5.3
Grain sorghum	2.7	2.8	2.7	2.6	5.9	6.6	7.2
Maize	3.6	3.0	3.1	3.1	8.3	8.3	9.7
Oilseeds	3.1	3.4	4.8	4.8	2.6	3.3	5.1
Linseed	0.6	0.7	0.9	0.9	0.5	0.6	0.8
Sunflower	1.5	1.5	2.2	2.0	1.1	0.9	1.6
Soya	0.6	0.7	1.1	1.6	1.1	1.4	2.4
Total annual crops	25.8	27.4	26.0	26.0			
Total area sown	26.9	28.6	27.2	27.1			

Source: Ministry of Agriculture.

a/ Average.

/(ii) Mining.

(ii) Mining. The sector as a whole grew by 1.5%, thus practically maintaining the level of activity reached in 1977. This performance was the result of different trends followed by the various products, since while petroleum and gas production increased by about 5%, output of coal dropped by 18.6% and that of other minerals also declined (see table 7).

Production of oil continued to rise and a total of 26 million m^3 was extracted, which even exceeded the peak 1972 figure. The results obtained are partly attributable to the activity of private companies which started to operate under the policy initiated in 1977. This policy was continued in 1978 through the opening of bids for new areas, so that production is expected to pursue its rising trend.

Coal production continued to drop sharply during the first half of the year as a result of the contraction of demand and the policy of reducing stocks adopted by Yacimientos Carboníferos Fiscales (YCF). In the third quarter, demand partially recovered with the entry into operation of electric power plants which use this fuel. Another noteworthy factor in this respect was the decision adopted by Servicios Eléctricos del Gran Buenos Aires (SEGBA) (one of the enterprises supplying electricity to the Greater Buenos Aires Metropolitan Area) to start using coal in power stations hitherto operated with fuel oil.

Production of gas declined - the amount of reinjected gas fell by 3.5% and it was necessary to import 9% more gas than in 1977 to satisfy demand.

As regards other mining products, only those used in the production of construction materials and those attaining very high and in some cases quite unprecedented export levels, such as metal ores, recorded significant production increases.

(iii) Manufacturing. Following its sharp recovery in the second and third quarters of 1977, manufacturing activity once again contracted, and between the third quarter of 1977 and the first quarter of 1978 it dropped by over 25%.2/

The sharp contraction - which in a greater or lesser degree spread to all industrial activity - was the result, among other factors, of the saturation of demand from agriculture after the considerable increases experienced in the previous quarters, the persistence of the depressed demand for consumer goods,

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2/ See CEPAL, Buenos Aires Office, La industria manufacturera argentina, 1950-1978, October 1978.

/Table 7

Table 7

ARGENTINA: INDICATORS OF MINING PRODUCTION

	1975	1976	1977	1978	Growth rates 1976	1977	1978
Gross mining product at factor cost (millions of pesos at 1970 prices)	1 789	1 824	2 007	2 037	1.9	10.1	1.5
Production of some important minerals							
Petroleum (millions of m^3)	23.0	23.1	25.0	26.9	0.8	8.2	4.9
Injected natural gas (millions of m^3)	6 314	6 305	6 372	6 148	-0.1	1.1	-3.5
Coal (thousands of tons)	502	615	533	434	22.5	-13.3	-18.6

Source: Central Bank of Argentina and Ministry of Energy.

/and the

and the effects of the financial situation prevailing at the end of 1977. From the second quarter of 1978 onwards, manufacturing activity started to recover slowly, while still remaining well below the peak levels attained in the last quarter of 1974 or the third quarter of 1977.

The sector's gradual recovery was shared by nearly all branches of industry, in contrast to what happened in the previous year (see table 8).

This performance is clearly consistent with the trends followed by the components of total demand described above, particularly private investment which was perhaps the most important factor of the growth experienced in 1977. On the one hand, the agricultural sector saw its purchasing power decline and sharply reduced its level of investment (a situation to which the high level of purchases of capital goods in 1977 no doubt contributed), while investment in other sectors also dropped sharply in the face of the unfavourable prospects in connexion with economic activity in general, the existence of idle capacity and high financial costs.

Another factor which has been mentioned is the uncertainty with respect to global tariff policy. The Government had repeatedly announced its decision to arrive at a tariff structure which would reduce the protection for certain sectors. Up to the end of the year, however, only some general guidelines were known concerning those reforms. It should be noted that the Government considers the tariff reform project to be one of the most important instruments for achieving its objective of improving the level of efficiency of the manufacturing sector. Although public investment showed no particular dynamism either, it was perhaps the least depressive factor.

Personal consumption continued to be low as a result of the evolution of real wages and salaries. Although there were some expectations of an increase in purchases of durable consumer goods by a certain segment of the population in view of the existence of negative rates of interest during some periods of the year, apparently this did not occur on any significant scale. Even if it had, the effect would merely have been to accelerate the absorption of the large stocks accumulated in 1977.

Exports constituted an important alternative for some sectors such as the paper and steel industries and enabled them to maintain a certain level of production, although profits were low owing to the evolution of the exchange rate.

As a result of these trends, there seems to have been a certain deterioration in the level of industrial employment.

/Table 8

Table 8

ARGENTINA: INDICATORS OF MANUFACTURING PRODUCTION

	1976	1977	1978	Growth rates 1976	1977	1978 I	1978 II	1978 III	1978 IV	1978 Total
I. Gross manufacturing product at factor cost (millions of pesos at 1960 prices)	6 059	6 314	5 812	-4.5	4.2	-11.5	-8.7	-9.2	-2.9	-7.9
Food	999	962	901	0.3	-3.6	-8.1	-9.9	-4.0	-3.2	-6.3
Textiles	763	722	656	-4.6	-6.0	-22.0	-11.4	-7.1	2.4	-9.1
Wood	60	53	46	-27.8	-11.5	-22.0	-11.9	-11.0	-4.4	-12.0
Paper	243	258	269	-7.3	6.3	-2.7	5.2	3.8	9.9	4.2
Chemicals	1 204	1 265	1 219	-0.7	5.0	-4.5	-4.7	-4.9	-0.4	-3.6
Non-metallic minerals	242	241	244	-4.5	-0.5	-1.6	2.5	0.8	3.6	1.4
Basic metal industries	318	365	353	-24.1	14.6	-5.2	-6.4	-7.7	5.9	-3.2
Machinery and equipment	1 998	2 216	1 902	-3.8	10.9	-17.8	-12.6	-17.3	-9.6	-14.2
Other industries	227	233	221	-3.4	2.4	-7.6	-8.5	-3.2	-1.7	-5.2
II. Production of some important manufactures										
Pig iron (thousands of tons)	1 310	1 385a/	1 820a/	25.6	5.7	41.4	37.0	29.7	22.5	31.4
Steel (thousands of tons)	2 409	2 684	2 783	9.6	11.0	-15.1	1.4	-0.5	10.2	3.7
Rolled products (thousands of tons)	2 413	2 798	2 527	-17.6	15.8	-30.2	-10.0	-16.1	15.6	-9.7
Motor vehicles (thousands of units)	194	236	180	-19.4	21.6	-53.3	-18.8	-23.1	-5.4	-23.6
Tractors (thousands of units)	24	26	6	27.1	8.0	-88.3	-65.7	-78.9	-77.8	-77.0

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

a/ Including sponge iron.

/The decline

The decline in activity affected almost all branches of manufacturing (see table 8). Only the paper and non-metallic minerals industries grew, and even then only at low rates. In the former case, the volume exported offset the slack domestic demand, while in the case of non-metallic minerals, the dynamic performance of the construction sector enabled the 1977 levels of production of these goods to be maintained.

The industries producing goods for household consumption were once again among those whose production contracted most sharply. In the food industry, only the activity of meat packing plants increased because of the intensified rates of slaughtering, especially of cattle, the rate for which rose by about 12% over the 1977 level. Concurrently, there was a drop in real prices of meat: a trend which was only reversed towards the end of the year. Textiles and made-up textile goods recorded a decline of 9% with respect to the already low levels of 1977.

Production of machinery and equipment was also greatly affected both by the fall in investment (production of tractors decreased by 77% and that of commercial motor vehicles by 32%) and consumption (production of automobiles fell by 20% and that of household appliances by an even higher proportion). Other factors noted in this connexion are the changes in income distribution and the effects of the above-mentioned decline in real financial returns, since, for example, the biggest drop was in the sale of smaller automobiles. Some important changes are planned in this sector with a view to improving the efficiency of the industry: thus, imports of vehicles and parts would be facilitated and the required percentage of domestic components would be reduced. This would enable firms to take advantage of complementarity with establishments of the same company located in other countries.

The steel industry, for its part, showed a considerable decline in finished products. Thus, the output of rolled products dropped by approximately 10% (see table 8), and flat products by 21%. Production of non-flats - basically round iron bar - rose by 3%. These dissimilar results were consistent with the different trends followed by the sectors consuming these two types of products: those rising flat rolled products (automobiles, consumer durables, machinery in general) were among the sectors whose level of activity experienced the sharpest decline, while construction, which is the main purchaser of non-flat rolled products, was one of the few sectors showing a favourable evolution in 1978.

/In contrast,

In contrast, the production of pig iron rose well above the 1977 levels (31%). This was basically due to the starting up of the second blast furnace of the Sociedad Mixta Siderúrgica Argentina (SOMISA) after more than a year of inactivity. Mention should also be made of the considerable volume of exports of these goods. At the end of 1978 a further step was taken towards the integration of the steel industry with the opening of the direct reduction plant of the Industria Argentina de Aceros (ACINDAR), which from that moment became a completely integrated steelworks.

(iv) Construction. In 1978 construction was the most dynamic activity, as it had been in 1977, although its growth rate (6%) was lower than in the latter year (14%). Thus, the sector recovered from the severe decline experienced in 1976 and regained the peak levels of activity attained in 1975 (see tables 3 and 9).

Private construction continued to be stimulated by the new building code for the city of Buenos Aires which has been in force since 1977 and which establishes time-limits for the completion of certain types of buildings. The high cost of money prevented access to credit for the building of dwellings by the middle- and low-income strata. Moreover, the lack of operational capacity, especially in the provinces, was responsible for delays in the investment of funds accumulated by the National Housing Fund.

Public construction recorded a fairly high level of activity in the first half of the year owing to the holding of the World Cup Football Championship in Argentina, while the continuation of energy and road projects helped to maintain the rate of public construction up to the end of the year.

(v) Electric energy. The generation of electricity increased by over 6% during the year. Approximately 20% of this increase was due to the entry into operation of the Futaleufú hydroelectric plant in April, most of whose output is used by the aluminium plant located in Puerto Madryn, which previously used its own generators. This project, together with the Cabra-Corral project located in the Salta province, which started operating in September, raised the proportion of energy generated by the hydroelectric plants from 20% in 1977 to 26.4% in 1978.

/Table 9

Table 9

ARGENTINA: INDICATORS OF CONSTRUCTION ACTIVITY

	1974	1975	1976	1977	1978	Growth rates 1975	1976	1977	1978[a]
I. Construction permits granted (thousands of m^2)									
Federal Capital	3 699	4 079	2 488	7 037	4 722	10.3	-39.0	182.8	-32.9
Córdoba	712	914	748	745	812	28.4	-18.2	-0.4	9.0
Rosario	249	271	175	117	126[b]	8.8	-35.4	-33.1	113.5[c]
Santa Fé	107	183	95	177	113[d]	71.0	-48.1	86.3	-43.3[e]
II. Production of certain building materials									
Sales of cement (thousands of tons)	5 409	5 482	5 512	5 844	6 142	1.3	0.5	6.0	5.1
Public Works	1 409	1 463	1 418	1 317	1 478	3.8	-3.1	-7.1	12.2
Private works	4 000	4 019	4 094	4 527	4 664	0.5	1.9	10.6	3.0
Reinforcing rods (thousands of tons)	424	504	381	423	417	18.9	-24.4	11.0	-1.4

Source: I. National Institute of Statistics and Censuses; II. Asociación de Fabricantes de Cemento Portland and Instituto Argentino de Siderurgia.

a/ Preliminary figures.
b/ January-June.
c/ January-June, compared with the same period in 1977.
d/ January-November.
e/ January-November, compared with the same period in 1977.

/The pre-selection

The pre-selection of firms for the construction of the Yacyretá dam was made in 1978 and work began on the installation of a new thermal generator for the SEGBA enterprise which serves Greater Buenos Aires. An important event in this area was the Government's decision to acquire the Compañía Italo Argentina de Electricidad, which is the other electricity enterprise serving the metropolitan area. As from 1979, therefore, the entire distribution of electric energy in that area will be in the hands of State enterprises.

3. The external sector

Pursuing the trend of the previous two years, the external sector benefited from an increase in exports, the trade balance in goods and services reflected a record trade surplus for the year of about 2.8 billion dollars. The stronger external position - by the end of the year gross reserves totalled 6 billion dollars - made it possible to repay the debt of 1 billion dollars contracted in 1976 with commercial banks abroad and the stand-by credit of 300 million dollars with the IMF. Thus, Argentina re-entered the gold tranche of the Fund.

In the first half of the year Argentina's second and third bond issues (the first was in September 1977) were launched on the financial markets of the Federal Republic of Germany and Japan for 170 and 68 million dollars, respectively.

The gradual elimination of restrictions on the purchase and sale of foreign exchange initiated in 1977 continued until they were completely freed in the second half of the year.

As regards imports of goods, it was decided to authorize the temporary duty-free admission of goods for incorporation in export products. Moreover, the tariffs on various imported products continued to be lowered as a means of stimulating competition on the domestic market.

With respect to the exchange rate, the system of daily mini-devaluations was maintained until May, when a system of floating was introducted (see table 10).

/Table 10

Table 10

ARGENTINA: EVOLUTION OF THE EXCHANGE RATE

	Exchange rate (pesos per dollar)				Indexes of the deflated exchange rate a/ (base: December 1974=100)			
	Exports		Imports	Financial transactions	Exports		Imports	Financial transactions
	Traditional	Non-traditional			Traditional	Non-traditional		
1975b/	61	86	61	61	156.9	194.1	156.5	136.3
1976b/	272	272	277	277	144.3	125.7	146.3	127.4
1977b/		600			128.8	112.2	128.2	111.6
1978								
January		643			125.2	109.0	124.6	108.5
February		683			126.3	110.0	125.7	109.5
March		723			122.6	106.8	122.0	106.2
April		763			118.6	103.3	118.0	102.8
May		780			111.2	96.9	110.7	96.4
June		792			107.8	93.9	107.3	93.4
July		809			104.9	91.4	104.5	91.0
August		834			99.6	86.7	99.1	86.3
September		870			97.4	84.8	96.9	84.4
October		911			92.8	80.8	92.3	80.4
November		962			90.8	79.1	90.3	78.7
December		1 000			88.8	77.4	88.4	77.0

Source: CEPAL, on the basis of official data.

a/ Deflated by the wholesale price index.

b/ End of year.

/Towards the

Towards the end of the year, however, as part of the new economic policy guidelines adopted by the Government, a scale of daily devaluations of the peso with respect to the dollar by a total of 41.8% was announced in advance for the first eight months of 1979.

(a) Foreign trade

(i) Exports. In 1978 the value of exports of goods grew by 12%, thus pursuing the rising trend recorded since 1976 (see table 11).

The volume of grain exports dropped by 8%, mainly owing to the 71% fall in wheat sales. However, they increased by a little over 9% in value (43% in 1977), thanks in particular to the exceptionally large exports of soya.

In 1978 meat shipments amounted to approximately 600,000 tons, exceeding the 1977 figure by 20%. Beef exports increased by 31% in value as the result of the smaller world supply and consequent rise in prices. In this respect, mention should be made of the increased share of cuts (due to bigger profit margins) in total beef exports. By the end of the year this share had reached 60%. Exports of live animals and livestock by-products were 50% higher than in 1977.

While sales of wool underwent no significant changes, exports of hides and skins grew by 37%. External sales of agricultural products not originating in the pampa followed diverse trends. Thus, exports of fresh fruit and cotton fibre increased, while sugar shipments dropped by 60% because of the quota established by the International Sugar Agreement.

Exports of non-agricultural industrial products as a whole fell by about 5%, in spite of the fact that shipments of steel products, estimated at approximately 1 million tons in the year, were over 60% higher than in 1977. The main items were non-flat rolled products and flat cold-rolled products, each of which showed increases of 200%. Sales of machinery amounted to 270 million dollars, which represented a drop of nearly 2% with respect to 1977, but was 34% higher than the 1976 figure. As in 1977, exports of transport equipment declined (28%).

(ii) Imports. In 1978, the value of imports in dollars at current prices fell by 5% with respect to 1977, but exceeded the 1976 level by over 30% (see table 12).

/Table 11

Table 11

ARGENTINA: EXPORTS OF GOODS (FOB)

	Millions of dollars				Percentage breakdown		Growth rates		
	1975	1976	1977	1978 a/	1970	1978	1976	1977	1978
Agricultural products	2 287	3 063	4 475	5 219	87.1	82.2	33.9	46.1	16.6
Grain b/	1 069	1 192	1 702	1 862	28.7	29.3	11.5	42.8	9.4
Meat	300	560	700	890	28.4	14.0	86.7	25.0	27.1
Wool, animal hair and horse hair	110	140	242	247	4.9	3.9	27.3	72.9	2.1
Hides and skins	72	152	211	288	5.5	4.5	111.1	38.8	36.5
Other agricultural products	736	1 019	1 620	1 933	19.6	30.4	38.5	59.0	19.3
Non-agricultural industrial products	674	857	1 188	1 131	12.9	17.8	27.2	38.6	-4.8
Total	2 961	3 920	5 663	6 350	100.0	100.0	32.4	44.5	12.1

Source: Up to 1977, National Institute of Statistics and Censuses; 1978, Central Bank of Argentina and other sources.

a/ Preliminary figures.

b/ Including soya and groundnuts.

/Table 12

Table 12

ARGENTINA: IMPORTS OF GOODS (CIF)

	Millions of dollars				Percentage breakdown		Growth rates		
	1975	1976	1977	1978	1970	1978	1976	1977	1978
Capital goods	562	503	1 111	1 020	21.6	25.3	-10.5	120.9	-8.2
Fuels and lubricants	515	531	677	580	4.7	14.7	3.1	27.5	-14.3
Intermediate goods	2 738	1 934	2 238	2 100	68.8	53.2	-29.4	15.7	-6.2
Products of chemical industries	629	505	576	500	12.8	12.7	-19.7	14.1	-13.2
Materials used in paper-making	183	129	143	130	5.9	3.3	-29.3	10.5	-9.1
Metals, machinery, electrical apparatus, and transport equipment	1 267	784	909	955	31.3	23.7	-38.1	15.9	2.9
Other intermediate goods	659	515	610	535	18.8	13.5	-21.8	18.4	-12.3
Consumer goods	132	66	136	250	4.9	6.3	-50.2	107.6	83.8
Total	3 947	3 034	4 162	3 950	100.0	99.5	-23.1	37.2	-5.1

Source: Central Bank of Argentina.

/The lag

The lag in the exchange rate with respect to the rise in domestic prices, in conjunction with the reduction in tariffs, probably prevented a bigger drop in imports, in view of the contraction in domestic activity.

The decrease of 8% in imports of capital goods was not very significant considering the exceptionally large increase recorded in 1977 (121%). The main reason for the decrease was the decline in investment by the private sector, whose demand for imported capital goods dropped by 11%, while that of the public sector fell by only 4%.

As regards fuels, the increase in domestic production enabled imports of petroleum and petroleum products to be reduced by 14%.

Imports of intermediate goods decreased by 6%. Of these, chemical products suffered the sharpest drop (13%), returning to the 1976 levels. The reduction in imports of raw materials for the manufacture of paper reflects the process of import substitution in which this sector is engaged. Imports of metallurgical products amounted to 525 million dollars, which represents a rise of 5.2% over 1977. This increase was due to the rise in prices, since the volume of imports did not change.

Imports of parts for machinery and electrical equipment increased by 7%, while those destined for transport declined by 19%, in consonance with the significant contraction of domestic activity experienced by the motor vehicle sector.

Finally, imports of consumer goods, which were particularly favoured by the aforementioned exchange and tariff policy, recorded a considerable increase (about 84%).

(iii) Terms of trade. In 1978 there was a 5% improvement in the terms of trade, thus interrupting the sharply declining trend of the previous four years (see table 13). This partial recovery contributed towards the continued rise in 1978 in the purchasing power of exports, which, after falling abruptly in 1975, increased in the two following years thanks to the exceptional growth in the volume of external sales.

/Table 13

Table 13

ARGENTINA: MAIN FOREIGN TRADE INDICATORS

	1972	1973	1974	1975	1976	1977	1978[a/]
			Growth rates				
Exports of goods							
Value	11.9	68.3	20.3	-24.6	32.4	44.5	12.1
Volume	-3.1	18.9	-6.1	-17.6	42.8	48.4	4.1
Unit value	15.5	41.5	28.2	-8.5	-7.3	-2.7	7.7
Imports of goods							
Value	2.2	17.4	62.6	9.2	-21.2	38.6	-5.1
Volume	-	-1.5	10.7	-4.3	-24.7	23.8	-7.5
Unit value	2.2	19.2	46.9	14.1	4.7	12.0	2.6
Terms of trade	13.0	18.7	-12.7	-19.8	-11.5	-13.1	5.0
			Indexes (1970 = 100)				
Terms of trade, goods	123.2	146.2	127.6	102.4	90.6	78.7	82.7
Purchasing power of exports of goods	102.4	144.6	118.5	78.3	98.9	127.6	139.5
Purchasing power of exports of goods and services	100.6	140.7	124.8	85.1	107.9	136.9	149.5

Source: CEPAL, on the basis of official data.

a/ Preliminary figures.

/(b) The

(b) The balance of payments

Current transactions recorded a favourable balance for the third year running, with a merchandise trade surplus of 2,700 million dollars. In contrast, the net flow of services and transfers reflected a deficit of approximately 630 million dollars, so that the current account showed a final surplus of nearly 2,080 million (see table 14).

The movements of short-term and non-compensatory capital followed a variable trend throughout the year owing to the changes in monetary and exchange policy. The rise in interest rates recorded in the last quarter of 1977 and the first quarter of 1978 led to an inflow of capital of over 1 billion dollars. The flow was reversed, however, in the second half of the year when a deposit in local currency was required in respect of external credits, with the object of lessening the effect of capital inflows in terms of monetary expansion. The final result was a net outflow of approximately 900 million dollars.

Movements of long-term private autonomous capital, on the other hand, showed a positive balance of 1,400 million dollars, 300 million of which was direct investment. Loans to the national government and to the banking sector totalled 600 million.

The resulting balance-of-payments surplus of 3,200 million dollars was reflected in an increase of 2,000 million in gross reserves and a reduction in short-term debts amounting to the rest. Of the latter total, 300 million dollars was used to pay off the stand-by agreement with the International Monetary Fund.

4. Prices, wages and employment

(a) The evolution of prices

The variation in the consumer price index between December 1977 and December 1978 was 170%, which exceeded the rate of inflation recorded in the previous year (160%). The rise in wholesale prices (142%), however,

/Table 14

Table 14

ARGENTINA: BALANCE OF PAYMENTS

(Millions of US dollars)

	1973	1974	1975	1976	1977	1978[a]
Current account						
Exports of goods and services	3 723	4 583	3 532	4 634	6 556	7 346
Goods FOB [b]	3 266	3 930	2 961	3 920	5 663	6 350
Services	457	653	571	714	893	996
Transport	203	337	199	260	381	412
Travel	87	109	154	180	213	194
Imports of goods and services	2 624	4 124	4 390	3 509	4 715	4 573
Goods FOB [b]	1 978	3 215	3 510	2 767	3 835	3 639
Services	646	909	880	742	880	934
Transport	340	528	534	344	386	450
Travel	85	105	94	114	175	175
Net payments of profits and interest on foreign capital	-395	-333	-429	-492	-578	-740
Profits	-78	-36	-16	-27	-208	-352
Interest	-317	-297	-413	-465	-370	-388
Net private transfer payments	-	-	6	24	33	45
Balance on current account	704	126	-1 281	657	1 296	2 078
Capital account						
Net external financing (a+b+c+d)	-704	-126	1 281	-657	-1 296	-2 078
(a) Long-term capital	53	-5	-162	836	421	2 055
Direct investment	10	10	...	...	51	...
Private sector	6	-63	-33	-82	575	1 442
Loans	353	261	368	577	1 079	...
Amortization payments	-347	-324	-401	-541	-580	...
Other liabilities and assets	-	-	-	-118	76	...
Official sector	-94	112	-2	-114	-84	535
Loans	145	532	227	21	21	...
Amortization payments	-29	-185	-146	-7	-6	...
Other liabilities and assets	-210	-235	-83	-128	-99	...
Monetary authorities (net)	131	-64	-127	1 032	-121	78
(b) Short-term capital (net)	77	-46	364	-566	120	-913
Private sector	39	-170	338	-62	584	...
Official sector	-5	-4	96	-	60	...
Monetary authorities	-11	107	-61	-292	-460	...
Errors and omissions	54	21	-9	-212	-64	21
(c) Official transfer payments	11	-	-1	-6	-1	...
(d) International reserves (minus sign indicates an increase)	-845	-75	1 080	-921	-1 836	-3 220
Use made of IMF credit		-132	226	238	-130	...
Other liabilities	-	-	-	-	-	...
Monetary gold					-8	...
Special Drawing Rights	-58	-20	59	-50	5	...
IMF reserve position		-13	13	-	-	...
Foreign exchange	-787	90	782	-1 109	-1 703	...

Source: 1973-1977: International Monetary Fund, Balance of Payments Yearbook, vol. 29; 1978: CEPAL, on the basis of official data.

a/ Provisional figures.

b/ Including non-monetary gold.

/was slightly

was slightly less than in 1977 (see table 15). The variations between annual averages reflect the same trends. As had already occurred in 1977, retail prices increased more than wholesale prices, and the gap between the two indexes widened appreciably.3/

At the beginning of the year, inflation continued at the high rates recorded at the end of 1977, but declined slightly in June and July. In the last quarter, however, the monthly increases in the price indexes rose once again (see table 16).

The high rates of inflation occurred notwithstanding the fact that at no time was any pressure exerted by demand and despite the lag - as in 1977 - in the evolution of the exchange rate; moreover, the incidence of wage increases in production costs was once again low. Added to this were the delays in the adjustment of public service tariffs in the second half of the year, the reduction in the fiscal deficit and its financing without recourse to any considerable monetary issue.

The persistence of high rates of inflation has been attributed to the difficulty during a large part of the year in controlling the expansion of the monetary base (especially since this stemmed from the considerable trade surplus and capital inflows) and to the continuance of inflationary expectations. Another factor was the performance of the private sector, particularly manufacturing, which in view of the high cost of credit endeavoured to reduce its dependence on loans and restore its own working capital. In the face of the low level of activity, entrepreneurs raised their prices considerably in order to obtain the desired income.

(b) Prices policy

As in previous years, the action taken by the economic authorities to control inflation was reflected in the implementation of broad policies.

3/ These results would seem to indicate an increase in marketing margins. A comparison between the two indexes is hampered, however, by the fact that the base year of the wholesale price index is 1960, while that of the consumer price index is 1974.

/Table 15

Table 15

ARGENTINA: EVOLUTION OF DOMESTIC PRICES

(Growth rates)

	1974	1975	1976	1977	1978
	Variation from December to December				
Consumer prices	40.1	334.9	347.5	160.4	169.8
Food and beverages	33.2	349.9	365.6	146.9	169.9
Clothing	79.7	316.0	290.3	129.3	154.3
Housing, fuels and electricity	18.3	122.3	453.7	339.6	165.1
Wholesale prices	36.1	348.2	386.3	147.1	141.7
Imported products	41.3	545.3	390.8	127.5	65.5
Domestic products	35.9	337.0	385.9	148.8	147.6
Agricultural	21.5	297.3	459.0	130.5	149.6
Manufactures	42.9	353.5	359.3	156.9	146.9
	Variation between annual averages				
Consumer prices	24.2	182.8	444.0	176.0	175.5
Food and beverages	16.1	187.6	458.6	187.1	163.5
Clothing	54.6	190.5	424.8	109.5	147.8
Housing, fuels and electricity	11.2	80.2	276.9	447.1	186.5
Wholesale prices	20.1	192.4	499.1	149.4	145.6
Imported products	36.9	258.4	690.3	126.2	75.9
Domestic products	19.2	188.7	485.2	151.7	151.8
Agricultural	10.0	145.0	529.5	163.6	140.3
Manufactures	23.9	208.6	469.2	146.9	156.7

Source: National Institute of Statistics and Censuses.

/Table 16

Table 16

ARGENTINA: QUARTERLY PRICE VARIATIONS

	1977				1978			
	I	II	III	IV	I	II	III	IV
Consumer price index	25.8	21.5	29.4	31.6	31.8	28.6	22.3	30.2
Wholesale price index	26.5	19.9	27.6	27.7	26.6	24.6	21.6	26.1

Source: National Institute of Statistics and Censuses.

/On two

On two occasions these policies were reinforced with new measures based on what the authorities considered were the main causes of the inflationary process, which did not slacken in the whole year. These causes, as noted earlier, were excessive monetary expansion and the persistence of inflationary expectations, so that the measures announced in May and December were aimed at influencing developments in these areas.

With reference to monetary policy, as from May an attempt was made to curb the inflow of capital through the establishment of compulsory deposits of 20% in national currency, not eligible for the payment of interest or any adjustment for inflation, in respect of both new inflows and renewals.

There was talk of the need to "de-index the economy" in order to combat inflationary expecations. It was announced that public service rates would not be automatically adjusted in line with price increases, but in accordance with the financial needs of enterprises, which should lower their operating costs.

As regards the exchange policy, the Government abandoned the system of daily devaluations and left the rate to be determined by supply and demand. As was foreseeable in view of the high level of international reserves and the favourable performance of foreign trade, this measure in fact meant a revaluation of the peso in real terms.

At the end of the year stricter control of the expansion of the monetary base was achieved and the measures announced in December were clearly aimed at reducing the inflationary expectations.

With the object of providing the private sector with some guidelines concerning the future evolution of prices of important factors such as the services supplied by public enterprises, the US dollar and, to a certain extent, labour,4/ a table of prices of these factors was published in advance.

At the same time, the restrictions on the inflow of foreign capital were lifted with the purpose of stimulating competition in the financial markets and lowering interest rates, thus reducing the financial costs of enterprises.

4/ An increase of 4% monthly in the minimum wage was established. Although barely 1% of the labour force receives the minimum wage, indirectly this was an important factor in determining the remuneration of a broader group of wage-earners.

/Since with

Since with financial markets fully open to the exterior the domestic interest rate should tend to be approximately equal to the external interest rate plus the rate of devaluation of the national currency, it was felt that if the latter were fixed in advance the domestic interest rate would also evolve within narrow margins, in accordance with a decreasing scale known beforehand by entrepreneurs.

The idea behind these measures was to create expectations of decreasing inflation and to enable the private sector to programme its prices policies more satisfactorily. At the same time, an attempt was made to increase competition through further tariff reductions. In 1979 the import duties which will be in force for the next five years will be published. It was also announced that the tariffs will be lowered for products whose domestic prices rise in an exaggerated manner in relation to global inflation.

(c) Wages and employment: policy and evolution

With the suspension of collective bargaining in June 1975, the official basic wages have since been fixed by the Government, together with family allowances, but these wages have now lost some of their importance in determining the actual income of wage-earners. According to the wage policy in force, wage increases should be selective, depending on the productivity of each sector, and from March 1977 onwards, increasing margins of flexibility were authorized, over and above the official basic levels. Because of these margins and of other extraordinary payments,5/ generally linked with levels of activity and productivity, the difference between official wages and those actually paid is steadily widening. These factors make it difficult to estimate the evolution of real wages. In view of the low levels of activity, particularly in the manufacturing sector, however, it is very probable that the main instruments contributing to an improvement in nominal wages in 1978 were the increases in official basic wages and the broader margins of flexibility. Basic wages rose in January, March and December, while in April and August increased margins of flexibility were authorized.

5/ In principle, each enterprise is free to implement is own wage policy. However, only the officially established wages, i.e., the official basic wages plus the authorized margins of flexibility, may be presented as costs for tax purposes.

/The performance

The performance of these factors in combination with family allowances, corrected for the evolution of consumer prices, would seem to indicate that on average real wages once again dropped slightly or at most remained constant.6/ Thus, real wages continued to evolve at very low levels, representing only about 70% of the average real wage for the period 1970-1975.

In spite of the drop in the gross domestic product, the overall rate of unemployment remained at the low levels recorded in 1977. In Greater Buenos Aires, after reaching 3.1% in April, the rate fell again to 1.8% in October (see table 17). In the case of manufacturing, however, there are signs of significant reductions in the number of hours worked and in employment, the latter registering an 8% drop between August 1977 and August 1978.

The persistence of low unemployment rates at a time when the country was experiencing a period of economic recession and an important sector of activity like manufacturing was showing a drop in employment has been ascribed to many causes, including a possible decrease in the economically active population. This seems to have been due to the withdrawal from it, owing to the low wages paid, of marginal groups comprising, for example, persons who were not heads of household, and young and elderly men and women. It is also probable that the number of own-account workers has increased at the expense of the number of wage-earners engaged in activities such as services and construction for which employment records are not available.

5. Monetary and fiscal policy

(a) Monetary policy

At the end of 1977 a restrictive monetary policy was put into practice, based on freeing interest rates and reducing the multiplier of the monetary base, while the banks were required to maintain a high level of cash reserves.

6/ This refers to the variation between annual averages. It is assumed that the equivalent of the total flexibility authorized was paid at all times. Comparison of the figures for December 1978 with those for December 1977 indicates a significant increase in real wages.

/Table 17

Table 17

ARGENTINA: EVOLUTION OF UNEMPLOYMENT

(Percentage of economically active population)

	1975			1976			1977			1978		
	April	August	October	April	July	October	April	July	October	April	August	October
Capital and Greater Buenos Aires	2.4	6.0	2.8	4.8	4.5	4.1	3.4	3.4	2.2	3.1	2.6	1.8
Rosario	5.4	...	5.7	5.3	...	4.1	3.5	...	2.6	5.4	...	...
Córdoba	6.1	...	7.2	6.5	...	5.4	5.9	...	4.0	5.3	...	...
Tucumán	8.4	...	6.9	7.4	...	5.6	7.2	...	4.6	6.7	...	...

Source: National Institute of Statistics and Censuses.

/The resulting

The resulting rise in interest rates led to the liquidation of stocks and a large inflow of capital, since it was cheaper for entrepreneurs to obtain external credit. Basically, the liquidation of stocks was associated with the sharp drop in production which affected the level of imports and thus helped to raise the trade surplus, which became an additional factor of money creation.

At the beginning of 1978, active interest rates were exceptionally high (between November and February they averaged over 5% per month in real terms) and there was a considerable difference between them and passive interest rates owing to the high level of bank reserves required (45% of deposits) and the low compensation paid through the Monetary Regulation Account.7/ The policy adopted of financing the needs of public enterprises by means of bank credit helped to raise interest rates. When stocks were liquidated, the demand for credit diminished and banks started to have difficulty in placing their loans. The difference between the active and passive rates, which was as much as 3% per month, had dropped to 1% per month by the middle of the year, and to almost zero for the most important enterprises which had considerable bargaining power with the banks.

In May the authorities decided to demand a deposit in local currency equivalent to 20% of external credits, in order to control the expansive effect of capital inflows on the money supply.

The hoped-for results of this measure began to be felt at the beginning of the last quarter, since the movement of capital became negative, with the resulting deceleration of the rate of expansion of the monetary base. The increase in the monetary base owing to capital inflows, added to the decreased demand for credit when the level of stocks was reduced, led to greater liquidity in the second and third quarters, which facilitated the sale of government securities and improved conditions for the securing of bank credit by public enterprises. Excluding the Monetary Regulation Account, the public sector deficit was almost exclusively financed by those two sources

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7/ The Monetary Regulation Fund was set up in mid-1977, when the requirement of a bank cash reserve of 45% was established. Through this account the Central Bank compensates banks for the losses incurred owing to this requirement, paying interest on the immobilized proportion of time deposits and imposing a change on sight deposits.

/(especially

(especially the sale of government securities), unlike what happened in 1977 when 70% of the deficit was covered by direct loans from the Central Bank to the Treasury. In 1978, as in 1977, there was a significant transfer of private sector funds from government securities to time deposits, and the securities sold were mainly absorbed by commercial banks.

From the moment the international movement of capital was reversed, the Central Bank introduced successive reductions in the percentage of cash reserves with the object of maintaining liquidity. The increase in the monetary base, originating in the external sector (58%), the Monetary Regulation Account (37%) and exchange differences (5%), was 95% in 12 months, while the expansion of the money supply (measured by the M2 aggregate, made up of the sum of private means of payment and savings and time deposits in banks) was 88%. In contrast, the amount of currency outside banks rose by 168%, thereby exceeding the previous year's increase (see table 18).

New economic measures were announced in December, to enter into force in January 1979. On the monetary side, in addition to providing for a further reduction in bank reserves, the local currency deposit of 20% of external credit was eliminated with the object of facilitating the inflow of capital.

(b) Fiscal policy

In 1978 the central government proposed to maintain the policies of curbing public expenditure and intensifying the tax pressure which had characterized the two previous years, as a means of reducing the fiscal deficit. The first of these policies was implemented through measures for the administrative rationalization and redimensioning of the public sector, the most outstanding action in the latter respect being the transfer of central government services (hospitals, schools, construction of dwellings, etc.) to the provincial or municipal sphere, and the liquidation of State-owned enterprises or their transfer to the private sector.8/ The financing policy placed particular emphasis on the financial equilibrium of each unit of the sector, tending to eliminate transfers from the Treasury to cover deficits. In fact, the only substantial transfers budgeted for 1978 were to the railways and postal service.

8/ These were generally enterprises which were originally privately owned and passed into the hands of the State owing to financial problems.

/Table 18

Table 18

ARGENTINA: MONETARY POSITION

	End-year balance (billions of pesos)			Growth rates		
	1976	1977	1978	1976	1977	1978
Money	927	2 086	5 584	256.6	124.9	167.7
Currency outside banks	412	1 074	3 308	231.9	161.0	207.9
Demand deposits	516	1 011	2 276	279.2	96.1	125.0
Factors of expansion	1 678	6 310	16 531	231.6	276.0	162.0
Foreign assets (net)	-37	447	1 871	-	-	318.7
Domestic credit	1 715	5 863	14 659	226.7	241.8	150.0
Government (net)	293	923	2 548	25.9	214.6	176.1
Official entities						
Private sector	986	4 088	11 078	260.0	314.4	171.0
Difference in exchange	436	853	1 034	2 320.0	95.7	21.3
Factors of absorption	751	4 225	10 947	205.2	462.7	159.1
Quasi-money (savings and time deposits)	167	3 072	9 331	240.7	398.2	203.8
Other items (net)	134	1 153	1 616	106.5	759.2	40.1

Source: Central Bank of Argentina.

/Within the

Within the context of this policy of curbing expenditure, steps were taken to reduce staff, especially through the dismissal of temporary personnel, and at the same time to assure the staff of a reasonable level of wages and salaries within the financial possibilities of the State. With this object in view, progressive wage and salary adjustments were budgeted in order to raise remuneration, make it more homogeneous, and reform the administrative structure to facilitate the career development of the more highly qualified personnel.

This programme was to be financed by means of increased tax pressure and the sale of securities.

The objective of increasing the tax pressure was difficult to attain, in view of the fact that the 1977 coefficient was the highest in recent years and that in 1978 it was planned to continue the policy of eliminating export duties and reducing import duties. The measures for attaining this objective envisaged:

- fuller compliance on the part of the tax-payer as a result of the change of attitude brought about in the country by the new tax collection policy (indexing of debts, effective control of evasion, high fines for tax evaders);
- reduction of general tax exemptions (VAT, etc.);
- in the case of import duties, the reduction of prohibitive charges, which would tend to facilitate the entry of imports, together with the raising of minimum charges, which would serve a fiscal objective;
- the establishment of a public services tariff and a real increase in the rates and prices of public enterprises. This increase actually came into force in the last few days of 1977 and the levels attained then were maintained in 1978.

As a result of the foregoing, steps were also taken to reduce the Treasury deficit to 1% of the gross domestic product (in 1977 the coefficient was 3%). With the aim of palliating the effects of the deficit on the primary issue of money, it was proposed to finance it without recourse to Central Bank credit.

/The results

The results of the central government's financial action show a number of achievements and some difficulties (see table 19). In terms of constant prices, total expenditure was 12% lower than the previous year's level, but on the other hand, some difficulties were encountered in increasing tax revenue which in fact dropped 16% in real terms. The final result was an 18% reduction in the deficit, in which the substantial rise in non-tax resources also played some part.

Spending was reduced mainly through the decrease in transfers and in the net outlay under the heading of loans and advances to enterprises and provinces. This was due in part to the transfer of services to the provinces, the reduction in the deficits of enterprises and the different manner of financing them, now characterized by greater use of bank credit. The total wages and salaries paid rose by 13%.

In short, the drop in total Treasury contributions in real terms was mainly due to the decrease in loans (net of repayments) to enterprises and provinces, and to the fall in transfers.

The drop in the Treasury's tax and non-tax resources at constant prices was basically due to the lower tax income from foreign trade (-37%) owing to the elimination of export duties, since the income obtained from imports did not fall significantly. At the same time, the last tax payments due in accordance with the 1977 tax regulations were made in the early months of 1978, so that the whole responsibility for maintaining tax revenue at the high levels attained in 1977 was finally borne by the measures aimed at increasing administrative efficiency and controlling and improving the taxpayers' compliance with their obligations. On this last point there seem to have been some difficulties, and it has been contended that the low levels of economic activity were the cause of the stagnation in the collection of taxes on production, consumption and transactions and of the drop in income from the value-added tax. Furthermore, the fact that in spite of the machinery for indexing debts and punishing evasion there should be a drop in income tax revenue seems to reflect an actual reduction in taxable profits and income. Taxes on fuels rose by 81% in real terms, largely as a result of changes in the rates.

/Table 19

Table 19

ARGENTINA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Billions of pesos				Growth rates		
	1975	1976	1977	1978	1976	1977	1978
Current income	57	423	1 388	3 525	642.1	228.1	154.0
Tax revenue	47	370	1 196	2 773	687.2	223.2	131.9
On foreign trade	17	143	248	436	741.2	73.4	75.8
Non-tax revenue	9	53	192	752	488.9	262.3	291.7
Current expenditure	182	849	1 685	4 612	366.5	98.5	173.7
Wages and salaries	47	196	490	1 530	317.0	150.0	212.2
Interest on public debt	11	117	360	958	963.6	207.7	166.1
Transfers	114	467	661	1 640	309.6	41.5	148.1
Other current expenditure	10	69	174	484	590.0	152.5	178.2
Current saving	-125	-426	-297	-1 087	240.8	-30.3	266.0
Real investment	7	54	184	418	671.4	240.7	127.2
Total expenditure	189	903	1 869	5 030	377.8	107.0	169.1
Loans to public sector (net of repayments)	23	128	279	186	456.7	118.0	-33.3
Total outlays	212	1 031	2 148	5 216	486.3	108.3	142.8
Fiscal deficit a/	-155	-608	-760	-1 691	292.2	25.0	122.5
Financing							
Central bank	119	253	312	-	112.6	23.3	-100.0
Commercial banks	20	111	231	447	455.0	108.1	93.5
Issue of securities	27	293	471	1 672	985.2	60.8	255.0
Debt amortization payments	-11	-53	-298	-292	481.8	462.3	-2.0
Others	-	4	45	-136	...	...	...

Source: National Treasury.

a/ The National Treasury calculates the deficit by considering debt amortization payments as expenditure and issue of securities as income. According to this method, the deficit for 1978 amounts to 310.8 billion pesos.

/The contributions

The contributions to the National Treasury which the budget law imposed on public enterprises and institutions prevented a sharp fall in current income. This item rose by 90% in real terms over 1977, and the increase offset the 45% drop in tax income.

As regards financing the deficit, 82% of the resources came from the sale of securities and the balance was mainly covered by bank funds. Direct Central Bank credit was not utilized, its avoidance being a clear economic policy objective in 1978, in contrast to 1977 when 73% of the Treasury deficit was financed by that means.

BAHAMAS

1. The overall picture

No official estimates of the Gross Domestic Product are available for the Bahamas. However, it may be noted that the foreign exchange earnings from tourism, which accounts for an estimated 70% of GDP, equalled over US$ 2,350 per capita in current prices in 1978.1/

Partial production and financial data for 1978 suggest a healthy rise in GDP in real terms, following an apparent stagnation or decline in the immediately preceding years.

The favourable performance in 1978 was led by a strong recovery in tourism after four years of recession; by increased banking activity; and by an upturn in construction. Manufacturing and mining activity, in contrast, appears to have declined, owing to a reduction of petroleum refining and the closure of the cement plant during part of the year. Partial indicators suggest a slight increase in agricultural production.

As far as the external sector is concerned, both merchandise exports and imports declined significantly, reflecting the substantial reduction in petroleum refining. As a result of the sharp rise in receipts from tourism, the current account registered a healthy surplus and foreign exchange reserves increased.

Inflation accelerated in 1978 in line with the movement of import prices, but even so it remained at the relatively low level of 6%.

Unemployment, a chronic problem in the country, appears to have declined as a result of the recovery of tourism, yet it remained at the inordinate level of around 20% of the labour force.

2. Sectoral trends

(a) Agriculture and fishing

The existing data on agricultural production are compiled on the basis of purchases by the Government Produce Exchange (see table 1), which are

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1/ Unless otherwise indicated Bahamas dollars are used throughout. In 1978 Bahamas $1 equalled US$ 1.

/Table 1

Table 1

BAHAMAS: INDICATORS OF AGRICULTURAL PRODUCTION

Purchase of selected commodities by the government produce exchange	1975	1976	1977[a/]	Growth rate 1975	Growth rate 1976
Oranges and tangerines b/	16 551	1 053	893	1 456.3	-93.6
Limes b/	1 156	1 815	522	40.1	57.1
Bananas c/	19 200	240	1 490	...	-98.7
Pineapples d/	3 182	3 658	598	175.0	15.0
Watermelons c/	145	176	93	19.0	21.4
Pigeon peas (green and dry) c/	42	60	17	128.9	41.4
Tomatoes (fresh) e/	669	1 560	647	4.0	133.2
Onions c/	190	290	100	-53.4	52.8
Sweet potatoes c/	96	89	36	103.0	-7.2

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

a/ For the period beginning 1 January 1977 and ending 30 June 1977.
b/ Thousands of units.
c/ Metric tons.
d/ Dozens of units.
e/ Thousands of pounds.

/estimated to

estimated to cover around one-third of domestic agricultural output. Consequently, it is not possible to determine year-to-year variations in agricultural production. However, unofficial appraisals suggest that some progress has been achieved in recent years.

One of the current priorities of government policy is self-reliance in agricultural production. This goal faces rather formidable obstables, however. First and foremost among these is the climate, which clearly precludes the domestic production of a wide range of foodstuffs consumed in the country. Furthermore, the basic component of most of the soils is limestone, so that they are relatively unfertile, and most of the islands lack an adequate water supply. Moreover, the islands which possess the most fertile soils are inadequately serviced by the transportation network, while the constant migration of the rural population to urban centres has created labour supply problems in agriculture, which currently employs around 6% of the labour force. Finally, the technical and financial infrastructure serving agriculture is not in a position to lend the support necessary to promote large increases in output.

Among the programmes designed to overcome the problem which are susceptible to solution may be mentioned an allocation of $ 20 million to upgrade the technical and administrative infrastructure for crop and dairy production and marketing; an allocation of $6 million for the development of forestry production to meet part of the input requirements of the domestic construction industry and also produce wood for export; and an appropriation of $16 million for the development of the inter-island air, sea and ground transportation network. Finally the Bahama Development Bank, which commenced operations in 1978, is to provide finance for the needs of the sector on more favourable terms than those offered by commercial banks . The full implementation of these various programmes will not be effected until 1979/1980.

/The fisheries

The fisheries sector, which offers promising perspectives, has nevertheless performed relatively poorly according to the most recent available data (see table 2). In 1976 the total catch (in metric tons) fell 8% short of the 1974 level, although it did represent a 5% advance over the depressed level of 1975. On the other hand, thanks to increased prices, crawfish became the second most important merchandise export in 1977.

In 1979 the government will initiate a $ 20 million programme to upgrade the fishing fleet and expand handling and marketing facilities.

(b) Manufacturing and mining

No official production data for 1978 are available in respect of this sector. However, most indicators point to a decline in real activity. Available data on petroleum refining, which accounts for the lion's share of the sector's activity, show a decline through the end of the third quarter of 1978 as compared to the corresponding period in the previous year. The closure of the cement factory during part of 1978 and a decline in the amount of credit advanced to the sector reinforce the view of an overall decline.

As regards mining, aragonite production is estimated to have increased by 32%, while the output of salt showed a moderate gain.

Together manufacturing and mining presently employ only 5% of the labour force.

(c) Construction

Preliminary data on building starts in 1978 (New Providence and Grand Bahama Islands only - see table 3) show that these increased by more than 25% over the 1977 level, owing mainly to the increase in residential construction. The value of building starts jumped 53%, indicating in particular a shift in favour of more expensive dwellings, but also a rise in construction costs. On the other hand, the value of buildings completed in 1978 declined 12% while the number of these increased. This apparently reflected the impact of the increased availability of credit to finance low-cost housing in previous years.

/Table 2

Table 2

BAHAMAS: QUANTITIES OF MARINE PRODUCTS LANDED IN THE COUNTRY

	Metric tons				Growth rate	
	1974	1975	1976	1977[a/]	1975	1976
Crawfish	317	220	323	125[b/]	-30.6	46.9
Conch	245	276	282	101	12.7	2.0
Turtle	38	29	30	13	-25.0	4.9
Other fish	969	861	822	253	-11.2	-4.5
Total	1 569	1 386	1 457	492	-11.7	5.1

Source: Department of Statistics of the Bahamas, Agricultural and Fishing Statistics Report, 2nd Quarter 1977.

a/ January to June.

b/ January to March.

/Table 3

Table 3

BAHAMAS: NUMBER AND VALUE OF BUILDING STARTS AND VALUE OF CONSTRUCTION COMPLETIONS a/

	1975	1976	1977	1978	Growth rate		
					1976	1977	1978
Number of building starts	603	637	756	953	5.6	18.7	26.1
Residential	441	499	600	765	13.2	20.2	27.5
Commercial and industrial	117	124	150	182	6.0	21.0	21.3
Value of building starts b/	19.3	33.8	27.5	42.1	74.9	-18.6	53.0
Residential b/	13.3	17.6	20.2	28.7	32.2	14.5	42.0
Commercial and industrial b/	5.3	9.9	6.6	12.7	-52.3	-33.4	91.9
Value of construction completions b/	20.1	23.1	24.0	21.2	14.9	3.9	-11.7

Source: Central Bank of the Bahamas, Quarterly Review, December 1978, and data supplied to CEPAL.

a/ Figures exclude construction activity on the "family islands" from 1975 to 1978.
b/ Millions of current Bahamas dollars.

/Construction activity

Construction activity maintains a close relation with developments in the tourist sector. Consequently, the decline in tourism over the 1974-1977 period produced significant adverse effects in the construction industry (see table 3). The recovery of tourism in 1978 and the large number of government-sponsored building activities slated to begin in 1979 suggest that the upturn in construction in 1978 should gain momentum in the near future.

(d) Tourism

This sector dominates economic activity in the Bahamas. In 1976 it generated 70% of GDP, employed 45% of the labour force and provided 60% of government revenues. In view of the overriding importance of tourism, the stagnation experienced in the sector between 1974 and 1977 was reflected in all areas of the economy and society.

In 1978, tourism enjoyed a strong recovery (see table 4). The total number of visitors rose approximately 25%: i.e., significantly more than the estimated worldwide increase of 15%. The all-important stop-over category of visitors grew 23%, while there was a 28% increase in cruise ship visitors. Balance-of-payments data show a 23% rise in nominal foreign exchange earnings on the travel account.

The United States remained the principal source of stop-over visitors in 1978, accounting for approximately 77% of these, although this represented a slight decline from the figure of 81% recorded in 1972. In view of the fact that tourists from other areas have a longer average length of stay, the authorities have decided to step up promotional campaigns in Europe and initiate marketing programmes in previously unexploited markets such as Canada and Latin America.

The government has also embarked on a $30 million programme to develop the tourist potential of the "family islands". This includes a comprehensive land use plan and the creation of the necessary infrastructure. Finally, the functions of the Hotel Corporation have been expanded in order to increase tourism revenue to the maximum and retain a larger share of the sector's earnings in the country. In this respect the purchase of foreign assets may be cited.

/Table 4

Table 4

BAHAMAS: SELECTED DATA ON TOURISM

	1975	1976	1977	1978	Growth rates		
					1976	1977	1978
Total number of visitors (thousands)	1 324	1 345	1 318	1 567	1.5	-2.0	24.6
Stop-over visitors	903	940	965	1 075	4.0	2.7	23.0
Cruise ship visitors	421	405	353	417	-4.0	-12.8	27.5
Average length of stay of stop-over visitors	6.9	6.7	7.0	6.8	-2.9	3.7	-2.9
Total tourist expenditures a/	318	368	412	...	15.8	12.3	...
Stop-over visitors a/	299	351	395	...	17.7	12.1	...
Daily expenditure b/	48	56	59	...	16.3	5.4	...
Expenditure per visit b/	331	374	409	...	13.0	9.4	...
Cruise ship visitors a/	19	17	18	...	12.8	6.7	...
Expenditure per visit b/	45	41	50	...	-8.9	22.0	...
Hotel rooms available at end of year c/	9 639	11 107	11 442	...	15.2	3.0	...
Average hotel room occupancy rate (Nassau) d/ e/	60.4	64.3	66.6	...	6.4	3.5	

Source: Ministry of Tourism of the Bahamas, Annual Report on Tourism, 1977, and data supplied to CEPAL.

a/ Millions of Bahamas dollars.
b/ Bahamas dollars.
c/ Licensed hotels.
d/ Percentage.
e/ Occupancy rate for 1976 and 1977 in Gran Bahamas (57 percent and 53 percent, respectively) and in the Family Island (37 percent both years).

3. The external sector

In 1978, both exports and imports of merchandise declined, reflecting the reduction in petroleum refining. The deficit registered on merchandise trade and the tripling of payments on foreign investment were, however, more than counterbalanced by the strong performance of tourism, so that the current account registered its fourth consecutive surplus (see table 5).

Data on merchandise trade by category are not available for 1978 (see tables 6 and 7), but it may be noted that in 1977 petroleum products accounted for 92% of merchandise imports and 90% of merchandise exports. With the exception of crawfish, exports have fared poorly in recent years.

The surplus on the current account was used to increase the international reserves, which equalled approximately 4 months' foreign exchange requirements of non-petroleum imports at year's end, and to purchase foreign assets.

4. Prices

In 1978, the annual average variation in the consumer price index (New Providence Islands only) was 6%, against 3% in the preceding year.

The food and transportation components registered the largest annual percentage increases (8.2% and 7.7% respectively), and within the food group the higher prices for items such as cooking oil and fat, non-alcoholic beverages, meats and vegetables accounted for the bulk of the increase. The rise in the price of transport services is attributable to higher prices for fuel, insurance and motor cars.

Prices of clothing, footwear, health and personal care increased at roughly the same rate as the total index. Despite evidence of increased demand for housing, the housing price index increased by only just over 3%. This apparent contradiction arises from the fact that housing in the upper price range is not included in the index.

Since most items for domestic consumption are imported and over two-thirds of the value of imports corresponds to those from the United States, year-to-year variations in the price index closely follow variations in import prices in general and United States price levels in particular.

/Table 5

Table 5

BAHAMAS: BALANCE OF PAYMENTS

(Millions of United States dollars)

	1973	1974	1975	1976	1977	1978[a/]
Current account						
Exports of goods and services	875	2 204	2 635	3 076	3 092	2 757
Goods FOB b/	531	1 795	2 216	2 603	2 590	2 105
Services	344	409	419	473	502	652
Transport	29	70	92	93	76	102
Travel	302	328	313	363	407	500
Imports of goods and services	868	2 232	2 596	2 992	3 002	2 664
Goods FOB b/	740	2 084	2 461	2 867	2 830	2 464
Services	128	148	135	125	172	200
Transport	37	44	40	39	43	70
Travel	43	45	46	29	55	85
Net payments of profits and interest on foreign capital	-50	-78	-14	-25	-10	-30
Profits	31	35	48	40	34	40
Interest	-81	-113	-62	-65	-44	-70
Net private transfer payments	-20	-21	-15	-16	-19	-22
Balance on current account	-63	-127	10	43	61	41
Capital account						
Net external financing (a+b+c+d)	63	127	-10	-43	-61	-41
(a) Long-term capital	90	113	32	3	36	
Direct investment	79	111	43	8	27	-1
Private sector	5	5	-5	-	4	
Loans	24	14	12	14	21	
Amortization payments	-19	-9	-17	-14	-17	-25
Official sector	6	-3	-6	-5	5	
Loans (net)	6	-3	-6	-5	5	
(b) Short-term capital (net)	-24	19	-43	-57	-83	
Private sector	4	38	-24	-29	24	6
Errors and omissions	-28	-19	-19	-28	-107	
(c) Official transfer payments	3	2	5	5	5	7
(d) International reserves (minus sign indicates an increase)	-6	-7	-4	6	-19	-28
Use made of IMF credit	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-
Monetary gold	-	-	-	-	-	-
Special Drawing Rights	-	-	-	-	-	-
IMF reserve position	-	-6	-	-	-	-
Foreign exchange	-6	-1	-4	6	-19	-28

Sources: 1973-1977, International Monetary Fund, Balance of Payments Yearbook, vol, 29; 1978, CEPAL, on the basis of official data.

a/ Provisional figures.

b/ Including non-monetary gold.

/Table 6

Table 6

BAHAMAS: MERCHANDISE EXPORTS, FOB

	Millions of Bahamas dollars				Percentage breakdown		Growth rates	
	1975	1976	1977	1978	1975	1977	1976	1977
Petroleum products	993	850	1 321	...	94.5	90.4	-14.4	55.5
Hormones	26	39	39	...	2.5	2.6	-26.2	-0.3
Rum	14	10	8	...	1.3	0.6	-70.6	-20.4
Cement	7	7	2	1	0.7	0.1	-	-69.6
Crude salt	4	8	8	7	0.4	0.6	122.5	-3.6
Crawfish	3	5	9	...	0.3	0.6	71.4	81.6
Other	4	2	...	...	0.4	...	-59.1	...
Total	1 051	894	1 462	...	100.0	100.0	-14.9	63.0

Source: Central Bank of the Bahamas, Quarterly Review, December 1977; and data supplied to CEPAL by the Department of Statistics.

/Table 7

Table 7

BAHAMAS: MERCHANDISE IMPORTS, CIF

	Millions of Bahamas dollars			Percentage breakdown		Growth rates	
	1975	1976	1977	1970	1977	1976	1977
Food and live animals	60	70	55	14.2	1.8	17.1	-21.6
Beverages and tobacco	10	13	11	4.0	0.3	25.7	-17.3
Crude materials, inedible, except fuels	4	6	4	2.3	0.1	42.9	-35.0
Mineral fuels, lubricants and related materials	2 466	3 281	2 806	17.5	91.9	33.0	-14.5
Animal and vegetable oils and fats	1	1	1	0.2	0.01	12.5	-33.3
Chemicals	38	56	53	5.9	1.7	48.2	-5.7
Manufactured goods, classified by materials	37	50	47	14.1	1.5	35.1	-6.1
Machinery and transport equipment	45	49	41	23.2	1.3	8.7	-16.6
Miscellaneous manufactured articles	34	37	37	18.2	1.2	10.7	-1.9
Commodities and transactions not classified according to kind	3	-	26	0.5	0.8	-92.0	29.0
Total	2 969	3 560	3 053	100.0	100.0	20.3	-14.2

Source: Department of Statistics of the Bahamas, Quarterly Statistical Summary, 1st Quarter 1977; Central Bank of the Bahamas, Quarterly Review, December 1977; and data supplied to CEPAL.

/Table 8

Table 8

BAHAMAS: RETAIL PRICE INDEX (NEW PROVIDENCIA ISLAND)

	Annual average variation			
	1975	1976	1977	1978
Consumer price index	10.2	4.2	3.2	6.2
Food	10.8	2.7	1.9	8.2

Source: Central Bank of the Bahamas, Quarterly Review, September 1978; Department of Statistics of the Bahamas, Retail Price Index (monthly); and data supplied to CEPAL.

5. Monetary and fiscal policy

(a) Monetary policy

In 1978, the money supply grew almost 20% (see table 9). Between 1975 and 1978, the simple average annual increase in the money supply was 15%, which may be compared with a 4% simple average annual increase in the consumer price index.

Since 1975 both savings and time deposits have grown rapidly, but while savings deposits increased by 20% between December 1977 and September 1978, time deposits grew by less than 1%. One of the reasons for this development appears to be the trend in the relative rates of interest. Since 1975 the general level of interest rates has declined, but the rates on savings deposits have declined far less than those on time deposits, especially short-term ones. As of September 1978, the differential between interest rates on three-month fixed and savings deposits was only 0.45 points.

Another interesting trend is the behaviour of foreign currency deposits and deposits of local financial institutions other than the Central Bank and commercial banks. Deposits of these local financial institutions declined more or less continuously throughout 1976 and 1977, but started to rise again in December 1977. Foreign currency deposits, by and large, followed roughly the same pattern but with a time lag. Thus, deposits of local financial institutions other than banks led the recovery, followed by foreign currency demand deposits, and finally, around mid-1978, the upward trend in other foreign currency deposits commenced.

The evolution of the sectoral distribution of credit in recent years displays a number of trends which have constituted an obstacle to growth in productive sectors other than tourism and construction (see table 10).

In 1978, the overall expansion in credit amounted to 7%, following a 13.5% rise in the previous year. Despite the fact that agriculture and manufacturing have been assigned central roles in the government's plan for diversification and reduction of the traditional dependence on external market conditions, the allocation of credit to agriculture was no higher in 1978 than in 1976 (albeit after a significant increase in the latter year), and that to manufacturing has dropped for three consecutive years, so that in 1978 it was less than one-third of the 1975 level. Similarly, the

/Table 9

Table 9

BAHAMAS: MONETARY BALANCE

	Balance at end of				Growth rates		
	1975	1976	1977	1978	1976	1977	1978
Money	74	78	90	107	5.2	15.5	19.7
Currency outside banks	20	21	23	27	2.0	13.7	13.7
Demand deposits	54	57	67	80	6.3	16.1	21.8
Factors of expansion	333	359	315	356	7.7	-12.2	13.2
Foreign assets (net)	-27	-6	-86	-77	...	...	...
Domestic credit	360	365	401	433	1.4	9.8	8.0
Government (net)	62	89	88	100	42.7	-1.3	13.8
Private sector	294	265	287	309	-9.9	8.2	7.9
Other entities	4	11	27	24	197.0	134.5	-9.8
Factors of absorption	259	281	225	249	8.4	-19.9	10.7
Quasi-money (savings and time deposits)	160	237	198	216	48.6	-16.4	8.9
Other items (net)	99	44	27	33	-56.0	-38.8	23.9

Source: International Monetary Fund, International Financial Statistics, June 1979.

/Table 10

Table 10

BAHAMAS: DISTRIBUTION OF LOANS AND ADVANCES

	Millions of current Bahamas dollars (end of calendar year)				Growth rates		
	1975	1976	1977	1978	1976	1977	1978
Agriculture	0.8	1.5	1.2	1.5	87.5	-20.2	24.5
Quarrying	...	0.1	-	-	...	-70.3	-
Manufacturing	19.3	17.4	12.5	6.7	-10.1	-28.2	-46.9
Hotels, clubs, restaurants and nightclubs	27.1	28.1	51.1	51.8	4.0	81.9	1.2
Trade and commerce	29.1	32.7	32.3	44.3	12.3	-1.2	36.8
Utilities (water, electricity and transportation)	4.8	10.8	7.2	9.6	126.7	-33.3	33.7
Building and construction	35.9	38.6	36.0	35.4	7.5	-6.7	-1.6
Real estate	43.6	36.1	35.0	54.5	-17.2	-3.0	55.8
Personal loans	41.6	42.3	55.7	59.2	1.7	31.6	6.3
Other local loans	56.2	62.7	75.5	64.9	11.4	20.5	-14.1
Total	258.3	270.3	306.7	327.8	4.6	13.5	6.9

Source: Central Bank of the Bahamas.

/infrastructure (water,

infrastructure (water, electricity and transportation), which has been shown to constitute an obstacle to the satisfactory expansion of the main producing sectors as well as to the decentralization of productive activities, received a lower level of credit in 1978 than in 1976 (although, once again, there was a sharp rise in 1976). On the other hand, tourism was favoured by significantly increased credit allocations in 1978, while real estate also received a considerably larger allocation.

The sectoral spending plans discussed in previous sections will, apparently, alter these trends in the near future.

(b) Fiscal policy

Provisional data concerning the actual levels of government revenue and expenditure show a healthy surplus on the current account in 1978 (see table 11). While this surplus represented a significant rise over the surpluses achieved in the previous four years, however, it should be compared with the small deficit originally projected in the 1978 budget.

The rise in recurrent income fell somewhat short of the programmed increase, but it was still over 19% above the 1977 level. Similarly, the increase in recurrent expenditures also fell short of the projected level of spending but represented a 19.5% increase over 1977.

The overall deficit through the close of the third quarter was equal to over 14% of recurrent revenues, against 11% in the same period in 1977.

On balance, government monetary and fiscal policies in 1978 may be characterized as expansionary. At the same time, however, it should be noted that the level of allocations of credit and capital expenditure to productive sectors (except tourism) represented a brake on the growth of internal supply.

/Table 11

Table 11

BAHAMAS: CENTRAL GOVERNMENT REVENUE AND EXPENDITURE

	Millions of current Bahamas dollars				Growth rates		
	1975	1976	1977	1978	1976	1977	1978[a]
Recurrent income	121	137	140	166	13.8	1.7	19.2
Tax revenue	98	116	124	147	18.5	7.2	18.0
Import duties	64	71	81	97	11.4	13.8	19.3
Services	9	10	9	11	9.2	-8.6	18.8
Stamp duty	7	8	8	11	9.6	5.7	36.5
All others	18	27	26	28	49.4	-2.8	9.4
Non-tax revenue	23	21	15	19	-6.5	-28.8	29.2
Recurrent expenditure	114	129	136	157	13.2	5.4	15.8
Personal emoluments	65	75	80	91	14.9	6.5	14.6
Goods and services	30	34	32	38	13.5	-5.4	19.0
Transfer payments and subsidies	19	20	24	28	6.7	19.6	15.5
Saving on current account	7	8	4	9	24.3	-55.5	141.5
Capital expenditure	14	22	23	28	62.6	5.4	19.5
Capital formation	5	16	18	11	213.8	15.6	-39.9
Acquisition of assets	3	-	-	11	-	-	-
Other	6	6	5	6	15.1	-17.9	5.3
Total expenditure	127	151	160	186	18.5	5.4	16.4
Fiscal deficit	-6	-14	-20	-19	105.8	41.7	-3.1
Total national debt	150	173	219	180[b]	24.0	37.7	35.1[c]

Source: Treasury accounts and Treasury statistical summary Printouts.

a/ Provisional figures.
b/ As of 30 September.
c/ January-September 1978, compared with the corresponding period in 1977.

BARBADOS

1. The overall picture

Provisional estimates of the gross domestic product at current factor cost (GDP) for 1978 place the rate of growth near 18%, while the annual average variation in the consumer price index was 9.5%.1/ The modest economic recovery of 1977 - after four years of stagnation - evidently gained momentum in 1978.

The primary sources of growth where the notable gains in manufacturing, tourism and petroleum. The value of exports of manufactured goods rose by 60%, tourist expenditures by 18%, and the output of both crude petroleum and natural gas jumped almost 130%. In contrast, the physical volume of agricultural production dropped 14%, reflecting the 15% fall in sugar cane production. Otherwise the agricultural sector performed very satisfactorily.

Price inflation drifted upwards to 9.5% against an 8% rise in the preceding year. Although real wages appear to have stagnated, the rate of unemployment was reduced by one-fourth.

On the strength of exports of manufactured goods and the favourable evolution of the tourist sector the value of exports jumped 22%. This performance, together with a significant increase in non-compensatory capital inflows, led to a 40% rise in international reserves. The external debt, for its part, increased 50%, but nevertheless remained relatively low.

Economic policy in 1978 may be characterized as mildly deflationary. overall government expenditures declined slightly in real terms, owing to a significant real decrease in capital expenditures. The real growth in total credit was nil, but the sharp rise in net international reserves led to an increase in the money supply which marginally outdistanced the rise in GDP (see table 1).

1/ During 1978, the rate of exchange was Barbados $2.01 per US dollar.

/Table 1

Table 1

BARBADOS: MAIN ECONOMIC INDICATORS

	1973	1974	1975	1976	1977	1978[a]
A. Basic economic indicators						
Gross domestic product at factor cost (millions of Barbados dollars at current prices)	423	577	656	675	760	894
Population (thousands of inhabitants)	242	244	245	246	248	249
Per capita gross domestic product (Barbados dollars at current prices)	1 748	2 365	2 678	2 744	3 065	3 590
	Annual growth rates					
B. Short-run economic indicators						
Gross domestic product	19.5	36.4	13.7	2.9	12.6	17.6
Per capita gross domestic product	19.0	35.3	13.2	2.5	11.7	17.1
Terms of trade	0.6	33.5	24.2	-41.8	-6.7	-0.9
Current value of exports of goods and services	16.9	26.9	16.1	-4.2	27.0	20.0
Current value of imports of goods and services	18.4	17.0	9.1	9.8	13.2	15.4
Consumer prices						
December - December	26.0	36.6	12.3	3.9	9.9	11.2
Variation between annual averages	16.8	40.0	20.3	5.0	8.3	9.5
Money	13.3	14.4	20.0	10.0	15.9	21.5
Wages and salaries [b]	...	...	...	12.6	15.2	10.0[c]
Rate of unemployment [d]	...	...	22.5[e]	15.6[f]	15.3[f]	12.4[g]
Current income of government	...	10.7	28.2	4.0	12.7	26.2
Total expenditure of government	...	5.2	20.0	17.8	23.7	6.7
Fiscal deficit/total expenditure of government [d]	...	17.5	11.9	22.2	29.0	16.1
	Millions of dollars					
C. External sector						
Trade balance (goods and services)	-53	-47	-38	-73	-53	-49
Balance on current account	-54	-48	-40	-65	-48	-42
Variation in net internacional reserves	-8	-3	18	-17	6	23
External debt [g]	26	27	26	30	46	...

Source: CEPAL, on the basis of official statistics.

a/ Preliminary figures.
b/ Data relate to rough average annual percentage change.
c/ January-March.
d/ Percentage.
e/ October-December.
f/ July-December.
g/ Disbursed debt.

/2. Sectoral

2. Sectoral developments

The changes in the sectoral composition of the GDP at current factor cost between 1970 and 1978 is shown in table 2. Over this period the contribution of the goods-producing sectors to the GDP declined from over 34% to under 30%, basically reflecting changes in the shares corresponding to agriculture and construction. The corresponding rise in the contribution of services was primarily a result of the progressive increase in the importance of tourism, although other changes may also be observed.

(a) Agriculture

Agriculture, which accounted for 10.5% of the GDP in 1978 (see table 2) performed poorly during the year. In nominal terms the value of production grew 8%, but the volume of output declined 14%, reflecting a drop of close on 15% in the sugar cane harvest, which accounts for 98% of the total volume of agricultural production (see table 3). The production of vegetables, led by an 88% leap in tomato production, rose well over 9% while the output of root crops recorded a modest 3% gain. The livestock subsector showed a 6% advance in production, reflecting the favourable trends in beef, veal and mutton.

The disappointing performance of the sugar cane complex (see table 4) was the outcome of a series of unfortunate events: the protracted drought which affected both sugar cane yield (down 15%) and sucrose content (down 18%); the delay in planting owing to long-drawn-out wage negotiations; and the disruption of the orderly harvesting of the crop by a series of cane fires. In 1977 only 3% of the area planted with cane was destroyed by fires; in 1978 this proportion jumped to 15%.

(b) Mining

Mining activity proper (mainly limestone and clay), which provides a negligible contribution to the GDP, registered a 2.5% increase in physical output in 1978, following a drop of more than 15% in 1977 (see table 5), so that the level of output in 1978 stood 14% below the 1971 level. The output of crude petroleum and natural gas, on the other hand, continued to increase sharply, the former rising 128% and the latter 129% (see table 5). Crude oil was first produced in 1974 and currently covers one-third of domestic consumption. In 1978 a new onshore oil find, considered to be of commercially viable dimensions, was announced. Also, the exploration of other promising tracts is to be accelerated over the next five years.

/Table 2

Table 2

BARBADOS: GROSS DOMESTIC PRODUCT BY ECONOMIC ACTIVITY AT CURRENT FACTOR COST[a/]

	Millions of Barbados dollars at current prices			Percentage breakdown		Growth rates		
	1976	1977	1978	1970	1978	1976	1977	1978
Agriculture	81	87	94	13.9	10.5	-35.2	7.4	8.0
Mining and quarrying	4	4b/	5	10.8	0.6	63.6	11.1	25.0
Manufacturing	78	87	110		12.3	13.0	11.5	26.4
Construction	44	49	57	9.5	6.4	18.9	11.4	16.3
Subtotal goods	207	227	226	34.2	29.8	-10.5	9.7	17.2
Electricity, gas and water	15	17	17	7.2	1.9	7.1	13.3	0.0
Transport, storage and communications	44	47	52		5.8	12.8	6.8	10.6
Subtotal basic services	59	64	69	7.2	7.7	11.3	8.5	7.8
Commerce, restaurants and hotels (tourism)	221	263	314	24.6c/	35.1	11.1	19.0	19.4
Government services	110	121	147	14.7	16.4	17.0	10.0	21.5
Miscellaneous services	79	85	98	19.3	11.0	2.6	7.6	15.3
Subtotal other services	410	469	559	58.6	62.5	10.8	14.4	19.2
Total gross domestic product	676	760	894	100.0	100.0	3.0	12.4	17.6

Source: Ministry of Finance and Planning of Barbados, Economic Survey, 1977 and 1972.

a/ Provisional figures.
b/ This represents a growth over the absolute figure for 1976, before that figure was rounded upwards.
c/ Data relate to distribution only.

/Table 3

Table 3

BARBADOS: INDICATORS OF ACRICULTURAL PRODUCTION

	1975	1976	1977	1978	Annual growth rate		
					1976	1977	1978
Production of main crops							
Sugar-cane a/	867	919	1 045	895	8.8	13.7	-14.6
Cotton b/	160	88	27	39	-4.5	-69.4	44.4
Root crops b/							
Sweet potatoes	2 917	2 874	4 706	4 990	-1.5	63.7	6.0
Yams	6 610	5 783	8 424	8 528	-12.5	45.7	1.2
Vegetables b/							
Tomatoes	444	449	386	726	1.1	-14.0	88.1
Cucumbers	907	744	1 633	1 755	-18.0	119.5	7.5
Cabbages	718	617	980	816	-14.1	58.8	-16.7
Onions b/	816	680	693	743	-16.7	1.9	7.2
Indicators of stock-raising production b/							
Beef and veal	181	180	170	249	-0.5	-5.6	46.5
Pork	654	1 277	1 587	1 336	95.3	24.3	-15.8
Mutton	35	70	86	105	100.0	22.9	22.1
Poultry	2 897	3 138	3 738	4 082	8.3	19.1	9.1
Eggs	1 662	1 681	1 701	1 814	1.1	1.2	6.6
Milk	5 745	6 350	6 604	7 178	10.5	4.0	8.7

Source: Ministry of Agriculture, Food and Consumer Affairs.

a/ Thousands of metric tons.
b/ Metric tons.

/Table 4

Table 4

BARBADOS: INDICATORS OF SUGAR PRODUCTION

	1974	1975	1976	1977	1978	Annual growth rates			
						1975	1976	1977	1978
Hectares harvested a/	16.8	16.1	15.9	15.8	16.1	-4.0	-1.3	-0.2	1.1
Cane milled	956	845	919	1 046	895	-11.6	8.8	13.8	-14.4
Average yields									
Cane per hectare b/	23.1	21.2	23.4	26.7	22.6	-8.2	10.4	14.1	-15.4
Sugar per hectare b/	6.6	6.1	6.5	7.6	6.2	-7.6	6.6	16.9	-18.2
Sugar produced c/	111	99	104	120	100	-10.8	5.0	15.4	-16.4

Source: Barbados Sugar Producers' Association and the Sugar Export Control Board, published in Central Bank of Barbados, Quarterly Report, Vol. IV, Nº 3, September 1977, and data supplied to CEPAL.

a/ Thousand hectares.
b/ Metric tons.
c/ Thousands metric tons.

/Table 5

Table 5

BARBADOS: INDICATORS OF MINING AND MANUFACTURING PRODUCTION

	1975	1976	1977	January-November		Annual growth rates		
				1977	1978	1976	1977	1978 a/
Production index (1971 = 100)								
Total all industries	120.8	140.7	144.7	144.7	150.1	16.5	2.8	3.7
Quarrying	55.1	96.3	81.5	83.5	85.6	74.8	-15.4	2.5
Manufacturing	121.9	143.7	145.1	145.0	146.7	17.9	1.0	1.2
Food	132.0	149.7	152.0	152.1	160.4	13.4	1.5	5.5
Beverages and tobacco	110.3	109.0	124.4	123.3	131.2	-1.2	14.1	6.4
Wearing apparel	128.2	158.6	169.0	168.7	160.5	23.7	6.6	-4.9
Chemicals	119.5	134.9	109.8	104.6	120.6	12.9	-18.6	15.3
Petroleum products	116.3	114.9	115.5	113.4	118.1	-1.2	0.5	4.1
Other non-metallic mineral products	80.4	77.4	76.7	77.2	76.3	-4.0	-0.6	-1.2
Other manufactures	129.2	174.4	165.1	166.8	160.9	35.0	-5.3	-3.5
Electricity	126.3	134.2	153.9	152.0	176.6	6.3	14.7	16.2
Output of selected products								
Sugar b/	99.0	104.0	120.0	120.0	100.0	5.1	15.4	-16.7
Rum c/	8.1	8.7	10.7	9.8	10.0	7.0	22.3	2.1
Beer c/	5.9	6.0	7.3	6.7	6.7	1.8	21.4	0.5
Margarine b/	1.8	1.7	2.0	1.8	2.2	-1.3	13.7	24.8
Lard b/	1.1	1.2	1.2	1.1	1.4	6.3	4.3	26.2
Malt beverages c/	2.8	2.7	3.2	2.7	3.0	-3.0	16.3	11.9
Non-alcoholic beverages c/	16.6	17.1	18.2	16.4	17.7	2.7	6.8	8.4
Animal feed b/	28.0	35.0	38.0	35.0	33.0	25.0	8.8	-5.7
Milk products d/e/	90.0	100.0	97.0	91.0	90.0	11.1	-3.0	-1.1
Cigarettes f/	0.2	0.2	0.2	0.2	0.2	-8.7	0.5	25.3
Crude petroleum c/	19.4	23.1	19.7	17.7	40.3	19.1	-14.7	127.7
Natural gas g/	2.1	4.2	4.2	3.9	9.0	96.0	0.7	128.8
Gasoline c/	48.5	49.5	52.1	47.6	48.4	2.1	5.3	1.7
Diesel oil c/	68.0	56.8	33.9	31.2	35.5	-16.5	-40.3	13.8
Fuel oil c/	30.5	44.4	82.3	71.5	73.4	45.6	85.4	2.7
Electricity generated h/	207.0	214.0	246.0	224.0	246.0	3.4	15.0	9.8

Source: Statistical Services, Barbados, Monthly Digest of Statistics, and data supplied to CDPAL.

a/ January-November 1978 against the same period in 1977.
b/ Thousands of tons.
c/ Millions of litres.
d/ Hundreds of tons.
e/ Production of milk products converted to the fresh milk equivalent
f/ Millions of pounds.
g/ Billions of cubic metres.
h/ Millions of KWH.

/(c) Manufacturing

(c) Manufacturing

While the current value of manufacturing production jumped over 26% in 1978, the index of manufacturing production showed a gain of only 1.2% from November 1977 to November 1978 (see table 5). Of the four most important branches of manufacturing activity, the production of food and of beverages and tobacco advanced 5.5% and over 6%, respectively, while that of wearing apparel and "other manufactures" declined 5% and 3.5%, respectively. The output of the small chemicals subsector recorded a 15% increase following the 19% contraction of the previous year.

During the course of the year promotional campaigns by the Barbados Export Promotion Agency in traditional and previously unexplored markets, were mainly credited with the significant rise in such non-traditional exports as clothing and electronic components.

(d) Construction

In 1978, the nominal value of construction sector activity increased by over 16%, so that even allowing for the 9.5% rise in the consumer price index it would appear that significant real growth took place. Preliminary data on building plans approved show an increase of 40%, while the number of building starts rose by about 24%. This relatively favourable evolution of the sector may be attributed to an upturn, after three years of stagnation, in the construction of private housing and to increased government spending on public works, including the redevelopment of airport facilities.

The fortunes of the construction sector bear an intimate relationship with the evolution of the principal tourist variables. The stagnation between 1973 and 1976 in tourist arrivals and expenditures led to a rapid levelling-off of the late 1960s/early 1970s boom in the construction of tourist facilities, and this was largely responsible for the reduction of approximately one-third in the contribution of construction to the nominal GDP between 1970 and 1978. The apparent recovery of the earlier dynamism in tourism during the last two years (see section (e) below) consequently suggests that construction should enjoy a favourable evolution in the near future.

(e) Tourism

For the second consecutive year the tourist sector enjoyed a notable rate of growth. Aided by increased air passenger capacity, an intensive promotional campaign to attract visitors all the year round, and the pace

/of economic

of economic recovery and extremely harsh climatic conditions in North America and Western Europe - the principal sources of tourists - the total number of visitors jumped almost 18% following the 16% gain in 1977 (see table 6). The all-important stay-over category of visitors showed a 16% increase, and over the past two years the bed occupancy rate has moved up from 45% to 56%. In 1978, the total estimated expenditure of tourists rose almost 18%.

The increase in tourist spending, coupled with a rise in and more uniform application of the hotel and restaurant tax (from June 1977) increased the yield of this revenue source more than 58% in 1978, following the 50% rise in 1977.

In 1978, preparations for a US$ 34 million hotel/apartment tourist complex, which will eventually increase hotel capacity by some 10%, were stepped up.

Over the course of the present decade (1970 to 1977) Barbados has steadily increased its share of air tourist arrivals in the Caribbean from 4.2% to 5.7%. Other factors being equal, the success of the country in this regard has largely been a result of the absence of the overt social tensions which have affected the tourist trade in a number of other Caribbean islands and the availability of the widest range, in terms of prices and amenities, of tourist accomodation in the region.

3. The external sector

(a) The trade balance

The value of merchandise exports in terms of US dollars rose 32% in 1978 and thus surpassed by an ample margin the previous peak recorded in 1975, notwithstanding the decline in sugar cane exports, the principal merchandise export. The volume of exports of goods expanded by no less than 26%, while the unit value increased 5% (see table 7).

Export growth was led by the 65% rise in the value of non-traditional exports; the value of electrical components exports alone leaped 175% (January-November only; see table 8). As noted above, the value of the most important export, sugar, declined, although by a considerably smaller proportion than the fall in production. Overall the value of the main traditional exports registered a modest 4% rise.

/Table 6

Table 6

BARBADOS: SELECTED TOURISM STATISTICS

	1976	1977	1978[a]	Annual growth rates 1976	1977	1978
Total visitors	320.2	372.4	439.3	0.3	16.3	17.8
Stay-over visitors (thousands)	224.3	269.3	331.3[b]	1.3	20.1	16.3
Cruise-ship visitors (thousands)	95.9	103.1	126.0	-2.6	7.5	22.2
Number of beds available	9 482.0	10 259.0	10 979.0	12.2	8.2	7.0
Bed occupancy rate (percentage)[c]	44.7	54.1[d]	56.0[e]	-9.7	21.0	6.4
Average length of stay of guests (days)	8.5	9.0	...	+1.2	5.8	...
Estimated expenditure (millions of current BDS$)	165.3	221.5	261.0[b]	6.0	34.0	17.8
Hotel and restaurant tax (millions of current BDS$)	4.0	6.0	9.5[b]	...	50.0	58.3

Source: Statistical Service, Barbados, Monthly Digest of Statistics (various numbers), and data supplied to CEPAL.

a/ Provisional figures.
b/ Estimated figure.
c/ Includes occupancy rates for hotels, apartments, cottages and guest-houses. Prior to 1974 the figure excludes apartments and cottages.
d/ Revised.
e/ Estimated for the first nine months of 1978.

/Table 7

Table 7

BARBADOS: FOREIGN TRADE INDICATORS

	1973	1974	1975	1976	1977	1978[a]
	Annual growth rates					
Exports of goods						
Value	27.1	40.5	40.4	-19.5	19.5	32.1
Volume	11.0	-20.6	1.0	34.3	19.6	25.8
Unit value	14.4	77.1	39.0	-40.0	-0.2	5.0
Imports of goods						
Value	19.2	21.5	6.2	11.3	14.2	15.9
Volume	4.8	-8.5	-5.1	8.1	6.7	9.3
Unit value	13.7	32.7	11.9	3.0	7.0	6.0
Terms of trade	0.6	33.5	24.2	-41.8	-6.7	-0.9
	Indexes (1970 = 100)					
Terms of trade	109.1	145.7	180.8	105.3	98.3	97.4
Purchasing power of exports of goods	110.8	134.3	145.7	113.3	106.8	132.9
Purchasing power of exports of goods and services	126.3	122.9	128.2	117.6	138.0	158.1

Source: CEPAL, on the basis of official statistics.

a/ Preliminary figures.

/Table 8

Table 8

BARBADOS: EXPORTS OF SELECTED GOODS

Category	Millions of Barbados dollars				Percentage breakdown c/		Percentage change		
	1975	1976	1977	1978 a/ b/	1976	1978	1976	1977	1978 d/
Main traditional exports									
Sugar	96.1	53.6	50.6	47.0	31.0	34.2	-44.2	-5.6	-2.5
Molasses	11.8	9.3	5.8	6.7	5.4	4.9	-21.2	-37.6	39.6
Rum	4.3	4.4	5.7	5.3	2.5	3.9	2.3	29.5	0.0
Lard and margarine	3.1	3.2	3.7	5.2	1.9	3.8	3.2	15.6	52.9
Subtotal	115.3	70.5	65.8	64.2	40.8	46.7	-61.1	-6.7	4.1
Non-traditional exports									
Clothing	26.8	24.6	37.2	38.5	14.2	28.0	-8.2	51.2	21.5
Electrical components	7.4	12.6	16.5	34.9	7.3	25.3	70.3	31.0	174.8
Subtotal	34.2	37.2	53.7	73.4	21.5	53.3	8.8	44.4	65.3
Total selected domestic exports	149.5	107.7	119.5	137.6	62.3	100.0	-28.0	11.0	29.7
Total exports	217.9	172.7	191.4	...	100.0	...	-20.7	10.8	...

Source: External trade publications of the Barbados, Statistical Service, and data supplied to CEPAL. Note that the source differs from that used for the balance of payments data in table 10.

a/ Provisional figures.

b/ January - November 1978.

c/ Percentage breakdown refers to partial data on selected domestic exports in 1977 and 1978.

d/ January - November 1978 compared with the same period in 1977.

/Underlying the

Underlying the considerable success achieved in the area of non-traditional exports over the last two years have been intensive marketing efforts by the government Export Promotion Agency, rapid expansion of credit for the long-term financial requirements of the manufacturing sector; an insurance scheme introduced by the Barbados Development Bank to protect the value of exporters' receipts; and recessions in the other primary sources of manufacturing exports in the CARICOM area.

The value of merchandise imports also registered a substantial increase (16%), reflecting the upturn in the import-intensive tourist sector as well as the 6% rise in import prices. Data on the evolution of imports by category are given in table 9 (through September only). The most rapid increase was recorded in imports of capital goods (27%), especially machinery (35%). The increases in the value of consumer and intermediate goods were 10% and 4%, respectively. The selective credit controls implemented in 1977 to discourage imports of consumer durables were highly effective, as the value of these declined by 31%. On the other hand the rapid increase in the value of imports of food and beverages was directly related to the increased import requirements of the tourist sector.

The terms of trade index suffered a further slight deterioration (see table 7), and over the last three years this index has gone down by 46%, following the unusually large gain enjoyed in 1974/1975. These trends were largely a product of the big fluctuations in the international price of sugar and the constant rise in the prices of petroleum products.

In 1978, the deficit on the trade balance increased in absolute terms to US$ 170 million from US$ 159 million in 1977 (see table 10). However, owing to a more rapid increase in exports than in imports the deficit expressed as a percentage of imports declined from 64% to 58%.

The traditional surplus on the services account rose from US$ 107 million to US$ 121 million thanks to the 12% increase in revenues from tourism, and consequently more than compensated the increase in the deficit on merchandise trade (see table 10). Furthermore, net donations exceeded the capital outflows for profit and interest payments on foreign capital. As a result of the above trends, the deficit on the current account was reduced by 11%.

/Table 9

Table 9

BARBADOS: IMPORTS OF GOODS, CIF

	Millions of Barbados dollars				Percentage breakdown		Annual growth rates		
	1975	1976	1977	1978[a]	1976	1978[a]	1976	1977	1978[a]
Consumer goods	160.7	182.1	204.6	163.5	41.5	40.0	13.3	12.4	10.0
Food and beverages	92.8	97.2	103.2	88.5	22.1	21.7	4.7	6.2	17.4
Other non-durables	35.1	41.1	51.5	39.5	9.4	9.7	17.1	25.3	7.0
Durables	14.5	23.1	25.6	17.9	5.3	3.4	59.3	10.8	-31.2
Intermediate goods	133.2	147.8	167.3	128.8	33.7	31.6	11.0	13.2	4.3
Fuels	46.7	40.2	47.4	54.6	9.2	13.4	-14.0	17.9	33.5
Others	86.5	107.6	119.9	74.2	24.5	18.2	24.4	11.4	-10.2
Capital goods	90.4	94.2	116.9	104.9	21.4	25.7	4.2	24.1	27.3
Machinery	66.9	60.8	79.6	75.1	13.8	18.4	-9.1	30.9	34.8
Construction materials	23.5	33.4	37.3	29.8	7.6	7.3	42.2	11.7	12.0
Unclassified goods	13.3	15.1	15.9	11.6	3.4	2.8	13.5	5.3	16.0
Total	397.5	439.2	504.9	407.9	100.0	100.0	10.5	15.0	11.3

Source: Central Bank of Barbados, Economic and Financial Statistics, January 1979. Note that the source differs from that used for the balance of payments data in table 10.

a/ January - September 1978 compared with the same period in 1977.

/Table 10

Table 10

BARBADOS: BALANCE OF PAYMENTS

(Millions of United States dollars)

	1973	1974	1975	1976	1977	1978 a/
Current account						
Exports of goods and services	149	189	220	211	268	321
Goods FOB b/	48	67	95	76	91	120
Services	101	122	125	135	177	201
Transport	10	23	23	19	27	32
Travel	70	76	77	83	111	124
Imports of goods and services	203	236	258	283	320	370
Goods FOB b/	153	185	197	219	250	290
Services	50	51	61	64	70	80
Transport	23	26	32	30	33	40
Travel	6	6	7	8	9	10
Net payments of profits and interest on foreign capital	-7	-8	-10	-5	-9	-10
Profits	-6	-5	-8	-4	-5	-5
Interest	-1	-3	-2	-1	-4	-5
Net private transfer payments	7	7	8	13	14	17
Balance on current account	-54	-48	-40	-64	-47	-42
Capital account						
Net external financing (a+b+c+d+e)	54	48	40	64	47	42
(a) Long-term capital	24	8	24	22	30	
Direct investment	6	10	23	7	5	
Private sector	-3	1	2	12	9	
Loans (net)	-3	1	2	12	9	
Official sector	21	-3	-1	3	16	
Loans (net)	21	-3	-1	3	16	
(b) Short-term capital (net)	21	43	35	25	11	65
Private sector	1	-2	4	2	-	
Official sector	-4	1	-	-	-1	
Errors and omissions	24	44	31	23	12	
(c) Extraordinary financing	-	-	-	-	10	
(d) Official transfer payments	1	-	-1	-	2	
(e) Internacional reserves (minus sign indicates an increase)	8	-3	-18	17	-6	-23
Use made of IMF credit	-	-	-	-	8	-
Other liabilities	13	-14	-8	3	-2	...
Monetary gold	-	-	-	-		-
Special Drawing Rights	-	-	-	-	-	-
IMF reserve position	-	-	-2	-	-	-
Foreign exchange	-5	11	-8	14	-12	-23

Sources: 1973-1977; International Monetary Fund, Balance of Payments Yearbook, vol. 29; 1978, CEPAL, on the basis of official data.

a/ Provisional figures.

b/ Including non-monetary gold.

/(b) Overall

(b) Overall balance of payments

Inflows on the capital account were sufficiently large to permit the international reserves to jump by almost 62%, notwithstanding the relatively sizeable current account deficit. At the end of the year foreign exchange holdings equalled the foreign exchange requirements of two months of imports, compared with only five weeks at the end of the previous year.

(c) External debt

Data relating to external indebtedness are available only up to the end of 1977. In that year the total disbursed external debt rose 53% while service payments leaped 140% (see table 11), although they still remain quite low whether expressed as a proportion of GDP (2%) or of exports of goods and services (3.4%). Preliminary indications suggest that the external debt also increased considerably in 1978.

4. Prices, wages and employment

(a) Prices

The average annual variation in the consumer price index reached 9.5% in 1978, as against slightly over 8% in 1977 (see table 12). The change in the December to December index was somewhat higher. The prime cause of the price rises seems to have been the 6% increase in import prices. The prices of food and beverages, the domestic supply of which is largely provided by imports and the consumption of which accounts for 60% of the weight of the price index, showed a 10% increase. Transportation prices, which fluctuates with the price of oil, rose almost 15%. All other categories save medical and personal care registered price rises below that of the overall index.

(b) Wages

For the first time in three years the nominal increase in wages may have failed to provide a rise in real wages. In 1976 and 1977 the increases in nominal wages exceeded the rises in the consumer price index by 5% and 7%, respectively, but up to the end of the first quarter of 1978 the average annual increase in the wages index was 10%, or only 0.5% more than the annual average variation in the consumer price index.

During the year public sector employees received wage increases of between 10 and 20%, to be phased in over a two-year period. The sugar workers received a 20% wage rise, also to be spread over two years.

/Table 11

Table 11

BARBADOS: INDICATORS OF EXTERNAL INDEBTEDNESS

	Millions of United States dollars					Growth rates			
	1973	1974	1975	1976	1977	1974	1975	1976	1977
Total external indebtedness a/	25.8	26.7	26.3	30.0	46.0	3.5	-1.5	14.1	53.3
Private debt	23.4	22.2	21.4	20.9	19.5	-5.1	-3.6	-2.3	-6.7
Public debt b/	2.4	4.4	4.9	9.1	26.4	83.3	11.4	85.7	190.1
Servicing of external debt	3.6	3.7	4.0	3.7	8.9	2.8	8.1	-7.5	140.5
Amortization payments	3.2	1.2	1.7	1.8	7.0	-62.5	41.7	5.9	288.9
Interest payments	0.3	2.5	2.3	1.9	1.9	733.3	-8.0	-17.4	-
Servicing of external debt, as a percentage of gross domestic product	1.4	1.2	1.1	1.0	2.0	-14.3	-8.3	-9.1	100.0
Servicing of external debt, as a percentage of total exports of goods and services	2.3	1.9	1.8	1.7	3.4	-17.4	-5.3	-5.6	100.0

Source: World Bank.

a/ Disbursed debt.
b/ Bilateral and multilateral sources.

/Table 12

Table 12

BARBADOS: VARIATION IN THE CONSUMER PRICE INDEX

	1974	1975	1976	1977	1978
	Average annual variation				
All items	38.9	20.3	5.0	8.3	9.5
Food and beverages	44.3	22.4	4.2	8.5	10.1
	December to December variation				
All items	36.7	12.3	3.9	9.9	11.3
Food and beverages	41.2	13.4	4.3	8.5	12.8

Source: Statistical Service, Monthly Digest of Statistics Nº 3, December 1977; Annual Statistical Digest, 1975; and data supplied to CEPAL.

/(c) Employment

(c) Employment

Between the first quarter of 1977 and the first quarter of 1978, the rate of unemployment declined from slightly over 15% to rather over 12% (see table 13), while the labour force increased by 5% and the labour force participation rate declined by 3%.

5. Monetary and fiscal policy

(a) Monetary policy

The money supply (M_1) increased by over 21% in nominal terms in 1978 (see table 14), which may be compared with the 9.5% rise in the consumer price index. Practically the entire amount of the increase in real M_1 was accounted for by the tripling of net international reserves. Credit to the private sector rose over 11% in nominal terms but only marginally in real terms, while net nominal credit to the government sector dropped more than 12%. Consequently, the real supply of total credit fell below the 1977 level.

The evolution of the distribution of commercial bank credit by sector in 1978 reveals an unfavourable trend (see table 15), since credit disbursed to productive activities actually declined in nominal terms. Virtually no credit reached the mining sector, while the nominal level of loans and advances to agriculture fell by 20%. Credit to tourism and construction also declined by 12% and 6%, respectively. Of the productive sectors, only manufacturing (up 22%) and distribution (up 3%) received nominally higher outlays.

Credit advanced for personal consumption, in contrast, rose 16%. In real terms, only manufacturing and personal consumption enjoyed higher levels of credit in 1978.

(b) Fiscal policy

For the first time in three years the government realized a surplus on the current account which, coupled with the decline in capital expenditures, made possible a 40% reduction in the fiscal deficit (see table 16). Current revenue, owing mainly to a notable increase in direct tax collection, rose over 26%, while current expenditures grew 12%. The increase in current expenditures was divided between outlays for the rise in public sector wages and social programmes. Because of the decline in capital expenditures, total expenditures increased a mere 7%: i.e., less than the rise in the consumer price index.

/Table 13

Table 13

BARBADOS: SELECTED DATA ON EMPLOYMENT AND UNEMPLOYMENT

	1976		1977		1977 (January-March)	1978 (January-March)
	January-June	July-December	January-June	July-December		
Adult population a/b/	165.5	172.4	162.7	170.8	158.2	173.5
Labour force a/	108.1	107.2	102.5	105.3	99.6	104.6
Rate of participacion c/	65.3	62.2	63.0	61.8	63.0	60.3
Rate of unemployment c/	15.5	15.6	16.0	15.3	15.2	12.4

Source: Ministry of Finance and Planning, Economic Report, 1977, and data supplied to CEPAL.

a/ Thousands.

b/ The adult population (15 years and above) may change from period to period as a result of sampling variation as well as actual population movements and migration.

c/ Percentages.

/Table 14

Table 14

BARBADOS: MONETARY BALANCE

	Balance at end of: (millions of Barbados dollars)			Growth rates		
	1976	1977	1978	1976	1977	1978
Money	116.1	134.6	163.5	10.0	15.9	21.5
Currency outside banks	46.7	55.2	65.9	14.5	18.2	19.4
Demand deposits	69.4	79.4	97.6	7.3	14.4	22.9
Factors of expansion	434.4	492.8	566.1	11.6	13.4	14.9
Foreign assets (net)	2.9	-15.6	34.2	-93.2	-637.9	319.2
Domestic credit	431.5	508.4	531.9	24.4	17.8	4.6
Government (net)	96.4	154.6	135.3	84.3	60.4	-12.5
Official entities	7.0	5.2	7.8	9.4	-25.7	50.0
Private sector	328.1	348.6	388.8	13.9	6.2	11.5
Factors of absorption	318.3	358.2	402.7	12.1	12.5	12.4
Quasi-money (savings and time deposits)	308.5	344.4	383.7	11.5	11.6	11.4
Other items (net)	9.8	13.8	19.0	36.1	40.8	37.7

Source: IMF, International Financial Statistics, May 1979.

/Table 15

Table 15

BARBADOS: DISTRIBUTION OF COMMERCIAL BANK CREDIT, BY SECTORS[a/]

(Millions of Barbados dollars)

Sector	1975	1976	1977	1977 (November)	1978 (November)
Agriculture (including fisheries)	22.3	26.2	20.0	26.2	20.9
Mining and quarrying	3.4	4.2	4.3	4.2	0.3
Manufacturing	28.4	24.9	31.3	32.7	39.8
Distribution	51.5	51.9	63.9	64.2	66.2
Construction	33.3	35.4	38.2	38.5	36.0
Tourism (including entertainment)	37.5	45.5	50.8	56.1	49.5
Government	9.3	10.2	22.2	12.1	18.2
Public utilities	12.5	19.5	20.5	19.5	17.9
Personal	74.4	88.2	93.4	92.3	107.4
Other	22.5	23.3	27.6	27.0	35.3
Total	295.2	329.5	372.2	372.8	391.5

Source: Central Bank of Barbados, Economic and Financial Statistics, March 1978 and January 1979. Note that this same differs from that used for the monetary position in table 14.

a/ As at December.

/Table 16

Table 16

BARBADOS: SELECTED DATA ON GOVERNMENT OPERATIONS

	Millions of Barbados dollars				Growth rates		
	1975	1976	1977	1978[a]	1976	1977	1978
Current income	194	202	227	287	4.1	12.4	26.4
Current expenditure	175	207	243[b]	272	18.3	17.4	11.9
Savings on current account	19	-5	-16[b]	15	-136.8	-320.0	193.7
Capital expenditure	45	53	78	70	17.7	64.1	-10.3
Fiscal deficit	-26	-58	-93	-55	-223.0	-60.3	59.1
National debt	202	259	335	378[c]	28.2	29.3	12.8
Internal	158	209	280	286[c]	32.3	34.0	2.1
External	44	50	55	92[c]	13.6	10.0	67.3

Source: Compiled from data in Central Bank of Barbados, Economic and Financial Statistics, March 1978 and January 1979, and data supplied to CEPAL.

a/ Provisional figures.

b/ Revised figures.

c/ Data at the end of November.

/The restraint

The restraint in government spending was consistent with the overall strategy of minimizing the role of the government in the determination of the allocation of resources, and the relatively favourable external situation permitted the government to pursue moderately restrictive monetary and fiscal policies apparently without producing significant negative effects on the evolution of domestic economic activity in 1978. On the other hand the evolution of the allocation of credit displayed several negative trends which, if continued, would be likely to inhibit a satisfactory rate of expansion in the main productive sectors, particularly agriculture.

BOLIVIA

1. General economic trends in the 1970s

For a relatively long period, from the end of 1971 up to the present time, Bolivia has given its development policy a specific orientation and adopted a certain mode of conduct for its economic activity.

This country has enjoyed a period of exceptional bonanza in its external sector and has received massive foreign financial support, especially from 1973 onwards. In the 1970s it went through a complete cycle: the initiation of economic expansion, its development and its loss of dynamism. From a different angle, there has also been a resurgence of an inflationary process which was fairly violent for approximately two years and was then slowed. At the same time, the country suffered the effects of a sharp devaluation, following 13 years of a fixed exchange rate and marked price stability. Finally, from the politico-institutional point of view, the stage of de facto governments appears to have come to an end with the entry into a process of constitutionalization and democratization.

It seems reasonable, in the light of all these data, to make a somewhat more detailed study over a longer time perspective of the evolution of Bolivia's economy.

The country's economic expansion during the present decade is one of the achievements most earnestly pursued by its development policy. Nevertheless, the annual growth rate of the product in this period was only slightly over 5%, although it should be noted that in the three-year period 1974-1976 it was around 6%. In the preceding decade the growth rate had reached 5.5%, under difficult foreign trade conditions and with rather limited external financing. In contrast, growth in the 1970s had a highly favourable basis in the external sector and foreign financing, so that a higher rate of growth might have been expected (see table 1).

/Table 1

Table 1

BOLIVIA: MAIN ECONOMIC INDICATORS

	1970	1971	1972	1973	1974	1975	1976	1977	1978 a/
A. Basic economic indicators									
Gross domestic product at factor cost (millions of US dollars at 1970 prices)	1 269	1 332	1 411	1 509	1 601	1 689	1 798	1 862	1 920
Population (millions)	4.28	4.40	4.52	4.64	4.76	4.89	5.02	5.15	5.28
Per capita gross domestic product (US dollars at 1970 prices)	296	303	312	325	336	346	358	362	363
			Growth rates						
B. Short-run economic indicators									
Gross domestic product	5.2	4.9	5.9	6.9	6.1	5.5	6.4	3.6	3.1
Per capita gross domestic product	2.4	2.4	3.0	4.2	3.4	2.8	3.7	0.9	0.5
Gross income b/	7.4	1.0	5.3	8.5	18.4	0.7	7.3	4.8	2.8
Terms of trade	11.2	-17.9	-2.4	9.2	59.6	-20.6	2.9	5.9	-
Current value of exports of goods and services	10.2	-5.7	13.3	32.0	111.6	-15.5	20.5	12.8	0.2
Current value of imports of goods and services	-2.1	8.0	14.6	18.8	56.7	37.5	6.6	16.3	23.1
Consumer prices index									
December to December	2.0	3.3	23.6	34.8	39.0	6.0	5.5	10.5	13.5
Variation between annual averages	3.9	3.7	6.5	31.5	62.8	8.0	4.5	8.1	10.4
Money	12.6	15.3	25.1	34.3	43.4	11.8	36.5	20.9	-0.6
Current income of goverment	22.8	2.2	21.7	85.7	105.3	12.2	20.3	11.7	12.0
Total expenditure of goverment	29.7	11.2	48.9	39.4	91.7	15.8	28.9	32.9	6.4
Fiscal deficit/total expenditure of goverment c/	14.3	21.3	35.7	14.3	8.2	11.0	17.0	30.2	26.5
			Millions of US dollars						
C. External sector									
Trade balance (goods and services)	-	-29	-36	-13	143	-136	-73	-107	-297
Balance on current account	-23	-44	-53	-31	109	-165	-112	-178	-398
Variation in net international reserves	6	-6	16	-3	118	-27	26	68	-36
External debt									
Contracted	670.6	782.1	941.8	1 018.0	1 191.8	1 524.5	1 978.7	2 510.7	3 101.8
Disbursed guaranteed debt	522.2	591.2	680.8	707.8	786.2	882.7	1 106.8	1 457.7	1 761.5

a/ Preliminary figures.

b/ Gross domestic product plus terms-of-trade effect.

c/ Percentage.

The evolution of the external sector merits special attention. During the period analysed there were significant price increases in external trade, especially in exports, which concealed the serious physical balance-of-payments disequilibria. Only the simultaneous consideration of monetary and real movements permits a proper interpretation of the external sector's performance. From that point of view it may be concluded that the external sector was decisive in determining the mode of growth of the Bolivian economy. The most dynamic sectors were precisely those which were directly associated with increasing imports, while the goods producing sectors whose links with external supplies are on a longer-term or less direct basis, grew at a slower rate. This caused the share of the basic sectors of the economy in the product to decrease throughout the decade, contradicting the guiding principles of the development plans in which priority was assigned to them. The fact is that the intentions set forth in the plans were incompatible with the decisions and action that characterized economic policy.

The structure of economic growth meant a more intensive use of imported capital goods and inputs, which in some degree explains the drop in the capital-output ratio which in turn prevented the attainment of higher rates of growth.

In the production scenario attention is drawn to the fluctuating course of the agricultural product in which appreciable rates of increase were combined with stagnation and even some drops, reproducing a long-standing essentially moderate trend. In view of the importance of this sector in Bolivia's economic and social system, it is unnecessary to go further into the implications of that fluctuating course. Another fact which should be noted is the insufficient increase in the mining product, also the result of fairly erratic fluctuations. The sector's decisive importance in the country's export base justifies this concern.

In contrast to these two sectors, the industries producing basic services recorded an appreciably high rate of expansion. The effects of this growth in a not too easily integrated economy, despite the absorption of foreign exchange which it entailed, made themselves felt on the geo-economy of the country.

/As regards

As regards the other development policy objective, i.e., price stability, after a period of vigorous inflation successful measures were taken to moderate this process (see table 1). In conjunction with some domestic factors, external inflationary pressures made themselves felt and led to a delicate situation which was difficult to control. Strong pressures deriving from the actual increase in domestic activity, the fiscal and balance-of-payments deficit and the inflexibility of supply combined with the sharply increased import prices, increases in liquidity generated by the high export prices and all the psychological effects deriving from the sudden price increases.

Inflation was combated thanks to the surpluses generated by export prices and the country's progressive external indebtedness. These two factors made it possible to maintain a stable exchange rate, which was undoubtedly one of the key factors in the fight against inflation. It should also be noted that the policy governing certain domestic prices and the strict wage policy contributed to that end. The counterpart of those decisions was, among other effects, the increase in illegal exports of fuels whose prices did not follow the world trend, placing the State enterprise producing them in an awkward financial position. The strict control of wages favoured the concentration of income in groups which were able to transfer the increases in their costs to prices, thus raising their profit margins.

The importance assigned to this mode of growth and the strategy used to achieve stability prevented the country from obtaining the full benefit of the external boom. In actual fact, Bolivia went through one of its most promising periods in terms of export prices, and it only managed to use part of the surplus for important projects. The disproportionate rise in imports of not always essential goods limited to certain population strata meant that an enviable opportunity was lost.

As noted earlier, the price of the results achieved through the development policy was the high level of external indebtedness. Between the end of 1970 and the end of 1978 the external debt increased fivefold in dollars at current prices. To illustrate what this meant, in 1978 Bolivia's amortization and interest payments amounted to nearly 60% of the value of its exports in that year.

/External commitments

External commitments are one of the most delicate points of the economy at present. If it is also considered that exports will no longer include petroleum whose production will only at most cover domestic needs, the prospects are indeed gloomy.

The performance of the main economic variables in the last few years, especially 1978 when economic activity lost some of its dynamism and price increases began to gain more ground, heralds a difficult scenario which Bolivia would enter with a new politico-institutional framework.

2. Trends in the economic activity

(a) Global trends

The evolution of the Bolivian economy from the angle of the main macroeconomic variables had some clear features typifying a very particular mode of growth.

The uneven growth rates of the components of total supply are certainly revealing signs of the type of expansion experienced by the economy. Throughout the period 1970-1978, imports of goods and services increased almost twice as fast as the gross domestic product. While the former grew at an annual rate of over 10%, the product rose by just over 5% annually (see table 2).

As a result of such dissimilar trends the import coefficient rose from 20% in 1970 to about 30% in 1978. A change of this magnitude in an expanding economy indicates that Bolivia's opening up to the exterior and its dependence on imported supplies have been determining factors in the general evolution of its economy. Suffice it to say that in those eight years the quantum of imports of goods and services went up by over 120%.

These indicators, which reflect the course of events thus far in the 1970s, have in their turn followed uneven trends during that period. In the years 1970 to 1974 the product grew at a rate of about 6%, slowed to 5.5% in 1975 and accelerated again in 1976. Finally, in the years 1977 and 1978, the growth rate dropped to 3.6% and 3.1%, respectively. Reflecting a very different situation from that of the recent past. Imports, for their part, showed a highly erratic trend. In the period 1970-1973 they expanded at an

/Table 2

Table 2

BOLIVIA: TOTAL SUPPLY AND DEMAND

	Millions of pesos at constant 1970 prices					Percentage breakdown				Growth rates							
	1960	1970	1976	1977	1978[a]	1960	1970	1974	1978[a]	1960-1970	1970-1973	1974	1975	1976	1977	1978[a]	1970-1978
Total supply	8 638	15 019	22 382	23 290	24 491	117.9	120.1	123.8	129.5	5.7	5.9	7.7	8.7	5.5	4.1	5.2	6.3
Gross domestic product	7 326	12 505	17 710	18 343	18 917	100.0	100.0	100.0	100.0	5.5	5.9	6.1	5.5	6.4	3.6	3.1	5.3
Imports of goods and services	1 312	2 514	4 672	4 947	5 574	17.9	20.1	23.8	29.5	6.7	5.7	26.1	21.9	2.2	5.9	12.7	10.3
Total demand	8 638	15 019	22 382	23 290	24 491	117.9	120.1	123.8	129.5	5.7	5.9	7.7	8.7	5.5	4.1	5.2	6.3
Domestic demand	7 279	12 525	18 662	19 680	21 187	99.4	100.2	101.2	112.0	5.6	5.2	7.4	12.1	4.3	5.5	7.7	6.8
Gross domestic investment	977	2 111	3 282	3 568	3 792	13.3	16.9	18.8	20.0	8.0	6.4	16.8	21.0	-8.6	8.7	6.3	7.6
Gross fixed investment	883	1 792	2 831	2 995	3 145	12.1	14.3	14.7	16.6	7.3	5.3	10.5	19.0	2.9	5.8	5.0	7.3
Changes in stocks	94	319	451	573	647	1.3	2.6	4.2	3.4	-	-	-	-	-	-	-	-
Total consumption	6 302	10 414	15 380	16 112	17 395	86.0	83.3	82.4	92.0	5.2	4.9	8.0	10.1	7.6	4.8	8.0	6.6
General government	565	1 324	2 241	2 384	2 582	7.7	10.6	12.3	13.7	8.9	10.5	9.0	11.0	3.8	6.4	8.3	8.7
Private	5 737	9 090	13 139	13 728	14 813	78.3	72.7	70.1	78.3	4.7	4.1	7.9	9.9	8.2	4.5	7.9	6.3
Exports of goods and services	1 359	2 494	3 720	3 610	3 304	18.6	19.9	22.6	17.5	6.3	9.4	8.9	-6.7	12.1	-3.0	-8.5	3.6

Source: 1960-1977: CEPAL calculations on the basis of figures supplied by the Central Bank of Bolivia; 1978: CEPAL estimates on the basis of preliminary data from the same source.

a/ Preliminary figures.

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

/average annual

average annual rate of around 6%, in 1974 they quadrupled that rate and in 1975 they rose by 22%. As from 1976, which was a year of fairly moderate growth, they once again rose at an accelerated rate which reached about 13% in 1978 (see table 2).

Particularly noteworthy in the analysis of the components of total demand is the course followed by exports because of its marked contrast with the evolution of the components of supply. Throughout the period, external demand grew at a rate of 3.6%, which is much lower than the growth rate of the product and just under a third of the rate of increase in imports (see table 2).

The slow growth of exports meant that the export coefficient dropped from 20% in 1970 to 17.5% in 1978. An economy which was rapidly opening up to the exterior as far as imports were concerned, while simultaneously reducing the share of exports in the product, inevitably generated a real disequilibrium of considerable proportions in its external sector. Whereas in 1970 the volumes of imports and exports of goods and services were virtually equal, in 1978 the former exceeded the latter by almost 70%. A subsequent analysis will show the point to which Bolivia had to increase its indebtedness in order to compensate for this disequilibrium, notwithstanding the favourable terms of trade.

The modest growth of exports as an annual average for the period was the result of sharp annual fluctuations. Up to 1974 the rate of expansion exceeded the increase in the product, in 1975 exports dropped by nearly 7%, rose by 12% in 1976 and fell again in 1977 and 1978 (see table 2).

A positive feature of the evolution of demand was the performance of gross domestic investment. This expanded at an average annual rate of 7.6% and in every year except 1976 showed significant increases, especially in the two years 1974 and 1975 when the rates were 17% and 21%, respectively. Hence, the investment coefficient rose from 17% in 1970 to 20% in 1978, from which it may be inferred that the small growth of the product in 1977 and 1978 did not conspire against the trends towards capital formation in the Bolivian economy. It will be seen that in both these years the growth of investment was more than double that of the product.

/Although it

Although it may seem contradictory, throughout the period total consumption also increased at a higher average rate than the product, moderately up to 1973 and more vigorously from 1974 onwards (see table 2).

This evolution was reflected in a significant rise in the average propensity to consume, the proportion rising from 83 to 92% between 1970 and 1978. It is worth while to consider this increase which was undoubtedly highly significant, particularly as it occurred within the context of a growing economy. It will be observed that in the space of eight years consumption expanded by 67% in real terms. Behind these indicators, and to give them their due significance, it remains only to clarify what the structure of consumption was then and is now and how far it was distributed among the various social groups. As will be seen below, there are clear indications of an intensive growth of consumption of non-essential goods.

Nor does the division of total consumption into government and private consumption in table 2, apart from showing that the former increased more rapidly than the latter, make it possible to study the question in greater depth.

The real macroeconomic balance of the Bolivian economy thus far in the present decade gives food for thought. In the first place, it seems clear that the main dynamic factor of the economic expansion was the increased demand for imports. Indeed, it is the variable with by far the highest growth rate.

Furthermore, if account is taken of the significant increase in consumption and the moderate growth of exports it may be inferred that the economy grew at the expense of a steady flow of external financing which substantially raised the external debt. This is precisely the counterpart of the growth of consumption and investment noted above.

At the same time the performance of exports, which fluctuated widely while showing a clearly declining trend in 1977 and 1978, explains why recourse was had to borrowing and heralds a highly compromising situation unless the signs of the last two years are reversed.

If developments in connexion with growth, imports and external financing in this decade are compared with those of the previous decade some suggestive conclusions emerge. In the 1960s the product grew at a rate of 5.5% and imports by 5.7%, while the annual rate of external

/indebtedness was

indebtedness was 8%. In the period 1970-1978 the product grew at a slightly lower rate, imports nearly doubled their annual growth rate (over 10%) and the annual rate of increase in the external debt was over 17%.1/ In other words, in spite of the intensified growth of imports and external financing in the recent period, it was not possible to accelerate the growth of the product over that of the previous decade. It might be argued that the dimension of the economy was different in the two periods and that high growth rates are easier to achieve when the original levels are lower. Be that as it may, a period such as that initiated in 1973, when not only was the external bottleneck eliminated via export prices but there was also a record flow of external financing, offered a great opportunity for the country's development to acquire a good deal more dynamism.

(b) Sectoral developments

The performance of the various sectors of Bolivian economic activity in the period 1970-1978 was in keeping with the above comments on the mode of development adopted by this country. The goods producing sectors showed a slower growth than the activities producing services; this situation was apparent as from 1974 when the country's new style of economic growth began to be typified (see table 3). The dynamism in the economy produced by the sharp increase in imports and external financing clearly indicated a structure of sectoral growth which was ready to respond to external impulses of this kind.

As a result of the sectoral evolution, the share of the goods producing sectors dropped from 46% in 1970 to 43% in 1978, while the product of basic services, which is highly dependent on imports, rose over the same period from a little over 9% to nearly 13%. Other services practically maintained their share of the product. The sector-by-sector analysis merely confirms the overall view and enables the particular features of the recent economic expansion to be identified a little more precisely.

1/ It must be taken into account that world inflation in the present decade was higher than in the 1960s.

/Table 3

Table 3

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

	Millions of pesos at 1970 prices					Percentage breakdown				Growth rates							
	1960	1970	1976	1977	1978a/	1960	1970	1974	1978a/	1960-1970	1970-1973	1974	1975	1976	1977	1978a/	1970-1978
Agriculture	1 872	2 233	2 982	2 881	2 947	27.4	19.5	18.8	16.9	1.8	5.5	3.7	6.7	2.9	-3.4	2.3	3.5
Mining	430	900	1 164	1 106	1 027	6.3	7.9	8.6	5.9	7.7	13.1	-4.8	-15.2	10.8	-5.0	-7.2	1.7
Mining, excluding petroleum production	407	848	1 026	980	904	6.0	7.4	7.4	5.2	7.6	6.9	-2.5	-13.5	22.1	-4.5	-7.8	0.8
Petroleum production	23	52	138	126	123	0.3	0.5	1.2	0.7	8.5	53.8	-12.1	-21.5	6.2	-8.8	-2.2	11.3
Manufacturing	853	1 634	2 403	2 551	2 687	12.5	14.3	14.8	15.4	6.7	5.5	11.3	6.1	5.9	6.2	5.3	6.4
Construction	247	501	711	753	788	3.6	4.4	4.0	4.5	7.3	2.2	9.0	12.9	7.9	5.9	4.7	5.8
Subtotal goods	3 402	5 268	7 260	7 291	7 449	49.8	46.0	46.3	42.7	4.5	6.6	4.7	3.0	5.6	0.4	2.1	4.4
Electricity, gas and water	62	159	248	263	276	0.9	1.4	1.5	1.6	9.9	8.1	10.0	2.2	9.7	6.1	5.1	7.1
Transport, storage and communications	575	910	1 632	1 863	1 958	8.4	7.9	8.9	11.2	4.7	7.0	14.9	13.7	12.0	14.1	5.1	10.1
Subtotal basic services	637	1 069	1 880	2 126	2 234	9.3	9.3	10.4	12.8	5.3	7.2	14.2	12.0	11.7	13.1	5.1	9.6
Commerce, financial institutions and insurance	1 175	2 004	2 822	2 950	3 074	17.2	17.5	16.8	17.6	5.5	4.1	7.0	8.7	7.3	4.6	4.2	5.5
Real estate b/	566	1 058	1 333	1 408	1 457	8.3	9.2	8.3	8.4	6.4	3.1	3.7	7.5	3.1	5.6	3.4	4.1
Community, social and personal services c/	1 053	2 065	2 985	3 109	3 232	15.5	18.0	18.3	18.5	7.0	5.8	7.7	7.6	5.3	4.1	4.0	5.8
Subtotal other services	2 794	5 127	7 140	7 467	7 763	40.9	44.7	43.3	44.5	6.3	4.6	6.6	8.1	5.7	4.6	4.0	5.3
Total gross domestic product d/	6 685	11 464	16 256	16 816	17 342	100.0	100.0	100.0	100.0	5.5	5.9	6.1	5.5	6.4	3.6	3.1	5.3

Source: 1960-1977: CEPAL calculations on the basis of figures supplied by the Central Bank of Bolivia; 1978: CEPAL estimates on the basis of preliminary data from the same source.

a/ Preliminary figures.

b/ Refers to ownership of dwellings only.

c/ Also includes restaurants, hotels and business services.

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

(i) The agricultural sector. The performance of the agricultural sector in the period 1970-1978 has been subject to evident fluctuations. Needless to say, this is the most important sector of the Bolivian economy because of the high proportion of the population engaged in this activity (roughly two-thirds of the total population) even more than because of its contribution to the product (17% in 1978). The average rate of growth reached by the agricultural product, although higher than in the previous decade, failed to fulfil the objectives of government policy which pursued a more vigorous growth for this sector.2/ Moreover, the average rate was the result of pronounced ups and downs in the annual movements. Thus, compared with a growth of about 7% in the agricultural product in 1975, there was a drop of over 3% in 1977. The performance of agriculture during the three years 1976-1978 was far from promising; hence its contribution to the product fell from 19.5% in 1970 to 17% in 1978.

Furthermore, the global figures for the sector in table 3 make no distinction between agriculture on the Altiplano and in the valleys, and that of the eastern region. The sector's dynamic evolution in certain years was due to the increased production of tropical crops; in the higher regions, in contrast, where the population is denser, the agricultural performance was clearly inadequate.

Table 4 shows the evolution of the most important agricultural products. The dynamism of crops in the Altiplano and valleys was different from the growth experienced by tropical crops. Thus, sugar cane and soya, which are representative crops of eastern agricultural production, showed a marked increase, while potatoes, barley and maize, which are typical of the higher areas, showed a much slower growth. As regards cattle, found primarily in the eastern region, both stocks and slaughtering increased steadily. Similarly, the 1977 and 1978 agricultural recession more seriously affected agriculture in the Altiplano and valleys to judge from the decline in the production of crops typical of those areas.

2/ Secretaría del CONEPLAN, Plan Quinquenal de Desarrollo Económico y Social 1972-1977, chapter II, and Plan de Desarrollo Económico y Social 1976-1980 ("Las prioridades sectoriales").

/Table 4

Table 4

BOLIVIA: INDICATORS OF AGRICULTURAL PRODUCTION AND MAIN CROPS AND LIVESTOCK PRODUCTS

	1961	1970	1971	1972	1973	1974	1975	1976	1977 a/	1978 a/
Index of agricultural production (1970=100)		100.0	106.0	114.0	118.6	124.2	132.2	136.3	132.5	138.1
Crop farming		100.0	104.2	109.9	119.3	124.6	132.7	136.5	132.3	139.3
Forestry		100.0	128.0	140.0	158.7	169.3	162.7	142.7	162.7	166.7
Stock-raising		100.0	108.2	121.4	112.9	118.6	128.1	135.3	130.0	131.9
Hunting and fishing		100.0	66.7	100.0	100.0	100.0	100.0	100.0	133.3	133.3
Production of the main crops (thousands of tons)										
Wheat	35.0	44.2	47.1	53.6	57.0	62.5	61.8	69.8	48.1	59.9
Paddy rice	34.3	72.5	85.3	85.2	77.8	85.2	126.6	113.0	111.7	88.6
Barley	59.9	61.5	65.7	70.1	72.4	75.1	79.6	91.8	59.8	74.8
Maize	251.8	285.7	296.6	268.5	275.8	276.7	305.0	342.1	299.2	331.1
Potatoes	516.0	655.0	698.0	703.6	729.7	749.5	834.1	823.9	678.6	793.0
Soya beans	0.3 b/	1.5	1.2	1.2	3.4	8.0	11.9	15.4	8.9	26.2
Sugar cane	600.0	1 467.7	1 101.6	1 515.3	2 082.6	2 049.7	2 366.5	3 247.9	3 167.5	3 246.6
Cotton (fibre)	1.0	5.1	9.8	15.5	37.6	26.7	22.0	12.6	15.3	17.3
Cocoa	4.8 c/	6.0	6.8	8.0	9.4	10.9	11.8	13.0	15.6	19.5
Bananas	105.1	211.7	228.2	230.0	239.7	253.3	251.6	252.0	250.0	234.0
Livestock (thousands of head) d/										
Cattle stocks		2 290.8	2 411.8	2 564.9	2 658.8	3 096.3	3 241.0	3 398.1	3 578.3	3 771.7
Slaughtering		339.4	354.1	403.9	409.0	432.8	451.3	460.7	478.6	490.3

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

a/ Provisional figures.
b/ Production on a commercial scale started in 1967.
c/ No data available up to 1963.
d/ In January of each year.

/Among the

Among the reasons for the insufficient agricultural growth and its fluctuations, mention should be made of changes in the weather which are always determining factors in this sector's evolution; the predominance of minifundios which involves unproductive farming in the high lands and the difficulty of putting into practice generalized systems for the organization of production on a larger scale; the sharp flunctuations in external prices of the main export commodities; the volume and maturity period of the relevant investment; and imports of and contraband in manufactured products in which agricultural raw materials are used. Another exceptionally important factor cannot be ignored, i.e., the role played by middlemen and intermediaries who absorb significant proportions of the surplus generated by agriculture.

(ii) Mining. This activity viewed as a whole generated a product which grew throughout the period 1970-1978 at a very modest rate. In fact, the average annual rate was below 2%. After showing marked dynamism during the first three years of the decade, it declined in 1974 and particularly in 1975, started to recover in 1976, and fell again in 1977 and 1978 (see table 3).

The share of mining in the product, in view of the above trends, dropped from 8% in 1970 to 6% in 1978. Since this is the main activity generating foreign exchange in the economy, such an evolution indicates a distinct weakness in the export base. The high prices reached by the main export products from 1973 onwards concealed the real situation on which became more and more delicate.

If the evolution of mining proper is considered separately from that of oil production it will be seen that the former expanded by less than 1% annually, which reflects an even more delicate situation. Hence the contribution of this subsector to the product fell from 7.4% in 1970 to 5.2% in 1978. As regards oil production, although the annual rate was over 11%, it must be taken into account that this indicator was decisively influenced by the relatively low level in 1970 (see table 3). On the other hand, the drop in the petroleum product in 1977 and 1978 due to the depletion of the oil wells foreshadows a highly critical energy situation in the short and medium term unless new reservoirs are discovered. The situation could

/convert Bolivia

convert Bolivia into an oil-importing country which, given its geographical location, topography and land-locked position, would constitute a severe burden on its external sector.

As regards the production of both minerals and petroleum and natural gas, the evolution by product showed slow rates of growth, stagnation and fairly general decreases as from 1974. In table 5 negative rates predominate and the growth rates of any significance were generally of less important products. Tin, the main export commodity of the Bolivian economy, reached a level in 1978 which was similar to that of the early years of the decade; output of silver in 1978 was comparable with the 1970 figure, and that of bismuth showed a distinct decline between those same years. Wolfram, zinc and gas were the products showing steadily rising production trends. Oil production increased up to 1973, after which it followed a clearly declining trend.

(iii) Manufacturing. In the period 1970-1978, this sector experienced an annual growth which exceeded that of the product and was over 6%, although it fell short of the rate recorded in the preceding decade. The performance of the manufacturing sector was fairly even, except in 1974 when the growth rate was significantly high. In the other years the increases fluctuated between 5 and 6%. Accordingly, the share of manufacturing industry in the product, which was slightly over 14% in 1970, rose by 1% up to 1978.

It cannot be inferred from these proportions that the sector achieved a vigorous expansion throughout the period under review. From table 6 it will be seen that among the most important manufactures those showing most dynamism were products manufactured with simple technologies. Actually, the Bolivian industrialization process is still in an incipient phase and has not yet reached the stages which would ensure a more integrated growth of the manufacturing sector.

The industrial projects planned and carried out do not represent radical changes in the manufacturing structure, but merely very modest progress in the import substitution process. Until such time as natural gas is exploited on a larger scale and an iron smelter is installed it will be difficult for the industrialization process to advance at an accelerated pace.3/

3/ The prospecting studies available confirm huge reserves of both these resources.

/Table 5

Table 5

BOLIVIA: INDICATORS OF MINING PRODUCTION

	1960	1970	1971	1972	1973	1974	1975	1976	1977[a]	1978[a]	Growth rates 1960-1970	1974	1975	1976	1977	1978
Index of mining production [b]					103	100	105	100	108	102		-2.9	5.0	-4.8	8.0	-5.6
Production of some important minerals (thousands of fine tons)																
Tin	20.5	27.8	30.3	30.3	29.7	30.2	32.0	30.3	32.6	30.9	2.2	1.7	6.0	-5.1	7.6	-5.3
Silver	152.0	186.3	166.9	143.2	162.0	155.0	160.0	169.0	183.0	201.0	-4.5	-4.5	3.2	5.6	8.3	9.8
Lead	21.4	25.8	23.3	19.0	20.9	19.5	18.0	19.2	18.4	18.1	-6.8	-6.7	-7.7	6.9	-4.0	-1.6
Cooper	2.3	8.8	7.8	8.4	8.0	7.2	6.2	5.1	3.7	3.4	-3.1	-10.0	-13.9	-18.0	-28.1	-7.9
Bismuth	183.1	623.0	677.0	480.0	572.0	614.0	622.0	612.0	680.0	507.0	-2.8	7.3	1.3	-1.6	11.1	-25.4
Antimony	5.3	11.6	11.7	13.1	12.4	14.9	16.1	17.0	15.2	12.6	2.2	20.2	8.1	5.8	-10.9	-17.0
Tungsten	1.3	2.4	2.6	2.7	2.6	2.5	2.3	3.2	2.9	3.2	2.7	-4.0	-8.0	39.1	-9.4	10.3
Zinc	4.0	46.5	45.4	39.7	51.2	49.4	48.8	53.0	60.8	59.9	3.3	-3.5	-1.2	8.7	14.6	-1.4
Energy products																
Petroleum (thousands of m^3)	568.2	1 402	2 138	2 539	2 744	2 640	2 342	2 362	2 015	1 889	25.1	-3.8	-11.3	0.9	-14.7	-6.3
Gas (millions of m^3)	168	866	2 297	3 424	4 283	4 081	3 888	4 360	4 232	4 292	70.4	-4.7	-4.7	12.1	-2.9	1.4

Source: Ministry of Mining and Metallurgy, and Central Bank of Bolivia.

a/ Preliminary figures.
b/ New base : 1974 = 100.

/Table 6

Table 6

BOLIVIA: INDICATORS OF MANUFACTURING PRODUCTION

	1960	1970	1971	1972	1973	1974	1975	1976	1977	1978
Production of same important manufactures										
- Sugar cane (thousands of tons)	24.5	123.2	85.1	122.6	173.5	153.6	197.4	267.0	266.1	265.6
- Beer (millions of litres)		38.1	41.2	42.7	44.2	56.3	75.2			
Edible oil (thousands of litres)		2 077.7	1 236.6	2 070.0	1 530.0	1 914.8	2 816.2	5 342.2	12 683.5	14 015.1a/
Wheat flour (thousands of tons)		38.5	41.6	38.2	72.2	67.9	47.5	93.0	104.9	...
Cement (thousands of tons)	39.0	115.9	128.3	145.8	161.7	201.9	226.5	207.6	267.1	248.9
Petroleum products (thousands of m^3)		725.8	787.7	826.9	879.8	943.2	1 171.0	1 263.3	1 479.8	...
Tin (metal) (thousands of tons)	-	-	6.8	6.6	6.9	7.0	7.5	9.9	12.5	14.7
Other indicators										
Consumption of electricity by industry (millions of KWH)		438.8	468.4	512.4	520.1	549.7	581.1	633.4	724.9	758.7
Installed capacity (thousands of KW)	146.8	261.3	267.7	272.2	311.9	350.5	376.2	398.1	405.6	428.6
Production (millions of KWH)	447.5	788.6	839.5	891.0	918.0	993.1	1 057.0	1 132.0	1 259.7	1 341.0a/

Source: Central Bank of Bolivia, 1976 Report (Cement).

a/ Provisional figures.

/(iv) Construction.

(iv) Construction. One of the activities which gained momentum in the period analysed was construction. In spite of the visual impression of this activity obtained by the observer, the social accounting figures do not seem to have taken account of its real increases. Although the average rate for the eight years of the period was close to 6%, with considerable increments in the period 1974-1976, the real intensive expansion of this activity suggests a higher rate. In fact, cement consumption appears to have more than doubled between 1970 and 1978, and whatever technological change there may have been in construction, the two trends are not reconcilable.4/ Likewise, the area built almost tripled in the eight years analysed and that of housing in particular more than doubled over the same period (see table 7). It is therefore noteworthy that the contribution to the product should be almost the same in 1970 and 1978, when construction, as already noted, was the most dynamic activity during that period. Another curious fact is that in the eight years that have elapsed of the present decade the annual growth rate of this activity should have been significantly lower than that of the 1960s.

It is worth while noting that the dynamism of construction was largely due to the construction of buildings, mainly dwellings and luxury buildings, with a high import content. It will be recalled that Bolivia has to import contruction iron, shapes, angles, some cement, sanitary fittings, hardware, etc., which closely link this activity with imports. The rise in building costs was largely determined by the higher prices of inputs from abroad. On the other hand, the intense concentration of income in the upper population decile appears to have been responsible for the rise in the price of building and land. Nevertheless, in cities like La Paz, the uneven topography and shortage of flat land could also have had some influence on the decidedly upward trend of prices in this sector. In any case, it is impossible to ignore the effect which the steady expansion of construction has had on the absorption of manpower of varying skills and on demand from various types of activities allied to construction, which have mobilized a considerable proportion of the Bolivian economy.

4/ In the revision of calculation methodologies being made in the Central Bank of Bolivia, it is highly probable that construction, as well as services especially commerce and financial institutions, will show significant increases in their growth rates from 1973 onwards.

/Table 7

Table 7

BOLIVIA: INDICATORS OF CONSTRUCTION ACTIVITY

	1960	1970	1971	1972	1973	1974	1975	1976[a]	1977[a]	1978[a]
Area built (thousands of m^2)										
Total		571.3	553.3	534.5	540.0	727.4	850.6	936.7	1 017.8	1 452.0
Dwellings		402.5	388.3	376.3	371.5	495.4	577.1	614.9	648.5	961.5
Cement consumption (thousands of tons)	39.0	116.0	128.0	146.0	162.0	202.0	227.0	208.0	267.0	249.0

Source: Central Bank of Bolivia, 1976 Report.

a/ Preliminary figures, information subject to adjustment.

/If the

If the clearly declining trend of the 1977 and 1978 rates is confirmed, this would be an unmistakable sign of a slowing down not only of this activity but also of others linked with construction. The difficult external sector position and the uncertainty regarding its subsequent performance make for a complex situation.

(v) The services sectors. A distinctly positive feature in the sectoral growth of Bolivia's economy was the evolution of the sectors producing basic services. The persistently high rate at which the product generated by electricity, gas and water, and that of transport, storage and communications, grew during the period under review indicates the priority assigned to these sectors in the economic policy. The resulting annual rates for the period 1970-1978 reflect an accelerated expansion of both these sectors producing basic services. The annual rates of over 7% and 10%, respectively, are the highest recorded in the development of the Bolivian economy in the present decade. The two sectors experienced increases in their share of the product between 1970 and 1978; the transport sector, in particular, rose from a little over 9% to nearly 13% between those two years (see table 3).

The positive nature of this performance is evident at a time when the country is threatened by an energy crisis which depends little on government decisions in view of the hitherto insufficient results of the intensive exploration of oil reservoirs mainly by a number of foreign companies. For its part, the growth of the transport, storage and communications sector in a far from integrated country with difficult communications has meant noteworthy progress.

Despite the parallel progress made in the great majority of sectors, those producing basic services showed a marked trend towards slower growth rates from 1974 onwards. In the evolution observed during 1978, signs may also be noted of the aforementioned slowing down of Bolivia's economic system.

The evolution of commerce, financial institutions and insurance merits the same comments as those made on the construction sector. If account is taken of the high growth rate of imports, which largely account for the dynamism of the economy, especially in the period 1973-1976, and also of the expansion and operation of new financial institutions in that same period, a still more dynamic evolution might have been expected for the sector than

/that shown

that shown in table 3. Furthermore, the vigorous growth of the transport sector indicates the existence of a larger volume of trade between the various areas of the country, which ultimately resulted in a bigger movement of trade and, in one way or another, of financial operations. This asynchrony seems more feasible if it is taken into account that the average rate of expansion of this activity in the present decade is the same as that of the preceding decade. The striking differences between the dynamism of the variables mobilizing commercial and financial activities in the two periods strengthen the concern regarding a possible bias in the calculation of this sector's contribution to the country's product.

Along these same lines but in a different dimension is the extraordinary increase in contraband in recent years, due mainly to the subsidy represented by the fixed exchange rate, the freedom to purchase foreign exchange for any purpose, the exceptionally large capacity to import, and the obstacles hindering the attempts to take stricter measures to control it. The methodological difficulties of estimating with any degree of accuracy the product of an illegal activity are perfectly understandable. It cannot be ignored, however, that from 1973 onwards it attained alarming proportions. Although obviously no reliable information is available in this respect, the evaluations and estimates of government officials who have tried to assess the phenomenon coincide in indicating surprising volumes and values. From the moment it ceased to be a typically clandestine activity and permanent markets sprung up in some Bolivian cities which openly sell illegally imported products the problem seems to have become more serious. There is considerable awareness of this state of affairs in the country: repeated denouncements of flagrant situations have mobilized public opinion and are a further indication of the proportions this type of commerce appears to have acquired.

In the national accounts estimates it is difficult to assess the real, but illegal, aggregate value generated by this conspicuous activity.5/ A somewhat more accurate evaluation of its volume, however, would no doubt

5/ The conventional forms of calculation on the basis of the purchase and sale of foreign exchange circuits do not permit a reasonable approximation. First, because in a system of unrestricted sales of foreign exchange it is impossible to identify its use and, secondly, because there appears to be a flow of foreign exchange in the Bolivian market whose volume is estimated by various sources at some hundreds of millions of dollars deriving from illegal exports of cocaine which do not necessarily enter the banking system.

/show higher

show higher growth rates and also, of course, a bigger share of the gross domestic product.

Following the general trend of the economy, the commerce sector also lost some of its dynamism in 1977 and 1978. In fact, its rate of growth was significantly more moderate in those two years as a result of the smaller increases in the production of goods during that period. At the same time, the evolution of imports must have influenced the rate of commercial activity and that of financial institutions and insurance, although with an obvious time lag estimated at approximately six to eight months. A comparison of the growth rates of imports in table 1 and those of commerce which were out of step by one year confirm this observation (see table 3).

The sector producing community, social and personal services expanded in the eight years under review at a rate somewhat higher than that of the product; hence its share of the product increased slightly (see table 3). Its growth was not accentuated up to 1975, and from that year onwards, in consonance with the general evolution of the economy, it gradually lost impetus until in 1977 and 1978 it had reached its lowest ebb. This activity, which also includes restaurants, hotels and business services, is closely dependent on the fluctuations in the global economic system; hence the association between the growth rates of total supply and those experienced by this activity, particularly if consideration is given to the time lags typical of the performance of expenditure, as regards both community and personal spending. In fact, there seems to be a significant correlation between the growth rates of supply in each year and the movements of this type of services in the next.

(c) Phases of the growth process

The evolution of the main macroeconomic variables so far analysed makes it possible to identify three distinct periods in the performance of the Bolivian economy in the present decade.

The period 1970-1973 was characterized by a significant expansion of production and distribution activities. The growth rate of about 6% annually in the product was determined by a sharp increase in the production of goods and basic services which provided a sound basis for the growth process. Other

/services, in

services, in contrast, showed a significantly lower rate of increase. During this period, imports grew at a slightly slower rate than the product, exports increased at an accelerated pace, investment went up appreciably and external indebtedness started to follow an upward trend.

In the three years 1974-1976 external conditions changed drastically and the conduct of the economy followed different guidelines from those of the preceding period. The product continued to grow rapidly, although this time services clearly predominated; imports increased at exceptionally high rates, investment rose considerably, but exports fluctuated violently. External indebtedness, as will be analysed below, increased at a more accelerated pace and became more onerous in terms of interest and maturity periods.

The two years 1977-1978 were characterized by a significant slowing down of economic activity, although no changes were introduced in the manner of conducting the growth process. The activities producing services continued to be pre-eminent vis-à-vis the production of goods. The increases achieved by manufacturing and construction were partly offset by the drops in agriculture and mining, and the situation in general was less active than in previous periods. Nevertheless, indebtedness continued to grow at higher rates, in view of the increase in imports and the drop in exports. Events in the economic field in those last two years were, of course, not unconnected with the political atmosphere deriving from the plans for democratization and the calling of elections at the end of 1977. Expectations of possible changes generally defers the adoption of decisions; the conduct of both the public and the private sector is not insensible to the political struggle which naturally takes place in an election period. Be that as it may, the drop in exports, especially petroleum, seems to have determined the economic process during the two years concerned.

(d) Mode of growth and objectives of plans

The evolution of the main macroeconomic variables makes it possible to identify the most important profiles of the mode of growth followed by the Bolivian economy in the present decade, particularly from 1973 onwards.

/In the

In the first place, economic expansion was reflected in the more accelerated growth of the sectors producing services, particularly basic services, compared with the goods producing sectors which expanded at a slower rate.6/

The high rate of increase in imports greatly influenced the type of growth experienced by the economy. The rapid rates of expansion of the services producing sectors are basically accounted for by this situation. The external sector, through export prices and substantial foreign financing, facilitated not only the expansion of imports but also an increase in international reserves. In other words, the economy reacted to exogenous impulses, generating and promoting activities which generally speaking were directly related to the capacity to import.

The impetus gained in the period under review by certain capital-intensive sectors operating mainly with imported inputs is another feature which should be taken into account within the mode of growth of the economy. In fact, basic services, manufacturing, construction, petroleum and gas production, transport, communications and commerce were to a major extent intensive users of capital goods and inputs from abroad. In view of the fact that the growth rate of the product was lower than that of investment, the capital/output ratio seems to have continued going down, which would explain, at least partially, the difficulty of achieving more accelerated growth and the relatively smaller use of the abundant manpower available in the country.

The present production structure took shape through the decided support of government policy for private enterprise, both national and foreign, thus constituting another of the factors characterizing the type of growth and operation of the economy.

The substantial increase in the consumption of luxury goods, the greater concentration of income in the richer sectors of society, the exceptionally high external indebtedness and other factors were the price paid for the growth and mode of growth of the Bolivian economy.

6/ As noted earlier, the oil and gas producing sector showed considerable growth owing to the low level of the base year.

/The government

The government authorities realized these limitations as the mode of growth was gradually established. Thus, the development plans prepared by the Ministry of Planning show concern for achieving an economic expansion based essentially on the growth of the goods-producing sectors, and for bringing about a less unequal distribution of income. As may be seen from table 8, the intentions of the planning body as regards the production sphere differed from the results actually achieved. Similarly, the desire to establish a fairer distribution of income was not reflected in concrete results, as will be seen in analysing the wage policy. Economic policy responded, in general, to interests other than those indicated in the development plans and, therefore, the results of the short-term measures and decisions failed to fulfil the guiding principles for the medium term outlined in those plans.

The most notable divergencies between the plan and reality in the five-year period 1974-1978 may be observed in the mining and hydrocarbons sectors. According to the plans, both these sectors should have grown by 45 and 75%, respectively, over the five years, but in actual fact they declined by an overall figure of a little over 21% (see table 8). In the agricultural sector the difference was also significant, since in practice its growth was not even half that planned for the five-year period concerned.

Such wide disparities in such important sectors of the economy reflect an evident divorce between intentions and actions, that is, between the economic plan and economic policy. Although in other sectors the differences are more moderate, developments in the energy and transport and communications sectors are nonetheless noteworthy. In the latter sector, contrary to what occurred in the majority of the sectors, the results in practice far exceeded the plan, a difference which reflects the diverse motivations underlying the intentions and specific decisions.

The gross domestic product also showed a significant difference in the five-year period analysed, although it is obviously the result of compensation between excesses and defects.

In the last analysis, the attempts to change the mode of growth specified in the plans were clearly unsuccessful, while on the contrary, precisely the form of economic expansion which the authorities wished to change was steadily consolidated.

/Table 8

Table 8

BOLIVIA: FULFILMENT OF DEVELOPMENT PLANS. COMPARISON BETWEEN PLANNED AND ACTUAL VARIATION IN SECTORAL PRODUCT

(Rates of variation)

	Period 1974-1978		1974		1975		1976		1977		1978	
	Planned a)	Actual b)	Planned a)	Actual b)	Planned a)	Actual b)	Planned a)	Actual b)	Planned a)	Actual b)	Planned a)	Actual b)
Agriculture	26.1	12.6	2.0	3.7	2.0	6.7	6.0	2.9	6.4	-3.4	7.5	2.3
Mining	44.7	-21.1	6.6	-4.8	6.6	-15.2	8.0	10.8	8.4	-5.0	8.8	-7.2
Hydrocarbons	75.5		17.0		17.0		8.0		8.4		9.5	
Manufacturing	46.5	39.8	6.7	11.3	3.2	6.1	9.6	5.9	10.0	6.2	10.4	5.3
Construction	47.3	47.2	8.1	9.0	8.1	12.9	8.6	7.9	7.5	5.9	8.0	4.7
Energy	50.6	37.5	9.9	10.0	10.0	2.2	7.3	9.7	7.4	6.1	8.1	5.1
Transport and communications	39.4	75.5	4.9	14.9	4.8	13.7	7.5	12.0	8.6	14.1	8.6	5.1
Commerce and finance	40.1	36.0	6.5	7.0	6.6	8.7	6.7	7.3	7.4	4.6	7.7	4.2
Ownership of dwellings	40.5	25.5	6.8	3.7	6.8	7.5	7.1	3.1	7.4	5.6	7.1	3.4
Services	29.3	32.1	4.9	7.7	4.9	7.6	4.6	5.3	6.5	4.1	5.5	4.0
General government	36.2		7.2		7.2		5.6		4.8		7.1	
Gross domestic product	40.2	27.2	6.2	6.1	6.3	5.5	7.0	6.4	7.5	3.6	8.0	3.1

Source: a) Ministry of Planning and Co-ordination, Global Planning and Economic Policy Department. The planned rates up to 1975 are those specified in the 1972-1977 Five-Year Development Plan, and from 1976 onwards, those established in the 1976-1980 Economic and Social Development Plan;
b) CEPAL, on the basis of official statistics.

/Actually, the

Actually, the surpluses generated by the high export prices and the considerable inflow of foreign loans since 1973 provided grounds for expecting a significant increase and transformation of the production base of the economy. If the customary annual export earnings and indebtedness before 1973, which totalled around 300 million dollars, are compared with the 1,000 million dollars annually in the subsequent period, it will be understood how far such a transformation could have gone, whatever the index used for deducting the devaluation of the dollar.

The priority projects which would have contributed to this would have been those related to two of the country's most abundant resources: natural gas and iron. The development of these resources would seem to constitute the central nucleus of the future production strategy of Bolivia's economy. On the one hand, the production of natural gas on a larger scale would not only facilitate the reduction process in iron smelting and provide export earnings in foreign exchange, but the technological process itself would leave a liquid petroleum surplus which would cover domestic consumption. On the other hand, the possibility of producing steel locally would not only free the foreign exchange currently absorbed by steel imports, but would promote more solid and integrated manufacturing activities. The situation of a country with its own steel plant alters substantially and its industrial production apparatus becomes more vigorous.

Both from the standpoint of the production and consumption functions and from the social point of view, the concept of an efficient agrarian policy with a well-defined perspective in which decisions concerning investment, prices, wages, credit, technical assistance, etc., make up a coherent and persistent whole seems to be another of the key points of Bolivia's future transformation strategy.

3. The external sector

The external sector's performance in the period 1970-1978 played a decisive role in the general evolution of the economy and was a determining factor, as noted earlier, in the mode of growth which characterized the Bolivian economy. To assess its influence, suffice it to reiterate that the import coefficient rose from 20% in 1970 to about 30% in 1978, and that

/the export

the export coefficient dropped from 20 to 17.5% between those same years. These indicators show how far the external indebtedness affected the evolution of this sector and, therefore, economic activity in general.

In view of the sharp changes in export and import prices in the period analysed, it is appropriate to reflect on the performance of the variables of this sector, at both constant and current prices, i.e., distinguishing between the physical and monetary flows. In conjunctural analyses, prevailing prices are of great importance, while in studies of the evolution of external transactions over longer periods, magnitudes in terms of constant prices would have pre-eminence.

(a) External trade

Throughout the period 1970-1978, exports of goods underwent significant changes. To start with, it should be noted that their current value rose by approximately 230%, i.e., it more than tripled in a relatively short period (see table 9).

The rise in the current value of exports of goods was due to an increase of about 170% in prices, while their volume only expanded by 25% (see table 10). The volume and unit value followed uneven trends during the first eight years of the present decade. While the export volume showed a rising trend up to 1976, in the last two years it experienced significant contractions. In contrast, the unit value, which had followed an adverse trend in the first few years, in 1973 initiated an accelerated upward process which reached its peak in 1978. The evolution of the current value of exports was largely determined by the performance of export prices. The drop in volume in the

/Table 10

Main traditional exports
Tin
Other minerals
Crude petroleum
Natural gas
Main non-traditional exports
Agricultural
Cotton fibre
Wood
Other exports
Manufactures
Illegal exports
Total

Source: Central Bank of Bolivia

Table 9

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

Millions of US dollars										Percentage breakdown			Growth rates						
1960	1970	1971	1972	1973	1974	1975	1976	1977	1978	1960	1970	1978	1973/1970	1974	1975	1976	1977	1978	1970/1978
52.3	188.8	165.5	182.4	220.9	495.1	392.0	481.0	548.0	547.7	96.1	96.5	85.3	5.4	124.1	-20.8	22.7	13.9	-0.1	14.3
34.4	88.5	89.3	95.9	93.5	183.7	135.4	187.8	298.2	335.8	63.2	45.2	52.3	1.8	96.5	-26.3	38.7	58.8	12.6	18.1
13.6	88.8	56.0	51.4	60.4	118.3	94.6	125.7	115.5	91.1	25.0	45.4	14.2	-12.0	95.9	-20.0	32.9	-8.1	-21.1	0.3
4.3	11.5	20.2	26.8	48.9	163.9	114.5	112.6	67.5	42.3	7.9	5.9	6.6	62.2	235.2	-30.1	-1.7	-40.0	-37.3	17.7
-	-	-	8.3	18.1	29.2	47.5	54.9	66.8	78.5	-	-	12.2	-	61.3	62.7	15.6	21.7	17.5	-
1.9	2.5	3.3	9.5	28.8	42.1	35.4	47.0	46.6	69.2	3.5	1.3	10.8	125.0	46.2	-15.9	32.8	-0.9	48.5	51.5
1.9	2.5	3.3	6.5	8.5	19.2	15.5	10.2	14.1	14.8	3.5	1.3	2.3	51.0	125.9	-19.3	-34.2	38.2	5.0	24.9
-	-	-	3.0	6.7	11.3	8.8	8.3	9.8	11.5	-	-	1.8	-	68.7	-22.1	-5.7	18.1	17.3	
-	-	-	-	13.6	11.6	11.1	28.5	22.7	42.9	-	-	6.7	-	-14.7	-4.3	156.8	-20.4	89.0	
0.2	3.3	2.2	4.5	10.8	19.2	15.1	35.0	29.3	13.1	0.4	1.7	2.0	48.7	77.8	-21.4	131.8	-16.3	-65.3	18.8
-	1.1	10.9	6.8	9.4	21.5	22.1	13.9	24.0	12.0	-	0.6	1.9	105.0	128.7	2.8	-37.1	72.7	-50.0	34.8
54.4	195.7	181.9	203.2	269.9	577.9	464.6	576.9	647.9	642.0	100.0	100.0	100.0	11.3	114.1	-19.6	24.2	12.3	-0.9	16.0

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Table 10

BOLIVIA: INDEXES OF VALUE, VOLUMES AND PRICES OF EXPORTS AND IMPORTS

	1970	1971	1972	1973	1974	1975	1976	1977	1978
				Base: 1970 = 100					
Exports of goods									
Value	100.0	92.9	103.8	137.9	295.4	236.2	294.8	331.1	328.1*
Volume	100.0	111.2	119.9	125.5	135.5	121.3	140.7	134.4	121.1
Unit value	100.0	83.6	86.6	109.9	218.0	195.7	209.5	246.3	270.9
Imports of goods									
Value	100.0	109.1	117.8	141.8	219.1	309.8	338.4	387.5	476.5*
Volume	100.0	107.2	109.1	113.0	140.4	175.8	184.5	190.2	212.6
Unit value	100.0	101.8	108.0	125.5	156.0	176.3	183.5	203.7	224.1
				Annual variation					
Exports of goods									
Value	9.5	-7.1	11.7	32.8	114.1	-20.0	24.2	12.3	-0.9
Volume	-8.8	11.2	7.8	4.7	7.9	-10.5	16.0	-4.5	-10.0
Unit value	15.5	-16.4	3.6	26.9	98.4	-30.2	7.1	17.6	10.0
Imports of goods									
Value	-4.1	9.1	8.0	20.4	54.5	41.4	9.2	14.5	23.0
Volume	-7.1	7.2	1.7	3.6	24.3	25.2	5.0	3.1	11.8
Unit value	3.8	1.8	6.1	16.2	24.3	13.0	4.1	11.0	10.0

Source: CEPAL, on the basis of official data.

/There were

There were certainly important changes in the composition of exports between 1970 and 1978. A fact which is worth noting is the small share of traditional exports, especially minerals, petroleum and natural gas. These products as a whole represented over 96% of the total value of exports in 1970, while in 1978 their share was below 86%. Tin, the main export item of the Bolivian economy, increased its share from 45 to 52% between those two years, while that of the rest of the minerals exported shrank from 45 to 14%. Attention is drawn to the significant share of natural gas in the total value of exports, which was over 12% in 1978, whereas in 1970 there were no exports of this product.

The increased share of non-traditional agricultural exports is another positive feature of the new structure of exports. While this group of products accounted for only a little over 1% in 1970, it represented almost 11% in 1978.

Although the higher export values were basically determined by price increases, there is no doubt that external sales were genuinely diversified. It may be affirmed, therefore, that the Bolivian economy is not so vulnerable today as it was eight years ago to adverse fluctuations in the external market. Nevertheless, the steadily declining trend in the volume of exports of crude oil is a matter of some concern. After reaching its peak in 1974 the value of exports of this energy resource in 1978 stood at a quarter of that level. The depletion of some wells and the unsuccessful results of prospecting activities would seem to have been the causes of its decline. On the other hand, the value of exports of natural gas showed a rising trend throughout the period, and in 1978 it far exceeded the value of petroleum exports.

The as yet incipient exports of manufactures, for their part, after decidedly increasing up to 1976, dropped sharply in the next two years: thus the value of exports in 1978 was practically one-third of the 1976 value (see table 9).

These considerations make up a fairly heterogeneous picture of Bolivia's exports. Certain distinctly positive signs such as favourable prices and diversification were partly offset by drops in some important items. At the same time, the annual variations shown in table 9 reflect the instability of

/the main

the main export products; increases and decreases following upon one another over the years give export activities a markedly fluctuating character.

The current value of imports of goods showed exceptional dynamism in the eight years under review. Its annual growth rate was about 24% in the period 1970-1978, which meant that the CIF value of imports of goods in 1978 was more than five times that recorded in 1970 (see table 11).

These increases were more or less equally due to increases in volume and unit value. In table 10 it may be observed that the volume of imports of goods rose by 124% in the period under review. The combination of these two factors pushed up the current value of imports, in FOB terms, by nearly 380% over the same period (see table 10).

As regards the composition of imports, there were no significant changes between 1970 and 1978, if consideration is given to the three traditional groups: consumer goods, intermediate products and capital goods. The three categories grew at very similar rates to that of total imports, i.e., around 23% annually over the period 1970-1978. Generally speaking, when it is said that the structure has not altered, this tends to be interpreted as meaning the absence of any important changes. When in eight years the composition remains unaltered, however, despite the fact that the value of imports has risen by over 23% annually, the implications for the country's economy are undoubtedly significant. It will be recalled that in 1978 the import coefficient was around 30% (see table 11).

With respect to the structure of imports, a noteworthy development occurred within the consumer goods category, because here the composition did change. The share of non-durable consumer goods, with a high content

/of deep

Consumer goods	
Non durable	
Durable	
Intermediate goods	
Raw materials and intermediate products	
Building materials	
Fuels	
Capital goods	
For agriculture	
For industry	
For transport	
Total b/	

Source: CEPAL, on the basis of c

a/ Preliminary figures.

b/ Because of adjustments in the

Table 11

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

Millions of US dollars										Percentage breakdown			Growth rates						
1960	1970	1971	1972	1973	1974	1975	1976	1977	1978a/	1960	1970	1978	1973/1970	1974	1975	1976	1977	1978	1978/1970
22.9	32.3	34.2	39.7	45.9	93.1	127.8	118.7	126.7	173.5	32.0	20.3	20.6	12.4	102.8	37.3	-7.1	6.7	36.9	23.4
14.8	22.5	24.7	30.2	34.9	51.2	67.5	62.7	64.9	88.8	20.7	14.1	10.6	15.8	46.7	31.8	-7.1	3.5	36.8	18.7
8.1	9.8	9.5	9.5	11.0	41.9	60.3	56.0	61.8	84.7	11.3	6.2	10.0	3.9	280.9	43.9	-7.1	10.4	37.1	30.9
23.4	68.7	77.9	74.7	87.8	155.6	223.8	254.3	296.4	360.0	32.7	43.2	42.6	8.5	77.2	43.8	13.6	16.6	21.5	23.0
19.0	58.8	61.3	63.0	66.5	133.8	192.0	222.7	261.1	315.6	26.6	36.9	37.2	4.2	101.2	43.5	16.0	17.2	20.9	23.4
2.0	8.8	15.4	10.6	19.0	17.1	24.6	25.5	29.1	36.3	2.8	5.5	4.4	29.2	-10.0	43.9	3.7	14.1	24.7	19.4
2.4	1.1	1.2	1.1	2.3	4.7	7.2	6.1	6.2	8.1	3.3	0.7	1.0	27.8	104.4	53.2	-15.3	1.6	30.6	28.3
24.7	57.4	55.7	64.0	93.4	138.5	199.1	210.2	238.5	309.0	34.6	36.1	36.2	17.5	48.3	43.8	5.6	13.5	29.6	23.4
0.8	3.2	3.0	3.3	5.5	5.0	7.2	8.3	9.9	12.9	1.1	2.0	1.6	19.8	-9.1	44.0	15.3	19.3	30.3	19.0
18.2	26.4	31.3	31.5	41.5	64.4	92.6	98.2	111.2	142.8	25.5	16.6	16.8	16.2	55.2	43.8	6.1	13.2	28.4	23.5
5.7	27.8	21.4	29.1	46.3	69.1	99.3	103.7	117.4	153.3	8.0	17.5	17.8	13.5	49.2	43.7	4.4	13.2	30.6	23.8
71.5	159.2	168.0	185.4	229.4	390.0	557.9	587.6	665.9	848.2	100.0	100.0	100.0	13.0	70.0	43.1	5.3	13.3	27.4	23.2

ficial data.

estimates of illegal imports, the sum of the columns differs slightly from the total.

of deep concern to the government authorities, but there are no signs of this activity having decreased. It undoubtedly represents one of the most serious problems, not only for foreign trade but for the whole economic and social system.

If the annual variations in the main components of Bolivia's imports are analysed, it is concluded that, in general, there were no restrictions in the supply of external products, except in 1976 when as a whole they expanded by a little over 5%. In evaluating this rate, however, it must be taken into account that in the two immediately preceding years they had grown at exceptionally high rates (70% and 43%, respectively). In 1977, and particularly in 1978, they gained renewed impetus, but failed to reach the high levels mentioned above. In any case, the enormous inflow of imported products in 1978 was a record for the country (see tables 10 and 11).

Bolivia's foreign trade, as noted earlier, showed uneven trends for exports and imports, mainly in terms of volume. Favourable export prices helped to make the physical disequilibria less evident. The terms of trade, which were adverse up to 1973, subsequently became extremely favourable to the country in comparison with the base year. In other words, as from 1974 export prices rose more than import prices; hence the positive terms-of-trade effect for the country from that year onwards. If the period is considered as a whole, the balance of positive and negative effects amounted to 180 million dollars at 1970 prices (see table 12).

In view of the evolution of the terms of trade and in spite of the drop in the volume exported at the end of the eight years considered, the purchasing power of exports rose significantly in the period analysed, reached its peak in 1974 and stabilized at around 350 million dollars at 1970 prices in the three years 1976-1978. A comparison of this indicator with the volume of imports and the volume of exports gives a clear idea of the real disequilibria in Bolivia's external trade. While the volume of imports grew steadily, the other two indicators, and particularly the volume of exports, declined at the end of the period. While in terms of volume the situation in 1970 was well balanced, in 1978 it was unfavourable to the country to the tune of 190 million dollars at 1970 prices (see table 12).

/Table 12

Table 12

BOLIVIA: MAIN INDICATORS OF FOREIGN TRADE

	1970	1971	1972	1973	1974	1975	1976	1977	1978
Terms of trade									
Index (base: 1970 = 100)	100.0	82.1	79.9	87.6	139.7	111.0	114.2	120.9	120.9
Annual variation	11.2	-17.9	-2.7	9.6	59.5	-20.5	2.9	5.9	-
Terms-of-trade effect (millions of US dollars at 1970 prices)	-	-41.0	-50.0	-36.2	103.3	26.5	40.6	61.9	63.6
Purchasing power of exports (millions of US dollars at 1970 prices)	210.4	192.3	206.0	239.3	410.6	306.6	354.2	365.7	336.9
Import quantum (millions of US dollars at 1970 prices)	210.7	220.8	239.0	249.1	314.2	383.0	391.6	414.6	467.2
Export quantum (millions of US dollars at 1970 prices)	210.3	233.3	256.0	275.5	299.9	279.9	313.7	304.4	278.6
Trade quantum relation									
Index (base: 1970 = 100)	100.0	105.8	107.3	110.8	95.6	73.2	80.3	73.5	59.8
Annual variation		5.8	1.4	3.3	-13.7	-23.4	9.7	-8.5	-18.6

Source: CEPAL, on the basis of official data.

/(b) The

(b) The balance of payments

A first situation which stands out clearly in the record of external transactions is the repeated trade deficit. Except in 1974, in all the years of the present decade imports exceeded exports of goods and services to the point where in 1978 the deficit was nearly 300 million dollars. The negative balance in services was comparable with that of goods and, in view of the differences between the absolute values of each, the burden the country's external sector had to bear with the increased cost of transport is understandable. Bolivia's particular geographical situation makes it exceptionally vulnerable to such increases in costs. If payments of profits and interest on foreign capital are added to the aforementioned deficits and income in the form of transfer payments is deducted, the result is the balance on current account. The current account deficit expanded at an accelerated rate, except in 1976 when the opposite occurred, but the situation became more and more unfavourable as from 1975 and presented a negative balance of some 400 million dollars in 1978 (see table 13).

The movements of funds in the capital account reflect some facts which it is useful to point out. With regard to long-term movements, it may be noted that direct foreign investment did not constitute a significant contribution to economic activity or the financing of important investments. From this point of view it may be said that foreign non-compensatory capital failed to respond to the policies of tax incentives and other facilities granted to encourage its entry into the country. The small domestic market, on the one hand, and export difficulties arising from the exchange policy, on the other, seem to have been the factors mainly accounting for the somewhat low level of foreign investment. Only in 1975 was it of any significant magnitude.

In the sphere of external financing, particularly in the last few years, the loans obtained by the private and public sectors did represent substantial amounts. Up to 1973 the total was not more than 36 million dollars, while in 1974 it was 100 million, and thenceforward these loans continued to expand until in 1978 they stood at 600 million dollars. At the beginning of the decade this type of external financing represented not more than 15% of the total value of exports, while in 1977 and 1978 it rose to 75%.

/Table 13

Table 13

BOLIVIA: BALANCE OF PAYMENTS

(Millions of US dollars)

	1970	1971	1972	1973	1974	1975	1976	1977	1978[a]
Current account									
Exports of goods and services	211	198	225	297	628	531	639	721	722
Goods FOB [b]	196	182	203	270	578	465	577	648	642
Services	15	16	22	27	50	66	62	73	80
Transport	2	2	3	3	5	7	8	12	15
Travel	3	4	9	12	18	19	25	29	35
Imports of goods and services	211	227	261	310	485	667	712	828	1 019
Goods FOB [b]	166	181	196	236	364	515	563	644	792
Services	45	46	65	74	121	152	149	184	227
Transport	29	29	35	40	72	99	86	103	140
Travel	4	6	11	14	24	26	31	38	41
Net payments of profits and interest on foreign capital	-25	-17	-22	-23	-37	-32	-42	-73	-115
Profits	-17	-8	-6	-6	-16	-8	-9	-8	-9
Interest	-8	-9	-16	-17	-21	-24	-33	-65	-106
Net private transfer payments	2	2	5	5	3	3	5	2	14
Balance on current account	-23	-44	-53	-31	109	-165	-112	-178	-398
Capital account									
Net external financing (a+b+c+d+e)	23	44	53	31	-109	165	112	178	398
a) Long-term capital	31	68	93	38	99	159	203	334	294
Direct investment	-76	2	-11	5	26	53	12	9	15
Private sector	16	52	72	17	15	55	77	156	185
Loans	31	65	96	51	70	118	140	237	293
Amortization payments	-15	-17	-24	-34	-55	-63	-63	-81	-108
Other liabilities and assets		4							
Official sector	93	16	25	16	58	54	119	171	94
Loans	22	18	45	31	75	69	145	221	306
Amortization payments	-5	-5	-6	-9	-16	-15	-24	-40	-212
Other liabilities and assets	78	3	-14	-6	-1		-2	-10	...
Monetary authorities	-2	-2	7			-3	-5	-2	...
b) Short-term capital	-9	-39	-37	-20	-101	-31	-76	-101	55
Private sector	-1	-5	-12	1	-34	-21	-41	-109	93
Official sector	-1	-1	2	4	-2	-1	-2	34	-41
Monetary authorities	4	-2	6	7	-8	12	-26	31	88
Errors and omissions	-11	-31	-33	-32	-57	-21	-7	-57	-85
c) Allocation of SDRs	5	4	4						
d) Official transfer payments	2	5	9	10	11	10	11	13	13
e) International reserves (minus sign indicates an increase)	-6	6	-16	3	-118	27	-26	-68	36
Use made of IMF credit	-2	1	1	12	-4	-1	-16		
Other liabilities									
Monetary gold	-1	-1	-1		-2	-2	-2	-8	-4
Special Drawing Rights	-3		-1	1	-1	-5		1	-12
IMF reserve position							-7	-1	-3
Foreign exchange		6	-15	-10	-111	35	-1	-60	55

Source: 1960-1977: International Monetary Fund, Balance of Payments Yearbook, vol. 29, and CEPAL; 1978: CEPAL, on the basis of data supplied by the Central Bank of Bolivia.

a/ Provisional figures.

b/ Including non-monetary gold.

/As might

As might have been expected, amortization and interest payments on external loans also increased geometrically. Up to 1976, although they followed a clearly rising trend, they amounted to not more than 50 million dollars and their relation to exports remained below 20%. The situation deteriorated drastically in 1977 and 1978, when the coefficient was 26% and 60%, respectively 7/ (see table 13).

The movement of short-term capital also meant, as a rule, the outflow of foreign exchange, except in 1978 when it reflected a positive balance. The increasing amounts shown by errors and omissions are partly explained by the fact that some of the illegal foreign trade activities are included in this item. The amounts shown under the head of allocation of Special Drawing Rights and official transfer payments were insignificant compared with the total figures.

Except in 1974, the variations in international reserves due to the substantial external credits bore no relation to the deficits on current account. In other words, the inflow of foreign financing not only covered the current account deficit, but in certain years helped to increase international reserves. The sharp deterioration in Bolivia's external sector, the extent of which may be determined in evaluating the situation in 1978, led to a decrease in reserves in spite of the 600 million obtained in external loans, half of which was absorbed by amortization payments.

(c) External indebtedness

Bolivia's foreign trade situation and balance-of-payments movements clearly show what must have been the course of the external debt.

Between 1970 and 1978 the external debt contracted rose from 671 to 3,102 million dollars at current prices and more than doubled in real terms. The annual rate of real indebtedness was 9.5% in the eight

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7/ The exceptionally rapid growth in 1978 was mainly due to the insufficient maturity periods of the debt contracted in the years 1973-1975 and the fact that the grace periods of other loans expired then. It should also be noted that amortization payments included 155 million dollars, the payment of which served to negotiate part of the external debt. The debt servicing coefficient, excluding this sum, appears to have been 38%.

/years, i.e.,

years, i.e., almost twice the growth rate of the gross domestic product. Another way of assessing the rate of indebtedness is through its relationship with the product. While in 1970 the external debt represented 64% of the product, by 1978 the proportion had risen to 87% (see table 14).

Increases in the debt, particularly when it reaches high levels, makes it more and more difficult to obtain external loans unless, on the one hand, more severe conditions are accepted and, on the other, its servicing absorbs increasingly high proportions of the availability of foreign exchange. Both these effects conspire against the country's freedom to adopt decisions and restrict its room for manoeuvre in the conduct of the economy.

The level reached by amortization and interest payments, particularly towards the end of the period, reflect an extremely delicate situation. It will be seen that in 1978 nearly 60% of the value of exports was used to service the external debt. It is difficult for a country to carry such a heavy burden in its external sector, which, as noted earlier, constitutes one of the main centres of economic activity, without affecting the actual operation of the system. The expedient of having recourse to new loans in order to deal with the situation, apart from presenting greater obstacles, merely succeeds in postponing the crisis in the external sector. Be that as it may, it will be noted that in 1978 over 71% of the foreign loans contracted equalled the service payments on the debt (see table 13).

As stated earlier, as external financing requirements become more pressing, loan conditions harden and became more rigid. Thus, Bolivia's external debt suffered adverse changes in recent years: higher interest rates, shorter maturity periods and more rigid sources for possible renegotiation.

Interest rates rose significantly throughout the period under review.8/ Up to 1974, over half of the debt bore an interest of not more than 3% annually. Towards the end of the period only one-third of the debt enjoyed that treatment. Similarly, at the beginning of the decade only 16% of the debt bore an interest of more than 6%, while in 1978 over 56% of it was subject to that rate (see table 15). There is no doubt that credit became

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8/ See CEPAL, Economic Survey of Latin America, 1977 (section on Bolivia), United Nations publication, Sales No.: E.79.II.G.1.

/Table 14

Table 14

BOLIVIA: EXTERNAL INDEBTEDNESS

(Balance at end of each year in millions of US dollars at current prices)

	1970	1971	1972	1973	1974	1975	1976	1977	1978
External debt a/									
Contracted	670.6	782.1	941.8	1 018.0	1 191.8	1 524.5	1 978.7	2 510.7	3 101.8
Disbursed	522.2	591.2	680.8	707.8	786.2	882.7	1 106.8	1 457.7	1 761.5
Servicing of external debt b/	28.0	31.0	46.0	50.0	92.0	102.0	120.0	186.0	426.0
Amortization payments	20.0	22.0	30.0	43.0	71.0	78.0	87.0	121.0	320.0
Interest payments	8.0	9.0	16.0	17.0	21.0	24.0	33.0	65.0	106.0
Servicing of external debt, as a percentage of total exports b/	13.3	15.7	20.4	16.8	14.6	19.2	18.8	25.8	59.0
External debt contracted, as a percentage of the product c/	63.7	69.6	74.5	64.9	57.6	61.7	72.3	79.8	86.9
External debt in US dollars at 1970 prices	670.6	768.3	872.0	811.2	764.0	864.7	1 078.3	1 232.5	1 384.1
Gross domestic product in US dollars at 1970 prices	1 052.6	1 104.6	1 169.9	1 250.8	1 325.4	1 400.8	1 490.7	1 544.0	1 592.3

a/ Central Bank of Bolivia, Boletín estadístico, december 1978

b/ Balance of payments (table 13).

c/ Both concepts were calculated in US dollars at 1970 prices, using the index of the unit value of imports as a deflator.

/Table 15

Table 15

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

(At the end of year)

	Interest rate groups b/					
	Up to 3%	Over 3% and up to 6%	Over 6% and up to 9%	Over 9%	Unspecified	Total
1971						
Millions of US dollars	429.1	226.4	124.6	-	2.0	782.1
Percentage	54.9	28.9	16.0	-	0.2	100.0
1972						
Millions of US dollars	499.8	240.8	197.9	1.3	2.0	941.8
Percentage	53.1	25.6	21.0	0.1	0.2	100.0
1973						
Millions of US dollars	530.8	248.3	233.0	3.9	2.0	1 018.0
Percentage	52.1	24.4	23.0	0.3	0.2	100.0
1974						
Millions of US dollars	637.8	236.1	311.0	4.9	2.0	1 191.8
Percentage	53.5	19.8	26.1	0.4	0.2	100.0
1975						
Millions of US dollars	672.3	268.3	567.1	10.7	6.1	1 524.5
Percentage	44.1	17.6	37.2	0.7	0.4	100.0
1976						
Millions of US dollars	787.5	273.1	882.5	29.7	5.9	1 978.7
Percentage	39.8	13.8	44.6	1.5	0.3	100.0
1977 c/						
Millions of US dollars	852.6	279.1	1 314.9	45.9	18.2	2 510.7
Percentage	34.0	11.1	52.4	1.8	0.7	100.0
1978 d/						
Millions of US dollars	1 001.7	169.5	888.9	855.6	186.1	3 101.8
Percentage	32.3	5.4	28.7	27.6	6.0	100.0

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

a/ The calculation criteria used in this table relatively underestimate the amounts contracted in the first two interest rate groups, particularly in 1976 and 1977.

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

c/ Preliminary figures.

d/ Central Bank of Bolivia estimates.

/more expensive

more expensive in international financial markets, in general, but it must also be admitted that a country whose external sector is affected by a critical situation sees its negotiating capacity considerably weakened and is compelled by circumstances to undertake urgent formalities and accept harsher terms from lenders.

If consideration is given to the repayment periods of external loans, a distinct deterioration in the situation of the country may be observed. At the beginning of the decade the credits obtained for periods of 10 years or less, i.e., for relatively short periods in terms of external financing, totalled only about 11%, while in 1978 this type of financing represented over 38% of the total debt contracted. A similar deterioration as regards maturity periods may be noted when it is seen that long-term credits - with maturity periods of 30 years or more - represented 30% of the debt in 1971 and only 20% of its in 1978 (see table 16).

The higher interest rates and shorter maturity periods progressively sustained by Bolivia's external debt in the course of this decade are closely associated with the changes which took place in the composition of its sources of credit. As credit became more expensive and maturity periods shorter, a bigger proportion of the debt was owed to private entities. The transfer of the country's external financing to private hands is apparent when it is noted how much of the debt was contracted with sources of this type. In 1978, over 43% of the debt was owed to private banks abroad and suppliers, compared with less than 22% in 1971 (see table 17).

Therefore, when consideration is given to Bolivia's steadily mounting external debt and to the total reached in 1978, the harsh conditions under which it must be serviced cannot but be realized. Any projection with respect to external financing in the future will be subject to aggravating factors of this nature.

/Table 16

Table 16

BOLIVIA: EXTERNAL DEBT CONTRACTED, BY AMORTIZATION PERIOD GROUPS

(At the end of year)

	Amortization period groups b/								
	Up to 5 years	Over 5 and up to 10 years	Over 10 and up to 15 years	Over 15 and up to 20 years	Over 20 and up to 30 years	Over 30 and up to 40 years	Over 40 years	Unspecified	Total
1971									
Millions of US dollars	16.4	71.9	60.2	179.4	124.0	137.5	96.4	96.3	782.1
Percentage	2.1	9.2	7.7	22.9	15.8	17.6	12.4	12.3	100.0
1972									
Millions of US dollars	30.1	126.6	72.0	187.7	124.9	199.8	104.4	96.3	941.8
Percentage	3.2	13.4	7.6	19.9	13.3	21.3	11.1	10.2	100.0
1973									
Millions of US dollars	37.2	135.1	84.5	194.5	130.6	219.4	113.3	103.4	1 018.0
Percentage	3.7	13.3	8.3	19.1	12.8	21.5	11.1	10.2	100.0
1974									
Millions of US dollars	57.7	207.3	49.3	190.7	162.9	283.3	120.2	120.4	1 191.8
Percentage	4.8	17.4	4.1	16.0	13.6	23.8	10.1	10.2	100.0
1975									
Millions of US dollars	91.5	242.4	95.3	191.6	291.7	308.7	127.0	176.3	1 524.5
Percentage	6.0	15.9	6.2	12.6	19.1	20.3	8.3	11.6	100.0
1976									
Millions of US dollars	306.2	318.9	202.7	189.3	360.6	393.0	119.5	88.5	1 978.7
Percentage	15.5	16.1	10.2	9.6	18.2	19.9	6.0	4.5	100.0
1977 c/									
Millions of US dollars	355.7	576.8	230.4	273.9	370.9	384.1	177.2	141.7	2 510.7
Percentage	14.2	23.0	9.2	10.9	14.7	15.3	7.2	5.5	100.0
1978 d/									
Millions of US dollars	396.6	783.9	367.3	315.9	568.9	498.0	128.5	42.7	3 101.8
Percentage	12.8	25.3	11.8	10.2	18.3	16.1	4.1	1.4	100.0

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

a/ The calculation criteria used in this table relatively underestimate the amounts contracted for groups of less than 20 years, particularly in 1976 and 1977.

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

c/ Preliminary figures.

d/ Central Bank of Bolivia estimates.

/Table 17

Table 17

BOLIVIA: EXTERNAL DEBT CONTRACTED, BY SOURCE OF CREDIT a/

	Sources of credit				
	Multilateral agencies and governments	Private banks abroad	Suppliers	Rest	Total
1970					
Millions of US dollars	458.4	1.4	143.4	67.4	670.6
Percentage	68.3	0.2	21.4	10.1	100.0
1971					
Millions of US dollars	537.7	25.4	151.7	67.3	782.1
Percentage	68.8	3.2	19.4	8.6	100.0
1972					
Millions of US dollars	640.2	39.9	194.3	67.4	941.8
Percentage	67.9	4.3	20.6	7.2	100.0
1973					
Millions of US dollars	671.5	50.2	228.9	67.4	1 018.0
Percentage	66.0	4.9	22.5	6.6	100.0
1974					
Millions of US dollars	758.8	128.5	237.1	67.4	1 191.8
Percentage	63.6	10.8	19.9	5.7	100.0
1975					
Millions of US dollars	950.2	294.9	212.0	67.4	1 524.5
Percentage	62.3	19.4	13.9	4.4	100.0
1976					
Millions of US dollars	1 175.9	441.0	294.4	67.4	1 978.7
Percentage	59.4	22.3	14.9	3.4	100.0
1977 b/					
Millions of US dollars	1 392.1	690.9	360.3	67.4	2 510.7
Percentage	55.4	27.5	14.4	2.7	100.0
1978 c/					
Millions of US dollars	1 681.5	1 012.1	340.8	67.4	3 101.8
Percentage	54.2	32.6	11.0	2.2	100.0

Source: Ministry of Finance.

a/ End year figures.
b/ Preliminary figures.
c/ Central Bank of Bolivia estimates.

4. Economic policy

From 1972 to 1978, Bolivia's economic policy had clearly defined characteristics. There was evident concern for economic growth throughout the period and, from 1973 onwards, equal priority was assigned to price stability. As regards the former objective, undoubted backing was given to national and foreign private enterprise, which was reflected in various legal documents 9/ and materialized in the form of decided credit support. As regards the latter objective, exchange policy and the discipline imposed on wage claims were perhaps the most constant factors in the handling of instruments to contain inflationary pressures.

The rates of growth achieved and the control exercised over price increases were based on an external sector which enjoyed exceptional boom periods and an unusually large flow of foreign financing.

The quid pro quo of this is that growth tends to cause a resurgence of inflationary pressures; in other words, the decisions aimed at expanding economic activity are reflected in higher prices and, conversely, stabilization policies conspire against growth itself. In Bolivia's case, a reasonable growth rate was achieved, while at the same time inflationary pressures were mitigated owing to the large volume of external financing and high prices of export products. Accordingly, the most visible counterpart of growth and quasi-stability seems to have been, on the one hand, a suffocating bottleneck in the external sector due to the high servicing of the debt, which will certainly detract from the country's room for manoeuvre in the conduct of its economy in the near future; and, on the other hand, a more pronounced concentration of income at the top of the income distribution pyramid. Mention must also be made of the increase in illegal external trade as another of the adverse consequences of accentuating the objective of economic stability. The magnitudes involved in this type of activity, as noted earlier, give it far more than a marginal dimension.

9/ The Investment Law and the organization of the pre-investment system, among others.

/Another important

Another important feature of economic policy, as already stated, was its divergence from the development plans which Bolivia was attempting to implement, so that the objectives specified in the plans did not constitute parameters providing genuine guidance in the adoption of short-term decisions.

In any case, it must be recognized that to attain simultaneously the objectives of growth, stability and income redistribution, and at the same time to consolidate the country's position vis-à-vis other countries, is no simple task. In earlier periods, however, the main restrictions encountered in the attainment of such objectives were those imposed by a weak external sector exporting a single commodity, a deterioration in the terms of trade and a shortage of external financing. In the period analysed these restrictions did not exist.

(a) Exchange policy

The handling of exchange policy had some permanent features in the period 1972-1978: absolute freedom to purchase foreign exchange at the official exchange rates, and adherence to a single fixed rate for all economic operations.

The drastic devaluation of the Bolivian currency unit at the end of October 1972 seriously affected the country's economic system. At that time the Government decided to modify the parity of the Bolivian peso with gold, and a new exchange rate was established in relation to the dollar and other foreign currencies.10/ From 11.88 Bolivian pesos to the United States dollar, which had been in force since 1959, the exchange rate rose to 20 pesos to the dollar, which meant a devaluation of 68%. Another important decision was to eliminate the sworn statement formerly required with respect to the use of foreign exchange. The system of compulsory handing over to the Central Bank of foreign exchange obtained from exports after deduction of operating costs and royalties paid in foreign currency was, however, confirmed. On the one hand, therefore, the inflow of foreign exchange from export activities was assured and, on the other, with the object of encouraging confidence and eliminating speculation, there was absolute unrestricted freedom to purchase foreign currency, for whatever purpose.

10/ See CEPAL, Economic Survey of Latin America, 1972 and 1973 (section Bolivia) and 1974 (section on recent inflation in Bolivia).

/Just before

Just before it was devalued the Bolivian peso was obviously overvalued by approximately 30%, which made the dollar relatively cheap "good", but what really precipitated this measure was, in the first place, the balance-of-payments deficit which was reflected in a sharp drop in net international reserves to the point where they even showed a negative sign and, secondly, the high fiscal deficit as a result of the increase in public expenditure. These two factors gave rise to a situation of uncertainty and speculation which made it impossible to maintain the exchange rate. As a result of the above measure, a number of structural maladjustments arose in the economy, which were kept under control, as well as others of a conjunctural nature; altogether they unleashed an acute inflationary process which contrasted with the price stability characterizing the 13 years prior to 1972.

The exchange rate has remained unaltered from October 1972 up to the present time. It should be noted that the Bolivian economy's sensitivity to modifications in the exchange rate go beyond the actual real effects of a devaluation. In Bolivia the rate of exchange has come to be considered as an indisputable parameter of the soundness of the economy and is assigned a value which exceeds its own area of influence. The fact that exchange stability should have become a symbol of good management of public finance and guarantee of the private sector's decisions prevented it from being considered as another instrument of economic policy subject to changes in terms of its objectives.

The monetary authorities, in line with their priority objective of attenuating inflationary pressures to ensure sustained economic growth, and limited by the country's sensitivity to exchange modifications, succeeded in stabilizing the exchange rate thanks to higher export prices and, in particular, large-scale external borrowing.

Keeping the exchange rate constant while domestic prices increased by over 300% over the eight years considered, on the one hand constituted a kind of subsidy for legal and illegal imports and a heavy tax on exports; on the other hand, however, it largely helped to mitigate inflationary pressures, both from abroad and those emerging from the domestic process.

The soundness of a policy of this type can hardly be determined without taking into account, first, the external situation in terms of foreign trade prices and access to foreign financing and, secondly, the objectives of development policy and domestic socio-political restrictions. A fixed exchange policy can be reasonable in certain circumstances and with specific objectives, and it can be unfortunate under different circumstances and with different

/objectives. In

objectives. In the absence of a development strategy and a specific political project it is difficult to evaluate the handling of an instrument of this type. In Bolivia, its maintenance did enable certain aims to be attained, but it created awkward problems.

(b) Fiscal policy

Before describing the salient features of fiscal policy it is useful to point out that in the period analysed the public sector continued to play a decisive role in the economy. The fact that approximately two-thirds of total investment consisted of public investment confirms this view. Undoubtedly, in both the production and the administrative spheres, Bolivia's public sector has today more room for manoeuvre and greater potentiality in dealing with vitally important tasks, particularly the consideration of social aspects of development.

In the period analysed, fiscal income increased less than expenditure, which determined an accelerated rise in the central government deficit on current account. In fact, between 1970 and 1978, income multiplied eighfold and expenditure more than ninefold. The deficit represented 36% of total income in 1978, compared with less than 17% in 1970 (see table 18).

The least dynamic component of fiscal income was customs revenue, which was not compatible with the extraordinary increase in imports. Certain staff tariff reductions, and particularly large-scale tax evasion, would account for its slow growth in comparison with other items and with total income. Domestic income, i.e., taxes on domestic income and operations, also tended to be inelastic, although less so than tariff income.

As might be supposed, export taxes, i.e., royalties on mining and petroleum and gas, constituted the most dynamic item. In 1970 they amounted to 174 million pesos and represented a little over 16% of total income, whereas in 1978 they reached 3,400 million pesos and represented over 40% of current income.

The composition of tax revenue provides some reason for thinking about its dependence on external trade. In 1978 over 54% of tax income depended on the volume of external transactions. The customary fluctuations in foreign trade, in both volume and price, place the government finances in a highly vulnerable position. Thus, the royalties on oil and gas exports dropped drastically in the last two years and other export taxes have been decreasing since 1975. Only the accelerated growth of mining royalties enabled the fall

/Table 18

Table 18

BOLIVIA: MOVEMENT OF NATIONAL TREASURY FUNDS

(Millions of pesos)

	1970	1971	1972	1973	1974	1975	1976	1977	1978[a/]
Current income	1 070	1 093	1 330	2 470	5 070	5 689	6 841	7 641	8 559
Domestic income	439	551	602	906	1 299	1 724	2 332	2 748	3 156
Customs income	418	378	418	517	947	1 550	1 456	1 694	1 960
Mining royalties	174	47	43	191	903	478	856	1 258	1 545
Petroleum and gas royalties	-	37	58	279	883	819	1 270	918	675
Export taxes	-	-	139	452	801	622	589	535	469
Other income	39	80	70	125	237	496	338	386	754
Current expenditure	1 249	1 389	2 068	2 882	5 525	6 395	8 240	10 954	11 651
Personal services	675	832	1 010	1 332	2 314	2 686	3 389	3 795	4 710
Non-personal services, materials and supplies	157	153	223	387	554	744	808	931	1 189
Fixed and financial assets	17	6	52	120	102	230	241	293	259
Public debt	170	223	339	433	710	845	1 014	925	1 140
Transfers and contributions	230	170	212	550	1 545	1 789	2 543	3 153	3 165
Other expenditure b/	-	5	232	60	300	101	245	1 857	1 188
Deficit	179	296	738	412	455	706	1 399	3 313	3 092

Source: Ministry of Finance; Central Bank, Boletín estadístico, december 1978.

a/ Preliminary figures.

b/ Includes difference in credit according to the Central Bank of Bolivia and the National Treasury.

/in income

in income obtained from exports of energy resources to be faced without any major crisis.

Be that as it may, any comparison of the series expressed in terms of current prices with the price increases occurring in the eight years under review shows a real growth of about 100% in income over the period. In fact, the fiscal apparatus acquired more importance in the course of this decade and now plays a more significant role in the national economy than it did in 1970.

If consideration is given to fiscal expenditure it may be seen that, among the most important items, transfers and contributions to other public institutions grew most rapidly. The relationship between this item and public investment reflects its direct significance for economic growth. Personal services, i.e., wages and salaries paid to the government sector, grew less than expenditure as a whole, despite the notable increase in employment in the fiscal sector. Amortization payments on the public debt against Treasury funds grew steadily but at a slightly lower rate than total expenditure (see table 18).

The movements of national Treasury income and expenditure presented a chronically deficit position which reached its peak in 1977. The budget cuts effected in 1978 reduced the size of the deficit, but in any case it was very high. It will be seen that the 1978 deficit was 13 times higher than the average for the two years 1970-1971. Deflation of this figure by any of the price indexes available shows a very considerable real increase in the fiscal deficit.

In view of the fact that a high proportion of the fiscal deficit has been financed with credit from the Central Bank, it has had an evident incidence on the liquidity of the economy and the balance-of-payments deficit. The devaluation in October 1972 had a great deal to do with the critical deficit situation reached that year; it will be noted that the deficit was 55% higher than fiscal income, and the increase in expenditure with respect to 1971 was more than twice the rise in income.

(c) Monetary policy

The most important decisions in this field were designed to prevent the uncontrolled growth of monetary liquidity. In spite of a number of measures aimed at increasing cash reserves and freezing financial assets, liquidity expanded at an accelerated pace, particularly in the period 1972-1977.

/Between the

Between the end of 1971 and the end of 1977, liquidity grew more than fivefold. Of the monetary resources, money increased a little over four times and quasi-money more than six times. It is significant that the most dynamic components of the monetary resources were demand deposits which over the same period increased sevenfold, and quasi-money which increased 13-fold. The fact that demand deposits with dollar convertibility clauses should have been permitted was a determining factor of this expansion. There is no doubt that an increasing part of the economy, principally urban, has gradually accepted the cheque as a means of payment and recognized and relied on bank intermediation. At the beginning of the decade only 31% of the monetary resources were in the form of demand or fixed-term deposits, while in 1977 the proportion was 56% (see table 19).

These changes favoured the speedier circulation of money and contributed to the creation of secondary money; hence the authorities insisted on increasing the proportions and methods of sterilization of the means of payment.

The counterpart to those increases in monetary resources was an expansion of credit and international reserves. Between 1971 and 1977, domestic credit increased fourfold, and net international reserves over 12-fold. Thus the ratio of credit to reserves was 10 to 1 in 1971 and only 4 to 1 in 1977. The growth of reserves undoubtedly favoured the expansion of general liquidity in the economy.

One of the most significant changes on the Bolivian monetary scene has been that which took place in the composition of credit. At the beginning of the decade the Government was the main recipient: in 1971 it absorbed over 62% of total domestic credit. In 1977, on the other hand, the biggest user was the private sector, which received about 80% of domestic credit. These figures show how far private enterprise was backed by government policy. The promotion of production and distribution activities was based not only on a statute of guarantees and concessions, i.e., the investment law, but also on the continuing and progressive support of a decidedly open credit policy.

/Table 19

Table 19

BOLIVIA: MONETARY POSITION

(Balance at end of year in millions of pesos)

	1970	1971	1972	1973	1974	1975	1976	1977	1978
Money	1 532	1 766	2 210	2 969	4 257	4 759	6 497	7 855	8 831
Currency outside banks	1 167	1 337	1 634	2 120	2 796	3 152	4 067	4 973	5 975
Demand deposits	365	429	576	849	1 461	1 607	2 430	2 882	2 856
Factors of expansion	2 364	2 751	3 937	4 447	6 620	7 363	11 117	14 100	15 589
Net international reserves	293	241	718	224	2 502	1 661	2 885	2 912	454
Domestic credit	2 071	2 510	3 219	4 223	4 118	5 702	8 232	11 188	15 135
Government (net)	1 295	1 533	1 858	1 935	465	1 328	2 123	2 369	3 927
Private sector	776	978	1 361	2 288	3 653	4 374	6 110	8 819	11 208
Factors of absorption	832	985	1 727	1 478	2 363	2 604	4 620	6 245	6 758
Quasi-money	382	493	634	807	1 192	1 956	3 420	4 960	5 654
Long-term external loans	-	-	-	30	169	32	5	184	802
Other items (net)	450	492	1 093	641	1 002	616	1 195	1 101	302

Source: International Monetary Fund, International Financial Statistics, June 1979.

/In view

In view of the fact that the increases in international reserves were obtained largely at the expense of external credit, their size does not reflect a sound position vis-à-vis other countries. In analysing the monetary position this fact is of decisive importance, since the decreases in international reserves would be closely linked with amortization payments on external loans.

The monetary position underwent significant changes in 1978. The expansion of liquidity was moderate (10.5%); no lower rate had been achieved in the present decade. The main explanation was the drop in international reserves to barely 16% of the previous year's level. Credit continued to expand at an accelerated pace (35%), although this time the credit extended to the government was the most dynamic (66%).

As regards monetary resources, a slight drop in demand deposits and a considerable increase in long-term external loans are noted in 1978. Quasi-money continued to expand, although at a less accelerated rate (14%). At the same time, currency outside banks rose by 20%.

If the changes in 1978 with respect to the preceding year are compared with variations in previous years it will be seen that the monetary position does not appear to be the determining influence of the inflationary pressures once again making themselves felt in the country. As will be seen below, they seem to be more closely related with imported inflation, the slow growth of the agricultural product and the general atmosphere of political instability suffered by Bolivia in that year.

(d) Evolution of prices

Between 1972 and 1978 domestic prices rose steeply. In those years the consumer price index increased by over 200% and the implicit deflator of the product by nearly 370%.11/ Food prices rose more rapidly than the general index, in spite of the authorities' efforts to control prices of essential goods (see table 20).

11/ The differences between the two indexes may be ascribed partly to the policy of curbing prices of essential articles and partly to the deficiencies of the consumer price index.

/Table 20

Table 20

BOLIVIA: EVOLUTION OF DOMESTIC PRICES

	1970	1971	1972	1973	1974	1975	1976	1977	1978
Consumer price index	100.0	103.3	127.7	172.1	239.2	253.6	267.5	295.6	335.5
Food	100.0	103.4	128.4	186.0	269.1	278.8	293.5	323.8	369.7
Implicit deflator of GDP	100.0	104.2	125.2	178.1	281.2	301.5	330.1	411.0	486.6
				Variation December to December					
Consumer price index	2.0	3.3	23.6	34.8	39.0	6.0	5.5	10.5	13.5
Food	1.9	3.4	24.2	44.8	44.7	3.6	5.3	10.3	14.2
				Variation between annual averages					
Consumer price index	3.9	3.7	6.5	31.5	62.8	8.0	4.5	8.1	10.4
Food	4.6	4.0	6.4	35.0	81.7	5.3	2.4	8.2	10.0
Implicit deflator of GDP	3.0	4.2	20.2	42.2	57.9	7.2	9.5	24.5	18.4
Implicit deflator of agricultural product	1.1	5.8	16.6	46.1	68.2	2.3	8.3	16.1	-

Source: Central Bank of Bolivia, Boletín estadístico and Cuentas Nacionales.

/The most

The most significant increases occurred in the period 1972-1974. The emergence of strong inflationary pressures affected a system accustomed to virtual price stability since 1960, and it was not without serious difficulties and the sacrifice of other economic policy objectives that their intensity was moderated up to 1976. In the last two years, pressures were once again brought to bear on prices, and the annual increases were double those of the preceding biennium.

The onset of inflation in 1972, following a long period of stability, was determined by the deficit in the fiscal sector, which accentuated the fragility of the balance of payments and further increased the liquidity in the financial system. It would have been difficult, under the circumstances and in that period, to expect a flexible response to domestic supply of goods and services, in view of its pronounced rigidity. The drop in international reserves was finally the prelude to the devaluation analysed above. The inflationary process was obviously initiated with the modification of the exchange rate, although its incubation, as noted previously, was the result of other real and financial disequilibria of an earlier date.

The peak inflation in the period 1973-1974 is also attributable to another decisive factor: the appearance of imported inflation. Thus, Bolivian inflation was the product of domestic and external factors which, because they mutually influenced and interacted on one another, presented a truly complex picture.12/

In order to determine the effect of external factors during those two years, it must be taken into account that import prices rose by 44%, export prices by 152%, and the volume of imports and exports by 29% and 13%, respectively (see table 10).

These figures show the magnitude of the exogenous pressures, to which should be added the greater liquidity caused by the increase in international reserves, which created favourable conditions for the reproduction of domestic price increases. If to these domestic and external factors is added the climate of inflationary expectations, the demonstration and contagion effects

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12/ See CEPAL, Economic Survey of Latin America, op. cit., (section on recent inflation in Latin America).

/and the

and the desire to transfer the higher costs to other agents of the economic system, the main components are available for interpreting Bolivia's inflation in its most virulent phase. What prevented it from being even further intensified were the establishment of price controls for certain essential products, including in particular the price of the dollar; the measures to combat speculation; and the flexibility of supply which was made possible by the substantial inflow of imported products.

The slowing down of inflation in the period 1975-1976 was associated with smaller increases in foreign trade prices. Import prices rose by less than half the increase in the preceding biennium, and export prices decreased. Partly because of the latter situation, certain products were channelled into the domestic market and their prices were in some degree influenced by the drop in external prices in 1975. In addition, supply also became more flexible owing to the increase in the volume of imports, which was over 25% in 1975 (see tables 10 and 20).

On the domestic front, some factors which moderated inflation were the extraordinary increase in agricultural production, the rate in 1975 being around 7%; the strict wage and salary controls; and the drop in investment in 1976, a high proportion of which was public investment. Furthermore, a number of economic policy measures concerning bank cash reserves, prior import deposits, the channelling of credit into productive sectors, etc., were decisive in curbing increases in the liquidity of the economy.

In 1977-1978, certain inflationary pressures began to make themselves felt. Price increases in this two-year period more than doubled those of the preceding biennium (see table 19). Once again there was a close association between domestic price increases and the resurgence of imported inflation. Import prices rose by 11% and 10%, respectively, in those two years. Although the drop in reserves determined a very modest increase in financial liquidity, the decrease in the agricultural product over the two years undoubtedly contributed to the physical and monetary disequilibrium. The other question to be considered at this point of inflation of the inflationary process is the election atmosphere and the political changes which took place and which, as already noted, hindered a number of decisions in the production field and

/precipitated some

precipitated some defensive and speculative activities. The accumulation of stocks tends to step up demand and promote price increases, and the fact that prices are unlikely to drop once the political changes are over contributes to the inflationary trends.

(e) Wages policy and income distribution

The achievement of price stability as one of the priority objectives of economic policy in the period 1972-1978 was based mainly on the control of wages. Simultaneously with devaluation a group of wage measures was adopted to compensate for the price increases which would inevitably be generated by the modification of the exchange rate, but no general wage and salary adjustment policy was adopted concurrently with price increases. In the public sector, although discriminatory and non-systematic increases were granted to certain sectors at certain levels, on the whole they do not appear to have compensated for the loss of purchasing power suffered by a large proportion of government officials.13/ In the private sector, wage adjustments were voluntary and negotiation between the workers and entrepreneurs were sometimes authorized on the basis of productivity increases. The shortage of skilled manpower was one of the reasons why the level of wages was raised for certain types of employment.

In any case, to judge from the preliminany information available, the deterioration in wages seems to have been fairly evident.

13/ The lack of information on increases in employment at the various levels and on increases in wages and other benefits by category does not permit a more precise quantification. On the other hand, the official estimates of inflation, which are higher than those reflected in the consumer price index, would seem to indicate a deterioration in the average wage.

/Table 21

Table 21 shows the evolution of wages per worker in the various economic sectors.14/ It is worth noting the disparities between the increases in the average wage paid by the various sectors. To mention only the extreme cases shown in the table, on the one hand are the petroleum producing sector, other industries, and banks, insurance and finance, whose average wages rose well above the general average. On the other hand, the energy, mining and services sectors showed significantly smaller increases than the whole group. If these figures are correct, it could be inferred that the disparities were accentuated in the first seven years of this decade.

If the wage increases per worker in this period are compared with the variations in the consumer price index (196%), the implicit deflator of the product (311%) or a combination of the two, it will be seen that the workers as a whole lost some of their purchasing power. Naturally, the wages of some sectors of workers have risen in a somewhat higher proportion than prices, but it cannot be categorically concluded that their level of living was raised since, as stated previously, the representativity of the consumer price index is open to some doubt. Moreover, there is not enough information on increases in employment in each sector to be able to determine the share of wages in the product.

In terms of the distribution of income, however, other indicators uphold the hypothesis that a greater concentration has been consolidated in the upper deciles of the income scale.

The structure of imports, in which durable consumer goods increased their share, is a clear indication of the composition of household expenditure among the richest sectors and, therefore, of the level of income attained. The extraordinary increase in imports of motor cars, together with complex electrical household appliances, is perhaps the most eloquent sign of the increased purchasing power of certain sectors. In addition, the construction

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14/ It should be noted that these are very preliminary figures and subject to revision. Although some variations have not been completely clarified, they are useful in analysing the general trends and orders of magnitude. They should not be interpreted as strictly accurate measurements of average wages.

/Table 21

Table 21

BOLIVIA: EVOLUTION OF GROSS WAGES BY ECONOMIC SECTOR

(Pesos at current prices)

	1970	1971	1972	1973	1974	1975	1976	1977	Increase 1977/1970 (percentage)
Mining and petroleum	1 064	1 125	1 175	1 569	2 071	2 350	3 147	2 963	100
1. Mining	1 015	1 067	1 107	1 510	1 919	2 128	2 884	2 562	152
2. Petroleum	1 520	1 656	1 802	2 098	3 059	3 854	5 364	6 425	322
Industry	893	1 044	1 092	1 549	2 055	2 229	2 778	3 004	274
1. Manufacturing	933	1 091	1 141	1 605	2 112	2 209	2 739	2 895	210
2. Other industries	754	879	923	1 353	1 860	2 296	2 914	3 381	348
Construction	804	984	1 033	1 269	1 884	1 839	2 345	2 676	232
Energy	1 579	1 426	1 476	1 950	2 519	3 683	3 877	3 608	128
Commerce	1 293	1 448	1 497	2 198	2 534	2 623	3 478	3 976	207
Bank, insurance and finance	1 453*	1 627*	1 682*	2 470*	3 152*	3 834	3 908	5 350	268
Transport and communications	1 031	1 114	1 163	1 827	2 347	2 536	3 640	3 317	222
Services	1 116	1 144	1 214	1 655	1 786	1 861	2 110	2 681*	140
Average monthly wage	1 046	1 129	1 178	1 654	2 161	2 171	2 728	3 023*	189

Source: Consejo Nacional de Economía y Planificación (CONEPLAN) and Consejo Nacional del Salario.

/of luxury

of luxury buildings and the disproportionate increase in real estate prices, particularly in the wealthiest residential areas, indicate that there are purchasers at those levels and reflect a greater concentration of income and wealth. Another feature is the rise in the salaries of the senior staff of enterprises. At the beginning of the decade their monthly income normally ranged from 600 to 1,000 dollars; at the end of 1978, this group was earning average salaries of over 2,000 dollars, not counting their share in the profits and other benefits. The profitability of enterpreneurial activities has presumably risen: otherwise such salary increases at the top level of economic units would not have been feasible.

Following the same trend of thought, expenditure on foreign travel quadrupled in terms of dollars between 1970 and 1978. Possibly a thorough investigation into income distribution would lead to a precise identification of the scale of concentration, the groups benefiting and those adversely affected; but the above signs would seem to point to the fact that there was one social group which clearly obtained appreciable advantages.

BRAZIL

1. Main recent trends: Introduction and summary

The prime objectives of the official policy followed in 1978 were to contain the inflationary process, achieve greater stability in the balance-of-payments current account and maintain a growth rate similar to that recorded in 1977, with emphasis on agricultural production.

In the attainment of this last objective, the official forecasts were exceeded and the gross domestic product grew at a rate of 6.3% compared with 4.6% in the previous year. This was basically due to the fact that manufacturing activity regained its rate of expansion which, after dropping to a little over 2% in 1977, rose to about 8%. The agricultural sector, on the other hand, contracted by nearly 2% owing to adverse weather conditions. Commerce for its part, also showed greater dynamism, its growth rate increasing from 3.5% in 1977 to nearly 6% in 1978, and so did basic services in which it rose from just under 7% to 8.5% between those years (see tables 1 and 3).

Total supply grew at the same rate as the gross domestic product, since imports of goods and services increased by 6.2%, which was also similar to the growth rate of the product. Among the components of total demand, gross fixed investment accelerated its growth rate from 2.7% in 1977 to 6.3% in 1978, the investment coefficient being nearly 26%. Total consumption expanded by nearly 6% and exports of goods and services, in terms of cruzeiros at constant 1970 prices, by a little over 11% (see table 2).

As regards the objective of achieving greater stability in the external sector, the Government's intentions were defeated. Exports, which were adversely affected by the contraction in the supply of some primary products and by unfavourable external price movements, recorded their lowest growth rate in the past five-year period, i.e., barely over 5%. Conversely, the current value of imports, after remaining at the same level for three years, grew by 13.5% reflecting a trade deficit of approximately 2.7 billion dollars. Thus the negative balance on current account was almost 7 billion dollars, with a growth of more than 40% over the previous year's level.

/Table 1

Table 1

BRAZIL: MAIN ECONOMIC INDICATORS

	1973	1974	1975	1976	1977	1978a/
A. Basic economic indicators						
Gross domestic product at factor cost (millions of US dollars at 1970 prices)	61 842	67 888	71 748	78 180	81 825	86 980
Population (millions)	103.68	106.66	109.73	112.89	116.14	119.48
Per capita gross domestic product (US dollars at 1970 prices)	597	637	654	693	705	728
	Growth rates					
B. Short-run economic indicators						
Gross domestic product	13.9	9.8	5.7	9.0	4.7	6.3
Per capita gross domestic product	10.7	6.7	2.7	6.1	1.7	3.3
Gross income b/	14.7	8.9	5.4	9.6	5.2	5.5
Terms of trade	9.4	-15.0	-8.0	11.0	8.5	-13.1
Current values of exports of goods and services	53.4	28.9	10.7	14.9	20.2	5.1
Current values of imports of goods and services	45.5	91.8	-2.5	2.7	-2.1	13.5
General price index c/						
December to December	15.5	34.5	29.4	46.3	38.8	40.8
Variation between annual averages	13.1	28.7	27.7	41.3	42.7	38.7
Money	47.0	33.5	42.8	37.2	37.6	42.3
Current income of government	40.1	45.3	24.3	74.2	46.1	43.9
Total expenditure of government	37.4	38.8	31.8	73.8	45.8	42.4
Fiscal surplus/total expenditure of government d/	5.6	5.3	0.1	0.2	0.5	1.4
	Millions of US dollars					
C. External sector						
Trade balance (goods and services)	-1 073	-6 278	-4 981	-3 954	-1 415	-2 714
Balance on current account	-2 163	-7 758	-6 998	-6 545	-4 846	-6 857
Variation in net international reserves	2 313	-963	-1 010	2 265	676	4 643
Consolidated external debt	12 600	17 200	21 200	25 968	32 000	43 500

a/ Preliminary figures.
b/ Gross domestic product plus terms-of-trade effect.
c/ Domestic availability.
d/ Percentage.

/Table 2

Table 2

BRAZIL: TOTAL SUPPLY AND DEMAND

	Millions of cruzeiros at 1970 prices			Percentage breakdown		Growth rates		
	1976	1977	1978a/	1970	1978a/	1976	1977	1978a/
Total supply	408 506	424 705	451 436	106.9	106.9	8.2	4.0	6.3
Gross domestic product at market prices	379 732	397 438	422 476	100.0	100.0	9.0	4.7	6.3
Imports of goods and services b/	28 774	27 267	28 960	6.9	6.9	-1.6	-5.2	6.2
Total demand	408 506	424 705	451 436	106.9	106.9	8.2	4.0	6.3
Domestic demand	386 205	400 575	424 613	100.3	100.5	8.2	3.7	6.0
Gross domestic investment	...	...	...	23.5	...	...	...	...
Gross fixed investment	100 348	103 108	109 604	22.3	25.9	6.5	2.7	6.3
Changes in stocks	c/	c/		1.2	...			
Total consumption	285 857c/	297 467c/	315 009	76.9	74.6	9.5c/	4.1c/	5.9
General government	38 314	37 304	...	10.2	...	11.7	-2.6	...
Private	247 543c/	260 163c/	...	66.7	...	9.1c/	5.1c/	...
Exports of goods and services b/	22 301	24 130	26 823	6.6	6.4	-0.1	8.2	11.2

Source: 1970-1978: CEPAL calculations on the basis of figures supplied by the National Accounts Centre of the Getulio Vargas Foundation.

a/ Preliminary figures.

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

c/ Changes in stocks is included in private consumption.

d/ Includes changes in stocks.

/Table 3

Table 3

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

	Millions of cruzeiros at 1970 prices			Percentage breakdown		Growth rates		
	1976	1977	1978a/	1970	1978a/	1976	1977	1978a/
Agriculture	24 893	27 290	26 826	10.0	7.6	4.2	9.6	-1.7
Mining	2 969	2 830	3 004	0.8	0.8	0.9	-4.7	6.1
Manufacturing	96 687	98 897	106 416	28.4	30.0	10.5	2.3	7.6
Construction	20 619	22 494	24 685	5.8	6.9	12.9	9.1	9.7
Subtotal goods	145 168	151 511	160 931	45.0	45.3	9.5	4.4	6.2
Electricity, gas and water	8 384	9 464	10 599	2.4	3.0	10.1	12.9	12.0
Transport, storage and communications	19 324	20 114	21 483	5.7	6.0	7.4	4.1	6.8
Subtotal basic services	27 708	29 578	32 082	8.1	9.0	8.2	6.7	8.5
Commerce, financial institutions and insurance	66 539	68 896	72 963	20.7	20.5	8.7	3.5	5.9
Real estate b/	...	...	...	8.4	...	...	...	...
Community, social and personal services c/	...	...	...	17.8	...	...	...	...
Subtotal other services	148 921	152 820	162 181	46.9	45.7	9.1	2.6	6.1
Total gross domestic product d/	323 664	338 756	360 098	100.0	100.0	9.0	4.7	6.3

Source: 1970-1977: CEPAL calculations on the basis of figures supplied by the National Accounts Centre of the Getulio Vargas Foundation; 1978: CEPAL estimates on the basis of data from the same source.

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

/The capital

The capital account presented a net inflow of nearly 9.5 billion dollars, or 79% more than that recorded in 1977. Thus the balance of payments reflected a surplus of around 3.9 billion dollars. Although the substantial inflow of capital raised the consolidated external debt to 43.5 billion dollars by the end of the year, there was an increase of about 4.6 billion dollars in international reserves (see table 1).

The third broad government policy objective was to combat inflation. The results obtained contradicted the official forecasts, and the general price index (domestic supply), rose nearly 41%, or two percentage points more than in 1977. The expansion of money, estimated at the beginning of the year at a maximum rate of 25%, once again exceeded the ceiling imposed by the monetary budget and reached over 40%. If the increase in quasi-money is added, the liquidity of the private sector grew by a little over 49%, which failed to reflect the monetary policy measures to reduce it.

Thus, in broad terms, the results obtained in the year did not help to solve the urgent problems of the Brazilian economy.

From a different standpoint, 1978 marked the end of a government administration and the beginning of a new political phase in the country, in which the basic economic objectives were rearranged.

It should, of course, be noted that the opening up of the political scene initiated in 1978 had its economic counterpart since the aspirations of large groups of workers in terms of obtaining higher pay made themselves felt with particular force. In the face of this situation, the new Government recognized the need to correct the distortions that had been becoming more and more acute in the income distribution profile and established as one of its broad objectives that of doing everything possible to ensure that the benefits of common work should be more fairly distributed.1/

Furthermore, the aggravation of the inflationary and external sector problems made it necessary to maintain and intensify the official policy followed in recent years; thus more restrictive measures were announced, with the intention of staving off an economic recession.

1/ See the speech made by Presidente João Figueiredo on 19 January 1979.

/Four broad

Four broad objectives were established, three of which have already been stated at the beginning of this section, the fourth being a more equitable distribution of income through the implementation of an active social policy. All this, of course, within the political context of the Government's commitment to carry on with the redemocratization process.

As will be readily understood, the simultaneous achievement of those objectives presupposes some room for manoeuvre for economic policy which takes no account of the many existing restrictions. Therefore, it is reasonable to assume a quid pro quo between those objectives, which could give rise to serious difficulties in the conduct of the political and economic process.

2. Sectoral trends

The sectoral trends of the economy in 1978 were, in general, more dynamic, with agriculture as the only activity to record a decline (see table 3).

The contraction of the agricultural sector, reflected in a negative rate of nearly 2%, is attributable to agricultural production which was affected by unfavourable weather conditions. Mining, after a fall of nearly 5% in the previous year, took on renewed impetus in 1978 and expanded by over 6%. In manufacturing, which contributed 30% of the gross domestic product, the growth rates progressed from a little over 2% in 1977 to 7.6% in 1978, the most noteworthy being that of activities connected with the production of durable consumer goods. Lastly, civil construction activity maintained its dynamism and grew at a rate of over 9%.

Of the basic services, the supply of electricity, gas and water maintained its average historical growth of around 12% annually, while the rate of expansion of transport, storage and communications activities rose from a little over 4% in 1977 to nearly 7% in 1978.

In the services sector, commerce, financial institutions and insurance grew at a rate of nearly 6% compared with 3.5% in 1977.

/(a) Agriculture

(a) Agriculture

Agricultural activity in 1978 was at the lowest level recorded in the past 11 years, with a negative growth rate of nearly 2% in sharp contrast with the expansion of nearly 10% recorded in 1977 (see table 4).

As in previous years, the evolution of the crop-farming and stock-raising subsectors followed divergent courses and while the former suffered a pronounced drop (7%), the latter grew by nearly 10%, thus reversing the trends noted in 1977.

The negative result of agricultural production was accentuated, reaching nearly 10% for the main crops, if the effect of the expansion of over 25% experienced by coffee is excluded. Among the products showing the most serious contractions were maize with a production almost 30% lower than in the preceding year, soya with a fall of 24%, and rice and cotton with drops of 19% and 18%, respectively. In contrast, the growth rates of tobacco (14%), tomatoes (12%), oranges (9%) and sugar cane (8%) are considered to be reasonable.

The main reason for this unfavourable situation must be sought in the adverse weather conditions. At the beginning of the year, the harmful effects of a drought in the south of Brazil combined with copious rainfall in some crop-farming areas in the north-east; and in the middle of the year, between the months of June and August, there were once again heavy rainfall and frosts, this time in the southern area.

Apart from weather conditions, the establishment of minimum prices at what were considered as inadequate levels for producers also had a depressive effect.

Furthermore, as a more far-reaching factor, note should be taken of the anomalies affecting rural credit in Brazil. In fact, credit is centred in the hands of the most important agricultural producers for exports, and the small or medium-scale farmer who produces for the domestic market is left with no access to credit. According to a recent study carried out by the Banco do Brasil, 1% of rural clients receive 40% of total loans to the subsector. From a different angle, 80% of farmers are not in a position to obtain

/Table 4

Table 4

BRAZIL: AGRICULTURAL PRODUCTION

	Thousands of tons					Growth rates				
	1974	1975	1976	1977	1978	1975	1976	1977	1978	Average 1975-1978
Cotton	1 959	1 751	1 279	1 903	1 571	-10.6	-27.0	48.8	-17.5	-0.5
Groundnuts	439	441	514	324	325	0.5	16.6	-37.0	0.3	-5.7
Rice	6 483	7 538	9 560	8 935	7 242	16.3	26.8	-6.5	-19.0	3.1
Bananas a/	349	354	384	410	412	1.4	8.5	6.8	0.5	4.0
Potatoes	1 673	1 669	1 816	1 896	2 015	0.1	8.8	4.4	6.3	4.8
Cocoa	165	282	232	250	245	71.0	-17.7	7.8	-2.0	12.0
Sugar cane	96 412	91 386	103 282	120 171	129 223	-5.2	13.0	16.4	7.5	8.1
Coffee	3 220	2 526	708	1 915	2 401	-21.5	-72.0	170.5	25.4	25.6
Beans	2 258	2 271	1 842	2 282	2 188	1.5	-18.9	23.9	-4.1	0.6
Oranges b/	31 161	31 672	36 670	35 822	39 091	1.6	15.8	-2.3	9.1	7.4
Maize	16 285	16 354	17 845	19 246	13 533	0.4	9.1	7.8	-29.7	-3.1
Soya	7 876	9 892	11 227	12 513	9 535	25.6	13.5	11.5	-23.8	6.7
Wheat	2 859	1 788	3 215	2 066	2 677	-37.5	79.8	-35.7	29.6	9.1
Crop-farming production (excluding coffee)						2.0	9.7	7.0	-9.8	2.2
Crop-farming production						-2.0	0.4	11.7	-7.0	0.8
Livestock production						14.9	12.2	5.3	9.7	10.5
Agricultural production						3.4	4.2	9.6	-1.7	3.9

Source: Fundação Instituto Brasileiro de Geografia e Estatistica (IBGE); Agricultural Studies Centre of the Getulio Vargas Foundation.

a/ Millions of hands.
b/ Millions of units.

/financing, while

financing, while the producers of five crops (soya, coffee, sugar cane, cotton and wheat) absorb about 60% of agricultural credit.2/

In contrast with crop farming, stock-raising obtained fairly favourable results in the last four years. In 1978 its product grew by about 10%, which was a little less than the average for the four years 1975-1978 (10.5%).

After three years of high growth rates, the slaughtering of cattle dropped 5% in 1978, while that of pigs rose by over 13% in the face of the threat that a high-mortality African disease might be declared. Poultry slaughtering, for its part, maintained its high rate of growth (over 18%).

Milk production recorded a sharp expansion (nearly 18%) after two years in which its slow growth did not permit it to cover domestic demand. In addition to the plentiful supply in 1978, imports congested the market to the detriment of dairy farmers.

(b) Mining

The mineral mining industry regained in 1978 the growth levels recorded in 1976, with a rate of expansion of a little over 6% compared with the 5% drop in 1977.

Total production of iron ore by the Companhia Vale do Rio Doce was 47.5 million tons, or 5% more than the previous year's output. Exports of this ore, although not as high as the 1976 levels owing to the persistently unfavourable situation of world steelmaking, recorded a volume of nearly 42 million tons, which represented foreign exchange earnings totalling nearly 627 million dollars.

The recovery was more accentuated in the case of manganese, in view of the fact that the total output was 913,000 tons, which meant a growth rate of nearly 40%, and that the volume exported was 715,000, or nearly 42% more than in 1977.

Production of crude petroleum, including natural gas, amounted to 9.6 million cubic metres, which was similar to the previous year's output, and resulted from an expansion of nearly 13% in offshore production and a

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2/ See Fundação Getúlio Vargas, Conjuntura Econômica, vol. 33, No. 2, February 1979, pp. 78-79.

/4% drop

4% drop in production of the Reconcova Baiano oilfields which are nearing depletion. Output of natural gas expanded by nearly 7%, amounting to 1.9 billion cubic metres.

(c) Manufacturing

In the present phase of the Brazilian economy - defined by some analysts as the depressive phase of the endogenous growth cycle - in which it is progressing at significantly lower rates than those of the period 1968-1975, manufacturing activity has been characterized by its marked ups and downs. This evolution is nothing but the result of fairly restrictive policies adopted with the purpose of controlling the inflationary process and external deficits. These fluctuations are clearly seen in table 5.

Thus, the 7.6% growth of manufacturing in 1978 meant that the negative effect of the measures of this type adopted in 1977 (reduction of public investment, more difficulties in the financing of consumption, the hampering of imports, etc.),3/ which determined an expansion of the sector of just over 2% in that year, had already been absorbed.

It is important to note that although the rate of expansion recorded in 1978 reflected a recovery, it is not reasonable to expect that in the next few years this will continue inasmuch as capital formation in the sector is experiencing a recession; so much so that the Industrial Development Council, the organ which approves most of the country's industrial projects, recorded a drop of 9% in the nominal value of total fixed investment in projects approved in 1978.

In analysing the performance of manufacturing by groups according to categories of use of goods, it will be observed that the recovery of growth rates was general in all subsectors (see table 6). Durable consumer goods achieved the fastest growth, regaining the 1976 rate of expansion after virtual stagnation in 1977. Owing to their small share in the manufacturing product (approximately 8%), however, their rate of expansion had little influence on the sector's global growth.

3/ See the section on Brazil in CEPAL, Economic Survey of Latin America, 1977, United Nations publication, Sales No.: E.79.II.G.1.

/Table 5

Table 5

BRAZIL: GROWTH OF MANUFACTURING, BY GROUPS OF INDUSTRIES

(Growth rates)

Group of industries	1974	1975	1976	1977	1978a/
Food products	5.5	-0.1	11.3	5.6	3.3
Beverages	8.3	5.5	13.4	13.6	7.1
Tabacco	12.8	7.9	9.1	5.3	5.8
Textiles	-3.5	2.3	6.2	0.5	5.2
Clothing, footwear, woven articles	2.1	7.2	8.3	-5.2	8.0
Plastic articles	23.2	5.1	17.8	-0.6	25.3
Perfumery articles, soaps and candles	11.5	3.7	19.2	9.3	12.6
Rubber	18.2	4.7	11.2	-2.0	6.7
Paper and paperboard	4.3	-14.8	20.8	2.5	11.6
Chemical products	5.4	2.5	17.8	6.5	9.0
Processing of non-metallic minerals	14.8	9.0	12.0	8.3	5.6
Metallurgy	5.2	9.2	13.5	7.2	5.5
Machinery	11.7	15.1	14.7	-7.2	4.8
Electrical equipment	10.3	0.5	18.4	1.4	9.4
Transport equipment	18.9	0.5	7.2	-2.6	14.2
Total b/	7.8	3.8	12.9	2.1	7.5

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

a/ Preliminary figures.

b/ The figures do not necessarily coincide with the corresponding figures in table 3, since different methods of calculation and different original sources were used.

/Table 6

Table 6

BRAZIL: GROWTH OF MANUFACTURING OUTPUT BY CATEGORIES OF GOODS

(Growth rates)

Categories of goods	1976	1977	1978a/
Non-durable consumer goods b/	11.5	-0.6	7.8
Durable consumer goods c/	14.9	-0.1	14.1
Intermediate goods d/	13.4	6.4	7.1
Capital goods e/	12.0	-5.2	6.1
Manufacturing production	12.9	2.3	7.6

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

a/ Preliminary figures.

b/ Perfumery articles, soaps and candles, textiles, clothing, footwear and woven fabrics, food, beverages, tobacco, furniture, leather and hides, pharmaceutical products, plastic articles.

c/ Machinery and equipment for domestic use, chronometers and watches, electrical apparatus for domestic and personal use, motor cars, pick-ups and utility vehicles, motor vehicle parts, spare parts and accessories.

d/ Processing of non-metallic mineral, metallurgy, paper and paperboard, rubber, chemical products.

e/ Machinery, electrical and communications equipment, transport equipment. Excludes the production of related goods such as consumer durables.

/The increase

The increase in the production of non-durable consumer goods (nearly 8%), for their part, considerably influenced the sector's global growth rate in the short term, since their share in the composition of the manufacturing product was over 40%.

The production of intermediate goods, with a share of approximately 35% in the global manufacturing product, experienced a small increase in the growth rate over the previous year (from 6.4% to a little over 7%). The growth rate of these activities, which were strongly supported by government programmes for the production of basic inputs, showed the smallest fluctuations in the last three years.

The production of capital goods, which had been most seriously affected by the decline in public investment, grew by just over 6%, thus regaining the 1976 production levels.

As regards the performance of specific industries, in the production of non-durable consumer goods the biggest expansions were in clothing, footwear and woven fabrics which after contracting by approximately 5% in 1977 rose by 8% in 1978; in plastic articles which after remaining static in the previous year expanded at a rate of over 25%; and in textiles whose growth rate increased from 0.5% to a little over 5%. Food and beverages decreased their rates of expansion, while that of tobacco showed a similar increase to that observed in 1977 (see table 6).

In the production of intermediate goods the biggest positive changes occurred in the production of rubber which after a contraction of 2% rose by nearly 7%; in that of paper and paperboard which accelerated its growth from 2.5% in 1977 to nearly 12% in 1978; and in chemical products which recorded a 9% expansion compared with 6.5% in the previous year. Processing of non-metallic minerals and the metallurgical industry progressed at slower rates than in the preceding year.

Attention is drawn to the dynamic performance of the steel industry which at the end of the year showed a growth of 8.4% in the production of steel ingots (amounting to 12.1 million tons) and of nearly 15% in the output of rolled products (see table 7). Although these are lower than the rates recorded in 1977 they reflect a satisfactory level of activity since the high growth rate that year was due to an expansion of installed capacity.

/Table 7

Table 7

BRAZIL: IRON AND STEEL PRODUCTION

	Thousands of tons					Growth rates			
	1974	1975	1976	1977	1978	1975	1976	1977	1978
Pig iron	5 848	7 053	8 170	9 380	10 017	20.6	15.8	14.8	6.8
Steel ingots	7 503	8 307	9 169	11 164	12 106	10.7	10.4	21.8	8.4
Rolled products	6 087	6 738	7 525	8 822	10 134	10.7	11.7	17.2	14.9
Flats	2 630	3 166	3 487	4 530	5 596	20.4	10.1	29.9	23.5
Non-flats	3 457	3 572	4 038	4 292	4 538	3.3	13.1	6.3	5.7

Source: Instituto Brasileiro de Siderurgia (IBS).

Table 8

BRAZIL: MOTOR VEHICLE PRODUCTION

	Thousands of units					Growth rates			
	1974	1975	1976	1977	1978	1975	1976	1977	1978
Motor cars	516	502	527	464	535	-2.7	5.0	-12.0	15.3
Multi-purpose light trucks	193	229	300	308	384	18.7	31.0	2.7	24.7
Utility vehicles	7	7	6	2	4	-	-14.3	-66.7	100.0
Medium trucks	60	59	56	31	38	-1.7	-5.1	-44.6	22.6
Buses and heavy trucks	78	85	96	115	101	9.0	12.9	19.8	-12.2
Total	854	882	985	920	1 062	3.3	11.7	-6.6	15.4

Source: Fundação Getúlio Vargas, Conjuntura Econômica, vol. 33, Nº 2, February 1979.

/Nevertheless, the

Nevertheless, the Government had to revise the steel production target of 20 million tons established for 1980, and expects an output of not more than 15 million tons that year. Imports of cast iron and steel amounted to 491 million dollars in the period January-November, or 21% less than the total for the same period in the previous year. Exports of steel products increased by 77% in volume and 69% in value over this period, generating foreign exchange earnings of 150 million dollars.

Production of non-ferrous metals gained impetus in the period January-October 1978, with the exception of nickel which showed a 6.7% drop. Thus the growth rates were 20% for zinc and tin and 1.4% for aluminium.

An outstanding feature in the production of consumer durables was the reactivation of the motor vehicle industry, with a growth of over 15% in the production of motor cars, nearly 25% in that of pick-ups, and double the output of utility vehicles (see table 8). This excellent result seems to have been obtained after freeing demand in this sector from a number of restrictive measures 4/ to which it had been subjected in 1977 and which determined the drops of 12% in the production of motor cars and 67% in that of utility vehicles. Industries producing electrical and electronic equipment recorded production increases for practically all domestic appliances, the global increase in sales being estimated at approximately 10%. Machinery and electrical equipment ranked fourth in importance among exports of manufactures, with sales of about 290 million dollars in the period January-November, and expanded by 14% in relation to the same period in the previous year.

In the production of capital goods, the metal manufactures and machinery industry showed a growth of nearly 5% compared with a drop of over 7% in 1977, reflecting its adjustment to the lower levels of public and private investment following its contraction in that year. Exports, on the other hand, continued to be an important factor in the vigorous growth of some segments of the sector. In the period January-October 1978, machinery, boilers and mechanical equipment and instruments increased the value of their exports by 33% over the same period in the previous year.

4/ See, in this respect, the section on Brazil in CEPAL, Economic Survey of Latin America, 1977, op. cit.

/The production

The production of tractors dropped once again with the 6% decrease in the manufacture of wheeled tractors and 14% in that of caterpillar tractors, these results being ascribed to the sector's financing difficulties. The drop would have been more accentuated if it had not been partially neutralized by the greater dynamism of exports. In global terms, 6,215 tractors (11% of the year's total output) were sold abroad, that is, 57% more than in 1977.

In the transport equipment industry, the production of capital goods of the motor vehicle industry recorded an increase of nearly 13% in medium trucks and a drop of over 12% in buses and heavy trucks. As regards railway rolling-stock, the production of goods wagons rose by nearly 35% and that of passenger coaches by 25%, while the manufacture of engines fell by a little over 60%. In the shipbuilding industry, vessels totalling 1.2 million tons deadweight were completed in the year, representing an increase of nearly 80% with respect to the 670,000 tons of the preceding year.

3. The external sector

(a) The balance-of-payments current account

(i) The main trends. After the relative success achieved in 1977 with the reduction of 1.7 billion dollars in the current account deficit, the economy was again affected by serious external sector problems in 1978. The deficit rose that year to over 6.8 billion dollars - about 42% higher than the previous year's deficit - thus returning to the 1975 level (see table 9).

This result was largely attributable to the change of sign in the merchandise trade balance, which from a favourable balance of nearly 50 million dollars in 1977 was converted into a negative balance of nearly 1 billion dollars the following year. This reversal was due to the increase of barely 5% in the value of exports - the lowest growth rate since 1967 - while that of imports rose by nearly 14% after remaining static for four years.

The small increment in external sales was due to the fact that those of some commodities, including coffee, dropped by a little over 12% in value as a result of the contraction in supply owing, in its turn, to the poor crop year and the deterioration in external prices. The expansion of imports was determined by the increase in the value of purchases of fuels and lubricants, machinery and equipment, and cereals.

/Table 9

Table 9

BRAZIL: BALANCE OF PAYMENTS

(Millions of US dollars)

	1973	1974	1975	1976	1977	1978a/
Current account						
Exports of goods and services	6 711	8 652	9 581	11 007	13 235	13 908
Goods FOB b/	6 093	7 813	8 500	9 969	12 048	12 650
Services	618	839	1 081	1 038	1 187	1 258
Transport	249	318	483	508	511	548
Travel	58	66	70	57	55	60
Imports of goods and services	7 784	14 930	14 562	14 961	14 650	16 622
Goods FOB b/	6 154	12 560	12 049	12 352	12 000	13 639
Services	1 630	2 370	2 513	2 609	2 650	2 983
Transport	863	1 385	1 435	1 476	1 373	1 560
Travel	265	315	423	360	229	258
Net payments of profits and interest on foreign capital	-1 113	-1 284	-2 029	-2 599	-3 432	-4 231
Profits	-531	-554	-532	-790	-1 330	-1 388
Interest	-582	-730	-1 497	-1 809	-2 102	-2 843
Net private transfer payments	23	4	12	8	1	88
Balance on current account	-2 163	-7 558	-6 998	-6 545	-4 846	-6 857
Capital account						
Net external financing (a+b+c+d+e)	2 163	7 558	6 998	6 545	4 846	6 857
(a) Long-term capital	4 100	6 231	4 953	6 106	5 854	
Direct investment	1 341	1 268	1 191	1 372	1 714	
Private sector	1 827	3 499	2 097	3 224	2 356	
Loans	3 038	5 005	3 814	5 375	4 990	
Amortization payments	-1 167	-1 407	-1 523	-1 914	-2 438	
Other liabilities and assets	-44	-99	-194	-237	-196	
Official sector	998	1 564	1 694	1 557	1 828	
Loans	1 522	2 053	2 343	2 659	3 470	
Amortization payments	-466	-483	-631	-1 066	-1 646	
Other liabilities and assets	-68	-6	-18	-36	4	11 500
Monetary authorities	-56	-100	-29	-47	-44	
(b) Short-term capital	371	366	1 045	2 707	-337	
Private sector	11	384	1 473	2 174	183	
Official sector			6	39	6	
Monetary authorities	6	49	-6	-1	-154	
Errors and omissions	354	-67	-428	495	-372	
(c) Allocation of SDRs						
(d) Official transfer payments	5	-2	-10	-3	5	
(e) International reserves	-2 313	963	1 010	-2 265	-676	-4 643
Other liabilities	-7	-26	-5	410	-173	...
Monetary gold					-8	-9
Special Drawing Rights		-7	-1	-9	-2	-29
IMF reserve position				-53	2	14
Foreign exchange	-2 306	996	1 016	-2 621	-495	-4 619

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

a/ Preliminary figures.

b/ Including non-monetary gold.

/Contrary to

Contrary to what had occurred in previous years, exports increased much more in volume (nearly 13%) than in value (5%), which is explained by the fact that their unit value dropped by 7%. In contrast, imports maintained the traditional trend of a bigger increase in value than in volume, another traditional feature being the smaller contraction of the former than of the latter, as occurred in 1977. As a result of these movements, the terms of trade deteriorated by a little over 13% (see table 10).

It is important to note, however, that although the adverse trade balance was the factor mainly responsible for the increase in the current account deficit, the determining factors continue to be the deficits on services and payments on foreign capital. Thus, as in previous years, the size of the services deficit remained at around 1.5 billion dollars, with transport accounting for a little over 1 billion dollars. Moreover, payments of profits and interest on foreign capital continued to increase at high rates, a total of 4.2 billion dollars being recorded in 1978, which is 25% higher than the 1977 figure and more than twice that recorded in 1975. Of this amount, interest payments represented 67%, with an absolute level of 2.8 billion dollars, or 35% more than in the previous year. Brazil's growing external indebtedness thus largely accounted for the deficit on current transactions (see table 9).

(ii) Exports of goods. The global value of exports of goods in 1978 remained at practically the same level as in 1977, i.e., a little over 12.6 billion dollars (see table 11). The reason for this is the drop of a little over 12% in the value of external sales of basic commodities. More than counterbalancing that drop, sales of industrial products pursued the previous year's trend and expanded by nearly 30%, with an absolute increase of about 1.5 billion dollars. There was thus a change in the traditional composition of exports and for the first time industrial products represented more than 50% of their total value, with manufactures accounting for nearly 40%. Those results, although influenced by the conjunctural drop in basic commodities, in any case confirm the strengthening of the trend towards the diversification of exports observed in the last five years.

/Table 10

Table 10

BRAZIL: MAIN INDICATORS OF FOREIGN TRADE

	1974	1975	1976	1977	1978a/
	Growth rates				
Exports of goods					
Value	28.2	8.8	17.3	20.8	5.0
Volume	-1.4	8.5	1.6	8.3	12.9
Unit value	30.0	0.3	15.4	11.6	-7.0
Imports of goods					
Value	104.1	-4.1	2.5	-2.9	13.7
Volume	35.5	-12.0	-1.4	-5.5	6.2
Unit value	52.9	-9.0	4.0	2.8	7.0
Terms of trade	-15.0	-8.0	11.0	8.5	-13.1
	Indexes (1970 = 100)				
Terms of trade	90.9	83.6	92.8	100.8	87.6
Purchasing power of exports of goods and services	145.8	131.2	167.3	196.0	191.3

Source: CEPAL, on the basis of official figures.

a/ Preliminary figures.

/Table 11

Table 11

BRAZIL: EXPORTS OF GOODS (FOB)

	Millions of dollars				Percentage breakdown		Growth rates			
	1975	1976	1977	1978	1973	1978	1975	1976	1977	1978
Commodities	5 027	6 130	6 973	6 124	66.0	48.4	4.7	21.9	13.7	-12.2
Coffee beans	855	2 173	2 299	1 940	20.1	15.3	-1.1	154.2	6.5	-15.7
Iron ore	920	995	907	1 027	5.9	8.1	61.1	8.2	-8.8	13.2
Soya flour and cake	466	795	1 150	1 049	6.8	8.3	53.8	70.6	44.6	-7.8
Soya beans	685	788	710	170	8.0	1.3	16.9	15.0	-10.1	-76.0
Unrefined sugar	770	153	277	196	7.3	1.5	-27.9	-80.0	81.0	-29.2
Others	1 331	1 226	1 630	1 742	17.9	13.8	-17.5	-7.9	32.9	6.9
Industrial products	3 434	3 618	4 889	6 346	31.3	50.2	16.2	5.4	35.1	29.8
Semimanufactures	849	842	1 124	1 350	7.7	10.7	33.9	-0.8	33.5	20.1
Manufactures	2 585	2 776	3 765	4 996	23.6	39.5	11.4	7.4	35.6	32.7
Transport equipment	317	373	492	828	1.2	6.5	69.5	17.7	31.9	68.3
Machinery, boilers, and mechanical apparatus	260	266	427	566	1.2	4.5	72.2	2.3	60.5	32.6
Processed coffee	80	226	327	348	1.6	2.8	-31.0	182.5	44.7	6.4
Electrical machinery and equipment	161	189	281	315	1.4	2.5	-12.0	17.4	48.7	12.1
Footwear	165	175	175	281	1.5	2.2	37.5	6.1	-	60.6
Orange juice	82	101	177	332	1.1	2.6	37.7	23.2	75.2	87.6
Others	1 520	1 446	1 966	2 326	15.6	18.4	2.4	-4.9	36.0	18.3
Other products	208	381	278	181	2.6	1.4	6.7	83.2	27.1	-35.0
Total	8 669	10 123	12 139	12 651	100.0	100.0	9.0	16.8	19.9	4.2

Source: Banco Central do Brasil, Relatório 1978, vol. 15, Nº 3, March 1979.

a/ The totals do not coincide exactly with the balance of payments figures.

/With respect

With respect to basic commodities, in spite of the increase of nearly 23% in the volume of coffee beans exported, foreign exchange receipts contracted by a little more than 15% as a result of the fall in the world prices of this commodity, which had reached its peak of 419 dollars per sack in April 1977. Since then the fall in consumption in the United States and Europe reversed the rising trends, and the average price for 1978 was 187 dollars per sack. Nevertheless, the sale of coffee continued to represent a little more than 15% of total exports of goods, with an approximate value of 2 billion dollars.

As regards soya beans, which in 1977 had contributed over 700 million dollars of total income, domestic supply dropped sharply owing to the adverse weather conditions in the central-south area of Brazil. Because of the effects of the bumper crops in the United States and Argentina, however, prices did not rise as might have been expected in view of Brazil's short supply. Somewhat attenuating the harmful effects of this result, sales of soya bean flour and cake remained at a satisfactory level, showing a contraction of around 8%. Even so, the income obtained from external sales of this commodity barely surpassed 1.2 billion dollars, compared with 1.8 billion in 1977.

Total exports of raw, refined and granulated sugar also recorded a drop - 24% in value and 20% in volume - as a result of increasing difficulties encountered in the world marketing of this commodity in the way of the disequilibrium between supply and demand and the building-up of substantial surpluses.

As one of the few exceptions to the depressive commodity trends, attention is drawn to the increase of a little more than 13% in the value of exports of iron ore, which maintained the same price levels as in the previous year. Despite the moderate dynamism of the world steel industry, Brazil has been able to consolidate its traditional customers and at the same time conquer new positions in the world steel market.

Exports of industrial products all showed positive growth rates. Semi-manufactured products, particularly soya bean oil with a share of over 20% in this group, increased the value of their exports by approximately 20%.

/Manufactured products

Manufactured products were exported to a value of around 5 billion dollars, or nearly 33% more than the value recorded in 1977.

Exports of transport equipment, the main item among the industrial products, expanded by a little over 68% to a value of nearly 830 million dollars. The biggest share in the group continued to be that of motor vehicles (above all unassembled (CKD) vehicles), which represented 49% of total sales. Countries of Africa and South America maintained their position as the most important buyers of Brazilian vehicles of a total of 60 importing countries.

Other products whose external sales expanded vigorously were footwear and orange juice, whose share in total exports has been increasing. In the case of the former, after being at a virtual standstill in 1977, exports grew by over 60% in 1978; in the case of orange juice, their value increased to over 330 million dollars, at a rate of nearly 88%, thus ranking eighth in importance among the main export products.

From a different standpoint, it is important to note that the successful results being achieved in exports of manufactures were not unrelated to the establishment of a system of strong incentives and subsidies. As may be seen in table 12, the subsidies provided for industrial exports represent a high proportion of their total value and are a heavy charge on the national budget. On the other hand, however, they constitute an important instrument for the reassignment of resources among enterprises. Thus, of every dollar's worth of textile products exported 71 cents represented subsidies, and of every 100 million dollars' worth of vehicles exported 66 million were subsidies granted to the sector. Although these figures relate to 1975, they had not changed substantially up to 1978, and gave rise in the purchasing countries to frequent accusations of dumping and internally to serious problems in Brazil's anti-inflationary monetary policy.

/Table 12

Table 12

BRAZIL: EXPORT SUBSIDIES, 1975

(Percentage of value exported)

	Exemption from tax	Subsidies in the form of credit	Total
Textiles	29.0	42.2	71.2
Footwear	20.9	30.5	48.4
Machinery	24.0	26.5	50.5
Electronic equipment	26.5	26.3	52.8
Vehicles	28.8	37.4	66.2
Furniture	5.0	30.9	35.9

Source: Fundação de Comércio Exterior (FUNCEX).

/The policy

The policy in respect of the exchange rate has not changed in the last three years and that of small periodic devaluations continued, the exchange rate being modified 16 times in the course of 1978 at rates of devaluation ranging from 0.6% in May - the lowest of all - to 2.2% in December, which was the highest (see table 13).

The total devaluation of the cruzeiro in relation to the United States dollar was 30%, while domestic inflation measured by the general price index (domestic supply) accelerated at a rate of 40.8%. Taking into account external inflation, as represented by the evolution of the United States wholesale price index which showed a variation of 7.8%, a comparison may be established between the official rate of exchange and a parity exchange rate which, as may be seen in table 13, was kept below the established parity at a value just under the 1977 level.

This is consistent with the global anti-inflationary policy adopted and with the existence of a substantial external debt, a large part of which is represented by financial commitments of the private sector. The depressive effect which, in the last analysis, was observable in the performance of exports has been more than offset by the incentives and exemptions which, as already noted, were granted to the export sector.

(iii) Imports of goods. The impact caused in 1974 by the increase in imports to twice their value led to the adoption of a rigid system of control of external purchases,5/ still in force today, which succeeded in keeping the value of imports in the next three years at the level reached in that year of around 12 billion dollars. Since the prices of oil and industrial products continued to rise, however, the fact that the total value of imports was maintained meant that with the exception of crude petroleum they contracted in volume throughout the three-year period concerned. In those circumstances, in the face of the persistent though more moderate growth of the economy, it was clearly impossible to continue to maintain total imports at the same level. In this respect, the developments in 1978 were considered perfectly natural, in that imports of goods increased by a little over 1.6 billion dollars in value, at a rate of slightly more than 13% over the preceding year.

5/ See the section on Brazil in CEPAL, Economic Survey of Latin America, 1976, United Nations publication, Sales No.: E.78.II.G.1.

Table 13

Table 13

BRAZIL: EVOLUTION OF EXCHANGE RATE AND PRICES

At end of:	Official exchange rate		General price index of Brazil	Wholesale price index of the United States	Parity exchange rate	Ratio between official and parity exchange rates
	Cruzeiros per dollar	Index			$(5) = 3\,805 \times \frac{(3)}{(4)}$	$(6) = \frac{(1)}{(5)}$
	(1)	(2)	(3)	(4)		
1968	3 805	100.0	100.0	100.0	3 805	100.0
1969	4 325	113.7	120.3	103.9	4 406	98.1
1970	4 920	129.3	143.4	107.7	5 066	97.1
1971	5 600	147.2	171.3	111.1	5 867	95.4
1972	6 218	163.4	198.0	116.1	6 489	95.8
1973	6 218	163.4	229.0	131.4	6 631	93.7
1974	7 368	193.6	308.0	156.3	7 498	98.3
1975	8 988	236.2	398.4	170.7	8 881	101.2
1976	12 149	319.3	585.2	178.6	12 467	97.4
1977	15 845	416.4	811.7	189.1	16 333	97.0
1978	20 547	540.0	1 142.9	203.9	21 346	96.3

Source: Columns (1) to (3), Fundação Getúlio Vargas, Conjuntura Econômica, vol. 33, Nº 2, February 1979.

/Table 14

Table 14 shows that the increase in the value of imports was a general one in all categories covering the use of goods, with the lowest growth rate for fuels and lubricants, which were the only group to expand steadily since 1974.

The highest rate of growth, i.e., nearly 20%, was recorded by consumer goods, a fact which is mainly attributable to the bigger purchases of foodstuffs and optical, measuring, surgical and electronic instruments and equipment. This marked acceleration, however, was neutralized by the small percentage representation of this category of goods in total expenditure on imports.

Intermediate goods constituted the main factor of the absolute increase in imports. In the first place, purchases of cereals went up from 280 million dollars in 1977 to 700 million in 1978, mainly because wheat imports grew by 108% to 540 million dollars as a result of the 36% drop in Brazil's production in 1977. Moreover, adverse weather conditions affected agriculture and caused serious losses in the maize crop. It was therefore necessary to use imports to supply the country's wheat requirements, and purchases were made to a value of 137 million dollars. It should be noted that in 1977 Brazil had received a similar value for exports of this commodity.

In this same category of goods, imports of non-ferrous metals diminished 13% in terms of global value and 14% in volume, which meant the absorption of stocks and the increased domestic production of some of these metals. In this respect, too, purchases of cast iron and steel showed decreases of about 19% in value and 23% in volume, and represented only 6% of domestic consumption of these products in the year.

As regards fuels and lubricants, there was a rise of nearly 10% in the value of imports, prices having remained at the same level, compared with a growth rate of 4.5% in the previous year. Total expenditure rose to nearly 4.5 billion dollars, 4.1 billion of which were used for purchases of crude oil. This value represented 33% of the total value of imports and 35% of the total foreign exchange earnings obtained from exports.

/Table 14

Table 14

BRAZIL: IMPORTS OF GOODS (FOB)

	Millions of dollars		Percentage breakdown		Growth rates
	1977	1978	1972-1976	1978	1978
Consumer goods	931	1 116	8.1	8.2	19.9
Intermediate goods	7 991	9 001	61.4	66.0	12.6
Fuels and lubricants	4 081	4 485	23.4	32.9	9.9
Others	3 910	4 516	38.0	33.1	15.5
Capital goods	3 101	3 522	30.5	25.8	13.6
Total	12 023	13 639	100.0	100.0	13.4

Source: Banco Central do Brasil, Relatório 1978, op. cit.

/The growth

The growth observed in imports of petroleum is accounted for by the expansion of apparent consumption of this commodity, while domestic production remained practically at the same level, if it is taken into account that the production increase in the offshore oilfields barely compensated for the decrease in output of the oilfields on land.

Despite the existence of the National Programme for the Rationalization of the Use of Fuels which in previous years had succeeded in keeping down the growth rates of demand, in 1978 there were increases of nearly 8% in the consumption of gasoline for motor cars, a little over 8% in that of diesel oil and 8.5% in the consumption of fuel oil, the petroleum product most consumed in Brazil.

The rapidly increasing consumption of fuel oil presents a serious problem in the implementation of a policy of restricting expenditure on petroleum. Its replacement by other sources of energy is very problematical and involves heavy increases in costs, above all in industries producing paper and paperboard, cement, rubber and chemical products. Furthermore, in view of the relatively rigid composition of the conversion of crude oil into the various petroleum products, there is little point in containing the demand for gasoline and diesel oil if the demand for fuel oil is increasing.

Imports of capital goods, which had declined in previous years as a reflection of the slowing up of investment in several branches of industry, recorded a growth of nearly 14% in value in 1978. This growth, however, which is equal to an absolute value of 420 million dollars, includes imports to a value of 300 million dollars for the Jari timber production project in the Brazilian Amazon area. Moreover, of the country's imports of transport equipment, that destined for maritime and inland-waterway navigation showed an absolute growth of a little more than 170 million dollars. Excluding these two items, imports of capital goods remained static in 1978, reflecting the minimum requirements in terms of imported capital goods in a situation in which industrial investment had diminished.

/(b) The

(b) The capital account

The capital account registered a net inflow of some 9.5 billion dollars, which was 79% more than in 1977 and nearly 40% higher than the deficit on current account, thus reflecting a balance-of-payments surplus of 3,880 million dollars, if the 332 million for errors and omissions are also included (see table 15).

This considerable increase in the inflow of capital was due to the entry of a little over 11.3 billion dollars under the head of monetary loans, compared with that of slightly over 6.1 billion in the previous year. Of this total, some 8.5 billion dollars entered Brazil by virtue of operations envisaged in Law 4131, which consisted of direct investment virtually all by foreign or public enterprises. The remaining 2.8 billion represented investment operations effected by financial institutions.

The rapid increase in the volume of monetary loans was due to two kinds of factors. First, the existence of considerable international liquidity which has been reflected in the drop in the spreads 6/ charged and in longer amortization periods. Secondly, mention should be made of the internal incentives favouring the inflow of capital and the maintenance of internal interest rates well above the external rates, facilitating speculative movements in the domestic market on the basis of external loans.7/

From a different angle, amortization payments reached the high figure of 5,170 million dollars, which is 27% higher than in 1977 and reflects the country's growing external indebtedness.

As a result of these main movements, there was an increase of 4,640 million dollars in international reserves, compared with that of nearly 680 million in the previous year. At the end of 1978, reserves were around 11.9 billion dollars, which is equivalent to the value of imports for approximately 10 months.

6/ Interest margin charged over and above LIBOR (London inter-bank offer rate).

7/ For the importance and implications of the increase in monetary loans, see section 5 on monetary and fiscal policy.

/Table 15

Table 15

BRAZIL: CAPITAL ACCOUNT

(Millions of US dollars)

	1976	1977	1978
Net movement of capital	6 806	5 269	9 439
Net investment	959	810	901
Loans and financing	1 523	1 587	1 382
International agencies and government institutions	776	804	952
Suppliers's credit	1 017	1 125	904
Brazilian loans and financing granted to other countries	-270	-342	-474
Monetary loans	5 980	6 118	11 312
Bonds	269	718	938
Others	1 062	96	71
Amortization payments	-2 987	-4 060	-5 170

Source: Banco Central do Brasil, Relatório 1978, op. cit.

/(c) The

(c) The external debt

At 31 December 1978, according to the official estimates published by the Central Bank of Brazil,8/ the external debt - including public, private and State-guaranteed debts - stood at 43.5 billion dollars. This figure represented an increase of nearly 11.5 billion dollars over the level recorded at the end of 1977, and a growth rate of nearly 36%, the highest since 1974.

Of this total the public sector directly or indirectly accounted for 63%, or about 27.5 billion dollars. Monetary loans amounted to almost 56% of the sector's liabilities, while the financing of imports and bonds represented 33% and 9%, respectively.

At the end of 1978 the private sector debt amounted to 16 billion dollars, with a growth of 25% over 1977. Of this total nearly 89% were monetary loans, and of these two-thirds were direct investment by enterprises abroad.

Monetary loans absorbed the largest share in the composition of the external debt (68%), since those obtained directly by enterprises represented half the total external debt (see table 16). This is important if it is considered that monetary loans are the operations which exert most pressure on the programme of debt amortization, inasmuch as a proportion of over 70% of total monetary indebtedness should be paid off by 1983.

The level reached by Brazil's external debt presupposes substantial outflows of funds which progressively reduce the net contribution of new financing. In 1978, amortization payments amounted to 5,170 million dollars, or 26% more than in 1977, and interest payments totalled slightly over 2,8 billion dollars, representing a growth of nearly 30%. The sum of these two items shows that debt servicing exceeded 8 billion dollars, or 27% more than the amount recorded in 1977 and almost double the 1975 figure (see table 17).9/

8/ Relatório 1978.

9/ See the section on Brazil in CEPAL, Economic Survey of Latin America, 1977, op. cit.

/Table 16

Table 16

BRAZIL: PRIVATE, PUBLIC AND STATE-GUARANTEED EXTERNAL DEBT

(Millions of US dollars)

	1972	1973	1974	1975	1976	1977	1978 (September)
Total	9 521	12 572	17 166	21 171	25 968	32 037	40 736
Compensatory loans	241	203	169	137	106	75	59
United States Government	231	200	169	137	106	75	59
Others	10	3	-	-	-	-	-
Bonds	60	142	172	161	289	1 222	2 163
International agencies	762	972	1 388	1 655	1 993	2 355	2 831
World Bank a/	518	695	1 076	1 239	1 447	1 731	2 095
Inter-American Development Bank	244	277	312	416	546	624	736
Official bilateral agencies	1 504	1 688	2 151	2 430	2 739	2 864	3 067
United States Agency for International Development (AID)	960	1 008	1 054	1 092	1 121	1 117	1 103
Programme loans	618	615	610	601	586	570	557
Project loans	342	393	444	491	535	547	546
United States wheat credits (PL 480)	108	103	97	92	87	81	81
United States Export-Import Bank	278	320	543	685	817	886	922
Others b/	158	257	457	561	732	780	961
Suppliers' credits	1 136	1 442	1 812	1 980	2 414	3 773	4 908
Financial credits	5 528	7 849	11 211	14 561	18 194	21 528	27 495
Other credits	290	276	263	248	233	219	212

Source: Boletim do Banco Central do Brasil, April 1979.

a/ Includes the International Finance Corporation.

b/ Includes the Canadian Wheat Board, the Export-Import Bank of Japan and the Kreditanstalt für Wiederaufbau.

/Table 17

Table 17

BRAZIL: COEFFICIENT OF THE EXTERNAL DEBT

	1970	1971	1972	1973	1974	1975	1976	1977	1978a/
				Millions of US dollars					
Loans and financing b/	1 494	2 109	4 621	4 754	7 057	7 242	10 093	8 345	12 765
Debt service payments	1 072	1 217	1 630	2 306	2 606	4 050	4 648	6 300	8 013
Amortization	830	887	1 217	1 724	1 893	2 610	2 888	4 100	5 170
Interest (net)	242	330	413	582	713	1 440	1 760	2 200	2 843
				Coefficient of the debt (percentage)					
DS / X	37.2	39.4	37.3	34.4	30.1	42.1	42.7	48.0	53.3
DS / X + SR	39.5	37.6	35.6	23.5	19.5	31.8	31.7	37.7	48.6
DS / LF	71.8	57.7	35.3	48.5	36.9	55.9	46.0	75.5	62.8
D / GDP	11.5	12.8	15.8	16.1	17.5	18.7	20.8	21.9	23.0

Source: CEPAL, on the basis of official data.

Note: DS = Debt service
X = Exports of goods
SR = Surplus of reserves = total reserves at the beginning of the period less import needs for three months
LF = Loans and financing
D = Total debt outstanding public and private
GDP = Gross domestic product

a/ Preliminary figures.
b/ Medium-and long-term credits.

/With the

With the aim of assessing the burden represented by the servicing of the external debt, some indicators are shown in table 17. As can be seen, the coefficients indicate that this burden has rapidly increased in recent years and especially in 1978.

The first coefficient shows the weight of debt servicing on income from exports and reveals a steep increase from 1974 onwards. In the last year this indicator rose from 48% to slightly over 63%.

If the same coefficient is calculated in the light of the total international reserves in excess of those required to cover three months of imports, it will be seen that its value also rises in 1978 by over 10 percentage points.

On the other hand, if a comparison is made between debt servicing and the amount of the medium- and long-term loans annually entering the economy, the result for 1978 is a significant percentage drop, which is explained by the substantial inflow of this capital in the course of the year, which was 53% over the 1977 level.

The last indicator shows a comparison of the total external debt with the gross domestic product. It can be seen that the debt increased throughout the decade and by 1978 represented 23% of the product.

4. Prices, wages and salaries

(a) Price trends

In spite of the fact that the fight against inflation was the main objective of official economic policy, the price indexes recorded higher values in 1978 than in the previous year. The general price index calculated on the basis of domestic availability, a concept which is normally used as a measure of inflation, increased by 40.8%, compared with 38.8% in 1977 and 46.3% in 1976 (see table 18). The result is even more unfavourable if the evolution of the wholesale price index - considered by the Getúlio Vargas Foundation as the index with the widest national coverage - is compared also on the basis of the domestic availability concept. Its rate of increase soared from 35.5% in 1977 to 43% in 1978. Thus, for the third consecutive year, the most representative price indexes remained at around 40%, reflecting a resurgence of inflation which defies the monetary authorities' ability to control.

/Table 18

Table 18

BRAZIL: EVOLUTION OF DOMESTIC PRICES

(Percentage variations)

	1974	1975	1976	1977	1978
	December to December				
General price index a/					
Total supply	33.8	30.1	48.2	38.6	40.5
Domestic availability	34.5	29.4	46.3	38.8	40.8
Wholesale price index					
Total supply	34.1	30.6	48.1	35.3	42.3
Agricultural products	31.2	33.7	67.0	34.2	47.6
Industrial products	35.6	39.2	40.3	35.5	39.9
Domestic availability	35.4	29.3	44.9	35.5	43.0
Raw materials	44.2	25.4	38.0	28.4	35.2
Food	37.4	33.0	50.1	37.5	51.9
Consumer price index					
Rio de Janeiro	33.8	31.2	44.8	43.1	38.1
Food	41.4	26.2	47.1	43.9	44.4
Clothing	17.0	14.6	40.8	29.5	21.7
Housing	28.2	52.8	50.8	42.5	36.6
Articles for the home	29.8	18.9	47.4	38.8	34.9
Health and hygiene	28.5	34.7	39.7	44.9	39.0
Personal services	33.2	33.1	43.7	50.4	28.8
Public services	27.1	41.3	28.5	38.6	38.6
Construction costs					
Río de Janeiro	31.8	24.1	58.6	44.7	37.0
	Variation between annual averages				
General price index					
Total supply	28.9	27.8	42.8	43.7	37.9
Domestic availability	28.7	27.7	41.3	42.7	38.7
Wholesale price index					
Total supply	29.3	29.4	36.6	39.3	37.5
Domestic availability	29.1	37.8	40.4	40.6	38.9
Consumer price index					
Río de Janeiro	27.7	29.0	41.9	43.7	38.6
Construction costs					
Río de Janeiro	29.5	25.1	44.2	51.0	37.9

Source: Fundação Getulio Vargas, Conjuntura Economica, vol. 33, Nº 2, February 1979.

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

/Table 19

Table 19 shows the evolution of the main price indexes throughout the year. What appears to constitute a pattern of behaviour of the various indexes can be seen here: very high rates in the first quarter, which gradually accelerated and reached their peak at the end of the second quarter. They dropped in the third quarter, rose again in October and November and reached their minimum value in the last month of the year when pressures on prices were transferred to the beginning of the following year. These fluctuations in the indexes has led to a somewhat inconsistent policy in the conduct of the economy which is characteristic of Brazil's inflationary process in recent years.

As regards the evolution of the system of relative prices, the wholesale price index rose faster than any other index and determined the acceleration of the general price index. If this index is broken down into its two main components, i.e., total supply and domestic availability, it can be seen that in the former agricultural prices recorded nearly eight percentage points more than industrial prices, reflecting the obvious results of a poor agricultural year. In domestic availability, food prices increased by nearly 52% compared with a rate of slightly over 35% for raw material prices.

The consumer price index for Rio de Janeiro, calculated by the Getúlio Vargas Foundation on the basis of a basket of goods for households with incomes of up to five times the minimum wage, fell by 5 percentage points in relation to its value in 1977, to just over 38%. This fact is important because the index influences public opinion as it represents the effect of the increases on the purchasing power of the final consumer. It is interesting to note, however, that prices of the food component, of considerable weight in the costs of low-income households, rose above the previous year's level, recording a value of over 44%.

Finally, the index measuring the cost of construction in Rio de Janeiro, also a component of the general price index, rose by nearly 38%, representing a considerable drop with respect to the previous year's rate (51%), which was higher than that of any other index in 1977.

/Table 19

Table 19

BRAZIL: MONTHLY AND CUMULATIVE EVOLUTION OF PRICES, 1978

(Percentage variations)

Period	General price index (domestic availability)		Wholesale price index (domestic availability)		Consumer price index (Rio de Janeiro)	
	Monthly variation	Variation over last 12 months	Monthly variation	Variation over last 12 months	Monthly variation	Variation over last 12 months
January	2.7	37.3	3.0	35.4	2.2	39.3
February	3.4	37.6	3.6	36.5	3.6	39.8
March	3.3	36.5	3.4	35.3	2.7	37.7
April	3.4	35.6	3.5	34.3	2.3	36.4
May	3.2	35.1	3.5	34.5	3.2	36.0
June	3.6	37.3	3.6	37.1	4.1	38.0
July	2.8	38.2	2.5	37.9	3.7	39.7
August	2.7	40.2	2.8	40.6	2.4	40.4
September	2.6	41.2	2.7	42.1	2.0	40.1
October	2.9	41.4	3.2	43.4	2.6	39.7
November	2.7	41.6	3.1	44.1	2.2	38.9
December	1.5	40.8	1.4	43.0	1.8	38.2

Source: Fundação Getúlio Vargas, Conjuntura Econômica, vol. 33, Nº 2, February 1979.

/(b) Wages

(b) Wages and salaries policy

In 1978 the trend towards greater flexibility in the adjustment of wages observed in the previous year was maintained. The indexes of pay adjustments decreed monthly by the Government as a basis for labour agreements and pay claims remained a little above the expected rates of inflation, thus confirming a slight improvement in real remuneration according to the indexes published in the period January-May 1978. In the case of direct agreements between workers and employers involving higher adjustments than those decreed by the Government, the policy of not permitting this additional cost to be absorbed by prices was maintained.

As regards the minimum wage, which is adjusted on 1 May each year, the Government decided to increase it by 41% for 1978. As can be seen in table 20, this rate of increase, combined with the previous year's adjustment of 44%, raised the monthly average real minimum wage in 1978 by slightly over 2 percentage points.

The real wage for unskilled manpower does not seem to be following the official trend, however. In São Paulo, the biggest centre of employment in civil construction, the real wages paid to various categories of workers diminished with respect to 1977, at a rate somewhere between 4 and 5%.10/

5. Monetary and fiscal policy

(a) Monetary policy

Despite the Government's intention to implement a severe monetary policy,11/ the measures adopted in the course of the year failed to contain the rise in prices and the rate of inflation remained at over 40%. Moving between objectives which it is not easy to make compatible - to maintain a reasonable growth rate for the product, stabilize the external sector, combat inflation and fulfil social objectives - monetary policy has been characterized by changes which have tended to make it less efficient.

10/ See the Report of the Central Bank of Brazil, 1978, op. cit.

11/ See the document entitled Diretrizes e prioridades para a área econômica em 1978, which was approved by the President of Brazil early in the year.

/Table 20

Table 20

BRAZIL: INDEXES OF REAL MINIMUM WAGE

(Base: monthly average 1975 = 100)

	Indexes of real minimum wage a/ (Rio de Janeiro)
1975	
April	83.5
May	115.7
Monthly average	100.0
1976	
April	83.8
May	116.7
Monthly average	101.1
1977	
April	83.6
May	116.5
Monthly average	101.4
1978	
April	88.3
May	120.7
Monthly average	103.6

Source: Banco Central do Brasil, Relatório, March 1979.

a/ Deflactor used: cost of living in Rio de Janeiro.

/Within a

Within a traditional short-term perspective, the monetary authorities' prime concern was to keep the expansion of the means of payment within prudent limits. In spite of a number of restrictive measures which became more and more rigid in the course of the year, however, the means of payment (M_1) grew by slightly over 42%, exceeding the 1977 rate of 37.5% and also, by a bigger margin, the monetary budget forecasts of a maximum rate of 25% for 1978.

The monetary base 12/ grew by practically 45% in the whole year. The main factor of expansion was the increase in international reserves of nearly 65%, equivalent in absolute values to 4.7 billion dollars, although this increase was to some extent offset by the compulsory retention in the Central Bank of the equivalent in cruzeiros of a proportion of the external resources entering the country.

It is interesting to note that, of the total variation in reserves, 4 billion dollars represented income in the second half of the year when the monetary authority's restrictive measures were more rigid. By June the National Monetary Council had determined that the cruzeiro equivalent of the external resources entering the country as from the 21st of that month should remain on deposit in the Central Bank for a period of 30 days. On 17 July the period was extended to 120 days for resources coming in as from that date, so that the internal monetary effect of external loans was transferred to the second half of November. Once again in August the period for the compulsory deposit against external resources entering as from the 14th of that month was extended to 150 days. Finally, in November, when a proportion of the compulsory deposits was freed, the Central Bank established a new time-table for the return of these deposits, determining that only 20% of the totals would be made available on the dates on which they were freed, and the remaining 80% would be freed in two equal parts within periods of 30 and 60 days. At the same time, the minimum period accepted by the monetary authority for the amortization of external loans was extended from five to eight years. In spite of these restrictions, the gross entry of external resources into Brazil amounted to over 16 billion dollars, or 56% more than in 1977, 5.6 billion of which entered in the last quarter of the year.

12/ Monetary base = currency in circulation + commercial bank deposits with the Central Bank + sight deposits with the Banco do Brasil. Means of payment (M_1) = monetary base + sight deposits in commercial banks.

/It is

It is interesting to note that the delay between the monetary authority's action and the results achieved detracted from the efficiency of the measures adopted in connexion with capital inflows.

The explanation lies in the exceptionally favourable conditions which today still govern the entry of international capital into Brazil. In the first place, there is the big difference in costs between domestic and external loans,13/ both because the domestic rate of interest 14/ was raised and because the tax on remittances of interest and other costs was reduced from 25% to 3.75% (a measure adopted in August 1975) and credit operations in foreign currency through financial institutions were exempted from the payment of taxes (resolution adopted in November 1975). Moreover, there are certain incentives to the absorption of external capital which convert the loans into stand-by operations, without risk to the borrowers (even in the case of private sector loans), who can contract them abroad and maintain them in the form of sight deposits in the Central Bank, with the Government assuming responsibility for any modification of the exchange rate and for total payment of interest and other financial costs during the period covered by the deposit.

The operation of these mechanisms, instituted in 1975 and maintained because of the need to obtain external resources for servicing the debt, has been undermining the rationality of the policy governing the contracting of external loans by enterprises, with the aggravating factor that the maintenance of immediately available voluntary deposits could frustrate the monetary authority's decisions in the way of exerting more control over the liquidity of the economy.

13/ The rate of interest on external loans in 1978 was, on average, 1.6% higher (spread) than the London inter-bank offer rate (LIBOR) which averaged 11% for the year. See World Bank, Borrowing in International Capital Markets, June, September and December 1978, and March 1979.

14/ Domestic interest rates were freed in 1976. The rates for preferential loans from commercial banks at the end of each year of the period 1975-1978 were 17%, 30%, 52% and 62%, respectively. See World Financial Markets, Morgan Guaranty Trust Company, New York, April 1979.

/Other factors

Other factors of expansion of the monetary base, which were a good deal less important than the pressure exerted by the increase in reserves, were the financing of coffee purchases for the building-up stocks and the expansion of loans from the Banco do Brasil. In this respect, the credit offered by the Banco do Brasil was carefully controlled throughout the year, remaining up to the last quarter within the limits established in the monetary budget, with an expansion of 23% in the period January-September. In the last quarter, however, the Bank's operations increased at an accelerated pace and, although the monetary authority prohibited the granting of new loans as from 22 November, with the exception of agricultural credit, they grew by approximately 37%.

The measurement of liquidity in the economy and of the effect of its variations on the indexes of inflation also entails considering the evolution of various forms of quasi-money whose expansion largely escapes the monetary authority's strictest control, which is exercised only on the means of payment (M_1). The concepts M_2 and M_3 used by the Central Bank of Brazil, including a major proportion of the highly liquid financial assets, show that quasi-money has been expanding at much higher rates than those recorded for the means of payment. This disparity in the rate of growth of the two components of quasi-money ($M_2 - M_1$) and ($M_3 - M_2$) and the fact that their rates of expansion rose in 1975 and remained constant throughout the four-year period can be observed in table 21. If it is considered that quasi-money ($M_3 - M_1$) increased its share in financial assets from 40% in 1975 to 53% in 1978, it will be seen that its high rates of expansion affect the liquidity of the economy in a manner completely incompatible with the economic authority's attempts to implement a restrictive monetary policy.

Credit remained at levels fairly close to those observed in the previous year. Total loans to the private sector showed an increase of 50% compared with that of 54% in 1977. The monetary system (Banco do Brasil and commercial banks) expanded its operations by a little over 48% compared with 51% in the previous year, while the financial institutions composing the non-monetary system as a whole expanded their credit by approximately 50.5% compared with the 1977 rate of 51.5% (see table 22).

/Table 21

Table 21

BRAZIL: LIQUIDITY OF THE PRIVATE SECTOR

(Percentage variations between end-of-December balances)

Period	M_1	M_2	(M_2-M_1)	M_3	(M_3-M_2)
1974	33.5	31.1	17.8	33.4	39.4
1975	42.8	44.3	54.5	47.2	54.1
1976	37.2	55.4	63.7	53.3	48.3
1977	37.5	43.2	60.9	47.3	57.2
1978	42.3	43.9	48.0	49.5	61.8

Source: Fundação Getulio Vargas, Conjuntura Econômica, vol. 33, Nº 2, February 1979; Central Bank of Brazil.

Note: M_1 = Currency outside banks + sight deposits in the monetary system = means of payment.
M_2 = M_1 + sight deposits in the public savings banks + National Treasury Bonds outside the monetary system.
M_3 = M_2 + 50% of time deposits, savings deposits, bills of exchange and real-estate bonds.
$M_3 - M_1$ = Quasi-money.

/Table 22

Table 22

BRAZIL: LOANS TO THE PRIVATE SECTOR

(Percentage variations)

	1973	1974	1975	1976	1977	1978a/
Banco do Brasil	50.0	77.5	64.5	61.3	48.7	37.5
Commercial banks	44.1	47.5	50.9	50.7	52.2	57.4
Financial institutions	81.6	25.1	33.6	28.9	30.1	56.0
Investment banks	56.6	34.2	50.2	37.8	48.1	49.7
Real estate credit companies	68.5	60.5	40.2	68.4	69.7	46.9
Savings and loan associations	84.5	82.5	62.9	99.1	75.3	61.7
Federal Savings Bank	60.9	77.3	89.0	70.6	60.2	37.6
State savings banks	78.0	66.1	68.2	114.1	52.9	52.3
National Economic Development Bank	45.4	223.2	100.9	82.1	58.2	56.9
Total	65.9	52.1	56.3	57.3	54.4	49.3

Source: Central Bank of Brazil.

a/ Preliminary figures.

/From a

From a different standpoint it is interesting to note that agricultural activity has played an important role in creating inflationary pressures in the economy, contributing in 1978 to the maintenance of price increases at around 40%. The prolonged drought which affected the central-south region of Brazil early in the year reduced the supply of some essential agricultural products. The result was that agricultural prices, measured by total supply of the wholesale price index, registered an average monthly increase of 4.8%, reaching a growth rate of 32.2% in the first six months of 1979, which is the highest rate recorded in the last 10 years. In the second half of the year the inflationary pressures continued as a result of the frosts affecting several states which prevented production from recovering and caused substantial losses in some crops, mainly coffee and beans.

With the poor results in 1978, the growth rate of agriculture in the four-year period 1975-1978, excluding coffee, averaged slightly over 2%, which was clearly insufficient in relation to the growth of demand. In the case of some basic commodities destined mainly for the domestic market the average growth rates in the period were close to zero or negative (0.6% for beans and manioc and -3.1% for maize).

A certain degree of imported inflation also helped to maintain the inflationary pressures, as shown by the increase of 7% in the unit value of imports, with an obvious chain effect on domestic prices. Another factor was the maintenance of the policy of periodic devaluations of the cruzeiro.

From another angle, it is important to note the role played by the growth of the financial market in Brazil, stimulated by the open market operations undertaken by the Central Bank.

In a situation where high rates of inflation combine with a relative slowing down of the economic growth rate, it is exceedingly attractive to the economic agents to deviate resources - even from productive investment - into short-term operations on the financial market, whose rate of return 15/ is frequently higher than that on the individual agents' specific activities.

15/ The average rates for the three to four-month bonds most representative of the financial market at the end of each year of the period 1975-1978 were 29%, 45%, 47% and 51%, respectively. See World Financial Markets, op. cit.

/Thus, according

Thus, according to a study made by the publication Balanço Anual, which analyses the annual balance-sheets of the 400 most important enterprises established in the country, one out of every three enterprises obtained more non-operational than operational profit in 1977. In other words, of those 400 enterprises, about 140 obtained a higher profit from financial operations - the majority effected in the open market - than from their production activities.16/

The financial market has been stimulated by the growth of the domestic debt based on the sale of public debt bonds. These bonds, which are the financial assets par excellence in view of their high degree of liquidity, serve as guarantee in short-term operations and the interest they pay regulates the rate of return of financial operations in general.

On the other hand, the growth of the domestic debt has been partly a reflection of the expansion of the external debt. The need to obtain external resources for the current servicing of the debt has necessitated the maintenance of very high domestic interest rates with the purpose of channelling part of the domestic demand for financing abroad. The increasing entry of external resources, stimulated by the differences between domestic and external interest rates, has compelled the Government to issue cruzeiros to cover the balance on external operations. In order to prevent the inflationary effect of this volume of money the Central Bank sells public bonds, thus absorbing money that was formerly injected into the system. To achieve this, however, it must keep the rate of return on public bonds fairly high,17/ thereby contributing to the persistence of high interest rates.

Concurrently, the very nature of the domestic debt (redemptions, interest payments and monetary correction), which is estimated at a third of the total debt, has compelled the Government to continue to issue public bonds on an increasing scale, facilitating the rapid growth of the financial market.

16/ See, in this respect, Gazeta mercantil, 4 October 1978; and the periodical Isto é, 11 October 1978.

17/ The rates of return on 91-day National Treasury bonds at the end of each year of the period 1975-1978 were, respectively, 25%, 39%, 38% and 41% annually. See World Financial Markets, op. cit.

/The effect

The effect of nullifying the active and passive positions of the agents in this financial market is to bring pressure to bear on the banking system, requiring unforeseen monetary expansions. These requirements finally affect the monetary budget, converting the evolution of the means of payment from a variable independent of monetary policy into a variable dependent upon the pressures exerted on the financial market.

In these circumstances, the monetary policy loses some of its rationality, fails to achieve its objectives, fluctuates in accordance with the pressures of the system and, finally, opens the way to inflation.

(b) Fiscal policy

The aim of the fiscal policy devised for 1978 and approved in January by a resolution of the Economic Development Council was to assist in achieving the Government's principal aims of combating inflation, increasing the trade surplus and maintaining the growth rate of the product at the 1977 level. In this respect, fiscal policy, was neither very restrictive nor liberal. The Government established its budget without a deficit and determined that the investment programmes of the main State enterprises should be moderated.18/

The National Treasury financial year, as consistent with the policy established, presented a surplus of 4,872 million cruzeiros - or nearly five times the 1977 figure - which was equivalent to 1.4% of total expenditure. Income exceeded the budget forecasts for the year by 8.4% and expenditure did so by 6.9% (see table 23).

The liquid National Treasury balance, after execution of the budgetary and credit operations, was 9,890 million cruzeiros, of which 5,018 million represented financial operations with the public and 4,872 million the cash surplus obtained in the financial year (see table 24). Deposits with the monetary authorities, however, which represent an absorption of resources, declined by nearly 60%, from 3,466 million cruzeiros at the end of 1978 to 1,447 million at the end of 1979. This was due to a deduction of 10,390 million cruzeiros under the head of transfers to Central Bank funds and programmes (Export Financing Fund - FINEX and General Fund for Agriculture and Industry - FUNAGRI) and to deposits for 947 million cruzeiros with the Federal Savings Bank.

18/ For the fiscal coverage of the operations contained in the Union budget, see the section on Brazil in CEPAL, Economic Survey of Latin America, 1977, op. cit.

/Table 23

Table 23

BRAZIL: NATIONAL TREASURY BALANCE SHEET

(Billions of cruzeiros)

	1974	1975	1976	1977	1978
Income	76.8	95.4	166.2	242.9	349.2
Expenditure	72.9	95.4	165.8	241.8	344.3
Surplus	3.9	-	0.4	1.1	4.9

Source: Banco Central do Brasil, Relatório 1978, op.cit.

/Table 24

Table 24

BRAZIL: FINANCIAL OPERATIONS OF THE NATIONAL TREASURY[a/]

(Millions of cruzeiros at the end of each period)

	1975	1976	1977	1978
With the monetary authorities	-16 356	-18 594	3 466	1 447
Banco do Brasil	-398	-2 615	-808	-5 140
Central Bank of Brasil	-15 958	-15 979	4 274	6 587
With the Federal Savings Bank	-	-1 808	-1 064	-947
With the public	16 283	19 979	-3 445	5 018
Movable debt	16 254	19 955	-3 479	4 979
Deposits by taxpayers	29	24	34	39
Funds and programmes	-	-	-	-10 390
Cash position	-73	-423	-1 043	-4 872

Source: Fundação Getúlio Vargas, Conjuntura Econômica, vol. 33, Nº 2, February 1979.

a/ Positive figures indicate debits of the National Treasury.

/Indebtedness with

Indebtedness with the public through issues of federal bonds increased by nearly 5 billion cruzeiros, with the consequent reduction of liquidity in the system. Of this increase in the federal public debt amounting to approximately 49% over the level recorded at the end of 1977, the National Treasury responsibility for bonds in circulation (National Treasury bonds, Readjustable National Treasury Debentures and National Treasury Liabilities) accounted at the end of 1978 for practically 358 billion cruzeiros, which is equivalent to slightly over 10% of the country's gross domestic product at that year's prices.

COLOMBIA

1. Main recent trends: Introduction and summary

In 1978 the Colombian economy showed high growth rates for the global and per capita products (8.2% and 5.6%), which were appreciably greater than those recorded during the period 1975-1977 (annual averages of 4.4% and 1.9%, respectively). The increase in gross income was less than that of the domestic product, however, owing to a deterioration in the terms of trade. At the same time inflation slackened, real wages rose and the rate of unemployment dropped. In the external sector there was a significant drop in the balance-of-payments current account surplus, but international reserves continued to expand, and grew by around 630 million dollars in 1978 (see table 1).

The higher growth rate was due to the simultaneous more rapid expansion of practically all the goods- and services-producing sectors, the growth in agriculture (due to favourable climatic conditions), manufacturing and commerce being particularly worthy of note owing to the relative importance of these sectors. The trend of global demand was a stimulus to economic activity, since in addition to the sharp rise in the volume of exports there was an increase in domestic demand similar to that observed in previous periods.

During 1978 the average international price of Colombian coffee dropped by 23%, but the volume exported increased substantially (70%). The evolution of the value of coffee exports was thus the main element in the increased total exports of goods, since sales of goods other than of coffee grew at a moderate pace. The growth rate of imports of goods was more rapid than that of exports (35% compared with 15%) and played a decisive part in reducing the balance-of-payments current account surplus from 420 million dollars in 1977 to 160 million in 1978. The import items which showed the greatest proportional increases were capital goods and petroleum and fuels.

/Table 1

Table 1

COLOMBIA: MAIN ECONOMIC INDICATORS

	1973	1974	1975	1976	1977	1978 a/
A. Basic economic indicators						
Gross domestic product at factor cost (millions of US dollars at 1970 prices)	13 781	14 673	15 299	15 939	16 687	18 056
Population (millions)	22.8	23.3	23.8	24.4	25.0	25.6
Per capita gross domestic product (US dollars at 1970 prices)	605	630	642	653	667	705
	Growth rates					
B. Short-run economic indicators						
Gross domestic product	7.6	6.5	4.3	4.2	4.7	8.2
Per capita gross domestic product	5.3	4.1	1.9	1.7	2.2	5.6
Gross income b/	9.0	5.0	2.5	8.6	8.9	6.0
Terms of trade	14.0	-9.4	-9.5	39.7	47.4	-22.0
Current value of exports of goods and services	28.1	20.4	16.3	28.8	22.2	16.1
Current value of imports of goods and services	15.2	45.6	-2.1	14.5	18.3	30.7
Consumer price index c/						
December to December	25.0	26.9	17.9	25.9	29.3	17.8
Variation between annual averages	15.1	15.2	12.3	14.3	22.3	9.4
Money	29.3	19.6	27.8	34.7	30.4	30.3
Wages and salaries d/	...	-5.3	-2.2	2.4	-5.6	11.1
Rate of unemployment e/	...	...	8.3	8.7	7.6	7.4
Current income of government	24.8	29.4	46.5	27.0	29.9	32.6
Total expenditure of government	13.6	25.9	35.6	12.6	29.9	35.4
Fiscal deficit/total expenditure of government f/	12.1	9.5	2.3	10.2 g/	10.1 g/	7.8 g/
	Millions of US dollars					
C. External sector						
Trade balance (goods and services)	126	-210	139	471	669	372
Balance on current account	-76	-382	-96	205	421	160
Variation in net international reserves	171	-92	94	639	586	635
External debt h/	2 076	2 272	2 540	2 636	2 842	2 892 i/

a/ Preliminary figures.
b/ Gross domestic product plus terms-of-trade effect.
c/ National index for manual workers.
d/ Real wages of manual workers in manufacturing.
e/ Annual average rate in Bogotá.
f/ Percentage.
g/ Surplus.
h/ Total public and State-guaranteed external debt.
i/ At end of September.

/Consumer prices,

Consumer prices, which had risen by 29% in 1977, increased by 18% in 1978. This favourable result was obtained as a result of the noteworthy improvement in the supply of food, especially in comparison with the first half of 1977. The growth of the means of payment was also kept within reasonable limits, and this helped to generate a substantial overall surplus in the government's finances.

Real wages improved during the year: it is estimated that both rural and urban minimum legal wages and the average wages of workers in industry rose by more than 11%. At the same time, the rate of unemployment (national average) dropped from over 8% in 1977 to around 7.5% in 1978.

2. Recent economic trends

(a) Total supply and demand

As already noted, the gross domestic product grew by 8.2% in 1978, i.e., much faster than in 1976 and 1977. Total supply increased by nearly 10% as a result of the sharp (20.5%) increase in the volume of imports of goods and services (see table 2).

As regards the evolution of total demand, the volume of exports of goods and services increased by 28%, while an increase of 8% is estimated for domestic demand. Unfortunately, no data are available on the distribution of this increase in domestic demand between consumption and investment. Available data on the trends observed in construction and in imports of capital goods on the one hand, however, and in real wages and employment on the other, suggest that consumption and investment grew at a relatively similar rate to domestic demand.

(b) The growth of the main sectors

The increase in the total product originated in the vigorous simultaneous expansion of practically all the goods- and services-producing sectors, whose growth rates were between 7% and 9.5% (see table 3). Only the mining product decreased, but this sector is of little relative importance in Colombia.

/Table 2

Table 2

COLOMBIA: TOTAL SUPPLY AND DEMAND

	Billions of pesos at 1970 prices			Percentage breakdown		Growth rates		
	1976	1977	1978[a]	1970	1978[a]	1976	1977	1978[a]
Total supply	207.8	218.7	239.8	115.8	115.4	5.0	5.2	9.7
Gross domestic product at market prices	183.3	192.1	207.9	100.0	100.0	4.6b/	4.8b/	8.2
Imports of goods and services c/d/	24.5	26.5	32.0	15.8	15.4	8.4	8.4	20.5
Total demand	207.8	218.7	239.8	115.8	115.4	5.0	5.2	9.7
Domestic demand	182.5	197.8	213.2	101.6	102.5	8.4	8.4	7.8
Gross domestic investment	37.1	...	...	22.0	...	25.8	...	...
Gross fixed investment	32.8	36.0	...	20.3	...	3 0	9.8	...
Construction	14.4	15.4	...	10.6	...	-12.0	7.3	...
Machinery	18.4	20.6	...	9.7	...	18.9	11.8	...
Changes in stocks	4.2	d/	...	1.7	...	-	d/	...
Total consumption	145.4	161.8d/	...	79.6	...	2.8	8.1d/	...
General government	13.6	...	...	7.6	...	6.7	...	...
Private	131.8	...	...	72.0	...	2.4	...	...
Exports of goods and services c/	25.3	20.9	26.7	14.2	12.8	-5.7	-17.6	27.9

Source: 1970-1977: Banco de la República; 1978: CEPAL estimates on the basis of official data.

a/ Preliminary figures.

b/ The difference between these rates and those shown in tables 1 and 3 is due to the fact that they involve different concepts of the product, factor cost being used in the two tables in question and market cost in the present table.

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

d/ Changes in stocks are included in total consumption.

/Table 3

Table 3

COLOMBIA: GROSS DOMESTIC PRODUCT, BY ECONOMIC ACTIVITY, AT FACTOR COST

	Billions of pesos at 1970 prices			Percentage breakdown		Growth rates		
	1976	1977	1978 a/	1970	1978 a/	1976	1977	1978 a/
Agriculture	44.9	46.0	50.2	28.6	26.0	1.9	2.5	9.1
Mining	2.1	2.1	2.0	2.1	1.0	-4.2	-3.8	-3.0
Manufacturing	32.0	33.4	36.6	17.5	18.9	6.7	4.2	9.5
Construction	6.7	7.1	7.5	5.5	3.9	-14.2	5.7	6.9
Subtotal goods	85.7	88.6	96.3	53.7	49.9	1.9	3.2	8.8
Electricity, gas and water	3.0	3.1	3.4	1.5	1.8	11.4	2.3	9.0
Transport, storage and communications	15.1	16.2	17.6	7.4	9.1	7.0	7.3	8.5
Subtotal basic services	18.1	19.3	21.0	8.9	10.9	7.8	6.5	8.6
Commerce, financial institutions and insurance	31.7	33.7	36.2	17.3	18.8	7.5	6.3	7.5
Real estate b/	9.7	10.3	...	5.6	...	5.3	5.8	...
Community, social and personal services c/	24.9	26.4	...	14.5	...	1.6	5.9	...
Subtotal other services	66.3	70.3	75.6	37.4	39.2	6.2	6.1	7.5
Total gross domestic product	170.2	178.2	192.9	100.0	100.0	4.2	4.7	8.2

Source: 1970-1977: CEPAL calculations on the basis of figures supplied by the Banco de la República;
1978: CEPAL estimates.

a/ Preliminary figures.
b/ Refers to ownership of dwellings only.
c/ Also includes restaurants, hotels and business services.

/(i) The

(i) The agricultural sector. Thanks to an improvement in the adverse weather conditions which had affected the sector in 1976-1977, agricultural production increased by 9.4% in 1978. Crop-farming grew by 12% and livestock production by nearly 7% (see table 4).

In crop-farming, coffee production was 650,000 tons (16% more than in 1977) while the joint yield of a further 24 main agricultural products amounted to over 13 million tons (13% up on 1977). The total area harvested was equivalent to 8.1 million hectares (5% higher than in 1977), while the average yield per unit of area increased by 7.5% compared with the previous year.

Cereal production amounted to 3.1 million tons, thus more than making up for the drop of 13% in 1977. In this class of crops, rice production had the highest growth rate (25%) and slightly exceeded the level of 1.6 million tons registered in 1975. Although production of soya and African palm nuts increased by 31% and 26% respectively, total production of oilseeds dropped by 17% owing to a decrease of 33% in cotton seed output, due to a big reduction in the area sown in 1977, as the result of an unfavourable conjunctural situation of declining international prices and rising production costs which discouraged producers. In order to mitigate these adverse effects, the government decided to grant special credits to cotton growing in 1978.

In the livestock sector, natural pastures, silage and fodder seeds were more plentiful, and the market weight of cattle increased. At the same time, calving rates increased and mortality indexes and the costs of maintaining the herds dropped.

(ii) Mining. The mining product fell by 3% in 1978. As in previous years, this decrease was basically the result of the decline in the production of crude oil, which dropped by nearly 5%, following the downward trend begun in 1972 (see table 5). Owing to the further fall in output, the growing demand for petroleum products, and higher international prices, the value of imports of crude oil and petroleum products increased by around 80%, so that imports of oil and fuels, which were still insignificant in 1974, amounted to around 400 million dollars in 1978. Production of gold and silver dropped by 2% and 9% respectively, and iron ore by slightly over 1%.

/Table 4

Table 4

COLOMBIA: INDICATORS OF AGRICULTURAL PRODUCTION

	1975	1976	1977	1978 a/	Growth rates 1975	1976	1977	1978 a/
Index of agricultural production (1970 = 100)	129.6	132.2	135.2	147.9	6.6	2.0	2.3	9.4
Crop farming	131.0	134.1	138.7	155.3	6.9	2.4	3.4	12.0
Stock-raising	130.0	135.5	137.0	146.5	8.8	4.2	1.1	6.9
Production of the main crops b/ (Thousands of tons)								
Rice	1 614	1 560	1 307	1 627	8.4	-3.3	-16.2	24.5
Maize	723	884	753	861	-8.7	22.3	-14.8	14.3
Sorghum	335	428	406	462	-0.6	27.7	-5.1	13.8
Wheat	39	45	39	34	-44.0	16.4	-13.3	-12.8
Raw cotton	401	409	480	324	-4.6	1.9	17.4	-32.5
Sesame	21	20	13	13	23.5	-1.9	-35.0	-
Soya	169	75	103	135	48.2	-55.5	37.3	31.1
African palm c/	39	39	50	63	-22.8	-	28.2	26.0
Common beans	62	64	72	79	21.1	2.3	12.5	9.7
Kidney beans	28	4	3	-	76.2	-87.3	-25.0	-
Potatoes	1 320	1 516	1 609	1 755	30.4	14.8	6.1	9.1
Yuca	2 021	1 846	1 960	2 200	-4.9	-8.7	6.2	12.2
Refined cane sugar	970	935	854	1 033	8.4	-3.6	-8.7	21.0
Unrefined cane sugar (panela)	806	834	818	894	44.6	3.5	-1.9	9.3
Coffee d/	510	480	558	648	9.0	-5.9	16.3	16.1
Bananas	559	522	575	644	19.0	-6.7	10.2	12.0
Tobacco	58	68	58	63	40.1	18.5	-14.7	8.6
Stock-raising production (Thousadns of head of cattle)								
Number of livestock e/	28 056	28 838	29 640	30 808	3.2	2.8	2.8	3.9
Number of animals slaughtered	2 286	2 588	2 425	2 460	5.0	13.2	-6.3	1.5
Total production f/	4 231	4 503	4 346	4 553	6.9	6.4	-3.5	4.8

Source: CEPAL, on the basis of data supplied by the Ministry of Agriculture, the National Federation of Coffee-Growers and the Banco de la República.

a/ Preliminary figures.

b/ Agricultural year.

c/ Production of oil.

d/ Coffee-growing year, 1 September to 31 August.

e/ Stock at the beginning of the year, plus calves born during the year.

f/ Includes slaughtering, registered live exports, deaths, and non-registered slaughtering.

/Table 5

Table 2

COLOMBIA: TOTAL SUPPLY AND DEMAND

	Billions of pesos at 1970 prices			Percentage breakdown		Growth rates		
	1976	1977	1978[a]	1970	1978[a]	1976	1977	1978[a]
Total supply	207.8	218.7	239.8	115.8	115.4	5.0	5.2	9.7
Gross domestic product at market prices	183.3	192.1	207.9	100.0	100.0	4.6[b]	4.8[b]	8.2
Imports of goods and services [c][d]	24.5	26.5	32.0	15.8	15.4	8.4	8.4	20.5
Total demand	207.8	218.7	239.8	115.8	115.4	5.0	5.2	9.7
Domestic demand	182.5	197.8	213.2	101.6	102.5	8.4	8.4	7.8
Gross domestic investment	37.1	...	...	22.0	...	25.8	...	...
Gross fixed investment	32.8	36.0	...	20.3	...	3 0	9.8	...
Construction	14.4	15.4	...	10.6	...	-12.0	7.3	...
Machinery	18.4	20.6	...	9.7	...	18.9	11.8	...
Changes in stocks	4.2	[d]	...	1.7	...	-	[d]	...
Total consumption	145.4	161.8[d]	...	79.6	...	2.8	8.1[d]	...
General government	13.6	...	...	7.6	...	6.7	...	...
Private	131.8	...	...	72.0	...	2.4	...	...
Exports of goods and services [c]	25.3	20.9	26.7	14.2	12.8	-5.7	-17.6	27.9

Source: 1970-1977: Banco de la República; 1978: CEPAL estimates on the basis of official data.

a/ Preliminary figures.

b/ The difference between these rates and those shown in tables 1 and 3 is due to the fact that they involve different concepts of the product, factor cost being used in the two tables in question and market cost in the present table.

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

d/ Changes in stocks are included in total consumption.

/Table 3

Table 3

COLOMBIA: GROSS DOMESTIC PRODUCT, BY ECONOMIC ACTIVITY, AT FACTOR COST

	Billions of pesos at 1970 prices			Percentage breakdown		Growth rates		
	1976	1977	1978 a/	1970	1978 a/	1976	1977	1978 a/
Agriculture	44.9	46.0	50.2	28.6	26.0	1.9	2.5	9.1
Mining	2.1	2.1	2.0	2.1	1.0	-4.2	-3.8	-3.0
Manufacturing	32.0	33.4	36.6	17.5	18.9	6.7	4.2	9.5
Construction	6.7	7.1	7.5	5.5	3.9	-14.2	5.7	6.9
Subtotal goods	85.7	88.6	96.3	53.7	49.9	1.9	3.2	8.8
Electricity, gas and water	3.0	3.1	3.4	1.5	1.8	11.4	2.3	9.0
Transport, storage and communications	15.1	16.2	17.6	7.4	9.1	7.0	7.3	8.5
Subtotal basic services	18.1	19.3	21.0	8.9	10.9	7.8	6.5	8.6
Commerce, financial institutions and insurance	31.7	33.7	36.2	17.3	18.8	7.5	6.3	7.5
Real estate b/	9.7	10.3	...	5.6	...	5.3	5.8	...
Community, social and personal services c/	24.9	26.4	...	14.5	...	1.6	5.9	...
Subtotal other services	66.3	70.3	75.6	37.4	39.2	6.2	6.1	7.5
Total gross domestic product	170.2	178.2	192.9	100.0	100.0	4.2	4.7	8.2

Source: 1970-1977: CEPAL calculations on the basis of figures supplied by the Banco de la República;
1978: CEPAL estimates.

a/ Preliminary figures.
b/ Refers to ownership of dwellings only.
c/ Also includes restaurants, hotels and business services.

/(i) The

Table 6

COLOMBIA: INDICATORS OF MANUFACTURING PRODUCTION

	Thousands of tons				Growth rates			
	1975	1976	1977	1978[a]	1975	1976	1977	1978[a]
Production of some important manufactures								
Sugar	970	936	872	1 027	8.3	-3.5	-6.8	17.8
Cement	3 091	3 612	3 298	4 153	-9.9	16.9	-8.7	25.9
Steel ingots	265	252	209	265	8.8	-4.9	-17.1	26.8
Metallurgical coke	189	266	210	244	...	40.7	-21.1	16.2
Caustic soda	58	56	36	32	-2.0	-3.4	-35.7	-11.1
Carbonates	176	149	141	167	6.0	-15.3	-5.4	18.4
Motor vehicles b/	29 574	36 416	36 966	44 819	-18.3	23.1	1.5	21.2
Motor cars	20 766	25 083	28 058	32 134	-26.3	20.8	18.9	14.5
Utility vehicles	2 337	1 853	-	-	65.7	-20.7	-	-
Chassis	6 471	9 480	8 908	11 732	-3.3	46.5	-6.0	31.7
Petroleum products	57.7	59.1	60.4	57.5	-4.8	2.4	2.2	4.8
Other indicators of manufacturing production								
Consumption of electric energy by industry (millions of KWH) c/	3 248	3 663	3 730	2 917	9.0	12.8	1.8	10.7

Source: CEPAL, on the basis of data supplied by the Banco de la República and the National Bureau of Statistics (DANE).

a/ Preliminary figures.
b/ Units.
c/ In the cities of Bogotá, Medellín, Cali and Barranquilla only.

/Table 7

Table 7

COLOMBIA: PRIVATE CONSTRUCTION PERMITS APPROVED

	Thousands of square metres				Growth rates			
	1975	1976	1977	1978[a]	1975	1976	1977	1978[a]
Total area	4 843	5 128	6 404	...	-30.0	5.9	24.9	...
Seven principal cities	3 572	3 755	4 421	5 251	-33.6	5.1	17.7	18.8
Bogotá	2 103	1 944	2 422	2 457	-30.9	-7.6	24.6	1.4
Medellín	359	511	673	1 014	-50.6	42.3	31.7	50.7
Cali	460	605	519	729	-37.8	31.5	-14.2	40.5
Barranquilla	236	326	333	465	-34.1	38.1	2.1	39.6
Bucaramanga	244	171	203	263	6.0	-29.9	18.7	29.6
Cartagena	60	100	125	67	-61.2	66.7	25.0	-46.4
Manizales	111	97	146	256	-9.8	-12.6	50.5	75.3
49 other cities	1 271	1 373	1 983	...	-5.8	8.0	44.4	...
Total area of new housing	3 637	3 928	5 011	...	-28.3	8.0	27.6	...
Seven principal cities	2 666	2 911	3 414	4 500	-34.7	9.2	17.3	31.8
Bogotá	1 616	1 547	1 851	2 173	-30.5	4.3	19.7	17.4
Medellín	243	376	514	790	-52.5	54.7	36.7	53.7
Cali	324	463	424	635	-44.3	42.9	-8.4	49.8
Barranquilla	128	240	230	414	-52.9	87.5	-4.2	80.0
Bucaramanga	223	145	173	217	10.4	-35.0	19.3	25.4
Cartagena	33	48	84	51	-62.5	45.5	75.0	39.3
Manizales	98	91	138	220	-	-7.1	51.6	59.4
49 other cities	971	1 017	1 597	...	-2.2	4.7	57.0	...

Source: CEPAL, on the basis of data supplied by the National Bureau of Statistics (DANE).

a/ Preliminary figures.

/(c) The

(c) The evolution of the employment situation

The urban employment situation improved notably in the course of the year.48/ Between September 1977 and September 1978, the rate of unemployment for the seven main cities dropped from 9.4% to 8.2%, coinciding with the creation of more than 220,000 new jobs. The most favourable evolution in the situation was in Barranquilla, Cali and Manizales (see table 8).

The improvement in employment takes on greater significance if it is borne in mind that the rate of underemployment also dropped (from 14.4% to 13.3%), while the rate of participation, i.e., the ratio of the economically active population to the total population, continued to increase.

3. The external sector

(a) External trade

(i) Exports of goods. The value of exports of goods increased by slightly over 15% in 1978 to over 3,200 million dollars. Contrary to what happened in 1976 and 1977, there was a drop in unit value (15%), whereas the volume increased appreciably (see table 9).

These changes were essentially influenced by the evolution of coffee exports. The average price of coffee dropped by 23% from 2.40 dollars per pound in 1977 to 1.85 dollars in 1978, but at the same time the volume exported rose by 70% to a total of 9 million 60-kilo bags in the latter year, and payments in dollars at current prices for these exports increased by 18% (see table 10).

The marked rise in coffee exports increased this product's share in the total value of exports for the fourth year running, so that in 1978 it came to nearly 66% - far above the 44% recorded in 1974, the year before the start of the coffee boom (see table 11).

48/ Since the official data on the employment situation come from the household surveys conducted by the National Bureau of Statistics (DANE) in Bogotá, Medellín, Cali and Barranquilla every three months and in Bucaramanga, Manizales and Pasto every six months, the following analysis does not cover the evolution of the situation in rural areas. It is probable, however, that this has improved as a result of the greater demand for labour deriving from the increase in agricultural production.

/Table 8

Table 8

COLOMBIA: EVOLUTION OF EMPLOYMENT AND UNEMPLOYMENT IN SEVEN CITIES

	1975[a]	1976[b]	1977				1978		
			March	June	September	December	April	June [c]	September
Rates of unemployment	10.6	10.1	10.2	9.8	9.4	8.0	9.7	7.6	8.2
Bogotá	8.3	8.7	8.9	7.8	7.2	6.5	8.2	7.4	6.7
Barranquilla	14.7	10.8	10.6	8.8	8.3	7.3	9.0	...	6.9
Medellín	14.1	13.5	12.7	15.5	13.7	11.4	12.7	...	12.4
Cali	10.9	11.5	11.5	10.0	11.9	8.4	10.6	...	9.1
Bucaramanga	7.9	...	8.2	...	6.4	...	6.2	...	6.5
Manizales	14.4	...	12.5	...	11.4	...	8.8	...	6.0
Pasto	10.3	...	10.8	...	9.8	...	11.9	...	10.0
Rates of underemployment [d]	17.4	16.2	13.8	15.6	14.4	12.3	14.6	12.5	13.3
Population employed [d] (thousands of persons)	2 014	2 097	2 325	2 144	2 530	2 308	2 587	5 085	2 751
Rates of participacion [e]	34.8	36.1	36.1	36.4	36.8	36.2	36.7	34.3	37.6
Bogotá	35.7	36.7	36.8	36.7	36.7	36.2	36.8	39.3	37.9
Barranquilla	33.8	34.4	32.0	33.2	32.8	31.7	33.7	...	33.2
Medellín	33.6	34.6	34.9	36.1	37.6	37.3	37.6	...	37.8
Cali	35.4	37.2	37.5	38.3	38.9	38.1	38.5	...	40.4
Bucaramanga	32.9	...	36.9	...	36.2	...	36.5	...	35.8
Manizales	30.8	...	34.3	...	36.3	...	31.6	...	33.8
Pasto	36.5	...	39.5	...	39.2	...	37.1	...	39.0

Source: CEPAL, on the basis of data supplied by the National Bureau of Statistics (DANE).

a/ Data for October-November.
b/ Annual averages.
c/ Data for the whole country.
d/ In the group of cities included in the respective column.
e/ Economically active population as a percentage of total population.

/Table 9

Table 9

COLOMBIA: MAIN INDICATORS OF FOREIGN TRADE

	1973	1974	1975	1976	1977	1978[a/]
	Growth rates					
Exports of goods						
Value	28.9	18.4	16.8	29.1	24.0	15.2
Volume	0.7	-1.3	24.0	-11.9	-23.6	35.5
Unit value	28.0	19.9	-5.8	46.6	62.2	-15.0
Imports of goods						
Value	15.7	53.8	-5.7	16.9	22.9	34.5
Volume	3.1	16.1	-9.4	11.4	11.7	23.4
Unit value	12.3	32.4	4.1	4.9	10.1	9.0
Terms of trade	14.0	-9.4	-9.5	39.7	47.4	-22.0
	Indexes (1970 = 100)					
Terms of trade in goods	111.6	101.1	91.5	127.8	188.4	146.9
Purchasing power of exports of goods	134.7	120.5	135.2	166.4	187.6	198.2

Source: CEPAL, on the basis of official data.

a/ Preliminary figures.

/Table 10

Table 10

COLOMBIA: INDICATORS OF COFFEE EXPORTS

	Average international price (US dollars per pound)	Volume exported (thousands of 60 kg bags)	Export receipts (millions of US dollars)
1973	0.73	6 766	535
1974	0.78	6 906	543
1975	0.82	8 175	635
1976	1.58	6 290	918
1977	2.40	5 324	1 447
1978	1.85	9 034a/	1 701
1978			
January	2.07	490	143
February	1.99	675	109
March	1.86	377	97
April	1.94	542	98
May	1.92	662	139
June	1.93	679	128
July	1.75	674	89
August	1.77	863	100
September	1.81	1 116a/	145
October	1.74	1 054a/	192
November	1.73	1 003a/	245
December	1.72	899a/	216

Source: Banco de la República.

a/ Preliminary figures.

/Table 11

Table 11

COLOMBIA: EXPORTS OF GOODS (FOB)[a]

	Millions of US dollars				Percentage breakdown			Growth rates		
	1975	1976	1977	1978[b]	1970	1976	1978[b]	1976	1977	1978[b]
Agricultural	1 027	1 311	1 838	2 344	81.0	67.9	75.9	27.6	40.2	27.5
Coffee	681	996	1 513	2 027	68.4	51.2	65.6	46.3	51.9	34.0
Beef	36	26	34	49	1.5	1.4	1.9	-27.8	30.8	44.1
Live cattle	52	39	22	15	2.3	2.1	0.5	-25.0	-43.6	-31.8
Frozen shrimps	10	16	13	13	...	0.8	0.4	60.0	-18.7	-
Tobacco	18	27	24	27	1.1	1.4	0.9	50.0	-11.1	12.5
Flowers	19	27	39	53	...	1.4	1.7	42.1	44.4	35.9
Beans	15	6	19	6	...	0.3	0.2	-60.0	216.7	-68.4
Uncarded cotton	82	91	117	75	5.1	4.8	2.4	11.0	28.6	-35.9
Milled rice	75	42	-	3	...	2.2	0.1	-44.0	-100.0	-
Bananas	39	41	57	76	2.6	2.2	2.5	5.1	39.0	33.3
Industrial	209	193	161	213	4.4	10.2	6.9	-7.7	-16.7	32.3
Raw sugar	82	22	-	21	2.1	1.2	0.7	-73.2	-100.0	-
Cement	22	35	27	35	0.6	1.9	1.1	59.1	-22.9	29.6
Cotton yarn	22	31	29	29	0.5	1.6	0.9	40.9	-6.5	-
Corrugated cardboard boxes	18	26	29	26	0.9	1.4	0.8	44.4	11.5	-10.3
Cotton textiles	31	42	22	28	0.3	2.2	0.9	35.5	-47.6	27.3
Cotton outerwear	13	14	24	34	...	0.7	1.1	7.7	71.4	41.7
Leather goods	8	9	17	21	...	0.5	0.7	12.5	88.9	23.5
Medicaments	5	8	6	6	...	0.4	0.2	60.0	-25.0	-
Books, pamphlets and printed matter	8	6	7	13	...	0.3	0.4	-25.0	16.7	85.7
Others	301	382	456	532	14.6	21.8	17.2	26.9	19.4	16.7
Total	1 537	1 886	2 455	3 089	100.0	100.0	100.0	22.7	30.2	25.8
Adjustments due to changes [c]	-94	-92	-143	-147						
Total, adjusted	1 443	1 794	2 312	2 942				24.3	28.9	27.2
Total, adjusted, excluding coffee	762	778	800	915				2.1	2.8	14.4

Source: CEPAL, on the basis of data supplied by the Colombian Foreign Trade Institute (INCOMEX).

a/ Data taken from export registers.
b/ Preliminary figures.
c/ Permits issued but not taken up by exporters.

/Exports other

Exports other than coffee increased by 14% between 1977 and 1978 after having remained stable at around 800 million dollars for the entire period 1974-1977. There were significant increases in exports of several agricultural and industrial products (beef, flowers, bananas, unrefined sugar and cotton textiles and outer garments) which more than offset the decreases recorded in other items (beans, live cattle and uncarded cotton).

As a result of the policy of periodic devaluations of the national currency, the increase in the parity exchange rate in relation to the dollar between the 1977 and 1978 averages was 6.3%, bringing the dollar rate from 37.71 pesos in December 1977 to 40.79 pesos in December 1978 (see table 12).

The average devaluation referred to was noticeably smaller than the comparable rise in the wholesale price index (17.7%) in 1978, so that the "apparent" real exchange rate went down by 7%. The exchange policy of relatively slow devaluations followed since 1975 thus continued, bringing down the exchange rate index from a level of 100 in 1975 to 69 in 1978.

If inflation in the United States is taken into account and the above values are corrected according to the wholesale price index for that country, however, a "readjusted" real exchange rate series is obtained for Colombia, and this indicates that between 1977 and 1978 the drop in parity was only 2.5%, while the respective index dropped from 100 in 1975 to 82.6 in 1978.

The probable adverse effects of the exchange policy on exports were partially offset by the increase in export credits granted by the Export Promotion Fund (PROEXPO) (14% over the high level of 1977). The Fund also provided 35 million dollars in post-embarkation credits and negotiated without a discount a high proportion of the exchange certificates which the Banco de la República issued for exports of flowers, cattle, meat, metals, precious stones and cotton.

As a means of encouraging exports of products whose prices made them difficult to sell on the world market, new percentages were fixed selectively for the tax rebate certificates (Certificados de Abono Tributario - CAT). Thus, the rebate for exports of tractors, vehicles, chassis and other metal manufactures rose from 1 per thousand to 12%, and it was also increased to 12% for manufactures such as sweets and candies, sewing machines and office machinery, motorcycles and bicycles.

/Table 12

Table 12

COLOMBIA: EVOLUTION OF EXCHANGE RATE AND PRICES

	Exchange rate (pesos per dollar) a/	Indexes (1975 = 100)				
		Index of nominal exchange rate	Wholesale price index for Colombia	Index of apparent real exchange rate (2)/(3)	Wholesale price index for United States	Index of adjusted real exchange rate (4)x(5)
	(1)	(2)	(3)	(4)	(5)	(6)
1975	30.93	100.0	100.0	100.0	100.0	100.0
1976	34.70	112.2	122.9	91.3	104.6	95.5
1977	36.78	118.9	155.7	76.4	111.0	84.8
1978	39.10	126.4	183.2	69.0	119.7	82.6
December 1977	37.71	121.9	163.7	74.5	113.3	84.4
1978						
January	38.03	123.0	168.2	73.1	114.3	83.6
February	38.14	123.3	170.2	72.4	115.5	83.6
March	38.33	123.9	173.4	71.5	116.5	83.3
April	38.49	124.4	178.0	69.9	118.0	82.5
May	38.66	125.0	181.7	68.8	118.9	81.8
June	38.81	125.5	182.1	68.9	119.7	82.5
July	38.95	125.9	184.1	68.4	120.5	82.4
August	39.11	126.4	187.0	67.6	120.3	81.3
September	39.45	127.5	188.5	67.6	121.4	82.1
October	39.98	129.3	191.1	67.7	122.9	83.2
November	40.40	130.6	194.8	67.0	123.3	82.6
December	40.79	131.9	199.1	66.2	124.3	82.3

Source: CEPAL, on the basis of data supplied by the Banco de la República; and International Monetary Fund, International Financial Statistics, June 1979.

a/ Average for the period.

/In contrast,

In contrast, however, towards the end of the year the exporters of cotton fabrics and yarns and cotton garments respectively renounced 23% and 20% of the tax rebate corresponding to them for their exports to the United States, in order to avoid the application of countervailing duties to them by that country.

Another measure consisted of the introduction of a new export statute, which began to come into force towards the end of the year. This guarantees the principle of freedom of export and establishes machinery to make this compatible with adequate national supply; it simplifies the rules previously applied and indicates the specialized bodies which must review the advisability or otherwise of exporting specific products on which a decision needs to be taken. The new statute cuts the categories of export products from six to four: (a) free exports, (b) prohibited exports, (c) products whose export is subject to special conditions, and (d) products whose export has been suspended. In this last category a margin of flexibility is anticipated for dealing with unforeseen and relatively complex situations which may arise in domestic supply, such as those which affected several agricultural products in 1977.

(ii) Imports of goods. In the course of 1978 the tendency of imports of goods to grow rapidly which had begun in 1973 and was only temporarily interrupted in 1975, was further accentuated and the value of imports increased by nearly 35%, to 2,750 million dollars, as a result of increases of 9% in unit value and over 23% in volume (see table 114).

The sharp rise in the volume of imports was due to the simultaneous presence of various stimuli. The pace of economic growth quickened, with a consequent increase in the demand for imports, and on the other hand, the relative cost of imports continued to fall owing to the course followed by the exchange rate, the abundance of foreign exchange and exchange certificates available - the latter could be purchased at less than their nominal value in the stock markets - and the continuation of the policy of liberalization and tariff reductions, which mainly favoured capital goods.

A review of the structure of imports of goods shows first of all a vigorous increase (60% in dollars at current prices) in the capital goods category. Of particular importance was the growth of transport equipment,

/influenced by

influenced by larger imports of parts and components for the motor industry and purchases of different types of ships, aircraft and utility vehicles. The increased imports of capital goods for agriculture and industry also played a part (see table 13).

As regards intermediate goods, the share of petroleum and fuels continued to increase, in keeping with the divergent trends of domestic production and international prices. External purchases of intermediate goods for industry rose by nearly 15%.

In contrast, imports of both durable and non-durable consumer goods declined. The latter, together with intermediate goods for agriculture, were influenced by the recovery of agricultural production in 1978, which made it possible to cut down on imports of foods compared with 1977, while the decline in imports of consumer durables was apparently due to some accumulation of stocks in 1977, in view of the large imports of such goods during that year.

(iii) Terms of trade. As a result of the drop in the unit value of exports and the increase in the unit value of imports, there was a decrease of 22% in the terms of trade, whose level had previously doubled between 1975 and 1977. At the same time, however, the purchasing power of exports increased by 6% in response to the substantial growth in the volume of exports (see table 9).

(b) Balance of payments

In 1978 trade in goods generated a surplus of 470 million dollars, compared with the 750 million recorded the previous year, while trade in services showed a negative balance of around 100 million dollars and net payments of profits and interest on foreign capital amounted to 260 million (see table 14).

As a result of these changes and a net inflow of private transfer payments amounting to nearly 50 million dollars, the current account of the balance of payments showed a surplus of 160 million dollars - far smaller than the 420 million dollars recorded in 1977.

/Table 13

Table 13

COLOMBIA: IMPORTS OF GOODS (FOB)[a]

	Millions of dollars				Percentage breakdown		Growth rates		
	1975	1976	1977	1978[b]	1970	1978	1976	1977	1978[b]
Consumer goods	173	221	380	298	10.6	8.7	27.9	71.4	-21.6
Non-durable	97	125	214	198	4.9	5.8	28.4	71.3	-7.3
Durable	76	96	165	99	5.7	2.9	27.4	71.6	-39.8
Intermediate goods	726	985	1 369	1 640	41.2	48.1	35.7	39.1	19.8
Petroleum and fuels	30	156	251	383	0.4	11.2	425.0	61.4	52.6
For agriculture	22	24	99	89	1.2	2.6	8.5	306.3	-10.1
For industry	674	804	1 019	1 168	39.6	34.2	19.4	26.7	14.6
Capital goods	599	785	912	1 457	47.4	42.7	31.0	16.2	59.8
Building materials	28	40	36	35	3.0	1.0	45.1	-11.6	-2.8
For agriculture	33	30	58	107	1.2	3.1	-9.4	94.3	84.4
For industry	305	419	539	704	25.7	20.6	37.3	28.6	30.6
Transport equipment	233	296	279	611	15.3	17.9	26.9	-5.5	119.0
Total	1 498	1 991	2 666	3 413[c]	100.0	100.0	32.9	33.9	28.0

Source: CEPAL, on the basis of data supplied by the Colombian Foreign Trade Institute (INCOMEX).

a/ Data taken from import registers.
b/ Preliminary figures.
c/ Includes 18 million dollars' worth of miscellaneous imports.

/Table 14

Table 14

COLOMBIA: BALANCE OF PAYMENTS

(Millions of US dollars)

	1973	1974	1975	1976	1977	1978[a]	
Current account							
Exports of goods and services	1 562	1 881	2 187	2 816	3 442	3 995	
Goods FOB [b]	1 263	1 495	1 746	2 255	2 796	3 221	
Services	299	386	441	561	646	774	
Transport	135	177	175	261	250	309	
Travel	86	128	164	188	256	279	
Imports of goods and services	1 436	2 091	2 048	2 345	2 773	3 623	
Goods FOB [b]	982	1 510	1 424	1 665	2 047	2 753	
Services	454	581	624	680	726	870	
Transport	222	260	277	329	330	429	
Travel	99	147	154	174	204	201	
Net payments of profits and interest on foreign capital	-214	-191	-262	-313	-298	-260	
Profits	-70	-55	-68	-109	-106	-116	
Interest	-144	-136	-194	-204	-192	-144	
Net private transfer payments	12	19	27	47	50	48	
Balance on current account	-76	-382	-96	205	421	160	
Capital Account							
Net external financing (a+b+c+d)	76	382	96	-205	-421	-160	
(a) Long-term capital	288	230	295	103	25		
Direct investment	23	35	35	14	42		
Private sector	71	110	89	84	-14		
Loans	190	254	260	239	109		
Amortization payments	-119	-144	-171	-155	-123		
Official sector	195	75	148	-5	-16		
Loans	221	196	205	58	70		
Amortization payments	-45	-110	-50	-57	-75		
Other net liabilities and assets	19	-11	-7	-6	-11		475
Monetary authorities (net)	-1	10	23	10	13		
(b) Short-term capital (net)	-64	28	-122	318	121		
Private sector	-175	25	-95	72	-144		
Monetary authorities	46	22	-35	33	4		
Errors and omissions	65	-19	8	213	265		
(c) Official transfer payments	23	32	17	13	19		
(d) International reserves (minus sign indicates an increase)	-171	92	-94	-639	-586	-635	
Use made of IMF credit	-	-	-	-	-	-	
Other liabilities	-	-	-	-	-	-	
Monetary gold	-	-	-29	-13	-11	-16	
Special Drawing Rights	-7	-1	5	-5	-1	-18	
IMF reserve position	-46	-	-	-7	-37	2	
Foreign exchange	-118	93	-70	-614	-537	-603	

Source: 1973-1977: International Monetary Fund, Balance of Payments Yearbook, vol. 29; 1978: CEPAL, on the basis of official data.

a/ Preliminary figures.

b/ Including non-monetary gold.

/It is

It is estimated that there was a net inflow of non-compensatory capital amounting to 475 million dollars, bringing the global surplus of the balance of payments to 635 million dollars - similar to the levels reached in 1975 and 1976.

As a result, gross international reserves increased sharply for the third consecutive year and at the end of 1978 stood at the unprecedented figure of 2,500 million dollars, nearly five times the 550 million dollars recorded at the end of 1975 (see table 15).

(c) The external debt

During 1978 the Government continued to apply the policy initiated in 1975 of restricting external indebtedness with a view to stemming the excessive growth of the external debt and international reserves and the concomitant inflationary pressures. Consequently, an effort was made to avoid contracting external loans to finance current operations, this being authorized only in the case of projects which could not attract sufficient domestic resources and which were included in the investment programme presented to the World Bank advisory group.

As a result of this policy, between the end of 1977 and September 1978 the total public and State-guaranteed disbursed debt increased by barely 50 million dollars, reaching 2,890 million in 1978. Thus, in dollars at current prices this balance grew by only 14% between 1975 and 1978 (see table 16).

4. Prices and wages

(a) Prices

In 1978 the growth rate of consumer prices slowed markedly compared with 1977. The average annual variation in the consumer price index for manual workers, calculated as a national average, was 9.4%, which was well below the rate recorded throughout the period 1973-1977. The variation from December to December, for its part, was 17.8% (see table 17). Unlike previous years, the food component of the index for manual workers rose by only 11.9%, i.e., less than the general index, and contributed only 33% of the total rise. The "housing", "clothing" and "miscellaneous" components, however, with an average growth of 27%, contributed the remaining 67%.

/Table 15

Table 15

COLOMBIA: GROSS INTERNATIONAL RESERVES

(Millions of US dollars)

	1974	1975	1976	1977	1978[a/]
January	547	418	602	1 262	1 857
February	599	391	630	1 347	1 929
March	590	386	627	1 468	1 978
April	572	351	689	1 606	2 023
May	538	350	722	1 675	2 077
June	537	396	813	1 583	2 113
July	508	378	831	1 707	2 123
August	479	413	873	1 739	2 140
September	436	405	857	1 736	2 146
October	428	411	918	1 735	2 243
November	423	489	1 039	1 783	2 367
December	448	553	1 172	1 836	2 491

Source: CEPAL, on the basis of data supplied by the Banco de la República.

a/ Preliminary figures.

/Table 16

Table 16

COLOMBIA: INDICATORS OF EXTERNAL INDEBTEDNESS

(Millions of US dollars)

	1974	1975	1976	1977	1978 a/
Public and State-guaranteed debt					
Total debt b/	2 272	2 540	2 636	2 842	2 892
Balance available c/	710	649	966	1 105	1 408

Source: CEPAL, on the basis of data supplied by the Banco de la República.

a/ Preliminary figures at 30 September.

b/ Outstanding balance.

c/ An disbursed balance of contracted debts.

/Table 17

Table 17

COLOMBIA: EVOLUTION OF DOMESTIC PRICES

(Percentages)

	1973	1974	1975	1976	1977	1978
	Variation December to December					
Consumer price index a/						
Total, manual workers	25.0	26.9	17.9	25.9	29.3	17.8
Food	31.5	30.8	19.7	27.9	35.0	11.9
Housing	19.0	18.1	15.2	22.6	18.9	26.8
Clothing	24.8	24.0	12.9	22.5	22.8	26.8
Miscellaneous	12.6	25.4	16.8	25.1	22.5	27.5
Total, non-manual workers	22.1	25.2	17.5	25.4	27.5	19.7
Food	30.6	30.3	19.3	38.0	34.4	14.1
Housing	15.9	17.6	16.1	22.3	18.5	23.4
Clothing	22.5	23.2	13.3	22.6	23.7	27.4
Miscellaneous	12.1	22.6	16.5	24.2	20.2	27.3
Wholesale price index	32.9	36.2	19.6	27.3	19.7	21.6
Imported products	37.9	37.9	20.2	14.2	11.7	21.2
Domestic products	28.1	36.8	21.1	35.6	21.8	20.7
Agricultural products	30.3	45.5	25.5	37.8	26.4	21.7
Manufactures	31.9	36.5	17.0	24.0	18.2	19.7
Building materials cost index	37.1	24.2	16.2	27.3	25.4	46.6
	Variation between annual averages					
Consumer price index						
Total, manual workers a/	15.1	15.2	12.3	14.3	22.3	9.4
Food, manual workers	20.3	18.2	15.0	15.4	29.3	7.8
Total, manual workers b/	22.7	24.5	25.7	17.4	17.0	12.4
Food, manual workers	31.9	27.1	31.0	16.9	20.0	9.9

Source: CEPAL, on the basis of data supplied by the National Bureau of Statistics (DANE) and the Banco de la República.

a/ National average.
b/ Bogotá.

/The form

The form of evolution of food prices was determined by two main factors. One of these was that domestic agricultural production increased considerably as from the second half of 1977, while the substantial imports of food of that year also began to arrive and to appear on the market in the last few months. For these reasons the rate of price rises was slowed and at the same time some quite considerable absolute drops were recorded, with the result that while the increase over 12 consecutive months amounted to 56% in July 1977, it was only 4.3% in July 1978 (see table 18).

The second factor, in contrast, was that the other price indexes considered registered increases. In the case of the wholesale price index, the variation from December 1977 to December 1978 was 21.6%, which was higher than the rate recorded in 1977. By individual groups of products, the largest increases were for fuels and lubricants (34%); leather, rubber, wood, paper, textile and metal manufactures, which together showed an increase of 32%; miscellaneous manufactures (23%) and raw materials other than fuels (28%). The most moderate increases were to be seen in food (18%), chemicals and machinery and transport equipment (18%), and animal and vegetable oils and fats (19%). The index of building material costs rose by nearly 47% between December 1977 and December 1978 (see table 17): this increase - far higher than in previous years - was to some extent the result of the reactivation of the private construction of housing, as already noted.

(b) Wages and salaries

The evolution of wages in 1978 was characterized by substantial increases in real wages in the rural and urban sectors in both agricultural and manufacturing activities. This trend was decisively influenced by the slowing of the rate of inflation, since between 1977 and 1978 the nominal rates of increase in wages and salaries went down except in manufacturing.

As may be seen from table 19, the purchasing power of the minimum legal wages increased by over 13% in both the rural and urban sectors; this real increase, which was similar in both sectors, considerably exceeded that of the previous year.

/Table 18

Table 18

COLOMBIA: EVOLUTION OF CONSUMER PRICES FOR FAMILIES OF MANUAL WORKERS

(Percentage variations)

	Total index				Food			
	Monthly variation	Accumulated variation	Variation in 12 months		Monthly variation	Accumulated variation	Variation in 12 months	
	1978	1978	1977	1978	1978	1978	1977	1978
January	0.9	0.9	25.9	27.6	0.7	0.7	27.7	31.9
February	1.4	2.3	28.0	24.3	0.3	1.0	29.3	27.3
March	3.2	5.6	30.6	23.3	2.9	4.0	34.0	24.6
April	1.7	7.4	38.0	16.5	1.9	6.0	47.0	13.4
May	2.4	9.9	42.5	14.0	3.0	9.2	54.9	9.3
June	2.6	12.8	43.5	13.1	2.3	11.7	53.1	6.9
July	-0.5	12.2	41.4	11.4	-1.6	9.9	56.0	4.3
August	0.0	12.2	38.6	12.1	-1.1	8.7	50.9	5.0
September	0.3	12.6	36.1	12.6	-0.4	8.2	46.1	5.9
October	2.1	15.0	33.3	15.5	2.2	10.6	41.4	9.9
November	1.4	16.6	30.0	17.0	0.6	11.3	36.0	11.2
December	1.1	17.8	29.3	17.8	0.5	11.9	35.0	11.9

Source: CEPAL, on the basis of data supplied by the National Bureau of Statistics (DANE).

/Table 19

Table 19

COLOMBIA: AVERAGE MINIMUM DAILY LEGAL WAGES

	Pesos			Growth rates					
				Nominal wage			Real wage a/		
	1976	1977	1978	1976	1977	1978	1976	1977	1978
Rural sector b/	39.0	53.6	71.6	14.7	37.4	33.6	-4.7	2.6	13.7
Urban sector c/									
High d/	46.0	62.9	83.3	15.0	36.7	32.4	-6.9	4.8	13.1
Low e/	42.5	58.8	78.0	14.9	38.3	32.8	-7.0	5.9	13.4

Source: CEPAL, on the basis of data supplied by the Banco de la República and the National Bureau of Statistics (DANE).

a/ Deflacted by the consumer price index for manual workers.
b/ Crop farming, stock-raising, forestry, hunting and fishing.
c/ The remaining economic activities.
d/ In the capital cities of departments and adjacent municipios.
e/ In the remaining municipios.

/Real average

Real average day wages paid in agriculture also increased significantly by between 8% and 16% (see table 20). Nearly all the real increases identified, however, were less than in 1977, particularly in agriculture, since in that year there was a greater demand for workers in the cotton sector and this situation did not occur in 1978 because of the drop in cotton production.

As regards real wages in manufacturing, available estimates indicate increases of 4% for monthly-paid employees and 11% for rank-and-file manual workers, in contrast with the decreases of approximately 6% recorded in both cases in 1977 (see table 21).

A global view of the progress of wages and salaries during 1978 shows that the rate of increase of real wages was more rapid than that of the gross domestic product. Since there was a simultaneous drop in the rate of unemployment, the participation of wages in national income rose, according to preliminary calculations by official sources, from 35.5% in 1977 to 37.6% in 1978.

5. Monetary and fiscal policy

(a) Monetary policy

Since 1975, the main objective of the monetary policy has been to reduce the expansionary pressures on the monetary base exerted by the favourable evolution of external trade and the consequent increase in international reserves.

In 1978 the monetary policy instruments designed for this purpose continued to be applied. The main instruments were:

(i) the issue of exchange certificates to defer the monetization of the foreign exchange entering the country;

(ii) the application of various measures aimed at speeding up payments abroad and avoiding external indebtedness, with a view to cutting down the superfluous growth of reserves;

(iii) the utilization of prior import deposits; and

(iv) the application of a prudent policy of fiscal expenditure with the object of avoiding government indebtedness with the issuing institution.

The use of the compulsory reserves bank device was also resorted to in order to keep the multiplier of the monetary base under control.

/Table 20

Table 20

COLOMBIA: AVERAGE DAILY WAGES IN AGRICULTURE

	Pesos			Growth rates			
				Nominal		Real a/	
	1976	1977	1978	1977	1978	1977	1978
Crop farming							
Cold (upland) areas							
With food	35.3	57.0	75.8	61.5	33.0	20.1	13.6
Without food	57.8	87.5	113.5	51.4	29.7	12.5	10.9
Hot (lowland) areas							
With food	41.8	66.5	82.5	59.1	28.6	18.4	10.0
Without food	65.8	99.3	124.8	50.8	25.7	12.0	8.2
Stock-raising							
Cold (upland) areas							
With food	36.0	56.5	76.5	56.9	35.4	16.3	16.0
Without food	58.5	86.5	113.0	47.9	30.6	10.5	11.8
Hot (lowland) areas							
With food	44.0	69.3	91.3	57.4	31.7	16.6	12.9
Without food	68.5	102.3	129.8	50.0	26.9	11.3	8.0

Source: CEPAL, on the basis of data supplied by the National Bureau of Statistics (DANE).

a/ Deflacted by the consumer price index for manual workers.

/Table 21

Table 21

COLOMBIA: EVOLUTION OF WAGES AND SALARIES IN MANUFACTURING

	Growth rates			
	1975	1976	1977	1978[a/]
Nominal wages and salaries				
Non-manual workers	19.4	20.0	22.9	24.4
Manual workers	21.1	22.8	27.2	30.4
Real wages and salaries				
Non-manual workers	-2.4	-0.3	-6.0	4.1
Manual workers	-2.2	2.4	-5.6	11.1

Source: CEPAL, on the basis of data supplied by the National Bureau of Statistics (DANE).

a/ January-September in relation to the same period in 1977.

/By using

By using these instruments it was possible to keep the increase in the monetary base in 1978 down to 35%, i.e., less than in 1976 and 1977 when the increases were 42% and 40%, respectively. The means of payment (M_1), for their part, increased at similar rate to that of the previous year (30%) (see tables 22 and 23).

The monetary balance of the Banco de la República shows that in the course of the year there was an absolute increase of 26 billion pesos in the monetary base. The adjusted international reserves, with an increase of 29 billion pesos over their end-1977 level, and the development bodies, with 4 billion pesos in net terms, acted as factors of net expansion, but the national government acted as a containing factor, with a cut of 4 billion pesos in its net credit with the issuing entity, as did the commercial banks, the private sector, the activities on the open market and other operations in the monetary balance of the Banco de la República which together reduced the money in circulation by 3 billion pesos.

The expanded money supply ($M_1 + M_2$) grew by 33.5% as a result of an increase of 39% in quasi-money. In this context the rate of growth of deposits in housing corporations was noteworthy (45%), while savings deposits and term deposit certificates increased by 39% and 27% respectively.

In 1978 the monetary policy also had an effect on interest and rediscount rates. The rates applicable to term deposit certificates and to certain operations of the financial funds (Industrial, PROEXPO, Agropecuario and others) were reduced, while for other development operations the existing interest rates were raised, since it was estimated that they were over-subsidized, and therefore did not appear to be stimulating the utilization of the borrowers' own resources.

(b) Fiscal policy

As in 1977, fiscal policy contributed to the fulfilment of the stabilizing objectives of the economic policy. Thus, for the third year running the balance of fiscal income and expenditure showed a substantial surplus, equivalent to 8% of total expenditure (see table 24). The surpluses obtained in 1976-1978 were earmarked for reducing fiscal liabilities with the exterior and cutting down the domestic public debt, mainly with the issuing institutions. In this way, the net credit of 9,500 million pesos which the Treasury maintained at the end of 1975 with the Banco de la República was completely paid off by the end of 1978.

/Table 22

Table 22

COLOMBIA: MONETARY POSITION OF THE BANCO DE LA REPUBLICA[a/]

	End-year balance (millions of pesos)				Growth rates		
	1975	1976	1977	1978[b/]	1976	1977	1978
I. Assets	57 901	79 873	123 753	159 892	37.7	54.9	29.2
Adjusted net international reserves c/	17 277	39 945	65 092	94 786	131.2	64.4	44.3
Net international reserves d/	16 418	34 975	73 276	99 748	...	...	...
Exchange adjustment	859	4 970	-7 584	-4 962	...	...	...
Net credit to government	9 518	6 310	4 037	-100	-33.7	-36.0	-
Credit to the public	30 606	32 713	52 606	63 831	6.9	60.9	21.3
Commercial banks	8 253	7 318	13 780	13 391	-11.3	88.3	-2.8
Development institutions	20 230	22 745	35 218	46 027	12.4	54.8	30.7
Private sector	2 123	2 650	3 608	4 413	24.8	36.2	22.3
Other assets	590	905	1 418	1 375	53.4	56.7	-3.0
II. Non-monetary liabilites	20 698	27 030	49 683	59 611	30.6	83.8	20.0
Commercial banks	402	570	430	483	41.8	-25.3	15.0
Development institutions	11 375	14 030	18 600	25 628	23.3	32.6	37.8
Private sector	3 903	3 009	8 821	10 074	-22.9	193.2	14.2
Advance deposits e/	1 973	912	5 304	5 941	-53.8	481.6	12.0
Swaps and other liabilities e/	1 879	1 971	3 678	4 414	4.9	86.6	20.0
Exchange adjustment	51	126	-161	-281	-	-	-
Open market operations	1 431	4 821	16 057	16 392	236.9	233.1	2.1
Participation bonds	500	840	-	-	68.0	-100.0	-
Exchangeable bonds	931	3 981	2 917	3 416	327.6	-26.7	17.1
Exchange certificates	-	296	13 140	12 977	-	...	-1.2
Other liabilites and inter-bank holdings	3 587	4 600	5 786	7 035	28.2	25.8	21.6
III. Treasury money in circulation	454	583	747	973	28.4	28.1	30.3
IV. Monetary base	37 747	53 426	74 817	101 254	41.5	40.0	35.3
Cash	21 090	28 943	40 745	53 698	37.2	40.8	31.8
Bank reserves	16 657	24 483	34 073	47 556	46.9	39.2	39.6

Source: CEPAL, on the basis of data supplied by the Banco de la República.

a/ All the assets and liabilities accounts wholly or partially involving foreign currencies have been ajusted to express the difference between the exchange rate at which they were computed in the monetary position and the average rate at which they were acquired.

b/ Preliminary figures.

c/ Computed at exchange rates per dollar averaging $ 31.57 in 1975, $ 34.26 in 1976, $ 35.86 in 1977 and $ 38.01 in 1978.

d/ Computed at $ 30 per dollars in 1975 and 1976, and at $ 40 in 1977 and 1978.

e/ Not adjusted.

/Table 23

Table 23

COLOMBIA: EVOLUTION OF THE MEANS OF PAYMENT AND THE MONEY SUPPLY

	End-year balance (billions of pesos)				Growth rates		
	1975	1976	1977	1978[a]	1976	1977	1978[a]
Means of payment (M_1)	58.9	79.4	103.5	134.9	34.7	30.4	30.3
Quasi-money (M_2)	31.2	45.9	61.1	85.0	47.1	33.1	39.0
Extended money supply (M_1+M_2)	90.1	125.3	164.6	219.9	39.0	31.4	33.5
Deposits in housing corporations	13.7	19.9	24.2	35.1	45.4	21.4	45.1
Units of constant purchasing power for housing (UPAC)	13.7	19.0	22.4	29.8	38.6	17.9	33.0
Ordinary deposits	-	0.9	1.8	5.3	-	100.0	194.4
Savings deposits	12.3	16.9	24.2	33.6	37.7	42.9	39.1
Time deposit certificates	5.2	9.1	12.8	16.2	73.8	40.4	27.0

Source: CEPAL, on the basis of data supplied by the Banco de la República.

a/ Preliminary figures.

/Table 24

Table 24

COLOMBIA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of pesos				Growth rates			
	1975	1976	1977	1978	1975	1976	1977	1978
Current income	38 442	48 832	63 417	84 065	46.5	27.0	29.9	32.6
Tax revenue	37 466	47 742	62 172	81 965	48.0	27.4	30.2	31.8
Income and complementary taxes	18 063	20 631	23 938	30 396	66.5	14.2	16.0	27.0
Sales taxes	7 757	10 169	12 552	17 511	96.6	30.3	23.4	39.5
Customs duties and surcharges	5 409	6 806	9 410	13 559	10.5	25.8	38.2	42.0
Profits on exchange operations	3 640	5 500	8 800	10 900	19.7	51.0	60.0	23.9
Gasoline taxes	1 726	3 208	4 464	5 848	12.0	85.9	39.2	31.0
Others	871	1 428	3 008	3 951	-19.9	63.9	110.6	31.0
Non-tax revenue	976	1 090	1 245	2 100	4.8	11.7	14.2	68.7
Current expenditure	26 183	32 012	41 374	56 988	36.3	22.3	29.2	37.3
Surplus on current account	12 259	16 819	22 043	27 077	74.3	37.2	31.1	22.8
Investment	13 168	12 315	16 223	20 978	34.4	-6.5	31.7	29.3
Total expenditure	39 351	44 327	57 597	77 966	35.6	12.6	29.9	35.4
Fiscal deficit (or surplus)	-909	4 505	5 820	6 099	...	...	29.2	4.8
Financing of deficit								
External credit	-549	-1 196	-1 631	-2 150				
Domestic credit	1 337	-3 320	-4 223	-4 179				
Other	121	11	34	230				
Deficit/total expenditure b/	2.3	10.2c/	10.1c/	7.8c/				

Source: CEPAL, on the basis of data supplied by the Banco de la República.

a/ Preliminary figures.

b/ Percentage.

c/ Surplus.

Current income increased by nearly 33%, i.e., more than in 1976 and 1977. Since this rate was greater than the growth of the gross domestic product in current values (estimated at somewhat over 20%) it is evident that the fiscal income system responded flexibly to variations in prices and economic activity. In tax incomes - which grew at a rate similar to that of current income - the big increases in receipts from sales tax (40%) and customs duties (42%) were noteworthy.

As regards expenditure, current spending rose by 37% in 1978: i.e., more than current income and also more than the increases in the same expenditure in 1976 and 1977. Fiscal investment increased by 29%, continuing the recovery begun in 1977 from the substantial decline, measured in real values, experienced in 1976.

The trends recorded in current expenditure and investment resulted in an increase of 35% in total expenditure, which was also rather higher than the increase in current income. Altogether, these developments went to make up a relatively moderate policy of fiscal expenditure which was nevertheless less restrictive than that implemented throughout the period 1975-1977.

COSTA RICA

1. Main recent trends: Introduction and summary

In 1978 Costa Rica recorded a growth of 6% in the global product and 3.4% in the per capita product: rates which were only surpassed in 1973 and 1977 during the present decade. The decline in the terms of trade, however, kept the growth of total gross income down to only 2.9% (see table 1). All the sectors of the economy increased their activity, especially construction, commerce, and to a lesser extent industry and electricity.

If these results are examined solely from the standpoint of the growth of the product, they could be considered to be relatively favourable, but they are less so when it is noted that the fiscal deficit further increased in 1978, while the negative trade balance with the exterior doubled, the deficit on the current account of the balance of payments also nearly doubled, and domestic demand continued to expand more quickly than domestic supply.

For some time Costa Rica has been applying an economic policy whose central objectives include concern to improve the social services, and primarily education. This explains in part why the country's social indexes are among the highest in Latin America. To date, the instruments of fiscal and monetary policy have been used in a less orthodox and rigid way than in other countries and the nationalized banking system has played a key role as one of the Government's economic policy tools.

The efforts to consolidate the considerable progress observed in social matters have been accompanied in recent years by an increase in real wages, supplemented by a family allowances policy, all of which have undoubedtly helped to raise the average standard of living of the population.

So as to meet in part the requirements of economic growth (fundamentally as regards the infrastructure), and in keeping with the concern for social matters, public expenditure has grown rapidly, although at the cost of greater external indebtedness, financed largely by the fiscal deficit.

/Table 1

Table 1

COSTA RICA: MAIN ECONOMIC INDICATORS

	1973	1974	1975	1976	1977	1978 a/
A. Basic economic indicators						
Gross domestic product as factor cost (millions of US dollars at 1970 prices)	1 417	1 496	1 528	1 612	1 731	1 833
Population (millions)	1.87	1.92	1.96	2.01	2.06	2.11
Per capita gross domestic product (US dollars at 1970 prices)	757	780	777	801	839	868
	Growth rates					
B. Short-run economic indicators						
Gross domestic product	7.7	5.5	2.1	5.5	7.7	5.9
Per capita gross domestic product	5.0	3.0	-0.3	3.0	4.8	3.4
Gross income b/	9.0	1.2	2.8	7.8	12.4	2.9
Terms of trade	3.3	-15.4	0.6	10.4	20.3	-11.9
Current value of exports of goods and services	21.1	28.8	11.3	19.0	33.2	2.2
Current value of imports of goods and services	19.6	55.4	-1.3	12.2	29.2	16.6
Consumer price index						
December to December	15.9	30.6	20.5	4.4	5.3	8.2
Variation between annual averages	15.2	30.1	17.4	3.5	4.2	6.0
Money	25.4	17.7	23.4	30.5	25.9	23.6
Wages and salaries	...	...	21.1	16.6	14.0	14.4
Rate of unemployment c/	7.3	...	...	6.2	4.6	4.5
Current income of government	33.3	39.6	16.8	19.1	29.5	18.0
Total expenditure of government	32.0	23.1	26.3	35.2	17.0	31.5
Fiscal deficit/total expenditure of government c/	26.7	16.9	23.1	32.3	25.1	34.3
	Millions of US dollars					
C. External sector						
Trade balance (goods and services)	-80	-237	-166	-145	-160	-323
Balance on current account	-111	-266	-217	-203	-221	-405
Variation in net international reserves	18	-50	18	39	89	4d/
External debt e/	283	363	481	612	794	999

a/ Preliminary figures and estimates.
b/ Gross domestic product plus terms-of-trade effect.
c/ Percentages.
d/ Correponds to gross international reserves.
e/ Disbursed State-guaranteed public and private external debt.

/In 1978

In 1978 the external situation deteriorated, particularly as a result of the drop of around 23% in the average international price of Costa Rican coffee. Since this is the country's main export product, there was a consequent deterioration in the terms of trade (12%). Employment, however, remained at high levels, with open unemployment standing at only 4.5%, real wages grew by 8% compared with 1977, and the effects of increases in credit tended to be channelled towards the consumer. All these circumstances generated a greater demand for basic consumer goods (mainly agricultural) and luxury articles, the repercussion of which was a steep rise in imports. Inadequate domestic supply and the low level of industrial integration also produced very intensive pressures on imports of inputs.

The value of imports of goods and services thus increased by around 17% in 1978, while exports grew by only slightly over 2%. This resulted in a deficit of 405 million dollars on the current account of the balance of payments - nearly double the deficit recorded the year before.

Over the period 1975-1977, the current deficit was more than offset by the inflow of capital from abroad, but in 1978 the difference between the two variables was minimal, in spite of the increase in external indebtedness, with the result that gross international reserves grew by barely 4 million dollars. The net external public and private State-guaranteed debt increased by around 200 million dollars to a total of nearly one billion dollars, thus restricting the country's future borrowing capacity. At the same time, the drop in net international monetary reserves, which constituted the basic factor for monetary expansion, was more than offset by an increase of 29% in domestic credit, especially to the State sector and, within that, to public institutions. Consequently, the money supply grew by 24%, which was slightly less than the previous year.

The expansion in the money supply was accompanied by an increase of 8.2% in domestic prices, but although this was higher than the 1977 figure (5.3%), it was still a relatively low and controllable level.

As regards fiscal affairs, the growth rate of current income dropped from 30% to 18% as a result of the reduction in export taxes, while current and capital expenditure increased at a much higher rate (32%), thus aggravating the fiscal deficit, which rose to almost 1.8 billion colones and increased from 25% of total expenditure in 1977 to 34% in 1978.

/In addition

In addition to these circumstances there were others connected with the change of administration. From the beginning, the new government which took over at the beginning of May expressed its intention of encouraging the free play of market forces with a view to achieving greater efficiency and a better allocation of resources in the sectors of production. The present economic policy is aimed at promoting viable projects, increasing productivty, particularly in the public sector and agriculture, and eliminating pockets of poverty by encouraging labour-intensive sectors, particularly construction.

Among other measures, bank interest rates were adjusted in accordance with the trends of the international financial market, and they were completely liberalized in the case of financial institutions, on the same basis. At the same time, these latter institutions were authorized to engage in many operations which for some years had been the preserve of the banking system, such as financing exports and imports. Foreign investment - although it was already of considerable proportions - was also encouraged with the suppression at the end of 1978 of the register of foreign capital.

The conjunctural policy of the new administration provides for a stabilization programme which includes cutting down controls and government intervention. In accordance with this policy, the Government began by reducing price controls on some products of general consumption and liberalizing others.

In addition, high priority was assigned to efforts to carry out an administrative reform process which, among other features, is aimed at restricting the faculties of the quasi-autonomous services and other bodies and concentrating responsibility for each sector in the respective ministries. It is also intended to prepare a medium-term development plan on a regional basis.

2. Recent economic trends

(a) Total supply and demand

Total supply increased in 1978. The gross domestic product, as already noted, showed a real growth of 6%, which was slightly below the 1977 figure and similar to the cumulative annual rate for the present decade. Although

/the growth

the growth rate of imports at constant prices was much lower than in 1977, it more than exceeded the growth of the product because the policy facilitating external purchases was maintained.

All the components of total demand registered great dynamism in 1978. While private investment grew by 10%, public investment registered a growth of 8%, although both were lower than the growth rates recorded in previous years. The coefficient of gross fixed investment has increased substantially since the beginning of the present decade, from 20% in 1970 to 28% in 1978 (see table 2). Gross domestic investment only grew by 1.4% owing to a slight reduction in stocks, which had increased considerably in 1977. The volume of exports of goods and services grew by 7.3%, the highest rate recorded since 1973. It should be noted that although the price of coffee dropped considerably, there was a marked increase in the volume of sales. As regards private consumption, its growth rate was the highest in the decade, except for 1977. One of the most probable reasons for this expansion was the higher income obtained from exports, which indeed influenced economic activity as a whole. Government consumption increased by the same amount as in 1977 (6.3%), the growth being most marked in the case of goods and non-personal services.

(b) Growth of the main sectors

Although the growth rate of the product was a little less than in 1977, as already noted, it was nevertheless satisfactory. This slight decline was basically due to a drop from 13 to 7% in the growth of manufacturing output and a similar drop in commerce. Agriculture, however, recorded the relatively large growth rate of 5% after two years of very meagre results, while construction continued to grow at a high rate, reflecting the buoyancy of housing and infrastructure works.

Among the basic services electricity, gas and water stood out, but among the other services only commerce was of note, and even then its rate was lower than in 1977 (see table 3).

(i) The agricultural sector. Generally speaking, 1978 was a good year for agriculture compared with 1976 and 1977. As was the case in the other countries of the region, the abundance and regularity of the rains considerably increased production of several main crops. Thus, coffee, banana and cocoa

/Table 2

Table 2

COSTA RICA: TOTAL SUPPLY AND DEMAND

	Millions of colones at 1970 prices			Percentage breakdown		Growth rates		
	1976	1977	1978[a]	1970	1978[a]	1976	1977	1978[a]
Total supply	12 043	13 211	14 130	135.0	134.0	5.6	9.7	7.0
Gross domestic product at market prices	9 230	9 945	10 541	100.0	100.0	5.5	7.7	6.0
Imports of goods and services b/	2 813	3 266	3 589	35.0	34.0	6.0	16.1	9.9
Total demand	12 043	13 211	14 130	135.0	134.0	5.6	9.7	7.0
Domestic demand	9 351	10 444	11 162	106.8	105.8	6.2	11.7	6.9
Gross domestic investment	2 287	2 842	2 881	20.5	27.3	26.5	24.2	1.4
Gross fixed investment	2 250	2 647	2 898	19.5	27.5	23.7	17.7	9.5
Public	653	746	808	4.5	7.7	35.7	14.3	8.3
Private	1 597	1 901	2 090	15.0	19.8	19.4	19.0	10.0
Changes in stocks	37	195	-17	1.0	-0.2			
Total consumption	7 064	7 602	8 281	86.3	78.5	0.9	7.6	8.9
General government	1 288	1 371	1 458	12.6	13.8	7.8	6.4	6.3
Private	5 776	6 231	6 823	73.7	64.7	-0.5	7.9	9.5
Exports of goods and services b/	2 692	2 767	2 968	28.2	28.2	3.8	2.8	7.3

Source: CEPAL calculations on the basis of figures supplied by the Central Bank of Costa Rica.

a/ Preliminary figures.

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

/Table 3

Table 3

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

	Millions of colones at 1970 prices			Percentage breakdown		Growth rates		
	1976	1977	1978[a]	1970	1978[a]	1976	1977	1978[a]
Agriculture	1 722	1 748	1 835	25.0	19.7	0.5	1.5	5.0
Manufacturing [b]	1 423	1 608	1 721	15.1	18.5	5.8	13.0	7.0
Construction	558	606	657	4.7	7.1	20.8	8.5	8.5
Subtotal goods	3 703	3 962	4 213	44.9	45.3	5.2	7.0	6.3
Electricity, gas and water	182	192	206	2.0	2.2	8.8	5.5	7.0
Transport storage and communications	511	544	575	4.8	6.2	5.8	6.5	5.8
Subtotal basic services	693	736	781	6.8	8.4	6.6	6.2	6.1
Commerce, restaurants and hotels	1 261	1 454	1 564	17.2	16.8	8.9	15.4	7.6
Financial institutions, insurance and real estate	1 163	1 198	1 256	13.6	13.5	4.2	3.0	4.8
Community, social and personal services	1 410	1 461	1 516	17.5	16.2	3.6	3.8	3.8
Subtotal other services	3 834	4 113	4 336	48.3	46.5	5.6	7.3	5.4
Total gross domestic product [c]	8 204	8 811	9 331	100.0	100.0	5.5	7.7	5.9

Source: CEPAL calculations on the basis of figures supplied by the Central Bank of Costa Rica.

a/ Preliminary figures.

b/ Including mining activity.

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

/production increased,

production increased, although production of sugar cane and cotton declined. The most important crops for domestic consumption, with the exception of rice, also recorded smaller production levels (see table 4).

The recovery of the coffee plantations made it possible to obtain in 1978 a volume of production which was 4.8% higher than that observed the previous year and practically equal to the 1973 harvest - the highest on record. The drop in production between 1973 and 1976 was influenced by the high cost of inputs, particularly fertilizers.

Yields in the areas replanted with coffee is still rather low, which explains why there was only a scanty increase in total production, although this continued the recovery begun in 1977. The Coffee Bureau follows the policy of improving productivity by more efficient use of inputs rather than increasing the area planted. However, the application of this policy is difficult because most of the production is in the hands of large numbers of small and medium-scale growers.

Banana production in 1978, at 1,130,000 tons, was slightly higher than that of the previous year, but still below that of 1973 (1,289,000 tons). The area planted has not increased, so that any growth in production is to be attributed to higher productivity, which has been stimulated since 1977 by the reimbursement of export taxes when production increases.

Rice production, stimulated by the price support policy of the National Production Council, increased by 36%. After domestic consumption had been satisfied, large surpluses remained and gave rise to marketing problems in the external market owing to high domestic production costs.

The copious rain, which favoured rice cultivation, was notably detrimental to other cereals. Under the National Basic Grains Programme begun in 1974 production had increased and self-sufficiency had almost been achieved in some cases. In 1978, however, production of maize, beans and sorghum was very much lower than expected and even dropped below that of 1977 (see table 4).

The National Agricultural Council continued in 1970 to encourage the relocation to the Pacific coast of the grain-growing area, which has traditionally functioned in the centre of the country where farming conditions are not of the best. It is hoped to obtain an appreciable increase in productivity in this way.

/Table 4

Table 4

COSTA RICA: INDICATORS OF AGRICULTURAL PRODUCTION

	1975	1976	1977	1978 a/	Growth rates b/ 1976	1977	1978 a/
Index of agricultural production (base 1970 = 100)	121.6	122.0	124.4	131.5	0.3	2.0	4.3
Crop farming	122.8	121.7	123.0	127.6	-0.9	1.1	3.7
Stock-raising	118.6	122.8	127.8	140.9	3.5	4.1	5.8
Production of principal crops (tons)							
Export							
Coffee	85 259	81 784	88 772	93 033	-4.1	8.5	4.8
Bananas (thousands of tons)	1 221	1 187	1 112	1 130	-2.7	-6.3	1.6
Sugar cane (thousands of tons)	2 324	2 292	2 519	2 479	-1.4	9.9	-1.6
Cocoa	6 609	5 885	7 541	9 027	-11.4	28.8	19.7
Cotton	184	1 610	8 853	6 117	775.0	449.9	-30.9
Domestic consumption							
Rice	112 132	105 860	92 987	125 997	-5.6	-12.2	35.5
Maize	67 767	114 010	91 978	72 111	68.2	-19.3	-21.6
Beans	14 625	16 212	14 059	14 017	10.9	-13.3	-0.3
Sorghum	19 780	30 855	46 435	33 015	56.0	50.5	-28.9
Indicators of stock-raising production							
Animals slaughtered (tons)							
Cattle	128 112	124 998	126 884	134 617	-2.4	1.5	6.1
Pigs	9 619	11 529	12 487	...	19.9	8.3	...
Poultry	5 091	5 415	5 467	...	6.4	1.0	...
Milk (millions of litres)	251	272	290	307	8.4	6.8	5.6
Eggs (millions)	344	359	369	...	4.4	2.6	...
Fish (tons)	13 936	15 911	12 727	...	14.2	-20.0	...

Source: CEPAL, on the basis of data supplied by the Central Bank of Costa Rica and other official statistics.

a/ Preliminary figures.

b/ The growth rates were calculated on the basis of unrounded figures.

/The Cotton-

The Cotton-Growing Development Programme had to be discontinued in order to review the incentives policy, because the tremendous expansion of the area sown in 1977 (to 27,000 hectares), caused production to rise considerably and exceeded the fibre-processing capacity, causing big losses. During 1978 a new cotton gin was constructed in the Liberia region and the area sown was reduced to only 14,000 hectares, causing a drop in production of 31%.

The volume of sugar cane cut dropped slightly (by 1.6%), mainly because of high production costs, since the areas at present being cultivated are not the most suitable. The Development Corporation is promoting the planting of cane in the El Tempisque area, where conditions for production are better.

As regards livestock production, the slaughtering of cattle increased by 17,000 steers (6%) during the year, since the export quota to the United States, which was 61 million pounds in 1977, was increased by 3.4 million pounds. This increased allocation was due to the fact that other countries did not fill their quotas. Milk production, for its part, increased by 5.6% in line with the trends of previous years.

The Government's agricultural policy stresses technological progress as a means of increasing productivity and also improving Costa Rica's cost structure with respect to other countries.

(ii) Manufacturing. Preliminary estimates indicate that the value added in manufacturing production increased by 7%, signifying a substantial slackening of the growth rate compared with 1977, when production increased by 13%. Even so, this activity was one of those which grew most in 1978.

The economic policy measures which the Government adopted around the fourth quarter, particularly as regards new interest rates, liberalization of prices, etc., could have repercussions on both production and demand, and similar effects could be caused on demand by the measures to reduce import tariffs and duties, which would encourage imports to the detriment of national industry.

There is no doubt that the internal conflict in Nicaragua had repercussions on the industrial output of Cost Rica, whose main export outlet is the Central American market, both because of the drop in Nicaraguan

/demand and

demand and because of the difficulties caused by the conflict as regards communication and transport with the rest of Central America.

Table 5 shows some indicators which confirm the satisfactory evolution of manufacturing. The industrial production index, based on a survey made by the Central Bank, puts the growth in the first eight months at 6% compared with the same period in 1977. Electricity consumption during the period January-November was 15% up on that of the previous year, but employment in industry increased by only 3.7% between August 1977 and August 1978, with big variations between the different branches of industry.

During 1978, several new installations began operations, including a cotton gin, whose production is estimated to be worth around 12 million dollars; a plan for producing fertilizers based on ammonium nitrate with a capacity of 50,000 metric tons, which was added to the already existing complex and increased production of fertilizers to 235,000 tons; a structural panel factory, and a factory for producing cotton-seed oil. The factory producing 250 and 350 mm diameter PVC tubes was also expanded. Operations were also begun for the production of electronic computers, and semi-finished and finished lenses which it is hoped to export to the United States, the Caribbean and Central America. A polyester fibre plant was also opened and progress was made in the construction of a cement factory with an annual capacity of 475,000 tons, a factory to produce safes, and a new publishing firm, while large-scale investments were made in the glass industry, a sugar mill and a ceramics factory.

As regards industrial policy measures applied during the year, mention may be made of the amendment to the Export Promotion Act which places the fiscal incentives to exports on a sliding scale on the basis of the value added.

Export growth certificates (CIEX) came into operation in 1978; these were created some time ago, and are aimed at stimulating exports by granting exemptions equivalent to as much as 10% of the value of the annual increase in exports achieved.

A programme of technical and financial assistance was initiated through the Directorate-General of Technical Assistance to Small-Scale Industry and Crafts, while mention may also be made of the creation of various funds for the development of small and medium-scale industry and for the export of manufactures.

/Table 5

Table 5

COSTA RICA: INDICATORS OF MANUFACTURING PRODUCTION

	1975	1976	1977	1978[a]	Growth rates		
					1976	1977	1978
Index of manufacturing production (1966 = 100)	211.7	230.2	244.8	258.1[b]	8.7	6.4	6.0[b]
Other indicators of manufacturing production							
Index of industrial consumption of electricity (1970 = 100)	190.5	219.6	243.0	19.1[c]	15.9	10.7	15.1[c]
Index of employment (1968 = 100)	160.9	177.5	185.4	187.6[d]	5.1	4.5	3.7[d]

Source: CEPAL, on the basis of data supplied by the Central Bank of Costa Rica.

a/ Preliminary figures.
b/ Monthly average January-August; growth rate calculated with respect to the same period in 1977.
c/ Average January-November; growth rate calculated with respect to the same period in 1977.
d/ August; rate calculated with respect to August 1977.

/Finally, other

Finally, other noteworthy industrial projects included the construction of the Moín industrial park and the execution, with support from a United States consortium, of a feasibility study on the production of aluminium from bauxite and alumina imported from the Caribbean.

(iii) Other economic sectors. As already noted, construction maintained its growth rate of the previous year (8.5%), and was the most dynamic sector of the economy in 1978, thanks to the continuation of the infrastructure work begun in earlier years and the maintenance of a high rate of private construction. As a result, during the first seven months of 1978 the value of imports of construction materials came to 51 million dollars compared with 22 million in 1977.

In basic services, the most notable features were the increase in the generation of electricity and the slower growth of transport services, storage and communications, as a result of the slower growth of manufacturing and the larger volume of goods imported.

(c) Employment and unemployment

According to the household survey on employment and unemployment, the overall rate of unemployment in Costa Rica in mid-1978 was 4.5% - a level which is similar to that of the previous year and even represents some improvement compared with the March 1977 indicators. In March 1977 the data for rural and urban areas were identical (5.2%), but in July 1978 the rate of rural unemployment had dropped to 3.6%, while urban unemployment had risen to 5.6%.

3. The external sector

In 1977 exports of goods came to 815 million dollars, i.e., 220 million dollars more than in 1976, owing to a sharp increase in prices, particularly of coffee. In 1978, despite a drop in prices, the value of total exports of goods increased slightly to 822 million dollars. However, since there was a considerable increase in imports - especially of luxury goods - the balance on current account showed an unprecedentedly large deficit. The inflow of capital from abroad was slightly in excess of this deficit, thus giving an increase in international reserves of barely 4 million dollars. It should be noted that the economic policy followed in the country did not

/include any

include any specific measures aimed at reducing imports and thus improving the balance of payments situation: on the contrary, imports were actually encouraged by the proposed reduction in the tariffs on a number of goods.

Lastly, it should be mentioned that in 1978, following the favourable situation of the past two years, there was a decline of 12% in the terms of trade and a somewhat smaller reduction in the external purchasing power (see table 6).

(a) Merchandise trade

Exports of goods, which had increased by 20% in 1976 and 38% in 1977, only increased by 0.9% in 1978.

Coffee, which (together with cocoa) sparked off the notable growth of exports in the two previous years, suffered a decrease of 1.6% in its total export value in 1978, owing to a drop of 23% in its price. The volume exported increased by 28%, however, and this made up for the drop in price to a large extent. The value of exports of bananas, the second product in importance, grew slightly, while cocoa underwent a sharp drop attributable to the decline in international prices. Exports of meat increased by 37% to some 60 million dollars, since prices continued to increase on the external markets. The volume of exports of meat has increased 60% since 1975. As regards exports of sugar, these remained at a level equivalent to only one-third of that recorded in 1975, when their price reached its maximum (see table 7).

Lastly, exports to Central America (in which non-traditional exports predominate) increased by barely 1.3%, while imports from that region increased by 20%, continuing the trend of the two previous years (see table 8).

As regards imports of goods, their trend was opposite to that of exports and they increased by 17%. This means that in the last three years the value of imports of goods has increased by 70% or 436 million dollars (see table 6). It may be recalled here that during 1977 consumption taxes were reduced, and up to 1978 no type of restriction had been placed on imports, even those of non-essential consumer goods.

/Table 6

Table 6

COSTA RICA: MAIN INDICATORS OF FOREIGN TRADE

	1973	1974	1975	1976	1977	1978
	Growth rates					
Exports of goods						
Value	23.7	27.6	12.0	20.1	37.5	0.9
Volume	2.9	11.0	-1.7	2.7	2.0	8.0
Unit value	20.3	15.0	14.0	17.0	34.9	-6.6
Imports of goods						
Value	22.3	57.5	-3.3	10.9	30.7	16.9
Volume	5.1	15.8	-14.7	4.6	16.6	10.3
Unit value	16.4	35.9	13.3	6.0	12.1	6.0
Terms of trade	3.3	-15.4	0.6	10.4	20.3	-11.9
	Indexes (1970 = 100)					
Terms of trade	90.5	76.6	77.0	85.0	102.3	90.1
Purchasing power of exports of goods	116.6	109.5	106.3	122.8	150.6	143.3
Purchasing power of exports of goods and services	117.0	110.8	108.9	122.2	145.1	139.9

Source: CEPAL, on the basis of official data.

/Table 7

Table 7

COSTA RICA: EXPORTS OF GOODS (FOB)

	Millions of dollars				Percentage breakdown b/		Growth rates b/		
	1975	1976	1977	1978 a/	1970	1978	1976	1977	1978
Main traditional export products	326	376	546	538	73.5	64.5	14.7	45.8	2.2
Coffee	97	154	319	314	31.6	36.3	58.8	107.4	-1.6
Bananas	144	149	150	154	28.9	18.0	3.2	1.1	2.4
Cocoa	5	7	17	14	0.8	1.6	30.2	147.8	-17.6
Meat	32	41	44	60	7.8	6.1	26.2	8.9	36.8
Sugar	48	25	16	16	4.4	2.3	-48.8	-36.8	1.7
Rest	167	216	269	264	26.5	35.5	28.1	24.5	-1.9
Total	493	592	815	822	100.0	100.0	20.2	39.7	0.9

Source: CEPAL, on the basis of data supplied by the Central Bank of Costa Rica.

a/ Preliminary data.

b/ The percentage breakdown and growth rates were calculated on the basis of unrounded figures.

/Table 8

Table 8

COSTA RICA: TRADE IN GOODS WITH CENTRAL AMERICA

	Millions of dollars				Percentage breakdown b/		Growth rates b/			
	1975	1976	1977	1978a/	1970	1978a/	1975	1976	1977	1978a/
Exports to:	107	131	174	177	100.0	100.0	2.9	21.8	33.5	1.3
El Salvador	28	33	48	49	22.8	27.5	-7.3	19.0	44.1	1.7
Guatemala	31	38	53	61	24.1	34.3	24.8	23.1	39.2	13.7
Honduras	13	14	17	22	25.1	12.3	33.3	7.8	23.9	26.3
Nicaragua	35	45	56	46	28.0	25.9	-10.6	28.0	23.7	-18.5
Imports from:	115	136	168	201	100.0	100.0	0.6	18.2	23.9	19.9
El Salvador	32	40	51	61	29.3	30.2	-20.3	25.4	28.4	19.5
Guatemala	40	44	59	71	31.3	35.1	19.9	11.1	33.2	20.1
Honduras	6	7	9	13	10.3	6.4	-22.1	21.7	27.9	36.6
Nicaragua	37	44	49	57	29.1	28.3	11.7	19.1	9.8	16.7
Balance with:	-8	-5	6	-25						
El Salvador	-4	-7	-5	-13						
Guatemala	-9	-6	-3	-10						
Honduras	7	7	8	9						
Nicaragua	-2	1	7	-11						

Source: CEPAL, on the basis of official data.

a/ Preliminary figures.

b/ The percentage breakdown and growth rates were calculated on the basis of unrounded figures.

/According to

According to the figures available up to July (see table 9), all import items increased with the exception of capital goods (-4.5%) and non-durable consumer goods (-17%). However, it is possible that imports of machinery and equipment recovered in the second half of the year, owing to the comeback in investment.

Particularly noteworthy was the 77% increase in imports of consumer durables, due partly to the high levels of income obtained by the coffee producers in 1977 and also to the reactivation of the economy in recent years. Imports of intermediate goods, for their part, increased by 26% in 1978, impelled by the extraordinary increase in imports of construction materials, reflecting the rapid growth of this activity.

(b) The balance of payments current and capital accounts

In 1978 the services account recorded a deficit of 82 million dollars, 24% higher than the year before, while net remittances of profits and payments of interest registered a significant increase of 32% (see table 10).

The negative balance on current account thus rose to 405 million dollars, 83% higher than the 1977 deficit and equivalent to more than 40% of the value of exports of goods and services.

During the year there was a net inflow of non-compensatory capital of 409 million dollars - 100 million more than in 1977 - but owing to the large increase in the current deficit the gross international reserves grew by only 4 million dollars.

Capital inflows from long- and medium-term loans came to 502 million dollars, while direct investment only increased by 4 million dollars.

During the previous three years, the difference between net capital income from loans and investments and the deficit on current account made possible an increase of 146 million dollars in international reserves, but the situation in 1978 was different owing to the sizable growth of the current deficit.

In accordance with the new liberalizing trend in external trade, the register of capital movements was eliminated around the end of the year. This measure applied to all new capital, credit or loan transactions except those of the public sector.

/Table 9

Table 9

COSTA RICA: IMPORTS OF GOODS (CIF)

	Millions of dollars				Percentage breakdown[b]		Growth rates [b]		
	1975	1976	1977	1978[a]	1970	1978	1976	1977	1978[c]
Consumer goods	144	169	245	154	32.5	23.1	17.2	45.0	18.5
Durable	46	56	94	88	10.5	13.1	20.7	68.4	76.8
Non-durable	98	113	151	67	22.0	10.0	15.5	33.6	-17.2
Intermediate goods	372	378	487	358	42.7	53.5	1.6	28.7	26.0
Oil and fuels	72	72	99	72	3.6	10.8	0.3	37.2	13.6
Building materials	36	33	42	51	5.5	7.6	-7.8	28.2	127.8
Raw materials for industry, agriculture and mining	260	268	335	235	33.6	35.1	3.0	24.7	22.7
Others	4	5	11	-	-	-	23.1	133.3	-100.0
Capital goods	178	223	289	157	24.8	23.4	25.7	29.3	-4.5
Total	694	770	1 021	669	100.0	100.0	11.0	32.6	15.7

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

a/ Up to July.

b/ The percentage breakdown and growth rates were calculated on the basis of unrounded figures.

c/ Variation between January-July 1978 and the same period in 1977.

/Table 10

Table 10

COSTA RICA: BALANCE OF PAYMENTS

(Millions of US dollars)

	1973	1974	1975	1976	1977	1978[a]
Current account						
Exports of goods and services	420	540	601	715	952	980
Goods FOB [b]	345	440	493	592	815	822
Services	75	100	108	123	137	158
Transport	21	28	31	37	44	50
Travel	36	49	52	55	63	71
Imports of goods and services	500	777	767	860	1 112	1 303
Goods FOB [b]	412	649	627	695	909	1 063
Services	88	128	140	165	203	240
Transport	54	84	84	98	126	147
Travel	21	27	35	42	51	61
Net payments of profits and interest on foreign capital	-38	-38	-61	-69	-74	-98
Profits	-21	-14	-24	-26	-29	-29
Interest	-17	-24	-37	-43	-45	-69
Net private transfer payments	7	9	10	11	13	16
Balance on current account	-111	-266	-217	-203	-221	-405
Capital account						
Net external financing (a+b+c+d)	111	266	217	203	221	405
(a) Long-term capital	91	136	237	219	234	363
Direct investment	38	46	69	63	65	69
Private sector	13	30	46	40	34	
Loans	50	71	107	119	105	
Amortization payments	-37	-41	-61	-79	-71	
Official sector	41	46	82	78	95	294
Loans	70	71	110	121	157	
Amortization payments	-23	-23	-27	-39	-57	
Other liabilities and assets	-6	-2	-1	-4	-5	
Monetary authorities (net)	-1	14	40	38	40	
(b) Short-term capital (net)	38	79	-2	21	74	...
Private sector	-9	42	-34	33	31	46
Official sector	-	-8	1	1	3	...
Monetary authorities	7	-4	-3	3	-	...
Errors and omissions	40	49	34	-16	40	...
(c) Official transfer payments	-	1	-	2	2	-
(d) International reserves (minus sign signifies an increase)	-18	50	-18	-39	-89	...
Use made of IMF credit		23	13	3	-4	...
Other liabilities	-8	22	-20	3	10	...
Monetary gold	-	-	-	-	-1	-
Special Drawing Rights		2	-2	3	-5	3
IMF reserve position	-	-	-	-	-	-11
Foreign exchange	-10	3	-9	-48	-89	4

Source: 1973-1977: International Monetary Fund, Balance of Payments Yearbook, vol.29; 1978: CEPAL, on the basis of official data.

a/ Preliminary figures.

b/ Including non-monetary gold.

/(c) External

(c) External indebtedness

The State-guaranteed external debt increased in 1978 by 26%, to practically 1 billion dollars. The evolution of the financing of the central government and the public enterprises was fairly similar, although in the last four years the funds entering the enterprises exceeded those received by the central government. As regards the financing of these institutions, particular mention should be made of the funds received by the Costa Rican Electricity Institute (ICE), in view of the great importance of its work in the energy sector. In 1978 public enterprises received 361 million colones, the central government 321 million, and financial intermediaries 310 million. Of the latter, 174 million colones went to the Central Bank.

Taking only the State-guaranteed external public and private debt, servicing costs were equivalent to 15% of exports of goods and services, compared with 12% in 1977. In that year the servicing of the total debt was equivalent to 24% of export receipts, and in 1978 it is to be assumed that amortization payments accounted for an even larger proportion.

4. Prices and wages

(a) Evolution of domestic prices

In 1978 there was only a small rise in domestic prices. The consumer price index for San José increased by 6% (annual average) or by 8.2% as between the December 1977 and December 1978 figures. These rates are slightly higher than those recorded in 1976 and 1977, but they are substantially lower than those registered up to 1975, and in any case their size is such as to be of little relative importance (see table 11).

Among the main components of the index, foodstuffs show a sharper increase in prices, amounting to 16% in the variation between December 1977 and 1978. As in the case of the annual average variation, this is double the rate of increase recorded in 1977. This rise in food prices is a reflection of the freedom of prices ordered during the second half of the year.

The wholesale price index, for its part, showed a slight drop in the prices of imported products as compared with the tendency of the general index.

/Table 11

Table 11

COSTA RICA: EVOLUTION OF DOMESTIC PRICES

	1973	1974	1975	1976	1977	1978
	Variation from December to December					
Consumer price index	15.9	30.6	20.5	4.4	5.3	8.2
Food	21.6	29.1	20.0	-1.3	8.6	15.9
	Variation between annual averages					
Consumer price index	15.2	30.1	17.4	3.5	4.2	6.0
Food	18.8	29.2	16.4	-0.1	5.0	10.2

Source: CEPAL, on the basis of data supplied by the Directorate-General of Statistics and the Central Bank of Costa Rica.

/(b) Wages

(b) Wages

According to figures for the month of May, the average nominal wage increased by 14.4% in 1978. When analysed by sectors, the largest increase corresponded to the central government, followed by the private sector and the quasi-autonomous institutions. Real wages, for their part, increased by around 8%, thus continuing the process of recovery begun in 1976. In the first eight years of the present decade real wages have increased by nearly 30%, despite a drop of 2.8% in 1975.

As regards minimum wages, the percentage increase in 1978 ranged from 8% for top-level minimum wages (there are three levels) to 18% for those at the lowest level.

The new government has expressed interest in basing wage increases in the future on increases in productivity and in recovering the lost purchasing power of wages. The increases in minimum wages decreed by the government, in force since the beginning of 1979, amount to 12% for wages not exceeding 1,200 colones per month, 10% for those between this sum and 2,000 colones, and 5.8% for those exceeding this last figure.

5. Monetary and fiscal policy

(a) Monetary policy

The money supply grew by 24% - a slightly slower rate than the 26% recorded in 1977. It was mainly influenced by the drop of 23% in the net international reserves, a situation which further deteriorated at the end of the year (see table 12).

As regards the factors of expansion, domestic credit increased by 29% during the year, which was more than the increase in 1977 of credit to public institutions and the government, and still more than that granted to the private sector. This latter type of credit, which absorbed nearly three-quarters of total domestic credit, grew by 25%, and much of it went to finance consumption, thus contributing to the big reactivacion of domestic demand in recent years.

Among factors of absorption, a sharp upswing was to be observed in the tapping of the money supply by the sale of bonds, which increased by 46%; savings and term deposits, for their part, increased by 30%, and their total at the end of the year exceeded that of money supply.

/Table 12

Table 12

COSTA RICA: MONETARY POSITION

	Balance at end of year (millions of colones)				Growth rates		
	1975	1976	1977	1978[a/]	1976	1977	1978
Money	2 816	3 674	4 625	5 718	30.5	25.9	23.6
Currency outside banks	853	1 116	1 409	1 704	30.8	26.2	20.9
Demand deposits	1 963	2 558	3 216	4 014	30.3	25.7	24.8
Factors of expansion	6 675	8 645	11 507	13 835	29.5	33.1	20.2
Foreign assets (net)	513	1 065	1 986	1 535	107.6	86.4	-22.7
Domestic credit	6 162	7 580	9 521	12 300	23.0	25.6	29.2
Government (net)	550	607	1 409	1 850	10.6	131.9	31.3
Official entities	600	920	970	1 530	53.2	5.5	57.7
Private sector	5 012	6 053	7 142	8 920	20.8	18.0	24.9
Factors of absorption	3 859	4 971	6 882	8 117	28.8	38.5	17.9
Quasi-money (savings and time deposits)	2 592	3 522	4 490	5 845	35.9	27.5	30.2
Bonds	135	215	563	823	58.8	162.0	46.2
Long-term foreign borrowing	1 451	1 986	2 644	2 990	36.9	33.1	13.1
Other items (net)	-319	-752	-815	-1 541	135.7	8.4	89.1

Source: CEPAL, on the basis of data supplied by the Central Bank of Costa Rica.

a/ Estimates.

/In keeping

In keeping with the objectives of the new government's monetary policy, inspired by the desire to liberalize the economy and give a bigger role to the private sector, a series of provisions was adopted in monetary and financial matters. This set of measures was aimed at avoiding the flight of capital, attracting funds from abroad and encouraging savings and investment by rationalizing the use of credit, since each activity - in pursuit of the highest profit - is expected to pay a rate of interest which will be freely determined and which it is assumed will tend to fall into line with the rates of the international market. In this way it is estimated that better use can be made of capital and that the money market will adapt better to changing international financial conditions.

In order to determine the passive interest rate of the banks, the rate in force in the international market was taken as a basis. The Central Bank therefore fixed as the basic cost of capital and money the rate prevailing in the London financial market (London Interbank Offer Rate - LIBOR), and established a rate similar to that existing in the same market for deposits in foreign currency.

It should be mentioned that the sugar cane growers' co-operatives, small agricultural and industrial producers and handicraft workers, forestry, the construction of cheap housing and rural self-managed community enterprises enjoy a preferential rate of 8%.

Practically no restrictions were placed on the operations of non-banking financial institutions in the public and private sectors, the only exception being as regards the receipt of current account deposits, and even in that case these institutions created an instrument which in practice operates in a similar form to these deposits and obliges them to maintain reserves of 10% of their operating capital. It was hoped that the ample facilities granted to the private financial institutions would encourage inflows of foreign capital.

Despite the general approach indicated, it was nevertheless planned to set up new State financial institutions, with the aim of not only securing greater specialization in the handling of banking matters but also continuing bank management to take care of important demands of a social nature, such as the construction of housing for the poorer sectors of the population.

/In keeping

In keeping with the industrial policy put into effect in 1977, the export promotion fund, which in 1978 financed 80% of fixed investment, continued to play an important role. In 1979 it is expected that a new development fund will begin to operate, financed by contributions of 15 million dollars each from the World Bank and the Central Bank, which will change the arrangements for providing credit to production in that it will not require guarantees since the project itself will serve as a safeguard.

Some queries arise regarding the likely results of the set of measures commented upon in the foregoing paragraphs. One of these queries is whether the bigger financial cost deriving from the rise in interest rates may have negative repercussions on some industrial activities and increase the costs of export products.

(b) Fiscal policy

The fiscal deficit, which already in 1976 was more than double that of previous years, greatly increased in 1978. According to information extending up to the month of November, the deficit was close on 1,800 million colones, representing a growth rate of 68%, and reversing the reduction of the deficit achieved in 1977 (see table 13).

The results for 1978 are due to the fact that the increase in total expenditure (32%) considerably exceeded the 18% growth rate of current income and tax revenue, which was well below the 30% recorded the previous year.

In 1978 direct taxes increased by 31%, a slightly higher rate than that of 1977, while indirect taxes - including duties on external trade - grew by 16%, compared with nearly 33% in 1977. This decline was mainly due to the drop in tax revenue from external trade, mainly as a consequence of the decline in international coffee prices.

Current expenditure, for its part, grew by 31% and capital expenditure by a similar percentage, although real investment only increased by 16%. The current account showed a deficit of more than 400 million colones, representing a radical change from the level of previous years. This new situation placed a major restriction on the possibility of increasing capital expenditure and explains why in 1978 real investment increased considerably less than other expenditure.

/Table 13

Table 13

COSTA RICA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of colones				Growth rates		
	1975	1976	1977	1978[a]	1976	1977	1978[b]
Current income	2 261	2 693	3 487	3 369	19.1	29.5	18.0
Tax revenue	2 090	2 499	3 255	3 138	19.6	30.3	18.2
Direct taxes	447	612	781	573	36.9	27.4	30.5
Indirect taxes	1 643	1 886	2 474	2 565	14.8	31.2	15.8
Taxes on foreign trade	678	738	1 005		8.9	36.2	
Non-tax revenue	171	194	232	231	13.4	19.6	15.5
Current expenditure	2 210	2 727	3 325	3 777	23.4	21.9	31.3
Consumption	1 384	1 667	2 006	2 122	20.4	23.3	23.5
Other current expenditure	826	1 060	1 319	1 655	28.3	24.5	42.9
Current saving	51	-34	162	-408	...	...	...
Capital expenditure	732	1 251	1 329	1 354	71.1	6.2	32.0
Real investment	370	625	696	667	69.0	11.4	15.8
Amortization of debt	210	262	299	324	25.0	13.9	18.2
Other capital expenditure	152	364	334	363	140.1	-8.2	106.3
Total expenditure	2 942	3 978	4 654	5 131	35.2	17.0	31.5
Fiscal deficit	-681	-1 285	-1 167	-1 762	88.8	-9.2	68.1
Financing							
Domestic financing	452	1 034	857	1 106	128.6	-17.1	21.7
Central Bank	24	120	81	715	409.4	-32.4	19.2
Placement of securities	161	436	548		171.4	25.6	
Others	268	478	228	391[c]	78.3	-52.2	26.5[c]
External financing	229	252	310	656	10.0	23.2	371.9

Source: CEPAL, on the basis of data supplied by the Ministry of Finance and the Central Bank of Costa Rica.

a/ At November.

b/ Growth rate January-November 1978 compared with the same period in 1977.

c/ Including the Central Bank and Others.

/Various works

Various works were carried out during the year with public financing, among them the completion at a cost of 300 million colones of the 150 MW first stage of the construction of the El Arenal electrical power station, the anticipated total final generating capacity of which will be 600 MW. In road construction the Sucio-Siquirres highway was built with an investment of more than 100 million colones, while 100 million colones were invested in other infrastructure work at Puerto Calderas, and 165 million colones were spent on various drinking water projects.

Finally, the measures adopted by the new government in fiscal matters were basically aimed at the administrative field. An endeavour was made to achieve greater control of taxpayers, and attention was given to the reorganization of customs houses, the improvement of relations with taxpayers, and the training of government officials.

CUBA

A. INTRODUCTION

A study of Cuban economic development has not been included in the annual CEPAL Economic Survey of Latin America since 1963, when an analysis was made of the effects on the performance of the economy of the structural changes which had taken place since 1959. The secretariat recently carried out a study of the results of some aspects of the post-revolutionary process, in particular the application of a selected set of social policies.1/ Between these two studies there is a period of almost 15 years of relative isolation from the standpoint of information and analysis.

In the course of 1978 the Government and the CEPAL secretariat agreed that a review of the Cuban economy should again be included in the Survey, in order to present the evolution, achievements and difficulties of its particular style of development. They also considered that it would be of mutual benefit if the interpretation of the present regional economic situation and the forecasts of future trends - accelerated internationalization of its economies, search for new links of interdependence and review of effective policies for a better distribution of the benefits of development - were to include the Cuban experience, not only because of the positive results achieved basically in the distribution of income and social welfare of the population, but also in view of the performance of its economy which has had to face all kinds of difficulties in its attempt to consolidate a productive structure in keeping with its social objectives and integral development.

These notes represent a step in that direction. While they do not cover all aspects involved in a review of annual economic developments, they highlight some of the central trends in recent Cuban development.

1/ See CEPAL, Economic Survey of Latin America, 1963 and Apreciaciones sobre el estilo de desarrollo y sobre las principales políticas sociales en Cuba, (CEPAL/MEX/77/22/Rev.3), November 1978.

/It should

It should be stressed that the task is complicated by a number of statistical limitations. A first problem is the difference in systems of national accounts, as the result of which Cuba cannot be included in the overall tables for Latin America. Secondly, there is no system of macro-economic statistics which would make possible an adequate interpretation of the performance of the economy in the entire period following the revolution, which is an essential reference point for a better understanding of more recent developments.

With these limitations, the main events of the first half of the 1970s are described below; followed by a review of economic development in the period 1976-1978.

B. THE SITUATION AT THE BEGINNING OF THE 1970s

The early 1970s marked a turning point in the Cuban economy. In previous years, a bold effort had been made to attain a production target of 10 million tons of sugar, and the entire economy was mobilized for this objective. But even with an all-time record harvest in 1970 the target was not reached, and this mobilization had a disruptive effect on almost all other economic activities. This subsequently led the Cuban authorities to reappraise their economic policy, which gave rise to new guidelines aimed at achieving more balanced (in terms of the different productive activities) and more orderly development from the standpoint of economic management and organizational systems.2/

There were other positive elements at the start of the 1970s: some of the problems arising from the rapid transition to socialism were on the way to being solved; the country's external relations had been reorganized, and new technical and administrative cadres were available (more than enough in some sectors) to fill the gaps resulting from the emigration which took place during the initial period of the revolution. Furthermore, the world price of sugar rose in the early 1970s.

2/ See the speeches by Prime Minister Fidel Castro Ruz on 19 May and 26 July 1970 in Granma, 31 May and 2 August 1970, respectively.

/Of course,

Of course, export activity continued to be the Cuban economy's strategic variable. The composition of exports had changed very little since the end of the 1950s, and sugar and sugar by-products still represented nearly 80% of the total value of exports in 1970. Despite efforts directed at import substitution, the country remained very open to the exterior and needed external supplies not only of raw materials, capital goods and fuels, but also of some essential consumer goods to meet the needs of the population.

Despite these continuing structural features, the working of the economy was modified substantially as a result of the changes in patterns of ownership and in the form of economic organization, thus superseding the classic plantation-economy model.

While the sugar industry remained the key sector, the foundations were laid for new organizational methods and techniques in the industry. The profite of sugar cane production changed; there was increasing mechanization, and higher-yield strains were introduced as well as species which ripened at different periods - early, intermediate and late strains - which made it possible to counter the effects of a prolonged harvest by organizing it from a geographical and temporal standpoint.

These changes, together with significant rises in output in other activities, including fishery, stock-raising, the cultivation of citrus fruit, were accompanied by measures aimed at raising the standard of living of the population, in the framework of an egalitarian policy. These included distributive measures with respect to prices, wages, employment opportunities, access to consumer goods - through rationing - and the expansion of certain social areas such as education and health, where besides making good the severe shortcomings inherited from the past the generated indirect effects on other branches, such as construction. Thus the progress in formal education, supplemented by mass education programmes (literacy campaign) made it possible to make up for the lack of skilled personnel in some sectors and facilitated communication between the State and the population. The spread of free health services, mainly

/in rural

in rural zones, and the growing emphasis on preventive medicine were reflected primarily in longer life expectancy, the eradication of infectious diseases and a lower death rate. 3/

The development of the Cuban economy has run up against major difficulties. A number of old problems have persisted throughout the process, although sometimes attenuated; and others arose as solutions were found to needs which had to be met immediately.

First of all, there are the continued disequilibria stemming from the external sector. The new approach to production strategy meant that the economy had to have foreign exchange both for capital investment purposes and to supplement the domestic production of consumer goods; and this called for a high, steady growth of exports. With an inelastic external sector, and despite the use of external financing, capital formation was hindered even though priority was attached to stepping up investment rather than consumption.

In addition, it should be emphasized that despite Cuba's economic links with the member countries of the Council for Mutual Economic Assistance (CMEA), it continues to have trade relations with the capitalist markets, although these are relatively less important, their structural effect remains considerable, and they subject the Cuban economy to some extent to the instability of the world sugar market. This link with the market-economy countries is the result both of the integration and productive specialization of countries at the world level, which limits the choice of technology, 4/ and also of the Cuban productive structure.

From the mid-1960s onwards, this external stumbling block was accompanied by labour-supply limitations, which placed further pressure on investment needs. In conditions of virtual full employment - despite some

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3/ See Apreciaciones sobre el estilo de desarrollo y sobre las principales políticas sociales en Cuba, op.cit., chapter III.

4/ For instance, while the countries with centrally-planned economies have been able to supply some parts and components for sugar cane processing plants, a complete plant or special sections of it can only be purchased in some of the market economy countries.

sectoral distortions - higher growth can only be achieved by raising productivity through higher investment per person employed or by organizational improvements. 5/

Furthermore, investment needs increased as a result of the conditions in which the economy was developing. In production proper this resulted from the premature obsolescense of industrial plant, due to lack of proper maintenance, and the early mechanization of agriculture. In addition, there was an urgent need to complete the country's infrastructure (improvement of ports and port installations; expansion of the merchant navy 6/ and of warehousing capacity), which is still deficient.

At the domestic level, the rise in the nominal level of wages of most of the population, in the face of the sluggish response of production and the impossibility of increasing imports, led to a gap between the supply of, and the real demand for goods and services for consumption. This meant that by 1970 the accumulation of income in the form of savings accounts amounted to over 3,000 million Cuban pesos (equal to the annual value of the Wages Fund). This undermined the measures and instruments designed to foster productivity, and was accompanied by a certain amount of disorganization of production with the weakening of economic controls. Thus, whereas in the rural area the shortage of labour made it necessary to resort to voluntary work, in other productive sectors there was a labour surplus, and even some idleness among the population of active age.

At the beginning of the 1970s, the broad lines of economic policy were aimed at a greater integration of the economy. Thus once the sugar sector had been consolidated as the lynchpin of the accumulation process, to ensure that it did not lose any of its direct and indirect effects, around it were articulated other industries which met some of its demand

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5/ It should be emphasized that the job creation policy of the early post-revolutionary years practically put an end to unemployment, but produced certain overall distortions between sectoral supply and demand, with excess employment of labour in some activities and a shortage of labour in others. Sugar cane agriculture was one of the worst affected sectors since many traditional cane-cutters shifted to other production sectors, so that agricultural work had to be mechanized early on, and particularly sowing and harvesting, where this was most feasible.

6/ In the period 1959-1970, the tonnage of the Cuban merchant navy rose from 58,000 to over 300,000.

/for production

for production goods, as well as a number of activities using its by-products as raw material. In addition, the system of stock-raising and agro-industrial production was linked to domestic consumption and exports. At the same time a boost was given to the construction industry, which has a great internal multiplier effect.

The economic policy was also designed to solve the distortions which had built up through the allocation of greater resources to the sugar sector in the previous stage, the elimination or attenuation of which was a basic condition of the success of the new development policy.

Finally, with a view to achieving greater decentralization and improving the workings of the administrative system, in the mid-1970s the process of institutionalization began to be put into practice, which resulted in a new political-administrative division of the country, the establishment of the organs of popular authority, and the gradual implementation of the system of economic management and planning.

With the new political-administrative division 7/ activities could be organized at three levels (national, provincial and municipio) rather than four as was the case previously (national, provincial, regional and municipio); local popular authorities became responsible for various functions connected with welfare and consumption; 8/ and finally, the new system of economic management and planning shifted to company managers various powers and responsibilities previously entrusted to ministries.

C. PERFORMANCE OF THE ECONOMY IN 1970-1975

According to official data, during the period 1970-1975 (except in 1971, when the combination of a bad sugar harvest, basically as the result of the drought which afflicted cane production, and the stagnation of industry,

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7/ The nation was previously divided into six provinces, 60 regions and 410 municipios. At present there are 14 provinces and 169 municipios; the regions have disappeared.

8/ For example, local popular authorities are responsible for 75% of commercial and gastronomic enterprises, 86% of educational units and 50% of public health units.

only permitted a growth of 4.2%) the course of economic activity was highly satisfactory, as reflected in an average growth rate of the material product of 9.4% 9/ (see table 1).

This situation was underpinned by excellent external market conditions, with the world price of sugar and the price fixed on the socialist market both at high levels (see table 2). Thus despite the 1.4% fall in the volume of sugar produced,10/ basically as a result of the sharp drop which occurred in 1971 and 1972, resources were available for channelling to industry, which boosted domestic activity.

The most dynamic branch of industry was construction, which grew at an average rate of 27% in this period and stimulated the construction materials (29%) and metallurgy and machinery industries (24%) (see table 3). During this period, output of prefabricated materials grew at an annual rate of slightly over 50%, and cement production almost tripled. Presumably the imports - apparent consumption ratio of cement, which stood at 10% in 1970, dropped at the end of the period.

Construction activity was devoted to satisfying housing needs 11/ - one of the most pressing necessities - and building and fitting out educational centres in order to facilitate the growth of the labour supply. Thus 26 semi-boarding and 145 boarding institutions of basic education were built, which made it possible to put into practice the plan for combined study and work by increasing the number of secondary schools in the countryside.

The manufacturing branches producing for domestic consumption grew faster than the population, particularly in the case of textiles and leather, which expanded at an annual average of 12.3% (see table 3).

9/ The material product is the value of the gross output of the agricultural, fisheries, mining, manufacturing, construction and electrical energy sectors.

10/ Including agricultural cane production and processing. In 1974 the value was 1,264 million Cuban pesos, dropping to 1,180 million in 1975.

11/ The number of finished dwellings rose from 5,000 in 1971 to an average of 18,500 between 1971 and 1975.

/Table 1

Table 1

CUBA: MATERIAL PRODUCT BY ECONOMIC SECTORS[a]

	1970	1971	1972	1973	1974	1975	1976	1977[b]	1978[a]
	Millions of constant pesos [c]								
Total material product	5 666	5 904	6 478	7 328	7 900	8 868	9 210	9 555	10 356
Agriculture	1 230	1 153	1 216	1 271	1 328	1 394	1 468	1 565	1 675
Industry [d]	4 000	4 177	4 458	4 988	5 393	6 067	6 250	6 337	6 914
Construction	436	574	804	1 069	1 179	1 407	1 492	1 653	1 767
	Structure (percentage) [e]								
Total material product	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture	21.7	19.5	18.8	17.3	16.8	15.7	15.9	16.4	16.2
Industry [d]	70.6	70.8	68.8	68.1	68.3	68.4	67.9	66.3	66.8
Construction	7.7	9.7	12.4	14.6	14.9	15.9	16.2	17.3	17.0
	Growth rates [e]								
Total material product		4.2	9.7	13.1	7.8	12.3	3.9	3.7	8.4
Agriculture		-6.3	5.5	4.5	4.5	5.0	5.3	6.3	7.0
Industry [d]		4.4	6.7	11.9	8.1	12.5	3.0	1.4	9.1
Construction		31.7	40.1	33.0	10.3	19.3	6.0	10.8	6.9

Source: CEPAL, on the basis of data from the Anuario Estadístico de Cuba and the State Statistical Committee.

a/ The material product consists of the value of the agricultural, fishery, mining manufacturing, construction and electrical energy sectors.

b/ In 1977 a different methodology was adopted. However, the 1976 and 1977 variation reflects growth in each sector as estimated by the State Statistical Committee on coherent bases.

c/ The Anuario Estadístico de Cuba describe all this information as valued at current prices, whereas in Desarrollo y perspectivas de la economía cubana (National Bank of Cuba) it is stated on page 23 that, with the exception of trade and transport, the "other sectors" -the material product plus communications- are given at constant 1965 prices. In addition, sources in the State Statistical Committee explained that as of 1965 prices were frozen for inputs and final goods -agricultural, industrial and construction- and only new products were valued at different prices from those fixed then, but at prices frozen from the year in which they were incorporated in the Cuban economic system. Thus the terms current prices and constants prices in the case of the material product (at producer prices) are equivalent, and bearing in mind -according to the above mentioned source- that the group of new products is very small, it is considered that the interpretation stemming from the resulting real growth rates is not affected.

d/ Includes mining, manufacturing and electrical energy.

e/ The percentage structure and the growth rates correspond to the real and not the rounded figures.

/Table 2

Table 2

CUBA: SUGAR PRODUCTION, EXPORT AND EXPORT PRICES

	Thousands of tons		US cents per pound	
	Production	Exports	Soviet Union price	World market price a/
1959	6 039	4 951	...	2.97
1960	5 943	5 634	...	3.14
1961	6 876	6 413	4.09	2.75
1962	4 882	5 132	4.09	2.83
1963	3 883	3 520	6.11	8.34
1964	4 475	4 176	6.11	5.77
1965	6 156	5 316	6.11	2.08
1966	4 537	4 435	6.11	1.81
1967	6 236	5 683	6.11	1.92
1968	5 165	4 612	6.11	1.90
1969	4 459	4 799	6.11	3.20
1970	8 538	6 906	6.11	3.68
1971	5 925	5 511	6.11	4.50
1972	4 325	4 140	6.11	7.25
1973	5 253	4 797	12.02	9.45
1974	5 925	5 491	19.64	29.66
1975	6 314	5 744	30.40	20.37
1976	6 156	5 764	30.95	11.51
1977	6 485	6 238	35.73	8.14
1978 b/	7 350	7 231	40.78	7.80

Source: CEPAL, on the basis of data from the Anuario Estadístico de Cuba; National Bank of Cuba, Desarrollo y perspectivas de la economía cubana; International Sugar Organization, Statistical Bulletin and other United Nations Statistics.

a/ International Sugar Agreement price.
b/ Preliminary figures.

/Table 3

Table 3

CUBA: INDICATORS OF THE MANUFACTURING PRODUCT AT CONSTANT PRICES[a/]

	1971	1972	1973	1974	1975
	Index (1970 = 100)				
Total	104.6	111.6	125.2	135.7	152.8
Food (excluding sugar)	104.4	112.5	118.7	126.8	136.1
Sugar and sugar products	92.2	73.2	81.8	88.0	94.1
Beverages and tobacco	82.9	95.9	104.5	117.8	133.2
Textiles and leather	117.5	130.9	144.5	156.2	178.8
Chemicals	111.8	117.6	128.3	137.9	156.6
Oil refining	103.3	113.1	128.8	123.5	134.7
Construction materials	147.7	212.5	266.5	298.2	357.8
Metallurgy and machinery	121.5	140.8	189.6	235.8	285.7
Other manufactures	112.9	136.1	155.9	164.2	198.1
	Growth rates				
Total	4.6	6.7	12.2	8.4	12.6
Food (excluding sugar)	4.4	7.8	5.5	6.8	7.3
Sugar and sugar products	-7.8	-20.6	11.7	7.6	6.9
Beverages and tobacco	-17.1	15.7	9.0	12.7	13.1
Textiles and leather	17.5	11.4	10.4	8.1	14.5
Chemicals	11.8	5.2	9.1	7.5	13.6
Petroleum refining	3.3	9.5	13.9	-4.1	9.1
Construction materials	47.7	43.9	25.4	11.9	20.0
Metallurgy and machinery	21.5	15.9	34.7	24.4	21.2
Other manufactures	12.9	20.5	14.5	5.3	20.6

Source: CEPAL, on the basis of data from the Anuario Estadístico de Cuba.

a/ See footnote c/ in table 1.

/This upturn

This upturn in economic activity made possible the application of a series of measures to alleviate the financial and labour-force disequilibria hindering development, as was pointed out above. To this end, in 1971, and with the creation of the Internal Demand Institute, the supply of goods and services was increased and gradually liberalized in some cases (cigarettes, alcoholic beverages, gasoline, gastronomic services, etc.), directed at a higher-priced market existing side-by-side with the rationed market for basic consumer goods at low, stable prices. This made it possible to tap some of the excess money supply, and also to begin to give more meaning to the salary scale so that wages could become a material incentive for increasing productivity and a stimulus for the growth of employment.12/

At the same time the importance declined of the black market which had appeared in the 1960s, fueled by the excess money supply.

Among the corrective measures taken, two stand out for their quantitative impact and because they characterize the style of economic policy. In the sugar cane sector, in order to reduce labour requirements the use of the Australian cutting system was combined with cane burning and the establishment of collection centres. Secondly, wages policy was directed both towards promoting the growth of the agricultural labour force and towards reducing the gap between the wages of workers in different sectors of production. Thus, whereas agricultural wages were equivalent to 66% of the national average wage in 1966, they corresponded to 94% of the average in 1975. In contrast, industrial wages were 29% higher than the national average in 1966, but in 1975 they were only 3% higher than it.

12/ In addition, a series of measures were taken which combined the creation of an educational infrastructure which would make it possible to use female and student labour; the establishment of labour standards designed to improve productivity; and a series of corrective measures, chief among which was the anti-vagrancy law passed in April 1971 whose immediate effect was to reduce voluntary unemployment by almost two-thirds.

/This relative

This relative reduction was also due to the smaller influence of the historic wages.13/

In order to grasp the full scope of development policy during this stage, mention should be made of the role played by external economic relations against a backdrop of record sugar prices, a decline in the quantum of exports in the first two years and a greater institutional consolidation of relations between Cuba and the CMEA member countries.

During the period 1971-1972 the external sector disequilibrium worsened as a result of a 40% drop in the volume of sugar exports in comparison with 1970 levels (see table 2). This decline could not be offset by the rise in prices since the end of the 1960s on the world market. Although during these years an attempt was made to hold down imports, which increased by only 6% in 1971 and dropped by 14% in the following year - the trade deficit doubled in comparison with 1970, at 526 million Cuban pesos in 1971 and 419 million in 1972 (see table 4).

As of 1973, the rise in sugar prices coincided with increments in the quantum of exports,14/ so that the value of exports more than tripled between 1972 and 1975. During 1973 and 1974 imports rose at a lower rate than export earnings, so that in 1974 there was a slight surplus (11 million) on the trade balance.

The rise in the world price of sugar, which in some years was higher than that fixed for the socialist market - on average, 19% in 1972 and 51% in 1974 - changed the geographical distribution of Cuban exports by increasing the share of sales to the market-economy countries. Thus, the Soviet Union's share of total Cuban exports declined from 50% in 1970 to an average 36% during the period 1971-1974, while the share of the market-economy countries rose from 26% to 40%. In 1975, when the world market price of sugar began to decline, the Soviet Union's price was 49% higher and consequently the destination of exports again shifted, with an increase in the Soviet Union's share to 56% and a drop in that of the market-economy countries to 32% (see table 5).

13/ The historical wage is the difference between the wage received by a worker under the wage scale existing before the revolution and the new wage scales established after the revolution.

14/ The quantum of exports of sugar rose by 16%, 15% and 5% in 1973, 1974 and 1975 respectively.

/Table 4

Table 4

CUBA: EXPORTS, IMPORTS AND TRADE BALANCE

(Millions of Cuban pesos)

	1970	1971	1972	1973	1974	1975	1976	1977	1978
Total exports	1 050	861	771	1 153	2 237	2 947	2 692	2 912	3 477
Soviet Union	529	304	224	477	811	1 661	1 638	2 066	2 496
Other Socialist countries	248	261	197	268	472	341	452	378	410
Rest of the world	273	296	350	408	954	945	602	468	511
Total imports	1 311	1 387	1 190	1 463	2 226	3 114	3 180	3 433	3 558
Soviet Union	691	731	714	811	1 025	1 250	1 490	1 858	2 317
Other Socialist countries	226	239	200	224	328	354	374	467	516
Rest of the world	394	417	276	428	873	1 509	1 316	1 108	725
Total balance	-261	-526	-419	-310	11	-166	-488	-521	-141
Soviet Union	-162	-427	-490	-334	-214	411	148	208	179
Other Socialist countries	22	22	-3	44	144	-13	78	-89	-106
Rest of the world	-121	-121	74	-20	81	-564	-714	-640	-214

Source: CEPAL, on the basis of data from Anuario Estadístico de Cuba and the State Statistical Committee.

/Table 5

Table 5

CUBA: STRUCTURE OF EXPORTS AND IMPORTS, BY COUNTRIES

(Percentages)

	1970		1975		1976		1977	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Socialist countries	74.0	69.9	67.9	51.5	77.7	58.6	83.9	67.7
CMEA countries a/	14.2	10.4	7.9	8.1	10.8	9.2	9.6	10.5
Soviet Union	50.4	52.6	56.3	40.1	60.8	46.8	70.9	54.1
Others	9.4	6.9	3.7	3.3	6.1	2.6	3.4	3.1
Capitalist countries	26.0	30.1	32.1	48.5	22.3	41.4	16.1	32.3
Europe b/	6.4	20.8	7.3	22.3	8.7	17.4	4.7	12.4
Spain	3.9	2.8	7.7	4.9	3.7	5.9	3.9	4.8
Japan	10.3	2.5	7.5	11.6	2.3	7.2	1.5	8.2
Canada	0.8	2.2	2.2	3.1	2.1	3.2	1.4	1.6
Argentina	-	-	-	3.4	-	5.2	-	3.3
Others	4.6	1.8	7.4	3.2	5.5	2.5	4.6	2.0

Source: CEPAL, on the basis of data from the Anuario Estadístico de Cuba and the State Statistical Committee.

a/ Excluding the Soviet Union.
b/ Excluding Spain.

/On the

On the import side, while the Soviet Union's share remained at about 50% of the total, that of the market-economy countries rose sharply as of 1974, and in 1975 accounted for nearly half of total Cuban purchases abroad.

This switch in the origin of imports was affected by greater inflows of convertible currencies as a result of the favourable state of the world market, and also by the greater accessibility of the credit sources of the market-economy countries, especially Spain and Argentina.

During the period the unusual state of the sugar market affected the terms of trade, which remained highly favourable to Cuba throughout the period (see table 6).

In the case of the Soviet Union, the stabilization of sugar prices until 1972 at a level of 6.11 US cents per pound, together with a steady rise in import prices, meant that during 1971 and 1972 the terms of trade were unfavourable to Cuba. From 1973 onwards with a rise in the Soviet Union's price, the terms of trade became favourable but, since that price remained lower than the world market price, always less favourable than with the market-economy countries.

In the period 1971-1975, a deficit of 1,410 million Cuban pesos was accumulated, which together with the deficit of earlier years amounted to a total of 4,363 million. As in the previous decade, the Soviet Union financed about three-quarters of the gross deficit. On the other hand, the remaining socialist countries built up a small surplus (194 million) in the five-year period 1971-1975, which offset the deficit accumulated by them in the previous decade. In contrast, the market-economy countries, which in the past had financed only 17% of the gross deficit, financed 39% during the period 1971-1975, as a result of the turn-about in 1975 (see table 4).

Cuba joined CMEA in 1972 once it had defined its objectives and strategy. This not only called for an improved planning system so as to be able to prepare a medium-term plan in order to facilitate the articulation of the Cuban economy with the other member countries, but also involved a change in mutual trade treatment. Thus in the process of co-ordinating the five-year plan of the CMEA countries and Cuba, norms were fixed for the regulation of export and import prices during the period 1976-1980. In December 1972 five agreements were signed with the Soviet Union, covering the renegotiation of the foreign debt, financing of deficits until 1975, economic and technical collaboration, the mutual supply of goods and machinery for the regulation of import and export prices. On this last point, mention should be made of the

/Table 6

Table 6

CUBA: MAIN INDICATORS OF FOREIGN TRADE[a/]

(Indexes 1970 = 100)

	1971	1972	1973	1974	1975	1976	1977
Exports of goods							
Value	74.8	71.6	110.4	220.1	324.9	279.3	316.0
Soviet Union	57.5	42.3	90.2	153.3	314.0	309.6	390.6
Capitalist countries	108.4	128.2	149.5	349.5	346.2	220.5	171.4
Volume	67.0	54.9	68.0	70.2	87.2	83.9	102.1
Soviet Union	56.3	42.7	55.6	59.0	87.1	85.3	105.1
Capitalist countries	87.5	78.4	91.9	91.9	87.2	81.3	96.3
Unit values	111.7	130.3	162.4	313.5	372.8	332.8	309.4
Soviet Union	102.0	98.9	162.5	260.0	360.0	362.9	371.7
Capitalist countries	124.0	163.7	162.7	300.6	396.8	271.7	178.1
Imports of goods							
Value	105.8	91.2	114.2	174.9	254.3	258.6	273.4
Soviet Union	105.8	103.3	117.4	148.3	180.9	215.6	268.9
Capitalist countries	105.8	70.1	108.6	221.6	383.0	334.0	281.2
Volume	100.1	85.1	102.7	128.7	163.7	167.2	160.7
Soviet Union	100.6	95.7	103.6	108.5	101.0	119.8	145.9
Capitalist countries	99.2	66.5	101.0	164.0	273.6	250.3	186.6
Unit values	105.7	107.3	111.2	136.0	155.3	154.7	170.2
Soviet Union	105.2	108.0	113.2	136.7	179.2	180.0	184.3
Capitalist countries	106.7	105.2	107.6	135.2	140.0	133.5	150.8
Terms of trade for goods							
Total	105.7	121.6	146.0	230.5	240.1	215.1	181.8
Soviet Union	97.0	91.6	143.6	190.2	200.9	201.6	201.7
Capitalist countries	116.2	155.6	151.2	281.5	283.4	203.5	118.1
Purchasing power of exports of goods							
Total	70.6	67.3	99.8	162.0	209.2	180.5	185.7
Soviet Union	54.6	39.1	79.6	112.1	175.2	172.0	211.9
Capitalist countries	101.5	122.0	138.8	258.6	247.3	165.2	113.6

Source: CEPAL estimates on the basis of the Anuario Estadístico de Cuba; Foreign Trade Yearbook of the Soviet Union; and the Monthly Bulletin of Statistics and United Nations statistics.

a/ Not including trade with the Socialist countries, apart from the Union of Soviet Socialist Republics.

/creation of

creation of a new sliding-base system for fixing prices - which came into force in 1975 - designed to achieve a balance between import and export prices.15/

The higher oil prices only slightly influenced the increased economic imbalances. Between 1970 and 1974 the price of petroleum and petroleum derivates from the Soviet Union rose by only 32%, which cannot be compared with the dizzy rise in the prices of these products on the world market (see table 6A). In 1975 the increase was more marked (65%), because of the introduction of the system of sliding prices in external trade with the Soviet Union. During this period, however, the lack of an infrastructure suited to a distant source of supply and, above all, the shortage of storage capacity, prevented the establishment of stable reserves of oil to ensure a permanent supply of this input.

Finally, the social sectors (including health and education) continued to expand, although along different lines. In the case of education the situation was affected by past actions, a greater availability of resources, and a closer interrelation between development needs and education policy. Thus, the growth of enrolment in elementary education, which had been high in the years immediately following the revolution, eased off as previous shortcomings were made good. In contrast, enrolment in secondary - including technical - and higher education grew at a faster rate.16/ Likewise during this period, with a view to making some use of student labour, the combined study-work system was introduced, for which secondary schools were built in the countryside; and in order to incorporate the female labour force, a larger number of day-care centres and semi-boarding institutions were built. Finally, to bring supply and demand together in the case of professionals, the spontaneous choice of careers was restricted, with limits on the number of students in courses and the introduction of selection of students.

In the field of health, in view of the strengthening of the infrastructure carried out in the previous decade the amount of new work undertaken was reduced and more efforts were devoted to securing a better integration of the system and making good shortcomings in specialized fields.

15/ Starting with a guaranteed minimum price of 500 rubles per metric ton of raw sugar, the increments are proportional to the rise in the prices of products exported by the Soviet Union to Cuba.

16/ During the period 1970-1975, the average growth rate of total enrolment was 6.7%, in contrast with rates of 18.5% and 19.3% in secondary and higher education, respectively, and 2.9% in primary education.

/Table 6A

Table 6A

CUBA: INDICATORS ON IMPORTS OF PETROLEUM AND PETROLEUM DERIVATES

	1970	1971	1972	1973	1974	1975	1976	1977	1978
Imports of petroleum and petroleum derivates									
Total value (millions of pesos)	110.1	122.9	144.4	159.2	196.2	307.3	342.0	...	...
Indexes (1970 = 100)									
Total value		111.6	131.2	144.6	178.2	279.1	310.6	...	...
Volume		112.5	108.3	122.8	134.5	127.4	...	...	...
Prices		99.2	121.0	117.6	132.5	218.9	...	...	...
Percentage of value of total imports	8.4	8.9	12.1	10.7	8.8	9.9	10.8	...	...
Imports of crude petroleum									
Total value (millions of pesos)	69.8	77.9	86.8	113.0	134.0	223.4	232.3	313.2	323.2
Indexes (1970 = 100)									
Total value		111.6	124.4	161.9	192.0	320.1	332.8	448.7	463.0
Volume		111.6	111.5	123.0	137.9	136.0	136.0	145.3	150.0
Prices		100.0	111.6	131.6	139.2	235.4	244.8	308.8	308.7
Percentage of value of total imports of petroleum and petroleum derivates	63.4	63.4	60.1	71.0	68.3	72.7	67.9	...	...

Source: CEPAL, on the basis of data from the Anuario estadístico de Cuba, 1975 and data supplied by the State Statistical Committee.

B. ECONOMIC TRENDS IN 1976-1978

1. Global and sectoral growth

Once the favourable conditions in the sugar market had come to an end, and faced with limited resources and the impossibility of holding down cunsumption levels, the decision was taken in 1976 to aim at slower capital formation, although this would bring a less dynamic growth rate. Emphasis was also placed on the rationalization of economic activity, with the establishment of the economic management system, which entailed the introduction of a profitability criterion to measure the efficiency of the different enterprises. Finally, efforts were made to step up the growth rate of the labour force by the speedier incorporation of women.

In the reorganization of the economy, priority was given to restructuring the price system which, although now playing no role in the allocation of resources, was essential for the resumption of buying and selling among companies, the valuation of costs and the assessment of efficiency.17/

In addition, as was mentioned earlier, from the early 1970s the work of fixing prices was combined with the formulation of a price policy more in keeping with costs. In the case of essential consumer goods, the principle of fixed prices for the basic basket of goods remained in effect, and this at a time of rising domestic and external prices represented a consumer subsidy. This went hand in hand with a greater availability of products on the free market, at higher prices, allowing greater flexibility for balancing potential demand - linked to the volume of liquidity - with

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17/ The first steps taken in this field were the freezing of prices in effect at 15 November 1961 and the preparation of price lists which served as a basis for transactions among firms. In 1963, the General Price Law was passed setting forth the general principles for fixing new prices. This was an extremely complex task, since the change in the sources of external supply had introduced new products and different production processes as well as changes in the quality and presentation of goods. The difficulty was accentuated by the lack of specialized tasks and of a specific methodology, and the disappearance of the Ministry of Finance in 1965, which was the body which supported this work. Thus, prices remained frozen, since it was impossible to calculate new prices. In 1967, with the weakening of economic controls, which involved the elimination of cost accounting, prices and price regulation lost their role and it was only in 1969 that a list of prices of imported goods was published.

/the available

the available supply of goods and services. Furthermore, in order to step up investment more rapidly, there are plans to change the system of payment for housing, charging by cubic metre rather than as a percentage of wages.

During 1976-1978 the average growth rate of the material product, at constant prices, was in the order of 6%, much lower than the 9.4% of the first half of the decade (see table 1). There were great variations over the period, however, in 1976 and 1977 the growth rate was low (3.9 and 3.7%) whereas in 1978 it was high (8.4%).

In 1976 all activities grew moderately. Construction, the most dynamic sector, grew at a rate of 6%, in contrast with an average rate of almost 27% in the period 1970-1975. The agricultural sector grew by a little over 5%, with fishery countering the decline in sugar cane ouput. Despite plans for reactivation, industry grew by only 3%. This slow growth was associated with a decline in sugar refining, a slower rate in the production of construction materials, the stagnation of the chemical industry and a decline in petroleum refining.

During 1977, the overall growth rate was similar to that in the previous year. Construction not only continued to be the most dynamic activity but showed signs of reactivation, with a growth rate of nearly 11%. At the same time the growth rate of the agricultural sector also rose, largely as a result of the recovery of sugar cane agriculture. On the other hand, industry continued to record low rates. Finally, in 1978 economic activity was much more dynamic thanks to considerable growth in the industrial sector, which managed to shake off its sluggishness, and favourable trends in the agricultural sector. In contrast, construction recorded only modest growth.

(a) The agricultural sector

The agricultural product grew at an annual average rate of over 6% during 1976-1978, in comparison with a rate of nearly 3% in the period 1970-1975. Although dropping slightly in 1976 (see table 7), sugar production subsequently recorded rising growth largely due to a reorganization of production and greater mechanization of agricultural work, thus making up for the shortage of labour. Agriculture excluding sugar cane, which had grown steadily although variably in the period 1971-1976, declined in 1977

/Table 7

Table 7

CUBA: BASIC INDICATORS OF THE SUGAR INDUSTRY

	Production (thousands of tons)		Industrial yield, 96° (percentage)	Days		Ground sugar-cane per day (tons)	
	Ground sugar-cane	Raw sugar, 96°		Harvest	Effective	Harvest	Effective
1951	44 938	5 821	12.95	108	96	415 567	568 305
1952	59 538	7 298	12.26	136	120	441 894	495 907
1953	40 812	5 224	12.80	94	84	438 881	488 967
1954	39 295	4 959	12.62	88	79	446 722	494 872
1955	34 819	4 598	13.20	76	69	460 802	504 739
1956	37 039	4 807	12.98	80	72	460 331	512 459
1957	44 714	5 742	12.84	98	87	454 757	514 837
1958	45 716	5 863	12.82	98	84	466 183	545 024
1959	48 051	6 039	12.57	103	89	467 629	541 476
1960	47 492	5 943	12.51	103	88	466 289	542 344
1961	54 325	6 876	12.66	133	104	408 731	522 186
1962	36 686	4 882	13.31	104	72	354 144	483 422
1963	31 413	3 833	12.36	94	68	333 110	461 013
1964	37 196	4 475	12.03	118	82	316 065	454 099
1965	50 687	6 156	12.15	130	105	388 449	482 050
1966	36 840	4 537	12.32	102	76	359 453	481 816
1967	50 880	6 236	12.26	133	101	382 985	502 638
1968	42 368	5 165	12.19	113	87	375 582	486 470
1969	40 476	4 459	11.02	135	86	299 077	471 018
1970	79 678	8 538	10.71	217	143	367 442	557 818
1971	51 548	5 925	11.49	166	101	309 610	509 974
1972	43 545	4 325	9.93	153	91	284 750	476 579
1973	47 459	5 253	11.07	135	92	352 760	514 824
1974	49 562	5 930	11.95	128	95	386 986	519 823
1975	50 769	6 315	12.44	123	99	413 700	513 511
1976	51 999	6 151	11.84	130	99	399 100	526 900
1977	56 149	6 485	11.55	141	104	399 600	542 500
1978	67 043	7 328	10.96	168	119	400 100	562 700

Source: 1951 to 1970: Boletín Estadístico, 1970, Central Planning Board, Statistical Bureau; 1971 to 1975: Anuario Estadístico de Cuba, 1975, State Statistical Committee; 1976 to 1978: State Statistical Committee.

/as a

as a result of the drop in the production of coffee, fruit and vegetables. Nevertheless, the production of citrus fruits for export and price for domestic concumption continued to increase (see table 8).

After a period of stagnation, the livestock sector begun to show greater dynamism as of 1975, with growth rates of 8.6 and 4.2% in 1976 and 1977 respectively. Fishery, which had an annual rate of growth of 15% in the three-year period, from a level of 143,000 tons in 1975 (see table 9). The growing investment in this activity was directed towards the adoption of modern methods and expanding the fishing fleets, which amounted to 196 vessels in 1976 with a total of 134,000 gross registered tons.

(b) Manufacturing industry

The industrial sector, which had recorded an appreciable average annual growth rate during the period 1970-1975 (8.7%), came to a standstill in 1976 and 1977 and picked up in the following year (see table 1). The performance in those two years was affected by restrictions stemming from the external sector which limited the supply of production goods. In addition, the drop in construction activity was combined with a decline in the production of iron and steel products and materials for construction.

In 1978, industrial activity recovered largely thanks to good sugar cane harvests which not only had a favourable effect on the sugar industry but also accelerated the production of agricultural equipment and implements and inputs.18/ At the same time there was considerable growth in some branches producing consumer durables, particularly the assembly of television sets (55%) and non-durable consumer goods (leather industry, 17%, and ready-made clothing, 11.5%). The food industry grew slowly (2.2%), but at a higher rate than the population (1.4%).

At the same time the sugar cane by-products industry continued to develop. In October 1978 the first of five plants of French origin which produce fodder from molasses came on stream. At present a pressboard plant which uses bagasse as raw material is being built, and there is a project for the construction of a pulp and paper plant with a daily capacity of 200 tons, again using bagasse as a raw material.

18/ Output of single superphosphate tripled and production of balanced mixes increased by roughly 10%.

/Table 8

Table 8

CUBA: STATE PURCHASES OF SELECTED AGRICULTURAL PRODUCTS[a/][b/]

(Indices of physical volume 1970=100)

	1971	1972	1973	1974	1975	1976	1977	1978[c/]
Agricultural products								
Roots and tubers	115.3	173.5	175.8	198.4	242.4	267.5	223.0	323.1
Grains [d/]	102.0	85.1	83.8	108.4	116.4	113.9	112.7	116.1
Rice	98.1	82.2	81.3	106.3	116.2	115.2	114.9	118.3
Vegetables [e/]	133.7	115.3	183.5	250.8	285.5	269.5	198.6	199.3
Fruit	103.7	148.3	165.1	170.1	175.2	195.2	178.6	181.2
Coffee	132.0	128.6	106.5	145.9	90.1	96.4	79.7	68.0
Cocoa	101.7	142.9	131.3	102.0	93.7	111.9	96.7	121.9
Tobacco	78.2	124.6	137.2	141.0	130.6	159.9	...	...
Livestock products								
Eggs	105.0	107.6	113.1	120.1	124.7	121.1	119.7	123.7
Fresh milk	106.2	160.6	176.9	196.3	211.9	246.1	262.3	284.3
Poultry	116.0	145.5	175.1	222.1	273.4	303.3	307.0	...
Cattle	95.2	92.4	79.2	66.8	64.2	76.9	79.0	82.1
Pigs	131.1	145.7	175.0	256.0	321.7	388.4	438.1	469.9

Source: CEPAL, on the basis of the Anuario Estadístico de Cuba and the State Statistical Committee.

a/ See Anuario Estadístico de Cuba, 1975, p. 50: "State purchases (acopio) are the sum of all purchases and receipts of agricultural products made directly from the agricultural unit by distributive, wholesale and industrial enterprise (both for gain and for processing). The agricultural productive unit selling to the State may be: a State farms, other State entities, private co-operatives and other private entities". See also on p. 87: "Excludes purchases in the form of imports".

b/ Excludes State and private self-consumption.

c/ Preliminary figures.

d/ Includes rice, maize, millet and beans.

e/ Includes tomatoes, cucumbers, pumpkins, onions, chili peppers, garlic, melons, eggplant, and others.

/Table 9

Table 9

CUBA: INDICATORS OF FISHERY PRODUCTION

	1970	1971	1972	1973	1974	1975	1976	1977	1978
					Tons				
Total	105 996	125 832	139 751	150 253	165 249	143 483	194 059	185 004	213 025
Fish	83 647	94 866	105 319	115 049	123 234	117 460	145 091	135 129	162 416
Crustacea	13 911	16 323	18 587	18 225	21 668	19 990	21 744	17 972	20 640
Molluscs and others a/	8 438	14 643	15 845	16 979	20 347	6 033b/	27 224	31 903	30 029
					Index (1970 = 100)				
Total		118.7	131.8	141.8	155.9	135.4	183.1	174.5	201.0
Fish		113.4	125.9	137.5	147.3	140.4	173.5	161.5	194.2
Crustacea		117.3	133.6	131.0	155.8	143.7	156.3	129.2	148.4
Molluscs and others a/		173.5	187.8	201.2	241.1	71.5b/	322.6	318.1	355.9
					Growth rates				
Total		18.7	11.1	7.5	10.0	-13.2	35.3	-4.7	15.2
Fish		13.4	11.0	9.2	7.1	-4.7	23.5	-6.9	20.2
Crustacea		17.3	13.9	-2.0	18.9	-7.7	8.8	-17.4	14.8
Molluscs and others a/		73.5	8.2	7.2	19.8	-70.4b/	351.3	17.2	-5.9

Source: CEPAL, on the basis of data from the Anuario Estadístico de Cuba, and the State Statistical Committee.

a/ Including molluscs, turtles, sponges, trash fish and batrachians.
b/ Excluding trash fish.

/From 1979

From 1979 onwards, sugar cane harvesting machines will be assembled, and it is hoped that these will have higher yields than the machinery coming from other countries because they will be better suited to local conditions.

(c) Mining

Nickel output, which reached a figure nearly 37,000 tons annually in 1977, has run into installed capacity limitations (see table 10). In addition, Cuba's reserves, in the form of laterites, are difficult to process and the cost of exploitation is higher than in the case of sulphides. Hitherto the deposits have been worked mainly using technology developed by the market economy countries, but recently a bilateral agreement was signed with the Soviet Union for the construction of a mining-metallurgical combine in Punta Gorda, Oriente province. In 1975 an agreement was signed with the CMEA countries for a similar project, so that in 1980 installed capacity will be raised to 77,000 tons annually, and subsequently to nearly 100,000 tons. This increase will have a very favourable effect on the external sector.19/

(d) Construction

Construction activity, which had grown very rapidly during the period 1970-1975, expanded more slowly due to shortcomings in the domestic and external supply of materials. Although cement output tripled between 1970 and 1975,20/ demand continued to outstrip supply. In order to fill this shortfall two plants are to come on stream (one in Cienfuegos with a production capacity of 1,625,000 tons,21/ and another in Mariel); this will

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19/ Cuba has the world's fourth largest nickel reserves; in addition, while the market of this product is highly oligopolistic - 60% of output is concentrated on three enterprises - it is less unstable than sugar.

20/ Cement output was as follows: 420,000 tons in 1957; 812,000 in 1963; 742,000 in 1970; a little over 2 million in 1975; and 2.7 million in 1978.

21/ It began production at the beginning of 1979.

/Table 10

Table 10

CUBA: INDICATORS OF MINING PRODUCTION

	1971	1972	1973	1974	1975	1976	1977
			Index (1970 = 100)				
Physical product at constant prices a/							
Mining sector	100.0	105.7	108.6	110.0	120.0	112.3	...
Mining b/	101.2	125.3	152.4	168.7	177.1	148.8	...
Nickel	99.6	100.0	96.1	91.2	102.4	100.9	118.8
			Growth rates				
Physical product at constant prices							
Mining sector	-	5.7	2.7	1.3	9.1	-5.8	...
Mining b/	1.2	23.8	21.6	10.7	5.0	-15.1	...
Nickel	-0.4	0.4	-3.9	-5.1	12.3	-0.7	17.7
			Tons				
Production and exports of nickel and cobalt							
Production	36 455	36 790	35 199	33 879	37 328	37 123	36 756
Exports	33 181	31 723	38 322	34 045	30 883	34 634	44 088
			Growth rates				
Production and exports of nickel and cobalt							
Production	-0.8	0.9	-4.3	-3.8	10.2	-0.5	-1.0
Exports	-14.1	-4.4	20.8	-11.2	-9.3	12.2	27.3

Source: CEPAL, on the basis of data from the Anuario Estadístico de Cuba and the State Statistical Committee.

a/ See table 1, footnote c/.
b/ Excluding nickel.

/substantially increase

substantially increase production capacity.22/ The supply shortfall was also marginally affected by the restriction of imports, which reduced the supply of products for finishing construction works. This decline in construction activity meant that the housing construction target could not be met, with an annual average of 18,500 units. It should be mentioned that housing is a major problem.23/

2. Trends in the external sector

With the end of the sugar boom 24/ which had made it possible to achieve equilibrium in the trade balance in 1974, the country again recorded severe deficits which were only mitigated in 1978 thanks to a considerable increase in the volume of exports and a drop in the growth of imports. From the record figure of nearly 3,000 million Cuban pesos in 1975, the value of exports dropped by nearly 9% in 1976 as a result of a fall in prices, with the quantum of exports remaining at more or less the same level as in the previous year. In 1977 and 1978, with a rise in the volume of exports, the trend was reversed and the value of exports rose by 8% and 18% respectively (see table 4).

While imports barely increased in 1976 (2%), in the following year they grew by the same proportion as exports. This caused the deficit on the trade account to rise from 166 million Cuban pesos in 1975 to 488 million in the following year and to 521 million in 1977. In 1978, with the lower growth rate of imports (3.6%) and the higher growth of exports, this deficit dropped by 75% over the level of the previous year, amounting to 130 million Cuban pesos.

22/ During 1978 a small volume of cement was exported to Honduras and Costa Rica. These exports were the result both of the need to earn convertible foreign exchange and of Cuba's interest in exploring the possibility of penetrating markets to absorb future surpluses once the new plants come on stream.

23/ Even after raising construction to 50,000 new units annually as of 1980 and 100,000 as of 1985, it is considered that there would still be a 15% shortfall in relation to needs in the year 2000.

24/ The price of sugar began to drop at the beginning of May 1975. From an annual average of 29.66 US cents per pound in 1974 it fell to 20.37 in 1975, 11.51 in 1976, 8.14 in 1977 and 7.74 in 1978 (see table 2).

/Pursuing the

Pursuing the policy adopted since 1975, which contrasts sharply with earlier policy, the deficit of the trade balance reached 1,900 million pesos between 1975 and 1977 with the market-economy countries, as opposed to a surplus with the Soviet Union of approximately 770 million in the same period and balanced trade with the other socialist countries.

Although this radical change is explained in part, over the medium term, by the greater number of lines of credit granted by the market-economy countries - over 3,500 million dollars between 1973 and 1977 - it may also be assumed that the situation which existed at the beginning of the 1960s will recur, when the Soviet Union settled some of its purchases from Cuba in convertible currency.

The breakdown of exports by countries shows an increase in the share of the Soviet Union from 56% in 1975 to 71% in 1977. Meanwhile the market-economy countries, which accounted for over 40% of total Cuban exports in 1974, dropped to 22% in 1976 and 16% in 1977. This situation is less drastic on the import side, with the Soviet Union rising from 40% in 1975 to 54% in 1977 and the market-economy countries dropping from 49% to 32% (see table 5).

Although from 1976 onwards Cuba's development plan (1976-1980) was brought into line with the five-year plans of the CMEA countries, its trade with those countries, excluding the Soviet Union, has not changed notably in volume, performance and composition. The German Democratic Republic and Bulgaria continued to be the countries with the highest level of trading activity with Cuba. Czechoslovakia, following earlier trends, reduced its share in Cuba's foreign trade, while Poland, Rumania and Albania remained marginal (see table 11).

As a result of the drop in sugar prices on the world market, the terms of trade between Cuba and the market-economy countries reversed their trend. After having been fairly favourable to Cuba, above all in 1974 and 1975, and almost 36% above the terms of trade with the Soviet Union, they began to drop sharply as of 1976; and although they continued to be favourable to Cuba in 1977, the margin had grown considerably narrower, and may perhaps have disappeared in 1978 (see table 6).

/Table 11

Table 11

CUBA: TRADE WITH CMEA COUNTRIES a/

	1970		1975		1977	
	Exports	Imports	Exports	Imports	Exports	Imports
	Millions of Cuban pesos					
Total	149	136	224	243	270	359
	Percentage share					
German Democratic Republic	32.7	36.7	30.4	30.3	35.5	41.9
Bulgaria	19.3	17.1	32.7	33.5	32.2	24.0
Czechoslovakia	32.9	22.2	15.5	18.0	12.1	12.9
Hungary	2.4	3.6	8.6	5.8	8.3	10.3
Poland	3.6	2.5	7.7	6.1	5.6	5.2
Rumania	8.6	16.9	2.6	5.4	5.6	4.0
Albania	0.5	0.9	2.3	0.7	0.7	1.7
Mongolia	-	0.1	0.2	0.2	-	-

Source: CEPAL, on the basis of data from the Anuario Estadístico de Cuba and the State Statistical Committee.

a/ Excluding the Soviet Union.

/The terms

The terms of trade with the Soviet Union reflect the new price-fixing machinery for imports and exports. Starting from a guaranteed minimum price of 30.40 US cents per pound of sugar, fixed in 1975, increments were proportional to the rise in the prices of goods supplied by the Soviet Union to Cuba. This meant that as of 1975 the terms of trade maintained the high level reached in that year. In 1977 the terms of trade between Cuba and the Soviet Union were 68% higher than between Cuba and the market-economy countries.

As far as the regulations governing the international market are concerned, on 1 January 1978 the International Sugar Agreement came into effect for five years. This instrument replaces the agreement which was in force between 1968 and 1973 and is designed to stabilize sugar prices at between 11 and 21 US cents per pound, as well as regulate the flow of exports to the free market 25/ through the use of export quotas and buffer stocks. The basic export quota for Cuba was fixed at 2.5 million tons. However, the drop in the world price of sugar in 1978 obliged the Council to reduce these quotas to 2 million tons in 1979 in the case of Cuba, thus causing a rise in stocks.26/

The Cuban State has continued striving to diversify the country's foreign trade. Exports of citrus fruits 27/ have risen steadily; however, they account for an extremely small proportion of the total value of Cuban exports (less than 1% in 1977). In the case of nickel - which accounted for a share of the value of exports ranging from 5% to 6% in the three-year period 1976-1977 - the outlook is promising. If the industry develops as planned, in 1985 it may provide nearly half of convertible foreign exchange, together with greater stability since it is less vulnerable to drops in demand.

25/ The free market is considered to be all net world imports excluding those subject to special agreements, such as sales to the European Economic Community from the CAP countries, the signatories of the Lomé Agreement and Cuban sales to the CMEA countries and to China, Yugoslavia and North Korea.

26/ The agreement is of limited validity since the United States and the European Community, the main sugar importers, have not yet ratified it.

27/ Exports of citrus fruits stood at 27,000 tons in 1970, had doubled by 1975 and in 1978 amounted to 144,000 tons.

CHILE

1. Recent economic trends: Introduction and summary

The principal developments in the Chilean economy in 1978 were generally very similar to those of the previous year. Thus, total output continued to increase rapidly in 1978, while the rate of inflation was again reduced by half and there was continued rapid growth in non-traditional exports and a further recovery in real wages. These changes were, however, accompanied by the persistence of an extraordinarily high unemployment rate and a very low investment coefficient, because of the accentuation of the imbalance on the current account of the balance of payments and a considerable increase in foreign borrowing (see table 1).

The gross domestic product, after rising by 8.6% in 1977 to recover the level it had reached in 1974 before the exceptional fall of over 11% in 1975, grew by 7.3% in 1978. However, because of the increase in population, the per capita product in 1978 was only 3% higher than in 1970, roughly the same as in 1974, and slightly lower than the figure reached in the period 1971-1972.

Since, moreover, there was a further deterioration in the terms of trade in 1978, income once again increased more slowly than the product. As a result, because of the unfavourable movement of external prices so far during the decade - especially in 1975 - real per capita income in 1978 was 10% below the figure reached in 1974 and the first three years of the decade.

As in 1976 and 1977, the increase in the product in 1978, and particularly the rises in output in manufacturing and construction, were largely due to more effective use of the existing installed capacity. Nevertheless, gross fixed capital investment also rose sharply (24%) in 1978. However, because of the extremely low level to which it had fallen in 1975 and 1976, its real level in 1978 was only marginally higher than in 1974, and its share in the product was only slightly over 11%.

/Table 1

Table 1

CHILE: MAIN ECONOMIC INDICATORS

	1972	1973	1974	1975	1976	1977	1978[a]
A. Basic economic indicators							
Gross domestic product at factor cost (millions of US dollars at 1970 prices)	8 566	8 256	8 724	7 739	8 056	8 749	9 387
Population (millions)	9.7	9.9	10.0	10.2	10.4	10.6	10.7
Per capita gross domestic product (US dollars at 1970 prices)	883	837	870	759	780	829	875
	Growth rates						
B. Short-run economic indicators							
Gross domestic product	-0.1	-3.6	5.7	-11.3	4.1	8.6	7.3
Per capita gross domestic product	-1.8	-5.2	3.9	-12.8	2.8	6.8	5.5
Gross income [b]	-0.4	-3.4	7.7	-18.2	4.8	7.0	5.6
Terms of trade	-7.9	15.7	5.6	-39.5	7.4	-10.3	-5.1
Current value of exports of goods and services	-11.9	46.5	66.3	-26.7	33.8	11.6	13.2
Current value of imports of goods and services	14.5	23.5	42.6	-11.5	-9.5	47.9	23.0
Consumer price index							
December to December	163.4	508.1	375.9	340.7	174.3	63.5	30.3
Variation between annual averages	77.8	352.8	504.7	374.7	211.9	92.0	40.1
Money	172.8	413.3	247.0	277.0	224.5	151.6	45.7
Wages and salaries in real terms	-9.3	-34.0	-5.3	-2.8	6.9	25.8	14.1
Rate of unemployment [c]	3.8	4.6	9.7	16.2	16.8	13.2	14.0
Current income of government	64.8	378.5	812.5	344.0	242.9	119.2	69.4
Total expenditure of government	77.0	447.5	749.5	233.5	236.6	114.8	63.5
Fiscal deficit/total expenditure of government [d]	41.9	55.1	32.6	11.6	10.0	8.1	4.2
	Millions of US dollars						
C. External sector							
Trade balance (goods and services)	-331	-184	78	-294	491	-123	-408
Balance on current account	-473	-289	-186	-576	172	-468	-843
Variation in net international reserves	-229	37	-166	-211	455	-7	617
General external debt	3 602	4 048	4 774	5 263	5 195	5 444	6 911

[a] Preliminary figures.
[b] Gross domestic product plus terms-of-trade effect.
[c] Average percentage in Greater Santiago.
[d] Percentage.

/Despite the

Despite the general growth in output - especially in areas most closely linked to urban activities, such as industry, construction, commerce and the financial system - unemployment rates in the towns remained exceptionally high. According to surveys carried out by the National Institute of Statistics (INE) in Greater Santiago, the average rate of open unemployment was 13.8% (the same as the average recorded in the previous year), while according to data from the Department of Economics of the University of Chile, the proportion of the labour force lacking employment in the capital rose from 13.2% in 1977 to 14% in 1978. In addition, surveys carried out for the first time by the Department in many other towns revealed that in most of them the unemployment rate was even higher than in Greater Santiago. However, underemployment probably fell again during 1978, since the number of persons registered in the Minimum Employment Plan fell by almost 24% in the country as a whole, while there were further sharp increases both in the productivity of workers in manufacturing and in the general index of real wages and salaries.

The inflation rate dropped in 1978 for the fifth year in succession. Between December 1977 and December 1978 consumer prices rose by 30.3%, less than half the increase recorded in the previous year and less than a tenth of the figure for 1975, when the Government began to apply an economic policy designed to reduce the inflation rate drastically.

This new reduction in inflation was accompanied in 1978, as in the two preceding years, by a substantial increase in average earnings. The wage and salary index calculated by INE rose by 14% in real terms, after an increase of about 26% in 1977 and nearly 7% in 1976. Because of the enormous drop in real wages during the period 1973-1975, however, these increases only permitted real wages and salaries to recover in 1978 the level they had reached as far back as 1970.

The changes in the external sector were also similar in 1978 to those of the previous year. Imports of goods and services continued to grow rapidly (23%) as a result of the higher general level of domestic economic activity, the substantially smaller harvests for most of the traditional crops gathered at the beginning of the year, the lowering of tariffs and the elimination of the direct bans on the import of certain articles, such as colour television receivers.

/Although the

Although the rate of increase in the value of imports was much lower in 1978 than in the previous year, when the figure was 48%, it was once again much higher than the rate of growth in the value of exports of goods and services (13%). As in the two preceding years, export growth was principally due to the expansion of non-traditional exports, which continued to move ahead strongly for the fifth successive year.

In these circumstances, the trade balance once again worsened sharply. Following a surplus of US$ 490 million in 1976 and a deficit of more than US$ 120 million the following year, trade in goods and services recorded a negative balance of almost US$ 410 million in 1979. As a result of this increase in the trade deficit and a new rise in payments on foreign capital, the current account deficit, already substantial in 1977, increased by 80% to the record level of about US$ 845 million.

However, this large deficit was more than offset by the inflow of capital, which was also at a record level. The gross capital inflow rose to about US$ 2,370 million, almost double the 1977 figure, so that it was possible not only to cover the current account deficit but also to make amortization payments totalling US$ 930 million and increase net international reserves by more than US$ 615 million (see table 1).

These changes were in large part the result, firstly of the continuation of the short-term economic policies which began to be applied in 1975, and which became less restrictive in 1977, and, secondly, of the continued application of the long-term development strategy designed to open up the economy to external commercial and financial links, to liberalize the operation of the markets and the price system, and to reduce the size of the public sector and the extent of direct government intervention in the economy.

Thus, 1978 saw the continuation of the wage policy applied in the previous year whereby wages and salaries were automatically readjusted in March, July and December, both in the public and in the private sector, in line with the rise in the consumer price index in the immediately preceding period. However, in contrast to 1977, no special improvements in wages in the public sector were granted in 1978, except in the case of teachers and personnel in the bottom grades of the unified wage scale for the civil service.

/In addition,

In addition, in the first six months there was a continuation of the policy of gradual reductions in mandatory reserves for sight deposits, designed to permit a gradual expansion of bank credit compatible with the moderation of the inflationary process. As a result of this policy and the increase in currency issues by the Central Bank, caused principally by the rapid accumulation of foreign exchange, the money supply was 46% greater at the end of 1978 than a year previously. This increase - though much smaller than that recorded in 1977 - meant that, as in that year, both the real supply of money and the liquidity ratio increased in 1978.

In the fiscal sector, measures continued to be applied to simplify the taxation system and reduce tax evasion. As a result of these measures and the expansion of economic activity, tax revenue in local currency increased by almost 17% in real terms. As a consequence of this increase, the fiscal deficit was reduced for the fifth year running, and sank to only slightly over 4% of total expenditure, even though total expenditure was 14% higher in real terms than in 1977 and foreign currency income from copper fell over the same period by 10%.

In 1978 Chile continued to apply the policy of progressively reducing tariffs so as to arrive at a single uniform tariff of 10% in June 1979. In accordance with this policy - from which only the tariffs applied to imports of motorcars and trucks were excluded - the average tariff had fallen to about 12% by the end of 1978. Moreover, the restrictions on imports of colour television receivers were eliminated in April - with the result that such imports totalled about US$ 40 million in the rest of the year - while in May air freight operations were freed from restrictions, thus putting an end to the preferences for or obligatory use of Chilean airlines and the quotas applied to foreign companies.

These measures to strengthen the process of opening up to international trade which had begun in 1974 were complemented in 1978 by others designed to facilitate the opening up of the economy to financial relations with other countries. For that purpose various provisions which limited the ability of commercial banks and finance companies to borrow abroad were changed by the Central Bank during the year.

/The most

The most important juridical and institutional changes were those introduced in the agricultural sector in order to free the market for land. Thus, Decree Law No. 2247 of 19 June radically altered some of the provisions of the Agrarian Reform Act in force since 1967. The new law eliminated all the grounds for expropriation contained in the Act, including that based on ownership of a farm classed as equivalent to more than 80 hectares of irrigated land. The new law also cancelled the provision prohibiting the establishment of private companies to operate agricultural estates, and laid down new norms for the sale of unirrigated land or land with serious shortcomings expropriated under the process of agrarian reform which was still in the power of the Agrarian Reform Corporation (CORA) and which the Corporation had decided not to allocate as family units.

Decree Law 2405 of 12 December, for its part, cancelled all the mortgages in favour of CORA on land sold or allocated to smallholders and settlers, and eliminated the provisions which made it impossible to entail or attach such land. In addition, since the Government regarded the process of agrarian reform as completed, the decree provided for the dissolution of CORA and its replacement from 1 January 1979, for one year only, by the Office of Agrarian Normalization. This agency is to be responsible for transferring, within that period somewhat more than 2,700,000 hectares which remained in the hands of CORA at the end of 1978 and represented a little more than 27% of the nearly 10,000,000 hectares expropriated during the agrarian reform process. Of that total, by 31 October 1978 almost 3,140,000 hectares (31.5%) had been transferred to peasants under co-operative or individual ownership;1/ 2,930,000 hectares (29.4%) had been returned to their previous owners because of illegalities in expropriation or out of the reserve established for their

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1/ Of this area, nearly 1,110,000 hectares were allocated to 197 co-operative units during the period 1968-1973, while the remaining 2,030,000 hectares were assigned on an individual basis in the five-year period 1974-1978, forming 37,420 family agricultural units. However, by the end of 1978 109 of the 197 co-operatives had asked to be divided up, creating a further 3,120 family units, so that the total number of beneficiaries with individual allocations of land rose to about 40,000.

/benefit in

benefit in the Agrarian Reform Act; and 1,180,000 hectares of land in CORA's possession which, because of its nature, was not regarded as capable of being allocated directly to peasants had been sold at auction or by private treaty.

2. Trends in economic activity

(a) Global supply and demand

In 1978 global supply sharply increased for the second year running, as a result of the increase of over 7% in the domestic product and the growth of 13% in real imports of goods and services. Since these imports rose by more than 35% during 1977, the 1978 volume was more than 50% higher than two years previously. Nevertheless, because of the sharp drop in the volume of imports in 1975-1976, the 1978 level was only slightly higher than that of 1974, and the import coefficient in 1978 was barely above that of 1970 (see table 2).

On the demand side, the principal factors which caused a rise in the figures were exports and fixed capital investment, whose 1979 growth rates exceeded those of the previous year. On the other hand, consumption increased rather more slowly than in 1977.

The volume of exports rose very rapidly for the third year in succession, and as a result exports in 1978 represented almost a quarter of the total product, a much higher proportion than that which prevailed at the beginning of the decade and 66% higher than the 1978 import coefficient (see table 2).

It is estimated that real expenditure on fixed capital investment increased by close to 24%, so that the recovery of the investment coefficient which began in 1977 continued. Nevertheless, because of the huge drop in investment in 1975 and the further fall in 1976, the proportion of the product allocated for capital formation barely exceeded 11% in 1978, while in absolute terms fixed investment in 1978 was 3% below the annual average for the three years 1969-1971.

/Table 2

Table 2

CHILE: TOTAL SUPPLY AND DEMAND

	Thousands of pesos at 1970 prices			Percentage breakdown		Growth rates		
	1976	1977	1978a/	1970	1978a/	1976	1977	1978a/
Total supply	109 110	121 441	131 184	114.3	114.7	2.5	11.3	8.0
Gross domestic product at market prices	98 121	106 561	114 340	100.0	100.0	4.1	8.6	7.3
Imports of goods and services b/	10 989	14 880	16 844	14.3	14.7	-9.9	35.4	13.2
Total demand	109 110	121 441	131 184	114.3	114.7	2.5	11.3	8.0
Domestic demand	86 652	96 554	103 176	99.3	90.2	-1.5	11.4	6.9
Gross domestic investment	6 660	...	...	15.6	...	-8.2	...	...
Gross fixed investment	8 771	10 368	12 815	13.7	11.2	-4.6	18.2	23.6
Construction	3 901	4 030	...	7.7	...	-21.2	3.3	...
Machinery	4 870	6 338	...	6.0	...	14.7	30.1	...
Changes in stocks	-2 111	c/	c/	1.8	c/			
Total consumption	79 992	86 186	90 361	83.8	79.0	-0.9	10.7	4.8
General government	15 830	15 632	16 038	13.0	14.0	6.0	-1.3	2.6
Private	64 162	70 554	74 323	70.8	65.0	-2.4	13.7	5.3
Exports of goods and services b/	22 458	24 887	28 008	15.0	24.4	21.3	10.8	12.5

Source: CEPAL calculations, on the basis of data supplied by ODEPLAN.

a/ Preliminary figures.

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

c/ Changes in stocks are included in private consumption.

/This drop

This drop was accompanied, however, by an important change in the structure of investment. As can be seen from table 3, the fall in investment in 1975 and 1976 was concentrated in construction, and above all in building, and affected investment in machinery to a much lesser extent. Because of this, and because of the substantial rises in imports of capital goods in 1977 and 1978, investment in machinery and equipment in those years made up about 60% of total fixed capital formation, while investment in construction absorbed the remaining 40%, so that the relative shares of the two components were almost exactly the reverse of what they had been during the period 1965-1973.2/

(b) Evolution of the main sectors

In contrast to what happened in the two previous years, the rate of growth in the services sectors was greater than that of activities producing goods in 1978. The combined product of the latter - which had risen by 9% in 1977 - increased by less than 4% in 1978, decisive influences in this reduction being the absolute falls in the agricultural sector and mining and the less vigorous expansion in manufacturing in 1978 (see table 4).

Because of the drop in the growth rate in the production of goods, there was also a fall in the rate of increase in transport, storage and communications services and in commercial and financial activities. Even so, as in 1977 it was the latter activities which expanded most strongly, with the remaining services increasing their combined product by only about 6%.

(i) The agricultural sector. In 1978 there was a radical change in the growth rate of the agricultural sector, for after growing by 15% in 1977, the agricultural product fell by 3.6%.3/

2/ Although an itemized breakdown of gross fixed capital investment in 1978 is not yet available, it is likely that the share attained by investment in machinery and equipment in 1977 was at least maintained in 1978. Imports of machinery and equipment - which make up the main element of this type of investment - increased in value by 28%, while the real product in construction rose by 6%.

3/ The difference between this rate and the rate which appears in table 4 is due to the fact that 'agriculture' in this table includes fishing, where value added rose by 42% in 1978.

/Table 3

Table 3

CHILE: GROSS DOMESTIC FIXED CAPITAL INVESTMENT

	1969	1970	1971	1972	1973	1974	1975	1976	1977
				Indexes (1970 = 100)					
Gross domestic fixed capital investment	97.2	100.0	101.1	85.6	83.2	94.8	69.1	65.9	77.9
Construction and other works	95.9	100.0	109.0	96.6	81.0	99.9	65.3	51.4	53.1
Building	103.1	100.0	116.4	101.2	77.1	88.4	53.0	44.2	48.8
Housing	102.2	100.0	115.7	96.9	80.5	91.3	54.2	42.5	47.1
Non-residential building	104.7	100.0	117.5	109.4	70.8	83.0	50.9	47.4	52.0
Other construction and works	88.6	100.0	101.6	92.0	84.9	111.6	77.7	58.8	57.5
Machinery and equipment	99.0	100.0	90.7	71.1	86.1	88.0	74.2	85.0	110.6
Imported	99.7	100.0	86.7	61.6	81.8	84.7	76.5	91.4	120.2
Domestic	96.7	100.0	106.3	108.0	102.7	101.0	65.1	60.5	73.4
				Composition					
Gross domestic fixed capital investment	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Construction and other works	56.1	56.9	61.3	64.2	55.4	60.0	53.7	44.4	38.8
Building	30.4	28.7	33.0	33.9	26.6	26.8	22.0	19.2	18.0
Housing	19.6	18.6	21.3	21.1	18.0	18.0	14.6	12.0	11.3
Non-residential building	10.7	10.0	11.7	12.8	8.5	8.8	7.4	7.2	6.7
Other construction and works	25.7	28.2	28.3	30.3	28.8	33.2	31.7	25.2	20.8
Machinery and equipment	43.9	43.1	38.7	35.8	44.6	40.0	46.3	55.6	61.2
Imported	35.1	34.3	29.4	24.7	33.7	30.6	38.0	47.5	52.9
Domestic	8.8	8.8	9.3	11.1	10.9	9.4	8.3	8.1	8.3

Source: CEPAL, on the basis of data supplied by ODEPLAN.

/Table 4

Table 4

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

	Thousands of pesos at 1970 prices			Percentage breakdown		Growth rates		
	1976	1977	1978 a/	1970	1978 a/	1976	1977	1978 a/
Agriculture	7 451	8 506	8 421	7.9	8.4	2.6	14.1	-1.0
Mining	12 941	13 205	13 099	11.7	13.1	14.5	2.0	-0.8
Manufacturing	19 795	22 212	23 945	27.2	24.0	6.8	12.2	7.8
Construction	2 162	2 239	2 373	4.2	2.4	-18.8	3.5	6.0
Subtotal goods	42 349	46 162	47 838	51.0	47.9	6.5	9.0	3.6
Electricity, gas and water	1 958	2 052	2 164	1.4	2.2	3.6	4.8	5.5
Transport, storage and communications	4 850	5 273	5 536	5.7	5.5	5.1	8.7	5.0
Subtotal basic services	6 808	7 325	7 700	7.1	7.7	4.7	7.6	5.1
Commerce, financial institutions and insurance	15 004	17 247	19 247	17.2	19.3	2.2	14.9	11.6
Real estate b/	5 809	5 901	25 057	6.0	25.1	1.9	1.6	5.8
Community, social and personal services c/	17 653	17 780		18.7		3.2	0.7	
Subtotal other services	38 466	40 828	44 304	41.9	44.4	2.6	6.4	8.3
Gross domestic product d/	87 567	95 098	102 039	100.0	100.0	4.1	8.6	7.3

Source: 1970-1978: CEPAL calculations on the basis of figures supplied by ODEPLAN.

a/ Preliminary figures.

b/ Related to ownership of dwellings only.

c/ Also including restaurants, hotels and business services.

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

/The main

The main cause of this drop was the performance of the 14 traditional crops, which generate about a fifth of the agricultural product. Combined output of these crops fell by more than 25% in 1978, after an increase of nearly 30% in the previous year (see table 5).

The causes of the decline included a fall of 7% in the area devoted to these crops and, above all, a sharp drop in yields, which affected output of all of them except peas, potatoes and sugar beet.

The decline in the area sown was especially appreciable in the cases of sugar beet (-62%) - production of which was discouraged by the fall in the international price of sugar and the termination of the system of subsidies for the processing plants - rape (-36%) and maize (-19%). On the other hand, as in preceding years, there was an increase in the area devoted to pulses, a substantial proportion of the output of which has in recent years been directed to foreign markets.

Factors in the fall in yields - which was particularly sharp in cereals - were the changes in weather conditions,4/ and a decline in use of improved inputs. The downward trend in sales of fertilizers, pesticides and improved seeds continued in 1977, to the point that sales of phosphatic fertilizers in 1977 amounted to only 45% of those of 1973, while sales of nitrogeneous fertilizers and pesticides were 40% and 30% lower than in 1973.5/

The adverse performace of traditional crops contrasted with progress in fruit growing, a subsector which, together with vineyards, generates approximately 25% of the agricultural product, and whose expansion has been

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4/ The 1976-1977 crop year was unusually favourable, particularly for cereals, and this was reflected in the fact that yields per hectare rose sharply in the case of all traditional crops except rape, the increase being 56% for wheat, 47% for barley and rye and 36% for oats.

5/ The prices of all these inputs rose substantially during the period 1973-1975, but fell in real terms in the subsequent years. Nevertheless, consumption continued to fall, partly as a result of the high cost of credit for agricultural operations. In this regard see the article "¿Qué pasa en la agricultura?" in the publication of the Department of Economics of the Catholic University of Chile Panorama Económico de la Agricultura, No. 1, November 1978.

/Table 5

Table 5

CHILE: INDICATORS OF AGRICULTURAL PRODUCTION

	Production						Growth rates			
	1970	1973	1975	1976	1977	1978 a/	1975	1976	1977	1978 a/
Production of the 14 main crops (thousands of metric quintals)										
Wheat	13 069	7 467	10 024	8 605	12 193	8 926	6.8	-13.6	40.7	-26.8
Oats	1 105	1 091	1 311	959	1 237	926	-12.5	-26.8	28.9	-25.1
Barley	974	1 074	1 206	890	1 431	1 255	-19.4	-26.2	60.8	-12.3
Rye	107	85	111	93	164	108	-24.0	-16.6	77.3	-34.1
Rice	762	550	763	976	1 200	1 048	121.8	12.2	23.0	-12.7
Maize	2 391	2 940	3 290	2 480	3 553	2 569	-10.2	-24.6	43.3	-27.7
Potatoes	6 838	6 236	7 379	5 390	9 284	9 807	-27.1	-27.0	72.2	5.6
Beans	656	650	741	703	1 124	1 121	-0.9	-5.1	59.8	-0.3
Lentils	132	98	121	135	238	189	-5.5	11.9	75.6	-20.6
Peas	74	83	63	71	137	157	-49.6	13.0	92.6	14.6
Chickpeas	54	41	49	27	50	55	-2.0	-44.1	82.1	10.0
Sugar beet	16 551	9 659	16 167	22 762	22 084	8 404	57.7	40.8	-3.0	-61.9
Rape	609	400	614	1 048	827	520	76.4	70.8	-21.1	-37.1
Sunflower	282	135	178	270	153	300	71.2	51.5	-43.2	96.1
Value in millions of 1974 pesos	148.6	102.9	135.5	136.8	171.4	127.8	7.9	1.0	29.5	-25.4
Production of the main livestock items (thousands of tons)										
Beef	176.1	89.2	215.5	198.2	173.3	162.4	23.0	-8.0	-12.5	-6.2
Poultry meat	61.6	50.8	43.8	38.0	44.2	58.6	-21.5	-13.2	16.3	32.5
Pork	44.4	49.2	30.0	24.9	28.9	33.8	-39.9	-17.0	16.1	17.1
Mutton	22.4	12.3	18.1	16.2	16.3	15.4	11.7	-10.5	0.6	-6.0
Milk b/	895.1	855.0	956.1	977.7	1 003.0	1 003.0	5.6	2.3	2.6	-
Eggs c/	1 205.8	1 394.2	1 196.8	1 049.3	1 137.9	1 165.8	-14.3	-12.3	8.4	2.5
Greasy wool	20.2	17.7	18.8	18.7	19.0	19.3	2.7	-0.5	1.6	1.6

Sources: 14 main crops and beef, pork and mutton: National Institute of Statistics; other livestock items: Agricultural Planning Office (ODEPA).

a/ Preliminary figures.
b/ Millions of litres.
c/ Millions of units.

/stimulated by

stimulated by the increase in exports. As may be seen from table 6, both the output of fruit and the area devoted to fruit trees continued to increase during 1978. The increases were particularly significant in the case of table grapes (output of which grew by 20% for the second year running, while the area devoted to this crop doubled between 1975 and 1978), apples and plums. On the other hand, there was a sharp fall in 1978 in the output of peaches because extensive peach plantations were uprooted to be replaced by vines.

In the livestock subsector, total output of meat rose by slightly more than 3%, thus reversing the downward trend of the two preceding years. A decisive influence in this was the sharp increase in the output of poultry meat (33%) and pork (17%), which more than offset the falls of 6% in output of beef and mutton.

The slow growth in output of wool and the recovery in output of eggs continued in 1978. However, output of milk - which was affected by a serious drought in the southern part of the country - suffered complete stagnation, thus interrupting its slow but steady increase of the four previous years. As may be seen from table 5, milk was the only product among the main livestock items where the volume produced in 1978 was greater than that achieved in 1970, although for all the items except eggs and pork output in 1978 was higher than that of 1973.

Finally, timber tree planting once again declined in 1978 because of the progressive withdrawal of the National Forestry Corporation from direct planting operations. On the other hand, the area planted by private enterprises, stimulated by the maintenance of the subsidies and tax incentives introduced in 1974, increased by 11%, so that although the total area planted in 1978 was smaller than the area afforested in each of the three preceding years it was still double the area planted on average in the period 1970-1973 (see table 7).

(ii) Mining. After increasing by only 2% in 1977, the mining product dropped slightly in 1978. Among the reasons were the fall of slightly over 1% in the output of copper and the declines of between 5% and 14% in the output of nitrates, petroleum and coal, the negative effects of which were not offset by the increases of over 20% in the output of iron ore and molybdenum (see tables 4 and 8).

/Table 6

Table 6

CHILE: PRODUCTION OF FRUIT AND AREA PLANTED WITH FRUIT TREES[a/]

	1973	1974	1975	1976	1977	1978
			Production			
			(thousands of tons)			
Plums	12.0	9.9	10.2	10.5	10.8	15.5
Apricots	10.4	12.0	12.5	13.0	13.6	14.9
Peaches	110.7	139.5	143.9	149.0	182.0	85.0
Lemons	59.4	63.0	64.1	66.2	68.7	75.6
Apples	118.5	120.3	125.3	130.0	140.0	164.5
Oranges	45.5	46.1	46.9	48.0	48.8	50.8
Avocados	13.4	14.2	14.6	15.0	17.3	19.9
Pears	31.0	32.5	33.8	35.5	37.5	39.4
Table grapes	54.5	56.7	60.7	66.7	80.2	96.3
			Area planted			
			(hectares)			
Plums	1 650	1 686	1 730	1 809	1 860	2 177
Apricots	1 300	1 363	1 379	1 399	1 439	1 713
Peaches	10 100	10 762	10 869	11 069	11 069	9 297
Lemons	6 600	7 362	7 425	7 475	7 525	7 857
Apples	10 850	11 295	12 068	12 568	13 068	15 045
Oranges	4 450	4 490	4 490	4 500	4 560	5 046
Avocados	4 300	4 390	4 437	4 602	4 937	5 759
Pears	2 600	2 598	2 630	2 680	2 730	2 877
Table grapes	4 150	4 081	5 180	6 200	7 280	10 231
Total	46 010	48 027	50 208	52 302	54 468	60 002

Source: Office of Agricultural Planning (ODEPA), Ministry of Agriculture.

a/ Total area planted with certain selected species.

/Table 7

Table 7

CHILE: REAFFORESTED AREA

(Thousands of hectares)

	1970	1971	1972	1973	1974	1975	1976	1977	1978
National Forestry Corporation (CONAF)	6.9	16.6	24.8	27.4	35.2	44.1	54.1	44.6	25.0
Private enterprises	16.5	11.4	6.3	2.9	21.1	38.5	53.6	48.6	54.0
Total	23.4	28.0	31.0	30.3	56.2	82.6	107.7	93.2	79.0

Source: National Forestry Corporation (CONAF).

Table 8

CHILE: INDICATORS OF MINING PRODUCTION

	Production					Growth rates		
	1974	1975	1976	1977	1978[a/]	1976	1977	1978[a/]
Copper b/	902	828	1 005	1 056	1 041	21.4	5.1	-1.4
Large-scale mining	763	683	847	893	882	24.0	5.4	-1.2
Medium- and small-scale mining	139	146	158	164	159	8.2	3.8	-3.0
Iron ore b/	10 296	11 007	10 055	7 890	9 666	-8.6	-21.5	22.5
Coal c/	1 437	1 460	1 245	1 300	1 115	-14.7	4.4	-14.2
Nitrates d/	739	726	619	562	535	-14.8	-8.7	-4.8
Iodine e/	2 273	1 962	1 259	1 856	1 922	-35.8	47.1	3.6
Petroleum f/	1 599	1 423	1 331	1 132	999	-6.5	-15.0	-11.8
Molybdenum e/	9 757	9 091	10 899	10 938	13 197	19.9	0.4	20.8

Source: Copper: Corporación del Cobre (CODELCO); Servicio de Minas del Estado.
Iron: Compañía de Acero del Pacífico (CAP); Servicio Minas del Estado and National Institute of Statistics.
Coal: Empresa Nacional del Carbón (ENACAR).
Nitrates and iodine: Sociedad Química de Chile (SOQUIMICH).
Petroleum: Empresa Nacional del Petróleo (ENAP).

a/ Preliminary figures.
b/ Thousands of tons.
c/ Thousands of net tons.
d/ Thousands of gross tons.
e/ Tons.
f/ Thousands of m^3.

/The slight

The slight fall in output from large-scale copper mining occurred despite the fact that the Chuquicamata deposit achieved a record output of slightly over half a million tons. The combined output of the three remaining mines, on the other hand, fell by about 8%. Nevertheless, the impact of this fall on the value added was partially offset by changes in the composition of output, for while production of ore and concentrates fell by 27% and output of blister copper by 18%, production of refined copper rose by 10%.

The drop of 3% in output from small-scale and medium-scale copper mining was due in part to the paralyzation of the La Disputada mine during the second half of the year after its facilities were destroyed by an avalanche in July, and, more generally, to a further fall in the price of copper on international markets, which in real terms fell to its lowest level in the past 20 years.

In 1978 output of petroleum fell once again, as a result of the progressive depletion of the Tierra del Fuego deposits. Because of this, and a rise of somewhat more than 4% in petroleum refining, the proportion of Chilean crude in supplies to refineries fell to about 17%. Work to bring on stream the deposits in the Straits of Magellan continued during the year, however, and these new wells will make it possible to increase both the total output of petroleum and the proportion of Chilean crude in supplies to refineries as from 1979.

The decline of the nitrate industry also continued during 1978. Output fell for the fourth year running, as a result of a drop in the volume exported, and despite a slight increase in domestic sales. On the other hand, output of iodine rose by about 4%, and the stimulus provided by a tripling of exports led to a 44% increase in output of sodium sulphate.

There was also a fall of more than 14% in output of coal in 1978, while the financial problems of ENACAR, the State enterprise which exploits the principal deposits, continued.6/

6/ In October the Government was obliged to assume responsibility for debentures worth about US$ 50 million sold by ENACAR to pension funds and the public.

/On the

On the other hand, there was a partial recovery in 1978 in iron ore mining, where output had fallen sharply in the two preceding years. The effect of this rise on value added was reinforced, as in large-scale copper mining, by a change in the composition of the output from the deposits belonging to the Compañía de Aceros del Pacífico (CAP). This change was due to the start of production and export of pellets from the plant established by the company in the Huasco valley. Because of the higher degree of processing of this product, and the higher price consequently obtained on international markets, the value of exports of iron ore fell only slightly, from US$ 82 million in 1977 to US$ 80 million in 1978, despite a fall of 20% in the volume exported. In contrast with this new decline in the volume of iron ore exports, dispatches of the mineral to the domestic market expanded by 37% because of the recovery of the steel industry.

Finally, there was an increase of more than 10% in the output of molybdenum in 1978. As a result of this increase, and the greater value added incorporated in exports of molybdenum oxide and ferromolybdenum, the combined value of these exports and those of molybdenum was raised from US$ 90 million in 1977 to nearly US$ 127 million in 1978.

(iii) Manufacturing. During 1978 there was a continuation of the recovery of the industrial sector which had begun in 1976 after the sharp contraction of the previous year. According to estimates made by the National Planning Office, the manufacturing product rose by almost 8% in 1978, while industrial output rose by 7% according to the index of the National Institute of Statistics (INE) and by 10% according to the index of the manufacturers' association, the Sociedad de Fomento Fabril (SFF). According to the latter source, real industrial sales were almost 12% higher in 1978 than in 1977 (see table 9).

Despite these rises, and even though industrial activity had also increased rapidly in the two preceding years, the manufacturing product was 6% lower in 1978 than in 1974 (the year preceding the contraction) and 13% lower than in 1972 (the year of peak industrial output).

/Table 9

Table 9

CHILE: INDICATORS OF MANUFACTURING

	Indexes (1969 = 100)						Growth rates					
	1973	1974	1975	1976	1977	1978	1973	1974	1975	1976	1977	1978
Industrial product	110.7	109.7	79.7	85.0	95.4	102.8	-6.5	-0.9	-27.4	6.7	12.2	7.8
Industrial output												
INE	112.5	108.2	77.9	81.7	90.0	96.1	-4.3	-3.7	-28.1	4.9	9.9	6.8
SOFOFA	109.9	111.1	85.4	95.4	104.2	114.8	-6.5	1.1	-23.5	12.2	9.2	10.2
Regular consumer goods	110.0	104.3	84.6	96.2	101.6	109.2	-5.7	-5.2	-18.9	13.7	5.6	7.5
Consumer durables	111.2	123.9	88.1	75.9	82.5	92.4	-13.3	11.4	-28.9	-13.8	8.7	12.0
Transport material	71.6	72.8	53.6	49.6	61.5	86.0	-32.4	1.7	-26.4	-7.5	24.5	39.8
Intermediate products for industry	113.8	132.9	113.1	130.5	139.0	143.9	-1.5	16.8	-14.9	15.4	6.5	3.5
Intermediate goods for construction	117.8	113.4	65.1	77.5	93.4	110.4	-4.6	-3.7	-42.6	19.0	20.5	18.2
Miscellaneous manufactures	114.4	105.6	67.4	81.8	96.4	94.4	-5.1	-7.7	-36.2	21.4	17.8	-2.1
Industrial sales	105.9	107.9	85.9	91.9	101.0	112.8	-9.3	1.9	-20.4	7.0	9.9	11.7

Source: Industrial product: National Planning Office; industrial output: National Institute of Statistics and Sociedad de Fomento Fabril (SOFOFA); industrial sales: Sociedad de Fomento Fabril.

/As in

As in 1977, all sectors of industry increased their output, but the growth rates and degrees of recovery towards the levels reached before the drop in 1975 varied greatly.

Thus, for the second consecutive year the rates of increase were very high in the consumer durables industries (12%) and, especially, in the production of transport equipment (40%). However, because these activities, together with the production of intermediate goods for construction and the production of miscellaneous manufactures, were most affected by the contraction in domestic demand in 1975 and by the tariff reduction policy applied in the past four years, they were still a long way in 1978 from recovering the levels achieved at the beginning of the decade. The situation was rather similar in the case of the output of intermediate goods for construction, which, despite an increase of about 20% for the third year running, was still 10% below the 1972 figure and 3% lower than in 1974 (see table 9).

The rise in output was also substantial (7.5%), though a good deal less intense, in the industries producing non-durable consumer goods, which, as was to be expected, were less affected than the former by the enormous drops in the levels of income and investment in 1975. For these reasons, their combined output surpassed the 1974 level for the first time in 1978, even though it was 6% below the figure for 1972.

Labour productivity in the industrial sector continued to increase strongly in 1978 since, as in 1977, higher output was achieved with an almost constant level of employment (see table 10). Thus, average output per worker was 24% higher in 1978 than in 1974, the year of introduction of the policy of systematic tariff reductions and the elimination of all types of tariff restrictions. This policy, by radically reducing the protection offered to industry, obliged it to improve its technical efficiency substantially in order to be able to cope with competition from foreign manufactures. The corollary, however, was a fall in industrial employment. After a drop of more than 9% in 1975 and more than 7% the following year, employment in industry declined marginally in 1977 and 1978, even though industrial output in those two years increased at an average rate of about 10% (see table 10).

/Table 10

Table 10

CHILE: OUTPUT, EMPLOYMENT AND LABOUR PRODUCTIVITY IN INDUSTRY

	Indexes (1970 = 100)				Growth rates			
	1975	1976	1977	1978	1975	1976	1977	1978
Output	76.5	85.9	93.8	103.3	-23.5	12.3	9.2	10.1
Employment	90.6	83.9	83.4	83.3	-9.4	-7.4	-0.5	-0.1
Productivity	84.5	102.4	112.4	124.4	-15.5	21.2	9.8	10.3

Source: Sociedad de Fomento Fabril (SOFOFA).

/(iv) Construction.

(iv) Construction. In 1978 there was a slight acceleration in the slow recovery of the construction sector which began in 1977. After falling by more than 40% in 1975-1976, the construction product rose by 3.5% in 1977 and 6% in 1978. As in 1977, the growth rate in the construction product estimated by ODEPLAN was rather lower than that of most of the other indicators of activity in the sector, such as deliveries of cement for the domestic market (which increased by about 12%) and real sales of intermediate goods for construction (which rose by 21%) (see table 11).

As a result of the exceptionally sharp falls in 1975 and 1976, the level of activity in construction still remained very low in 1978, despite these rises, with a continued high level of idle capacity. Thus, in comparison with 1974 - the year when the construction industry reached its highest ever level - dispatches of round bars were 43% lower and sales of cement on the domestic market 22% lower. The inadequate recovery of the sector in the past two years can be seen even more clearly from the fact that, according to ODEPLAN, value added in construction was 62% greater in 1974 than in 1978, while according to the index of activity calculated by the Cámara Chilena de la Construcción, activity was 57% higher in 1974 than in 1978.

The traditional uneven evolution of the building subsector continued in 1978, while it was possible to see with greater clarity certain changes arising from the different approach to State participation in the economy that underlies the economic policies which began to be applied in 1974.

Thus after dropping by 10% in 1975, rising by more than 50% in the following year and falling again by 15% in 1977, the total area of buildings for which permits had been approved or on which work had been initiated increased by 10% in 1978.7/ However, this increase was due exclusively to the higher level of building undertaken by the private sector, which rose by 56%, reaching its highest ever level in 1978. The area of buildings on which work was initiated by the public sector, on the other hand, fell by 10% so that

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7/ Since the statistics on building refer to construction which has actually been initiated in the case of the public sector, and to building permits approved in the case of the private sector, these rates do not necessarily provide an exact indicator of changes in actual building during these years.

/Table 11

Table 11

CHILE: MAIN INDICATORS OF CONSTRUCTION

	Values					Growth rates		
	1974	1975	1976	1977	1978[a]	1976	1977	1978[a]
Construction product (thousands of pesos at 1970 prices)	3 855	2 664	2 215	2 293	2 373	-16.9	3.5	6.0
Index of construction activity (1968-1970 = 100)	139.9	99.1	68.2	80.0	89.0	-31.2	17.3	11.3
Building materials								
Deliveries of cement for the domestic market (thousands of bags)	33.5	23.1	21.4	23.6	26.3	-7.4	10.3	11.6
Deliveries of round bars for construction (thousands of tons)	100.2	53.9	46.4	55.2	57.2	-13.9	19.0	3.5
Index of real sales of intermediate goods for construction (1969 = 100)	112.3	67.8	77.5	91.1	110.4	13.0	17.5	21.2
Building								
Total area (thousands of m^2)	1 904	1 717	2 598	2 198	2 416	51.3	-15.4	9.9
Public sector	285	363	1 355	953	478	273.3	-29.7	-49.8
Private sector b/d/	1 619	1 354	1 243	1 245	1 938	-8.2	0.2	55.7
Residential	1 586	1 290	2 089	1 600	1 531	61.9	-23.4	-4.3
Non-residential	318	428	509	98	885	18.9	17.5	48.0
Total number of dwellings	20 381	16 498	35 541	23 512	21 366	115.4	-33.8	-9.1
Public sector c/	3 297	3 758	24 022	14 057	3 966	539.2	-41.5	-71.8
Private sector b/d/	17 084	12 740	11 519	9 455	17 400e/	-9.6	-17.9	84.0

Source: Construction product: National Planning Office; index of construction activity: Cámara Chilena de la Construcción: building materials: Instituto Chileno del Cemento, Instituto Chileno del Acero, Sociedad de Fomento fabril; building: National Institute of Statistics.

a/ Preliminary figures.

b/ From January 1975 onwards the figures for the private sector refer to 80 comunas; up to 1974 they referred to only 60 comunas.

c/ Dwellings on which construction work had been started.

d/ Permits approved.

e/ Includes 3 524 units constructed by the private sector and acquired by the housing and Town Planning Service on Completion.

/it represented

it represented barely 35% of the corresponding figure for 1976. This reduction was entirely due to the drop of about 70% in 1978 both in the number and in the area of housing units on which work was initiated by the public sector, in accordance with the official policy of drastic reductions in direct construction of housing by public agencies and promotion of residential building, instead, through direct subsidies and support in the form of credit to house buyers.8/ On the other hand, the area of non-residential building initiated by the public sector in 1978 was 75% above that of 1977.

Because of this increase, and the very substantial growth in non-residential building by the private sector for the fourth year in succession, the total area of building for non-housing purposes grew by 48% in 1978 to an unprecedented level, and came to represent a much higher proportion of total building than in the past (see table 11).

(c) The employment situation

Despite the overall economic expansion, particularly in manufacturing, construction and commercial and financial activities, the employment situation in the main urban centres remained very unfavourable during 1978.

In Greater Santiago, the average rate of open unemployment, which had steadily declined during 1976 from almost 20% in March to below 14% in December, and which had stabilized around just over 13% in 1977, rose to 14% in 1978. These changes, measured using the data of the Department of Economics of the University of Chile, coincided with those reported by the INE surveys, according to which the unemployment rate in the capital, after

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8/ It should be pointed out that the INE statistics set out in table 11 to some extent overestimate the drop in activity in the public sector as regards construction of housing. INE classifies buildings constructed under contract on the 'turnkey system' as belonging to the private sector. These units are constructed by the private sector and acquired by the Housing and Town Planning Service on completion. In 1978 3,524 units were constructed under this system, covering a total of slightly over 171,000 square metres. However, even if these are added to the 3,966 units directly constructed by public agencies, the drop in the number of units on which work was initiated by the public sector in 1978 was almost 47% compared with the previous year.

/dropping from

dropping from an average of 17% in 1976 to 13.8% in 1977, fluctuated around this latter level in 1978 (see table 12).

Between 1977 and 1978 the average rate of unemployment among the established labour force (i.e., excluding those seeking work for the first time) also rose, from 9.9% to 10.4%. This increase occurred despite the fact that the percentage of jobless workers in manufacturing declined marginally, and that the proportion of workers laid off in construction fell from an annual average of 28.7% in 1977 to 23.5% in 1978. The rise in the overall unemployment rate among the established labour force therefore originated entirely in the increases in the sectoral figures for the service activities, which were especially marked in government and financial services and in personal and household services.

As was to be expected, these divergent changes in the sectoral unemployment rates were accompanied by similarly varied changes in the rates for the different occupational groups. Thus in 1978 the unemployment rate among manual workers, who are of greater relative importance in industry and construction, remained unchanged, while there was quite a marked increase in the unemployment rate among non-manual workers, who are predominantly employed in service activities.

Furthermore, according to the surveys carried out by the Department of Economics of the University of Chile in various provincial urban centres, the level of unemployment in 1978 was higher in most of them than in Greater Santiago.

Thus in the 12 towns surveyed between Curico and Mulchén, almost 22% of the labour force was unemployed in January 1978 - a much higher rate than that recorded around the same time in the capital, and also higher than the rate measured a year previously in the same towns (see table 12).

The average unemployment rate in September 1978 in 11 urban centres between Tomé and Lebu was also markedly higher than the rate in Greater Santiago in the same month, although in this case the difference was rather smaller than that recorded at the end of the previous decade.9/

9/ In September 1978, the average rate of unemployment in these urban centres was 37% higher than in Santiago (18.9% compared with 13.8%), while in October 1967 and October 1970 the weighted average rate of unemployment in Concepción-Talcahuano and Lota-Coronel was 12.2%, double the average rate of 6.1% recorded in September of the same years in Greater Santiago. The four towns mentioned - in which the Department of Economics regularly carried out two employment and unemployment surveys per year between October 1967 and April 1973 - cover somewhat more than 80% of the labour force of the towns between Tomé and Lebu.

/Table 12

Table 12

CHILE: UNEMPLOYMENT IN GREATER SANTIAGO

	1976				1977				1978			
	March	June	September	December	March	June	September	December	March	June	September	December
Total rate of unemployment (percentage)												
Department of Economics University of Chile	19.8	18.0	15.7	13.6	13.9	13.0	12.8	13.2	14.7	13.8	13.8	14.8
National Institute of Statistics	17.6	19.1	17.8	13.6	15.8	14.9	13.2	11.5	13.5	13.2	14.6	13.7
Sectoral rate of unemployment among the established labour force (i.e., excluding persons seeking work for the first time) (percentage)	14.8	13.4	12.2	10.0	9.5	10.2	10.0	9.9	11.2	9.4	10.7	10.5
Manufacturing	18.1	17.0	14.2	12.5	11.5	11.5	11.8	12.3	13.1	9.7	11.3	12.9
Construction	39.8	35.7	35.3	25.5	25.9	31.3	32.0	25.7	22.1	25.1	23.6	23.3
Commerce	12.5	10.3	8.4	7.5	8.9	8.1	6.4	6.2	9.8	9.2	8.3	7.9
Government and financial services	7.2	5.2	6.5	7.2	5.7	6.5	5.6	6.1	7.3	7.7	8.6	6.3
Personal and household services	14.6	16.3	13.2	10.7	8.9	9.3	8.3	7.3	12.3	7.6	12.1	11.0
Community and social services	9.3	5.1	5.2	4.5	6.2	5.5	7.1	8.3	8.3	6.3	7.3	6.2
Non-manual workers	10.4	9.1	7.5	6.2	7.4	6.0	6.0	7.5	9.2	7.8	7.8	7.1
Manual workers	23.0	23.3	19.2	17.1	15.3	17.1	17.2	15.7	16.8	14.6	16.7	17.8
Own-account workers	13.0	7.6	8.7	4.7	4.9	6.2	5.8	5.9	5.9	5.1	7.4	5.7

Source: Department of Economics of the University of Chile and National Institute of Statistics.

/Similarly, although

Similarly, although the unemployment rates were rather lower in September in the 13 towns between Angol and Castro than in those mentioned above, they were nevertheless higher than those in the capital in the same month.

Thus, it was only in the 22 towns between La Serena and San Fernando that the average rate of unemployment in September 1978 was lower than in Greater Santiago, and only in these towns did the proportion of the labour force which was unemployed fall in that year (see tables 11 and 12).10/

In contrast with the further increase recorded in 1978 over the very high rates of open unemployment of the previous year, underemployment probably fell once again in 1978 (see table 13). As already noted, there was a continued strong increase in labour productivity in industry during the year, and furthermore, according to the INE wages and salaries index, average real earnings rose by 14% in 1978. Finally, there was a 24% drop in the average number of workers registered under the Minimum Employment Plan (PEM) in 1978, partly as a result of the increase in better-paid jobs generated by the expansion of the economy, but especially because of a new drop of slightly over 16% in the real value of the wage paid to workers registered under the PEM, which fell to an average of barely US$ 26 a month.11/ Thus, by the end of 1978 the number of persons working in the PEM was only a little over half the figure recorded in the most active phase of the scheme at the end of 1976 (see table 14).

3. The external sector

(a) Principal trends

In 1978 there was a sharp accentuation of the imbalance on the principal external accounts, while the openness of the economy to trade and financial relations with foreign countries continued to increase.

10/ The labour force in these 22 towns was equivalent to 90% of the combined labour force of the other 36 provincial urban centres covered by the surveys carried out by the Department of Economics of the University of Chile.

11/ In addition to this wage, the workers under the PEM receive every month a "basket" of foodstuffs whose size depends on the number of people in the immediate family of each worker.

/Table 13

Table 13

CHILE: UNEMPLOYMENT RATES IN URBAN CENTRES IN REGIONS IV TO X

(Percentages)

Towns between	1977				1978		
	January	March	September	December	January	March	September
La Serena and San Fernando a/		16.6	15.3				13.3
Curicó and Mulchén b/	17.9				21.7		
Tomé and Lebu c/				17.8			18.9
Angol and Castro d/				14.5			15.2

Source: Department of Economics of the University of Chile.

a/ Including the towns of La Serena, Coquimbo, Ovalle, Illapel, Los Andes, San Felipe, La Calera, Quillota, Limache, Quilpué, Villa Alemana, Viña del Mar, Valparaíso, San Antonio, Melipilla, Peñaflor, Talagante, Puente Alto, Buin, Rancagua, Rengo and San Fernando. These had a combined labour force of 496 100 in September 1978.

b/ Including the towns of Curicó, Talca, Constitución, San Javier, Linares, Parral, Cauquenes, San Carlos, Chillán, Los Angeles, La Laja and Mulchén. These had a combined labour force of 182 900 in January 1978.

c/ Including the towns of Tomé, Talcahuano, Penco, Concepción, San Pedro, Chiguayante, Coronel, Schwager, Lota, Curanilahue y Lebu. These had a combined labour force of 197 700 in September 1978.

d/ Including the towns of Angol, Victoria, Traiguén, Lautaro, Temuco, Villarrica, Valdivia, La Unión, Osorno, Puerto Montt, Puerto Varas, Ancud y Castro. These had a combined labour force of 164 900 in September 1978.

/Table 14

Table 14

CHILE: MINIMUM EMPLOYMENT PLAN

	Thousands of persons		
	Metropolitan Region	Rest of country	Total
1975			
July	4.6	71.1	75.7
September	...	...	100.0
December	28.7	98.1	126.8
1976			
March	28.5	111.1	139.8
June	37.3	133.3	170.6
September	39.0	163.3	202.3
December	43.1	165.5	208.6
1977			
March	39.8	149.0	188.8
June	36.4	150.7	187.1
September	35.1	154.9	190.0
December	30.7	142.5	173.2
1978			
March	33.6	128.6	162.2
June	29.0	119.0	148.0
September	27.5	107.7	135.2
December	22.1	95.5	117.6

Source: National Institute of Statistics.

/Although the

Although the growth rate of imports of goods and services fell substantially, from 48% in 1977 to 23% in 1978, and although at the same time there was a marginal rise in the growth rate of exports, the absolute rise in the value of imports was once again much greater than that of exports, and as a result there was a negative trade balance of nearly US$ 410 million - over three times that recorded in 1977.

Since net payments of profits and interest on foreign capital also rose at the same time, there was an even greater increase in the deficit on the current account of the balance of payments, which rose to the record sum of more than US$ 840 million.

However, the gross inflow of capital also reached an exceptional level of almost US$ 2,370 million, which made it possible not only to cover the negative current account balance and effect capital repayments amounting to US$ 930 million, but also to increase net international reserves by more than US$ 615 million. As a result the net reserves were positive for the first time since 1971, while the gross reserves rose to US$ 1,520: sufficient to finance imports of goods and services for 5.4 months.

As regards the economic policies related to the external sector, the government continued to apply the programme of tariff reductions while at the same time introducing new changes in the exchange policy and measures designed to liberalize and encourage financial relations with foreign countries.

In accordance with the tariff policy announced at the end of 1977, customs tariffs were reduced each month towards the goal of a uniform external tariff of 10% by June 1979. As a result of this process the average tariff at the end of 1978 was about 12%. As in previous years, the sole products which were excluded from the tariff reduction process were motor cars and trucks - domestic production of which continued to be protected with tariffs of 115% and 80% respectively - and milk, for which the government maintained special protection through a specific duty on imports from the countries of the European Economic Community.

/In contrast,

In contrast, the exchange policy announced in December 1977, whereby as from February 1978 the readjustment in the exchange rate would correspond to the inflation recorded in the previous months plus a small additional percentage to offset the tariff reductions, was modified in the latter month. Under the new policy, designed to a substantial degree to influence inflationary expectations, a daily scale for the value of the dollar was established, under which the exchange rate would rise a gradually declining rate for the rest of the year,12/ producing a devaluation of slightly over 21% over the year.

As a result of this policy, and the sharp fall in the rate of inflation, the average real exchange rate in 1978 was somewhat higher than in 1977, although it followed a downward trend during the year. However, the real exchange rate adjusted using the United States wholesale price index remained relatively stable during 1978, and its annual average was not only about 10% higher than that of the previous year, but was also higher than that of 1976 (see table 15).

The stimulus given by this rise to exports and to local activities competing with imports was further increased by the much greater devaluation of the peso against the yen and the main European currencies. Thus the average nominal exchange rate against the Swiss franc almost doubled its 1977 value in 1978, while the peso value of the yen rose by 90%, that of the German mark by 70% and those of the pound sterling and the French franc by 61%.

(b) External trade

(i) Exports. After a partial recovery in 1976 from the sharp fall of the previous year, and a moderate rise in 1977, the value of exports of goods rose by about 11% in 1978. As in the two previous years, the principal cause of this increase was growth in volume exported, which rose by 8%, while the unit value of exports increased by only 2.5% (see table 16).

12/ The value of the dollar was to rise by 2.5% in February, March and April, 2% in May, 1.5% in June and July, 1% in August and September and 0.75% in each of the last three months of 1979.

/Table 15

Table 15

CHILE: EVOLUTION OF EXCHANGE RATE AND PRICES

Period	Exchange rate (pesos per US dollar)	Index of exchange rate	Index of wholesale prices of domestic products	Consumer price index	Index of real exchange rate		United States wholesale price index	Indexes of real exchange rate multiplied by United States wholesale price index	
					(2)/(3)	(2)/(4)		(5) (7)	(6) (7)
								100	100
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1975 (average)	4.91	357	348	295	103	121	102	105	123
First quarter	2.31	168	154	146	109	115	100	109	115
Second quarter	4.05	294	267	247	110	119	101	111	120
Third quarter	5.78	420	411	346	102	121	103	105	125
Fourth quarter	7.49	544	558	441	97	123	104	101	128
1976 (average)	13.05	948	1 133	920	84	103	107	90	110
First quarter	10.02	727	722	584	101	124	105	96	130
Second quarter	12.54	910	1 015	812	90	112	106	95	119
Third quarter	13.55	984	1 337	1 044	74	94	108	80	102
Fourth quarter	16.11	1 170	1 460	1 240	80	94	109	87	102
1977 (average)	21.53	1 564	2 073	1 766	75	89	114	86	101
First quarter	18.43	1 338	1 711	1 457	78	92	111	87	102
Second quarter	19.44	1 412	2 001	1 676	71	84	114	81	96
Third quarter	22.26	1 617	2 209	1 865	73	87	114	83	99
Fourth quarter	25.99	1 877	2 372	2 064	79	91	115	91	105
1978 (average)	31.66	2 297	3 007	2 473	76	93	122	93	113
First quarter	29.11	2 112	2 568	2 215	82	95	118	97	112
Second quarter	31.25	2 267	2 872	2 385	79	95	122	96	116
Third quarter	32.69	2 372	3 161	2 566	75	92	123	92	113
Fourth quarter	33.58	2 436	3 428	2 725	71	89	126	89	112

Source: Central Bank of Chile; National Institute of Statistics.

/Table 16

Table 16

CHILE: MAIN INDICATORS OF FOREIGN TRADE

	1972	1973	1974	1975	1976	1977	1978 a/
	Growth rates						
Exports of goods							
Value	-14.6	54.8	70.5	-30.0	32.7	4.8	10.7
Volume	-12.9	9.2	21.8	-3.7	21.1	5.3	8.0
Unit value	-2.0	41.8	40.0	-27.3	9.5	-0.5	2.5
Imports of goods							
Value	12.8	32.6	37.3	-7.6	-21.3	47.4	27.3
Volume	5.8	8.2	3.7	-23.1	-22.8	32.9	17.9
Unit value	6.4	22.6	32.5	20.2	2.0	10.9	8.0
Terms of trade	-7.9	15.7	5.6	-39.5	7.4	-10.3	-5.1
	Indexes (1970 = 100)						
Terms of trade	72.0	83.3	88.0	53.2	57.1	51.3	48.7
Purchasing power of exports of goods	62.9	73.7	112.2	62.5	76.6	72.5	74.5
Purchasing power of exports of goods and services	71.2	88.0	114.8	72.3	96.0	97.3	101.7

Source: CEPAL, on the basis of official statistics.

a/ Preliminary figures.

/The main

The main component of this latter rise was the increase of somewhat over 4% in the nominal price of copper in the London market in 1978. However, in real terms the copper price suffered a new decline in that year which brought it to its lowest level in the last 20 years (see table 17).

The slight increase in the nominal price of copper offset the drop of about 3% in volume exported in 1978, and as a result the value of copper exports marginally rose.

On the other hand, the value of the remaining traditional exports rose by slightly over 11%, as a result of a strong increase in foreign sales of wood pulp (37%) and fishmeal (22%), which for the first time exceeded US$ 100 million and which, together with the increase in exports of nitrates, more than offset the declines suffered in foreign sales of molybdenum (-13%), paper and paperboard (-12%) and iron ore (-2%) (see table 18).

In 1978, for the fifth successive year, non-traditional exports expanded rapidly, reaching a value of slightly over US$ 770 million, 790% higher than in 1970 and 1,000% higher than in 1973 (see table 18).

A substantial contribution to the growth of non-traditional exports in 1978 was made by increased sales of fresh fruit (which slightly exceeded US$ 100 million, a total 59% higher than in 1977); timber (which rose by more than 34% to US$ 94 million, thus almost quadrupling the level of only three years previously); molybdenum oxide (which more than doubled in 1978, reaching US$ 72 million); algae, fresh fish, frozen seafood and canned fish (whose combined value rose from US$ 41 million in 1977 to US$ 53 million in 1978) and petroleum products (which almost quadrupled between 1977 and 1978, from US$ 12 million to US$ 46 million).

Because of the high and sustained rate of growth of non-traditional exports and the scanty increase in sales of copper, there was continued diversification in the structure of exports. While for the first time for many years sales of copper made up somewhat under half the total value exported, non-traditional exports, which at the beginning of the decade contributed only around 8%, generated about a third of the total value of exports in 1978.

The process of diversification of the export trade was also reflected in the marked increase in the number of enterprises engaged in exporting, which rose from 1,490 in 1977 to 1,930 in 1978.

/Table 17

Table 17

CHILE: PRICE OF COPPER ON THE LONDON METAL EXCHANGE

(US cents per pound)

	Nominal price (dollars of each year)	Index of United States wholesale prices (1976 = 100)	Real price (US cents at 1976 prices)
1960	30.8	51.9	59.3
1961	28.7	51.6	55.6
1962	29.3	51.9	56.4
1963	29.3	51.7	56.7
1964	44.0	51.8	84.9
1965	58.6	52.5	111.0
1966	69.5	54.3	127.3
1967	51.1	54.4	93.5
1968	56.1	55.7	100.1
1969	66.5	57.9	114.3
1970	64.1	60.0	106.2
1971	49.3	62.0	79.1
1972	48.6	64.7	74.6
1973	80.8	73.2	109.7
1974	93.3	87.1	106.5
1975	55.9	95.1	58.5
1976	63.6	100.0	63.6
1977	59.3	106.1	55.9
1978	61.9	114.4	54.0
First quarter	56.4	110.3	51.1
Second quarter	59.3	113.7	52.2
Third quarter	63.6	115.4	55.1
Fourth quarter	68.2	118.2	57.7

Source: Central Bank of Chile.

/Table 18

Table 18

CHILE: VALUE AND BREAKDOWN OF EXPORTS (FOB)

	Millions of US dollars					Percentage breakdown			Growth rates		
	1970	1973	1976	1977	1978[a]	1970	1973	1978[a]	1976	1977	1978[a]
Total exports of goods	1 096	1 247	2 083	2 190	2 408	100.0	100.0	100.0	34.2	5.2	10.0
Traditional	1 019	1 177	1 612	1 578	1 635	93.0	94.4	67.9	35.9	-2.1	3.6
Copper	855	1 026	1 247	1 187	1 201	78.0	82.3	49.9	40.1	-4.8	1.2
Iron ore	71	62	86	82	80	6.5	5.0	3.3	-5.5	-4.7	-2.4
Nitrates and iodine	25	34	41	40	47	2.3	2.7	2.0	-25.5	-2.4	17.5
Molybdenum	11	10	46	54	47	1.0	0.8	2.0	53.3	17.4	-13.0
Fish meal	15	12	61	87	106	1.4	1.0	4.4	110.3	42.6	21.8
Pulp	18	22	88	85	116	1.6	1.8	4.8	51.7	-2.3	36.5
Paper and paperboard	15	11	42	43	38	1.4	0.9	1.5	27.3	2.4	-11.6
Non-traditional	87	70	471	613	773	7.9	5.6	32.1	29.0	30.1	26.1
Mining products	2	1	23	41	47	0.2	0.1	2.0	155.6	78.3	14.6
Agricultural and marine products	32	25	119	160	204	2.9	2.0	8.5	38.4	34.5	27.5
Crops	22	21	86	127	158	2.0	1.7	6.5	43.3	47.7	24.4
Livestock products	8	1	25	23	28	0.7	0.1	1.2	47.1	-8.0	21.7
Forestry products	1	2	1	1	2	0.1	0.2	0.1	-75.0	-	100.0
Fishery products	1	2	7	9	16	0.1	0.2	0.7	16.7	28.6	77.8
Manufactured products	53	44	323	412	522	4.8	3.5	21.6	21.9	25.2	26.7
Food and beverages	16	12	56	91	90	1.5	1.0	3.7	-27.3	62.5	-1.1
Wood	9	4	29	70	94	0.8	0.3	3.9	16.0	141.4	34.3
Chemicals and pretroleum products	6	7	65	78	106	0.5	0.6	4.4	41.3	20.0	35.9
Basic metals	3	7	95	103	143	0.3	0.6	5.9	61.0	8.4	38.8
Metal products, machinery and electronic articles, etc.	5	4	53	37	57	0.5	0.3	2.4	26.2	-30.2	54.1
Transport equipment	10	3	5	11	8	0.9	0.2	0.3	-28.6	120.0	-27.3
Other	4	7	27	22	24	0.4	0.6	1.0	92.9	-18.5	9.1

Source: Central Bank of Chile.

a/ Preliminary figures.

/(ii) Imports.

(ii) Imports. During 1978 imports of goods rose by more than 30% for the second year running, reaching an unprecedented total of about US$ 3,000 million (see table 19).

As in 1977, major factors in the expansion of imports were the recovery in domestic economic activity and the lowering of tariffs. However, in contrast to that year, the rise in imports in 1978 was also partially due to declines in the output of some agricultural goods, which necessitated substantial increases in foreign purchases of certain foodstuffs and raw materials of agricultural origin. Thus, the value of wheat imports, which had dropped from US$ 185 million in 1976 to US$ 70 million in 1977 as a result of the big increase in the harvest at the beginning of that year, rose to US$ 146 million in 1978 because of the 27% fall in wheat production in the 1977-1978 crop year. For the same reason there was also a substantial rise in imports of maize and sugar, while imports of meat doubled and purchases of milk increased by 85%.

At the same time, there was a 41% increase in purchases of consumer goods other than foodstuffs, which had already more than tripled in 1977. This rise occurred even though imports of motor cars dropped by half in 1978 with the rise of more than 70% in local motor car output and the emergence of signs that the demand for motor cars which had been building up in previous years was becoming saturated. The drop in the value of imports of motor cars was, however, offset to a large extent by purchases of colour television receivers, whose importation was authorized from the middle of April and whose overall total rose to about US$ 40 million.13/ At the same time, there were continued strong increases in purchases of pharmaceutical, perfumery and cosmetic products, carpets and rugs, and bicycles, so that total imports of consumer goods other than foodstuffs in 1978 were almost five times their value of only two years previously. As a result of this and the substantial rise in imports of foodstuffs in 1978, the share of consumer goods in total imports rose in that year to almost a third, a much higher proportion than the 25% recorded in 1970, though substantially lower than the 45% for 1973 (see table 19).

13/ These figures and those analysed below are drawn from the registers of imports licenses and may therefore differ slightly from actual imports.

/Table 19

Table 19

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

	Millions of US dollars					Percentage breakdown			Growth rates		
	1970	1973	1976	1977	1978[a]	1970	1977	1978[a]	1976	1977	1978[a]
Consumer goods	235	651	443	672	967	24.6	29.9	32.7	-2.4	51.6	43.9
Consumer goods other than food	99	139	101	341	482	10.4	15.2	16.3	8.6	237.6	41.3
Motor vehicles	...	...	12	99	50	...	4.4	1.7		725.0	-49.5
Goods of industrial origin	...	...	89	242	432	...	10.8	14.6		171.9	78.5
Food	136	512	342	331	485	14.2	14.7	16.4	-5.3	-3.2	46.5
Intermediate goods	445	553	846	1 106	1 395	46.5	49.3	47.2	-6.4	30.7	26.1
Fuels and lubricants	58	112	351	418	458	6.1	18.6	15.5	39.3	19.1	9.6
Raw materials	...	...	214	303	345	...	13.5	11.7		41.6	13.9
Spares and intermediate industrial product		...	215	324	519	...	14.5	17.5		50.7	60.2
For large-scale copper mining		...	65	61	73	...	2.7	2.5		-6.2	19.7
Capital goods	276	243	367	466	596	28.9	20.8	20.1	12.9	27.0	27.9
Total	956	1 447	1 655	2 244	2 958	100.0	100.0	100.0	-6.8	35.6	31.8

Source: Central Bank of Chile.

a/ Preliminary figures.

/Imports of

Imports of capital goods also continued to increase rapidly during 1977. However, the overall increase of 28% - very similar to that recorded the previous year - was almost exclusively due to the substantial rise in purchases of transport equipment, which increased by around 70%, largely as a result of bigger purchases of passenger vehicles (which rose from US$ 23 million in 1977 to US$ 78 million in 1978); ships and boats (which rose from US$ 9 million to US$ 68 million) and trucks (which increased from US$ 28 million to US$ 41 million).

In contrast, the value of imports of machinery and equipment rose by only 2%, since the fall in purchases by the public sector almost completely offset the rise in purchases by the private sector. The former - which in 1977 totalled more than US$ 90 million - fell in 1978 to slightly over US$ 40 million. Imports of machinery and equipment by the private sector, on the other hand, rose from US$ 230 million to slightly over US$ 285 million, because of the substantial increases in purchases of machinery for the pulp and paper industry (from US$ 8 million in 1977 to about US$ 27 million in 1978); earth-moving machinery (from US$ 16 million to US$ 25 million) and computers (from US$ 12 million to US$ 20 million).

Finally, the increase in domestic economic activity and the reduction in tariffs contributed to the rapid increase in imports of intermediate goods, especially spare parts and products of industrial origin. Since their overall value rose by 26%, somewhat less than that of imports as a whole (32%), their share in the total value of imports declined, but they nevertheless continue to represent around half of total imports.

(iii) The terms of trade. The fact that the average price of imports rose much more rapidly than the unit value of exports meant that the terms of trade worsened further in 1978. Because of this, the falls registered during the first years of the decade, and above all the very sharp drop in 1975, the terms-of-trade index fell to its lowest level in the last half-century, with the sole exception of 1943,14/ and was 51% lower than in 1970.

14/ In that year the index (on the basis of 1970=100) stood at 47.8: i.e., just a little lower than the level of 48.7 recorded in 1978.

/Although in

Although in 1978 the rise in the volume of exports more than made up for the deterioration in the terms of trade, so that the purchasing power of exports of goods slightly rose, this was still 25% below the 1970 level (see table 16).

(c) The current account position and its financing

Since the rise in the value of imports of goods and services in 1978 once again substantially exceeded that of exports, the trade deficit sharply increased to about US$ 410 million: more than three times the deficit of the previous year. At the same time payments on foreign capital continued their rapid increase, reaching an overall total of US$ 460 million.

As a result of these trade and financial movements, the current account recorded an exceptional deficit in 1978 of slightly over US$ 840 million - 80% higher than in 1977 (see table 20).

Nevertheless, the final balance-of-payments position was positive, and net international reserves rose by more than US$ 615 million. This was due to the quadrupling of the net inflow of capital, which reached the exceptional figure of US$ 1,440 million in 1978.

This marked increase in the flow of external resources was accompanied by substantial changes in its composition.

Thus, direct foreign investment - which had been insignificant in the two preceding years - recovered sharply in 1978, although in absolute terms it remained small. Net medium- and long-term loans secured by the private sector, for their part, stood at almost four times the total for the two-year period 1976-1977. The most radical change, however, was that which occurred in the long-term financing of the public sector. In the three previous years, the large amortization payments by official entities exceeded loans received, so that net medium- and long-term external financing of the public sector was negative. In 1978, in contrast, loans obtained by the public sector rose to nearly US$ 1,320 million, more than double the 1977 figure. Consequently - even though amortization payments increased again during the year - official entities received net credits totalling more than US$ 565 million. Because of these changes, the net inflow of medium- and long-term capital, which was negative between 1973 and 1975 and averaged less than US$ 50 million in the two following years, rose in 1978 to more than US$ 1,380 million (see table 20).

/Table 20

Table 20

CHILE: BALANCE OF PAYMENTS

(Millions of US dollars)

	1973	1974	1975	1976	1977	1978 a/
Current account						
Exports of goods and services	1 434	2 385	1 748	2 339	2 611	2 956
Goods FOB b/	1 316	2 244	1 570	2 083	2 182	2 416
Services	118	141	178	256	429	540
Transport	43	30	38	60	89	90
Travel	37	76	83	87	82	80
Imports of goods and services	1 618	2 307	2 042	1 848	2 734	3 364
Goods FOB b/	1 326	1 821	1 682	1 324	1 952	2 485
Services	292	486	360	524	782	879
Transport	182	310	189	286	390	539
Travel	73	101	127	88	206	150
Net payments of profits and interest on foreign capital	-110	-270	-284	-326	-362	-460
Profits	-	-8	-7	-4	-23	-36
Interest	-110	-262	-277	-322	-339	-424
Net private transfer payments	5	6	2	7	17	25
Balance on current account	-289	-186	-576	172	-468	-843
Capital account						
Net external financing (a+b+c+d+e+f)	289	186	576	-172	468	843
(a) Long-term capital	-72	-263	-128	50	42	1 382
Direct investment	-6	-557	50	7	30	187
Private sector	-1	20	-87	157	163	629
Loans	-	42	123	279	336	807
Amortization payments	-1	-22	-210	-113	-162	-167
Other liabilities and assets				-9	-11	-11
Official sector	-65	274	-69	-114	-151	566
Loans	341	854	222	458	552	1 317
Amortization payments	-406	-580	-291	-572	-690	-743
Other liabilities and assets				-	-13	-8
Monetary authorities			-22			
(b) Short-term capital	39	-285	246	217	386	78
Private sector	49	-54	120	155	188	146
Official sector	75	-115	136	29	116	-88
Errors and omissions	-85	-116	-10	33	82	20
(c) Extraordinary financing	349	560	234	-	-	-
(d) Allocation of SDRs						
(e) Official transfer payments	10	8	13	16	33	...
(f) International reserves (minus sign indicates an increase)	-37	166	211	-455	7	-617
Use made of IMF credit	-	97	208	-2	-100	-
Other liabilities	-	-8	-	53	38	-
Monetary gold	-1	-4	6	-	-1	-6
Special Drawing Rights	2	-16	-8	-31	-10	39
IMF reserve position						-50
Foreign exchange	-38	97	5	-475	80	-600

Source: 1973-1975: International Monetary Fund; 1976-1978: CEPAL, on the basis of data from the Central Bank.

a/ Preliminary figures.

b/ Including non-monetary gold.

/This exceptional

This exceptional growth contrasted with a fall in net movements of short-term capital from US$ 385 million in 1977 to less than US$ 80 million in 1978. In the case of the official sector the net movement was negative.

(d) External indebtedness

Because of the very large amount of foreign loans obtained in 1978, the overall foreign debt increased by more than 27%, reaching slightly over US$ 6,900 million at the end of the year. In contrast to the two previous years, the principal reason for this increase was the growth in medium- and long-term external debt, which had declined both in 1976 and in 1977. At the same time, there was continued strong growth in financial credit to the private sector and short-term lines of credit to the monetary system (see table 21).

Since part of the external financing secured in 1978 was used to increase the gross internal reserves of the monetary system by more than US$ 725 million, however, the growth in overall external borrowing once reserves were discounted was substantially lower (16.5%). Even so, this rise was the greatest in the decade so far, and represented a real increase in indebtedness of slightly more than 6%.15/

Debt servicing also continued to rise during 1978 to an overall total of more than US$ 1,400 million,16/ which meant that, as in 1977, payments of capital and interest absorbed about half of the foreign currency revenue generated by exports of goods and services (see table 21).

4. Prices and wages

(a) Prices

As in the two previous years, inflation was sharply reduced in 1978. The rate of increase in consumer prices - which had fallen from 341% in 1975 to 174% in 1976 and 63.5% in 1977 - was only slightly above 30% in 1978.

15/ In the five preceding years, except for 1975, the value of the overall external debt (discounting gross reserves) fell in constant dollar terms.

16/ This figure includes US$ 207 million in respect of capital repayments originally scheduled for the years 1979 to 1984 which were paid in advance in 1978.

/Table 21

Table 21

CHILE: EXTERNAL DEBT AT 31 DECEMBER OF EACH YEAR[a]

(Millions of US dollars)

	1970	1971	1972	1973	1974	1975	1976	1977	1978[b]
External debt									
1. Medium- and long-term external debt	2 662	2 793	3 073	3 361	4 113	4 362	4 339	4 265	5 010
Public and private State-guaranteed debt	2 533[c]	2 640	2 880	3 159	3 779	3 787	3 654	2 678	4 471
Central Bank with the International Monetary Fund	41	79	129	143	243	434	513	412	355
Suppliers' credit to the private sector (deferred cover)	88[d]	74	64	59	91	141	172	180	184
2. Financial credit to the private sector (Decree 1272, articles 14, 15 and 16)	413	320	310	306	322	500[e]	600[f]	800	1 386
3. Short-term lines of credit to the monetary system	48	83	219	581	339	401	256	369	515
4. General external debt (1+2+3)	3 123	3 196	3 602	4 048	4 774	5 263	5 195	5 434	6 911
5. Gross reserves	505	290	271	401	535	427	816	871	1 597
6. General external debt less gross reserves	2 618	2 906	3 331	3 647	4 239	4 836	4 379	4 563	5 314
Debt servicing									
Total	420	450	178	175	441	690	1 061	1 315	1 435
Amortization payments	324	350	130	133	346	478	759	1 011	1 053
Interest	96	100	48	42	95	213	301	304	383
Total as a percentage of exports of goods and services	32.9	39.5	18.2	12.2	18.5	39.5	45.4	50.4	48.6

Source: Central Bank of Chile.

a/ Excluding unused balances.
b/ Preliminary figures.
c/ Including balances in respect of credits to enterprises which were considered private but have now come to be considered as part of the public sector (CAP, mining companies, etc.).
d/ Excluding balances in respect of credits to enterprises transferred to the public sector.
e/ Excluding US$ 25 million of credits to the public sector, already included in item 1.
f/ Excluding US$ 38 million of credits to the public sector, already included in item 1.

/During the

During the same period the rate of growth in wholesale prices fell from 411% to 39%. In the case of both indexes, therefore, price rises represented less than a tenth of those recorded in 1975, and the reduction was even more marked in the case of food prices, which increased less in 1978 than the other components of the consumer price index for the fourth year in succession (see table 22).

Wholesale prices of imported products increased rather more slowly than those of Chilean products - the reverse of what happened in 1977. Among the latter, the average increase in the prices of agricultural products was once again smaller than in the case of industrial products, while the rates of increase in industrial and mining products and the cost of building were very similar, for the first time in the last four years.

As in the three previous years, the slow-down in the rate of inflation was influenced by the more moderate expansion in the money supply, which fell from more than 150% in 1977 to less than 50% in 1978. However, the most important factor was the decline in inflationary expectations brought about by the exchange policy adopted at the beginning of February. By establishing a scale for the daily devaluation of the peso at a sharply declining rate for the rest of the year, this policy had the effect of imposing a limit on the rise in domestic prices which was determined, in the case of internationally tradable goods, and in the case of imported goods, by those factors plus the average reduction in tariffs. Furthermore, in view of the increasing openness of the economy to international trade, this limitation on the rise in prices of internationally tradable goods also tended to act as a reference for and restriction on the expected rise in the prices of domestic goods.

(b) Wages and salaries

During 1978 the Government maintained the policy of automatically adjusting wages and salaries in March, July and December by a percentage equivalent to the rise in the consumer price index in the immediately preceding period. As from January the bottom two grades in the unified civil service salary scale were eliminated, and during the year a special increase was granted to schoolteachers. Because of these factors, the downward trend in the rate of inflation, and the rise in earnings in the private sector over and above the legal adjustments, real wages and salaries rose by 14% in 1978.

/Table 22

Table 22

CHILE: EVOLUTION OF DOMESTIC PRICES

	1971	1972	1973	1974	1975	1976	1977	1978
	Variation from December to December							
Consumer price index	22.1	163.4	508.1	375.9	340.7	174.3	63.5	30.3
Food	28.5	243.3	474.2	392.0	321.3	167.4	59.4	25.5
Wholesale price index	21.4	143.3	1 147.1	570.6	410.9	151.5	65.0	38.9
Imported products	18.4	98.8	1 692.2	714.5	363.8	130.1	79.2	22.2
Domestic products	22.3	156.6	1 021.2	517.5	424.9	157.1	61.7	43.2
Agricultural products	27.4	337.7	512.9	381.0	565.2	148.6	53.0	48.9
Mining products	44.2	96.5	1 503.1	823.3	381.8	147.7	46.6	40.6
Manufactures	19.9	116.3	1 244.2	527.4	350.7	165.7	70.8	39.6
Index of building costs	33.1	236.4	681.9	315.4	328.1	195.1	78.1	43.7
	Variation between annual averages							
Consumer price index	20.1	77.8	352.8	504.7	374.7	211.9	92.0	40.1
Food	23.8	115.2	376.5	513.7	359.6	212.8	86.2	34.6
Wholesale price index	17.9	70.0	511.4	1 029.0	482.0	221.1	86.0	42.9
Imported products	22.1	56.2	580.4	1 349.8	445.9	201.6	99.8	34.9
Domestic products	16.7	74.3	492.2	926.9	486.0	226.1	82.8	45.0
Agricultural products	25.5	108.8	448.2	640.1	567.2	245.9	79.3	34.7
Mining products	32.7	71.9	499.4	1 503.5	478.8	191.7	73.2	51.1
Manufactures	13.9	66.2	505.1	969.1	420.7	215.5	87.4	52.7
Index of building costs	...	...	...	...	333.9	233.2	109.0	54.9

Source: National Institute of Statistics and Cámara Chilena de la Construcción.

/As a

As a result of this increase and those of the two previous years, real wages and salaries finally recovered the level they had reached in 1970, which had deteriorated sharply during the period 1973-1975 as a consequence of the extraordinary acceleration of the inflationary process and later of the declines in economic activity and in employment (see table 23).

5. Monetary and fiscal policy

(a) Monetary policy

In 1978, as in 1977, the monetary policy succeeded in reducing the growth rate of the money supply and at the same time increasing the real liquidity of the economy, thus helping to moderate the inflation rate and facilitate the expansion of economic activity.

The rate of growth in money supply - which had already fallen from about 225% in 1976 to slightly over 150% in 1977 - fell to 46% between the end of 1977 and the end of 1978. A decisive influence in the fall was the sharp drop in the rate of growth of public sector money, which fell from 200% in 1977 to slightly under 30% in 1978 (see table 24).

At the same time, quasi-money continued to expand very strongly, especially in the private sector. It almost doubled in 1978, and was thus nearly 90% greater than the money in the hands of that sector, whereas only three years previously it was equivalent to barely three quarters of the sector's money proper.

Since the rate of increase in the money supply exceeded by a considerable margin the average rise in prices and also the increase in the domestic product at current prices, both the real supply of money and the liquidity ratio rose in 1978. The latter - which had continuously declined between 1972 and 1976, principally as a result of the exceptional intensity of the inflationary process, but had recovered in 1977 with the substantial moderation of the inflation rate and the less restrictive monetary policy - rose once again in 1978. However, the level of about 6% reached by the liquidity ratio in that year was still substantially below the average of about 8% recorded during the 1960s. Nevertheless, it is likely that this lag was more than offset by the exceptional growth in quasi-money, which reached a record level of about 10% of the global product - three times its average value during the period 1960-1970.

/Table 23

Table 23

CHILE: INDEX OF REAL WAGES AND SALARIES

Year	Index					Growth rates
	January	April	July	October	Average	
1970	100.0	100.5	101.5	102.8	101.2	
1971	110.5	123.9	124.4	123.9	120.7	19.3
1972	122.3	111.7	109.8	94.3	109.5	-9.3
1973	99.4	85.2	70.5	34.0	72.3	-34.0
1974	74.6	60.0	72.4	66.9	68.5	-5.3
1975	70.4	63.2	66.8	65.8	66.6	-2.8
1976	67.8	67.9	71.7	77.4	71.2	6.9
1977	84.9	88.0	96.4	89.0	89.6	25.8
1978	98.2	101.1	106.7	102.7	102.2	14.1

Source: CEPAL, on the basis of the index of nominal wages and salaries and the consumer price index prepared by the National Institute of Statistics, except for the period 1971-1973, when the index used was that prepared by the Department of Economic of the University of Chile, and published in Comentarios sobre la situación económica, (segundo semestre 1978) (Santiago, 1979).

/Table 24

Table 24

CHILE: MONETARY POSITION

	Balance at end of each year in millions of pesos				Growth rates			
	1975	1976	1977	1978	1975	1976	1977	1978
Money	4 736	15 363	38 663	56 341	277	224	152	46
Private sector	2 963	8 575	18 305	30 207	257	189	113	65
Public sector	1 773	6 788	20 358	26 134	316	283	200	28
Factors of expansion	12 573	45 736	124 099	216 466	302	264	171	74
Net international reserves	-9 591	-12 948	-19 894	-12 975				
Domestic credit	22 164	58 684	143 993	229 441	375	165	145	59
Public sector	19 091	45 573	94 340	117 588	368	139	107	25
Private sector	3 073	13 111	49 653	111 853	428	327	279	125
Factors of absorption	7 837	30 374	85 436	160 125	318	288	181	87
Quasi-money	2 962	12 200	32 591	64 325	342	311	167	97
Private	2 221	10 435	27 308	56 697	403	370	162	108
Public	741	1 765	5 283	7 628	225	138	199	44
Other items (net)	4 875	18 173	52 845	95 800	305	273	191	81

Source: Central Bank of Chile.

/The growth

The growth in the money supply in 1978, as in the year before, reflected the combined influence of greater currency issue and an increase in the money multiplier. The latter rose by 8% in the year, principally as a result of the gradual reduction in the reserve requirement for sight deposits during the first six months from 59% to 42%. Currency issue rose by 59% during 1978, substantially below the 92% recorded in 1977 and, in particular, the 1976 figure of slightly more than 270%.

As in 1976, and in contrast to 1977, the principal factor in currency issue was international exchange operations. The large surplus generated by the balance of payments meant that such operations in 1978 were equivalent to somewhat more than 100% of the greater issue. In turn, the increase in domestic credit - caused principally by Central Bank operations designed to promote and subsidize loans for housing purposes - was equivalent to a quarter of the increase in issue. However, the influence of this credit was almost totally offset by the restrictive effect of the operations in securities carried out by the Central Bank to regulate the liquidity of the economy. Finally - as in the three preceding years - Treasury operations helped to reduce the issue as a result of the new fall in the fiscal deficit in 1978.

The smaller fiscal deficit and the greater financial equilibrium achieved in 1978 by the public institutions and State enterprises helped in turn to reduce in real terms the amount of credit granted to the public sector by the monetary system. On the other hand, loans to the private sector more than doubled in nominal terms, and their real value was 73% higher at the end of the year than at the end of 1977 (see table 24).

As in 1977, the growth in the money supply of the private sector was very unevenly distributed over the year. More than half the total increase was concentrated in the first four months, during which private sector money rose by more than 35%. In contrast, in the next six months the increase was somewhat less than 8%, and in three of those months the total amount fell. This relative stability was interrupted in November, and especially in December, when the money supply increased by more than 18% (see table 25).

/Table 25

Table 25

CHILE: VARIATIONS IN PRIVATE SECTOR MONEY AND PRICES

(Percentages)

	Private sector money			Consumer prices		
	Month	Year	Post 12 months	Month	Year	Post 12 months
1978						
January	5.9	5.9	107.8	1.8	1.8	57.2
February	5.1	11.3	98.4	2.4	4.3	52.1
March	13.9	26.7	108.2	2.9	7.3	47.5
April	6.8	35.3	103.4	2.6	10.1	44.6
May	-0.5	34.7	96.5	2.1	12.5	42.2
June	-1.5	32.7	86.1	2.0	14.7	40.4
July	4.2	38.3	85.5	2.5	17.6	38.5
August	2.2	41.4	82.6	2.8	20.9	37.7
September	5.9	49.7	77.9	2.9	24.4	36.6
October	-2.5	45.9	83.3	1.9	26.7	33.5
November	-5.0	53.3	81.5	1.3	28.4	32.4
December	12.5	72.5	72.5	1.5	30.3	30.3

Source: Central Bank and National Institute of Statistics.

/Of course,

Of course, these fluctuations in the rate of growth of the means of payment had an influence on the trends and fluctuations in interest rates. After reaching very high levels at the ned of 1977, interest rates steadily declined until April, but sharply recovered in May, especially in real terms, because of the absolute contraction in the money supply and the reduction in the inflation rate. Subsequently real interest rates remained relatively stable at a somewhat lower level until September, rising sharply in the last quarter, as in 1977, as a consequence of the seasonal fall in the inflation rate (see table 26).

Although the average real monthly interest rate charged by the banks for short-term operations was rather lower in 1978 than in 1977 - 3% as against 3.8% - it remained extraordinarily high, as did the interest rate paid by banks on 30-day deposits, which averaged 1.9% a month in real terms compared with the average real interest of 1.4% paid on such deposits in 1978. For this reason, and because of the already noted drop in the interest rate for loans, the spread between short-term rates for borrowers and for depositors was rather narrower in 1978 than in the preceding year.

(b) Fiscal policy

In 1978 the tendency towards greater equilibrium between government income and expenditure continued for the fifth consecutive year, so that the fiscal deficit, which in 1973 represented 55% of total expenditure, falling to 8% in 1977, stood at only slightly over 4% of total spending in 1978. The reduction in the deficit as a proportion of the domestic product was still more marked: it fell from nearly 24% in 1973 to 1.3% in 1978 (see table 27).

While the downward trend in the fiscal disequilibrium continued, its origins remained unchanged. As in the three preceding years, the overall deficit was exclusively attributable to the negative balance on the foreign-currency budget, which more than offset the surplus generated by the local-currency budget. Both magnitudes were much greater in 1978 than in 1977. Thus, the negative balance on the foreign-currency accounts rose to almost half of expenditure, and was almost 30% higher than in the previous year. Among the main causes for this greater deficit were the drop in revenues from copper - which fell by slightly over 10% - and the rise of a similar amount in payments to service the public debt (see table 27).

/Table 26

Table 26

CHILE: MONTHLY NOMINAL AND REAL RATES OF INTEREST PAID AND CHARGED ON SHORT-TERM BANK OPERATIONS

	Nominal rates of interest		Real rates of interest	
	Paid	Charged	Paid	Charged
1977				
January	7.9	12.4	1.9	6.2
February	6.9	11.5	1.0	5.4
March	6.2	10.1	0.1	3.8
April	5.7	8.8	0.9	3.9
May	5.2	7.8	1.4	3.8
June	4.7	6.9	1.4	3.5
July	4.5	6.4	0.6	2.4
August	4.5	6.3	1.0	2.8
September	4.7	6.2	1.0	2.4
October	5.6	6.9	1.3	2.6
November	5.9	7.4	3.6	5.1
December	6.0	7.3	2.8	4.1
1978				
January	6.0	7.3	4.2	5.4
February	4.7	6.1	2.2	3.6
March	3.0	4.4	0.1	1.5
April	3.4	4.4	0.7	1.8
May	4.6	5.7	2.4	3.6
June	3.4	4.8	1.3	2.8
July	3.2	4.4	0.7	1.9
August	3.8	4.7	1.0	1.8
September	4.3	5.1	1.3	2.1
October	4.6	5.5	2.7	3.6
November	4.3	5.3	2.9	4.0
December	4.5	5.6	2.9	4.1

Source: Central Bank of Chile.

/Table 27

Table 27

CHILE: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Values					
	1973	1974	1975	1976	1977	1978[a]
Income and expenditure in national currency						
	(millions of pesos)					
1. Current income	227	1 775	7 902	25 204	57 601	100 565
Direct taxes	60	512	2 425	6 538	14 745	24 743
Indirect taxes	123	1 034	5 114	17 947	41 070	70 817
Non-tax revenue	44	229	362	719	1 785	5 006
2. Total expenditure	487	2 298	7 449	24 102	57 025	94 534
Servicing of public debt	2	35	88	289	1 055	1 237
Other expenditure	485	2 263	7 361	23 813	55 970	93 297
3. Deficit (1-2)	-260	-523	453[b]	1 103[b]	576[b]	6 031
4. Deficit/total expenditure (percentage)	53.4	22.8	6.1[b]	4.6[b]	1.0[b]	6.4[b]
Income and expenditure in foreign currency						
	(millions of US dollars at current prices)					
1. Current income	29	216	219	383	374	343
Copper	19	191	177	352	353	316
Other	10	25	42	31	21	27
2. Total expenditure	169	619	556	695	624	664
Servicing of public debt	79	338	388	544	445	492
Other expenditure	90	281	168	151	179	172
3. Deficit (1-2)	-140	-402	-337	-312	-250	-322
4. Deficit/total expenditure (percentage)	83.1	64.9	60.6	44.9	40.1	48.5
Consolidated income and expenditure						
	(millions of US dollars at 1976 prices)					
1. Current income	1 764	2 043	1 933	2 126	2 427	2 885
2. Total expenditure	3 931	3 032	2 188	2 362	2 642	3 011
3. Deficit (1-2)	2 167	989	255	236	214	126
4. Deficit/total expenditure (percentage)	55.1	32.6	11.6	10.0	8.1	4.2
5. Deficit/GDP (percentage)	23.6	10.3	3.1	2.7	2.3	1.3

Source: Budget Office, Ministry of Finance.

a/ Preliminary figures.
b/ Surplus.

/Large though

Large though this increase in the negative balance on the foreign-currency budget was, however, the increase in the surplus in local currency was a good deal larger, since it was more than 10 times the surplus of the previous year in nominal terms, and was almost 720% greater in real terms, even though real total expenditure in 1978 was more than 18% greater than that of 1977. The cause of this substantial growth in the surplus was, therefore, the equally considerable growth recorded once again in current income. The real value of current income was nearly 25% higher than in 1977, thus increasing the tax burden for the fifth consecutive year. At the same time, the composition of fiscal revenues continued to change in a regressive direction, since the real increase in indirect taxes (23%) was once again higher than that in direct taxes (20%). The biggest increase of all, however, was in non-tax income, which almost doubled in value in real terms because of the transfer to the authorities of the surpluses generated by some of the State enterprises.

ECUADOR

1. Recent economic trends: Introduction and summary

The favourable evolution shown by the Ecuadorian economy since 1972 continued in 1978. The gross domestic product rose by 6.8%, and the per capita GDP by 3.6%. This growth rate in the total product was slightly higher than that recorded in 1977, although lower than the annual average of 9.3% achieved in the period 1973-1976 (see table 1).

A degree of recovery in levels of agricultural output, still affected by the drought, a marked revival in petroleum activities and a further substantial increase in manufacturing output were the dynamic factors contributing to growth. On the other hand, construction, affected by the low rates of investment, continued to lose momentum, as did basic services and other services.

As regards total demand, the main factor which helped to raise output during the year was exports of goods, which, despite the deterioration in international prices, increased by 24% in value and almost 32% in volume. Coffee, for example, which is the most important export product after petroleum, more than doubled the volume of sales, thus offsetting the drop of about 15% in price.

The components of domestic demand grew less rapidly, and some signs of economic depression and political uncertainty were manifested. Growth in government expenditure was under 12%, a rate similar to the increase in domestic prices and well below that of previous years. The real rate of increase in capital formation fell from 20% in 1977 to 3.6% in 1978, while the real rate of increase in consumption dropped from 9.8% to 2.5% in the same years. The means of payment, for their part, increased by almost 12% - half the rise of the previous year. The limited growth in all these variables helped to restrain inflationary pressures in a market where the domestic supply of agricultural foodstuffs practically stagnated.

/Table 1

Table 1

ECUADOR: MAIN ECONOMIC INDICATORS

	1973	1974	1975	1976	1977	1978a/
A. Basic economic indicators						
Gross domestic product at factor cost (millions of US dollars at 1970 prices)	2 899	3 015	3 241	3 503	3 727	3 981
Population (millions)	6.50	6.69	6.89	7.10	7.32	7.54
Per capita gross domestic product (US dollars at 1970 prices)	446	451	470	493	509	528
	Growth rates					
B. Short-run economic indicators						
Gross domestic product	17.9	4.0	7.5	8.1	6.4	6.8
Per capita gross domestic product	14.5	1.0	4.4	4.9	3.2	3.6
Gross income b/	20.4	19.1	0.1	10.3	7.2	6.3
Terms of trade	12.7	76.0	-20.5	8.2	10.0	-10.3
Current value of exports of goods and services	71.4	109.0	-15.2	27.9	5.3	23.6
Current value of imports of goods and services	29.9	116.1	17.7	3.5	25.6	5.6
Consumer prices						
December to December	20.4	21.2	13.2	13.1	9.8	11.8
Variation in annual average	12.9	23.4	15.3	10.7	13.0	11.9
Money	34.9	50.8	10.8	31.1	23.1	11.6
Current income of government	44.7	42.8	7.7	18.5	12.3	19.3
Total expenditure of government	28.1	39.0	4.9	43.0	30.2	11.7
Surplus or deficit/total expenditure of government c/	-2.8	-0.1	5.2	-12.8	-24.8	-19.7
	Millions of US dollars					
C. External sector						
Trade balance (goods and services)	116	208	-185	79	-189	70
Balance on current account	-14	23	-240	-27	-320	-156
Variation in net international reserves	90	108	-65	204	112	31

a/ Preliminary figures.

b/ Gross domestic product plus terms-of-trade effect.

c/ Percentages.

/In contrast

In contrast to the two previous years, the terms of trade worsened by 10% in 1978, so that gross income grew slightly less (6.3%) than the product, and the increase in the purchasing power of exports (18%) was smaller than the rise in the volume of exports.

Despite the increase in external purchasing power, the current value of imports of goods and services rose by barely 5.6%, so that the negative trade balance of almost US$ 190 million in 1977 was converted into a surplus of US$ 70 million. This in turn helped to reduce the current account deficit by half and to increase the country's net international reserves by US$ 31 million, even though the inflow of external capital, which was very substantial in 1977, was much reduced in 1978.

In the last two or three years there has been a sharp increase in external borrowing, which was previously modest. Approximately 75% or 80% of this borrowing is public debt; at the end of 1978 this was estimated at US$ 1,750 million, 30% higher than a year previously. In recent years external borrowing from commercial banks has become easier: thus, US$ 520 million was recently obtained from a group of international banks, repayable over 10 years in order to refinance the debt. Of this sum, US$ 10 million will be earmarked for financing investments by the National Development Fund in 1979.

2. Trends in economic activity

(a) Total supply and demand

In contrast to 1977, when exports of goods and services at constant prices declined by 12%, while domestic demand increased by the same amount, external sales in 1978 rose by 29% and domestic demand by only just over 2% (see table 2). Among the components of domestic demand, investment fell more sharply than consumption. This was caused by various factors, such as the reduction in public expenditure, which restricted public works to the essential minimum; the lower growth rate in money supply and credit; the fixing of low prices for certain agricultural products; and the uncertainty and period of suspended animation involved in the approaching change of government. Furthermore, in the second half of the year there was a substantial decline in construction, and a fall in purchases of durable goods and motor cars.

/Table 2

Table 2

ECUADOR: TOTAL SUPPLY AND DEMAND

	Millions of sucres at 1970 prices			Percentage breakdown		Growth rates		
	1976	1977	1978a/	1970	1978a/	1976	1977	1978a/
Total supply	68 465	73 972	78 041	119.2	124.0	5.9	8.0	5.5
Gross domestic product at market prices	55 402	58 948	62 956	100.0	100.0	8.1	6.4	6.8
Imports of goods and services b/	13 063	15 024	15 085	19.2	24.0	-2.6	15.0	0.4
Total demand	68 465	73 972	78 041	119.2	124.0	5.9	8.0	5.5
Domestic demand	58 001	64 799	66 217	104.4	105.2	4.9	11.7	2.2
Gross domestic investment	11 825	14 096	14 226	19.7	22.6	-5.1	19.2	0.9
Gross fixed investment	10 371	12 435	12 882	15.6	20.5	-6.0	19.9	3.6
Construction	6 420	6 827	...	8.8	...	5.3	6.3	...
Machinery and equipment	3 951	5 608	...	6.8	...	-19.9	41.9	...
Public	4 644	4 817	...	5.2	...	4.1	3.7	...
Private	5 727	7 618	...	10.4	...	-12.9	33.0	...
Changes in stocks	1 454	1 661	1 344	4.1	2.1			
Total consumption	46 176	50 703	51 991	84.7	82.6	7.7	9.8	2.5
General government	6 365	6 232	6 263	12.0	9.9	11.4	-2.1	0.5
Private	39 811	44 471	45 728	72.7	72.7	7.2	11.7	2.8
Exports of goods and services b/	10 464	9 173	11 824	14.8	18.8	11.9	-12.3	28.9

Source: CEPAL estimates on the basis of figures supplied by the Central Bank of Ecuador.

a/ Preliminary figures.

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

/Noteworthy with

Noteworthy with regard to total supply was the already mentioned increase in domestic production, principally of manufactured goods, livestock, fishery and agricultural products for export, and hydrocarbons. Imports expressed in constant prices barely increased, in contrast to their performance in 1977. This trend was observed principally in domestic appliances and motor cars; in fuels, because of the sharp increase in domestic production; in inputs for industry and construction; and in capital goods for agriculture. The volume of imported food products rose by 77%.

(b) Growth of the main sectors

The satisfactory growth of the gross domestic product in 1978 was principally based on the partial - though still inadequate - recovery of agricultural output, which grew at a rate higher than that of 1977 but lower than the 6.9% a year recorded between 1972 and 1976. Other factors in the increase were the significant revival in petroleum activity, after the contraction in 1977, and the further marked increase in manufacturing output (13%). To this should be added the increase of 8% in the mining of minerals, which is of little relative importance (see table 3).

Basic and commercial services continued to grow rapidly, as did the output of goods, but more slowly than in 1977.

One development which was not in line with the general trend of productive activity in 1978 was the further accentuation of the low level of growth in construction in 1977, which is associated with low domestic demand, and particularly with low investment.

(i) Agriculture. The percentage increase in agricultural output, though double that of the previous year, remained below population growth. A prolonged drought, followed by irregular rainfall, caused particular harm to traditional agriculture supplying the domestic market, and especially production of cereals, which have to be imported in greater quantities each year. Accordingly the increase in the agricultural product in 1978 can be attributed more to livestock raising and fisheries than to farming activities.

/Table 3

Table 3

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

	Millions of sucres at 1970 prices			Percentage breakdown		Growth rates		
	1976	1977	1978a/	1970	1978a/	1976	1977	1978a/
Agriculture	12 906	13 087	13 453	30.4	23.9	6.6	1.4	2.8
Mining	502	509	549	0.8	1.0	-2.6	1.5	7.9
Petroleum b/	3 041	2 792	3 087	0.1	5.5	16.4	-8.2	10.6
Manufacturing	9 114	10 390	11 730	17.1	20.8	9.7	14.0	12.9
Construction	3 259	3 393	3 488	4.5	6.2	14.4	4.1	2.8
Subtotal goods	28 822	30 171	32 307	53.0	57.4	9.2	4.7	7.1
Electricity, gas and water	783	920	1 030	1.3	1.8	16.9	17.5	12.0
Transport, storage and communications	2 621	2 872	3 067	7.3	5.5	6.6	9.6	6.8
Subtotal basic services	3 404	3 792	4 097	8.6	7.3	8.8	11.4	8.1
Commerce, restaurants and hotels	4 684	5 279	5 637	11.4	10.0	4.8	12.7	6.8
Financial institutions, insurance and real estate	4 940	5 473	5 840	8.7	10.4	13.3	10.8	6.7
Community, social and personal services	8 117	8 171	8 388	18.3	14.9	4.6	0.7	2.7
Subtotal other services	17 741	18 923	19 865	38.4	35.3	6.9	6.7	5.0
Total gross domestic product c/	49 043	52 181	55 730	100.0	100.0	8.1	6.4	6.8

Source: CEPAL estimates on the basis of figures supplied by the Central Bank of Ecuador.

a/ Preliminary figures.

b/ Includes the extraction of crude petroleum and natural gas, transport by oil pipeline and marketing of petroleum. The original figure for the marketing of petroleum has been extrapolated from 1972 onwards on the basis of the trend of petroleum extraction.

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

/The drop

The drop in output of grains, which was estimated at slightly over 10%, is attributable to a reduction in the cultivated area, in addition to the climatic factors. In order to make up the shortfall, imports continued to increase: imports of wheat reached 260,000 tons, while in recent years it has also become necessary to import rice and maize, which was previously unnecessary. Between 1975 and 1978 wheat imports increased by 38% and barley imports by 184%.

Among products for use in industry, it is estimated that there was a further sharp reduction, of the order of 25%, in output of cotton in 1978. On the other hand, soya output appears to have increased appreciably to 36,000 tons - 86% more than in 1977.

As already noted, there was a marked increase in the volume of exports in general in 1978. The only noteworthy product among the main agricultural export products was coffee, sales of which rose from 49,000 tons in 1977 to 103,000 tons in 1978. There was also a rise in the volume of bananas exported (15%); in general the remaining exports of this sector declined.

The doubling of coffee exports was achieved by running down stocks, since output increased by 6% in 1977 and barely 1% (to 89,000 tons) in 1978. As regards cocoa, in the last two years output has risen by about 10%, but it is still a long way from recovering the level of 91,000 tons reached in 1974. In 1978 the volume of cocoa beans exported fell by 10%, but the volume of processed cocoa products rose by 31%.

Exports of sugar, molasses and coarse brown sugar dropped sharply (-43%). The preliminary information available, however, indicates that sugar cane production during the year was quite good.

In 1978 the authorities studied and revised some new measures for stimulating agriculture, such as the Agricultural Development Act, and initiated others, such as a development fund for marginal rural sectors (FODERUMA), set up in 1978 by the Central Bank with an initial budget equivalent to US$ 4 million to improve the health, education, employment and income of poor rural inhabitants. There are already 18 projects in operation, and a further 90 are being prepared.

/In order

In order to finance this and other agricultural projects, foreign financial assistance has been received. The Inter-American Development Bank (IDB) approved a loan of US$ 17 million as a contribution to the financing of a rural development programme in the province of Zamora-Chinchipe which will assist 42,000 people with low incomes. The total cost of the programme is equivalent to US$ 31 million.

IDB also granted a loan of US$ 8.3 million to the National Fishing Company to finance part of the fisheries development programme, which will cost the equivalent of US$ 17.8 million. The remainder will be financed from the International Fund for Agricultural Development (US$ 5.8 million) and national funds (US$ 3.7 million). This is a comprehensive project which covers such items as a fishing fleet, ports, and facilities for the processing and marketing of fishery products.

Domestic agricultural credit increased by 28% in the period up to August 1978. In December the banks and financial institutions were authorized to loan up to 50% of their capital and reserves to finance investment in agriculture, livestock raising and forestry, and to issue development bonds for an amount corresponding to the loans.

(ii) Petroleum. Output of crude petroleum, which in 1976 and 1977 stood at between 67 and 68 million barrels - in other words below the maximum output of 76 million barrels reached in 1973 and the maximum daily extraction of 210 thousand barrels established by the government in 1974 - rose to 73.4 million barrels in 1978 (see table 4).

However, the most notable developments were the increases of 94% in output of petroleum products and 50% in the volume exported.1/ Output of petroleum products increased from 14.4 million barrels in 1977 to 27.8 million barrels in 1978, when 7.5 million barrels were exported. The higher production was due to the fact that the Esmeraldas refinery belonging to the Ecuadorian State Petroleum Corporation (CEPE), with a refining capacity of 55,000 barrels a day, operated at 80% of capacity or more. The refinery was brought on stream at the end of 1976, but operated well below capacity in 1977 as a result of various problems.

1/ Oil refining is included in the gross product of manufacturing, but it was considered appropriate to deal with it in this section.

/Table 4

Table 4

ECUADOR: INDICATORS OF HYDROCARBON PRODUCTION

	1972	1973	1974	1975	1976	1977	1978
Crude petroleum (millions of barrels)							
Production	28.6	76.2	64.6	58.8	68.4	67.0	73.4
Dispatch for refining	10.1	11.2	12.8	14.5	15.5	14.5	30.2
Petroleum products (thousands of barrels)							
Gasoline	3 605	4 102	4 838	5 680	6 080	4 939	7 019
Fuel oil	3 002	3 161	3 378	3 582	3 776	4 954	12 468
Diesel oil	2 314	2 730	3 113	3 155	2 886	2 064	4 273
Jet fuel	812	920	961	466	467	375	942
Kerosene	417	400	594	1 429	1 915	1 900	2 646

Source: Banco Central del Ecuador, Boletín Año LI, Nos 570 (January-April 1978) and 572 (September-December 1978).

/There are

There are two other refineries on the coast, and a small one in the Oriente region with a capacity of 1,000 barrels a day. The total refining capacity is about 100,000 barrels a day.

The projects for the installation of new refining capacity include a new refinery with a capacity of 10,000 barrels a day at the Sacha field in the Oriente region and an increase in the capacity of the Esmeraldas refinery to 130,000 barrels a day. With the revision of the Hydrocarbons Act various foreign companies have shown renewed interest in participating in the search for petroleum. At present proven reserves are calculated at some 1,600 million barrels.

CEPE has obtained loans worth US$ 33.4 million from international banks in order to complete compensation for the Ecuadorian assets of the Gulf Oil Company, which withdrew in 1976 from the consortium it formed with Texaco and CEPE. The Corporation has also been authorized to borrow US$ 20 million over 7 years to purchase equipment for the construction of the oil pipelines between Esmeraldas and Quito and between Shushufindi and Quito.

(iii) Manufacturing. Continuing its vigorous growth, the manufacturing product increased by 13% in 1978 and the index of industrial output rose by 13.6% (see table 5).2/ Since 1976 the industrial product has increased at the rate of 12% a year.

The biggest increases in the last three years were recorded in industries processing non-metallic minerals, petroleum refineries, basic metal industries and basic iron and steel industries, machinery, equipment and electrical appliance industries, and wood industries, among others. The traditional industries producing foodstuffs, beverages and tobacco and the textile and clothing industry increased output at the lower but still significant rates of 11% and 9% a year, respectively. Only petroleum refineries, the foodstuffs, beverages and tobacco industries, the wood and wood products industries and non-metallic minerals industries, including those producing cement and other inputs for construction, increased output more than the sector as a whole.

2/ The "petroleum refineries" item in the index of industrial output does not reflect the extraordinary increase in output of petroleum products in 1978.

/Table 5

Table 5

ECUADOR: INDEX OF INDUSTRIAL OUTPUT

(1970 = 100)

	1974	1975	1976	1977	1978	Growth rates	
						1977	1978
General index	149	162	177	199	226	12.4	13.6
Food, beverages and tobacco	139	151	169	171	205	1.2	19.9
Textiles, clothing, footwear	154	161	167	194	208	16.2	7.2
Wood and wood products	164	175	182	257	300	41.2	16.7
Paper and paper products	110	109	110	121	127	10.0	5.0
Chemicals, petroleum products, coal, rubber, plastics	154	166	185	223	238	20.5	6.7
Non-metallic minerals	101	196	211	233	275	10.4	18.0
Basic metals	195	173	211	284	317	34.6	11.6
Machinery and equipment	242	325	369	487	529	32.0	8.6
Other manufacturing industries	234	225	264	295	330	11.8	11.9

Source: Banco Central del Ecuador, Ecuador en Cifras, May 1979.

/During 1978

During 1978 there was a certain weakening in the propensity to invest and reinvest profits in industrial enterprises. Nevertheless, foreign investment in various sectors reached the equivalent of US$ 58 million during the year, which was 36% more than in 1977. Furthermore, 17 new industries were allocated to Ecuador under the Andean Group industrial programme. In addition, under the Andean Group motor vehicle programme, Ecuador and Venezuela reached agreement on the production of diesel trucks whereby Ecuador is to assemble trucks of between 9.3 and 17 tons, and add some local parts.

Agreements were signed with Volkswagen and General Motors to produce motor cars, light trucks and engines in coming years.

The projects also included the expansion of Cerro Blanco to double its present cement production capacity of 525,000 tons, and the establishment of a new cement plant in Latacunga with a capacity of 400,000 tons at a cost of US$ 75 million.

(iv) Construction. Construction, which up to 1976 was a very dynamic activity, suffered a sharp reduction in its annual growth rate to 4.1% in 1977 and declined even more in 1978, when it grew by only 2.8%. The drop in 1978 was in line with the fall in domestic demand, and particularly in private and above all public investment.

In 1977 building permits granted in Quito, Guayaquil and Cuenca showed a reduction of 9% in total area and 12% in residential area, but in 1978 there were increases of 3.4% and nearly 2%, respectively. These rates of increase were higher up to September, but fell off rapidly in the last quarter.

(v) Electricity. The value added in electricity, gas and drinking water supply increased by 12% in 1978, i.e., less than in previous years.

Total electricity generated rose from 1,117 gWh in 1972 to 2,123 gWh in 1977, a rate of increase of 14% a year, while installed capacity rose from 357 mW to 790 mW. In 1977 alone there was a substantial rise in hydroelectric generating capacity from 145 mW to 216 mW.

/In October

In October 1978 the 70-mW Salitral N° 1 thermal plant near Guayaquil came into operation. A second stage, also of 70 mW, is scheduled for 1980. Consideration is also being given to the construction of a 120-mW thermal plant in Esmeraldas, which will be interconnected with the Guayaquil plant.

A consortium of foreign banks has granted the Instituto Ecuatoriano de Electrificación (INECEL) a loan of US$ 50 million towards the financing of the 1,000-mW Paute hydroelectric project. The first two phases of this project, Molino I and II, with a total of 500 mW, are due to come into operation in 1982 and 1983.

(vi) Other projects. Substantial mining projects are also planned. The government has signed a contract with an Ecuadorian company for the exploration and development of deposits of copper, zinc, tin, gold and silver in the province of Zamora-Chinchipe, an undertaking which will require substantial investments.

3. The external sector

(a) Merchandise trade

The extraordinary recovery in the volume of exports of coffee after their sharp reduction in 1977, the five-fold increase in exports of refined petroleum products, the increase in the order of 23% and 30%, respectively in exports of processed cocoa products and processed fish and shellfish, and the export increases of 13% in crude petroleum and 15% in bananas meant that the volume of exports rose by about 32%, while their total value increased by 24%. The unit value of exports, however, fell by about 6% (see table 6).

The value of imports rose by 5.7%, much less than in 1977 (24.5%), and since there was practically no change in volume, this reflected a rise in prices. The result was a worsening of about 10% in the terms of trade, although the purchasing power of exports increased appreciably, by 18%, because of the higher volume of goods exported.

The value of exports of goods reached US$ 1,720 million in 1978, i.e., about US$ 30 million more than in 1977 (see table 7).

/Table 6

Table 6

ECUADOR: MAIN INDICATORS OF FOREIGN TRADE

	1973	1974	1975	1976	1977	1978a/
	Growth rates					
Exports of goods						
Value	80.5	110.1	-17.3	29.1	6.0	24.2
Volume	43.5	-8.0	-9.5	12.6	-12.5	31.8
Unit value	25.7	128.3	-8.6	14.6	21.1	-5.8
Imports of goods						
Value	39.8	120.2	15.0	4.1	24.5	5.7
Volume	25.3	69.7	0.1	-1.8	13.2	0.7
Unit value	11.6	29.7	14.9	6.0	10.0	5.0
Terms of trade	12.7	76.0	-20.5	8.2	10.0	-10.3
	Indexes (1970 = 100)					
Terms of trade	95.0	167.1	133.0	143.8	158.3	141.8
Purchasing power of exports of goods	201.2	325.8	234.4	285.5	275.0	325.0

Source: CEPAL, on the basis of official data.

a/ Preliminary figures.

/Table 7

Table 7

ECUADOR: EXPORTS OF GOODS (FOB) a/

	Millions of dollars				Percentage breakdown b/		Growth rates		
	1975	1976	1977	1978	1973	1978	1976	1977	1978
Primary products	826	1 042	930	1 115	89.4	73.8	26.2	-10.7	19.8
Petroleum	516	565	484	523	38.2	34.6	9.5	-14.3	8.1
Coffee	64	205	157	281	13.3	18.6	220.3	-23.4	79.0
Bananas	156	172	170	194	24.9	12.8	10.3	-1.2	14.1
Cocoa	42	33	59	50	5.3	3.3	-21.4	78.8	-15.3
Fishery products	25	34	35	42	3.4	2.8	36.0	2.9	20.0
Other	23	33	25	25	4.3	1.7	43.5	-24.2	-
Manufactures	84	121	294	395	10.6	26.2	44.0	143.0	34.4
Processed cocoa products	28	62	186	207	1.8	13.7	121.4	200.0	11.3
Petroleum products	1	-	18	85c/	0.4	5.6	-	-	372.2
Processed fish and shellfish	12	20	38	47	1.5	3.1	66.7	90.0	23.7
Other	43	39	52	56	6.9	3.7	-9.3	33.3	7.7
Total	1 013	1 307	1 385	1 720	100.0	100.0	29.1	6.0	24.2

Sources: Banco Central, Información estadística, 15 May 1979; CEPAL, on the basis of information supplied by the International Monetary Fund.

a/ The information on products corresponds to export permits, except in the case of bananas. The values are those of the balance of payments, and exceed the total value of the export permits.

b/ Based on total value of export permits.

c/ Estimate.

/In 1978

In 1978 103,000 tons of coffee were exported - more than double the figure for 1977, and more too than the annual output of about 88,000 tons. The difference was made up by running down stocks, thus making up for the decline in the international price which began in September 1977, since the sharp increase in the volume exported caused the value of sales to rise by 80% - from US$ 157 million to US$ 281 million - despite the decline in prices.

Exports of crude petroleum increased by about 8% to US$ 520 million. The most outstanding feature was the surprising increase in sales of petroleum products to 1.2 million tons and US$ 85 million, almost five times the revenue from these products in 1977. Output of petroleum products almost doubled from 1977 to 1978, and this made possible the growth in sales abroad despite the rapid increase in domestic consumption.

Banana exports also increased during the year, as a result of a recovery in the volume of sales and a slight revival in prices. Exports of cocoa, on the other hand, fell in volume and also in value because of the drop in price.

Exports of manufactures have grown rapidly since the beginning of the decade. In the initial stage, up to 1974, their value increased five-fold, as a result of the performance of such products as sugar and molasses, processed fish and shellfish and cocoa products. The second stage began in 1976, and since then the value of manufactured exports has risen 5.3 times, with particularly rapid growth in petroleum products, processed cocoa products (which reached US$ 207 million in 1978), processed fishery products (which reached US$ 47 million in 1978), and various other products which have only recently become important, such as electrical household appliances, processed coffee and plywood (see table 7).

In 1973, manufactured products made up 11% of total exports; in 1978 this percentage had risen to 26%.

In 1977 Ecuador exported to the LAFTA countries goods worth US$ 283 million - equivalent to 20% of total exports - a figure which it is interesting to compare with the US$ 92 million recorded in 1973. Of these US$ 283 million, US$ 170 million represented exports to the countries of the Andean Group. In 1978 this upward trend fell back for the first time, and sales to LAFTA dropped to US$ 227 million, first and foremost because of the reduction in sales to the Andean Group.

/Both exports

Both exports and imports of goods have risen five-fold in value since Ecuador began to export petroleum on a large scale. In most years exports have been higher than imports; in 1978 the difference was US$ 340 million, a figure exceeded only in 1974.

Since that year the composition of imports of goods has changed. Imports of raw materials and intermediate goods, particularly for industry and agriculture, have become relatively less important, and a similar situation may be observed among consumer goods and also fuels, although in this case the decline has been more marked. This trend has been offset by increased imports of capital goods, especially those destined for use in manufacturing, which in 1978 totalled about US$ 430 million in value. Since the beginning of the decade the share of capital goods in total imports has risen from 30% to 51% (see table 8).

As already mentioned, the total volume of goods imported in 1978 was very similar to that of 1977. However, there was a very big increase in purchases of food products, pharmaceutical products, some capital goods for industry and spare parts and accessories for transport equipment. The greatest falls were to be observed among fuels, construction materials, capital goods for agriculture and transport equipment.

(b) The balance-of-payments current account deficit and its financing

The surplus of US$ 340 million on merchandise trade dropped to US$ 70 million when services were added. In addition, payments of interest on foreign loans tripled in 1978. To this must be added remittances of profits abroad, amounting to about US$ 100 million, while private transfers, which were positive, should be deducted. All these movements resulted in a current account deficit of US$ 156 million (only half the US$ 320 million recorded in 1977), which basically reflected the favourable performance of exports in 1978 and the slower growth in imports (see table 9).

/Table 8

Table 8

ECUADOR: COMPOSITION OF IMPORTS OF GOODS (CIF)

(Percentages)

	1972	1974	1976	1977	1978a/
Raw materials and intermediate goods	42.4	45.8	45.0	40.0	37.4
Agriculture	1.4	3.8	2.3	2.3	2.0
Manufacturing	33.2	37.5	35.9	31.6	29.9
Construction	7.8	4.5	6.8	6.1	5.5
Capital goods	39.5	34.6	44.1	48.1	50.7
Agriculture	1.4	2.1	2.6	1.9	1.6
Manufacturing	24.0	18.1	25.6	26.6	30.2
Transport	14.1	14.5	16.0	19.6	18.9
Consumer goods	14.5	14.9	9.9	11.1	11.0
Durable	5.1	7.6	4.0	5.5	5.7
Non-durable	9.4	7.3	5.9	5.6	5.3
Fuels and lubricants	3.3	4.4	0.7	0.6	0.7
Other	0.3	0.3	0.3	0.3	0.2

Source: World Bank, Current Economic Position and Prospects of Ecuador, 1976 and Banco Central, Boletín, Año LI, Nº 572 (September-December 1978).

a/ Preliminary figures.

/Table 9

Table 9

ECUADOR: BALANCE OF PAYMENTS

(Millions of US dollars)

	1973	1974	1975	1976	1977	1978a/
Current account						
Exports of goods and services	625	1 308	1 110	1 419	1 494	1 847
Goods FOB b/	583	1 225	1 013	1 307	1 385	1 720
Services	42	83	97	112	109	127
Transport	11	35	41	45	48	50
Travel	13	21	29	31	36	38
Imports of goods and services	509	1 100	1 295	1 340	1 603	1 777
Goods FOB b/	397	875	1 006	1 048	1 305	1 380
Services	112	225	289	292	378	397
Transport	46	131	161	172	227	235
Travel	19	23	36	50	50	57
Net payments of profits and interest on foreign capital	-138	-201	-68	-116	-141	-246
Profits	-125	-203	-58	-91	-90	-97
Interest	-13	2	-10	-25	-51	-149
Net private transfer payments	8	16	13	10	10	20
Balance on current account	-14	23	-240	-27	-320	-156
Capital account						
Net external financing (a+b+c+d)	14	-23	240	27	320	156
(a) Long-term capital	77	105	199	158	365	
Direct investment	52	77	95	-20	30	40
Private sector	-1	20	41	88	46	
Loans	1	35	59	59	99	
Amortization payments	-2	-15	-18	-51	-53	
Official sector	26	8	63	170	319	217
Loans	60	90	90	207	424	
Amortization payments	-31	-81	-26	-34	-100	
Other liabilities and assets (net)	-3	-1	-1	-3	-5	
(b) Short-term capital	9	-35	-44	52	30	-70
Private sector	-3	-	-45	-23	18	...
Official sector	-	-	27	-15	88	...
Monetary authorities	4	-4	21	22	-7	...
Errors and omissions	8	-31	-47	68	-69	...
(c) Official transfer payments	18	15	20	21	7	-
(d) International reserves (minus sign indicates an increase)	-90	-108	65	-204	-112	-31
Use made of IMF credit	-10	-	-	-	-	-14
Other liabilities	-	-	-	-	-	
Monetary gold	-1	-	-	-	-1	-1
Special Drawing Rights	1	1	-	-	-2	-4
IMF reserve position	-7	-4	-5	15	-	-10
Foreign exchange	-73	-105	70	-219	-109	-2

Source: 1973-1977: International Monetary Fund, Balance of Payments Yearbook, Vol. 29; 1978: CEPAL, on the basis of official data.

a/ Preliminary figures.

b/ Including non-monetary gold.

/As far

As far as capital movements were concerned, there was a net inflow in the form of long-term and short-term loans in 1978, but it was 56% below the 1977 figure, largely because of the substantial sums paid to service the external debt in recent years. However, direct investment increased, and the net inflow of capital (about US$ 190 million) exceeded the current account deficit and increased net international reserves by US$ 31 million. At the end of 1978, the gross reserves stood at US$ 688 million.

4. Prices and monetary and fiscal trends

(a) Trends in domestic prices

Consumer prices for low- and middle-income families in Quito increased by almost 12% in 1978, in terms both of the annual average variation and of the December-to-December change (see table 10).

This inflation rate is two points higher than that recorded between December 1976 and December 1977, but one point below the average variation in 1977. The difference is due to the fall in the price index in November and December 1977, which was in complete contrast to the rise in the same months in 1978.

In short, there has been a certain lessening of inflationary pressures in the last two years, especially with respect to those prevailing in 1973 and 1974.

The trend of the general price index more or less followed that of food prices; in the case of these latter prices there was a greater discrepancy between the December-to-December and the annual average changes. While the former showed a rise of 1.6 points between 1977 and 1978, the latter recorded a significant fall from 15.6% to 10.2%, which is attributable to the low level of the food price index in 1976 rather than to smaller rises in 1978 than in 1977. In these two years the rises in food prices (a monthly average of 0.87% in 1977 and 0.79% in 1978) were mainly due to the inadequate harvests.

In the middle of 1978 the Government authorized the establishment of an agency responsible for fixing and monitoring prices of manufactured products. The agency will also be responsible for applying policies concerning prices and quality control in handicrafts and manufactures, and determining which goods will be subject to price control.

/Table 10

Table 10

ECUADOR: CONSUMER PRICE INDEX a/

	1973	1974	1975	1976	1977	1978
	Variation from December to December					
Consumer price index	20.4	21.2	13.2	13.1	9.8	11.8
Food	31.1	28.0	16.1	14.3	9.0	10.6
	Variation between annual averages					
Consumer price index	12.9	23.4	15.3	10.7	13.0	11.9
Food	20.3	32.4	18.6	9.5	15.6	10.2

Source: United Nations, Monthly Bulletin of Statistics, various issues.

a/ Index of consumer prices for low-and-middle-income families in Quito.

/(b) Monetary

(b) Monetary developments

The measures designed to restrict the issue of money and the growth of public expenditure in order to reduce inflation met with some success during the year. At the end of the year the money supply had increased by only 11.6%, i.e., at the same rate as domestic prices. This rate is half that recorded in 1977, and a third of the 1976 rate. The restrictions had similar effects both on money in circulation and on sight deposits (see table 11).

All the factors of absorption grew more slowly in 1978, except for credit to the private sector, which rose only slightly less rapidly than in previous years, and quasi-money, which increased more than the year before.

Thus, net international reserves increased by 6.5%, compared with 61% in 1976 and 48% in 1977. Their principal component, foreign exchange, barely reached the level of the end of 1977, despite a strong recovery in November and December.

Net credit to the central government recorded a negative balance (because of higher government deposits in the Central Bank), while credit to the private sector rose by almost 22% (26% in 1977). Slightly over 40% of credit from the banking system is destined for commerce; however, up to October credit for industry had increased by 42% and that for agriculture 24%, whereas credit for commerce only rose 13%.

Towards the end of the year the monetary authorities authorized banks and financial institutions to invest up to 50% of their capital and reserves in loans to finance investment in agriculture, and to issue development bonds for an amount corresponding to the loans.

(c) Government income and expenditure

According to the information available up to October, current income increased by around 19% in 1978 (i.e., more than in the previous year), while total expenditure grew by only 12% as a result of the Government's efforts to restrict public expenditure in order to reduce the fiscal deficit, which had reached 5,400 million sucres in 1977, and thus reduce its inflationary consequences (see table 12).

/Table 11

Table 11

ECUADOR: MONETARY POSITION

	End-year balance (millions of sucres)				Growth rates		
	1975	1976	1977	1978	1976	1977	1978
Money	18 881	24 757	30 468	34 001	31.1	23.1	11.6
Currency outside banks	5 386	7 570	9 127	10 275	40.5	20.6	12.6
Demand deposits	13 495	17 187	21 341	23 726	27.4	24.2	11.2
Factors of expansion	26 222	35 069	43 949	49 035	33.7	25.3	11.6
Foreign assets (net)	5 872	9 424	13 944	14 849	60.5	48.0	6.5
Domestic credit	20 350	25 645	30 005	34 186	26.0	17.0	13.9
General government (net)	2 086	1 968	180	-2 095	-5.7	-90.9	-
Private sector	18 264	23 677	29 825	36 281	29.6	26.0	21.6
Factors of absorption	7 338	10 313	13 481	15 034	40.5	30.7	11.5
Quasi-money (savings and time deposits)	4 202	5 226	5 550	6 034	24.4	6.2	8.7
Bonds	3 699	4 577	6 388	7 009	23.7	39.6	9.7
Other items (net)	-563	510	1 543	1 991	-	202.5	29.0

Source: International Monetary Fund, International Financial Statistics, June 1979.

/Table 12

Table 12

ECUADOR: CENTRAL GOVERNMENT INCOME AND EXPENDITURE a/

	Millions of sucres				Annual growth rates		
	1975	1976	1977	1978	1976	1977	1978
Current income	12 364	14 653	16 453	19 630	18.5	12.3	19.3
Tax revenue b/	10 826	12 768	15 735	18 900c/	17.9	23.2	20.1
Direct	3 333	4 911	5 170	5 280c/	47.4	5.3	2.1
Indirect	2 376	2 598	3 411	4 400c/	9.4	31.3	29.0
On foreign trade	5 184	5 411	7 617	9 140c/	4.4	40.8	20.0
Other taxes	277	304	306	450c/	9.8	20.4	23.0
(Petroleum) d/	(2 490)	(2 941)	(2 489)	(1 800)c/	18.1	-15.4	-27.7
Other revenue	1 538	1 885	718	730c/	22.6	-61.9	5.7
Total expenditure	11 755	16 813	21 809	24 450	43.0	30.2	11.7
Surplus or deficit	609	-2 160	-5 436	-4 820			
Financing							
Net external financing	-235	386	1 081	-97			
Net domestic financing	2	-673	2 468	4 650			
Special resources	800	1 523	1 637				
Variation in cash balance	-1 176	925	250	267			

Sources: Banco Central del Ecuador, Boletín, various issues. International Monetary Fund, International Financial Statistics, June 1979.

a/ Actual income and expenditure under the general state budget.

b/ Net tax revenue. Excludes tax credit certificates and payments of taxes in the form of IERAC bonds in 1977 and 1978. The individual items take no account of these exclusions, so that the sum of the items is greater than the total.

c/ Estimates based on information up to October.

d/ Corresponds to the consolidated tax of 71.42% on income from hydrocarbon prospection and extraction operations which was introduced in November 1975 to replace the export levies (15%) and other taxes.

/Among current

Among current income items, effective tax revenue, that is to say, revenue after deductions for tax credit certificates and agrarian reform (IERAC) bonds, increased by about 20%, which was a good deal less than in the previous year: this was especially marked in the case of taxes on external trade, and particularly on imports, which had increased by 60% in 1977. Revenue from income taxes barely exceeded the 1977 level, because of the sharp fall in the consolidated petroleum tax.3/

On the other hand, revenue from indirect taxes on production and consumption continued to rise rapidly (29%).

The remaining items of current income did not recover after the sharp reduction in transfers in 1977 due to the suspension of the substantial transfers effected by FONADE in 1975 and 1976.

Total expenditure, following the rises of 43% and 30% in the two preceding years, rose by barely 12% in 1978, and this had repercussions both on current expenditure and on public investment. However, up to October there were fairly large increases in the support services of the Ministry of Finance (120%) and in expenditure by the Ministry of Natural and Energy Resources (62%) and the Ministry of Industry, Trade and Integration (35%).

Amortization payments on the public debt, which have increased a great deal in the last two years, are not included as government expenditure. The external public debt rose by about 30% in 1978, and at the end of the year stood at US$ 1,750 million. A credit of US$ 520 million for 10 years was recently obtained from a group of international banks, US$ 510 million of which will be earmarked for refinancing the external debt, and US$ 10 million for financing the FONADE investment programme in 1979.

3/ This is a tax on exploration and production of hydrocarbons, but the information available gives no indication of the causes of the lower revenue.

EL SALVADOR

1. Recent economic trends: Introduction and summary

During 1978 the growth rate was lower than that achieved by the economy of El Salvador in recent years, although it was a year of good harvests. The severe deterioration in the terms of trade, aggravated by a sudden and substantial fall in sales of coffee, resulted in the slowing down of the growth of economic activity in general and private investment. In addition to this there was certain amount of financial restriction which could be seen in the smaller increase in credit and, in particular, there was a prevailing situation of political tension which discouraged private investment and caused an increase in the flight of capital which had already been observed the previous year.

In 1978 the gross domestic product increased by 4.4%, a slightly lower rate than that obtained in 1977 and also less than the average rate recorded since the beginning of the decade (5.1%). The per capita product increased by barely 1.4%, and the substantial drop of 26% in the terms of trade led to a decrease of 2.7% in gross income, following notable increases in the two previous years owing to the larger income which the country received from its coffee exports (see table 1).

Basically, three products - coffee, cotton and sugar, in decreasing order of importance - constitute an average of 70% of the country's exports, and one of them - coffee - normally exceeds 50% of total exports. In the period 1976-1977, the international price of this product shot up to unprecedented levels, reaching nearly four times its previous price. This meant that in El Salvador, as in other basically coffee-producing Central American countries, extremely favourable terms of trade were obtained, although the effects of this improvement did not filter through to some sectors of the economy as much as might have been expected. In these two years, however, the balance-of-payments current account deficit dropped markedly, bigger international reserves were built up, and positive balances were obtained in the Government's financial accounts, despite the growth recorded in total expenditure, and particularly capital expenditure.

/Table 1

Table 1

EL SALVADOR: MAIN ECONOMIC INDICATORS

	1973	1974	1975	1976	1977	1978a/
A. Basic economic indicators						
Gross domestic product at factor cost (millions of US dollars at 1970 prices)	1 622	1 727	1 823	1 885	1 983	2 070
Population (millions)	3.91	4.02	4.14	4.27	4.39	4.52
Per capita gross domestic product (US dollars at 1970 prices)	415	429	440	442	451	458
	Growth rates					
B. Short-run economic indicators						
Gross domestic product	5.1	6.4	5.6	3.4	5.2	4.4
Per capita gross domestic product	2.1	3.5	2.5	0.5	2.1	1.4
Gross income b/	7.0	3.7	2.5	13.6	13.4	-2.7
Terms of trade	6.5	-12.5	-7.0	41.9	38.0	-25.7
Current value of exports of goods and services	18.5	29.0	15.5	38.1	28.0	-9.8
Current value of imports of goods and services	36.3	45.8	6.2	23.0	24.9	14.0
Consumer price index						
December to December	7.9	21.0	15.1	5.2	14.9	14.6
Variation between annual averages	6.4	16.9	19.2	7.0	11.9	13.2
Money	19.6	19.4	16.4	41.4	7.8	9.9
Current income of government	23.1	18.9	19.3	40.2	45.8	-13.1
Total expenditure of government	19.4	26.8	17.7	34.4	28.1	18.1
Fiscal surplus or deficit/total expenditure of government c/	0.3	-4.9	-3.7	0.5	14.5	-15.8
	Millions of US dollars					
C. External sector						
Trade balance (goods and services)	-45	-132	-92	-23	-3	-254
Balance on current account	-47	-137	-96	-19	-14	-238
Variation in net international reserves	-12	12	31	84	44	58d/
Disbursed public external debt	133	176	242	283	280	311e/

a/ Preliminary figures.
b/ Gross domestic product plus terms-of-trade effect.
c/ Percentage.
d/ Corresponds to gross international reserves.
e/ At end of September.

/Once the

Once the coffee boom was over, 1978 brought a new external situation which, together with domestic problems of another order, caused a deterioration in the general economic situation of the country.

Thus, coffee prices dropped rapidly as from the end of 1977 and continued going down during the whole of 1978 by an estimated 26%. As imported inflation did not fall, there was a decline of 26% in the terms of trade. Moreover, the current value of imports increased by 14% while that of exports went down by 10%. This led to an increase of 250 million dollars in the country's negative trade balance and a rise in the balance-of-payments current account deficit from 14 to 238 million dollars - the highest in the present decade - thus placing serious limitations on the country's future economic development.

As a result of the drop in coffee prices, the authorities decided, as from the end of 1977, in agreement with other coffee-producing countries, to partially suspend exports of this product and maintain a large quantity of stocks in order to try to reverse the price trend. This decision, which did not have the expected effect, drastically limited foreign currency earnings at least until the end of October and was the cause of a considerable decline in fiscal earnings owing to the drop in taxes on external trade. Over the course of the year the disagreement about the advantages and disadvantages of the coffee-exporting policy then being followed 1/ became more serious and gave rise to a crisis of confidence, especially in view of the various political repercussions of this conflictive situation. In addition, symptoms of economic depression emerged owing to the lack of foreign currency. However, towards the end of the year coffee exports were resumed at a very brisk rate, and it proved possible to sell a large part of the stocks.

Because of these circumstances there was a slowing-down in private investment and a loss of interest in some activities, and a flight of funds to the exterior took place which the Government tried to check in the second part of the year by resorting to monetary-type measures, particularly an increase in passive interest rates.

1/ See Cámara de Comercio e Industria de El Salvador, "El país necesita con urgencia una mejor política de comercialización del café", Comercio e Industria, Nº 4, fourth quarter of 1978.

/As regards

As regards domestic prices, the growth rate has increased in the last three years from 7% in 1976 to 12% in 1977 and 13% in 1978. The December 1977 to December 1978 increase amounted to 14.6%: a very similar figure to that of the previous year. Around mid-year, there was a notable lack of liquidity, and to deal with this situation the new administration - which took over in mid-1977 - gradually readjusted the main lines of its economic policy and adopted some specific measures aimed at liberalizing some domestic prices, facilitating the inflow of foreign capital by reducing taxes on the remittance of profits abroad, and stimulating the negotiation of private external loans by national entrepreneurs. It also created a climate of austerity in public spending which began to be reflected in the moderation of some operating expenditures, and finally it adopted a more restrictive credit policy involving the reduction of rediscount operations while at the same time gradually reducing the level of the legal reserves from 30% to 20% with a view to mitigating the effects of the contraction of credit.

2. Trends in economic activity

(a) Total supply and demand

The growth rate of total supply dropped from 7% in 1977 to 5.5% in 1978. The most dynamic component of the two previous years had been the quantum of imports of goods and services, which had supplemented domestic production to quite a substantial extent, so that the import coefficient, which was 25% at the beginning of this decade, amounted to 36% in 1978 (see table 2) but in 1978, as a result of the loss of dynamism of the economy, the growth rate of the value of imports at constant prices dropped to 8.6%, compared with 24% in 1976 and 12% in 1977.

As regards total demand, apart from the notable recovery of the volume of exports in spite of the sharp drop in prices, a serious contraction of domestic demand was to be observed, since the growth rate dropped from 12.4% to 4.4%, although there were big differences between the evolution of investment and that of consumption. Thus, the growth rate of gross fixed investment dropped sharply from 16% to slightly less than 4%, reflecting the climate of instability which worsened in the course of the year.

/Table 2

Table 2

EL SALVADOR: TOTAL SUPPLY AND DEMAND

	Millions of colones at 1970 prices			Percentage breakdown		Growth rates		
	1976	1977	1978[a]	1970	1978[a]	1976	1977	1978[a]
Total supply	4 593	4 913	5 182	124.5	136.0	7.8	7.0	5.5
Gross domestic product at market prices	3 470	3 650	3 810	100.0	100.0	3.4	5.2	4.4
Imports of goods and services b/	1 123	1 263	1 372	24.5	36.0	24.1	12.4	8.6
Total demand	4 593	4 913	5 182	124.5	136.0	7.8	7.0	5.5
Domestic demand	3 668	4 122	4 302	99.7	112.9	9.0	12.4	4.4
Gross domestic investment	593	845	788	13.3	20.6	4.1	42.4	-6.8
Gross fixed investment	638	743	771	12.0	20.2	4.1	16.4	3.8
Construction	278	328	352	5.1	9.2	-2.4	18.3	7.0
Machinery	360	415	419	6.9	11.0	9.1	15.0	1.2
Public	205	215	228	2.8	6.0	-9.5	5.1	5.9
Private	433	528	543	9.2	14.2	12.1	21.8	2.9
Changes in stocks	-45	102	17	1.2	0.4			
Total consumption	3 075	3 277	3 514	86.4	92.2	10.0	6.6	7.2
General government	376	406	434	10.7	11.3	10.6	8.1	6.9
Private	2 699	2 871	3 080	75.7	80.9	10.0	6.4	7.3
Exports of goods and services b/	925	791	880	24.8	23.1	3.2	-14.5	11.2

Source: CEPAL calculations on the basis of data supplied by the Banco de Reserva de El Salvador.

a/ Preliminary figures.

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

/The rate

The rate of housing construction dropped, although the construction of some public works continued, such as the Northern trunk highway, which opens up favourable prospects for making integral use of the national territory. The drop was particularly marked in private investment, whose growth rate dropped from 22% in 1977 to 3% in 1978, while imports of capital goods at constant prices only increased by 1.2%.

As regards stocks, it is significant that in spite of the high level reached the previous year, when the firm policy of withholding coffee was introduced, they continued to increase. Although towards the end of the year exports of coffee were resumed and it proved possible to find a market for a large part of the stocks, this coincided with the new harvest, so that the net variation in stocks was not very significant. The good harvests of basic grains probably also contributed decisively to this new increase. Even so, however, the increase was not sufficient to prevent a drop of 7% in gross domestic investment.

In contrast with the situation as regards capital formation, resources destined for consumption increased by slightly over 7%, although general government consumption recorded a slightly smaller increase than in 1977, which to some extent reflects the policy of restriction of expenditure imposed by the government, albeit mainly in respect of capital expenditure.

(b) Growth of the main sectors

The exceptional increase in international coffee prices in 1976 and 1977 and the consequent rise in export earnings stimulated economic activity and particularly the goods-producing sector. The gross domestic product thus increased its low growth rate of 3.4% in 1976 to 5.2% in 1977.

The decline in coffee prices, the reorientation of economic policy by the new administration, and the increasing climate of uncertainty and insecurity, however, caused many investment plans to be postponed, especially in the private sector. In addition to this, the imbalances in the fiscal accounts became more pronounced. The result was that with the exception of the agricultural sector, which increased its growth rate from 2.4% to 5.2%, and some services, all the other economic activities reduced their rate of production in 1978, particularly notable being the cases of manufacturing

/and construction,

and construction, the latter of which has a heavy incidence in terms of employment (see table 3). Consequently, the growth rate of the gross domestic product dropped to 4.4% in 1978.

(i) The agricultural sector. The 1978 harvest was characterized by an appreciable increase in the output of the main products, both for export and for domestic consumption. Thus, the producers of coffee and cotton, which are the main export products, encouraged by high external prices at the beginning of the agricultural year, increased yields and raised production of these items by 12% and 14%, respectively (see table 4).

The cereals harvest, for its part, achieved unprecedented levels as the result of good rains - a characteristic common to Central America in 1978 - and the development policy which has been put into effect with a view to attaining self-sufficiency in consumption. The maize harvest was 45% better than that of 1977, while the bean harvest increased by 20%. Yields of millet and rice rose from 45 quintals per manzana in 1977 to nearly 65 in 1978, and the total harvest was 1,300,000 quintals, one of the highest ever obtained in the country.

No indicators are available for livestock production, but cattle slaughtering appears to have dropped by 10% and that of pigs by 1% in the first quarter of 1978 compared with the same period in 1977. The slaughtering of cattle in that year dropped by 11%.

During 1978 agrarian development continued in the east of the country, although rather slowly, and the recently restructured Instituto Salvadoreño de Transformación Agraria (ISTA) continued to implement its programme.

As regards export agriculture, the 1977-1978 harvest of raw cotton was close on 5 million quintals - 14.5% less than the previous year. About 150,000 manzanas were harvested, which was more than in 1977; the average yield of 35 quintals per manzana was influenced by the abundant rain.

In view of the fall in coffee prices which began around the end of 1977, the Coffee Company and the producers in general decided to withhold sales in the hope of a possible recovery of the market, but finally this did not materialize. Approximately one million bags of coffee were withheld, and this will go to swell the growing production expected for 1979.

/Table 3

Table 3

EL SALVADOR: DROSS DOMESTIC PRODUCT, BY KIND OF ECONOMIC ACTIVITY, AT FACTOR COST

	Millions of colones at 1970 prices			Percentage breakdown		Growth rates		
	1976	1977	1978[a]	1970	1978[a]	1976	1977	1978[a]
Agriculture	842	862	907	30.6	25.7	-8.0	2.4	5.2
Mining	5	6	6	0.2	0.2	-11.3	4.3	-
Manufacturing	604	643	659	17.6	18.7	9.5	6.5	2.5
Construction	132	158	169	3.0	4.8	-9.5	19.8	7.0
Subtotal goods	1 583	1 669	1 741	51.4	49.4	-2.2	5.4	4.3
Electricity, gas and water	67	75	84	1.6	2.4	10.5	11.9	10.8
Transport, storage and communications	194	208	219	5.3	6.2	13.1	7.3	5.0
Subtotal basic services	261	283	303	7.0	8.6	12.4	8.5	6.6
Commerce, financial institutions and insurance	671	699	721	20.3	20.5	8.5	4.1	3.2
Real estate [b]	120	124	128	4.0	3.6	3.5	3.1	3.3
Community, social and personal services [c]	569	595	631	17.2	17.9	8.9	4.6	5.9
Subtotal other services	1 360	1 418	1 480	41.6	42.0	8.2	4.2	4.3
Total gross domestic product [d]	3 205	3 371	3 520	100.0	100.0	3.4	5.2	4.4

Source: CEPAL calculations on the basis of figures supplied by the Banco de Reserva de El Salvador.

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

/Table 4

Table 4

EL SALVADOR: INDICATORS OF AGRICULTURAL PRODUCTION

	1975	1976	1977	1978[a/]	Growth rates		
					1976	1977	1978[a/]
Agricultural production index (1968 = 100)	145.3	136.8	126.9	...	-5.9	-7.2	...
Crop farming	142.2	130.0	117.7	...	-8.6	-9.5	...
Stock-raising	156.1	160.1	158.6	...	2.6	-0.9	...
Production of main crops (thousands of quintals)							
Coffee	3 587	3 098	3 006	3 354	13.6	-3.0	11.6
Ginned cotton	1 616	1 402	1 522	1 735	-13.2	8.6	13.9
Grains [b/]	15 021	12 163	12 702	17 751	-19.0	4.4	39.8
Sugar cane (thousands of tons)	3 166	3 177	3 550	3 363	0.3	11.7	-5.3
Number of animals slaughtered (thousands)							
Cattle	153	184	164	...	20.4	-11.2	-10.4[c/]
Pigs	119	124	155	...	3.9	25.3	-1.0[c/]

Source: CEPAL, on the basis of official figures.

a/ Preliminary figures.
b/ Including maize, beans, milled rice and millet.
c/ Growth rate January-March 1978 compared with January-March 1977.

/Production of

Production of sugar cane dropped by 5.3%, mainly as the result of the lack of incentives owing to the depressed level of prices on the world market and the accumulation of stocks in the country.

For years attempts have been made to achieve self-sufficiency in grain production, particularly in the case of maize, which is the most important item in the people's diet. Only in the 1975-1976 harvests, when nearly 10 million quintals were obtained, were domestic requirements exceeded in the past, but as a result of the good weather conditions in 1978 a harvest of more than 12 million quintals was obtained, which again satisfied domestic requirements and even left a surplus for export.

El Salvador has traditionally been an exporter of rice; its production techniques are efficient and its yields high. The 1978 harvest, however, which like the maize harvest was exceptionally large, was difficult to dispose of, both because the rest of the countries of the area also obtained excellent harvests in general and also because of the high domestic costs of production, which were higher than international prices.

Substantial increases were also obtained in production of beans and millet or sorghum.

(ii) Manufacturing. The growth rate of the manufacturing product has dropped since 1976, when it reached 9.5%: in 1977 it was 6.5%, and in 1978 it was only 2.5% - the lowest level in the present decade. Between 1970 and 1977 the average annual growth rate of the manufacturing product was 7.5% (see table 3).

El Salvador's industrial sector has been one of those which have most benefitted from the Central American Common Market, since this not only represented its main market but also served as the foundation for the establishment of industries which began to export their products to markets outside the region; in recent years, however, with a few exceptions, this process has not been accompanied by investment in new plants or any significant expansion of those in existence. The structure of manufacturing at the beginning of the present decade has been maintained with slight modifications, and increases in production have been mainly due to advantage being taken of idle capacity. Between 1972 and 1977 the value of exports of manufactures to the region increased at an annual rate of 12%.

/El Salvador's

El Salvador's increased export earnings in 1976 and 1977 mainly went to construction and real estate transactions rather than the manufacturing sector. Furthermore, the political and social events which had been leading to situations since 1977 diverted abroad funds which would otherwise have been invested in the country or translated into consumption. Nor does the good agricultural harvest of 1978, which meant an increase in income for farmers, seem to have had large-scale repercussions on the domestic demand for manufactures. The smaller increase in construction activity must also have led to smaller demand for manufactured inputs.

The indexes of industrial production, calculated on the basis of current values, show an increase of 12.5% in 1978, the growth rates for chemicals and petroleum products being the highest and those for textiles (4.3%) and beverages (6.6%) the lowest (see table 5). Another indicator - industrial consumption of electricity - remained high in the first five months of the year.

Among the new industries which began operations in 1978 is one producing electronic goods and another producing gloves, both installed in the San Bartolo Free Zone for the export trade. In addition, under the Export Industries System, authorization was given to set up some clothing and plastic footwear industries. Among projects in preparation is an industry for catching and processing shrimp, with financing of 2 million dollars from the Central American Bank for Economic Integration (BCIE).

As regards the extension of established industries and new lines of production, mention may be made of the expansion of the installations of a sugar mill, the establishment of a factory for the production of cotton, polyester, rayon and other synthetic textiles, factories for ready-made clothing, zip fasteners, industrial gases and recording tapes, and the construction of a slaughterhouse.

Plans have been made to set up a tile factory and a shipyard with the participation of foreign capital, and State bodies continue to study projects for the metal manufactures, machinery and plastic industries.

/Table 5

Table 5

EL SALVADOR: INDICATORS OF MANUFACTURING PRODUCTION

	1976	1977	1978[a/]	Growth rates 1976	Growth rates 1977	Growth rates 1978[a/]
Manufacturing production index (1975 = 100)	112.0	123.6	139.1	12.0	10.4	12.5
Food	108.1	114.9	130.5	8.1	6.4	13.5
Beverages	112.3	121.9	129.9	12.3	8.5	6.6
Textiles	116.0	133.9	139.7	16.0	15.4	4.3
Footwear and clothing	119.1	133.2	149.6	19.1	11.7	12.5
Chemicals	114.2	124.3	143.5	14.2	8.8	15.4
Petroleum products	110.8	122.7	141.2	10.8	10.7	15.1
Other	113.2	129.6	148.2	13.1	14.5	14.4
Industrial consumption of electricity (millions of KWH)	458	514	565	11.7	12.2	10.0[b/]

Source: CEPAL, on the basis of data supplied by the Banco de Reserva de El Salvador.

a/ Preliminary data and estimates.

b/ Growth rate January-May 1978 compared with January-May 1977.

/During 1978

During 1978 work continued on the San Bartolo Free Zone, with financial support from the Central American Bank for Economic Integration for the construction of infrastructure work, buildings, etc.

Lastly, a loan of 9 million dollars was obtained from the World Bank to finance an industrial training programme.

(iii) Construction. The evolution of the construction sector has been very uneven in recent years: following a very rapid increase in 1975 with the support of public works there was a contraction of 9.5% in 1976, a recovery of 20% in 1977 and, lastly, growth of 7% in 1978.

Public investment continued with the construction of projects begun in previous years but did not begin any new works of importance. Mention should, however, be made of the favourable repercussions which the implementation of the northern trunk highway project began to have on this activity and on the economy as a whole. The loss of dynamism in construction can possibly be explained in part by the instability which prevailed during the year and which affected the private sector of this activity, which previously devoted large quantities of resources to the construction of housing.

(iv) Basic services. Electricity, gas and water again showed a high rate of growth in 1978 of almost 11% (see table 3), which was the same as the average annual growth rate of this activity since 1975. This fact, as already pointed out last year,2/ was probably the result of the notable effort to expand the energy sector made in the past by the public sector, which has led to the expansion of generating capacity and also to structural changes in the sources of energy, consisting of the replacement of petroleum by hydro and geothermal energy, with the consequent reduction in production costs. Electrification continued to expand in 1978, and the use of electrical energy in industry increased.

The growth rate of transport, and storage and communications services has slowly declined over the last three years as the result of the generalized decline in production and the slower growth of the import trade.

2/ See CEPAL, Economic Survey of Latin America, 1977.

/In 1978

In 1978 studies were completed on providing the port of Acajutla with a container terminal. This will improve the country's loading and unloading conditions and eliminate the bottleneck which at present restricts the expansion of industry.

3. The external sector

In 1976 and 1977 the price of coffee, which is El Salvador's main export product, nearly quadrupled, so that the value of exports of goods increased from 533 million dollars in 1975 to 972 million in 1977 and there was a 96% improvement in the terms of trade. In the second half of 1977, however, the international price of coffee began to drop, and El Salvador, with other coffee-producing countries, decided as already noted, to withhold sales so as to try to rectify the downward trend in prices. This measure was unsuccessful, and coffee prices continued to drop. Only in the last two months of the year were exports resumed, and although larger quantities than usual were sold abroad it did not prove possible to recover the export volume of a normal year.

It is estimated, on the basis of data up to October, that in 1978 the export prices of coffee from El Salvador dropped by around 26% and those of cotton, the second export product, by more than 15%. This last drop was more than offset, however, by the appreciable increase in the volume exported. It is estimated that the final position was that exports of goods dropped by approximately 12% in 1978, while the terms of trade declined by 26% and the purchasing power of exports by 17% (see table 6).

As regards El Salvador's imports, these grew by 10%, in 1978, i.e., less, than half the rate of the two previous years. With the addition of services, the negative trade balance increased by 250 million dollars and the deficit on the current account of the balance of payments increased from 14 million dollars in 1977 to 238 million dollars in 1978, or 25% of the total exports of goods and services.

/Table 6

Table 6

EL SALVADOR: MAIN INDICATORS OF FOREIGN TRADE

	1973	1974	1975	1976	1977	1978
			Growth rates			
Exports of goods						
Value	18.8	29.6	14.7	39.7	30.7	-12.1
Volume	-4.2	4.2	11.6	1.5	-15.4	12.1
Unit value	24.0	24.3	2.8	37.6	54.5	-21.5
Imports of goods						
Value	36.1	53.7	5.4	24.2	25.7	10.1
Volume	16.9	8.1	-4.6	28.1	12.2	4.3
Unit value	16.4	42.1	10.5	-3.0	12.0	5.6
Terms of trade	6.5	-12.5	-7.0	41.9	38.0	-25.7
			Indexes (1970 = 100)			
Terms of trade	103.5	90.6	84.2	119.5	164.9	122.5
Purchasing power of exports of goods	121.0	110.3	114.5	164.9	192.4	160.2

Source: CEPAL, on the basis of official data.

/During the

During the year there was an extraordinarily high net inflow of non-compensatory and compensatory capital of around 300 million dollars, which made it possible to increase gross international reserves by 58 million dollars; the net international reserves went down, but by a much smaller figure.

(a) Trade in goods

It is estimated that the total value of exports of goods decreased from 972 million dollars in 1977 to 855 million in 1978. The available data show a drop in coffee sales of the order of 26% and a smaller variation in the exports of other main products, with the exception of those of cotton which are estimated to have increased by 17% during the year although the price dropped by slightly over 15%. It is estimated that 455 million dollars' worth of coffee was exported, compared with 611 million in 1977; up to October, the volume dropped by 62% and the average price by 26%,3/ which means that sales increased a great deal in the last two months of the year.

According to the information available for the first nine months of 1978, there was a slight drop in the value of exports of other traditional export products, such as sugar and shrimps, basically as a consequence of the evolution of their respective international prices (see table 7).

Among non-traditional exports the only considerable increase in value was in insecticides, which are mainly sold on the Central American market. To a lesser extent there was an increase in the value of exports of "other products", which in 1978 accounted for nearly 27% of total sales.

During 1978 an export promotion policy continued to be followed, and more resources were allocated to industrial activity with the idea of increasing its external competitive capacity. In addition to continuing to grant the fiscal incentives provided for in the 1974 Export Development Act (mainly drawback-type incentives), the construction of the physical infrastructure in the San Bartolo Free Zone was promoted and progress is made in improving port facilities, as already noted. In addition, as a result of the extension of the bilateral treaty with Panama the list of industrial

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3/ The evolution of the international price of 100 pounds of coffee in recent years was as follows: 1974, 67 dollars; 1975, 71 dollars; 1976, 142 dollars; 1977, 256 dollars and 1978, 155 dollars.

/Table 7

Table 7

EL SALVADOR: EXPORTS OF GOODS (FOB)

	Millions of dollars				Percentage breakdown		Growth rates		
	1975	1976	1977	1978[a]	1970	1978[a]	1976	1977	1978[a]
Main traditional exports									
Coffee [b]	172	384	611	455	51.1	53.2	123.4	59.1	-25.6
Cotton [c]	76	64	82	96	9.8	11.2	-16.0	28.1	-17.1
Sugar	82	41	26	25	3.0	2.9	-50.7	-34.8	-3.8
Shrimps	10	12	10	10	2.2	1.2	14.6	-11.9	-
Main non-traditional exports									
Perfumery products and cosmetics	8	9	11	10	1.4	1.2	6.0	18.0	-9.1
Insecticides and fungicides	5	6	6	8	0.8	0.9	18.4	-	33.3
Cotton yarn and thread	5	7	10	9	1.3	1.1	50.0	49.2	-10.0
Clothing	13	16	18	13	2.6	1.5	17.4	12.9	-27.8
Rest	162	205	198	229	27.8	26.8	30.3	7.9	15.6
Total	533	744	972	855	100.0	100.0	39.9	30.8	-12.0

Source: CEPAL, on the basis of figures supplied by tne Banco de Reserva de El Salvador.

a/ Estimates.

b/ Including green, soluble and roasted coffee.

c/ Including cotton waste.

/products eligible

products eligible for preferential treatment in that market was amplified and El Salvador also began to participate, through the Central Reserve Bank, in the share capital of the Latin American Export Bank, set up in 1977.

Imports of goods amounted to 946 million dollars compared with 859 million in 1977, this 10% increase being due to the 5.6% increase in the unit value. Unlike exports, the data up to the month of September on the structure of imports by type of goods is quite revealing (see table 8). The biggest increase was observed in imports of consumer goods (22%), and bearing in mind the fact that the country was able to supply its own needs in basic grains, this increase corresponded basically to imports of consumer durables. Imports of capital goods would seem barely to have exceeded in volume those of the previous year, as a result of the slower rate of private investment and the lack of any large-scale new industrial development projects.

(b) The balance on current account and its financing

The decrease in the value of exports of goods and the increase in imports meant that the trade balance on goods sank from over 113 million dollars in 1977 to 91 million in 1978. The negative balance on services, for its part, increased from 116 to 163 million dollars over the same period, so that the trade deficit increased from 3 to 254 million dollars.

Remittances of profits abroad on foreign investment and payments of interest dropped from 44 to 36 million dollars, while there was a net income of 52 million dollars from private transfer payments.

The movement of the various current account items in question in 1978 resulted in an unprecedented deficit of 238 million dollars on the balance-of-payments current account - 224 million dollars higher than that of the previous year and equivalent to a quarter of exports of goods and services (see table 9).

At the same time, however, there was a notable increase in 1978 in the inflow of capital, especially in a form which could be used to offset the smaller income from exports. Thus, whereas the net inflow of capital in 1977 was 58 million dollars, the figure increased to 296 million in 1978, making possible an increase in gross international reserves of 58 million dollars, although net reserves apparently showed a slight decline.

/Table 8

Table 8

EL SALVADOR: IMPORTS OF GOODS (FOB)

	Millions of dollars				Percentage breakdown		Growth rates		
	1975	1976	1977	1978[a]	1970	1978[a]	1976	1977	1978[a]
Consumer goods	141	173	209	254	33.4	24.9	22.6	20.7	21.5
Intermediate goods	303	360	483	515	48.9	50.5	18.6	34.3	6.6
Petroleum and fuels	46	50	86	92	1.2	9.0	8.9	71.1	7.0
Others	257	310	397	423	47.7	41.5	20.3	28.3	6.5
Capital goods	154	185	235	250	17.7	24.6	20.2	27.0	6.3
Total	598	718	927	1 019	100.0	100.0	19.9	29.1	9.9

Source: CEPAL, on the basis of figures supplied by the Banco de Reserva de El Salvador.

a/ Estimates.

/Table 9

Table 9

EL SALVADOR: BALANCE OF PAYMENTS

(Millions of US dollars)

	1973	1974	1975	1976	1977	1978 a/
Current account						
Exports of goods and services	399	514	595	821	1 051	948
Goods FOB b/	358	464	533	744	972	855
Services	41	50	62	77	79	93
Transport	11	12	13	13	13	15
Travel	11	16	19	21	23	27
Imports of goods and services	444	646	687	844	1 054	1 202
Goods FOB b/	340	522	551	684	859	946
Services	104	124	136	160	195	256
Transport	43	53	61	72	89	96
Travel	35	37	34	43	58	100
Net payments of profits and interest on foreign capital	-14	-22	-29	-23	-44	-36
Profits	-10	-11	-11	-15	-21	-17
Interest	-4	-11	-18	-8	-23	-19
Net private transfer payments	12	17	25	27	33	52
Balance on current account	-47	-137	-96	-19	-14	-238
Capital account						
Net external financing (a+b+c+d)	47	137	96	19	14	238
(a) Long-term capital	7	144	95	81	18	
Direct investment	6	21	12	32	45	
Private sector	-5	19	5	9	-6	
Loans	8	32	21	25	16	
Amortization payments	-13	-13	-16	-16	-22	
Official sector	15	44	72	40	-6	
Loans	26	49	90	49	49	
Amortization payments	-6	-8	-17	-8	-55	
Other assets and liabilities (net)	-5	3	-1	-1	-2	296
Monetary authorities (net)	-9	60	6	-9	-15	
(b) Short-term capital (net)	26	4	30	19	34	
Private sector	17	8	23	28	-17	
Official sector	5	-	-3	1	3	
Errors and omissions	4	-4	10	-10	48	
(c) Official transfer payments	2	1	2	3	6	
(d) International reserves (minus sign signifies an increase)	12	-12	-31	-84	-44	...
Use made of IMF credit	-10	22	-	-6	-15	...
Other liabilities	1	2	-2	-	-2	...
Monetary gold	-	-	-	-	-2	2
Special Drawing Rights	-	-	-	-	-5	-
IMF reserve position	-	-	-	-	-6	-5
Foreign exchange	21	-36	-29	-78	-15	-51

Source: 1973-1977: International Monetary Fund, Balance of Payments Yearbook, vol. 24; 1978: CEPAL, on the basis of official data.

a/ Preliminary figures.

b/ Including non-monetary gold.

/At the

At the end of September 1978, the disbursed public external debt amounted to 311 million dollars: 11% higher than at the end of the previous year and equivalent to one-third of total exports.

4. Prices and wages

The upward trend of consumer prices observed until 1975, when inflation was 19%, slowed down to 7% in 1976 but in 1977 there was renewed acceleration to 12%, and in 1978 the figure was over 13%. Although in international terms these variations could not be considered very inflationary, they are significant for the Central American region and particularly for a country like El Salvador which has traditionally enjoyed price stability and for some time there has been a fixed parity between the colón and the US dollar.

Everything would appear to indicate that the policy of price liberalization and the increase in interest rates resulted towards the end of 1978 in a speeding up of domestic price rises. Indeed, in 1977 and 1978 the December-December price index showed even larger increases of 14.9% and 14.6%, respectively (see table 10). The price of food, however, increased at lower rates than the global index.

As regards wages, there were no obligatory rises during the year except for the increase in the minimum wage granted at the end of 1977 in some branches of activity, which came into force at the beginning of 1978. Decrees adopted in November and December 1977 provided for an increase of 10% in the wages of coffee harvesters, 13% in manufacturing and services in general in the city of San Salvador, and 11% for other municipalities.

5. Monetary and fiscal policy

(a) Monetary policy

Developments in monetary and fiscal matters were broadly in line with the influence of the main features of El Salvador's economic evolution in 1978, namely, the drop in the price of coffee, whose effects were aggravated as a result of the policy of withholding stocks which was only modified in the latter months of the year; the change in the economic policy line of the new government which had come to power the previous year, but which was more

/Table 10

Table 10

EL SALVADOR: EVOLUTION OF DOMESTIC PRICES

	1973	1974	1975	1976	1977	1978[a/]
	Variation from December to December					
Consumer price index	7.9	21.0	15.1	5.2	14.9	14.6
Food	10.6	20.2	16.9	5.8	8.9	12.7
	Average annual variation					
Consumer price index	6.4	16.9	19.2	7.0	11.9	13.2
Food	7.5	17.3	20.5	7.0	8.7	10.7

Source: CEPAL, on the basis of official figures.

a/ Preliminary figures.

/clearly felt

clearly felt in 1978; the prevailing climate of instability, which particularly affected the private sector's investment decisions; the drop in the growth rate of the product, and lastly, the greater demand for credit caused by the coffee withholding policy.

The money supply increased by 10% in 1978: a higher rate than that of the previous year but very much lower than that recorded in 1976 (see table 11). As regards its evolution during the year, there was a large increase in the means of payment in the first few months, but this growth rapidly declined during the second half of the year.

Within the general line of the policy of greater economic liberalization and rapprochement to the private sector, and under the pressure of the substantial balance-of-payments current account deficit already mentioned, a restrictive monetary policy was gradually adopted. The passive interest rate was raised with the aim not only of avoiding the flight of capital but also of succeeding in reversing this trend, and at the same time the active rates were also gradually increased and an attempt was made to encourage enterprises to seek loans from private banks abroad.

The rediscount rate was also reduced, except on certain priority lines, and this was offset with the resources obtained by reducing the legal reserves from 30% to 20%. This reduction was used by the banks to obtain rediscount lines benefitting certain agricultural activities which it was especially desired to stimulate. The main objective of these measures affecting interest rates and rediscount rates was to attract foreign capital, in keeping with government policy; except in the case of development activities, foreign financing can now be obtained on more favourable terms than financing within the country.

Among the factors of expansion, net international reserves increased by the relatively moderate amount of 14% in 1978 (slightly less than the growth of domestic credit) after virtually stagnating the year before. This was essentially due to the fact that the big increase in long-term loans from abroad was neutralized by the deficit on the current account of the balance of payments.

/Table 11

Table 11

EL SALVADOR: MONETARY POSITION

	End-year balance (millions of colones)				Growth rates		
	1975	1976	1977	1978[a]	1976	1977	1978[a]
Money	**648**	**917**	**988**	**1 086**	**41.4**	**7.8**	**9.9**
Currency outside banks	253	380	432	500	50.1	13.8	15.9
Demand deposits	395	537	556	586	35.9	3.6	5.4
Factors of expansion	**1 860**	**2 269**	**2 603**	**3 003**	**22.0**	**14.7**	**15.4**
Foreign assets (net)	325	514	514	586	58.0	-	13.9
Domestic credit	1 535	1 755	2 089	2 417	14.4	19.0	15.7
Government (net)	31	-21	-127	-98			
Official entities	182	195	294	295	7.3	50.9	0.3
Private sector	1 322	1 581	1 922	2 220	19.6	21.5	15.5
Factors of absorption	**1 212**	**1 352**	**1 615**	**1 917**	**11.6**	**21.9**	**18.7**
Quasi-money (savings and time deposits)	705	854	1 015	1 154	21.1	18.9	13.7
Bonds	117	123	220	230	5.6	78.8	4.4
Long-term foreign borrowing	291	268	232	358	-8.0	-13.6	54.8
Other items (net)	99	107	148	175	8.5	37.2	18.2

Source: CEPAL, on the basis of data supplied by the Banco de Reserva de El Salvador.

a/ Preliminary figures.

/Credit granted

Credit granted to the private sector increased by 16%. This was less than in 1977 and was both the result of the weakening in economic activity and a contributory factor in this. Although the portfolio ceilings were maintained, the banks being required to earmark 80% of them for productive purposes, it is estimated that by this means some outlet of funds was facilitated for import purposes, especially for consumer durables. There was no strong pressure of demand for credit, even for investment, as may be seen from the continuing growth of quasi-money.

Outstanding among the factors of absorption were the long-term external loans, which increased by 55% in keeping with the Government's stated policy. Since the servicing of the external debt still represented only a small proportion of exports, its medium-term effects could not be evaluated.

Generally speaking, in production circles it is considered that the restrictive measures adopted stemmed from a lack of liquidity, which had an adverse effect on activities. The scarcity of funds also affected other financial bodies, such as the savings and loan institutions, whose sphere of action had progressively increased in previous years. These organizations also increased their interest rates during 1978, discouraging private construction.

(b) Fiscal policy

In keeping with the general lines of economic policy, the fiscal policy tended to put into practice measures implying a stimulus to private activity, particularly that involving foreign capital. For example, the rate on profits remitted abroad was reduced from 30% to 20%. There were also projects which tended to favour the capital formation of enterprises, since it was the Government's intention to reduce the sliding scale applied to the reinvestment of profits. It was also planned to increase the deductions permitted for each child and for medical expenses, so as to mitigate the inflationary impact on income tax, and lastly, it was proposed to reduce the tax on coffee - which was lowered in 1977 from 3.50 to 2 colones per bag - to 1 colón.

There was a considerable drop (13%) in current income, mainly owing to the decline in indirect taxes and particularly those on external trade, which dropped by 36% as a result of the sharp fall in coffee exports. Domestic indirect taxes decreased by 23%, perhaps because of the slower increase in domestic commercial transactions and consumption.

/Direct taxes

Direct taxes, however, brought in revenue 21% higher than in the previous year, which is explained by the lag in the collection of the income tax for 1977, a year of very high incomes. These very marked variations in the tax yield show the high degree of dependence of fiscal earnings on the performance of external variables (see table 12).

Although an austerity policy was followed in public spending, because of its inflexibility it nevertheless increased by 18%. This rate was a good deal less than the 1976 and 1977 rates of 34% and 28%, however. The reduction in the growth rate of fiscal expenditure mainly affected capital expenditure, especially capital transfers to decentralized bodies and public enterprises. Current expenditure increased by 24% despite the measures taken not to fill vacant public posts.

As regards investment, the basic public works in progress were continued, especially in the field of infrastructure; special mention may be made of the construction of city streets, the northern trunk highway, the new airport of San Salvador and its motorway, the dam for the San Lorenzo hydroelectric power station, and the exploration of new geothermal plants. All this meant that even with the announced austerity policy the real investment spending increased by 81%; however, there was a drastic cutback in capital transfers, which represent the most important source of finance for the investments made by the decentralized institutions.

Current saving dropped by 63%, and the surplus situation of the previous two years became a deficit of 192 million colones in 1978, equivalent to 16% of total expenditure. It may well be asked what implications there are likely to be for the economic growth of the country if such an unfavourable conjuncture for coffee is maintained and if the financial resources of the government continue to decline.

/Table 12

Table 12

EL SALVADOR: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of dollars				Growth rates		
	1975	1976	1977	1978[a]	1976	1977	1978[b]
Current income	578	810	1 182	1 027	40.2	45.8	-13.1
Tax revenue	541	768	1 131	972	41.8	47.4	-14.1
Direct	154	187	237	286	21.3	27.0	20.7
Indirect	387	581	894	687	49.9	54.0	-23.2
From taxed on external trade	205	355	624	402	73.7	75.5	-35.6
Current expenditure	446	547	680	843	22.4	24.2	24.0
Wages and salaries	229	299	349	411	30.6	16.8	17.8
Other current expenditure	217	248	331	432	14.9	33.1	30.5
Saving on current account	132	263	502	184	98.3	90.7	-63.3
Capital expenditure	154	259	352	376	67.6	36.2	6.8
Real investment	62	102	120	217	66.1	17.7	80.8
Amortization of the debt	20	24	29	33	16.9	24.7	13.8
Other capital expenditure	72	133	203	126	82.9	52.6	-37.9
Total expenditure	600	806	1 032	1 219	34.4	28.1	18.1
Fiscal surplus or deficit	-22	4	150	-192			
Financing of deficit							
Domestic financing	-61	-82	-193	130			
Central bank	...	...	-12	...			
Issue of securities	...	...	-21	...			
Other	...	...	-160	...			
External financing	83	78	43	62			

Source: CEPAL, on the basis of data supplied by the Banco Central de Reserva and the Ministry of Finance.

a/ Estimate based on data for nine months.

b/ Growth rate during the period January-September 1978 compared with January-September 1977.

GRENADA

1. The overall picture

In 1976, the population of Grenada was estimated to be 109 thousand, or 318 inhabitants per square kilometer, a population density exceeded only by that of Bermuda, Barbados and Haiti in the Western Hemisphere. Based on the GDP figure of EC$ 84 million at current factor cost and an exchange rate of EC$ 2.70 per US dollar, the per capita GDP is estimated to have been in the neighbourhood of US$ 285 in that year, with merchandise imports equal to 78% of GDP and merchandise exports to 40%.

The year 1976 is also the most recent for which official national income estimates are available (see table 1). That year nominal GDP rose 4%, while the rate of inflation reached 17%. Based on the few available indicators, the current value of the GDP for 1977 is estimated to have changed by 10 to 12%, while estimates for 1978 suggest a 13 or 14% increase in nominal terms. In view of the estimated rates of inflation of 18% in 1977 and 15 to 20% in 1978, it may be surmised that the real product showed no growth in either of the last two years.

The Grenadian economy is experiencing high unemployment of about 25 to 30%, great disparity in sectoral development, a relatively low level of investment activity, and strong inflationary trends. Some price control measures were instituted during 1978, but the full results will probably not be noted until 1979.

Overall activity in 1978 was influenced by improved performance in the export agriculture subsector, the tourism sector and the government sector. The output of most agricultural export crops was larger and relatively higher prices also favoured the sector. Buoyancy in tourism was sustained, as the number of visitors, length of stay and tourist expenditure were substantially above the 1977 levels. Public sector activity was slightly higher on account of larger public spending, notiwthstanding the limited revenue resources. The construction and manufacturing sectors, however, performed below the anticipated levels.

/Table 1

Table 1

GRENADA: GROSS DOMESTIC PRODUCT BY SECTOR OF ECONOMIC ACTIVITY, AT CURRENT FACTOR COST, 1974-1976

	Thousands of East Caribbean dollars			Percentage breakdown		Annual growth rates		
	1974	1975	1976	1972	1976	1974	1975	1976
Agriculture	16 346	23 122	25 682	20.5	30.6	24.3	41.5	11.1
Mining and quarrying	182	89	89	0.2	0.1	65.5	-51.1	-
Manufacturing	2 987	3 614	4 313	4.1	5.1	13.9	21.0	19.3
Construction	2 871	5 713	3 348	9.3	4.0	-52.3	99.0	-41.4
Subtotal goods	22 386	32 538	33 432	34.1	39.8	2.2	45.3	2.7
Electricity and water supply	1 161	1 363	1 377	1.3	1.6	44.0	17.4	1.0
Transport and communications	7 154	7 771	8 160	9.0	9.7	23.0	8.6	5.0
Subtotal basic services	8 315	9 134	9 537	10.3	11.3	-	9.8	4.4
Commerce and finance	13 297	16 031	17 566	23.5	20.9	-11.6	20.6	9.6
Ownership of dwellings	5 629	5 685	5 742	8.6	6.8	2.0	1.0	1.0
Public administration and defence	6 792	7 207	7 016	10.4	8.4	1.7	6.1	-2.7
Miscellaneous services	8 946	9 869	10 615	13.1	12.7	6.6	10.3	7.6
Subtotal other services	34 664	38 792	40 939	55.5	48.8	-2.7	11.9	5.5
Total gross domestic product	65 365	80 464	83 908	100.0	100.0	1.9	23.1	4.3

Source: CEPAL, on the basis of official data.

/The country's

The country's merchandise trade expanded, and domestic exports, which grew by 20% outstripped imports, which rose by only 12%, although the total value of imports continued to be more than double that of domestic exports. The deficit on visible trade stood at $ 50 million 1/ in 1978, or 13% above the value of domestic exports. However, this percentage relation is certainly an improvement when contrasted with the deficit of 25% above domestic exports recorded in 1977. The overall external transactions should result in a strengthening of the country's balance-of-payments position, thus reversing the downward trend of 1977.

The Government budgeted for a deficit of over $ 3 million on current account in 1978 in spite of improvement in tax administration, imposition of additional taxes, and stricter budgetary control measures.

2. Sectoral developments

(a) Agriculture

Agriculture turned in a mixed performance during 1978, but the available data indicate an overall improvement (see table 2). The 1978 figures indicate a nominal 17% rise over the previous year, but real growth is estimated to have been relatively small during the year.

The 1978 expansion was largely due to higher volume of output of some commodities and relatively higher export prices, particularly for cocoa (see tables 2 and 7). Cocoa bean production grew by 18%, in contrast with the 25% drop in 1977, and output of bananas also recovered to register 3% growth. However, preliminary data indicate decreases of 15% and 18% in the output of nutmegs and mace, respectively. This decline is attributable to the cyclical bearing pattern of nutmegs, and it was only partly offset by a slightly higher increase in export prices.

Domestic agriculture continued to perform below expectations during 1978, and there were declines in the volume of output of a large number of commodities. The cultivation practices followed with respect to sugar cane were poor in 1978, the main problem being lack of proper fertilization, and the result was a 4% drop in output of sugar cane in spite of a 22% increase in the area planted. However, sugar cane output in 1979 is expected to expand substantially.

1/ Except where otherwise stated, East Caribbean dollars are used throughout.

/Table 2

Table 2

GRENADA: INDICATORS OF AGRICULTURAL PRODUCTION

	1975	1976	1977	1978	Annual growth rates 1976	1977	1978
Main export crops a/							
Nutmegs	1 816	2 398	2 455	2 087	32.0	2.4	-15.0
Mace	136	320	331	271	135.2	3.4	-18.1
Cocoa beans	2 411	2 713	2 046	2 413	12.5	-24.6	17.9
Bananas	13 657	16 220	15 240	15 656	18.8	-6.0	2.7
Domestic crops							
Sugar-cane	6 057	10 538	16 452	15 826	74.0	56.1	-3.8
Root crops							
Yams	456	465	511	496	2.0	9.9	-3.0
Sweet potatoes	318	340	405	391	6.9	19.1	-3.5
Tannias	227	256	273	280	12.8	6.6	2.6
Dasheen and eddoes	143	163	173	166	14.0	6.1	-4.0
Cassava	290	231	181	164	-20.0	-21.6	-9.4
Vegetables							
Carrots	22	42	44	42	90.9	4.8	4.5
Tomatoes	54	67	76	55	24.1	13.4	-27.6
Cabbages	32	39	56	57	21.9	43.6	1.8
Fruit							
Oranges	771	750	891	961	-2.7	18.8	7.9
Mangoes	1 122	1 263	1 454	1 445	12.6	15.1	-0.6
Grapefruits	1 225	1 252	1 555	2 009	2.2	24.2	29.2
Limes	581	635	445	499	9.3	-30.0	12.1
Avocados	1 370	907	989	1 240	-33.8	9.0	25.4

Source: Data supplied by the statistical unit, Ministry of Agriculture, Forestry and Fisheries; and data supplied to CEPAL.

a/ See figures in metric tons.

/Demand for

Demand for the country's agricultural output remained relatively high, and with few exceptions export and domestic prices were higher in 1978 than in 1977. On the external market, the most significant change was in the export unit value of cocoa beans, which registered a 92% rise. In contrast, the unit value of mace fell by almost 11%.

(b) Manufacturing

Preliminary data on some aspects of manufacturing activity during 1978 suggest some improvement (see table 3).

In 1976 this sector accounted for a mere 5% of GDP at current factor cost. The base of the sector has remained narrow in spite of attempts to diversify industrial output. Some of the constraints hampering industry include the small size of domestic markets, competitive manufactures in regional markets, lack of capital, scarcity of entrepreneurial skills and general local economic uncertainty. The impact of these limitations seems even greater now than before.

During 1978, the performance of the sugar cane sector fell far below the projected level, as only a 13% rise in sugar output was achieved. Outputs of molasses and syrup are estimated to have declined in 1978. The volume of rum produced declined for the second successive year. Malt output also fell.

The outputs of coconut meal, edible oils, and laundry soap were higher in 1978 than in 1977. The recovery of edible oils and coconut meal was significant after the decline in 1977, and was influenced by the 40% upturn in local copra production, plus imports of copra from a neighbouring island which supplemented local output and reduced idle capacity in the processing plant.

(c) Construction

Construction activity continued to stagnate in 1978 after the sharp decline recorded in 1976. Since the upsurge in 1975 there have been no major construction projects.

/Table 3

Table 3

GRENADA: INDICATORS OF MANUFACTURING PRODUCTION

	1975	1976	1977	1978	Growth rates 1976	1977	1978
Sugar a/	-	8	522	592	...	6 425.0	13.4
Nutmeg oil a/	1 497	590	3 311b/	...	-60.4	...	...
Cotton (lint) c/	13 381	6 985	7 031	...	-47.8	0.7	...
Coconut meal d/	91	135	106	153	48.4	-21.5	44.3
Laundry soap a/	15 558	32 432	24 585	25 809	108.5	-24.2	5.0
Rum d/	481	431	398	337	3.1	-7.7	-15.3
Beer d/	402	615	1 133	1 447	53.0	84.2	27.7
Malt d/	113	229	272	187	102.7	18.8	-31.2
Edible oil d/	178	324	244	290	82.0	-24.7	18.9
Clothing e/	...	340	743	1 012	...	118.5	36.2

Source: Data supplied by Statistical Office, Grenada; Customs Department, Grenada; and data supplied to CEPAL.

a/ Metric tons.
b/ Data relate to exports.
c/ Kilograms.
d/ Thousands of litres.
e/ Export values of clothing in East Caribbean dollars.

/Public sector

Public sector construction, which is generally a major determinant of overall construction activity, remained at a low level in 1978. Lack of domestic finance and difficulty in negotiating foreign capital impeded implementation of the public sector construction programme, and with few exceptions activity was therefore limited to routine maintenance and repairs to roads, bridges and public buildings.

The country's "ongoing" school programme went a step forward with the completion of one junior secondary school. The only other development of note relates to improvement to hospital facilities, financed from the European Development Fund. At the end of 1978, this project was 50% completed.

The feeder road development programme which was expected to be reactivated during 1978 did not materialize, and commencement of work is now scheduled for April 1979. The sector was also hampered by lack of transport facilities and quarrying materials, which were necessary to bring various outstanding construction projects to completion during 1978.

Indicators of private sector construction activity are not available, but it is estimated that there was a marginal improvement. There seems to have been a slight increase in the repair and construction of private dwellings following the wage agreement for public servants in early 1978.

(d) Tourism

The number of stop-over visitors grew by 13% in 1978, as against 16% during 1977 (see table 4). Cruise passengers registered a 7% increase. However, the total number of visitors for both categories was still 10% below the 1973 level. The overall expansion in tourist visitors in 1977 and 1978 must be mainly attributed to the severity of the winters in North America and Europe as well as the general economic recovery in those areas. The number of cruise-ship calls in 1978 was 2% higher than in 1977, while there was a 29% increase in the number of yachts calling in 1978.

Official estimates of visitors' expenditure jumped almost 100% in 1978. Part of this substantial increase is due to improvement in the formula used for estimating visitors' expenditure, however, so the 1978 data on expenditure are not directly comparable with similar data for previous years.

/Table 4

Table 4

GRENADA: SELECTED TOURISM INDICATORS

	1975	1976[a]	1977[a]	1978[a]	Growth rates 1976	1977	1978[a]
Stop-over visitors	21 059	24 551	28 536	32 336	16.6	16.2	13.3
Cruise-ship visitors	85 460	106 882	108 465	116 331	25.1	1.5	7.3
Number of cruise-ship calls	153	187	184	188	22.2	-1.6	2.2
Number of yacht calls	1 258	1 436	1 609	2 079	14.1	12.0	29.2
Average length of stay of stop-over visitors (days)	13.5	12.1	14.4	18.7	-10.4	19.0	29.9
Number of hotel and guest house beds	1 800	1 800	1 500[b]	1 500[b]	-	...	-
Estimated visitors' expenditure (thousands of East Caribbean dollars)	15 599	16 627	21 565	39 438[c]	6.6	29.7	...

Source: Data supplied by the Grenada Tourist Board.

a/ Provisional figures.

b/ The decrease in 1977 compared with 1976 is a result of the use of some rooms in certain establishments to accommodate medical students from the University of St. George's.

c/ The 1978 data are not exactly comparable with previous years, and the large increase shown is due to revision of the formula used to estimate visitors' expenditure which took effect in that year.

/Indications are

Indications are that the occupancy rate continues to be low and that the industry is operating far below existing capacity, although in 1978 the average length of stay of stop-over visitors increased by 30%.

The reduction of internal tensions had a favourable impact, as did improvements in tourist-related services. These included better organization of the taxi drivers' association and the regularizing of taxi fares, and improvement in the quality and variety of entertainment. The lack of adequate air services continues, however, to prejudice the development of the sector.

3. The external sector

(a) Merchandise trade balance

Some improvement was achieved in the external sector during 1978, but growth was not evenly spread. Foreign exchange earnings from exports rose by 19%, while the value of imports increased about 13%, as against a 28% rise in 1977.

The country's merchandise trade deficit exceeded the value of merchandise exports by some 12% in 1978, which was an improvement on the 25% recorded in 1977, and the 8% growth in absolute terms of the deficit in 1978 must be compared with the increase of 44% recorded in 1977 (see table 5).

Grenada's merchandise exports are still concentrated on four principal commodities: cocoa beans, bananas, nutmegs and mace, and these accounted for roughly 95% of the total value of domestic exports between 1975 and 1977. There was a 2% drop in their contribution in 1978, however. Earnings from these four items covered 47% of the cost of imports in 1975-1976, 41% in 1977 and 43% in 1978 (see table 6).

The value of nutmegs exported contracted by 33%, but earnings from cocoa beans were sufficiently high to more than offset this. Excluding mace, the average unit value of the major exports was higher than in 1977, and that of cocoa practically doubled (see table 7). The value of non-traditional exports, namely clothing and furniture, recorded sizeable increases.

Though detailed data on imports are not yet available, it is clear that prices were higher during 1978. Given the small size and narrow productive base of the economy, the internal price level fluctuates in line with import prices.

/Table 5

Table 5

GRENADA: EXPORTS, IMPORTS AND BALANCE ON VISIBLE TRADE

(Millions of East Caribbean dollars)

Year	Domestic exports	Total exports	Imports	Balance of visible trade
1974	17.7	19.3	37.1	-17.8
1975	25.9	26.9	52.8	-25.9
1976	32.1	34.1	66.2	-32.1
1977	37.0	38.5	84.8	-46.3
1978 a/	44.4	45.7	95.8	-50.1

Source: Data supplied by the Statistical Office, Grenada.

a/ Preliminary data.

/Table 6

Table 6

GRENADA: EXPORTS OF GOODS

	Millions of East Caribbean dollars				Percentage breakdown a/		Growth rates a/		
	1975	1976	1977	1978	1974	1978	1976	1977	1978
Main traditional exports									
Nutmegs	9.9	12.5	16.0	10.7	34.2	24.2	25.5	28.2	-33.0
Mace	1.4	2.8	1.6	1.7	8.0	3.9	94.2	-41.1	6.9
Cocoa	6.8	8.6	8.9	19.6	30.7	44.1	26.8	3.7	120.2
Bananas	6.5	7.7	8.6	9.3	18.6	21.0	17.5	12.7	7.8
Subtotal	24.7	31.5	35.2	41.4	91.4	93.2	27.7	11.7	17.6
Other exports									
Clothing	...	0.3	0.7	1.0	...	2.3	...	118.5	36.2
Furniture	...	0.1	0.4	0.7	...	1.6	...	214.4	82.2
Others	0.1	0.3	0.3	0.5	1.6	1.4	113.0	3.2	55.9
Subtotal	...	0.7	1.5	2.3	...	5.3	...	87.8	59.4
Total domestic exports	25.9	32.9	37.0	44.4	100.0	100.0	27.1	12.5	19.9
Total exports	26.9	34.1	38.5	45.7			26.8	12.7	18.8

Source: Statistical Office, Grenada, and data supplied to CEPAL.

a/ Absolute amounts have been rounded; annual growth rates were calculated from the unrounded amounts.

/Table 7

Table 7

GRENADA: AVERAGE EXPORT UNIT VALUES OF SELECTED PRODUCTS

	East Caribbean dollars per pound a/				Growth rates a/		
	1975	1976	1977	1978	1976	1977	1978
Bananas	0.23	0.23	0.28	0.29	-	27.2	3.6
Nutmegs	2.21	2.09	2.42	2.46	-5.4	9.5	1.7
Mace	4.00	3.00	3.32	2.96	-25.0	10.7	-10.8
Cocoa	1.41	1.46	1.94	3.72	3.6	32.9	91.8
Lime juice	0.18	0.15	...	...	-16.7	...	...
Cloves	5.25	5.85	9.65	9.61	11.4	65.0	-0.4
Lime oil	11.00	10.50	...	...	-4.5	...	...

Source: Calculated from external trade data provided by the Statistical Office, Grenada.

a/ Provisional data.

/No significant

No significant changes are apparent in the country's direction of trade, and most of Grenada's exports are shipped to the United Kingdom and the EEC in that order. Imports, on the other hand, came from a wider range of sources, with Europe and North America supplying a substantial proportion. However, supplies from the CARICOM area are growing

(b) The balance of payments

Official balance-of-payments statistics are not prepared in Grenada, but it is estimated that the overall balance-of-payments position showed a slight improvement in 1978. As regards current account transactions, the deficit on visible trade appears to have been offset by earnings from net gains on travel and private transfers from nationals abroad, while on the capital account private capital inflows seem to have remained low in 1978, although public capital inflows, mainly deriving from foreign loans, may have increased slightly. The country's international credit position has remained relatively very weak, and at the end of 1978 the international reserves totalled US$ 5.83 million, or equal to 2 months of imports, which was marginally less than at the end of 1977.

No public debt figures for 1978 are available. At the end of 1977, public debt stood at $ 43.9 million, with domestic debt accounting for almost 56% of this.

4. Prices, wages and employment

(a) Prices

No official statistics on consumer prices are available. However, prices of some food items are collected by some government departments, and on the basis of these figures, supported by price data compiled periodically by local commercial banks, rough estimates of inflation suggest an increase in the neighbourhood of 15 to 20% during 1978. This compares with estimated rates of 17% and 18% in 1976 and 1977, respectively.

High prices for imports continue to influence the economy, but among recent measures instituted to try to keep prices in check are regulations regarding the permissible mark-up of both the retail and wholesale levels, and ceilings on the retail prices of basic food items.

/(b) Wages

(b) Wages

Comprehensive wage statistics are not available, but rough projections of overall increases for 1978 put the nominal figure at 30%.

More wage agreements were negotiated during 1978 than in 1977, and about 13 wage disputes were settled during the year, as against 10 in previous years. Some of the more significant wage developments in 1978 include the conclusion of protracted negotiations between the Government and public sector unions. Final settlements was reached in February 1978 (retroactive to January 1977), and this agreement should remain in force until 1980. It gives public servants in the lower, middle and high ranges increases of 30%, 25% and 20% respectively, above the interim agreement of 1976. In addition, a 30% increase in the transportation allowance became effective in 1978. The public sector agreement seems to have subsequently intensified wage pressure throughout the country, and most labour unions demanded increases comparable to or greater than those granted to public servants.

(c) Employment

No official statistics are available on the country's employment situation at the sectoral or aggregate level for recent years, but most rough guesses place the minimum overall level of unemployment between 25 and 30% of the labour force. A major determinant of this high level has been the annual flow of new entrants - mainly school dropouts - into the labour force.

Present Government policies with respect to employment are geared to the promotion of agricultural co-operatives on Government-owned estates with a view to attracting some proportion of the school dropouts into agriculture, which currently absorbs around 33% of the active labour force. The development of these agricultural co-operatives is also expected to reduce the drift of young people to the urban centres.

5. Monetary and fiscal policy

During 1978 the basic objectives of monetary and fiscal policy were to avoid further deterioration in the employment situation while at the same time stimulating growth in income. However, the poor investment climate, the narrow tax resource base of the economy and, consequently, the limited financial resources of the Government restricted the possibility of achieving these policy objectives.

/(a) Monetary

(a) Monetary policy

Mid-year data suggest that there was a more rapid rate of expansion in the overall money supply in 1978 (see table 8). Overall growth seems to have been influenced by higher levels in both M_1 and quasi-money, but higher trends are not to be noted in these components. Considerably less money was in circulation at the end of June 1978 than at the corresponding time in 1977, but this may well be due to a switch to demand deposits, which showed a 46% increase. The upturn in time deposits signified a reversal of the contraction in this category of deposits in the two previous years.

Based on the partial data available, commercial banks' activities seem to have expanded in 1978, but at a lower rate than in 1977. The distribution of bank credit in the form of loans and advances shows some unfavourable trends (see table 9). A lower level of credit went to building and construction, which seems to be in keeping with the depression in construction activity, and credits granted for manufacturing activity also declined.

Credit advances to agriculture, while showing a rapid expansion in the 18 months ending in June 1978 after the sharp decline recorded in 1976, nevertheless account for a mere 7% of total commercial credit, whereas agriculture employs some 50% of the population and generates 30% of the GDP!

Apart from preliminary revenue data for the first five months of the year, the only source of information for analysing public sector operations in 1978 is the budget estimates (see table 10). Thus, recurrent revenue for 1978 was budgeted at $ 64.5 million, representing a 30% rise over the approved budget estimates for 1977. The increase was expected to result from a combination of general growth in business activity, improvement in tax administration, and new tax measures introduced in 1978. However, based on the first five months of revenue data, the final revenue figure seems to have fallen short of that figure.

Among the 1978 tax measures were a 5% increase on the 45% tax on company income; a 20% purchase tax on radios and television sets; a 50% increase in the cost of motor-vehicle licences; an increase from 2.5% to 5% in the tax on the purchase of foreign exchange; and a doubling of the annual license fee for insurance agents and brokers. Other minor increases relate to stamp duty on imports, airport service charges and a 100% increase in the tax on travel tickets to destinations outside the CARICOM area.

/Table 8

Table 8

GRENADA: MONETARY BALANCE

(Millions of East Caribbean dollars)

	Balance at end of December			Growth rates		
	1976	1977	1978a/	1976	1977	1978a/
Money	15.7	17.0	19.9	17.9	7.9	36.2
Currency outside banks	3.0	3.2	1.6	34.0	5.2	-24.3
Demand deposits	12.7	13.8	18.3	57.1	8.5	46.4
Quasi-money	64.2	69.9	77.0	9.1	8.8	11.5
Time deposits	29.1	28.5	31.1	-3.9	-2.0	1.0
Saving deposits	35.1	41.4	45.9	23.0	17.7	20.0
Total money supply	79.9	86.9	96.9	10.8	8.6	15.8

Source: Research Department, East Caribbean Currency Authority, St. Kitts, Commercial Banking Statistics, July-December 1975, and data supplied to CEPAL.

a/ January to June 1978, against the same period in 1977.

/Table 9

Table 9

GRENADA: SECTORAL DISTRIBUTION OF COMMERCIAL BANK CREDIT

(Millions of East Caribbean dollars)

	Balance at end of period			Growth rates		
	1976	1977	1978	1976	1977	1978a/
Agriculture	3.4	6.0	5.5	-29.7	79.1	42.2
Manufacturing	1.6	1.9	1.5	-25.7	18.0	-22.7
Distributive trade	13.8	15.3	17.3	-7.8	10.5	7.3
Tourism	3.9	4.4	5.2	9.3	11.5	34.6
Transportation	1.5	2.0	1.6	-2.9	33.8	19.2
Public utilities	1.2	1.3	1.1	34.4	2.8	29.0
Building and construction	3.1	4.9	3.1	-3.5	58.6	-5.7
Personal loans	8.2	12.7	13.2	20.2	55.3	24.9
Other advances	12.1	9.5	11.8	-22.3	-21.6	2.6
Total	48.8	57.9	60.4	-5.8	18.6	13.0
Long-term loans as percentage of total	34.2	32.1	30.8	-15.6	-6.1	-4.0

Source: Research Department, East Caribbean Currency Authority, St. Kitts, Commercial Banking Statistics, July-December 1975, and data supplied to CEPAL.

a/ January to June 1978, against the same period in 1977.

/Table 10

Table 10

GRENADA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

(Millions of East Caribbean dollars)

	1976	1977a/	Budget estimates 1978	Growth rates 1976	1977	1978b/
Current income	30.2	33.6	46.5	39.7	11.3	33.0
Tax revenue	28.6	32.0	46.5	51.9	12.1	34.0
Income tax	5.1	6.1	9.0	44.7	19.7	26.4
Consumption tax	2.0	2.3	2.9	65.6	11.7	16.4
Import duties	5.9	8.2	9.6	20.1	38.5	32.1
Export duties	3.9	4.5	5.8	27.4	17.4	56.7
Other taxes, fees and licences	11.7	10.9	19.3	91.0	-6.2	31.6
Aid funds	1.6	1.6	...	-41.7	-2.3	-14.6
Current expenditure	34.6	32.2	49.5	43.7	-6.8	...
Wages and salaries	18.3	16.1	27.9	51.2	-12.0	...
Other current expenditure	16.3	16.1	21.6	36.0	-1.0	...
Saving/deficit on current account	-4.4	1.4	...			
Capital expenditure	1.4	3.6	25.9	15.1	162.9	...
Total expenditure c/	36.0	35.8	75.4	42.3	-0.3	...
Fiscal deficit/surplus	-5.8	-2.2	...			
Gross national debt	39.4	43.9	...	15.6	11.2	...
Domestic debt	24.0	24.5	...	13.7	1.9	...
External debt	15.4	19.4	...	18.8	25.8	...

Source: Ministry of Finance, Industry and Trade, Grenada, and data supplied to CEPAL.

Note: The 1978 budget project external aid at EC$ 29 million and local capital revenue at EC$ 5.6 million.

a/ Preliminary data.

b/ January-May 1978 against the same period in 1977.

c/ Data include bonded debt and other debt.

/Budgeted recurrent

Budgeted recurrent public spending shows a sizeable increase of over 40% over the approved estimates for 1977. Capital expenditure was also budgeted at a significantly higher level, but actual capital outlay is traditionally much lower and the same pattern probably prevailed in 1978.

Changes in wages, salaries and pensions seemed likely to be the most significant features in public spending during 1978. Personal emoluments, which accounted for an annual average of 51% of recurrent expenditure between 1975 and 1977, were expected to jump to almost 56% in 1978, the increase being due to a $ 4.5 million retroactive payment to public servants for 1977 and an estimated increase of the same amount for 1978, arising from the wage settlement of February 1978.

Unlike 1977, when a surplus of $ 1.4 million was expected, a deficit is estimated for 1978 on the current budget account. Financing of this deficit would come mainly from local borrowing.

GUATEMALA

1. Main recent trends: Introduction and summary

The performance of the economy in 1978 was more favourable than might have been expected in the light of some adverse factors which occurred in the course of the year, such as the drop in the world price of coffee - Guatemala's main export commodity - which helped to reduce exports and led to disequilibrium in the country's external position, with everything that that implied for the economy. In these circumstances and thanks to the deferred effects of income from previous years, the gross domestic product, at factor cost, increased by 5.5% and the per capita product by 2.4%, which are both lower than the rates recorded in the previous two years (see table 1).

The drop in coffee and sugar prices was responsible for a 10% deterioration in the terms of trade and, therefore, a rise in gross income of only 4%, which is also much less than in previous years.

The slowing down of the growth of the gross domestic product was observable in the various production activities, being more marked in some than in others. Crop farming, favoured as it was by adequate rainfall, raised its production, above all that destined for domestic consumption, which enabled it to offset a further drop in sugar cane output and the stagnation of coffee production. Manufacturing output rose by nearly 8%, the increase being particularly evident in the production of textiles and building materials. Construction, for its part, maintained the high level of activity imposed by the reconstruction activities in 1976 and 1977 and, lastly basic services and other services grew more slowly than in previous years.

An atmosphere of uncertainty prevailed throughout 1978 owing to the change of civil authorities in the middle of the period, the disputes between workers and employers, the growing difficulties encountered in regional trade, and the restriction of public investment. Private investment, however, increased more than in 1977, mainly in construction, due to the exceptionally high income obtained in 1977 (gross income rose by 13% that year) and also to the continuation of reconstruction work involved in repairing the damage caused by the earthquake which severely affected the country in February 1976.1/

1/ See Daños causados por el terremoto de Guatemala y sus repercusiones sobre el desarrollo económico y social del país (CEPAL/MEX/76/Guat.1), February 1976.

/Table 1

Table 1

GUATEMALA: MAIN ECONOMIC INDICATORS

	1973	1974	1975	1976	1977	1978[a/]
A. Basic economic indicators						
Gross domestic product at factor cost (millions of US dollars at 1970 prices)	2 658	2 827	2 882	3 095	3 352	3 536
Population (millions)	5.87	6.05	6.24	6.44	6.64	6.84
Per capita gross domestic product (US dollars at 1970 prices)	453	467	462	481	505	517
	Growth rates					
B. Short-run economic indicators						
Gross domestic product at factor cost	6.8	6.4	1.9	7.4	8.3	5.5
Per capita gross domestic product	3.5	3.1	-1.2	4.2	5.1	2.4
Gross income b/	6.8	3.7	1.9	7.4	13.4	4.0
Terms of trade (goods)	-1.3	-15.4	-1.6	8.1	23.5	-9.9
Current value of exports of goods and services	35.0	32.0	11.5	26.8	38.3	-0.2
Current value of imports of goods and services	33.6	56.0	5.9	32.2	28.6	12.4
Consumer price index						
December - December	...	...	...	17.5	7.4	9.1
Variation between annual averages	13.6	16.6	13.1	10.7	12.6	7.9
Money	23.2	15.0	16.5	38.6	18.6	9.2
Real wages and salaries c/	...	...	...	0.6	-10.2	4.8
Current income of government	15.2	31.1	18.0	23.3	45.3	11.7
Total expenditure of government	9.0	23.6	10.7	60.2	9.0	17.0
Fiscal deficit/total expenditure of government d/	17.7	20.9	11.0	32.3	12.5	10.2
	Millions of US dollars					
C. External sector						
Trade balance (goods and services)	12	-110	-77	-146	-90	-275
Balance on current account	9	-101	-66	-6	-60	-223
Variation in net international reserves	80	-15	104	211	148	75e/
External debt f/	163	174	198	238	300	399

a/ Preliminary figures.
b/ Gross domestic product plus terms-of-trade effect.
c/ Average wages paid to social security contributors.
d/ Percentages.
e/ Refers to gross international reserves.
f/ Balance of public debt plus State-guaranteed private debt.

/It should

It should be remembered that the export sector experienced an unprecedented boom in 1977, and perhaps the most notable fact in 1978 was that despite the drop in coffee exports the high level of exports was maintained, with far-reaching repercussions on the various segments of the domestic economy.

The value of exports of goods and services was kept at practically the 1977 level, but imports rose more than 12% and pushed up the trade deficit from 90 to 275 million dollars, as well as helping to raise the balance-of-payments current account deficit to 223 million dollars, which was 3.7 times higher than the deficit in 1977. The net inflow of foreign capital, however, appreciably exceeded this deficit and the indebtedness contracted was even in excess of that strictly required for balance-of-payments purposes, so that the international monetary reserves rose for the fourth year running, with gross reserves increasing this time by 75 million dollars.

The public finances showed an increase of 12% in tax revenue, which was a much smaller rise than in the previous two years and first and foremost reflected the low income obtained from foreign trade. On the other hand, some public enterprises were able to improve their financial position by raising their tariffs for public services.

Current expenditure grew by 20%, primarily because of the general wage increases granted as a result of the strike by government workers in March 1978. In terms of constant prices, general government consumption expenditure rose by only 3.4%, as shown in table 2. Moreover, real and financial investment by the Government increased by 8% and 23%, respectively. In real terms, public investment declined slightly during the year; but as in the case of exports, perhaps the most significant fact was that the high level recorded after the 1976 earthquake was maintained.

At the end of the year the monetary position showed a clear deceleration of the growth rate of the means of payment compared with their rapid expansion in 1976 and 1977 (see table 1). This was partly the result of the similarly much slower growth of net international reserves, but domestic credit grew much faster than in 1977, and in the last three years credit granted to the private sector has risen by 84%.

/Table 2

Table 2

GUATEMALA: TOTAL SUPPLY AND DEMAND

	Millions of quetzales at 1970 prices			Percentage breakdown		Growth rates		
	1976	1977	1978[a]	1970	1978[a]	1976	1977	1978[a]
Total supply	3 199	3 521	3 719	117.8	121.3	9.6	10.1	5.6
Gross domestic product at market prices	2 683	2 907	3 067	100.0	100.0	7.4	8.3	5.5
Imports of goods and services b/	516	614	652	17.8	21.3	22.9	19.1	6.1
Total demand	3 199	3 521	3 719	117.8	121.3	9.6	10.1	5.6
Domestic demand	2 626	2 918	3 104	99.2	101.3	9.4	11.2	6.4
Gross domestic investment	444	518	569	12.8	18.5	39.3	16.5	9.9
Gross fixed investment	423	462	492	12.5	16.0	37.2	9.3	6.5
Construction	151	173	...	3.7	...	59.4	14.9	...
Machinery and equipment	272	289	...	8.8	...	27.5	6.2	...
Public	111	129	128	2.4	4.2	58.1	16.8	-0.9
Private	312	333	364	10.1	11.9	31.1	6.7	9.3
Changes in stocks	64	56	77	0.3	2.5			
Total consumption	2 182	2 400	2 535	86.4	82.6	4.8	10.1	5.6
General government	199	203	210	8.0	6.8	11.1	2.1	3.4
Private	1 983	2 197	2 325	78.4	75.8	4.2	10.9	5.8
Exports of goods and services b/	573	603	615	18.6	20.0	10.6	5.1	2.0

Source: 1970-1977: CEPAL calculations on the basis of figures supplied by the Central Bank of Guatemala; 1978: CEPAL estimates on the basis of data from the same source.

a/ Preliminary figures.

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

/The average

The average annual growth of domestic prices diminished from 13% to 8%, but the December-December figures showed a slight increase. It is significant that the rate of inflation was reduced to less than 10%.

Generally speaking, the Government's economic policy presented some contradictory features, fluctuating between measures to promote economic growth and measures aimed at control and stabilization. On the one hand, high priority was assigned to the production of basic grains and a minimum support price was established for them; a start was made on the execution of a group of investment projects designed to expand the agricultural frontier, particularly in the area known as the northern cross strip in the departments of Quiché, Alta Verapaz and Izabal; the extension of the import duties included in the Protocol to the General Treaty on Central American Economic Integration (Emergency Measures for the Defence of the Balance of Payments) was approved, albeit with some delay, thereby maintaining a relatively high level of tariff protection for Central American industries; and renewed efforts were made to stimulate oil exploration. On the other hand, ceiling prices were maintained for a wide range of foodstuffs, raw materials and building materials, thus tending to discourage the production of some goods, although in many cases these prices were openly violated. An unprecedented wage rise was accorded to government workers, but measures were taken to discourage claims from the organized workers' movement, particularly in the last quarter of the year.

It is not surprising that in the second half of the year, when the delayed effects of the 1977 economic boom had come to an end, there were clear signs of a slowing down of the rate of economic activity, as measured by trade transactions, banking activities, the issue of new building permits, tax revenue, etc.

2. Recent economic trends

(a) Total supply and demand

The gross domestic product grew at an estimated real rate of 5.5% in 1978, which was lower than in previous years (during the present decade only the 1975 rate was lower) but satisfactory if account is taken of some adverse situations which arose in the course of the year, especially those deriving

/from the

from the international market. The dynamism shown by some activities during a large part of the year was mainly due to the economic boom in 1977, which made it possible to maintain a high level of exports and public sector expenditure and was reflected, inter alia, in a considerable rise in private investment, above all in construction (see table 2).

Thus, private fixed capital formation was the factor imparting most impetus to global demand, which contributed to the rise in the gross investment coefficient from 17.8% in 1977 to 18.5%. The main items in this investment were construction, the expansion of manufacturing production capacity (especially in branches connected with construction, and in particular cement), and the exploration of mineral and oil resources.

Furthermore, although public investment declined slightly in real terms, it continued to fluctuate around the high levels it attained after the earthquake which devastated Guatemala in February 1976. Thus, its cumulative annual growth rate was over 20% between 1975 and 1978.

As regards government consumption expenditure, in the course of the year government employees were granted a significant increase in wages, and in order to cover the exceptional expenditure involved, the Government endeavoured to reduce other operating costs. As a result, although government consumption in terms of current prices grew by nearly 30%, the real increase barely exceeded 3%. Therefore, the per capita supply of basic services to the population was virtually static in 1978, and perhaps even suffered a setback which came on top of an apparent situation of quite severe deficiencies in the fields of education and health. In contrast, private consumption grew at a satisfactory rate, exceeding that of the population growth.

It should be noted that imports, measured at 1970 prices, rose at about the same rate as consumption and slightly faster than the product, so that the import coefficient remained at 21%.

In short, the evolution of the major variables of total supply and demand revealed a brisker rate of activity than that which might have been expected at the beginning of the year. The public sector had little effect in this, the greater dynamism of demand being due to private consumption and especially private investment (see table 2).

/(b) Sectoral

(b) Sectoral trends

On the domestic supply side, the production apparatus responded favourably to the above-mentioned expansion of demand (see table 3).

(i) Agriculture. In spite of the stagnation in the production of coffee - Guatemala's most important agricultural commodity - and the considerable reduction in that of sugar cane, the performance of agriculture was satisfactory thanks to the adequate rainfall which came after three or four years of adverse weather conditions. The production of grains increased substantially (although the desired self-sufficiency in maize was not achieved) and the reduction in the area planted with sugar cane was offset by an increase in the production of cotton (see table 4).

Apart from the weather conditions, the output of agricultural commodities for domestic consumption was favoured by the policy of incentives for the production of basic grains implemented by the Government through the National Agricultural Marketing Institute and, to a lesser extent, the National Agricultural Development Bank. Maize output is estimated to have grown by over 10%, and imports of this commodity, which is a basic item of the population's diet, thus dropped from some 200,000 tons in 1977 to 100,000 in 1978. The production of rice, beans and sesame also grew at acceptable rates, achieving self-sufficiency and even some exportable surpluses. By the end of the year, however, there was a shortage of sesame and its price rose owing to the excessive exports made to other Central American countries and Mexico because of the higher prices prevailing in those markets. Finally, wheat production increased by 20%, despite the fact that the ceiling price of 12 quetzales per quintal, which growers did not consider remunerative enough, was maintained by the Government.

Perhaps the most notable fact recorded in the year with respect to export products was the considerable reduction in the area planted with sugar cane, due to the drop in world sugar prices and the Government's reluctance to permit an increase in the domestic price of this commodity.

/Table 3

Table 3

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

	Millions of quetzales at 1970 prices			Percentage breakdown		Growth rates		
	1976	1977	1978[a]	1970	1978[a]	1976	1977	1978[a]
Agriculture	754	791	820	30.1	28.6	4.5	4.8	3.7
Mining	3	3	5	0.1	0.2	25.0	16.0	80.6
Manufacturing	361	400	432	14.6	15.1	10.4	10.7	7.9
Construction	104	122	126	2.2	4.5	73.5	17.4	3.0
Subtotal goods	1 222	1 316	1 383	47.0	48.4	10.0	7.6	5.1
Electricity, gas and water	26	30	33	0.9	1.1	7.8	14.1	10.1
Transport, storage and communications	105	117	125	3.5	4.4	9.2	11.3	6.7
Subtotal basic services	131	147	158	4.4	5.5	9.0	11.8	7.4
Commerce, financial institutions and insurance	672	736	778	27.5	27.2	8.3	9.6	5.7
Real estate [b]	124	134	142	7.8	5.0	-19.2	8.3	6.0
Community, social and personal services [c]	362	381	399	13.3	13.9	9.8	5.3	4.8
Subtotal other services	1 158	1 251	1 319	48.6	46.1	4.9	8.1	5.4
Total gross domestic product [d]	2 507	2 716	2 860	100.0	100.0	7.4	8.3	5.5

Source: 1970-1977: CEPAL calculations on the basis of figures supplied by the Central Bank of Guatemala; 1978: CEPAL estimates on the basis of data from the same source.

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

/Table 4

Table 4

GUATEMALA: INDICATORS OF AGRICULTURAL PRODUCTION

	1975	1976	1977	1978	Growth rates		
					1976	1977	1978
Value of agricultural production a/	663.2	700.0	728.0	751.3	5.5	4.0	3.2
Crop farming	452.8	468.6	485.5	...	3.5	3.6	...
Stock-raising	210.4	231.4	242.5	...	10.0	4.8	...
Production of the main crops b/							
Coffee	5.6	3.2	3.2	3.1	-42.9	-	-3.1
Cotton	2.3	2.2	2.9	3.1	-4.3	31.8	6.9
Bananas	5.1	5.6	5.6	5.6	9.8	-	-
Sugar cane	92.2	135.2	131.5	104.0	46.6	-2.7	-20.9

Source: CEPAL, on the basis of official data.

a/ In millions of quetzales at 1958 prices.
b/ Millions of quintals.

/Although the

Although the Ministry of Economic Affairs did not yield to the strong pressures of producers to raise the ceiling price for the final consumer (which was 11 US cents), in actual fact the price did rise by about 4 cents to an unofficial price of 15 cents. As a result of this situation the volume of production shrank by 20%, and in order to counteract this trend, in the last quarter of 1978 the National Sugar Commission fixed a price of 10.20 quetzales per ton for the producer, representing a rise of 2 quetzales in relation to the previous crop. It should be noted that the decrease in production - and the resulting drop in exports - prevented Guatemala from completing the export quotas assigned to it in the International Sugar Agreement: a situation which could have adverse implications for the country in the future.

The area sown with cotton increased by 12%, and since the yield was similar or only slightly inferior to that of 1977 the volume of production reached record levels, encouraged also by the relatively favourable conditions on the world market. On the other hand, the volume of coffee production went down in two of the producing areas owing to highly unusual weather factors, although this contraction was offset by a slight increase in the other areas. The evolution of most of the other basic export commodities was fairly normal, in line with the trend observed in previous years. Particular attention may be drawn to the increased share of cardamom in total exports, and similarly fruit and vegetables - particularly onions and melons - acquired some importance in the country's agricultural exports and, consequently, in production too.

Although the volume of livestock production, both meat and milk, increased owing to the rise in prices (the producer received about 34 US cents per pound for live animals at the end of 1978, compared with 22 cents at the end of the preceding year, and the price of milk for producers rose from 16 to 21 cents), it is feared that part of this increase was obtained at the expense of a reduction in stock.

Lastly, it is interesting to note the continuing growth of the co-operative movement. Once again the number of members of co-operatives belonging to the main federations increased (from some 80,000 at the end of 1977 to 100,000), and with the aim of promoting and at the same time

/controlling this

controlling this movement, the General Law on Co-operatives was enacted in December 1978 to replace the law in force since 1950. In accordance with this legislation, a national co-operatives institute will be set up and will take the form of a decentralized autonomous government body whose main functions will be those of promotion, supervision, and provision of technical co-operation.

(ii) Mining. The share of mining in the product has never been very significant, and the considerable expansion observed in 1978 was primarily due to the entry into operation of a nickel processing plant whose construction had been initiated about five years earlier. This plant, however, operated at only 20% of its capacity, first, because of technical problems when it was started up, and secondly, because of the low prices prevailing in the world market, which caused the company to close the plant for the major part of the year.

In 1978, work continued on a modest scale on the exploitation of a recently-discovered oilfield. An average of 2,500 barrels per day was extracted for domestic consumption, which is about 10% of the country's total needs. The same company which is developing this field continued its explorations, drilling two wells with promising results, and the Government assigned three new areas of approximately 180,000 hectares each for the expansion of exploration activities. In accordance with the National Petroleum Law, which provides for a system of contracts governing the granting of oil exploration and development rights, whereby the State receives a minimum of 51% of the value of the oil produced, bids were invited in 1978 for six areas, three of which were duly allocated. It is expected that 24 wells will be drilled in these areas during the next three years, and that new bids will be invited in 1979 for the areas not yet allocated. Furthermore, towards the end of the year a start was made on the construction of a 12-inch oil pipeline with capacity for carrying 60,000 barrels of oil per day from the area of the above-mentioned oilfield - although its production volume does not yet justify such an investment - to the Atlantic ports. This project is expected to be completed in mid-1979.

/(iii) Manufacturing.

(iii) Manufacturing. Production grew satisfactorily in all branches of the manufacturing sector and particularly in those connected with construction and the textile industry. Partial indicators show that most of these branches operated virtually at full capacity, and information is at hand regarding considerable investments for expanding the installed capacity.

According to the industrial survey carried out by the Statistical Office, which compares the first half of 1978 with the same period in the previous year, the gross value of production grew by 22% for all branches of industry. Of these, textiles recorded the biggest expansion (69%), while seven others - beverages, clothing, leather, footwear, wood, non-metallic minerals and metal manufactures and machinery - grew at a rate of over 30%.

Owing to the construction boom, the demand for cement far exceeded domestic supply, in spite of the expansion of installed capacity, and quite large imports were necessary. Notwithstanding the ceiling prices maintained for this product, the emergence of a "parallel market", added to the higher cost of imported cement, was reflected in an exceptionally large increase in prices for the user, as well as problems in some cases. The expansion of the branches of activity connected with consumer goods - food, footwear, textiles - was based on growing domestic demand and the increasing volume of exports to countries outside the region. The volume of sales to the rest of the Central American Common Market countries, on the other hand, grew slowly owing to the special difficulties faced by the integration process in the second half of 1978 (see table 5).

(iv) Construction. The construction sector raised its growth rate by 3%, a notable achievement after the exceptionally high levels observed in 1976 and 1977 when most of the expenditure on reconstruction resulting from the earthquake was concentrated in this activity. The dynamic effects of the primary impact of construction, in terms of both the creation of employment and the demand for building materials, are analysed elsewhere in this study (see table 6).

/Table 5

Table 5

GUATEMALA: INDICATORS OF MANUFACTURING PRODUCTION

	1975	1976	1977[a]	Growth rates 1976	Growth rates 1977
	Millions of quetzales at 1958 prices				
Value of manufacturing production	877.8	959.9	1 052.7	9.4	9.7
Food	345.1	370.6	401.0	7.4	8.2
Beverages	51.2	62.2	77.3	21.5	24.3
Tobacco	25.1	29.6	32.5	17.9	9.8
Textiles	71.8	80.4	88.8	12.0	10.4
Footwear and clothing	100.8	104.6	107.7	3.8	3.0
Wood and cork	16.3	18.0	20.8	10.4	15.6
Furniture	14.1	14.8	15.3	5.0	3.4
Paper and paper products	16.3	16.9	17.7	3.7	4.7
Printing and publishing	8.1	8.2	8.5	1.2	3.7
Leather	6.4	6.7	7.3	4.7	9.0
Rubber	10.8	12.8	13.9	18.5	8.6
Chemical products	29.6	31.2	34.4	5.4	10.3
Non-metallic minerals	29.8	33.9	39.8	13.8	17.4
Metal products	63.2	67.7	72.0	7.1	6.4
Machinery (construction)	7.9	8.3	8.7	5.1	4.8
Electrical machinery and accessories	9.6	10.0	10.3	4.2	3.0
Transport equipment	7.1	7.5	7.9	5.6	5.3
Miscellaneous	64.6	76.5	88.7	18.4	15.9
	Index (1972 = 100)				
Other indicators					
Industrial consumption of electricity	149.5	147.4	170.4	-1.4	15.6
Employment [b]	...	171.8	173.9	...	1.2

Source: CEPAL, on the basis of official data.

a/ Preliminary figures.

b/ Number of workers contributing to the social security system.

/Table 6

Table 6

GUATEMALA: INDICATORS OF CONSTRUCTION ACTIVITY

	1976	1977	1978a/	Growth rates 1977	Growth rates 1978
Area constructed b/ (thousands of m^2)					
Total	1 349	1 558	1 742	15.5	11.8
Dwellings	1 035	1 136	1 045	9.8	-8.0
Production of structural steel (tons)	10 479	11 514	11 605c/	9.9	...
Employment	22 868	24 786	...	8.4	...

Source: CEPAL, on the basis of official data.

a/ Estimates.

b/ Excluding reconstruction programmes

c/ January-November.

/(v) Other

(v) Other sectors. The tertiary sectors (transport, commerce and finance and private services) expanded at rates consistent with the level of economic activity observed during the year, although the value added by financial institutions increased most owing to the establishment of two new banking institutions.

The value added by ownership of dwellings continued its recovery from the low point caused by the earthquake in 1976, reflecting the high - although still insufficient - levels of reconstruction attained. In order to promote the construction of low-cost dwellings, the Government sponsored the establishment of the National Housing Fund for the lowest-paid workers, to be set up with contributions from employers, workers and the State, with the aim of financing operations for a total of approximately 50 million quetzales a year. There was some opposition to the project, however, above all from organized entrepreneurs, and at the end of the year it had still not been approved.

3. The external sector

The international situation in 1977 was highly favourable for Guatemala, mainly owing to the record prices fetched by coffee on the world market. Towards the end of the year, when the rising price trends were reversed, a sharp drop in the value of exports was foreseeable for 1978, but thanks partly to future sales of coffee effected in the last few months of 1977 and early in 1978, the impact of the price drop was deferred for some months.

The combination of several adverse factors in the 1978 international situation - the drop in coffee prices, the persistent weakening of the sugar market, the steadily rising prices of imported goods and services, and the increasingly difficult access to sources of external financing on favourable terms - offset by only a few positive aspects (such as, for example, the rise in cotton prices), led to a significant increase in the balance-of-payments current account deficit compared with the previous year, although the year nevertheless closed with a rise in international reserves due to the inflow of external capital.

/It should

It should be noted that the relatively encouraging results described above were achieved in spite of a fairly sizeable apparent outflow of private capital caused by the uncertainty arising from the change of civil authorities, the turbulent worker-employer relations, the political instability in some neighbouring countries of Central America, and other factors not strictly of an economic nature (as, for example, the disturbances which occurred in Guatemala City in September in protest against the rise in urban bus fares). Added to this was the increasing gap between the passive interest rates paid in Guatemala and those prevailing in the major world capital markets. This situation was manifest in the under-invoicing of some basic commodities and in several balance-of-payments items, including capital outflows officially registered as external deposits, which rose from 15 to 18 million dollars between 1977 and 1978.

There were two noteworthy facts connected with external economic policy during the year. First, coffee exporters benefited to an almost optimum degree from the high prices prevailing on the world market, an important part in this being played by the advisory assistance given by the National Coffee Association. Secondly, this Association, supported by the central government, endeavoured to influence prices within the context of its international commitments by establishing in December the Coffee-Growers' Marketing and Support Fund, which was initially set up with a contribution of 10 million quetzales. These resources will be used for participation in national and international agreements with the aim of lessening the fluctuations in domestic and external coffee prices.

(a) Trade in goods

In 1978 there was no great change in the volume of exports and imports of goods with respect to that observed in the previous year, but the unit values of these transactions followed opposite trends: while the index of export prices dropped 3.5%, that of imports rose 7.1% (see table 7). Accordingly, the value of exports of goods fell by 2.6% and that of imports increased by slightly over 10%, so that the 1978 merchandise balance reflected a deficit equal to 8.4% of the value of exports, instead of the surplus recorded in 1977 (see table 12).

/Table 7

Table 7

GUATEMALA: MAIN INDICATORS OF FOREIGN TRADE

	1973	1974	1975	1976	1977	1978 a/
	Growth rates					
Exports of goods						
Value	31.6	31.7	10.1	23.9	50.0	-2.6
Volume	10.0	9.1	-1.0	6.9	11.2	0.9
Unit value	19.6	20.7	11.2	16.0	34.9	-3.5
Imports of goods						
Value	32.8	61.3	6.5	34.5	26.1	10.3
Volume	9.5	13.1	-5.7	25.3	15.4	2.9
Unit value	21.2	42.7	12.9	7.3	9.3	7.1
Terms of trade	-1.3	-15.4	-1.6	8.1	23.5	-9.9
	Indexes (1970 = 100)					
Terms of trade	81.8	69.2	68.1	73.6	90.9	81.9
Purchasing power of exports of goods	107.2	99.0	96.5	111.4	152.9	139.0

Source: CEPAL, on the basis of official data.

a/ Preliminary figures.

/Among the

Among the reasons for the decrease in the value of exports was the sharp drop in the value of sugar, which came on top of those of the two previous years. The drastic fall in world prices discouraged production, and the decrease in both prices and volume of production was reflected in a drop of two-thirds in the value of exports of this commodity. The value of coffee exports also declined for similar reasons. Practically all the other export items showed satisfactory trends, however, thus largely offsetting the drop in value of the two products referred to above (see tables 8 and 9).

Guatemala has five important export commodities which present different trends on the world market, so that periods of relative recession in certain products are partially compensated for by boom periods in others. Thus, in 1978 the increases in exports of cotton, meat and bananas partly offset the drop in coffee and sugar exports. At the same time, the share of these five commodities in total exports to third countries (excluding inter-Central American trade) tended to decline, thus pointing to increasing diversification. This trend was maintained in 1978, when their share in the total value of exports to countries outside the region dropped to 80.5%, compared with 86.8% in 1977.

Among the new or rapidly increasing export commodities are cardamom, textiles and articles of clothing, as well as nickel obtained from the recently installed processing plant which, however, initially operated at only 20% of its capacity.

Furthermore, in spite of the irregular operation of the Central American Common Market, especially in the last quarter of the year, the value of Guatemala's sales to the rest of the region once again increased. Thus the share of these sales in the total value of exports rose from 19% in 1977 to 22% in 1978, although these figures are less than some of those recorded in previous years, as for example the 24% share represented by this trade in 1976. Imports from the rest of the region grew at almost the same rate as exports, so that Guatemala's intra-regional trade surplus rose again in absolute terms between the two years concerned, i.e., from about 127 million to 138 million dollars (see table 10).

/Table 8

Table 8

GUATEMALA: EXPORTS OF GOODS (FOB)

	Millions of quetzales				Percentage breakdown		Growth rates b/		
	1975	1976	1977	1978a/	1975	1978a/	1976	1977	1978a/
Main traditional exports									
Green coffee	164	243	526	455	25.6	39.6	48.1	116.7	-13.5
Ginned cotton	74	85	152	170	11.6	14.6	14.7	79.2	11.8
Bananas c/	34	46	46	50	5.2	4.5	32.5	-0.2	8.7
Meat	17	25	28	30	2.6	2.7	47.3	12.0	7.1
Sugar	116	107	82	28	18.0	2.4	-7.7	-23.3	-65.9
Main non-traditional exports									
Cardamom	10	15	27	36	1.6	2.7	52.5	76.0	33.3
Cocoa	1	1	12	9	0.1	0.8	42.9	1 080.0	-25.0
Sesame seed	...	8	6	10	-	0.7	...	-32.9	45.5
Nickel	...	-	-	10	-	0.9	-	-	...
Others	225	264	313	362	35.1	31.2	17.3	18.6	15.7
Total	641	794	1 192	1 160	100.0	100.0	23.8	50.1	-2.7

Source: CEPAL, on the basis of official data.

a/ Preliminary figures.
b/ Calculated on the basis of figures in thousands of quetzales.
c/ Adjusted figures.

/Table 9

Table 9

GUATEMALA: UNIT VALUES OF THE MAIN EXPORT COMMODITIES

	Unit	Average price (quetzales)			Growth rates	
		1976	1977	1978a/	1977	1978a/
Coffee	Quintal	93.85	182.40	165.45	94.4	-9.3
Ginned cotton	Quintal	41.84	53.17	55.74	27.1	4.8
Bananas b/	Box	6.95	7.33	7.92	5.5	8.0
Meat	Quintal	68.24	67.76	80.00	-0.7	18.1
Sugar	Quintal	16.97	12.88	7.51	-24.1	-41.7
Cardamom	Quintal	377.20	335.81	350.00	-11.0	4.2

Source: CEPAL, on the basis of official data.

a/ Preliminary figures.
b/ Adjusted figures.

/Table 10

Table 10

GUATEMALA: TRADE WITH CENTRAL AMERICA

	Millions of quetzales			Percentage breakdown b/			Growth rates	
	1976	1977	1978 a/	1976	1977	1978	1977	1978
Exports	189	228	250	24.1	19.1	21.6	20.5	9.7
Costa Rica	42	47	53	5.3	3.9	4.7	12.7	12.2
El Salvador	84	111	116	10.8	9.3	10.4	31.8	4.5
Honduras	25	29	35	3.2	2.5	3.1	15.9	19.5
Nicaragua	38	41	46	4.8	3.4	4.2	6.9	14.1
Imports	106	101	112	10.9	8.1	8.1	-4.9	10.7
Costa Rica	18	23	19	1.9	1.8	1.3	22.8	-18.1
El Salvador	59	43	52	6.0	3.4	3.8	-26.8	21.9
Honduras	14	19	21	1.5	1.6	1.6	34.5	9.2
Nicaragua	15	16	20	1.5	1.3	1.5	8.8	23.0
Trade balance	83	127	138				53.1	8.9
Costa Rica	23	24	34				4.7	40.3
El Salvador	26	68	64				165.4	-6.4
Honduras	11	10	14				-9.4	40.2
Nicaragua	23	25	26				5.6	8.2

Source: CEPAL, on the basis of official data.

a/ Estimates.

b/ In relation to total trade in goods.

/The growth

The growth rate of total imports went down in 1978. While the value of imports of consumer goods increased at a lower rate than the average, the growth rate of raw materials (especially building materials), machinery and equipment was higher. This evolution was in keeping with that of the major variables of total supply and demand (see table 11).

As a result of the increase in prices of imported articles - reflecting not only the general price increases in the industrialized countries but also the revaluation during the year of European currencies and the Japanese yen in relation to the dollar, to which the quetzal is pegged - and the drop in export prices, the terms of trade deteriorated by approximately 10% and the purchasing power of exports fell by 9% (see table 7).

(b) Trade in services and factor payments

The traditionally negative balance on the services account reached record levels in 1978. Transport and insurance correspond to the trade in goods, but two points call for special comment (see table 12).

First, Guatemala's tourism potential developed intensively between 1973 and 1976, but after the 1976 earthquake foreign exchange earnings from this source tended to remain static. In 1978, while income from tourism and travel was similar to that of the preceding year, there was a slightly larger outflow of foreign exchange under this head. Consequently, in spite of Guatemala's great tourism potential it continues to show a substantial deficit in this field. The Government and the private sector have made considerable efforts to attract more visitors to the country - hotel accommodation nearly doubled between 1973 and 1978 - but these do not seem to have been enough to maintain an adequate rate of expansion in this sector.

Secondly, practically the whole of the increase observed in the transport account in the last two years went to foreign enterprises. This increase was linked with a significant expansion of trade in goods and suggests the existence of obstacles hindering national shipping lines and the Guatemalan airline from extending their services.

/Table 11

Table 11

GUATEMALA: IMPORTS OF GOOD (CIF)

	Millions of quetzales				Growth rates		
	1975	1976	1977[a]	1978[b]	1976	1977	1978
Consumer goods	165	228	284	312	38.2	24.6	9.9
Durable	54	80	114	123	48.1	42.5	7.9
Non-durable	111	148	170	189	33.3	14.9	11.2
Intermediate goods	393	477	628	692	21.4	31.7	10.2
Metal and other products	253	294	404	453	16.2	37.4	12.1
Oil and fuels	103	110	142	148	6.8	29.1	4.2
Building materials	37	73	82	91	97.3	12.3	11.0
Capital goods	172	261	314	356	51.7	20.3	13.4
For agriculture	19	24	35	39	26.3	45.8	11.4
For industry	100	172	185	215	72.0	7.6	16.2
For transport	53	65	94	102	22.6	44.6	8.5
Miscellaneous	5	8	23	21	60.0	187.5	-8.7
Total	735	974	1 249	1 381	32.5	28.2	10.6

Source: CEPAL, on the basis of official data.

a/ Preliminary figures.
b/ Estimates.

/Table 12

Table 12

GUATEMALA: BALANCE OF PAYMENTS

(Millions of US dollars)

	1973	1974	1975	1976	1977	1978 a/
Current account						
Exports of goods and services	532	702	783	992	1 373	1 370
Goods FOB b/	442	582	641	794	1 192	1 160
Services	90	120	142	198	181	210
Transport	17	19	22	26	29	40
Travel	37	57	78	66	66	68
Imports of goods and services	520	812	860	1 138	1 463	1 645
Goods FOB b/	391	631	672	905	1 141	1 258
Services	129	181	188	233	322	387
Transport	56	91	86	101	139	152
Travel	38	52	55	82	100	107
Net payments of profits and interest on foreign capital	-46	-48	-67	-66	-64	-62
Profits	-37	-46	-51	-50	-80	-80
Interest	-9	-2	-16	-16	16	18
Net private transfer payments	43	57	78	206	94	114
Balance on current account	9	-101	-66	-6	-60	-223
Capital account						
Net external financing (a+b+c+d)	-9	101	66	6	60	223
(a) Long-term capital	60	69	168	171	192	
Direct investment	35	47	80	96	91	
Private sector	18	16	39	33	39	
Loans	33	36	49	60	58	
Amortization payments	-20	-25	-21	-35	-24	
Other net liabilities and assets	5	5	11	8	5	
Official sector	13	8	21	18	44	
Loans	28	35	33	30	61	
Amortization payments	-11	-23	-10	-7	-12	298
Other net liabilities and assets	-4	-4	-2	-5	-5	
Monetary authorities (net)	-6	-2	28	24	18	
(b) Short-term capital (net)	12	18	3	49	13	
Private sector	8	18	12	68	36	
Official sector	-	-	-	-	-	
Monetary authorities	5	-	-	-2	-3	
Errors and omissions	-1	-	-9	-17	-20	
(c) Official transfer payments	-1	-1	-1	-3	3	
(d) International reserves (minus sign indicates and increase)	-80	15	-104	-211	-148	...
Use made of IMF credit	-	-	-	-	-	...
Other liabilities	-	-	-	-	30	...
Monetary gold	-	-	-	-	-1	-2
Special Drawing Rights	-5	-	-	-	-	-1
IMF reserve position	-	-	-	-3	-	-2
Foreign exchange	-75	15	-104	-208	-177	-70

Source: 1973-1977: International Monetary Fund, Balance of Payments Yearbook, vol. 29; 1978: CEPAL, on the basis of official data.

a/ Preliminary figures.

b/ Including non-monetary gold.

/(c) The

(c) The current account deficit and its financing

The deficits in the trade in goods and services, although partly offset by a surplus in transfer payments (in which remittances to their families by Guatemalans working abroad are becoming increasingly important), led to a deficit of over 220 million dollars on the balance-of-payments current account - equal to 16% of total exports of goods and services - compared with one of 60 million in the preceding year.

This negative balance was more than covered by the net inflow of capital, which enabled the gross international reserves to increase by 75 million dollars by the end of the year. This inflow came from three main sources: (i) the increasing level of short-term commercial liabilities associated with the high value of current transactions; (ii) the exceptionally large flow of income from direct foreign investment - a gross income of nearly 130 million dollars compared with 105 million in the previous year - which was partly associated with oil exploration activities, the expansion of manufacturing production capacity, the purchase of a national bank by an international financial company, direct investment by some neighbouring countries of Central America, and various investments in the manufacturing sector, commerce and services; and (iii) the increasing level of long-term official credit which, despite the virtual stagnation of public investment, reached a much higher level than in the previous year.

The contracting of short-term cash loans, for its part, went down slightly in 1978 in relation to 1977, the figures being 24 and 38 million dollars, respectively. This may be explained by the fact that although several foreign banks have offices in Guatemala which facilitate the granting of loans, the rise in interest rates in the world capital markets in the second half of the year - particularly in the last quarter - made it more attractive to contract debts with national banks, which are subject to ceiling rates.

It is also noteworthy that amortization payments on long-term official and bank capital were still very low. In fact, the servicing of the external public debt represented only 4.3% of the value of exports of goods (see table 13).

/Table 13

Table 13

GUATEMALA: INDICATORS OF EXTERNAL INDEBTEDNESS

(Millions of quetzales)

	1975	1976	1977	1978 a/
Total external indebtedness	...	422.8	526.6	668.6
Public debt and State-guaranteed private debt	198.0	237.5	300.1	399.4
Private debt not guaranteed by the State	...	185.3	226.5	269.2
Servicing of public external debt	19.0	19.0	44.0	50.0
Amortization payments	11.0	13.0	36.0	40.0
Interest payments	8.0	6.0	8.0	10.0
Servicing of public external debt, as a percentage of exports of goods	3.0	2.4	3.7	4.3

Source: CEPAL, on the basis of official data.

a/ Estimates.

/In conclusion,

In conclusion, an indicator of the final result of external transactions is the fact that, with the level of international monetary reserves it possessed at the end of 1978, Guatemala was in a position to finance nearly six months' imports of goods and services.

4. Prices and wages

(a) Prices and anti-inflation policy

It is not surprising that such an open economy as Guatemala's should be subject to external inflationary pressures. Added to this in the last few years was domestic inflation, mainly due to the impact on costs of the selective wage increases granted after the earthquake in February 1976, and also to some maladjustments between domestic supply and demand.

In the course of the year the Government adopted some measures designed to mitigate inflationary pressures. The monetary and fiscal policies were fairly cautious, avoiding the excess liquidity observed in 1977, and in addition the Ministry of Economic Affairs maintained ceiling prices for a wide range of goods, including foodstuffs (milk, sugar, eggs and some processed products), raw materials, and building materials (notably cement). This policy had been in force for certain products since the earthquake, and even before that, to such an extent that it discouraged production of some of the items it covered. During the year an adjustment in official prices was authorized only for milk, but in practice most of the articles subject to price control were marketed at higher than the official prices. This was so, for example, in the case of sugar and cement.

The official policy of trying to protect the consumer's interests was also manifest in the Government's rejection of a rise in the cost of education at private schools, and in the subsidy granted to urban transport in the last quarter of the year in order to avoid an increase in bus fares. In addition, the Government was reluctant to raise certain public service tariffs, although some adjustments were made in the price electricity. In May 1978 the National Electrification Institute (INDE) approved an increase in tariffs averaging about 27%, in accordance with the financial programming agreed upon between this Institute and the international agencies contributing

/to its

to its expansion programme. In view of opposition on the part of various organized trade associations this increase was kept down to approximately 10%, and additional adjustments were made early in 1979.

The consumer price index rose by slightly over 9% between December 1977 and December 1978, and by 8% as between annual averages. In the first case the increase was larger than that recorded in 1977 (7.4%), but in the second it was appreciably smaller, denoting a distinct weakening of the inflationary process (see table 14).

The drop in inflation was particularly evident in the case of foodstuffs, whose average prices to the consumer rose by 4.6% during the year, i.e., much less than in 1976 (9.6%) and 1977 (11%). At the same time, the changes in both the general index and its various components were slightly smaller in urban than in rural areas.

These figures should be taken with caution, however, since some of the articles with considerable weight in the basket of goods are subject to official price ceilings which are not always observed in practice by shopkeepers. At all events, the rate of inflation in 1978 appears to have been lower than in the previous year, owing partly to the smaller increase in import prices and partly to the satisfactory grain harvests.

In short, however, some doubt arises concerning the effectiveness of the group of measures adopted by the Government to avoid a greater rise in the cost of living, particularly as many of the ceiling prices were not observed and other economic policy requirements - the creation of employment through economic expansion, and wage adjustments for State workers - were contrary to a stabilization policy.

(b) Employment and wages

It is difficult to follow the evolution of wages and salaries on the basis of the available information, but there are two significant facts which indicate that broad wage-earning sectors were accorded fairly considerable adjustments.

/Table 14

Table 14

GUATEMALA: EVOLUTION OF DOMESTIC PRICES

(Percentages)

	1976	1977	1978
	Variation December to December		
Consumer price index	17.5	7.4	9.1
Food	16.0	5.9	8.2
Wholesale price index	10.8	6.0	5.1
	Variation between annual averages		
Consumer price index	10.7	12.6	7.9
Food	9.6	11.0	4.6
Wholesale price index	10.5	13.0	3.6

Source: CEPAL, on the basis of official data.

/First, in

First, in March 1978 the State Employees' Emergency Committee (CETE) declared a general strike in pursuit of wage claims. In order to settle this strike, which took place immediately before the general elections to be held that month, the Government granted a wage adjustment averaging about 20%, and for many low-income workers was close to or even exceeded 100%.2/ Some 150,000 persons benefited from these provisions, which are assumed to have produced a certain imitative effect among workers in the private sector.

Secondly, in November 1978, the Christmas bonus was raised from half a month's pay to a full month. Since this measure was adopted rather late, both the Government and many private employers decided to give half a month's bonus in December and the rest in January.

There were many labour disputes during the year, including the strike by government employees, and they were not always free from violence, all of which helped to create a climate of tension among both workers and employers. Although towards the end of the year the Government adopted some measures which tended to weaken the labour movement, it may be assumed that many of these disputes culminated in wage adjustments.

Finally, the minimum wages were modified in six branches of activity, including that of workers employed in commerce which rose from 1.69 to 2.10 quetzales per day. On average, the adjustment was about 40%.

2/ The following adjustments were granted (in quetzales):

Existing wage or salary	Monthly increase	Number of persons benefited
(a) Permanent workers		
40 - 100	60.00	37 000
101 - 200	50.00	36 000
201 - 300	40.00	7 500
301 - 400	30.00	4 000
401 - 500	20.00	2 500
(b) Passive sectors (pensioners)	11.00	10 000
(c) Workers contracted on a daily basis for specific works		
40 - 100	28.00)	
101 - 200	22.00)	50 000
201 - 300	16.00)	

These adjustments are estimated to involve a monthly disbursement of approximately 6 million quetzales and represent a 20% increase over the budget items for wages and salaries.

/As regards

As regards employment, at least in the urban area the creation of new jobs surpassed the growth of the economically active population. Thus, open unemployment, which in any case was relatively low in Guatemala City (2.6%) was still further reduced, and the same was possibly true of disguised unemployment. Construction and services in Guatemala City managed to absorb a large part of the intensive migration to the metropolitan area which took place after the earthquake in February 1976 and which, according to some official sources, amounted to some 300,000 persons. In addition, there was some moderate though increasing migration to the new land settlement areas in the northern cross strip, as well as seasonal migrations to Mexico, which have reduced the supply of seasonal manpower on the plantations where basic export commodities are grown.

The only global indicator available on which to base the above observations is the number of workers who are members of the social security system and the wages they earned. According to this source, the number of workers grew by 9% and the average wage by 13%. It is particularly noteworthy that in the construction sector these changes were 42% and 31%, respectively (see table 15).

5. Fiscal and monetary policy

(a) Financial trends and fiscal policy

The deferred effects of the 1977 economic boom were also observable in the public finances. Tax revenue grew at a much higher rate than that envisaged in the budget, so that whereas a tax income of 563 million quetzales had been calculated, the amount collected was actually 624 million, or 11% more than originally estimated, and 12% more than in 1977. The tax burden thus rose from 7.5% in 1973 to 10% in 1977 and 1978.

This increase was primarily due to two very elastic taxes: that levied on coffee exports, with a highly progressive rate in relation to the price of exports, and the tax on income. The share of the latter in total tax revenue rose from 13% in 1977 to 15%, while that of the tax on exports only declined from 27% to 25%, in spite of the drop in the export prices of the commodities

/Table 15

Table 15

GUATEMALA: EVOLUTION OF WAGES AND SALARIES

	1975	1976	1977	1978
Annual wages and salaries a/				
Number of workers contributing to the social security system (thousands)	...	...	618	673
Wages and salaries (millions of quetzales)	...	...	579	714
Average wage or salary (quetzales)	...	...	938	1 061
	Indexes (1970 = 100)			
Wages and salaries				
Nominal	147.6	164.5	165.9	187.7
Real	98.3	98.9	88.8	93.1
	Growth rates			
Wages and salaries				
Nominal	...	11.4	0.9	13.1
Real	...	0.6	-10.2	4.8

Source: CEPAL, on the basis of official data.

a/ Based on information from the social security system on the number of social security contributors and the total wages and salaries declared in the period concerned.

/subject to

subject to this tax.3/ Income from indirect taxes, for its part, grew by nearly 14%. Income from import duties also rose rapidly, but failed to recover its share in the total, which declined in 1976 and 1977 owing to the large volume of duty-free imports which entered the country for reconstruction purposes (see table 16).

To sum up, although tax pressure in Guatemala is still relatively low compared with that of other Latin American countries of similar size and economic structure, its evolution in 1978 may be considered satisfactory. This fact is even more important if it is taken into account that the tax system has undergone no changes in recent years. Its greater yield is thus basically due to the increased share of the progressive taxes which form part of the system, and possibly to the effort that has been made to improve the administration and collection of taxes, to which the Government paid greater attention in the last quarter of 1978.

The favourable evolution of tax income helped to raise current income to 660 million quetzales, which permitted the financing of much higher operating costs than in 1977 but still left a current account balance not much below the balance obtained in that year.

The increase in operating costs merits special comment. As noted earlier, in March 1978 the Government settled a strike by State employees by granting a wage settlement involving a total increase in wage and salary appropriations of around 60 million quetzales, which in its turn meant the reduction of other budgeted operational expenditure. In other words, the major part of the increase in current spending was absorbed by the adjustment in wages, which means that the supply of services measured in real terms grew very slightly, and in many specific cases even declined in comparison with the previous year.

Another noteworthy feature was the urban transport subsidy costing some 850,000 quetzales per month which began to be paid in October. This replaced a partial urban transport subsidy which the central government had been paying to bus operators since 1974, and will remain in force for a period of five years.

3/ Of this tax income, over 90% came from coffee, about 5% from bananas, and the rest from cotton, sugar, meat and shellfish.

/Table 16

Table 16

GUATEMALA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of quetzales					Growth rates			
	1974	1975	1976	1977	1978 a/	1975	1976	1977	1978
Current income	280	330	407	591	660	18.0	23.3	45.3	11.7
Tax revenue	255	301	370	557	624	18.0	23.1	50.4	12.0
Direct	39	63	68	80	100	59.1	7.8	18.0	25.4
Income	32	55	59	71	92	71.2	8.0	19.6	29.5
Land	7	8	8	9	8	10.1	6.6	6.2	-10.5
Inheritance and donations	1	-	-	1	1	-40.0	-	66.7	60.0
On foreign trade	80	91	119	249	265	14.4	30.2	109.3	6.3
Imports	59	60	70	97	109	2.4	16.1	38.9	12.2
Exports	21	31	49	152	157	47.6	57.2	209.3	2.6
Indirect	135	147	184	228	259	8.2	25.4	24.0	13.6
Non-tax revenue	25	29	36	34	36	16.9	25.5	-5.8	5.5
Current expenditure	220	269	336	406	488	22.5	25.2	20.6	20.2
Current saving	60	61	71	186	173	1.5	15.4	163.6	-7.0
Capital income	3	22	21	12	64	730.8	-1.9	-44.3	440.7
Capital expenditure	137	126	296	284	319	-8.2	134.8	-4.1	12.3
Real investment	77	85	191	180	195	9.7	125.1	-5.7	8.0
Financial investment	26	10	48	46	57	-61.5	371.3	-3.4	22.8
Amortization of the debt	34	31	57	57	67	-8.0	84.5	0.4	17.3
Total expenditure	357	395	632	689	806	10.7	60.2	9.0	17.0
Fiscal deficit	-74	-43	-204	-86	-82	-41.9	372.5	-57.8	-4.8
Financing of deficit									
Domestic financing b/	72	52	228	132	36	-27.1	336.6	-41.9	-72.8
External financing	25	19	22	41	83	-23.7	18.7	86.5	100.5
Variation in deposits (minus sign indicates an increase)	-22	-28	-46	-88	-37				

Source: CEPAL, on the basis of official data.

a/ Preliminary figures.
b/ Includes the floating debt.

/The central

The central government public investment programme was only partially implemented, since of the nearly 390 million quetzales envisaged for capital expenditure in the budget, only about 250 million were actually disbursed, practically half being spent on the energy sector. This was mainly due to long-standing problems affecting the management and execution of investment projects. Added to those problems in 1978 were the periodic shortage of cement, some strikes by workers of contracting firms employed by the State, and the essentially cumbersome mechanism of public tendering. For all these reasons, central government investment was far from attaining the programmed amounts, although it was 8% higher than in 1977 (see table 16).

Public investment expenditure and the amortization of the debt were largely financed with the savings on current account and the financial surplus carried over from the preceding financial year (identified as "capital income" in table 16). Hence the fiscal deficit was the lowest in the last three years and the Government had very moderate recourse to borrowing. As mentioned below, only some 36 million quetzales were negotiated in bonds, and because of the limited use which was made of net domestic financing, during the major part of the year the Government's deposits with the Central Bank of Guatemala exceeded the amount of the public debt. The growth rate of external loans also rose in comparison with earlier years, a situation which was once again connected with the execution of specific projects with external financing, as, for example, the electrification projects. Nevertheless, the total of about 85 million dollars utilized was far below the budget estimate of 200 million. In spite of the relatively modest levels of new indebtedness, both domestic and external, and thanks to the small fiscal deficit, the central government closed the year with a cash balance of 37 million quetzales.

Full information is not available concerning the evolution of the finances of the rest of the public sector, but the financial position of two of the most important decentralized enterprises - the National Electrification Institute (INDE) and the Guatemalan Telecommunications Enterprise (GUATEL) - may well have improved as a result of the increases in their tariffs. In the case of INDE, however, the increase was not enough to cover the allocations envisaged in its financial programme. As regards the operations of the National Housing Bank (BANVI), these expanded considerably in relation to the

/previous year,

previous year, but fell far short of the amounts programmed for the financial year. The same factors which prevented a higher level of public investment, together with the difficulty of acquiring suitable land, led to a continuing lag in the programmes of reconstruction of housing destroyed by the 1976 earthquake. In short, very rough estimates indicate that the income of the decentralized institutions grew at a slightly lower rate than central government revenue, while their expenditure rose at a somewhat higher rate.

Finally, in the second half of the year, the Government established the External Finance Commission under the Ministry of Finance, with the object of placing the negotiations on external financing for public sector projects and programmes on a more orderly basis and in a proper order of priority and preventing a deterioration of the structure of the external debt. Towards the end of the year, however, some authorities announced their intention of exploring new possibilities of external financing for the public sector through greater access to private international capital markets, from which it may be inferred that it will be difficult to maintain a proper structure of the debt. A Cadastral and Valuation Department for Immovable Property was also set up in the Ministry of Finance and was to start operating in January 1979, while training and reorganization programmes were initiated in order to strengthen the internal revenue, customs and cadastral departments.

(b) Monetary policy

The main feature of the monetary situation in 1978 was the strong credit pressure on the part of the private sector, which was partly offset by the smaller increase in international reserves, so that the excess liquidity in the intermediation system throughout 1977 was converted, in certain periods of 1978, into a lack of liquidity.

The growth rate of the means of payment dropped from 18.6% in 1977, to 9.2%, which was even lower than the growth rate of the gross domestic product at current prices (see table 17)..

/Table 17

Table 17

GUATEMALA: MONETARY POSITION

	End-year balance (millions of quetzales)				Growth rates		
	1975	1976	1977	1978[a]	1976	1977	1978[a]
Money	348.6	483.2	572.9	625.3	38.6	18.6	9.2
Currency outside banks	174.3	235.1	283.0	319.8	34.9	20.4	13.0
Demand deposits	174.3	248.1	289.9	305.5	42.3	16.9	5.4
Factors of expansion	913.2	1 223.6	1 495.8	1 694.3	34.0	22.2	13.3
Foreign assets (net)	261.7	453.5	628.1	682.2	73.3	38.5	8.6
Domestic credit	651.5	770.1	867.7	1 012.1	18.2	12.7	16.6
Official entities	140.5	169.4	114.6	72.7	20.6	-32.4	-36.6
Private sector	511.0	600.7	753.1	939.4	17.6	25.4	24.7
Factors of absorption	564.6	740.4	922.9	1 069.0	31.1	24.7	15.3
Quasi-money (savings and time deposits)	504.3	641.5	761.2	865.2	27.2	18.7	13.7
Other items (net)	60.3	98.9	161.7	203.8	64.0	63.5	26.0

Source: CEPAL, on the basis of official data.

a/ Preliminary figures.

/The situation

The situation of the international capital market also changed significantly. While throughout 1977 the active and passive interest rates on this market were lower than the rates prevailing in Guatemala, thus favouring savings deposits in the country and encouraging the contracting of loans abroad,4/ in 1978, and particularly in the last few months, this trend was reversed, stimulating deposits abroad and permitting banks to grant credit at lower rates than those prevailing in the main industrialized countries.

In spite of the above-mentioned changes, the Guatemalan monetary authorities maintained practically unchanged the regulations which had been in force in the previous three years in connexion with interest rates and cash reserves and rediscount policies. The main modification, made towards the end of the year, consisted of raising the ceilings on credit extended by the Banco de Guatemala to the banks in the system, in response to the drop in liquidity.

The effects of the situations described above on some main variables of the monetary balance were evident, and were intensified when the establishment of two new commercial banks was authorized. First, whereas in 1977 the interest rates on deposits tended to drop owing to the banks' excess liquidity (the increasing deposits could not be channelled into credit activity because of the restrictions imposed by the reserve or minimum capital requirements), in 1978 they were compelled to compete for deposits, thereby pushing up interest rates. The real rates paid on deposits rose from an average of 3.9% in January to over 5% in December, while the average rates on loans increased less, owing to the ceilings established by the Monetary Board which, as noted earlier, remained unchanged throughout the year.

The more attractive interest rates paid on savings accounts, and particularly on time deposits (up to 9% annually), undoubtedly helped to increase the relative importance of quasi-money in the total absorption of resources from the public. At the same time, the share of time deposits in total quasi-money rose from 9% at the end of 1977 to 16% at the end of 1978, which indicates a certain sensitivity on the part of savers to changes in

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4/ This trend was facilitated by the establishment in Guatemala between 1975 and 1977 of subsidiaries of several foreign banks which, although not authorized to receive deposits, granted foreign currency loans (generally in dollars), which were outside the Central Bank's control.

/interest rates.

interest rates. It may be inferred from this that the margin between active (loan) and passive (deposit) interest rates was reduced in 1978.

Secondly, private and State banks reduced their holdings of public securities, selling approximately 24 million quetzales' worth to the Central Bank.5/ At the same time, private banks took full advantage of the higher ceiling on credit granted by the Central Bank, whose credit activity with the banks in the system expanded from 15 million quetzales in 1977 to 42 million in 1978. Thirdly, the real reserve coefficient naturally fell throughout the year and came closer and closer to the legal coefficient. Thus, while at the end of 1977 this coefficient had reached 29.7%, by the end of 1978 it had dropped to 24.8%.

A particularly noteworthy feature was the sharp expansion of private domestic credit, which considerably exceeded the growth rate of the gross domestic product. The demand for credit was associated with the high level of private investment, the scale of the commercial and agricultural operations effected during the year and, possibly, the private sector's need for greater liquidity in the face of the outflows of capital to the exterior referred to above. This sharp expansion was partly counteracted by the decline in the public sector's indebtedness, which was reduced in the last two years since, as mentioned earlier, this sector's gross debt with the intermediation system, including the Central Bank, was lower than the total funds it kept on deposit. Thus, at the end of 1978, the public sector's gross debt amounted to 265 million quetzales, while its deposits totalled 306 million.

The monetary position described above is consistent with the economic developments analysed earlier, especially the slowing down of the rate of economic activity, the smaller accumulation of international monetary reserves, the growing outflow of private capital and the drop in the rate of inflation.

5/ The State banks' holdings of public securities dropped from 40 to 26 million quetzales between the end of November 1977 and the same month in 1978, while private banks reduced their holdings from 63 to 53 million quetzales during the same period. The disinvestment was probably not any greater, because the income from these securities is tax free, which makes them attractive from the point of view of the global rate of return of financial institutions.

/In addition

In addition to raising the ceilings on credit granted to the banks in the system, the Central Bank decided to cease promoting the sale of public securities to the private sector in order not to absorb more liquidity. Thus, holdings of State securities in public hands declined from 93 million quetzales at the end of 1977 to 85 million at the end of 1978, reversing the trend of previous years, when purchases of these types of securities were steadily increasing.

Another monetary policy measure adopted during the year was the approval by the Legislature of Guatemala's accession to the instrument containing the Second Amendment to the Articles of Agreement of the International Monetary Fund, through which the external value of the quetzal was set at 1 quetzal = 1 US dollar.

Finally, it is worth mentioning the Banco de Guatemala's decision to offer at auction the shares of a national private bank in whose operation the Central Bank had intervened in 1974. The best offer for the shares was made by a Spanish financial institution, and although they authorized the operation, the monetary authorities made it clear that the agreement should not be interpreted as a change in the long-standing policy of not encouraging the establishment of new commercial banks with a majority share of foreign capital.

GUYANA

1. The overall picture

Guyana's gross domestic product (GDP), measured at current factor cost,1/ rose 16% in 1978, while the annual average variation in the consumer price index was slightly more than 15% (see table 1). With this apparent stagnation of the GDP in 1978 coming after substantial declines in real activity in the two preceding years, per capita GDP was thus no greater in 1978 than in 1975, and in real terms it was somewhat less than in 1974. Such a prolonged decline in economic activity and real income, which may in part be traced to unfavourable external market conditions, inevitably creates social tensions and uncertainty, which in their turn complicate the process of adjustment to external disequilibria and economic recovery. At the same time it should be recalled that over the last ten years the authorities have been engaged in an ambitious programme of transformation of the economy and society, which likewise gives rise to social tensions and economic uncertainties. These events constitute some of the salient features of the context within which economic policy and activity have evolved in recent years.

With the exception of government, all the principal sectors recorded nominally high rates of growth in 1978, led by a 26% increase in agriculture (see table 3). The decline in real terms in the government sector, which has acquired a dominant position in productive activities, produced deleterious effects throughout the economy, despite other, more favourable exogenous developments.

While the delicate balance-of-payments situation continued to inhibit the process of economic recuperation, the recovery of sugar cane production, improved terms of trade, strict limitations on imports and a net inflow of official capital permitted international reserves to increase 150%, albeit from an extremely low level. Consequently, further recourse to IMF financing proved unnecessary.

1/ Unless otherwise indicated, rates of growth are in nominal terms and values are expressed in Guyana dollars. In 1978, the official rate of exchange was G$ 2.55 = US$ 1.

/Table 1

Table 1

GUYANA: MAIN ECONOMIC INDICATORS

	1973	1974	1975	1976	1977	1978[a/]
A. Basic economic indicators						
Gross domestic product at factor cost (millions of Guyana dollars at current prices)	577	870	1 098	1 025	1 012	1 174
Population (thousands)	756	774	791	809	827	846
Per capita gross domestic product (Guyana dollars at current prices)	763	1 124	1 388	1 267	1 224	1 389
	Growth rates					
B. Short-run economic indicators						
Gross domestic product at current prices	8.9	50.9	26.2	-6.6	-1.3	16.0
Per capita gross domestic product at current prices	6.7	47.3	23.5	-8.7	-3.4	13.5
Terms of trade	-10.3	33.8	2.6	-15.5	3.7	5.9
Current value of exports of goods and services	-3.9	85.4	26.6	-21.3	-6.6	23.5
Current value of imports of goods and services	24.0	34.1	31.9	9.0	-14.7	4.8
Consumer prices						
December - December						
Annual average variation	15.6	11.6	5.5	9.1	9.0	20.8
Money	7.5	17.4	8.0	9.0	8.2	15.3
Current income of government	1.3	99.5	57.7	-22.7	-5.8	5.9
Total government expenditure	39.0	23.4	69.3	23.0	-21.6	6.9
Fiscal deficit/total government expenditure b/	47.4	14.9	19.7	49.5	39.3	41.5
	Millions of US dollars					
C. External sector						
Trade balance (goods and services)	-50	13	1	-110	-71	-23
Balance on current account	-63	-8	-22	-138	-97	-45
Variation in net international reserves	-27	46	50	-90	-25	35

Source: CEPAL, on the basis of official statistics.

a/ Preliminary figures.

b/ Percentage.

/During the

During the course of the year inflation accelerated to double the rates recorded in the previous two years, the immediate causes including the stagnation in both components of supply, coupled with a sharp increase in the money supply in the last quarter of 1977, and the elimination of several important consumption subsidies over the last two years. Although no index figures are available it may be noted that the general evolution of nominal wages reflected the considerable successive increases in public sector minimum wages, beginning in the last half of 1977. These increases, in the absence of a parallel growth in supply and current government revenues, have directly and indirectly (through the growth in the money supply) created upward pressures on price levels and played a part in the steep decline in government spending on development projects.

As might be expected monetary and fiscal policy was largely determined by the need to redress the disequilibria in the balance of payments while at the same time financing the substantial rise in public sector minimum wages despite stagnant current government revenues.

In 1978 the government established the State Planning Commission, which has authority to fix productivity growth targets, set export and import goals, design manpower development and technology programmes, and reassign public sector employees in keeping with the requirements of productivity growth targets.

2. Recent economic trends

(a) Total supply and demand

In 1978, the evolution of total supply and demand was in line with the developments outlined in the introduction and treated in greater detail in the subsequent sections. Particular attention should be drawn to the shrinking participation of gross domestic investment (GDI) in total demand; the over-riding importance of the public sector in domestic capital formation; and the extraordinary sensitivity of the economy to external market conditions.

Between 1976 and 1978 the share in GDI in total demand fell abruptly from approximately 22% to something over 12%, while nominal total demand increased slightly over the same period (see table 2). In the former year the public sector was responsible for fully 85% of gross fixed investment, whereas private sector gross fixed investment accounted for a mere 3% of total demand.

/Table 2

Table 2

GUYANA: TOTAL SUPPLY AND DEMAND

	Millions of Guyana dollars at current prices			Percentage breakdown		Growth rates		
	1976	1977	1978	1970	1978	1976	1977	1978
Total supply	2 189	2 036	2 233	100.0	100.0	4.8	-7.0	9.7
Gross domestic product at market prices	1 149	1 141	1 278	52.5	57.2	-3.3	-0.7	12.0
Imports of goods and services	1 040	895	955	47.5	42.8	15.3	-13.9	6.7
Total demand	2 189	2 036	2 233	100.0	100.0	4.8	-7.0	9.7
Gross domestic investment	479	326	274	21.9	12.3	23.5	-32.0	-15.8
Gross fixed investment	400	300	...	18.3	...	14.3	-25.1	...
Public	(330)	(230)	(243)	15.1	10.9	(17.9)	(-30.4)	(5.7)
Private	(70)	(70)	...	3.2	...	-	-	...
Changes in stocks	79	26	...	3.6	...		-67.1	...
Total comsumption	932	975	1 067	42.6	47.8	17.1	4.6	9.4
General government	300	290	306	13.7	13.7	28.8	-3.4	5.5
Private	632	685	761	28.9	34.1	12.3	8.5	11.1
Exports of goods and services	778	735	892	35.5	39.9	-14.1	-5.5	21.3

Source: Statistical Bureau, Guyana.

/As the

As the nominal level of government investment was slashed by over 36% (over 60% in real terms) between 1976 and 1978, GDI plunged accordingly. It is interesting to note that the nominal level of private GDI held steady through 1977 (no data are available for 1978). In contrast, over the same period total consumption increased by 17% in nominal terms and private consumption by almost 21%.

The relatively effective protection of existing levels of real consumption was thus achieved at the expense of public sector or domestic capital formation.

The extreme sensitivity of the economy to external market conditions is clearly shown by the figures on the composition of total supply and total demand. At the same time it is worth noting that between 1976 and 1978 the nominal value of imports declined 8%, while that of the GDP rose 11%. In effect, the reduction in imports led to a more than proportionate increase in domestic supply, notwithstanding the 11% rise in exports, and in real terms the fall in the GDP has been considerably less than that of imports.

(b) Sectoral trends

(i) Agriculture. Thanks to generally favourable weather conditions, a sharp reduction in work stoppages and a marked rise in sugar prices, preliminary estimates show a 26% nominal increase in the value of agricultural production in 1978 (see table 3). Notwithstanding the acceleration of inflation, the sector seems to have achieved a significant increase in physical output, led by the recovery of sugar cane, production of which increased some 23% (see table 4), while the value jumped 67%. The production of rice, on the other hand, which has been very erratic in recent years, dropped 13%. These two crops accounted for two-thirds of the value of agricultural production in 1978. Although production data for the remainder of the sector's activities are not available, it may be estimated that overall there was a small gain in output.

/Table 3

Table 3

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

	Millions of Guyana dollars				Percentage breakdown b/		Growth rates			
	1975	1976	1977	1978a/	1970	1978a/	1975	1976	1977	1978a/
Agriculture	342	256	211	266	19.3	22.6	69.1	-30.9	-10.7	26.0
Sugar cane	246	142	77	129	9.2	11.0	33.1	-42.4	-45.4	67.4
Rice	36	25	49	41	2.8	3.5	40.2	-29.8	96.0	-17.1
Mining and quarrying	141	145	164	182	20.4	15.5	22.8	2.8	13.2	11.0
Manufacturing	162	135	123	145	12.2	12.4	34.3	-16.5	-8.9	18.2
Sugar manufacturing	86	49	27	45	3.2	3.9	32.9	-42.8	-45.1	67.5
Rice milling	6	5	9	7	0.8	0.6	6.9	-27.4	104.4	-25.0
Construction	74	85	77	92	7.9	7.8	41.2	14.3	-9.5	19.8
Subtotal goods	719	601	575	685	59.8	58.3	30.3	-16.4	-4.3	19.2
Transport, communication	50	55	58	72	5.9	6.1	7.8	10.2	5.5	23.8
Distribution	94	108	92	113	11.5	9.6	16.6	14.8	-14.7	22.0
Rent, financial and other services	75	81	86	93	9.6	7.9	17.3	7.6	6.2	7.7
Government	160	180	201	212	13.2	18.1	26.2	12.6	11.4	5.5
Subtotal services	379	424	437	488	40.2	41.7	47.0	12.1	2.6	10.0
Total gross domestic product	1 098	1 025	1 012	1 174	100.0	100.0	26.2	-6.6	-1.3	16.0

Source: Statistical Bureau, Ministry of Economic Development, Guyana.

a/ Preliminary figures.

b/ Totals may not agree because of rounding.

/Table 4

Table 4

BOLIVIA: INDICATORS OF AGRICULTURAL PRODUCTION

	Thousands of metric tons				Growth rates		
	1975	1976	1977	1978a/	1976	1977	1978a/
Sugar cane b/	3.5	4.1	3.3	4.0	17.3	-19.4	22.5
Rice (milled)	178.0	112.0	213.0	185.0	-37.1	90.2	-13.2
Root crops	23.0	21.0	24.0	...	-8.7	14.3	...
Plantains	15.0	14.0	20.0	...	-6.7	42.9	...
Coconuts	31.0	32.0	25.0	...	3.5	-22.2	...
Citrus	10.0	10.0	12.0	...	-	20.0	...
Bananas	19.0	18.0	24.0	...	-5.3	33.3	...
Corn	5.8	4.3	3.3	...	-25.8	-24.2	...
Tomatoes	1.7	1.9	2.3	...	10.9	21.9	...
Pineapples	1.4	1.8	1.9	...	30.0	7.7	...
Beef	3.9	4.0	3.1	...	3.6	-21.6	...
Pigs, sheep and goats	1.6	2.3	2.3	...	38.9	2.0	...
Poultry	7.7	9.5	7.4	...	22.9	-22.0	...
Livestock d/	561.0	575.0	601.0	...	2.5	4.5	...

Source: Statistical Bureau, Guyana.

a/ Estimates.
b/ Millions of metric tons.
c/ Millions.
d/ Thousands of heads.

/In 1977,

In 1977, the output of sugar cane fell 19% as the result of a protracted strike, and this, together with declines in other important crops (except rice), led to a nominal 10% reduction in the value of agricultural production following the 31% fall in the preceding year. Consequently, in spite of the favourable performance recorded in 1978 the level of production remained below that of 1975, and in 1978 agriculture represented less than 23% of the GDP against 31% in the latter year, although this was an improvement on 1970, when the proportion was only 19% (see table 3).

(ii) Mining. The contraction in mining activity during 1978 contrasted with the relatively favourable evolution in the prices of the sector's main products. Thus, the output of dried and calcined bauxite declined by 6% and 8% respectively, largely due to a series of work stoppages (see table 5). The other major commodity, alumina, registered an 8% increase. In 1978, the combined output of the above products fell 24% short of the 1975 level, and over the same period the contribution of mining to the GDP declined from almost 23% to considerably less than 16%.

(iii) Manufacturing. Following a notable reduction in real activity in the preceding two years, the sector showed a small increase in 1978 (see table 6). The growth in output was essentially a consequence of the recovery of sugar cane production, which permitted greater utilization of existing capacity in the transformation branch of the industry, which alone accounts for one-half of manufacturing GDP. Of the other principal manufacturing activities, rice milling, edible oils, margarine, paint and timber processing all suffered precipitous declines. Only rum and soap showed any growth.

The constant contraction in economic activity in the wake of the 1975 world recession and the lethargic pace of recovery in the industrial centres, together with the strategies adopted by labour to defend its level of real income, have exacted a heavy toll in the export-oriented manufacturing sector. In addition to the emergence of a large margin of idle capacity on the one hand and a shortage of imported inputs on the other, the planned extension of the industrial base has been postponed. The construction of bicycle, leather, shoe and glass factories have all been suspended, and of the major expansion programmes only the construction of a textile mill has continued.

/Table 5

Table 5

GUYANA: INDICATORS OF MINING PRODUCTION

	Thousands of metric tons				Growth rates		
	1975	1976	1977	1978	1976	1977	1978
Dried bauxite	1 401	985	1 017	955	-29.7	3.2	-6.1
Calcined baxite	790	741	720	660	-6.2	-2.8	-8.3
Alumina	299	251	260	282	-16.0	3.6	8.5
Alumina hidrate	20	19	17	12	-5.0	-10.5	-29.4
Gold a/	18	16	12	16	-11.1	-25.0	25.0
Diamonds b/	21	14	17	21	-33.3	21.4	23.5

Source: Statistical Bureau, Guyana.

a/ Thousands of ounces.
b/ Thousands of carats.

/Table 6

Table 6

GUYANA: INDICATORS OF MANUFACTURING PRODUCTION

	1975	1976	1977	January-June 1978	Growth rates a/ 1976	1977	1978b/
Sugar c/	305	337	246	312d/	10.7	-27.0	26.8
Edible oil e/	2 882	3 441	1 418	734	19.4	-59.0	-14.0
Margarine f/	1 916	2 146	2 033	902	12.0	-5.3	-13.5
Flour c/	41	40	35	17	-2.1	-13.1	-5.2
Molasses g/	83	108	90	57	30.8	-16.8	48.2
Stock feed c/	736	851	739	...	15.7	-13.2	...
Rum h/	5 539	4 603	3 249	1 801	-16.9	-29.4	10.3
Cigarettes i/	532	559	558	313	5.1	-0.1	7.5
Soap f/	2 260	2 054	1 916	1 339	-9.1	-6.7	13.7
Paints e/	2 046	2 032	1 718	705	-0.7	-15.4	-27.2
Timber j/	222	213	176	78	-4.0	-17.3	-13.8

Source: Statistical Bureau, Guyana, and data supplied to CEPAL.

a/ Figures may not agree due to rounding.
b/ January to June, except for sugar.
c/ Full year data.
d/ Thousands of metric tons.
e/ Thousands of litres.
f/ Metric tons.
g/ Millions of litres.
h/ Thousands of gallons.
i/ Millions.
j/ Thousands of cubic metres.

/(iv) Construction.

(iv) Construction. The construction sector rebounded from a nominal decline of well over 9% the previous year to register a 20% nominal growth rate in 1978, corresponding to an increase of about 4 to 5% in real terms. The progress on the extension of the transportation system into the interior of the country, the initiation of the Tapacum flood control project and several fishing complexes were primarily responsible for the sector's partial recovery. A substantial increase in the internal supply of wood products also favoured the sector. On the other hand the construction of a large hydroelectric project, a centrepiece of the current development plan, was suspended for lack of adequate finance.

3. The external sector

(a) The trade balance

While the delicate external payments situation and the government policies designed to combat it continued to militate against internal economic recovery, the depressed level of external demand for the country's main export items eased somewhat during 1978. More favourable sugar prices, combined with the strong recovery of sugar cane production, sharp increases in rice exports (in spite of a lower level of production) and the severe restrictions on imports led to a 68% reduction in the trade deficit. The volume of merchandise exports rose well over 11% from the depressed levels of the preceding two years, while that of imports actually declined slightly, following a sharp reduction in 1977 (see table 7). The value of merchandise exports jumped 24%, owing largely to the substantial increase in sugar cane production and the higher support price paid by the European Economic Community, which absorbs the bulk of the country's sugar exports. In spite of the small decline in the volume of imports their value rose almost 5%, but the relatively greater increase in export prices resulted in a 6% improvement in the terms of trade (see table 7). The net effect of the above trends was a shift from a US$ 28 million deficit in 1977 to a US$ 22 million surplus on the merchandise trade account in 1978.

/Table 7

Table 7

GUYANA: MAIN FOREIGN TRADE INDICATORS

	1973	1974	1975	1976	1977	1978[a/]
	Growth rates					
Exports of goods						
Value	-5.5	99.0	30.1	-20.5	-7.2	24.1
Volume	-7.0	6.3	4.4	-7.7	-15.6	11.6
Unit value	1.6	87.3	24.7	-13.8	10.0	11.2
Imports of goods						
Value	23.7	44.5	32.8	8.2	-13.4	4.7
Volume	9.1	3.2	9.3	6.1	-18.3	-0.3
Unit value	13.3	40.0	21.5	2.0	6.0	5.0
Terms of trade	-10.3	33.8	2.6	-15.5	3.7	5.9
	Indexes (1970 = 100)					
Terms of trade	101.0	135.1	138.7	117.2	121.5	128.7
Purchasing power of exports of goods	83.5	116.9	128.6	97.3	87.5	103.2
Purchasing power of exports of goods and services	87.5	120.6	128.1	98.0	85.7	100.3

Source: CEPAL, on the basis of official data. Note that the source used here differs from that used in table 10.

a/ Preliminary figures.

/As noted

As noted above, the values of both sugar and rice exports showed pronounced increases of 52 and 33% respectively (January to September only; see table 8). In 1975 the value of the exports of these commodities had accounted for 60% of the value of total exports, dropping to less than 39% in 1977, but at the close of the third quarter of 1978, the proportion again exceeded 60%. The value of both bauxite and alumina exports, owing to production problems alluded to in a previous section, declined slightly. Non-traditional exports recorded a small increase, yet remained considerably below 1975 levels. While the effect of the appreciation of the currency over the last few years 2/ on the major export items (the prices of which are largely determined outside market channels) is debatable, it did discourage non-traditional exports, which also suffered from the general downturn in economic activity and growing restrictions on trade among the CARICOM countries. Some of the restrictions aimed specifically at Guyana were eased in 1978 as the significant increase in the country's international reserves permitted it to reduce its arrears in respect of trade with CARICOM.

Statistics on the composition of imports (January-June only; see table 9) reveal substantial declines in every category except food. These ranged from over 16% for consumption goods to over 49% for capital goods, the latter reflecting the decline in the capital expenditures of the government. Overall, the drop came to 27%, but since the full-year data show only a marginal decline (0.3%) in the value of total imports (see table 7), the part-year data apparently overstate to varying degrees the actual reduction in the value of imports of goods by sector. At all events, the marked contraction in the real value of imports over the last two years has created significant supply problems throughout the economy, inasmuch as the real level of demand has fallen much less than the real GDP.

The traditionally large deficit on the services account has constituted a chronic drag on the economy, and 1978 was no exception. In consequence the overall trade balance registered a deficit, although, as pointed out initially, the deficit represented a two-thirds reduction compared with 1977.

2/ See Economic Survey of Latin America, 1977 (E/CEPAL/1050), pp. 488-489.

/Table 8

Table 8

GUYANA: VALUE OF EXPORTS OF SELECTED PRODUCTS

	Millions of US dollars				Growth rates		
	1975	1976	1977	1978 a/	1976	1977	1978 a/
Main traditional exports							
Bauxite	86.7	88.0	99.1	70.2	1.5	12.6	-4.9
Alumina b/	28.8	25.1	30.8	21.8	-12.8	22.7	-5.6
Sugar	175.4	101.4	72.8	60.4	-42.2	-28.2	49.5
Rice	36.0	28.9	26.2	25.8	-19.7	-9.3	33.0
Subtotal	326.9	243.4	229.9	178.2	-25.5	-6.0	13.7
Main non-traditional exports							
Rum	7.1	5.1	3.0	2.7	-28.2	-41.2	28.5
Molasses	2.4	2.4	2.4	1.5	-	-	-16.7
Wood	3.6	3.8	3.6	3.2	5.6	-5.3	28.0
Shrimps	4.4	5.1	4.8	3.8	15.9	-5.9	-11.6
Diamonds	0.5	0.3	0.4	0.5	-40.0	33.3	66.7
Subtotal	18.0	16.7	14.2	11.7	-7.2	-15.0	4.5
Others	12.0	12.4	12.8	...	3.3	3.2	...
Total exports	356.9	272.5	255.9	189.9 c/	-23.4	-6.1	13.1

Source: CEPAL, on the basis of official data.

a/ January - September, with respect to the same period in 1977.
b/ Includes alumina hydrate.
c/ Total excludes "other" exports.

/Table 9

Table 9

GUYANA: IMPORTS OF GOODS

	Millions of US dollars				Percentage breakdown		Growth rates		
	1975	1976	1977	1978 a/	1970	1978 a/	1976	1977	1978 b/
Consumer goods	55.2	64.8	56.1	24.9	34.8	20.8	17.4	-13.4	-16.4
Food	20.5	22.3	25.3	12.7	11.4	10.7	8.8	14.3	5.0
Raw materials and intermediate goods	174.7	175.8	161.1	70.6	29.0	59.2	0.6	-8.4	-19.6
Capital goods	114.2	123.2	88.8	23.8	36.2	20.0	7.9	-27.9	-49.3
Building equipment	30.6	36.0	20.6	7.5	...	6.3	17.6	-42.0	-34.2
Total goods imports	344.1	363.7	315.5	119.3	100.0	100.0	5.7	-13.3	-27.5

Source: CEPAL, on the basis of official data. Note that the source used here differs from that used in table 10.

a/ Figures for first half of year.
b/ Variation with respect to first half of 1977.

/(b) Balance

(b) Balance of payments

Thanks to the improvement in the merchandise trade account the deficit on the current account was halved between 1977 and 1978. Furthermore, the net positive flow of non-compensatory foreign capital was sufficiently large to produce a 150% increase in international reserves (see table 10), which consequently reached a level equal to the foreign exchange requirements of slightly less than two months of imports, compared with less than one month at the end of 1977. Although detailed information covering the origin of the capital flows is not at present available, preliminary indications suggest that public and private commercial loans to the public sector accounted for the lion's share.

The overall improvement in the balance-of-payments situation, while not yet sufficient to promote economic recovery, permitted the authorities to forego the negotiation of additional financial support from the IMF, and they have also reiterated the decision to maintain the existing rate of exchange.

4. Prices, wages and employment

The annual average variation in the consumer price index was over 15% in 1978, and since the December 1978 index stood almost 21% above the December 1977 level, it may be surmised that inflation accelerated as the year progressed. The average variation in prices in 1978 was practically double the rates prevailing in the preceding three years and approached the 17% jump recorded in 1974. Through September 1978, the overall price rise was mainly fuelled by the increase in the price of food and related items (20%) and clothing (24%) (see table 11). The rise in food prices was much more pronounced in rural areas (22%) than in urban ones (14%). The behaviour of the food price index was a consequence of both the elimination of subsidies on food items and the limitation of food imports. The overall index was also influenced by the fact that the real level of demand increased, largely due to the sizeable increase in the public sector minimum wage, while the real level of GNP stagnated.

Table 10

Table 10

GUYANA: BALANCE OF PAYMENTS

(Millions of US dollars)

	1973	1974	1975	1976	1977	1978 a/
Current account						
Exports of goods and services	159	204	372	234	273	338
Goods FOB b/	136	270	351	280	259	322
Services	23	24	21	14	14	16
Transport	3	3	3	2	2	2
Travel	4	5	3	3	3	4
Imports of goods and services	209	281	371	404	345	361
Goods FOB b/	159	230	306	331	287	300
Services	50	51	65	73	58	61
Transport	20	27	36	42	36	37
Travel	8	3	5	6	4	4
Net payments of profits and interest on foreign capital	-12	-19	-19	-24	-21	-21
Profits	-5	-14	-8	-4	-3	-3
Interest	-7	-5	-11	-20	-18	-18
Net private transfer payments	-1	-2	-4	-4	-4	-1
Balance on current account	-63	-8	-22	-138	-97	-45
Capital account						
Net external financing (a+b+c+d+e)	63	8	22	138	97	45
a) Long-term capital	31	29	53	29	23	
Direct investment	8	1	1	-26	-1	
Private sector	10	13	31	-7	-7	
Loans (net)	10	13	31	-7	-7	
Official sector	13	15	21	62	31	
Loans	14	20	29	80	57	
Amortizations payments	-4	-5	-8	-14	-24	
Other liabilities and assets	3	-	-	-4	-2	80
b) Short-term capital (net)	5	13	5	-5	10	
Private sector	-4	5	-4	-4	4	
Official sector	-	-	-	6	-	
Errors and omissions	9	8	9	-7	6	
c) Extraordinary financing c/	-	13	16	26	39	
d) Official transfer payments	-	-1	-2	-2	-	
e) International reserves (minus signifies an increase)	27	-46	-50	90	25	...
Use of IMF credit	5	1	-6	20	-	...
Other liabilities	-	-	-	2	12	...
Monetary gold	-	-	-	-	-	...
Special Drawing Rights	-	-	-	-	1	...
IMF reserve position	1	-2	-4	6	-	...
Other assets	21	-45	-40	62	12	-35

Sources: 1973-1977: International Monetary fund, Balance of Payments Yearbook, vol. 29; 1978: CEPAL, on the basis of official data.

a/ Preliminary figures.

b/ Including non-monetary gold.

c/ Loans from the Central Bank of Trinidad and Tobago to finance Guyana's oil imports.

/Table 11

Table 11

GUYANA: EVOLUTION OF CONSUMER PRICE INDEX

(Growth rates, per cent)

	1974	1975	1976	1977	1978
Consumer price index	19.7	6.0	8.7	10.8	17.9
Foodstuffs, beverages and tobacco	27.2	5.9	12.3	10.1	20.2
Clothing	19.6	11.9	8.3	17.5	24.2
Housing	8.2	3.1	1.2	2.0	2.2
Miscellaneous	10.0	4.9	4.9	17.2	19.4

Source: Statistical Bureau, Guyana.

/The 1977

The 1977 Minimum Wage Agreement between the government and public sector employees (among whom are those in the sugar, rice and mining industries) provided for an increase in the minimum wage to 260% of the prevailing rate. The increase was to be phased in over a three-year period (53% in 1977; 31% in 1978 and 27% in 1979), and was intended both to stimulate and to be dependent on a corresponding increase in productivity. Furthermore, according as productivity growth surpassed the basic increases, further adjustments would be possible.3/ The agreement did not, however, contain any specific provisions on these matters. These were to be negotiated in subsequent "National Guidelines for Incentive Schemes", within the context of which incentive agreements would be negotiated by sectors or enterprises. Agreement on these guidelines had not been reached by the end of 1978, and in the meantime the growth in productivity was negligible. Given the restrictions on imports and the stagnation in productivity, the wage increases created substantial inflationary pressures. The authorities have indicated that the wage rise programmed for 1979 will be contingent on the implementation and fulfilment of productivity incentive schemes.

In 1978, the government embarked on an ambitious plan to reallocate public employees from sectors and enterprises with a surplus of labour to those with a labour deficit. Among the sectors in which a labour shortage constitutes a brake on production increases, agriculture stands out. In 1975, the area of arable land per person employed in agriculture was higher (16.7 hectares) in Guyana than in any other country in the developing areas of the Western Hemisphere except Argentina (24.2 hectares), while the degree of mechanization (measured by the ratio of arable land to the stock of tractors) was among the lowest.

3/ Guyana, Third Parliament of Guyana, Budget Speech, 12 March 1979. Obviously, such an extraordinary increase in productivity would be historically unprecedented.

/5. Monetary

5. Monetary and fiscal policy

(a) Monetary policy

During 1978, the expansion of the money supply (M_1) was held to slightly over 3%, which represented a notable decline from the 32% rise of the previous year (see table 12). In view of the 15% rise in the consumer price index, the small nominal increase in M_1 in 1978 actually amounted to a significant decline in real terms. The 18% increase in the factors of expansion was mainly accounted for by the rise in net international reserves (from $1 million to $46 million). The change in the real level of credit was in fact negative, since the 26% increase in factors of absorption largely offset the rise in factors of expansion. Unfortunately a complete set of disaggregated statistics on the latter is not available. Indirect information suggests that the 86% jump in "Other net accounts" was primarily a result of the accumulation of treasury notes in the Central Bank. Over the last five years the pattern of behaviour of M_1 has been highly uneven, reflecting sharp fluctuations in the current account balance, non-compensatory capital flows (and thus international reserves) and the need to finance growing current government expenditures without a corresponding increase in current government revenue. While given the tax structure, the available forms of financing current expenditures are inseparable from the general level of economic activity and, in particular, movements in the various components of the external accounts, the rate of growth of current expenditures has mainly been a function of the wage agreements to which the government has been a principal party. Because of the depressed level of economic activity, the raising of the public sector minimum wage by an amount significantly in excess of the rate of inflation eventually showed up in an acceleration in the rate of inflation in the latter half of 1978, notwithstanding the negative real rate of growth of M_1 during the year.

/Table 12

Table 12

GUYANA: MONETARY POSITION

(Millions of Guyana dollars)

	Balance at end of				Growth rates		
	1975	1976	1977	1978	1976	1977	1978
Money	198	214	283	292	7.8	32.4	3.3
Currency outside banks	92	106	143	156	14.8	35.2	9.5
Demand deposits	106	108	140	136	1.7	29.7	-3.0
Factors of expansion	569	602	750	884	5.9	24.6	17.8
Foreign assets (net)	264	24	1	40	-90.9	-95.8	4 480.0
Domestic credit	305	578	749	838	89.4	29.6	11.9
Claims on government (net)	126	375	516	588	197.1	37.7	14.1
Claims on official entities	60	82	120	127	36.0	45.9	5.7
Claims on private sector	119	121	113	123	2.1	-6.4	8.2
Factors of absorption	371	389	467	592	4.9	20.3	26.6
Quasi-money (savings and time deposits)	231	266	314	306	15.3	18.1	-2.6
Other items (net)	140	123	153	286	-12.2	25.0	86.3

Source: International Monetary Fund, International Financial Statistics, May 1979.

/(b) Fiscal

(b) Fiscal policy

In 1978, total budget expenditure was scheduled to rise 10% in nominal terms, compared with an actual nominal decline approaching 22% in 1977 (see table 13). Current expenditure was to increase 7% and capital expenditure 18%. In 1977, capital expenditure had been sliced in half. Recently released data 4/ on the actual 1978 expenditure and revenue show that both, in fact, fell below the programmed levels; the former by 8% and the latter by 2.5%. Inasmuch as current expenditures increased at a rate (15%) considerably above the planned one of 7%, capital expenditures were forced to bear the burden of adjustment and consequently declined 4%. The real declines in all the above categories were substantially greater.

The process of accomodation to external disequilibria and internal wage settlements far in excess of productivity growth has therefore clearly been achieved at the expense of developmental projects and has fuelled price inflation, yet once again it should be recalled that the environment within which the authorities' economic policy has unfolded has been characterized by falling GDP and labour unrest, the immediate causes of which may in large measure be assigned to external market conditions.

4/ Guyana, Third Parliament of Guyana, Budget Speech, 12 March 1979.

/Table 13

Table 13

GUYANA: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of Guyana dollars				Growth rates		
	1975	1976	1977	1978a/	1976	1977	1978
Current income	487	374	355	376	-22.7	-5.8	5.9
Tax revenue	459	323	300	332	-29.5	-7.1	10.7
Direct (income tax) b/	103	106	147	160	2.4	39.2	12.2
Indirect (excise + other taxes) c/	314	166	114	127	-47.3	-39.2	11.4
On foreign trade (customs duty) d/	42	51	39	40	25.6	-24.8	0.3
Non-tax revenue	28	54	55	44a/	86.7	2.4	-20.0
Current expenditure	319	458	432	462	43.7	-5.6	6.9
Wages and salaries	106	128	153	176	20.6	19.6	15.0
Other current expenditure	213	330	279	286	55.2	-15.4	2.5
Savings on current account	169	-81	-77	-86			
Capital expenditure	288	289	153	181	0.1	-47.1	18.3
Total expenditure	607	746	585	643	23.0	-21.6	9.9
Fiscal deficit	-120	-370	-230	-267			
Financing the deficit							
Domestic financing	29	43	49	94	48.0	12.7	91.8
External financing	82	81	37	87	1.6	-54.4	135.1
Selected ratios (percentages)							
Fiscal deficit/total expenditure of government	19.7	49.5	39.3	41.5			
Tax revenue/total expenditure	75.6	43.3	51.5	51.6			
Current savings/ total expenditure	58.5	-	-	-			
External receipts as percentage of capital expenditure	28.5	28.0	24.1	48.1			
External financing as percentage of total external and internal capital receipts	73.8	65.2	43.1	48.1			

Source: Data supplied to CEPAL and Guyana budget speech 1978.

Note: Totals may not agree due to rounding.

a/ Programmed budget.
b/ Income tax = income tax on self-employed plus income tax on companies, corporation tax, witholding tax, etc.
c/ Excise tax and other inland revenue.
d/ Import duty.

HAITI

1. Recent economic trends: Introduction and summary

In 1978 the economic growth rate improved over that of the previous year, when an intense drought affected several of the main economic activities. The gross domestic product rose by 3.6%, thus returning to the trend followed, with some fluctuations, since the beginning of the decade. The per capita product grew by 1.1% - a slightly faster rate than in the initial years of the decade - but still came to barely 126 dollars at 1970 prices, compared with 120 dollars in 1973 (see table 1).

Gross income increased by 3.4%, only slightly less than the product, because of the small deterioration in the terms of trade.

The economic achievements of 1978 1/ resulted both from circumstances which arose during the year and other which had been developing since 1974. Particular mention should be made of the rapid rise in public investment and in the value of external transactions, and the increase in international economic and financial co-operation. Nevertheless, the economy continued to be founded principally on the backward agricultural sector, which has hardly increased its output since the beginning of the decade, but on which three quarters of the population depend.

Population pressures and fragmented land ownership, the low income levels of the vast majority of the population, limited employment opportunities because of the low level of capitalization, the growing economic and social disparities between the countryside and the towns, illiteracy and low levels of life expectancy are the principal critical problems facing the country.2/ Of course, these problems cannot be remedied by domestic effort alone; it will also be necessary for the international community to increase the technical and financial support it is currently providing.

1/ Unless otherwise indicate, all the information and comments on Haiti appearing in this note refer to fiscal years, which end on 30 September.

2/ Haiti is the only Latin American country in the group of 30 least developed countries, which contains 21 from Africa and 8 from Asia.

/Table 1

Table 1

HAITI: MAIN ECONOMIC INDICATORS[a/]

	1973	1974	1975	1976	1977	1978[b/]
A. Basic economic indicators						
Gross domestic product at factor cost (millions of US dollars at 1970 prices)	592	618	632	665	674	698
Population (millions)	4.92	5.04	5.16	5.28	5.40	5.53
Per capita gross domestic product (US dollars at 1970 prices)	120	123	122	126	125	126
	Growth rates					
B. Short-run economic indicators						
Gross domestic product	4.5	4.3	2.2	5.3	1.3	3.6
Per capita gross domestic product	2.2	2.0	-0.1	2.9	-1.1	1.1
Gross income [c/]	4.5	4.5	2.6	7.1	4.1	3.4
Terms of trade	-2.5	4.3	6.4	29.8	52.1	-3.7
Current value of exports of goods and services	22.0	17.7	17.0	30.1	24.7	16.3
Current value of imports of goods and services	22.0	33.5	20.5	31.5	29.5	10.0
Consumer price index						
September to September	20.0	17.5	18.5	3.3	5.2	1.8
Variation between annual averages	20.0	14.3	17.4	10.6	7.4	-2.9
Money	19.1	12.6	7.4	28.8	21.9	24.6
Current income of government	10.3	7.3	9.2	26.7	25.6	15.1
Total expenditure of government	11.4	24.3	40.2	35.3	20.6	18.1
Fiscal deficit/total expenditure of government [d/]	32.3	41.6	54.5	57.4	55.6	56.8
	Millions of US dollars					
C. External sector						
Trade balance (goods and services)	-22.0	-42.0	-54.0	-72.0	-100.0	-99.0
Balance on current account	-10.0	-36.0	-40.0	-47.0	-84.0	-78.0
Variation in net international reserves	1.0	-11.0	-13.0	12.0	13.0	5.0
Public external debt (disbursed)	41.0	56.0	79.0	101.0	157.0	191.0

a/ All the figures shown relate to fiscal years (October to September).
b/ Preliminary figures.
c/ Gross domestic product plus terms-of-trade effect.
d/ Percentage.

/Particularly important

Particularly important in the moderate recovery of the growth rate of production in 1978 were the rises in manufacturing output (11% in contrast with the decline in the previous year), and services, principally electricity supply. Another factor was the increase in agricultural output, which, though small (the estimate is 1%), marked a recovery from the drop caused in 1977 by the drought. The spring rains which followed the drought boosted output of cereals for domestic consumption, although they adversely affected output of coffee. Industry, for its part, was stimulated by a revival in external demand and by improved electricity supply.

The value of exports of goods and services increased by 16% despite the drop in the price of coffee, which makes up 40% of exports of goods. However, this increase is much smaller than those recorded in the two previous years, when coffee, and also some other products which Haiti exports, enjoyed very high prices on external markets. Imports, including services, which increased 3.4 times between 1972 and 1977, rose by only 10% in 1978. One reason for the lesser growth was the decline in purchases of cereals, and the drop in purchases of machinery and equipment because of the completion of several large infrastructure projects.

The fact that exports grew more than imports meant that the deficit on the current account of the balance of payments fell from 84 million dollars to 78 million dollars. There was also a net inflow of capital and official transfer payments of 83 million dollars, leading to a rise of 5 million dollars in the country's net international reserves.

The higher prices obtained for other exports only partially offset the fall in coffee prices, leading to a deterioration in the terms of trade, but even so the terms of trade remained at double the level of 1973-1975.

At the end of September 1978 the external public debt was 191 million dollars. However, because of the credit granted to Haiti on especially favourable terms, servicing of the external debt accounted for only a very small proportion (less than 9%) of revenue from exports of goods and services.

As regards the fiscal situation, although in 1978 the government enjoyed a rise in current savings, the increasing capital expenditure once again led to a deficit (of the order of 57% of total expenditure), as has

/been happening

been happening for many years. The large highway, electricity and agricultural projects undertaken since 1974 were made possible by international financial support in the form of official grants and medium-term and long-term loans. Unfortunately, this ambitious public investment plan has not met with an appropriate response on the part of the private sector, thus nullifying a substantial part of the stimulus which it should have given to economic activities as a whole.

The smaller rises in domestic consumer prices which had been observed in the previous two years turned into a fall of 2.9% in 1978. The largest drop was in the prices of foodstuffs, following a slight improvement in domestic supply.

2. Trends in economic activity

(a) Global supply and demand trends

In the previous two-year period total supply grew at an annual rate of about 6%, stimulated by rapid growth in imports. Because of the fall in the growth rate of imports in 1978 from 20% to 4%, total supply increased by only 3.6%, despite the recovery in the growth rate of the gross domestic product (see table 2).

Total demand, for its part, was once again stimulated by the rapid rise in capital formation. Between 1970 and 1978 gross fixed investment doubled its share in the gross domestic product from 7% to 14%, though its growth rate slowed down in 1978. The dynamism of investment originated entirely in the public sector, where capital expenditure was designed to broaden the national productive and economic base in three strategic areas: roads, electricity and the promotion of agriculture. As already noted, this expenditure was financed basically from external assistance and borrowing, since fiscal revenue was still very small. The capital formation effort was clearly reflected in the public investment ratio, which rose from 1.5% in 1970 to 10.6% in 1978.

/Table 2

Table 2

HAITI: TOTAL SUPPLY AND DEMAND

	Millions of gourdes at 1970 prices			Percentage breakdown		Growth rates		
	1976	1977a/	1978a/	1970	1978a/	1976	1977a/	1978a/
Total supply	3 472	3 622	3 754	115.4	122.6	7.8	4.3	3.6
Gross domestic product at market prices	2 918	2 956	3 063	100.0	100.0	5.3	1.3	3.6
Imports of goods and services b/	554	666	691	15.4	22.6	23.3	20.3	3.8
Total demand	3 472	3 622	3 754	115.4	122.6	7.8	4.3	3.6
Domestic demand	3 171	3 364	3 452	103.6	112.7	8.4	6.1	2.6
Gross domestic investment	...	...	...	7.6	...	...	...	...
Gross fixed investment	364	400	426	7.0	13.9	14.0	10.0	6.5
Public	240	303	325	1.5	10.6	37.9	26.3	7.1
Private	123	98	102	5.5	3.3	-15.2	-20.3	4.1
Total consumption c/	2 807	2 964	3 026	96.6	98.8	8.8	5.6	2.1
Exports of goods and services b/	301	258	302	11.8	9.9	1.5	-14.2	17.1

Source: 1970-1976, CEPAL calculations on the basis of figures provided by the Haitian Statistical Institute, 1977-1978: CEPAL estimates on the basis of partial data from the same source.

a/ Preliminary figures.

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

c/ Including changes in stocks.

/After several

After several years of marked decline, private investment rose by 4% in 1978. It should be mentioned that private activity encounters structural limitations in expanding the industrial sector, because of the small size of the domestic market. Furthermore, the shortage of skilled labour limits opportunities for investing in industry, whose products would find it difficult to compete with imported goods. However, industries assembling imported parts have expanded appreciably.

Exports of goods and services, at constant prices, recorded a substantial increase of 17%, as a result of both the greater volume of sales of coffee and other export products, such as essential oils, cement and products of the assembly industries, and the 23% increase in revenue from tourism. The last substantial increase in the volume of exports had been recorded in 1973, and in the period 1974-1977 the volume fell by 18%.

(b) Growth of the main sectors

Only the manufacturing sector and construction have recorded continuous growth in the present decade, so that their share in the gross domestic product have increase at the expense of the agricultural sector, where output has risen by only 13% in 8 years. Thus, the share of the agricultural product in the total fell from 51% in 1970 to 42% in 1978, while the share of manufacturing output increased from 10% to 13% and that of construction from 2.3% to 4.5% over the same period (see table 3).

In contrast to the new momentum gained by manufacturing output in 1978 after the temporary stagnation of the previous year, construction suffered a further fall in its growth rate in 1978, due to the completion of several substantial public works projects. The past two years have seen the completion of construction of the northern highway, phase I of the southern highway, the main access roads to the central plateau, phase I of the Port-au-Prince port works, and the electricity power stations of Le Soudan and Delmas (10 MW each) and Varreux (21 MW).

(i) The agricultural sector. Agriculture continues to be of fundamental importance in the Haitian economy, since it still represents 42% of the gross domestic product and generates more than 60% of export income, while almost three-quarters of the population live in rural areas.

/Table 3

Table 3

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

	Millions of gourdes at 1970 prices			Percentage breakdown		Growth rates		
	1976	1977	1978a/	1970	1978a/	1976	1977	1978a/
Agriculture	1 171	1 166	1 178	50.8	42.3	3.2	-0.4	1.0
Mining	43	40	35	1.7	1.3	34.2	-7.0	-10.0
Manufacturing	320	322	357	9.8	12.8	8.5	0.6	11.0
Construction	110	119	126	2.3	4.5	9.7	7.8	6.0
Subtotal goods	1 644	1 647	1 697	64.6	60.9	5.2	0.2	3.0
Electricity, gas and water	46	47	52	1.3	1.9	6.6	1.5	9.3
Transport, storage and communications	70	70	73	2.4	2.6	6.0	0.1	4.0
Subtotal basic services	116	117	125	3.7	4.5	6.2	0.7	6.0
Commerce, financial institutions and insurance	319	328	...	10.9	...	6.0	2.9	...
Real estate b/	228	233	...	9.9	...	1.8	2.0	...
Community, social and personal services c/	328	347	...	10.9	...	11.0	6.0	...
Subtotal other services	875	908	...	31.7	...	6.7	3.8	...
Total gross domestic product d/	2 654	2 689	2 786	100.0	100.0	5.3	1.3	3.6

Source: 1970-1977: CEPAL calculations on the basis of figures supplied by the Haitian Statistical Institute; 1978: partial estimates on the basis of data from the same source.

a/ Preliminary figures.

b/ Refers to ownership of dwellings only.

c/ Also including restaurants, hotels and business services.

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

/The pressure

The pressure of the rural population on a cultivable area which is not only not increasing, but is in fact tending to become smaller because of erosion 3/ and the distribution of land through inheritance, is leading to a growing fragmentation of rural ownership which impoverishes farmers and prevents the use of modern cultivation techniques and mechanization. All these factors have contributed to the decline in productivity and income and have led to unemployment and underemployment.

It is calculated that there are 620,000 farms on a total area of 860,000 hectares - in other words with an average size of 1.4 hectares - plus a small number of large properties, almost exclusively devoted to sugar cane and sisal, which almost all belong to foreign companies and occupy around 90,000 hectares. Only 7% of the cultivated area is irrigated, although much more could be. This is the reason why Haitian agriculture only forms a subsistence economy.

Agricultural output has remained virtually stagnant since the beginning of the 1970s, since it is expanding at an annual rate of the order of 1.6%, which is less than the population growth of 2.4%.4/ The food deficit continued to worsen in 1978, since the sector grew by only 1%, but even so this increase was higher than that of the previous year.

The spring rains led to an improvement in the harvests of cereals for domestic consumption. Since domestic supply continued to fail to meet demand fully, however, it was still necessary to import food, though in smaller quantities than in 1977. For example, there were purchases of 10,000 tons of rice, instead of 50,000; 40,000 tons of wheat, which is not produced in Haiti, compared with 125,000 in the previous year; and maize.

3/ One of the serious problems facing Haiti is land erosion, caused by indiscriminate clearing to obtain wood or charcoal, and also by the droughts which occur every so often and the damage caused by goats. It is calculated that a third of the country is arid and affected by erosion.

4/ Rate estimated by the Latin American Demographic Centre; the Inter-American Development Bank has calculated it at 1.7% (1970-1976), and the Haitian Statistical Institute at 2% (1966-1975).

/The Department

The Department of Agriculture, Natural Resources and Rural Development has taken some steps to improve yields and introduce better techniques for silo construction in the north-east, which was the area most seriously affected by the shortage of water. In this area, an experimental project restricted to 7,800 hectares has been carried out with foreign assistance to promote the growing of maize, sorghum and red beans, and the yields of these three products were 50% higher than the averages for the country. The Department is also building 5 silos near the centres of consumption, with a total capacity of 12,000 tons of grain, in order to reduce the losses caused by rodents and by rain.

Coffee is the most important agricultural product, since it provides an income for 1.5 million people, contributes 40% of export revenues and occupies almost a fifth of the cultivated land. While coffee is mainly grown by small producers, marketing and exporting are in the hands of a small number of companies, as also happens with other products. The harvests have been falling since 1976 - when production amounted to 440,000 60-kg bags - and it is estimated that in 1978 the total was only 265,000 bags, since the spring rains affected flowering. Since 1974 the Haitian Institute for the Promotion of Coffee and Export Goods has been carrying out plantation rehabilitation programmes with foreign assistance, but technical deficiencies in cultivation and harvesting methods adversely affect both yields, which reach only some 225 kg per hectare, and also the quality of the product. Following the traditional inclination of the peasants to form small groups (combites), co-operatives are being organized on an experimental basis for the purpose of maintaining and improving plantations and assuring the peasants a greater role in marketing coffee and other products.

Sugar cane, with a cultivated area of 93,000 hectares, is the second most important product. Domestic demand has increased much faster than output, and the exportable surplus has dropped: indeed, in 1977 it was even necessary to import 13,000 tons of sugar. In 1978 it is estimated that output rose by 28% (64,000 tons), with a very small surplus of 5,300 tons remaining for export. Yields of this crop are not very high (57 tons of cane per hectare), and the sucrose content is low. Other factors which

/are preventing

are preventing a substantial increase in output are the low prices paid to producers, the poor state of the irrigation systems and the low price established for the domestic market.

Output of cocoa and cotton remained stagnant at 3,000 tons and 1,500 tons respectively.

At the end of 1978 there were various outbreaks of African swine fever, principally on the Gonaïves plain; the disease was allegedly spread by the river Artibonite. If it spreads further it could have a very serious impact on the national economy, and particularly on the standard of living of the Haitian peasant, whose principal means of saving is pig breeding.5/ The number of pigs is at present estimated at 1.1 million, cattle at about 550,000 head and goats at about 1,200,000.

(ii) Mining. In 1978 mining suffered a further drop in its already small share in the total gross domestic product, with a further 10% fall in output (it fell by 7% in 1977). Bauxite is by far the most important product. The Miragoane bauxite deposit, the entire output of which is exported to the United States, is run by Reynolds Haitian Mines, but its production fell from 739,000 tons in 1977 to 598,000 tons in 1978 (see table 4). Reserves are estimated at between 10 and 12 million tons, with an aluminium content of 48-52%.

The search for petroleum has so far been fruitless, both on land and on continental shelf. A geological survey is also being carried out, with the help of an international agency, in order to determine Haiti's potential mineral wealth.

(iii) Industry. Subject to their limitations, industry and construction have by their dynamism more than made up for the meagre contribution of agriculture and mining to the rise in the gross domestic product during the present decade. In 1978 the manufacturing sector recovered from the virtual stagnation of the previous year, with an 11% increase in output, even though in the last quarter of 1977 there was a marked shortage of electricity because the drought at the beginning of the year had caused a

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5/ If this activity disappeared, the national economy might suffer losses of the order of 45 million dollars. See the speech by the Secretary for Agriculture in Le Nouveau Monde (Port-au-Prince), 11 January 1979.

/Table 4

Table 4

HAITI: MAIN INDICATORS OF PRODUCTION

	Thousands of tons					Growth rates				
	1974	1975	1976	1977	1978	1974	1975	1976	1977	1978a/
Main production										
Bauxite	729.6	522.7	738.6	699.8	598.3	-5.2	-28.4	41.3	-5.3	-14.5
Manufacturing output										
Flour	71.5	80.9	67.7	80.3	...	35.7	13.1	-16.3	18.6	...
Sugar	65.9	52.3	47.6	37.7	20.8b/	-3.5	-20.6	-9.0	-20.8	...
Carbonated beverages (millions of bottles)	...	40.8	40.2	43.9	...	...	...	-1.5	9.2	...
Cigarettes (millions)	630.9	679.9	718.0	782.0	...	22.4	7.8	5.6	8.9	...
Fats	0.9	1.3	2.1	2.4	...	28.6	44.4	61.5	14.3	...
Edible oil	7.2	8.8	14.1	12.4	12.4c/	-14.3	22.2	60.2	-12.1	...
Soap	7.0	7.3	7.7	9.5	...	-13.6	4.3	5.5	23.4	...
Detergents (tons)	-	183.5	208.7	231.7	...	-	-	13.7	11.0	...
Footwear (thousands of pairs)	214.3	222.9	218.9	334.9	...	-12.0	4.0	-1.8	53.0	...
Cement	139.8	145.2	232.0	258.5	195.4c/	10.3	3.7	59.8	11.4	...
Cotton textiles (millions of yards)	3.5	1.5	2.4	1.4	...	2.9	-57.1	60.0	-41.7	...
Electricity output										
Electricity (millions of KW)	144.1	164.1	173.4	160.4	194.0	24.2	13.9	5.7	-7.5	20.9

Source: Ministry of Commerce and Industry, Quarterly Bulletin for first quarter of 1978.

a/ Preliminary figures.
b/ Six months' output.
c/ Nine months' output.

/fall in

fall in the water level of the Péligre hydroelectric station (45 MW), which supplies the capital. The start-up of the Varreux thermal plant (21 MW) in 1978 increased the supply of energy.

Growth in manufacturing output is based on the making of non-durable consumer goods and the assembly of imported parts and components for re-export. Industrial activity is concentrated in Port-au-Prince, as it is the largest centre of consumption in the country and also possesses the best infrastructure. As a result, the development of this sector accentuates the economic imbalance between regions and increases rural migration to the city. It may be borne in mind in this respect that while between 1960 and 1975 the total population of the country grew by 38%, that of Greater Port-au-Prince rose by 255% - from 245,000 to 625,000 inhabitants.

The main industries are cement and other construction materials, food, agroindustries, clothing, toiletries and cleaning products, wooden furniture and simple household articles. The great majority of these industries are small, both in terms of the value of output and in terms of the employment they generate, and as a result they do not possess sufficient capacity to enjoy access to bank financing for the purpose of increasing their production capacity.

It is estimated that in 1978 industries principally oriented towards the domestic market contributed 75% of manufacturing value added, but the greater part of this contribution derived from a small number of large firms in which foreign capital predominates: a cement factory, a flour mill, four sugar refineries, a small semi-integrated iron and steel plant set up with Haitian capital, and a cotton mill in the provinces. Apart from the cement factory, which in 1977 increased its installed capacity from 80,000 to 300,000 tons in order to meet the increase in demand arising from the road-building and housing construction programmes,6/ the remaining firms have a relatively high degree of unused capacity. Although the capacity of the flour mill has been increased to 150,000 tons, to date full use has not been made of it. Furthermore, although the installed capacity in the four sugar mills reached almost 130,000 tons in 1977 (one mill alone has

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6/ In addition, this factory exports about 30% of its annual output.

a capacity of 60,000 tons),7/ only a third of this capacity was used. The iron and steel plant has an annual capacity of 40,000 tons; in 1977 it began to produce limited quantities of rods using imported ingots.

In addition to cement, there was also rapid growth in output of soaps and detergents (which replace imports), footwear, cigarettes, flour and carbonate beverages (see table 4).

Industrial activities involving the assembly of imported parts for export have been growing since 1970. During the decade so far net exports of such products have quintupled, and their share of value added in manufacturing has risen from 11% to 25%. The partial indicators available do not clearly bring out the importance of these new industries in Haitian manufacturing. Nevertheless, it is impossible to deny their influence on the use of labour, above all female, when opportunities of rural employment are scarce. Although in 1978 they employed about 28,000 people, they absorbed only 3% of the open unemployment. It may be mentioned that during the year the Government opened an industrial estate at Cap Haïtien in an effort to decentralize industrial activities. The indirect effects of these activities on consumption are appreciable, because of the higher wages paid in industry. The average wage received by an unskilled female worker varies from 1.60 dollars in the clothing industry to 2 dollars in electronics. The legal minimum daily wage rose from 1.30 dollars to 1.60 dollars in September 1977.

Although special incentives are offerred to firms to encourage them to set up factories on the industrial estates, in Port-au-Prince only 12 factories have been established in the estate, and the remaining 218 are in the city. It would appear that it is easier to engage manual workers at low wages in the city than in the free zone of the industrial estate.

The assembly plants are not very capital-intensive: it is estimated, for example, that fixed assets per person employed in clothing manufacture amounted to 340 dollars in 1977.8/ It is calculated that some 150 factories

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7/ These mills process about a quarter of the sugar harvest; the remainder is converted into sugar and rum in small rural mills to supply local markets.

8/ See Jean Robert Estime, La sous-traitance internationale en Haiti, (Port-au-Prince, November 1978).

/have been

have been set up exclusively with United States capital, and 80 with some share of Haitian capital, generally a minority one. Nevertheless, it should be pointed out that direct foreign investment, which is channelled almost entirely towards this industrial sector, has remained unchanged since 1976.

Re-exports of clothing (41%), toys and sports articles (29%) and electrical and electronic products predominate at present. It should be pointed out that the latter have developed very recently, and that their share in net exports rose from 12% in 1973 to 27% in 1977.

During 1978 assembly for export increased its output faster (8.4%) than in 1977, when the United States recession affected its growth; after coffee these are the exports which leave the greatest value added in the country.9/

3. The external sector

(a) Merchandise trade

The main features of trade in 1978 were the increase of 13% in the value of exports of goods and the rise in 7.5% in imports.

The increase in exports which was a good deal smaller than in the previous two years, was due to an increase of 10% in the volume exported - which had not recorded any increases since 1973 - and a rise of only 3% in unit values. The growth of 150% in the value of exports between 1973 and 1977 was due to an improvement of 268% in prices, since the sales volume fell by 33% (see table 5).

The growth rate of imports, which was 32% a year between 1973 and 1977, declined to 7.5% in 1978, as a result of the fact that the volume of purchases remained practically the same; nevertheless, imports were 80% higher than in 1973.

The terms of trade, which improved by 30% in 1976 and 52% in 1977 because of the excellent external prices obtained by the most important products exported by the country, particularly coffee, suffered a drop of about 4% in 1978 with the sharp fall in coffee prices. Fortunately, this drop was partially offset by a rise in the prices of other export products.

9/ Value added locally, in terms of the export value, ranges from 14% in textile products to 30% in electronic goods.

/Table 5

Table 5

HAITI: MAIN INDICATORS OF FOREIGN TRADE[a]

	1973	1974	1975	1976	1977[b]	1978[c]
			Growth rates			
Exports of goods						
Value	30.0	25.6	13.5	35.6	24.4	13.4
Volume	13.7	-7.4	-4.7	-2.4	-24.3	10.1
Unit value	14.2	35.8	19.1	38.9	64.1	3.1
Imports of goods						
Value	17.0	41.4	25.6	30.8	29.3	7.5
Volume	-0.2	8.7	12.1	22.4	19.7	0.5
Unit value	17.1	30.0	12.0	7.0	8.0	7.0
Terms of trade	-2.5	4.3	6.4	29.8	52.1	-3.7
			Indexes (1970 = 100)			
Terms of trade	86	90	95	124	188	181
Purchasing power of exports of goods	113	109	111	145	167	177

Source: CEPAL, on the basis of official data from the Haitian Statistical Institute and CEPAL estimates for 1978.

a/ The basic information corresponds to that given in the balance of payments.
b/ Preliminary figures.
c/ Estimates.

/Despite the

Despite the deterioration in the terms of trade, the purchasing power of exports continued to rise, this time by 6%, as a result of the increase in the volume of exports.

(i) Exports. In 1978 income from exports of goods increased by 19 million dollars to a total of 157 million dollars (see table 6).

Coffee remained the principal export product (62 million dollars, and 39% of the total), although the value of sales fell by 3.5% in 1978 as a result of a sharp drop of about 19% in prices. It was not possible to offset much of this fall with a greater volume of sales, because the increase in sales was also of the order of 19%. About 19,000 tons of coffee were exported in contrast with the 27,000 tons sold in 1976.

Haiti was a member of the International Coffee Agreement up to 1972, but until that date was never able to comply with the export targets it was set. Under the new agreement, Haiti has not been subject to sales quotas since 1976; France and the United States are the principal purchasers.

The volume of exports of essential oils (citronella oil and vetiver oil) regained its 1976 level in 1978, while the value rose by 75% to 11.2 million dollars. The prices of these oils have been rising on the world market, and in 1978 the rise was 32%. There was also an increase in sales to the United States, but problems in domestic marketing, the age of the processing plants and irregular rainfall (as for all agricultural export products) have in recent years prevented a substantial increase in the volume of output.

Sales of cocoa rose by 37% as the result of a marked expansion in the volume of exports. Almost all the output is exported to the United States, but possibilities of expansion are limited by the same problems as those which affect coffee and essential oils.

Exports of sugar, which was once (together with cocoa) practically the only export product, are restricted by the difficulties involved in expanding the area of cultivation, apart from the problems common to all agricultural products. As for sisal, the Government has promoted exports in the form of manufactures, instead of raw fibre. In recent years sisal has regained some importance because of the rise in the prices of synthetic fibres.

/Table 6

Table 6

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

	Millions of dollars				Percentage breakdown		Growth rates		
	1975	1976	1977	1978a/	1971	1978a/	1976	1977	1978a/
Main products	51.2	79.3	96.5	103.3	69.2	65.8	54.9	21.7	7.0
Coffee	18.5	44.0	63.7	61.5	40.6	39.2	137.8	44.8	-3.5
Cocoa and cocoa products	4.9	3.0	4.6	6.3	2.6	4.0	-38.8	53.3	37.0
Sugar b/	10.7	2.0	0.4	2.6	7.4	1.7	-81.3	-80.0	550.0
Sisal	3.2	1.4	1.0	1.6	1.7	1.0	-56.2	-28.6	60.0
Essential oils	4.9	8.2	6.4	11.2	6.7	7.1	67.3	-22.0	73.8
Bauxite	8.9	18.3	17.3	16.3	10.2	10.4	105.6	-5.5	-5.8
Cement	0.1	2.4	3.1	3.8	-	2.4	2 300.0	29.2	22.6
Products from the free zone (net)	18.1	24.1	23.7	25.8	14.1	16.4	33.1	-1.7	8.9
Other products c/	10.4	7.9	18.2	27.9	16.7	17.8	-24.0	130.4	53.3
Total	79.7	111.3	138.4	157.0	100.0	100.0	39.6	24.3	13.4

Source: General Customs Administration and International Monetary Fund.

a/ Preliminary figures.

b/ Including molasses.

c/ Comprising handicrafts and small-scale industry, as well as other products.

/The volume

The volume of bauxite exports has been dropping since 1976, even though the price has increased. Thus, in 1978 the unit value rose by 10%, while the volume of sales dropped by about 15%.

Notable among non-traditional products which have begun to be exported relatively recently are cement and re-exports of parts imported and assembled in the country. The volume of sales of both items fell during 1978 by 12% and 6% respectively, but these declines were more than offset by price rises of 37% in the case of cement and 24% in the case of the other products.

(ii) Imports. Between 1973 and 1977 the value of imports of goods trebled and their volume increased by 80%. This rapid growth was due, firstly, to the growing purchases of foodstuffs - principally cereals - which became necessary because of the enormous difficulty in raising agricultural output to meet consumption, partially because of the intense droughts which affected the sector in 1975 and 1977. A second factor was the demand for imports brought about by the increase in gross income, and especially the larger purchases of machinery and equipment required for the construction of the major infrastructure projects in the fields of roads, electric power, and agriculture in the last five years.

In 1978 the growth rate of imports fell to 7.5% because of smaller purchases of foodstuffs and the conclusion of some of these public works projects.

In the period 1973-1977 imports of consumer goods grew in line with total purchases, and in 1977 maintained their share of 42% of the latter. Of particular importance were imports of cereals (maize, rice and wheat) under United States Public Law 480, which reached a value of 10.6 million dollars in 1977,10/ and 9.9 million dollars in 1978; imports of clothing, beverages and other consumer goods, which represent 16% of total imports; and purchases of oils and fats, whose share was 7.2% in 1977 (see table 7).

Between 1973 and 1977 the value of imports of fuels rose almost fivefold, but their share in the total remained small (9% in 1977), even though prices rose 3.8 times over the period. The bringing on stream of the Péligre

10/ In 1977, as a result of the drought, these transactions - principally gifts - made up almost a third of purchases of food.

/Table 7

Table 7

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

	Millions of dollars			Percentage breakdown		Growth rates		
	1975	1976	1977	1970	1977	1975	1976	1977
Consumer goods	60.8	73.9	94.6	38.3	42.1	36.6	21.5	28.0
Foodstuffs	30.3	43.5	37.7	11.2	16.8	91.8	43.6	-12.9
Beverages and tobacco	2.6	8.6	3.3	2.7	1.5	-	38.5	-8.3
Oils and fats	7.9	15.0	16.3	6.7	7.2	-4.8	89.9	8.7
Others	20.0	42.1	37.3	17.7	16.6	12.4	110.5	-11.4
Intermediate goods	53.5	61.8	72.2	41.8	32.1	9.9	15.5	16.8
Fuels	12.9	17.1	20.3	5.6	9.0	4.0	32.6	18.7
Raw materials	5.4	7.5	6.4	3.9	2.8	25.6	38.9	-14.7
Chemical products	11.9	14.8	15.7	10.4	7.0	22.7	24.4	6.1
Inputs for industry	23.3	22.4	29.8	21.9	13.3	3.6	-3.9	33.0
Capital goods a/	28.2	35.0	58.1	20.0	25.8	55.8	24.1	66.0
Total b/	142.5	201.0	224.9	100.0	100.0	27.9	41.1	11.9

Source: General Customs Administration.

a/ Including consumer durables.

b/ The totals do not coincide with the figures given in the balance of payments because of the adjustments normally made in the values of the latter.

hydroelectric station at full capacity in 1974, and the improvement in the electricity distribution networks, made it possible to limit imports of fuels.

The relative shares of imports of raw materials and of intermediate goods in general fell between 1973 and 1977. There was a particularly notable drop in the share of chemical products, since many of them, such as toiletry and cleaning products, were replaced with local products. A large part of the remaining imports of raw materials is made up of spare parts and components for the assembly industries.

Finally, imports of machinery and equipment increased their share from 18% to 26% in the same period. However, it should be mentioned that about a quarter of these imports were motor cars, air conditioning equipment and electrical household appliances. The rest was made up almost exclusively of capital or producers' goods for public sector infrastructure projects.

(b) Revenue from tourism

It is estimated that revenue from tourism rose by 23% in 1978 to a total of 37 million dollars: equivalent to about a quarter of the value of exports of goods. This proportion has remained constant over the past three years since the tourist boom of 1971-1973, when tourism revenue came to 29% of total exports. Almost two-thirds of the tourists come from cruise ships and spend less than one day in Port-au-Prince. Moreover, although the Government has encouraged hotel construction, it has made no investment in it, and the private sector has not made much use of the incentives granted to it. As a result hotel capacity has continued to be concentrated in Port-au-Prince, and with a few exceptions the hotels are relatively old. Nevertheless, tourism has been providing the country with growing revenue; in 1978 the net amount was 31 million dollars.

The Tourism Promotion Act of 1972 offers tax incentives and other advantages for investment in hotels. Between 1973 and 1978 the number of tourists rose from 70,000 to 116,000, and the number of visitors from 82,000 to 193,000; it is estimated that the former spent 8 times as much as the latter - 260 dollars and 32 dollars respectively. Public sector investment in the construction of roads and rehabilitation of hitoric sites totalled 1.5 million dollars in the five years 1974-1978.

/(c) The

(c) The current account position and its financing

In 1978 there was a deficit on the merchandise account of 63 million dollars (less than in the previous year). After the addition of services the trade deficit totalled 99 million dollars.

Remittances received from Haitians living abroad grew much faster than payments of profits and interest on foreign capital, and this helped to reduce the current account deficit to 78 million dollars, equivalent to 38% of exports of goods and services (see table 8).

Since 1976 the current account deficit has been smaller than the inflow of official transfer payments and medium- and long-term loans. Official transfer payments increased 2.3 times between 1975 and 1978, and were a major factor in alleviating the food deficit the country has been suffering. Direct investment has remained practically constant since 1974, as already noted.

As a consequence of the greater net inflow of capital, and particularly the transfer payments already referred to, international reserves have been increasing since 1976, with a rise of about 5 million dollars in 1978.

In October 1978 the International Monetary Fund granted a credit equivalent to SDR 32 million to cover balance-of-payments disequilibria over the next three years.

(d) The external public debt

At the end of September 1978, the total disbursed external public debt amounted to 191 million dollars (see table 9). Although in the five years 1974-1978 the debt increased 3.5 times, the 1978 growth rate (21.5%) was the lowest in the last five years, because of the slower progress in the road construction programmes.

The breakdown of the debt shows an increasing share for loans from international agencies and multilateral institutions: these rose from 11% in 1974 to 58% in 1977. Haiti's status as a least developed country, and the emphasis placed on increasing public investment to broaden the productive and economic base, have assured the Government special access to development credit granted by these institutions on specially favourable terms. The principal agencies involved are the Inter-American Development Bank (53%), the International Bank for Reconstruction and Development (41%)

/Table 8

Table 8

HAITI: BALANCE OF PAYMENTS

(Millions of US dollars)

	1973	1974	1975	1976	1977	1978a/
Current account						
Exports of goods and services	78	92	107	140	174	203
Goods FOB b/	56	70	82	111	138	157
Services	22	22	25	29	36	46
Transport	1	1	1	1	1	1
Travel	18	19	22	25	30	37
Imports of goods and services	100	134	161	212	275	302
Goods FOB b/	68	96	121	158	205	220
Services	32	38	40	54	70	82
Transport	17	22	26	37	46	48
Travel	7	5	4	5	6	6
Net payments of profits and interest on foreign capital	-4	-6	-7	-7	-11	-12
Profits	-3	-5	-6	-6	-8	-8
Interests	-1	-1	-1	-1	-3	-4
Net private transfer payments	16	12	21	32	28	33
Balance on current account	-10	-36	-40	-47	-84	-78
Capital account						
Net external financing (a+b+c+d+e)	10	36	40	47	84	78
(a) Long-term capital	7	9	25	34	68	
Direct investment	7	8	3	8	8	
Private sector	2	6	-	1	-3	
Loans (net)	2	6	-	1	-3	
Official sector	-3	-5	19	25	63	
Loans (net)	-3	-5	19	25	63	
Monetary authorities	1	-	3	-	-	
(b) Short-term capital	-6	2	-14	-10	-7	83
Private sector	-4	5	-4	-7	-1	
Official sector	5	5	-	-	-	
Errors and omissions	-7	-8	-10	-3	-6	
(c) Allocation of SDRs	-	-	-	-	-	
(d) Official transfer payments	10	14	16	35	36	
(e) International reserves (minus sign indicates an increase)	-1	11	13	-12	-13	...
Use made of IMF credit	-	4	10	1	-5	...
Special Drawing Rights	-	1	-	1	-	-3
IMF reserve position	1	2	-	-	-	-3
Foreign exchange	-2	4	3	-14	-8	1

Source: 1973-1977: International Monetary Fund, Balance of Payments Yearbook, vol. 29; 1978: CEPAL, on the basis of official data.

a/ Preliminary figures.

b/ Including non-monetary gold.

/Table 9

Table 9

HAITI: INDICATORS OF EXTERNAL INDEBTEDNESS[a/]

(Millions of US dollars)

	1973	1974	1975	1976	1977	1978
Total external public debt	41.0	56.0	78.5	100.8	157.1	190.9
Servicing of external debt	5.3	6.1	7.8	10.5	13.8	17.4
Amortization payments	5.0	5.6	6.2	8.5	10.4	12.5
Interest payments	0.3	0.5	1.4	2.0	3.4	4.9
Servicing of external debt as a percentage of exports of goods and services	6.8	6.6	7.4	7.4	7.9	8.6

Source: 1974-1976, International Monetary Fund; 1977-1978, National Bank of the Republic of Haiti.

a/ Balance of the disbursed debt with a term of more than one year as at 30 September of each year.

/and the

and the Organization of Petroleum Exporting Countries (3%). The average interest rate on these loans is 3% a year, with a grace period of up to ten years and a repayment period of 30-40 years. During the fiscal year 1977/1978 the International Development Association disbursed a total of 31.6 million dollars for three projects: transport (15 million dollars), rural education (10 million dollars) and drinking water supply (6.6 million dollars).

External loans from governments have declined in importance, from 72% in 1974 to 36% in 1977. The country contributing most financial support in this way has been the United States (80% of the total), followed by Canada.

In the last five years, loans to the Haitian Government from private organizations and foreign companies have fallen by almost two thirds; up to 1973 these represented the principal sources of credit for financing the first public investment programmes.

Despite the rapid growth in borrowing, the debt structure is such that servicing represents only 8.6% of exports of goods and services and is increasing only slowly.

4. Prices, wages and income

After a period of record inflation between 1973 and 1976, the Port-au-Prince consumer price index slightly dropped in 1977, and showed a fall of almost 3% in 1978 (see table 10).

The main cause of this fall in prices was the increased supply of agricultural products for domestic consumption, arising both from the expansion in domestic production and from greater control and better distribution of aid received in the form of food. Food prices fell by 6.6% during the year. However, the fact that the harvest of domestically grown products was used up rapidly led to a recovery in their prices, and a rise of 3.4% in food prices between the second and third quarters of 1978, so that the drop in the index from September to September was only -1.4%.

The price indexes for clothing and housing increased by 3.7% and 11.2% respectively between September 1977 and September 1978.

/Table 10

Table 10

HAITI: CONSUMER PRICE INDEX

(Growth rates)

	1972	1973	1974	1975	1976	1977	1978
	Variations from September to September						
General	1.9	20.0	17.5	18.5	3.3	5.2	1.8
Food a/	7.1	25.5	11.9	22.5	-0.1	8.2	-1.4
	Variations between annual averages (fiscal years)						
General	3.4	20.0	14.3	17.4	10.6	7.4	-2.9
Food a/	8.0	26.1	13.6	16.7	12.3	7.3	-6.6

Source: Haitian Statistical Institute.

a/ Food makes up 70% of the basket used to calculate the general index, which was established in 1948 and covers 35 articles: 29 food products, 4 articles of clothing, 1 type of housing, and kerosene.

/Concerning incomes,

Concerning incomes, it should be pointed out that the good agricultural harvests led to a rise in farmer's earnings in 1978, but nevertheless, because of the scant progress made by agriculture since the beginning of the decade, it may be assumed that agricultural incomes remain extremely low. In 1970, it was calculated that the national per capita annual income was under 120 dollars, while in rural areas it was only 45 dollars.11/

Wages and salaries in the civil service, and the legal minimum wage, were raised by 23% in September 1977. The previous adjustment had been made in 1974, and between the two dates consumer prices in Port-au-Prince rose by 54%. Furthermore, apart from government employees and manual workers in the private industrial sector, who benefit from collective contracts, it is estimated that the remaining members of the labour force barely earn the legal minimum, which is equivalent to 1.60 dollars a day. Even so, there is a great difference between wages in the countryside and those in the towns.

The employment problem remains the most serious problem facing this overpopulated country, and one which it will be very difficult to solve. Open and concealed unemployment is estimated at about 60%, about 50% in agriculture and much more in Port-au-Prince.12/

5. Monetary and fiscal policy

(a) Monetary policy

Bank credit has very little influence on prices in Haiti. The low level of participation by farmers in the market economy, the low income of the vast majority of the urban population, the scant bargaining power of the labour force, the fact that food accounts for about 70% of the family budget, according to the cost-of-living index, the substantial constribution made by transfer payments in external financing - all these factors contribute to the very low level of monetization of the Haitian economy. Monetary liquidity corresponds to about 8% of the gross domestic product. This may be compared with the lowest rate in Central America,

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11/ World Bank, Current Economic Position and Prospects of Haiti, volume I, report 1243-HA, 7 December 1977.

12/ Haïti: Problemes de main d'oeuvre et d'emploi (Geneva, ILO, 1976)

in Guatemala (12%), another country where the subsistence economy is very extensive. In these circumstances the monetary surplus tends towards greater external purchases, and for that reason the fact that the money supply has increased much more than output has neither exerted pressure on output nor stimulated an inflationary process.

However, mention should be made of two phenomena which have become more accentuated in recent years, and which might modify this situation somewhat. On the one hand an urban middle class, still very small, is emerging, which aspires to a more diversified pattern of consumption. On the other - and more importantly - the flight from the countryside means that a substantial proportion of the peasantry is abandoning an economic system in which barter predominates and joining an economy which is monetized and which is more appropriate to their growing incomes.13/

The rapid growth in domestic credit, particularly that granted to public institutions and the private sector, reflected the greater economic activity observed in 1978. The share of credit to official entities in total domestic credit rose from 9% to almost 25% between 1974 and 1978, while credit to the private sector continued to account for about 50%. On the other hand, the share of credit to the Government fell from 42% to 26% in the same period, even though in 1978 it recorded the greatest increase (27%) (see table 11).

Among the factors of expansion, net international reserves rose to 114 million gourdes by the end of September 1978: more than 2.5 times the previous year's total. This was due both to the slower growth in imports and the greater inflow of capital during the year.

Among the liabilities of the banking system, growth in long-term external loans in 1978 was similar to that of 1977. These credits increased elevenfold in the five years 1974-1978, amounting to 32% of total monetary liabilities in 1978.

13/ It is estimated that between 1970 and 1978 the rural population grew by 20%, while the urban population increased by 70%. Estimates based on these two increases suggest that in that period the number of persons in the market economy almost doubled. Moreover, if the money supply index is deflated by the price index, the result is an increase of 85% in real terms.

/Table 11

Table 11

HAITI: MONETARY POSITION

	End-September balances (millions of gourdes)				Growth rates		
	1975	1976	1977	1978a/	1976	1977	1978a/
Money	347	447	545	679	28.8	21.9	24.6
Currency outside banks	153	187	222	273	22.2	18.7	23.0
Demand deposits	194	260	323	406	34.0	24.2	25.7
Private sector	141	184	190	236b/	30.5	3.3	14.4c/
Public sector	53	76	133	141b/	43.4	75.0	47.8c/
Factors of expansion	826	1 120	1 388	1 762	35.6	23.9	26.9
Foreign assets (net)	-118	-25	43	114			
Domestic credit	944	1 145	1 345	1 648	21.3	17.5	22.5
Government (net)	300	345	340	433	15.0	-1.4	27.3
Official entities	178	268	335	407	50.6	25.0	21.4
Private sector	466	532	670	808	14.2	25.9	20.6
Factors of absorption	479	673	843	1 083	40.5	25.3	28.5
Savings and time deposits	301	427	553	691	41.9	29.5	25.0
Long-term foreign borrowing	105	178	249	348	69.5	39.9	40.5
Other items (net)	73	68	41	44	-6.8	-39.7	4.8

Source: International Monetary Fund, International Financial Statistics, February 1979 and information supplied by the National Bank of the Republic of Haiti for 1978.

a/ Preliminary figures.

b/ At 30 June 1978.

c/ For the period 30 June 1977 to 30 June 1978.

/(b) Fiscal

(b) Fiscal policy

Current government expenditure is small. In 1978 it totalled 300 million gourdes, equivalent to some 60 million dollars or about 5% of the gross domestic product. When capital expenditure is added, total government expenditure rises to 950 million gourdes, leading to a fiscal deficit of 540 million gourdes (108 million dollars), representing 57% of expenditure. More than 90% of this deficit was financed by means of gifts and loans from abroad (see table 12).

Current income, which in 1976 and 1977 rose by 26% a year, increased by only 15% in 1978. A major influence was the insignificant increase in taxes on foreign trade, which account for 60% of tax revenues and 47% of current income. This low figure was attributable both to the lower exports of bauxite and to low coffee prices.

Coffee exports pay a progressive tax on FOB value, starting from a basic international price of 45 US cents per pound. A fixed tax of 23 gourdes per bag of washed coffee or 43 gourdes per bag of unwashed or broken coffee is also payable. The levy on bauxite is calculated according to the aluminium content of the exported bauxite (7.5%), on the basis of the price of aluminium on the New York exchange. Finally, in 1978 the General Customs Administration succeeded in expanding the range of imported products subject to duty, at the expense of the Régie du Tabac et des Allumettes. However, the Régie retains a monopoly of the importation and domestic marketing of cement, sugar, wheat, tobacco and matches. It contributed to the development budget for the first time in 1977, with a small proportion of its revenues. Mention should be made of the substantial rise in duty-free imports, which include in particular all purchases of machinery and equipment destined for public investment projects, as well as gifts of food.

Current expenditure has risen more slowly than income in recen years, and in 1978 the rise was 10.7%, despite the increase in wages for the public sector.

The most rapid growth in expenditure in the past five years, has been in expenditure from the development budget, especially up to 1976. This has overshadowed expenditure and income under the regular budget and generated an increasingly fiscal deficit. Table 12 highlights the significant

/Table 12

Table 12

HAITI: GENERAL GOVERNMENT INCOME AND EXPENDITURE[a/]

	Millions of gourdes				Growth rates		
	1975	1976	1977	1978	1976	1977	1978
Current income	225	285	358	412	26.7	25.6	15.1
Tax revenue	185	235	299	324	27.0	27.2	8.4
On foreign trade	112	148	190	193	32.1	28.4	1.8
Internal direct and indirect	73	87	109	131	19.2	25.3	20.2
Current expenditure	204	232	272	301	13.7	17.2	10.7
Wages	123	130	139	173	5.7	7.3	24.2
Saving on current account	21	53	86	111	152.4	62.3	29.1
Capital expenditure	291	437	535	652	50.2	22.4	21.9
Total expenditure	495	669	807	953	35.2	20.6	18.1
Fiscal deficit	-270	-384	-449	-541			
Financing of deficit							
External financing	153	314	362	501	105.2	15.3	38.4
Grants	95	170	157	247	78.9	-7.6	57.3
Loans	58	144	205	254b/	148.2	42.4	23.9
Domestic financing	117	70	87	40b/	-40.2	24.3	-54.0

Source: CEPAL, on the basis of information supplies by the National Bank of the Republic of Haiti and data obtained directly from the Treasury.

a/ Fiscal years, October to September.
b/ Estimates, (see table 258).

/change in

change in the way in which this deficit is financed. There was a very marked drop in domestic financing between 1974 and 1978, and a rise in external financing, which represented 93% of the development programme financing in 1977/1978.

Over the five years 1974-1978 disbursed public investment under the development plan rose from 165 million to 652 million gourdes (see table 13). Of this investment, 39% was earmarked for the transport sector, particularly the construction of the north-south trunk highway,14/ 13% for electricity, 12% for the agricultural sector, and about 20% for community development, telecommunications and health projects. Two-thirds of this investment expenditure was financed with external resources, whose share in public expenditure for development is constantly increasing. The Development Fund of the Ministry of Planning contributed 7%, and the remaining 28% was made up of funds from other Ministries and autonomous public agencies.

14/ From the mid-1950s to 1973 no roads were built, and those in existence were not maintained. As a result, the network was in an appalling state at the beginning of the 1970s.

/Table 13

Table 13

HAITI: DISTRIBUTION OF PUBLIC DEVELOPMENT EXPENDITURE BY ACTIVITY[a/]

(Millions of gourdes)

	1974	1975	1976	1977	1978[b/]
Agriculture	22	27	41	59	95
Industry and mining	4	10	10	10	10
Energy	16	16	26	117	101
Transport	40	139	204	197	234
Telecomunications	30	29	33	18	22
Tourism	1	2	1	-	3
Health	13	17	13	31	43
Drinking water	2	5	33	10	22
Education	7	21	16	21	46
Community development	20	10	45	53	47
Urban development	-	2	1	-	5
Preinvestment and research	10	13	14	19	24
Total	165	291	437	535	652

Source: CONADEP, Plan Annuel de l'exercise 1978-1979 (Port-au-Prince, September 1978).

a/ Including both fixed capital formation and purchases of non-personal goods and services by the Government.

b/ Estimates based on the ratio of actual expenditure to planned expenditure, by sectors, in the previous fiscal year.

HONDURAS

1. Recent economic trends: Introduction and summary

In 1978 the gross domestic product rose by 6.6%, which represented a 2.8% rise in the per capita product. Gross income was affected by the deterioration of the terms of trade and rose by only 4.8%, half the rate of the previous two years (see table 1). For the third year in succession total output grew relatively rapidly, in contrast with the slow growth of the beginning of the decade and particularly in the critical years 1974 and 1975, when the total product remained constant and the per capita product shrank by 3.4% annually. These trends may be seen more clearly in the absolute value of per capita income, which fell from US$ 293 (at 1970 prices) in 1973 to US$ 273 in 1975, and then increased over the next three years to reach US$ 296 in 1978, or roughly the 1973 level.

The increased economic activity in the period 1976-1978 was the result of the strong performance of exports, which almost doubled in that period; the greater availability (73%) of imported goods and services; a real growth rate of investment of 17% annually; and an annual growth rate of 6.5% in the output of goods and services. The strong growth of the product in this period was due primarily to the unusually rapid rise in agricultural output and the good results achieved by manufacturing and construction and, on the services side, commerce. The whole process was underpinned by the State's more active role in promoting the construction of infrastructure and the development of the forestry industry, as well as the adoption of a series of measures to encourage production and exports. Naturally, its action in the economic sphere went beyond these areas.

During 1978 agricultural output rose at the rate of 7.8% thanks to favourable weather; manufacturing once again increased by over 9%, and construction rose by 11%, in comparison with a rate of 14% in 1977.

/Table 1

Table 1

HONDURAS: MAIN ECONOMIC INDICATORS

	1973	1974	1975	1976	1977	1978[a]
A. Basic economic indicators						
Gross domestic product at factor cost (millions of dollars at 1970 prices)	847	846	845	895	956	1 019
Population (millions of inhabitants)	2.89	2.99	3.09	3.20	3.32	3.44
Per capita gross domestic product (dollars at 1970 prices)	293	283	273	279	288	296
	Growth rates					
B. Short-run economic indicators						
Gross domestic product	4.2	-0.1	-0.1	5.9	6.9	6.6
Per capita gross domestic product	1.0	-3.4	-3.4	2.3	3.1	2.8
Gross income [b]	4.8	1.0	-0.7	9.6	10.1	4.8
Terms of trade	0.2	2.4	-5.1	8.3	12.7	-6.7
Current value of exports of goods and services	25.0	12.8	3.7	29.0	29.2	15.8
Current value of imports of goods and services	33.2	51.0	-0.8	12.5	28.3	20.0
Consumer price index						
December - December	6.1	11.9	7.8	5.6	7.7	6.5
Variation between annual averages	4.7	12.9	8.1	5.0	8.6	6.2
Money	23.6	1.1	8.6	37.3	13.2	16.9
Current income of government	12.0	15.0	12.1	25.7	31.4	21.3
Total expenditure of government	-3.2	18.2	32.4	19.7	28.0	17.1
Fiscal deficit/total expenditure of government [c]	21.3	23.6	35.4	44.7	73.9	43.9
	Millions of dollars					
C. External sector						
Trade balance (goods and services)	-8	-125	-109	-66	-82	-121
Balance on current account	-37	-124	-132	-117	-145	-178
Variation in net international reserves	8	-16	55	38	66	29
External debt [d]	202	312	452	553	688	862

[a] Preliminary figures.
[b] Gross domestic product plus terms-of-trade effect.
[c] Percentage.
[d] Disbursed State-guaranteed public and private debt.

/With regard

With regard to external trade, the sharp drop in coffee prices and the smaller decline in the price of cotton were offset by higher prices for other products and in particular by the enormous jump in the volume of exports, which produced a 16% rise in their value.

In 1978 the terms of trade declined by 6.7%, following a striking improvement in the previous two years. However, the purchasing power of exports continued to rise (roughly 10%), thanks to the rise in volume. Imports were boosted by the ample purchasing power built up in recent years and the likewise expansionary demand for imported goods stemming from the higher export earnings and higher level of output. In these circumstances, the current value of imports of goods and services rose by 20%.

The stronger growth of imports in comparison with exports caused a 50% rise in the trade deficit, which amounted to US$ 121 million. Taking into account net payments of profits and interest and the balance of private transfer payments, the balance-of-payments deficit on current account rose to US$ 178 million. However, with a net capital inflow of US$ 207 million, similar to that in 1977, net international reserves rose once again, this time by US$ 29 million.

The total disbursed external debt continued to increase, rising from US$ 688 million in 1977 to US$ 862 million in 1978. Eighty per cent of this increase was officially guaranteed by the State, and debt servicing represented 17% of the value of exports.

In 1978 there was some decline from the high growth rates recorded by government revenue and expenditure in previous years (see table 1), and current income rose more than total expenditure. Within current expenditure, wages rose much more than in previous years, while on the capital expenditure side investment rose by 40% at current prices - double the rates of both 1976 and 1977.

Since 1974 total government expenditure has increased 2.4 times and capital expenditure 2.6 times, both at current prices. This increased expenditure has had a great effect on the growth of economic and social

/infrastructure and

infrastructure and the acceleration of the growth rate of production. The El Cajón hydroelectric power station, under construction in 1978, and the integrated project for the development of the forestry industry are two examples.

The level of domestic prices remained relatively low, and during 1978 their growth rate declined, above all as a result of the greater availability of food and imported goods.

The means of payment grew slightly more rapidly, at a rate of 17%, demand deposits growing much faster (24%) than cash in the hands of the public (9%). In 1978 there was also a higher growth of domestic credit, both to the private sector (34%) and in the form of the government's debt to the monetary authorities.

2. Trends in economic activity

(a) Global supply and demand trends

The satisfactory growth of the product and the rapid rise in imports caused total supply to increase sharply once again. The gross domestic product, continuing the trend which started in 1976, rose by 6.6% at 1970 prices, which represents a per capita growth of 2.8% (see table 2). This strong growth was the result of the good performance of agricultural output due to favourable weather, the continued high rate of growth of manufacturing output in line with the two previous years, and the strong performance of construction, whose value added rose by 26.5% in the last two years. In addition to the dynamic results of these productive sectors there was a considerable growth of external demand, capital formation and public expenditure.

Imports of goods and services also increased considerably (14%) in response to the bigger need for intermediate and capital goods resulting from the higher level of economic activity, and, still more, in response to the demand for consumer durables. This situation was also influenced by the higher levels of export earnings over the last three years.

/Table 2

Table 2

HONDURAS: TOTAL SUPPLY AND DEMAND

	Millions of lempiras at 1970 prices			Percentage breakdown		Growth rates		
	1976	1977	1978[a]	1970	1978[a]	1976	1977	1978[a]
Total supply	2 299	2 506	2 716	133.9	134.1	6.6	9.0	8.4
Gross domestic product at market prices	1 778	1 900	2 025	100.0	100.0	7.4	6.9	6.6
Imports of goods and services [b]	521	606	691	33.9	34.1	4.3	16.3	14.1
Total demand	2 299	2 506	2 716	133.9	134.1	6.6	9.0	8.4
Domestic demand	1 857	2 042	2 172	107.0	107.3	4.6	10.0	6.4
Gross domestic investment	287	397	449	21.9	22.2	-4.2	38.2	13.1
Gross fixed investment	350	376	422	19.1	20.9	13.2	7.4	12.2
Public	118	136	149	6.6	7.4	14.1	15.3	9.6
Private	232	240	273	12.5	13.5	12.7	3.4	13.7
Changes in stocks	-63	21	27	2.8	1.3			
Total consumption	1 570	1 645	1 723	85.1	25.1	7.6	4.8	4.7
General government	241	249	260	11.6	12.8	19.5	13.3	4.4
Private	1 329	1 396	1 463	73.5	72.3	5.7	5.1	4.8
Exports of goods and services [b]	442	464	544	26.9	26.8	11.2	4.9	17.2

Source: 1970-1977: CEPAL calculations based on data supplied by the Central Bank of Honduras; 1978: CEPAL estimates on the basis of official figures.

a/ Preliminary figures.

b/ The figures for exports and imports of goods and services were obtained from the balance of payments in current dollars, converted to constant 1970 prices using price indexes calculated by CEPAL for the purpose.

/On the

On the demand side, an important development was the upturn in private investment as a result of the expansionary policy of the public sector and the high income from exports. In the last three years capital formation rose rapidly, but the investment coefficient of 21% in 1978 was not much higher than the 19% recorded in 1970, which demonstrates the uneven performance of this variable, and above all of private investment, during the first half of the current decade.

The share of the product accounted for by public investment rose from 3.2% in 1972 to 6.2% in 1975 and 7.4% in 1978, when the growth rate of 9.6% for this type of investment was lower than that of private investment. Over the last five years public investment has been directed primarily towards the energy, agricultural and forestry sectors, and its effects on production began to be felt in 1978.

External demand rose unusually rapidly (17%) thanks to the strong growth in the volume of exports of coffee (60%), meat (37%) and a number of relatively less important products. The volume of coffee exports included some of the 1977 crop which was not marketed then because producers held back their product when prices slumped in the second half of the year. In 1978, in the face of continued low prices, they finally decided to sell off the stocks which they had built up. It may be recalled that the volume of coffee sales dropped by roughly 25% in 1976 and 1977 in comparison with 1975 levels.

Private consumption grew at a slightly higher rate than the population. The good harvests of basic grains and the equally favourable results achieved in other sectors of agricultural output produced an adequate domestic supply of food.

Public consumption rose by 4.4% at constant prices. Its greater share of the domestic product (12.8%) in 1978 reflected the effort made to improve the state of health and education in the country.

(b) Sectoral trends

Output was stimulated by both domestic and external demand. The production of goods grew by an average of 8.5% and basic services by 4.4% (see table 3).

/Table 3

Table 3

HONDURAS: GROSS DOMESTIC PRODUCT, BY ECONOMIC ACTIVITY, AT FACTOR COST

	Millions of lempiras at 1970 prices			Percentage breakdown		Growth rates		
	1976	1977	1978a/	1970	1978a/	1976	1977	1978a/
Agriculture	470	497	536	33.4	30.0	9.7	5.9	7.8
Mining	31	30	31	2.3	1.7	-15.2	-3.1	3.2
Manufacturing	228	250	274	14.1	15.3	10.3	9.6	9.4
Construction	92	105	116	5.0	6.5	1.4	14.0	11.0
Subtotal goods	821	882	957	54.8	53.5	7.7	7.5	8.5
Electricity, gas and water	24	25	27	1.4	1.5	5.6	4.1	5.3
Transport, storage and communications	109	119	124	6.7	6.9	7.1	9.2	4.2
Subtotal basic services	133	144	151	8.1	8.4	6.9	8.2	4.4
Commerce, finance and insurance	257	277	294	16.2	16.4	3.7	7.8	6.1
Real estate b/	126	128	132	7.3	7.4	5.7	1.5	3.1
Community social and personal services c/	233	246	256	13.6	14.3	0.9	5.8	3.9
Subtotal other services	616	651	682	37.1	38.1	3.2	5.8	4.7
Total gross domestic product d/	1 566	1 674	1 784	100.0	100.0	5.9	6.9	6.6

Source: 1970-1977: CEPAL calculations based on figures supplied by the Central Bank of Honduras; 1978: CEPAL estimated based on official data.

a/ Preliminary figures.
b/ Ownership of dwellings only.
c/ Includes restaurants, hotels and business services.
d/ As the individual activities and the total were calculated independently, the sum of the former does not correspond exactly with the latter.

/The good

The good economic results achieved in 1978 were due above all to agricultural and industrial activity. During the last three years agricultural output rose by 25%, in contrast with the stagnation and in some cases decline of the previous three-year period. This rapid recovery was the result of the replanting of banana plantations, which had been particularly badly hit by the 1974 hurricane, and the higher export earnings which led to major investment in coffee and sugar cane production. The efforts of the public sector were aimed primarily towards the development of the timber industry.

For the third year running, the manufacturing sector maintained its annual growth of nearly 10%. Of particular importance was the coming on stream of various projects which had been in the process of execution in recent years. These included a sugar mill and a number of small wood-processing industries, the expansion of installed capacity in the textile industry, and the incentives given to the production of construction materials.

In the basic services sector, the electricity industry recorded lower growth than that of the global product (5.3%). For a number of years the State has been striving to increase the electricity generating capacity as an essential condition for undertaking other productive projects, primarily in pulp and paper and forestry. The scale of the El Cajón hydroelectricity project, however, has meant that many financial obstacles have had to be overcome, and therefore the project has been delayed.

As regards the other services, commerce and finance increased by a little over 6%, reflecting the course followed by output of goods and external trade.

(i) The agricultural sector. In 1978 the agricultural product rose by 7.8%, in line with the steady growth achieved since 1976. This result was due to a combination of various positive factors, such as a very favourable rain cycle and the absence of hurricanes and other climatic conditions which frequently affect agricultural activity, particularly banana production. The higher output stemmed from an increase in the

/cultivated area

cultivated area for some products, and a number of agricultural support measures adopted by the Government. However, in recent years no major change has taken place in the agricultural structure and little progress has been made in the land reform programme announced five years ago. Up to 1978 the entire effort has been concentrated on a few projects such as that in the Valle del Aguán.

During 1978 the Agricultural Policy Commission was set up to co-ordinate the action of all the agricultural service institutions, while the Honduran Agricultural Marketing Institute (IHMA) was established to deal with the marketing activities which had hitherto been the responsibility of the National Development Bank. To begin with, the Institute is going to concentrate on the area of basic grains.

Banana production rose by nearly 7% (see table 4), largely due to the activities of the Honduran Banana Company (COHBANA), which encouraged the plantation of new areas and financed the recovery of others, with the result that production has gradually increased, although without reaching the levels recorded before hurricane Fifi. The basic objective which COHBANA set itself was to recover the maximum output level achieved in the early 1970s (between 50 and 55 million boxes) through the cultivation of new land and greater participation by national producers. In 1978, production amounted to 44 million boxes, and until three years ago bananas were the main export product.

During the first months of the year, sigatoka, a fungus disease, seriously threatened the volume of output, but fortunately it was controlled. However, the United States Department of Agriculture banned the purchase of bananas from plantations where pesticides had been used to combat this desease, and the United States market was only opened up to Honduran production again after intensive negotiations. COHBANA began replanting during the year with Gran Main, a variety which is highly resistant to sigatoka.

The coffee harvest rose by roughly 10% thanks to the new plantations which began to produce during the year and the continued programme to improve productivity.

/Table 4

Table 4

HONDURAS: INDICATORS OF AGRICULTURAL PRODUCTION

	Thousands of tons				Growth rates b/		
	1975	1976	1977	1978 a/	1976	1977	1978 a/
Main crops							
Maize	412	430	446	472	4.3	3.8	5.7
Beans	50	52	54	56	3.8	3.9	4.9
Bananas	1 884	2 007	2 139	2 281	6.5	6.6	6.6
African palm	46	49	54	59	7.8	8.9	9.8
Green coffee	51	53	56	61	4.5	5.7	10.0
Raw cotton	14	20	28	28	38.2	39.2	-
Sugar cane	1 469	1 546	1 626	1 789	5.2	5.2	10.0
Livestock production							
Beef	51	55	60	65	8.7	8.7	8.8

Source: CEPAL, on the basis of data supplied by the Agricultural Planning Office of the Supreme Council for Economic Planning (CONSUPLANE).

a/ Growth rates calculated using unrounded figures.
b/ Preliminary figures.

/The area

The area sown to cotton fell by nearly 30% due to the downward price trend in world markets; however, the use of different methods of cultivation and the good timing of rainfall meant that production levels were almost the same as in 1977.

In 1978 two new sugar mills came on stream in the northern part of the country, but supply problems arose due to the inadequate production of sugar cane in that zone. The owners therefore took steps to increase the area sown to sugar cane, although problems arose because of the drop in international sugar prices. Even so, sugar cane production rose by 10%.

Livestock production maintained the growth rate which had enabled it to double output in the space of eight years; during 1978 beef production rose by nearly 9%, and the meat export quota allocated by the United States could be filled satisfactorily.

(ii) Forestry. The forestry sector continued to develop steadily under the auspices of the Honduran Forestry Development Corporation (COHDEFOR). In 1978 exports of sawn wood and wood products rose to nearly 86 million lempiras, ranking fourth in export sales. Wood manufacturing projects were also begun, such as the production of furniture, veneers and plywood, sleepers and other products for export, and significant progress was made in the silvicultural part of the pulp and paper project, particularly in the construction of access roads in the forest area.

Besides setting up new enterprises, COHDEFOR's action was aimed at renovating and expanding the facilities of the small sawmills which support the country's wood industry. All this had a considerable effect on the generation of employment, particularly in the area where agricultural activity is usually carried on in smallholdings whose output is largely destined for family consumption.

(iii) Manufacturing. The value added by the manufacturing sector rose by 9.4% in 1978. Although this is slightly lower than in the previous two years, it is still quite a high rate, and continued to stimulate the economic growth of the country. The growth of the metal products and engineering industry was particularly high (16%), and resulted from the

/growth of

growth of a series of small and medium-sized enterprises which had some impact on both production and employment. The growth of intermediate industries, and particularly the chemical industry was also striking (14%). The traditional industries - representing about 75% of the total - grew more moderately (8%) although still relatively rapidly (see table 5).

The impact of higher manufacturing output on employment was particularly important. Employment in this sector rose from 92,000 workers in 1977 to 102,500 in 1978, which is a larger rise than that in output. This fact, which may partly be due to the proliferation of small enterprises, is highly significant since the manufacturing sector has traditionally shown less capacity for absorbing manpower.

The Government adopted a support policy for artisanal activity and small-scale industry, more than anything because of the importance of these activities in creating employment, distributing income and creating new entrepreneurs. For this purpose it passed legislation for the development of small- and medium-scale industries and artisanal industry,1/ and set up the Centre for the Development of Small- and Medium-Scale Industry and Artisanal Activities, whose purpose is to provide technical and financial assistance.

In the course of the year progress was also made in the implementation of major industrial projects. Of particular importance was the integrated pulp and paper project beginning with forestry exploitation; although this has suffered considerable delay, as already mentioned, it will be extremely significant for the Honduran economy. Work also continued on the installation of a cement plant, partly financed by the public sector, which has also been delayed.

1/ This legislation establishes the legal framework for the special incentives designed to make use of domestic raw materials and includes tax relief measures regarding imports of raw materials and machinery and equipment, exports, income and the domestic purchase of other inputs.

/Table 5

Table 5

HONDURAS: INDICATORS OF MANUFACTURING PRODUCTION

	Millions of lempiras at 1966 prices				Growth rates b/		
	1975	1976	1977	1978a/	1976	1977	1978a/
Gross value of production	711	775	874	957	9.1	12.8	9.5
Traditional industries	509	588	658	710	15.5	12.0	8.0
Food	245	307	348	379	25.4	13.1	8.9
Beverages	91	61	66	68	-33.3	7.9	4.0
Tobacco	19	15	16	18	-17.7	7.2	8.5
Textiles	39	60	66	74	52.2	10.6	12.0
Clothing	24	46	50	55	92.9	9.8	10.1
Leather	4	5	5	5	9.5	6.5	10.2
Leather footwear	18	8	9	10	-56.2	16.9	8.9
Wood	44	63	73	74	43.4	16.1	1.2
Wooden furniture	9	13	14	15	48.3	6.8	7.1
Printing and publishing	16	10	11	12	-37.5	9.0	14.7
Intermediate industries	166	168	193	220	1.5	14.8	13.8
Paper	30	27	30	35	-10.1	10.4	16.9
Rubber	6	4	5	5	-25.4	9.1	8.3
Chemicals	51	67	82	95	31.0	23.4	15.0
Petroleum refining	45	24	24	26	-47.2	-0.4	8.5
Non-metallic minerals	34	46	52	59	36.6	13.4	13.1
Machinery and metal-working industries	36	19	23	27	-46.1	21.0	15.7
Other indicators of production							
Consumption of electricity by industry (millions of kilowatts)	241	257	266	288	6.7	7.8	8.1

Source: CEPAL, on the basis of data from the Supreme Council for Economic Planning (CONSUPLANE).

a/ Preliminary figures.

b/ Growth rates calculated using unrounded figures.

/In addition,

In addition, the installed capacity in the textile industry was increased considerably, and began to operate at full capacity for the first time in several years. Finally, as noted above, a new sugar mill was installed and another was remodelled, thus doubling the sugar production capacity, despite restrictions in the supply of sugar cane.

(iv) Construction. The construction sector remained buoyant although the urban building indicators show that the rapid increase in the total constructed area until September was accompanied by an equally significant drop in housing construction. Another construction indicator, cement output, rose by 12% in the first nine months of the year (see table 6).

3. The external sector

(a) Trade in goods

(i) Exports. The value of exports of goods amounted to US$ 607 million in 1978, a growth of 16%. Although this rate was considerably lower than in the previous two years, it is nevertheless relatively high, particularly bearing in mind the drop in world coffee prices. Unlike what happened in the preceding two years, when external sales were boosted by soaring coffee prices, in 1978 the main growth factor was the 19% increase in the volume of exports (primarily coffee and chilled meat), since there was a 2% drop in unit prices (see table 7).

As is clear from table 8, the large rises in exports of coffee over the last three years, of bananas in 1976 and 1977, of meat in 1976 and 1978, and of cotton in 1977 and 1978, caused the export coefficient of traditional products to rise from 76% to 83% over the last three years, despite the efforts made to promote exports of a number of new products.

The value of coffee sales rose from US$ 57 million to US$ 210 million between 1975 and 1978. In the last of these years there was a 25% increase in value, resulting from a 60% rise in the volume of exports which offset the drop of over 20% in prices. Actually, the coffee crop increased by 10%, but the stocks built up in the previous year permitted the rise in the volume of sales. In the last two years coffee has displaced bananas as the main export product, and it accounted for 35% of total sales in 1978.

/Table 6

Table 6

HONDURAS: INDICATORS OF CONSTRUCTION ACTIVITY

	1976	1977	1978[a/]	Growth rates	
				1977	1978[a/]
Area constructed [b/] (thousands of m^2)					
Total	23 563	25 647	32 571	8.8	27.0
Dwellings	14 523	19 800	17 185	36.3	-13.2
Production of cement [c/] (thousands of tons)	...	183.9	205.7	...	11.9

Source: CEPAL, on the basis of data supplied by the Supreme Council for Economic Planning (CONSUPLANE).

a/ Preliminary figures.

b/ Refers to urban private construction in the Central District, San Pedro Sula and La Ceiba, and covers the period 1 October - 30 September of the following year.

c/ Refers to the first nine months of each year, and growth between those periods.

/Table 7

Table 7

HONDURAS: MAIN FOREIGN TRADE INDICATORS

	1973	1974	1975	1976	1977	1978[a/]
	Growth rates					
Exports of goods						
Value	25.7	12.1	3.0	31.0	29.4	16.3
Volume	8.5	-14.5	-4.0	11.9	3.5	18.8
Unit value	15.8	31.1	7.3	17.1	25.0	-2.1
Imports of goods						
Value	37.9	59.3	-2.6	13.1	28.7	21.2
Volume	19.4	24.4	-13.9	4.6	16.1	15.5
Unit value	15.5	28.1	13.0	8.1	10.9	4.9
Terms of trade	0.2	2.4	-5.1	8.3	12.7	-6.7
	Indexes (1970 = 100)					
Terms of trade	96.2	98.5	93.5	101.3	114.2	106.5
Purchasing power of exports of goods	117.6	102.9	93.8	113.8	132.8	147.1
Purchasing power of exports of goods and services	119.6	105.2	98.3	118.6	139.1	152.1

Source: CEPAL, on the basis of official data.

a/ Preliminary figures.

/Table 8

Table 8

HONDURAS: EXPORTS OF GOODS (FOB)

	Millions of dollars				Percentage breakdown		Growth rates		
	1975	1976	1977	1978[a]	1975	1978[a]	1976	1977	1978[a]
Main traditional exports	235	332	433	504	76.3	83.0	41.3	30.3	16.4
Bananas	62	107	128	135	20.1	22.2	73.6	19.8	5.7
Coffee	57	101	168	210	18.5	34.6	76.3	67.7	25.2
Wood	39	41	47	43	12.7	7.1	5.0	15.8	-9.0
Chilled meat	18	26	22	37	5.8	6.1	40.3	-15.0	68.8
Zinc	16	12	13	14	5.2	2.3	-26.0	8.0	10.9
Shrimp and lobster	11	12	15	16	3.6	2.6	18.9	24.1	3.6
Silver	11	14	12	13	3.6	2.1	22.6	-13.0	13.1
Ginned cotton	4	4	7	15	1.3	2.5	-3.0	56.3	113.2
Others	17	15	21	21	5.5	3.5	-11.8	40.0	-
Main non-traditional exports	73	72	89	103	23.7	17.0	-3.4	23.6	15.1
Wood manufactures	2	3	6	9	0.6	1.5	140.0	45.8	61.9
Soap	4	7	12	14	1.3	2.3	65.0	74.2	20.0
Others	67	62	71	80	21.8	13.2	-7.5	14.5	12.7
Total	308	404	522	607	100.0	100.0	31.0	29.4	16.3

Source: CEPAL, on the basis of data supplied by the Central Bank of Honduras and the Supreme Council for Economic Planning (CONSUPLANE).

a/ Preliminary figures.

/Exports of

Exports of bananas, which had grown by 74% in 1976 and 20% in 1977 thanks to a larger volume of sales, rose by only 5.7% in 1978, when the volume remained constant.

The value of exports of chilled meat rose by about 70%, as a result of a 25% rise in the volume and a 35% rise in the price of exports.

Cotton sales also grew considerably over the last two years (56% in 1977 and 113% in 1978), primarily as a result of large harvests and the availability of high stocks from previous years.

Wood exports dropped by 9%, with a fall of nearly 20% in volume despite the clear improvement in prices (40%) since 1975. Wood manufactures, on the other hand, have risen 4.5 times since that year, although in 1978 their value still did not amount to US$ 10 million.

Within the framework of bilateral treaties with three other Central American countries, regional trade has gradually grown from US$ 26 million in 1974 to US$ 44 million in 1977 and about US$ 50 million in 1978, a figure which would certainly have been higher had it not been for the events in Nicaragua.

(ii) Imports. The steady growth of economic activity in recent years has greatly increased the need for imported inputs, capital goods and, in particular, consumer goods. Thus between 1977 and 1978 the value of imports of goods rose by 56%, and the volume by 34% (see table 7). This growth was made possible by higher export earnings and the liberal import policy which encouraged imports of non-essential consumer goods.

The CIF value of imported goods amounted to US$ 696 million, 21% above the figure for 1977. The greatest increase - nearly 50% - took place in the machinery and transport equipment branch, a large share of which was accounted for by motor vehicles, with a rise from 6,500 units imported in 1977 to 9,700 in 1978. Food products were the second most important branch (29%), while at the other end of the scale chemical products dropped by 13% (see table 9).

/Table 9

Table 9

HONDURAS: IMPORTS OF GOODS (CIF)

	Millions of dollars				Percentage breakdown		Growth rates		
	1975	1976	1977	1978[a]	1975	1978[a]	1976	1977	1978[a]
Food	45	37	42	54	11.2	7.7	-17.7	12.4	28.7
Beverages and tobacco	1	2	4	5	0.3	0.7	64.3	87.0	16.3
Inedible crude materials	6	9	8	9	1.5	1.3	38.7	-2.0	4.2
Fuels and oils	69	54	64	74	17.2	11.6	-21.0	18.0	16.4
Animal and vegetable oils and fats	5	6	7	8	1.3	1.2	24.4	26.8	14.8
Chemicals	58	74	95	83	14.5	11.9	27.1	28.8	-12.7
Manufactured articles classified by material	86	118	138	154	21.5	22.1	36.7	16.6	11.7
Machinery and transport equipment	107	131	178	266	26.7	36.8	22.6	36.0	49.3
Miscellaneous manufactured articles	22	27	38	43	5.5	6.6	25.5	39.9	14.1
Live animals n.e.s. and miscellaneous goods	1	1	1	1	0.3	0.1	8.3	-58.0	-33.3
Total	400	459	575	696	100.0	100.0	14.8	25.3	21.1

Source: CEPAL, on the basis of data of the Central Bank of Honduras and the Supreme Council for Economic Planning (CONSUPLANE).

a/ Preliminary figures.

/(iii) The

(iii) The terms of trade. The world prices of some of the country's main export prices declined, above all in the second half of the year, and on average the unit prices of exports fell by a little over 2%, in contrast with rises of 17% and 25% in the preceding two years; since the import price index rose by an estimated 4.9%, the terms of trade are therefore estimated to have deteriorated by 6.7% in 1978. However, the purchasing power of exports continued to rise (by 11%) thanks to the large increase in the quantum of exports (19%). Since 1975, purchasing power has risen by 57% and the volume of imports of goods by 40% (see table 7).

(b) Current account: balance and financing

These shifts in exports and imports increased the deficit in the trade of goods from US$ 28 million to US$ 59 million. Together with the deficit on services, the overall result was a deficit of US$ 178 million on the balance-of-payments current account, 23% above the 1977 figure. Nevertheless, this deficit represented only 27% of exports of goods and services: the same percentage as in each of the two preceding years, and well below the figures for 1974 and 1975, the worst period of the international crisis, when the figure rose to 38% (see table 10).

The net inflow of capital during 1978 amounted to US$ 207 million, with the result that net international reserves rose by US$ 29 million to a total of US$ 188 million, thanks to the successive increases since 1975.

The inflow of capital included a large proportion of long- and medium-term loans, amounting to US$ 158 million - US$ 20 million more than in the previous year. The public sector accounted for a large proportion of these loans which were secured on favourable terms from the standpoint of length, interest rates and grace periods.

The short-term debt primarily used to finance commercial transaction, increased by US$ 46 million. The sharp rise in this variable is surprising, since during the year there was no liquidity squeeze and bank interest rates remained below international market levels.

/Table 10

Table 10

HONDURAS: BALANCE OF PAYMENTS

(Millions of US dollars)

	1973	1974	1975	1976	1977	1978[a/]
Current account						
Exports of goods and services	294	331	344	443	572	663
Goods FOB b/	267	299	308	404	522	607
Services	27	32	36	39	50	56
Transport	8	10	10	12	19	20
Travel	8	10	11	12	14	16
Imports of goods and services	302	456	453	509	654	784
Goods FOB b/	243	388	378	427	550	666
Services	59	68	75	82	104	118
Transport	26	33	35	40	54	60
Travel	15	15	15	16	22	28
Net payments of profits and interest on foreign capital	-33	-13	-28	-55	-68	-73
Profits	-25	1	-10	-31	-38	-40
Interest	-8	-14	-18	-24	-30	-33
Net private transfer payments	4	14	5	4	5	16
Balance on current account	-37	-124	-132	-117	-145	-178
Capital account						
Net external financing (a+b+c+d)	37	124	132	117	145	178
(a) Long-term capital	33	63	136	108	145	
Direct investment	7	-1	10	8	9	
Private sector	23	42	35	44	102	
Loans	35	55	55	75	137	
Amortization payments	-12	-13	-20	-31	-35	
Official sector	1	21	43	46	21	
Loans	12	29	50	55	39	
Amortization payments	-6	-6	-6	-7	-11	
Other liabilities and assets (net)	-5	-2	-1	-2	-7	207
Monetary authorities (net)	2	1	48	10	13	
(b) Short-term capital (net)	9	26	39	38	56	
Private sector	3	29	4	41	44	
Official sector	-	-	5	-	-	
Monetary authorities	8	-1	34	1	7	
Errors and omissions	-2	-2	-4	-4	5	
(c) Official transfer payments	3	19	12	9	10	
(d) International reserves (minus sign indicates an increase)	-8	16	-55	-38	-66	-29
Use made of IMF credit	-	20	-	-	-15	...
Other liabilities	1	-	-1	-2	-	...
Monetary gold	-	-	-	-	-	-
Special Drawing Rights	-	-	1	2	-1	-
IMF reserve position	-7	7	-	-	-	-8
Foreign exchange	-2	-11	-55	-38	-50	3

Source: 1973-1977: International Monetary Fund, Balance of Payments Yearbook, vol. 29; 1978: CEPAL, on the basis of official data.

a/ Provisional figures.

b/ Including non-monetary gold.

/4. Prices

4. Prices and wages

During 1978 the growth rate of domestic prices remained relatively low. The average rise in the consumer price index was 6.2%, or 6.5% measured from December to December. These rates are somewhat lower than those recorded in 1977 (see table 11).

This performance was influenced by the good results achieved in agricultural output, which made it possible to improve the domestic supply of foods, and the slower rise in the unit prices of imported products.

The growth rate of the food price index dropped from 11.3% in 1977 to 6.6% in 1978, although it remained higher than that of the general index, as has been the case in recent years.

In its concern to hold down and control price rises, the Government has implemented a number of direct or indirect measures in the last few years. Thus, encouragement was given to the cultivation and production of basic grains; a price stabilization programme was begun in 1978, as already mentioned, through the creation of the Honduran Agricultural Marketing Institute; and the prices of a number of basic consumer goods continued to be controlled.

With regard to wages, until November the minimum wage was held at the level fixed in 1974. Despite the adjustment made in November, real income again declined in the course of the year as a result of the rise in consumer prices.

In contrast, the organized groups of urban wage-earners generally obtained adjustments when renewing their collective contracts, while the higher level of agricultural activity also improved employment, especially in the case of a number of export crops, and the higher demand for labour caused wages to rise, as did the construction of rural access roads, which called for a large amount of manpower. The public sector, for its part, granted various wage adjustments for public sector employees.

/Table 11

Table 11

HONDURAS: EVOLUTION OF DOMESTIC PRICES

(Percentages)

	1973	1974	1975	1976	1977	1978[a]
	Variation December to December					
Consumer price index	6.1[b]	11.9[b]	7.8	5.6	7.7	6.5
Food	5.0[b]	12.2[b]	9.5	4.6	10.5	7.5
	Variation between annual averages					
Consumer price index	4.7	12.9	8.1	5.0	8.6	6.2
Food	3.8[b]	17.2	9.3	3.9	11.3	6.6

Source: CEPAL, on the basis of data of the Central Bank of Honduras.

a/ Preliminary figures.

b/ Consumer price index in Tegucigalpa as given in United Nations, Monthly Bulletin of Statistics.

5. Monetary and fiscal policy

(a) Fiscal policy

As mentioned earlier, the higher spending policy followed by the public sector in recent years, thanks to the steady growth of government revenue and the broad support it has received from financing sources, has become a stimulus for the production sector.

In 1978, current income amounted to 568 million lempiras, representing a growth rate of 21%, which was less than in the previous two years (see table 12). In particular, tax revenue grew by 24%, reflecting the growth of the main tax sources, although there was a drop in the growth rate of tax revenue from foreign trade, presumably linked with the slump in coffee prices.

The tax burden has risen steadily over the last five years to reach 15.2% in 1978, as a result of the rapid growth of taxes levied on foreign trade and the elasticity of the duties involved. While the value of the external trade in goods rose by 86% between 1975 and 1978, duties levied on them tripled thanks to the favourable prices of coffee and other export products.

Current expenditure rose by 17%, again a lower rate than in the two previous years, although the Government continued to expand the coverage of the social services, particularly in the case of health and education.

The rapid growth of revenue brought a current saving of 90 million lempiras - the highest figure since 1975 - so that the percentage of capital expenditure financed from current savings rose from 23% in 1977 to 29% in 1978.

Capital expenditure rose by 18%, and spending on real investment by 40%, double the amount in 1975, which reflected the greater capacity of public institutions to execute projects.

Over the last five years, public investment was reoriented according to the guidelines of the National Development Plan to place greater emphasis on the basic sectors - agriculture and forestry - and thus make better use of natural resources. This led to greater State participation in production.

/Table 12

Table 12

HONDURAS: CENTRAL GOVERNMENT INCOME AND EXPENDITURE

	Millions of lempiras				Growth rates b/		
	1975	1976	1977	1978a/	1976	1977	1978a/
Current income	283	356	468	568	25.7	31.4	21.3
Tax revenue	252	311	425	527	23.4	36.7	23.9
Direct	78	76	94	125	-2.0	24.0	32.4
Indirect	174	235	330	402	35.2	40.8	21.7
(On foreign trade)	84	130	204	253	54.2	57.8	23.8
Non-tax income	31	45	43	41	45.2	-4.4	-4.7
Current expenditure	254	327	409	478	28.5	25.3	16.6
Wages and salaries	160	184	212	273	14.9	15.4	28.8
Other current expenditure	94	143	197	204	51.5	38.0	3.4
Saving on current account	29	29	59	90	1.4	99.3	54.3
Capital expenditure	184	197	262	308	7.6	32.4	18.0
Real investment	76	88	107	150	15.7	21.7	40.4
Debt amortization payments	37	41	67	73	14.0	60.1	9.9
Other capital expenditure	71	68	88	85	-4.0	29.2	-3.0
Total expenditure	438	524	671	786	19.7	28.0	17.1
Fiscal deficit	-155	-168	-203	-218	8.8	20.7	7.5
Financing of deficit							
Domestic financing	60	88	111	84	48.2	25.9	-24.0
External financing	95	80	92	134	-16.0	15.0	45.8

Source: CEPAL, on the basis of data of the Central Bank of Honduras.

a/ Preliminary figures.

b/ Growth rates calculated on the basis of unrounded figures.

/Particularly important

Particularly important from the standpoint of size and linkages were the projects designed to facilitate forestry exploitations, such as the construction of access roads, the Talanga-Juticalpa-Catacamas highway, and the deep-water port of Puerto Castilla, which will be the port of exit for exports of wood, pulp and paper.

In addition, work was completed on the port of San Lorenzo in the south, to facilitate trade with the Pacific area, and particularly the export of molasses. Work began on access projects for the future hydroelectric power-station of El Cajón, also linked with the Olancho forestry development project for which it will provide the power.

The fiscal deficit amounted to 218 million lempiras, roughly two-thirds of which was covered by external financing, or 46% more than in 1977, while domestic sources covered 39% (much less than in 1977).2/ Although the level of external public debt was not very high in 1978, it should be remembered that the balance of State-guaranteed public and private debt has tripled over the last six years, and that the servicing of the debt in relation to exports practically doubled over that period.

(b) Monetary policy

The monetary situation in 1978 was rather similar to that in 1977. Due to the foreign trade surpluses, external factors had a considerable effect on monetary expansion, although their influence was less than that of the 28% growth of domestic credit, and particularly financing for the Central Government, which rose by 50%. Credit to the private sector, which accounted for nearly 90% of domestic credit, grew by 34% in the course of the year.

The money supply grew by 17%, a rate which is higher than in 1977 but reflects the efforts made to control the money supply, which had grown in 1976 at a disproportionate rate in relation to the needs of the economy (see table 13).

2/ Table 13 indicates a very considerable rise in the financing received by the Government from the Central Bank, which implies that the private sector considerably reduced its holdings of bonds.

/Table 13

Table 13

HONDURAS: MONETARY BALANCE

	Year-end balance in millions of lempiras				Growth rates		
	1975	1976	1977	1978[a]	1976	1977	1978[a]
Money	260	357	407	476	37.3	13.2	16.9
Currency outside banks	115	173	193	210	50.4	11.6	8.8
Demand deposits	145	184	214	266	26.9	16.3	24.3
Factors of expansion	764	975	1 220	1 543	27.6	25.1	26.5
Foreign assets (net)	67	125	223	270	86.6	78.4	21.1
Domestic credit	697	850	997	1 273	22.0	17.3	27.7
Government (net)	99	115	115	173	16.2	-	50.4
Official entities	35	33	46	-16	-5.7	39.4	...
Private sector	563	702	836	1 116	24.7	19.1	33.5
Factors of absorption	504	618	813	1 067	22.6	31.6	31.2
Quasi-money (savings and time deposits)	253	316	398	453	24.9	25.9	13.8
Bonds	20	31	36	82	55.0	16.1	127.7
Long-term foreign borrowing	139	167	217	398	20.1	29.9	83.4
Other items (net)	92	104	162	134	13.0	55.8	-17.3

Source: CEPAL, on the basis of data of the Central Bank of Honduras.

a/ Preliminary figures.

/Although there

Although there were no substantial changes in monetary policy in 1978, the effects of the rise in cash reserves decided on in 1977 began to be felt, and since the economy also began to feel the weakening of the income generated by the external sector, there was some shortage of liquidity in banks. In addition, in view of the less favourable outlook for exports resulting from the downward trend in prices, the Central Bank did not give in to the requests on the part of the banking system to increase the means of payment by expanding credit. Two further factors helped to reduce the liquidity of the banking system. Firstly, State agencies were ordered to transfer their deposists from private banks to the Central Bank, thus reducing the money-creating capacity of the former, and secondly, a greater demand for domestic credit from private banks was induced because bank interest rates were held below international market levels.

In sum, while various measures were applied in 1978 to slow monetary expansion, policies to support and develop various productive activities were maintained, and an effort was made to adjust the monetary situation to the economy's real needs.

JAMAICA

1. The overall picture 1/

In 1978 the evolution of real economic activity was once again severely prejudiced by the progressive deterioration in the main external and internal financial variables, the prevailing social unrest, and the uncertainty reigning in the private sector.

Provisional estimates of the gross domestic product (GDP) for 1978 show a decline of 1.7%. Among the most favourable developments during the year may be counted a 10% rise in sugar cane output, moderate production gains in the bauxite industry and a strong recovery in the tourism sector. In contrast, activity in the manufacturing sector was, at best, unchanged from the depressed level of the two previous years, while construction apparently suffered a further substantial decline. The rate of unemployment, which stood at the inordinate level of 24% of the labour force in October 1977, rose to 26% in October 1978, while real wages suffered a pronounced drop.

Notwithstanding the favourable evolution of tourism, the balance of payments worsened during the course of the year, owing to a significant rise in the volume of imports (following an abrupt fall over the preceding two years), a renewed deterioration in the terms of trade, and substantially increased payments on foreign capital. Consequently, the level of international reserves remained inadequate and the external debt continued to increase sharply, thus forcing the government, for the second consecutive year, to seek conditioned IMF financial assistance.

The large devaluations (beginning in May) agreed upon between the government and the IMF gave rise to a marked acceleration in the rate of inflation, complicated the management of monetary and fiscal variables, heightened private sector uncertainty, depressed real wages and exacerbated the prevailing climate of social unrest - without producing any apparent overall improvement in the external accounts in 1978.

1/ Unless otherwise indicated Jamaican dollars are used throughout. In the fourth quarter of 1978 the exchange rate was Jamaican $ 1.69 per US dollar.

/Table 1

Table 1

JAMAICA: MAIN ECONOMIC INDICATORS

	1973	1974	1975	1976	1977	1978[a]
A. Basic economic indicators						
Gross domestic product at factor cost (millions of Jamaica dollars at 1974 prices)	2 298	2 252	2 244	2 094	2 011	1 977
Population (millions of inhabitants)	1.97	1.99	2.03	2.06	2.09	2.12
Per capita gross domestic product (Jamaica dollars at 1974 prices)	1 166	1 131	1 105	1 017	962	933
	Growth rates					
B. Short-run economic indicators						
Gross domestic product	-	-2.0	-0.4	-6.6	-4.1	-1.7
Per capita gross domestic product	-	-3.0	-2.3	-8.0	-5.4	-3.0
Terms of trade	-10.3	29.6	18.3	-12.7	-	-6.6
Current value of exports of goods and services	2.6	63.3	6.8	-15.1	4.9	9.5
Current value of imports of goods and services	8.1	39.6	21.2	-13.8	-17.5	20.7
Consumer price index						
December - December	29.6	20.8	14.7	8.2	14.1	49.3
Variation between annual averages	19.8	24.4	17.4	9.6	11.4	34.6
Money	20.6	27.3	20.2	2.4	37.8	17.7
Wages and salaries [b]	-	16.0	6.9	3.2	-7.9	...
Rate of unemployment [c]	...	...	21.2	24.2	23.8	26.0
Current income of government [d]	...	...	20.6	2.2	0.3	39.9
Total expenditure of government [d]	...	...	34.6	34.1	-3.4	50.0
Fiscal deficit/total expenditure of government [c]	...	40.8	47.1	59.7	57.1	53.0
	Millions of dollars					
C. External sector						
Trade balance (goods and services)	-142	-49	-208	-193	50	-49
Balance on current account	-240	-82	-288	-307	-74	-196
Variation in net international reserves	-30	69	-57	-230	-4	5
External debt [e]	338	512	695	875	896	...

[a] Preliminary figures.
[b] Average real wage of manual and non-manual workers.
[c] Per cent.
[d] Rates refer to fiscal year, beginning in April.
[e] Disbursed public external debt.

/Since 1974

Since 1974 real GDP has declined constantly. Between that year and 1978 the fall totalled 14% (20% in per capita terms). The task of tracing systematically the causes of this protracted economic decline is beyond the scope of the present survey. However, in view of the gravity of the current situation and the nature of the measures contained in the IMF agreement, brief consideration of some of the outstanding factors behind the current crisis is called for.

A limited productive base and dependency on a reduced number of export commodities and services necessarily means, except in rare cases, that the balance of payments will be extremely sensitive to internal and external disturbances. In this context the introduction of an ambitious development plan has inevitably created strains, through the import side, on the balance of payments. Since this plan has also involved a reorientation of the traditional economic prerogatives of groups responsible for investment and production decisions in the export sector, strains on the balance of payments have also become manifest on the export side. These conditions and developments were almost immediately followed by the steep rise in the prices of petroleum products and the recession and lethargic pace of recovery in the industrial centres.

Some of these questions, as well as others, are treated in more detail in the relevant sections of this survey.

2. Sectoral trends

The changes in the composition of the GDP at current factor cost between 1970 and 1977 are traced in table 2. The most outstanding development was the sharp drop in the contribution of the construction sector, from over 13% to under 6%. The contribution of tourism also declined substantially. The greatest increase was recorded in the government sector (community, social and personal services), while there were also increases in the relative contributions of agriculture and manufacturing.

(a) Agriculture

Between 1975 and 1977, real growth in agricultural production averaged approximately 3% per annum.

/Table 2

Table 2

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

	Millions of jamaican dollars a/			Percentage breakdown		Growth rates		
	1975	1976	1977	1970	1977 b/	1975	1976	1977
Agriculture	202	227	265	6.7	8.9	24.2	12.5	16.5
Mining c/	269	237	311	12.7	10.5	-9.5	-11.9	31.1
Manufacturing c/	423	508	564	15.7	19.0	14.5	14.8	11.0
Construction	252	209	174	13.3	5.9	18.2	-17.1	-16.6
Subtotal goods	1 161	1 181	1 314	48.5	44.3	10.0	1.3	11.2
Electricity and water	37	54	61	1.0	2.1	64.4	48.4	12.7
Transport, storage and communications	156	165	203	5.5	6.9	13.7	5.6	23.5
Subtotal basic services	192	219	264	6.5	8.9	20.8	13.7	20.8
Commerce, restaurants and hotels	560	479	481	21.3	16.2	22.3	-14.5	0.5
Financial institutions, insurance and real estate	330	367	381	12.2	12.9	20.4	11.0	4.0
Community, social and personal services d/	462	552	611	13.7	20.6	21.7	19.4	10.7
Subtotal other services	1 352	1 397	1 473	47.2	49.7	27.6	3.3	5.4
Less: Imputed service charges	79	80	86	2.1	2.9	12.8	1.4	7.4
Total gross domestic products c/	2 633	2 717	2 966	100.0	100.0	16.2	3.2	9.1

Source: Department of Statistics, Jamaica. National Income and Product, 1977.

a/ Subtotals and total may not add up because figures have been rounded.
b/ Provisional data.
c/ Alumina processing included in mining instead of manufacturing.
d/ Includes private non-profit institutions.

/Recently released

Recently released provisional estimates of total agricultural production in 1978 show a 9% rise in output. This favourable performance is mainly attributable to the recovery in sugar cane and strong advances in the production of domestic food crops. Preliminary and partial data for 1978 (see table 3) show a production increase of 10% for the principal export crops. However, of these only sugar cane (over 10%) and piménto (over 23%) registered increases in 1978, and these increases merely offset to some extent the declines recorded the previous year. The significant rise in sugar cane output occurred despite an estimated loss of 65,000 tons owing to the combined effects of a major strike in February and an outbrake of smut disease which affected agricultural production throughout the island.

There are indications of increased production of domestic food crops - one of the areas which has received the most emphasis in the government's development programme - but production in the livestock subsector through the third quarter lagged behind the level for the same period in 1977.

Prices for exports of sugar, citrus fruits and bananas rose during the year, the price of cocoa held steady, but coffee prices continued to decline from the very high levels of recent years. Prices of many domestically consumed agricultural products increased sharply, reflecting the compression of food imports, the May devaluation and the reduction of some food subsidies.

Between 1965 and 1975 the population economically active in agriculture dropped by over 29% and the corresponding rise in arable land per person economically active in agriculture approached 50%. Both these proportions were unparalleled in the developing areas of the Americas over the indicated period. While the increase in total agricultural production per person economically active in agriculture came to 42%, this was still inferior to the rise in the supply of arable land per person, and furthermore total agricultural production per capita fell by 7% over the period in question.2/

Because of the massive migration of the rural population to urban areas - particularly to Kingston - over the last decade, the absence of a

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2/ Calculated from data in FAO, Production Yearbook, volume 30, 1976.

/Table 3

Table 3

JAMAICA: PRODUCTION OF SELECTED AGRICULTURAL ITEMS

	1975	1976	1977[a]	1978[b]	Growth rates		
					1976	1977[a]	1978[b]
Sugar-cane c/ (milled) d/	3 580	3 628	3 228	3 571	1.3	-11.1	10.6
Bananas e/d/	69	78	81	79	13.0	3.8	-2.5
Citrus c/f/g/	64	65	63	...	1.7	-3.8	...
Pimento g/	2 521	4 284	2 022	2 498	69.9	-52.8	23.5
Copra g/	6 220	5 559	3 387	1 927	-10.6	-39.1	-43.1
Cocoa c/g/	1 799	1 598	1 640	1 639	-11.2	2.6	-0.6
Coffee h/g/	10 363	6 256	8 486	4 896	-39.6	35.6	-42.3
Cattle slaughtered i/	90	66	68	42j/	-26.0	1.7	...
Hogs slaughtered i/	88	125	131	95j/	42.3	4.6	...
Poultry meat i/	27	27	30	...	-	11.1	...

Source: National Planning Agency, Jamaica, Economic and Social Survey, 1977; Department of Statistics, Jamaica, Production Statistics, 1977; and data supplied to CEPAL.

a/ Revised.
b/ Provisional.
c/ Crop year ending in the year shown.
d/ Thousands of metric tons.
e/ Export only.
f/ Statistics for orange and grapefruit only.
g/ Metric tons.
h/ Crop year beginning in the year shown, deliveries to the Coffee Industry Board.
i/ Thousand head.
j/ January-September production only.

/sufficient rise

sufficient rise in labour productivity in agriculture, and the failure to secure corresponding growth in urban employment opportunities, a crisis of urban unemployment and crime has arisen, extraordinary pressures have been placed on the government budget, and the traditional seasonal shortage of labour in agriculture has been markedly aggravated, causing agricultural output to decline and thus agricultural exports to drop and imports to soar. The social unrest has affected tourism and thus construction; and so on. The stagnation and decline in agricultural output has played a major role in the balance-of-payments crisis, inflation, the fall in investment and the rapid growth of the external debt.

The massive migration and leap in urban unemployment are both probably related to some extent to the uneven and inadequate investment situation. Mention may be made in this respect of the construction boom of the late 1960s/early 1970s and the subsequent depression, which were largely due to the pronounced fluctuations in the tourist sector.

Finally, a series of droughts and pest attacks, the pronounced rise in fertilizer prices and the current drive to reduce imports have compounded the structural problems plaguing agricultural production.

In view of the gravity of the agricultural situation as well as the vital nature of the contribution of agriculture to employment, the government's plan for economic recovery has assigned a primary role to agriculture. In order to mitigate some of the difficulties outlined above the government has devised policies designed to (1) encourage the existing agricultural population to remain on the land; (2) raise labour productivity in agriculture; (3) increase off-season employment opportunities in agriculture; (4) promote labour-intensive urban activities; and (5) reduce the effects of droughts and pests.

Among the programmes relating directly to agriculture, the Project Land-Lease, the construction of a large number of micro-dams, crop diversification, increased fertilizer production, "work-study" programmes and the extension of the minimum wage to agricultural labour may be mentioned. Policies designed to induce idle urban labour to participate in agriculture during periods of peak labour demand and to encourage decentralization of manufacturing activities would also seem to be worthy of note.

/(b) Mining.

(b) Mining

According to the data in table 4, the output of both bauxite and alumina, through November 1978, surpassed the levels achieved in the comparable period of the previous year by over 4%, following increases of 9 and 25%, respectively in 1977. The output fluctuations in the last few years have been related, in part, to the damage (in 1976) and complete restoration (in 1978) of a major alumina plant. It should be noted that the current levels of production are only approximately four-fifths of the levels achieved in 1974.

This significant decline in production has clearly contributed to the crisis in the external accounts. It has frequently been argued that the drop in output in the bauxite industry after 1974 was a logical consequence of the imposition of the production levy tax in that same year. According to this interpretation, the tax increased the costs of bauxite production to the point where Jamaican bauxite became uncompetitive with alternative sources. Consequently, the transnational aluminium corporations which control the industry reacted by reducing investment and production in Jamaica and increasing them in their operations in other countries.

However, a recent study 3/ demonstrates, through regression analysis, that the reduction in output in Jamaica corresponded to the long-run diversification strategy implemented by the transnational aluminium firms in the early 1960s, or a decade prior to the introduction of the production levy tax. The study concludes that "... the fall in Jamaica's percentage share of the International Bauxite Association (IBA) output was a continuation of the long-run strategy of diversification of bauxite sources. Even if the production levy tax had not been introduced, the transnational aluminium companies would have (in any event) reduced output by an amount similar to that observed".4/

In effect, the declines in investment and production, both of which have played an important part in the balance-of-payments crisis and the

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3/ David S. Hoelscher, Evolution of bargaining capacity: the case of the aluminium industry, (CEPAL/CTC Joint Unit, Santiago, Chile, March 1979).

4/ Ibid., p. 56. The IBA member countries account for around 75% of total world bauxite production. In 1965 Jamaica alone provided 38% of total IBA production, but by 1976 its share had fallen to less than 21%.

/Table 4

Table 4

JAMAICA: MINING PRODUCTION

	Thousands of metric tons			Growth rate		
	1976	1977 a/	1978 b/	1976	1977 a/	1978 b/
Bauxite (mined)	11 453	11 433	11 960	-6.1	9.2	4.6
Alumina	1 639	2 048	2 130	-27.4	25.0	4.2
Gypsum (mined)	249	214	199	3.8	-14.0	...

Source: National Planning Agency, Jamaica, Economic and Social Survey, 1977; Department of Statistics, Jamaica, Production Statistics, 1977; and data supplied to CEPAL.

a/ Estimated figures.

b/ January-November.

c/ January-November, 1978 as against the corresponding period in 1977.

/contraction in

contraction in economic activity over the last five years, were in large part a consequence of events (the long-term global diversification strategy of the transnational aluminium companies) over which the authorities currently have no control, and the bauxite tax merely allows Jamaica to gain some tax revenue which would otherwise have been foregone.

Other developments concerning the mining sector in 1978 included a small increase in the production levy tax, continued diversification of export markets, government purchases of foreign assets, and an indefinite postponement of the planned construction of a large mining and smelting complex.

The export tax applied to alumina ingots was raised some 4% to US$ 18.49 per ton in order to maintain the mandated rate of 7.5% of the average realized price in the world market. Since 1974 the increase in the nominal value of the tax - a vital source of government revenues - has amounted to 66%. In 1974 US$ 185 million was collected from the export of 15.2 million tons; in 1978, US$ 193 million from 11.7 million tons. Given the rise in international prices over this period, the real value of total funds collected evidently declined.

In the area of export diversification, a 25,000 ton shipment of alumina, the first of a one million ton consignment to Venezuela, was effected at the end of the year. The entire contract is valued at US$ 200 million and covers a seven-year period.

In 1978, Alcan Aluminium agreed to sell 7% of its bauxite mining and refining assets and 100% of its unused mineral properties to the government. The joint venture, Jamalcan, formed as a consequence of the agreement will take over the operation of all Alcan's existing activities in the country. The new enterprise has a 40-year mining lease, and the government will receive 7% of its annual alumina production. The royalty on mined bauxite is set at US$ 0.31 per ton, while the production levy has been fixed until 1983. At the same time the aluminum companies have agreed in principle to prepay the production levy one year in advance and have also agreed to maintain the prevailing level of foreign exchange annually brought into the country to finance working capital requirements, despite the fact that the unification and devaluation of the exchange rate would have reduced

/these needs

these needs by around $ 40 million. The difference will be invested in the expansion of production capacity. These accords will also have a favourable impact on the balance-of-payments and budgetary situations. Judging by the various agreements achieved during the year, it may be concluded that the friction originally caused by the introduction of the production levy tax has been largely surmounted.

Finally, the withdrawal of Mexico from the bauxite/alumina project initially planned in 1974 by the governments of Jamaica, Mexico and Venezuela has forced an indefinite postponement of the $ 600 million venture. The government now plans to meet long-term alumina contracts with Algeria and Venezuela by increasing the utilization of existing capacity and taking advantage of the expansion programme alluded to above. Moreover, the previous Venezuelan administration showed strong interest in proceeding with a modified project involving the construction of an alumina plant in Jamaica with minority Venezuelan participation.

Jamaica presently depends on imports for 90% of its energy requirements. Notwithstanding cutbacks in the level of petroleum imports the cost of these has quadrupled since 1973 and currently absorbs around 35% of foreign exchange earnings. Following the very promising results of a preliminary evaluation of the commercial potential of petroleum and gas reserves off the southeastern coast, the government, with assistance from Norway, has embarked on a $ 60 million exploration programme. Also, studies to assess the energy potential of the island's peat reserves and watercourses were initiated in 1978.

(c) Manufacturing

At present the preliminary and partial data available (see table 5) are insufficient to determine whether manufacturing activity in 1978 showed any improvement with respect to 1977. In any event, they suggest that the change was marginal. This appreciation should be compared to the frank declines recorded in 1976 and 1977.

The primary factors affecting manufacturing activity remain, above all, the severe foreign exchange constraint and the government policies aimed at alleviating it and, to a lesser extent, industrial disputes, excessively low rates of investment and declining internal demand.

/Table 5

Table 5

JAMAICA: INDICATORS OF MANUFACTURING ACTIVITY

	1976	1977a/	1978a/	Growth rates		
				1976	1977	1978b/
Sugar (thousands of metric tons)	362	295	277.0c/	0.4	-18.5	...
Flour (wheat) (thousands of metric tons)	46	48	...	16.4	5.2	...
Animal feeds (thousands of metric tons)	190	202	209.0	10.1	6.0	3.7
Rum and alcohol (millions of litres)	17	18	16.0c/	-19.2	2.3	
Paints (thousands of litres)	5 569	4 683	...	-20.6	-15.9	...
Fertilizers (thousands of metric tons)	39	21	...	-30.0	-45.1	...
Petroleum products (millions of litres)	1 456	1 184	1 200.0	-14.0	-18.7	1.5
Textile fabrics (thousands of metres)	5 925	8 018	...	-17.1	35.3	...
Cement (thousands of metric tons)	365	333	295.0	-9.9	-8.8	-11.4
Steel (thousands of metric tons)	14	10	12.0	-31.7	-24.6	23.0
Electricity sales to industry and commerce by public utilities (millions of KWH)	40	635	637.0	5.3	-8.1	0.3

Source: Department of Statistics, Jamaica, Production Statistics, 1977; and data supplied to CEPAL.

a/ Estimated figures.
b/ January-November, 1978 compared to the corresponding period in 1977.
c/ January-September.

/The foreign

The foreign exchange constraint has had a particularly negative impact on the import-intensive manufacturing sector. At the same time the currency devaluation and the abolition of the dual exchange rate in 1978 raised the domestic cost of imports by between 24 and 56%, depending on whether importers were previously subject to the special or basic exchange rate. Moreover, there are indications that the government, in order to meet the quarterly financial tests stipulated by the IMF agreement, has been forced to delay approved allocations of foreign exchange to importers. Labour strikes and the low rate of investment (apparently less than 10% of GDP) have added to the supply problems.

If the foreign exchange constraints cases can be eased, the major problems facing the sector will be the low rate of investment and the reduced level of internal demand.

During the course of the year, construction was initiated of ten new factory units in the Kingston Free Trade Zone, among them a South Korean investment which is expected to generate US$ 15 million in annual export sales. A two-year $ 15 million programme to improve the port facilities and thus enhance the competitiveness of the Free Trade Zone was also announced.

Finally, the Small Scale Enterprise Development Project, which is designed to promote labour-intensive activities, received a boost in the form of a US$ 7.5 million credit from the World Bank.

(d) Construction

The construction industry has suffered dramatically from the decline in tourism (1975-1977) as well as from the general downturn in economic activity. As already mentioned, the participation of construction in the nominal GDP fell from over 13% in 1970 to around 6% in 1977, although it should be noted that the contribution of construction to the GDP was extraordinarily high in the former year owing to the large-scale projects in the bauxite/alumina complex and the tourist sector. In terms of nominal values, construction GDP dropped 31% between 1975 and 1977 (see table 6), while the consumer price index jumped 21%. Employment in the sector fell by 28%.

/Table 6

Table 6

JAMAICA: SELECTED INDICATORS OF CONSTRUCTION ACTIVITY

	1976	1977	1978a/	Growth rates		
				1976	1977	1978
Construction GDP (millions of dollars)	209	174	...	-17.2	-16.6	...
Employment (thousands of persons)	38	33	31b/	-14.8	-13.2	-18.9b/
Imports of construction material (millions of dollars)	65	70	61c/	-26.9	7.5	...
Production of selected building materials						
Cement (thousands of metric tons)	365	333	272d/	-10.3	-8.7	-10.5d/
Paint (thousands of litres)	5 550	4 682	...	-21.6	-15.6	...
Steel (thousands of metric tons)	14	10	13e/	-32.9	-24.2	22.5e/
Bagasse board (millions of square decimetres)	114	42	...	33.7	-63.4	...
Loans and advances out-standing - commercial banks (millions of dollars) f/	127	109	123g/	-10.1	-13.8	10.8g/
New mortgage loans of building societes (millions of dollars)	29	25	8g/	-21.7	-15.0	...

Source: National Planning Agency, Economic and Social Survey, 1977; Bank of Jamaica, Statistical Digest, April 1978; and data supplied by the Department of Statistics, Jamaica.

a/ Provisional.
b/ January-April.
c/ January-July.
d/ January-November.
e/ January-October.
f/ Construction, land acquisition and development.
g/ January-September.

/The few

The few available part-year indicators for 1978 suggest a further decline. Of the major construction materials, only steel production showed an increase. Despite the recuperation of tourism in 1978 there remained, on average, a substantial margin of excess hotel capacity, and continued significant growth in tourism is required for a reactivation of construction in this area. Notwithstanding the sharp decline in demand, however, the supply problems outlined elsewhere also affected the pace of construction activity.

(e) Tourism

Part-year data for 1978 (see table 7) indicate that the tourist sector enjoyed a strong recovery following three years of decline. The most recent figures suggest, in fact, that the number of total visitors approached 1975 levels, thus approximately recovering previous peaks. Through September 1978, the total number of visitors increased some 40% and the hotel occupancy rate 44%, reflecting the fact that the important long-stay category of visitors increased even more rapidly than total visitors. While Jamaica benefited from the general upsurge in world tourism, the steep devaluation of the domestic currency may also have contributed to the recovery (see section 4).

During the present decade the relative participation of Jamaica in the Caribbean tourist market has fluctuated considerably. Between 1970 and 1974 the country managed to increase its share of total tourist arrivals by air in the Caribbean from 8.3% to 9.4%, but by 1977 this share had declined precipitously to 5.6% (although the 1978 figures may show some improvement). Other factors being equal, the explanation of this decline may apparently be assigned to the overt manifestations of social tensions in recent years.

3. The external sector

(a) The trade balance

As in the two preceding years, the balance-of-payments situation and the policies devised to deal with it were the principal determinants of economic activity in 1978. After showing a small surplus in 1977 - the first of the decade - the balance of trade registered a small deficit in 1978. The value of exports of goods and services (in current US dollars) increased over 9%, but that of imports jumped almost 21%. The rise in the value of merchandise exports (7%) was similar to their increase in volume. On

/Table 7

Table 7

JAMAICA: SELECTED TOURISM STATISTICS

	1975	1976	1977	1978[a]	Growth rates 1976	1977	1978[b]
Total visitors c/	552.7	470.7	386.5	416.9	-15.0	-17.9	39.6
Long stay c/ d/	377.0	313.6	254.5	237.7	-17.0	-18.8	44.5
Short stay c/ e/	18.3	14.1	10.5	9.5	-23.0	-25.5	18.8
Others c/ f/	157.5	143.0	121.6	119.7	-9.2	-15.0	30.8
Estimated expenditure g/	116.8	96.1	84.1	...	-17.7	-12.5	...
Hotel room occupancy rate h/	43.5	33.6	28.9	40.4	-23.0	-14.0	43.8
Length of stay i/	8.8	8.6	8.7	8.6	-2.3	1.2	-3.4
Direct employment (hotels, guest-houses and cottages)	9 673	8 482	8 582	...	-12.3	1.2	...

Source: National Planning Agency, Economic and Social Survey, 1977; and data supplied to CEPAL.

a/ January-September.
b/ January-September 1978 against the corresponding period in 1977.
c/ Excludes nationals residing alowed a large percentage of arrivals.
d/ Three or more nights.
e/ One or two nights.
f/ Includes cruise-ship members of the armed forces.
g/ Millions of Jamaican dollars.
h/ Percentage.
i/ Nights.

/the basis

the basis of indirect data, it appears that the growth in the volume of merchandise exports was mainly a result of the recovery of sugar cane production and moderate advances in the output of bauxite and alumina, while around one-third of the increase in the value of merchandise imports may be attributed to higher prices. The 15% increase in the volume of imports in 1978 was a consequence of the efforts of the authorities to ease the severe production bottlenecks provoked by the 40% reduction in the volume of imports over the course of the two preceding years and to meet the increased import demand generated by the recovery in tourism.5/ The deterioration in the terms of trade approached 7%. Between 1975 and 1978 this deterioration exceeded 18%, in contrast with the 53% gain recorded in the 1973-1975 period. Between 1970 and 1978, the terms of trade show, on balance, a small improvement (see table 8).

The part-year data on the composition of the nominal value of exports and imports by sector and product in 1978 (see tables 9 and 10) are insufficient for drawing any conclusions concerning the outcome at year's end. However, a brief consideration of the outstanding changes in the composition of traded goods between 1970 and 1977 will illustrate some of the underlying factors and consequences of the current economic difficulties. With respect to exports, the share of semi-processed goods jumped from less than 52% to over 65%, reflecting the evolution of the share corresponding to alumina (from 40% to 54%). The counterpart was a decline in the relative contribution of both primary and manufactured exports. The share of the principal export items (alumina, bauxite and sugar) actually increased over the period in question from 85% to 88%. As far as merchandise imports are concerned, the changes in composition were more pronounced. As might be expected, the share of raw material imports increased markedly, reflecting the increased costs of petroleum imports and, to a lesser extent, the growing input requirements of the sector producing substitutes for imported consumer goods. The proportion accounted for by consumer goods was more than halved, from 30 to 13%. The causes of this

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5/ It is estimated that each $ 1 increase in receipts from tourism generates $ 0.37 worth of imports.

/Table 8

Table 8

JAMAICA: MAIN FOREIGN TRADE INDICATORS

	1973	1974	1975	1976	1977	1978[a/]
	Growth rates					
Exports of goods						
Value	4.1	91.8	7.5	-18.4	15.3	7.1
Volume	7.0	6.3	-19.6	-9.2	8.7	7.1
Unit value	-2.8	80.5	33.7	-10.1	6.0	-
Imports of goods						
Value	7.9	42.2	19.5	-18.4	-15.8	23.1
Volume	-0.4	2.2	5.8	-20.7	-20.5	15.1
Unit value	8.4	39.2	13.0	2.9	6.0	7.0
Terms of trade	-10.3	29.6	18.3	-12.7	-	-6.6
	Indexes (1970 = 100)					
Terms of trade	87.7	113.6	134.4	117.4	117.4	109.7
Purchasing power of exports	101.9	137.3	137.9	99.7	114.0	104.2
Purchasing power of exports of goods and services	105.2	128.1	122.6	101.0	99.6	102.0

Source: CEPAL, on the basis of official statistics.

a/ Preliminary figures.

/Table 9

Table 9

JAMAICA: EXPORTS OF GOODS

	Millions of current Jamaica dollars				Percentage breakdown		Growth rates	
	1975	1976	1977	1978[a]	1970	1977	1976	1977
Primary products	128.9	140.4	192.5	197.6	35.1	30.3	8.9	37.1
Bauxite	97.3	113.7	145.5	149.8	24.3	22.9	16.6	28.3
Bananas	14.6	11.9	16.7	15.3	4.2	2.6	-18.5	40.3
Pimento and ginger	4.6	5.3	5.5	7.6	1.3	1.2	15.2	3.8
Coffee beans, cocoa beans and citrus fruit	5.6	6.8	8.6	6.8	0.8	1.1	21.4	26.5
Others	5.3	3.8	15.8	18.1	1.5	2.5	-28.3	315.8
Semi-processed product	527.4	379.2	415.3	...	51.8	65.5	-35.7	22.4
Alumina	389.8	274.9	343.3	375.1	39.6	54.1	-29.5	24.9
Sugar (unrefined)	133.7	55.9	68.0	86.2	10.7	10.7	-60.0	21.6
Others	4.8	6.5	4.0	...	1.5	0.6	35.4	-38.5
Manufactured goods	70.9	82.0	62.2	...	12.9	9.8	15.7	-67.6
Clothing	4.2	4.6	3.5	3.2	2.2	0.6	9.5	-23.9
Mineral fuel, lubricants and related products	10.3	14.9	15.8	23.5	2.6	2.5	44.7	6.0
Rum and other alcoholic beverages	13.5	14.7	17.8	17.8	1.4	2.8	8.9	21.1
Manufactures of metals	2.3	2.5	2.3	2.9	0.4	0.4	8.7	-88.0
Others	40.6	45.3	25.2	...	6.3	3.6	11.6	-48.8
Total [b]	727.3	561.6	634.4	750.0	100.0	100.0	-22.8	13.0

Source: National Planning Agency, Jamaica; Economic and Social Survey 1977; and data supplied by the Department of Statistics, Jamaica.

a/ Data relate to the period January to September.

b/ Note that the source differs from that used for the balance of payments data in table 11.

/Table 10

Table 10

JAMAICA: IMPORTS OF GOODS

	Millions of current Jamaica dollars				Percentage breakdown		Growth rates	
	1975	1976	1977	1978 a/	1970	1977	1976	1977
Consumer goods	213	150	100	91	30.0	12.7	-29.7	-33.1
Food	118	80	52	53	12.3	6.6	-32.3	-34.6
Other non-durables	44	33	25	20	9.0	3.2	-25.8	-24.0
Durables	51	37	23	18	8.7	2.9	-27.0	-38.1
Raw materials	494	468	510	364	31.9	65.2	-5.4	9.1
Petroleum and other fuels	196	185	223	116	6.4	28.5	-5.4	20.6
Other	299	283	287	248	25.6	36.7	-5.4	1.5
Capital goods	315	213	172	147	37.3	22.0	-32.4	-19.3
Construction materials	89	65	70	61	7.1	9.0	-26.9	7.8
Transport equipment	79	24	15	14	4.6	1.9	-69.3	-36.8
Other machinery and equipment	137	109	73	59	25.4	9.3	-20.7	-33.3
Other capital goods	9	14	13	14	0.8	1.6	57.1	-6.3
Total b/	1 021	830	782	602	100.0	100.0	-18.8	-5.8

Source: National Planning Agency, Jamaica; Economic and Social Survey, 1977; and data supplied by the Department of Statistics, Jamaica.

a/ January-July. These figures understate the true total of imports entering the country because of certain administrative delays in documentation procedures.

b/ Note that the source differs from that used for the balance of payments data in table 11.

/notable reduction

notable reduction may be assigned to the depressed level of economic activity and import controls in 1977 and, to some extent, the process of import substitution referred to above. The cause of the equally abrupt fall in the share corresponding to capital goods was the marked decline in private sector investment, itself a consequence of the adverse external market conditions and the attitude assumed by the private sector to overall government strategies and policies.

In 1978 the surplus on the travel account reached its highest level since 1974, owing to the brisk rise in tourist revenues on the one hand and the continuing containment of expenditures for foreign travel on the other. In contrast, the deficit on the transportation account expanded in line with the increased import volume and more than offset the gain in the travel account, thereby contributing to the increased overall deficit registered in the trade account.

(b) The overall balance of payments

The deterioration in the trade balance, coupled with a 25% increase in interest payments, led to a 165% leap in the deficit on current account, although in absolute terms the deficit was significantly below those recorded in 1973, 1975 and 1976 (see table 11). The constant large increases in interest payments from US$ 8 million in 1973 to US$ 125 million in 1978 contrast with the steep drop in remittances of profits over the same period, from US$ 125 million to US$ 39 million.

The net external non-compensatory capital inflow was marginally larger than the current account deficit, and international reserves thus increased slightly, but even so they only remained sufficient to cover a mere two weeks of imports of goods and services. No specific data on the origins of these capital movements are available, but it would appear from other relevant information that the 80% increase over the 1977 level was mainly accounted for by the loans made to the government under the agreement negotiated with the IMF, the short-term capital imports effected by the major aluminium companies under the agreement alluded to in a previous section, and aid flows from European governments.

Traditionally, net capital movements have been sufficiently large to compensate for the chronic deficit on the current account. After 1974,

/Table 11

Table 11

JAMAICA: BALANCE OF PAYMENTS

(Millions of US dollars)

	1973	1974	1975	1976	1977	1978a/	
Current account							
Exports of goods and services	631	1 030	1 100	934	979	1 072	
Goods FOB b/	392	752	809	660	760	814	
Services	239	278	291	274	219	253	
Transport	36	60	74	77	69	70	
Travel	127	133	129	106	72	103	
Imports of goods and services	773	1 079	1 303	1 127	929	1 121	
Goods FOB b/	570	811	970	792	667	821	
Services	203	268	333	335	262	300	
Transport	111	162	194	171	147	175	
Travel	20	21	52	59	12	20	
Net payments of profits and interest on foreign capital	-133	-67	-103	-116	-139	-164	
Profits	-125	-46	-59	-50	-39	-39	
Interest	-8	-21	-44	-66	-100	-125	
Net private transfer payments	35	34	23	2	15	17	
Balance on current account	-240	-82	-288	-307	-74	-196	
Capital account							
Net external financing (a+b+c+d+e)	240	82	288	307	74	196	
(a) Long-term capital	208	204	196	88	-9		
Direct investment	73	31	-2	-1	-7		
Private sector	97	81	74	13	4		
Loans	107	104	115	57	42		
Amortization payments	-5	-14	-35	-46	-37		
Other liabilities and assets	-5	-9	-6	2	-1		
Official sector	38	92	124	76	-6		
Loans	47	99	132	101	41		201
Amortization payments	-9	-7	-8	-25	-47		
(b) Short-term capital	9	-64	9	-45	66		
Private sector (net)	4	-54	69	-39	65		
Official sector (net)	4	5	2	2	1		
Errors and omissions	1	-15	-62	-8	-		
(c) Exceptional financing	-	20	21	30	8		
(d) Official transfer payments	-7	-9	5	4	5		
(e) International reserves (minus sign indicates an increase)	30	-69	57	230	4	-5	
Use of IMF credit	16	-	-	64	22		
Other liabilities	-	-	14	46	-10		
Special Drawing Rights	-	2	1	4	-16	12	
Other assets	14	-71	42	116	8	-17	

Source: 1973-1977: International Monetary Fund, Balance of Payments Yearbook, vol. 29; 1978: CEPAL, on the basis of official data.

a/ Preliminary figures.

b/ Including non-monetary gold.

/however, net

however, net direct foreign investment actually turned negative, while the total payments on foreign capital, as shown above, continued to increase. At the same time the amount of long-term foreign loan funds raised by the private sector decreased sharply, whereas amortization payments steadily increased. In addition, around 1975 commercial banks became reluctant to lend to the government. Furthermore, remittances by Jamaican nationals abroad fell sharply. These trends, combined with the deterioration in the terms of trade (after 1975) and the stagnation in export volume, produced an abrupt drop in the total capacity to import,6/ a drastic reduction in international reserves and a marked rise in the external debt (see table 12).

In the 1976-1977 period total import capacity fell by 38.5% (the actual decline in the import volume was 37%) to a level 33% below that of 1970. Earned import capacity declined 18% (the volume of exports fell 1%) to a level 5% below that of 1970. Unearned import capacity was completely wiped out over the two-year period, following the substantial declines suffered throughout the first half of the decade. Of the twelve developing countries examined in a UNDP/UNCTAD study 7/ of the balance-of-payments adjustment process, the decline in total import capacity in Jamaica in 1976-1977 was clearly the most pronounced; between 1970 and 1977, only Uruguay, owing entirely to a fall in earned import capacity, suffered a larger decline in total import capacity than did Jamaica. At the same time, the relative increase in the debt service ratio and the relative decrease in foreign reserves were also more pronounced in Jamaica than in any of the other countries studied.

6/ Total import capacity is equal to earned plus unearned import capacity adjusted by changes in international reserves and related items. Earned import capacity is defined as exports of goods and services less payments to investment income, adjusted by import prices. Unearned import capacity is defined as net receipts of transfers and long-term capital adjusted by import prices.

7/ UNDP/UNCTAD, "The Balance of Payments Adjustment Process in Developing Countries: Report to the Group of Twenty-Four", (UNDP/UNCTAD Project INT/75/105), 2 January 1979. The study covered Brazil, India, Ivory Coast, Jamaica, Kenya, Republic of Korea, Peru, Philippines, Sri Lanka, United Republic of Tanzania, Uruguay and Zambia.

/Table 12

Table 12

JAMAICA: EARNED AND UNEARNED IMPORT CAPACITY

	Index: 1970=100					Growth rate				
	1974	1975	1976	1977	1978	1974	1975	1976	1977	1978
Earned import capacity a/	119	116	92	95	90	32.2	-2.5	-20.7	3.3	-3.5
Unearned import capacity b/	61	59	25	0	...	-31.5	3.3	-57.6	-100.0	...
Earned plus unearned import capacity	103	100	73	64	...	14.4	-2.9	-27.0	-12.3	...
Total import capacity c/	100	109	95	67	...	3.1	9.0	-12.8	-29.5	...
Memo: debt service ratio d/ (%)	6	7	11	15	...	30.0	16.7	57.1	36.4	...
Memo: reserves to imports ratio e/ (%)	20	11	3	6	5	5.3	-45.0	-72.7	100.0	-20.0

Source: UNDP/UNCTAD, The Balance of Payments Adjustment Process in Developing Countries: Report to the Group of Twenty-four, (UNDP/UNCTAD Project INT/75/105), 2 January 1979, table 19, page II-12 and data supplied to CEPAL.

a/ Earnings from exports of goods and services, less gross payments on account of investment income, deflated by import prices.

b/ Net receipts of transfers and long-term capital, deflated by import prices.

c/ Earned and unearned import capacity plus changes in reserves and related items.

d/ Service payments on external public debt as a percentage of exports of goods and services.

e/ Total gross official reserves at the end of the year, as a percentage of merchandise import during the year.

/The relative

The relative proportion of the decline in import capacity in 1976-1977 explained by each variable is as follows: fall in transfers and lont-term capital, 53%; increase in import prices, 24%; decline in export prices, 12%; increase in payments to foreign private investment, 9%; and the fall in export volume, 2%. It should also be noted that while the failure to increase exports also impinged on the capacity to import, this effect can not be quantified. To sum up, then, over one-third of the quantifiable decrease in the capacity to import was a consequence of unfavourable price trends in external markets and something less than two-thirds was explained by the adverse movements in capital flows.

(c) The external debt

Data on the external debt position in 1978 are not available. Between 1974 and 1977, the total disbursed external debt increased by 75% (see table 13), some 40% of the increase being accounted for by commercial banks, about 14% by multilateral agencies, and slightly over 46% by bilateral sources. After 1975, a decided shift in favour of bilateral loans is observable. In that year, private institutions held almost 73% of the debt as compared to less than 20% in the case of bilateral agencies, but in 1977 the figures were 58% and 31%, respectively. This reflects the retrenchment of commercial banks in the face of mounting domestic and external difficulties.

In 1977, the servicing of the foreign debt plus payments to foreign investments consumed over 29% of foreign exchange earnings from exports of goods and services. The cost of petroleum imports absorbed another 35% of these, even though the actual volume of petroleum imports has declined since 1974.

Apparently, the only realistic and socially acceptable alternative to financial insolvency in the near future is a dramatic increase in export earnings coupled with a large inflow of multilateral and bilateral capital. Between 1974 and 1977 the relative increase in the external financing contributed by multilateral lending amounted to less than 3%. This may be contrasted with the gravity of the situation in the external sector and the fact that the IMF was, during this period, a net recipient of capital in its lending operations.

/Table 13

Table 13

JAMAICA: EXTERNAL FINANCING INDICATORS

	Millions of dollars				Growth rates		
	1974	1975	1976	1977	1975	1976	1977
Total external debt a/	512.1	694.7	874.5	896.4	35.7	25.9	2.5
Supplier credits	21.7	20.9	17.6	27.0	-3.7	-15.8	53.4
Private bank credit	261.2	406.8	401.6	363.8	55.7	-1.3	-9.4
Other	87.3	77.2	124.4	133.5	-11.6	61.1	7.3
Multilateral loans	41.4	53.5	73.0	94.5	29.2	36.4	29.5
IBRD	37.8	44.1	58.7	68.1	16.7	33.1	16.0
Bilateral loans	100.5	136.3	257.9	277.6	35.6	89.2	7.6
Debt servicing	62.7	79.0	107.8	147.2	26.0	36.5	36.5
Amortization	30.0	30.0	54.8	87.7	-	82.7	60.0
Interest payments	32.8	49.0	53.0	59.4	49.4	8.2	12.1
Servicing coefficients							
Percentage of exports of goods and services	5.9	6.6	11.1	15.0	11.9	68.2	36.4
Percentage of GDP	2.6	3.4	4.5	5.7	30.8	32.4	26.7

Source: Data supplied to CEPAL.

a/ Disbursed.

/(d) Exchange

(d) Exchange rate régimes

In May 1978, as part of a new agreement negotiated with the IMF, a single rate of exchange replaced the dual régime introduced in April 1977. The purpose of this dual régime had been to reduce the balance-of-payments deficit by discouraging least essential imports (which were subject to a higher exchange rate) without affecting the domestic price of the most essential imports (i.e., food and the intermediate imports necessary to maintain the prevailing level of income and employment) or jeopardizing those exports dependent on key imported inputs. Consequently the existing rate of exchange was retained for these as well as transactions involving the government and the bauxite industry. Overall, the devaluation came to approximately 37%.

The elimination of the dual régime was a prerequisite for a new financial agreement with the IMF, since such régimes contradict the articles of agreement of the Fund. The reintroduction of the single rate of exchange entailed another large devaluation of the currency, and furthermore small monthly devaluations were programmed through May 1979, so that between the fourth quarter of 1977 and the fourth quarter of 1978 the overall devaluation amounted to 50%.

In view of (a) the insensitivity of the relevant international prices to the domestic costs of the country's main exports (bauxite, alumina and sugar account for some 80% of the value of exports of goods and services); (b) the importance of the domestic prices of imports (mainly food, intermediate and capital goods) in the determination of the overall price level and, to a large extent, of the international competitiveness of the tourist sector and of manufactured exports, and (c) the strength of the trade unions, the effect of the devaluation on the balance of trade must necessarily be concentrated on the import side. The extent of the effect on the export side will be largely governed by the behaviour of real wages, measured in terms of the exchange rate. If real wages fall, the magnitude of the rise in domestic prices following the devaluation will be mitigated and this will increase the international competitiveness of the tourist sector and manufactured exports and favour production increases in the bauxite and sugar industries. At the same time, a fall in real wages would reduce even further import demand. The effectiveness of devaluation in

/reducing imports

reducing imports and in encouraging non-traditional exports and tourism in Jamaica therefore mainly depends on a significant fall in real wages. Among the other conditions of the IMF agreement (see section 5) a ceiling of 10% was placed on increases in nominal wages.

4. Prices, wages and employment

(a) Prices

Prior to 1973, price levels were highly stable, but the rate of inflation in 1978 was the highest on record. The annual average variation surpassed 34% and the variation between December 1977 and December 1978 reached 49%. The effect of the successive devaluations on the consumer price index may be observed in table 14. There was apparently a lag of approximately three months between devaluations and changes in the consumer price index. Between the fourth quarter of 1977 and the fourth quarter of 1978 the total devaluations equalled 50%, while the rise in the consumer price index was slightly more than 47%.

Additional inflationary factors included the 7% rise in import prices in dollar terms, and the import controls, which held back supply. Finally, the elimination of some price controls and the reduction of food subsidies unleashed inflationary pressures on the affected goods and services.

The most rapid price rises over the period December 1977-November 1978 were registered in transportation (85%), household furnishing (68%), fuel (52%) and clothing (51%) (see table 15). The price level of food and beverages, which account for 53% of the weight of the index, also increased faster (49%) than the overall index (46%) in the period in question.

(b) Wages and employment

According to a recent study 8/ real wages increased 28% between 1973 and 1976, then fell 8% in 1977. Consequently, the index of real wages was finally 18% higher in 1977 than in 1973. In contrast, real GDP declined 13% and per capita GDP well over 17% during the same period. The counterpart of these contradictory changes was a decline in the share of gross fixed investment in the GDP, from approximately 20% in 1972 to around 9% in 1977, and the accumulation of inflationary pressures which, after 1975, could not be mitigated via increased imports - indeed, import volumes declined by almost 21% in each of the succeeding two years.

8/ UNDP/UNCTAD, op.cit., table 21, page II-54.

/Table 14

Table 14

JAMAICA: EVOLUTION OF THE RATE OF EXCHANGE[a/] AND THE CONSUMER PRICE INDEX

	Quarterly variation					
	1977	1978				1978
	IV	I	II	III	IV	
Rate of exchange	-	15.0	33.4	7.5	4.6	50.0
Consumer price index	-	4.2	12.3	20.4	4.6	47.2

Source: IMF, International Financial Statistics, June 1979.

a/ Jamaica dollars per Special Drawing Right unit.

/Table 15

Table 15

JAMAICA: EVOLUTION OF INTERNAL PRICES

	1973	1974	1975	1976	1977	1978
		Variation between annual averages				
Total	17.6	27.2	17.4	9.8	11.1	33.4a/
Food and beverages	24.6	29.0	17.8	8.9	9.5	34.9a/
		Change December-December				
Total	...	20.6	15.7	8.1	14.1	46.2b/
Food and beverages	...	19.8	15.5	7.7	12.3	49.3b/

Source: National Planning Agency, Jamaica, Economic and Social Survey 1977; Department Statistics Jamaica, Consumer Price Indices, December 1977; and data supplied to CEPAL by the Bank of Jamaica.

a/ January-November.
b/ December-November.

/In 1978,

In 1978, nominal wage increases were in the main limited to the 10% ceiling agreed to in the IMF accord. In view of the magnitude of the price rises discussed above, real wages suffered a decline in the neighbourhood of 20% in 1978, and it may be roughly estimated that the level of real wages in the latter year was 5% below the 1973 level.

In October 1978, 26% of the labour force was unemployed, compared with slightly less than 24% in October 1977. At the end of the third quarter of 1978 fully 41% of the labour force between the ages of 20 and 24 was unemployed, while the figure reached 57% for those between the ages of 14 and 19, yet side by side with these inordinate levels of unemployment are the previously discussed seasonal labour shortages in agriculture and an increasing dearth of skilled and, particularly, managerial labour.

5. Monetary and fiscal policy

In 1978 the evolution of monetary and fiscal policy mainly reflected the need to accommodate the expenditures programmed under the 1978/1979 fiscal budget to the stipulations of the agreement negotiated with the IMF. In this context the notable acceleration in the rate of inflation in the wake of the May devaluation played a central role, and it likewise conditioned the behaviour of the various components of the money supply.

Given the importance of the IMF agreement in the determination of the evolution of the principal monetary and fiscal variables, a brief summary of its main features is indicated. In exchange for a US$ 240 million loan, to be distributed in quarterly instalments over a three-year period, a series of financial tests and other conditions must be met. The financial tests concern limitations on the net foreign and domestic assets of the Central Bank, a ceiling on the banking system's net credit to the public sector, and the progressive elimination of arrears in international transactions. Through December 1978, these stipulations had been fulfilled. Other conditions of the agreement included the previously discussed devaluations and elimination of the dual exchange régime; the 10% ceiling on nominal wage increases; the relaxation of price controls and elimination or reduction of a number of consumer subsidies; strict limitations on government spending (including a reduction of public sector employment) and

/a one-third

a one-third increase in government revenues; prohibition of the implementation of additional import controls, and a programme to stimulate private sector investment.

The objective of the package is to cut public and private consumption from over 90% to 80% of GDP in two years and thereby stem import growth, increase savings and investment, and stimulate exports. In order to achieve this goal without reducing the prevailing level of consumption the real growth of the economy must exceed 12% over the two-year period. Such a performance would require a pronounced rise in export earnings, however.

While the stipulations of the IMF agreement clearly amounted to a severe setback to the government's overall programme for social and economic development and, furthermore, required an inordinate and immediate sacrifice from wage-earners, the sustained deterioration of the economy over the last five years and the inadequacy of the existing international mechanisms for the recycling of financial resources from surplus countries to those most severely affected by the maladies of the contemporary international economy left the government with no option - save financial collapse or the repudiation of the external debt - other than acceptance of the agreement. At the same time it must be emphasized that the exigencies of the crisis were such that the government would have in any event been forced to implement many of the measures insisted on by the IMF.

The point in question clearly involves consideration of (i) the propriety of allowing some countries to accumulate surpluses indefinitely while requiring others to redress deficits through measures (e.g., immediate and massive devaluation) which are not only of debatable effectiveness from both the theoretical and empirical point of view,9/ but which are also out of all proportion to the immediate degree of responsibility of the deficit countries and, moreover, would be socially and politically intolerable in the countries which accumulate surpluses and enjoy unrestricted access to private capital markets or to international reserve currencies; and (ii) the logic behind requiring a country to eliminate

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9/ The theory and results of the application of these measures in different types of economies are discussed in UNDP/UNCTAD, op.cit.

/deficits immediately

deficits immediately when, in terms of policy techniques, the international availability of resources and social considerations, the measures needed to mitigate disequilibrium in the balance of payments could and should be implemented over a longer time span.

(a) Monetary policy

In 1978 the money supply (M_1) registered a nominal increase of slightly less than 18%, i.e., a rate of growth far below the rise in the consumer price index. The behaviour of the money supply has been highly erratic over the last four years, but on balance it appears that the real M_1 in 1978 was below the level of 1974.

The prime cause of what amounted to a significant real decrease in M_1 in 1978 was a 154% drop in net international reserves, which led to a 1% decline in total factors of expansion. Consequently, the nominal increase in M_1 originated from the 15% reduction in factors of absorption.

Over the course of the year credit allocations rose 27% in nominal term For the private sector the increase was 20%, following nominal declines of 12 and 3%, respectively, in the preceding two years. Between 1974 and 1978 the share of the nominal supply of credit allocated to the private sector dropped from 66% to 38%. In real terms the absolute level of credit allocated to the private sector declined sharply, while that of credit allocated to the government increased substantially. The relative increase in the allocation of credit to the government sector was far superior to the increase in its relativ contribution to productive activities (see table 16).

Evidently, the difference was a consequence of the sharp rise in government spending on consumption and development projects with medium to long-term gestation periods in spite of the stagnation of current revenues. In other terms, the difference was accounted for by the diversion of an ever-increasing share of credit to finance the steady growth of the internal debt.

The functional distribution of credit through the end of the third quarter is detailed in table 17. The only sector which received a nominal increase approaching the rate of inflation was central and local government. The real decline in credit advances to agriculture and distribution was particularly notable, and even the nominal level of personal credit declined.

/Table 16

Table 16

JAMAICA: MONETARY BALANCE

	Balance at end of				Growth rates		
	1975	1976	1977	1978	1976	1977	1978
Money	350	359	494	581	2.4	37.8	17.7
Currency outside banks	127	138	182	173	8.6	31.7	-5.0
Demand deposits	195	200	292	397	2.7	46.0	35.8
Factors of expansion	966	1 009	1 121	1 113	4.3	11.2	-0.7
Foreign assets (net)	-11	-217	-246	-626	1 872.7	13.4	154.3
Domestic credit	977	1 226	1 367	1 739	25.4	11.6	27.2
Government (net)	249	500	691	921	101.0	38.3	33.4
Official entities	72	73	117	130	1.0	60.0	11.2
Private sector	650	630	552	663	-2.9	-12.4	20.1
Factors of absorption	617	651	628	532	5.5	-3.5	-15.2
Quasi-money (savings and time deposits)	506	559	570	665	10.5	2.0	16.7
Other items (net)	111	92	58	-133	-17.4	-37.2	-

Source: International Monetary Fund, International Financial Statistics.

/Table 17

Table 17

JAMAICA: LOANS AND ADVANCES

	Millions of current Jamaica dollars				Growth rates		
	1975	1976	1977	1978[a]	1976	1977	1978[b]
Commercial banks							
Loans and advances outstanding	695	702	659	726	1.0	-6.2	12.4
Agriculture	71	82	89	84	15.9	7.9	4.0
Manufacturing	118	123	119	132	4.6	-3.4	15.7
Construction and land development	141	127	109	123	-10.1	-13.8	10.2
Central and local government	17	16	28	25	-4.7	76.4	31.6
Personal	132	115	117	112	-13.0	2.0	-5.7
Distribution	98	108	71	78	10.4	-33.7	4.3
Net excess liquidity c/	-3	18	99	120	781.5	437.5	33.9d/
Holding of central government securities	82	98	249	253	18.9	155.4	1.6d/
Prime lending rates (%)	10	11	11	11	10.0	-	- d/
Central bank							
Holdings of central government securities	52	96	407	511	84.4	324.1	23.4
Instalment credit outstanding e/	134	119	105	114f/	-11.2	-11.6	10.6f/
Instalment credit new business e/	146	107	104	101f/	-26.8	-2.7	24.3f/

Source: Research Department, Bank of Jamaica, Statistical Digest, 1979.

a/ January-September.
b/ January-September 1978 compared with the corresponding period in 1977.
c/ Average liquidity, less the sum of required minimum liquidity and loans from the Central Bank.
d/ January-November.
e/ Includes loans by commercial banks.
f/ January-October.

/Since the

Since the prime lending rate remained pegged at 11% and the real level of credit declined, the competition for the highly subsidized credit must have been very pronounced.

(b) Fiscal policy

The available data on actual levels of spending and income for the fiscal year 1978/1979 10/ are available to the end of October only. These may be compared with the corresponding period of the previous year and the levels contemplated in the budget (see table 18).

Between April and October 1978 nominal current revenue rose 40%, after two years of virtual stagnation. In real terms, however, revenues declined in 1978. The two most important sources of the nominal increase were consumption taxes (up 71%) and customs duties (up 63%). Between the fiscal year 1973/1974 and the period under discussion the share of direct taxes in total current revenue declined from 47% to 40%. The actual increase in current revenues fell one-third short of the level programmed in the 1978/1979 budget.

Actual part-year expenditures in 1978 climbed 50% in comparison with a 3% decline in the fiscal year 1977/1978 and a programmed increase of 45% in 1978/1979. The difference between actual and planned expenditures was completely accounted for by the rise in current expenditures and, in particular, by the 320% leap in the funds absorbed by public debt service.

In consequence of the shortfall in projected revenues and over-runs in projected expenditures, the fiscal deficit equalled 58% of the programmed deficit at the end of the first half of the fiscal year. The programmed deficit itself represented an increase of 34% over the preceding fiscal year. A significant change in the financing of the deficit occurred in 1978, when there was a trend to use more external funds, evidently as a consequence of certain stipulations of the IMF agreement.

One of the most striking aspects of the fiscal situation is the inordinate size of the deficits. During the first six months of the 1978/1979 fiscal year the fiscal deficit equalled 155% of current revenues, compared with 138% in the corresponding period of the previous year. However, current revenues account for only some two-thirds of total revenues. The remainder is supplied by the returns from the production levy tax applied to the

10/ The fiscal year runs from April to March.

/Table 18

Table 18

JAMAICA: CENTRAL GOVERNMENT REVENUE AND EXPENDITURE

(Millions of current Jamaica dollars)

	Fiscal year a/				Growth rates			
	1975	1976	1977	1978 b/	1976	1977	1978 b/	1978 c/
Recurrent income d/	509	520	522	851	2.2	0.3	63.0	39.9
Tax revenue	478	485	485	803	1.5	0.0	65.6	39.3
Income	195	219	203	255	12.4	-6.3	26.1	21.8
Land and property	22	21	23	36	-6.3	7.1	60.0	8.7
Consumption	75	114	132	310	51.8	15.4	136.0	70.5
Customs	84	39	27	59	-53.5	-31.2	120.5	63.1
Non-tax revenue	32	36	37	48	13.0	4.5	29.6	77.5
Recurrent expenditure e/	614	782	840	1 114	27.3	7.4	32.6	40.8
Economic services	95	120	121	147	26.3	1.1	21.2	35.3
Public debt and fiscal services	82	112	151	234	36.4	34.3	55.2	139.8
Other	437	550	568	733	25.9	3.3	29.1	66.7
Current deficit	-105	-262	-318	-213				
Capital revenue	7	6	20	6	-4.5	209.4	-69.7	-65.0
Capital expenditure e/	361	525	422	711	45.5	-19.5	68.4	68.6
Economic services	187	210	231	302	11.9	10.1	30.6	-15.4
Public debt and fiscal services	58	164	70	172	183.3	-57.6	146.7	321.0
Other	115	151	118	238	30.9	-21.9	101.7	63.6
Total expenditure	975	1 307	1 262	1 825	34.1	-3.4	44.6	49.5
Fiscal deficit	-459	-780	-720					
Domestic financing f/	191	333	392	...	74.1	17.6	...	...
External financing f/	124	86	144	...	-30.7	67.8	...	...
Capital development fund g/	125	80	110	...	-36.0	37.5	...	...

Source: National Planning Agency, Economic and Social Survey, 1977; and Bank of Jamaica, Statistical Digest, January 1979.

a/ The fiscal year covers the period April to March.
b/ Revised programmed expenditure.
c/ April-October 1978 against the same period in 1977.
d/ Consolidated fund receipts.
e/ Excluding assistance allocations.
f/ Change in gross internal and external debt outstanding; note that these figures are lower than loan receipts in any given year.
g/ All transfers to current account.

/bauxite industry,

bauxite industry. In the first half of the 1978/1979 fiscal year the revenues from this tax equalled approximately one-third of the fiscal deficit, and a portion of these revenues were employed to finance 18% of the deficit. In view of the existing levels of internal and external debt and debt service, it is clear that the sizeable deficits of the recent past are detrimental to the economy as a whole and should not be allowed to persist.