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ECONOMIC SURVEY OF LATIN AMERICA AND THE CARIBBEAN, 1987: ADVANCE SUMMARY

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I. INTRODUCTION

In 1987 the acute economic crisis in which Latin America and the Caribbean have been plunged since the beginning of the decade worsened. At the same time as the rate of economic growth fell, inflation underwent a marked revival, and the results achieved by the external sector, albeit more satisfactory, were limited to a very small number of countries (see table 1 and figure 1).

The region's gross domestic product rose by 2.5%, a lower figure than that recorded in the previous three years, and which represented an increase of barely 0.3% in per capita product. This latter figure was consequently 5.3% lower than in 1980 —the year preceding the crisis— and equivalent to the figure already attained in 1978.

Moreover, although more regular than in the previous year, the increase in economic activity was extremely weak in most countries, and per capita product fell in 12 of them. A satisfactory increase in per capita product was only achieved in Antigua and Barbuda, the Dominican Republic, Uruguay, Peru, Chile, Colombia and Jamaica. Nonetheless, even in these countries, with the exceptions of Antigua and Barbuda and of Colombia, per capita product remained lower than 10 years previously.

The sluggishness which marked economic activity went hand in hand with a pronounced revival of inflation. The average rate of consumer price increases weighted by the population, which had fallen from 275% in 1985 to 65% in 1986, returned to almost 200% at the end of 1987.

Moreover, the revival of inflation was quite widespread. Consumer prices rose more rapidly than in the previous year in 16 of the 27 economies for which figures are available, and in most of them the increase was considerable. In particular, inflation reached extraordinary levels in Nicaragua (1 339%) as well as in Brazil (366%), Argentina (175%) and Peru (115%). In these last three countries, while the rate of price increases had fallen in 1986, powerful inflationary pressure had built up. Simultaneously, inflation intensified for the third year running in Mexico (159%) and also rose considerably, although from far lower levels, in Venezuela, as a result of which price increases in both countries attained historic highs. Inflation remained high in Uruguay (57%), although a slight downward trend could be discerned; it increased slightly in Ecuador, Colombia, Chile, Barbados and Trinidad and Tobago, and rose rather more sharply in the Dominican Republic. In contrast, there was a clear fall in inflation for the second year running in Bolivia —which in 1985 had experienced the first case of hyperinflation in the history of Latin America and the Caribbean—, it remained stable in

Table 1

LATIN AMERICA AND THE CARIBBEAN: MAIN ECONOMIC INDICATORS[a]

Indicators	1981	1982	1983	1984	1985	1986	1987[b]
Gross domestic product at market prices (index, base year 1980 = 100)	100.7	99.5	97.0	100.5	104.1	107.9	110.6
Population (millions of inhabitants)	366	374	382	391	399	408	416
Per capita gross domestic product (index, base year 1980 = 100)	98.4	95.1	90.6	91.9	93.0	94.4	94.7
			Growth rates				
Gross domestic product	0.7	-1.2	-2.6	3.7	3.5	3.7	2.5
Per capita gross domestic product	-1.6	-3.4	-4.7	1.4	1.2	1.5	0.3
Consumer prices[c]	57.5	84.6	130.8	184.8	274.7	64.5	198.3
Terms of trade (goods)	-5.6	-9.2	1.3	6.6	-1.9	-7.8	1.6
Purchasing power of exports of goods	2.1	-7.7	11.0	13.5	-1.7	-11.9	9.0
Current value of exports of goods	7.6	-8.8	0.1	11.7	-6.1	-15.2	14.2
Current value of imports of goods	8.1	-19.8	-28.5	4.1	-0.5	2.8	11.1
			Billions of dollars				
Exports of goods	95.9	87.5	87.5	97.7	91.7	77.7	88.8
Imports of goods	97.8	78.4	56.0	58.3	58.0	59.7	66.3
Trade balance (goods)	-1.9	9.1	31.5	39.4	33.7	18.0	22.5
Net payments of profits and interest	27.2	38.8	34.4	36.2	35.2	31.1	30.1
Balance on current account[d]	-40.4	-41.1	-7.4	-0.1	-3.7	-15.2	-9.3
Net movement of capital[e]	37.6	20.4	3.0	9.3	3.3	8.9	13.2
Global balance[f]	-2.8	-20.8	-4.4	9.2	-0.3	-6.3	3.9
Total gross external debt[g]	287.8	331.0	353.3	365.8	377.6	392.9	410.1

Source: ECLAC, on the basis of official data.

[a] The figures for the gross domestic product and consumer prices refer to the group formed by the countries included in table 2 and table 5 except Cuba, respectively. The data on the external sector relate to the 19 countries mentioned in the table "Latin America: Balance of Payments". [b] Preliminary estimates. [c] Variation from December to December. [d] Includes net unrequited private transfer payments. [e] Includes long and short-term capital, unrequited official transfer payments and errors and omissions. [f] Relates to the variation in international reserves (of reverse sign) plus counterpart items. [g] See notes to table "Latin America: Total disbursed external debt" included in the text.

Figure 1

LATIN AMERICA AND THE CARIBBEAN: MAIN ECONOMIC INDICATORS

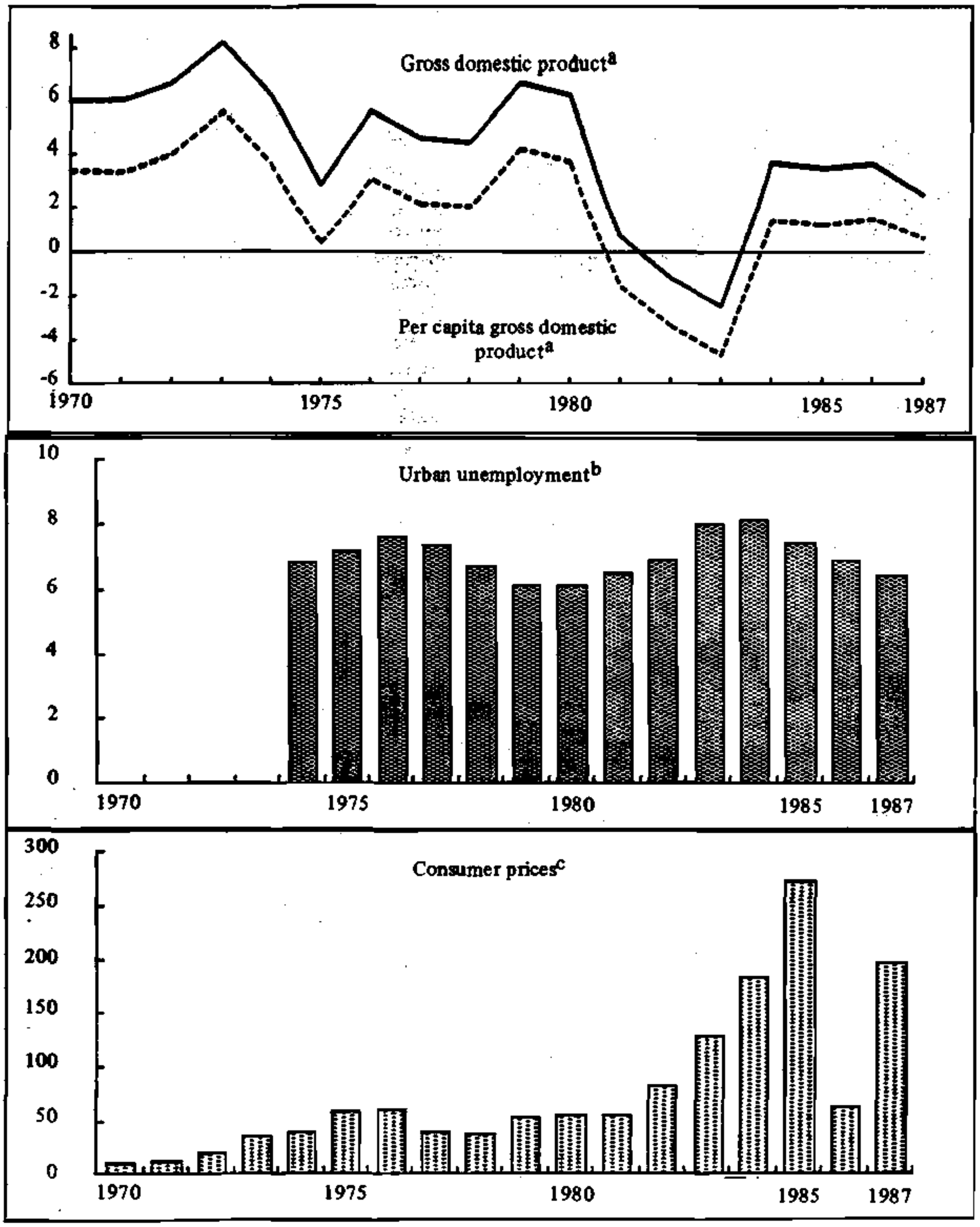
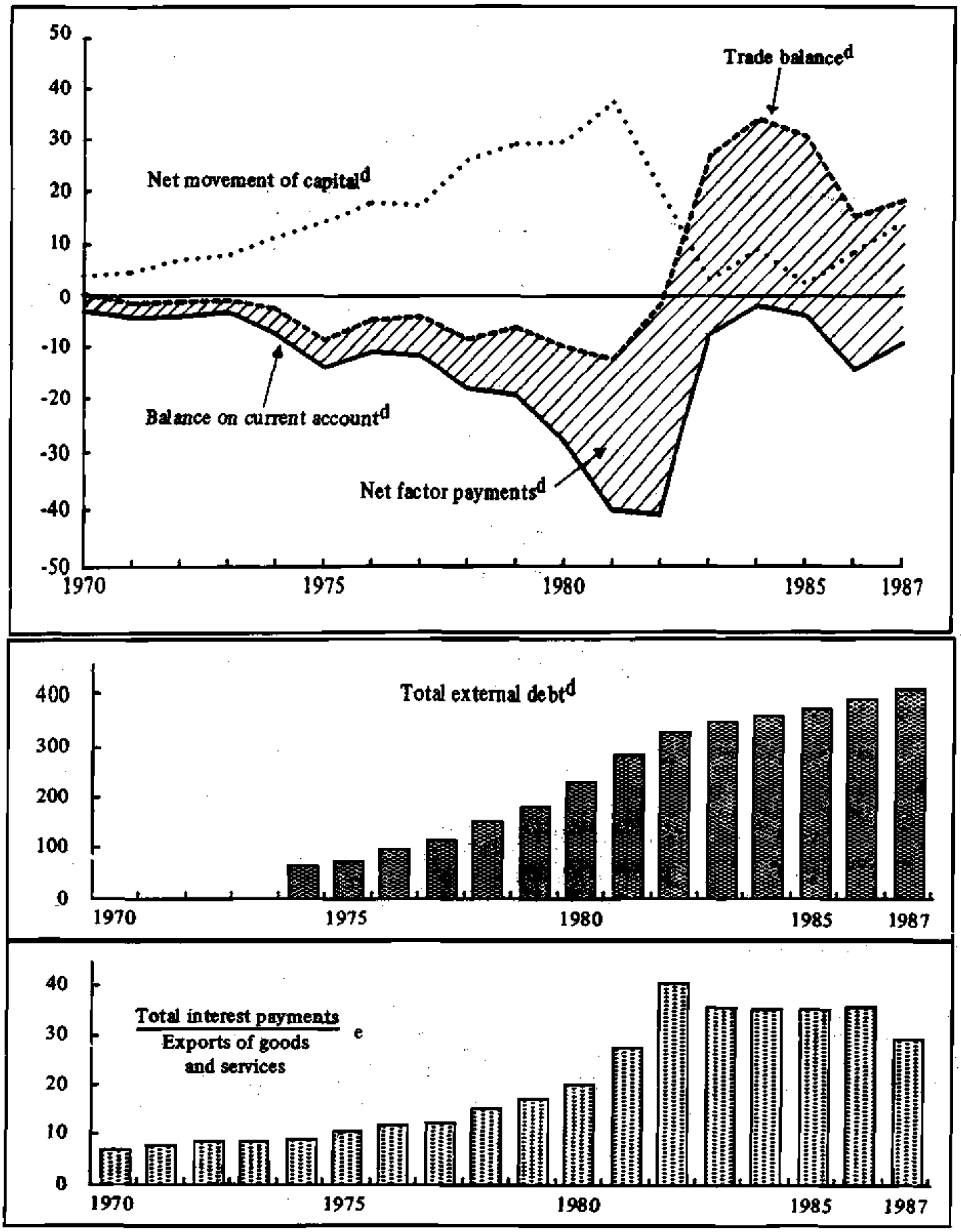


Figure 1 (conclusion)



Source: ECLAC, on the basis of official data.

[a]Annual growth rate. [b]Weighted annual average rate for 18 of the 25 most populous cities of Latin America and the Caribbean. [c]Percentage variation from December to December. [d]Billions of dollars. [e]Percentages.

Paraguay, Costa Rica and the Bahamas, fell in El Salvador, Guatemala and Jamaica, and remained extremely low in Honduras, Dominica and Panama.

The less vigorous economic growth and the acceleration of inflation coincided with an improvement in external accounts. On account of the recovery of the international price of petroleum, as well as of the revival in the prices of minerals and other commodities, together with the rapid growth of exports of manufactured goods in a number of countries —and despite the sharp fall in the international price of coffee— the total value of Latin America's external sales of goods rose by 14%.

This figure was higher than the 11% increase recorded in the value of imports, and accounted for an increase in the trade surplus which rose from US$18 billion in 1986 to 22.3 billion in 1987. This brought an end to the downward trend of the previous two years. Nevertheless, this increase was almost exclusively accounted for by the huge increases in the trade surpluses of Mexico, Brazil and Venezuela.

The increase in the trade surplus together with the slight shrinkage of payments of interest and profits helped to bring down the balance-of-payments current account deficit to US$9.3 billion. However, with the sole exception of the US$15.2 billion deficit recorded in 1986, the 1987 deficit was far higher than those recorded since 1983, and ultimately reflected the limited progress made by the adjustment programmes.

The fall in the current account deficit coincided with an increase in net capital inflow, which had fallen to an exceptionally low level in 1985. The nominal value of loans and net investment received was, however, equal to less than half that entering the region prior to the onset of the debt crisis, and in real terms represented an even lower proportion. Furthermore, in a number of countries the revival in capital inflow was merely an accounting phenomenon, as this item recorded the interest which ceased to be paid on account of the moratoriums declared in respect of external debt servicing.

Nevertheless, on account of the expansion of net external financing and the simultaneous shrinkage in the current account deficit, a sharp turnaround occurred in the global balance-of-payments result. While this had registered a net deficit of US$6.3 billion in 1986, in 1987 it earned a surplus of almost 3.9 billion.

The higher capital inflow and slight shrinkage in payments of interest and profits also accounted for the drop in the transfer of resources abroad, which fell to US$16.8 billion, 24% lower than in 1986 and equivalent to slightly more than half the figure recorded on average during the 1983-1985 period. Nonetheless, the transfer of resources abroad continued to absorb a considerable proportion (16%) of the value of exports of goods and services and continued to represent a fundamental impediment to any return to a dynamic and sustained process of economic growth.

In 1987, for the fourth year running, Latin America's external debt continued its slow growth, and was calculated to have reached US$410 billion at the end of the year. It thus rose by 4.4%, a rather higher rate than that recorded in 1986. However, as the rate of inflation in the industrialized countries was approximately 3%, the actual growth of the debt was slightly more than 1%, as against 2% in the previous year. In practice, however, the actual growth of the debt was even less. This is because the value of the United States currency --in which the external debt is traditionally calculated-- fell sharply against the currencies of the other creditor countries, leading to a statistical increase in the dollar figure for commitments in yens and in the main European currencies.

On account of the slow growth of the debt, the lower level of international rates of interest between the middle of 1986 and the middle of 1987 and of the recovery in the value of Latin America's exports, indicators of the external debt burden improved against 1986, although they still remained at critical levels. Thus, as the rate of growth of the value of exports was treble that of the debt, the regional debt/export coefficient fell from 415% in 1986 to 382% in 1987. The shrinkage was considerably more pronounced in the case of the petroleum-exporting countries (from 423% to 364%) than in the other economies in the region (from 409% to 396%). Nevertheless, the coefficients for both groups remained significantly higher than the already high figures recorded in 1982-1985, and approximately 50% above those generally recorded before the onset of the debt crisis.

In 1987 a significant improvement also occurred in the export/interest ratio. In the region as a whole, the coefficient fell from 37% in 1986 to 30% in 1987. Once again, the fall was more pronounced in the case of the petroleum-exporting countries (from 35% to 26%) than in the other economies in the region (38% to 33%). However, although these coefficients were the lowest recorded since the onset of the debt crisis, they were nevertheless almost double those for 1978-1979. Furthermore, the reversal in the hitherto downward trend in international rates of interest, which occurred in 1987, implies that interest payments are likely to increase in 1988, entailing a rise in the interest/export coefficient.

II. MAIN TRENDS

1. Production and employment

As already mentioned, in 1987 Latin America and the Caribbean increased their gross domestic product by 2.5%, more than one point less than that recorded, on average, during the previous three years. As a result, per capita product rose by barely 0.3% and remained 5.3% lower than in 1980 —the year prior to the crisis— and similar to that already attained in 1978.

The sluggishness which marked the region as a whole was mainly the result of the sharp fall in the rate of economic growth in Brazil —from more than 8% in 1986 to less than 3% in 1987— and in Argentina, where it fell from 6% to 1%. It was, however, also attributable to the slow growth of most of the region's economies, in 12 of which per capita product again fell. The only countries in which economic growth surpassed population growth by an appreciable margin were Antigua and Barbuda, the Dominican Republic, Uruguay, Peru, Chile, Colombia and Jamaica (see tables 2 and 3).

In 1987 this evolution accounted for the continued aggravation of the decline in the standard of living which had affected most of the relatively poorest economies in Latin America and the Caribbean since the beginning of the present decade. Between 1980 and 1987, per capita product fell by 28% in Guyana, 26% in Bolivia, 20% in Guatemala, 17% in Nicaragua, 16% in Haiti and 14% in El Salvador and Honduras. However, during the same period it also fell sharply in countries with considerably higher levels of income and development such as Trinidad and Tobago (-26%), Venezuela (-20%), Argentina (-15%) and Mexico (-9%).

For the second year running Peru achieved one of the highest rates of economic growth in the region. After having risen by 9% in 1986, gross domestic product rose 6.5% in 1987, on account of the extremely vigorous expansion in construction (16%) and manufacturing industry (12%). As in 1986, the increase in economic activity was stimulated by the extremely rapid expansion of private consumption —which rose by more than 10% on account of the rise in real wages, the increase in employment and the revival of inflationary expectations— and by the growth of private investment, particularly in housing. In contrast, a sharp fall occurred in capital formation in the public sector, as a result of which the global investment coefficient remained at the low levels recorded in previous years. In

Table 2

LATIN AMERICA AND THE CARIBBEAN: EVOLUTION OF TOTAL GROSS DOMESTIC PRODUCT

	Annual growth rates						Cumulative variation
	1982	1983	1984	1985	1986	1987[a]	1980-1987[a]
Latin America and the Caribbean (excluding Cuba)	-1.2	-2.6	3.7	3.5	3.7	2.5[b]	10.7
Oil-exporting countries	-0.6	-5.0	2.6	2.0	-1.1	1.6	5.2
Bolivia	-4.4	-6.5	-0.3	-0.1	-2.9	2.2	-10.9
Ecuador	1.1	-1.2	4.8	4.9	3.0	-3.5	13.2
Mexico	-0.6	-4.2	3.6	2.6	-4.0	1.4	7.2
Peru	0.3	-11.8	4.7	2.3	9.0	6.5	14.8
Trinidad and Tobago	0.3	-9.7	-6.6	-3.1	-1.1	-2.3	-20.9
Venezuela	-1.2	-5.5	-1.5	-0.7	5.4	1.7	-3.1
Non-oil-exporting countries (excluding Cuba)	-1.6	-0.9	4.4	4.5	6.8	3.1[b]	14.0
Antigua and Barbuda	-1.4	6.4	6.6	6.6	8.0	8.7	45.5
Argentina	-5.3	2.4	2.3	-4.7	6.0	1.0	-6.0
Barbados	-5.2	0.4	3.6	0.9	5.6	1.0	4.1
Belize	-4.9	1.5	1.3	2.3	1.5	...	2.1[c]
Brazil	0.9	-2.4	5.7	8.4	8.1	2.9	21.1
Colombia	1.0	1.9	3.8	3.8	5.9	5.6	26.8
Costa Rica	-7.3	2.7	7.9	0.9	4.4	3.0	8.7
Cuba[d]	3.9	4.9	7.2	4.6	1.4	-3.5	38.3
Chile	-13.1	-0.5	6.0	2.4	5.4	5.7	10.1
Dominica	2.4	2.5	5.8	1.2	3.6	...	35.5[c]
El Salvador	-5.4	0.6	2.3	1.8	0.8	2.6	-6.4
Grenada	5.4	1.2	5.0	5.4	5.5	...	27.1[c]
Guatemala	-3.4	-2.7	0.0	-0.6	0.2	2.5	-3.1
Guyana	-10.8	-10.3	2.1	1.0	0.2	0.5	-17.4
Haiti	-3.5	0.6	0.4	0.5	0.6	-0.6	-4.7
Honduras	-1.8	-0.2	2.3	1.8	1.8	4.2	9.4
Jamaica	-0.2	1.2	-0.0	-5.4	2.1	5.4	5.3
Nicaragua	-0.8	4.6	-1.6	-4.1	-0.6	1.7	4.4
Panama	4.9	-0.1	-0.4	4.8	3.1	2.7	20.4
Paraguay	-0.8	-3.0	3.2	4.0	-0.3	4.2	16.9
St. Kitts and Nevis	6.1	-1.1	8.2	4.6	4.6	...	30.6[c]
St. Lucia	3.0	4.0	5.1	5.7	5.8	...	27.6[c]
St. Vincent and the Grenadines	5.8	5.0	5.8	4.1	2.4	...	34.7[c]
Suriname	-4.0	-3.4	-1.9	0.9	0.1	...	-1.4[c]
Dominican Republic	1.3	5.0	0.3	-2.3	1.9	7.0	18.1
Uruguay	-10.1	-6.1	-1.2	-0.2	6.6	5.0	-5.4

Source: ECLAC, on the basis of official data.
[a] Preliminary estimates, subject to revision. [b] Estimated only on the basis of those countries which submitted information. [c] Refers to the period 1980-1986. [d] Refers to total social product.

Table 3

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

	Annual growth rates						Cumulative variation
	1982	1983	1984	1985	1986	1987[a]	1980-1987[a]
Latin America and the Caribbean (excluding Cuba)	-3.4	-4.7	1.4	1.2	1.5	0.3[b]	-5.3
Oil-exporting countries	-3.1	-7.4	0.1	-0.5	-3.5	-0.8	-11.6
Bolivia	-6.9	-9.0	-3.0	-2.8	-5.6	-0.6	-26.3
Ecuador	-1.8	-4.0	1.8	2.0	0.2	-6.2	-7.3
Mexico	-3.0	-6.5	1.2	0.2	-6.1	-0.8	-9.1
Peru	-2.3	-14.1	2.1	-0.3	6.2	3.8	-4.2
Trinidad and Tobago	-0.5	-10.6	-7.6	-4.2	-2.1	-3.5	-26.1
Venezuela	-4.0	-8.1	-4.2	-3.4	2.6	-1.0	-20.4
Non-oil-exporting countries (excluding Cuba)	-3.6	-3.0	2.3	2.3	4.6	1.0[b]	-1.5
Antigua and Barbuda	-2.7	5.0	5.3	6.6	6.7	7.4	33.1
Argentina	-6.7	0.9	0.9	-5.9	4.6	-0.3	-14.7
Barbados	-5.9	-0.8	2.8	0.1	4.9	-0.1	-2.1
Belize	-6.8	0.2	-0.7	1.6	-0.4	...	-8.0[c]
Brazil	-1.4	-4.5	3.4	6.0	5.8	0.7	3.8
Colombia	-1.1	-0.3	1.6	1.6	3.7	3.4	9.2
Costa Rica	-10.0	-0.3	4.8	-1.9	1.6	0.2	-11.0
Cuba[d]	3.3	4.3	6.6	3.8	0.3	-3.3	31.8
Chile	-14.5	-2.2	4.3	0.7	3.7	3.6	-2.4
Dominica	1.1	1.2	4.5	-0.1	2.3	...	25.2[c]
El Salvador	-6.5	-0.3	1.3	0.5	-0.8	0.8	-14.2
Grenada	4.4	0.3	3.2	4.4	3.7	...	18.3[c]
Guatemala	-6.1	-5.4	-2.8	-3.3	-2.7	-0.4	-20.5
Guyana	-12.6	-12.0	0.2	-0.9	-1.6	-1.2	-27.7
Haiti	-5.2	-1.2	-1.4	-1.3	-1.3	-2.4	-16.0
Honduras	-5.3	-3.7	-1.3	-1.6	-1.5	0.9	-14.4
Jamaica	-1.5	-0.2	-1.4	-6.4	0.6	3.9	-4.3
Nicaragua	-4.0	1.2	-4.8	-7.3	-3.9	-1.7	-17.4
Panama	2.7	-2.2	-2.6	2.6	0.9	0.6	3.6
Paraguay	-4.0	-6.0	0.0	0.9	-3.3	1.1	-6.2
St. Kitts and Nevis	6.1	-1.1	5.8	4.6	4.6	...	27.7[c]
St. Lucia	2.2	2.4	4.3	4.1	4.2	...	17.8[c]
St. Vincent and the Grenadines	4.8	4.0	4.8	3.1	1.4	...	27.0[c]
Suriname	-4.0	-3.4	-2.2	0.6	-0.5	...	-2.3[c]
Dominican Republic	-1.1	2.5	-2.0	-4.6	-0.5	4.6	0.2
Uruguay	-10.7	-6.7	-1.9	-0.9	5.9	4.2	-10.0

Source: ECLAC, on the basis of official data.
[a] Preliminary estimates, subject to revision. [b] Estimated only on the basis of those countries which submitted information. [c] Refers to the period 1980-1986. [d] Refers to total social product.

addition, for the second year running, the rapid recovery of economic activity considerably sharpened demand for imports, which was also stimulated by the low real rate of exchange. On account of the sharp increase in external purchases and the scant increase in the value of exports, the trade deficit increased considerably and international reserves again fell. The rise in domestic demand together with the exhaustion of the margins of underutilized capacity in a growing number of branches of industry also contributed towards the acceleration of inflation, which attained an annual rate of 115% at the end of the year. In view of this, and in order to lessen the external disequilibrium, the government increased the rates of exchange of exports and imports by between 20 and 80% at the middle of December.

The increase in domestic demand --which in this case was headed by an extraordinary expansion of public investment-- was also the main cause of the rapid economic growth of the Dominican Republic. Most of the 7% increase in gross domestic product was accounted for by the direct and indirect consequences of the 45% expansion of the construction sector. In turn, this was mainly the result of the twofold increase in government investment, 80% of which was in public works and in hydroelectric projects. However, as in Peru, the rapid growth of economic activity sharpened the external disequilibrium and reinforced inflationary pressure, as a result of which the government sharply devalued the peso towards the end of the year.

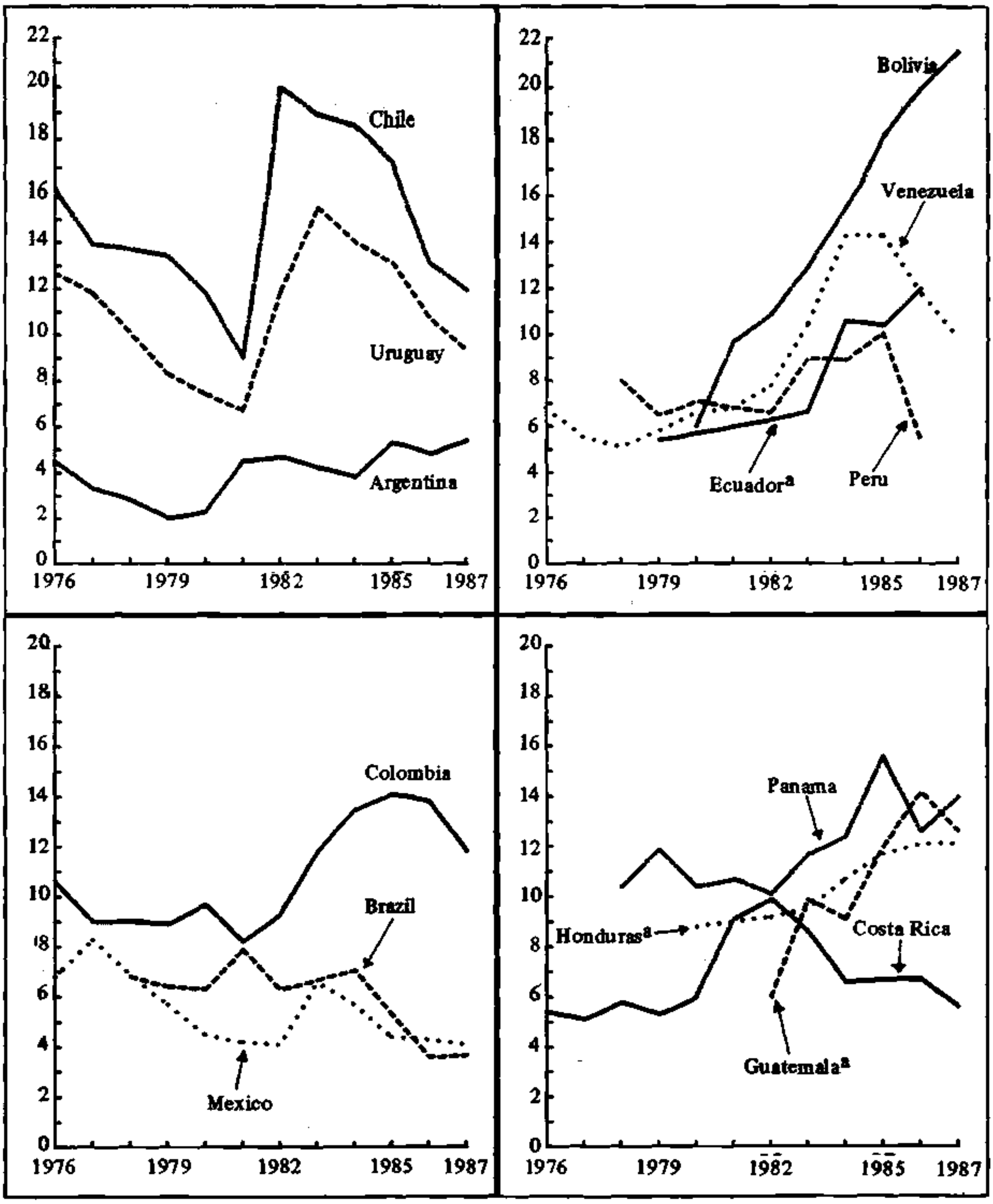
Gross domestic product increased at satisfactory rates for the second year running in Colombia, Chile and Uruguay, where economic expansion was also accompanied by the maintenance of a satisfactory external equilibrium and by relatively moderate rates of inflation in the first two countries and by a high but declining rate in Uruguay.

The economic growth achieved in Colombia was particularly significant, since although it was somewhat lower than that recorded the previous year, it was achieved in a year when the international price of coffee fell by more than 40%. The expansion of economic activity was nourished by the growth of industry, construction, agriculture and trade as well as by the continued vigorous growth of mining, which expanded by 14%, after having grown at an average rate of over 20% during the four previous years. The dynamic evolution of the mining sector --mainly based on the huge growth of the extraction of petroleum and gas as well as of gold, coal and nickel-- made it possible to offset most of the shrinkage in the value of coffee exports and thus make a decisive contribution to maintaining the external equilibrium. On account of the growth of economic activity, the rate of open unemployment in the main cities continued to fall, and from the unprecedented level of almost 15% recorded towards the middle of 1986, the figure subsequently fell continually and reached 10% in December (see figures 2 and 3). After having increased by 5.7% in 1986, gross domestic product increased by 5.4% in 1987 in Chile. This marked the culmination of the recovery of economic activity which had begun at the end of 1983, and for the first time it surpassed the level it had attained in 1981, before the debt crisis broke out. Growth was particularly vigorous during the first quarter, when global production rose by 8%, domestic demand increased even more rapidly and the value of imports was 40% higher than during the same period the previous year. The sharp acceleration of domestic expenditure --largely stimulated by the excessive growth of means of payment during the closing months of 1986-- and the implicit risk which the

Figure 2

LATIN AMERICA AND THE CARIBBEAN (SELECTED COUNTRIES): EVOLUTION OF URBAN UNEMPLOYMENT

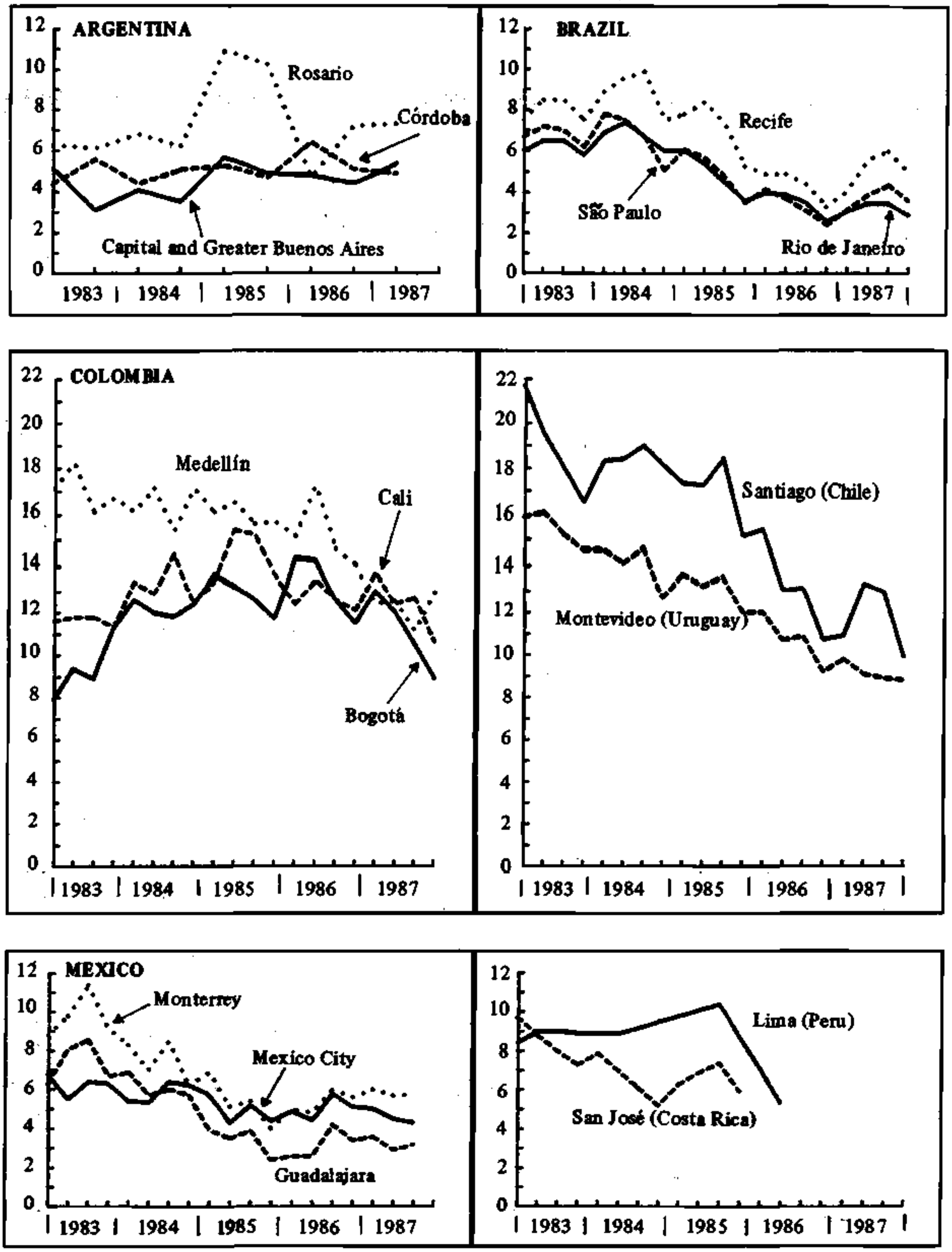
(Annual average rates)



Source: ECLAC, on the basis of official data.
[a]Estimates for whole country.

Figure 3

LATIN AMERICA AND THE CARIBBEAN: EVOLUTION OF UNEMPLOYMENT IN SOME PRINCIPAL CITIES



Source: ECLAC, on the basis of official data.

huge increase in imports represented for the maintenance of the external equilibrium achieved during the previous two years led the authorities to adopt a stricter monetary policy and to raise interest rates in March. Largely on account of this "miniadjustment" policy, the growth of economic activity fell off as of the second quarter. In spite of this, imports continued to expand rapidly. However, the intense expansion of industrial exports together with the unexpected and considerable recovery in the price of copper made it possible to offset the increase in external purchases and to surpass the trade surplus earned in 1986. As in the previous two years, the growth of overall economic activity went hand in hand with a considerable expansion (16%) of fixed-capital investment and an increase in productive employment. However, this latter increase was only partly reflected in the fall in the average annual rate of unemployment, since at the same time the number of persons registered in the government's emergency employment programmes was cut by almost half.

In 1987, the recovery which had begun to take place in the Uruguayan economy during the last quarter of 1985 also continued, albeit at a slower rate. After having risen by 6.6% the previous year, gross domestic product increased by 5%. As in 1986, the most rapid expansion occurred in manufacturing industry, which once again grew by approximately 11%. Simultaneously, a revival took place in construction —which had fallen by almost 60% over the five previous years— and the decline in the rate of unemployment in Montevideo continued, and, after attaining a 16% maximum at the beginning of 1983, the figure subsequently fell regularly to an average of slightly more than 9% in the last quarter of 1987 (see figure 2).

A marked acceleration took place in economic growth in Jamaica. Gross domestic product —which in 1986 had already begun to recover from the previous year's shrinkage— increased by 5.4% in 1987. The growth of manufacturing industry, mining and electricity consumption, which rose by 11%, 15% and 11% respectively over the first nine months of the year was particularly pronounced. Simultaneously, a marked expansion took place in the production of bananas and non-traditional crops. This, together with the increase of approximately 12% in bauxite production led to a 15% expansion in the value of exports. The balance of payments and economic activity were also strengthened by the increase in the number of tourists, as the number of visitors for the first time exceeded one million.

A relatively satisfactory expansion of economic activity also took place in Paraguay, where gross domestic product rose by slightly more than 4%, after having fallen slightly in 1986. This reflected the recovery of agricultural production —which had been affected by a severe drought the previous year and which in 1987 benefited from the rise in the international prices of soya and cotton— and the approximately 5% growth recorded by manufacturing industry.

In contrast, the rate of economic growth fell sharply in Brazil and Argentina, where in 1986 the rapid expansion of activity had coincided with the worsening of external trade and the accumulation of strong inflationary pressure.

In Brazil, the overall rate of growth fell from slightly more than 8% in 1986 to approximately 3% in 1987, in spite of the simultaneous sharp turnaround in the agricultural sector, which rose by 14% after having shrunk by 8% the previous year. The loss of dynamism in the economy was thus reflected in the collapse which affected urban activities; manufacturing grew by barely 1% after having expanded by more than 11% in 1986, and in construction the 18% rise recorded in 1986 was followed by a fall of almost 4% in 1987. The end to the expansionary trend of the economy principally constituted a consequence of both the loss of control over inflation which began to be felt in 1986 and which became extremely marked during the first half of 1987, and of the policies applied in order to control inflation and to reverse the sudden deterioration in the external accounts. The sharp fall in real wages which resulted from the acceleration of inflation, the postponement and reduction of public investment and the unfavourable change in the expectations of economic agents helped to depress domestic demand, a decline which was only partly offset by the considerable expansion of exports.

Economic activity also evolved rather less vigorously in Argentina in 1987. After having risen by 6% the previous year and thereby made up for the shrinkage which occurred in 1985, gross domestic product increased by barely 1%. The drop in the rate of growth of manufacturing industry, which entered a period of complete stagnation after having expanded by almost 13% in 1986, was particularly marked. Economic progress was also restricted by the fall in agricultural production caused by adverse climatic conditions and by the dampening effects on demand for everyday consumer goods of the deterioration in real wages resulting from the sharp acceleration of inflation.

In spite of the revival in the international price of petroleum and for extremely diverse reasons, economic growth was lower than population growth in Venezuela, Mexico, Ecuador and Bolivia, those Latin American countries which are most heavily dependent on exports of hydrocarbons.

In Venezuela, economic growth fell from 5.4% in 1986 to barely 1.7%, and per capita product consequently fell for the ninth time in the last 10 years. The main cause of the shrinkage in the rate of growth of the economy was the cutback in petroleum extraction and refining in accordance with the decision taken by the Organization of Petroleum Exporting Countries (OPEC). For this reason, the product of the petroleum industry fell by 4.8%, completely cancelling out the similar rise recorded the previous year. In contrast, in the case of the majority of sectors serving the domestic market —with the exception of construction, which grew by 2% as against 16%— production increased at similar rates to those recorded in 1986. Thus, agricultural production rose satisfactorily for the third year running, under the impetus of the preferential credit policy and of the readjustments to the prices paid to producers, while industry and mining grew by almost 4 and 5% respectively. On account of the increased level of activity in these sectors, the rate of unemployment again fell to less than 10% during the first half of the year for the first time since 1982.

The growth of economic activity was extremely weak in Mexico, where gross domestic product rose by barely 1.4%, after having fallen by 4% in 1986. This inadequate recovery of overall production took place in spite of the spectacular turnaround in the external accounts. As a result of the rise in the international price of petroleum, and above all, of the extremely rapid growth of exports of manufactured goods, the value of external sales of goods rose by 31% and the trade surplus increased from US$4.6 to US$9 billion. Disbursement of the loans agreed upon with private international banks the previous year and the repatriation of Mexican capital also contributed to increasing international reserves, which in October attained the unprecedented level of approximately US$15 billion. However, these changes failed to significantly increase economic activity, which had begun to show slight signs of revival towards the middle of the year and whose progress was held back by the sluggishness of domestic demand. In turn, the evolution of domestic demand was affected both by the further and considerable real drop in the minimum wage and by the cautious fiscal and monetary policy adopted by the government with a view to avoiding an even greater rise of inflation.

Economic growth was also slow in Bolivia. Nevertheless, the almost 2% increase in gross domestic product brought to an end its uninterrupted decline since 1982. This turnaround was influenced by the recovery of approximately 8% and 6% which took place in manufacturing industry and in construction, largely as a result of the greater certainty which was one consequence of the sharp reduction in inflation. However, on account of the persistent crisis in mining —which was reflected in the closure of a considerable number of deposits— and of the continuation of the reduction in the size of the public sector which the government had begun the previous year in order to eliminate the fiscal deficit, the rate of unemployment again rose and reached more than 21% in the first four months of the year (see table 4).

In Ecuador, the 3.5% decline in overall economic activity was mainly attributable to the consequences of the earthquakes which struck the northwestern region of the country at the beginning of March. It had previously been estimated that domestic product would grow by approximately 3% and that the recovery apparent in the international price of petroleum would help to lighten the heavy balance-of-payments burden and to strengthen public finances. However, these expectations were radically altered by the earthquakes, floods and frosts which affected other areas of the country. In addition to destroying housing, roads and other infrastructure works, the earthquakes caused a 33 kilometre breach in the oil pipeline through which crude oil flowed from the deposits in the eastern region to the refinery at Esmeraldas on the Pacific coast and destroyed a similar length of the gas pipeline linking the same region with Quito. As a result, it was necessary to completely suspend production of hydrocarbons until May and to construct a link between the Ecuadorian fields and the Colombian trans-Andean oil pipeline running to Tumaco. Thanks to this linkup, it was possible to transport between 30 000 and 50 000 barrels of petroleum per day through Colombian territory, thereby partly satisfying domestic demand for by-products. Nevertheless, it has been estimated that in 1987 production of hydrocarbons fell by approximately 40%, a loss which it was not possible to offset either by the considerable progress in the shrimp catch or by the increases of approximately 1% and 2.5% in manufacturing industry —excluding petroleum refining— and construction.

Economic activity also declined in Cuba. The tightening of the external financial and trade restrictions which the country had to face led the authorities to adopt drastic measures to reduce imports, principally those paid for in freely convertible currencies. On account of this policy and of

Table 4

LATIN AMERICA AND THE CARIBBEAN: URBAN UNEMPLOYMENT

(Average annual rates)

Country	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987[a]
Argentina[b]	2.8	2.0	2.3	4.5	4.7	4.2	3.8	5.3	4.6	5.4
Bolivia[c]	...	...	5.8	9.7	10.9	13.0	15.5	18.2	20.0	21.5
Brazil[d]	6.8	6.4	6.3	7.9	6.3	6.7	7.1	5.3	3.6	3.7
Colombia[e]	9.0	8.9	9.7	8.2	9.3	11.8	13.5	14.1	13.8	11.7
Costa Rica[f]	5.8	5.3	6.0	9.1	9.9	8.6	6.6	6.7	6.7	5.6
Chile[g]	13.7	13.4	11.8	9.0	20.0	18.9	18.5	17.2	13.1	11.9
Ecuador[h]	...	5.4	5.7	6.0	6.3	6.7	10.6	10.4	12.0	...
Guatemala[i]	...	...	...	...	6.0	9.9	9.1	12.0	14.2	12.6
Honduras[j]	...	...	8.8	9.0	9.2	9.5	10.7	11.7	12.1	12.1
Jamaica[k]	14.5	16.2	17.2	14.5	19.2	17.5	15.9	16.9	...	...
Mexico[l]	6.9	5.7	4.5	4.2	4.1	6.6	5.7	4.4	4.3	4.1
Panama[m]	10.4	11.9	10.4	10.7	10.1	11.7	12.4	15.6	12.6	14.0
Paraguay[n]	4.1	5.9	3.9	2.2	5.6	8.4	7.4	5.2	6.1	10.0
Peru[o]	8.0	6.5	7.1	6.8	6.6	9.0	8.9	10.1	5.4	...
Trinidad and Tobago[p]	11.8	11.0	9.9	10.4	9.9	11.1	13.4	15.7	16.6	...
Uruguay[q]	10.1	8.3	7.4	6.7	11.9	15.5	14.0	13.1	10.7	9.3
Venezuela[r]	5.1	5.8	6.6	6.8	7.8	10.5	14.3	14.3	11.8	9.8

Source: ECLAC and PREALC, on the basis of official data.

[a] Preliminary figures. [b] Federal capital and Greater Buenos Aires. Average for April-October.1987, April. [c] Whole country, official estimates, 1987: estimate for first four months. [d] Metropolitan Areas of Rio de Janeiro, São Paulo, Belo Horizonte, Porto Alegre, Salvador and Recife: average for 12 months; 1980, average June-December; 1986 and 1987, average January-September. [e] Bogotá, Barranquilla, Medellín and Cali: average for March, June, September and December; 1985: average for March, July, September and December; 1986, average for April, June, September and December; 1987, average for March, June, September and December. [f] National urban. Average for March, July and November; 1984, average March and November; 1986, average March and July. As from 1987, figures are not strictly comparable due to changes in the methodology. 1987, July. [g] Greater Santiago. Average for four quarters. As from August 1983 data relate to the Metropolitan Region of Santiago. Since October 1985 the figures are not strictly comparable with the preceding ones due to changes in the size of the sample. [h] Whole country. Official estimates. [i] Whole country, official estimates (SEGEPLAN March 1987). [j] Official estimates, 1986: National Urban Labour Force Survey; 1987, March, Central District. [k] National average April and October. [l] Metropolitan areas of Mexico City, Guadalajara and Monterrey, average for twelve month. As from 1983, national urban average for four quarters. 1987, January-September. [m] Metropolitan Region, August of each year; 1980: data from population census of February that year; 1981, MIPPE survey. [n] Covers Asunción, Fernando de la Mora, Lambaré and urban areas of Luque and San Fernando. [o] Metropolitan Lima. [p] Whole country. Average for two half-years. 1987, average July-December. 1980, average August-December. 1986, average January-June. [q] Montevideo. average of the two half-years. As from 1981, average of the four quarters. [r] Country-wide urban rate, average for the two half-years, 1987: first half of year.

the severe drought which affected the country, social product fell by 3.5%. Simultaneously a sharp downturn occurred for the second year running in net investment and final consumption fell slightly.

In other countries of the Caribbean, economic evolution was extremely irregular. Thus, while in Antigua and Barbuda gross domestic product rose vigorously for the fifth year running, in Trinidad and Tobago, Haiti and Guyana overall economic activity declined or stagnated, as a result of which per capita product once again fell in the three countries (see tables 2 and 3). The increase in tourism, particularly from European countries, represented a stimulus to the progress of the Caribbean economies. However, in a number of them its impact was offset by unfavourable climatic conditions such as drought and hurricanes —which particularly affected agricultural production— and by the reduction in the United States sugar quota.

Although in 1987 economic progress was greater than in the previous year in Central America, per capita product again fell in Guatemala and Nicaragua and remained stagnant in Costa Rica, Panama and El Salvador. This disappointing performance was once again influenced by the uncertainty arising out of the serious social and political tension in most of the countries in the region and the weakening of intra-regional economic relations, which led to a further shrinkage of intra-Central American trade. The harmful repercussions of these two factors were compounded in 1987 by the marked deterioration in the terms of trade of all the countries of the isthmus, mainly on account of the fall in international price of coffee and the rise in the price of petroleum.

2. Prices and wages

A strong revival took place in inflation in Latin America in 1987: the average rate of consumer price increases weighted by the population, which had fallen from 275% in 1985 to 65% in 1986, rose to almost 200% in 1987.

The upturn in inflation was also fairly widespread. Consumer prices rose more rapidly than during the previous year in 16 out of the 27 economies for which data are available and the rise was considerable in most of them (see table 5). In particular, inflation reached extraordinary levels in Nicaragua, which in 1986 had already experienced the fastest price rises in the region —and also in Brazil, Argentina and Peru— where, on the contrary, inflation had fallen sharply the previous year. Simultaneously, inflation worsened for the third year running in Mexico and rose sharply, although from much lower levels, in Venezuela, as a result of which price rises in both countries reached all-time highs. Inflation remained high in Uruguay (although a slight but regular downward trend could be observed), rose slightly in Ecuador, Colombia, Chile, Barbados and Trinidad and Tobago and rather more sharply in the Dominican Republic. In contrast, inflation fell considerably for the second year running in Bolivia —which in 1985 had experienced the first case of hyperinflation in the history of Latin America—, remained stable in Paraguay, Costa Rica and the Bahamas, fell for the second year running in El Salvador and Guatemala and for the third consecutive year in Jamaica while it remained extremely low in Honduras, Dominica and Panama.

Table 5

LATIN AMERICA AND THE CARIBBEAN: EVOLUTION OF CONSUMER PRICES

(Variations from December to December)

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987[a]
Latin America and the Caribbean	**40.8**	**38.9**	**54.0**	**56.0**	**57.5**	**84.6**	**130.8**	**184.8**	**274.7**	**64.5**	**198.3**
Argentina	160.4	169.8	139.7	87.6	131.2	209.7	433.7	688.0	385.4	81.9	174.8
Bahamas	4.6	6.6	11.5	12.1	9.0	4.5	3.5	4.5	4.8	6.8	6.1[b]
Barbados	9.9	11.3	16.8	16.1	12.3	6.9	5.5	5.1	2.4	-0.5	6.1[c]
Bolivia	10.5	13.5	45.5	23.9	25.2	296.5	328.5	2 177.2	8 170.5	66.0	10.7
Brazil[d]	43.1	38.1	76.0	95.3	91.2	97.9	179.2	203.3	228.0	58.4	366.0
Colombia[e]	29.3	17.8	29.8	26.5	27.5	24.1	16.5	18.3	22.3	21.0	24.0
Costa Rica	5.3	8.1	13.2	17.8	65.1	81.7	10.7	17.3	11.1	15.4	16.4
Chile	63.5	30.3	38.9	31.2	9.5	20.7	23.6	23.0	26.4	17.4	21.5
Dominica	8.5	9.3	34.3	...	...	...	2.6	2.9	4.0	3.2	2.8[f]
Ecuador[g]	9.8	11.8	9.0	14.5	17.9	24.3	52.5	25.1	24.4	27.3	32.5
El Salvador	14.9	14.6	14.8	18.6	11.6	13.8	15.5	9.8	30.8	30.3	20.1
Grenada	...	...	...	17.6	...	...	...	...	1.8	-0.8	-1.2[h]
Guatemala	7.4	9.1	13.7	9.1	8.7	-2.0	15.4	5.2	31.5	25.7	8.6
Guyana	9.0	20.0	19.4	8.5	29.0	19.3	9.6	...	...	...	...
Haiti	5.5	5.5	15.4	15.6	16.4	4.9	11.2	5.4	17.4	-11.4	-10.2[f]
Honduras	7.7	5.4	22.5	11.5	9.2	8.8	7.2	3.7	4.2	3.2	1.8[f]
Jamaica	14.1	49.4	19.8	28.6	4.8	7.0	16.7	31.2	23.9	10.4	6.9
Mexico	20.7	16.2	20.0	29.8	28.7	98.8	80.8	59.2	63.7	105.7	159.2
Nicaragua	10.2	4.3	70.3	24.8	23.2	22.2	32.9	50.2	334.3	747.4	1 338.9
Panama	4.8	5.0	10.0	14.4	4.8	3.7	2.0	0.9	0.4	0.4	0.9
Paraguay	9.4	16.8	35.7	8.9	15.0	4.2	14.1	29.8	23.1	24.1	23.5[f]
Peru	32.4	73.7	66.7	59.7	72.7	72.9	125.1	111.5	158.3	62.9	114.5
Dominican Republic[i]	8.5	1.8	25.6	4.6	7.3	7.2	7.7	38.1	28.4	6.5	25.0
St. Lucia	8.8	8.6	15.4	21.1	9.5	0.6	1.3	1.2	1.0	4.5	9.4[j]
Suriname	4.2	10.9	15.6	5.7	9.0	1.0	4.2	4.5	15.6	30.2	...
Trinidad and Tobago	11.4	8.8	19.5	16.6	11.6	10.8	15.4	14.1	6.6	9.9	11.5
Uruguay	57.3	46.0	83.1	42.8	29.4	20.5	51.5	66.1	83.0	76.4	57.3
Venezuela	8.1	7.1	20.5	19.6	11.0	7.3	7.0	18.3	5.7	12.3	40.3

Source: International Monetary Fund, *International Financial Statistics*, November 1987, and information supplied by the countries.

[a] Preliminary figures. [b] Corresponds to variation between April 1986 and April 1987. [c] Corresponds to variation between November 1986 and November 1987. [d] Up to 1979, corresponds to variation in the Consumer Price Index for the city of Rio de Janeiro; from 1980 onwards corresponds to variations in the nation-wide index. [e] Up to 1980 corresponds to variation in the Consumer Price Index for manual workers; from 1981 onwards, corresponds to the variation in the nation-wide index for both manual and non-manual workers. [f] Corresponds to variation between October 1986 and October 1987. [g] Up to 1982, corresponds to the variation in the Consumer Price Index for the city of Quito; from 1983 onwards, corresponds to the variation in the nation-wide index. [h] Corresponds to variation between August 1986 and August 1987. [i] Up to 1982, corresponds to the variation in the Consumer Price Index for the city of Santo Domingo; from 1983 onwards, corresponds to variation in the nation-wide index. [j] Corresponds to variation between September 1986 and September 1987.

As in the two previous years, inflation rose sharply in Nicaragua. After having risen from 50% in 1984 to 343% in 1985 and 747% in 1986, consumer prices rose by almost 1 340% in 1987. The aggravation of inflation was attributable to the considerable rises in the rate of exchange, which, together with the new import taxes led to a sharp increase in the price of imported goods, as well as to the huge and repeated readjustments to the price of petrol —which rose from 180 córdobas per gallon in June to 4 000 in November— as well as to the rapid expansion of issue required to finance the public sector deficit. Reduction of this deficit was hampered, among other things, by the inflexibility of fiscal expenditure on account of the needs of defence.

A sharp upturn in inflation also occurred in Brazil, where the annual rate of consumer price increases rose sixfold, from 59% in 1986 to 366% in 1987, the highest level ever recorded in the country. The rise was particularly marked during the first half of the year, when monthly price variations rose almost uninterruptedly, and culminated with a 26% rise in June. This trend came to an end during the third quarter —when consumer prices rose at an average monthly rate of approximately 5%— although it revived in the closing months of the year (see figure 4).

The upturn in inflation during the first half of the year was due to the impossibility of holding back any longer the repercussions of the huge expansion in demand generated by the Plan Cruzado in 1986. Rather than attempting to contain domestic expenditure, the price controls introduced by the Plan were accompanied by a strong stimulus thereof, which helped to bring about relatively widespread supply shortages and gave producers strong incentives to bypass official price controls. As a result, the suppressed inflation which existed up to November 1986 suddenly became open inflation in December, and above all, in the opening months of 1987. The sharp rise in inflation obliged the authorities to readjust interest rates, the rate of exchange and rates for public services and to reintroduce the indexation mechanisms which the Plan Cruzado had eliminated. For the first time this also sparked off a mechanism of automatic wage readjustments, which, in accordance with the Plan, had to be awarded whenever accumulated inflation attained 20%.

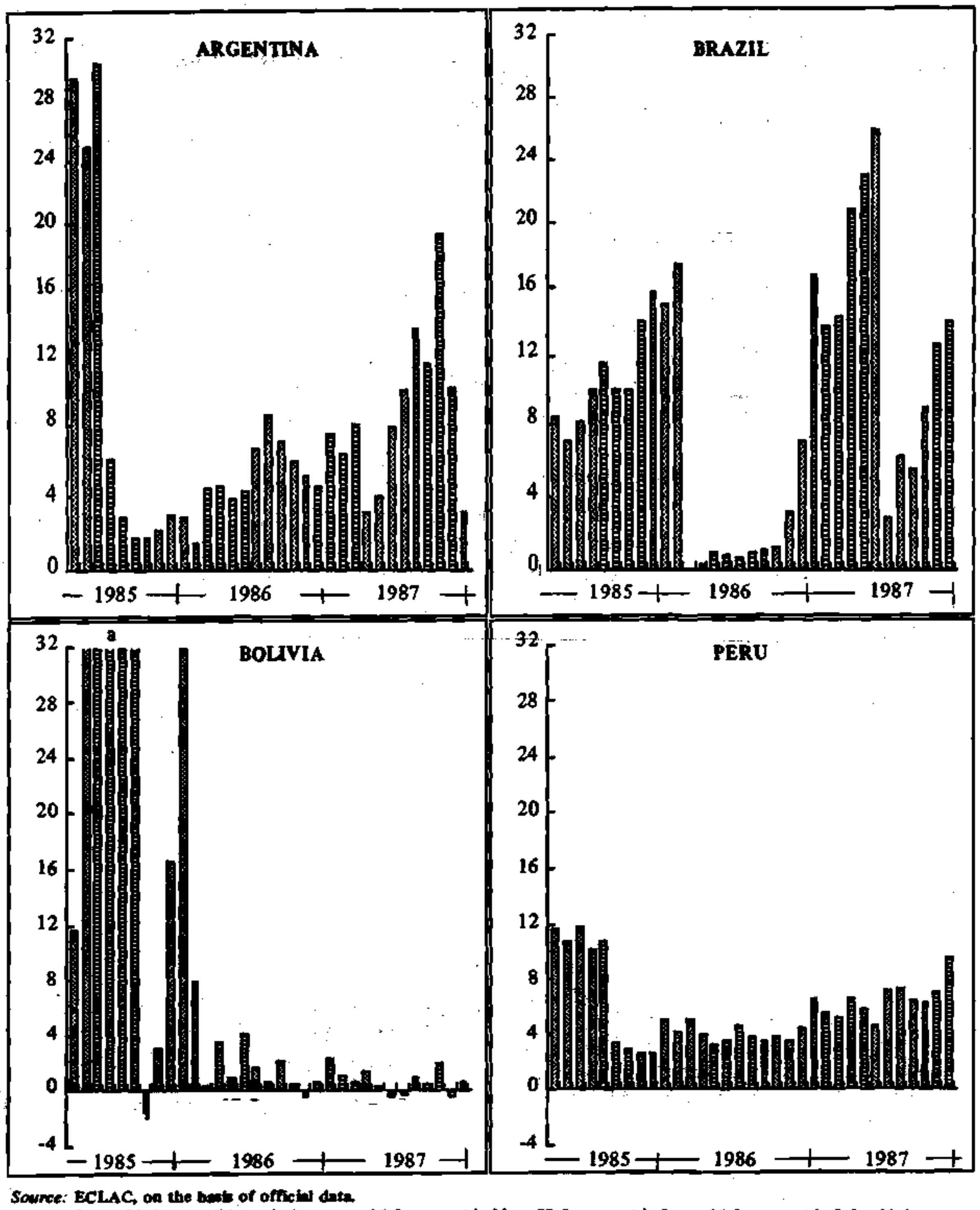
On account of the loss of control over inflation as well as of the serious and simultaneous deterioration in the external accounts, the government gave up the Plan Cruzado in February and freed almost all prices in order to absorb excess demand and correct the serious distortions within the price system. However, the revival of inflationary expectations resulting from these measures together with the effects of the proliferation of indexation mechanisms carried the monthly rate of consumer price increases to 23% in the second quarter, a far higher figure than that recorded before the application of the Plan Cruzado in March 1986.

Consequently, towards the middle of June a new programme of shock treatment was announced in order to achieve stabilization, involving a combination of a price freeze with initial adjustments to the exchange

Figure 4

MONTHLY VARIATIONS IN THE CONSUMER PRICE INDEX IN ARGENTINA, BOLIVIA, BRAZIL AND PERU

(Percentages)



Source: ECLAC, on the basis of official data.

[a] In 1985 the monthly variations were 35.7 per cent in May, 78.5 per cent in June, 66.3 per cent in July, 66.5 per cent in August and 56.5 per cent in September.

rate, the prices of public sector services and of certain key products together with stricter management of aggregate demand. Simultaneously, with a view to bringing down the projected public-sector operating deficit for 1987 from over 6% of gross domestic product to 3.5%, public investment was postponed or reduced, major subsidies were eliminated and institutional reforms designed to achieve greater control over government expenditure and credit were announced. Finally --and in contrast with the Plan Cruzado, which had initially increased real wages by 8%-- the new programme froze remunerations at the low levels to which they had fallen in May.

On account of these measures, a significant downturn occurred in inflation during the third quarter. Nevertheless, it revived vigorously when the freeze came to an end, and consumer prices rose by over 9% in October, almost 13% in November and 14% in December. This revival of inflation was attributable to the rises in the prices of a large number of goods and services which occurred when the price policy became more flexible; to the increase in the relative price of energy and of certain foods as a result of the reduction in State subsidies; to the readjustments in the wages of certain groups of civil servants, which exceeded the wage guidelines compatible with the stabilization programme; to the fall in government revenue as a result of the tax exemptions granted in order to hold back or limit certain price rises and to the expansion of the public sector operating deficit which exceeded expectations.

On account of the increase in inflation and, to a lesser extent, of the loss of dynamism of industrial activity, real remunerations fell sharply in the manufacturing sector, and by the third quarter had fallen to their pre-Plan Cruzado level. Simultaneously, the purchasing power of the minimum wage shrank by 18% and thereby fell to its lowest level of the last ten years (see tables 6 and 7).

Inflation also rose sharply in Argentina, marking a turnaround in the sharp fall which had occurred in inflation between the middle of 1985 and the beginning of 1986 as a result of the implementation of the Plan Austral. The almost 175% increase in consumer prices registered in 1987 was almost double the 82% recorded the previous year. However, and in contrast with the case of Brazil, inflation in 1987 was considerably lower than in the 1982-1985 period (see table 5 and figure 5).

The upsurge in inflation was already clearly apparent in the third quarter of 1986, when consumer prices rose at a monthly rate of over 7%. In order to check this, the government reinforced its income policy and adopted a far stricter monetary policy. These measures helped to reduce monthly variations in inflation towards the end of the year, but sparked off a sharp rise in the real rate of interest and a fall in the rate of growth of product.

At the beginning of 1987, inflationary expectations were reinforced by the considerable rises in the prices of a number of goods, which, such as meat, vegetables and fruit, have a high incidence in the general consumer price index as well as by the widening gap between the official price of the dollar and its price on the parallel market as a result of the deterioration

Table 6

LATIN AMERICA AND THE CARIBBEAN: EVOLUTION OF REAL AVERAGE WAGES

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987[a]
				Annual average indexes (1980 = 100)						
Argentina[b]	77.9	89.5	100.0	89.4	80.1	100.5	127.1	107.8	109.5	103.0
Brazil										
Rio de Janeiro[c]	93.9	95.1	100.0	108.5	121.6	112.7	105.1	112.7	121.8	102.7
São Paulo[d]	85.7	92.3	100.0	104.7	107.2	94.0	97.9	120.4	150.7	142.2
Colombia[e]	93.2	99.3	100.0	101.4	104.8	110.3	118.5	114.9	120.2	119.4
Costa Rica[f]	94.2	99.2	100.0	88.3	70.8	78.5	84.7	92.2	97.8	...
Chile[g]	84.7	91.8	100.0	108.9	108.6	97.1	97.2	93.5	95.0	94.7
Mexico[h]	104.4	102.9	100.0	103.5	104.4	80.7	75.4	76.6	72.8	68.2
Peru[i]	94.9	88.9	100.0	98.3	100.5	83.7	70.1	59.6	75.5	80.0
Uruguay[j]	109.1	100.4	100.0	107.5	107.1	84.9	77.1	88.1	94.0	98.5
				Percentage variation[k]						
Argentina	-1.8	14.3	11.8	-10.6	-10.4	25.5	26.4	-15.2	1.6	-5.9
Brazil										
Rio de Janeiro	5.4	1.3	5.2	8.5	12.1	-7.3	-6.7	7.2	8.1	-15.7
São Paulo	12.2	7.7	8.4	4.7	2.4	-12.3	4.1	23.0	25.1	-5.7
Colombia	11.5	6.5	0.8	1.4	3.7	5.0	7.3	-3.0	4.9	-0.7
Costa Rica	8.8	4.8	0.8	-11.7	-19.8	10.9	7.8	8.9	6.1	...
Chile	6.5	8.3	9.0	8.9	-0.2	-10.7	0.1	-3.8	1.7	-0.3
Mexico	-2.1	-1.4	-2.9	3.5	0.9	-22.7	-6.6	1.6	-4.9	-2.3
Peru	-12.7	-6.3	12.4	-1.7	2.3	-16.7	-15.5	-15.0	26.7	6.0
Uruguay	-3.6	-8.1	-0.4	7.5	-0.3	-20.7	-9.2	14.1	6.7	4.8

Source: ECLAC, on the basis of official data.
[a] Preliminary figures. [b] Average total monthly wages in manufacturing. Average for twelve months. [c] Average wages in basis industry, deflated by the CPI for Rio de Janeiro. Average for twelve months. 1987, average January-November. [d] Average wages in manufacturing in the State of São Paulo, deflated by the cost-of-living index for the city of São Paulo. Average for twelve months. 1987: average January-October. [e] Wages of manual workers in manufacturing (except coffee processing). Average for twelve months. 1987: average January-November. [f] Average wages declared for social security members. [g] Average remuneration of wage-earners in non-agricultural sectors. Average for twelve months. [h] Average wages in manufacturing. Average for twelve months. 1987, average January-August. [i] Wages of private-sector workers in Metropolitan Lima. Average for February, May, August and November. 1987: average for twelve months. [j] Index of average real wages. Average for twelve months. [k] Compared with the same period in the previous year.

Table 7

LATIN AMERICA AND THE CARIBBEAN: EVOLUTION OF URBAN REAL MINIMUM WAGES

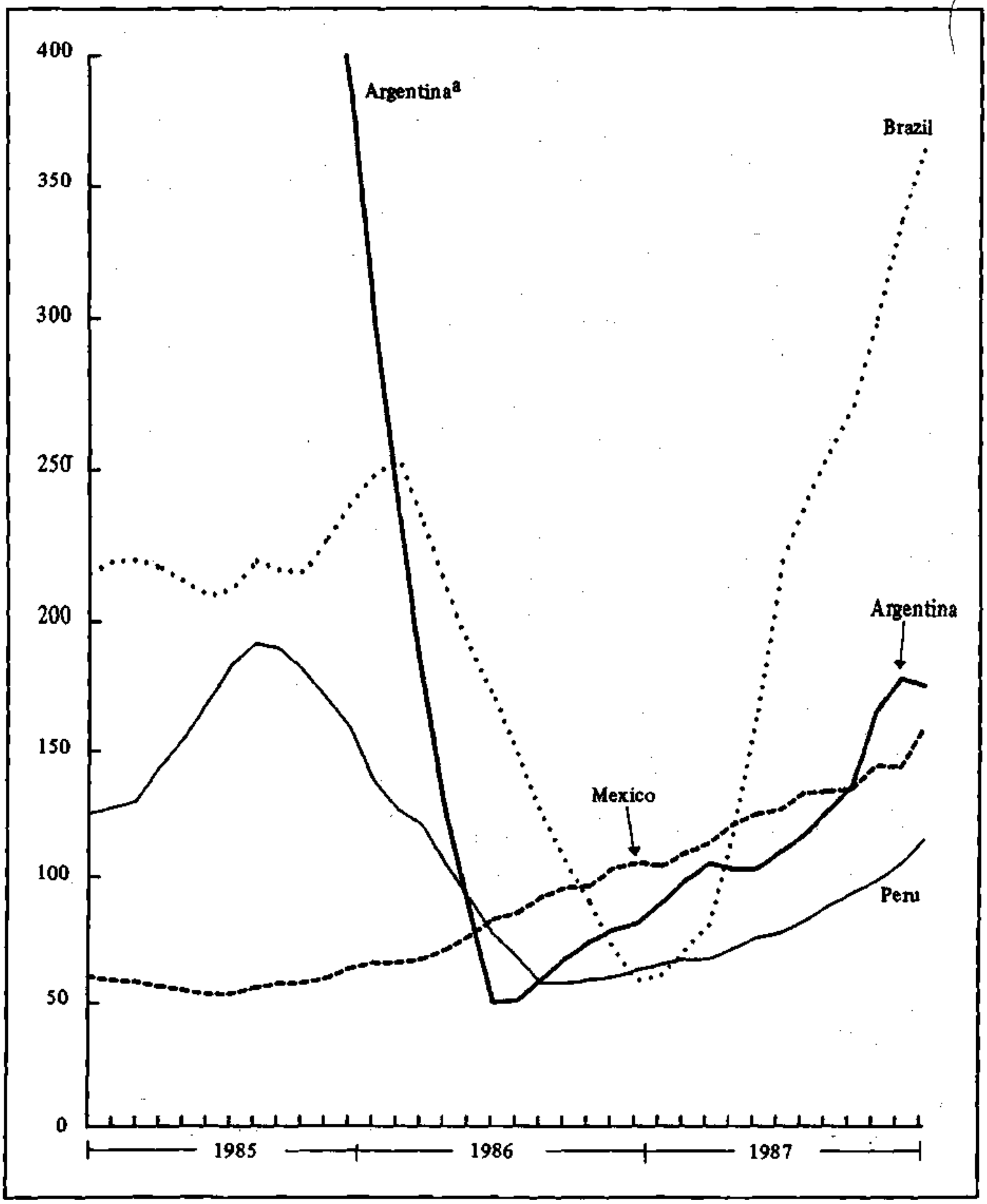
	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987[a]
	Annual average indexes (1980 = 100)									
Argentina[b]	81.0	85.3	100.0	95.8	97.6	137.7	173.5	117.1	111.1	122.6
Brazil[c]	97.7	97.5	100.0	104.4	104.6	93.8	85.6	87.0	87.1	71.2
Colombia[d]	89.5	97.5	100.0	98.9	103.6	107.9	113.5	109.4	114.2	113.8
Costa Rica[e]	96.0	98.5	100.0	90.4	85.9	99.3	104.4	112.2	119.0	120.3
Chile[f]	100.7	99.8	100.0	115.7	117.2	94.2	80.7	76.4	73.6	69.1
Ecuador[g]	48.1	60.4	100.0	86.2	75.9	63.6	62.8	60.8	65.4	61.9
Mexico[h]	108.6	107.2	100.0	101.9	92.7	76.6	72.3	71.1	64.9	60.6
Paraguay[i]	94.8	92.4	100.0	103.6	101.4	93.9	93.7	99.5	110.4	120.4
Peru[j]	72.3	80.8	100.0	84.2	77.8	89.2	69.0	60.3	62.5	64.0
Uruguay[k]	113.6	104.8	100.0	103.4	104.6	89.6	89.9	94.1	89.2	91.5
Venezuela[l]	69.3	61.6	100.0	86.2	78.5	73.9	66.5	96.8	92.3	96.7
	Percentage variation[m]									
Argentina	-18.8	13.7	17.3	-4.8	1.8	41.1	26.0	-32.5	-5.1	9.6
Brazil	...	-0.2	2.6	6.1	0.7	-10.2	-8.8	1.7	0.1	-18.3
Colombia	13.1	10.7	2.5	-1.1	4.3	4.1	5.2	-3.6	4.4	-0.3
Costa Rica	11.4	2.6	1.4	-9.6	-5.1	15.7	5.2	7.4	6.1	1.1
Chile	26.5	-0.8	0.2	15.9	0.6	-19.5	-14.5	-5.2	-3.6	-6.1
Ecuador	-10.6	25.7	65.5	-13.8	-11.9	-16.2	-1.3	-3.2	7.5	-5.3
Mexico	-3.4	-1.3	-6.7	1.9	-9.0	-17.4	-5.6	-1.7	-8.8	-6.6
Paraguay	3.1	-2.5	8.0	3.6	-2.0	-7.5	-0.2	6.2	11.0	13.8
Peru	-23.2	11.7	27.5	-15.8	-7.6	2.4	-22.7	-12.6	3.7	1.5
Uruguay	-0.5	-7.7	-4.6	3.4	1.2	-14.3	0.3	4.7	-5.2	2.6
Venezuela	-6.8	-11.1	62.3	-14.1	-8.9	-5.9	-10.0	45.5	-4.7	6.9

Source: ECLAC, on the basis of official data.
[a]Preliminary figures. [b]National minimum wage. 1987: average January-November. [c]Minimum wage for the city of Rio Janeiro, deflated by the corresponding CPI. [d]Minimum wage for upper urban sectors, 1987: average January-November. [e]National minimum wage. 1987: first half of year. [f]Minimum income. 1987: average January-November. [g]General minimum official wage. 1987: average January-November. [h]Minimum wage in México City, deflated by the corresponding CPI. [i]Minimum wage in Asunción and Puerto Stroessner. 1987: average Juanary-September. [j]Minimum wage in Metropolitan Lima for non-agricultural activities. [k]National minimum wage for persons over 18 years of age. 1987: average January-October. [l]National minimum wage for non-agricultural activities. 1987: average January-November. [m]Compared with the same period in the previous year.

Figure 5

LATIN AMERICA AND THE CARIBBEAN (SELECTED COUNTRIES): TWELVE-MONTH VARIATIONS IN THE CONSUMER PRICE INDEX

(Percentages)



Source: ECLAC, on the basis of official data.

[a]These data exclude the period January-October 1985, when inflation rose from 776.3 per cent in January to an all-time record of 1 129 per cent in June, subsequently declining steadily as from that month.

of external accounts. As a result, the monthly variations in consumer prices again rose, and remained in the vicinity of 7% during the first quarter.

In order to prevent these increases from sparking off a constant rise in the rate of inflation through the indexation mechanisms and expectations, at the end of February the authorities ordered a further three-month freeze of prices and wages. Simultaneously, the rate of exchange was increased and the controlled rate of interest lowered. While price rises slowed down in April and May as a result of these measures, inflation again gathered speed in June. The government was thus faced with a dilemma, as the fiscal and external disequilibria required adjustment of the exchange rate and the prices of public services, at a time when the mechanisms propagating inflation appeared to have once again started to operate vigorously and the real price of meat underwent a seasonal rise. Thus, in July, the consumer price index rose by two digits for the first time in two years (see figure 4).

The revival in inflation became more pronounced in subsequent months. Although the price of meat ceased to rise, efforts to increase the rates of public services and the exchange rate led to intense cost pressure and further rises in prices. This gave the impression that inflation was running out of control, and, together with expectation of a new freeze, this conviction led to anticipatory price markups. Simultaneously, the government considerably increased both the rate of devaluation of the austral and of increase in the rates of public services. Thus, in October, the rise in consumer prices was almost 20% while the rise in wholesale prices exceeded 30%.

Consequently, in October the government announced a set of measures designed to bring down inflation and reduce the external-sector disequilibrium. The measures included an initial 12% readjustment of wages and a 15% rise in the rates of public services which were both subsequently frozen for a period of 90 days. The austral was heavily devalued and a dual exchange market established, with a free market for financial operations; a tax reform was carried out in an effort to increase fiscal revenue by 4% of gross domestic product through the introduction of fresh taxes of 5% on imports and of 45% on cigarettes, together with an increase in taxes on real estate and income and a sharp increase in the prices of petrol, while controlled rates of interest were eliminated in order to reduce subsidies granted by the Central Bank.

As a result of these measures, the rate of price increases fell in November and, above all, in December.

In 1987 a reversal also occurred in the downward trend of inflation in Peru. After having fallen from almost 160% in 1985 to slightly more than 60% in 1986, the annual variation in consumer prices was 115% in 1987.

The sustained rise of inflation mainly reflected the repercussions of the fresh and considerable expansion in domestic demand caused by the growing fiscal deficit, the rapid rise in money supply and wage increases. Under such conditions, official price controls gradually became ineffective, particularly in the ever-growing number of branches of industry which faced difficulty in increasing their output on account of the gradual exhaustion of their underutilized capacity. Price rises were also stimulated by the wage readjustments; by the rise in the average rate of exchange (resulting from the mini-devaluations practiced during the first half of the year, the 25% devaluation ordered in September and the gradual transfer of certain exports and imports to those sectors of the exchange market which practiced higher parities); by increases in the selective consumer tax and in customs surcharges applied to certain imports, and by the revival of the inflationary expectations of economic agents.

In spite of the increase in inflation and thanks to the growth of economic activity as well as to the increased frequency and size of wage and salary readjustments, their purchasing power in the private sector in Lima rose by almost 6%, after having grown by approximately 27% the previous year. Notwithstanding this rise, and on account of the huge drops which had affected it in the 1983-1985 period, it remained 20% lower than at the beginning of the decade (see table 6).

In 1987 inflation reached an all-time high in Mexico. Despite the government's intention to bring it down from the 106% recorded in 1986 to 80% in 1987, the annual rate of consumer price increases rose both continually and rapidly and reached almost 160% at the end of the year (see figure 5).

This upsurge in inflation was influenced by the vigorous price and tariff rises adopted for budgetary reasons in the public sector, which led to a sharp rise in the prices of its goods and services, and in particular, in that of petrol, it was also affected by the delayed impact of exchange policy —which until March devaluated the peso at an even faster rate than that of inflation, with the inevitable repercussions on the prices of internationally tradeable goods. The surge in inflation was also influenced by the rises in nominal wages —which were readjusted more frequently than in previous years— and by the strengthening of inflationary expectations —which intensified in particular following the October stock market collapse and the heavy devaluation of the peso on the parallel market in November. As a result of the surge in inflation and despite the more frequent readjustment of the minimum wage than in previous years, its purchasing power underwent a fresh and considerable decline, totalling 40% so far during the present decade.

Consequently, towards the middle of December the government initiated a fresh stabilization programme designed to control the spiralling inflation by means of an "Economic Solidarity Pact" involving workers, peasants and entrepreneurs. The plan included a rise in the rate of exchange in the regulated market from 1 800 to 2 200 pesos to the dollar, a 15% wage readjustment, measures to liberalize foreign trade, a reduction of the maximum tariff on imports from 40% to 20% together with huge rises in the prices and tariffs of goods and services produced by State enterprises, with a view to reducing the public sector deficit. Thus, the prices of petrol, fuels, liquid gas and electricity rose by 85%, those of sugar and fertilizers by approximately 80% and air and rail transport by some 20%. After it had introduced these rises, the government decreed that prices would remain frozen in January and February 1988 and declared that wages would be further increased by 20% in January and that as of March, provided monthly inflation remained above 2%, they would be readjusted each month.

Although inflation was far less dramatic than in the countries just mentioned, it attained unusual levels in Venezuela. The 40% increase in consumer prices recorded in 1987 was not only well over treble that recorded in 1986, but was also the highest ever recorded in the country.

The sudden rise in inflation was largely attributable to the maxi-devaluation of the bolívar adopted in December 1986 which represented a 93% rise in the official rate of exchange. As a result of this, and on account of the rises in the prices of essential goods such as food, transport and electricity and of the inflationary impact of the elimination of the preferential rate of exchange previously applied to imports of various basic goods and certain consumer goods, inflation gradually rose and consumer price rises reached a level of over 4% in May, June and July.

In order to check this trend, and following a fruitless attempt to freeze prices, in September a system of control covering three groups of products was introduced. The first of these is made up of 43 goods defined as "essential", whose prices are tightly controlled and may only be increased with permission from a tripartite commission made up of representatives of the government, entrepreneurs and unions. The second includes most inputs and consumer goods, whose prices can only be increased with permission from the Ministry of Finance, provided the increase is requested at least 60 days in advance. Finally, the prices of the remaining goods subject to control may be set "freely", although notice of any increase must be given at least 30 days in advance.

As a result of these measures and of the implementation as from May of an extremely restrictive monetary policy, monthly price variations declined from August onwards. However, they remained higher than those recorded during the same months of the previous year, and consequently the annual rate of inflation continued to rise throughout the last four months of the year (see figure 6). Consequently, on 16 December the government implemented an indefinite freeze on the prices of all goods and services produced by the public sector.

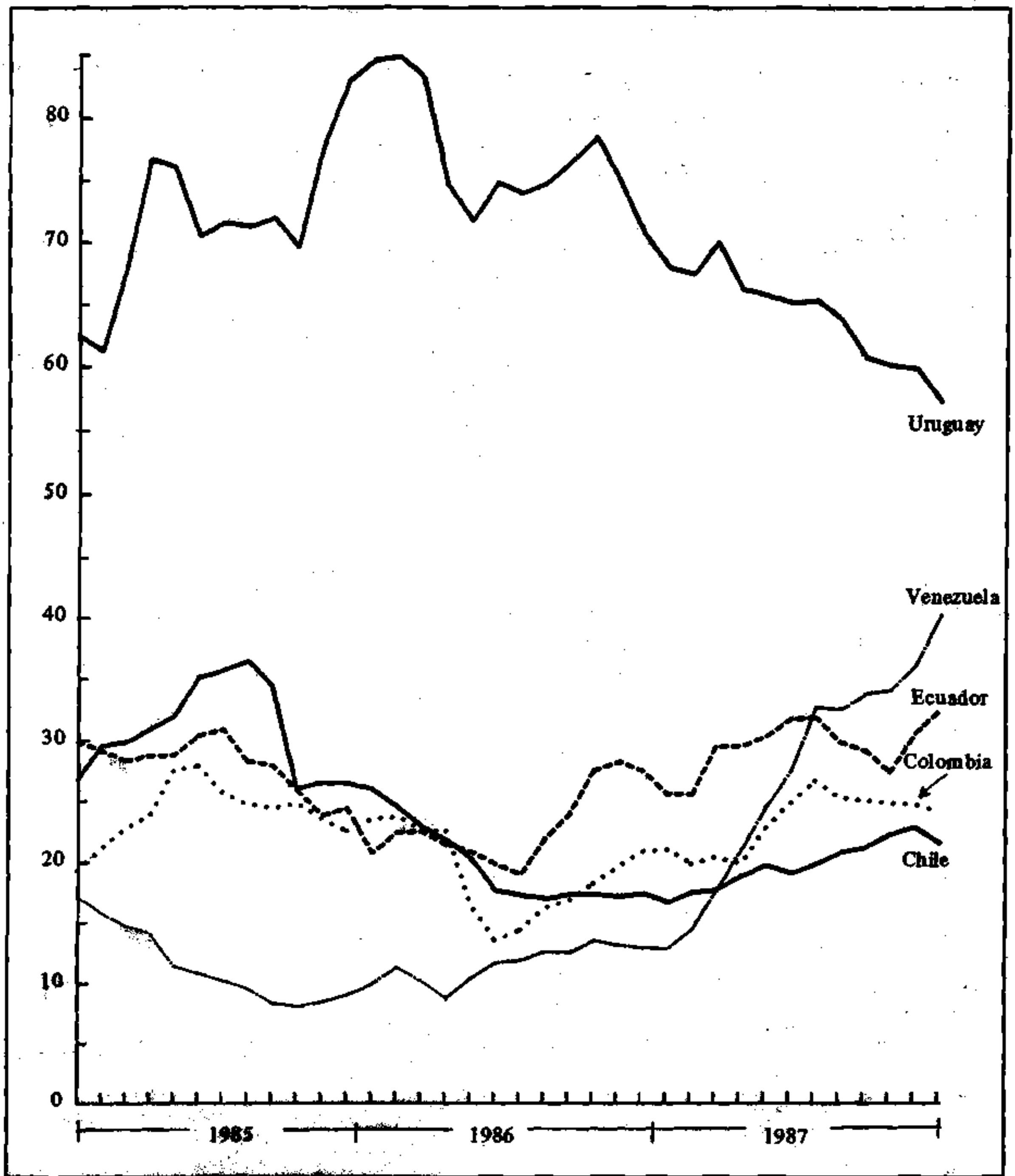
In 1987 a moderate increase occurred in the rate of consumer price rises in Ecuador and Colombia, where inflation followed a fairly similar path to that of the previous two years (see figure 6).

In Ecuador, where inflation rose from 27% in 1986 to 33% in 1987, this was mainly attributable to the impact of the earthquakes which struck the north-east of the country at the beginning of March. On account of the earthquakes, together with the floods and frosts which affected other areas of the country, the supply of certain foods shrank and their prices rose in consequence. Moreover, in order to offset the loss of revenue which affected the public sector as a result of the suspension of petroleum exports, the government increased the price of petrol by 80% and readjusted those of public transport. The temporary suspension of external sales of hydrocarbons also contributed towards increasing the rate of exchange, thereby causing a rise in the domestic prices of internationally tradeable goods. The inflationary impact of these changes was partly offset by the restrictive wage policy adopted —which led to a real 5% shrinkage in the minimum wage— and by the control over issue exerted by the authorities.

Figure 6

LATIN AMERICA AND THE CARIBBEAN (SELECTED COUNTRIES): TWELVE-MONTH VARIATIONS IN THE CONSUMER PRICE INDEX

(Percentages)



Source: ECLAC, on the basis of official data.

Inflation also rose slightly, in Colombia, from 21% to 24%. A decisive factor in this was the far less satisfactory evolution of the prices of agricultural products in 1987. While these had fallen in absolute terms towards the middle of the year on account both of the increase in harvests and the considerable contraband in agricultural products from Venezuela, they rose sharply during the first half of 1987 as a result of the drop in agricultural production caused by the scant rainfall during the first four months of the year. Mainly for this reason, the annual rate of inflation surged rapidly until July. However, subsequently it gradually declined as the supply of agricultural products became normal and also because the government slowed down the rate of increase of the exchange rate. As a result of the surge in inflation and despite the rapid growth of production and employment, both the minimum wage —which is readjusted annually in accordance with the previous year's inflation— and average wages in manufacturing industry declined slightly (see tables 6 and 7).

In 1987 the regular downward trend of inflation in both Chile and the Dominican Republic since the middle of 1985 came to an end.

In Chile, after having fallen to less than 17% in January, the annual rate of consumer price increases rose persistently until November and attained 21.5% at the end of the year. The resurgence of inflation was influenced, in particular towards the beginning of the year, by the marked increase in domestic expenditure resulting from the exaggerated increase of means of payment during the closing months of 1986. Inflationary pressure originating from the sharp increase in demand was intensified by the effects of the recovery in the international price of petroleum and by the fall in the supply of agricultural products on account of the storms and floods which affected the country's central region in July and August. On account of these factors as well as of the lag with which changes in monetary variables are generally felt, the rate of inflation continued to rise gradually until November, in spite of the restrictive monetary policy which the government began to apply as of April, the improvement in the fiscal situation, the virtual stability of real average wages and the marked decline which occurred for the fifth consecutive year in the real value of minimum wages. However, the effects of these measures began to be felt in December, when consumer prices increased by merely 0.3% and wholesale prices fell by 5.6%.

The downward trend in inflation came to an even more sudden end in the Dominican Republic, where the annual variation of consumer prices, which had fallen from 48% to less than 5% between March 1985 and January 1987, rose persistently during the following months and attained 25% at the end of the year. One of the principal causes of the resurgence of inflation was the delayed impact of the sharp growth in money supply at the end of the previous year. The inflationary repercussions of this increase were aggravated by those resulting from the huge expansion of construction, by the increase in the international price of petroleum and by the rise in the prices of imports caused by the exchange controls introduced at the middle of the year and by the rise in exchange rates.

Of the seven countries which saw a decline in inflation in 1987, the most remarkable case was that of Bolivia, where prices rose by less than 11%, as against annual rates of 66% at the end of 1986 and of 23 000% in September

1985 (see figure 4). As in the previous year, a decisive role in this progress was played by the austerity adopted in fiscal policy and the success in maintaining stability on the exchange market. During the first half of 1987, the government closed its accounts with a surplus. This result was due to strict control over public expenditure and by increased revenue collection as a result of the implementation of the tax reform adopted the previous year (which included the introduction of a value added tax) as well as to the satisfactory effect of the downturn in inflation itself on the real value of the taxes collected. The fiscal stability achieved freed the Central Bank from the need to finance the government deficit and restored autonomy to monetary policy. The authorities were thus able to drastically cut the rates of growth of issue and of money supply, to such an extent that during the first half of the year they grew by barely 4% and 7% respectively. This in turn helped to maintain a stable exchange rate both on the official and parallel markets, with as its consequence a weakening of inflationary expectations.

Inflation also fell for the second year running in Uruguay. However, on account of the gradual nature of the drop, inflation in 1987 was still 57% (see figure 6). In El Salvador, and above all, in Guatemala —where in the past price fluctuations had been among the lowest in the region, but which had experienced unusual levels of inflation in 1986— inflation declined sharply. In turn, in Jamaica, the rate of inflation declined for the third year running, and the annual variation in consumer prices remained below 7% in 1987 (see figure 7). Finally, inflation remained extremely low in the Bahamas, Barbados and in particular in Dominica, Honduras and Panama, where traditionally domestic price increases have fluctuated in line with changes in international inflation (see table 5).

3. The external sector

a) The external trade and the terms of trade

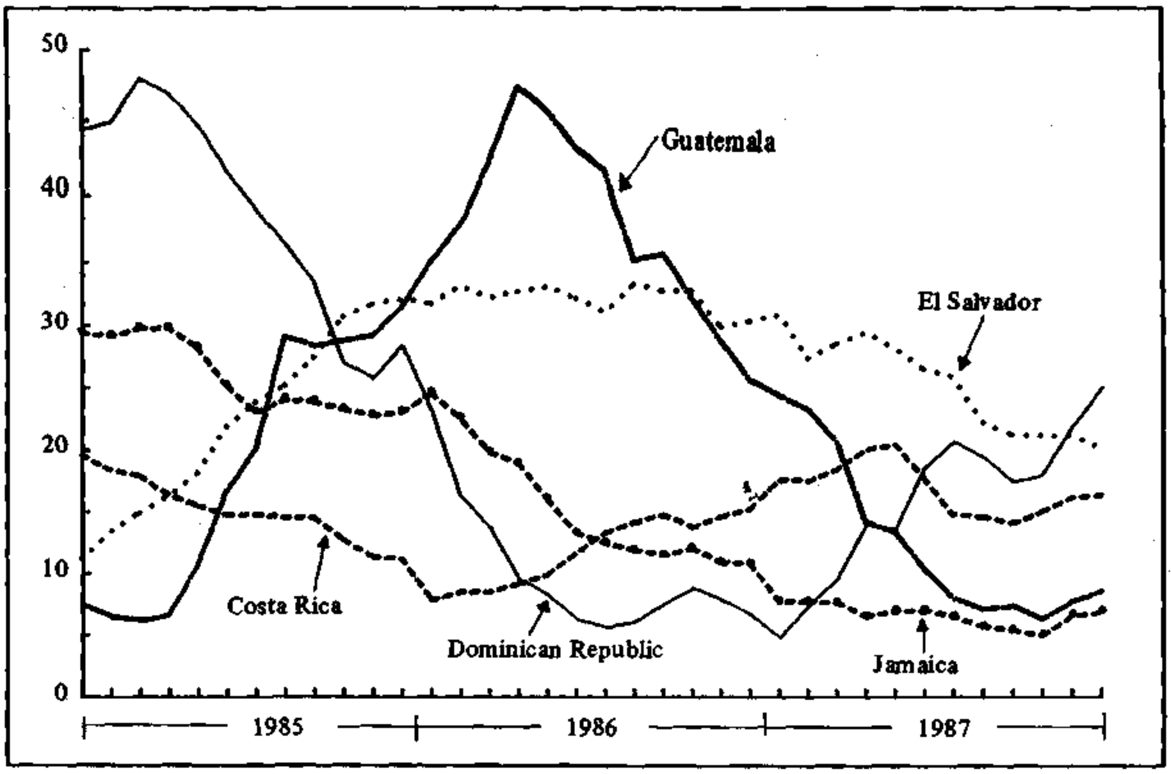
Following the sharp declines which occurred during the previous two years, the value of exports of goods rose by 14%, on account of a 6% rise in their unit value and a 7.5% increase in the volume exported (see table 8). The increase of exports in particular contributed towards the higher external sales achieved by Mexico —where they rose by 31% under the impetus of the recovery of the international price of petroleum and the intense growth which occurred for the second year running in exports of manufactured goods; by Chile —where they increased by 24% on account of the dynamic expansion of sales of industrial goods and of the sharp rise in the price of copper; by Venezuela —where they rose by 21% thanks to the increase in the price of petroleum; by Brazil —where they rose by 17% in spite of the fall in the price of coffee and thereby recovered from the sharp drops of the previous two years; and by Paraguay —where they grew markedly as a result both of the increase in the volume of exports and of the revival in the average price of cotton and soya beans.

On the other hand, the value of exports fell for the second year running in Argentina and Ecuador, for the third year running in Bolivia and Guatemala and declined in El Salvador, Honduras and Panama.

Figure 7

LATIN AMERICA AND THE CARIBBEAN (SELECTED COUNTRIES): TWELVE-MONTH VARIATIONS IN THE CONSUMER PRICE INDEX

(Percentages)



Source: ECLAC, on the basis of official data.

Table 8

LATIN AMERICA AND THE CARIBBEAN: EXPORTS OF GOODS, FOB

(Indexes 1980 = 100 and growth rates)

	Value				Unit value				Volume			
	Index	Growth rates			Index	Growth rates			Index	Growth rates		
	1987[a]	1985	1986	1987[a]	1987[a]	1985	1986	1987[a]	1987[a]	1985	1986	1987[a]
Latin America	100	-6.1	-15.2	14.2	74	-6.3	-11.9	6.3	135	0.2	-3.8	7.5
Oil-exporting countries	87	-9.2	-29.4	22.2	64	-3.7	-30.9	18.0	130	-5.7	2.3	3.7
Bolivia	50	-13.9	-12.8	-13.4	81	-0.3	-22.8	4.0	62	-13.7	12.8	-16.8
Ecuador	81	10.8	-24.8	-6.5	61	-3.7	-29.1	9.0	133	15.0	6.2	-14.1
Mexico	131	-10.5	-26.0	31.0	65	-1.4	-27.4	15.3	202	-8.3	1.9	13.6
Peru	65	-5.4	-15.7	2.0	75	-1.7	-14.8	8.0	88	-3.8	-1.1	-5.5
Venezuela	55	-11.2	-39.0	21.2	67	-8.0	-40.4	29.0	82	-3.5	2.4	-6.2
Non-oil-exporting countries	112	-3.4	-3.1	9.3	80	-8.5	6.3	-1.6	139	5.6	-8.8	10.7
Argentina	77	3.7	-18.4	-9.5	72	-13.5	-6.6	6.0	107	19.9	-12.7	-14.7
Brazil	130	-5.1	-12.6	17.3	82	-6.8	6.8	-1.4	159	1.9	-18.2	19.0
Colombia	137	-14.6	47.3	1.6	82	-5.8	18.7	-22.0	168	-9.4	24.1	30.4
Costa Rica	112	-6.7	16.4	3.9	85	-1.0	14.1	-10.0	132	-5.8	2.1	15.4
Chile	111	4.2	10.4	24.4	71	-11.8	2.5	17.4	155	18.1	7.7	5.9
El Salvador	54	-6.5	7.1	-20.2	75	-4.2	21.9	-15.5	72	-2.4	-12.1	-5.7
Guatemala	63	-6.4	-1.1	-7.9	82	-7.0	19.6	-14.0	78	0.7	-17.4	7.0
Haiti	92	3.9	-14.4	4.7	86	2.7	17.8	-13.0	108	1.2	-27.3	20.6
Honduras	100	8.0	11.9	-5.7	86	-8.9	10.8	-13.5	116	18.5	1.0	9.0
Nicaragua	62	-22.8	-18.4	15.2	78	-6.0	3.4	-15.0	80	-17.8	-21.0	35.7
Panama	105	16.2	23.1	-1.7	105	-0.4	15.5	-3.5	100	16.7	6.6	1.7
Paraguay[b]	200	-10.2	76.8	39.6	86	-20.6	-6.1	7.5	232	13.0	88.2	29.9
Dominican Republic	78	-15.0	-2.2	3.9	71	-15.5	1.4	-4.0	110	0.7	-3.5	8.3
Uruguay	112	-7.7	27.4	9.4	89	-7.1	1.5	12.0	127	-0.6	25.5	-2.4

Source: ECLAC.
[a] Preliminary estimates. [b] As from 1986 "Goods" includes the trade in energy, which was previously included under "Services".

The increase in exports was accompanied by an 11% rise in the value of imports, whereby they continued to recover from the huge slump of over 40% which occurred in the 1982-1983 biennium.

The growth of imports was, moreover, quite widespread. They fell in volume in only El Salvador, Haiti, Honduras and Nicaragua which was the only country in which the shrinkage was noteworthy (-22%). In contrast, the volume of imports grew by 10% or more in eight countries, and in five of these --Ecuador, Chile, Guatemala, Paraguay and Uruguay-- the real increase in external purchases exceeded 20% (see table 9). However, in all the countries of South America, with the exceptions of Bolivia, Ecuador, Paraguay and Peru, the volume of imports remained lower than that recorded prior to the crisis.

Since the rise in the unit value of exports was rather higher than that of imports, a slight improvement occurred in the terms of trade, following its decline over the previous two years. Nevertheless, the accumulated deterioration over the decade remained considerable (-15%). Moreover, the improvement almost exclusively concerned the petroleum-exporting countries, which benefitted from the almost 30% recovery in the international price of petroleum. In almost all the remaining economies of the region, and in particular in the coffee-exporting countries, the terms of trade, in contrast, worsened considerably (see table 10 and figure 8). The only countries unaffected by this trend were Chile --where the rises in the prices of copper, fish meal, wood pulp and other exports offset the impact of the increase in the prices of petroleum and of manufactured goods from Europe and Japan; Paraguay, thanks to the vigorous recovery in the international price of cotton, and Uruguay, on account of the improved international prices of meat and wools (see table 11).

As a result of the rise in the terms of trade and of the increased volume of exports, their purchasing power rose by 9%, thereby partly recovering from the previous year's fall. However, the only countries in which the evolution of the purchasing power of exports was clearly satisfactory were Paraguay, Mexico, Chile, Venezuela and Brazil, while it worsened markedly in El Salvador, Bolivia, Guatemala, Ecuador, Argentina and Honduras (see table 12).

b) <u>The balance of goods</u>

As the value of exports grew more rapidly than that of imports, in 1987 the downward trend of the trade surplus on goods since 1984 came to an end. After having attained a historic high of US$39.4 billion in 1984, a figure which was cut by half in the two following years, the surplus again rose to US$22.5 billion in 1987 (see table 13).

However, far from signifying a generalized trend, this increase was almost exclusively accounted for by the extremely high rises which occurred in the trade surpluses of Mexico --where it almost doubled, from US$4.6 billion in 1986 to US$9 billion in 1987; of Venezuela --where it rose from US$800 million to rather more than US$2 billion; and of Brazil --where it increased from US$8.3 to US$11.2 billion.

Table 9

LATIN AMERICA AND THE CARIBBEAN: IMPORTS OF GOODS, FOB

(Indexes 1980 = 100 and growth rates)

	Value				Unit value				Volume			
	Index	Growth rates			Index	Growth rates			Index	Growth rates		
	1987[a]	1985	1986	1987[a]	1987[a]	1985	1986	1987[a]	1987[a]	1985	1986	1987[a]
Latin America	**73**	**-0.5**	**2.8**	**11.1**	**87**	**-4.4**	**-4.4**	**4.7**	**84**	**4.1**	**7.6**	**6.0**
Oil exporting countries	**73**	**8.1**	**-2.0**	**8.8**	**82**	**-8.1**	**-2.0**	**3.8**	**90**	**17.5**	**0.0**	**5.2**
Bolivia	113	12.3	25.3	12.1	91	3.7	-4.9	3.5	124	8.2	31.7	8.2
Ecuador	94	2.8	1.2	29.1	78	-4.8	-8.5	4.5	120	8.0	10.6	23.4
Mexico	64	17.4	-13.5	5.0	80	-13.0	-2.5	3.5	79	35.0	-11.3	1.4
Peru	94	-15.5	38.9	15.6	85	-6.4	-1.0	3.5	111	-9.7	40.3	11.8
Venezuela	78	1.7	6.0	7.6	83	-1.5	-0.9	4.0	94	3.2	7.1	3.4
Non-oil-exporting countries	**73**	**-6.0**	**6.4**	**12.6**	**91**	**-1.0**	**-6.6**	**5.2**	**81**	**-5.1**	**13.9**	**7.3**
Argentina	56	-14.6	24.8	20.0	93	5.0	-3.6	7.0	61	-18.6	29.5	12.2
Brazil	66	-5.4	-6.7	7.2	92	-4.1	-7.3	6.0	71	-1.3	15.1	1.3
Colombia	92	-8.8	-5.1	12.7	98	3.0	-4.0	3.5	94	-11.4	-1.1	6.2
Costa Rica	91	0.8	3.8	19.8	94	1.7	-5.3	5.0	97	-0.9	9.6	14.2
Chile	73	-12.0	4.9	28.7	77	-5.5	-8.8	4.5	95	-6.8	15.0	23.4
El Salvador	110	-2.1	4.9	4.9	106	0.5	-4.9	5.0	104	-2.7	10.3	-0.1
Guatemala	84	-8.9	-18.8	40.7	91	-1.6	-7.9	3.5	92	-7.5	-11.8	35.9
Haiti	97	-3.5	-6.1	-4.9	105	-3.0	6.0	3.5	93	-0.5	-11.4	-7.6
Honduras	97	0.0	2.6	2.5	111	6.3	-2.6	4.5	87	-6.0	5.4	-1.9
Nicaragua	86	4.7	-0.2	-17.5	96	1.9	-2.0	7.0	90	2.8	1.8	-22.9
Panama[b]	104	8.4	8.9	4.9	90	-2.0	-6.8	3.5	115	10.6	16.9	1.3
Paraguay	139	-20.5	42.6	27.2	71	-6.0	-3.5	5.0	195	-15.5	47.9	21.1
Dominican Republic	97	2.3	-1.5	16.5	91	2.1	-8.7	9.0	107	0.2	7.8	6.8
Uruguay	63	-7.8	17.1	32.7	83	2.6	-12.7	8.0	76	-10.1	34.2	22.9

Source: ECLAC.

[a] Preliminary estimates.
[b] As from 1986 "Goods" includes the trade in energy, which was previously included under "Services".

Table 10

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

(Indexes 1980 = 100, growth rates and percentage variations)

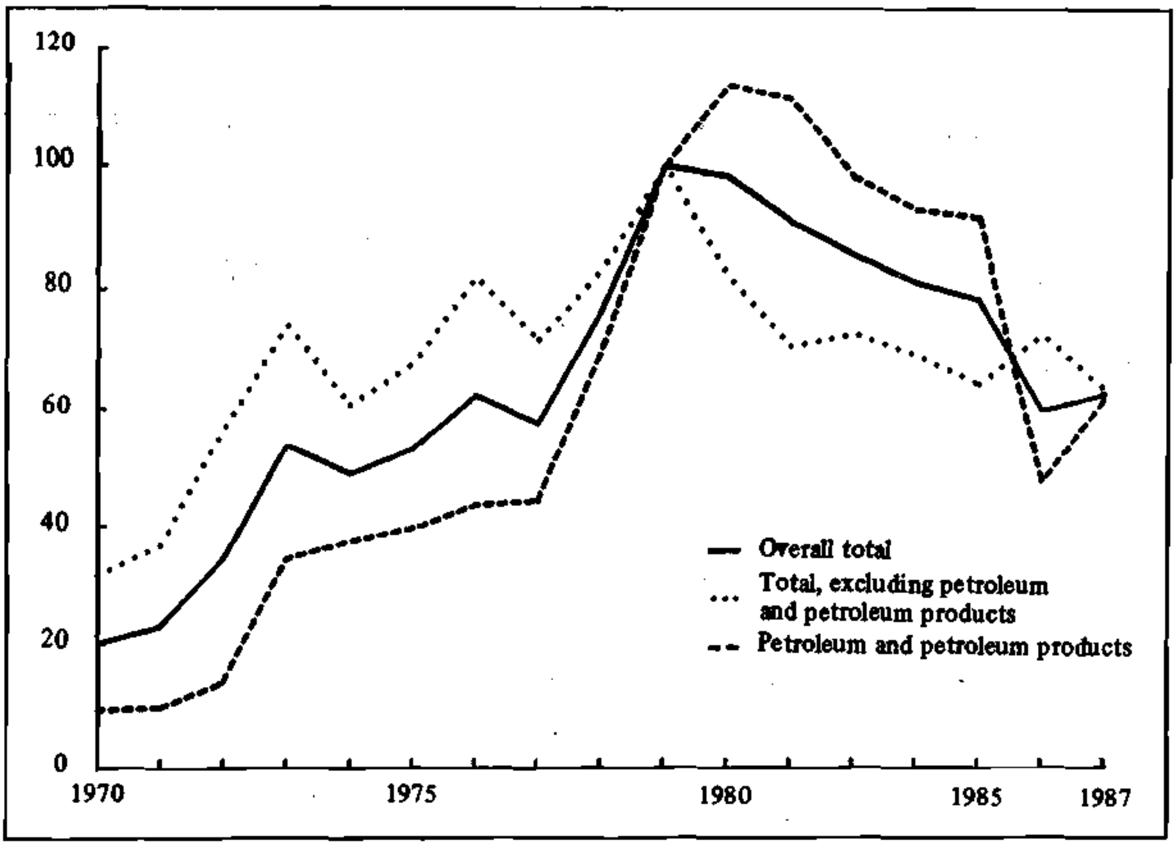
	Indexes				Growth rates					Cumulative variation
	1984	1985	1986	1987[a]	1983	1984	1985	1986	1987[a]	1981-1987[a]
Latin America	**93**	**91**	**84**	**85**	**1.3**	**6.6**	**-1.9**	**-7.8**	**1.6**	**-15.1**
Oil-exporting countries	**97**	**101**	**71**	**81**	**5.0**	**2.0**	**4.7**	**-29.5**	**13.6**	**-19.1**
Bolivia	112	108	88	88	2.7	16.4	-3.9	-18.7	0.5	-11.9
Ecuador	95	96	75	78	-17.7	16.6	1.3	-22.6	4.1	-22.0
Mexico	86	98	73	81	6.7	-7.2	13.3	-25.5	11.4	-19.1
Peru	94	98	85	88	19.7	-2.8	5.0	-14.0	4.4	-11.8
Venezuela	116	108	65	81	8.9	12.1	-6.6	-39.8	24.1	-19.2
Non-oil-exporting countries	**90**	**83**	**94**	**89**	**0.1**	**9.9**	**-7.6**	**13.8**	**-6.3**	**-11.3**
Argentina	99	81	79	78	-4.6	21.0	-17.6	-3.1	-0.9	-22.0
Brazil	86	84	96	89	-2.5	10.1	-2.7	15.1	-7.1	-10.7
Colombia	101	92	114	84	8.3	6.9	-8.4	23.6	-26.6	-16.3
Costa Rica	90	88	106	91	2.8	5.2	-2.7	20.5	-14.3	-9.2
Chile	78	73	82	92	9.6	-6.3	-6.6	12.4	9.5	-7.6
El Salvador	73	69	89	71	-11.8	-12.0	-4.8	28.2	-19.5	-28.7
Guatemala	88	83	108	90	3.4	3.4	-5.6	30.0	-16.9	-10.2
Haiti	83	88	97	82	-10.7	26.0	5.8	11.1	-15.9	-18.2
Honduras	96	82	93	77	0.9	3.2	-14.3	13.8	-17.1	-22.6
Nicaragua	105	97	102	81	-3.3	26.9	-7.8	5.6	-20.6	-18.7
Panama	99	101	125	116	12.7	4.2	1.5	24.0	-6.7	16.2
Paraguay[b]	144	121	118	121	-3.9	60.4	-15.5	-2.6	2.5	21.1
Dominican Republic	97	80	89	78	6.6	11.0	-17.3	11.3	-12.0	-21.9
Uruguay	98	89	103	107	-0.8	7.5	-9.5	16.3	3.6	6.9

Source: ECLAC.
[a] Preliminary estimates. [b] As from 1986 "Goods" includes the trade in energy, which was previously included under "Services".

Figure 8

LATIN AMERICA AND THE CARIBBEAN: PRICE INDEXES OF MAIN EXPORT PRODUCTS

(1980 = 100)



Source: ECLAC, on the basis of UNCTAD data.

Table 11

LATIN AMERICA AND THE CARIBBEAN: PRICES OF MAIN EXPORT COMMODITIES

(Dollars at current prices)

	Annual averages					Growth rates				Cumulative variation
	1970-1980	1984	1985	1986	1987[a]	1984	1985	1986	1987[a]	1987/ 1970-1980
Unrefined sugar[b]	12.8	5.2	4.1	6.1	6.6	-38.8	-21.1	48.8	8.2	-48.4
Coffee (mild)[b]	121.8	147.3	155.9	220.1	123.5[c]	4.0	5.8	41.2	-43.9	1.4
Cocoa[b]	86.3	108.7	102.3	93.8	91.0	13.1	-5.9	-8.3	-3.0	5.4
Bananas[b]	11.8	19.0	18.4	22.1	27.8[c]	-6.9	-3.2	20.1	25.8	135.6
Wheat[d]	125.1	153.0	138.0	115.0	113.0	-3.2	-9.8	-16.7	-1.7	-9.7
Maize[d]	127.5	167.3	135.3	112.9	107.7	3.1	-19.1	-16.6	-4.6	-15.5
Beef[b]	82.2	102.6	97.7	95.0	107.7	-7.3	-4.8	-2.8	13.4	31.0
Fish meal[d]	354.7	373.0	280.0	321.0	375.0	-17.7	-24.9	14.6	16.8	5.7
Soya beans[d]	232.4	282.0	225.0	208.0	214.0	-	-20.2	-7.6	2.9	-7.9
Cotton[b]	61.2	80.3	61.7	52.9	76.1	-5.3	-23.2	-14.3	43.9	24.3
Wool[b]	131.5	141.6	140.7	147.7	183.4	-1.7	-0.6	5.0	24.2	39.5
Copper[b]	69.6	62.5	64.3	62.3	76.4	-13.4	2.9	-3.1	22.6	9.8
Tin[e]	3.9	5.6	5.4	2.6	3.1	-5.1	-3.6	-51.9	19.2	-20.5
Iron ore[d]	17.6	22.4	22.0	21.6	22.0	-5.5	-1.8	-1.8	1.9	25.0
Lead[b]	25.3	20.1	17.7	18.4	26.8	4.1	-11.9	4.0	45.7	5.9
Zinc[b]	29.7	40.6	34.3	32.3	36.0	17.0	-15.5	-5.8	11.5	21.2
Bauxite[d]	103.5	165.0	164.3	165.2	164.8[c]	-8.1	-0.4	0.5	-0.2	59.2
Crude petroleum[f]										
Saudi Arabia	10.0	28.5	28.0	13.7	17.5	-2.7	-1.8	-51.0	27.7	75.0
Venezuela	10.1	27.0	26.4	13.2	17.3[g]	-3.9	-2.2	-50.0	31.0	71.3

Source: UNCTAD, Monthly Commodity Prices Bulletin, supplements 1960-1984, and December 1987; International Monetary Fund, *International Financial Statistics*, Yearbooks 1981 and March 1988; *Petroleum Intelligence Weekly*, 1986, 1987: various issues; ECLAC, on the basis of official data.

Note: Unrefined sugar, FOB Caribbean ports, for export to the free market. Coffee, mild Colombian arabiga, *ex-dock* New York. Cocoa Beans, average of daily prices (futures), New York/London. Central American bananas, CIF Hamburg. Cotton, Mexican M 1-3/32", CIF Northern Europe. Wool, clean, combed, grade 50's United Kingdom. Beef, frozen and deboned, all sources, United States ports. Fish meal, all sources, 64-65% protein, CIF Hamburg. Wheat, United States No. 2, Hard Red Winter, FOB. Maize, Argentine, CIF North Sea ports. Soya beans, United States, No. 2, yellow, bulk, CIF Rotterdam. Copper, tin, lead and zinc's pot cash prices on the London Metal Exchange. Iron ore, Liberia, C 61%, Fe, CIF North Sea ports. Bauxite, Guyana (Baltimore). Petroleum, Venezuela (Tía Juana).

[a] Average January-November. [b] US cents per pound. [c] Average January-October. [d] Dollars per metric ton. [e] Dollar per pound. [f] Dollars per barril. [g] January-August.

Table 12

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

(Indexes 1980 = 100, growth rates and percentage variations)

	Indexes				Growth rates					Cumulative variation
	1984	1985	1986	1987[a]	1983	1984	1985	1986	1987[a]	1981-1987[a]
Latin America	**119**	**117**	**103**	**112**	**11.0**	**13.5**	**-1.7**	**-11.9**	**9.0**	**11.9**
Oil-exporting countries	**123**	**121**	**87**	**102**	**13.4**	**8.4**	**-1.7**	**-27.7**	**17.6**	**2.0**
Bolivia	80	67	61	51	-5.1	2.6	-17.0	-8.8	-16.3	-49.1
Ecuador	117	136	112	100	-10.0	31.3	17.0	-18.2	-10.5	-0.2
Mexico	163	167	126	160	26.0	0.7	2.7	-24.4	26.6	59.6
Peru	89	90	76	75	-5.6	11.6	1.0	-15.0	1.3	-24.8
Venezuela	99	88	55	64	5.3	17.2	-10.7	-38.4	16.6	-36.3
Non-oil-exporting countries	**115**	**113**	**117**	**121**	**8.7**	**19.0**	**-1.7**	**3.4**	**3.6**	**21.1**
Argentina	115	115	98	83	8.0	8.8	-0.1	-14.8	-15.4	-17.2
Brazil	136	135	127	140	14.0	30.9	-1.2	-5.9	10.5	40.1
Colombia	113	94	143	140	4.4	47.3	-17.0	52.8	-1.8	40.4
Costa Rica	104	95	116	115	3.3	18.7	-8.4	22.4	-1.1	14.9
Chile	88	97	117	139	14.5	-6.2	9.9	20.7	19.1	39.3
El Salvador	63	58	66	50	10.3	-7.0	-7.2	12.3	-24.0	-50.2
Guatemala	75	71	75	67	-0.5	2.9	-5.4	6.7	-11.0	-33.0
Haiti	96	101	84	85	5.4	17.6	5.0	-17.2	1.4	-15.3
Honduras	83	85	97	88	5.4	1.8	1.7	14.8	-9.7	-12.3
Nicaragua	93	71	59	63	10.8	-3.5	-24.3	-16.7	7.6	-36.8
Panama	76	90	119	113	-24.5	0.0	18.5	31.7	-5.1	13.1
Paraguay[b]	115	111	195	260	-13.5	36.7	-4.0	76.4	32.9	159.7
Dominican Republic	98	84	87	83	15.5	12.3	-14.3	3.9	-4.8	-17.1
Uruguay	100	90	130	132	1.9	-16.7	-9.9	33.7	1.2	31.7

Source: ECLAC.

[a] Preliminary estimates. [b] As from 1986 "Goods" includes the trade in energy, which was previously included under "Services".

Table 13

LATIN AMERICA AND THE CARIBBEAN: TRADE BALANCE (GOODS)

(Millions of dollars)

	Exports of goods FOB			Imports of goods FOB			Trade balance (goods)		
	1985	1986	1987[a]	1985	1986	1987[a]	1985	1986	1987[a]
Latin America	**91 706**	**77 723**	**88 809**	**58 034**	**59 676**	**66 294**	**33 672**	**18 047**	**22 515**
Oil-exporting countries	**42 350**	**29 918**	**36 560**	**24 487**	**23 989**	**26 090**	**17 863**	**5 929**	**10 470**
Bolivia	623	543	470	463	580	650	160	-37	-180
Ecuador	2 905	2 186	2 045[b]	1 611	1 631	2 105[b]	1 294	555	-60
Mexico	21 667	16 031	21 000	13 217	11 432	12 000	8 450	4 599	9 000
Peru	2 977	2 509	2 560	1 808	2 512	2 905	1 169	-3	-345
Venezuela	14 178	8 649	10 485	7 388	7 834	8 430	6 790	815	2 055
Non-oil exporting countries	**49 356**	**47 805**	**52 249**	**33 547**	**35 687**	**40 204**	**15 809**	**12 118**	**12 045**
Argentina	8 397	6 849	6 200	3 520	4 391	5 270	4 877	2 458	930
Brazil	25 634	22 393	26 250	13 168	14 044	15 060	12 466	8 349	11 190
Colombia	3 650	5 376	5 465	3 673	3 486	3 930	-23	1 890	1 535
Costa Rica	930	1 083	1 125	1 005	1 043	1 250	-75	40	-125
Chile	3 804	4 199	5 224	2 954	3 099	3 994	850	1 100	1 230
El Salvador	679	727	580	895	939	985	-216	-212	-405
Guatemala	1 060	1 048	965	1 077	874	1 230	-17	174	-265
Haiti	224	191	200	349	326	310	-125	-135	-110
Honduras	805	901	850	879	902	925	-74	-1	-75
Nicaragua	298	243	280	838	836	690	-540	-593	-410
Panama	1 959	2 412	2 370	2 712	2 955	3 100	-753	-543	-730
Paraguay[c]	324	573	800	516	735	935	-191	-162	-135
Dominican Republic	738	722	750	1 286	1 266	1 475	-548	-544	-725
Uruguay	854	1 088	1 190	675	791	1 050	178	297	140

Source: 1985, 1986: ECLAC, on the basis of figures supplied by the International Monetary Fund; the 1986 figures for Bolivia, Brazil, El Salvador and Nicaragua are ECLAC estimates. 1987: ECLAC, on the basis of official data.

[a] ECLAC, preliminary estimates. Figures rounded to zero or five. [b] Including loans and return of petroleum. [c] As from 1986 "Goods" includes the trade in energy, which was previously included under "Services".

In the remaining countries —with the exceptions of Chile (whose surplus increased by 13%) and Nicaragua, Paraguay and Haiti (which successfully reduced their deficits)— the performance of trade in goods was less satisfactory than during the previous year. The deterioration was particularly marked in Argentina —whose trade surplus fell by US$1.5 billion and was thus equivalent to less than one fifth that recorded two years previously; in Ecuador —where the US$550 million surplus earned in 1986 was replaced by a US$60 million deficit; in Guatemala and Costa Rica —which experienced a similar turnaround; and in Bolivia, Peru, El Salvador, Panama and the Dominican Republic —where the trade deficit increased sharply.

In the region as a whole, the trade surplus on goods covered a greater proportion (75%) of net payments of profit and interest in 1987 than in the previous year (60%), although considerably lower than the 96% recorded in 1985.

This, together with the diminution in net payments for services led to a drop in the current account deficit, which fell from US$15.2 billion in 1986 to US$9.3 billion in 1987. However, the fall was almost exclusively attributable to the changes in three countries: Mexico, which earned a huge US$4 billion surplus in 1987 after having recorded a US$1.45 billion deficit in 1986; Brazil, which reduced its deficit from US$4 to US$1.1 billion and Venezuela, where it fell from US$2 billion to US$300 million. In contrast, in all the remaining countries —with the exceptions of Chile, Nicaragua and Panama— the current account deficit increased (see table 14).

In 1987 net capital inflow rose for the second year running, after having fallen to an extremely low level in 1985. The nominal figure of over US$13 billion was, however, equal to less than half that received by the region before the onset of the debt crisis and in real terms represented an even lower proportion.

The increase in external financing was accounted for in part by the disbursement of the considerable loans agreed upon with private international banks by Mexico and Argentina in order to refinance their external debt servicing and in part reflected the credit granted by bilateral and multilateral public financial agencies. However, the greater net capital inflow also reflected, in a number of countries, the return of funds maintained by national residents abroad, and, above all, the implicit capital inflow recorded in the balance of payments of those countries which ceased to pay interest after declaring a moratorium on their external debt servicing.

On account of the expansion of net external financing and the simultaneous reduction in the current account deficit, a major turnaround occurred in the global balance-of-payments result: after having closed with a deficit of US$6.3 billion in 1986, it recorded a surplus of almost US$3.9 billion. Most of this change was attributable to the improvement in the balance-of-payments results of Mexico, which increased its international reserves by some US$7 billion; of Brazil, where a surplus of almost US$1.3 billion replaced the US$3.6 billion deficit recorded the previous year; of Venezuela, which reduced its balance-of-payments deficit from more than US$3.9 to US$1.1 billion and of Chile, which had a surplus of US$120 million in 1987 after having recorded a US$250 million deficit the previous year. In

Table 14

LATIN AMERICA AND THE CARIBBEAN: BALANCE OF PAYMENTS

(Millions of dollars)

	Net services payments[a]			Net payments of profits and interest			Balance on current account[c]			Net movements of capital[d]			Global balance[e]		
	1985	1986	1987[b]	1985	1986	1987[b]	1985	1986	1987[b]	1985	1986	1987[b]	1985	1986	1987[b]
Latin America	3 500	3 824	3 322	35 172	31 097	30 074	-3 659	-15 247	-9 281	3 337	8 946	13 163	-322	-6 301	3 882
Oil-exporting countries	1 221	788	-55	13 541	11 096	10 085	3 330	-5 689	430	-4 250	2 251	4 480	-920	-3 438	4 910
Bolivia	149	164	160	373	309	290	-342	-484	-600	299	682	510	-43	198	-90
Ecuador	289	325	385	936	888	800	69	-658	-1 245	-44	486	1 165	25	-172	-80
Mexico	-777	-1 192	-2 000	9 027	7 550	7 000	510	-1 444	4 000	-3 272	2 227	3 000	-2 762	783	7 000
Peru	174	304	340	1 015	805	735	-19	-1 113	-1 420	179	825	620	160	-288	-800
Venezuela	1 386	1 187	1 060	2 190	1 544	1 260	3 112	-1 990	-305	-1 412	-1 969	-815	1 700	-3 959	-1 120
Non-oil-exporting countries	2 279	3 036	3 377	21 631	20 001	19 989	-6 989	-9 558	-9 711	7 587	6 695	8 683	598	-2 863	-1 028
Argentina	527	896	780	5 303	4 425	4 500	-955	-2 864	-4 350	1 992	1 990	2 150	1 037	-874	-2 200
Brazil	1 703	2 133	2 200	11 192	10 330	10 200	-289	-4 037	-1 120	-222	408	2 390	-511	-3 629	1 270
Colombia	665	580	690	1 582	1 661	1 860	-1 815	413	-395	1 970	946	435	155	1 359	40
Costa Rica	-20	8	0	319	276	280	-338	-209	-370	410	266	300	72	57	-70
Chile	338	428	457	1 901	1 887	1 699	-1 342	-1 175	-871	1 240	928	993	-102	-247	122
El Salvador	39	-31	-70	117	135	130	-243	-173	-300	270	158	360	27	-15	60
Guatemala	84	52	110	165	207	185	-247	-35	-365	358	146	290	111	110	-75
Haiti	99	69	105	20	15	20	-195	-168	-180	121	148	215	-74	-20	35
Honduras	70	72	75	190	211	200	-322	-271	-335	333	300	330	11	29	-5
Nicaragua	51	70	55	250	249	240	-802	-909	-695	821	1 029	615	19	120	-80
Panama	-894	-830	-820	-46	-90	-100	131	321	120	-256	-260	-220	-125	61	-100
Paraguay	-18	40	30	60	167	190	-231	-369	-355	103	241	330	-128	-128	-25
Dominican Republic	-310	-404	-235	226	250	305	-222	-148	-350	264	208	320	42	60	-30
Uruguay	-55	-47	0	352	278	280	-119	66	-145	183	187	175	64	253	30

Source: 1985, 1986: ECLAC, on the basis of figures supplied by the International Monetary Fund; the 1985 figures for Bolivia, Brazil, El Salvador and Nicaragua are ECLAC estimates. 1987: ECLAC, on the basis of official data.

[a] Excluding net payments of profits and interest. [b] Preliminary estimates by ECLAC. Figures rounded to zero or five. [c] Including interest earned. [d] Including net private unrequited transfer payments, which were of significant magnitude in 1987 in the case of Colombia, El Salvador, Guatemala, Haiti and Dominican Republic. [e] Corresponds to variation in international reserves (of opposite sign) plus counterpart entries.

contrast, in 1987 the balance of payments of Argentina and Peru worsened considerably for the second year running (see table 14).

The increased capital inflow together with the slight shrinkage in payments of interest and profits led to a fall in the transfer of resources abroad to US$16.9 billion, 24% lower than in 1986 and equivalent to slightly more than half the figure recorded on average in the 1983-1985 period (see table 15 and figure 9).

The net transfer of resources abroad accumulated between 1982 and 1987 was of over US$147 billion. Most of this transfer was made by the four largest economies in the region which are also those with the greatest levels of indebtedness and foreign capital: Mexico (US$56 billion), Brazil (US$44 billion), Venezuela (US$26 billion) and Argentina (US$20 billion). During this period, a considerable transfer of funds abroad was also made by Chile (US$4.1 billion), Ecuador (US$2.27 billion) and Uruguay (US$1.3 billion). In 1987 a marked increase occurred in the negative transfer of Colombia (where it absorbed an extremely high proportion of exports). In turn, Peru, after having received a slight inflow of resources in 1986, recorded a net outflow of financial resources in 1987, which, although low as a proportion of exports of goods and services, occurred in spite of the restrictions on debt servicing and the transfer of profits. In the remaining countries of the region, the transfer of resources remained positive, although the figure was lower than had been customary prior to the crisis (see table 16).

In the region as a whole, the transfer of resources abroad continued to absorb a considerable proportion (16%) of the value of exports of goods and services and thereby constituted a fundamental hurdle to the renewal of a process of sustained economic growth. Viewed from this angle, it is possible that the reduction which occurred in the transfer in 1987 —which in part reflected the effects of the moratoriums adopted by a number of countries and the involuntary loans granted by banks largely to avoid other countries taking the same step— may have marked a turning point in the debt crisis. The region's ability to bargain with banks may have changed, as it has come round to the view that the cost of the moratorium or of partial debt servicing, which at least allow minimal growth to take place, is considerably lower than that of giving priority to debt servicing and endeavouring to grow with the remaining foreign currency.

4. The external debt

a) Main trends

In 1987 the gradual growth of the region's external debt continued for the fourth year running. It has been estimated that the debt reached the figure of US$410 billion at the end of the year. The 4.4% growth was consequently rather higher than in 1986 (see table 17). However, as the rate of inflation in the industrialized countries was approximately 3%, the debt actually expanded by less than the 2% recorded the previous year. In practice, however, the debt grew by even less. This may be explained by the fact that the value of the dollar —in which the external debt is traditionally valued— fell heavily against the currencies of other creditor

Table 15

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

(Billions of dollars and percentages)

Year	Net inflow of capital (1)	Net payments of profits and interest (2)	Transfer of resources (3)=(1)-(2) (3)	Exports of goods and services (4)	Transfer of resources/ exports of goods and services[a] (5)=(3)/(4) (5)
1973	7.9	4.2	3.7	28.9	12.8
1974	11.4	5.0	6.4	43.6	14.7
1975	14.3	5.6	8.7	41.1	21.2
1976	17.9	6.8	11.1	47.3	23.5
1977	17.2	8.2	9.0	55.9	16.1
1978	26.2	10.2	16.0	61.3	26.1
1979	29.1	13.6	15.5	82.0	18.9
1980	29.7	18.2	11.5	107.6	10.7
1981	37.6	27.2	10.4	116.1	9.0
1982	20.4	38.8	-18.4	103.2	-17.8
1983	3.0	34.4	-31.4	102.4	-30.7
1984	9.7	36.5	-26.8	114.1	-23.5
1985	3.4	35.2	-31.8	109.0	-29.2
1986	8.9	31.1	-22.2	94.7	-23.4
1987[b]	13.2	30.1	-16.9	107.3	-15.8

Source: 1973-1986: ECLAC, on the basis of data supplied by the IMF. 1987: ECLAC, on the basis of official figures.
[a] Percentages. [b] Preliminary estimates.

Figure 9

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

(Billions of dollars)

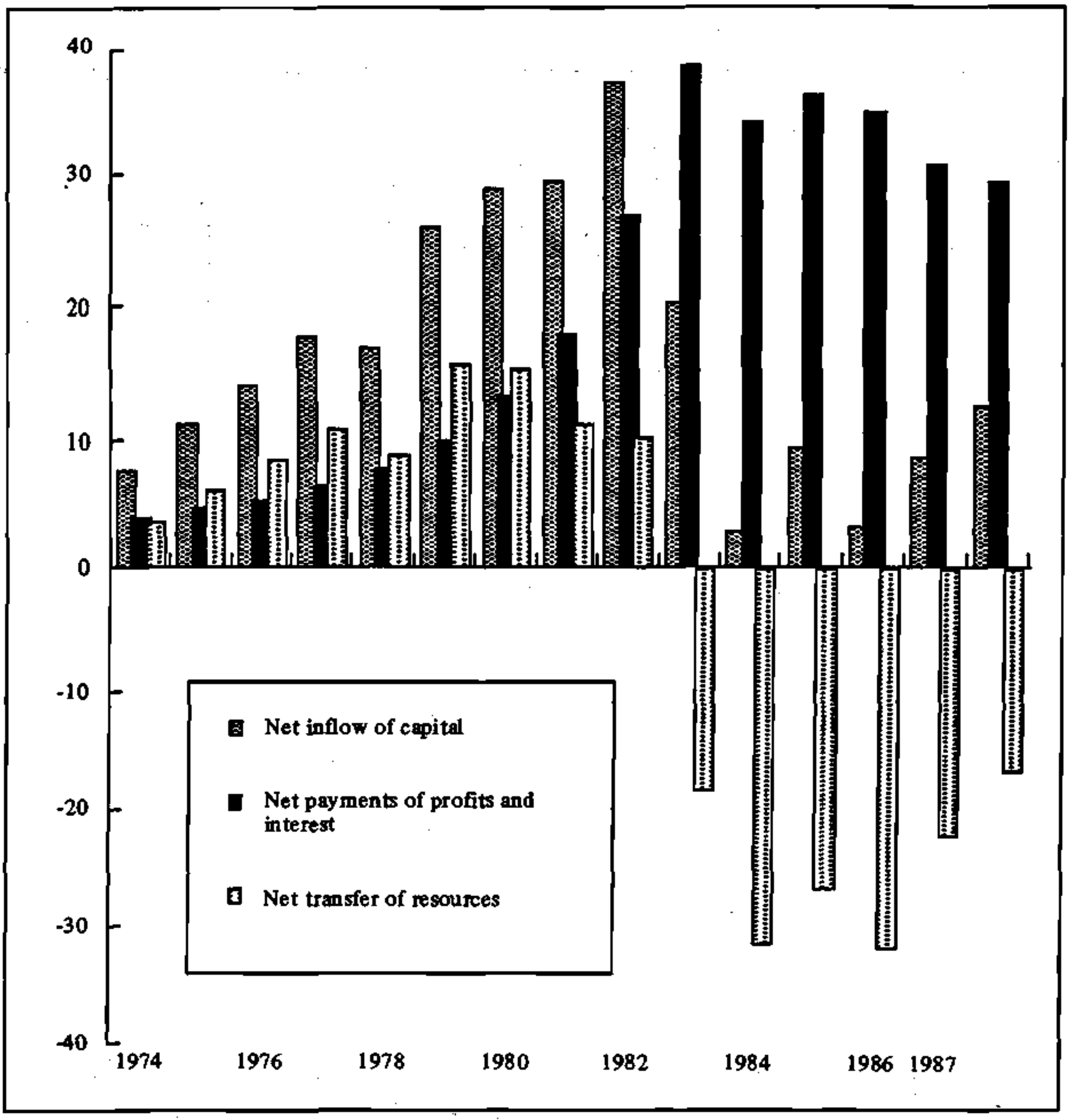


Table 16

LATIN AMERICA AND THE CARIBBEAN: NET TRANSFER OF RESOURCES[a]

	Net transfer of resources (millions of dollars)						Net transfer of resources/exports of goods and services					
	1982	1983	1984	1985	1986	1987[b]	1982	1983	1984	1985	1986	1987[b]
Latin America and the Caribbean[c]	**-18 739**	**-31 209**	**-26 623**	**-31 630**	**-21 981**	**-16 791**	**-18.8**	**-30.5**	**-23.3**	**-29.9**	**-23.2**	**-15.6**
Oil-exporting countries	**-14 574**	**-19 519**	**-18 546**	**-17 791**	**-8 845**	**-5 605**	**-28.4**	**-38.8**	**-34.0**	**-35.3**	**-23.2**	**-12.2**
Bolivia	-181	-117	-59	-74	373	220	-19.9	-13.6	-7.2	-10.3	56.6	36.6
Ecuador	41	-600	-695	-980	-402	365	1.5	-22.7	-24.0	-29.8	-15.5	15.1
Mexico	-9 594	-12 499	-12 062	-12 299	-5 323	-4 000	-33.6	-46.0	-40.0	-44.5	-24.2	-14.3
Peru	634	-74	-538	-836	20	-115	15.6	-2.0	-14.1	-22.1	0.6	-3.4
Venezuela	-5 474	-6 229	-5 210	-3 602	-3 513	-2 075	-31.2	-39.3	-31.0	-24.0	-36.9	-18.0
Non-oil-exporting countries	**-4 165**	**-11 690**	**-8 059**	**-13 839**	**-13 136**	**-11 186**	**-8.6**	**-23.7**	**-14.2**	**-25.0**	**-23.2**	**-18.2**
Argentina	-3 030	-5 422	-3 051	-3 311	-2 435	-2 350	-33.0	-58.4	-31.8	-33.0	-28.9	-30.9
Brazil	-2 376	-6 069	-6 129	-11 414	-9 922	-7 810	-10.9	-25.7	-21.2	-41.2	-40.9	-27.7
Colombia	1 231	5	-472	388	-715	-1 425	27.8	0.1	-9.1	8.6	-11.3	-22.0
Costa Rica	26	44	-105	91	-10	20	2.3	3.9	-8.2	7.5	-0.7	1.3
Chile	-889	-1 105	191	-661	-959	-706	-19.1	-23.9	4.3	-14.8	-18.7	-11.2
El Salvador	113	104	181	153	23	230	13.8	11.9	20.3	16.9	2.6	27.3
Guatemala	240	162	186	193	-61	105	18.8	13.8	15.1	16.6	-5.2	9.4
Haiti	212	213	164	101	133	195	78.6	73.9	51.4	30.0	45.5	61.9
Honduras	2	55	204	143	89	130	0.3	6.9	23.8	15.6	8.7	13.4
Nicaragua	276	449	747	571	780	375	61.7	95.3	176.9	157.6	267.1	110.0
Paraguay	342	158	254	43	74	140	55.5	34.0	32.9	4.0	9.3	13.0
Dominican Republic	57	4	79	38	-42	15	5.0	0.3	5.8	2.9	-3.0	1.0
Uruguay	-369	-288	-308	-169	-91	-105	-24.0	-20.4	-23.9	-13.5	-6.1	-6.8

Source: ECLAC, on the basis of data from the International Monetary Fund, February 1988.

[a] The net transfer of resources to the exterior equals the net inflow of capital (Official transfer payments, short- and long-term capital and Errors and Omissions) less net profits and interest, including both interest actually paid and interest due but not paid. [b] Preliminary figures. [c] Excluding Panama.

Table 17

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

	End-of-year balance in millions of dollars						Annual growth rates				
	1982	1983	1984	1985	1986	1987[b]	1979-1981	1982-1983	1984-1985	1986	1987[b]
Latin America and the Caribbean	**330 962**	**353 269**	**365 809**	**377 641**	**392 885**	**410 110**	**23.4**	**11.8**	**3.4**	**4.0**	**4.4**
Oil-exporting countries	**143 883**	**152 933**	**155 688**	**156 967**	**161 222**	**167 015**	**25.5**	**10.0**	**1.3**	**2.7**	**3.6**
Bolivia	3 571	3 783	3 752	3 800	4 267	4 450	24.3	4.0	0.2	12.3	4.3
Ecuador	6 186	6 908	7 198	7 800	8 646	9 335	25.4	8.5	6.3	10.8	8.0
Mexico	87 600	93 800	96 700	97 800	101 500	105 900	30.2	11.9	2.1	3.8	4.3
Peru	11 465	12 445	13 338	13 721	14 468	15 130	1.0	13.8	5.0	5.4	4.6
Venezuela[c]	35 061	35 997	34 700	33 846	32 341	32 200	26.8	3.8	-3.0	-4.4	-0.1
Non-oil-exporting countries	**187 079**	**200 336**	**210 121**	**220 674**	**231 663**	**243 095**	**21.8**	**11.5**	**5.0**	**5.0**	**4.9**
Argentina	43 634	45 087	46 171	49 326	51 496	54 700	41.9	12.4	4.6	4.4	6.2
Brazil	91 304[e]	97 855[e]	102 039	105 126	111 045	116 900	14.4	10.6	3.6	5.6	5.3
Colombia	10 269	11 408	12 265	13 834	14 990	15 700	25.6	19.1	10.1	8.4	4.7
Costa Rica	3 188	3 532	3 752	3 742	3 739	3 920	12.8	14.7	2.9	-0.1	4.8
Chile	17 159	18 037	19 659	20 403	20 670	20 550	30.5	7.6	6.4	1.3	-0.1
El Salvador	1 808	2 023	2 095	2 162	2 200	2 250	17.7	12.2	3.4	1.8	2.3
Guatemala	1 841	2 149	2 505	2 624	2 641	2 720	19.0	24.6	10.5	0.6	3.0
Haiti[d]	410	551	607	600	700	740	26.2	21.7	4.5	16.7	5.7
Honduras	1 986	2 162	2 392	2 803	2 931	3 145	17.5	16.7	13.9	4.6	7.3
Nicaragua[d]	3 139	3 789	4 362	4 936	5 773	6 270	27.1	21.5	14.1	17.0	8.6
Panama[e]	3 933	4 389	4 413	4 755	4 802	4 900	14.0	14.0	4.1	1.0	2.0
Paraguay	1 204	1 469	1 654	1 773	1 841	2 000	12.4	24.4	9.9	3.8	8.6
Dominican Republic	2 966	3 313	3 536	3 690	3 646	3 700	24.2	14.0	5.5	-1.2	1.5
Uruguay	4 238	4 572	4 671	4 900	5 193	5 600	35.9	21.2	3.5	6.0	7.8

Source: ECLAC, on the basis of official data.
[a] Including debts with IMF. [b] Preliminary figures. [c] Total debt according to information from official sources and international financial agencies. [d] Public debt. [e] Total debt according to World Bank data.

countries. Naturally, the relative size of the nominal figure for the debt produced by the devaluation of the United States currency depended upon the composition of the external commitments of the countries of the region in other currencies. One of the countries most affected by this change in 1987 was Brazil, whose debt "rose" by at least US$3 billion on account of the rises in the values of the yen and of the main European currencies against the dollar.

As in the previous three years, the scant expansion of the debt was a widespread phenomenon. The only countries in which it rose by an above-average rate were Ecuador, Nicaragua and Paraguay, while in Venezuela and Chile external indebtedness shrank slightly in absolute terms. In Venezuela, where the debt fell for the third year running, the drop in 1987 partly reflected the effects of a deliberate policy of gradually amortizing external commitments. In Chile, the shrinkage was attributable to the programme of debt-equity conversions and to other operations involving debt notes, which retired almost US$2.3 billion of debt with commercial banks between June 1985 and September 1987 and thus almost completely cancelled out the effect of the fresh loans from multilateral agencies. Debt-equity conversions also considerably limited the growth of Mexico's debt, and it has been estimated that this mechanism allowed the country to reduce its external commitments by some US$1 billion in 1987.

In those countries where the external debt grew more significantly in 1987, this was mainly attributable to the granting of fresh loans or to the accumulation of commitments on account of arrears in interest payments. This latter phenomenon was particularly significant in Bolivia, Brazil, Ecuador, Peru, Costa Rica, Honduras, Nicaragua, Paraguay and the Dominican Republic.

On account of the slow growth of the debt, the lower level of international rates of interest between the middle of 1986 and the middle of 1987 and of the recovery in the value of the exports of Latin America and the Caribbean, indicators of the external debt burden for the region as a whole improved over 1986. They nevertheless remained at critical levels and in most of the countries of Latin America external debt servicing continued to constitute the main restriction to any return to economic growth.

As the rate of growth of the value of exports was treble that of the debt, the regional debt/export coefficient fell from 415% in 1986 to 382% in 1987. The shrinkage was considerably more pronounced in the case of the petroleum-exporting countries (from 423% to 364%) than in the remaining economies of the region (from 409% to 396%). However, the coefficients of both groups remained significantly higher to the already high coefficients recorded in 1982-1985 and some 50% higher than those customary before the onset of the debt crisis (see table 18).

Moreover, the fall in the debt/export coefficient was not a generalized phenomenon. Thus, the fall in the overall coefficient for the petroleum-exporting countries was exclusively attributable to the sharp drop which occurred in Venezuela and, above all, in Mexico, while the coefficient continued to rise in Bolivia, Ecuador and Peru, mainly on account of the fall in exports. In turn, as far as the non-petroleum-exporting countries are

Table 18

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

(Percentages)

	1979	1980	1981	1982	1983	1984	1985	1986	1987[b]
Latin America and the Caribbean	230	212	247	321	345	321	346	415	382
Oil-exporting countries	214	187	220	280	304	286	312	423	364
Bolivia	235	262	348	392	441	459	528	647	742
Ecuador	147	162	202	231	261	249	237	334	395
Mexico	262	216	259	335	345	321	353	457	378
Peru	229	207	239	281	334	349	362	438	450
Venezuela	170	148	160	200	227	206	226	341	279
Non-oil-exporting countries	243	236	273	361	384	354	375	409	396
Argentina	207	275	329	475	485	488	481	636	712
Brazil	359	321	313	416	414	353	379	454	415
Colombia	115	128	199	232	302	237	295	232	243
Costa Rica	204	184	229	286	312	294	307	269	262
Chile	188	188	311	370	390	438	457	404	326
El Salvador	74	97	174	220	232	234	253	247	268
Guatemala	64	61	96	144	183	204	226	225	255
Haiti	116	87	155	152	191	190	177	240	235
Honduras	141	147	180	259	270	279	314	288	324
Nicaragua	194	369	464	703	804	1 014	1 460	1 594	1 839
Panama	...	89	92	110	149	151	145	131	136
Paraguay	143	152	171	195	317	214	163	233	185
Dominican Republic	144	171	168	260	267	258	279	259	242
Uruguay	141	141	183	276	324	362	392	346	361

Source: ECLAC, on the basis of official data.

[a]Calculated on the basis of the external debt figures given in table 19 and exports of goods and services. [b]Preliminary figures.

concerned, the slight drop in the debt/export coefficient mainly reflected the fall in Brazil, Costa Rica, Chile, Haiti, Paraguay and the Dominican Republic. In contrast, the coefficient rose in Uruguay as well as in the majority of the countries of Central America and attained exceptionally high levels in Argentina (712%) and Nicaragua (1 839%).

In 1987 a significant improvement also occurred in the interest/export ratio, which constitutes another principal indicator of the debt burden. For the region as a whole, the coefficient fell from 37% in 1986 to 30% in 1987 (see table 19). The decline was more pronounced in the petroleum-exporting countries (from 35% to 27%) than in the other economies in the region (38% to 32%). While these coefficients were the lowest recorded since the onset of the debt crisis, they were nonetheless almost double those recorded in 1978-1979 (see figure 11). Moreover, the reversal in the downward trend of international rates of interest until the beginning of 1987 means that interest payments will increase in 1988, leading to a rise in the interest/export coefficient (see figure 10).

As far as the petroleum exporting countries are concerned, the interest/export coefficient declined sharply in Mexico (from 38% to 28%) and in Venezuela (from 33% to 24%). In the case of the non-petroleum-exporting countries, the most significant drops occurred in Chile (from 38% to 26%), Brazil (41% to 34%), Nicaragua (86% to 70%) and Paraguay (from 19% to 15%). The only country in which the coefficient increased markedly was Colombia (from 20% to 25%), while in those countries which actually paid interest on their debt, the coefficient for Argentina (53%) remained well above the regional average.

b) <u>Debt renegotiation</u>

While Mexico's problems and negotiations with its creditors constituted the focal point for attention in respect of the external debt in 1986, Brazil has drawn most attention so far in 1987. At the beginning of the year, Brazil's request to the Paris Club that it be allowed to renegotiate its debt without first entering into an agreement with the IMF over an adjustment programme was accepted. In January, the creditor governments agreed to ease the terms in respect of the reimbursement of US$3.3 billion of payments in arrears, US$2.5 billion of which were made up of amortization payments and US$780 million of interest. These arrears had built up during 1985 and 1986 in respect of official bilateral debt, worth US$9 billion. The periods of repayments both of this debt and of the US$840 billion of payments due to be made during the first half of 1987 were extended. The new terms set a repayment period of eight years with five years grace.

However, the significance of the new agreement with the Paris Club lay more in the precedent it established than in any appreciable alleviation of debt servicing, since the official bilateral debt represents less than 10% of the US$117 billion of Brazil's external commitments. The bulk of this debt —some US$80 billion— is owed to private banks, and as of the second half of 1986, Brazil's capacity to service this debt began to weaken rapidly. The country's huge monthly trade surplus, which had been financing all interest payments, gradually shrank until it became a deficit in the last quarter of the year. Together with the absence of fresh loans from banks, this meant that

Table 19

LATIN AMERICA AND THE CARIBBEAN: RATIO OF TOTAL INTEREST PAYMENTS TO EXPORTS OF GOODS AND SERVICES[a]

(Percentages)

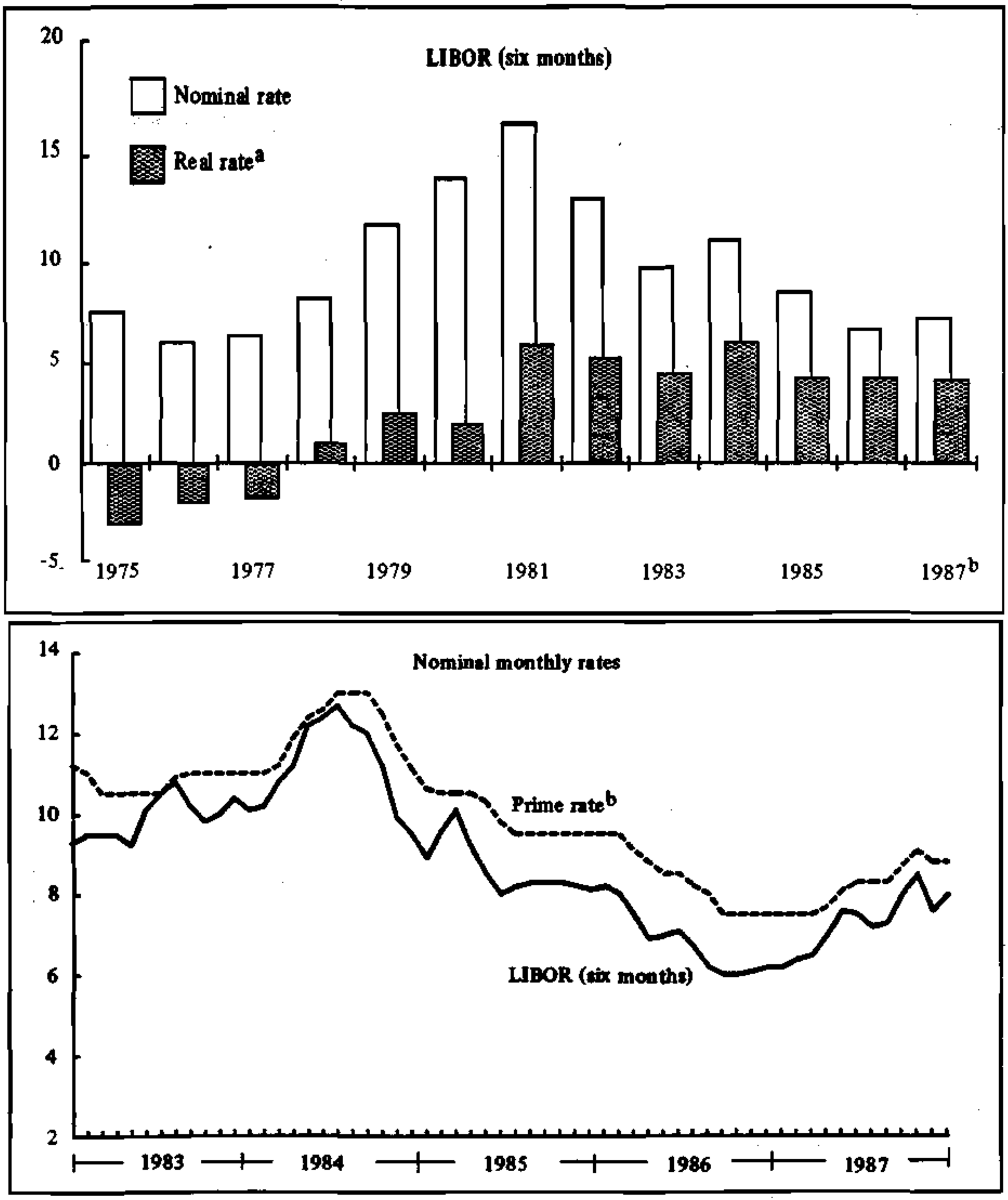
	1979	1980	1981	1982	1983	1984	1985	1986	1987[b]
Latin America and the Caribbean	**17.6**	**20.4**	**28.0**	**41.0**	**36.2**	**35.8**	**35.6**	**37.0**	**29.8**
Oil-exporting countries	**15.7**	**16.8**	**22.6**	**35.6**	**31.4**	**32.5**	**32.5**	**35.1**	**26.8**
Bolivia	18.6	25.0	34.6	43.4	39.9	50.0	46.8	42.6	44.2
Ecuador	13.6	18.3	22.8	30.3	27.4	30.7	25.5	30.0	28.5
Mexico	24.5	23.3	29.0	47.2	37.5	39.0	37.0	37.9	27.9
Peru	15.5	18.4	24.1	25.1	29.8	33.2	28.3	25.9	23.3
Venezuela	6.9	8.1	12.7	21.0	21.7	20.1	26.2	32.6	23.9
Non-oil-exporting countries	19.3	23.9	33.8	46.8	41.0	39.0	38.4	38.3	32.2
Argentina	12.8	22.0	35.5	53.6	58.4	57.6	51.1	51.0	52.6
Brazil	31.5	34.1	40.4	57.1	43.5	39.6	40.0	41.4	33.7
Colombia	9.9	11.8	21.9	25.9	26.7	22.8	28.9	20.0	24.9
Costa Rica	12.8	18.0	28.0	36.1	33.1	26.7	27.3	21.2	20.1
Chile	16.5	19.3	38.8	49.5	38.9	48.0	43.5	37.9	26.4
El Salvador	5.7	5.9	7.8	11.9	12.2	12.3	11.1	12.5	13.1
Guatemala	3.2	5.3	7.6	7.8	8.7	12.3	14.9	17.3	15.4
Haiti	3.2	2.1	2.7	2.4	2.4	5.2	7.4	6.8	7.9
Honduras	8.6	10.6	14.4	22.4	16.4	15.8	15.8	15.2	14.4
Nicaragua	9.7	24.3	37.4	41.8	45.3	60.8	69.3	85.6	70.4
Paraguay	10.7	13.5	14.8	13.5	14.3	10.2	8.3	18.5	14.8
Dominican Republic	14.3	19.9	19.1	22.7	24.5	18.1	15.4	19.0	21.1
Uruguay	9.0	11.0	12.9	22.4	24.8	34.8	34.3	24.7	24.0

Source: 1979-1987: ECLAC on the basis of official data.
[a] Includes both interest paid as well as interest due but not paid. Services exclude factor services. [b] Preliminary estimates.

Figure 10

INTERNATIONAL INTEREST RATES

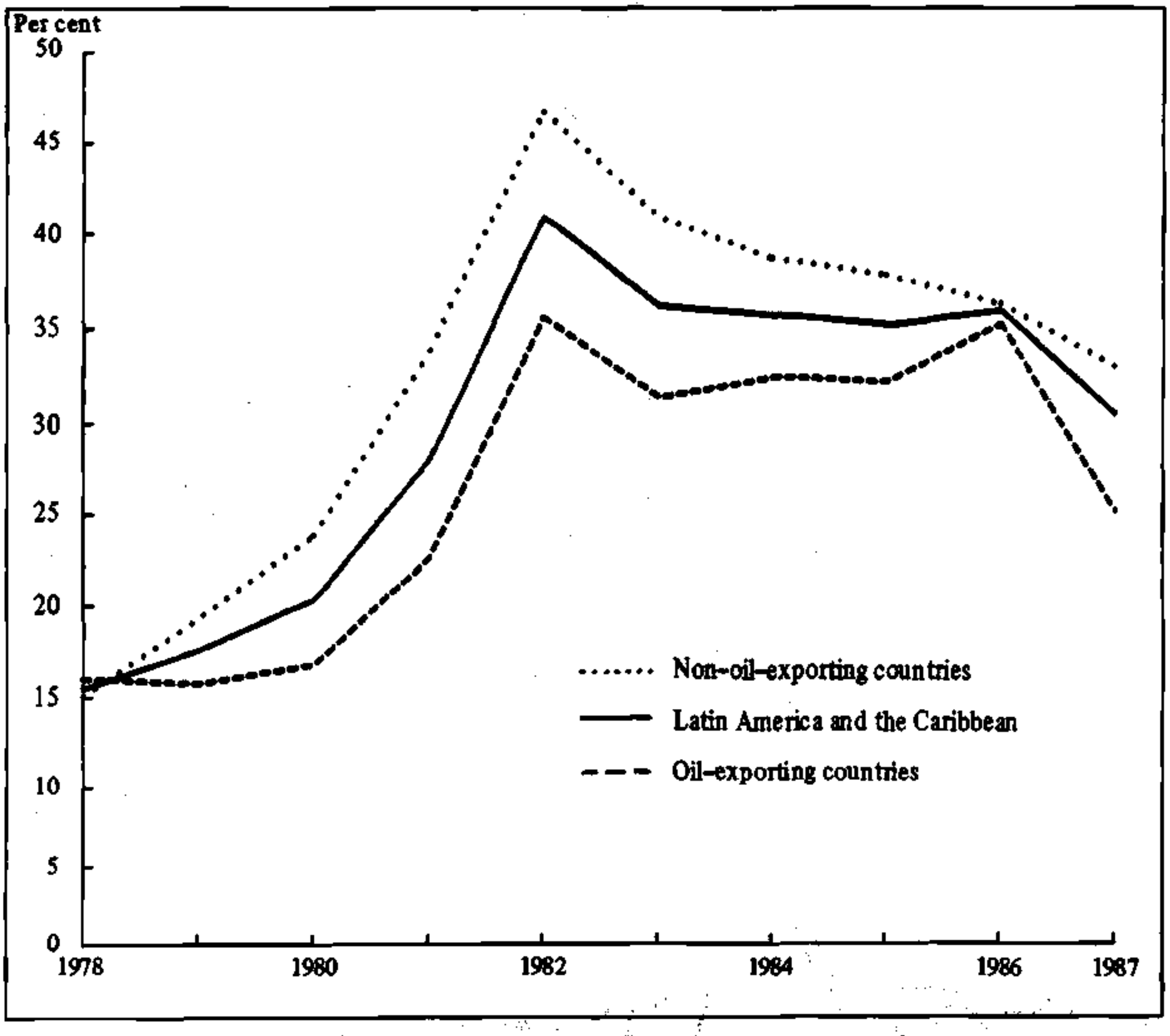
(Percentages)



Source: ECLAC, on the basis of data from the International Monetary Fund, *International Financial Statistics.*
[a]Nominal rate deflated by the consumer price index of the industrialized countries. [b]Preferential rate granted by United States banks to their best clients.

Figure 11

LATIN AMERICA AND THE CARIBBEAN: INTEREST PAID, AS A PERCENTAGE OF EXPORTS OF GOODS AND SERVICES



Source: ECLAC, on the basis of official data.

interest payments were mainly made by drawing on international reserves. Thus, according to some sources, by February 1987 the Central Bank's cash reserves had fallen to US$3.3 billion, sufficient to meet barely three months of import requirements.

Prospects were further complicated by the increasing reluctancy of private banks to grant new involuntary loans. Thus, Mexico had encountered enormous difficulty in persuading all creditor banks to participate in a fresh global loan of US$7.7 billion which had been agreed upon in principle towards the middle of the previous year. In addition, the banks and the governments of their respective countries claimed that the innovative financial package granted to Mexico in 1986 --which for the first time had contemplated financing in respect of an economic growth target of 3%-- had constituted a special case, which other borrowers should not take as a precedent. These considerations, together with Brazil's position of dispensing with the IMF, indicated that it was impossible to rapidly reach a rescheduling agreement with banks in order to stem the country's loss of international reserves. Consequently, at the end of February 1987 Brazil temporarily and unilaterally suspended servicing of its medium- and long-term debt with private creditors.

The moratorium thus became the main bargaining instrument to overcome the growing inertia of the international banking system in the search for a means of easing the Third World's debt. Brazil attempted to thus obtain a rescheduling agreement including sufficient fresh financing to support the country's growth targets and to avoid exhausting its international reserves. However, Brazil adopted a strategy which was more conciliatory than confrontational: the government categorically denied any desire to set up a debtors' cartel. Thus, rather than requesting a meeting of the Cartagena Consensus, Brazil expressed its desire to begin negotiations with private banks in order to reschedule its debts. Furthermore, notwithstanding a certain ambivalence in respect of direct involvement of the IMF in its economy, the government's initial objectives fell within the conventional framework of the Baker Plan: a renegotiation lasting several years, with a low spread together with fresh credit to refinance part of the burden of interests on the external debt. Towards the middle of 1987 the Brazilian Government was considering the need for fresh loans of approximately US$6 billion, of which US$4 billion were to be contributed by private banks.

Brazil's adoption of a moratorium, together with the previous unilateral suspension of payments declared by Ecuador in January on account of the slump in income from petroleum sales, sparked off an interesting chain reaction. Its most immediate consequence was to put an end to the growing inertia observed in respect of debt negotiations. A number of Latin American countries had been endeavouring to obtain similar concessions from banks to those envisaged in the package granted to Mexico in 1986. However, negotiations had been at a standstill as private banks steadfastly resisted any attempt to generalize the terms of that rescheduling. At least one of the main United States banks had publicly declared its opposition to granting any further concessions to debtors. However, a turnaround occurred in this situation following the moratorium declared by Brazil. In an attempt to dampen the dissemination of any demonstration effect, banks gave up most of their objections to the requirements of Brazil's neighbours and signed new rescheduling agreements with a number of countries in Latin America and in other regions. This in turn helped to clarify the fourth round of rescheduling, which had begun with the global financing granted to Mexico in 1986 (see table 20).

Argentina's negotiations with banks had been at a standstill, due, among other things, to its government's insistence that it be granted a similar spread to that given to Mexico in addition to involuntary loans to sustain the projected rate of growth for 1987 (4%). Negotiations became tense at the beginning of 1987 when the government suggested that it might adopt Brazil's policy and suspend payments if banks did not prove more flexible. The agreement finally reached in April, was undoubtedly similar in many respects to the Mexican package. The total balance of the medium- and long-term debt with international banks (US$29.5 billion) was rescheduled and fresh funds of almost US$2 billion (US$500 million which were linked to joint financing from the World Bank) were granted to support the government's projected rate of growth. The average spread of 0.81% over LIBOR was identical to that granted to Mexico, while the weighted amortization period for the package was 18 years. No fixed commission was charged on the rescheduled payments nor on the fresh funds. However, in order to overcome the delays which Mexico experienced in obtaining the adhesion of banks to the global financing agreement, private creditors were offered a special commission of 3/8% in return for rapidly subscribing to the fresh involuntary loan. As a whole, the terms of the agreement with Argentina constituted a significant easing of those agreed upon in the third round (see table 21).

There were a number of interesting features to the Argentine agreement, most noteworthy of which was the creation of exit bonds for small banks, which have proved reluctant to grant fresh funds. These institutions were offered the alternative of purchasing Argentine government bonds, maturing after 25 years at an interest rate of 3%, below the market rate. This arrangement represented a major innovation in that it integrated a feature of the private credit market --the fact that the smaller banks desired to withdraw from rescheduling arrangements-- and facilitated more fluid terms for reaching a rescheduling agreement. Unfortunately, only a small number of financial institutions took up the new financial instrument, thereby casting doubt on the response which this type of instrument was capable of raising.

Chile had also encountered difficulty in its retiming negotiations. One of the main banks in the Committee resolutely opposed this solution for financing Chile's economic programme, thereby paralyzing a definitive rescheduling agreement. However, a few days before Brazil declared its moratorium, the banks suddenly set aside their objection to the retiming clause in respect of interest payments, and in February an agreement on principle was reached.

The Chilean programme provided for the rescheduling of somewhat more than US$12 billion of public-sector and private payments due in 1988-1991. The average surcharge of 1% and the 15-year period represented an improvement over the 1.42% surcharge and 12 years considered by the third round. As on that occasion, no fixed commission was charged on the rescheduled maturities. The Chilean agreement certainly constituted an innovation in that the financing was not to be provided by involuntary loans, but by a retiming of interest payments, which would be made on an annual rather than a half-yearly basis as from 1988. It was calculated at the time that this adjustment would make it

Table 20

LATIN AMERICA AND THE CARIBBEAN: RESCHEDULING OF EXTERNAL DEBT WITH PRIVATE BANKS[a,b]

(Millions of dollars)

	Third round 1984/1985			Fourth round 1986/1987		
	Maturities rescheduled[c]		New credits	Maturities rescheduled[c]		New credits 1987
	Amount	Years	Amount	Amount	Years	Amount
Argentina	13 500	82-85	4 200	29 500	86-90	1 950
Brazil	15 500	85-86	-	...	87-...	...
Bolivia	-	-	-	...	82-...	...
Costa Rica	280	85-86	75	...	86-89	...
Cuba	82	85	-	...	86-87	...
Chile	5 700	85-87	714; 371[d]	12 490	88-91	-
Ecuador	4 800	85-89	-	4 930[e]	87-...	350
Honduras	220	85-86	-	...	85-...	...
Mexico	48 700	85-90	-	43 700[f]	85-90	6 000[g]; 1 700[h]
Panama	603	85-86	60	...	...	...
Dominican Republic	790	82-85	-	...	...	...
Uruguay	2 130	85-89	45[i]	1 780	86-91	-
Venezuela	21 200	83-88	-	26 450	86-88	-

Source: ECLAC, on the basis of official data and various national and international sources.

[a] Although four renegotiation rounds have been carried out, some of the agreements reached in the second round (in which six countries took part) did not materialize. Reference is therefore sometimes made to three rather than four rounds. [b] For each round the first column refers to the total amortization commitments rescheduled, the second to the maturity years restructured, and the third to the additional credits granted by the private banks as an integral part of that restructuring process. The table does not include information on the maintenance of lines of short-term credit and bridging loans authorized by the United States Department of the Treasury, the Bank for International Settlements, etc. [c] In some cases, these include maturities already rescheduled in previous rounds. [d] The values correspond to 1985 and 1986, respectively. They include US$150 million underwritten by the World Bank under a co-financing agreement. [e] The fresh money is intended to pay off the arrears of interest due to a moratorium begun in January 1987. After the announcement of a refinancing agreement, however, the government indicated that it would maintain the moratorium. [f] Preliminary agreement was also reached on the restructuring of US$11.2 billion of private sector debts which had been refinanced earlier under the FICORCA programme. [g] The financial package includes US$750 million underwritten by the World Bank through a co-financing agreement with the international banking system. [h] Stand-by credit provided by private banks. [i] Voluntary loan, but forming part of a co-financing plan with the World Bank.

Table 21

LATIN AMERICA AND THE CARIBBEAN: TERMS OF RESCHEDULING OF EXTERNAL DEBT WITH PRIVATE BANKS[a,b]

	Third round 1984/1985			Fourth round 1986/1987		
	Spread over LIBOR (%)	Term (years)	Commission[c]	Spread over LIBOR (%)	Term (year)	Commission[c]
Argentina	1.44	11.5	0.15	0.81	17.6	-
Brazil	1.13	12.0	-	...	...	...
Costa Rica	1.66	9.4	1.00	...	...	...
Cuba	1.50	10.0	0.38	...	...	...
Chile	1.42	12.0	0.08	1.00	15.0	-
Ecuador	1.38	12.0	-	0.95	18.0	-
Honduras	1.58	11.0	0.88	...	...	...
Mexico	1.13	14.0	-	0.81	19.0	-
Panama	1.40	11.7	0.05	...	...	...
Dominican Republic	1.38	13.0	-	...	...	...
Uruguay	1.38	12.0	-	0.88	17.0	-
Venezuela	1.13	12.5	-	0.88	14.0	-

Source: ECLAC, on the basis of official data from the countries and various national and international sources.

[a] Although four renegotiation rounds have been carried out, some of the agreements reached in the second round (in which six countries took part) did not materialize. Reference is therefore sometimes made to three rather than four rounds. [b] Each column represents the terms agreed with the banks for rescheduled maturities and/or fresh loans. When the country negotiated both the rescheduling of maturities and the granting of fresh loans, the figures given represent a weighted mean of the two elements. [c] Calculated as a percentage of the total amount of the transaction and paid once only, on signing the credit contracts.

possible to save some US$450 million that year. Partly as the banks were not required to provide any fresh credit, the definitive agreement was signed extremely rapidly and all the creditor banks agreed to participate.

For its part, Venezuela had encountered strong opposition to its proposal to modify the agreement signed with banks in February 1986 (as part of the third round of negotiations). The aim of the proposal was to obtain treatment similar to that granted slightly earlier to Mexico. Opposition collapsed when Brazil declared its moratorium, and shortly afterwards it was announced that the agreement had been signed. Under the terms of this agreement, the surcharge on the maturities rescheduled in 1986 was brought down from 1.13 to 0.88 over LIBOR. The amortization period was extended from 12 to 14 years, and payments of approximately US$6 billion due in 1987-1989 were postponed; thus, in 1987, the amortization payments only represented US$250 million as against the US$1 billion forecast in the 1986 agreement.

The strategy adopted by the banks which involved meeting the Brazilian moratorium with a series of new rescheduling agreements with other debtor countries was foreseeable. It represented a form of damage control adopted to mitigate the demonstration effects of the Brazilian policy. It also helped to partially isolate the Brazilian economic authorities, who were facing major difficulties arising out of domestic problems associated with the management of the "Plan Cruzado".

However, the strategy adopted by the banks to meet the Brazilian moratorium in previous rounds, and in the 1986 Mexican financial agreement, was less predictable. The more obdurate stance adopted by a major debtor had frequently shaken up the international banking system and given rise to new initiatives (often of a multilateral nature) to prevent debtors from failing to make their payments. Rather than endeavouring to keep the conflictive debtor up to date in his interest payments, through a refinancing agreement involving fresh loans, the main United States banks rapidly took steps to reclassify the Brazilian credit as non-performing, although 90 days were still left before such a step --which lessens their earnings-- became legal. This represented a dramatic decision on the part of creditors, as Brazil --the region's greatest debtor-- is responsible for up to one-fifth of the annual earnings of a number of major United States banks. The banks' new attitude was reinforced in May, when the largest United States bank decided to increase its reserves by US$3 billion, i.e., 150%, in order to cover eventual loan losses. Other United States banks followed suit, and increased their reserves in order to cover possible losses on their Latin American loan portfolios.

The banks thus endeavoured to increase their bargaining power, as this measure allowed them to wait until better conditions emerged for a rescheduling. This gave them a significant potential advantage, particularly when no domestic consensus existed within the debtor country as to the desirability of declaring a moratorium. Consequently, a regular payment of commitments to the international financial market could exert growing domestic pressure on the authorities of the debtor country to reach an agreement with their creditors. Whatever the case, the trend within the international banking system to increase reserves raised the threat that debtors might have to face a less flexible negotiating environment and encounter further difficulties in negotiating fresh involuntary loans from banks. Furthermore, the downward trend of spreads over LIBOR might come to an end and banks might be better able to pressure debtor countries into complying with the conditions laid down by the IMF and the World Bank. The more rapid constitution of reserves to cover possible losses also increases the banks' capacity to withstand pressure from their own governments to meet the requirements set out in the Baker Plan.

For a certain time the subsequent evolution of the negotiations supported this view. Brazil's position of irregularity in respect of its payments to the banks was thus extended over a considerable period of time without any new initiatives being taken by private creditors, who insisted, as a precondition for a debt renegotiation agreement, that the country should sign an agreement with the IMF and make a nominal payment of US$400 million in arrears of interest as a demonstration of good faith. In the meantime, the Brazilian position rapidly evolved towards more innovative proposals regarding the management of the debt problem. As early as July, the government submitted a new estimate of its financial requirements from the banks: approximately US$7 billion over the next 18 months. In addition, it expressed interest in benefiting both from the discount at which Brazilian notes were being traded in the secondary markets and from the establishment of a surcharge equal to zero above the interest rate applicable to the debt with the commercial banks. Subsequently, in August, it was announced that Brazil, in order to dispel the uncertainty created by the multiple reschedulings, was interested in converting approximately half of its medium-term bank debt into bonds, on terms which would permit the country to benefit from a part of the above-mentioned discount. This latter idea was put into effect in September, when the Brazilian authorities submitted a formal proposal to the creditors, the terms of which included the conversion of a part of the debt into long-term bonds.

However, the Brazilian proposal was not well received in financial circles. Even though it was willing to reformulate its proposal, Brazil faced the prospect of an extended moratorium, which was due in part to the insistence of the banks that any agreement should be preceded by an IMF agreement. The stalemate was finally broken in November by two occurrences. Firstly, the moratorium had been in force for more than six months, which led to expectations that the United States monetary authorities, in conformity with the prevailing banking regulations, would have to declare the Brazilian loans to be in a state of "reduced value"; this meant that the banks would have had to constitute specific reserves against risk of losses, equivalent to 10% of their loan portfolio to Brazil. Secondly, the meeting of the United States banking authorities to determine the value of the Brazilian debt was held on 20 October, that is to say, one day after "black Monday", when the collapse of the United States stock exchange occurred. The need to avoid further bad news and to stabilize markets led to the direct intervention by the United States Government aimed at securing an agreement between Brazil and the banks. This official effort bore fruit since in early November an interim agreement between the two parties was announced. In fact, the main creditor banks of Brazil agreed to grant a short-term credit of US$3 billion as their contribution to a fund of US$4.5 billion set up for the purpose of liquidating a part of the arrears in interest payments accumulated during 1987. The other US$1.5 billion would come from Brazil's international reserves. The banks' credit —which is linked to a more definitive future rescheduling agreement that still has to be negotiated— carries a 0.875%

spread over the LIBOR rate and a share commission of 0.25%. This loan is not tied to a prior agreement with the IMF.

Also in November, Uruguay secured a new rescheduling of US$1.8 billion. The agreement covered payments due between 1986 and 1991. The 0.88% spread is considerably lower than the 1.38% provided for in the third round, and the total amortization period of 17 years is five years longer than that agreed upon in the preceding round. No commissions were established, as had been the case in the third round of the debt renegotiations (see tables 20 and 21).

Days before the announcement of the Uruguayan rescheduling, a new rescheduling agreement was announced in Ecuador. The plan provided for a rescheduling of payments due which total US$5 billion, together with a new forced loan of US$350 million, to be used exclusively for liquidating the arrears in interest payments that had accumulated since the start of the Ecuadorian moratorium in January 1987. However, the application of the agreement was suspended when in December the authorities of the country declared their intention to extend the moratorium in respect of their obligations to the banks.

Costa Rica, for its part, succeeded in establishing a significant precedent as regards debt renegotiations. In fact, since 1982 it had been insisting on a direct link between the IMF adjustment programmes and the reprogramming of the debt to the banks. However, the country signed a stand-by credit arrangement with the Fund in the amount of US$65 million, which did not provide for the hitherto customary requirement that the debtor country should conclude a prior agreement with the private banks on outstanding interest payments. Thus, in fact, the adjustment programmes agreed upon with the IMF was delinked from the problem of the portfolio of the private banks.

For its part, Peru --a country which since July 1985 has been operating outside of the conventional framework for the management of debt servicing problems-- managed to extend to the international private banks the application of the novel principle of repaying the debt in kind. Thus, during the last quarter of 1987, the country concluded an agreement with the Midland Bank and the First Interstate Bank to repay US$14 million in debt with Peruvian exports. Under this plan, the banks are required to purchase in foreign currency additional Peruvian products for each dollar repaid in kind; the coefficient for the Midland Bank was set at 2.5 and that for First Interstate at 3. Peru also announced during the last quarter its intention to present a new plan of payment to the debtor banks under which it would offer to convert its debt into long-term bonds. These new financial instruments would not carry interest payments and would be amortized over a period of 25 years and in kind.

Another significant development in 1987 was the marked drop in the prices at which Latin American debt notes were traded in the secondary market. As early as in October, the notes of the majority of debtor countries were being traded at 50% or less of their nominal value. This drop was partly due to the greater supply resulting from the decision of the main United States banks to increase their loan risk reserves. In fact, this increase in reserves placed the banking institutions in a better position to adjust their portfolio through the sale of their assets or through their conversion into direct investments in the debtor country.

As regards this latter phenomenon, in 1987 a large number of countries established programmes to facilitate the conversion of debt into capital. During the year, for example, Argentina, Brazil, Honduras, Jamaica and Venezuela introduced new programmes. For its part, Mexico resumed a programme which it had suspended while awaiting signature by the banks of the new package of loans agreed upon in 1986. Chile, a pioneer in such programmes, also established a new mutual fund which would grant the banks indirect access to the local share market. This formula would be incorporated into current legislation, which permits banks to directly capitalize their promissory notes. Repurchase and capitalization programmes also existed in Costa Rica and Ecuador, although towards the end of the year the latter country suspended conversions owing to the doubts that had arisen regarding the benefit to be derived from certain transactions. Bolivia, meanwhile, established a special fund to receive foreign donations to finance the repurchase of its debt notes, which by the end of the year were being traded at only 8% of their nominal value.